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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 1/2007

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1. THE 2007 BUDGETARY PROCEDURE

The 2007 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 Annex 1.

The Commission adopted the preliminary draft budget (PDB) for agriculture in early May 2006 involving commitment appropriations amounting to EUR 43 343.7 million and payment appropriations amounting to EUR 43 342.2 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 2003/2004 CAP reforms as well as on the recent sugar reform.

In July 2006, the Ecofin-Budget Council adopted the Draft Budget (DB) whereby it reduced the requested appropriations by EUR 730.0 million from the corresponding PDB appropriations. Appropriations for market measures were reduced by EUR 525.0 million and the ones for the accounting clearance by EUR 205.0 million. In contrast, the European Parliament, in its first reading of the PDB, restored the Council's reductions while increasing substantially the appropriations in the milk sector.

In October 2006, the Commission updated the initial estimates of needs of 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 3/2007 to the Budgetary Authority. The Commission therein requested total commitment appropriations amounting to EUR 42 492.0 million and total payment appropriations amounting to EUR 42 490.5 million. By comparison to the initially requested appropriations in the PDB, the Commission reduced the requested appropriations for the budget year 2007 by EUR 851.7 million.

The 2007 budget was adopted in the European Parliament's plenary session of December 2006. The 2007 EAGF budget's commitment appropriations amounted to EUR 42 711.7 million and its payment appropriations amounted to EUR 42 435.6 million. With regard to the most significant agricultural sectors, an amount of EUR 5 615.2 million for market measures and an amount of EUR 36 878.5 million for direct aids are foreseen. Furthermore, an amount of EUR 309.8 million for policy area 17 -veterinary and phyto-sanitary measures and of EUR 30.5 million for policy area 11 - fisheries (NB: EUR 15.0 million is in the reserve account) are foreseen in the 2007 budget. The difference between commitment and payment appropriations, amounting to EUR 276.1 million, is due to the fact that differentiated appropriations are used for the payments made directly by the Commission for promotion of agricultural products, for policy strategy and coordination measures for agriculture and for veterinary and phyto-sanitary measures.

2. COMMENTS ON THE IMPLEMENTATION OF THE 2007 BUDGET

For the period 16 October 2006 to 30 November 2006, 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 Annex 2. Hereafter, 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 follows:

2.1. 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 30 November 2006 the average parity rate was approximately equal to EUR 1 = \$ 1.28, i.e. less than 1.0% above the rate used for the establishment of the 2007 budget.

2.2. Market factors

2.2.1. Sugar (+ EUR 134.2 million)

This over-implementation of appropriations when compared to the level of the indicator is probably due to an acceleration of the rhythm of liquidation and payment of the previous marketing year's 2005/06 sugar export refund files.

2.2.2. Wine (+ EUR 41.3 million)

The Commission considers that this over-implementation is temporary and that it is mainly due to the payments arising from the crisis distillations for the marketing year 2005/2006 carried out but not paid for in the 2006 budget year. These payments are currently being made, thus, leading to a temporary over-execution of appropriations by comparison to the level of the indicator.

2.2.3. Milk and milk products (+ EUR 38.5 million)

This over-execution of appropriations by comparison to the indicator is due to technical reasons whereby the indicator was established on the past 3 budget years' expenditure which included the effect of the collection of the milk levy payments while for the budget year 2007 this levy is separately treated as assigned revenue and it is not immediately included in the sector's appropriations.

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).

2.3. Direct aids (+ EUR 81.4 million)

The Commission established the corresponding indicator on the basis of the payment forecasts forwarded by all Member States. The current over-execution is minimal when compared to the level of this indicator. However, from the low level of total payments made by Member States for decoupled aids, it is concluded that very few Member States took advantage of the Commission's rule allowing that 50% of all these aids could be advanced as of 16 October instead of waiting for the normal payment date of 1 December.

2.4. Assigned revenue (EUR 353.3 million)

Out of all types of assigned revenue, only the payments for the milk levy were made in the course of the period 16 October to 30 November 2006 as it is foreseen by the new rules on the payment of this levy.

3. CONCLUSIONS

The uptake of appropriations for the Member States' expenditure from 16 October 2006 to 30 November 2006 for market measures and direct aids amounted to EUR 5 466.7 million, i.e: it involved an over-execution of these appropriations by approximately EUR 236.5 million. At this point in time, this over-execution appears to be temporary on the basis of the comments made in points 2.2 and 2.3 above.

ANNEX 1

Budgetary procedure 2007 EAGF Appropriations

source: DG Budg

Item	Article	Chapter	Title	Heading	Fin Persp	PDB		DB		DB		Letter of amendment		Council		BUDGET (1)	
						CA	PA	Council first reading		EP first reading		CA	PA	second reading		CA	PA
								CA	PA	CA	PA			CA	PA		
05 01 04 01				European Agricultural Guarantee Fund (EAGF) - Non-operational technical assistance	2	8.460.000	8.460.000	8.460.000	8.460.000	7.614.000	7.614.000	8.460.000	8.460.000	8.460.000	8.460.000	8.460.000	8.460.000
05 01 04 06				Pilot project on quality promotion - expenditure on administrative	2	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm
05 01 04 07				Pilot project to conduct a feasibility study on introducing a security fund in the fruit and vegetables sector - Expenditure on administrative	2	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm
05 02				Interventions on agricultural markets		5.698.440.000	5.695.505.000	5.173.440.000	5.170.505.000	6.074.440.000	6.071.505.000	5.627.840.000	5.624.905.000	5.615.194.000	5.612.259.000	5.615.194.000	5.612.259.000
05 02 01				Cereals	2	694.000.000	694.000.000	645.736.000	645.736.000	694.000.000	694.000.000	516.000.000	516.000.000	516.000.000	516.000.000	516.000.000	516.000.000
05 02 02				Rice	2	2.000.000	2.000.000	1.791.000	1.791.000	2.000.000	2.000.000	-2.000.000	-2.000.000	-2.000.000	-2.000.000	-2.000.000	-2.000.000
05 02 03				Refunds on non-Annex 1 products	2	344.000.000	344.000.000	320.077.000	320.077.000	344.000.000	344.000.000	299.000.000	299.000.000	299.000.000	299.000.000	299.000.000	299.000.000
05 02 04				Food programmes	2	278.000.000	278.000.000	267.722.000	267.722.000	326.000.000	326.000.000	278.000.000	278.000.000	278.000.000	278.000.000	278.000.000	278.000.000
05 02 05				Sugar	2	235.000.000	235.000.000	206.209.000	206.209.000	235.000.000	235.000.000	323.000.000	323.000.000	323.000.000	323.000.000	323.000.000	323.000.000
05 02 06				Olive oil	2	48.000.000	48.000.000	44.662.000	44.662.000	48.000.000	48.000.000	50.000.000	50.000.000	50.000.000	50.000.000	50.000.000	50.000.000
05 02 07				Textile plants	2	21.000.000	21.000.000	19.540.000	19.540.000	21.000.000	21.000.000	22.000.000	22.000.000	22.000.000	22.000.000	22.000.000	22.000.000
05 02 09				Products of wine-growing sector	2	1.411.000.000	1.411.000.000	1.312.873.000	1.312.873.000	1.411.000.000	1.411.000.000	1.487.000.000	1.487.000.000	1.487.000.000	1.487.000.000	1.487.000.000	1.487.000.000
05 02 10				Promotion	2	43.840.000	40.905.000	40.791.000	37.856.000	49.840.000	46.905.000	45.840.000	42.905.000	45.295.000	42.360.000	45.295.000	42.360.000
05 02 11				Other plant products/measures	2	295.600.000	295.600.000	275.043.000	275.043.000	295.600.000	295.600.000	379.000.000	379.000.000	379.000.000	379.000.000	379.000.000	379.000.000
05 02 12				Milk and milk products (*)	2	618.000.000	618.000.000	449.779.000	449.779.000	937.000.000	937.000.000	587.000.000	587.000.000	587.000.000	587.000.000	587.000.000	587.000.000
05 02 13				Beef and veal	2	152.000.000	152.000.000	141.429.000	141.429.000	152.000.000	152.000.000	117.000.000	117.000.000	117.000.000	117.000.000	117.000.000	117.000.000
05 02 14				Sheepmeat and goatmeat	2	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm
05 02 15				Pigmeat, eggs and poultry, bee-keeping and other animal products	2	149.000.000	149.000.000	138.637.000	138.637.000	150.000.000	150.000.000	202.000.000	202.000.000	194.141.000	194.141.000	194.141.000	194.141.000
05 02 16				Sugar Restructuring Fund	2	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm
05 02 99				Irregularities (interventions on agricultural markets)	2	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm
05 03				Direct aids		37.660.633.000	37.660.633.000	37.660.633.000	37.660.633.000	37.660.633.000	37.660.633.000	36.878.533.000	36.878.533.000	36.878.533.000	36.878.533.000	36.878.533.000	36.878.533.000
05 03 01				Decoupled direct aids (**)	2	30.709.000.000	30.709.000.000	30.709.000.000	30.709.000.000	30.709.000.000	30.709.000.000	30.196.000.000	30.196.000.000	30.196.000.000	30.196.000.000	30.196.000.000	30.196.000.000
05 03 02				Other direct aids	2	6.483.633.000	6.483.633.000	6.483.633.000	6.483.633.000	6.483.633.000	6.483.633.000	6.214.533.000	6.214.533.000	6.214.533.000	6.214.533.000	6.214.533.000	6.214.533.000
05 03 03				Additional amounts of aid	2	468.000.000	468.000.000	468.000.000	468.000.000	468.000.000	468.000.000	468.000.000	468.000.000	468.000.000	468.000.000	468.000.000	468.000.000
05 03 04				Ancillary direct aids (reliquats, small producers, agrimonetary aids, etc.)	2	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm
05 03 99				Irregularities	2	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm
05 04 01				Rural development financed by the EAGGF-Guarantee section - Completion of earlier programmes (2000 to 2006)	2	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm
05 04 03 02				Plant and animal genetic resources - Completion of earlier measures	2	pm	1.440.000	pm	1.440.000	pm	1.440.000	pm	1.440.000	pm	1.440.000	pm	1.440.000
05 07 01				Control of agricultural expenditure	2	-64.000.000	-64.000.000	-269.000.000	-269.000.000	-63.154.000	-63.154.000	-64.000.000	-64.000.000	-172.000.000	-172.000.000	-172.000.000	-172.000.000
05 07 02				Settlement of disputes	2	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm
05 08				Policy strategy and coordination of policy area agriculture		40.174.000	40.149.756	40.174.000	40.149.756	41.174.000	41.149.756	41.174.000	41.149.756	41.174.000	41.149.756	41.174.000	41.149.756
05 08 01				Farm Accountancy Data Network (FADN)	2	13.894.000	13.916.000	13.894.000	13.916.000	13.894.000	13.916.000	13.894.000	13.916.000	13.894.000	13.916.000	13.894.000	13.916.000
05 08 02				Surveys on the structure of agricultural holdings	2	19.000.000	16.700.000	19.000.000	16.700.000	19.000.000	16.700.000	19.000.000	16.700.000	19.000.000	16.700.000	19.000.000	16.700.000
05 08 03				Restructuring of systems for agricultural surveys	2	1.780.000	4.033.756	1.780.000	4.033.756	1.780.000	4.033.756	1.780.000	4.033.756	1.780.000	4.033.756	1.780.000	4.033.756
05 08 06				Enhancing public awareness of the common agricultural policy	2	5.500.000	5.500.000	5.500.000	5.500.000	6.500.000	6.500.000	6.500.000	6.500.000	6.500.000	6.500.000	6.500.000	6.500.000
05 08 07				Completion of earlier information measures	2	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm
05 08 08				Study on the impact of Council Directive 2000/36/EC	2	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm
05 08 09				EAGF - Operational technical assistance	2	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm	pm
TOTAL policy area 05						43.343.707.000	43.342.187.756	42.613.707.000	42.612.187.756	43.720.707.000	43.719.187.756	42.492.007.000	42.490.487.756	42.371.361.000	42.369.841.756	42.371.361.000	42.369.841.756
Fish (policy area 11)						15.500.000	15.500.000	15.500.000	15.500.000	15.500.000	15.500.000	15.500.000	15.500.000	15.500.000	15.500.000	15.500.000	15.500.000
Veterinary, phytosanitary and public health (policy area 17)						309.800.000	35.300.000	309.800.000	35.300.000	316.300.000	41.050.000	309.800.000	35.300.000	309.800.000	35.300.000	309.800.000	35.300.000
Total EAGF appropriations (without reserves)						43.669.007.000	43.392.987.756	42.939.007.000	42.662.987.756	44.052.507.000	43.775.737.756	42.817.307.000	42.541.287.756	42.696.661.000	42.420.641.756	42.696.661.000	42.420.641.756
Reserves																	
11 02 03						15.000.000	15.000.000	15.000.000	15.000.000	15.000.000	15.000.000	15.000.000	15.000.000	15.000.000	15.000.000	15.000.000	15.000.000
Total EAGF appropriations (with reserves)						43.684.007.000	43.407.987.756	42.954.007.000	42.677.987.756	44.067.507.000	43.790.737.756	42.832.307.000	42.556.287.756	42.711.661.000	42.435.641.756	42.711.661.000	42.435.641.756

(*) Additional needs, to be covered by assigned revenue: estimated at € 349,0 million

(**) Additional needs, to be covered by assigned revenue: estimated at € 638,0 million

(1) source: badge-bud dd 15/01/2007

ANNEX 2

BUDGET YEAR 2007 (*)

PROVISIONAL CONSUMPTION OF THE APPROPRIATIONS AGAINST ORIGINAL APPROPRIATIONS OF EAGF

Situation to the 30/11/2006
in EUR million

	Original Appropriations Budget (*)	Consumption of November	Utilisation	Consumption profile (**) as at November (provisional)		Gap between implementation and indicator	
				%	EUR million	%	EUR mio
	a	b	c = b/a	d	e = (d*a)	f = c-d	g = b-e
Expenditure (A)							
05 01 ADMINISTRATIVE EXPENDITURE OF AGRICULTURE AND RURAL DEVELOPMENT POLICY AREA							
05010401, 05010406 & 05010407: Monitoring/prevention and pilot projects	8,5	0,0	0,0%	0,0%	0,0	0,0%	0,0
Total 0501 Administrative expenditure of Agriculture and Rural Development policy area	8,5	0,0	0,0%	0,0%	0,0	0,0%	0,0
05 02 INTERVENTIONS IN AGRICULTURAL MARKETS							
05 02 01 Cereals	516,0	64,3	12,5%	18,9%	97,7	-6,5%	-33,4
05 02 02 Rice	-2,0	0,2	-11,7%	28,1%	-0,6	-39,8%	0,8
05 02 03 Refunds on non-Annex 1 products	299,0	30,5	10,2%	11,9%	35,7	-1,7%	-5,2
05 02 04 Food programmes	278,0	15,5	5,6%	1,2%	3,2	4,4%	12,3
05 02 05 Sugar	323,0	116,6	36,1%	-5,5%	-17,6	41,6%	134,2
05 02 06 Olive oil	50,0	14,8	29,5%	49,5%	24,7	-20,0%	-10,0
05 02 07 Textile plants	22,0	2,4	10,9%	8,2%	1,8	2,7%	0,6
05 02 08 Fruit and vegetables	1.319,8	179,2	13,6%	14,6%	193,1	-1,1%	-13,9
05 02 09 Products of the wine-growing sector	1.487,0	166,1	11,2%	8,4%	124,8	2,8%	41,3
05 02 10 Promotion	45,3	3,9	8,6%	7,0%	3,2	1,6%	0,7
05 02 11 Other plant products/measures	379,0	36,3	9,6%	11,7%	44,5	-2,2%	-8,2
05 02 12 Milk and milk products (estimation of 349 Mio EUR credits coming from revenue)(***)	587,0	110,5	18,8%	12,3%	72,1	6,6%	38,5
05 02 13 Beef and veal	117,0	25,3	21,6%	13,3%	15,5	8,3%	9,7
05 02 14 Sheepmeat and goatmeat	0,0	0,0	0,0%				
05 02 15 Pigmeat, eggs and poultry, bee-keeping and other animal products	194,1	19,9	10,3%	13,0%	25,3	-2,8%	-5,4
05 02 16 Sugar Restructuring Fund (estimation of 757 Mio EUR credits coming from revenue)(***)	0,0	0,0	0,0%				
Total 0502 Interventions in agricultural markets	5.615,2	785,5	14,0%	11,1%	623,5	2,9%	162,1
05 03 DIRECT AIDS							
05 03 01 Decoupled direct aids (estimation of 638 Mio EUR credits coming from revenue)(***)	30.196,0	4.004,1	13,3%	12,9%	3.886,0	0,4%	118,2
05 03 02 Other direct aids	6.214,5	689,0	11,1%	11,5%	714,7	-0,4%	-25,7
05 03 03 Additional amounts of aid	468,0	0,3	0,1%	0,0%	0,0	0,1%	0,3
05 03 04 Ancillary direct aids (outstanding balances, small producers, agrimonetary aids, etc.)	0,0	-11,3	0,0%				
Total 0503 Direct aids	36.878,5	4.682,0	12,7%	12,5%	4.600,7	0,2%	81,4
OTHER EXPENDITURE							
05 04 Rural development (050401 and 05040302)	0,0	-0,9	0,0%				
05 07 AUDIT OF AGRICULTURAL EXPENDITURE	-172,0	0,0	0,0%	-3,5%	6,1	3,5%	-6,1
05 07 01 01 Monitoring and preventive measures - Payments by the Member States	0,0	0,0	0,0%				
05 07 01 02 Monitoring and preventive measures - Direct payments by the European Community	6,0	0,0	0,0%	0,0%	0,0	0,0%	0,0
05 07 01 05 Checks on application of the rules in agriculture	0,0	0,0	0,0%				
05 07 01 06 Accounting clearance of previous years' accounts with regard to shared management expenditure under the EAGGF Guarantee Section (ex heading 1a) and under the EAGF	-178,0	0,0	0,0%	-3,4%	6,1	3,4%	-6,1
05 07 01 07 Conformity clearance of previous years' accounts of shared management expenditure under the EAGF	0,0	0,0	0,0%				
05 07 01 08 Accounting clearance of previous years' accounts with regard to rural development under the EAGGF Guarantee Section (ex heading 1b)	0,0	0,0	0,0%				
05 07 01 09 Conformity clearance of previous years' accounts of rural development under the EAGGF Guarantee Section (ex heading 1b)(2000 to 2006)	0,0	0,0	0,0%				
05 07 02 Settlement of disputes	0,0	0,0	0,0%				
05 08 POLICY STRATEGY AND COORDINATION OF AGRICULTURE AND RURAL DEVELOPMENT POLICY AREA	41,2	0,0	0,0%	0,0%	0,0	0,0%	0,0
11 02 FISHERIES MARKETS (2)	30,5	0,0	0,0%	0,0%	0,0	0,0%	0,0
17 01 ADMINISTRATIVE EXPENDITURE OF POLICY AREA HEALTH AND CONSUMER PROTECTION (1)(2)	1,3	0,0	0,0%	0,0%	0,0	0,0%	0
17010401 and 17010404&05: Plant health measures - pilot study - feed&food safety							
17 03 PUBLIC HEALTH (1)(2)	13,5	0,0	0,0%	0,0%	0,0	0,0%	0
17 03 02 Community tobacco fund - direct payments by the EU							
17 04 FOOD SAFETY, ANIMAL HEALTH AND WELFARE, PLANT HEALTH (1)(2)	295,0	0,0	0,0%	0,0%	0,0	0,0%	0,0
170401 to 170407: Veterinary, animal welfare, public health, plant health, feed&food and other measures							
Total other expenditure	209,5	-0,9	-0,4%	2,9%	6,1	-3,3%	-7,0
Total Expenditure (excluding clearance)	42.889,7	5.466,7	12,7%	12,2%	5.224,1	0,6%	242,6
Total Expenditure (including clearance)	42.711,7	5.466,7	12,8%	12,2%	5.230,2	0,6%	236,5
REVENUE (B)							
67 01 Conformity clearance of previous years' accounts - EAGF (estimation: 568 Mio EUR)	0,0	0,0					
67 02 Irregularities - EAGF (estimation: 70 Mio EUR)	0,0	8,0					
67 03 Superlevy from milk producers (estimation: 349 Mio EUR)	0,0	345,3					
68 01 Temporary restructuring amounts- Assigned revenue (estimation: 1259 Mio EUR)	0,0	0,0					
68 02 Irregularities concerning the temporary restructuring fund - Assigned revenue	0,0	0,0					
Total Revenue	0,0	353,3					
Expenditure and revenue (A-B)							
Total expenditure (excluding clearance) and revenue	42.889,7	5.113,3	11,9%	12,2%	5.224,1	-0,3%	-110,8
Total expenditure (including clearance) and revenue	42.711,7	5.113,3	12,0%	12,2%	5.230,2	-0,3%	-116,8

(*) 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