Council of the
European Union

Brussels, 9 June 2017
(OR. en)

10188/17

AGRI 325
AGRIFIN 58
FIN 361

COVER NOTE

From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
No. Cion doc.:	COM(2017) 317 final
Subject:	REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL on EAGF expenditure Early Warning System No 4-5/2017

Delegations will find attached document COM(2017) 317 final.

Encl.: COM(2017) 317 final

EUROPEAN
COMMISSION

Brussels, 7.6.2017
COM(2017) 317 final

REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on EAGF expenditure

Early Warning System No 4-5/2017

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1. INTRODUCTION

This report gives an update on the execution of the 2017 budget for the European Agricultural Guarantee Fund (EAGF), for the period of 16 October 2016 to 31 March 2017. The table in the Annex compares the actual level of implementation of the budget to the forecasted 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.

2. REVENUE ASSIGNED TO THE 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.

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 year[1].

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);

[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 assigned revenue to be carried over from 2016 to 2017, estimated at EUR 1 302 million.

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 March 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

3.1. Market measures

The uptake of appropriations for interventions in agricultural markets was higher than expected by EUR 73.0 million. When taking into account the assigned revenue of EUR 400 million allocated to the fruit and vegetables scheme, the result is a limited under-execution of EUR 39.6 million against the estimated profile of expenditure.

3.1.1. Fruit and vegetables (+ EUR 59.5 million)

The EUR 59,5 million lead over the spending profile is eliminated when taking into account the revenue assigned to this sector, resulting in a EUR 53.1 million gap (see the (*) footnote in the Annex). Spending levels are however in line with previous years for the school fruit and vegetables Scheme and for the aid to producer organisations. The small divergence from the spending profile is not surprising, as the aid to producer groups is phasing out and the pace of the uptake of budgetary appropriations for the on-going exceptional measures could not be reliably estimated.

3.1.2. Products of the wine-growing sector (+ EUR 27.8 million)

For the support programmes for the wine sector, Member States accelerated the rhythm of implementation over the last two months, especially for the promotion, restructuring and conversion of vineyards, and investment measures.

3.1.3. Milk and milk products (- EUR 24.9 million)

An important factor in the implementation level in this article is the execution of the exceptional adjustment aid for the livestock sectors[2]. 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 is lower than budgeted.

As regards the uptake of the abovementioned scheme as well as of the milk production reduction scheme (budgeted at EUR 150 million), the consumption profile estimates expenditure evenly spread over the eligibility period until 30 September 2017.

3.1.4. Pigmeat, eggs and poultry, bee-keeping and other animal products (+ EUR 11.9 million)

The 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 1 466.3 million. When taking into account the revenue assigned to this budget chapter (see also point 2 above), an under-execution of around EUR 3.5 billion is observed. It should however be noted that the consumption of EUR 30.7 billion by 31 March 2017 is in fact a major improvement compared to the consumption of EUR 24.4 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.

3.2.1. Decoupled direct payments (- EUR 1 937.8 million)

Spending compared to budgeted appropriations is not fully indicative here, due to the revenue assigned to the basic payment scheme (see also point 2 above). Taking into

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

account the assigned revenue, the payments are EUR 3 990.8 million behind the execution profile (see the (*) footnote in the Annex), which is nevertheless noticeably better than at the same time in the 2016 budget year (a difference of EUR 9 641.7 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 the delay in the implementation of decoupled direct payments should be reduced before the end of the budget year.

3.2.2. Other direct payments (+ EUR 471.5 million)

The current level of execution, which is above the consumption profile, is mainly due to the acceleration of the implementation of the voluntary coupled support measures by various Member States, as well as to the payment of a considerable amount for cotton by one Member State.

4. IMPLEMENTATION OF REVENUE ASSIGNED TO EAGF

The table in the annex shows that assigned revenue amounting to EUR 626.5 million was collected as of end March 2017. Specifically:

- the revenue from corrections based on accounting and conformity clearance decisions amounted to EUR 560.8 million, with additional amounts still expected by the end of the budget year;
- the revenue from irregularities amounted to EUR 63.4 million, also with additional amounts expected by the end of the budget year, and
- some residual revenue from the milk levy equal to EUR 2.3 million;

The amount of assigned revenue carried over from 2016 to 2017 amounts to EUR 1 304 million.

As a result, the total amount of assigned revenue available on 31 March 2017 for the financing of the EAGF expenditure was EUR 1 930.5 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 March 2017, shows that monthly reimbursements to Member States are lower than the calculated consumption profile by EUR 1 409.2 million. However, the gap has considerably decreased compared to the situation at 31 January 2017.

An amount of EUR 1 930.5 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.