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

on EAGF expenditure

Early Warning System No 8-9 2012

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ANNEX 1: PROVISIONAL CONSUMPTION OF EAGF APPROPRIATIONS UP TO 31/07/2012

1. INTRODUCTION

For the period 16 October 2011 to 31 July 2012, the budget's actual implementation level compared to the expenditure profile foreseen by the indicator, established on the basis of the dispositions of article 20 of Council Regulation (EC) No 1290/2005¹, is presented in Annex 1.

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 event where part of this revenue is not used, then, this part will be automatically carried forward to the following budget year.²

The 2012 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 2012 budget, the Commission took into consideration the total expected assigned revenue and requested in 2012 a level of appropriations calculated by deducting the estimated assigned revenue from its estimated expenditure. The Budgetary Authority adopted the EAGF budget taking account of the expected assigned revenue.

At the time of establishing the budget for 2012, the Commission's estimates for the available assigned revenue amounted to EUR 1 010 million. Specifically:

The assigned revenue expected to be generated in the course of the 2012 budget year was estimated at EUR 805 million. Amounts of EUR 600 million and EUR 150 million were expected to be collected from conformity clearance corrections and from irregularities respectively. The receipts from the milk levy were estimated at EUR 55 million.

The amount of assigned revenue expected to be carried over from the budget year 2011 into 2012 was estimated at EUR 205 million.

In the 2012 budget, the Commission allocated the expected assigned revenue of EUR 1 010 million to two schemes. Specifically:

¹ OJ L 209, 11.8.2005, p.1

² 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).

- EUR 310 million was assigned to the operational funds for producer organisations in the fruits and vegetables sector, and
- EUR 700 million to the single payment scheme.

For these two schemes, the Budgetary Authority eventually voted appropriations amounting to EUR 496 million and to EUR 30 472 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 806 million for the operational funds for producer organisations in the fruits and vegetables sector and EUR 31 172 million for the single payment scheme.

In annex 1, which presents the 2012 budget's provisional execution for the period to 31 July 2012, the figures of the budget appropriations for fruits and vegetables and for decoupled direct aids present voted appropriations for these two sectors, which amount to EUR 788 million and to EUR 37 189 million respectively, without taking account of the aforementioned assigned revenue. After including the revenue assigned to these sectors, the total appropriations foreseen in the 2012 budget amounted to EUR 1 098 million for fruits and vegetables and to EUR 37 889 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 2012 budget an amount of EUR 832.2 million was expected to be carried over from the budget year 2011 into 2012.

4. COMMENTS ON THE PROVISIONAL IMPLEMENTATION OF THE 2012 EAGF BUDGET

The budget's provisional implementation level for the period 16 October 2011 to 31 July 2012 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 20 of Council Regulation (EC) No 1290/2005. Below a brief commentary is presented for certain budget articles, which show the most significant divergences (in nominal and relative terms) between the actual and the expected level of implementation of the 2012 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 July 2012, by EUR 123.2 million. This divergence is primarily attributed to the wine and fruits and vegetables sectors. On the other hand, the uptake

of appropriations for food programmes was slower than expected taking into account the level of the indicator. At the same time, all other sectors presented in total a small under-implementation.

4.1.1. Refunds on non-Annex 1 products (- EUR 2.4 million)

The uptake of appropriations for exports refunds for non-Annex 1 products have been slower compared to the level of the indicator, mainly for the processed products containing dairy. Taking into consideration the recent communication from the Member States on the actual and forecasted execution as well as the evolution of the market, the Commission believes that this budget line is likely to show by the end of the year a slight under-execution.

4.1.2. Food programmes (- EUR 109.5 million)

The indicator for this budget line has been established on the basis of the payment profile observed in 2011. However in 2012 the legal provisions governing the scheme have changed considerably allowing purchases of the food on the market and advances for this purpose. Therefore the indicator which is based on the payment profile of 2011 is not entirely representative for this year's execution.

The Commission expects that significant expenditure would be reported on this article towards the end of the budget year, which is due to late amendment of the 2012 plan following the changes in the legal provisions for the scheme. The Commission is very closely observing the evolution of the expenditure on this budget article.

4.1.3. Olive oil (- EUR 12.2 million)

The slower uptake of the appropriations as of 31 July 2012 for this budget article is in relation to the private storage of olive oil. In fact, the budget 2012 for this article was based on a maximum quantity foreseen by the regulation. In reality the quantities put into storage were much lower than expected. Therefore, the Commission expects that there will be an under-execution of this article's 2012 budget appropriations. Part of the available appropriations is however being used for the financing of an additional private storage scheme which needed to be established as a result of the continuous unfavourable market conditions. The payments for the additional scheme are expected to start late in the year 2012 and continue in 2013.

4.1.4. Fruit and vegetables (+ EUR 188.0 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 2012 budget (NB: For details please see point 2 above). This implementation level is the result of applying the indicator for the period to 31 July 2012 to the budget's voted appropriations, which do not include the revenue assigned to this sector.

Furthermore, for the period under examination, Member States made payments at a rhythm which was faster than the level of the indicator established for the aid to

producer groups for preliminary recognition scheme. At this point in time, the Commission expects that the expenditure to be incurred for this scheme in 2012 will be higher than the corresponding appropriations included in the 2012 budget.

As from 2010, for the benefit of the reader, the Commission introduced footnote * to the provisional execution table which appears in annex 1. This footnote shows what the situation would be, had the indicator, as of 31 July 2012, 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 788 million and of the revenue assigned to this sector which is estimated at EUR 310 million. Therefore, had the indicator been applied to the total funding of EUR 1 098 million expected to be available for this sector, then, a small under-execution of EUR 2.5 million would appear.

However it needs to be pointed out that, in view of the 2012 Member States' incurred and forecasted expenditure for operational funds for producer organisations and preliminary recognition schemes, even with the revenue assigned to this sector, the Commission considers that the total funds available will not be sufficient to cover the needs of this sector. The Commission closely scrutinizes appropriations remaining available in other parts of the budget in order to cover this sector's expected over-execution.

4.1.5. Products of the wine-growing sector (+EUR 59.5 million)

When compared to the level of execution pointed out by the indicator on 31 July 2012, the current over-execution is due to the acceleration of the rhythm of payments made by Member States for the national support programmes for the wine sector. This rhythm has been slowing down in the last months compared to the beginning of the year. Furthermore, it should be noted that faster implementation rhythm for these programmes does not constitute any risk of exceeding the budget's appropriations, as they are equal to the financial ceilings established by the legislation for these programmes.

4.2. Direct aids

The uptake of appropriations for direct aids compared to the level of the indicator on 31 July 2012 was higher by EUR 345.1 million.

4.2.1. Decoupled direct aids (+EUR 479.0 million in comparison with voted appropriations)

As regards voted appropriations, the single payment scheme (SPS) presents an over-execution which results both from applying the indicator for the period to 31 July 2012 to the budget's voted appropriations which do not include the revenue assigned to this sector.

As from 2010, for the benefit of the reader, the Commission introduced footnote * to the provisional execution table which appears in annex 1. This footnote shows which would be the situation had the indicator, as of 31 July 2012, 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 37 189 million and of the revenue assigned to decoupled direct aids which is estimated to amount to EUR 700 million. Therefore, had the indicator been applied to the total funding of EUR 37 889 million expected to be available for decoupled direct aids, then, an under-execution of EUR 219.4 million would appear.

This is mainly due to slower than anticipated implementation rhythm of the decoupled specific support scheme under article 68. The Commission expects that a certain under-execution is likely to occur by the end of the year for this measure.

For the single payment scheme (SPS) and single area payment scheme (SAPS) the Member States have already paid approximately 99.5% and 99.1% of the estimated needs respectively. However, the Commission expects that there will be a relatively slight under-execution of the budget's available appropriations for these schemes by the end of the budget year.

4.2.2. Other direct aids (-EUR 133.4 million)

Similarly to decoupled direct aids, an under-execution in the other direct aids is mainly attributable to the slower than anticipated by the indicator implementation rhythm of the coupled specific support scheme under article 68. Similarly to the decoupled scheme some under-execution is expected by the end of the year.

4.3. Audit of agricultural expenditure

4.3.1. Accounting and conformity clearance of previous years' accounts (+EUR 201.5 million for accounting clearance and +EUR 34.5 million for conformity clearance)

For the accounting clearance of accounts budget line an implementation indicator is applied to the amount of – EUR 200 million, which the Budgetary Authority adopted in 2012 budget. It should be pointed out that the Commission, in its Amending Letter for 2012, had proposed for this line corrections amounting to – EUR 69 million.

By 31 July 2012 all accounting clearance decisions expected within this budget year have already been adopted by the Commission. The result of these decisions is that the Commission reimbursed, i.e. made positive corrections in favour of the Member States, a net amount of approximately EUR 33 million.

Furthermore, under the conformity clearance decisions taken by the Commission in 2012, positive corrections in favour of the Member States of approximately EUR 34.5 million were made.

Therefore, due to the above mentioned corrections and the negative expenditure of – EUR 200 million imposed by the Budgetary Authority, the Commission will need to find positive appropriations, amounting to EUR 267.5 million in order to close this budget article in 2012. The final amount of these positive corrections will be determined by the expected negative corrections, resulting from the non-respect of payment deadlines by Member States, which will be presented to the Funds committee in November 2012.

4.4. Other expenditure

4.4.1. Food and feed safety, animal health, animal welfare and plant health (- EUR 75.4 million)

The schemes funded under this article involve direct payments by the Commission, which can be made until 31 December. This year, due to the improved animal health situation and the changes in the legislation where fewer tests are required for TSE, the expected needs for the animal disease and eradication programmes are smaller compared to the ones estimated at the time of preparation of the 2012 budget. At this point in time, it is expected that the execution of this budget article will remain below the budgeted amount.

5. IMPLEMENTATION OF REVENUE ASSIGNED TO EAGF

The table in Annex 1 shows that assigned revenue amounting to EUR 625.6 million was collected as of 31 July 2012. Specifically:

- the revenue from corrections based on conformity clearance decisions amounted to EUR 443.4 million with additional amounts expected by the end of the budget year,
- the revenue from irregularities amounted to approximately EUR 125.1 million with additional amounts also expected by the end of the budget year, and
- at this point in time, the main share of the revenue from the milk levy has been collected and it amounts to EUR 57.1 million.

Finally, the amount of assigned revenue eventually carried over from 2011 into 2012 amounted to EUR 441.5 million which is significantly higher than the initially estimated amount of EUR 205 million.

Therefore, the amount of assigned revenue available for financing EAGF expenditure, on 31 July 2012, amounts to EUR 1 067.1 million. At this point in time, the Commission expects that the amount of assigned revenue still to be collected in 2012 will be slightly higher than the estimated EUR 805 million included in the 2012 budget.

6. IMPLEMENTATION OF REVENUE ORIGINATING FROM THE TEMPORARY RESTRUCTURING AMOUNTS (SUGAR SECTOR)

In accordance 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 2011, which, contrary to the initial estimates, amounts to EUR 856.8 million (higher than the EUR 832.2 million foreseen in the remarks to 2012 budget due to lower, than expected, aid payments made at the end of 2011). In the Draft Budget for 2013, the Commission has already made clear that it expects a

balance of assigned revenue from the Sugar Restructuring Fund to be available at its closure on 30 September 2012.

7. IMPLEMENTATION OF SUGAR RESTRUCTURING FUND

As of the end of July 2012, Member States had made payments of EUR 69.1 million for aids concerning restructuring measures, for diversification aids or for aids to sugar refining. Additional payments are expected to be made by the Member States in September 2012. However, the Commission currently expects that the level of overall payments made in the framework of Sugar Restructuring Fund might be slightly smaller than the level which was expected at the beginning of the 2012 budget year.

8. CONCLUSIONS

The provisional execution of the 2012 EAGF budget's appropriations, for the period up to 31 July 2012, shows that monthly reimbursements to Member States exceeded the expenditure profile for budget execution based on the indicator, by EUR 604 million.

Assigned revenue amounting to EUR 1 067.1 million is already available and additional amounts are still expected to be collected in 2012. At this point in time, while still closely following the execution of the 2012, the Commission expects that the amount of assigned revenue which is available and the amount which will become available in the course of the year, as well as the possible under-execution in other parts of the budget will be sufficient to cover the funding of the fruits and vegetables and decoupled direct aids sectors; and to allow funding both the accounting and conformity clearance positive corrections as well as the negative expenditure in the audit of agricultural expenditure chapter presented above.

Annex 1

BUDGET YEAR 2012 (**) PROVISIONAL CONSUMPTION OF THE EAGF APPROPRIATIONS

Situation to the 31/07/2012
in EUR million

	Appropriations Budget (***)	Consumption from November to July	Utilisation	Consumption profile as at July		Gap between implementation and indicator	
				%	EUR mio	%	EUR mio
	A	B	C=B/A	D	E=D*A	F=C-D	G=B-E
Expenditure							
05 01 (1) ADMINISTRATIVE EXPENDITURE FOR EAGF 05010401	8.8	5.7	64.7 %	72.7 %	6.4	-8.0 %	-0.7
Total 05 01 Administrative expenditure for EAGF	8.8	5.7	64.7 %	72.7 %	6.4	-8.0 %	-0.7
05 02 INTERVENTIONS IN AGRICULTURAL MARKETS							
05 02 01 Cereals	43.0	40.0	93.0 %	98.0 %	42.1	-5.0 %	-2.1
05 02 02 Rice	p.m.	0.0	0.0 %				
05 02 03 Refunds on non-Annex 1 products	12.0	7.4	61.5 %	81.2 %	9.7	-19.7 %	-2.4
05 02 04 Food programmes	500.1	138.8	27.8 %	49.6 %	248.3	-21.9 %	-109.5
05 02 05 Sugar	1.2	-0.2	-17.7 %	76.2 %	0.9	-93.9 %	-1.1
05 02 06 Olive oil	68.5	47.6	69.4 %	87.2 %	59.7	-17.8 %	-12.2
05 02 07 Textile plants	27.0	16.2	60.1 %	62.6 %	16.9	-2.5 %	-0.7
05 02 08 Fruits and vegetables (estimated 310 Mio EUR from assigned revenue)(*)(****)	788.0	672.0	85.3 %	61.4 %	484.0	23.9 %	188.0
05 02 09 Products of the wine-growing sector	1,108.9	608.1	54.8 %	49.5 %	548.6	5.4 %	59.5
05 02 10 Promotion	55.4	38.1	68.8 %	80.3 %	44.5	-11.5 %	-6.4
05 02 11 Other plant products/measures	356.5	283.6	79.6 %	79.6 %	283.9	-0.1 %	-0.2
05 02 12 Milk and milk products	91.1	80.2	88.1 %	81.9 %	74.6	6.2 %	5.6
05 02 13 Beef and veal	46.1	31.6	68.6 %	77.0 %	35.5	-8.4 %	-3.9
05 02 14 Sheepmeat and goatmeat	p.m.	0.0					
05 02 15 Pigmeat, eggs and poultry, bee-keeping and other animal products	133.0	95.8	72.0 %	65.6 %	87.3	6.4 %	8.5
Total 05 02 Interventions in agricultural markets (excluding 05 02 16 and 05 02 17)	3,230.8	2,059.3	63.7 %	59.9 %	1,936.2	3.8 %	123.2
05 03 DIRECT AIDS							
05 03 01 Decoupled direct aids (estimated 700 Mio EUR credits coming from assigned revenue)(*)(****)	37,189.0	37,586.1	101.1 %	99.8 %	37,107.1	1.3 %	479.0
05 03 02 Other direct aids	3,320.7	3,157.1	95.1 %	99.1 %	3,290.4	-4.0 %	-133.4
05 03 03 Additional amounts of aid	1.0	0.1	12.5 %	69.0 %	0.7	-56.5 %	-0.6
Total 05 03 Direct aids	40,510.7	40,743.3	100.6 %	99.7 %	40,398.2	0.9 %	345.1
05 04 OTHER EXPENDITURE							
05 04 05040114 Rural development financed by the EAGGF-Guarantee Section-Programming period 2000-2006	p.m.	-2.4					
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	-200.0	32.9	-16.5 %	84.3 %	-168.6	-100.8 %	201.5
05 07 (3) 05070107 Conformity clearance of previous years' accounts	p.m.	34.5					
05 07 Other lines (05070102 and 050702)	7.3	5.9	81.2 %	100.0 %	7.3	-18.8 %	-1.4
05 08 POLICY STRATEGY AND COORDINATION OF THE AGRICULTURE AND RURAL DEVELOPMENT POLICY AREA (excl. 050810 to 050812)	45.8	22.0	48.1 %	90.5 %	41.5	-42.4 %	-19.4
11 01 (2) Only 11010408 EAGF Non-operational technical assistance	0.5	0.0	0.0 %	0.0 %	0.0	0.0 %	0.0
11 02 (2) FISHERIES MARKETS (excl. 11020103)	30.0	29.9	99.8 %	100.0 %	30.0	-0.2 %	-0.1
17 01 (1) (2) ADMINISTRATIVE EXPENDITURE OF 'HEALTH AND CONSUMER PROTECTION' POLICY AREA	2.8	1.3	46.2 %	78.3 %	2.2	-32.1 %	-0.9
17 01 17010401, 17010405, 17010407 and 17010431							
17 03 (1) (2) PUBLIC HEALTH	p.m.	0.0	0.0 %				
17 03 17 03 02 Community tobacco fund - direct payments by the Union							
17 04 (1) (2) FOOD AND FEED SAFETY, ANIMAL HEALTH, ANIMAL WELFARE AND PLANT HEALTH 170401 to 170407 (excl. 17040102, 17040303 and 170406)	333.0	225.6	67.7 %	90.4 %	301.0	-22.6 %	-75.4
Total Expenditure (excluding 05 02 16 and 05 02 17)	43,969.6	43,158.1	98.2 %	96.8 %	42,554.1	1.4 %	604.0
Assigned Revenue	taken into account in the budget						
6 7 0 1 Clearance of EAGF accounts — Assigned revenue	600.0	443.4					
6 7 0 2 EAGF irregularities — Assigned revenue	150.0	125.1					
6 7 0 3 Superlevy from milk producers — Assigned revenue	55.0	57.1					
Assigned revenue carried over from 2011	205.0	441.5					
Total Revenue (excluding 6 8)	1,010.0	1,067.1					
Sugar Restructuring Fund	taken into account in the budget						
05 02 16 Sugar Restructuring Fund	193.0	69.1					
6 8 0 1 Temporary restructuring amounts — Assigned revenue	p.m.	0.0					
Assigned revenue carried over from 2011	832.2	856.8					
6 8 0 2 Irregularities concerning the temporary restructuring fund — Assigned revenue	p.m.	7.8					
6 8 0 3 Clearance with regard to the temporary restructuring fund — Assigned revenue	p.m.	0.0					
Total Sugar Restructuring Fund	639.2	795.6					
(*) For information only: expenditure against original appropriations and estimated assigned revenue							
05 02 08 Fruits and vegetables (incl. estimated assigned revenue of 310 Mio EUR)(****)	1,098.0	672.0	61.2 %	61.4 %	674.5	-0.2 %	-2.5
05 03 01 Decoupled direct aids (including estimated assigned revenue of 700 Mio EUR)(****)	37,889.0	37,586.1	99.2 %	99.8 %	37,805.6	-0.6 %	-219.4

(**) Budget year = 16.10.2011 to 15.10.2012 but direct expenditure possible until 31.12.2012

(***) 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