



Brussels, 22.3.2017
COM(2017) 156 final

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

on EAGF expenditure

Early Warning System No 1-3/2017

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ANNEX 1: PROVISIONAL CONSUMPTION OF EAGF APPROPRIATIONS UP TO 31/01/2017

1. THE 2017 EAGF BUDGETARY PROCEDURE

The 2017 EU budget was adopted by the European Parliament on 1 December 2016. The budget included for the European Agricultural Guarantee Fund (EAGF) commitment and payment appropriations amounting to EUR 42 613 million and EUR 42 563 million respectively for direct payments and market related expenditure.

The difference between commitment and payment appropriations is due to the fact that differentiated appropriations are used for certain measures that are directly implemented by the Commission. These relate mainly to promotion measures for agricultural products and to policy strategy and coordination measures.

2. REVENUE ASSIGNED TO EAGF

For 2017, on the basis of the provisions of Article 43 of Regulation (EU) No 1306/2013, revenue originating from financial corrections under accounting and conformity clearance decisions and irregularities is designated as revenue assigned to the financing of EAGF expenditure. It should be noted that budget year 2016 was the final year for collection of the revenue from the milk levy, due to the expiry of the milk quotas on 31 March 2015.

According to these provisions, assigned revenue can be used to cover the financing of any EAGF expenditure. If part of this revenue is not used within the budget year, then this part will be automatically carried forward to the following budget year¹.

The 2017 EAGF budget includes:

- the Commission's latest estimates of the financing needs for market measures and direct payments,
- the estimates of assigned revenue to be collected in the course of the budget year,
- and the carry-over of the balance of assigned revenue left available from the previous budget year.

In its proposal for the 2017 EAGF budget appropriations, the Commission took into consideration the total expected assigned revenue, and requested for the 2017 budget a level of appropriations calculated by deducting the estimated assigned revenue from the estimated needs. The Budgetary Authority adopted the EAGF budget taking account of the expected assigned revenue.

At the time of establishing the 2017 budget, the Commission's estimates of the available assigned revenue was EUR 2 732 million, composed of:

- the assigned revenue expected to be generated in the course of the 2017 budget year, estimated at EUR 1 430 million (EUR 1 278 million from conformity clearance corrections and EUR 152 million from irregularities);
- the assigned revenue to be carried over from 2016 to 2017, estimated at EUR 1 302 million.

¹ Art 14 of Regulation (EU, EURATOM) No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union determines that internal assigned revenue shall be carried over for one year only. Thus, in the interest of sound budgetary management, this assigned revenue is in general used first before any voted appropriation of the budget article concerned.

The Commission assigned this estimated revenue of EUR 2 732 million to the following schemes:

- EUR 400 million to the operational funds for producer organisations in fruit and vegetables, and
- EUR 2 332 million to the basic payment scheme.

The sum of the voted appropriations and the assigned revenue for these schemes corresponds to:

- EUR 855 million for the operational funds for producer organisations in fruit and vegetables, and
- EUR 17 628 million for the basic payment scheme.

In the annex, presenting the 2017 budget's provisional execution for the period up to 31 January 2017, the figures of the budget appropriations at article level for fruit and vegetables and for the decoupled direct payments do not take account of the aforementioned assigned revenue. They present voted appropriations for these articles amounting to EUR 661.5 million and to EUR 33 191.8 million respectively.

Including the revenue assigned to these articles, the total amounts foreseen in the 2017 budget are EUR 1 061.5 million for fruit and vegetables and EUR 35 523.8 million for decoupled direct payments.

3. COMMENTS ON THE PROVISIONAL IMPLEMENTATION OF THE 2017 EAGF BUDGET

The budget's provisional implementation for the period 16 October 2016 to 31 January 2017 is presented in the annex. This implementation level is compared to the expenditure profile of the Early Warning System (EWS) set up in conformity with Article 28 of Regulation (EU) No 1306/2013. A brief commentary for certain budget articles, showing the most significant differences between the actual and the expected level of implementation of the 2017 budget is presented below.

3.1. Market measures

The uptake of appropriations for interventions in agricultural markets was lower than expected, by EUR 35.9 million. However, taking into account the assigned revenue of EUR 400 million allocated to market measures and applying the estimated profile of expenditure, the under-execution becomes EUR 113 million. This divergence is the net effect of the execution patterns primarily in the fruits and vegetables, wine, milk and milk products and pigmeat sectors.

3.1.1. Fruit and vegetables (+ EUR 40.9 million compared to voted appropriations)

As regards voted appropriations, the above implementation level is not indicative, due to the expenditure for the operational funds for producer organisations scheme and other measures in fruit and vegetables, which is funded both by the budget's voted appropriations and by the revenue assigned to this scheme (NB: for details please see point 2 above).

A footnote (*) in the provisional execution table in annex compares consumption and consumption profile to the total financial resources available. It shows that the expenditure execution is lagging EUR 36.5 million behind the profile.

This is the effect of slower uptake of all the schemes funded by this article. Primarily, the pace of the uptake of budgetary appropriations for the crisis measures

cannot be reliably estimated, and is likely to diverge from a 3-year average consumption profile which is the basis for the indicator for most of the schemes funded under this article. At this point in time, this situation is considered to be temporary and the execution of this article is closely monitored by the Commission services.

3.1.2. *Products of the wine-growing sector (- EUR 31.6 million)*

This under-execution is due to a slower rhythm of payments made by the Member States compared to the expenditure profile established for the national wine programmes. At this point in time, this situation is considered to be temporary.

3.1.3. *Milk and milk products (- EUR 45.9 million)*

The main reason for the implementation level in this article is the execution of the exceptional adjustment aid for the livestock sectors². The amount of EUR 350 million of appropriations for this aid scheme has been budgeted under item 05 02 12 99 – Other measures (milk and milk products). However as the Member States can allocate the aid to producers in all livestock sectors, the uptake of the appropriations in this article will be lower and necessary transfers will be made to cover the expenditure declared in the other articles (05 02 13, 05 02 14 and 05 02 15).

As regards the uptake of the scheme, the consumption profile estimates expenditure evenly spread over the eligibility period until 30 September 2017. In summary, the current under-implementation is considered to be temporary and the execution of this article is closely monitored by the Commission services.

3.1.4. *Pigmeat, eggs and poultry, bee-keeping and other animal products (+ EUR 10.1 million)*

This over-consumption compared to the profile mainly results from the exceptional adjustment aid mentioned in point 3.1.3 above, whereby the expenditure for the corresponding aid in the pigmeat sector is declared in this article, while the entire amount of budgeted appropriations is entered in article 05 02 12 - Milk and milk products. As a result an over-execution of the voted appropriations for this article appears which is covered by transfers of appropriations from budget article 05 02 12.

3.2. **Direct payments**

The uptake of appropriations for direct payments compared to the consumption profile was lower by EUR 2 283.4 million. When taking into account the assigned revenue allocated to this chapter, i.e. EUR 2 332 million, this becomes an under-execution of around EUR 4 billion. It should be noted that the consumption of EUR 27 billion by 31 January 2017 is in fact a major improvement compared to the consumption of EUR 20 billion at the same moment last year, which was the first year of implementation of the direct payment schemes agreed in the 2013 CAP reform.

For various schemes, the execution of the direct payments has clearly improved compared to the situation at the same time in budget year 2016. Moreover, several Member States used the possibility to pay advances as of 16 October 2016, in some cases also using the derogation granted to pay advances above 50%.

² Milk and milk products as well as beef and veal, pigmeat and sheepmeat and goatmeat sectors

3.2.1. *Decoupled direct payments (- EUR 2 111.1 million compared to voted appropriations)*

As regards voted appropriations, the above implementation level is not fully indicative, due to the expenditure for the Basic Payment Scheme, which is funded both by voted appropriations and by the revenue assigned to this scheme (NB: for details please see point 2 above).

A footnote * in the provisional execution table in the Annex compares consumption and consumption profile to the total financial resources available. It shows that the expenditure execution is lagging EUR 4 063.3 million behind the profile, which is noticeably better than for last budget year (a difference of EUR 14 839 million).

The Commission examines on a monthly basis Member States' execution levels and forecasts of expenditure. At this point in time, the divergence is considered to be temporary and it is expected that decoupled direct payments will at the end of the budget year be implemented as foreseen.

3.2.2. *Other direct payments (- EUR 172.2 million)*

The relatively limited under-implementation of voted appropriations compared to the consumption profile reflects a positive evolution compared to last year. This under-implementation is considered to be temporary and it is expected that other direct payments will at the end of the budget year be implemented as foreseen.

3.3. Audit of agricultural expenditure (+ EUR 27.2 million)

For the budget chapter 05 07, the over-consumption compared to the profile is mainly due to payments made earlier than the average profile of the previous years. These payments concern mainly financial corrections in favour of Member States following decisions on conformity clearance of previous years' accounts.

4. IMPLEMENTATION OF REVENUE ASSIGNED TO EAGF

The table in the annex shows that assigned revenue amounting to EUR 206.8 million was collected as of end January 2017. Specifically:

- the revenue from corrections based on accounting and conformity clearance decisions amounted to EUR 161.4 million, with additional amounts still expected by the end of the budget year;
- the revenue from irregularities amounted to EUR 43.6 million, also with additional amounts expected by the end of the budget year, and
- some residual revenue from the milk levy equal to EUR 1.7 million;

Finally, the amount of assigned revenue eventually carried over from 2016 to 2017 amounts to EUR 1 304 million.

Therefore, the total amount of assigned revenue available on 31 January 2017 for the financing of the EAGF expenditure was EUR 1 510.8 million, with additional amounts expected to be collected during the budget year.

5. CONCLUSIONS

The provisional execution of the 2017 EAGF budget appropriations, for the period up to 31 January 2017, shows that monthly reimbursements to Member States are lower than the calculated consumption profile by EUR 2 296.5 million.

An amount of EUR 1 510.8 million of assigned revenue is already available, and additional amounts are expected to be collected in the course of the budget year.

At this point in time, the Commission expects that the uptake of appropriations for market related expenditure and direct payments should accelerate in the coming months, particularly for some Member States, and that all direct payments will be implemented as originally expected when the 2017 budget was established. Furthermore, the Commission considers that the amount of assigned revenue which will be available by the end of the year will be sufficient to cover the funding for both the operational funds for producer organisations in the fruit and vegetables sector as well as for the basic payment scheme.



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ANNEX 1

ANNEX

to the

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Budget Year 2017(1)
PROVISIONAL CONSUMPTION OF THE EAGF APPROPRIATIONS

Situation to the 31/01/2017
in Eur million

	Appropriations Budget(2)	Consumption from November to January	Utilisation	Consumption profile as at January		Gap between consumption and profile	
	EUR mio A	EUR mio B	% C=B/A	% D	EUR mio E=D*A	% F=C-D	EUR mio G=B-E
Expenditure							
05 01 ADMINISTRATIVE EXPENDITURE OF THE AGRICULTURE AND RURAL DEVELOP. POLICY AREA (only 05010401 and 05010601)	10.2	0.5	5.4 %	15.6 %	1.6	-10.2 %	-1.0
Total 05 01 ADMIN. EXPEND. OF THE AGRICULTURE AND RURAL DEVELOP. POLICY AREA	10.2	0.5	5.4 %	15.6 %	1.6	-10.2 %	-1.0
05 02 INTERVENTIONS IN AGRICULTURAL MARKETS							
05 02 01 Cereals	p.m.	0.0					
05 02 02 Rice	p.m.	0.0					
05 02 03 Refunds on non-Annex 1 products	p.m.	0.0					
05 02 04 Food programmes	p.m.	0.0					
05 02 05 Sugar	p.m.	0.0					
05 02 06 Olive oil	46.3	5.8	12.6 %	13.5 %	6.3	-0.9 %	-0.4
05 02 07 Textile plants	6.2	5.7	92.1 %	98.5 %	6.1	-6.5 %	-0.4
05 02 08 Fruits and vegetables (estimated 400,0 Mio EUR from assigned)	661.5	170.0	25.7 %	19.5 %	129.2	6.2 %	40.9
05 02 09 Products of the wine-growing sector	1 076.0	129.5	12.0 %	15.0 %	161.1	-2.9 %	-31.6
05 02 10 Promotion	135.5	18.0	13.3 %	17.0 %	23.1	-3.7 %	-5.1
05 02 11 Other plant products/measures	239.4	118.2	49.4 %	50.8 %	121.6	-1.4 %	-3.4
05 02 12 Milk and milk products	607.7	88.2	14.5 %	22.1 %	134.1	-7.6 %	-45.9
05 02 13 Beef and veal	p.m.	0.0					
05 02 14 Sheepmeat and goatmeat	p.m.	0.0					
05 02 15 Pigmeat, eggs and poultry, bee-keeping and other animal products	34.0	11.7	34.4 %	4.7 %	1.6	29.6 %	10.1
05 02 18 School schemes	0.2	0.0	0.0 %	0.0 %	0.0	0.0 %	0.0
Total 05 02 INTERVENTIONS IN AGRICULTURAL MARKETS	2 806.8	547.2	19.5 %	20.8 %	583.1	-1.3 %	-35.9
05 03 DIRECT PAYMENTS (**)							
05 03 01 Decoupled direct payments (estimated 2.332,0 Mio EUR from assigned revenue)(*)(3)	33 191.8	24 443.3	73.6 %	80.0 %	26 554.4	-6.4 %	-2 111.1
05 03 02 Other direct payments	6 019.3	2 603.6	43.3 %	46.1 %	2 775.8	-2.9 %	-172.2
05 03 03 Additional amounts of aid	0.1	0.0	1.3 %	49.6 %	0.0	-48.3 %	0.0
Total 05 03 DIRECT PAYMENTS (**)	39 211.2	27 046.9	69.0 %	74.8 %	29 330.3	-5.8 %	-2 283.4
OTHER EXPENDITURE							
05 04 RURAL DEVELOPMENT (only 05040114 and 05040302)	p.m.	-0.3					
05 07 AUDIT OF AGRICULTURAL EXPENDITURE FINANCED BY THE EAGF	85.3	32.9	38.5 %	6.6 %	5.6	31.9 %	27.2
05 08 POLICY STRATEGY AND COORDINATION OF POLICY AREA 'AGRICULTURE AND RURAL DEVELOPMENT' (excl. 050877 and 050880)	48.6	0.1	0.3 %	6.8 %	3.3	-6.5 %	-3.2
Total Expenditure	42 162.1	27 627.3	65.5 %	71.0 %	29 923.9	-5.4 %	-2 296.5
Assigned Revenue							
	Taken into account in the budget						
6 7 0 1 Clearance of European Agricultural Guarantee Fund accounts — Assigned revenue	1 278.0	161.4	12.6 %				
6 7 0 2 European Agricultural Guarantee Fund irregularities — Assigned revenue	152.0	43.6	28.7 %				
6 7 0 3 Superlevy from milk producers — Assigned revenue	p.m.	1.7					
Assigned revenue carried over from 2016	1 302.0	1 304.0	100.2 %				
Total Revenue	2 732.0	1 510.8	55.3 %				
(*) For information only: expenditure against original appropriations and estimated assigned revenue							
05 02 08 Fruit and vegetables (including estimated assigned revenue of 400,0 Mio EUR)(3)	1 061.5	170.0	16.0 %	19.5 %	206.5	-3.4 %	-36.5
05 03 01 Decoupled direct payments (including estimated assigned revenue of 2.332,0 Mio EUR)(3)	35 523.8	24 443.3	68.8 %	80.2 %	28 506.6	-11.4 %	-4 063.3
(**) Not included							
05 03 09 Reimbursement of direct payments in relation to financial discipline(4)	433.1	93.0	21.5 %				
05 03 10 Reserve for crises in the agricultural sector	450.5	0.0	0.0 %				

(1) Budget year = 16.10.2016 to 15.10.2017 but direct expenditure possible until 31.12.2017

(2) It concerns the commitments

(3) Including use of assigned revenues carried over from the previous year

(4) Credits carried over from the previous year