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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 5.2.2007
SEC(2007) 148 final

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

on EAGGF Guarantee Section expenditure

Early warning system

No 11+12/2006

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1. PROVISIONAL UTILISATION OF APPROPRIATIONS

The uptake of appropriations under heading 1 of the budget amounted to EUR 49 821.6 million, i.e: 97.6% of initial appropriations. This is a net amount after deduction of amounts clawed back through the financial corrections of the clearance of EAGGF Guarantee's accounts and through the suspensions and reductions of advances imposed in the course of the budget year.

By comparison to the initial budget appropriations, the provisional implementation, presented in the annexed table for the period 16 October 2005 to 15 October 2006, shows an overall under-execution of approximately – EUR 1 229.1 million which can be broken down as follows:

- for sub-heading 1a, it amounts to – EUR 1 104.7 million, and
- for sub-heading 1b, it amounts to – EUR 124.4 million.

2. COMMENTS ON THE IMPLEMENTATION OF THE 2006 BUDGET

The budget's provisional implementation is influenced by a number of factors which for the most significant articles and items can be outlined as follows:

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

2.1. Monetary factors

The dollar/euro rate

The expenditure incurred in the aforementioned period takes account of the movement in the dollar/euro 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 euro/dollar rate.

In accordance with Article 8(1) of Council Regulation (EC) No 2040/2000, the budget adopted by the Budgetary Authority was drawn up on the basis of the average parity rate for July–September 2005 of EUR 1 = \$ 1.22. It should be noted that for the period 1 August 2005 to 31 July 2006 the average parity rate was approximately equal to EUR 1 = \$ 1.22, i.e. at the level of the rate used for the establishment of the 2006 budget.

2.2. Other factors relating to subheading 1a – CAP expenditure (excluding rural development)

For subheading 1a, the budget's appropriations were under-executed for both the market measures and the direct aids sectors:

- the under-execution for market measures amounted to – EUR 440.4 million. However, the execution pattern was not homogeneous amongst the different markets. The budget's appropriations were under-implemented in the cereals, refunds for non-Annex 1 products, textile plants, fruits and vegetables, beef and veal and pigmeat, eggs and poultry market sectors while they were over-implemented in the sugar and in the milk and milk products market sectors;

- the under-execution for direct aids amounted to – EUR 765.7 million and involved all schemes in this area;
- finally, the product of the clearance of accounts corrections was approximately EUR 139.0 million lower than the amount retained in the 2006 budget, thus, leading to additional expenditure of the same amount.

2.2.1. *Interventions in agricultural markets (– EUR 440.4 million)*

2.2.1.1. Cereals (– EUR 137.2 million)

This under-execution was due primarily to lower expenditure incurred by Member States resulting from the lower average export refund rates granted for the exports of soft wheat and barley as well as to the lower overall quantities exported when compared to the quantities and rates retained in the 2006 budget. Furthermore, the increased receipts received from the sales of stored cereals resulted to lower expenditure for public storage as compared to the hypotheses retained in the 2006 budget.

2.2.1.2. Refunds on Non-Annex I products (– EUR 140.9 million)

The general fall in the level of export refund rates as well as the lower quantities of processed agricultural products exported led to lower refund payments by the Member States, thus, leading to this measure's under-implementation of the 2006 budget's appropriations.

2.2.1.3. Sugar (EUR 144.7 million)

This over-execution is mainly due to the fact that the exported quantities of free market sugar for which an export refund was granted were much higher than the ones retained in the 2006 budget when it was assumed that out of exports of 2005/06 sugar of approximately 1.74 mt, a quantity of 1.0 mt would be exported from intervention stocks.

2.2.1.4. Textile plants (– EUR 33.9 million)

The increase in the world price of cotton led to a reduction of the rate of aid for cotton and to a consequent reduction in the expenditure incurred by Member States, thus, resulting to this measure's under-execution of the 2006 budget's appropriations.

2.2.1.5. Fruit and vegetables (– EUR 172.4 million)

Compared to the hypotheses retained in the 2006 budget, this under-execution was due to lower expenditure incurred by Member States primarily because of the lower quantities of tomatoes entering the processing plants and, thus, receiving the corresponding aid, and of the lower payments made by Member States for the operational funds for producer organisations.

2.2.1.6. Milk and milk products (EUR 151.6 million)

The Council adopted the Commission's proposal to modify the timing of the milk levy payments by the Member States. Therefore, the levy for the quota year 2005/06 will be paid in the 2007 budget year instead of the 2006 budget year as it was

assumed when the 2006 budget was adopted. The collection of the milk levy payments is a receipt for the budget and it reduces the corresponding expenditure for the milk sector. Therefore, the effect of this timing change is that no milk levy will be collected in 2006 and as a consequence the corresponding expenditure for milk and milk products will show an increase, thus, leading to the observed over-implementation of the budget's appropriations for this sector.

2.2.1.7. Beef and veal (– EUR 135.1 million)

Compared to the hypotheses retained in the 2006 budget, this under-execution was due to lower expenditure incurred by Member States primarily because of the lower quantities of both fresh meat and live animals exported as well as because of the lower weighted average export refund rate granted for these exports. Furthermore, the expenditure incurred by Member States for the payment of outstanding balances for the exceptional support measures scheme were lower than the estimates which had been retained in the 2006 budget.

2.2.1.8. Pigmeat, eggs and poultry (– EUR 62.9 million)

Compared to the hypotheses retained in the 2006 budget, this under-execution was due to lower expenditure incurred by Member States for export refunds both because of the discontinuation in the payment of export refunds for fresh and frozen pigmeat as well as because of the much lower quantities of poultry exported.

2.2.2. *Direct aids (– EUR 765.7 million)*

The under-execution for decoupled direct aids amounted to – EUR 427.5 million and it mainly involved the implementation of the Single Payment Scheme in certain Member States. These Member States justified this under-execution by invoking the numerous administrative appeals of beneficiaries who disagree with the number of rights allocated to them by the MS' competent services or other administrative difficulties in liquidating and paying aid files. Finally, some Member States indicated that many small beneficiaries renounced their right to the payment of these aids when the corresponding amounts are small, thus, further contributing to the under-execution of the budget's appropriations.

With regard to other direct aids, the under-execution amounted to – EUR 280.4 million and it was mainly concentrated in the following schemes:

- tobacco premium payments made by the Member States were lower because of the smaller quantities of tobacco produced when compared to the quantities retained in the 2006 budget;
- compensatory aid payments for bananas were lower mainly because of favourable market conditions.

2.2.3. *Audit of agricultural expenditure (EUR 139.0 million)*

The amounts clawed back through the corrections imposed by the clearance of accounts decisions amounted to approximately – EUR 261.0 million. These amounts constitute a receipt for the budget and they reduce overall budgetary expenditure. The amount actually collected compared to the amount of – EUR 400.0 million, which was retained in the 2006 budget for clearance of accounts corrections, led to an

under-execution of these appropriations. Essentially, this under-execution results to an increase in EAGGF-Guarantee expenditure by EUR 139.0 million.

2.3. Other factors relating to sub-heading 1b – Rural Development
(– EUR 124.4 million)

The 2006 commitment appropriations for rural development (EU-15) and for the transitional instrument for the EU-10 were set at the ceiling for this subheading.

All commitment appropriations foreseen in the 2006 budget for the transitional instrument, which is implemented on the basis of differentiated appropriations, have been made.

The current under-execution involves the EAGGF-Guarantee's rural development commitment appropriations for the EU-15 and it is the result of under-implementation of certain rural development schemes, mainly in two Member States.

3. CONCLUSIONS

In view of the under-spending explained above, amounting to – EUR 1 104.7 million for sub-heading 1a, the Commission proposed, through the submission of Amending Budget No 6/2006, to the Budgetary Authority the reduction of the EAGGF Guarantee's appropriations for this sub-heading by EUR 860.0 million. This Amending Budget was adopted during the plenary session of the European Parliament in December 2006, thus, bringing down to EUR 50 190.7 million the final commitment appropriations of the 2006 budget for the EAGGF Guarantee (heading 1) from their initial level of EUR 51 050.7 million.

ANNEX

BUDGET YEAR 2006

EAGGF-GUARANTEE PROVISIONAL UTILISATION OF APPROPRIATIONS

Situation to the 15/10/2006

	Original appropriations 2006 budget (*)	Commitments from 16/10/2005 to 15/10/2006	Forecasted direct payments to 31/12/2006	Total expenditure (**) for 2006 budget year	Difference between implementation and original appropriations	Reduction of appropriations AB 6/2006 (***)	Final appropriations 2006 budget	Difference between implementation and final appropriations
	EUR million	EUR million	EUR million	EUR million	EUR million	EUR million	EUR million	EUR million
	a	b	c	d=b+c	e = d-a	f	g = a-f	h=d-g
Subheading 1a: CAP expenditure (not incl. rural development)								
TITLE 05 AGRICULTURE AND RURAL DEVELOPMENT								
05 01 ADMINISTRATIVE EXPENDITURE OF AGRICULTURAL AND RURAL DEVELOPMENT POLICY (1)								
05010401_05010406 & 05010407: Monitoring/prevention and pilot projects	4,0	1,6	0,8	2,4	-1,6		4,0	-1,6
Total 0501 Administrative expenditure of agriculture and rural development	4,0	1,6	0,8	2,4	-1,6		4,0	-1,6
05 02 INTERVENTIONS IN AGRICULTURAL MARKETS								
05 02 01 Market measures for cereals	700,0	562,8		562,8	-137,2		700,0	-137,2
05 02 02 Rice	4,0	-2,3		-2,3	-6,3		4,0	-6,3
05 02 03 Refunds on non-Annex 1 products	415,0	274,1		274,1	-140,9	95,0	320,0	-45,9
05 02 04 Food programmes	268,0	228,8		228,8	-39,2		268,0	-39,2
05 02 05 Sugar	1.376,0	1.520,7		1.520,7	144,7		1.376,0	144,7
05 02 06 Olive oil	35,0	29,5		29,5	-5,5		35,0	-5,5
05 02 07 Textile plants	969,0	935,1		935,1	-33,9	25,0	944,0	-8,9
05 02 08 Fruit and vegetables	1.544,0	1.371,6		1.371,6	-172,4	130,0	1.414,0	-42,4
05 02 09 Products of the wine-growing sector	1.494,0	1.487,0		1.487,0	-7,0		1.494,0	-7,0
05 02 10 Promotion	52,0	38,0	2,6	40,6	-11,4		52,0	-11,4
05 02 11 Other plant products/measures	297,6	311,0		311,0	13,4		297,6	13,4
05 02 12 Milk and milk products	858,0	1.009,6		1.009,6	151,6		858,0	151,6
05 02 13 Beef and veal	388,0	252,9		252,9	-135,1	110,0	278,0	-25,1
05 02 14 Sheepmeat and goatmeat	0,0	0,0		0,0	0,0		0,0	0,0
05 02 15 Pigmeat, eggs and poultry, bee-keeping and other animal products	164,0	101,1		101,1	-62,9		164,0	-62,9
05 02 99 Recoveries	-56,0	-54,3		-54,3	1,7		-56,0	1,7
Total 0502 Interventions in agricultural markets	8.508,6	8.065,6	2,6	8068,2	-440,4	360,0	8.148,6	-80,4
05 03 DIRECT AIDS								
05 03 01 Decoupled direct aids	16.375,0	15.947,5		15947,5	-427,5	400,0	15.975,0	-27,5
05 03 02 Other direct aids	18.105,9	17.825,5		17825,5	-280,4	212,2	17.893,8	-68,3
05 03 03 Additional amounts of aid	347,0	315,8		315,8	-31,2	15,0	332,0	-16,2
05 03 04 Ancillary aids (relinquents, small producers, agrimonetary aids, etc.)	0,0	1,2		1,2	1,2		0,0	1,2
05 03 99 Recoveries	-11,0	-38,8		-38,8	-27,8	27,0	-38,0	-0,8
Total 0503 Direct aids	34.816,9	34.051,2		34051,2	-765,7	654,2	34.162,7	-111,5
05 07 AUDIT OF AGRICULTURAL EXPENDITURE (1)								
05070101, 05070102 and 050702: monitoring and preventive measures and settlement of disputes	9,4	13,1		13,1	3,7	-6,2	15,6	-2,5
Total 0507 Audit of agricultural expenditure	9,4	13,1		13,1	3,7	-6,2	15,6	-2,5
05 08 POLICY STRATEGY AND COORDINATION OF AGRICULTURE AND RURAL DEVELOPMENT POLICY (1)								
050806: enhancing public awareness of the CAP	6,5	4,7		4,7	-1,8		6,5	-1,8
Total 0508 Policy strategy and coordination of agricultural and rural development policy	6,5	4,7		4,7	-1,8		6,5	-1,8
TITLE 11 FISHERIES								
11 02 FISHERIES MARKETS (2)	33,2	25,2		25,2	-8,0		33,2	-8,0
Total 1102 Fisheries markets	33,2	25,2		25,2	-8,0		33,2	-8,0
TITLE 17 HEALTH AND CONSUMER PROTECTION								
17 01 ADMINISTRATIVE EXPENDITURE OF POLICY AREA HEALTH AND CONSUMER PROTECTION (1)(2)								
17010401 and 17010404&05: Plant health measures, pilot study and feed&food safety	8,1	0,0	8,1	8,1	0,0		8,1	0,0
Total 1701 Administrative expenditure of policy area health and consumer protection	8,1	0,0	8,1	8,1	0,0		8,1	0,0
17 03 PUBLIC HEALTH (1)(2)								
17 03 02 Community tobacco fund: direct payments by the EU	14,6	14,6		14,6	0,0		14,6	0,0
Total 1703 Public health	14,6	14,6		14,6	0,0		14,6	0,0
17 04 FOOD SAFETY, ANIMAL HEALTH AND WELFARE, PLANT HEALTH (1)(2)								
170401 to 05 and 170407: Veterinary, animal welfare, public health, plant health, feed&food and other measures	278,5	232,3	16,2	248,5	-30,0		278,5	-30,0
Total 1704 Food safety, animal health and welfare, plant health	278,5	232,3	16,2	248,5	-30,0		278,5	-30,0
Total 1a (excluding clearance)	43.679,7	42.408,3	27,7	42.436,0	-1.243,7	1.008,0	42.671,8	-235,8
05 07 AUDIT OF AGRICULTURAL EXPENDITURE (1)								
05070106 Accounting clearance of previous years' accounts and reduction/suspension of advances for 1a	-70,0	-30,5		-30,5	39,5	-48,0	-22,0	-8,5
05070107 Conformity clearance of previous years' accounts of shared management expenditure under 1a	-330,0	-230,5		-230,5	99,5	-100,0	-230,0	-0,5
Total 0507 Audit of agricultural expenditure	-400,0	-261,0		-261,0	139,0	-148,0	-252,0	-9,0
Total 1a (including clearance)	43.279,7	42.147,3	27,7	42.175,0	-1.104,7	860,0	42.419,8	-244,8
Subheading 1b: Rural development								
05 04 RURAL DEVELOPMENT								
050401 Rural development in the EAGGF Section - Eur 15	5.675,0	5.580,0		5580,0	-95,0		5.675,0	-95,0
050404 Rural development in the EAGGF Section - Eur 10 (3)	2.096,0	2.096,0		2096,0	0,0		2.096,0	0,0
Total 0504 Rural development	7.771,0	7.676,0		7676,0	-95,0		7.771,0	-95,0
Total 1b (excluding clearance)	7.771,0	7.676,0		7.676,0	-95,0		7.771,0	-95,0
05 07 AUDIT OF AGRICULTURAL EXPENDITURE (1)								
05070108 Accounting clearance of previous years' accounts and reduction/suspension of advances for 1b	0,0	-1,4		-1,4	-1,4		0,0	-1,4
05070109 Conformity clearance of previous years' accounts of shared management expenditure under 1b	0,0	-28,0		-28,0	-28,0		0,0	-28,0
Total 0507 Audit of agricultural expenditure	0,0	-29,4		-29,4	-29,4		0,0	-29,4
Total 1b (including clearance)	7.771,0	7.646,6		7.646,6	-124,4		7.771,0	-124,4
TOTAL EAGGF-Guarantee budget (excluding clearance)	51.450,7	50.084,3	27,7	50.112,0	-1.338,7	1.008,0	50.442,8	-330,8
TOTAL EAGGF-Guarantee budget (including clearance)	51.050,7	49.793,9	27,7	49.821,6	-1.229,1	860,0	50.190,8	-369,2

(*) Budget year = 16.10.05 to 15.10.06 but direct expenditure possible until 31.12.06

(**) Commitments

(***) AB 6/2006 is in the process of adoption

(1) Chapter not exclusively EAGGF-Guarantee

(2) Chapter outside title 05 but included in EAGGF-Guarantee

(3) Differentiated appropriations