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

on EAGF expenditure

Early Warning System No 9-10/2014

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ANNEX 1: PROVISIONAL CONSUMPTION OF EAGF APPROPRIATIONS UP TO 31/08/2014

1. INTRODUCTION

For the period 16 October 2013 to 31 August 2014 and as regards the European Agricultural Guarantee Fund (EAGF), the budget's actual implementation level compared to the expenditure profile foreseen by the indicator, established on the basis of the provisions of Article 28 of Regulation (EU) No 1306/2013 on the financing, management and monitoring of the common agricultural policy¹, is presented in Annex 1.

2. REVENUE ASSIGNED TO EAGF

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, from irregularities and from the milk levy are 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 year².

The 2014 EAGF budget included both: the Commission's latest estimates of the needs to finance the expected expenditure for market measures and direct aids, and the estimates of the assigned revenue which was expected to be collected in the course of the budget year concerned as well as the carryover of the balance of assigned revenue left available from the previous budget year. In its proposal for the 2014 EAGF budget appropriations, the Commission took into consideration the total expected assigned revenue and requested for the 2014 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 budget for 2014, the Commission's estimates for the available assigned revenue amounted to EUR 1 464 million. Specifically:

- The assigned revenue expected to be generated in the course of the 2014 budget year was estimated at EUR 849 million. Amounts of EUR 638 million and EUR 165 million were expected from conformity clearance corrections and from irregularities respectively. The receipts from the milk levy were estimated at EUR 46 million.
- The amount of assigned revenue expected to be carried over from the budget year 2013 into 2014 was estimated at EUR 615 million.

¹ OJ L 347, 20.12.2013, p.549

² 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.

In the 2014 budget, the Commission assigned this initially estimated revenue of EUR 1 464 million to two schemes. Specifically:

- EUR 464 million was assigned to the operational funds for producer organisations in the fruits and vegetables sector, and
- EUR 1 000 million to the single payment scheme.

For these two schemes, the Budgetary Authority eventually voted appropriations amounting to EUR 285 million and to EUR 30 083 million respectively, in accordance with the Commission's proposal. The sum of the voted appropriations and the assigned revenue mentioned above corresponds to a total estimate of available appropriations of EUR 749 million for the operational funds for producer organisations in the fruits and vegetables sector and EUR 31 083 million for the single payment scheme.

In annex 1, which presents the 2014 budget's provisional execution for the period to 31 August 2014, the figures of the budget appropriations **at article level** for the fruit and vegetables sector and for the decoupled direct aids present voted appropriations for these two schemes amounting to EUR 676.7 million and to EUR 38 252 million respectively, without taking account of the aforementioned assigned revenue. Including the revenue assigned to these sectors, the total appropriations foreseen in the 2014 budget amounted to EUR 1 140.7 million for fruits and vegetables and to EUR 39 252 million for decoupled direct aids.

3. COMMENTS ON THE PROVISIONAL IMPLEMENTATION OF THE 2014 EAGF BUDGET

The budget's provisional implementation for the period 16 October 2013 to 31 August 2014 is presented in Annex 1. This implementation level is compared to the expenditure profile based on the indicator, which was established on the basis of the provisions of Article 28 of Regulation (EU) No 1306/2013. Below a brief commentary is presented for certain budget articles, showing the most significant differences between the actual and the expected level of implementation of the 2014 budget.

3.1. Market measures

The uptake of appropriations for interventions in agricultural markets was higher compared to the level of the budget's voted appropriations, as determined by the level of the indicator on 31 August 2014, by EUR 67 million. This divergence is the net effect of the execution patterns primarily in the fruits and vegetables, the wine and the milk sectors.

3.1.1. Fruit and vegetables (+ EUR 202.2 million in comparison with voted appropriations)

As regards voted appropriations, this implementation level is primarily due to the expenditure for the operational funds for producer organisations scheme, which is funded both by the budget's voted appropriations and by the revenue assigned to this scheme in the 2014 budget (NB: For details please see point 2 above). This implementation level is the result of applying the indicator for the period to 31

August 2014 to the budget's voted appropriations, which do not include the revenue assigned to this sector.

A footnote * in the provisional execution table in annex 1 shows what the situation would be, had the indicator, as of 31 August 2014, been applied to the total appropriations, which are expected to be available in order to fund this sector. As it is pointed out in point 2 above, the total funding expected to be available for this sector is composed of the budget's voted appropriations of EUR 676.7 million and of the revenue assigned to this sector which is estimated at EUR 464 million. Therefore, had the indicator been applied to the total funding of EUR 1 140.7 million expected to be available for this sector, then, an under-execution of - EUR 127.6 million would appear, being the net effect of an acceleration in the rhythm of payments for the operational funds for producer organisations scheme and a slower rhythm of payments for the school fruit scheme and the aid to producer groups for preliminary recognition compared with the level of the indicator on 31 August 2014. At this point in time, the Commission considers that a certain under-execution for the school fruit scheme and producer groups for preliminary recognition can be expected at the end of the budget year and continues to monitor the uptake of the appropriations for the producer organisations schemes.

3.1.2. Products of the wine-growing sector (- EUR 109.6 million)

This under-execution is due to the slower rhythm of payments made by the Member States compared to the expenditure profile of the established indicator for the national wine programmes. At this point in time, this situation is considered to be temporary as the Member States' forecast of expenditure for this article shows an accelerated rhythm for the upcoming months.

3.1.3. Milk and milk products (- EUR 6.8 million)

This under-execution is due to the slower rhythm of payments made by the Member States compared to the expenditure profile of the established indicator for the school milk scheme. At this point in time, this situation is considered to be temporary as the Member States' forecast of expenditure for this article shows a full execution of this scheme up to the end of the budget year.

3.2. Direct aids

The uptake of appropriations for direct aids compared to the level of the indicator on 31 August 2014 was higher by EUR 659.4 million.

3.2.1. Decoupled direct aids (+EUR 719.1 million in comparison with voted appropriations)

As regards voted appropriations, this implementation level is primarily due to the expenditure for the single payment scheme, which is funded both by the budget's voted appropriations and by the revenue assigned to this scheme in the 2014 budget (NB: For details please see point 2 above). This implementation level is the result of applying the indicator for the period to 31 August 2014 to the budget's voted appropriations, which do not include the revenue assigned to this sector.

A footnote * in the provisional execution table in annex 1 shows which would be the situation had the indicator, as at 31 August 2014, been applied to the total appropriations which are expected to be available in order to fund decoupled direct aids. As it is pointed out in point 2 above, the total funding expected to be available for decoupled direct aids is composed of the budget's voted appropriations of EUR 38 252 million and of the revenue assigned to decoupled direct aids which is estimated to amount to EUR 1 000 million. Therefore, had the indicator been applied to the total funding of EUR 39 252 million expected to be available for decoupled direct aids, then, the observed over-execution would be reduced to an under-execution of - EUR 279.9 million.

At this point in time, Member States have already paid 99.2% of the estimated 2014 decoupled direct aids. The Commission expects, at this point in time, that the available voted appropriations and the revenue assigned to the line should be sufficient to cover the funding needs for this article and that a certain under-execution can be expected at the end of the budget year.

3.2.2. *Other direct aids (- EUR 59.3 million)*

This under-implementation of voted appropriations for other direct aids as compared to the expenditure profile of the established indicator on 31 August 2014 is the effect of the slower payment rhythm for some schemes in this sector, in particular for the coupled specific support under article 68. At this point in time, the Commission considers that a certain under-execution can be expected at the end of the budget year and continues to monitor the uptake of the appropriations for this budget article. .

3.3. **Audit of agricultural expenditure (+ EUR 5.5 million)**

In addition to direct payments for monitoring and preventive measures amounting to EUR 6.8 million, the 2014 budget included estimates of EUR 53.4 million for payments concerning settlement of disputes. On the basis of the latest information, Member States will be paying compensatory interest for the settlement of disputes which will be higher than the one foreseen in the 2014 budget. Furthermore, the Commission also expects to reimburse Member States with an amount of around EUR 20 million because of positive clearance of accounts decisions in their favour. At this point in time, the Commission expects an over-execution of the 2014 budget's appropriations for the audit of agricultural expenditure chapter. .

4. **IMPLEMENTATION OF REVENUE ASSIGNED TO EAGF**

The table in Annex 1 shows that assigned revenue amounting to EUR 1 669.1 million was collected as of 31 August 2014. Specifically:

- the revenue from corrections based on accounting and conformity clearance decisions amounted to EUR 769.6 million with additional amounts still expected by the end of the budget year;
- the revenue from irregularities amounted to EUR 141.3 million with additional amounts also expected by the end of the budget year, and

- at this point in time, most of the revenue from the milk levy has been collected and it amounts to approximately EUR 48 million.

Finally, the amount of assigned revenue eventually carried over from 2013 into 2014 amounted to EUR 710.2 million. This amount is significantly higher than the initially estimated amount of EUR 615 million and has been fully used in making payments as foreseen in the 2014 budget.

Therefore, the amount of assigned revenue available for financing EAGF expenditure, on 31 August 2014, amounts to EUR 1 669.1 million with additional amounts of freshly collected assigned revenue expected by the end of the budget year.

5. CONCLUSIONS

The provisional execution of the 2014 EAGF budget's appropriations, for the period up to 31 August 2014, shows that monthly reimbursements to Member States exceeded the expenditure profile for budget execution based on the indicator, by approximately EUR 728.2 million.

Assigned revenue amounting to EUR 1 669.1 million is already available and additional amounts are still expected to be collected in 2014. At this point in time, 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 of the operational funds for producer organisations, of the single payment scheme and of the amounts expected to be paid under the audit of agricultural expenditure chapter.

Furthermore, depending on the final execution of the appropriations of the 2014 budget year, it is foreseen that the Commission will transfer the unused appropriations to financial year 2015 for reimbursement to farmers that will be then subject to financial discipline. This transfer cannot exceed 2% of the initial 2014 EAGF appropriations for actions under shared management and the amount of financial discipline taken into account for 2014 budget year.³

At the current stage the Commission estimated that the amount of non-committed appropriations of EUR 874.7 million, corresponding to the maximum level of 2%⁴, will be available by the end of the 2014 budget year for this transfer. The remaining estimated surplus of the EAGF will be incorporated in the Amending Letter No 1 to the Draft Budget 2015.

³ Art 169 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

⁴ The amount of financial discipline taken into account for 2014 Budget of EUR 902.9 million was higher than the limit of 2% the initial 2014 EAGF appropriations for actions under shared management, thus the latter constitutes the reference amount for the transfer.