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TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

**on the EUROPEAN AGRICULTURAL GUIDANCE AND GUARANTEE FUND,
Guarantee section**

– 2006 FINANCIAL YEAR –

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1. BUDGET PROCEDURE

1.1. The multiannual financial framework

CAP expenditure is funded under the Financials Perspectives decided at the Berlin Summit in 1999 and adjusted at the Copenhagen Summit at the end of 2002 to take account of the financial effects to the enlargement of the Union to include the ten new countries. Thus, new ceilings apply for the EU-25 as of the budget year 2004. The Financials Perspectives for EU-15 and for EU-25 for the budget years 2004–2006 are as follows:

Commitment appropriations

(EUR million at current prices)

	2000	2001	2002	2003	2004	2005	2006	Total
Total CAP	41 738	44 530	46 587	47 378	49 305	51 439	52 618	333 595
(a) Markets ¹ (sub-ceiling 1a)	37 352	40 035	41 992	42 680	42 769	44 598	45 502*	294 928
(b) Rural development (sub-ceiling 1b)	4 386	4 495	4 595	4 698	6 536	6 841	7 116*	38 667

* In September 2005, the Budgetary Authority agreed to reduce the appropriations under subheading 1a by EUR 655.0 million and to transfer this amount to subheading 1b for the modulation foreseen in Article 10 of Council Regulation (EC) No 1782/2003. Therefore, the appropriations under subheading 1a would amount to EUR 44 847 million while the appropriations under subheading 1b would amount to EUR 7 771 million.

1.2. Preliminary draft budget 2006

The 2006 Preliminary Draft Budget was adopted by the Commission and proposed to the Budgetary Authority in April 2005. The commitment appropriations proposed for the EAGGF-Guarantee section totalled EUR 51 412.3 million, i.e. EUR 43 641.3 million for subheading 1a and EUR 7 771.0 million for subheading 1b for which the payment appropriations totalled EUR 7 711.3 million due to the inclusion of the Transitional Instrument for the new Member States which is implemented on the basis of differentiated appropriations.

1.3. Draft budget 2006

The Council adopted the 2006 Draft Budget in July 2005. The appropriations in subheading 1a were reduced by EUR 150.0 million as compared to the PDB while the ones for subheading 1b were maintained at the level of the PDB.

¹ Including veterinary and plant-health measures and excluding accompanying measures.

1.4. Letter of amendment for 2006

At the end of October 2005 the Commission adopted Letter of Amendment No 2 to the 2006 PDB setting appropriation requirements for subheading 1a at EUR 43 279.7 million which was lower by EUR 361.6 million compared to the corresponding amount in the Preliminary Draft Budget. The proposed appropriation requirements for subheading 1b did not change.

1.5. Adoption of the 2006 Budget

In December 2005, the 2006 Budget was adopted as per the amounts proposed in the Amending Letter No 2. The appropriations for subheading 1a amounted, then, to EUR 43 279.7 million and for subheading 1b to EUR 7 771.0 million. For details, please see Annex 1.

1.6. Amending budget BR 6/2006

In December 2006, the Commission proposed and the Budgetary Authority accepted an adjustment, through BR 6/2006, of the 2006 budget's commitment appropriations, by cancelling an amount of EUR 860.0 million for subheading 1a, which, then, amounted to EUR 42 419.7 million. In detail, the amending budget involved a reduction of appropriations for chapter 05 02 "interventions in agricultural markets" by EUR 360.0 million and for chapter 05 03 "direct aids" by EUR 654.2 million while it increased total appropriations for chapter 05 07 "audit of agriculture expenditure" by EUR 154.2 million.

The part of the final EAGGF-Guarantee budget (commitment appropriations) in the total EU Budget for the period 2002–2006 appears in Annex 2.

2. CASH POSITION AND MANAGEMENT OF APPROPRIATIONS

2.1. Management of appropriations

2.1.1. *Appropriations available for exercise 2006*

The appropriations finally available for EAGGF Guarantee for the financial year amount to EUR 50 190 720 000. The budget authority approved a non-automatic carryover from 2005 to 2006 of EUR 43 400 000.

2.1.2. *Utilisation of appropriations available for exercise 2006*

2.1.2.1. *Budget operations*

The table below details the budget operations carried out in 2006:

in euro

1. Appropriations available	
– normal appropriations	50 190 720 000.00
– non-automatic carryovers	43 400 000.00
2. Detailed commitments	
– for Member States' expenditure against normal appropriations	47 434 305 141.54
– for expenditure against non-automatic carryovers	43 400 000.00
– for direct payments	291 500 128.65
– for Member States' expenditure – RDFI EU 10	2 096 000 000.00

Total commitments	49 865 205 270.19
3. Amounts charged	
– for Member States' expenditure against normal appropriations	47 434 305 141.54
– for expenditure against non-automatic carryovers	43 400 000.00
– for direct payments	22 745 564.88
– for Member States' expenditure – RDFI EU 10	500 956 905.00

Total charged	48 001 407 611.42
4. Automatic carryovers	
– for Member States' expenditure – RDFI EU 10	1 595 043 095.00
– for Member States' expenditure against non-automatic carryovers	0.00
– for direct payments	268 754 563.77

Total automatic carryovers	1 863 797 658.77
5. Non-automatic carryovers	0.00
6. Appropriations lapsing (= 1 – 2 – 5)	368 914 729.81

2.1.2.2. Automatic carryovers

The automatic carryovers represent the difference between commitments and amounts charged. For this exercise, an amount of EUR 1 863.8 million is concerned corresponding to the appropriations committed by the Commission for expenditure carried out by itself and for which no payments have been made by the end of the exercise.

2.1.3. Automatic carryovers from exercise 2005 to 2006

The table below gives an overview of the utilisation of these carryovers in 2006 at the global level:

in euro

1. Commitments carried over	
– for Member States' expenditure – RDFI EU 10	1 614 735 317.00
– for direct payments	242 096 606.20

Total commitments	1 856 831 923.20
2. Decommitments from carryovers	
– for Member States' expenditure	–
– for direct payments	(17 651 622.31)

Total decommitments	(17 651 622.31)
3. Payments	
– for Member States' expenditure – RDFI EU 10	1 608 989 764.00
– for direct payments	182 586 614.06

Total of the amounts charged	1 791 576 378.06
4. Appropriations lapsing (= 1 + 2 – 3)	
– for Member States' expenditure	0.00
– for direct payments	41 858 369.83

Total carryovers cancelled	41 858 369.83
5. Automatic carryovers	
– for Member States' expenditure – RDFI EU 10	5 745 553.00

2.1.4. Non-automatic carryovers from 2005

Under Articles 9 and 149 of the Financial Regulation (Council Regulation (EC) No 1605/2002 of 25 June 2002), the Commission decided non-automatic carryovers from exercise 2005 to 2006 for a total amount of EUR 43.4 million for the item 05 04 01 05 « Early retirement – New system ».

2.2. Advances

2.2.1. Advances to Member States

2.2.1.1. Monthly advances on the provision for expenditure

The Council Regulation (EC) No 1258/1999 of 17 May 1999 on the financing of the Common Agricultural Policy² states in Article 7 that the Commission shall decide on « monthly advances on the provisions for expenditure affected by the accredited paying agencies ». Advances are paid to the Member State at the beginning of the second month following that in which the expenditure was affected by the paying agency.

In the strict meaning of the term, it is not a payment of advances, but a reimbursement of expenditure which has been already carried out. The expression « advance » underlines the provisional character of these payments: advances are made available

² OJ L 160 of 26.6.1999, p. 103.

on the basis of the monthly declarations forwarded by the Member States³; the monthly booking of expenditure is subject to checks and corrections on the basis of the detailed declaration⁴. Moreover, they will become final after the verification during the following exercises in the light of the clearance of accounts decisions.

Payments made by the Member States from 16.10.2005 to 15.10.2006 are covered by the system for advance payments. For the remaining payments, the Commission carries out direct payments for a limited number of measures and in shared management regarding RDTI-EU 10 (Rural Development Transitional Instrument for the new Member States).

For exercise 2006, the total net amount of advances paid was EUR 47 477 705 141.5.

2.2.1.2. Decisions on advances for 2006

For exercise 2006, the Commission adopted twelve decisions on monthly advances. An additional advance, adjusting those already granted for the total expenditure chargeable to the year, was adopted in December 2006. For details, please see Annex 6 of the present working document.

2.2.1.3. Reductions and suspension of advances

In 2006, a correction of – EUR 48.4 million was made to the advances paid to the Member States. The most important categories of corrections are detailed in the following points.

a. Reductions of payments as a result of the non-compliance with the payment deadlines

Pursuant to Article 14 of Council Regulation (EC) No 2040/2000 concerning the budgetary discipline⁵, the EAGGF found that certain Member States did not always respect the payment deadlines fixed by the Community legislations for the payment of aids to beneficiaries.

The payment deadlines were introduced, on the one hand, to ensure an equal treatment between the beneficiaries in all the Member States and, on the other hand, to avoid the situation in which delays of payments resulted in aids no longer having the expected economic effect. Moreover, any scope for payments in accordance with the administrative practices of the different paying services would not allow the correct application of the budget discipline.

Due to the exceeding of the payment deadlines, the Commission decided on two occasions, jointly with the monthly advances, reductions for a total amount of – EUR 19.6 million.

³ These payments are transmitted monthly by the Member States by the fax of the 10th.

⁴ The detailed declaration is transmitted monthly by the Member States by table 104.

⁵ OJ L 244 of 26.9.2000, p. 27.

b. Reductions of the advances as a result of the non-payment by Member States of the additional milk levy for the marketing year 2005/2006

No reduction of the advances as a result of the non-payment of the additional milk levy was carried out by the Commission as all Member States declared the amounts due. On the other hand an amount of EUR 1.2 million concerning declared in previous years by the Member States was refused, as corrections had already been made in previous exercises.

c. Reduction of the advances as a result of overspending the financial ceilings

For some aid measures financed by EAGGF Guarantee, financial ceilings are determined in the sectoral regulations, which have to be adhered to. Expenditure exceeding these ceilings is considered as "non eligible expenditure" and has to be corrected.

These corrections lead to reductions of the advances. Due to the overspending of the financial ceilings including allocations for rural development, the Commission made financial corrections for a total amount of – EUR 29.9 million (of which EUR 19.7 million are for rural development).

2.2.2. Direct payments

In certain cases, the Commission carries out direct payments to beneficiaries. This are payments for veterinary and plant health measures (Chapter 17) and payments for certain measures which do not have the character of traditional market measures, in particular certain actions related to controls, promotion measures, measures of research on tobacco and information on the agricultural policy. For details, please see Annex 7.

3. THE IMPLEMENTATION OF THE BUDGET

3.1. Introduction

The 2006 agricultural year was marked by a decrease in crop production and in the production of animal products accompanied with very favourable prices for animal products and higher prices for crops. These developments in agricultural markets as well as other factors affected the level of EAGGF-Guarantee expenditure in certain areas of the budget and led to a significant non-utilisation of its credit appropriations.

3.2. The uptake of the EAGGF-Guarantee Budget appropriations

In October 2005, the Commission presented its Amending Letter (AL) which, based on the most recent developments in legislation, agricultural markets and exchange rates, led to a decrease of the initial credit requirements included in the Preliminary Draft Budget (PDB) of April 2005 by EUR 361.6 million. On 30 November 2005, the European Parliament, the Council and the Commission agreed on accepting the Amending Letter No 2/2006 concerning agricultural expenditure.

The European Parliament adopted the 2006 budget on 15 December 2005. The initially available credit appropriations of EAGGF-Guarantee for the 2006 budget year amounted to EUR 51 050.7 million in commitment appropriations. An amount

of EUR 43 279.7 million was allocated to sub-heading 1a and the rest EUR 7 771.0 million to sub-heading 1b. The total amount for the 2006 budget as well as the amount for rural development were increased to EUR 51 094.1 million and to EUR 7 814.4 million following the carry over from 2005 to 2006 of approximately EUR 43.4 million for the early retirement scheme included in the rural development programmes.

The implementation of the budget for heading 1 amounted to EUR 49 865.2 million, i.e. to approximately 97.6% of the initial credit appropriations, of which the expenditure for sub-heading 1a amounted to EUR 42 175.3 million and for sub-heading 1b to EUR 7 689.9 million including the amount carried over.

Concerning in particular sub-heading 1a, the budget's implementation resulted to an under-spending of EUR 1 104.4 million. In order to reduce the Member States contributions to the community budget, the Commission proposed, via the Amending Budget No 6/2006, to cancel an amount of EUR 860.0 million out of EAGGF-Guarantee's initial credit appropriations. Thus, the finally available appropriations for sub-heading 1a amounted to EUR 42 419.7 million and the resulting under-implementation was reduced to EUR 244.4 million. The appropriations for sub-heading 1b stayed at the level of the initial budget.

The execution of the 2006 budget with the differences between this execution and the appropriations included in the initial budget and in the amending budget No 6/2006 are presented in Annex 9. This presentation is made both at the level of the budget article as well as at the level of each budget item.

3.3. Breakdown sub-heading 1a expenditure by category

The EAGGF Guarantee Section expenditure for subheading 1a can be broken down into the following principal categories. Hereafter, the corresponding expenditure involved along with the percentage that this expenditure represents in the total EAGGF-Guarantee section expenditure for 2006 are given:

3.3.1. *Export refunds*

Spending on export refunds amounted to EUR 2 493.6 million, i.e. 5.0% of the total.

3.3.2. *Direct aids*

Expenditure under this heading amounted to EUR 34 051.3 million, i.e. 68.3% of the total. The expenditure that counts as direct aid is defined in the Annex to Council Regulation (EC) No 1782/2003 of 29 September 2003.

3.3.3. *Storage*

Expenditure for storage amounted to EUR 756.9 million, i.e. 1.5% of the total. The main products involved were cereals, sugar, wine and milk products.

3.3.4. *Others*

Other intervention expenditure amounted to EUR 4 873.4 million, i.e. 9.8% of the year's total. This heading covers expenditure not falling into the above categories.

The evolution of this breakdown of expenditure for the period 2002 to 2006 is presented in Annex 16.

4. COMMENTS ON THE EXECUTION OF THE BUDGET

4.1. Sub-heading 1a

4.1.1. Chapter 05 02: interventions in agricultural markets

4.1.1.1. Introduction

The initial appropriations for this chapter of the budget amounted to EUR 8 508.6 million while payments amounted to approximately EUR 8 066.7 million, i.e. an implementation rate of 94.8% of these appropriations. Within this chapter of the budget, certain sectors were over-implemented while others were under-implemented. The general under-implementation, though, was primarily attributable to the sectors of cereals, export refunds on Non-Annex I products, fruits and vegetables, beef and veal, pig-meat, eggs and poultry. Details of the differences between the budget's appropriations and their execution by budget item are presented in Annex 9.

4.1.1.2. Article 05 02 01: Cereals

The 2005/06 EU-25 total harvest was estimated to be approximately 254.0 million tonnes and it was approximately 31.0 million tonnes lower than the 2004/05 one. This significant decrease in cereals production was mainly due to the less favourable climatic conditions (heat waves and drought in many areas) which occurred in the late spring to the end September 2005 and which had a strong impact on yields as well as due to the increase in the mandatory set-aside rate. In 2006, domestic utilisation of cereals was estimated at approximately 247.0 million tonnes for the EU-25.

These developments resulted to a decrease to the overall level of cereals in intervention stocks. Indeed, intervention stocks decreased, in the course of the 2006 budget year, from around 14.6 million tonnes at the start of the year to around 12.2 million tonnes (approximately 34% was soft wheat and 44% was maize) by the end of the year. Underlying this, however, there were wide variations in changes in the stock levels for individual cereals. Bread-making wheat stocks decreased to around 4.2 million tonnes by the end of the year from a level of 8.6 million tonnes at the start of the year while stocks of barley increased to around 2.1 million tonnes by the end of the year from 1.1 million tonnes. Since the 2003 reform, rye can no longer be offered in intervention and its stocks decreased from 2.3 to 0.5 million tonnes by the end of the budget year. The final quantities in stock for maize amounted to 5.4 million tonnes by the end of the year as opposed to 2.6 million tonnes at the start of the year. Intervention stocks for sorghum remain insignificant. Purchases into intervention amounted to approximately 9.1 million tonnes, of which bread-making wheat involved 2.9 million tonnes, barley 2.4 million tonnes and maize 3.8 million tonnes. Sales amounted to 11.5 million tonnes of which bread-making wheat involved 7.2 million tonnes, barley 1.5 million tonnes, rye 1.8 million tonnes and maize 1.0 million tonnes. Compared to the quantities retained in the 2006 budget, the higher purchases of bread-making wheat and barley resulted to higher than otherwise technical and entry depreciation costs while, on the other hand, the higher sales of the

same products at prices much higher than their intervention accounting values resulted to much higher gains for the community budget. These purchases and sales resulted to an under-spending of the budget's appropriations by approximately – EUR 68.1 million.

With regard to export refunds, the higher quantities of soft wheat, approximately 8.5 million tonnes, exported with refunds compared to the quantities initially foreseen in the 2006 budget were more than compensated by a lower average rate of export refund compared to the one retained in the budget because of the increase in world prices as from the spring of 2006. Furthermore, the quantities, less than 0.5 million tonnes, as well as the average rate of export refund for barley were lower than initially retained in the 2006 budget. The total expenditure incurred amounted to EUR 127.7 million, thus under-spending the 2006 budget's appropriations by approximately – EUR 87.3 million.

With regard to intervention for starch, Member States incurred payments amounting to approximately EUR 97.2 million, thus, overspending the 2006 budget's appropriations by EUR 18.2 million.

4.1.1.3. Article 05 02 02: Rice

The production of rice was estimated at 1.6 million tonnes for the marketing year 2005/06.

The improved internal market situation for rice led to not using the export refund scheme for the 2005/06 marketing year compared to the exports of approximately 0.1 million tonnes retained in the 2006 budget. In the course of the 2006 budget year, only residual payments for export refunds concerning the marketing year 2004/05 were made amounting to approximately EUR 1.0 million. Consequently an under-implementation of the budget's appropriations by approximately – EUR 4.0 million resulted.

Market prices continued to be high in 2006, thus, resulting in no purchases of rice into public storage while sales amounted to approximately 0.23 million tonnes. The quantity sold was higher than the one retained in the budget at prices much higher than their intervention accounting values, thus, resulting to gains for the community budget and to an under-implementation of the budget's appropriations by approximately – EUR 2.2 million.

4.1.1.4. Article 05 02 03: Refunds on Non-Annex I products

The overall reduction in export refunds rates as well as the reduction in the exported quantities of cereals, butter and eggs, when compared to the levels retained in the 2006 budget, led to lower expenditure incurred by the Member States for payment of export refunds for processed agricultural products, thus, under-spending the corresponding appropriations by approximately – EUR 140.9 million.

4.1.1.5. Article 05 02 04: Food programmes

With regard to the distribution of agricultural products to deprived persons, most of the Member States, with the exception of Finland and Latvia, have withdrawn and distributed all the quantities of public storage products allocated to them in the 2006 plan. On the other hand, Member States to which funds were allocated in the 2006 plan in order to purchase skimmed milk powder in the community market did not

spend these funds by the end of the 2006 budget year. The combination of these two factors resulted in under-spending the 2006 budget's appropriations by approximately – EUR 39.5 million.

With regard to refunds in connection with food aid, the payments incurred led to an over-execution of EUR 0.3 million compared to the appropriations retained in the 2006 budget.

4.1.1.6. Article 05 02 05: Sugar

The increase in the world market price of sugar during the first half of 2006 led to fixing the export refund rates for the marketing year 2005/06 at lower levels than the rates retained in the 2006 budget. On the other hand, the free market quantities of sugar exported with refunds amounted to approximately 2.8 million tonnes. These quantities were much higher than the ones retained in the 2006 budget when it was assumed that only a quantity of approximately 1.74 million tonnes of 2005/06 sugar would be exported with refunds from the free market while a quantity of 1.0 million tonnes would be exported from intervention stocks. This situation led to higher payments for export refunds and to the over-execution of the 2006 budget's appropriations by approximately EUR 315.9 million.

In 2005 and 2006, the intervention buying in of sugar has become an important instrument for regulating the market. In the second year of this intervention mechanism, purchases of sugar amounted to approximately 1.2 million tonnes while sales amounted to 0.76 million tonnes. The corresponding quantities retained in the 2006 budget were 0.8 and 1.3 million tonnes. The higher quantities purchased led to higher than otherwise technical, financial and entry depreciation costs while, on the other hand, the higher sales in the internal market at prices much higher than their intervention accounting values resulted to much higher gains for the community budget. These purchases and sales resulted to an under-spending of the budget's appropriations by approximately – EUR 136.5 million.

The quantities of sugar (marketing year 2005/06) used by the chemical industry for which production refunds were granted amounted to approximately 0.75 million tonnes, a quantity slightly higher than the quantity of 0.7 million tonnes retained in the budget. The lower amount of production refunds paid, as compared to the level retained in the budget, more than compensated for this increase in the quantities of sugar used, thus, resulting to an under-spending of the 2006 budget's appropriations by – EUR 32.0 million.

With regard to measures to aid the disposal of raw sugar, the payments incurred were approximately at the level of the appropriations retained in the 2006 budget.

With regard to the adjustment aid for the refining industry, the payments incurred led to an under-execution of – EUR 3.5 million compared to the appropriations retained in the 2006 budget.

4.1.1.7. Article 05 02 06: Olive oil

Production refunds for olive oil used in the manufacture of preserved fish and vegetables were paid for approximately 0.07 million tonnes versus the quantity of 0.02 million tonnes retained in the 2006 budget, thus, over-spending the corresponding appropriations by approximately EUR 10.3 million.

With regard to quality improvement measures, because of delays in the Member States' execution of this scheme's programmes, the payments incurred led to an under-execution of – EUR 15.9 million compared to the appropriations retained in the 2006 budget.

4.1.1.8. Article 05 02 07: Textile plants

The increase in the world price for cotton led to a reduction of the rate of aid for cotton. Furthermore, the quantity of cotton produced in both Greece and Spain exceeded the maximum guaranteed quantity, thus, triggering an increase of the abatement rate. These two factors reduced the expenditure incurred by these Member States for this measure to EUR 914.6 million, thus, leading to an under-spending of the budget's appropriations by – EUR 30.4 million.

Processing aid was granted to approximately 0.10 million tonnes of long flax fibre compared to the quantity of 0.12 million tonnes retained in the budget and to 0.026 million tonnes of short flax and hemp fibre compared to the quantity of 0.029 million tonnes retained in the 2006 budget, thus, leading to an under-execution of the corresponding appropriations by approximately – EUR 3.5 million.

4.1.1.9. Article 05 02 08: Fruits and vegetables

Lower quantities of fresh fruits and vegetables were exported with refunds, thus, leading to an under-spending of the 2006 budget's appropriations by approximately – EUR 3.6 million.

The withdrawal of fruit and vegetables involved quantities slightly higher by 0.004 million tonnes than the ones retained in the 2006 budget, thus, leading to an over-spending of the budget's appropriations by EUR 0.2 million.

The expected increases in the approved producer organisations' programmes did not materialise. Therefore, Member States paid for operational funds for producer organisations an amount of approximately EUR 584.3 million, thus, under-spending the budget's appropriations by approximately – EUR 131.7 million.

With regard to special measures for nuts, Member States paid outstanding balances for quality improvement programmes amounting to approximately EUR 14.1 million, thus, under-spending the budget's appropriations by – EUR 0.9 million.

With regard to processing aid for tomatoes, Member States incurred payments for approximately 10.2 million tonnes of tomatoes for the marketing year 2005/06 compared to the quantity of 12.0 million tonnes retained in the 2006 budget, thus, under-spending the budget's appropriations by – EUR 61.6 million.

The production aid for fruit-based products was paid for approximately 0.49 million tonnes of peaches compared to the quantity of 0.36 million tonnes retained in the 2006 budget, thus, resulting to an over-spending the budget's appropriations by EUR 2.6 million.

With regard to intervention for dried grapes and figs, the quantities for which the aid was due were smaller than the ones retained in the 2006 budget. Therefore, payments incurred by the Member States led to an under-execution of – EUR 0.8 million compared to the budget's appropriations.

In the case of the compensation to encourage processing of citrus fruits the budget's appropriations were over-spent by EUR 19.0 million as a result of the higher quantities of processed oranges which amounted to approximately 1.9 million tonnes compared to the quantity of 1.7 million tonnes retained in the 2006 budget.

With regard to free distribution of fruits and vegetables, the quantities distributed were larger than the ones retained in the 2006 budget. Therefore, the payments incurred by the Member States led to an over-execution of EUR 0.6 million compared to the appropriations retained in the 2006 budget.

With regard to aid to producer organisations for preliminary recognition, because of the larger interest shown by the new Member States for this scheme, the payments incurred led to an over-execution of EUR 3.6 million compared to the appropriations retained in the 2006 budget.

4.1.1.10. Article 05 02 09: Products of the wine-growing sector

Total production of wine for the marketing year 2005/06 was estimated at approximately 168.0 million hl. This production level was approximately 9.0% lower compared to the one of 185.0 million hl for the marketing year 2004/05. For the same period, domestic human consumption of wines was estimated at approximately 132.0 million hl while industrial utilisations and distillations were estimated at approximately 37.0 million hl.

As a result of the increased WTO ceiling, slightly higher quantities of wine were exported, thus, leading to an over-spending of the 2006 budget's appropriations for export refunds by approximately EUR 0.2 million.

The quantities of wine and grape must placed in storage were approximately 15% higher than the quantities retained in the 2006 budget, thus, resulting to an over-spending of approximately EUR 23.3 million.

Crisis distillation decisions were taken late in the 2006 budget year, thus resulting to a shift of the corresponding payments in the 2007 budget year and, thus, leading to an under-spending of the 2006 budget's appropriations by – EUR 15.1 million.

Payments for the private storage of alcohol amounted to approximately EUR 9.0 million versus the amount of EUR 14.0 million foreseen in the 2006 budget. With regard to the public storage of alcohol, intervention purchases amounted to approximately 2.4 million hl while sales amounted to 2.5 million hl. The corresponding quantities retained in the 2006 budget were 2.2 and 2.8 million hl. The higher quantities purchased led to slightly higher than otherwise technical costs while, on the other hand, the higher sales at prices close to their intervention accounting values did not result to the losses foreseen in the 2006 budget. These purchases and sales finally resulted to an under-spending of the budget's appropriations by approximately – EUR 38.9 million.

Aid paid for concentrated and rectified must used for enriching wines amounted to EUR 184.7 million involving a quantity of 66.0 million hl which was higher than the quantity of 58.0 million hl retained in the 2006 budget, thus, resulting in an over-spending of EUR 28.7 million.

Aid for the permanent abandonment was paid for a smaller area of vineyards but involving a higher amount of aid, thus, resulting in an over-spending of EUR 2.8 million.

With regard to restructuring and conversion of vineyards, the payments incurred by the Member States led to an under-execution of – EUR 9.0 million compared to the appropriations retained in the 2006 budget.

4.1.1.11. Article 05 02 10: Promotion

With regard to promotion measures-payments by Member States, total payments amounting to EUR 34.2 million were made, thus, leading to an under-execution of the 2006 budget's appropriations of – EUR 7.8 million. These payments related to promotion actions within the EU and in third countries amounting to approximately EUR 7.6 million and EUR 6.6 million correspondingly.

With regard to promotion measures-direct payments by the European Community, the Commission committed approximately EUR 4.7 million versus the amount of EUR 10.0 million retained in 2006 budget, thus, leading to an under-execution of the 2006 budget's appropriations of – EUR 5.3 million. These commitments related to information and communication campaigns in China, Japan, USA and Canada on the European regimes of protected designations of origin (PDO), protected geographical indications (PGI) and traditional speciality guaranteed (TSG) as well as to an information campaign on organic farming, to the evaluation of the internal market and third countries promotion programmes and to the organisation of a high level mission to India.

4.1.1.12. Article 05 02 11: Other plant products/measures

The quantities of dried fodder eligible for the aid amounted to approximately 4.6 million tonnes compared to the maximum guaranteed quantity of 4.96 million tonnes retained in the 2006 budget. Therefore, the expenditure incurred by the Member States for the payment of this aid was lower and led to an under-spending of the budget's appropriations by – EUR 13.9 million.

The payments made, under the transitional regime put in place for the POSEI programmes in expectation of the new programmes which were approved later than foreseen in 2006, led to an over-spending of the 2006 budget's appropriations for these programmes by EUR 18.8 million.

With regard to Community fund for tobacco, the community's contribution towards Member States' tobacco reconversion plans amounted to approximately EUR 17.5 million, thus, over-spending the 2006 budget's appropriations by EUR 2.9 million.

4.1.1.13. Article 05 02 12: Milk and milk products

The world market, over the past 2 years, has been historically stronger with higher prices for all main products, i.e. butter, skimmed milk powder, whole milk powder, cheese. Prices for both skimmed milk powder and butter softened in the first half of 2006, from their high level of summer 2005, and bottomed out in spring 2006.

In 2006, the overall consumption of fresh dairy products continued to show a slight upward growth while cheese consumption increased significantly in particular in the

new Member States. Butter consumption was stagnant while consumption for skimmed milk powder decreased due to lower availability.

Despite the relative soft world market prices and lower \$/€ exchange rate during the first half of the budget year, the average export refunds paid during the budget year were lower than the ones foreseen in the 2006 budget, for both butter and skimmed milk powder. This reduction was due to the reduced institutional prices (3rd step of reduction in intervention prices) and the strong protein market observed from the spring 2006 onwards. For cheeses, the elimination of certain destinations with lower refund rates, i.e. the USA, as well as the elimination of certain cheeses with low refund rates, i.e. the ones for cow feta, led to a slight increase in the average refund rate paid for cheese compared the rate retained in the 2006 budget. At the same time, the exported quantities of butter, cheese and other dairy products decreased slightly while exports of skimmed milk powder and butter oil decreased substantially. As a consequence, the budget's appropriations for export refunds were under-spent by – EUR 16.1 million.

The generally favourable price environment in the EU-25 market allowed intervention stocks of dairy products to fall to their lowest levels since 2002.

With regard to public storage of skimmed milk powder, no purchases were made in the course of the 2006 budget year while sales amounted to approximately 12 000 tonnes leaving no skimmed milk powder in public storage. These sales made at prices higher than their intervention accounting values resulted to an increase in the net gains account, thus, leading to an under-implementation of the budget's appropriations for the various costs of public storage for skimmed milk powder amounting to approximately – EUR 3.1 million.

With regard to public storage of butter, purchases amounted to approximately 60 000 tonnes and sales to 77 000 tonnes compared to the corresponding quantities of 50 000 and 91 000 tonnes retained in the 2006 budget. The 2006 budget appropriations retained an amount of – EUR 29.0 million resulting from the net gains realised from the sales of intervention butter. The slightly lower levels of purchases and sales led to a slight increase in the technical and financial costs and to lower net gains from butter sales for a total execution amount of – EUR 23.1 million, thus, leading to an over-implementation of the budget's appropriations for butter amounting to approximately EUR 5.9 million.

The level of aid for skimmed milk processed into casein remained stable throughout the budget year while the average aid for animal feed decreased to EUR 265.0/t compared to the rate EUR 300.0/t retained in the 2006 budget. The quantities of SMP used for animal feed amounted to approximately 0.38 million tonnes while the ones used for casein amounted to 6.1 million tonnes. As a consequence, aid payments for the use of skimmed milk powder under-spent the corresponding budget appropriations by approximately – EUR 25.0 million.

Under the specific uses for butterfat scheme, aid was paid for a quantity of approximately 0.6 million tonnes, ie: the level retained in the 2006 budget. As a consequence, aid payments for this scheme were approximately at the level of the budget's appropriations.

With regard to intervention storage for cheese, the payments incurred by the Member States led to an under-execution of – EUR 1.7 million compared to the appropriations retained in the 2006 budget.

With regard to the super-levy, the Council adopted the Commission's proposal to modify the timing of the milk levy payments by the Member States. Therefore, the levy for the quota year 2005/06 will be paid in the 2007 budget year instead of the 2006 budget year as it was assumed when the 2006 budget was adopted. The collection of the milk levy payments is a receipt for the budget and it reduces the corresponding expenditure for the milk sector. Therefore, the effect of this timing change is that no milk levy will be collected in 2006 and as a consequence the corresponding expenditure for milk and milk products will show an increase, thus, leading to an over-implementation of the budget's appropriations by EUR 303.8 million.

With regard to school milk, the quantities distributed were lower than the quantities retained in the 2006 budget, thus, leading to an under-execution of the corresponding appropriations by – EUR 11.7 million.

4.1.1.14. Article 05 02 13: Beef and veal

The EU-25's bovine meat production is estimated to have increased slightly to approximately 8.0 million tonnes in 2006 after the over-thirty-month-slaughter scheme, which had been introduced in the UK after the BSE outbreak, was replaced by the older cattle disposal schemes whereby meat from cows born after 1996 can be put into the market. In the international meat markets, output was expected to recover in 2006 after the animal disease outbreaks of the past few years. The European Union continued to be a net importer of beef.

Against this background export refund rates for fresh and frozen meat were reduced by approximately 6% compared to the ones retained in the 2006 budget. However, the quantities of exported meat were significantly lower at approximately 0.18 million tonnes versus the quantity of 0.28 million tonnes retained in the 2006 budget. As a consequence, the corresponding appropriations were under-spent by approximately – EUR 63.0 million.

As it regards exports of live animals, the average export refund rate was increased by approximately 7%, because of the change of the type of exported animals, compared to the one retained in the 2006 budget while the estimated quantities exported were lower to approximately 0.07 million tonnes (carcass equivalent) compared to 0.1 million tonnes forecasted in the 2006 budget. As a consequence, the corresponding appropriations were under-spent by approximately – EUR 18.6 million.

With regard to the exceptional market support measures, payments were made for approximately 0.36 million animals compared to 0.47 million animals retained in the 2006 budget. Consequently, the budget's appropriations were under-spent by – EUR 53.4 million.

4.1.1.15. Article 05 02 14: Sheep meat and goat meat

No expenditure was incurred in 2006 under this scheme.

4.1.1.16. Article 05 02 15: Pig meat, eggs and poultry, bee-keeping and other animal products

While the 2006 budget retained credits for the export of approximately 0.1 million tonnes of fresh, chilled and frozen pig meat, export refunds were paid only for a quantity of approximately 0.08 million tonnes of hams, sausages and

conserves as opposed to the quantity of 0.1 million tonnes retained in the 2006 budget. Therefore, expenditure for exports refunds amounted to approximately EUR 19.5 million, thus, under-spending the budget's appropriations by – EUR 26.5 million.

With regard to export refunds for eggs, the exported quantities of whole eggs increased by 15% while the ones for eggs in shell decreased by 34% compared to the quantities retained in the 2006 budget. At the same time, following the outbreak of the avian influenza and its effect in the market, the export refund rate for eggs in shell was increased by 46% compared to the one retained in the budget. Consequently, the 2006 budget's appropriations were over-spent by approximately EUR 0.2 million.

For export refunds for poultry, the exported quantities of chicks increased by 67% while the ones for other poultry decreased by 38% compared to the quantities retained in the 2006 budget. Despite higher export refund rates than the ones retained in the 2006 budget, the budget's appropriations were under-spent by approximately – EUR 36.0 million.

4.1.1.17. Article 05 02 99: Recoveries

In this article, Member States declare the amounts recovered in cases of irregularities or fraud, securities forfeited etc. The 2006 budget foresaw recoveries amounting to – EUR 56.0 million while the amount actually declared by the Member States amounted to – EUR 54.3 million for an under-implementation of – EUR 1.7 million.

4.1.2. Chapter 05 03: Direct Aids

4.1.2.1. Introduction

The initial appropriations for this chapter of the budget amounted to EUR 34 816.9 million while payments amounted to approximately EUR 34 051.3 million, i.e. an implementation rate of 97.8% of these appropriations. Within this chapter of the budget, all sectors were under-implemented. Details of the differences between the budget's appropriations and their execution by budget item are presented in Annex 18.

4.1.2.2. Article 05 3 01: Decoupled direct aids

The appropriations of this article cover expenditure for the single payment scheme as well as for the single area payment scheme for the new Member States. Both payment schemes are paid independently from production.

With regard to the single payment scheme, a number of Member States, and mainly Germany, Ireland, Italy, Portugal and the UK, did not use the totality of their corresponding budgetary estimates, thus, resulting to an under-execution of the 2006 budget's appropriations by – EUR 408.8 million. Member States, in general, justified this under-execution by invoking the administrative difficulties in establishing the entitlements and in liquidating and paying aid files. Some Member States indicated that many small beneficiaries renounced their right to the payment of these aids when the corresponding amounts are small, thus, further contributing to the under-execution of the budget's appropriations.

Equally with regard to the single area payment scheme, some Member States, and mainly Poland and Slovakia, did not use the totality of their corresponding budgetary

estimates, thus, resulting to an under-execution of the 2006 budget's appropriations by – EUR 18.7 million.

4.1.2.3. Article 05 03 02: Other direct aids

The appropriations of this article cover expenditure for other direct aids for which Member States have chosen to maintain a limited link between the payment of these aids and production for a number of sectors, under well defined conditions and within clear limits, in order to avoid the abandonment of this production.

The main schemes for which the 2006 budget's appropriations were not implemented were:

- tobacco premiums: under-implementation amounting to approximately – EUR 109.0 million, involving mainly Greece, France and Italy, because of a reduction of tobacco produced compared to the quantity retained in the 2006 budget;
- compensatory aid for bananas: under-implementation amounting to approximately – EUR 108.4 million, involving mainly Spain and France, because favourable market conditions led to an increase in market prices and a consequent decrease in the compensatory rate of aid.

4.1.2.4. Article 05 03 03: Additional amounts of aid

The appropriations of this article cover expenditure for the additional amount of aid to farmers in order to compensate for the 3% modulation applicable to their first EUR 5 000 or less of direct payments. The corresponding expenditure incurred by Member States amounted to approximately EUR 315.8 million, thus resulting to an under-implementation of – EUR 31.2 million of the corresponding budget appropriations.

4.1.2.5. Article 05 03 99: Recoveries

In this article, Member States declare the amounts recovered in cases of irregularities or fraud amounts resulting from cross compliance etc. The 2006 budget foresaw recoveries amounting to – EUR 11.0 million while the amount actually declared by the Member States amounted to – EUR 38.8 million for an over-implementation of – EUR 27.8 million.

4.1.3. Chapter 05 07: Audit of Agricultural Expenditure

4.1.3.1. Article 05 07 01: Control of agricultural expenditure

This article involves the measures taken in order to reinforce the means of on-the-spot controls and to improve the systems of verification so as to limit the risk of frauds and irregularities in detriment of the Community budget. It also includes the amounts credited into the EAGGF-Guarantee budget through the clearance of the accounts corrections and through the reduction/ suspension of advances procedure.

The European Community directly financed measures to the tune of EUR 8.8 million, mostly for the purchase of satellite images within the framework of the Integrated Administrative and Control System (IACS), while the budget foresaw appropriations of EUR 9.4 million for these measures.

With regard to the accounting clearance of previous years' accounts, Member States have credited the EAGGF-Guarantee section budget with the amount of – EUR 10.9 million which corresponded to the corrections included in the two accounting clearance decisions adopted by the Commission in the course of the budget year, namely: the Commission decisions 2005/738/EC, and 2006/322/EC. With regard to the reduction/suspension of advances, an amount of – EUR 19.6 million was deducted from the Member States advances. The total amount credited in this item amounted to – EUR 30.5 million while the budget retained appropriations amounting to – EUR 70.0 million for this item. The amounts clawed back constitute a receipt for the budget and they reduce overall budgetary expenditure. Therefore, the accounting clearance claw backs amounted to approximately EUR 39.5 million below the appropriations of – EUR 70.0 million retained in the 2006 budget, then, the budget's expenditure increased by the amount of this under-execution.

With regard to the conformity clearance of previous years' accounts, Member States have credited the EAGGF-Guarantee section budget with the amount of – EUR 230.5 million which corresponded to the corrections included in the two conformity clearance decisions adopted by the Commission in the course of the budget year, namely: the Commission decisions 2006/334/EC and 2006/554/EC. The amounts clawed back constitute a receipt for the budget and they reduce overall budgetary expenditure. Since the conformity clearance claw backs amounted to approximately EUR 99.5 million below the appropriations of – EUR 330.0 million retained in the 2006 budget, then, the budget's expenditure increased by the amount of this under-execution.

4.1.3.2. Article 05 07 02: Settlement of disputes

This article intends to cover expenditure for which the Commission may be made responsible by decision of a court of justice, including the cost of settling claims for damages and interest. No appropriations were foreseen for this article in the 2006 budget while payments were made for an amount of EUR 6.1 million.

4.1.4. Chapter 05 08: Policy Strategy and Coordination

4.1.4.1. Article 05 08 06: Enhancing public awareness of the common agricultural policy

Appropriations committed with regard to the information measures on the CAP amounted to approximately EUR 6.4 million versus the amount of EUR 6.5 million retained in the 2006 budget.

4.1.5. Chapter 11 02: European Fisheries Guarantee Funds

4.1.5.1. Article 11 02 01: Intervention in fishery products

The budget allocation for fisheries totalled EUR 18 200 000, EUR 10 477 512 of which was spent, i.e. a difference of EUR 7 722 488.

The overall under use of the budget compared to the forecast figures mostly concerns compensation for withdrawals (under run of EUR 971 411), carry-over aid (under run of EUR 762 396), flat-rate aid (under run of EUR 1 124 082) and compensation under operational programmes (under run of EUR 4 755 826). During the fishing year in question, the favourable market situation led to a decrease in the utilisation of the

different intervention mechanisms. Regarding operational programmes, the compensation awarded by Member States to producer organisations is granted on a voluntary basis. Moreover, the compensatory allowance scheme for tuna was last triggered in 2004 following the fall in prices of this product in the Community during the first and second quarters, and was paid in 2006.

4.1.5.2. *Article 11 02 03: Fisheries programme for the outermost regions*

The budget allocation totalled EUR 15 000 000. It was exclusively used to pay aid pursuant to Council Regulation (EC) No 2328/2003 of 22 December 2003 introducing a scheme to compensate for the additional costs incurred in the marketing of certain fishery products from the Azores, Madeira, the Canary Islands and the French departments of Guiana and Reunion, as a result of those regions' remoteness.

Member States have notified five requests for adjustment of the maximum total weights fixed by Regulation (EC) No 2328/2003 to the Commission. They were allowed to proceed with four of them; one request requires further clarification from the Member State.

The Commission has adopted a report on the implementation of the measures provided for in Regulation (EC) No 2328/2003 (COM(2006) 734 of 30.11.2006). The report describes the nature of the aid scheme, provides information on its application, gives an assessment of the impact of the scheme on the fisheries sector in the outermost regions concerned and outlines the prospects for further Community action. The report is accompanied by a Commission Staff Working Document (SEC(2006) 1528).

4.1.6. *Chapter 17 03: Public Health*

4.1.6.1. *Article 17 03 02: Community Tobacco Fund*

More than 99,9% of the credits available from the 2006 budget have been used; an amount of EUR 14 590 120.2 out of 14 600 000 available for the information programmes has been committed, essentially for the anti-smoking 'HELP' – for a life without tobacco campaign (EUR 13 657 582.8). This campaign has been launched successfully at the end of 2004, and is due to take place during four years, with a budget of about EUR 14 000 000 for each year.

Overview

Line	BUDGET 2006	Initial Credits	Final credits after transfer	Committed before 31/12//2006	Balance commitments – final credits
17 03 02	Community Tobacco Fund – information programmes	14 600 000	14 600 000	14 590 120.16	9 879.84
	Total	14 600 000	14 600 000	14 590 120.16	9 879.84

The details of the utilisation of credits can be found in Annex 10 bis.

4.1.7. *Chapter 17 04: Veterinary and Plant Health measures*

A. Generalities on the chapter

Almost 89% of the credits available from the 2006 budget have been used; an amount of EUR 254 365 425 out of EUR 286 550 000 available for the operational and administrative credits for veterinary and plant health measures has been committed.

Two transfers were made during 2006 between articles to cover additional needs for the other veterinary measures of article 17 04 02 and the plant health measures of article 17 04 04 (more details below).

B. Chapter details

4.1.7.1. Article 17 04 01 – Animal disease eradication and monitoring programmes

The amount of available credits was EUR 209.5 million. Following a reallocation of credits executed in the autumn of 2006, an amount of EUR 7.0 million was de-committed especially in the area of scrapie eradication. This is the main reason why only 93% was committed according to the details mentioned below.

- EUR 105 150 000 for TSE surveillance programmes, they contain also the goat TSE surveillance programmes that started in the summer of 2005;
- EUR 8 160 000 for the TSE eradication programmes;
- EUR 22 763 000 for scrapie programmes (monitoring and eradication) and
- EUR 58 834 941 for the traditional eradication programmes.

Payment credits were executed via 137 payments; the total amount reached EUR 147.3 million and was constituted of 136 C8 credits and one C1 credit.

4.1.7.2. Article 17 04 02 – Other measures in the veterinary, animal welfare and public health field

The credits for this line reached EUR 20.0 million after a transfer of EUR 10.0 million coming from the emergency fund article 17 04 03. The increase of appropriations allowed the purchase of classical swine fever vaccines in view of the enlargement of the EU in 2007. At the end of 2006 EUR 0.7 million was not committed.

The payment credits were executed via 114 payments up to a sum of EUR 8.6 million; +/- 80% of them concerned credits of 2005.

4.1.7.3. Article 17 04 03 – Emergency fund for veterinary complaints and other diseases of animal contaminations which are a risk to public health

The amount of initial credits was EUR 48.0 million. Because no major disease funding needs arose in 2006, the appropriations could be reduced by EUR 17.0 million via a transfer to other articles. Still EUR 14.0 million of the remaining EUR 31.0 million was not committed.

Payment credits were executed up to an amount of EUR 8.4 million via 7 payments, they all concerned 2006 credits.

4.1.7.4. Article 17 04 04 – Plant-health measures – Expenditure on operational management

The initially allocated amount was EUR 2.5 million. It was, in order to finance the ad hoc eradication of pinewood nematode in Portugal, increased by EUR 7.0 million

coming from the emergency fund article. 99,8% of the available credits were used in 2006.

Via 54 transactions, payment credits were executed to an amount of EUR 1.6 million, of which EUR 1.35 million were 2005 credits.

4.1.7.5. Article 17 04 07 – Food and feed control – Expenditure on operational management

Almost EUR 7.0 million of an available amount of EUR 8.5 million were committed. The fact that the activities of the newly designated Community reference laboratories only started in the second half of the year, explains the under use of credits.

Via 163 transactions, payment credits were executed to an amount of EUR 4.57 million, of which EUR 3.35 million were 2006 credits.

4.1.7.6. Article 17 01 04 01 – Plant-health measures – Expenditure on administrative measures

The allocated credit amount was EUR 0.05 million. No commitments were made.

4.1.7.7. Article 17 01 04 05 – Food and feed control – Expenditure on administrative measures

EUR 6.75 million out of the EUR 8.5 million available was committed for the training tool of the Feed and Food Regulation (EC) No 882/2004.

Summary implementation of 2006 budget

Line	BUDGET 2006	Initial credits	Final credits after transfer	Committed before 31/12//2006	Balance commitments – final credits
17 04 01	Animal disease eradication and monitoring programmes and monitoring of the physical conditions of animals that could pose a public-health risk linked to an external factor	209 500 000	209 500,000	194 907 941	14 592 059
17 04 02	Other measures in the veterinary, animal welfare and public-health field	10 000 000	20 000 000	19 226 146	773 854
17 04 03	Emergency fund for veterinary complaints and other diseases of animal contaminations which are a risk to public health	48 000 000	31 000 000	17 018 120	13 981 880
17 04 04	Plant-health measures – Expenditure on operational management	2 500 000	9 500 000	9 484 272	15 728
17 04 07	Food and feed – Expenditure on operational management	8 500 000	8 500 000	6 985 935	1 514 065
17 01 04 01	Plant-health measures – Expenditure on administrative management	50 000	50 000	0	50 000
17 01 04 05	Food and feed – Expenditure on administrative management	8 000 000	8 000 000	6 743 011	1 256 989
	Total	286 550 000	286 550 000	254 365 425	32 184 575

The details of all the commitments done in 2006 are given in Annex 10.

4.2. Sub-heading 1b

4.2.1. Chapter 05 04: Rural Development

4.2.1.1. Article 05 04 01: EU 15 rural development

From appropriations under subheading 1b, the EAGGF Guarantee Section part-finances (Regulation (EC) No 1257/1999) 89 rural development programmes adopted for the 15 Member States for the 2000–06 period.

The allocation entered in the 2006 budget by the budget authority was EUR 5 020.0 million, equivalent to the maximum amount (ceiling) for 2006 under subheading 1b of the 2000–06 Financial Perspectives.

This amount was increased by EUR 655.0 million, equivalent to mandatory modulation and by EUR 43.4 million carried over from 2005 to 2006. Consequently, the appropriations available were increased to EUR 5 718.4 million.

In 2006, the actual expenditure under the 89 programmes was EUR 5 623.3 million or 98.3% of the appropriations available. Consequently, compared to the amount available of EUR 5 718.4 million, there was an under spend of EUR 95.1 million.

The implementation by budget heading in 2006 of the allocations available showed an under spend principally on forestry regime and agri-environmental measures. On the other hand, measures that have exceeded their initial allocation are the "Encouragement of the improvement and the rural zones development" and "Less favourite areas". As a result, transfers within this article for adjustment purposes were necessary to match budget resources to actual implementation needs.

4.2.1.2. Article 05 04 04: Transitional instrument for the financing of rural development for the new Member States.

Under Regulation (EC) No 1257/1999 the EAGGF Guarantee Section part-finances the rural development programmes adopted in 2004 for the ten new Member States for the period 2004–06 by means of the transitional instrument and by using differentiated appropriations.

The budget authority entered an allocation of EUR 2 096.0 million in commitment appropriations and EUR 2 036.3 million in payment appropriations in the 2006 budget. These amounts correspond to the 2006 instalment of the allocation for 2004–06 established at the Copenhagen European Council.

The actual expenditure of commitment appropriations was EUR 2 096.0 million for the 2006 instalment of the 10 adopted programmes. The actual expenditure for payment appropriations was EUR 2 115.7 million, i.e. higher by EUR 79.5 million compared to the 2006 budget's payment appropriations. This amount has been used for the reimbursement of expenditure from the ten new Member States.

5. SPECIFIC ACTIVITIES

5.1. Supply of food from intervention stocks for the benefit of the needy in the Community

In the particularly harsh winter of 1986/87 the Community organised an emergency programme for the supply, free of charge, of foodstuffs to the most deprived persons in the Community for a limited period.

When this emergency programme ended, the Community received many requests for this type of measure to be applied on a permanent basis. The Commission put a proposal to the Council, which adopted it as Regulation (EEC) No 3730/87 laying down general rules for the supply of food from intervention stocks to designated organisations for distribution to the most deprived persons in the Community⁶. The Commission then adopted the implementing Regulation (EEC) No 3149/92.

Since then, the Commission has adopted a distribution plan each year specifying the budget resources and quantities of products allocated to the Member States involved in the scheme.

15 Member States wished to take part in 2006. The appropriations were shared among the participating Member States according to the number persons at risk of poverty, based on the most recent Eurostat statistics. The allocation also reflected any substantial under spend in the previous years.

The annual plan is established in consultation with the charities on the ground. It is administered at national level by the authorities of the participating Member States. Each Member State designates the organisations that are to distribute food to the needy.

This measure also allows each participating Member State to obtain supplies of products from another Member State where it has no intervention stocks itself of one of the products it is to distribute under the scheme. The withdrawal of 7 500 tonnes of rice in exchange for cereals products was authorised. Furthermore, in 2006 substantial resources were allocated to the purchase on the market of milk powder not available in intervention stocks. (Commission Regulation (EC) No 1819/2005 presents the plan for 2006)⁷.

Under the 2006 plan (details of which appear in tables 1 to 3), the participating Member States spent approximately EUR 224.48 million as detailed in table 4.

⁶ OJ L 352, 15.12.1987, p. 1.

⁷ OJ L 293, 9.11.2005, p. 3. Regulation amended by Commission Regulation (EC) No 153/2006 of 27 January 2006 (OJ L 25 of 28.1.2006, p. 10).

TABLE 1**Financial ceiling in the annual plan 2006**

Member State	EUR
Belgium	3 064 940
Greece	7 127 822
Spain	53 793 470
France	48 059 949
Ireland	355 874
Italy	73 538 420
Latvia	2 096 236
Lithuania	2 489 508
Luxembourg	34 959
Hungary	6 764 115
Malta	401 030
Poland	43 408 602
Portugal	13 306 532
Slovenia	1 334 827
Finland	3 637 860
Total	259 414 143
Transfers	4 585 857
Total	264 000 000

TABLE 2**Allocation of products by Member State (2006 plan)**

Member State	Cereals	Rice (distribution)	Rice (exchange for cereals)	Rice (total)	Butter	Sugar
Belgium	12 121	2 800		2 800	450	
Greece		7 500	7 500	15 000		
Spain	73 726	28 000		28 000	13 560	2 000
France	75 851	55 000		55 000	10 564	
Ireland					120	
Italy	115 253	20 000		20 000	6 833	3 500
Latvia	19 706					
Lithuania	16 000	5 000		5 000		
Hungary	63 587					
Malta	1 877	600		600		
Poland	85 608	20 000		20 000	7 230	4 847
Portugal	17 287	14 000		14 000	2 743	1 700
Slovenia	1 262	600		600		300
Finland	18 500					500
Total	500 778	153 500	7 500	161 000	41 500	12 847

TABLE 3

Grants to Member States for purchase of skimmed-milk powder on the Community market subject to the maximum amounts laid down in Annex II (2006 plan)

Member State	EUR
Greece	4 538 402
Italy	33 849 510
Luxembourg	33 295
Malta	101 734
Poland	6 185 397
Slovenia	863 810
Finland	1 274 443
Total	46 846 591

TABLE 4

2006 expenditure declared by Member State

Member States participating in the 2006 plan	(EUR million)*
Belgium	3,11
Greece	11,85
Spain	53,80
France	43,92
Ireland	0,34
Italy	45,79
Latvia	0,27
Lithuania	2,42
Luxembourg	0,02
Hungary	5,88
Malta	0,43
Poland	38,87
Portugal	14,30
Slovenia	0,85
Finland	2,62
TOTAL	224,48

5.2. Promotion Measures – Payments by Member States

Information and promotion programmes for agricultural products implemented in the EU and elsewhere are financed under this chapter. The legal basis is provided by Council Regulations (EC) No 2702/1999 and (EC) No 2826/2000 and Commission Regulations (EC) No 1346/2005 and (EC) No 1071/2005.

The programmes are submitted by trade organisations to the Member States, the latter being responsible for programme management once the Commission has confirmed the selection and agreed part-financing.

The rate of financing of the action plans is 50%. The rules also allow the financing of information measures carried out on the initiative of the Commission (sending trade missions to non-member countries and providing the latter with information on protected designations of origin, protected geographical indications and organic production).

Payments made by the Member States on the EU budget for promotion measures amounted to approximately EUR 34.2 million, as compared to the 2006 budget appropriation of EUR 42.0 million. The under-implementation is due to delays in launching new programmes and in the implementation of programme actions in some Member States.

The number of approved programmes (under shared management) since 2001 was: 18 (2001), 40 (2002), 66 (2003), 59 (2004), 51 (2005). In 2006, 75 new indirectly managed promotion programmes were approved, both on the internal market and in non-member countries, by five separate Commission Decisions. Since many of the 2006 programmes were approved late in the budget year (for example 31 programmes were approved in July and 11 in December), the corresponding uptake of funds during the year was reduced and, therefore, the payments incurred in 2006 remained lower than expected.

6. CONTROL MEASURES

6.1. Introduction

The Community legislation provides for a comprehensive system of management and controls which relies on four levels:

- a) a compulsory administrative structure at the level of Member States, centred around the establishment of paying agencies and an authority at high level which is competent for issuing and withdrawing the agency's accreditation. The decision for issuing the accreditation is based on a detailed review by an external audit body;
- b) detailed systems for controls and dissuasive sanctions to be applied by those paying agencies, with common basis features and special rules tailored to the specificities of each aid regime;
- c) *ex-post* controls through independent audit bodies and special departments;

- d) clearance of accounts through the Commission (both annual accounting and multi-annual conformity clearance).

These four levels establish a comprehensive system for the management and control of agricultural expenditure. It includes, on the one hand, all the necessary building blocks to guarantee a sound administration of the expenditure at Member States' level and, on the other hand, allows the Commission to counter the risk of financial losses as a result of any deficiencies in the set-up and operation of those building blocks through the clearance of accounts procedure.

Article 8(1) of Regulation (EC) No 1258/1999⁸ provides for the general obligation of Member States to ensure that transactions financed by the EAGGF Guarantee section are carried out and executed correctly, to prevent and deal with irregularities and to recover amounts unduly paid.

In complement to this general obligation, there is a system of controls and dissuasive sanctions of final beneficiaries which reflects the specific features of the regime and the risk involved in its administration.

The controls are carried out by the paying agencies or by delegated bodies operating under their supervision and effective, dissuasive and proportionate sanctions are imposed if the controls reveal non-compliance with Community rules. The system generally provides for exhaustive administrative controls of 100% of the aid applications, cross-checks with other databases where this is considered appropriate as well as pre-payment on-the-spot controls of a sample of transactions ranging between 1% and 100%, depending on the risk associated with the regime in question. For example, the control rate in the framework of the IACS is normally 5%, while it is 100% for sugar storage. If the on-the-spot controls reveal a high number of irregularities, additional controls must be carried out. The sample of transactions is determined on a risk and/or random basis.

In addition, for most regimes which are not subject to the IACS, in addition to the primary and secondary control levels, *ex-post* controls must be carried out in accordance with Regulation (EEC) No 4045/89.

6.2. Integrated Administration and Control System (IACS)

Regulations (EC) No 1782/2003⁹ and (EC) No 796/2004¹⁰ contain the rules on the IACS.

A fully operational IACS consists of: a computerised database, an identification system for agricultural parcels and farmers claiming aid, a system for identification and registration payment entitlements, aid applications and integrated controls system (claim processing, on-the-spot checks and sanctioning mechanisms) and a system for identifying and registering animals where applicable. The IACS is fully automated and provides highly efficient controls by maximising the use of computerised and remote controls.

⁸ OJ L 160, 26.6.1999, p. 103.

⁹ OJ L 270, 21.10.2003, p. 1.

¹⁰ OJ L 141, 30.4.2004, p. 18.

This system foresees a 100% administrative control covering the eligibility of the claim, complemented by administrative cross-controls with standing databases ensuring that only areas/bovines that fulfil all eligible requirements are paid premium and by a minimum 5% of on-the-spot checks to check the existence and eligibility of the area/ animals claimed.

The use of standing databases, which are appropriately updated, is well adapted to the schemes whereby aids are directly paid to the farmers and based on the surfaces or on the number of animals, in that the risk can be reduced to the lowest levels. Moreover, the result of the ECA's work shows that, where properly applied, the IACS is an effective control system to limit the risk of irregular expenditure (see point 5.53 in the Court's 2005 annual report on 2005).

The following schemes are, for the period covered by this report, fully covered by the IACS under Council Regulation (EC) No 1782/2003: single payment, specific quality premium for durum wheat, protein crop premium, crop specific payment for rice, area payment for nuts, aid for energy crops, aid for starch potatoes, dairy premium, specific regional aid for arable crops, seed aid, arable crops area payment, sheep and goat premiums, beef and veal payments, specific types of farming and quality production. For these aid schemes, the rules on controls and reductions/dissuasive sanctions are set out in Regulation (EC) No 796/2004.

The IACS presently covers some 68.3% of EAGGF Guarantee's sub-heading 1a expenditure. The 2003 CAP reform followed by the second wave of the reform in 2004 on Mediterranean products (entering into force as from 2006) will further extend this coverage to 88.9% by 2010. The final phasing in of payments in the new Member States to 100% by 2013 will then raise the percentage to 91.2%.

For olive oil, tobacco, cotton, dried fodder, dried grapes, tomato processing and wine restructuring certain parts of the IACS are already applicable today and, as of claim year 2006 (financial year 2007), olive oil, tobacco and cotton will be fully covered by the IACS.

Furthermore, the relevant components of the IACS management and control system are applicable to the rural development measures, which are based on area or number of animals. Such measures include, inter alia, agri-environment and animal welfare measures, less-favoured areas and areas with environmental restrictions and afforestation of agricultural land. The IACS rules to be applied concern the launching of applications, the administrative and on-the-spot controls and recovery conditions for undue payments. In financial year 2006 such measures covered approximately 63% of the rural development expenditure in the Guarantee section of the Fund.

DG AGRI verifies the effectiveness of Member States' IACS and homogenous implementation by means of both on-the-spot auditing and general supervision based on annually supplied financial and statistical data. It has been established already for some years now that the IACS provides an excellent and cost effective means of ensuring the proper use of Community funds – IACS is up and running for several years, IACS compatibility went smoothly and the new MS were well monitored, largely thanks to the enforcement and preventive efforts involved in the monitoring exercise.

6.3. Market measures

Market measures not covered by the IACS comprise other aid schemes, for example export or storage aid, which are governed by specific rules as regards controls and reductions/dissuasive sanctions, as set out in the sector-based Regulations.

Aids are paid on the basis of claims, often involving the lodging of administrative and/or end-use securities, which are systematically (100%) checked administratively for completeness and correctness. The more financially important aid schemes are also subject to regular accounting controls performed in situ on commercial and financial documents.

6.4. Application of Council Regulation (EEC) No 4045/89¹¹ (*ex-post* controls)

Regulation (EEC) No 4045/89 provides for an *ex-post* control system which is a complement to the sectoral control systems described above. The system constitutes an extra layer of control that provides an assurance that transactions have been carried out in conformity with the rules or otherwise allows recovering the unduly paid amounts.

The scrutiny relates to the commercial documents of those entities receiving or making payments relating directly or indirectly to the system of financing by the Guarantee Section of the EAGGF, or their representatives, in order to ascertain whether transactions forming part of the system of financing by the Guarantee Section of the EAGGF have actually been carried out and have been executed correctly.

The *ex-post* scrutiny is to be carried out by a body in the Member State, which is independent of the departments within the paying agency responsible for the pre-payment controls and the payments. It covers a wide range of CAP subsidies including export refunds, processing and production subsidies, investment aids etc. In fact, the *ex-post* scrutiny covers all subsidies paid to beneficiaries from EAGGF, Guarantee section (except payments covered by IACS and those excluded by Regulation (EC) No 2311/2000¹²).

The rate of completed scrutinies has according to the control statistics from the Member States risen from 52% in the scrutiny period 2004/2005 to 68% in the scrutiny period 2005/2006. At the same time, the rate of inspections carried out (i.e. completed + on-going) has risen from 80% in the 2004/2005 scrutiny period to 95% in the 2005/2006 scrutiny period.

Although, the 2005/2006 inspections should according to the regulation have been finalised prior to 1 July 2006, it has to be noted that the total number of completed and on-going inspections (2 743) exceeds actually the required minimum number of inspections to be carried out (2 665). Thus, a significant improvement in the application of the regulation has been made as compared to the previous scrutiny periods.

The total expenditure controlled amounted to almost 40% of the payments made under the budget lines relevant for an *ex-post* control pursuant to Regulation (EEC)

¹¹ OJ L 388, 30.12.1989, p. 18.

¹² OJ L 265, 19.10.2000, p. 10.

No 4045/89 in respect of financial year 2004. A total of 270 potential irregularities were detected with an estimated value of EUR 13.2 million, which constitutes 0.25% of the value of expenditure subject to the 4 045 controls carried out.

This very low rate of irregular payments indicates that the pre-payment controls have been executed correctly. Such an indication together with the very high rate of expenditure controlled contributes to the assurance that the transactions financed by the EAGGF Guarantee section have been properly controlled.

7. CLEARANCE OF ACCOUNTS

7.1. Conformity clearance – introduction

It is primarily the Member States' responsibility to satisfy themselves that transactions are carried out and executed correctly via a system of control and dissuasive sanctions. Where Member States fail to meet this requirement, the Commission applies financial corrections to protect the financial interests of the Community, consisting of recommendations and financial corrections.

The conformity clearance relates to the legality and regularity of transactions. It is designed to exclude expenditure from Community financing which has not been effected in compliance with Community rules, thus shielding the Community budget from expenditure that should not be charged to it (financial corrections). In contrast, it is not a mechanism by which irregular payments to beneficiaries are recovered, which according to the principle of shared management is the sole responsibility of Member States.

Financial corrections are determined on the basis of the nature and gravity of the infringement and the financial damage caused to the Community. Where possible, the amount is calculated on the basis of the loss actually caused or on the basis of an extrapolation. Where this is not possible, flat-rates are used which take account of the severity of the deficiencies in the national control systems in order to reflect the financial risk for the Community.

Where undue payments are or can be identified as a result of the conformity clearance procedures, Member States are required to follow them up by recovery actions against the final beneficiaries. However, even where this is not possible, financial corrections are an important means to improve the Member States' management and control systems and thus to prevent or detect and recover irregular payments to final beneficiaries. The conformity clearance thereby contributes to the legality and regularity of the transactions at the level of the final beneficiaries.

7.2. Conformity clearance – audits and decisions adopted in 2006

7.2.1. Audits

In 2006, 354 audits in total have been carried out of which 184 included an on-the-spot mission. The other 170 audits were desk-checks and did not involve missions.

7.2.2. *Conformity decisions*

During the financial year 2006, two conformity decisions were adopted which resulted in the exclusion from Community financing of a total of EUR 290.1 million covering expenditure in the financial years from 1998 to 2005:

Decision 2006/334/EC of 28 April 2006 – 21st Decision¹³, amount of EUR 128.2 million,

Decision 2006/554/EC of 27 July 2006 – 22nd Decision¹⁴, amount of EUR 161.9 million.

The breakdown according to sectors is as follows (in EUR million):

	Decision 21	Decision 22
Animal premium	0.08	0.49
Arable crops	8.72	79.51
Export refunds	–	0.37
Financial audit	31.22	–
Flax	3.14	–
Fruit & vegetables	73.59	15.60
Intervention storage	–0.03	2.64
Irregularities	–0.04	–
Milk and milk products	6.76	2.16
Olive oil	–	0.16
POSEI	–	4.35
Rural development	4.76	23.21
Wine	–	33.36
TOTAL	128.2	161.9

7.3. **Accounting clearance for the 2005 financial year**

7.3.1. *Introduction*

The financial clearance covers the accounts and control systems set up by the paying agencies. Within this framework, the DG AGRI departments pay particular attention to the certifying bodies' conclusions and recommendations (where weaknesses are found), following their reviews of the paying agencies' management and control systems. As part of this review, the DG AGRI departments also cover aspects relating to the accreditation criteria for the paying agencies and protecting the financial interests of the Community as regards the advances paid, securities obtained and intervention stocks.

The Commission then adopts an annual clearance of accounts decision, by which it conveys that it accepts the Member States' annual accounts on the basis of the certificates and reports from the certifying bodies, but without prejudice to any subsequent decisions to recover expenditure which proves not to have been in

¹³ OJ L 124, 11.5.2006, p. 21.

¹⁴ OJ L 218, 9.8.2006, p. 12.

accordance with the Community rules. The Commission must clear the accounts and adopt its clearance decision by 30 April of the year following the financial year in question.

7.3.2. Decisions

By Decision No 2006/118/EC of 28 April 2006, it was decided to clear the 2005 accounts of paying agencies where their completeness, accuracy and veracity had been confirmed on the basis of the information received. The accounts of six paying agencies, corresponding to EUR 4 518 million (around 10% of total expenditure), were disjoined from the decision and are the subject of a later decision.

7.4. Appeals brought before the Court of Justice against clearance decisions

7.4.1. Judgments handed down

In the financial year 2006 the Court handed down six judgments in appeals brought by the Member States against clearance decisions.

The Court rejected the appeals brought in the following cases:

Judgment of 27 October 2005 (Case C-387/03) concerning sectors: wine, olive oil and animal premiums for bovines and sheep in Greece;

Judgment of 10 November 2005 (Case C-307/03) concerning arable crops in Italy;

Judgment of 12 January 2006 (Case C-183/03) concerning arable crops in Germany;

Judgment of 20 June 2006 (Case T-251/04): the Court dismissed the action but the Hellenic Republic appealed (Case C-332/06P);

Judgment of 25 July 2006 (Case T-221/04): the Court dismissed the action but the Kingdom of Belgium appealed (Case C-418/06P).

The Court annulled the conformity decision in respect of the Member State that appealed in the following case:

Judgment of 27 October 2005 (Case C-175/03) concerning maintenance of olive yards at the smaller Aegean islands, Greece.

7.4.2. Appeals pending

The situation as at 15 October 2006 with regard to appeals pending is shown, together with the amounts concerned, in Annex 21.

8. RELATIONS WITH PARLIAMENT AND THE EUROPEAN COURT OF AUDITORS

8.1. Relations with Parliament

The European Parliament is, together with the Council, part of the EU's Budgetary Authority. It is thus one of the most important discussion partners of the Commission on budgetary matters and therefore on the EAGGF.

Three EP committees are involved in the discussions and the preparation for the plenary on agricultural budgetary matters. These are the Committee on Agriculture and Rural Development, the Committee on Budgets and the Committee on Budgetary Control.

The Committee on Budgetary Control monitored the correct implementation of the 2004 budget. It was asked to draw up the Parliamentary Decision (OJ L 340, 6.12.2006) by which discharge (in respect to the implementation of the general budget of the European Union for the 2004 financial year) was granted to the Commission on 27 April 2006.

8.2. Relations with the European Court of Auditors

8.2.1. *Mission of the Court of Auditors*

The main task of the Court of Auditors is to audit the accounts of the Community. The Maastricht Treaty strengthened this role by requiring it to provide a statement of assurance as to the reliability of the Community accounts and the legality and correctness of the underlying transactions. Issuing this statement certifies that the accounts give an accurate picture of the year in question. It is also of prime importance to the budgetary authority in its deliberations on the granting of the discharge.

As part of its work, the Court carries out numerous audits within the Commission. Court officials frequently visit the Agriculture Directorate-General to gather facts and figures needed for the Court opinions, sector letters and special reports. In the light of these investigations the Court frequently makes suggestions and recommendations to the Commission as to how to improve its budgetary management to make Community control measures more effective.

8.2.2. *Annual Report 2005*

Each year the Court of Auditors draws up a report which over several chapters scrutinises the management of the Community budget for the previous year.

Before the report is published, meetings are held between the Court of Auditors and the Commission, at which the Court's submissions and conclusions and the Commission's replies and explanations can be discussed. The report is the result of the audits made by the Court in the Community institutions and inspection visits to the Member States.

The annual report for the 2005 financial year together with the Commission's replies included one chapter (Chapter 5) on agriculture, covering the EAGGF Guarantee Section. The main submissions advanced by the Court and the replies given by the Commission concerned the following:

Specific assessment in the context of the Statement of Assurance:

IACS (5.5–5.24)

Olive Oil (5.25–5.27)

Rural Development (5.28–5.32)

Export refunds (5.33–5.36)

Ex-post scrutiny of subsidies paid to traders and processors (5.37–5.41)

The Commission's clearance of Accounts (5.42–5.51)

Follow-up to previous observations:

Rural Development: support for less-favoured areas (5.64–5.69)

The organisation of the system for the identification and registration of bovine animals in the European Union (5.70–5.75)

Like in previous years, the Court's observations on budgetary management were consolidated in a separate chapter of the report (Chapter 3). This year the Court devoted also a separate chapter on the Commission internal control (Chapter 2). Unlike last year, SAPARD is treated in the Chapter on "pre-accession strategy".

8.2.3. *Special Reports by the Court of Auditors*

In 2006, the Court published two special reports relevant to agriculture:

SR No 07/2006 on Rural Development Investments (OJ C 282, 20.11.2006)

SR No 08/2006 on the EU support for fruit and vegetables producers (OJ C 282, 20.11.2006)

The full text of the Annual Report and the Special Reports, together with Commission's replies can be consulted on the Court's website: <http://eca.europa.eu>

9. BASIC RULES GOVERNING THE EAGGF GUARANTEE SECTION AND AMENDMENTS MADE IN 2006

9.1. Checks

- Council Regulation (EEC) No 4045/89 of 21 December 1989 on scrutiny by Member States of transactions forming part of the system of financing by the Guarantee Section of the European Agricultural Guidance and Guarantee Fund and repealing Directive 77/435/EEC (OJ L 388, 30.12.1989, p. 18),
as last amended by Regulation (EC) No 2154/2002 (OJ L 328, 5.12.2002, p. 4)
- Commission Regulation (EC) No 4/2004 of 23 December 2003 laying down detailed rules for the application of Council Regulation (EEC) No 4045/89 on scrutiny by Member States of transactions forming part of the system of financing by the Guarantee Section of the European Agricultural Guidance and Guarantee Fund (OJ L 2, 6.1.2004, p. 3),
as last amended by Regulation (EC) No 40/2006 (OJ L 8, 13.1.2006, p. 4)
- Council Regulation (EC) No 1782/2003 of 29 September 2003 (OJ L 270, 21.10.2003, p. 1) establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers, and repealing Council Regulation (EEC) No 3508/92 of 27 November 2002 (OJ L 94, 31.3.2004, p. 70),
as last amended by Regulation (EC) No 2013/2006 (OJ L 384, 29.12.2006, p. 13)

- Commission Regulation (EC) No 796/2004 of 21 April 2004 (OJ L 141, p. 18) laying down detailed rules for the implementation of cross-compliance, modulation and the integrated administration and control system provided for in of Council Regulation (EC) No 1782/2003 establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers and repealing Commission Regulation (EC) No 2419/2001 of 11 December 2001 (OJ L 141, 30.4.2004, p. 18.), *as last amended by Regulation (EC) No 2025/2006 (OJ L 384, 29.12.2006, p. 81)*
- Council Regulation (EC) No 1257/1999 of 17 May 1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF) and amending and repealing certain Regulations (OJ L 160, 26.6.1999, p. 80), *as last amended by Regulation (EC) No 2223/2004 (OJ L 379, 24.12.2004, p. 1)*
- Commission Regulation (EC) No 817/2004 of 29 April 2004 laying down detailed rules for the application of Council Regulation (EC) No 1257/1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF) (OJ L 153, 30.4.2004, p. 30), *as last amended by Regulation (EC) No 1360/2005 (OJ L 214, 19.8.2005, p. 55)*
- Commission Regulation (EC) No 1423/2006 of 26 September 2006 establishing a mechanism for appropriate measures in the field of agricultural spending in respect of Bulgaria and Romania (OJ L 269, 28.9.2006, p. 10).

9.2. Clearance of accounts

- Council Regulation (EC) No 1258/1999 on the financing of the common agricultural policy (OJ L 160, 26.6.1999, p. 103),
- Commission Regulation (EC) No 1663/95 of 7 July 1995 laying down detailed rules for the application of Council Regulation (EEC) No 729/70 regarding the procedure for the clearance of the accounts of the EAGGF Guarantee Section (OJ L 158, 8.7.1995, p. 6), *as last amended by Regulation (EC) No 465/2005 (OJ L 77, 23.3.2005, p. 6)*,
- Commission Regulation (EC) No 2390/1999 of 25 October 1999 laying down detailed rules for the application of Regulation (EC) No 1663/95 as regards the form and content of the accounting information that the Member States must hold at the disposal of the Commission for the purposes of the clearance of the EAGGF Guarantee Section accounts (OJ L 295, 16.11.1999, p. 1), *as last amended by Regulation (EC) No 1359/2005 (OJ L 214, 19.8.2005, p. 11)*.

9.3. Public Storage

(a) Basic rules

- Council Regulation (EEC) No 1883/78 of 2 August 1978 laying down general rules for the financing of interventions by the European Agricultural Guidance and Guarantee Fund, Guarantee Section (OJ L 216, 5.8.1978, p. 1), last amended by Regulation (EC) No 695/2005 of 26 April 2005 (OJ L 114, 4.5.2005, p. 1),

- Commission Regulation (EEC) No 411/88 of 12 February 1988 on the method and the rate of interest to be used for calculating the costs of financing intervention measures comprising buying-in, storage and disposal (OJ L 40, 13.2.1988, p. 25), last amended by Regulation (EC) No 956/2005 of 23 June 2005 (OJ L 164, 24.6.2005, p. 8),
- Commission Regulation (EEC) No 1643/89 of 12 June 1989 defining the standard amounts to be used for financing material operations arising from the public storage of agricultural products (OJ L 162, 13.6.1989, p. 12), amended by Regulation (EC) No 269/91 of 1 February 1991 (OJ L 28, 2.2.1991, p. 22),
- Commission Regulation (EEC) No 2734/89 of 8 September 1989 on the factors to be taken into consideration for determining expenditure pursuant to Article 37(2) of Regulation (EEC) No 822/87 to be financed by the EAGGF Guarantee Section (OJ L 263, 9.9.1989, p. 16),
- Council Regulation (EEC) No 3492/90 of 27 November 1990 laying down the factors to be taken into consideration in the annual accounts for the financing of intervention measures in the form of public storage by the European Agricultural Guidance and Guarantee Fund, Guarantee Section (OJ L 337, 4.12.1990, p. 3),
- Commission Regulation (EEC) No 3597/90 of 12 December 1990 on the accounting rules for intervention measures involving the buying-in, storage and sale of agricultural products by intervention agencies (OJ L 350, 14.12.1990, p. 43), last amended by Regulation (EC) No 1392/97 of 18 July 1997 (OJ L 190, 19.7.1997, p. 22),
- Commission Regulation (EEC) No 147/91 of 22 January 1991 defining and fixing the tolerances for quantity losses of agricultural products in public intervention storage (OJ L 17, 23.1.1991, p. 9), amended by Regulation (EEC) No 652/92 of 16 March 1992 (OJ L 70, 17.3.1992, p. 5),
- Commission Regulation (EEC) No 3149/92 of 29 October 1992 laying down detailed rules for the supply of food from intervention stocks for the benefit of the most deprived persons in the Community (OJ L 313, 30.10.1992, p. 50), last amended by Regulation (EC) No 133/2006 of 26 January 2006 (OJ L 23, 27.1.2006, p. 11),
- Commission Regulation (EC) No 2148/96 of 8 November 1996 laying down rules for evaluating and monitoring public intervention stocks of agricultural products (OJ L 288, 9.11.1996, p. 6), amended by Regulation (EC) No 808/1999 of 16 April 1999 (OJ L 102, 17.4.1999, p. 70),
- Commission Regulation (EC) No 884/2006 of 21 June 2006 laying down detailed rules for the application of Council Regulation (EC) No 1290/2005 as regards the financing by the European Agricultural Guarantee Fund (EAGF) of intervention measures in the form of public storage operations and the accounting of public storage operations by the paying agencies of the Member States (OJ L 171, 23.6.2006, p. 35);

(b) Depreciation on buying in

- Commission Regulation (EC) No 1689/2005 of 14 October 2005 fixing depreciation percentages to be applied when agricultural products are bought in for the 2006 financial year (OJ L 271, 15.10.2005, p. 29);

(c) Additional depreciation at the end of the financial year

- Decision C(2006) 4356 of 6 October 2006 (not published) fixing the amounts and detailed rules for the depreciation of stocks of certain agricultural products bought into public intervention by the Czech republic, the Federal Republic of Germany, the Republic of Cyprus, the Republic of Hungary, the Kingdom of Netherlands, the Slovak Republic and the Republic of Finland during the 2006 financial year;

(d) Uniform interest rate

- Commission Regulation (EC) No 1668/2005 of 13 October 2005 fixing the interest rates to be used for calculating the costs of financing intervention measures comprising buying-in, storage and disposal for the 2006 EAGGF Guarantee Section accounting year (OJ L 269, 14.10.2005, p. 4);

(e) Standard amounts

- Commission Decision C(2005) 3752 of 12 October 2005 (not published) fixing, for the 2006 financial year, the standard amounts to be used for financing physical operations arising from the public storage of agricultural products;

(f) Transfer of products between Member States with reimbursement of transport costs

- Commission Regulation (EC) No 923/2005 of 15 June 2005 on the transfer and sale on the Portuguese market of 80 000 tonnes of common wheat, 80 000 tonnes maize and 40 000 tonnes of barley held by the Hungarian intervention agency (OJ L 156, 18.6.2005, p. 8), as amended by Regulation (EC) No 2108/2005 of 21 December 2005 (OJ L 337, 22.12.2005, p. 23);

(g) Authorisation for storage in another Member State with reimbursement of transport costs

- Commission Decision C(2005) 1701 of 31 May 2005 (not published) authorising the Czech Republic to store outside its territory 55 000 tonnes of cereals from the 2004/2005 marketing year, as amended by Decision C(2005) 4141 of 17 October 2005 (not published).
- Commission Decision C(2005) 1905 of 17 June 2005 (not published) authorising the Czech Republic to store outside its territory 300 000 tonnes of cereals from the 2004/2005 marketing year, as amended by Decision C(2005) 4013 of 11 October 2005 (not published);

- (h) Reimbursement of storage costs for products not delivered into a public store within the normal delivery deadline**
- Commission Regulation (EC) No 515/2006 of 30 March 2006 establishing a transitional measure for the 2005/2006 marketing year on funding the storage of cereals offered for intervention in the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia (OJ L 93, 31.3.2006, p. 32).

ANNEXES TO THE COMMISSION STAFF WORKING PAPER

**accompanying the 36th FINANCIAL REPORT FROM THE COMMISSION
TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

on

**THE EUROPEAN AGRICULTURAL GUIDANCE AND GUARANTEE FUND
GUARANTEE SECTION**

– 2006 FINANCIAL YEAR –

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