



COMMISSION OF THE EUROPEAN COMMUNITIES

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

on EAGF expenditure

Early warning system

No 12/2007

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1. INTRODUCTION

The 2007 budget year's (16 October 2006 to 15 October 2007) provisional implementation is expected to amount to EUR 42 139.8 million, i.e. 98.7% of initial appropriations. This amount includes the amounts clawed back from Member States through the corrections of the accounting clearance of EAGF's accounts and the suspensions and reductions of their monthly reimbursements imposed in the course of the year. This amount also includes an estimate of expenditure which can be still made directly by the Commission up to 31 December 2007.

This provisional implementation, presented in detail in the annexed table, shows an overall under-execution of approximately – EUR 571.9 million by comparison to the budget's initial appropriations.

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's 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 1 159.7 million was collected in the course of the budget year. Specifically:

- from the milk levy an amount of approximately EUR 362.7 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 as compared to the initial estimate of EUR 568.0 million, and
- the receipts from irregularities amounted to approximately EUR 239.3 million as compared to the initial estimate of EUR 70.0 million.

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.

Considering the under-execution of the 2007 budget's appropriations, then, the totality of this 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 EUR 1 287.2 million. On the other hand, in the course of the 2007 budget year, Member States paid out EUR 551.4 million to stakeholders for aids to the restructured sugar industry, for diversification aids as well as for aids to sugar refiners.

These payments are financed out of the above-mentioned assigned revenue account and the unused balance of EUR 735.9 million will be carried forward into 2008 in order to cover the payments for restructuring aid and other aids expected to be made in that year.

4. COMMENTS ON THE IMPLEMENTATION OF THE 2007 BUDGET

The budget's provisional implementation was influenced by a number of factors which for the most significant areas can be outlined as follows:

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, 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 measures (- EUR 746.8 million)

The interventions in agricultural markets showed an under-execution of the budget's appropriations amounting to – EUR 746.8 million. Appropriations for cereals, refunds for Non-Annex I products, fruits and vegetables showed the most significant under-

executions while the sector of sugar showed the most significant over-execution of appropriations.

(NB: In parenthesis, the level of over (+) or under (–) execution is presented).

4.2.1. *Cereals (– EUR 649.3 million)*

Extremely favourable internal and external conditions prevailed in the cereals market for this year and led to higher internal and world market prices. The resulting under-execution was due to:

- the significant net gains realised for the budget as purchases of cereals into public storage were very low while very high quantities of cereals were sold from public storage commanding high prices; and
- lower expenditure incurred for export refunds for cereals as the refund rate has been set at 0 for most of the budget year.

4.2.2. *Refunds on Non-Annex 1 products (– EUR 113.8 million)*

In this sector also the very favourable internal and external conditions in the cereals and dairy markets led to an overall general reduction of the export refund rates and to subsequently lower expenditure for refunds for the export of processed agricultural products. Hence, the resulting under-execution of the budget's appropriations.

4.2.3. *Sugar (+ EUR 132.5 million)*

This over-implementation of the budget's appropriations was due to the increased export refunds expenditure incurred by Member States as the quantities of exported sugar, both from the free market and from public storage, have been much higher compared to the assumptions retained in the 2007 budget. This situation, partly, resulted from the fact that the quantities of sugar withdrawn within the framework of the sugar restructuring fund were much lower than expected.

4.2.4. *Fruits and vegetables (– EUR 69.9 million)*

This under-implementation of the budget's appropriations was primarily due to the lower expenditure incurred by Member States as a result of the smaller quantities of tomatoes receiving the processing aid and of the lower uptake of operational funds for producer organisations compared to the assumptions retained in the 2007 budget.

4.2.5. *Milk and milk products (+ EUR 51.2 million)*

The very favourable internal and external conditions for dairy markets led to lower expenditure incurred by Member States for export refunds for dairy products, for the public storage of butter and for the internal disposal aids for skimmed milk.

However, the nature of this over-execution of the budget's appropriations is technical. Starting with the 2007 budget, the revenue from the milk levy, initially estimated at EUR 349.0 million, was separately treated as revenue assigned to the EAGF. The 2007 budgetary appropriations requested and granted by the Budgetary Authority for this sector were net of this revenue, essentially being lower by this amount. This is the reason for which this over-execution of the budget's appropriations occurred.

If the revenue from the milk levy, initially forecasted to be assigned to the milk sector, was taken into consideration, then, an under-execution of – EUR 297.8 million would have arisen for this sector.

4.3. Direct aids (+ EUR 167.2 million)

This over-execution results from higher expenditure incurred by the Member States, for both the single payment scheme and other direct aids, compared to the appropriations retained in the 2007 budget for these measures.

However, the nature of this over-execution of the budget's appropriations is also technical. Starting with the 2007 budget, the revenue from the conformity clearance and from irregularities, initially estimated at EUR 638.0 million, was separately treated as revenue assigned to the EAGF. The 2007 budgetary appropriations requested and granted by the Budgetary Authority for this sector were net of this revenue, essentially being lower by this amount. This is the reason for which this over-execution of the budget's appropriations occurred.

If the revenue from the conformity clearance and from irregularities, initially forecasted to be assigned to the single payment scheme, was taken into consideration, then, an under-execution of – EUR 470.8 million would have arisen for the direct aids chapter in 2007.

4.4. Audit of agricultural expenditure

4.4.1. Accounting clearance of previous years' accounts (+ EUR 79.9 million)

All the accounting clearance decisions expected to be implemented 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 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, led to an under-execution of the budget's appropriations. This shortfall in claw backs has 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. On the other hand, higher quantities of exported sugar led to higher expenditure in export refunds for sugar. These factors led to an under-implementation of the 2007 budget's appropriations for market measures. This under-implementation was partly offset by higher expenditure for direct aids and for the coverage of the expected shortfall in claw-backs under the accounting clearance procedure. The overall net result for the 2007 budget's appropriations was an under-implementation of approximately – EUR 571.9 million. As a consequence, the full amount of the collected revenue assigned to the EAGF in 2007 of EUR 1 159.7 million will be carried forward to 2008 as it is already foreseen in the proposal of the Amending Letter No 2 to the Preliminary Draft Budget for 2008.

In view of the 2007 budget's under-spending, the Commission proposed to the Budgetary Authority, through the submission of Amending Budget No 7/2007, the reduction of the EAGF's initial appropriations by EUR 400.0 million.

ANNEX

BUDGET YEAR 2007

PROVISIONAL CONSUMPTION ON 15.10.2007 AGAINST ORIGINAL APPROPRIATIONS OF EAGF

in EUR million

		Original appropriations Budget (*)	Expenditure on 15 October 07	Corrections Declaration of 25-10-07 (ceilings, deadlines)	Forecasts direct Commission payments(**) until 31.12.07	Total expenditure from November to October	Utilisation %	Gap between expenditure and appropriations	
		EUR mio	EUR mio	EUR mio	EUR mio	EUR mio	%	%	EUR mio
		(1)	(2)	(3)	(4)	(5)=(2)+(3)+(4)	6=(5)*100/(1)	(7)=(6)-100%	(8)=(5)-(1)
Expenditure (A)									
05 01	ADMINISTRATIVE EXPENDITURE OF AGRICULTURE AND RD	8,5	3,3		3,7	7,0	83,1%	-16,9%	-1,4
	05 01 04 01, 05 01 04 06 and 05 01 04 07: Monitoring/prevention and pilot projects								
	Total 05 01 Administrative expenditure of agriculture and RD	8,5	3,3	0,0	3,7	7,0	83,1%	-16,9%	-1,4
05 02	INTERVENTIONS IN AGRICULTURAL MARKETS								
05 02 01	Cereals	516,0	-133,3			-133,3	-25,8%	-125,8%	-649,3
05 02 02	Rice	-2,0	-0,7			-0,7	35,0%	-65,0%	1,3
05 02 03	Refunds on non-Annex 1 products	299,0	185,2			185,2	61,9%	-38,1%	-113,8
05 02 04	Food programmes	278,0	249,2			249,2	89,6%	-10,4%	-28,8
05 02 05	Sugar	323,0	455,5			455,5	141,0%	41,0%	132,5
05 02 06	Olive oil	50,0	64,4			64,4	128,8%	28,8%	14,4
05 02 07	Textile plants	22,0	20,0			20,0	91,1%	-8,9%	-2,0
05 02 08	Fruit and vegetables	1.319,8	1.249,9			1.249,9	94,7%	-5,3%	-69,9
05 02 09	Products of the wine-growing sector	1.487,0	1.453,1	0,0		1.453,1	97,7%	-2,3%	-33,9
05 02 10	Promotion	45,3	48,8		2,6	51,4	113,5%	13,5%	6,1
05 02 11	Other plant products/measures	379,0	363,5			363,5	95,9%	-4,1%	-15,5
05 02 12	Milk and milk products (estimation of 349 Mio EUR credits coming from revenue)***	587,0	638,2			638,2	108,7%	8,7%	51,2
05 02 13	Beef and veal	117,0	98,3			98,3	84,0%	-16,0%	-18,7
05 02 14	Sheepmeat and goatmeat	p.m.	0,0			0,0			
05 02 15	Pigmeat, eggs and poultry, bee-keeping and other animal products	194,1	173,8			173,8	89,5%	-10,5%	-20,3
	Total 0502 Interventions in agricultural markets (excluding 050216)	5.615,2	4.865,8	0,0	2,6	4.868,4	86,7%	-13,3%	-746,8
05 03	DIRECT AIDS								
05 03 01	Decoupled direct aids (estimation of 638 Mio EUR credits coming from revenue)***	30.196,0	30.369,1			30.369,1	100,6%	0,6%	173,1
05 03 02	Other direct aids	6.214,5	6.261,9	-1,2		6.260,8	100,7%	0,7%	46,2
05 03 03	Additional amounts of aid	468,0	434,0			434,0	92,7%	-7,3%	-34,0
05 03 04	Ancillary direct aids (outstanding balances, small producers, agrimonetary aids, etc.)	0,0	-18,1			-18,1	-100,0%		-18,1
	Total 0503 Direct aids	36.878,5	37.046,9	-1,2	0,0	37.045,8	100,5%	0,5%	167,2
OTHER EXPENDITURE									
05 04	Rural development (050401 and 05040302)	p.m.	-30,0	0,0		-30,0			
05 07	AUDIT OF AGRICULTURAL EXPENDITURE	-172	-67,2	-23,5		-90,7	52,7%	-47,3%	81,4
	Accounting clearance of previous years' accounts (05070106 and 05070108)	-178	-74,7	-23,5		-98,2	55,1%	-44,9%	79,9
	(3) Conformity clearance of previous years' accounts (05070107 and 05070109)	p.m.	1,6			1,6			
	Audit of agricultural expenditure, other lines (05070101, 05070102, 05070105 and 050702)	6	5,9			5,9	98,3%	-1,7%	-0,1
05 08	(1) POLICY STRATEGY AND COORDINATION OF AGRICULTURE AND RURAL DEVELOPMENT POLICY AREA	41,2	34,64			34,6	84,1%	-15,9%	-6,5
11 02	(2) (4) FISHERIES MARKETS	30,5	0,1		30,4	30,5	100,0%	0,0%	0,0
17 01	(1) (2) ADMINISTRATIVE EXPENDITURE OF POLICY AREA HEALTH AND CONSUMER PROTECTION	1,3	0,6			0,6	43,8%	-56,2%	-0,7
	17010401, 17010404 and 17010405: Plant health meas. - Pilot study - Feed and food safety								
17 03	(1) (2) PUBLIC HEALTH	13,5	0,0		13,5	13,5	100,0%	0,0%	0,0
	17 03 02 Community tobacco fund - direct payments by the EU								
17 04	(1) (2) FOOD SAFETY, ANIMAL HEALTH, ANIMAL WELFARE AND PLANT HEALTH	295,0	233,83		26,2	260,0	88,1%	-11,9%	-35,0
	170401 to 170407 Veterinary, animal welfare, public health, plant health, feed and food and other measures								
	Total other expenditure	209,5	171,9	-23,5	70,1	218,6	104,3%	4,3%	9,1
	Total Expenditure (excluding 05 02 16)	42.711,7	42.088,0	-24,6	76,4	42139,8	98,7%	-1,3%	-571,9
Revenue (B)									
6 7 0 1	Conformity clearance of previous years'accounts - EAGF (estimation : 568 Mio EUR)	p.m.	557,8			557,8			
6 7 0 2	Irregularities - EAGF (estimation : 70 Mio EUR)	p.m.	239,3			239,3			
6 7 0 3	Superlevy from milk producers (estimation : 349 Mio EUR)	p.m.	362,7			362,7			
	Total Revenue (excluding 6 8 0 1 and 6 8 0 2)	p.m.	1159,7			1159,7			
Sugar Restructuring Fund									
05 02 16	Sugar Restructuring Fund (estimation of 757 Mio EUR credits coming from revenue)***	p.m.	551,4			551,4			
6 8 0 1	Temporary restructuring amounts - Assigned revenue (estimation : 1259 Mio EUR)	p.m.	1287,2			1287,2			
6 8 0 2	Irregularities concerning the temporary restructuring fund - Assigned revenue	p.m.	0,0			0,0			
	Total Sugar Restructuring Fund	p.m.	735,9			735,9			

(*) Budget year = 16.10.2005 to 15.10.2007 but direct expenditure possible until 31.12.2007

(**) 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 15 Mio EUR is entered in chapter 40 02