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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

**5th FINANCIAL REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL on the EUROPEAN AGRICULTURAL GUARANTEE FUND
2011 FINANCIAL YEAR**

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1. BUDGET PROCEDURE[1]

1.1. Financial Framework 2007-2013.

CAP expenditure is funded within the current financial framework as agreed in the Inter-institutional Agreement between the European Parliament and the Council in May 2006, amended to take into account the Galileo-programme in 2007, the reprogramming of rural development in 2008 and the European Economic Recovery Package (EERP) in 2009. CAP expenditure is part of Heading 2: Preservation and management of natural resources. A specific sub-ceiling has been decided for market related expenditure and direct payments within this heading.

To take account of the transfer of amounts to rural development due to compulsory modulation (including the increase from the CAP Health Check) increase, to the reform of the cotton, tobacco and wine sectors as well as to the voluntary modulation decided for the UK, the expenditure ceiling for market measures and direct payments had to be reduced accordingly.

The CAP amounts included in heading 2 of the financial framework (2007-2013) are:

(in EUR million current prices)

Heading 2*	2007	2008	2009	2010	2011	2012	2013
Total a), b)	**55 143**	**59 193**	**56 333**	**59 955**	**60 338**	**60 810**	**61 289**
of which:							
-Rural development a), c), d)	**10 902**	**13 303**	**14 002**	**14 364**	**14 436**	**14 617**	**14 817**
-Market related expenditure and direct payments, c)	**44 753**	**44 592**	**44 887**	**44 276**	**44 467**	**44 710**	**44 939**

*) Preservation and Management of Natural resources

a) After reprogramming of rural development (EUR 1 469 million).

b) After transfer of EUR 1 600 million to Galileo in 2007 and of EUR 2 000 million to the European Economic Recovery Package in 2009.

c) After transfer into Rural Development of the lower expected expenditure resulting from the reforms of the tobacco, cotton and wine CMOs and from the compulsory and voluntary (UK) modulation Art. 136 of Regulation 73/2009 (SE+DE) and reduction due to financing of the European Economic Recovery Plan (Commission Decision No 2010/273 EU).

d) Including the reinforcement of Rural Development by EUR 1 020 million included in the European Economic Recovery Package, of which EUR 600 million is financed in 2009 within heading 2 while, for 2010, EUR 420 million had been allocated to Rural Development on the basis of the amended Commission Decision No 636/2006.

1.2. Draft Budget 2011

The 2011 Draft Budget (DB) was adopted by the Commission and proposed to the Budgetary Authority on 27.04.2010**.** The commitment appropriations proposed for

[1] This procedure is presented in annex 1.

the European Agricultural Guarantee Fund (EAGF) under heading 2 of the Financial Framework 2007-2013 totalled EUR 43 747.4 million.

The Council adopted its position on the 2011 Draft Budget on 08.07.2010 whereby it reduced commitment appropriations for EAGF by EUR 470.2 million, when compared to the Commission's DB, to EUR 43 277.2 million. On the other hand, the European Parliament adopted its position on the 2011 Draft Budget on 13.10.2010 whereby it increased commitment appropriations for EAGF by EUR 365.8 million, when compared to the Commission's DB, to EUR 44 113.4 million.

1.3. Amending Letter for 2011

On 20.10.2010 the Commission adopted Amending Letter (AL) No 3 to the 2011 DB, setting commitment appropriation requirements for EAGF at EUR 43 401.2 million. This amount was lower by EUR 346.2 million compared to the one foreseen for the Draft Budget. This decrease was mostly attributable to the favourable situation in agricultural markets to the tune of – EUR 136 million as well as to the increase of the expected available assigned revenue in 2011 by EUR 229 million.

1.4. Adoption of the 2011 budget

2011 was the first time that the new annual budgetary procedure provided for by the Lisbon Treaty, under article 314 of the Treaty on the Functioning of the EU (TFEU) was applied. Following their divergent positions on the Commission's draft budget, the Council and the European Parliament met within a Conciliation Committee for a 21-day conciliation period. However, by the time this period expired on 15 November 2010, they had not reached an agreement on the 2011 budget. Therefore, in line with Article 314 of the Treaty on the Functioning of the EU (TFEU), the Commission made a new draft budget proposal on 26 November 2010.

The Budgetary Authority accepted the Commission's new draft budget which was approved by Parliament in a vote on 15 December 2010. The 2011 EAGF budget was adopted by the Budgetary Authority on 15 December 2010. The budget included commitment and payment appropriations amounting to:

– EUR 42 508.3 million and to EUR 42 509.1 million respectively for agricultural market measures and direct aids (policy area 05).

– EUR 352.9 million and to EUR 253.7 million respectively for veterinary and phyto-sanitary measures (policy area 17).

– EUR 30 million and to EUR 25.8 million respectively for fisheries (policy area 11).

The budget’s total commitment appropriations for EAGF amounted to EUR 42 891.2 million and its payment appropriations amounted to EUR 42 788.5 million. The difference between commitment and payment appropriations is due to the fact, that for certain measures, which are directly implemented by the Commission, differentiated appropriations are used. These measures relate mainly to the promotion of agricultural products, to policy strategy and coordination measures for agriculture as well as to fisheries and to veterinary and phyto-sanitary measures.

Specifically, of the voted EAGF commitment appropriations amounting to EUR 42 891.2 million, EUR 2 964.9 million were foreseen for market measures under chapter 05 02 while EUR 39 771.1 million were foreseen for direct aids under chapter 05 03. Furthermore, the 2011 budget foresaw commitment appropriations of EUR 352.9 million for veterinary and phyto-sanitary measures under policy area 17-Health and Consumer Protection and EUR 30 million for fisheries markets under policy area 11-Maritime Affairs and Fisheries.

For details, please see annex 1.

1.5. Revenue assigned to EAGF[2]

In accordance with Article 34 of Council Regulation (EC) No 1290/2005 on the financing of the CAP, 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. This assigned 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 in order to finance budgetary needs of that year.

At the time of establishment of the 2011 budget, an estimate of the revenue was made both for the amount expected to be collected in the course of the 2011 budget year as well as of the amount which was expected to be carried over from the budget year 2010 into 2011. This estimate was taken into consideration when the Budgetary Authority adopted the 2011 budget. Specifically:

– Revenue from the conformity clearance corrections and from irregularities was estimated at EUR 600 million and EUR 88 million respectively while the receipts from the milk levy were estimated at EUR 19 million. Thus, the total amount of assigned revenue expected to be collected in the course of the 2011 budget year was estimated at EUR 707 million.

– The amount of assigned revenue expected to be carried over from the budget year 2010 into 2011 was estimated at EUR 540 million.

The total amount of EUR 1 247 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 500 million and for the single payment scheme by EUR 747 million. After taking account of these amounts, the Budgetary Authority eventually granted appropriations amounting to EUR 292 million and EUR 30 389 million respectively for these schemes in accordance with the Commission's proposals. The sum of the voted appropriations and the assigned revenue mentioned above corresponds to a total estimate of needs of EUR 792 million for the operational funds for producer organisations in the fruits and vegetables sector and EUR 31 136 million for the single payment scheme.

2 These amounts are not entered in the revenue lines of the budget (article 670 for the revenue assigned to the EAGF) but they are mentioned in the budgetary remarks for this article.

1.6. Temporary restructuring amounts in the sugar sector[3]

The temporary restructuring amounts in the sugar sector, as set out in article 11 of Council Regulation (EC) No 320/2006, are treated as assigned revenue intended to finance the sugar restructuring aid and other aids foreseen in the Sugar Restructuring Fund. For the marketing years 2006/07 up to 2008/09, these amounts related to the sugar, inulin syrup and isoglucose quantitative quotas held by operators in each Member State and they were paid by Member States into the Fund.

At the time of establishment of the 2011 budget an amount of EUR 1 015 million was expected to be carried over from the budget year 2010 into 2011.

1.7. Part of the EAGF budget in total EU budget

The final EAGF budget's (commitment appropriations) part of the total EU budget for the period 2005–2011 appears in annex 2.

[3] These amounts are not entered in the revenue lines of the budget (article 680 for the temporary restructuring amounts for the sugar sector) but they are mentioned in the budgetary remarks for this article.

2. CASH POSITION AND MANAGEMENT OF APPROPRIATIONS

2.1. Management of appropriations

2.1.1. Appropriations available for the 2011 financial year

In EUR

Expenditure section of budget (1)	Commitment appropriations	Payment appropriations	**Revenue section of budget (AR)** (2)	Forecasts
1. Initial appropriations for EAGF of which	42 891 201 900	42 788 499 841	1. Conformity clearance	600 000 000
1a. Appropriations under shared management	42 465 900 000	42 465 900 000	2. Irregularities	88 000 000
1b. Appropriations under centralised direct management (3)	425 301 900	322 599 841	3. Super levy from milk producers	19 000 000
2. Amending Budget 6/2011	-23 140 000	0	4. Temporary restructuring amounts for sugar sector (4)	0
3. Transfer to / out of EAGF in the year	500 000	3 110 000	**Total forecast of AR**	**707 000 000**
4. Final appropriations for EAGF of which	**42 868 561 900**	**42 791 609 841**		
4a. Appropriations under shared management	42 465 900 000	42 465 900 000		
4b. Appropriations under centralised direct management	402 661 900	325 709 841		

(1) Appropriations entered in the 2011 budget taking into account the assigned revenue to be collected in 2011 and the one carried over from 2010 to 2011 in accordance with Article 10 of the Council Regulation (EC) No 1605/2002.

(2) AR: Assigned revenue to be collected. There are no amounts of revenue entered on the revenue line (p.m.)[4], but the forecast amount is indicated in the budget comments.

(3) 83% of commitment appropriations concern expenditure for veterinary and phyto-sanitary measures under policy area 17 - Health and Consumer Protection). The rest concern expenditure for policy strategy and coordination under policy area 05 - Agriculture and rural development (10%) and for fisheries markets under policy area 11 - Maritime Affairs and Fisheries (7%).

(4) This revenue is used to provide appropriations for the payment of Sugar Restructuring Fund aids.

2.1.2. Expenditure section of the EU budget in relation to EAGF

The initial commitment appropriations for 2011 totalled EUR 42 891 201 900. This was a net amount taking account of the forecasted assigned revenue to be collected in 2011 and the one carried over from 2010 to 2011. The initial payment appropriations amounted to EUR 42 788 499 841. The majority of the appropriations for expenditure under centralised direct management made by the Commission are differentiated appropriations.

In financial year 2011, there were the Amending Budget 6/2011 and transfers of commitment and payment appropriations to and out of EAGF. The commitment and payment appropriations finally available to the EAGF, after this Amending Budget

4 p.m.: "pour mémoire".

and those transfers, for the 2011 financial year amounted to EUR 42 868 561 900 and EUR 42 791 609 841 respectively.

Part of the appropriations coming from assigned revenue received in 2010 was not used in that financial year and it was automatically carried forward from 2010 to 2011. The amount of these appropriations totalled EUR 1 950 million (including EUR 1 045 million for Sugar Restructuring Fund).

2.1.3. *Assigned revenue section of the EU budget in relation to EAGF*

For more details, please see point 1.5.

2.1.4. *Execution of appropriations available for the 2011 financial year*

In EUR

	Execution of commitment appropriations	**Execution of payment appropriations**
Shared management (1)	43 772 404 535.48	43 772 404 535.48
Expenditure under centralised direct management	385 606 709.61	344 507 317.37
Total (including *Sugar Restructuring Fund)*	**44 158 011 245.09**	**44 116 911 852.85**
Sugar Restructuring Fund	187 935 635.21	187 935 635.21
Total (excluding *Sugar Restructuring Fund)*	**43 970 075 609.88**	**43 928 976 217.64**

(1) Committed amounts. Commitments and payments less assigned revenue received for shared management: EUR 43 105 570 603.39.

For the financial year 2011, the actual amount of commitment appropriations used amounted to EUR 44 158 011 245.09 while that for payment appropriations amounted to EUR 44 116 911 852.85.

2.1.5. *Assigned revenue received under shared management*

In EUR

Assigned revenue (excluding Temporary restructuring amounts)	
Forecasted revenue	707 000 000.00
Revenue received	666 826 618.99
Difference	-40 173 381.01

For details, please see points 1.5 and 6.1.

2.1.6. *Execution (excluding Sugar Restructuring Fund)*

In EUR

Expenditure under shared management (excluding Sugar Restructuring Fund) (1)

	Final appropriations (C1)	**Assigned revenue appropriations (C4)**	**Carry over of assigned revenue appropriations (C5) from 2010**
Appropriations	42 465 900 000.00	666 826 618.99	905 096 386.29
Execution	42 454 029 213.56	225 343 300.42	905 096 386.29
Appropriations cancelled	11 870 786.44	-	0.00
Carry over to 2012	-	441 483 318.57	-

(1) Commitment appropriations = payment appropriations.

Appropriations available for financing measures under management shared with Member States (excluding expenditure under centralised direct management by the Commission) amounted to EUR 42 466 million compared to actual expenditure of EUR 42 454 million.

The 2011 appropriations coming from assigned revenue amounted to EUR 666.8 million of which an amount of EUR 225.3 million was used in chapter 05 02. The remaining amount of EUR 441.5 million was automatically carried over to budget year 2012.

Part of the appropriations coming from assigned revenue received in 2010 was not used in financial year 2010 and was automatically carried forward to 2011 (C5 fund source). These appropriations amounted to EUR 905.1 million and had to be used first in accordance with Article 10 of the Financial Regulation. It should be noted that all appropriations (EUR 905.1 million) carried over from financial year 2010 have been fully used in accordance with the Financial Regulation.

Sugar sector: Temporary restructuring amounts. Sugar Restructuring Fund

In EUR

Temporary restructuring amounts		Sugar Restructuring Fund			
Revenue section of budget		**Expenditure section of budget**			
	Amount		Final appropriations (C1)	Appropriations from AR (C4)	Carry over of appropriations from 2010 AR (C5)
Forecast revenue	0,00	Appropriations	pm	7 313.10	1 044 756 804.57
Revenue received	7 313.10	Execution (1)	-	- 4 938 186.20	192 873 821.41
		Appropriations cancelled	-	-	0
		Carry over to 2012	-	4 945 499.30	851 882 983.16

(1) Commitment appropriations = payment appropriations

Execution of Temporary restructuring amounts - Revenue section. For details, please see point 6.2.

Execution of Sugar Restructuring Fund - Expenditure section. For details, please see point 6.3.

2.1.7. *Execution of Transitional Instrument for the financing of Rural Development for the new Member States (TRDI EU 10)*

In EUR

TRDI EU 10	Commitment appropriations	Execution of commitment appropriations	Payment appropriations	Execution of payment appropriations	Remaining
2011	0.00	0.00	0	0	0

There were no commitment and payment appropriations for TRDI EU10.

Execution of outstanding commitment appropriations from previous years:

TRDI EU 10	Outstanding commitments (RAL)	Execution of payment appropriations	Outstanding commitments (1)
2006	18 883 583.40	0	0

(1) The amount of EUR 18 883 583.4 was decommitted during the 2011 financial year.

Budget execution of voted appropriations - Expenditure under centralised direct management made by the Commission

In EUR

Expenditure under centralised direct management	Commitment appropriations	De-commitments	Payment appropriations	Carry over to 2012 (2)
Appropriations (C1) (1)	402 661 900.00	-	325 709 841.00	-
Execution (C1)	385 156 336.70	-	304 613 983.52	15 480 489.32
Appropriations cancelled	17 505 563.30	-	5 615 368.16	-

(1) C1 denotes the budget's voted appropriations. This amount includes transfers to / out EAGF: EUR 500 000 for commitment appropriations and EUR 3 110 000 for payment appropriations
(2) Carry over to 2012 only for non-differentiated appropriations

Commitment appropriations of EUR 402.7 million were foreseen for expenditure under centralised direct management in the 2011 budget. An amount of EUR 385.2 million was committed in 2011. The balance of these appropriations, EUR 17.5 million, was cancelled. 81.9% of commitment appropriations concern Policy area 17-Veterinary and phyto-sanitary measures expenditure. The rest concern Policy area 05-Agriculture and Rural Development (10.5%) and Policy area 11-Fisheries (7.6%).

Since 2007, and in accordance with article 149 of the Financial Regulation, the majority of EAGF appropriations for expenditure under direct management made by the Commission are differentiated appropriations. The automatic carry over to 2012, which relates only to non-differentiated appropriations, amounts to EUR 15.5 million.

For details, please see annex 5 and 6.

2.1.8. *Budget execution - Expenditure under centralised direct management made by the Commission - Automatic carryover from 2010*

In EUR

Carry over from 2010 to 2011	Commitments	De-commitments	Payments	Cancelled appropriations
Carried over appropriations	31 740 465.18	1 712 891.49	28 337 196.24	1 690 377.45

The automatic carry over from 2010 to 2011 only concerned expenditure under centralised direct management for non-differentiated appropriations. As indicated in the table above, an amount of EUR 31.7 million was carried over from 2010 to 2011. In 2011 an amount of EUR 1.7 million from this carry over was de-committed. The payments made amounted to EUR 28.4 million and the appropriations cancelled totalled EUR 1.7 million.

For details, please see annex 6.

2.2. Monthly payments

2.2.1. Monthly payments to Member States

2.2.1.1. Monthly payments on the provision for expenditure

Council Regulation (EC) No 1290/2005 of 21 June 2005 on the financing of the Common Agricultural Policy[5] states in Article 15 that "*monthly payments shall be made by the Commission … for expenditure performed by Member States' accredited paying agencies during the reference month*". Monthly payments shall be made to each Member State at the latest on the third working day of the second month following that in which the expenditure is incurred.

The monthly payments are a reimbursement of net expenditure (after deduction of revenue) which has been already carried out and are made available on the basis of the monthly declarations forwarded by the Member States[6]. The monthly booking of expenditure and revenue is subject to checks and corrections on the basis of the detailed declaration[7]. Moreover, these payments will become final following the Commission's verifications under the accounting clearance of accounts procedure.

Payments made by the Member States from 16.10.2010 to 15.10.2011 are covered by the system for monthly payments. The remaining payments are made directly by the Commission for a limited number of measures.

For financial year 2011, the total net amount of monthly payments made was EUR 43 105 570 603.39

2.2.1.2. Decisions on monthly payments for 2011

For the financial year 2011, the Commission adopted twelve decisions on monthly payments. Furthermore, an additional monthly payment decision, adjusting those already granted for the total expenditure chargeable to the year, was adopted in December 2011. For details, please see Annex 4 of the present working document.

2.2.1.3. Reductions and suspensions of monthly payments

In 2011, a correction of – EUR 13.6 million was made to the monthly payments effected to the Member States. The most important categories of corrections are detailed in the following points.

a. Reductions of the monthly payments as a result of the non-compliance with the payment deadlines

Pursuant to Article 16 of Council Regulation (EC) No 1290/2005 concerning the budgetary discipline, certain Member States did not always respect the payment deadlines fixed by the Community legislations for the payment of aids to beneficiaries.

5 OJ L 209 of 11.8.2005, p. 1.

6 These monthly declarations of expenditure are transmitted by the Member States by the declaration of the 10th of the month N+1.

7 The detailed declarations are transmitted monthly by the Member States (by table 104) on the 20th of the month N+1.

The payment deadlines were introduced, on the one hand, to ensure an equal treatment between the beneficiaries in all the Member States and, on the other hand, to avoid the situation in which delays of payments resulted in aids no longer having the expected economic effect. Moreover, any scope for payments in accordance with the administrative practices of the different paying services would not allow the correct application of the budget discipline.

As a result of non-respecting the set payment deadlines, the Commission decided on two occasions, jointly with the monthly payments, reductions for a total amount of – EUR 10.9 million.

b. Reductions of the monthly payments as a result of overspending the financial ceilings

For some aid measures financed by EAGF, financial ceilings are determined in the sectoral regulations, which have to be adhered to. Expenditure exceeding these ceilings is considered as "non eligible expenditure" and has to be corrected.

These corrections lead to reductions of the monthly payments. As a result of overspending these financial ceilings, the Commission made financial corrections for a total amount of – EUR 3.1 million.

c. Reductions of the monthly payments as a result of the non-payment by Member States of the additional milk levy

No reduction of the monthly payments as a result of the non-payment of the additional milk levy was carried out by the Commission as all Member States declared the amounts due. On the other hand, an amount of EUR 0.3 million concerning this levy declared in previous years by the Member States was refused, as corrections had already been made in previous financial years.

2.2.2. Centralised direct expenditure by the Commission

In certain cases, the Commission makes payments directly for certain measures. These concern payments for veterinary and plant-health measures (policy area 17), payments for certain fisheries market measures (policy area 11) and payments for certain measures which do not have the character of traditional market measures, in particular certain actions related to controls, to promotion actions and to information actions on the agricultural policy.

For details, please see annex 5 and 6.

3. THE IMPLEMENTATION OF THE 2011 EAGF BUDGET

3.1. The uptake of the EAGF budget appropriations

The implementation of the budget amounted to EUR 43 970.1 million. This expenditure was funded by the budget's initial appropriations, by using the entire amount of assigned revenue of EUR 905.1 million carried over from 2010 and a part of the assigned revenue collected in 2011 amounting to EUR 225.3 million out of a total EUR 666.8 million.

Within Policy area 05-Agriculture and Rural Development, the expenditure for market measures amounted to EUR 3 334.1 million and for direct aids to EUR 40 178 million. The expenditure incurred for market measures and direct aids exceeded the budget's voted appropriations and it was partly covered by transfers of appropriations from other items of the budget and partly by the revenue which was assigned to the EAGF budget.

Furthermore, the aforementioned total implementation amount includes expenditure for Policy area 11-Fisheries market measures of EUR 30 million as well as expenditure amounting to EUR 314.6 million for Policy area 17-veterinary and phyto-sanitary measures.

For details of the budget's implementation by Policy area, please see annexes 7 and 8.

Annex 16 presents a breakdown of the expenditure on market measures, direct payments and audit of agricultural expenditure by item and by Member State.

4. COMMENTS ON IMPLEMENTATION OF 2011 EAGF BUDGET

A brief commentary on the implementation of the agricultural budget's appropriations is presented hereafter based on details appearing in the annexed tables:

– Annexes 7 and 8: Analysis of execution of the 2011 EAGF budget. The expenditure incurred for each item of the budget appears in column 6. Columns 2, 3 and 4 indicate, respectively, the source and amount of funding which originates either from voted appropriations or from transfers of assigned revenue and of voted appropriations from other items of the budget.

– Annex 9: Assigned revenue (C4) collected and used in 2011

– Annex 10: Assigned revenue (C5) carried over from 2010 and used in 2011.

This presentation is made at the level of each chapter, article and item of the agricultural budget.

4.1. Chapter 05 02: Interventions in agricultural markets

4.1.1. Introduction

Total payments for this area of the budget amounted to EUR 3 344.1 million and they were funded by the budget's voted appropriations amounting to EUR 2 964.9 million and by assigned revenue amounting to EUR 639.7 million. It should be noted that C1 appropriations amounting to EUR 247.5 million were transferred to item 05 07 01 06 to cover the negative expenditure of – EUR 272 million which was finally included in the 2011 budget for the accounting clearance of EAGF accounts. As regards assigned revenue, EUR 628.9 million was used to cover the expenditure incurred in the fruits and vegetables sector and the available balance was carried forward to 2012. (NB: Details for this sector appear in point 4.1.8 here below). In items where the budget's appropriations were under-spent, the available appropriations were transferred to other items of the budget in order to cover additional expenditure as needed.

Annex 8 presents these details at the level of each budget item.

4.1.2. Article 05 02 01: Cereals

In the course of the budget year, no cereals were bought into intervention. On the contrary, intervention stocks of wheat and barley decreased from around 5.56 million tonnes at the start of the year to around 0.17 million tonnes at the end of the year. It should be noted that, in the course of 2010, the store value of all these quantities was depreciated to the level of their expected selling price at that time. Specifically, for bread-making wheat, all the stock of 0.23 million tonnes at the start of the year was removed by the end of the year. For barley, most of the stocks of 5.33 million tonnes at the start of the year were removed leaving only a quantity of 0.17 million tonnes at the end of the budget year. Out of total removals of 5.4 million tonnes, a quantity of 2.76 million tonnes was destined for the food programmes for the most deprived persons in the EU. These removals were valued at the product's intervention price while the rest of these removals involved sales which were made at prices significantly higher than those forecasted in the budget. These values resulted in realizing considerable gains for the 2011 budget which, however, are shown in the budget's execution as negative amounts. Therefore, this item's execution amounted to gains of – EUR 189.5 million compared to the budget's appropriations amounting to - EUR 23 million.

With regard to intervention for starch, the 2011 budget forecasted payments for the potato starch premium amounting to EUR 41 million while Member States incurred payments amounting to EUR 33.2 million because the quantities aided for the marketing year 2010/11 were 22% lower due to lower production than the corresponding quantity included in the budget.

4.1.3. Article 05 02 03: Refunds on Non-Annex I products

The expenditure incurred for export refunds for processed agricultural products amounted to EUR 12.7 million thus, under-spending the budget's voted appropriations by –EUR 18.3 million. Member States incurred lower expenditure than foreseen in the budget mainly for the payment of refunds for both sugar and dairy products incorporated in the exported processed agricultural products.

4.1.4. Article 05 02 04: Food programmes

Member States implemented almost fully the 2011 plan for food distribution to the most deprived persons. In addition, Member States paid administrative and transport costs for the previous years' plans. This resulted in an over-execution of the 2011 budget's appropriations by EUR 15 million.

4.1.5. Article 05 02 05: Sugar

Export refunds for sugar had been set at zero since the end of September 2008. Therefore, the 2011 budget foresaw only the payments for outstanding export refund balances which were estimated at EUR 1 million while Member States actually paid out a higher amount of EUR 1.5 million, thus, over-spending the 2011 budget's voted appropriations by approximately EUR 0.5 million. Furthermore, EUR 0.8 million were spent on for outstanding balances for production refunds for sugar used in the chemical industry for which the budget foresaw no appropriations in 2011.

4.1.6. *Article 05 02 06: Olive oil*

With regard to the aid for the financing of quality improvement work programmes for approved operators' organisations, lower payments were incurred because one Member State did not fully execute the 2010/2011 work programme for these organisations, thus, under-spending the appropriations retained in the 2011 budget by –EUR 3.9 million.

4.1.7. *Article 05 02 07: Textile plants*

With regard to the processing aids for long flax fibre and for short flax and hemp fibre, the overall expenditure incurred amounted to EUR 20.3 million, thus, over-spending the appropriations foreseen in the 2011 budget by EUR 0.3 million.

The expenditure incurred by Member States for the national restructuring programmes for cotton was as foreseen in the 2011 budget.

4.1.8. *Article 05 02 08: Fruits and vegetables*

For operational funds for producer organisations, which aim at financing their production quality improvement, promotion and commercialisation programmes, the total needs estimated to cover the expenditure forecasted to be incurred by the Member States concerned amounted to EUR 792 million. Out of this total amount, the Budgetary Authority granted appropriations amounting to EUR 292 million because it took account of estimated revenue amounting to EUR 500 million which had been assigned to the funding of this scheme in the 2011 budget. Member States eventually incurred payments amounting to EUR 785.6 million which were lower compared to the budget's available appropriations. This under-execution, mainly for advanced payments for plans approved in 2011, was due to the fact that some Member States had overestimated their implementation forecast.

The payments incurred by Member States for aid to producer groups for preliminary recognition were higher compared to the appropriations retained in the 2011 budget, thus, leading to an over-execution of these appropriations by EUR 87.8 million as a larger number of producer groups entered into this scheme. This over-execution was covered partly by assigned revenue as well as by a transfer of voted appropriations from other items of the budget.

For the School Fruit Scheme, several Member States had an execution which remained below their budgetary allocation, thus, leading to an under-execution of the budget's appropriations by – EUR 32.7 million.

The exceptional support measures for the fruit and vegetables sector, adopted by the Commission following the E.coli crisis (Regulation (EU) No 585/2011), were partly funded through the operational funds for producers' organisations while the rest was funded through budget item 05 02 08 99 – Other measures within this budget article to the tune of EUR 90 million. As no appropriations were foreseen in the 2011 budget for these measures, this expenditure was covered by assigned revenue.

It should be noted that these measures were expected to cost approximately EUR 227 million out of which EUR 215 million were expected to be paid and declared in 2011. Member States incurred expenditure amounting to approximately EUR 178.3 million in 2011. Member States can still make further payments in the course of the 2012 budget year.

4.1.9. *Article 05 02 09: Products of the wine-growing sector*

The wine sector was reformed as of budget year 2009. Currently, the principal measures left in this sector are the national support programmes and the grubbing up scheme. For the rest of the measures, the 2011 budget included appropriations destined to cover the estimated still outstanding balances of payments concerning these measures and some quantities left in store.

No expenditure was incurred for the private storage of alcohol. With regard to the public storage of alcohol, following the reform of the wine sector no intervention purchases of alcohol are possible. All wine alcohol intervention stocks were sold and removed in the course of the 2011 budget year. However, a minor quantity of 0.06 million hl is still in store but its cost is covered by the buyer of this stock. The final overall expenditure for the storage of alcohol amounted to EUR 1.6 million, including end-of-year depreciation amounting to EUR 0.3 million. This expenditure led to over-spending the 2011 budget’s voted appropriations by EUR 0.6 million and it was covered by transfer of voted appropriations from other items of the budget.

Aids paid for the use of concentrated and rectified must were higher than the estimated still outstanding balances for which appropriations were retained in the 2011 budget, thus, resulting in an over-spending of the budget's appropriations by EUR 0.5 million which was covered by transfer of voted appropriations from other items of the budget.

With regard to the national support programmes, Member States incurred slightly lower expenditure of – EUR 20.2 million, compared to the amounts foreseen in these programmes, which were nevertheless satisfactorily implemented at 97.7% of foreseen appropriations.

With regard to the grubbing up scheme, Member States incurred lower expenditure, mainly, because the area for which the aid was paid for the marketing year 2010/2011 was 7% smaller compared to the area forecasted to be paid in the 2011 budget, thus, leading to under-spending the budget’s appropriations by – EUR 9.8 million.

4.1.10. *Article 05 02 10: Promotion*

With regard to promotion measures, Member States did not pay all the amounts foreseen in the budget for promotion activities based on the promotion decisions taken by the Commission. Total payments amounted to EUR 46.3 million, thus, under-executing the 2011 budget's appropriations by –EUR 11.7 million.

With regard to direct payments by the European Community, the Commission committed almost all the amount of EUR 1.1 million foreseen in the 2011 budget. for promotion measures.

4.1.11. Article 05 02 11: Other plant products/measures

Aids for a quantity of dried fodder of 3.9 million tonnes were retained in the 2011 budget for the marketing year 2010/11. Member States incurred expenditure for these aids for quantities which were 4% higher than the ones foreseen in the 2011 budget, thus, over-spending the corresponding appropriations by EUR 12.1 million which was covered by transfer of voted appropriations from other items of the budget.

The expenditure incurred by Member States for the aid for producer organisations for hops was as foreseen in the 2011 budget.

The expenditure incurred by Member States for the POSEI programmes' market measures amounted to EUR 223.7 million, thus, under-spending the 2011 budget's appropriations by - EUR 33.3 million This under-spending concerned both the supply arrangements and the support programmes for local production under these programmes (see also point 4.2.2 below).

With regard to the Community fund for tobacco, the EU's contribution towards still outstanding balances for the Member States' tobacco reconversion plans amounted to EUR 0.38 million. As no appropriations were foreseen in the 2011 budget for these plans, this expenditure was covered by transfer of voted appropriations from other items of the budget.

4.1.12. Article 05 02 12: Milk and milk products

The Commission maintained the export refund rate for dairy products at zero in 2011. Member States incurred payments for export certificates still outstanding amounting to EUR 5.4 million, thus, under-spending the 2011 budget’s appropriations by -EUR 4.6 million.

As regards public storage of skimmed milk powder, no purchases were made in 2011. On the contrary, intervention stocks decreased from around 0.2 million tonnes at the start of the year to around 0.06 million tonnes at the end of the year. It should be noted that, in the course of 2010, the store value of these quantities was depreciated to the level of their expected selling price at that time. Out of total removals of 0.14 million tonnes, a quantity of 0.094 million tonnes was destined for the food programmes for the most deprived persons in the EU. These removals were valued at the product's intervention price while the rest of these removals involved sales which were made at prices significantly higher than those forecasted in the budget. These values resulted in realizing considerable gains for the 2011 budget which, however, are shown in the budget's execution as negative amounts. Therefore, this item's execution amounted to gains of – EUR 73 million compared to the budget's appropriations amounting to - EUR 12 million.

As regards the private storage aid for butter, the appropriations foreseen in the 2011 budget amounted to EUR 10 million while the expenditure incurred amounted to EUR 8.3 million because of the lower volume of butter for which this aid was paid for 2011. Furthermore as regards public storage of butter, no purchases were made while the stock on hand of 1 544 tonnes was destined for free distribution to the most deprived persons in the EU. Eventually, only 748 tonnes were distributed, leaving, at the end of 2011, 796 tonnes of butter still in store. This item's execution amounted to under-spending the 2012 budget's appropriations by approximately - EUR 1.7 million.

With regard to private storage for cheese, the 2011 budget foresaw appropriations of EUR 1 million for outstanding balances still due for this measure for which Member States payments were minimal at EUR 5 323.

With regard to school milk, the quantities distributed were lower than the quantities retained in the 2011 budget, thus, leading to an under-execution of the corresponding appropriations by –EUR 25.8 million. However, it should be recalled that the 2011 budget for this item was increased by EUR 10 million compared to the initial needs of EUR 80 million requested by the Commission.

4.1.13. Article 05 02 13: Beef and veal

The quantity of fresh and frozen meat exported with refunds was higher than the one foreseen in the budget. As a consequence, the corresponding 2011 budget appropriations were over-spent by approximately EUR 21.1 million which was funded by transfer of voted appropriations from other items of the budget.

As regards exports of live animals, the estimated quantities exported were higher than the ones foreseen in the budget, thus, also over-spending the 2011 budget’s appropriations by approximately EUR 0.6 million. which was funded by transfer of voted appropriations from other items of the budget.

4.1.14. Article 05 02 15: Pig meat, eggs and poultry, bee-keeping and other animal products

The expenditure incurred by Member States for export refunds for processed pig-meat products amounted to EUR 19.1 million, thus, under-spending the 2011 budget’s appropriations by -EUR 1.9 million because of the smaller quantity of exported products.

Following the difficult market situation in the pig-meat sector, the Commission adopted a private storage aid scheme in January 2011 (Regulation (EU) No 68/2011). The expenditure incurred amounted to EUR 56.3 million. As no appropriations were foreseen in the 2011 budget for this scheme, this expenditure was covered by transfer of voted appropriations from other items of the budget.

With regard to export refunds for eggs, the exported quantities for all types of eggs was 3% smaller compared to the quantities foreseen in the budget, thus, under-spending the 2011 budget’s appropriations by –EUR 0.2 million.

For export refunds for poultry, the exported quantities for all types of poultry increased by approximately 34% compared to the quantities foreseen in the budget, thus, over-spending the 2011 budget’s appropriations by EUR 20.7 million which was funded by transfer of voted appropriations from other items of the budget.

The payments incurred by Member States for specific aid for bee-keeping were smaller compared to the appropriations retained in the budget, thus, leading to an under-execution of these appropriations by - EUR 3.6 million.

4.2. Chapter 05 03: Direct Aids

The voted appropriations for this chapter of the 2011 budget amounted to EUR 39 771.1 million while payments amounted to approximately EUR 40 178 million. This level of 2011 EAGF expenditure was higher compared to the level of 2010 mainly because of the continuing phasing-in of these aids to the EU-12 in that year. A part of the single payment scheme was foreseen to be funded by assigned revenue, thus, leading to this apparent over-implementation which was covered partly by this revenue and partly by transfers of voted appropriations from other items of the budget.

Annex 8 presents these details at the level of each budget item.

4.2.1. Article 05 03 01: Decoupled direct aids

The main schemes covered by this article's apprporiations are the expenditure for the single payment scheme (SPS), for the single area payment scheme (SAPS) which is applied by 10 out of the EU-12 Member States and for the specific support measures under article 68 of Council Regulation (EC) No 73/2009. All aid schemes in this article are paid independently of production but on certain conditions e.g. respect of cross-compliance. The expenditure incurred for all schemes in this article amounted to EUR 36 830.4 million, thus, over-spending the 2011 budget's voted appropriations of EUR 36 324 million by EUR 506.4 million.

With regard to the single payment scheme, the Budgetary Authority granted appropriations amounting to EUR 30 389 million because it took account of the revenue assigned to this budget item amounting to EUR 747 million. Hence, the total available appropriations for the funding of this scheme's needs amounted to EUR 31 136 million. However, the Member States concerned incurred expenditure amounting to EUR 31 081.8 million, i.e. an under-execution of - EUR 54 million, or less than 0.2%, compared to the scheme's needs. Despite the fact that a number of Member States did not make full use of their single payment scheme financial envelope, this implementation level points to an improvement of the overall management of the SPS financial envelope compared to the implementation level of last year. This expenditure was funded by the budget's voted appropriations of EUR 30 389 million as well as by part of the revenue assigned to this scheme amounting to EUR 501.5 million and by transfers of appropriations from other items of the budget amounting to EUR 191.4 million.

With regard to the single area payment scheme, the Member States concerned incurred payments amounting to EUR 5 084.3 million, thus, resulting in an under-execution of the 2011 budget's appropriations by –EUR 51.7 million. This under-execution is due to the fact that, in some Member States, the total eligible area declared by farmers is smaller than the area fixed in the legislation and which is used for the purpose of calculating the maximum rate of aid per hectare.

With regard to the separate sugar payment scheme, the Member States concerned did not pay the totality of their corresponding budgetary ceilings, thus, resulting in an under-execution of the 2011 budget's appropriations by –EUR 2.8 million.

With regard to the separate fruit and vegetables payment scheme, the Member States concerned made payments amounting to EUR 12.2 million, thus, resulting in an under-execution of the 2011 budget's appropriations by –EUR 0.8 million.

Finally with regard to the specific support under article 68 of Council Regulation (EC) No 73/2009 scheme, the Member States concerned made payments amounting to EUR 381.9 million, thus, resulting in an under-execution of the 2011 budget's appropriations by –EUR 131.1 million. This is the first year of implementation of this scheme and various Member States experienced difficulties due to the novelty of the scheme.

4.2.2. *Article 05 03 02: Other direct aids*

The appropriations of this article cover expenditure for other direct aids for which Member States have chosen to maintain a limited link between the payment of these aids and production for a number of sectors, under well defined conditions and within clear limits, in order to avoid the abandonment of this production.

With regard to these schemes, the Commission had estimated that appropriations amounting to EUR 3 447 million (after modulation) were required in 2011. However, Member States incurred expenditure amounting to EUR 3 347 million, thus, under-spending the budget’s appropriations by –EUR 100 million.

Thirty one schemes are funded under this article. For most of these schemes, the Member States concerned incurred expenditure which was lower than the budget's retained appropriations such as:

– Crops area payments: -EUR 6.2 million mainly most probably due to the eligible area claimed by farmers in 2010 being slightly less than the base area;

– Suckler cow premium: -EUR 20.2 million probably due to a small decrease in the herd as well as to the application of sanctions for not complying with the scheme's eligibility conditions;

– Payments to starch potato producers: - EUR 20.8 million because the bad climatic conditions had a negative impact to the level of production;

– Area aid for cotton: -EUR 8.7 million because in one of the Member States concerned, eligible areas were lower than the base area;

– Specific support under article 68 of Council Regulation (EC) No 73/2009: –EUR 57 million because various Member States experienced difficulties due to the novelty of the scheme and to insufficient communication to the farmers.

On the other hand, Member States concerned incurred expenditure for POSEI-Community support programmes direct payments which was EUR 27 million higher than the 2011 budget's retained appropriations, thus, partly compensating the under-execution observed for market measures (see point 4.1.11 above). Thus, the global execution for the POSEI programmes in 2011 over this scheme and the market measures scheme was around 99%. This over-execution was funded by transfer of voted appropriations from other items of the budget.

4.2.3. *Article 05 03 03: Additional amounts of aid*

The appropriations of this article intended to cover still outstanding balances for the additional amount of aid paid to farmers in the EU-15 Member States in order to compensate for the modulation applicable to their first EUR 5 000 or less of direct payments. While the appropriations in the 2011 budget amounted to EUR 0.1 million, Member States incurred payments amounting to EUR 0.6 million, thus, over-implementing the budget's appropriations by EUR 0.5 million. This over-execution was funded by transfer of voted appropriations from other items of the budget.

4.3. Chapter 05 04: Rural Development

4.3.1. *Article 05 04 01: Rural Development financed by the ex-EAGGF-Guarantee. Completion of earlier programmes (2000 to 2006)*

No commitment appropriations can be made anymore for these programmes. Member States are now closing these programmes and they recover unduly paid amounts. The final net amount recovered under this article was equal to – EUR 6.6 million.

4.4. Chapter 05 07: Audit of agricultural expenditure

4.4.1. *Article 05 07 01: Control of agricultural expenditure*

This article involves the measures taken in order to reinforce the means of on-the-spot controls and to improve the systems of verification so as to limit the risk of frauds and irregularities in detriment of the Community budget. It also includes the amounts credited into the EAGF budget through the corrections based on the accounting clearance procedure and on the procedure relating to the reduction/suspension of advances.

The European Community directly financed measures mostly for the purchase of satellite images within the framework of the Integrated Administrative and Control System (IACS) by committing the amount of EUR 6.5 million foreseen in the 2011 budget for Monitoring and preventive measures-Direct payments by the European Union.

With regard to the accounting clearance of previous years' accounts, and contrary to expected negative corrections, the Commission made overall positive corrections to Member States' accounts amounting to approximately EUR 66.6 million including the negative corrections imposed to Member States from the penalties for non-respecting payment deadlines. The 2011 budget included appropriations amounting to –EUR 272 million for the negative clearance of accounts corrections. The Commission closed this account by transferring voted appropriations amounting to EUR 338.6 million from other items of the budget.

With regard to the conformity clearance of previous years' accounts, positive corrections amounting to EUR 3.5 million were made by the Commission within the year. The 2011 budget did not retain any appropriations for such positive corrections which were eventually funded by transferring voted appropriations of the same amount from other items of the budget.

4.4.2. Article 05 07 02: Settlement of disputes

In this article of the 2011 budget appropriations amounting to EUR 3 million were foreseen. These appropriations were intended to cover expenditure for which the Commission could be held liable by decision of a court of justice, including the cost of settling claims for damages and interest. No such expenditure was incurred in 2011.

4.5. Chapter 05 08: Policy strategy and coordination

4.5.1. Article 05 08 01: Farm accountancy data network (FADN)

Appropriations committed with regard to the cost of data collection on farm holdings under this network amounted to EUR 14.2 million which was foreseen in the 2011 budget.

4.5.2. Article 05 08 02: Surveys on the structure of agricultural holdings

Appropriations committed with regard to the maintenace cost of IT infrastructure needed for the processing of the surveys carried out on the structure of agricultural holdings amounted to approximately EUR 0.2 million, thus, under-executing the 2011 budget’s commitment appropriations by -EUR 0.3 million.

4.5.3. Article 05 08 03: Restructuring of systems for agricultural surveys

Appropriations committed with regard to the cost of operating the MARS meteorological system amounted to approximately EUR 1.44 million compared to the appropriations of EUR 1.46 million foreseen in the 2011 budget.

4.5.4. Article 05 08 06: Enhancing public awareness of the common agricultural policy

Appropriations committed with regard to the cost of actions, fairs and publications aimed at improving the level of understanding of the CAP amounted to EUR 8 million which was foreseen in the 2011 budget.

4.5.5. Article 05 08 09: EAGF – Operational technical assistance

Appropriations committed with regard to operational technical assistance for the EAGF amounted to approximately EUR 1.27 million versus the amount of EUR 1.49 million retained in the 2011 budget.

5. COMMENTS ON THE IMPLEMENTATION OF THE EAGF BUDGET FOR POLICY AREAS 11 AND 17

5.1. Fisheries markets (Chapter 11 02)

5.1.1. Article 11 02 01: Intervention in fishery products

97% of the commitment appropriations and 98% of payment appropriations were committed (compared to 67% in 2010, 74% in 2009 and 82% in 2008 for payment appropriations).

87% of the intervention requests submitted by Member States in 2011 were paid. The balance was suspended due to inadequate documentation. This situation can be considered as normal and under control (the experience shows that eventually most of the declarations are fully paid). A particular effort was made to clear the backlog of old declarations (i.e. open before 31/12/2010): 85% of these declarations could be paid, 10% had to be rejected and the corresponding amounts decommitted and 5% concern only one Member State and it will require further analysis in 2012.

BUDGET 2011 – Commitments

ITEM	BUDGET 2011	Initial credits	Final credits after transfer	Committed in 2011 financial year	Balance Commitments – final credits
11 02 01 01	Intervention in fishery products	15 000 000	15 500 000	14 961 005	538 995
Total		**15 000 000**	**15 500 000**	**14 961 005**	**538 995**

BUDGET 2011 – Payments

ITEM	BUDGET 2011	Initial credits	Final credits after transfer	Committed in 2011 financial year	Balance Commitments – final credits
11 02 01 01	Intervention in fishery products	11 244 624	17 501 016	17 160 348	340 668
Total		**11 244 624**	**17 501 016**	**17 160 348**	**340 668**

5.1.2. *Article 11 02 03: Fisheries programme for the outermost regions*

Commitment appropriations for the five outermost regions, i.e. the Azores, Madeira, the Canary Islands, French Guiana and Reunion, totalled EUR 14 996 768, which corresponds to the maximum amount provided by the compensation scheme. 100% of the commitment appropriations were committed.

As a consequence of the Director's General reservation in his declaration of assurance on 2009, 12 compensation requests from 2008 to 2010 for the 3 Member States concerned were still suspended during the first months of 2011. The opinion of the Legal Service on the appropriate interpretation of the underlying Council Regulation (EC) No 791/2007 was communicated to DG MARE in March 2011. As a consequence, it was possible to lift the reservation in the AAR 2010 and, accordingly, to lift all suspensions of payment requests. From these payment requests, 68% (in value) could be paid in 2011 (corresponding to all old payment requests from France and Spain).

However the payment requests from Portugal – including declarations made in 2011 – remained suspended due to difficulties in obtaining the necessary probing documentation, and Spain was not able to submit its declaration for 2011 on time. As a consequence, the execution rate of the payment appropriations reached only 57%.

BUDGET 2011 – Commitments

ITEM	BUDGET 2011	Initial credits	Final credits after transfer	Committed in 2011 financial year	Balance Commitments – final credits
11 02 03 01	Fisheries programme for the outermost regions	14 996 768	14 996 768	14 996 768	0
Total		**14 996 768**	**14 996 768**	**14 996 768**	**0**

BUDGET 2011 – Payments

ITEM	BUDGET 2011	Initial credits	Final credits after transfer	Committed in 2011 financial year	Balance Commitments – final credits
11 02 03 01	Fisheries programme for the outermost regions	14 524 306	29 521 074	16 875 304	12 645 770
Total		**14 524 306**	**29 521 074**	**16 875 304**	**12 645 770**

5.2. Veterinary and phyto-sanitary measures expenditure (Chapters 17 01 and 17 04)

5.2.1. Generalities

More than 95 % of the C1 commitment appropriations available from the 2011 budget have been used. Specifically, an amount of EUR 314.1 million out of EUR 329.8 million available for the operational and administrative credits for veterinary and plant health measures has been committed. More than 98% of the C1 payment appropriations have been used for these measures. Specifically, an amount of EUR 250.2 million out of EUR 253.7 million available was paid.

Via amending budget No 6/2011, the commitment appropriations for the eradication/surveillance programmes (item 17.040101) and the other veterinary measures (item 17.040201) have been decreased by respectively EUR 19.8 million and EUR 3.3 million. This decrease was possible thanks to the favourable animal health situation as a result of the policy conducted under the motto "prevention is better than cure". As in previous years, there have been some internal transfers of commitment and payment appropriations.

5.2.2. Details

5.2.2.1. Item 17.040101 Animal disease eradication and monitoring programmes

The amount of available credits (all sources) was EUR 251.5 million. After a reallocation of credits, executed in the autumn of 2011, an amount of a bit more than EUR 238 million was committed (139 commitments) according to the details mentioned below. The number of commitments is reduced vis-à-vis previous years (+/- 150) because 2010 was the last year of the co-financing of programmes for the eradication of enzootic bovine leucosis and Aujeszky's disease.

– EUR 13.4 million for the bluetongue programmes,

– EUR 74.6 million for the TSE, BSE and scrapie programmes,

– EUR 121.4 million for the traditional eradication programmes,

– EUR 3.5 million for avian influenza survey programmes and,

– EUR 25.1 million for the salmonella control programmes.

Compared to previous years, there is a considerable increase of the EU contribution towards tuberculosis programmes and a significant reduction of this contribution towards bluetongue programmes. Furthermore, it has to be signalled that the EU contribution has been increased from 50% to 60% for programmes other than rabies and TSE.

Payment appropriations were increased via an internal transfer of EUR 14.9 million. Payment credits were executed for 100% via 163 C1 payments for an amount of EUR 185.8 million. Three payments were made on C5 appropriations for an amount of almost EUR 0.5 million. The available envelope of payment appropriations didn't cover total needs. The balance will be paid from the 2012 budget payment appropriations. It is not possible at this stage to quantify exactly this balance because the final result of the ex ante audits is not known yet.

5.2.2.2. Item 17.040201 – Other measures in the veterinary, animal welfare and public health field

After an amendment to the budget (- EUR 3.3 million) and an internal transfer of EUR 0.2 million an envelope of EUR 14.5 million remained available. Almost 93% thereof was implemented.

The payment credits were executed up to a total sum of EUR 12.95 million or 99.6 % of the available envelope. Payment appropriations of EUR 6 million were carried over from 2010 budget of which almost 80% was used, in particular, for the purchase of foot-and-mouth antigens.

5.2.2.3. Item 17.040301 – Emergency fund for veterinary complaints and other diseases of animal contaminations which are a risk to public health

The initial envelope of EUR 20 million was via an internal transfer to the plant health line (17.040401) of almost EUR 10 million, reduced to EUR 10.1 million. This amount was entirely used via 11 rather small commitments.

The envelope of payment appropriations was decreased via an internal transfer to the eradication programmes line (17.040101) from EUR 30 million to an envelope of a bit more than EUR 15 million. 19 payments were made, thus, executing 95.4% of the available envelope.

5.2.2.4. Item 17.040401 Plant-health measures – Expenditure on operational management

The commitment appropriations have been increased via an internal transfer from EUR 12 million to a bit more than EUR 22 million (coming from the emergency fund). This increase was needed to cover the financing of the EU contribution towards the eradication of harmful organisms in different Member States (solidarity action). Almost 96% of this amount was committed.

In 2011, almost 91% of available appropriations amounting to EUR 12 million were paid out.

5.2.2.5. Item 17.040701 Food and feed control – Expenditure on operational management

Out of the EUR 30 million commitment appropriations 98.5% was committed, EUR 14.3 million for the EU reference laboratories and EUR 13.4 million for the action better training for safer food, the balance was for other actions and IT.

All payment appropriations of the envelope of EUR 25 million, apart from EUR 0.95 million, were paid out.

5.2.2.6. Item 17.010401– Plant-health measures – expenditure on administrative measures

The allocated commitment appropriations amounted to EUR 0.7 million. Almost EUR 0.3 million was not committed because the envisaged actions couldn't be launched in time. Payments of a bit more than EUR 0.15 million were made in 2011.

5.2.2.7. Item 17.010405 – Food and feed control - expenditure on administrative measures

60% of EUR 0.7 million available was committed. Only a bit more than 30 % was paid.

5.2.2.8. Item 17.010407 – Animal disease eradication and emergency fund - expenditure on administrative management.

Almost 82% of EUR 0.3 million was committed. A bit more than EUR 0.2 million was paid in 2011.

5.2.2.9. Item 17.010431 Executive agency for health and consumers – Contribution from programmes under Heading 2

100% of the available envelope was committed and paid in 2011 (EUR 1.1 million).

Overview of the commitments made in 2011 (C1)

Item	BUDGET 2011	Initial Credits	Final credits after amend. Budget/transfer	Committed	Balance commitments-final credits
17.040101	Animal disease eradication and monitoring programmes and monitoring of the physical conditions of animals that could pose a public-health risk linked to an external factor	270 000 000	250 190 000	237 564 627	-12 625 373
17.040201	Other measures in the veterinary, animal welfare and public-health field	18 100 000	14 528 263	13 506 115	-1 022 148
17.040301	Emergency fund for veterinary complaints and other diseases of animal contaminations which are a risk to public health	20 000 000	10 053 119	10 053 119	0
17.040401	Plant-health measures – Expenditure on operational management	12 000 000	22 188 618	21 256 677	-931 940
17.040701	Food and feed – Expenditure on operational management	30 000 000	30 000 000	29 539 222	-460 778
17.010401	Plant-health measures – Expenditure on administrative management	700 000	700 000	441 068	-258 932
17.010405	Food and feed – Expenditure on administrative management	700 000	700 000	420 149	-279 851
17.010407	Animal disease eradication and emergency fund	300 000	300 000	245 072	-54 928
17.010431	Executive Agency for Health and Consumers	1 100 000	1 100 000	1 100 000	0
Total		352 900 000	329 760 000	314 126 049	-15 633 950

Overview of the payments made in 2011 (C1)

Item	BUDGET 2011	Initial Credits	Final credits after transfer	Paid	Balance payments-final credits
17.040101	Animal disease eradication and monitoring programmes and monitoring of the physical conditions of animals that could pose a public-health risk linked to an external factor	170 885 000	185 807 907	185 807 085	-822
17.040201	Other measures in the veterinary, animal welfare and public-health field	13 000 000	13 000 000	12 949 944	-50 056
17.040301	Emergency fund for veterinary complaints and other diseases of animal contaminations which are a risk to public health	30 000 000	15 077 094	14 386 939	-690 154
17.040401	Plant-health measures – Expenditure on operational management	12 000 000	12 000 000	10 897 456	-1 102 544
17.040701	Food and feed – Expenditure on operational management	25 000 000	25 000 000	24 999 999	-1
17.010401	Plant-health measures – Expenditure on administrative management	700 000	700 000	18 255	-681 745
17.010405	Food and feed – Expenditure on administrative management	700 000	700 000	75 706	-624 294
17.010407	Animal disease eradication and emergency fund	300 000	300 000	0	-300 000
17.010431	Executive Agency for Health and Consumers	1 100 000	1 100 000	1 100 000	0
Total		253 685 000	253 685 001	250 235 384	-3 449 616

Finally, it should be recalled that no appropriations were foreseen on budget lines 17.040501 and 17.040502 relating to the Community plant variety office in Angers (France).

The details of all the commitments done in 2011 by Member State are given in annex 12.

5.2.3. *Article 17.0302 - SANCO tobacco: Community Tobacco Fund*

Following the cessation of direct payments to tobacco producers in 2009, 2010 was the last year of funding the information programmes of the anti-smoking campaign. However, it should be noted that this campaign does continue but it is now funded under the Public Health programme.

6. IMPLEMENTATION OF ASSIGNED REVENUE (POLICY AREA 05-AGRICULTURE AND RURAL DEVELOPMENT)

6.1. Revenue assigned to EAGF

The assigned revenue actually carried over from 2010 into 2011, amounted to EUR 905.1 million and has entirely been used in financing expenditure of the 2011 budget year in accordance with article 10 of the Financial Regulation. This amount covered expenditure of EUR 403.6 million for the operational funds for producer organisations and of EUR 501.5 million for the single payment scheme.

As far as the assigned revenue collected in 2011, annex 9 shows that this revenue amounted to EUR 666.8 million and it originated from:

- The corrections of the conformity clearance procedure which amounted to approximately EUR 467.3 million.
- The receipts from irregularities which amounted to approximately EUR 177.6 million.
- The milk levy collections which amounted to approximately EUR 21.9 million.

A part of the assigned revenue collected in 2011 amounting to EUR 225.3 million was used in order to cover expenditure incurred within the year in the fruits and vegetables sector.

The balance of the assigned revenue collected in 2011 amounting to EUR 441.5 million was automatically carried over into the 2012 budget in order to fund budgetary needs of that year.

For details, please see annex 9 and 10.

6.2. Assigned revenue concerning temporary restructuring amounts in sugar sector

In line with the legislation, no new temporary restructuring amounts have been collected from the Member States since November 2009. Therefore, the total assigned revenue available to the Sugar Restructuring Fund equals the amount of EUR 1 044.8 million carried over from 2010. After reimbursing Member States the amount of EUR 187.9 million incurred for Sugar Restructuring Fund aids (see point 6.3 below), the balance of approximately EUR 856.8 million will be carried over into the 2012 budget year and it is intended to finance the Sugar Restructuring Fund payments to be made in that year.

For details please see annex 9 and 10.

6.3. Sugar Restructuring Fund

The reimbursement to Member States for payments made for aids concerning restructuring measures, for diversification aids or for aids to sugar refining amounted to EUR 187.9 million These aids were reimbursed to Member States from the assigned revenue of EUR 1 044.8 million mentioned in point 6.2 above.

For details, please see annex 7 and 8.

7. BREAKDOWN BY TYPE OF EXPENDITURE

The total EAGF expenditure amounts to EUR 43 970.1 million (excluding the Sugar Restructuring Fund). Hereafter, this expenditure is presented broken down into the most significant categories along with the percentage that these represent in the total EAGF expenditure for 2011:

Storage

Expenditure for storage amounted to - EUR 194.6 million. This negative amount represents the gains realized for the 2011 budget, mainly, as a result of the removals of cereals, butter and skimmed milk powder from public storage at average prices higher than the buying in prices. (For details please see points 4.1.2 and 4.1.12 above).

Export refunds

Spending on export refunds amounted to EUR 179.4 million, i.e.: 0.4% of the total and it related mainly to beef, poultry, pig-meat, dairy and non-annex I products.

Other market measures

In addition to storage and export refunds, the expenditure for other market measures expenditure amounted to EUR 3 428.3 million, i.e.: 7.8% of the year's total. This category covers expenditure mainly relating to cereals, food programmes, fruit and vegetables, wine, milk and milk products, beef and veal and pig meat. This expenditure incorporates other minor amounts and it includes the corrections arising from the financial clearance of accounts.

Direct payments

Expenditure for direct payments amounted to EUR 40 178 million, i.e.: 91.4% of the total.

Direct expenditure under centralised management

This expenditure amounting to EUR 385.6 million, i.e.: 0.9% was paid directly by the Commission and it mostly covered the expenditure relating to veterinary and phyto-sanitary measures as well as to farm accounting and information on the CAP..

Rural development under ex-EAGGF-Guarantee

No commitment appropriations can be made anymore for these programmes. Member States are now closing these programmes and they recover unduly paid amounts. The final net amount recovered under this article was equal to – EUR 6.6 million.

The evolution of this breakdown by type of expenditure for the period 2005-2010 is presented in annex 32.

8. SPECIFIC ACTIVITIES

8.1. Supply of food from intervention stocks for benefit of needy in the Community

In the particularly harsh winter 1986/87, the Community organised an emergency programme for the supply of foodstuffs to the most deprived persons in the Community for a limited period.

When this emergency programme ended, the Community received many calls for this type of measure to be applied on a permanent basis. The Commission submitted a proposal to the Council, which adopted it as Regulation (EEC) No 3730/87 laying down general rules for the supply of food from intervention stocks to designated organisations for distribution to the most deprived persons in the Community. The Commission then adopted an implementing regulation (Commission Regulation (EEC) No 3149/92[8]). In 2007, Council Regulation (EEC) No 3730/87 was repealed and provisions for this scheme were integrated in article 27 of the "Single CMO"[9] Regulation.

In 2008, the Commission tabled a proposal[10] to adjust the legal framework of the scheme to the changed circumstances of the CAP, which have reduced the availability of intervention stocks. This proposal has been revised in 2010[11] and 2011[12]. On 15 December 2011, the Council reached a political agreement on the continuation of the scheme for the period up to 2013 with a ceiling of EUR 500 million per budget year.

Since 1987, the Commission has adopted a distribution plan each year specifying the budget resources and quantities of products allocated to the Member States involved in the scheme.

In 2011, a total of 20 Member States wished to take part in the action. The appropriations were shared among the participating Member States according to the number of persons at risk of poverty and the GNI based on the most recent Eurostat statistics, together with the needs for food aid reported by Member States authorities to the Commission. The annual plan was established after consultation of the charities. It was administered at national level by the authorities of the participating Member States. Each Member State designated the organisations that had to distribute food to the needy.

In 2011, products available in EU intervention stocks were sufficient to meet almost completely the demands of the participating Member States. In paricular, 97% of the expenditure on food procurement was sourced from intervention stocks of cereals, skimmed milk powder, butter and sugar. Additional market purchases were needed only for butter. The measure also allowed the transfer of cereals, butter and skimmed milk powder from the Member States where stocks were available, to Member States where such stocks were necessary to implement the scheme but unavailable in Community storage.

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8 OJ L 313, 30.10.1992, p. 50.
9 Council Regulation (EC) No 1234/2007 of 22 October 2007, OJ L 299, 16.11.2007, p. 1.
10 COM (2008) 563 final
11 COM (2010) 486 final
12 COM (2011) 634 final

The annual plan 2011 was published on 22 October 2010 as Commission Regulation (EU) 945/2010[13]. A modification of the 2011 plan, to reallocate the resources that some Member States were not able to use, was published on 21 May 2011, as Commission Implementing Regulation (EU) 499/2011[14]. The financial resources made available for the participating Member states to implement the plan accounted for EUR 480 million while final appropriations for this measure in the 2011 budget amounted to EUR 500 million.

In the 2011 plan, the budget appropriations allocated to each participating Member State amounted to:

TABLE 1

2011 Plan – Allocation of budget appropriations

Member State	EUR
Belgium	10 935 075
Bulgaria	11 042 840
Czech Republic	45 959
Estonia	755 405
Ireland	1 196 457
Greece	20 045 000
Spain	74 731 353
France	72 741 972
Italy	102 023 445
Latvia	6 723 467
Lithuania	7 781 341
Luxembourg	107 483
Hungary	14 146 729
Malta	640 243
Poland	75 422 222
Portugal	20 513 026
Romania	49 578 143
Slovenia	2 441 755
Slovakia	4 809 692
Finland	4 318 393
Total	**480 000 000**

13 OJ L 278, 22.10.2010, p. 1.
14 OJ L 134, 21.5.2011, p. 15.

Within the aforementioned allocations, the quantities of each type of product to be withdrawn from Community intervention stocks for distribution to the most deprived persons amounted to:

TABLE 2

2011 Plan – Allocation of public storage products – (In tonnes)

Member State	Cereals	Butter	Skimmed milk powder	Sugar
Belgium	74 030	-	1 687	
Bulgaria	103 318	-	-	
Czech Republic	401	-	-	9
Estonia	7 068	-	-	
Ireland	250	109	-	
Greece	88 836	976	-	
Spain	305 207	-	23 507	
France	491 108	-	11 305	
Italy	480 539	-	28 281	
Latvia	50 663	-	730	
Lithuania	61 000	-	704	
Luxembourg *	-	-	-	
Hungary	132 358	-	-	
Malta	5 990	-	-	
Poland	441 800	-	15 743	
Portugal	61 906	458	5 000	
Romania	370 000	-	5 600	
Slovenia	14 465	-	500	
Slovakia	45 000	-	-	
Finland	25 338	-	899	
Total	**2 759 277**	**1 543**	**93 956**	**9**

* Allocation for Luxembourg for the purchase of milk powder on the EU market: EUR 101 880.

Equally, within the aforementioned allocations, the budget appropriations to each participating Member State for purchases of butter on the market for distribution to the most deprived persons were:

TABLE 3

2011 Plan – Allocation of budget appropriations for purchase of butter on the market

Member State	Butter *(in EUR)*
Ireland	867 046
Greece	7 835 710
Portugal	3 666 327
Total	**12 369 083**

For the 2011 budget year, the participating Member States spent approximately EUR 452.1 million for the food programmes (excluding administrative and transport costs), as detailed in the following table:

TABLE 4

Expenditure declared on the 2011 plan until 15 October 2011

Member State	EUR
Belgium	10 672 585
Bulgaria	10 444 509
Czech Republic	43 476
Estonia	716 337
Ireland	1 159 789
Greece	12 999 975
Spain	70 955 576
France	69 065 673
Italy	97 766 366
Latvia	6 394 508
Lithuania	7 418 495
Luxembourg	101 776
Hungary	13 620 846
Malta	603 950
Poland	72 655 334
Portugal	19 002 519
Romania	47 417 909
Slovakia	4 560 701
Slovenia	2 312 322
Finland	4 155 877
Total	**452 068 522**

8.2. Promotion measures – payments by Member States

The legal basis for information and promotion programmes for agricultural products implemented in the EU and elsewhere is provided by Council Regulation (EC) No 3/2008 and Commission Regulation (EC) No 501/2008.

Programmes are submitted by representative professional and inter-professional organisations to Member States which are responsible for programme management once the Commission has confirmed the selection and agreed the part-financing. The rate of co-financing of the action plans is 50%. In 2008, the Council accepted an increase of this percentage up to 60% for specific promotion actions concerning fruit and vegetables for school pupils and information on responsible drinking patterns and harm linked to hazardous alcohol consumption.

The rules also allow the financing of promotion and information measures carried out on the initiative of the Commission. In this framework the Commission organised and financed two promotional events in third countries in 2011, namely: a high level mission to China in March 2011 and a promotional campaign in South Korea in autumn 2011.

In 2011, 46 new promotion programmes were approved by two separate Commission decisions concerning the internal market (26) and third countries (20), and payments made by Member States from the EU budget for promotion measures amounted to EUR 46.3 million compared to the 2011 budget appropriations of EUR 58 million.

In order to respond rapidly to the consequences of the E-Coli crisis in the fresh fruits and vegetables sector, the Commission decided to adopt special promotion information programmes in this sector, targeting both the internal and third markets. In this framework, by a third Commission Decision, 14 complementary promotion programmes were accepted for co-financing for a total 3-years EU contribution of EUR 17 million.

As a concrete starting point for the reform of the promotion regime, the Commission launched in July 2011 a Green Paper in order to consult, at large, stakeholders and other interested parties. The analysis of contributions received was presented during a conference organised by the Polish presidency at the end of November 2011. Furthermore, discussions on this matter permitted the publication of Council conclusions on the future of agricultural promotion policy.

Last but not least, a retrospective evaluation on promotion was finalised in 2011 with the publication of the report on 31.1.2012.

9. CONTROL MEASURES

9.1. Introduction

The EU legislation provides for a comprehensive system of management and controls which relies on four levels:

(a) compulsory administrative structure at the level of Member States, centred around the establishment of paying agencies and an accreditation authority at high level which is competent for issuing and withdrawing the agency's accreditation. The decision for issuing the accreditation is based on a detailed review by an external audit body;

(b) detailed systems for controls and dissuasive sanctions to be applied by those paying agencies, with common basic features and special rules tailored to the specificities of each aid regime;

(c) ex-post controls by independent audit bodies on the paying agencies' annual accounts and the functioning of their internal control procedures (under Regulation (EC) No 885/2006[15]) and by special departments on aid measures other than direct payments covered by the IACS (checks based on Regulation (EC) No 485/2008[16]);

(d) clearance of accounts procedure through the Commission's annual financial clearance and multi-annual conformity clearance.

These four levels establish a comprehensive system for the management and control of agricultural expenditure. It includes, on the one hand, all the necessary building blocks to guarantee a sound administration of the expenditure at Member States' level and, on the other hand, allows the Commission to counter the risk of financial losses as a result of any deficiencies in the set-up and operation of those building blocks through the clearance of accounts procedure.

Article 9(1) of Regulation (EC) No 1290/2005[17] provides for the general obligation of Member States to ensure that transactions financed by the EAGF and the EAFRD are carried out and executed correctly, to prevent and deal with irregularities and to recover amounts unduly paid.

In complement to this general obligation, there is a system of controls and dissuasive sanctions of final beneficiaries which reflects the specific features of the regime and the risk involved in its administration.

The controls are carried out by the paying agencies or by delegated bodies operating under their supervision and effective, dissuasive and proportionate sanctions are imposed if the controls reveal non-compliance with EU rules. The system generally provides for exhaustive administrative controls of 100% of the aid applications, cross-checks with other databases where this is considered appropriate as well as pre-payment on-the-spot controls of a sample of transactions ranging between 1% and 100%, depending on the risk associated with the regime in question. For example, the control rate in the framework of the Integrated Administration and Control System (IACS) is normally 5%. If the on-the-spot controls reveal a high number of irregularities, additional controls must be carried out. The sample of transactions is determined on a risk and/or random basis.

In addition, for most regimes which are not subject to the IACS, on top of the primary and secondary control levels, *ex-post* controls must be carried out in accordance with Regulation (EC) No 485/2008.

15 OJ L 171, 23.6.2006, p. 90–110.
16 OJ L 143, 3.6.2008, p. 1–9.
17 OJ L 209, 11.08.2005, p. 1.

9.2. Integrated Administration and Control System (IACS)

Council Regulation (EC) No 73/2009[18] and Commission Regulation (EC) No 1122/2009[19] contain the rules on the IACS.

A fully operational IACS consists of: a computerised database, an identification system for agricultural parcels and farmers claiming aid, a system for identification and registration of payment entitlements, aid applications and integrated controls system (claim processing, on-the-spot checks and sanctioning mechanisms) and a system for identifying and registering animals where applicable. The IACS is fully automated and provides highly efficient controls by maximising the use of computerised and remote controls.

This system foresees a 100% administrative control covering the eligibility of the claim, complemented by administrative cross-controls with standing databases ensuring that only areas or animals that fulfil all eligible requirements are paid the premium and by a minimum 5% of on-the-spot checks to check the existence and eligibility of the area or the animals claimed.

The use of standing databases, which are appropriately updated, is well adapted to the schemes whereby aids are directly paid to the farmers and based on the surfaces or on the number of animals, in that the risk can be reduced to the lowest levels.

For the financial year 2011, the IACS covered some 91.4% of the EAGF expenditure. Furthermore, the relevant components of the IACS are applicable to the rural development measures, which are based on area or number of animals. Such measures include, inter alia, agri-environment and animal welfare measures, less-favoured areas and areas with environmental restrictions and afforestation of agricultural land. For financial year 2011, around 45% of payments made under the EAFRD were also covered.

The Commission services verify the effectiveness of Member States' IACS and homogenous implementation by means of both on-the-spot auditing and general supervision based on annually supplied financial and statistical data. It has been established already for some years now that the IACS provides an excellent and cost effective means of ensuring the proper use of EU funds.

9.3. Market measures

Market interventions, for example export refunds or storage aid, are not covered by IACS but they are governed by specific rules as regards controls and sanctions which are set out in sector-based regulations.

Aids are paid on the basis of claims, often involving the lodging of administrative and/or end-use securities, which are systematically (100%) checked administratively for completeness and correctness. The more financially important aid schemes are

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18 OJ L30, 31.1.2009, p.16.

19 Commission Regulation (EC) No 1122/2009 of 29 October 2009 laying down detailed rules for the implementation of Council Regulation (EC) No 73/2009 as regards cross-compliance, modulation and the integrated administration and control system, under the direct support schemes for farmers provided for that Regulation, as well as for the implementation of Council Regulation (EC) No 1234/2007 as regards cross-compliance under the support scheme provided for the wine sector provided for in Council Regulation (EC) No 479/2008.

also subject to regular accounting controls performed in situ on commercial and financial documents.

9.4. Application of Council Regulation (EC) No 485/2008 (ex-post controls)

Regulation (EC) No 485/2008 provides for an ex-post control system which is a complement to the sectoral control systems described above. The system constitutes an extra layer of control which contributes to the assurance that transactions have been carried out in conformity with the rules or otherwise allows recovering the unduly paid amounts.

The ex-post scrutiny is to be carried out by a body in the Member State, which is independent of the departments within the paying agency responsible for the pre-payment controls and the payments. It covers a wide range of CAP subsidies including export refunds, processing and production subsidies etc. In fact, the ex-post scrutiny covers all subsidies paid to beneficiaries from EAGF (except payments covered by IACS and those excluded by Regulation (EC) No 2311/2000[20]).

In 2011, 3 missions were carried out to review the implementation of scrutiny, under Regulation (EC) No 485/2008, by Member States. Furthermore a desk-audit was carried out reconciling Member States' expenditure data provided under Regulation (EC) No.885/2006 and the expenditure included in the information provided under article 10 of Regulation (EC) No 485/2008. In 2011, Member States scrutiny services completed ex-post controls in respect of the budget items subject to scrutiny for which payments were made in financial year 2009. The annual reports on the scrutiny period July 2010-June 2011 shows that 88% of the planned scrutinies were completed, 10% of planned scrutinies were ongoing and 1% of scrutinies had not started yet. The regulation also foresees Member States providing mutual assistance in the performance of scrutinies. In the 2010/2011 scrutiny period, nearly 200 such requests were fulfilled.

10. CLEARANCE OF ACCOUNTS

10.1. Conformity clearance - Introduction

It is primarily the Member States' responsibility to satisfy themselves that transactions are carried out and executed correctly via a system of control and dissuasive sanctions. Where Member States fail to meet this requirement, the Commission applies financial corrections to protect the financial interests of the EU.

The conformity clearance relates to the legality and regularity of transactions. It is designed to exclude expenditure from EU financing which has not been effected in compliance with EU rules, thus shielding the EU budget from expenditure that should not be charged to it (financial corrections). In contrast, it is not a mechanism by which irregular payments to beneficiaries are recovered, which according to the principle of shared management is the sole responsibility of Member States.

Financial corrections are determined on the basis of the nature and gravity of the infringement and the financial damage caused to the EU. Where possible, the amount is calculated on the basis of the loss actually caused or on the basis of an

[20] OJ L 265, 19.10.2000, p. 10.

extrapolation. Where this is not possible, flat-rates are used which take account of the severity of the deficiencies in the national control systems in order to reflect the financial risk for the EU.

Where undue payments are or can be identified as a result of the conformity clearance procedures, Member States are required to follow them up by recovery actions against the final beneficiaries. However, even where this is not possible because the financial corrections only relate to deficiencies in the Member States' management and control systems, financial corrections are an important means to improve these systems and thus to prevent or detect and recover irregular payments to final beneficiaries. The conformity clearance, thereby, contributes to the legality and regularity of the transactions at the level of the final beneficiaries.

10.2. Conformity clearance – Audits and decisions adopted in 2011

10.2.1. Audits

The following table presents an overview of the conformity missions and their coverage in respect of financial year 2011, broken down per ABB-activity:

Financial Year 2011	ABB 02	ABB 03	ABB 04[1)]	Total[2)]
Number of conformity audits with missions carried out[3)]	37	32	37	106

[1)] concerns only EAFRD, thus excluding the EAGGF Guidance section.
[2)] Not including 9 audits covering cross-compliance, 1 audit covering entitlements, 6 audits covering irregularities and 2 IT audits.
[3)] If an audit covers more than one ABB, it is allocated to all ABB covered by that audit.

10.2.2. Conformity decisions

During the financial year 2011, two conformity decisions were adopted which had a financial impact by excluding from EU financing a total of EUR 995.4 million covering expenditure in the financial years from 1999-2009:

- Decision 2010/668/EU of 4 November 2010 – 34th Decision, financial impact of € 517.5 million,
- Decision No 2011/244/EU of 15 April 2011 – 35th Decision, financial impact of € 477.9 million.

The breakdown according to sectors is as follows**:** (in EUR million)

	Decision 34	Decision 35
Area aids / Arable crops	311.78	160.07
Article 69 of Reg.1782/2003	5.35	3.31
Cotton, flax and hemp, silk worms	0.00	9.16
Dried fodder and seeds	0.43	0.12
Export Refunds	1.03	0.01
Financial Audit	15.43	0.00
Fruit and vegetables	54.70	86.95
Intervention storage	-1.99	2.08
Irregularities	0.00	-0.51
Livestock premiums	57.01	8.63
Milk Products	9.33	0.00
Olive oil and oils and fats	0.00	207.98
POSEI	4.71	0.00
Potato starch	28.95	0.00
Rural development	10.14	0.00
Sugar	0.00	0.13
Tobacco	20.60	0.00
Grand Total	**517.48**	**477.92**

Council Regulation (EC) No 1290/2005 introduced an automatic clearing mechanism for non recovered irregular payments after 4 years or, in case the recovery is challenged in national courts, 8 years after the establishment of the irregularity. The financial consequences of non recovery are shared by the Member State concerned and the EU on a 50 %-50 % basis. The Commission may still decide to charge the Member State for 100 % in cases of negligence by the Member State.

Regarding financial year 2010, Member States reported the information about recovery cases by 1 February 2011. The Member States recovered around EUR 142 million during financial year 2010 solely for EAGF (EUR 175.2 million in total with EAFRD and TRDI). The still outstanding amount still to be recovered from beneficiaries at the end of that financial year was EUR 1 147 million solely for EAGF (EUR 1 193 million in total with EAFRD and TRDI). The financial consequences of non recovery for cases dating from 2006 or 2002 account to EUR 28.4 million to the Member States. Around EUR 29 million were borne by the EU budget for cases reported irrecoverable during financial year 2010.

10.3. Financial clearance

10.3.1. Introduction

The financial clearance covers the completeness, accuracy and veracity of paying agencies' accounts as well as the internal control systems set up by these paying agencies. Within this framework, DG AGRI pays particular attention to the certifying bodies’ conclusions and recommendations (where weaknesses are found), following their reviews of the paying agencies’ compliance with the accreditation criteria. As part of this review, the DG AGRI departments also cover aspects relating to conformity issues and protecting the financial interests of the EU as regards the advances paid, securities obtained and intervention stocks.

The Commission adopts an annual clearance of accounts decision clearing the paying agencies' annual accounts on the basis of the certificates and reports from the certifying bodies, but without prejudice to any subsequent decisions to recover expenditure which proves not to have been in accordance with the EU rules. The Commission must clear the accounts and adopt its clearance decision by 30 April of the year following the financial year in question.

10.3.2. Decisions

10.3.2.1. Financial clearance for financial years 2006, 2007, 2008 and 2009

In respect of financial year 2006 and 2007, only the EAGF accounts of ARBEA (Italy) were still outstanding. The total amount still to be cleared was EUR 124 million in financial year 2006 and EUR 101 million in financial year 2007, representing 0.2 % of total annual expenditure. These accounts were proposed for clearance in a Commission Decision adopted on 18 February 2011 (regarding financial year 2006) and on 15 February 2011 (concerning financial year 2007).

In respect of financial year 2008, and following the clearance of the EAGF accounts of ARBEA (Italy) which has been proposed and adopted on 15 February 2011 together with the above-mentioned decisions; only the accounts of OPEKEPE (Greece) are still outstanding in respect of EAGF. The amount still to be cleared is EUR 2 460.7 million.

In respect of financial year 2009, only the EAGF accounts of the paying agencies AGEA and ARBEA (Italy) and the Romanian paying agency PIAA were still outstanding. The total amount still to be cleared was EUR 3 695.2 million. These accounts were proposed for clearance in a Commission Decision adopted on 15 February 2011.

10.3.2.2. Financial clearance decision for the financial year 2010

On 29 April 2011, the Commission adopted a Decision clearing the annual accounts of 74 paying agencies in respect of their expenditure financed by the EAGF. By means of its decision, it cleared amounts of EUR 38 862.4 million.

An amount of EUR 3 559,6 million were still to be cleared, concerning the paying agencies Rheinland-Pfalz (Germany), OPEKEPE (Greece), ARBEA (Italy) and Dienst Regelingen (the Netherlands). The accounts of Rheinland-Pfalz and Dienst Regelingen have been cleared in the meantime in a Commission Decision adopted on 27 January 2012. The accounts of OPEKEPE (Greece) and ARBEA (Italy) are still outstanding in respect of EAGF. The amount still to be cleared is EUR 2 460.9 million.

10.4. Appeals brought before the Court of Justice against clearance decisions

10.4.1. Judgments handed down

In the financial year 2011, the Court handed down 10 judgments in appeals brought by the Member States against clearance decisions.

In financial year 2011, the Court partially annulled the Decision 2005/555/CE by the judgment of 9 September 2011 in case T-344/05 brought by Greece.

In financial year 2011, the Court rejected appeals brought in the following cases:

- judgment of 26 October 2010 in case T-236/07* brought by Germany
- judgment of 28 October 2010 in case T-227/07 brought by Spain;
- judgment of 12 November 2010 in case T-113/08 brought by Spain;
- judgment of 24 March 2011 in case T-184/09 brought by Greece;
- judgment of 31 March 2011 in case T-214/07 brought by Greece;
- judgment of 7 April 2011 in case C-321/09P brought by Greece;
- judgment of 12 July 2011 in case T-197/09 brought by Slovenia;
- judgment of 22 September 2011 in case T-500/09 brought by Italy;
- judgment of 28 September 2011 in case T-352/05 brought by Greece.

10.4.2. New appeals

In the financial year 2011, 11 new appeals were brought by the Member States against clearance decisions:

- T-588/10 brought by Greece on 29 December 2010
- T-2/11 brought by Portugal on 4 January 2011
- T-3/11 brought by Portugal on 4 January 2011
- T-16/11 brought by the Netherlands on 14 January 2011
- T-44/11 brought by Italy on 17 January 2011
- C-24/11P brought by Spain on 17 January 2011
- T-294/11 brought by Greece on 9 June 2011
- T-335/11 brought by Bulgaria on 23 June 2011
- T-358/11 brought by Italy on 27 June 2011
- T-339/11 brought by Spain on 28 June 2011
- T-343/11 brought by the Netherlands on 28 June 2011.

10.4.3. Appeals pending

The situation as at 15 October 2011 with regard to appeals pending is shown, together with the amounts concerned, in annex 34.

11. RELATIONS WITH PARLIAMENT AND WITH THE EUROPEAN COURT OF AUDITORS

11.1. Relations with Parliament

The European Parliament is, together with the Council, part of the EU's Budgetary Authority. It is, thus, one of the most important discussion partners of the Commission on budgetary matters and, therefore, on the EAGF.

Three EP committees are involved in the discussions and the preparation for the plenary on agricultural budgetary matters. These are the Committee on Agriculture and Rural Development, the Committee on Budgets and the Committee on Budgetary Control.

The Committee on Budgetary Control monitored the correct implementation of the 2009 budget. It was asked to draw up the Parliamentary Decision (OJ L 250, 27 September 2011) by which discharge (in respect to the implementation of the general budget of the European Union for the 2009 financial year) was granted to the Commission on 10 May 2011.

11.2. Relations with the European Court of Auditors

11.2.1. Mission of the European Court of Auditors

The European Court of Auditors is the external auditor of the European Union. Articles 285 to 287 of the Treaty on the Functioning of the European Union provide that the Court shall audit the Union finances with a view to improving financial management and reporting on the use of public funds. The Court of Auditors should provide the European Parliament and the Council with a statement of assurance as to the reliability of the accounts and the legality and regularity of the underlying transactions. This statement, which can be complemented by specific assessments for various policy areas, is of prime importance to the European Parliament in its deliberations on granting discharge to the Commission for the implementation of the budget.

As part of its work, the Court carries out numerous audits within the Commission services. Court officials frequently visit the Directorate-General for Agriculture and Rural Development to gather facts and figures needed for the Court's opinions, as well as for its annual and special reports. In the light of these investigations the Court frequently makes suggestions and recommendations to the Commission on how to improve its financial management and make supervisory and control systems more effective.

11.2.2. Annual Report 2010

Each year the Court of Auditors draws up a report which over several chapters scrutinises the management of the Union's budget for the previous financial year. This report is forwarded to the other institutions of the Union and is published, together with the Commission replies to the observations of the Court of Auditors, in the Official Journal of the European Union.

According to international audit practices contradictory meetings are held between the auditor (Court of Auditors) and the auditee (Commission) before the report is published. In these meetings the Court's findings and conclusions and the

Commission's arguments and replies are discussed with a view to reaching full agreement on the underlying facts.

The annual report for the 2010 financial year[21] presented a revised structure. The Court reviewed the presentation and composition of the different policy groups and related chapters. Policy areas Energy and Transport were included in chapter 4 "Cohesion, Energy and Transport"; Research, Education and citizenship, and Economic and financial affairs were grouped under chapter 6 "Research and other internal policies". Finally, the 2010 annual report included a new chapter 8 "Getting results from the EU budget", focused on performance issues.

It is also worth noting that the annual report for 2010 includes for the first time for each policy group the most likely error rate (MLE) defined as the weighted average of the percentage error rates found in the sample. In the area of "Agriculture and natural resources", on the basis of the results of transaction testing, the Court estimates the MLE at 2.3% and further specifies that direct payments covered by IACS are free from material error. This result confirms, in the Commission's view, the positive trend of past years with an overall error rate close to the materiality threshold of 2% and which for EAGF expenditure, representing 77% of total expenditure under this policy group, is well below this threshold.

The main findings by the Court and the replies given by the Commission concern the following domains:

Regularity of transactions (3.17-3.22; 3.55; Annex 3.1)

Systems related to regularity of transactions in agriculture and rural development (3.27–3.41; 3.56; Annex 3.2)

Recoveries and financial corrections (3.42-3.48)

The annual activity report of the Director General for Agriculture and Rural Development (3.52-3.54; Annex 3.3)

Recommendations, including the follow-up to previous recommendations (3.57-3.59; Annex 3.4).

Like in previous years, the Court's statement of assurance is included in Chapter 1 "Statement of Assurance and supporting information".

11.2.3. Special Reports by the Court of Auditors

In calendar year 2011, the Court published five special reports in the field of agriculture:

Special report No 11/2011 "Do the design and management of the geographical indications scheme allow it to be effective?", published on 15 November 2011;

Special report No 10/2011 "Are the School Milk and School Fruit Schemes effective?", published on 24 October 2011;

Special report No 8/2011 "Recovery of undue payments made under the common agricultural policy", published on 28 September 2011;

Special report No 7/2011 "Is agri-environment support well designed and managed?", published on 19 September 2011.

21 OJ C 326, 10.11.2011, p.1.

Special report No 5/2011 "Single Payment Scheme (SPS): issues to be addressed to improve its sound financial management", published on 29 June 2011.

12. BASIC RULES GOVERNING EAGF AND AMENDMENTS MADE IN 2010

12.1. Checks

– Council Regulation (EC) No 485/2008 of 26 May 2008 on scrutiny by Member States of transactions forming part of the system of financing by the European Agricultural Guarantee Fund (Codified version) (OJ L 143, 3.6.2008, p. 1);

– Commission Regulation (EC) No 4/2004 of 23 December 2003 laying down detailed rules for the application of Council Regulation (EEC) No 4045/89 on scrutiny by Member States of transactions forming part of the system of financing by the Guarantee Section of the European Agricultural Guidance and Guarantee Fund (OJ L 2, 6.1.2004, p. 3), as last amended by Regulation (EC) No 40/2006 of 10 January 2006 (OJ L 8, 13.1.2006, p. 4);

– Council Regulation (EC) No 73/2009 of 19 January 2009 (OJ L30, 31.1.2009, p. 16) establishing common rules for direct support schemes for farmers under the common agricultural policy and establishing certain support schemes for farmers, amending Regulations (EC) No 1290/2005, (EC) No 247/2006, (EC) No 378/2007 and repealing Regulation (EC) No 1782/2003, as last amended by Commission Implementing Regulation (EU) No 785/2011 of 5 August 2011 (OJ L 203, 9.8.2011, p. 10);

– Commission Regulation (EC) No 1122/2009 of 30 November 2009 (OJ L 316, 2.12.2009, p. 65) laying down detailed rules for the implementation of Council Regulation (EC) No 73/2009 as regards cross-compliance, modulation and the integrated administration and control system, under the direct support schemes for farmers provided for that Regulation, as well as for the implementation of Council Regulation (EC) No 1234/2007 as regards cross-compliance under the support scheme provided for the wine sector and repealing Commission Regulation (EC) No 796/2004 of 21 April 2004 (OJ L 141, p. 18), as last amended by Commission Implementing Regulation (EU) No 1368/2011 of 21 December 2011 (OJ L 341, 22.12.2011, p. 33–37).

12.2. Clearance of accounts

– Council Regulation (EC) No 1290/2005 of 21 June 2005 on the financing of the common agricultural policy (OJ L 209, 11.8.2005, p. 1), as last amended by Regulation (EC) No 473/2009 of 25 May 2009 (OJ L 144, 9.6.2009, p. 3);

– Commission Regulation (EC) No 885/2006 of 21 June 2006 laying down detailed rules for the application of Council Regulation (EC) No 1290/2005 as regards the accreditation of paying agencies and other bodies and the clearance of the accounts of the EAGF and of the EAFRD (OJ L 171, 23.6.2006, p. 90), as last amended by Regulation (EC) No 1034/2008 of 21 October 2008 (OJ L 279, 22.10.2008, p. 13).

12.3. Public storage

(a) Basic rules

- Council Regulation (EC) No 1290/2005 of 21 June 2005 on the financing of the common agricultural policy (OJ L 209, 11.8.2005, p.1), as last amended by Regulation (EC) No 473/2009 of 25 May 2009 (OJ L 144, 9.6.2009, p. 3);

- Council Regulation (EC) No 1234/2007 of 22 October 2007 establishing a common organisation of agricultural markets and on specific provisions for certain agricultural products - Single CMO Regulation - (OJ L 299, 16.11.2007, p.1), as last amended by Regulation (EU) No 1234/2010 of 15 December 2010 (OJ L 346, 30.12.2010, p.11);

- Commission Regulation (EU) No 807/2010 of 14 September 2010 laying down detailed rules for the supply of food from intervention stocks for the benefit of the most deprived persons in the Union (OJ L 242, 15.9.2010, p. 9);

- Commission Regulation (EC) No 884/2006 of 21 June 2006 laying down detailed rules for the application of Council Regulation (EC) No 1290/2005 as regards the financing by the European Agricultural Guarantee Fund (EAGF) of intervention measures in the form of public storage operations and the accounting of public storage operations by the paying agencies of the Member States (OJ L 171, 23.6.2006, p. 35), as last amended by Regulation (EU) No 157/2011 of 21 February 2011 (OJ L 47, 22.2.2011, p. 1);

- Commission Regulation (EU) No 1272/2009 of 11 December 2009 laying down common detailed rules for the implementation of Council Regulation (EC) No 1234/2007 as regards buying-in and selling of agricultural products under public intervention (OJ L349 29.12.2009, p. 1), as last amended by Regulation (EU) No 957/2011 of 26 September 2011 (OJ L 249, 27.9.2011, p. 6);

- Commission Regulation (EC) No 720/2008 of 25 July 2008 laying down common detailed rules for the application of Council Regulation (EC) No 1234/2007 as regards the storage and movement of products bought in by a paying agency or an intervention agency (Codified version) (OJ L 198, 26.7.2008, p.17);

- Commission Regulation (EC) No 1130/2009 of 24 November 2009 laying down common detailed rules for verifying the use and/or destination of products from intervention (OJ L310 25.11.2009, p. 5);

(b) Free distribution plan

- Commission Regulation (EU) No 945/2010 of 21 October 2010 adopting the plan allocating to the Member States resources to be charged to the 2011 budget year for the supply of food from intervention stocks for the benefit of the most deprived persons in the EU and derogating from certain provisions of Regulation (EU) No 807/2010 (OJ L 278 22.10.2010, p.1), as last amended by Regulation (EU) No 1260/2011 of 2 December 2011 (OJ L 320, 3.12.2011, p. 24);

(c) Depreciation on buying in

– No depreciation was fixed for the 2011 accounting year.

(d) Additional depreciation at the end of the financial year

– Commission Decision C (2011) 7190 of 13 October 2011 (not published) fixing the amounts and detailed rules for the depreciation of stocks of certain agricultural products bought into public intervention by the French Republic, the Republic of Cyprus, the Republic of Hungary, the Republic of Finland and the Kingdom of Sweden during the 2011 financial year;

(e) Uniform interest rate

– Commission Regulation (EU) No 974/2010 of 29 October 2010 fixing the interest rates to be used for calculating the costs of financing intervention measures comprising buying-in, storage and disposal for the 2011 EAGF accounting year (OJ L 285, 30.10.2010, p. 9);

(f) Standard amounts

– Commission Decision C(2010) 7075 of 15 October 2010 (not published) fixing, for the 2011 financial year, the standard amounts to be used for financing physical operations arising from the public storage of agricultural products.

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