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

on EAGF expenditure

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ANNEX 1: PROVISIONAL CONSUMPTION OF EAGF APPROPRIATIONS UP TO 31/05/2016

1. INTRODUCTION

This report presents an update of the provisional 2016 budget execution for the European Agricultural Guarantee Fund (EAGF). In particular, Annex 1 presents the comparison between the actual level of the implementation of the EAGF budget for the period 16 October 2015 to 31 May 2016 and the forecasted expenditure profile. The latter results from the application of the indicator to the level of the budgetary appropriations. The indicator is 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.

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. It should be noted that budget year 2016 is the final year when the revenue originating from the milk levy is collected, due to the expiry of the milk quotas on 31 March 2015.

The 2016 EAGF budget included both: the Commission's latest estimates of the needs to finance the expected expenditure for market measures and direct payments, 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 2016 EAGF budget appropriations, the Commission took into consideration the total expected assigned revenue and requested for the 2016 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 2016, the Commission's estimates for the available assigned revenue amounted to EUR 2 980 million. Specifically:

- The assigned revenue expected to be generated in the course of the 2016 budget year was estimated at EUR 2 090 million. Amounts of EUR 1 125 million and EUR 155 million were expected from conformity clearance corrections and from irregularities respectively. The receipts from the milk levy were estimated at EUR 810 million.
- The amount of assigned revenue expected to be carried over from the budget year 2015 into 2016 was estimated at EUR 890 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 2016 budget, the Commission assigned this initially estimated revenue of EUR 2 980 million to the following schemes:

- EUR 600 million was assigned to the operational funds for producer organisations in fruit and vegetables, and
- EUR 2 380 million to the basic 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:

- EUR 898 million for the operational funds for producer organisations in fruit and vegetables,
- EUR 18 307 million for the basic payment scheme.

In annex 2, which presents the 2016 budget's provisional execution for the period to 31 May 2016, the figures of the budget appropriations at article level for fruit and vegetables and for the decoupled direct payments do not take account of the aforementioned assigned revenue. They present voted appropriations for these articles amounting to EUR 611.8 million and to EUR 34 269.2 million respectively. Including the revenue assigned to these articles, the total amounts foreseen in the 2016 budget are EUR 1 211.8 million for fruit and vegetables and EUR 36 649.2 million for decoupled direct payments.

3. COMMENTS ON THE PROVISIONAL IMPLEMENTATION OF THE 2016 EAGF BUDGET

The budget's provisional implementation for the period 16 October 2015 to 31 May 2016, as presented in Annex 1, is compared to the expenditure profile based on the indicator established in accordance with 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 2016 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 May 2016, by EUR 111.2 million. This divergence is the net effect of the execution patterns primarily in the fruits and vegetables, milk and milk products and wine sectors.

3.1.1. *Fruit and vegetables (+ EUR 61.1 million in comparison with 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 voted appropriations and by the assigned revenue (NB: For details please see point 2 above). In contrast, the indicator for the period to 31 May 2016 is applied only to the budget's voted appropriations of EUR 611.8 million, thus not taking into account the assigned revenue.

A footnote * in the provisional execution table in annex 1 shows what the situation would be, had the indicator been applied to the total appropriations for this article including the assigned revenue of EUR 600 million. Had the indicator been applied to the total funding expected to be available for this article (EUR 1 211.8 million), then an under-execution of - EUR 308.1 million would appear.

This is the effect of a slower uptake of the various schemes funded by this article. It should be noted that the pace of the uptake of budgetary appropriations for the crisis measures, available under the operational funds for producer organisations and other measures in fruit and vegetables, could not be reliably estimated. Thus it is likely to diverge from the assumed consumption profiles which are the basis for the indicator for these items.

At this point in time, this situation is considered to be temporary and the execution of this article is closely monitored by the Commission services.

3.1.2. *Products of the wine-growing sector (- EUR 24.8 million)*

This under-execution is due to a slower rhythm of payments made by the Member States compared to the expenditure profile of the established indicator for the national wine programmes. However, Member States usually accelerate the rhythm of implementation of these programmes towards the end of the budget year. Therefore, at this point in time, this situation is considered to be temporary.

3.1.3. *Milk and milk products (- EUR 162.5 million)*

The main reason for the implementation level in this article can be attributed to the progress of the execution and the application of the targeted aid for the livestock sectors. The amount of EUR 420 million of appropriations for the targeted aid scheme has been budgeted under item 05 02 12 99 – Other measures (milk and milk products). However as the Member States can allocate the aid to producers in all livestock sectors, the uptake of the appropriations in this article will be lower and necessary transfers will have to be foreseen to cover expenditure declared in other articles.

As regards the speed of the uptake, the Commission's indicator estimates expenditure evenly spread over the eligibility period until 30 June 2016, while the Member States' execution is rather concentrated in the end of the eligibility period. The current under-implementation is considered to be temporary and the execution prospects of this article are positive and closely monitored by the Commission services.

3.1.4. *Beef and veal (+ EUR 4.9 million) and Pigmeat, eggs and poultry (+ EUR 24.3 million)*

The over-execution in these articles is the mirror picture of the under-implementation in milk and milk products resulting from the application of the targeted aid for the livestock sectors. The expenditure declared for these sectors will be covered via transfers from appropriations available for this measure in the article 05 02 12.

3.2. *Direct payments*

The uptake of appropriations for direct payments compared to the level of the indicator on 31 May 2016 was lower by EUR 7 609.9 million.

3.2.1. *Decoupled direct payments (- EUR 7 168.9 million in comparison with voted appropriations)*

As regards voted appropriations, the above implementation level is not fully indicative, due to the expenditure for the basic payment scheme, which is funded both by the budget's voted appropriations and by the revenue assigned to this scheme in the 2016 budget (NB: For details please see point 2 above). This

implementation level is the result of applying the indicator for the period to 31 May 2016 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 been applied to the total appropriations which are expected to be available in order to fund decoupled direct payments. Had the indicator been applied to the total funding of EUR 36 649.2 million expected to be available for decoupled direct payments, then the under-execution of – EUR 9 525.3 million would appear.

This substantial divergence in the level of implementation of the budget for decoupled direct payments is primarily due to temporary delays of administrative nature encountered by several Member States in the first year implementation of the reformed direct payment schemes. Since 29 February 2016 the Member States have already significantly recovered their execution pattern in decoupled direct aids and currently 73% of available appropriations including the assigned revenue have been paid.

The Commission, on a monthly basis, is closely monitoring the Member States' execution levels and forecasts of upcoming expenditure and, at this point in time, considers this divergence to be temporary and expects that decoupled direct payments will be implemented as foreseen in the 2016 budget.

3.2.2. Other direct payments (- EUR 440.9 million in comparison with voted appropriations)

This under-implementation of voted appropriations for other direct payments as compared to the expenditure profile of the established indicator is also attributable primarily to temporary delays of administrative nature encountered by several Member States in the first year of the implementation, mainly of the Voluntary Coupled Support measure which is part of the reformed direct payments schemes. Yet again in this budget article the gap between the theoretical up-take resulting from the application of the indicator and the actual implementation is gradually decreasing with almost 80% of payments executed by the Member States.

The evolution of the uptake of expenditure is closely monitored by the Commission which, at this point in time, expects full implementation of the 2016 budget for other direct payments.

4. IMPLEMENTATION OF REVENUE ASSIGNED TO EAGF

The table in annex 1 shows that assigned revenue amounting to EUR 2 055.1 million was collected as of 31 May 2016. Specifically:

- the revenue from corrections based on accounting and conformity clearance decisions amounted to EUR 1 174.8 million with additional amounts resulting from the implementation of Commission Implementing Decision (ad hoc 51) still expected by the end of the budget year;
- the revenue from irregularities amounted to EUR 67.6 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 812.7 million;

Finally, the amount of assigned revenue eventually carried over from 2015 into 2016 amounted to EUR 896.4 million.

Therefore, the amount of assigned revenue available for financing EAGF expenditure, on 31 May 2016, amounts to EUR 2 951.5 million with additional 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 2016 EAGF budget's appropriations, for the period up to 31 May 2016, shows that monthly reimbursements to Member States are lower than the expenditure profile for budget execution based on the indicator, by approximately EUR 7 652.1 million. This substantial divergence is almost entirely attributable to a temporary delay in the execution of direct payments to farmers.

Assigned revenue amounting to EUR 2 951.5 million is already available and additional amounts are still expected to be collected in 2016.

At this point in time, the Commission expects that the uptake of the appropriations for direct payments should accelerate in the coming months and that direct payments will be implemented as originally expected when the 2016 budget was established. Furthermore, 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 both the operational funds for producer organisations in the fruit and vegetables sector as well as for the basic payment scheme as part of the decoupled direct payments as originally expected when the 2016 budget was established.