



Council of the
European Union

Brussels, 6 September 2017
(OR. en)

11765/17

AGRIFIN 84
FIN 513

COVER NOTE

From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
date of receipt:	28 August 2017
To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
No. Cion doc.:	COM(2017) 456 final
Subject:	REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL 10th FINANCIAL REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL on the EUROPEAN AGRICULTURAL GUARANTEE FUND 2016 FINANCIAL YEAR

Delegations will find attached document COM(2017) 456 final.

Encl.: COM(2017) 456 final



Brussels, 28.8.2017
COM(2017) 456 final

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

**10th FINANCIAL REPORT FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT AND THE COUNCIL on the EUROPEAN AGRICULTURAL
GUARANTEE FUND**

2016 FINANCIAL YEAR

{SWD(2017) 285 final}

TABLE OF CONTENTS

1.	BUDGET PROCEDURE	3
2.	CASH POSITION AND MANAGEMENT OF APPROPRIATIONS	5
3.	THE IMPLEMENTATION OF THE 2016 EAGF BUDGET	7
4.	IMPLEMENTATION OF REVENUE ASSIGNED TO EAGF	11

ANNEX 1	BUDGETARY PROCEDURE FOR 2016 EAGF APPROPRIATIONS
ANNEX 2	ANALYSIS OF EAGF BUDGETARY EXECUTION – 2016 FINANCIAL YEAR
ANNEX 3-I	ANALYSIS OF EAGF BUDGETARY EXECUTION – 2016 FINANCIAL YEAR. ASSIGNED REVENUE. C4
ANNEX 3-II	ANALYSIS OF EAGF BUDGETARY EXECUTION – 2016 FINANCIAL YEAR. ASSIGNED REVENUE. C5
ANNEX 4	EAGF BUDGETARY EXECUTION BY ARTICLE AND BY MEMBER STATE – 2016 FINANCIAL YEAR

Note: A detailed Commission Staff Working Document accompanies this report. The full text of this Staff Working Document (in English) and the annexed tables (in English) will be also available on DG Agriculture's Europa website (http://ec.europa.eu/agriculture/cap-funding/financial-reports/eagf/index_en.htm).

1. BUDGET PROCEDURE¹

1.1. Draft Budget 2016 and Amending Letter 2/2016

The Draft Budget 2016 was adopted by the Commission and proposed to the Budgetary Authority on 24 June 2015. The commitment appropriations proposed for the EAGF totalled EUR 42 867.6 million.

The Council adopted its position on the Draft Budget 2016 on 4 September 2015, reducing the commitment appropriations for the EAGF by EUR 198.9 million. The European Parliament adopted its position on 28 October 2015, increasing the commitment appropriations for the EAGF by EUR 499.8 million compared to the Draft Budget.

On 14 October 2015 the Commission adopted Amending Letter (AL) No 2 to the Draft Budget 2016, lowering the requested commitment appropriations for the EAGF by EUR 507.3 million compared to the Draft Budget.

1.2. Adoption of the 2016 budget

The Conciliation Committee, composed of members of the European Parliament and of the Council, agreed on a Joint Text on 14 November 2015. Finally, the 2016 budget was declared as adopted by the European Parliament on 25 November 2015. The budget's total commitment appropriations for the EAGF amounted to EUR 42 220.3 million and its payment appropriations amounted to EUR 42 212.1 million.

The difference between commitment and payment appropriations is due to the fact, that for certain measures, which are directly implemented by the Commission, differentiated appropriations are used. These measures relate mainly to the promotion of agricultural products, to policy strategy and coordination measures for agriculture.

Specifically, of the voted EAGF commitment appropriations for policy area 05 amounting to EUR 42 220.3 million, EUR 2 673.0 million were foreseen for interventions in agricultural markets under chapter 05 02, EUR 39 445.7 million were foreseen for direct payments under chapter 05 03, EUR 58.6 million were foreseen for audit of agricultural expenditure under chapter 05 07 and EUR 33.4 million for policy strategy and coordination under chapter 05 08.

Further details are provided in annex 1.

Subsequently, in the course of the financial year 2017, the EAGF's appropriations for article 05 08 03 (restructuring of systems for agricultural surveys) were reduced by EUR 1.25 million through Amending Budget No 4.

¹ This procedure is presented in annex 1.

1.3. Revenue assigned to the EAGF²

In accordance with Article 43 of Regulation (EC) No 1306/2013 on the financing of the Common Agricultural Policy³, revenue originating from financial corrections under accounting or conformity clearance decisions, from irregularities and from the milk levy are designated as revenue assigned to the financing of EAGF expenditure. According to these rules, assigned revenue can be used to cover the financing of any EAGF expenditure. If a part of this revenue is not used, then this part will be automatically carried forward to the following budget year.

At the time of establishing the 2016 budget, an estimate of the revenue was made both for the amount expected to be collected in the course of the 2016 budget year as well as of the amount which was expected to be carried over from the budget year 2015 into 2016. This estimate amounted to EUR 2 980 million and it was taken into consideration when the Budgetary Authority adopted the 2016 budget. In particular:

- revenue from the conformity clearance corrections and from irregularities was estimated at EUR 1 125 million and EUR 155 million respectively while the receipts from the milk levy were estimated at EUR 810 million. Thus, the total amount of assigned revenue expected to be collected in the course of the 2016 budget year was estimated at EUR 2 090 million;
- The amount of assigned revenue expected to be carried over from the budget year 2015 into 2016 was estimated at EUR 890 million.

In the 2016 budget, this initially estimated revenue of EUR 2 980 million was assigned to two schemes, i.e.:

- EUR 600 million for the operational funds for producer organisations in the fruits and vegetables sector;
- EUR 2 380 million for the basic payment scheme (direct payments).

For the aforementioned schemes, the sum of the voted appropriations by the Budgetary Authority and the assigned revenue corresponds to a total estimate of available appropriations of:

- EUR 898 million for the operational funds for producer organisations in the fruits and vegetables sector;
- EUR 18 307 million for the basic payment scheme (direct payments).

² These amounts are not entered in the revenue lines of the budget (Article 670 for the revenue assigned to the EAGF), which mention "p.m." ("pro memoria"), but the forecast amount is mentioned in the budgetary remarks for this article.

³ OJ L 347 of 20.12.2013, p. 549.

2. CASH POSITION AND MANAGEMENT OF APPROPRIATIONS

2.1. Management of appropriations

2.1.1. Appropriations available for the 2016 financial year

In EUR

Expenditure section of budget (1)	Commitment appropriations	Payment appropriations	Revenue section of budget (AR) (2)	Forecasts
1. Initial appropriations for EAGF of which	42 220 335 824.00	42 212 046 297.00	1. Clearance decisions	1 125 000 000
1a. Appropriations under shared management	42 152 208 157.00	42 152 208 157.00	2. Irregularities	155 000 000
1b. Appropriations under direct management	68 127 667.00	59 838 140.00	3. Super levy from milk producers	810 000 000
2. Amending Budget	-1 250 000.00		Total forecast of AR	2 090 000 000
3. Transfer to / out of EAGF in the year	-1 006 523.53	-2 500 523.53		
4. Final appropriations for EAGF of which	42 218 079 300.47	42 209 545 773.47		
4a. Appropriations under shared management	42 148 674 416.47	42 148 674 416.47		
4b. Appropriations under direct management	69 404 884.00	60 871 357.00		

(1) Appropriations entered in the 2016 budget after deducting the expected assigned revenue to be collected in 2016 and the one carried over from 2015 to 2016 in accordance with Article 14 of Regulation (EU, EURATOM) No 966/2012.

(2) AR: Assigned revenue to be collected. There are no AR amounts of revenue entered on the revenue line (p.m.), but the forecast amount is indicated in the budget remarks.

2.1.2. Budget execution of appropriations available for the 2016 financial year

In EUR

	Execution of commitment appropriations	Execution of payment appropriations
Shared management (1)	44 221 202 321.60	44 221 202 321.60
Expenditure under direct management	63 907 387.76	48 052 725.41
Total	44 285 109 709.36	44 269 255 047.01

(1) Committed amounts. Commitments and payments less assigned revenue of EUR 2 527 141 771.95 (see point 4 and annex 3-I) received for shared management: EUR 41 694 060 549.65.

For the financial year 2016, the actual amount of commitment appropriations used amounted to EUR 44 285 109 709.36 while that for payment appropriations amounted to EUR 44 269 255 047.01.

The amount paid out (EUR 44 084 495 379.84) was less due to suspended amounts for France and Poland.

2.1.3. *Budget execution of voted appropriations - Expenditure under direct management made by the Commission*

In EUR

Expenditure under direct management	Commitment appropriations	De-commitments	Payment appropriations	Carry over to 2017 (2)
Appropriations (C1) (1)	69 404 884.00	-	60 871 357.00	-
Execution (C1)	63 907 387.76	-	35 670 480.51	12 898 533.97
Appropriations cancelled	5 497 496.24	-	12 302 342.52	-

(1) C1 denotes the budget's voted appropriations. This amount includes transfers from "shared management" for an amount of EUR 2 527 217.00 for commitment and payment appropriations, transfers "out" of EAGF for a total amount of EUR -1 494 000.00 for payment appropriations and an Amending Budget of EUR - 1 250 000.00 for commitment appropriations.

(2) Carry over to 2017 only for non-differentiated appropriations.

The available commitment appropriations for expenditure under direct management in the 2016 budget were EUR 69.4 million. An amount of EUR 63.9 million was committed in 2016. The balance of these appropriations, EUR 5.5 million, was cancelled.

The majority of EAGF commitment appropriations for expenditure under direct management made by the Commission are differentiated appropriations.

The automatic carry over to 2017, which relates only to non-differentiated appropriations, amounts to EUR 12.9 million.

2.2. Monthly payments

2.2.1. Monthly payments to Member States under shared management

2.2.1.1. Monthly payments on the provision for expenditure

Article 18(1) of Regulation (EU) No 1306/2013 states that "monthly payments shall be made by the Commission for expenditure effected by Member States' accredited paying agencies during the reference month". Monthly payments shall be made to each Member State at the latest on the third working day of the second month following that in which the expenditure is incurred.

The monthly payments are a reimbursement of net expenditure (after deduction of revenue) which has been already carried out and are made available on the basis of the monthly declarations forwarded by the Member States. The monthly booking of expenditure and revenue is subject to checks and corrections on the basis of these declarations. Moreover, these payments will become final following the Commission's verifications under the accounting clearance of accounts procedure.

Payments made by the Member States from 16 October 2015 to 15 October 2016 are covered by the system for monthly payments.

For financial year 2016, the total net amount of monthly payments decided, after the deduction of clearance and other corrections, was EUR 41 694 060 549.65. Taking into account the suspended amounts only EUR 41 509 300 882.48 was paid out.

2.2.1.2. Decisions on monthly payments for 2016

For the financial year 2016, the Commission adopted twelve decisions on monthly payments. Furthermore, an additional monthly payment decision, adjusting those already granted for the total expenditure chargeable to the year, was adopted in December 2016.

3. THE IMPLEMENTATION OF THE 2016 EAGF BUDGET

3.1. The uptake of the EAGF budget appropriations

The implementation of the budget amounted to EUR 44 285.1 million. This expenditure was funded by the budget's initial appropriations and by using the revenue assigned to policy area 05-Agriculture and Rural Development, composed of the entire amount of EUR 896.4 million carried over from 2015 and of a part of the assigned revenue collected in 2016 amounting to EUR 1 223.1 million out of a total EUR 2 527.1 million.

Within policy area 05-Agriculture and Rural Development, the expenditure for market measures amounted to EUR 3 154.3 million and for direct payments to EUR 40 984.1 million.

For details of the budget's implementation by policy area, please see annex 2.

Annex 4 presents a breakdown of the expenditure on market measures, direct payments and audit of agricultural expenditure by article and by Member State.

3.2. Comments on the implementation of 2016 EAGF budget

A brief commentary for the most significant sectors on the implementation of the 2016 EAGF budget's appropriations as well as on the use of the assigned revenue available in 2016 is presented hereafter based on details appearing in the annexes 2, 3-I and 3-II.

3.2.1. Chapter 05 02: Interventions in agricultural markets

3.2.1.1. Introduction

Total payments for this chapter in 2016 amounted to EUR 3 154.3 million and they were funded by the voted appropriations amounting to EUR 2 673.0 million and by assigned revenue amounting to EUR 481.3 million. The latter was used to cover the expenditure incurred in the fruits and vegetables products sector (for details, see point 3.2.1.2). The remaining balance of assigned revenue collected in 2016 amounted to EUR 118.7 million and it was carried over to 2017. In items where the needs exceeded the budgetary appropriations, the additional expenditure was covered through transfers from other items of the budget. For the market measures where the budget's appropriations were under-spent, the resulting available appropriations were transferred to other items of the budget to cover additional expenditure as needed.

3.2.1.2. Article 05 02 08: Fruits and vegetables

The 2016 budget foresaw total available appropriations amounting to EUR 1 211.8 million to cover the needs of all the measures for this sector. The Budgetary Authority voted appropriations of EUR 611.8 million as it took into account the estimated revenue assigned to this sector which amounted to EUR 600 million. Moreover, EUR 79.6 million was transferred from other parts of the budget. The expenditure incurred by Member States in 2016 amounted to EUR 1 172.7 million. The balance of the unused assigned revenue of EUR 118.7 million was carried over to the budget year 2017 to cover the needs of that year.

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

The 2016 budget foresaw total available appropriations amounting to EUR 1 076 million to cover the needs of all the measures for this sector. The under-execution of EUR 48.9 million, compared to the forecasted 2016 budget needs for the national support programmes, was due to the lower expenditure incurred by some Member States for the promotion, restructuring and investment components of their national wine programmes.

3.2.1.4. Article 05 02 10: Promotion

As regards promotion measures-payments by Member States, the under-execution of EUR 14.4 million compared to the forecasted 2016 budget needs was due to the lower expenditure incurred by some Member States for their promotion programmes which are approved by the Commission compared to the expenditure foreseen in the 2016 budget for these programmes.

As regards direct payments made by the European Union, the Commission committed appropriations of around EUR 18.5 million which was EUR 2.5 million higher than the amount foreseen in the 2016 budget for these payments.

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

For this budget article, the appropriations were over-executed by EUR 2.6 million compared to the forecasted 2016 budget needs of EUR 239.4 million; this over-execution was due to a minor shift in a Member State during the financial year, from POSEI - Direct Payments programmes towards POSEI – market measures programmes.

3.2.1.6. Article 05 02 12: Milk and milk products

The 2016 budget foresaw total available appropriations amounting to EUR 537.1 million to cover the needs of all the measures for this sector. Expenditure incurred by Member States in 2016 amounted to EUR 406.6 million. All the schemes funded under this article were under-implemented compared to the estimated needs foreseen in the 2016 budget.

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

The 2016 budget foresaw total available appropriations amounting to EUR 64.0 million to cover the needs of all the measures for this sector. However, the

expenditure incurred by Member States in 2016 amounted to EUR 140.6 million and it was funded both by the voted appropriations and by transfers of appropriations amounting to EUR 76.6 million from other areas of the 2016 budget.

3.2.2. *Chapter 05 03: Direct payments*

Financial year 2016 was the first year of implementation of all the schemes under the reformed structure of direct payments as decided in the 2013 CAP reform. Total payments for this chapter of the 2016 budget amounted to EUR 40 984.1 million. This includes an amount of EUR 395.4 million paid for the reimbursement of direct payments to farmers in relation to financial discipline, financed from EUR 409.8 million carried over from 2015 (for details, see point 3.2.2.3). The rest of the payments made, EUR 40 588.8 million, was funded by voted appropriations amounting to EUR 38 950.6 million and by assigned revenue amounting to EUR 1 638.2 million. The latter was used to cover the expenditure incurred for the basic payment scheme. The unused voted appropriations amounted to EUR 495.1 million as evidenced by the difference between the voted appropriations of EUR 38 950.6 million used for the reimbursement to Member States and the initial voted appropriations of EUR 39 445.7 million included in the 2016 budget. These unused voted appropriations were decreased by a transfer of voted appropriations of EUR 52.8 million to other parts of the EAGF budget. Moreover, the unused amount of the crisis reserve (EUR 441.6 million), which was established from the proposed financial discipline in 2016, was transferred to budget article 05 03 09 so that the amount of the effectively applied financial discipline (EUR 433.1 million) could be carried over to 2017 for the reimbursement to the Member States concerned (see point 3.2.2.3). The remaining balance of assigned revenue collected in 2016 amounted to EUR 1 185.3 million and was carried over to 2017. In items where the needs exceeded the budget's voted appropriations, the additional expenditure was covered through transfers of voted appropriations from other items of the budget or of assigned revenue. Equally, for direct payments where the budget's appropriations were under-spent, the resulting available appropriations were transferred to other items of the budget in order to cover additional expenditure as needed. There were in particular transfers from various other direct payments schemes to cover the expenditure of the small farmers scheme which in 2016 was budgetted with a p.m. given that needs for this scheme at that stage still were unknown.

3.2.2.1. Article 05 03 01: Decoupled direct payments

The main schemes funded by this article's appropriations are the single area payment scheme (SAPS), the basic payment scheme (BPS), the payment for agricultural practices beneficial for the climate and the environment, the redistributive payment and the payment for young farmers. All aid schemes in this article are paid independently of production but on certain conditions, e.g. the respect of cross-compliance. The 2016 budgetary needs for decoupled direct payments amounted to EUR 36 649.2 million for which the Budgetary Authority voted appropriations amounting to EUR 34 269.2 million after taking into consideration assigned revenue amounting to EUR 2 380 million. The expenditure incurred by Member States for all schemes in this article amounted to EUR 35 204.1 million, thus, exceeding the voted appropriations by EUR 934.9 million. This latter amount of expenditure declared was covered by assigned revenue. The expenditure incurred by Member States for decoupled direct payments corresponded to 96.1% of the needs foreseen in the 2016

budget for these schemes. This under-execution was partly a logical consequence of the fact that a part of the expenditure for various schemes was replaced by expenditure for the small farmers scheme under 05 03 02, in line with the above mentioned transfers of appropriations to the scheme. Moreover, the under-execution noted for several schemes was also linked to a delay in execution in some Member States which still incurred expenditure for some lines after the end of financial year 2016.

3.2.2.2. Article 05 03 02: Other direct payments

The appropriations of this article covered expenditure for "other direct payments". This includes schemes for which there may still be a link between the payment and the production, under well defined conditions and within clear limits. As a consequence of the 2013 reform, new schemes added under this Article were the voluntary coupled support and the small farmers scheme, whereas a number of lines from 2016 only covered relatively minor residual payments for expired schemes.

The Commission had estimated that appropriations amounting to EUR 4 734.8 million were needed for this Article in 2016. Member States incurred expenditure amounting to EUR 5 384.7 million hence higher than the appropriations entered in the budget.

3.2.2.3. Article 05 03 09: Reimbursement of direct payments in relation to financial discipline

No appropriations are allocated to this article by the Budgetary Authority. This article serves the purpose of collecting the non-committed voted appropriations including in particular the appropriations of the unused crisis reserve in order to be carried over into budget year N+1 and finance the reimbursement of the financial discipline applied to direct payments in respect of calendar year N⁴.

From the amount of EUR 409.8 million, corresponding to the financial discipline applied during financial year 2015 and which was carried over to budget 2016 for reimbursement, Member States reimbursed EUR 395.4 million. The difference of EUR 14.4 million reverted to the 2016 budget for its return to Member States via an Amending Budget in the following budget year.

3.2.2.4. Article 05 03 10: Reserve for crises in the agricultural sector

The appropriations of this article are intended to cover expenditure for measures which have to be taken in order to cope with major crises affecting agricultural production or distribution. The crisis reserve is established by applying, at the beginning of each year, a reduction to the direct payments through the financial discipline mechanism in accordance with Articles 25 and 26 of Regulation (EU) No 1306/2013 as well as Article 8 of Regulation (EU) No 1307/2013⁵. This reserve shall

⁴ These appropriations may be carried over, in accordance with Article 169(3) of the Financial Regulation (EU, Euratom) No 966/2012, and in accordance with Article 26(5) of Regulation (EU) No 1306/2013, Member States shall reimburse the final recipients who are subject, in the financial year to which the appropriations are carried over, to the application of financial discipline in accordance with Article 26, paragraphs (1) to (4) thereof.

⁵ OJ L 347, 20.12.2013, p.608

be set up with annual amount of EUR 400 million (in 2011 prices). For the budget year 2016, the equivalent amount of the crisis reserve in current prices was EUR 441.6 million. The reserve was not used in financial year 2016.

For the 2015 claim year, the financial discipline was calculated exclusively for the constitution of the crisis reserve of EUR 441.6 million. However, by the end of the financial year, non-committed voted appropriations corresponding to the amount of financial discipline effectively applied for claim year 2015 (taking into account the unused amount of the crisis reserve) was transferred to budget article 05 03 09 in order to be carried over to the next financial year and, in this way, fund the reimbursement of financial discipline imposed on farmers in the calendar year 2016.

3.2.3. *Chapter 05 07: Audit of agricultural expenditure*

3.2.3.1. 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 fraud and irregularities to detriment of the Union budget. It also includes the expenditure to finance possible accounting and conformity corrections in favour of Member States.

3.2.3.2. Article 05 07 02: Settlement of disputes

The appropriations in this article are intended to cover expenditure for which the Commission could be held liable by decision of a court of justice, including the cost of settling claims for damages and interest. On 27 September 2012, the European Court of Justice delivered its judgment in joined cases C-113/10, C-147/10 and C-234/10 (the Jülich-II judgement). The 2016 budget foresaw appropriations amounting to EUR 29.5 million for the payment of compensatory interest to operators under this judgement. However, Member States incurred and declared expenditure of around EUR 52.4 million for these payments. Therefore, appropriations amounting to EUR 22.9 million were transferred from other items of the 2016 budget.

4. **IMPLEMENTATION OF REVENUE ASSIGNED TO EAGF**

The assigned revenue actually carried over from 2015 into 2016, amounted to EUR 896.4 million and was entirely used in financing expenditure of the 2016 budget year in accordance with article 14 of the Financial Regulation. As presented in annex 3-II, this amount covered expenditure of EUR 199.8 million for the operational funds for producer organisations in the fruits and vegetables sector and of EUR 696.6 million for the basic payment scheme.

As regards the assigned revenue collected in 2016, annex 3-I shows that this revenue amounted to EUR 2 527.1 million and it originated from:

- the corrections of the conformity clearance procedure, EUR 1 593.7 million;
- the receipts from irregularities, EUR 118.4 million;

- the milk levy collections, EUR 815.1 million.

The assigned revenue collected in 2016 was used to cover expenditure incurred for the following measures:

- EUR 281.5 million for the operational funds for producer organisations in the fruits and vegetables sector;
- EUR 941.6 million for the basic payment scheme (BPS) (direct payments).

The balance of the assigned revenue collected in 2016 amounting to EUR 1 304 million was automatically carried over into the 2017 budget in order to fund budgetary needs of that year.

For details, please see annexes 3-I and 3-II.