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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 13.12.2007
SEC(2007) 830 final

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

on EAGF expenditure

Early warning system

No 9–11/2007

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1. INTRODUCTION

For the period 16 October 2006 to 30 September 2007, the budget's actual implementation level compared to the expenditure profile pointed out by the indicator, established on the basis of the dispositions of Article 20 of Council Regulation (EC) No 1290/2005¹ is presented in the Annex.

2. ASSIGNED REVENUE

On the basis of the dispositions of Article 34 of the new CAP Financing Regulation (EC) No 1290/2005, the receipts originating from financial corrections under conformity clearance decisions, from irregularities and from the milk levy are designated as revenue assigned to the financing of EAGF expenditure. At the time of establishment of the 2007 budget, an estimation of this revenue was made and this estimation was taken into consideration when the Budgetary Authority adopted the 2007 budget appropriations. Specifically:

- the receipts from the milk levy were estimated at EUR 349.0 million and they were taken into consideration by reducing the appropriations requested for the milk and milk products sector for which the Budgetary Authority granted an amount of EUR 587.0 million;
- the receipts from the conformity clearance claw-backs and from irregularities were estimated at EUR 568.0 million and EUR 70.0 million correspondingly. The total amount of EUR 638.0 million was taken into consideration by reducing the appropriations requested for the single payment scheme for which the Budgetary Authority granted an amount of EUR 27 918.0 million.

The annexed table presents the implementation of the assigned revenue account for which an amount of EUR 1 148.6 million was collected as of 30 September 2007. Specifically:

- from the milk levy an amount of approximately EUR 363.3 million was collected as compared to the initial estimate of EUR 349.0 million,
- the conformity clearance claw-backs amounted to approximately EUR 557.8 million, and
- the receipts from irregularities amounted to approximately EUR 227.6 million with additional amounts also expected by the end of the budget year.

According to applicable rules, this revenue can be used, partly or wholly, to cover the financing of EAGF expenditure if the budget appropriations granted by the Budgetary Authority are not sufficient to finance the expenditure incurred by the Member States. In the case where all or part of this revenue is not used, then, it will be automatically carried over into the following budget year.

¹ OJ L 209, 11.8.2005, p. 1. Regulation last amended by Regulation (EC) No 320/2006 (JO L 58, 28.2.2006, p. 42).

Considering the expected under-execution of the appropriations for the 2007 budget, then, the totality of the revenue assigned to EAGF will be carried forward into 2008 and it will be used to finance the expected budgetary needs for that year.

3. SUGAR RESTRUCTURING FUND

The temporary restructuring amounts in the sugar sector are treated as assigned revenue intended to finance the sugar restructuring aid and other aids foreseen in the restructuring fund. For the marketing year 2006/07 these amounts relate to the sugar, inulin syrup and isoglucose quantitative quotas held by operators and they are to be collected and paid by the Member States into the Fund in 2 instalments, the deadlines of which are 31 March and 30 November 2007 respectively. As of the end of March, Member States had transferred to the assigned revenue account the first instalment of the restructuring amounts due amounting to approximately EUR 1 287.2 million. After having paid approximately EUR 398.7 million for aids to the restructured sugar industry, Member States declared, in September 2007, an amount of approximately EUR 152.7 million for payments of diversification aids as well as aids to sugar refiners. Therefore, total payments under the Fund, as of 30 September 2007, amounted to EUR 551.4 million.

These payments will be financed out of the corresponding assigned revenue account while the balance of EUR 735.9 million will be carried forward into 2008 in order to cover future payments for restructuring aid and other aids.

4. COMMENTS ON THE IMPLEMENTATION OF THE 2007 BUDGET

A brief commentary on the reasons for which the most significant divergences between the actual and the expected level of implementation for certain sectors of the 2007 budget is presented hereafter:

4.1. Monetary factors

The expenditure incurred in the aforementioned period takes account of the movement in the US\$/EUR rate. For a large part of export refunds for agricultural products, particularly for cereals and sugar, and of some internal aids such as aid for cotton, expenditure is influenced by the trend in this parity rate.

In accordance with Article 21 of Regulation (EC) No 1290/2005, the budget adopted by the Budgetary Authority was drawn up on the basis of the average parity rate for July–September 2006 of EUR 1 = \$ 1.27. It should be noted that for the period 1 August 2006 to 31 July 2007 the average parity rate was approximately equal to EUR 1 = \$ 1.31, i.e. 3.1% above the rate used for the establishment of the 2007 budget.

4.2. Market factors

4.2.1. Cereals (– EUR 527.0 million)

The extremely favourable internal and external conditions in the cereals market and the resulting higher internal and world market prices have led to:

- lower purchases and higher sales of cereals from public storage which will lead to significant net gains by the end of the budget year; and
- to lower expenditure for export refunds as the refund rate has been set at 0 for most of the budget year, thus, resulting to savings in this scheme's expenditure by comparison to the budget appropriations.

Therefore, for the sector as a whole, the 2007 budget appropriations will be significantly under-implemented.

4.2.2. *Refunds on Non-Annex 1 products (– EUR 107.7 million)*

Member States are expected to incur lower expenditure on refunds for the export of processed agricultural products because of the overall general reduction in the export refund levels for the various products concerned. Equally for this sector, the 2007 budget appropriations will be significantly under-implemented.

4.2.3. *Sugar (+ EUR 125.9 million)*

The current over-implementation of the budget appropriations, when compared to the level of the indicator, is primarily due to the increased export refunds expenditure incurred by the Member States concerned as the quantities of exported sugar, both free market and public storage sugar, have been much higher compared to the assumptions retained in the 2007 budget.

4.2.4. *Fruits and vegetables (– EUR 77.7 million)*

The current under-implementation of the budget appropriations, when compared to the level of the indicator, is primarily due to the smaller quantities of tomatoes which have up to now received the processing aid. Furthermore, the rhythm of uptake of operational funds for producer organisations is slower when compared with the corresponding level of the indicator.

4.2.5. *Milk and milk products (+ EUR 56.1 million)*

The budget appropriations, when compared to the level of the indicator, were over-implemented as of 30 September 2007.

It should be noted that this over-execution of appropriations, when compared to the level of the indicator, is due to technical reasons since, starting with the 2007 budget, the revenue from the milk levy, initially estimated at EUR 349.0 million, is separately treated as revenue assigned to the EAGF. The 2007 budgetary appropriations requested and granted by the Budgetary Authority for this sector did not include this revenue and, therefore, the indicator is applied at appropriations which were lower by this amount. This is the reason for which the current implementation of the budget points to an over-execution by the end of the budget year.

If the revenue from the milk levy initially forecasted to be assigned to the milk sector is taken into consideration, then, an under-execution of – EUR 282.1 million would arise for this sector.

4.3. Direct aids (+ EUR 101.8 million)

Member States incurred expenditure higher than the appropriations retained in the 2007 budget for both the single payments as well as for the other direct aids schemes.

In order to ascertain the budget's execution for certain schemes in this area, the Commission services have contacted certain Member States in order to establish an indication as to their payment intentions on these schemes for the period to the end of the budget year. On the basis of the information received from these Member States the forecasted expenditure, primarily for the single payments scheme, to the end of October is expected to exceed this scheme's appropriations by approximately 1.0%, i.e. an over-execution of approximately EUR 300.0 million is expected by the end of the budget year.

If the revenue from the conformity clearance and from irregularities initially forecasted to be assigned to the single payment scheme is taken into consideration, then, an under-execution of – EUR 536.0 million would arise for the direct aids chapter as of 30 September 2007.

4.4. Audit of agricultural expenditure

4.4.1. Accounting clearance of previous years' accounts (+ EUR 91.7 million)

All the accounting clearance decisions which are expected to be executed by the end of the current budget year have been taken by the Commission. The net amount clawed back through the corrections imposed by these decisions, as of 30 September 2007, stood at approximately – EUR 74.7 million. This amount compared to the amount of – EUR 178.0 million, which was retained in the 2007 budget, leads to an under-execution of the budget appropriations. By the end of the 2007 budget year, this expected shortfall in claw backs will have to be covered and it will lead to a corresponding increase in EAGF's expenditure.

5. CONCLUSIONS

The favourable internal and external market conditions, which characterised the 2007 budget year, led to exceptionally high prices, especially in the cereals and dairy markets. The resulting liquidation of public storage stocks in these sectors and the lower levels of export refund rates led to savings in EAGF expenditure, mainly in these markets. On the other hand, higher quantities of exported sugar led to higher expenditure in export refunds for sugar. The net result is an under-implementation of the 2007 budget appropriations for market measures. This under-implementation is partly offset by expected higher year-end expenditure for direct aids and for the coverage of the expected shortfall in claw-backs under the accounting clearance procedure. At this point in time, the overall under-implementation of the 2007 budget appropriations is estimated at about EUR 400.0 million. As a consequence, the full amount of revenue assigned to the EAGF in 2007 will be carried over to 2008 in order to cover the needs of that year's budget.

ANNEX

BUDGET YEAR 2007 (*)

PROVISIONAL CONSUMPTION OF THE APPROPRIATIONS AGAINST ORIGINAL APPROPRIATIONS of EAGF

Situation to the 30/09/2007
in EUR million

	Original appropriations Budget (*)	Consumption from November to September	Utilisation	Consumption profile (**) as at September		Gap between implementation and indicator	
	EUR mio	EUR mio	%	%	EUR mio	%	EUR mio
	A	B	C= (B*100)/A	D	E= (D*A)/100	F=C-D	G=B-E
Expenditure (A)							
05 01 ADMINISTRATIVE EXPENDITURE OF AGRICULTURE AND RURAL DEVELOPMENT POLICY AREA 05010401, 05010406 and 05010407: Monitoring/prevention and pilot projects	8,5	3,2	38,1 %	62,1 %	5,3	-24,0 %	-2,0
Total 05 01 Administrative expenditure of policy area Agriculture	8,5	3,2	38,1 %	62,1 %	5,3	-24,0 %	-2,0
05 02 INTERVENTIONS IN AGRICULTURAL MARKETS							
05 02 01 Cereals	516,0	-108,2	-21,0 %	81,2 %	418,8	-102,1 %	-527,0
05 02 02 Rice	-2,0	-0,5	23,8 %	76,2 %	-1,5	-52,4 %	1,0
05 02 03 Refunds on non-Annex 1 products	299,0	179,8	60,1 %	96,2 %	287,6	-36,0 %	-107,7
05 02 04 Food programmes	278,0	245,0	88,1 %	98,5 %	273,7	-10,3 %	-28,7
05 02 05 Sugar	323,0	410,9	127,2 %	88,2 %	285,0	39,0 %	125,9
05 02 06 Olive oil	50,0	61,2	122,4 %	98,1 %	49,1	24,3 %	12,2
05 02 07 Textile plants	22,0	13,1	59,3 %	65,3 %	14,4	-5,9 %	-1,3
05 02 08 Fruit and vegetables	1.319,8	1.153,2	87,4 %	93,3 %	1.231,0	-5,9 %	-77,7
05 02 09 Products of the wine-growing sector	1.487,0	1.374,9	92,5 %	95,7 %	1.423,5	-3,3 %	-48,6
05 02 10 Promotion	45,3	41,7	92,0 %	92,9 %	42,1	-0,9 %	-0,4
05 02 11 Other plant products/measures	379,0	346,9	91,5 %	93,8 %	355,4	-2,3 %	-8,6
05 02 12 Milk and milk products (estimation of 349 Mio EUR credits coming from revenue)***	587,0	624,8	106,4 %	96,9 %	568,7	9,6 %	56,1
05 02 13 Beef and veal	117,0	95,9	81,9 %	95,4 %	111,7	-13,5 %	-15,8
05 02 14 Sheepmeat and goatmeat	p.m.	0,0					
05 02 15 Pigmeat, eggs and poultry, bee-keeping and other animal products	194,1	156,4	80,5 %	91,3 %	177,3	-10,8 %	-20,9
Total 05 02 Interventions in agricultural markets (excluding 05 02 16)	5.615,2	4.595,2	81,8 %	93,3 %	5.236,7	-11,4 %	-641,5
05 03 DIRECT AIDS							
05 03 01 Decoupled direct aids (estimation of 638 Mio EUR credits coming from revenue)***	30.196,0	30.321,7	100,4 %	100,0 %	30.196,0	0,4 %	125,7
05 03 02 Other direct aids	6.214,5	6.242,9	100,5 %	99,9 %	6.208,3	0,6 %	34,6
05 03 03 Additional amounts of aid	468,0	429,7	91,8 %	99,8 %	467,1	-8,0 %	-37,4
05 03 04 Ancillary direct aids (outstanding balances, small producers, agrimonetary aids, etc.)	0,0	-21,1	0,0 %				
Total 05 03 Direct aids	36.878,5	36.973,2	100,3 %	100,0 %	36.871,4	0,3 %	101,8
05 04 OTHER EXPENDITURE							
05 04 Rural development (050401 and 05040302)	p.m.	-25,6					
05 07 AUDIT OF AGRICULTURAL EXPENDITURE	-172,0	-67,2	39,0 %	94,1 %	-161,9	-55,1 %	94,7
Accounting clearance of previous years' accounts (05070106 and 05070108)	-178,0	-74,7	41,9 %	93,5 %	-166,4	-51,5 %	91,7
(3) Conformity clearance of previous years' accounts (05070107 and 05070109)	p.m.	1,6					
Audit of agricultural expenditure, other lines (05070101, 05070102, 05070105 and 050702)	6,0	5,9	97,9 %	75,0 %	4,5	22,9 %	1,4
05 08 (1) POLICY STRATEGY AND COORDINATION OF AGRICULTURE AND RURAL DEVELOPMENT POLICY AREA	41,2	33,8	82,2 %	82,1 %	33,8	0,1 %	0,0
11 02 (2) (4) FISHERIES MARKETS	30,5	0,1	0,4 %	50,0 %	15,3	-49,6 %	-15,1
17 01 (1) (2) ADMINISTRATIVE EXPENDITURE OF POLICY AREA HEALTH AND CONSUMER PROTECTION 17010401, 17010404 and 17010405: Plant health meas. - Pilot study - Feed and food safety	1,3	0,6	44,0 %	76,9 %	1,0	-32,9 %	-0,4
17 03 (1) (2) PUBLIC HEALTH 17 03 02 Community tobacco fund - direct payments by the EU	13,5	0,0	0,0 %	0,0 %	0,0	0,0 %	0,0
17 04 (1) (2) FOOD SAFETY, ANIMAL HEALTH, ANIMAL WELFARE AND PLANT HEALTH 170401 to 170407 Veterinary, animal welfare, public health, plant health, feed and food and other measures	295,0	232,2	78,7 %	90,5 %	267,1	-11,8 %	-34,8
Total other expenditure	209,5	174,0	83,1 %	74,1 %	155,3	8,9 %	18,7
Total Expenditure (excluding 05 02 16)	42.711,7	41.745,6	97,7 %	99,0 %	42.268,6	-1,2 %	-523,0
Revenue (B)							
6 7 0 1 Conformity clearance of previous years'accounts - EAGF (estimation : 568 Mio EUR)	p.m.	557,8					
6 7 0 2 Irregularities - EAGF (estimation : 70 Mio EUR)	p.m.	227,6					
6 7 0 3 Superlevy from milk producers (estimation : 349 Mio EUR)	p.m.	363,3					
Total Revenue (excluding 6 8 0 1 and 6 8 0 2)	p.m.	1.148,6					
Expenditure and revenue (A-B)							
Total Expenditure and revenue (excluding 05 02 16, 6 8 0 1 and 6 8 0 2)	42.711,7	40.597,0	95,0 %	99,0 %	42.268,6	-3,9 %	-1.671,6
Sugar Restructuring Fund							
05 02 16 Sugar Restructuring Fund (estimation of 757 Mio EUR credits coming from revenue)***	p.m.	551,4					
6 8 0 1 Temporary restructuring amounts - Assigned revenue (estimation : 1259 Mio EUR)	p.m.	1.287,2					
6 8 0 2 Irregularities concerning the temporary restructuring fund - Assigned revenue	p.m.	0,0					
Total Sugar Restructuring Fund	p.m.	735,9					

(*) Budget year = 16.10.06 to 15.10.07 but direct expenditure possible until 31.12.07

(**) For direct payments it concerns the commitments

(***) Including possible use of assigned revenue : see 'revenue' lines

(1) Chapter not exclusively EAGF

(2) Chapter outside title 05 but included in EAGF

(3) Used only for cases in which Member States are beneficiaries

(4) Of which EUR 15 million is entered into chapter 4002