



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 1–3/2008

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1. THE EAGF 2008 BUDGETARY PROCEDURE

The 2008 budgetary procedure for the European Agricultural Guarantee Fund (EAGF) and the corresponding amounts of appropriations involved at each stage of the procedure are summarised in the table presented in Annex 1.

The Commission adopted the preliminary draft budget (PDB) for the European Agricultural Guarantee Fund (EAGF) in early May 2007 involving commitment appropriations amounting to EUR 42 194.8 million and payment appropriations amounting to EUR 42 319.9 million. The amounts of forecasted appropriations were based on an evaluation of internal and external market conditions for the various products concerned, on the impact of the proposal for the fruits and vegetables reform as well as on the impact on direct aids of the modulation rate reaching its maximum level of 5%.

In July 2007, the Ecofin-Budget Council adopted the Draft Budget (DB) whereby it reduced the appropriations requested in the PDB by EUR 550.0 million. Appropriations for market measures were cut by an across the board reduction of EUR 350.0 million with the exception of the schemes relating to the food for the most deprived persons, to the free distribution of fruits and vegetables and to school milk. The appropriations for the accounting clearance were increased by EUR 200.0 million (negative expenditure). In contrast, the European Parliament, in its first reading of the PDB, not only restored the Council's reductions but also increased the appropriations by approximately EUR 30.0 million mainly for the same schemes which the Council excepted from its across the board reduction.

In October 2007, the Commission revised and updated the initial estimates of needs included in the PDB, on the basis of the more recent developments in agricultural legislation, in agricultural markets and in the EUR/US \$ exchange rate and submitted Amending Letter No 2/2008 to the Budgetary Authority. The Commission therein requested total commitment appropriations amounting to EUR 40 862.3 million and total payment appropriations amounting to EUR 40 988.5 million. By comparison to the appropriations initially requested in the PDB, the Commission reduced the appropriations requested in the Amending Letter for 2008 by EUR 1 332.5 million.

The 2008 budget was adopted in the European Parliament's plenary session of December 2007. The 2008 budget's commitment appropriations for agricultural market measures and direct aids (policy area 05) amounted to EUR 40 562.3 million and its payment appropriations for amounted to EUR 40 688.5 million. Furthermore, commitment appropriations amounting to EUR 281.7 million and payment appropriations amounting to EUR 225.7 million were foreseen for policy area 17 – veterinary and phyto-sanitary measures. Finally, commitment appropriations amounting to EUR 32.5 million and payment appropriations amounting to EUR 31.5 million were foreseen for policy area 11 – fisheries were correspondingly foreseen in the 2008 budget.

Finally, the 2008 budget's commitment appropriations for EAGF amounted to EUR 40 876.5 million and its payment appropriations amounted to EUR 40 945.6 million. The difference between commitment and payment appropriations is due to the fact that differentiated appropriations are used for payments made directly by the Commission mainly for the promotion of agricultural products, for policy strategy and coordination measures for agriculture as well as for the veterinary and phyto-sanitary measures.

2. REVENUE ASSIGNED TO EAGF

On the basis of the dispositions of Article 34 of the new CAP Financing Regulation (EC) No 1290/2005, revenue 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. According to these rules, assigned revenue can be used, partly or wholly, to cover the financing of EAGF expenditure if the appropriations granted by the Budgetary Authority are not sufficient to finance the expenditure incurred by the Member States. In the case where part of this revenue is not used, then, this part will be automatically carried over into the following budget year.

At the time of establishment of the 2008 budget, an estimation of this revenue was made both for the upcoming budget year as well as of the amount which was expected to be carried over from the budget year 2007 into 2008. This estimation was taken into consideration when the Budgetary Authority adopted the 2008 budget's appropriations. Specifically:

- revenue from the conformity clearance claw-backs and from irregularities was estimated at EUR 500.0 million and EUR 80.0 million correspondingly while the receipts from the milk levy were estimated at EUR 219.0 million. Thus, the amount of assigned revenue expected to be generated in the course of the 2008 budget year was estimated at EUR 799.0 million;
- the amount of assigned revenue expected to be carried over from the budget year 2007 into 2008 was estimated at EUR 1 138.0 million;
- the total amount of EUR 1 937.0 million was taken into consideration by reducing the appropriations requested for the operational funds for producer organisations in the fruits and vegetables sector by EUR 467.0 million and for the single payment scheme by EUR 1 470.0 million. For these schemes the Budgetary Authority eventually granted appropriations amounting to EUR 105.0 million and EUR 27 220.0 million correspondingly.

3. REVENUE ORIGINATING FROM THE TEMPORARY RESTRUCTURING AMOUNTS (SUGAR SECTOR)

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 Sugar Restructuring Fund. For each marketing year, starting with 2006/07 up to 2008/09, these amounts relate to the sugar, insulin syrup and isoglucose quantitative quotas held by operators in each Member State and they are to be paid by the Member States into the Fund in two instalments, the deadlines of which are 31 March and 30 November respectively for each year. At the time of establishment of the 2008 budget, the estimation of this revenue amounted to EUR 2 374.0 million for the upcoming budget year. At the same time, an amount of EUR 530.0 million was expected to be carried over from the budget year 2007 into 2008.

4. COMMENTS ON THE IMPLEMENTATION OF THE EAGF 2008 BUDGET

For the period 16 October 2007 to 31 January 2008, the budget's actual implementation level compared to the expenditure profile based on the indicator, which was established on the basis of the dispositions of Article 20 of Council Regulation (EC) No 1290/2005¹, is presented in the table of Annex 2. Hereafter, a brief commentary is presented for the budget articles which show the most significant divergences between the actual and the expected level of implementation of the 2008 budget:

4.1. Monetary factors

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 2007 of EUR 1 = US \$ 1.37. It should be noted that, for the period 1 August 2007 to 31 January 2008, the average parity rate was approximately equal to EUR 1 = US \$ 1.43, i.e. 4.4% above the rate used for the establishment of the 2008 budget.

The expenditure incurred in the aforementioned period takes account of the movement in the EUR/US\$ parity rate. It should be pointed out that fixing export refunds for agricultural products, particularly for cereals and sugar, is influenced by the trend in this parity rate.

4.2. Market factors

4.2.1. Cereals (-EUR 55.3 million)

This over-implementation of appropriations, when compared to the level of the indicator, is due to the acceleration of the rhythm of sales of cereals from intervention in combination with the high level of domestic prices at which these sales are realised as opposed to the lower price level retained at the time of establishment of the 2008 budget.

4.2.2. Sugar (-EUR 83.8 million)

This under-implementation of appropriations, when compared to the level of the indicator, is due to the reduced quantities of exported sugar as opposed to the quantities retained at the time of establishment of the 2008 budget.

4.2.3. Fruits and vegetables (+EUR 124.8 million)

The expenditure incurred, when compared to the level of the indicator, shows the aforementioned over-implementation on 31 January 2008.

It should be noted, though, that the nature of this over-execution of the budget's appropriations is technical. Revenue estimated at EUR 467.0 million has been assigned to finance expenditure for the operational funds for producer organisations in the fruits and vegetables sector. The 2008 budgetary appropriations requested and granted by the Budgetary Authority for this sector did not include this revenue. Therefore, the expenditure currently incurred is compared to the indicator which applies to a level of appropriations which are lower by the revenue assigned to this sector. This is the reason for the current over-implementation of the budget at this point in time.

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).

If the revenue assigned to this article was taken into consideration, an under-execution amounting to approximately –EUR 95.1 million would have resulted.

4.2.4. *Wine (–EUR 111.0 million)*

This under-implementation of appropriations, when compared to the level of the indicator, is due to the slowing down of the rhythm by which Member States are paying the restructuring and reconversion aids. At this point in time, this implementation pattern is deemed to be temporary.

4.3. **Direct aids (+EUR 3 759.6 million)**

The expenditure incurred, when compared to the level of the indicator, shows the aforementioned over-implementation on 31 January 2008 which mainly relates to decoupled direct aids.

It should be noted that the nature of this over-execution of the budget's appropriations is technical. Revenue estimated at EUR 1 470.0 million has been assigned to finance expenditure for the single payment scheme. The 2008 budgetary appropriations requested and granted by the Budgetary Authority for this scheme did not include this revenue. Therefore, the expenditure currently incurred is compared to the indicator which applies to a level of appropriations which are lower by the revenue assigned to this scheme. This is the reason for the budget's over-execution at this point in time.

If the revenue assigned to this article was taken into consideration, then, an over-execution amounting to EUR 2 552.7 million would have resulted.

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

The table in Annex 2 shows that assigned revenue amounting to EUR 458.3 million was collected as of 31 January 2008. Specifically:

- the conformity clearance claw-backs amounted to approximately EUR 204.9 million with additional amounts expected by the end of the budget year;
- the receipts from irregularities amounted to approximately EUR 33.3 million with additional amounts also expected by the end of the budget year, and
- from the milk levy an amount of approximately EUR 220.1 million was collected as compared to the initial estimate of EUR 219.0 million.

Contrary to the initially estimated amount of EUR 1 138.0 million, the amount of assigned revenue carried over from 2007 into 2008 eventually amounted to EUR 1 159.5 million.

6. **IMPLEMENTATION OF REVENUE ORIGINATING FROM THE TEMPORARY RESTRUCTURING AMOUNTS (SUGAR SECTOR)**

In November 2007, Member States paid the second instalment of the temporary restructuring amounts due for the marketing year 2006/07 amounting to approximately EUR 858.1 million.

Contrary to the initially estimated amount of EUR 530.0 million, the amount of assigned revenue carried over from 2007 into 2008 eventually amounted to EUR 735.8 million.

7. IMPLEMENTATION OF SUGAR RESTRUCTURING FUND

As of the end of January, Member States paid approximately EUR 1.3 million for aids to the restructured sugar industry, for diversification aids as well as for aids to sugar refining.

8. CONCLUSIONS

The uptake of the EAGF budget's appropriations, for the reimbursement of Member States' expenditure from 16 October 2007 to 31 January 2008, for market measures and direct aids amounted to EUR 30 696.0 million, i.e. it involved an over-execution of these appropriations by approximately EUR 3 578.5 million. This over-execution is primarily attributed to decoupled direct aids and especially to the single payments scheme. At this point in time, this over-execution, on the basis of the comments made in points 4.2 and 4.3 above, appears to be temporary and the risks that the budget's current appropriations will be insufficient to finance expenditure declared by the Member States are minimal.

ANNEX 2

BUDGET YEAR 2008 (*)

PROVISIONAL CONSUMPTION OF THE EAGF APPROPRIATIONS

Situation to the 31/01/2008

in EUR million

	Original appropriations Budget (*)	Consumption from November to January	Utilisation	Consumption profile (**) as at January		Gap between implementation and indicator	
	EUR mio	EUR mio	%	%	EUR mio	%	EUR mio
	A	B	C= B/A	D	E= D*A	F=C-D	G=B-E
Expenditure							
05 01 (1) ADMINISTRATIVE EXPENDITURE FOR EAGF 05010401 and 05010407	9,0	0,0	0,0 %	6,6 %	0,6	-6,6 %	-0,6
Total 05 01 Administrative expenditure for EAGF	9,0	0,0	0,0 %	6,6 %	0,6	-6,6 %	-0,6
05 02 INTERVENTIONS IN AGRICULTURAL MARKETS							
05 02 01 Cereals	-9,0	-49,9	554,5 %	-59,7 %	5,4	614,2 %	-55,3
05 02 02 Rice	p.m.	0,0	0,0 %				
05 02 03 Refunds on non-Annex 1 products	150,0	36,9	24,6 %	32,0 %	48,0	-7,4 %	-11,1
05 02 04 Food programmes	307,0	31,2	10,1 %	8,0 %	24,4	2,2 %	6,7
05 02 05 Sugar	576,0	139,1	24,2 %	38,7 %	222,9	-14,5 %	-83,8
05 02 06 Olive oil	48,0	10,9	22,6 %	66,4 %	31,9	-43,8 %	-21,0
05 02 07 Textile plants	21,0	3,2	15,2 %	11,7 %	2,5	3,5 %	0,7
05 02 08 Fruit and vegetables (estimation of 467 Mio EUR credits coming from revenue)***	728,0	467,5	64,2 %	47,1 %	342,8	17,1 %	124,8
05 02 09 Products of the wine-growing sector	1.412,0	249,2	17,6 %	25,5 %	360,2	-7,9 %	-111,0
05 02 10 Promotion	50,4	12,1	24,0 %	19,7 %	9,9	4,3 %	2,2
05 02 11 Other plant products/measures	372,0	125,0	33,6 %	28,8 %	107,2	4,8 %	17,9
05 02 12 Milk and milk products	167,0	56,3	33,7 %	28,4 %	47,4	5,3 %	8,9
05 02 13 Beef and veal	61,0	11,8	19,3 %	39,4 %	24,0	-20,0 %	-12,2
05 02 14 Sheepmeat and goatmeat	p.m.	0,0					
05 02 15 Pigmeat, eggs and poultry, bee-keeping and other animal products	149,0	33,8	22,7 %	28,3 %	42,2	-5,6 %	-8,4
Total 05 02 Interventions in agricultural markets (excluding 05 02 16)	4.032,4	1.127,1	28,0 %	31,5 %	1.268,7	-3,5 %	-141,6
05 03 DIRECT AIDS							
05 03 01 Decoupled direct aids (estimation of 1470 Mio EUR credits coming from revenue)***	30.494,0	26.070,2	85,5 %	73,6 %	22.436,0	11,9 %	3.634,2
05 03 02 Other direct aids	5.775,0	3.460,7	59,9 %	57,4 %	3.316,1	2,5 %	144,7
05 03 03 Additional amounts of aid	563,0	41,4	7,4 %	10,8 %	60,7	-3,4 %	-19,3
Total 05 03 Direct aids	36.832,0	29.572,3	80,3 %	70,1 %	25.812,7	10,2 %	3.759,6
OTHER EXPENDITURE							
05 04 050401 Rural development financed by the EAGGF-Guarantee Section-Programming period 2000-2006	p.m.	-6,4					
05 07 05070106 Accounting clearance of previous years' accounts	-370,0	0,0	0,0 %	29,2 %	-108,0	-29,2 %	108,0
05 07 05070107 Conformity clearance of previous years' accounts	p.m.	2,8					
05 07 Other lines (05070102 and 050702)	27,5	0,2	0,8 %	0,0 %	0,0	0,8 %	0,2
05 08 POLICY STRATEGY AND COORDINATION OF AGRICULTURE AND RURAL DEVELOPMENT POLICY AREA	31,5	0,0	0,0 %	11,0 %	3,4	-11,0 %	-3,4
11 02 (2) FISHERIES MARKETS	32,5	0,0	0,0 %	0,0 %	0,0	0,0 %	0,0
17 01 (1) (2) ADMINISTRATIVE EXPENDITURE OF POLICY AREA HEALTH AND CONSUMER PROTECTION 17010401, 17010404 to 17010406	2,4	0,0	0,0 %	4,2 %	0,1	-4,2 %	-0,1
17 03 (1) (2) PUBLIC HEALTH 17 03 02 Community tobacco fund - direct payments by the EU	14,3	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 170405 and 170407	265,0	0,0	0,0 %	52,8 %	140,0	-52,8 %	-140,0
Total Expenditure (excluding 05 02 16)	40.876,5	30.696,0	75,1 %	66,3 %	27.117,5	8,8 %	3.578,5
Revenue							
6 7 0 1 Clearance of EAGF-accounts (estimation : 500 Mio EUR)	p.m.	204,9					
6 7 0 2 EAGF Irregularities (estimation : 80 Mio EUR)	p.m.	33,3					
6 7 0 3 Superlevy from milk producers (estimation : 219 Mio EUR)	p.m.	220,1					
Total Revenue (excluding 6 8)	p.m.	458,3					
Sugar Restructuring Fund							
05 02 16 Sugar Restructuring Fund (estimation of 1344 Mio EUR credits coming from revenue)***	p.m.	1,3					
6 8 0 1 Temporary restructuring amounts - Assigned revenue (estimation : 2374 Mio EUR)	p.m.	858,1					
6 8 0 2 Irregularities concerning the temporary restructuring fund — Assigned revenue	p.m.	0,0					
6 8 0 3 Clearance of EAGF accounts - Assigned revenue	p.m.	0,0					
Total Sugar Restructuring Fund	p.m.	856,8					

(*) Budget year = 16.10.2007 to 15.10.2008 but direct expenditure possible until 31.12.2008

(**) For direct payments it concerns the commitments

(***) Including use of revenues carried over of last year

(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