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

on EAGF expenditure

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ANNEX 1: THE 2015 BUDGETARY PROCEDURE

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1. THE 2015 EAGF BUDGETARY PROCEDURE

The key figures for the European Agricultural Guarantee Fund (EAGF) at different steps of the budgetary procedure are summarised in the table presented in Annex 1.

The 2015 EAGF budget was adopted by the European Parliament on 17 December 2014. The budget included commitment and payment appropriations amounting to EUR 43 455.8 million and to EUR 43 447.6 million respectively for agricultural market measures and direct aids

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 relate mainly to promotion measures for agricultural products and to policy strategy and coordination measures for agriculture.

2. REVENUE ASSIGNED TO EAGF

On the basis of the provisions of Article 43 of Regulation (EU) No 1306/2013 on the financing, management and monitoring of the common agricultural policy 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 year¹.

The 2015 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 2015 EAGF budget appropriations, the Commission took into consideration the total expected assigned revenue and requested for the 2015 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 2015, the Commission's estimates for the available assigned revenue amounted to EUR 1 768.6 million. Specifically:

- The assigned revenue expected to be generated in the course of the 2015 budget year was estimated at EUR 1 438.6 million. Amounts of EUR 868.6 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 405 million.

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 amount of assigned revenue expected to be carried over from the budget year 2014 into 2015 was estimated at EUR 330 million.

In the 2015 budget, the Commission assigned this initially estimated revenue of EUR 1 768.6 million to the following schemes:

- EUR 362.4 million was assigned to the operational funds for producer organisations in fruit and vegetables,
- EUR 106.9 million to the other measures in fruit and vegetables,
- EUR 0.9 million to the storage measures for skimmed milk powder,
- EUR 2.9 million to the storage measures for butter and cream,
- EUR 50.5 million to the other measures in milk and milk products, and
- EUR 1 245 million to the single payment scheme.

For these schemes, the Budgetary Authority eventually voted appropriations 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 needs of:

- EUR 903.9 million was assigned for the operational funds for producer organisations in fruit and vegetables,
- EUR 107.6 million for the other measures in fruit and vegetables,
- EUR 0.9 million for the storage measures for skimmed milk powder,
- EUR 2.9 million for the storage measures for butter and cream,
- EUR 50.6 million for the other measures in milk and milk products, and
- EUR 29 587 million for the single payment scheme.

In annex 2, which presents the 2015 budget's provisional execution for the period to 31 January 2015, the figures of the budget appropriations at article level for fruit and vegetables, for milk and milk products and for the decoupled direct aids present voted appropriations for these articles amounting to EUR 836.2 million, to EUR 77.1 million and to EUR 37 397 million respectively, without taking account of the aforementioned assigned revenue. Including the revenue assigned to these articles, the total appropriations foreseen in the 2015 budget amount to EUR 1 305.5 million for fruit and vegetables, EUR 131.4 million for milk and milk products and to EUR 38 642 million for decoupled direct aids.

3. COMMENTS ON THE PROVISIONAL IMPLEMENTATION OF THE 2015 EAGF BUDGET

The budget's provisional implementation for the period 16 October 2014 to 31 January 2015 is presented in Annex 2. This implementation level is compared to the expenditure profile based on the indicator, which was established on the basis of the dispositions 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 2015 budget.

3.1. Market measures

The uptake of appropriations for interventions in agricultural markets was lower compared to the level of the budget's voted appropriations, as determined by the

level of the indicator on 31 January 2015, by EUR 107.5 million. This divergence is the net effect of the execution patterns primarily in the fruits and vegetables and wine sectors.

3.1.1. Fruit and vegetables (+ EUR 17 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 and other measures in fruit and vegetables, which are funded both by the budget's voted appropriations and by the revenue assigned to this scheme in the 2015 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 2015 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 2 shows what the situation would be, had the indicator, as of 31 January 2015, been applied to the total appropriations, which are expected to be available in order to fund this article. As it is pointed out in point 2 above, the total funding expected to be available for this article is composed of the budget's voted appropriations of EUR 836.2 million and of the revenue assigned to this article which is estimated at EUR 469.3 million. Therefore, had the indicator been applied to the total funding of EUR 1 305.5 million expected to be available for this article, then, an under-execution of - EUR 63 million would appear.

This is the effect of slower uptake of all the schemes funded by this article. It needs to be noted that the pace of the uptake of budgetary appropriations for the crisis measures could not be reliably estimated, and is likely to diverge from a 3-year average consumption profile which is the basis for the indicator for this article. At this point in time, this situation is considered to be temporary and the execution of this article is closely monitored by the responsible Commission services.

3.1.2. Products of the wine-growing sector (- EUR 130.8 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 national wine programmes. At this point in time, this situation is considered to be temporary.

3.2. Direct aids

The uptake of appropriations for direct aids compared to the level of the indicator on 31 January 2015 was higher by EUR 650.8 million.

3.2.1. Decoupled direct aids (+EUR 691.7 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 2015 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 2015 to the budget's voted appropriations, which do not include the revenue assigned to this article.

A footnote * in the provisional execution table in annex 2 shows which would be the situation had the indicator, as at 31 January 2015, 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 37 397 million and of the revenue assigned to decoupled direct aids which is estimated to amount to EUR 1 245 million. Therefore, had the indicator been applied to the total funding of EUR 38 642 million expected to be available for decoupled direct aids, then, the under-execution of - EUR 488.8 million would appear.

This divergence in the level of implementation of the budget for decoupled direct aids results mainly from accelerated payments for the single payments scheme in the first two months of the year (as compared to similar period in three previous years) and a temporary deceleration in the month of January. Judging from Member States' forecast execution is bound to regain speed in the coming months.

The Commission expects, at this point in time, that available appropriations and assigned revenue would be sufficient to cover the funding needs for this article.

3.2.2. Other direct aids (- EUR 40.9 million)

This under-implementation of voted appropriations for other direct aids as compared to the expenditure profile of the established indicator on 31 January 2015 is mainly the effect of the slower payment rhythm for specific support under article 68 – coupled direct aids. At this point in time, this situation is considered to be temporary.

3.3. Audit of agricultural expenditure (- EUR 16.9 million)

In addition to direct expenditure for monitoring and preventive measures and expenditure for financial corrections in favour of the Member States amounting in total to EUR 26.8 million, the 2015 budget included estimates of EUR 60.5 million for payments concerning settlement of disputes. When establishing the expenditure profile for the settlement of disputes, in absence of established past execution profile, it was assumed that Member States would pay these amounts evenly over the year. However, as of 31 January 2015, Member States have not made any such payments yet. As a consequence, an under-execution in relation to the level of the indicator resulted for this chapter of the 2015 budget. At this point in time, this situation is considered to be temporary and a full execution of the budget is expected.

4. IMPLEMENTATION OF REVENUE ASSIGNED TO EAGF

The table in Annex 2 shows that assigned revenue amounting to EUR 995.6 million was collected as of 31 January 2015. Specifically:

- the revenue from corrections based on accounting and conformity clearance decisions amounted to EUR 179 million with significant amounts still expected by the end of the budget year;
- the revenue from irregularities amounted to EUR 68 million with additional amounts also expected by the end of the budget year, and
- at this point in time, the entire revenue from the milk levy has been collected and it amounts to approximately EUR 407.3 million;

Finally, the amount of assigned revenue eventually carried over from 2014 into 2015 amounted to EUR 341.3 million.

Therefore, the amount of assigned revenue available for financing EAGF expenditure, on 31 January 2015, amounts to EUR 995.6 million with additional significant amounts of freshly collected assigned revenue from accounting and

conformity clearance decisions and irregularities expected by the end of the budget year.

5. CONCLUSIONS

The provisional execution of the 2015 EAGF budget's appropriations, for the period up to 31 January 2015, shows that monthly reimbursements to Member States exceeded the expenditure profile for budget execution based on the indicator, by approximately EUR 526.5 million.

Assigned revenue amounting to EUR 995.6 million is already available and additional amounts are still expected to be collected in 2015. 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 for certain fruit and vegetables and milk and milk products items, as well as for the single payment scheme as originally expected when the 2015 budget was established.