



Brussels, 27.3.2013
COM(2013) 182 final

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

on EAGF expenditure

Early Warning System No 10-11/2012

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ANNEX 1: PROVISIONAL CONSUMPTION OF EAGF APPROPRIATIONS UP TO 15/10/2012

1. INTRODUCTION

The provisional implementation of the 2012 EAGF budget is presented in the annexed table and it is expected to amount to EUR 44 749.8 million. This amount mainly reflects EAGF expenditure under shared management as declared by Member States between 16 October 2011 to 15 October 2012, including the amounts corrected under the accounting clearance of EAGF's accounts and the suspensions and reductions of monthly reimbursements imposed in the course of the budget year. It further includes an estimate of expenditure, amounting to approximately EUR 31 million, which can be still made directly by the Commission up to 31 December 2012.

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.¹

As already outlined in previous Early Warning System reports, the Commission's initial estimates for the available assigned revenue in 2012 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 assigned the initially estimated assigned revenue of EUR 1 010 million to two schemes. Specifically:

- 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.

¹ Assigned revenue carried over has to be used first, which means before any appropriations voted by the Budgetary Authority or the assigned revenues generated in the year (Art 10 of Council Regulation (EC) No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities).

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, the figures of the budget appropriations for fruits and vegetables and for decoupled direct aids represent voted appropriations for these two sectors, which amount to EUR 788 million and to EUR 37 189 million respectively, excluding 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 initially expected to be carried over from the budget year 2011 into 2012.

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

The 2012 budget's provisional implementation level is presented in Annex 1. Herebelow a brief commentary is presented for certain budget articles, which show the most significant divergences (in nominal and relative terms) between the actual expenditure incurred and the corresponding appropriations included in the 2012 budget.

4.1. Market measures

The uptake of appropriations for interventions in agricultural markets compared to the level of the budget's voted appropriations, was higher by EUR 176.6 million, but it is lower by 133.4 million when taking into account EUR 310 million foreseen as assigned revenue for this chapter. This divergence results from a composite under-execution of the majority of the sectors.

4.1.1. Refunds on non-Annex 1 products (- EUR 2.9 million)

The under-execution of this chapter results from the lower payments made by Member States for the export certificates mainly for the processed products containing dairy ingredients compared to those estimated in the budget.

4.1.2. *Food programmes (+EUR 15.0 million)*

In 2012, Member States paid outstanding balances concerning transport and administrative costs for previous years' plans for deprived persons. These payments combined with the Member States payments for the 2012 plan led to this over-execution of the 2012 budget's appropriations for this scheme.

4.1.3. *Olive oil (- EUR 13.2 million)*

The under-execution for this budget article arises from the schemes concerning the private storage of olive oil. In fact, the budget 2012 for this article was based on a maximum quantity of olive oil in private storage foreseen under Commission Implementing Regulation (EU) No 1023/2011. However, in reality the quantities put into storage were much lower than expected. A part of the resulting available appropriations is however being used for the financing of two additional olive oil private storage schemes which had to be established as a result of the continuous unfavourable market conditions in this market. The final under-execution is due to the fact that payments for these additional schemes started late in the year 2012 and are expected to continue in 2013.

4.1.4. *Fruit and vegetables (+ EUR 283.2 million in comparison with voted appropriations)*

This significant over-execution results from comparing the expenditure incurred in this sector with the 2012 budget's voted appropriations, which do not include the revenue assigned to this sector. However, if the revenue of EUR 310 million assigned to this sector is included (please see footnote * at the bottom of the annexed table), then total available appropriations rise to EUR 1 098 million and then, a small under-execution of EUR 26.8 million would appear.

This under-execution is the net result of different execution levels for the schemes funded by this sector's appropriations:

With regard to the operational funds for producers' organisations and to the School Fruit Scheme, Member States incurred expenditure smaller than the one forecasted in the budget.

However, Member States incurred expenditure for the aids related to the preliminary recognition of producer groups which was significantly higher than the appropriations available for this scheme in the 2012 budget.

4.1.5. *Products of the wine-growing sector (-EUR 36.9 million)*

This under-execution is due to the slightly lower expenditure incurred by certain Member States for both their wine national support programmes compared to their respective budgeted ceiling) and for the grubbing-up scheme funded under this article.

4.1.6. *Other plant products/measures (-EUR 26.3 million)*

The year-end under-execution in this article is primarily attributable to POSEI measures, for which Member States reprogrammed their national plans in the course

of the year with a shift from market support to actions financed under the corresponding direct aids scheme in article 05 03 02.

4.1.7. Milk and milk products (- EUR 24.1 million)

The under-execution in this article is due the smaller expenditure incurred by Member States on the school milk scheme compared to the one forecasted in the voted budget.

4.1.8. Beef and veal (- EUR 8.8 million)

The decrease in the export refund rates for meat and live animals that took place in April 2012 led to the budget's under-execution in this article.

4.2. Direct aids

The uptake of appropriations for direct aids was higher compared to the level of the budget's voted appropriations by EUR 369.1 million, but lower by EUR 330.9 million when taking account of the foreseen assigned revenue of EUR 700 million for this chapter. This divergence results primarily from the decoupled direct aids sector.

4.2.1. Decoupled direct aids (+EUR 476.5 million in comparison with voted appropriations)

This significant over-execution results from comparing the expenditure incurred for decoupled direct aids with the 2012 budget's voted appropriations, which do not include the revenue assigned to this sector. However, if the revenue of EUR 700 million assigned to this sector (please see footnote * at the bottom of the annexed table) is included, then total available appropriations rise to EUR 37 889 million and the over-execution turns to an under-execution of - EUR 223.5 million.

This under-execution is due to the lower expenditure incurred by Member States, primarily, for the single payment scheme (SPS) and for the decoupled specific support measures under article 68 of Council Regulation (EC) No 73/2009. However, it should be noted that the single payment scheme (SPS) was executed, in 2012, at 99.7% of the budget's available appropriations. In the case of the single area payment scheme (SAPS), its execution at 99.2% was its highest implementation rate up to now.

4.2.2. Other direct aids (-EUR 107 million)

This under-execution is primarily due to the lower expenditure incurred by Member States for the coupled specific support measures under article 68 of Council Regulation (EC) No 73/2009, for some of the animal premiums and for the protein crop premium compared to the one initially forecasted in the 2012 budget.

4.3. Audit of agricultural expenditure

4.3.1. Accounting and conformity clearance of previous years' accounts (+EUR 228.5 million for accounting clearance and +EUR 36.2 million for conformity clearance)

For the accounting clearance of accounts budget line voted appropriations for the 2012 budget amounted to –EUR 200 million. It should be pointed out that the Commission, in its Amending Letter No 3 for 2012, had proposed for this line corrections amounting to –EUR 69 million.

Instead of making negative corrections under the accounting clearance procedure in 2012, the Commission took accounting clearance decisions, under which it had to reimburse, i.e. make positive corrections in favour of the Member States, a net amount of EUR 28.5 million. This latter amount added to the aforementioned negative amount of –EUR 200 million makes it necessary for the Commission to identify and transfer from other items of the budget positive budget appropriations, amounting to approximately EUR 228.5 million, in order to close this budget item in 2012.

Furthermore, under the conformity clearance decisions taken by the Commission in 2012, positive corrections in favour of the Member States of approximately EUR 36.2 million were made. Positive budget appropriations to cover this amount will also have to be transferred from items of the budget.

4.3.2. Other expenditure (+EUR 38.3 million for settlement of disputes)

Budget article 05 07 02 is intended to cover the Union's costs of settling disputes. This article retained appropriations amounting to EUR 0.8 million in 2012. On 29 March 2012, the European Court of Justice annulled Commission Decision 2007/361/EC. Therefore, the Commission had to reimburse the amount of EUR 39.1 million paid by the Member States concerned under this decision. Compared to the 2012 budget's retained appropriations, this payment led to an over-execution of these appropriations by the amount indicated above.

4.4. Other expenditure

4.4.1. Food and feed safety, animal health, animal welfare and plant health (- EUR 65.0 million)

The schemes funded under this article involve direct payments by the Commission. Payments amounting to EUR 22.6 million are forecasted to be still made up to 31 December 2012.

This year, due to the improved animal health situation and the changes in the legislation where fewer tests are required for TSE, needs for the animal disease and eradication programmes were smaller compared to the ones forecasted in the 2012 budget. That is why the Commission proposed a reduction of the appropriations amounting to EUR 65.4 million in the Amending Budget No 6/2012 adopted on 12 December 2012.

5. IMPLEMENTATION OF REVENUE ASSIGNED TO EAGF

The annexed table shows that the total assigned revenue eventually available in 2012 amounted to EUR 1 341.1 million. It was higher by EUR 331.1 million compared to the initially forecasted amount of EUR 1 010 million.

This difference is partly due to the fact that the amount of assigned revenue carried over from 2011 into 2012 was EUR 236.5 million higher at EUR 441.5 million than the amount of EUR 205 million initially foreseen in the budget. It should be pointed out that the assigned revenue carried over from 2011 into 2012 has been entirely used in financing expenditure of the 2012 budget year in accordance with article 10 of the Financial Regulation.

Furthermore, the assigned revenue freshly collected in 2012 amounted to EUR 900.4 million compared to the amount of EUR 805 million foreseen in the budget. This is mainly due to the fact that certain Member States did not finally request, as initially expected, that their conformity clearance corrections would be paid in instalments, thus, leading to a faster than otherwise intake of the corresponding assigned revenue. The part of the freshly collected assigned revenue, which will not be used in 2012, will be carried over into the 2013 budget year and it will be used to finance the expenditure incurred in that year.

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 to the amount carried over from the budget 2011, which, contrary to the initial estimates, amounts to EUR 856.8 million. This amount was higher than the EUR 832.2 million foreseen in the remarks to the 2012 budget because aid payments made at the end of 2011 were lower than expected. In the Amending Letter No 1 for 2013, the Commission has indicated that it expects a balance of assigned revenue, amounting to EUR 675 million, from the Sugar Restructuring Fund to be available for EAGF at its closure on 30 September 2012. Based on preliminary execution figures provided by the Member States, it appears that the assigned revenue which is available to the EAGF will amount to around EUR 755 million.

7. IMPLEMENTATION OF SUGAR RESTRUCTURING FUND

By 30 September 2012, the final date of the Fund's implementation, Member States had made net payments of EUR 109.7 million for aids concerning restructuring measures, for diversification aids or for aids to sugar refining. Apart from minor adjustments, no payments can be expected to be made under this fund after 30 September 2012. The level of overall payments made in the framework of Sugar Restructuring Fund in 2012 is smaller compared to the Commission's forecasted level in the 2012 budget, thus, leading to the higher amount of assigned revenue remaining in the fund as pointed out in point 6 above.

8. CONCLUSIONS

The provisional execution of the 2012 EAGF budget results in an execution of EUR 780.2 million above the budget's voted appropriations (excluding the above-mentioned reduction of the appropriations amounting to EUR 65.4 million for veterinary and plant health measures in the Amending Budget No 6/2012 – see point 4.4.1 above), which is covered by the available assigned revenue of EUR 1 341.1 million.

A number of end-of-year adjustments and transfers of appropriations still has to be made. Taking them and all the above into account, it is estimated that the assigned revenue to be carried over to the 2013 EAGF amounts to EUR 490 million. The available balance of assigned revenue of the Sugar Restructuring Fund adds an additional amount of EUR 755 million to be carried over to the EAGF in 2013.

Annex 1

BUDGET YEAR 2012 (**)

PROVISIONAL CONSUMPTION ON 31.12.2012
AGAINST APPROPRIATIONS OF EAGF

| | | Appropriations Budget (***) | Expenditure on 15 October 12 | Forecasts direct Commission payments(***) until 31.12.12 | Total expenditure of Exercise 2012 | Utilisation % | Gap between expenditure and appropriations | |
|-------------|--|--------------------------------|------------------------------------|--|--|------------------|--|--------------|
| | | EUR mio | EUR mio | EUR mio | EUR mio | % | % | EUR mio |
| | | (1) | (2) | (3) | (4)=(2)+(3) | (5)=(4)*100/(1) | (6)=(5)-100% | (7)=(4)-(1) |
| Expenditure | | | | | | | | |
| 05 01 | (1) ADMINISTRATIVE EXPENDITURE FOR EAGF | 8,8 | 7,1 | 1,5 | 8,6 | 97,7% | -2,3% | -0,2 |
| | 05010401 | | | | | | | |
| | Total 05 01 Administrative expenditure for EAGF | 8,8 | 7,1 | 1,5 | 8,6 | 97,7% | -2,3% | -0,2 |
| 05 02 | INTERVENTIONS IN AGRICULTURAL MARKETS | | | | | | | |
| 05 02 01 | Cereals | 43,0 | 41,8 | | 41,8 | 97,3% | -2,7% | -1,2 |
| 05 02 02 | Rice | p.m. | 0,0 | | 0,0 | | | |
| 05 02 03 | Refunds on non-Annex 1 products | 12,0 | 9,1 | | 9,1 | 76,0% | -24,0% | -2,9 |
| 05 02 04 | Food programmes | 500,1 | 515,1 | | 515,1 | 103,0% | 3,0% | 15,0 |
| 05 02 05 | Sugar | 1,2 | -0,2 | | -0,2 | -19,5% | -119,5% | -1,4 |
| 05 02 06 | Olive oil | 68,5 | 55,3 | | 55,3 | 80,8% | -19,2% | -13,2 |
| 05 02 07 | Textile plants | 27,0 | 25,2 | | 25,2 | 93,2% | -6,8% | -1,8 |
| 05 02 08 | Fruits and vegetables (estimated 310 Mio EUR from assigned revenue)(*)(****) | 788,0 | 1.071,2 | | 1.071,2 | 135,9% | 35,9% | 283,2 |
| 05 02 09 | Products of the wine-growing sector | 1.108,9 | 1.072,0 | | 1.072,0 | 96,7% | -3,3% | -36,9 |
| 05 02 10 | Promotion | 55,4 | 47,9 | 0,9 | 48,8 | 88,1% | -11,9% | -6,6 |
| 05 02 11 | Other plant products/measures | 356,5 | 330,2 | | 330,2 | 92,6% | -7,4% | -26,3 |
| 05 02 12 | Milk and milk products | 91,1 | 67,0 | | 67,0 | 73,6% | -26,4% | -24,1 |
| 05 02 13 | Beef and veal | 46,1 | 37,3 | | 37,3 | 81,0% | -19,0% | -8,8 |
| 05 02 14 | Sheepmeat and goatmeat | p.m. | 0,0 | | 0,0 | | | |
| 05 02 15 | Pigmeat, eggs and poultry, bee-keeping and other animal products | 133,0 | 134,4 | | 134,4 | 101,1% | 1,1% | 1,4 |
| | Total 05 02 Interventions in agricultural markets (excluding 05 02 16) | 3.230,8 | 3.406,4 | 0,9 | 3.407,4 | 105,5% | 5,5% | 176,6 |
| 05 03 | DIRECT AIDS | | | | | | | |
| 05 03 01 | Decoupled direct aids (estimated 700 Mio EUR credits coming from assigned revenue)(*)(****) | 37.189,0 | 37.665,5 | | 37.665,5 | 101,3% | 1,3% | 476,5 |
| 05 03 02 | Other direct aids | 3.320,7 | 3.213,7 | | 3.213,7 | 96,8% | -3,2% | -107,0 |
| 05 03 03 | Additional amounts of aid | 1,0 | 0,6 | | 0,6 | 63,8% | -36,2% | -0,4 |
| | Total 05 03 Direct aids | 40.510,7 | 40.879,8 | 0,0 | 40.879,8 | 100,9% | 0,9% | 369,1 |
| | OTHER EXPENDITURE | | | | | | | |
| 05 04 | 05040114 Rural development financed by the EAGGF-Guarantee Section- Programming | p.m. | -2,8 | | -2,8 | | | |
| | 05040302 Plant and animal genetic resources-Completion of earlier measures | p.m. | 0,0 | | 0,0 | | | |
| 05 07 | 05070106 Accounting clearance of previous years' accounts | -200,0 | 28,5 | | 28,5 | -14,3% | -114,3% | 228,5 |
| | (3) 05070107 Conformity clearance of previous years' accounts | p.m. | 36,2 | | 36,2 | | | |
| | Other lines (05070102 and 050702) | 7,3 | 45,1 | 0,5 | 45,6 | 625,1% | 525,1% | 38,3 |
| 05 08 | POLICY STRATEGY AND COORDINATION OF AGRICULTURE AND RURAL DEVELOPMENT POLICY AREA (excl. 050810 to 050812) | 45,8 | 41,3 | 4,1 | 45,4 | 99,1% | -0,9% | -0,4 |
| 11 01 | (2) Only 11010408 EAGF Non-operational technical assistance | 0,5 | 0,0 | 0,5 | 0,5 | 100,0% | 0,0% | 0,0 |
| 11 02 | (2) FISHERIES MARKETS (excl. 11020103) | 30,0 | 29,9 | 0,1 | 30,0 | 100,0% | 0,0% | 0,0 |
| 17 01 | (1) (2) ADMINISTRATIVE EXPENDITURE OF HEALTH AND CONSUMER PROTECTION POLICY AREA 17010401, 17010405, 17010407 and 17010431 | 2,8 | 1,7 | 0,9 | 2,6 | 92,8% | -7,2% | -0,2 |
| 17 03 | (1) (2) PUBLIC HEALTH 17 03 02 Community tobacco fund - direct payments by the Union | p.m. | 0,0 | | 0,0 | | | |
| 17 04 | (1) (2) FOOD AND FEED SAFETY, ANIMAL HEALTH, ANIMAL WELFARE AND PLANT HEALTH | 333,0 | 245,4 | 22,6 | 268,0 | 80,5% | -19,5% | -65,0 |
| | Total Expenditure (excluding 05 02 16 and 05 02 17) | 43.969,6 | 44.718,6 | 31,2 | 44.749,8 | 101,8% | 1,8% | 780,2 |

| | Assigned Revenue | taken into account in the | | | | | |
|-------|--|---------------------------------|----------------|------------|----------------|--|--|
| 67 01 | Clearance of EAGF accounts — Assigned revenue | 600,0 | 674,8 | | 674,8 | | |
| 67 02 | EAGF irregularities — Assigned revenue | 150,0 | 160,7 | | 160,7 | | |
| 67 03 | Superlevy from milk producers — Assigned revenue | 55,0 | 64,1 | | 64,1 | | |
| | Assigned revenue carried over from 2011 | 205,0 | 441,5 | | 441,5 | | |
| | Total Revenue (excluding 6 8) | 1.010,0 | 1.341,1 | 0,0 | 1.341,1 | | |

| | Sugar Restructuring Fund | taken into account in the budget | | | | | |
|----------|---|---|--------------|------------|--------------|--|--|
| 05 02 16 | Sugar Restructuring Fund | 193,0 | 109,7 | | 109,7 | | |
| 68 01 | Temporary restructuring amounts — Assigned revenue | p.m. | 0,0 | | 0,0 | | |
| | Assigned revenue carried over from 2011 | 832,2 | 856,8 | | 856,8 | | |
| 68 02 | Irregularities concerning the temporary restructuring fund — Assigned revenue | p.m. | 7,8 | | 7,8 | | |
| 68 03 | Clearance with regard to the temporary restructuring fund — Assigned revenue | p.m. | 0,0 | | 0,0 | | |
| | Total Sugar Restructuring Fund | 639,2 | 755,0 | 0,0 | 755,0 | | |

| | | | | | | | | |
|--|---|----------|----------|--|----------|-------|-------|--------|
| (*) 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)(****) | 1098 | 1.071,2 | | 1.071,2 | 97,6% | -2,4% | -26,8 |
| 05 03 01 | Decoupled direct aids (including estimated assigned revenue of 700 Mio EUR)(****) | 37.889,0 | 37.665,5 | | 37.665,5 | 99,4% | -0,6% | -223,5 |

(**) 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