



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 26.10.2007
SEC(2007) 1454 final

**AMENDING LETTER No 2
TO THE PRELIMINARY DRAFT BUDGET 2008**

GENERAL STATEMENT OF REVENUE

STATEMENT OF REVENUE AND EXPENDITURE BY SECTION

Section III - Commission

(presented by the Commission)

**AMENDING LETTER No 2
TO THE PRELIMINARY DRAFT BUDGET 2008**

GENERAL STATEMENT OF REVENUE

**STATEMENT OF REVENUE AND EXPENDITURE BY SECTION
Section III - Commission**

Having regard to:

- the Treaty establishing the European Community, and in particular Article 272 thereof,
- the Treaty establishing the European Atomic Energy Community, and in particular Article 177 thereof,
- the Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities¹, as last amended by Council Regulation (EC, Euratom) No 1995/2006², and in particular Article 34 thereof,

The European Commission hereby presents to the budgetary authority the amending letter No 2 to the preliminary draft budget 2008 for the reasons set out in the explanatory memorandum.

¹ OJ L 248, 16.9.2002, p. 1.
² OJ L 390, 30.12.2006, p. 1.

TABLE OF CONTENTS

1.	Introduction	4
2.	Preservation and management of natural resources	5
2.1.	Summary table	5
2.2.	Agricultural expenditure (market related expenditure and direct payments).....	5
2.2.1.	Overall picture.....	5
2.2.2.	Euro-dollar exchange rate	6
2.2.3.	Detailed comments.....	6
2.3.	International fisheries agreement	10
2.4.	Changes in the nomenclature and budgetary remarks.....	11
	<u>SUMMARY TABLE BY HEADING OF THE FINANCIAL FRAMEWORK</u>	12

GENERAL STATEMENT OF REVENUE

STATEMENT OF REVENUE AND EXPENDITURE BY SECTION

The general statement of revenue and statement of revenue and expenditure by section is forwarded separately via the SEI-BUD system. An English version of the general statement of revenue and statement of revenue and expenditure by section is attached for information as a budgetary annex.

1. INTRODUCTION

The Interinstitutional Agreement on budgetary discipline and sound financial management (Annex II, letter B)³ provides that, "if it considers it necessary, the Commission may present to the two arms of the budgetary authority an ad hoc letter of amendment to update the figures underlying the estimate of agricultural expenditure in the preliminary draft budget (PDB) and/or to correct, on the basis of the most recent information available concerning fisheries agreements in force on 1 January of the financial year concerned, the amounts and their breakdown between the appropriations entered in the operational items for international fisheries agreements and those entered in reserve." This letter of amendment must be sent to the budgetary authority by the end of October.

The Commission presents herewith this *ad hoc* amending letter (AL No 2/2008) to the preliminary draft budget 2008, containing a careful, line by line update on the estimated needs for agricultural expenditure. In addition to changing market factors, the AL also incorporates legislative decisions adopted in the agricultural sector since the PDB was drawn up, revised estimates of needs for direct payments, as well as any proposals, which are expected to have effect during the coming budget year. The AL comprises also an update as regards international fisheries agreements.

The AL is based, in the same way as the PDB itself, on the needs of the Community as a whole. As far as the market measures are concerned, no breakdown of the appropriations between Member States is available. In addition, it must be stressed that these appropriations are to be understood as a forecast and not as an objective of expenditure. The actual expenditure will depend, in particular, on actual market conditions, on the actual euro-dollar exchange rate, and on the rhythm of the payments by Member States. Since this is compulsory expenditure, whatever the amount a Member State is obliged to pay in accordance with the regulations – within the limits set by the financial framework - will be reimbursed in full.

The euro-dollar rate used, in accordance with Council Regulation No 1290/2005 on the financing of the Common Agricultural Policy, is based on the average rate observed between 1 July and 30 September 2007. It comes to 1,37 (EUR 1=USD 1,37) and results in an increase in needs of about EUR 17 million compared to the PDB.

For clarification and transparency purposes, some budgetary comments have been updated.

Overall appropriations for Heading 2 are estimated at EUR 55 305,5 million, leaving a margin of EUR 3 494,5 million in commitment appropriations below the corresponding ceiling of the Financial Framework.

The appropriations for *agricultural expenditure (including veterinary and fish expenditure financed under FEAGA)* amount to EUR 41 166,5 million, a reduction of EUR 1 332,5 million compared to the PDB 2008.

The change for *International fisheries agreements* relates to compensation payments for additional catches related to the Fisheries Partnership Agreements with Greenland and

³ OJ C 139, 14.6.2006, p.1

Guinea-Conakry. Overall, the modifications proposed are not changing the total amount foreseen for fisheries agreements.

2. PRESERVATION AND MANAGEMENT OF NATURAL RESSOURCES

2.1. Summary table

EUR million	PDB 2008		AL 2/2008		Difference	
	(a)		(b)		(c)=(b)-(a)	
	CA	PA	CA	PA	CA	PA
Total Appropriations Heading 2	56.275,8	54.770,5	55.305,5	53.439,2	-970,3	-1.331,3
Financial Framework margin	58.800		58.800		-	
	2.524,2		3.494,5		970,3	
Of which						
Agricultural expenditure (market related expenditure and direct payments)⁴	42.499,0	42.447,1	41.166,5	41.115,6	-1.332,5	-1.331,5
Rural Development	12.570,7	11.382,9	12.932,7	11.382,9	362,0	-
International fisheries agreements	193,2	195,2	193,2	195,2	0	0
<i>of which: - "Operational line"</i>	154,4	156,4	155,1	157,1	0,7	0,7
- "Reserve"	38,8	38,8	38,1	38,1	-0,7	-0,7

2.2. Agricultural expenditure (market related expenditure and direct payments)

2.2.1. Overall picture

The purpose of the AL No°2/2008 is to ensure that the agricultural budget is based on the most up-to-date economic data and legislative framework. By the month of September, the Commission has at its disposal a first indication of the level of production (harvests) for 2007, which is the basis for any reliable estimate of the budgetary needs for 2008.

As in the past, the Commission has carefully reviewed all its estimates of agricultural expenditure line by line. Besides taking into account market factors, this AL also incorporates any legislative decisions adopted in the agricultural sector since the PDB was drawn up, as well as proposals.

The total appropriations for *Agricultural Expenditure (EAGF)*⁵ are EUR 41 166,5 million, less than estimated in the PDB 2008 (- EUR 1 332,5 million). This saving results, from a downward revision for the needs for **intervention** on *agricultural markets* (chapter 05 02 - EUR 659 million) because of more optimistic forecasts relating to the situation in agricultural markets, from a transfer of EUR 362 million from direct aids to Rural Development because of the voluntary modulation requested by UK and finally from an upwards revision of the assigned revenue resulting from the milk superlevy (+ EUR 64 million) and from supplementary revenue carried over from 2007 (+ EUR 248 million).

⁴ European Agricultural Guarantee Fund (EAGF) expenditure including EUR 30 million under title 11 Fisheries and Maritime Affairs and EUR 274 million under title 17 Health and Consumer protection.

⁵ European Agricultural Guarantee Fund (EAGF) expenditure.

2.2.2. Euro-dollar exchange rate

In accordance with Article 21 of Council Regulation No 1290/2005 on the financing of the Common Agricultural Policy, the euro-dollar rate to be used for the letter of amendment is the average rate over the most recent three-month period. In the case of this letter of amendment, this means the period between 1 July and 30 September 2007. The average exchange rate recorded is EUR 1 = USD 1,37 which is higher than the rate used for the preliminary draft budget (EUR 1 = USD 1,31). This change in the rate has the effect of increasing needs by about EUR 17 million (EUR 6 million for market measures for cereals, EUR 11 million for sugar refunds).

2.2.3. Detailed comments

05 02 Interventions in agricultural markets (appropriations -971 million)

appropriations in preliminary draft budget: EUR 5 003 million

appropriations after letter of amendment: EUR 4 032 million

Favourable prospects for most agricultural markets explain the decrease in appropriations (- EUR 971 million), in particular for cereals (- EUR 288 million), refunds on non-Annex I products (- EUR 48 million), dairy (- EUR 239 million). To be noted also a reduction in appropriations for fruits and vegetables (-EUR 597 million), reflecting downward-revised needs for payments to operational funds for producer organisations and for production aid for processed tomato products (- EUR 161 million) and a further reduction by EUR 467 million resulting from the assignment of this amount of assigned revenue to this article.

In contrast, there are increases in a number of sectors. For sugar, budgetary appropriations are increasing from EUR 441 million to EUR 576 (+ 135 million). In particular export refunds absorb more money than assumed in the PDB 2008 because forecasts of world market prices have been revised downwards and the euro-dollar exchange rate has changed. The wine sector is absorbing EUR 35 million more appropriations mainly due to a shift of expenditure initially expected in 2007 to the budget 2008 following revised payment schedules from Member States, in particular for measures related to distillation and permanent abandonment of areas under wine. Furthermore, appropriations were revised upwards for food programmes (+EUR 6 million), promotion measures (+ EUR 7 million), POSEI (+ EUR 7 million), beef and veal (+ EUR 4 million) as well as for eggs and poultry (+ EUR 9 million).

The comments below explain the main differences between the appropriations of the PDB and those of the AL for some sectors.

05 02 01 – Cereals (appropriations – EUR 288 million)

appropriations in preliminary draft budget: EUR 279 million

appropriations after letter of amendment: EUR - 9 million

The sharp reduction in the budgetary appropriations for cereals is brought about by a continuation of unprecedented market developments which have started in 2007 and have been reinforced since the beginning of 2007/2008 marketing year. Most important is the decrease for **intervention storage of cereals** (-EUR 213 million). In the 2007/2008 marketing year world consumption is expected to overshoot production leading to a declining level of

world stocks and record prices for cereals. In the EU, due to particular climatic conditions and contrary to the previous expectations, the EU cereals output for 2007/2008 is revised downwards by 25 million tonnes. No intervention purchases of cereals are forecast while remaining intervention stocks of wheat and maize are to be sold on the internal market at high prices. Together with a lower opening stock at the start of the 2007/2008 campaign, this will result in a reduction to zero of intervention stocks. Sales out of intervention at prices well above the buying-in price will lead even to a gain of EUR 88 million on intervention storage of cereals.

The particular market situation also results in decreased appropriations for **export refunds for cereals** (- EUR 45 million). No refunds are expected to be paid for basic cereals during the 2007/2008 campaign, and only limited export refunds are foreseen for processed products and potato starch at EUR 10 million and EUR 7 million respectively.

As already mentioned, the strengthening of the Euro absorbs EUR 6 million in the cereals sector.

The table below illustrates the present situation for **cereals in intervention** as compared to that of the PDB.

	PDB (million t)	AL (million t)
Opening Stocks	4.3	1.3
Purchases	3.5	0
Sales	2.4	1.3
Closing Stocks	5.4	0
Average Stocks	5.9	0.2

Based on the most recent execution data for budget 2007, **production refunds for starch** are expected to decrease by EUR 30 million compared to the PDB 2008.

05 02 05 – Sugar (appropriations + EUR 135 million)

appropriations in preliminary draft budget: EUR 441 million

appropriations after letter of amendment: EUR 576 million

Appropriations for the sugar sector increase from EUR 441 million in the PDB to EUR 576 million in the AL. This net increase is due to a number of market-related conditions in a situation where the imbalance of the sugar sector is confirmed.

Export refunds (+ EUR 279 million) increase is due to the fall in world market prices for sugar and in the higher euro-dollar exchange rate. Additionally, delays in payments for refund of the campaign 2006/2007 increase, compared to the PDB, the part of the refunds for that campaign to be charged to the 2008 budget.

Storage of sugar (- EUR 144 million). The hypothesis underlining the PDB foresaw no movement in stocks and a level of white sugar, at 1 October 2007, of zero ton. Current statistics show that 638,1 thousand tonnes are in the stocks at the beginning of the period and the hypothesis is that most of this sugar will be sold during the campaign. These sales generate some revenue which explains the negative appropriation proposed.

05 02 08 – Fruit and vegetables (appropriations - EUR 597 million)

appropriations in preliminary draft budget: EUR 1 325 million

appropriations after letter of amendment: EUR 728 million

Forecast needs for fruit and vegetables decrease in comparison with the PDB by EUR 130 million. However this decrease is further reinforced by EUR 467 million being financed by assigned revenue, totalling in AL N° 2/2008 a reduction of EUR 597 million.

The main reason for the reduction in needs is some saving related to line 05 02 08 03, **Operational funds for producer organisations**, where the latest information from Member States induces a decrease in needs of EUR 123 million.

The appropriations for line 05 02 08 06, **Production aid for processed tomato products**, also show a reduction due to a decrease of the quantities foreseen for processing (from 10,3 million tonnes in the PDB to 9 million tonnes in the AL).

These savings are partly offset by some increases in appropriation, in particular, because of late payments, not foreseen in the PDB, for lines 05 02 08 01 **Export refunds for fruit and vegetables** and 05 02 08 02 **Compensation for withdrawals and buying-in**.

05 02 09 – Products of the wine-growing sector (appropriations + EUR 35 million)

appropriations in preliminary draft budget: EUR 1 377 million

appropriations after letter of amendment: EUR 1 412 million

Compared to the PDB 2008, the updated appropriations assessment is higher for distillation of wine (+ EUR 14 million) and measures related to the permanent abandonment for areas under vine (+ EUR 30 million). The additional appropriations for distillation are mainly due to the voluntary distillation of wine into potable alcohol for which some Member States asked to prolong the period for intake because of limited distillation capacities. This has the effect that part of the expenditure initially foreseen for the budget 2007 will be financed from the budget 2008. For permanent abandonment, updated figures from Member States suggest that a bigger percentage than initially foreseen in the PDB will be paid out in 2008. On the other hand, export refunds and measures related to storage of alcohol are expected to be less costly than initially expected (Export refunds: - EUR 8 million; Storage of alcohol: - EUR 1 million).

05 02 11 04 – POSEI (excluding direct aids and FISH 11 02 03) (appropriations + EUR 7 million)

appropriations in preliminary draft budget: EUR 213 million

appropriations after letter of amendment: EUR 220 million

The increase in this budget line (+ EUR 7 million) is due to increased appropriations for the specific supply arrangement for the Canary Islands, revised on the basis of the latest data on budget execution for 2007. This budget line needs to be seen as well in relation to budget line 05 03 02 50, where further fine-tuning of the distinction between market-related expenditure and direct aids led to a shift of EUR 4 million from direct aids (05 03 02 50) to market related expenditure (budget line 05 02 11 04).

05 02 12 – Milk and milk products (appropriations – EUR 239 million)

appropriations in preliminary draft budget: EUR 406 million

appropriations after letter of amendment: EUR 167 million

Updated market forecasts for the dairy sector still confirm the analysis of the PDB 2008 showing good market prospects for milk products. In particular, the high prices for almost all dairy products, both internally and on the world markets, allowed the reduction to zero of the level of export refunds (- EUR 249 million). On the other hand, expenditure for measures related to intervention storage of butterfat (+ EUR 7 million) and school milk (+ EUR 3 million) are expected to be somewhat higher. For school milk, the Council decided to harmonise the aid rate and open its scope for a wider range of products.

05 02 13 – Beef and veal (appropriations + EUR 4 million)

appropriations in preliminary draft budget: EUR 57 million

appropriations after letter of amendment: EUR 61 million

The market situation in the EU beef and veal sector continues to be characterised by sustained demand and good prices, further reducing the appropriations for export refunds (- EUR 7 million). On the other hand, additional expenditure (+ EUR 11 million) compared to the PDB 2008 has been identified for the budget item financing exceptional support measures ('Over Thirty Months Scheme' and 'Older Cattle Disposal Scheme' measures related to BSE) on the basis of the most recent uptake figures.

05 02 15 – Pigmeat, eggs and poultry, bee-keeping and other animal products (appropriations + EUR 9 million)

appropriations in preliminary draft budget: EUR 140 million

appropriations after letter of amendment: EUR 149 million

The AL proposes additional expenditure for export refunds for eggs (+ EUR 1 million) and poultry (+ EUR 8 million) compared to the PDB 2008, reflecting the most up-to-date situation as far as the refund level is concerned.

05 03 Direct Aids (appropriations -381 million)

appropriations in preliminary draft budget: EUR 37 213 million

appropriations after letter of amendment: EUR 36 832 million

The appropriations for this chapter are revised downwards by EUR 381 million. However the forecasted needs remain roughly at the level of PDB. The downward revision is mainly due to voluntary modulation (EUR 362 million) transferred to Rural Development which in turn increases the commitment appropriation for item 05 04 05 01 by the same amount.

05 03 01 – Decoupled direct aids (appropriations – EUR 376 million)

appropriations in preliminary draft budget: EUR 30 870 million

appropriations after letter of amendment: EUR 30 494 million

For the Single Payment Scheme (SPS) the assumption made in the PDB 2008, that Member States will execute the budget up to 99 % of the ceilings is maintained. Hence, only a transfer has been made to budget line 05 03 02 51 (see remarks POSEI) and (after modulation) EUR 358,6 million has been deducted on account of the voluntary modulation applied by the UK. For the Single Area Payment Scheme (SAPS), the annual financial envelopes were reduced⁶ (- EUR 7 million) by amounts for the sugar payment (referred to in Article 143ba of Regulation (EC) No 1782/2003) for Romania and for the Czech Republic. These amounts were transferred to budget line 05 03 01 03.

As a result the revised needs is EUR 31 964 million when the expected contribution of assigned revenue on this line is included (EUR 1 470 million), the appropriations for this article become EUR 30 494 million.

05 03 02 – Other direct aids (appropriations – EUR 5 million)

appropriations in preliminary draft budget: EUR 5 780 million

appropriations after letter of amendment: EUR 5 775 million

The requested appropriations show some savings (- EUR 5 million) which is the result of marginal increases and savings.

In particular savings are foreseen for line 05 03 02 40 **Area aid for Cotton** (- EUR 6 million) and for line 05 03 02 25 **Protein crop premium** (- EUR 5 million).

POSEI – Community Support Programmes – budget line 05 03 02 50 – see remarks 05 02 11 04

Appropriations for budget line **05 03 02 51 – POSEI-Other direct aids and earlier regimes** are increased by EUR 19 million following Portugal's decision to exclude from the SPS the dairy payments in the Azores. Consequently, this is not a real increase but a transfer from the Single Payment Scheme to 'Other direct aids under Posei' (05 03 02 51).

05 04 05 – Rural development (appropriations + EUR 362 million)

appropriations in preliminary draft budget: EUR 12 565 million

appropriations after letter of amendment: EUR 12 927 million

The increase of commitment appropriation (+ EUR 362 million) is the result of the UK voluntary modulation as requested by the UK in accordance with Council Regulation (EC) No 378/2007.

2.3. International fisheries agreement

The Commission proposes to amend the PDB 2008 as follows:

Budget article 11 03 01 - International fisheries agreements: EUR 155,1 million in commitment appropriations and EUR 157,1 million in payment appropriations for agreements in force by 1 January 2008 (+ EUR 0,7 million compared to respectively EUR 154,4 million for commitments and EUR 156,4 million for payments in the PDB 2008).

⁶ Annexes IV and V of Commission Regulation (EC) 552/2007 of 22 May 2007

Budget item 40 02 41 02 - Differentiated appropriations (compulsory expenditure) in chapter 40 02 - Reserves for financial interventions: EUR 38,1 million in commitment and payment appropriations for International fisheries agreements (- EUR 0,7 million compared to EUR 38,8 million in the PDB 2008).

The net overall financial impact of this transaction is zero. The modification relates to compensation payments for additional catches that have been revised upwards for the Agreement with Greenland (+ EUR 1,5 million) and downwards for the Agreement with Guinea-Conakry (- EUR 0,8 million).

2.4. Changes in the nomenclature and budgetary remarks

Expenditure			
Line	Action	Appropriations AL 2/2008	
		Commitments	Payments
05 02 16 Sugar Restructuring Fund	Split into:		
	05 02 16 01 Sugar Restructuring Fund	p.m.	p.m.
	05 02 16 02 Clearance with regard to the Sugar Restructuring Fund	p.m.	p.m.

Revenue		
6 8 0 3 Clearance with regard to the temporary restructuring fund – Assigned revenue	New line	p.m.

In addition to these nomenclature changes, the following budget remarks are new and/or have been updated:

Chapter 05 02 – Interventions in agricultural markets (figures for assigned revenues)

Chapter 05 03 – Direct aids (figures for assigned revenues)

Item 05 02 16 01 – Sugar Restructuring Fund (new item)

Item 05 02 16 02 – Clearance with regard to the Sugar Restructuring Fund (new item)

Item 05 03 02 51 – POSEI – Other direct aids and earlier regimes

Item 05 04 05 01 – Rural development programmes

Article 11 03 01 – International fisheries agreements (table only)

Item 6 7 0 1 – Clearance of EAGF accounts – Assigned revenue (figures for assigned revenue)

Item 6 7 0 2 – EAGF irregularities – Assigned revenue (figures for assigned revenue)

Item 6 7 0 3 – Superlevy from milk producers – Assigned revenue (figures for assigned revenue)

Item 6 8 0 1 – Temporary restructuring amounts – Assigned revenue (figures for assigned revenue)

Item 6 8 0 2 – Irregularities concerning the temporary restructuring fund – Assigned revenue (figures for assigned revenue)

Item 6 8 0 3 – Clearance with regard to the temporary restructuring fund – Assigned revenue (new item)

SUMMARY TABLE BY HEADING OF THE FINANCIAL FRAMEWORK

Financial framework Heading/subheading	2008 Financial Framework		PDB 2008+AL 1/2008		AL 2/2008		PDB 2008 + AL 1+2/2008	
	CA	PA	CA	PA	CA	PA	CA	PA
1. SUSTAINABLE GROWTH⁷								
1a. Competitiveness for growth and employment	9 847 000 000		10 270 429 000	9 538 679 600			10 270 429 000	9 538 679 600
1b. Cohesion for growth and employment	46 889 000 000		46 877 941 445	40 622 714 507			46 877 941 445	40 622 714 507
Total Margin	56 736 000 000		57 148 370 445 <i>87 629 555</i>	50 161 394 107			57 148 370 445 <i>87 629 555</i>	50 161 394 107
2. PRESERVATION AND MANAGEMENT OF NATURAL RESOURCES								
Of which market related expenditure and direct payments	46 217 000 000		42 498 990 000	42 447 050 500	-1 332 500 000	-1 331 450 000	41 166 490 000	41 115 600 500
Total Margin	58 800 000 000		56 275 831 496 <i>2 524 168 504</i>	54 770 478 053	-970 350 000	-1 331 300 000	55 305 481 496 <i>3 494 518 504</i>	53 439 178 053
3. CITIZENSHIP, FREEDOM, SECURITY AND JUSTICE								
3a. Freedom, Security and Justice	747 000 000		691 034 000	496 446 000			691 034 000	496 446 000
3b. Citizenship	615 000 000		598 493 000	694 383 006			598 493 000	694 383 006
Total Margin	1 362 000 000		1 289 527 000 <i>72 473 000</i>	1 190 829 006			1 289 527 000 <i>72 473 000</i>	1 190 829 006
4. EU AS A GLOBAL PARTNER⁸	7 002 000 000		7 173 414 000 <i>67 804 000</i>	8 061 743 400			7 173 414 000 <i>67 804 000</i>	8 061 743 400
5. ADMINISTRATION⁹	7 380 000 000		7 286 417 754 <i>170 582 246</i>	7 286 977 754			7 286 417 754 <i>170 582 246</i>	7 286 977 754
6. COMPENSATION	207 000 000		206 636 292 <i>363 708</i>	206 636 292			206 636 292 <i>363 708</i>	206 636 292
TOTAL Margin	131 487 000 000	129 481 000 000	129 380 196 987 <i>2 923 021 013</i>	121 678 058 612 <i>8 119 159 388</i>	-970 350 000	-1 331 300 000	128 409 846 987 <i>3 893 371 013</i>	120 346 758 612 <i>9 450 459 388</i>

⁷ The margin for Heading 1 (sub-heading 1a) does not take into account the appropriations related to the European Globalisation Adjustment Fund (EUR 500 million).

⁸ The 2008 margin for Heading 4 does not take into account the appropriations related to the Emergency Aid Reserve (EUR 239,2 million).

⁹ For calculating the margin under the ceiling for Heading 5, account is taken of footnote (1) of the financial framework 2007-2013 for an amount of EUR 77 million for the staff contributions to the pension scheme.