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

**on EAGF expenditure**

**Early warning system**

**No 1-3/2011**

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## **1. THE 2011 EAGF BUDGETARY PROCEDURE**

The 2011 budgetary procedure for the European Agricultural Guarantee Fund (EAGF) and the corresponding amounts of appropriations involved at each stage of the procedure are summarised in the table presented in Annex 1.

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 42 509.0 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 30.0 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 schemes 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.

## **2. REVENUE ASSIGNED TO EAGF**

On the basis of the rules of Article 34 of Council Regulation (EC) No 1290/2005 on the financing of the Common Agricultural Policy, revenue 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. According to these rules, assigned revenue can be used to cover the financing of EAGF expenditure incurred by the Member States. In the case where part of this revenue is not used, then, this part will be automatically carried forward to the following budget year.<sup>1</sup>

The 2011 EAGF Budget included both: the Commissions' latest estimate on the amount of appropriations, which would be needed in order 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 and the carryover of the balance of assigned revenue left available from the previous budget year. In its proposal for the amount of EAGF appropriations for the 2011 Budget, the Commission took into consideration total expected assigned revenue and requested in 2011 a level of appropriations calculated by deducting the

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<sup>1</sup> Assigned revenue carried over has to be used first, this means before the appropriations voted by the Budgetary Authority or the assigned revenues generated in the year (Art 10 of the Financial Regulation).

estimated assigned revenue from its estimated expenditure. The Budgetary Authority adopted the new EAGF budget whose appropriations included the expected assigned revenue.

At the time of establishment of the Budget for 2011, the Commission's estimates for the available assigned revenue amounted to EUR 1 247.0 million. Specifically:

- The assigned revenue expected to be generated in the course of the 2011 budget year was estimated at EUR 707.0 million. Amounts of EUR 600.0 million and EUR 88.0 million were expected from conformity clearance corrections and from irregularities respectively. The receipts from the milk levy were estimated at EUR 19.0 million.
- The amount of assigned revenue expected to be carried over from the budget year 2010 into 2011 was estimated at EUR 540.0 million.

In the Budget for 2011, the Commission assigned this revenue of EUR 1 247.0 million to two schemes. Specifically:

- EUR 500.0 million was assigned to the operational funds for producer organisations in the fruits and vegetables sector, and
- EUR 747.0 million to the single payment scheme.

For these two schemes, the Budgetary Authority eventually voted appropriations amounting to EUR 292.0 million and to EUR 30 389.0 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 appropriations required of EUR 792 million for the operational funds for producer organisations in the fruits and vegetables sector and EUR 31 136.0 million for the single payment scheme.

In annex 2, which presents the 2011 budget's provisional execution for the period to 31 January 2011, the figures of the budget appropriations for the fruits and vegetables sector and for the decoupled direct aids sector present voted appropriations for these two schemes, which amount to EUR 491.1 million and to EUR 36 324.0 million respectively, without taking account of the aforementioned assigned revenue. After including the revenue assigned to these sectors, the total appropriations foreseen in the 2011 budget amount to EUR 991.1 million for fruits and vegetables and to EUR 37 071.0 million for decoupled direct aids.

### **3. REVENUE ORIGINATING FROM THE TEMPORARY RESTRUCTURING AMOUNTS (SUGAR SECTOR)**

The temporary restructuring amounts in the sugar sector are treated as assigned revenue intended to finance the sugar restructuring aid and other aids foreseen in the Sugar Restructuring Fund. For three marketing years: 2006/07, 2007/08 and 2008/09, these amounts relating to the sugar, inulin syrup and isoglucose quantitative quotas held by operators in each Member State were paid into the Fund. At the time of establishment of the 2011 budget an amount of EUR 1 015.0 million was expected to be carried over from the budget year 2010 into 2011.

#### **4. COMMENTS ON THE IMPLEMENTATION OF THE 2011 EAGF BUDGET**

The budget's provisional implementation level for the period 16 October 2010 to 31 January 2011 is presented in Annex 2. It is compared to the expenditure profile based on the indicator, which was established on the basis of the dispositions of Article 20 of Council Regulation (EC) No 1290/2005. Below a brief commentary is presented for certain budget articles, which show the most significant divergences between the actual and the expected level of implementation of the 2011 budget:

##### **4.1. 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 January 2011, by EUR 179.4 million. This divergence is primarily attributed to the wine and fruits and vegetables sectors (see below point 4.1.2) as well as food programmes. At the same time, other sectors present in total a small under-implementation.

###### *4.1.1. Food programmes (+EUR 22.1 million)*

The faster uptake of appropriations compared to the level of the indicator at this point in time is a mirror picture of the under-execution on this budget line in 2010. This reflects the fact that the Member States' administrative costs linked to the management of the 2010 programmes were only declared in 2011 budget year. At this point in time, the Commission considers that the appropriations will be sufficient to cover the expected expenditure.

###### *4.1.2. Fruit and vegetables (+ EUR 74.4 million in comparison with voted appropriations)*

This implementation level is attributable to the expenditure for the operational funds for producer organisations, which is funded both by the budget's voted appropriations and by the revenue assigned to this scheme in the 2011 budget (NB: For details please see point 2 above). This implementation level is the result of applying the indicator for the period to 31 January 2011 to the budget's voted appropriations, which do not include the revenue assigned to this sector.

At this point in time, the Commission considers that the total appropriations available for this sector will be sufficient to cover the expenditure expected to be incurred by Member States in 2011.

As from 2010, for the benefit of the reader, the Commission introduced footnote \* to the provisional execution table which appears in annex 2. This footnote shows what the situation would be, had the indicator, as at 31 January 2011, 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 491.1 million and of the revenue assigned to this sector which is estimated to amount to EUR 500.0 million. Therefore, had the indicator been applied to the total funding of EUR 991.1 million expected to be available for this sector, an under-execution of – EUR 55.7 million would appear.

This under-execution is related to operational funds for producers' organisations which have a slightly slower payment rhythm than in the previous years and to School Fruit Scheme, which due to relative novelty of the measure does not follow as yet a defined execution pattern. They are both considered to be of a temporary nature.

#### *4.1.3. Products of the wine-growing sector (+EUR 96.4 million)*

When compared to the level of budget appropriations and theoretical execution profile pointed out by the indicator on 31 January 2011, current over-execution is due to the acceleration of the rhythm of payments by Member States primarily for the national support programmes for the wine sector (mainly in investment, promotion as well as restructuring and conversion of vineyards). This faster rhythm does not constitute any risk of exceeding the budgetary appropriations, as they are based on the financial ceilings established by the legislation for these measures.

#### *4.1.4. Milk and milk products (-EUR 10.2 million)*

When compared to the level of budget appropriations and theoretical execution profile pointed out by the indicator on 31 January 2011, an under-execution is observed. It is mainly related to the School Milk Scheme whose appropriations in the New Draft Budget were increased by EUR 10 million as compared to the Amending Letter. This increase in the budget is not reflected in Member States' execution.

### **4.2. Direct aids**

The uptake of appropriations for direct aids compared to the level pointed out by the indicator on 31 January 2011 was lower by EUR 328.5 million.

#### *4.2.1. Decoupled direct aids (-EUR 231.3 million in comparison with voted appropriations)*

The total credit appropriations available for the needs of this sector amount to EUR 37 071 million including the foreseen revenue of EUR 747 million assigned to the Single Payment Scheme. (NB: for details, please see point 2 above).

The single payment scheme (SPS) presents a slight under-execution. This scheme after a very fast up-take in the first two months of 2011 budget year slowed down slightly in January. However, the Member States have already paid till now approximately 92% of the estimated needs in the budget as compared to 86% at the time in 2010.

The implementation level for decoupled direct aids is also attributable to the payments made by the Member States for the single area payment scheme (SAPS), where a significant under-execution as compared to the level of indicator is observed. While for the most of the Member States the payment rhythm is in line with established patterns, Bulgaria until the end of January has not made any payments and significantly lower payments were made in Poland. At this point in time, the Commission considers that this situation is temporary.

As from 2010, for the benefit of the reader, the Commission introduced footnote \* to the provisional execution table which appears in annex 2. This footnote shows which would be the situation had the indicator, as at 31 January 2011, 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 36 324.0 million and of the revenue assigned to this sector which is estimated to amount to EUR 747.0 million. Therefore, had the indicator been applied to the total funding of EUR 37 071.0 million expected to be available for this sector, then, under-execution of EUR 898.9 million would appear.

#### *4.2.2. Other direct aids (-EUR 97.3 million)*

A slower rhythm of payments made by Member States can be observed for certain schemes (premiums for suckler cows, beef slaughter and for cotton) compared to the level pointed out by the indicator. At this point in time, this situation is expected to be temporary.

On the other hand, the 2010 calendar year was the first year of payment of the coupled specific support measures (Art 68). Due to no prior history of this measure, the current profile for this budget line distributes the expenditure linearly until the end of June, whereas the Member States have made more than 45% of the payments foreseen for 2011 budget year in the period from November to January. This does not constitute any risk to the availability of budgetary appropriations, as these are based on the financial ceilings established by the legislation for the specific support measures.

### **4.3. Audit of agricultural expenditure**

#### *4.3.1. Accounting clearance of previous years' accounts (+EUR 74.8 million)*

The current implementation level results from the comparison of the clearance of accounts corrections already made with the level of the corresponding indicator as of 31 January 2011. However, it should be noted that in line with the legislative timeframe not all the accounting clearance decisions expected within this budget year have been taken yet.

It should be pointed out that the Commission, in its Amending Letter for 2011, had proposed corrections amounting to – EUR 72.0 million. The final amount included in the 2011 budget was – EUR 272.0 million.

At this point in time the Commission considers that the expected corrections from its accounting clearance decisions and from the non-respect of aid payments' deadlines by the Member States would not be sufficient to cover the extra-ordinary amount of – EUR 200.0 million. The Commission would need to cover the resulting significant shortfall of negative budget appropriations by positive budget appropriations in order to close this budget item in 2011.



#### **4.4. Policy area 17**

##### *4.4.1. Food and feed safety, animal health, animal welfare and plant health (+EUR 110.1 million)*

The indicator for this budget item has been calculated on the basis of the planning of the budget commitments by responsible services of the Commission. It proves however, that the preparation and adoption of work programmes in this area was faster in 2011 than originally foreseen, which results in acceleration of budgetary commitments. At this point in time the Commission considers that the appropriations will be sufficient to cover the expected expenditure.

#### **5. IMPLEMENTATION OF REVENUE ASSIGNED TO EAGF**

The table in Annex 2 shows that assigned revenue amounting to EUR 1 219.4 million was collected as of 31 January 2011. Specifically:

- the revenue from corrections based on conformity clearance decisions amounted to EUR 236.1 million with additional amounts expected by the end of the budget year;
- the revenue from irregularities amounted to approximately EUR 57.8 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 20.4 million exceeding slightly the initial estimate of EUR 19.0 million;
- finally, contrary to the initially estimated amount of EUR 540.0 million, the amount of assigned revenue eventually carried over from 2010 into 2011 amounted to EUR 905.1 million.

Therefore, the amount of assigned revenue available for financing EAGF expenditure, on 31 January 2011, amounts to EUR 1 219.4 million. At this point in time, the Commission estimates that the amount of assigned revenue still to be collected amounts to EUR 392.7 million (estimated assigned revenue to be generated in the 2011 budget of EUR 707.0 million of which EUR 314.3 million has been collected).

#### **6. IMPLEMENTATION OF REVENUE ORIGINATING FROM THE TEMPORARY RESTRUCTURING AMOUNTS (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 carried over from the budget 2010, which, contrary to the initial estimates, amounts to EUR 1 044.8 million (higher than the EUR 1 015.0 million in the 2011 budget due to lower payments than expected made at the end of 2010).

## **7. IMPLEMENTATION OF SUGAR RESTRUCTURING FUND**

As of the end of January 2011, Member States had made insignificant payments (NB: payments of only EUR 5.7 million) for aids concerning restructuring measures, for diversification aids or for aids to sugar refining.

## **8. CONCLUSIONS**

The provisional execution of the 2011 EAGF budget's appropriations, for the period up to 31 January 2011, shows that monthly reimbursements to Member States exceeded the profile for budget execution based on the indicator, by approximately EUR 34.5 million. Assigned revenue amounting to EUR 1 219.4 million has been collected and an amount of EUR 392.7 million is still expected to be collected in 2011.

At this point in time, the Commission expects that the amount of assigned revenue which is available as well as the one which will become available, in the course of the year, will be used to cover the funding of the operational funds for producer organisations and for the single payment scheme as originally expected when the budget was established.

As regards the increase of accounting clearance corrections by – EUR 200.0 million to a total of – EUR 272 million, the Commission will closely follow the evolution of the budget's execution in order to see, if the under-execution in other parts of the budget will allow funding the part of this negative expenditure, which would not be covered by the Commission's accounting clearance decisions and other corrections for non-respect of the aid payments' deadlines by the Member States concerned.



Annex 2

BUDGET YEAR 2011 (\*\*)  
PROVISIONAL CONSUMPTION OF THE EAGF APPROPRIATIONS

Situation to the 31/01/2011  
in EUR million

	Appropriations Budget (***)	Consumption from November to January	Utilisation	Consumption profile as at January		Gap between implementation and indicator	
	EUR mio A	EUR mio B	% C=B/A	% D	EUR mio E=D*A	% F=C-D	EUR mio G=B-E
<b>Expenditure</b>							
05 01 (1) ADMINISTRATIVE EXPENDITURE FOR EAGF 05010401	9.1	0.7	7.7 %	2.2 %	0.2	5.5 %	0.5
<b>Total 05 01 Administrative expenditure for EAGF</b>	<b>9.1</b>	<b>0.7</b>	<b>7.7 %</b>	<b>2.2 %</b>	<b>0.2</b>	<b>5.5 %</b>	<b>0.5</b>
05 02 INTERVENTIONS IN AGRICULTURAL MARKETS							
05 02 01 Cereals	18.1	12.8	70.5 %	67.6 %	12.2	3.0 %	0.5
05 02 02 Rice	p.m.	0.0	0.0 %				
05 02 03 Refunds on non-Annex 1 products	31.0	3.8	12.3 %	35.8 %	11.1	-23.5 %	-7.3
05 02 04 Food programmes	500.1	30.5	6.1 %	1.7 %	8.4	4.4 %	22.1
05 02 05 Sugar	1.2	1.0	84.9 %	43.8 %	0.5	41.1 %	0.5
05 02 06 Olive oil	49.6	7.5	15.2 %	21.3 %	10.6	-6.1 %	-3.0
05 02 07 Textile plants	30.0	4.2	14.0 %	10.0 %	3.0	4.0 %	1.2
05 02 08 Fruits and vegetables (excl. 05020813)(estimated 500 Mio EUR from assigned revenue)(*)(****)	491.1	202.2	41.2 %	26.0 %	127.8	15.2 %	74.4
05 02 09 Products of the wine-growing sector	1,143.7	162.4	14.2 %	5.8 %	66.0	8.4 %	96.4
05 02 10 Promotion	59.1	14.2	24.1 %	25.6 %	15.1	-1.5 %	-0.9
05 02 11 Other plant products/measures	388.9	144.5	37.2 %	37.4 %	145.3	-0.2 %	-0.8
05 02 12 Milk and milk products	100.0	22.8	22.8 %	33.0 %	33.0	-10.2 %	-10.2
05 02 13 Beef and veal	35.1	16.0	45.5 %	29.2 %	10.3	16.3 %	5.7
05 02 14 Sheepmeat and goatmeat	p.m.	0.0					
05 02 15 Pigmeat, eggs and poultry, bee-keeping and other animal products	117.0	25.4	21.7 %	21.0 %	24.6	0.6 %	0.7
<b>Total 05 02 Interventions in agricultural markets (excluding 05 02 16)</b>	<b>2,964.9</b>	<b>647.3</b>	<b>21.8 %</b>	<b>15.8 %</b>	<b>467.9</b>	<b>6.0 %</b>	<b>179.4</b>
05 03 DIRECT AIDS							
05 03 01 Decoupled direct aids (estimated 747 Mio EUR credits coming from assigned revenue)(*)(****)	36,324.0	32,228.5	88.7 %	89.4 %	32,459.9	-0.6 %	-231.3
05 03 02 Other direct aids	3,447.0	1,464.4	42.5 %	45.3 %	1,561.7	-2.8 %	-97.3
05 03 03 Additional amounts of aid	0.1	0.2	223.9 %	21.3 %	0.0	202.6 %	0.2
<b>Total 05 03 Direct aids</b>	<b>39,771.1</b>	<b>33,693.1</b>	<b>84.7 %</b>	<b>85.5 %</b>	<b>34,021.6</b>	<b>-0.8 %</b>	<b>-328.5</b>
OTHER EXPENDITURE							
05 04 05040114 Rural development financed by the EAGGF-Guarantee Section-Programming period 2000-2006	p.m.	-1.7					
05 04 05040302 Plant and animal genetic resources-Completion of earlier measures	p.m.	0.0					
05 07 05070106 Accounting clearance of previous years' accounts	-272.0	0.0	0.0 %	27.5 %	-74.8	-27.5 %	74.8
(3) 05070107 Conformity clearance of previous years' accounts	p.m.	3.0					
Other lines (05070102 and 050702)	9.5	0.0	0.0 %	34.4 %	3.3	-34.4 %	-3.3
05 08 POLICY STRATEGY AND COORDINATION OF AGRICULTURE AND RURAL DEVELOPMENT POLICY AREA (excl. 050810)	25.7	0.3	1.2 %	0.3 %	0.1	0.9 %	0.2
11 02 (2) FISHERIES MARKETS (excl. 11020103)	30.0	0.0	0.0 %	0.0 %	0.0	0.0 %	0.0
17 01 (1) (2) ADMINISTRATIVE EXPENDITURE OF 'HEALTH AND CONSUMER PROTECTION' POLICY AREA 17010401, 17010405, 17010407 and 17010431	2.8	0.0	0.0 %	3.6 %	0.1	-3.6 %	-0.1
17 03 (1) (2) PUBLIC HEALTH 17 03 02 Community tobacco fund - direct payments by the EU	p.m.	0.0	0.0 %				
17 04 (1) (2) FOOD AND FEED SAFETY, ANIMAL HEALTH, ANIMAL WELFARE AND PLANT HEALTH 170401 to 170407 (excl. 17040303 and 170406)	350.1	265.2	75.7 %	44.3 %	155.1	31.4 %	110.1
<b>Total Expenditure (excluding 05 02 16)</b>	<b>42,891.2</b>	<b>34,607.9</b>	<b>80.7 %</b>	<b>80.6 %</b>	<b>34,573.5</b>	<b>0.1 %</b>	<b>34.5</b>
<b>Assigned Revenue</b>							
6 7 0 1 Clearance of EAGF accounts — Assigned revenue	600.0	236.1					
6 7 0 2 EAGF irregularities — Assigned revenue	88.0	57.8					
6 7 0 3 Superlevy from milk producers — Assigned revenue	19.0	20.4					
Assigned revenue carried over from 2010	540.0	905.1					
<b>Total Revenue (excluding 6 8)</b>	<b>1,247.0</b>	<b>1,219.4</b>					
<b>Sugar Restructuring Fund</b>							
05 02 16 Sugar Restructuring Fund	195.0	5.7					
6 8 0 1 Temporary restructuring amounts — Assigned revenue	p.m.	0.0					
Assigned revenue carried over from 2010	1,015.0	1,044.8					
6 8 0 2 Irregularities concerning the temporary restructuring fund — Assigned revenue	p.m.	0.0					
6 8 0 3 Clearance with regard to the temporary restructuring fund — Assigned revenue	p.m.	0.0					
<b>Total Sugar Restructuring Fund</b>	<b>820.0</b>	<b>1,039.1</b>					
(*) For information only: expenditure against original appropriations and estimated assigned revenue							
05 02 08 Fruits and vegetables (excl. 05020813)(incl. estimated assigned revenue of 500 Mio EUR)(****)	991.1	202.2	20.4 %	26.0 %	257.9	-5.6 %	-55.7
05 03 01 Decoupled direct aids (including estimated assigned revenue of 747 Mio EUR)(****)	37,071.0	32,228.5	86.9 %	89.4 %	33,127.4	-2.4 %	-898.9

(\*\*) Budget year = 16.10.2010 to 15.10.2011 but direct expenditure possible until 31.12.2011  
(\*\*\*) It concerns the commitments  
(\*\*\*\*) Including use of assigned revenues carried over from the previous year

(1) Chapter not exclusively EAGF  
(2) Chapter outside title 05 but included in EAGF  
(3) Used only for cases in which Member States are beneficiaries