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1. BUDGET PROCEDURE[[1]](#footnote-1)

1.1. Financial Framework 2014-2020.

CAP expenditure is funded within the financial framework for 2014-2020 as provided for in Council Regulation (EU) No 1311/2013. Specifically, CAP expenditure is part of the ceiling fixed for Heading 2 - Sustainable growth: natural resources. Within that overall ceiling, a specific sub-ceiling has been fixed for market related expenditure and direct payments financed by the European Agricultural Guarantee Fund (EAGF).

The expenditure ceiling for market measures and direct payments had to be adjusted following the transfer of certain amounts of direct payments to rural development (financed by the European Agricultural Fund for Rural Development - EAFRD) for the years 2015-2020 (flexibility between CAP pillars and reduction of direct payments), the transfer of the aids for cotton in Greece, the unspent amounts by Germany and Sweden and the voluntary adjustment of the United Kingdom as well as the transfer from rural development (EAFRD) for the years 2015-2020 to direct payments (flexibility). Therefore, on the basis of Commission Implementing Regulation (EU) No 367/2014[[2]](#footnote-2) setting the net balance available for expenditure of the EAGF, the CAP amounts included in heading 2 of the financial framework (2014-2020) are:

*(in EUR million current prices)*

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Heading 2\***  | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
| **Total** of which:- Market related expenditure and direct payments, a), b), c), d) | **49 857****43 778.1** | **64 692****44 189.8** | **64 262****43 950.2** | **60 191****44 145.7** | **60 267****44 162.4** | **60 344****44 240.5** | **60 421****44 263.2** |
| - Rural development a), b), c), d), e) | **5 298.9** | **18 183.7** | **18 683.7** | **14 371.2** | **14 381.0** | **14 330.4** | **14 333.3** |
| \*) Sustainable growth: natural resourcesa) After transfer of EUR 622 million between EAGF and EAFRD for the financial year 2015 on the basis of Articles 136a(1) of Regulation (EC) No 73/2009 and article 14(1) of Regulation (EU) No 1307/2013; |
| b) After transfer of EUR 51.6 million between EAGF and EAFRD for the financial year 2015 for unspent amounts transferred each year for financial years 2014 and 2015 (SE and DE) on the basis of Articles 136 and 136b of Regulation (EC) No 73/2009; |
| c) After transfer of EUR 4 million between EAGF and EAFRD for the financial years 2014-2020 from the cotton sector (EL) on the basis of Article 66(1) of Regulation (EU) No 1307/2013;d) After transfer of EUR 499.4 million between EAFRD and EAGF for the financial year 2015 on the basis of Articles 136a(2) of Regulation (EC) No 73/2009 and article 14(2) of Regulation (EU) No 1307/2013;e) The EAFRD amounts reflect the re-programming carried out in 2015, transferring unused allocations for the year 2014 to 2015 and 2016 in accordance with article 19 of Regulation (EU) No 1311/2013. |

1.2. Draft Budget 2016 and Amending Letter 2/2016

The Draft Budget 2016 was adopted by the Commission and proposed to the Budgetary Authority on 24 June 2015**.** The commitment appropriations proposed for the EAGF totalled EUR 42 867.6 million.

The Council adopted its position on the Draft Budget 2016 on 4 September 2015, reducing the commitment appropriations for the EAGF by EUR 198.9 million. The European Parliament adopted its position on 28 October 2015, increasing the commitment appropriations for the EAGF by EUR 499.8 million compared to the Draft Budget.

On 14 October 2015 the Commission adopted Amending Letter (AL) No 2 to the Draft Budget 2016, lowering the requested commitment appropriations for the EAGF by EUR 507.3 million compared to the Draft Budget.

1.3. Adoption of the 2016 budget

The Conciliation Committee, composed of members of the European Parliament and of the Council, agreed on a Joint Text on 14 November 2015. Finally, the 2016 budget was declared as adopted by the European Parliament on 25 November 2015. The budget's total commitment appropriations for the EAGF amounted to EUR 42 220.3 million and its payment appropriations amounted to EUR 42 212.1 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 measures relate mainly to the promotion of agricultural products, to policy strategy and coordination measures for agriculture.

Specifically, of the voted EAGF commitment appropriations for policy area 05 amounting to EUR 42 220.3 million, EUR 2 673.0 million were foreseen for interventions in agricultural markets under chapter 05 02, EUR 39 445.7 million were foreseen for direct payments under chapter 05 03, EUR 58.6 million were foreseen for audit of agricultural expenditure under chapter 05 07 and EUR 33.4 million for policy strategy and coordination under chapter 05 08.

Further details are provided in annex 1.

Subsequently, in the course of the financial year 2017, the EAGF's appropriations for article 05 08 03 (restructuring of systems for agricultural surveys) were reduced by EUR 1.25 million through Amending Budget No 4.

1.4. Revenue assigned to the EAGF[[3]](#footnote-3)

In accordance with Article 43 of Regulation (EC) No 1306/2013 on the financing of the Common Agricultural Policy[[4]](#footnote-4), revenue originating from financial corrections under accounting or 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 any EAGF expenditure. If a part of this revenue is not used, then this part will be automatically carried forward to the following budget year.

At the time of establishing the 2016 budget, an estimate of the revenue was made both for the amount expected to be collected in the course of the 2016 budget year as well as of the amount which was expected to be carried over from the budget year 2015 into 2016. This estimate amounted to EUR 2 980 million and it was taken into consideration when the Budgetary Authority adopted the 2016 budget. In particular:

* revenue from the conformity clearance corrections and from irregularities was estimated at EUR 1 125 million and EUR 155 million respectively while the receipts from the milk levy were estimated at EUR 810 million. Thus, the total amount of assigned revenue expected to be collected in the course of the 2016 budget year was estimated at EUR 2 090 million;
* The amount of assigned revenue expected to be carried over from the budget year 2015 into 2016 was estimated at EUR 890 million.

In the 2016 budget, this initially estimated revenue of EUR 2 980 million was assigned to two schemes, i.e.:

* EUR 600 million for the operational funds for producer organisations in the fruits and vegetables sector;
* EUR 2 380 million for the basic payment scheme (direct payments).

For the aforementioned schemes, the sum of the voted appropriations by the Budgetary Authority and the assigned revenue corresponds to a total estimate of available appropriations of:

* EUR 898 million for the operational funds for producer organisations in the fruits and vegetables sector;
* EUR 18 307 million for the basic payment scheme (direct payments).

2. CASH POSITION AND MANAGEMENT OF APPROPRIATIONS

2.1. Management of appropriations

2.1.1. Appropriations available for the 2016 financial year

|  |
| --- |
| *In EUR* |
| **Expenditure section of****budget** (1) | Commitment appropriations | Payment appropriations | **Revenue section of budget (AR)** (2) | Forecasts |
| 1. Initial appropriations for EAGF of which | 42 220 335 824.00 | 42 212 046 297.00 | 1. Clearance decisions |  1 125 000 000 |
| 1a. Appropriations under shared management  | 42 152 208 157.00 | 42 152 208 157.00 | 2. Irregularities |  155 000 000  |
| 1b. Appropriations under direct management  | 68 127 667.00 | 59 838 140.00 | 3. Super levy from milk producers |  810 000 000 |
| 2. Amending Budget  | -1 250 000.00 |  | **Total forecast of AR** | **2 090 000 000** |
| 3. Transfer to / out of EAGF in the year | -1 006 523.53 | -2 500 523.53 |  |  |
| 4. Final appropriations for EAGF of which | **42 218 079 300.47** | **42 209 545 773.47** |  |  |
| 4a. Appropriations under shared management  | 42 148 674 416.47 | 42 148 674 416.47 |  |  |
| 4b. Appropriations under direct management | 69 404 884.00 | 60 871 357.00 |  |  |
| (1) Appropriations entered in the 2016 budget after deducting the expected assigned revenue to be collected in 2016 and the one carried over from 2015 to 2016 in accordance with Article 14 of Regulation (EU, EURATOM) No 966/2012.(2) AR: Assigned revenue to be collected. There are no amounts of revenue entered on the revenue line (p.m.), but the forecast amount is indicated in the budget remarks. |

2.1.2. Expenditure section of the EU budget in relation to EAGF

The initial commitment appropriations for 2016 totalled EUR 42 220 335 824. This was a net amount after deducting the expected assigned revenue to be collected in 2016 and the one carried over from 2015 to 2016. The initial payment appropriations amounted to EUR 42 212 046 297.

In financial year 2016, there were an Amending Budget for commitment appropriations and transfers of commitment and payment appropriations out of EAGF. The commitment and payment appropriations finally available to the EAGF, after the Amending Budget and the transfers, amounted to EUR 42 218 079 300.47 and EUR 42 209 545 773.47 respectively.

Part of the appropriations coming from assigned revenue received in 2015 was not used in that financial year and it was automatically carried over to 2016. The amount of these appropriations totalled EUR 896 398 939. Also appropriations for an amount of EUR 409 803 571 were made available for the reimbursement of direct payments in relation to financial discipline following Commission Decision C(2016)857 relating to the non-automatic carryover of appropriations from the 2015 budget to the 2016 budget.

2.1.3. Assigned revenue section of the EU budget in relation to EAGF

For more details, please see point 1.4.

2.1.4. Budget execution of appropriations available for the 2016 financial year

|  |  |  |
| --- | --- | --- |
|  |  | *In EUR* |
|  | **Execution of commitment appropriations** | **Execution of payment appropriations** |
| Shared management (1) | 44 221 202 321.60 |  | 44 221 202 321.60 |  |
| Expenditure under direct management | 63 907 387.76 |  | 48 052 725.41  |  |
| **Total** | **44 285 109 709.36** |  | **44 269 255 047.01**  |  |

 (1) Committed amounts. Commitments and payments less assigned revenue of EUR 2 527 141 771.95 (see point 4 and annex 6) received for shared management: EUR 41 694 060 549.65.

For the financial year 2016, the actual amount of commitment appropriations used amounted to EUR 44 285 109 709.36 while that for payment appropriations amounted to EUR 44 269 255 047.01.

The amount paid out (EUR 44 084 495 379.84) was less due to suspended amounts for France and Poland (see 2.2.1.3).

2.1.5. Assigned revenue received under shared management

|  |
| --- |
| *In EUR* |
| **Assigned revenue**  |
| Forecasted revenue | 2 090 000 000.00 |
| Revenue received | 2 527 141 771.95 |
| **Difference** | 437 141 771.95 |

For details, please see points 1.4 and 4.

2.1.6. Budget execution

|  |  |
| --- | --- |
|  | *In EUR* |
| **Expenditure under shared management** (1) |
|  | **Final appropriations (C1)** | **Non automatic carry over of 2015 C1 appropriations (C2)** | **Assigned revenue appropriations (C4)**  | **Carry over of assigned revenue appropriations (C5) from 2015**  |
| Appropriations | 42 148 674 416.47 | 409 803 571.00 | 2 527 141 771.95 | 896 398 938.64 |
| Execution (2) |  41 706 317 977.27  |  395 356 762.64  |  1 223 128 643.05  |  896 398 938.64  |
| Appropriations cancelled |  9 275 450.20  |  14 446 808.36  |  -  | 0.00 |
| Carry over to 2017 |  433 080 989.00  | 0.00 |  1 304 013 128.90  |  -  |

(1) Commitment appropriations = Payment appropriations
(2) Including suspended amounts (see 2.2.1.3)

Appropriations available for the financing of the measures under shared management with Member States (excluding expenditure under direct management by the Commission) amounted to EUR 42 149 million compared to actual expenditure of EUR 41 706 million. In order to make it available for the reimbursement of direct payments in relation with financial discipline, an amount of EUR 433.1 million was carried over to budget year 2017 with Commission Decision C(2017)771 of 9 February 2017 on non-automatic carryover of appropriations from the 2016 budget to the 2017 budget.

The 2016 appropriations coming from assigned revenue amounted to EUR 2 527.1 million of which an amount of EUR 281.5 million was used in chapter 05 02 and an amount of EUR 941.6 million was used in chapter 05 03. The remaining amount of EUR 1 304 million was automatically carried over to budget year 2017.

Part of the appropriations coming from assigned revenue received in 2015 was not used in financial year 2015 and was automatically carried forward to 2016 (C5 fund source). These appropriations amounted to EUR 896.4 million and had to be used in accordance with Article 14 of the Financial Regulation within that year. All these appropriations carried over from the previous financial year were fully used in 2016 in accordance with the Financial Regulation.

2.1.7. Budget execution of voted appropriations - Expenditure under direct management made by the Commission

|  |
| --- |
| *In EUR* |
| **Expenditure under direct management** | Commitment appropriations | De- commitments | Payment appropriations | Carry over to 2017 (2) |
| Appropriations (C1) (1) |  69 404 884.00  | - |  60 871 357.00  | - |
| Execution (C1) |  63 907 387.76  | - |  35 670 480.51  | 12 898 533.97 |
| Appropriations cancelled  |  5 497 496.24  | - |  12 302 342.52  | - |
| (1) C1 denotes the budget's voted appropriations. This amount includes transfers from ''shared management'' for an amount of EUR 2 527 217.00 for commitment and payment appropriations, transfers ''out'' of EAGF for a total amount of EUR -1 494 000.00 for payment appropriations and an Amending Budget of EUR - 1 250 000.00 for commitment appropriations.(2) Carry over to 2017 only for non-differentiated appropriations. |

The available commitment appropriations for expenditure under direct management in the 2016 budget were EUR 69.4 million. An amount of EUR 63.9 million was committed in 2016. The balance of these appropriations, EUR 5.5 million, was cancelled.

The majority of EAGF commitment appropriations for expenditure under direct management made by the Commission are differentiated appropriations.

The automatic carry over to 2017, which relates only to non-differentiated appropriations, amounts to EUR 12.9 million.

For details, please see annexes 3 and 4.

2.1.8. Budget execution - Expenditure under direct management made by the Commission - Automatic carryover from 2015

|  |
| --- |
| *In EUR* |
| **Carry over from 2015 to 2016** | Commitments | De-commitments | Payments | Cancelled appropriations  |
| Carried over appropriations |  13 821 274.51  |  1 389 982.49  |  12 382 244.90  |  49 047.12  |

The automatic carry over from 2015 to 2016 only concerned expenditure under direct management for non-differentiated appropriations. As indicated in the table above, an amount of EUR 13.8 million was carried over from 2015 to 2016. In 2016 an amount of EUR 1.4 million from this carry over was de-committed. The payments made amounted to EUR 12.4 million and the appropriations cancelled totalled EUR 0.05 million.

For details, please see annex 4.

2.2. Monthly payments

2.2.1. Monthly payments to Member States under shared management

2.2.1.1. Monthly payments on the provision for expenditure

Article 18(1) of Regulation (EU) No 1306/2013 states that "*monthly payments shall be made by the Commission for expenditure effected by Member States' accredited paying agencies during the reference month*". Monthly payments shall be made to each Member State at the latest on the third working day of the second month following that in which the expenditure is incurred.

The monthly payments are a reimbursement of net expenditure (after deduction of revenue) which has been already carried out and are made available on the basis of the monthly declarations forwarded by the Member States[[5]](#footnote-5). The monthly booking of expenditure and revenue is subject to checks and corrections on the basis of these declarations. Moreover, these payments will become final following the Commission's verifications under the accounting clearance of accounts procedure.

Payments made by the Member States from 16 October 2015 to 15 October 2016 are covered by the system for monthly payments.

For financial year 2016, the total net amount of monthly payments decided, after the deduction of clearance and other corrections, was EUR 41 694 060 549.65. Taking into account the suspended amounts (see below 2.2.1.3.b) only EUR 41 509 300 882.48 was paid out.

2.2.1.2. Decisions on monthly payments for 2016

For the financial year 2016, the Commission adopted twelve decisions on monthly payments. Furthermore, an additional monthly payment decision, adjusting those already granted for the total expenditure chargeable to the year, was adopted in December 2016. For details, please see annex 2.

2.2.1.3. Reductions and suspensions of monthly payments

*a. Reductions of the monthly payments*

In 2016, reductions for a net amount of EUR 11.6 million were made to the monthly payments effected to the Member States. The categories of corrections are detailed in the following points:

* *reductions of the monthly payments as a result of the non-compliance with the payment deadlines*

Pursuant to Article 40 of Regulation (EU) No 1306/2013, certain Member States did not always respect the payment deadlines fixed by the Union legislation for the payment of aids to beneficiaries.

The payment deadlines ensure an equal treatment between the beneficiaries in all Member States and avoid the situation in which delays of payments would result in aids no longer having the intended economic effect. In addition, the deadlines help budgetary discipline by ensuring that the expenditure which falls in each budget year is more easily forecast.

As a result of non-respecting the set payment deadlines, the Commission decided reductions for a total amount of EUR 7.1 million.

* *reductions of the monthly payments as a result of overspending the financial ceilings*

For some aid measures financed by the EAGF, financial ceilings are determined in the sectoral regulations. Expenditure exceeding these ceilings is considered as "non eligible expenditure" and has to be corrected.

These corrections lead to reductions of the monthly payments. As a result of overspending these financial ceilings, the Commission made financial corrections for a total amount of EUR 4.4 million.

* *reductions of the monthly payments as a result of non-eligibility*

For some measures expenditure paid after the deadline is not eligible and the Commission made financial corrections for a total amount of EUR 0.1 million.

*b. Suspensions of the monthly payments*

Following Commission Decision C(2016)2050 of 7 April 2016, the Commission has suspended for Poland the monthly payments for expenditure effected monthly after 1 March 2016 for a total amount of EUR 9.4 million.

Following Commission Decision C(2016)4287 of 12 July 2016, the Commission has suspended for France the monthly payments for expenditure effected monthly after 1 July 2016 for a total amount of EUR 175.4 million.

2.2.2. Direct management expenditure by the Commission

In certain cases, the Commission makes payments directly for certain measures. These concern payments for actions for instance related to controls, to promotion actions and to information actions on the agricultural policy.

For details, please see annexes 3 and 4.

3. THE IMPLEMENTATION OF THE 2016 EAGF BUDGET

3.1. The uptake of the EAGF budget appropriations

The implementation of the budget amounted to EUR 44 285.1 million. This expenditure was funded by the budget's initial appropriations and by using the revenue assigned to policy area 05-Agriculture and Rural Development, composed of the entire amount of EUR 896.4 million carried over from 2015 and of a part of the assigned revenue collected in 2016 amounting to EUR 1 223.1 million out of a total EUR 2 527.1 million.

Within policy area 05-Agriculture and Rural Development, the expenditure for market measures amounted to EUR 3 154.3 million and for direct payments to
EUR 40 984.1 million.

For details of the budget's implementation by policy area, please see annex 5.

Annex 9 presents a breakdown of the expenditure on market measures, direct payments and audit of agricultural expenditure by item and by Member State.

3.2. Comments on the implementation of 2016 EAGF budget

A brief commentary on the implementation of the 2016 EAGF budget's appropriations as well as on the use of the assigned revenue available in 2016 is presented hereafter based on details appearing in the attached tables:

* Annex 5: Analysis of the execution of the 2016 EAGF budget. The expenditure incurred for each budget item appears in column 6. Columns 1, 2, 3 and 4 indicate, respectively, the source and amount of funding which originates either from voted appropriations or from transfers of assigned revenue and of voted appropriations from other items of the budget;
* Annex 6: Assigned revenue (C4) collected and used in 2016;
* Annex 7: Assigned revenue (C5) carried over from 2015 and used in 2016;
* Annex 9: Expenditure by Member State and by item.

This presentation is made at the level of chapter, article and item of the agricultural budget.

3.2.1. Chapter 05 02: Interventions in agricultural markets

3.2.1.1. Introduction

Total payments for this chapter in 2016 amounted to EUR 3 154.3 million and they were funded by the voted appropriations amounting to EUR 2 673.0 million and by assigned revenue amounting to EUR 481.3 million. The latter was used to cover the expenditure incurred in the fruits and vegetables products sector (for details, see point 3.2.1.2). The remaining balance of assigned revenue collected in 2016 amounted to EUR 118.7 million and it was carried over to 2017. In items where the needs exceeded the budgetary appropriations, the additional expenditure was covered through transfers from other items of the budget. For the market measures where the budget's appropriations were under-spent, the resulting available appropriations were transferred to other items of the budget to cover additional expenditure as needed.

Annex 5 presents these details at the level of each budget item. In case the execution was close to the foreseen level in the 2016 budget, no further remarks are made.

3.2.1.2. Article 05 02 08: Fruits and vegetables

The 2016 budget foresaw total available appropriations amounting to EUR 1 211.8 million to cover the needs of all the measures for this sector. The Budgetary Authority voted appropriations of EUR 611.8 million as it took into account the estimated revenue assigned to this sector which amounted to EUR 600 million. Moreover, EUR 79.6 million was transferred from other parts of the budget. The expenditure incurred by Member States in 2016 amounted to EUR 1 172.7 million. The balance of the unused assigned revenue of EUR 118.7 million was carried over to the budget year 2017 to cover the needs of that year.

In particular, the total needs in the 2016 budget for the operational funds for producer organisations were estimated at EUR 898 million. The expenditure incurred by Member States amounted to EUR 862.5 million and it was funded by voted appropriations amounting to EUR 381.2 million and by assigned revenue of EUR 481.3 million. This expenditure was lower than the 2016 budget’s forecasted needs both because of the lower expenditure incurred for the temporary exceptional measures for producers that are members of producer organisations and of the lower expenditure for the National Financial Assistance.

Furthermore, compared to the forecasted needs in the 2016 budget, lower expenditure was incurred by Member States for the aid to producer groups for preliminary recognition amounting to EUR 71.4 million as this scheme is phasing out. Expenditure was also lower for the school fruit scheme amounting to EUR 109.9 million, particularly for payments related to the 2015/2016 school year.

Finally, the forecasted needs in the 2016 budget for other measures, including the temporary exceptional measures for producers who are not members of producer organisations in view of the prolongation of the Russian ban on imports amounted to EUR 77.8 million. However Member States incurred much higher expenditure amounting to EUR 129.0 million compared to the initially estimated needs.

3.2.1.3. Article 05 02 09: Products of the wine-growing sector

The 2016 budget foresaw total available appropriations amounting to EUR 1 076 million to cover the needs of all the measures for this sector. The under-execution of EUR 48.9 million, compared to the forecasted 2016 budget needs for the national support programmes, was due to the lower expenditure incurred by some Member States for the promotion, restructuring and investment components of their national wine programmes.

3.2.1.4. Article 05 02 10: Promotion

As regards promotion measures-payments by Member States, the under-execution of EUR 14.4 million compared to the forecasted 2016 budget needs was due to the lower expenditure incurred by some Member States for their promotion programmes which are approved by the Commission compared to the expenditure foreseen in the 2016 budget for these programmes.

As regards direct payments made by the European Union, the Commission committed appropriations of around EUR 18.5 million which was EUR 2.5 million higher than the amount foreseen in the 2016 budget for these payments.

3.2.1.5. Article 05 02 11: Other plant products/measures

For this budget article, the appropriations were over-executed by EUR 2.6 million compared to the forecasted 2016 budget needs of EUR 239.4 million; this over-execution was due to a minor shift in a Member State during the financial year, from POSEI - Direct Payments programmes towards POSEI – market measures programmes.

3.2.1.6. Article 05 02 12: Milk and milk products

The 2016 budget foresaw total available appropriations amounting to EUR 537.1 million to cover the needs of all the measures for this sector. Expenditure incurred by Member States in 2016 amounted to EUR 406.6 million. All the schemes funded under this article were under-implemented compared to the estimated needs foreseen in the 2016 budget.

In particular, the 2016 needs for storage measures for skimmed milk powder (SMP) were estimated at EUR 17.0 million and the expenditure incurred amounted to EUR 9.1 million. Total purchases of 334 551 tonnes were made, whereof 78 525 tonnes via tender and the expenditure incurred for technical and financial costs amounted to EUR 7.1 million. Furthermore, expenditure amounting to EUR 2.0 million was incurred for the private storage of SMP, with lower intake than initially foreseen.

In addition, the 2016 needs for storage measures for butter were estimated at EUR 15.0 million while the expenditure incurred amounted to EUR 9.1 million due to lower intake than initially foreseen.

For the school milk scheme, Member States incurred expenditure amounting to EUR 64.4 million which was lower than the forecasted 2016 needs of EUR 75 million because of lower expenditure for a part of the 2015/2016 school year.

Finally, the 2016 needs for other measures were estimated at EUR 430.1 million. Expenditure incurred amounted to EUR 324 million. These measures included the temporary exceptional aid granted to all Member States, initially budgeted under this item for a total amount of EUR 420 million[[6]](#footnote-6). However, several Member States decided to use the option to spend part of their envelope for supporting other livestock sectors. The detailed expenditure is as follows: for milk products EUR 308.3 million, for beef meat EUR 29.6 million (05 02 13 99), for sheep and goat meat EUR 1.8 million (05 02 14 99) and for pigmeat EUR 74.9 million (05 02 15 99). The under-execution for the total temporary exceptional aid amounted thus to EUR 5.4 million. The other measures for dairy products also include private storage for cheese for which the expenditure amounted to EUR 3.4 million, as well as an amount of EUR 12.2 million already paid for the exceptional adjustment aid decided in autumn 2016[[7]](#footnote-7), and for which the bulk of payments will occur in 2017.

3.2.1.7. Article 05 02 15: Pig meat, eggs and poultry, bee-keeping and other animal products

The 2016 budget foresaw total available appropriations amounting to EUR 64.0 million to cover the needs of all the measures for this sector. However, the expenditure incurred by Member States in 2016 amounted to EUR 140.6 million and it was funded both by the voted appropriations and by transfers of appropriations amounting to EUR 76.6 million from other areas of the 2016 budget.

The 2016 needs for private storage of pigmeat were estimated at EUR 32.0 million and the expenditure incurred amounted to EUR 30.8 million.

The expenditure incurred for specific aid for beekeeping amounted to EUR 34.5 million compared to forecasted needs of EUR 32.0 million included in the 2016 budget. This difference is due to late payments by one Member State for its annual beekeeping programme which was declared in 2016 instead of 2015.

Furthermore, due to the outbreak of highly pathogenic avian influenza the expenditure incurred for the exceptional support measures for the sector of eggs and poultry in Italy, under Commission Implementing Regulation (EU) 2016/760, amounted to EUR 0.3 million, while no expenditure was foreseen on this budgetline in the 2016 budget. An amount of EUR 74.9 million was also paid for the temporary exceptional aid for pigmeat, initially budgeted under Article 05 02 12 as explained above.

3.2.2. Chapter 05 03: Direct payments

Financial year 2016 was the first year of implementation of all the schemes under the reformed structure of direct payments as decided in the 2013 CAP reform. Total payments for this chapter of the 2016 budget amounted to EUR 40 984.1 million. This includes an amount of EUR 395.4 million paid for the reimbursement of direct payments to farmers in relation to financial discipline, financed from EUR 409.8 million carried over from 2015 (for details, see point 3.2.2.4). The rest of the payments made, EUR 40 588.8 million, was funded by voted appropriations amounting to EUR 38 950.6 million and by assigned revenue amounting to EUR 1 638.2 million. The latter was used to cover the expenditure incurred for the basic payment scheme (for details, see point 3.2.2.1). The unused voted appropriations amounted to EUR 495.1 million as evidenced by the difference between the voted appropriations of EUR 38 950.6 million used for the reimbursement to Member States and the initial voted appropriations of EUR 39 445.7 million included in the 2016 budget. These unused voted appropriations were decreased by a transfer of voted appropriations of EUR 52.8 million to other parts of the EAGF budget. Moreover, the unused amount of the crisis reserve (EUR 441.6 million), which was established from the proposed financial discipline in 2016, was transferred to budget article 05 03 09 so that the amount of the effectively applied financial discipline (EUR 433.1 million) could be carried over to 2017 for the reimbursement to the Member States concerned (see point 3.2.2.5). The remaining balance of assigned revenue collected in 2016 amounted to EUR 1 185.3 million and was carried over to 2017. In items where the needs exceeded the budget’s voted appropriations, the additional expenditure was covered through transfers of voted appropriations from other items of the budget or of assigned revenue. Equally, for direct payments where the budget's appropriations were under-spent, the resulting available appropriations were transferred to other items of the budget in order to cover additional expenditure as needed. There were in particular transfers from various other direct payments schemes to cover the expenditure of the small farmers scheme which in 2016 was budgetted with a p.m. given that needs for this scheme at that stage still were unknown.

Annex 5 presents these details at the level of each budget item.

3.2.2.1. Article 05 03 01: Decoupled direct payments

The main schemes funded by this article's appropriations are the single area payment scheme (SAPS), the basic payment scheme (BPS), the payment for agricultural practices beneficial for the climate and the environment, the redistributive payment and the payment for young farmers. All aid schemes in this article are paid independently of production but on certain conditions, e.g. the respect of cross-compliance. The 2016 budgetary needs for decoupled direct payments amounted to EUR 36 649.2 million for which the Budgetary Authority voted appropriations amounting to EUR 34 269.2 million after taking into consideration assigned revenue amounting to EUR 2 380 million. The expenditure incurred by Member States for all schemes in this article amounted to EUR 35 204.1 million, thus, exceeding the voted appropriations by EUR 934.9 million. This latter amount of expenditure declared was covered by assigned revenue. The expenditure incurred by Member States for decoupled direct payments corresponded to 96.1% of the needs foreseen in the 2016 budget for these schemes. This under-execution was partly a logical consequence of the fact that a part of the expenditure for various schemes was replaced by expenditure for the small farmers scheme under 05 03 02, in line with the above mentioned transfers of appropriations to the scheme. Moreover, the under-execution noted for several schemes was also linked to a delay in execution in some Member States which still incurred expenditure for some lines after the end of financial year 2016.

As regards the newly introduced BPS, the 2016 budgetary needs were estimated at EUR 18 307 million. In order to cover these needs, the Budgetary Authority voted appropriations amounting to EUR 15 927 million after taking into account the revenue of EUR 2 380 million assigned to this scheme. The expenditure declared by Member States for this scheme was around EUR 17 858 million and covered 98% of the estimated needs.

As regards SAPS, the appropriations in the 2016 budget amounted to EUR 4 237 million significantly down from 2016 due to the new structure of direct payments. Member States incurred payments amounting to EUR 4 032 million, thus covering 95% of the estimated needs.

As regards the new payment for agricultural practices beneficial for the climate and the environment, the so-called greening, the expenditure incurred by Member States amounted to EUR 11 716 million whereas appropriations in the 2016 budget were at EUR 12 239 million giving an execution rate of 96%.

The needs for the redistributive payment amounted to EUR 1 251 million significantly more than the EUR 440 million in 2015 due to an increase in the number of Member States implementing the scheme. The expenditure declared by Member States was EUR 1 237 million or 99% of the needs.

For the new payment for young farmers needs were estimated at EUR 549 million in the 2016 budget. Expenditure amounted to EUR 317 million being only 58% of the needs. For following years, several Member States have adjusted their ceiling for the scheme which should reduce the underexecution noted in financial year 2016.

The remaining lines covered mostly smaller amounts, including also the residual payments for the schemes which expired further to the 2013 reform.

3.2.2.2. Article 05 03 02: Other direct payments

The appropriations of this article covered expenditure for "other direct payments". This includes schemes for which there may still be a link between the payment and the production, under well defined conditions and within clear limits. As a consequence of the 2013 reform, new schemes added under this Article were the voluntary coupled support and the small farmers scheme, whereas a number of lines from 2016 only covered relatively minor residual payments for expired schemes.

The Commission had estimated that appropriations amounting to EUR 4 734.8 million were needed for this Article in 2016. Member States incurred expenditure amounting to EUR 5 384.7 million hence higher than the appropriations entered in the budget.

For the crop-specific payment for cotton, needs were estimated at EUR 247 million in the 2016 budget. Expenditure was EUR 244 million, i.e. 99% of the needs.

The POSEI-EU support programmes showed an under-execution of around EUR 5.3 million due to a minor shift by a Member State concerned, from direct payments – programmes towards market measures – programmes during the financial year.

A more important under-execution was experienced for the voluntary coupled support scheme. Member States incurred expenditure amounting to EUR 3 800.6 million, while EUR 4 046.0 million of appropriations were foreseen in the budget.

The small farmers scheme is financed from the ceilings of all other schemes, decoupled or not. Due to the absence of any information of the possible execution in the first year of implementation of the reformed direct payments, there were no appropriations foreseen in the budget 2016. An amount of EUR 907.7 million was declared under this item and financed from the budget allocated to other schemes under the same article but also under the article for decoupled direct payments. The required transfers explain hence the over-execution of this Article versus the under execution of budget article 05 03 01[[8]](#footnote-8).

As regards item 05 03 02 99 – Other (direct payments), the 2016 budget included appropriations of EUR 3.1 million intended to cover expenditure and corrections for older schemes which were not covered under other budget items of the coupled direct payments sector. There was a negative expenditure of around EUR - 0.7 million and in order to cover the funding needs of other items of the 2016 budget, appropriations amounting to EUR 3.8 million were transferred out of this budget item.

3.2.2.3. Article 05 03 03: Additional amounts of aid

While appropriations foreseen in the 2016 budget for this article amounted to EUR 0.1 million, Member States incurred insignificant expenditure and thus under-executed the budget’s appropriations by almost a similar amount.

3.2.2.4. Article 05 03 09: Reimbursement of direct payments in relation to financial discipline

No appropriations are allocated to this article by the Budgetary Authority. This article serves the purpose of collecting the non-committed voted appropriations including in particular the appropriations of the unused crisis reserve in order to be carried over into budget year N+1 and finance the reimbursement of the financial discipline applied to direct payments in respect of calendar year N[[9]](#footnote-9).

Each year, if applicable, a Commission Implementing Regulation sets the amounts that each Member State has to reimburse to farmers and, in accordance with Article 169(3) of Regulation (EU, Euratom) No 966/2012, determines that the expenditure in relation to this reimbursement shall only be eligible for Union financing if the amounts have been paid to the beneficiaries before 16 October of the financial year to which the appropriations are carried over. From the amount of EUR 409.8 million, corresponding to the financial discipline applied during financial year 2015 and which was carried over to budget 2016 for reimbursement, Member States reimbursed EUR 395.4 million. The difference of EUR 14.4 million reverted to the 2016 budget for its return to Member States via an Amending Budget in the following budget year.

For financial year 2017, Commission Implementing Regulation (EU) 2016/2073 sets the amount of reimbursement at EUR 433.1 million. This amount corresponds to the amount of financial discipline effectively applied for claim year 2016 and it is only this amount which was carried over into the 2017 budget. The difference between the crisis reserve (EUR 441.6 million) and the carried over amount (EUR 433.1 million) reverts to the 2016 budget for its return to Member States via an Amending Budget in the following budget year.

3.2.2.5. Article 05 03 10: Reserve for crises in the agricultural sector

The appropriations of this article are intended to cover expenditure for measures which have to be taken in order to cope with major crises affecting agricultural production or distribution. The crisis reserve is established by applying, at the beginning of each year, a reduction to the direct payments through the financial discipline mechanism in accordance with Articles 25 and 26 of Regulation (EU) No 1306/2013 as well as Article 8 of Regulation (EU) No 1307/2013[[10]](#footnote-10). This reserve shall be set up with annual amount of EUR 400 million (in 2011 prices). For the budget year 2016, the equivalent amount of the crisis reserve in current prices was EUR 441.6 million. The reserve was not used in financial year 2016.

For the 2015 claim year, the financial discipline was calculated exclusively for the constitution of the crisis reserve of EUR 441.6 million. However, by the end of the financial year, non-committed voted appropriations corresponding to the amount of financial discipline effectively applied for claim year 2015 (taking into account the unused amount of the crisis reserve) was transferred to budget article 05 03 09 in order to be carried over to the next financial year and, in this way, fund the reimbursement of financial discipline imposed on farmers in the calendar year 2016 (please see point 3.2.2.4).

3.2.3. Chapter 05 04: Rural Development

For Article 05 04 01 – Completion of Rural Development financed by the EAGGF-Guarantee section – Programming period 2000 to 2006, the final net amount recovered (around EUR 1.05 million) was used for funding other budget items.

3.2.4. Chapter 05 07: Audit of agricultural expenditure

3.2.4.1. Article 05 07 01: Control of agricultural expenditure

This article involves the measures taken in order to reinforce the means of on-the-spot controls and to improve the systems of verification so as to limit the risk of fraud and irregularities to detriment of the Union budget. It also includes the expenditure to finance possible accounting and conformity corrections in favour of Member States.

The European Union directly funded the purchase of satellite images within the framework of the Integrated Administration and Control System (IACS) for an amount of EUR 9.1 million, thus taking up almost all of the appropriations foreseen in the 2016 budget.

As regards the accounting clearance corrections in favour of Member States, the Commission took decisions which involved such corrections of approximately EUR 31.5 million. As regards the conformity clearance corrections in favour of Member States, the Commission took decisions which involved such corrections of approximately EUR 18.5 million. The Budgetary Authority had voted appropriations for the funding of these corrections in favour of the Member States at EUR 20 million and the balance was eventually covered by transferring appropriations (EUR 30.0 million) from other items of the 2016 budget.

3.2.4.2. Article 05 07 02: Settlement of disputes

The appropriations in this article are intended to cover expenditure for which the Commission could be held liable by decision of a court of justice, including the cost of settling claims for damages and interest. On 27 September 2012, the European Court of Justice delivered its judgment in joined cases C-113/10, C-147/10 and C-234/10 (the Jüllich-II judgement). The 2016 budget foresaw appropriations amounting to EUR 29.5 million for the payment of compensatory interest to operators under this judgement. However, Member States incurred and declared expenditure of around EUR 52.4 million for these payments. Therefore, appropriations amounting to EUR 22.9 million were transferred from other items of the 2016 budget.

3.2.5. Chapter 05 08: Policy strategy and coordination

3.2.5.1. Article 05 08 01: Farm accountancy data network (FADN)

Appropriations committed for data collection on farm holdings under this network amounted to EUR 15.1 million, thus taking up almost all of the appropriations foreseen in the 2016 budget.

3.2.5.2. Article 05 08 02: Surveys on the structure of agricultural holdings

No appropriations were committed for the farm structure surveys.

3.2.5.3. Article 05 08 03: Restructuring of systems for agricultural surveys

Appropriations committed for the restructuring of systems of agricultural surveys amounted to EUR 4.3 million. The rest of the voted appropriations, i.e. EUR 1.25 million was reallocated outside EAGF through Amending Budget No 4.

3.2.5.4. Article 05 08 06: Enhancing public awareness of the common agricultural policy

Appropriations committed for actions, fairs and publications aimed at enhancing public awareness of the CAP amounted to around EUR 7.9 million, thus taking up almost all of the appropriations foreseen in the 2016 budget.

3.2.5.5. Article 05 08 09: EAGF – Operational technical assistance

Appropriations committed for operational technical assistance for the EAGF amounted to approximately EUR 2.1 million and it under-executed the appropriations by EUR 4.4 million foreseen in the 2016 budget. This was mainly due to delays in the conclusion of audit support contracts which were foreseen in the 2016 budget.

4. IMPLEMENTATION OF REVENUE ASSIGNED TO EAGF

The assigned revenue actually carried over from 2015 into 2016, amounted to EUR 896.4 million and was entirely used in financing expenditure of the 2016 budget year in accordance with article 14 of the Financial Regulation. As presented in annex 7, this amount covered expenditure of EUR 199.8 million for the operational funds for producer organisations in the fruits and vegetables sector and of EUR 696.6 million for the basic payment scheme.

As regards the assigned revenue collected in 2016, annex 6 shows that this revenue amounted to EUR 2 527.1 million and it originated from:

* the corrections of the conformity clearance procedure, EUR 1 593.7 million;
* the receipts from irregularities, EUR 118.4 million;
* the milk levy collections, EUR 815.1 million.

The assigned revenue collected in 2016 was used to cover expenditure incurred for the following measures:

* EUR 281.5 million for the operational funds for producer organisations in the fruits and vegetables sector;
* EUR 941.6 million for the basic payment scheme (BPS) (direct payments).

The balance of the assigned revenue collected in 2016 amounting to EUR 1 304 million was automatically carried over into the 2017 budget in order to fund budgetary needs of that year.

5. CONTROL MEASURES

5.1. Introduction

In accordance with the EU legislation and as in previous years, 2016 agricultural expenditure was submitted to a comprehensive system of control measures.

This system includes, on the one hand, all the necessary building blocks to guarantee a sound administration of the expenditure at Member States’ level and, on the other hand, allows the Commission to counter the risk of financial losses as a result of any deficiencies in the set-up and operation of those building blocks through the clearance of accounts procedure.

Member States have to ensure that the transactions are carried out and executed correctly, to prevent and deal with irregularities and to recover amounts unduly paid.

In complement to this general obligation, there is a system of controls and dissuasive sanctions of final beneficiaries which reflects the specific features of the regime and the risk involved in its administration.

The controls are carried out by the paying agencies or by delegated bodies operating under their supervision and effective, dissuasive and proportionate sanctions are imposed if the controls reveal non-compliance with EU rules. The system generally provides for exhaustive administrative controls of 100% of the aid applications, cross-checks with other databases where this is considered appropriate as well as pre-payment on-the-spot controls of a sample of transactions ranging between 1% and 100%, depending on the risk associated with the regime in question.

In addition, for most regimes which are not subject to the Integrated Administration and Control System (IACS), on top of the primary and secondary control levels, ex-post controls must be carried out.

5.2. Integrated Administration and Control System (IACS)

Regulation (EU) No 1306/2013, Regulation (EU) No 1307/2013, Commission Delegated Regulation (EU) No 639/2014[[11]](#footnote-11) and Commission Delegated Regulation (EU) No 640/2014[[12]](#footnote-12) contain the rules on the IACS.

A fully operational IACS consists of: a computerised database, an identification system for agricultural parcels and farmers claiming aid, a system for identification and registration of payment entitlements, aid applications and integrated controls system (claim processing, on-the-spot checks and sanctioning mechanisms) and a system for identifying and registering animals where applicable. The IACS is fully automated.

This system foresees a 100% administrative control covering the eligibility of the claim, complemented by administrative cross-controls with standing databases ensuring that only areas or animals that fulfil all eligible requirements are paid the premium and by a minimum 5% of on-the-spot checks to check the existence and eligibility of the area or the animals claimed.

For the financial year 2016, the IACS covered almost 94% of the EAGF expenditure. Furthermore, the relevant components of the IACS are applicable to the rural development measures, which are based on area or number of animals. Such measures include, inter alia, agri-environment and animal welfare measures, less-favoured areas and areas with environmental restrictions and afforestation of agricultural land. For financial year 2016, around 50% of payments made under the EAFRD were also covered.

The Commission services verify the effectiveness of Member States' IACS and homogenous implementation by means of both on-the-spot auditing and general supervision based on annually supplied financial and statistical data. It has been established already for some years now that the IACS provides an excellent and cost effective means of ensuring the proper use of EU funds.

5.3. Market measures

Market interventions, for example storage aid or aid to producer organisations, are not covered by IACS but they are governed by specific rules as regards controls and sanctions which are set out in horizontal and sector-based regulations.

Aids are paid on the basis of claims, often involving the lodging of administrative and/or end-use securities, which are systematically (100%) checked administratively for completeness and correctness. The more financially important aid schemes are also subject to regular accounting controls performed in situ on commercial and financial documents.

5.4. Application of Chapter III of Title V Regulation (EU) No 1306/2013 (ex-post scrutiny)

An ex-post control system is provided for under Regulation (EU) No 1306/2013 in Title V, Chapter III. It provides for an ex-post control system which is a complement to the sectoral control systems described above. The system constitutes an extra layer of control which contributes to the assurance that transactions have been carried out in conformity with the rules or otherwise allows recovering the unduly paid amounts.

The ex-post scrutiny is to be carried out by a body in the Member State, which is independent of the departments within the paying agency responsible for the pre-payment controls and the payments. It covers a wide range of CAP subsidies including sector schemes for fruit and vegetables, wine and POSEI aids. In fact, the ex-post scrutiny covers all aids paid to beneficiaries from EAGF (except payments covered by IACS and those excluded by Article 14 of Regulation (EU) No 907/2014).

In 2016, 3 Member States were visited to review the implementation of scrutiny. Member States scrutiny services completed ex-post controls in respect of undertakings to which payments were made in financial year 2014. The annual reports in respect of the respective scrutiny period (July 2015-June 2016) shows that Member States completed more than 90% of the planned scrutinies. The regulation also foresees Member States providing mutual assistance in the performance of scrutinies. In the 2015/2016 scrutiny period, ± 40 such requests were fulfilled.

6. CLEARANCE OF ACCOUNTS

6.1. Conformity clearance

6.1.1. Introduction

It is primarily the Member States' responsibility to check that transactions are carried out and executed correctly via a system of control and dissuasive sanctions. Where Member States fail to meet this requirement, the Commission applies financial corrections to protect the financial interests of the EU.

The conformity clearance relates to the legality and regularity of transactions. It is designed to exclude expenditure from EU financing which has not been effected in compliance with EU rules, thus shielding the EU budget from expenditure that should not be charged to it (financial corrections). In contrast, it is not a mechanism by which irregular payments to beneficiaries are recovered, which according to the principle of shared management is the sole responsibility of Member States.

Financial corrections are determined on the basis of the nature and gravity of the infringement and the financial damage caused to the EU. Where possible, the amount is calculated on the basis of the loss actually caused or on the basis of an extrapolation. Where this is not possible, flat-rates are used which take account of the severity of the deficiencies in the national control systems in order to reflect the financial risk for the EU.

Where undue payments are or can be identified as a result of the conformity clearance procedures, Member States are required to follow them up by recovery actions against the final beneficiaries. However, even where this is not possible because the financial corrections only relate to deficiencies in the Member States' management and control systems, financial corrections are an important means to improve these systems and thus to prevent or detect and recover irregular payments to final beneficiaries. The conformity clearance, thereby, contributes to the legality and regularity of the transactions at the level of the final beneficiaries.

6.1.2. Audits and decisions adopted in 2016

6.1.2.1. Audits

The following table presents an overview of the conformity audits with missions and their coverage in respect of financial year 2016, broken down per Activity Based Budgeting (ABB):

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Financial Year 2016** | **ABB 02** | **ABB 03** | **ABB 041)** | **Total2)** |
| Number of conformity audits with missions carried out3)  | 19 | 31 | 56 | 155 |
| 1) concerns only EAFRD.2) The total figure includes 130 conformity audits, of which 102 audits targeted the 3 ABBs areas (audits targeting more than one ABBs are counted only once) and 28 other conformity audits (11 audits on cross compliance, 6 audits on entitlements, 7 IT audits and 4 audits on ex-post scrutiny of transactions). In addition to the conformity audits, 25 other audit missions not subject to conformity clearance procedure have been carried out (2 audits on action plans, 1 audit on IPARD, 2 audits on debt managagement and irregularities, 1 financial audit, 16 audits on the Certification Bodies as regards legality and regularity and 3 pre-accession audits).3) if an audit covers more than one ABB, it is allocated to all ABBs covered by that audit. |

6.1.2.2. Conformity decisions

Three conformity clearance decisions having an impact on the financial year 2016 were adopted involving financial corrections in a number of sectors. These decisions had an overall financial impact for EAGF by excluding from EU financing a total of EUR 1 298 million:

* Decision 2015/2098/EU of 13 November 2015 – 49th Decision, financial impact of EUR 238.42 million;
* Decision 2016/417/EU of 17 March 2016 – 50th Decision, financial impact of EUR 506.34 million;
* Decision 2016/1059/EU of 20 June 2016 – 51th Decision, financial impact of EUR 553.55 million.

For the decisions 49 (2015/2098/EU), 50 (2016/417/EU) and 51 (2016/1059/EU) due to the relative magnitude of corrections compared to certain Member State’s GDP, the Commission decided that corrections amounting to EUR 342.42 million could be paid in 3 equal annual instalments. In addition, financial corrections for Greece in decisions 49, and 50 are included in the deferral decision (C(2015)4122 of 22 June 2015) amounting to EUR 180.6 million for EAGF.

The breakdown of financial impact according to sectors is as follows(in EUR million):

|  |  |  |  |
| --- | --- | --- | --- |
|   | Decision 49 | Decision 50 | Decision 51 |
| Area aids / Arable crops | 106.87 | 378.31 | 549.61 |
| Article 69 of Reg.1782/2003 | 0.53 | -0.36 | 0.00 |
| Financial Audit | 14.25 | 2.98 | 1.04 |
| Fruit and vegetables | 85.90 | 8.76 | 0.42 |
| Intervention storage | 1.12 | 0.00 | 1.03 |
| Irregularities | 11.21 | 88.49 | 0.36 |
| Milk Products | 0.00 | 0.00 | 0.38 |
| POSEI | 1.00 | 0.00 | 0.00 |
| Potato starch | 0.00 | -6.19 | 0.00 |
| Specific support (Art.68 of Reg.73/2009) | 6.87 | 0.39 | 0.07 |
| Wine | 10.69 | 33.97 | 0.64 |
| **Total** | **238.42** | **506.34** | **553.55** |

Under Regulation (EU) No 1306/2013, an automatic clearing mechanism is applied to irregular payments not recovered 4 years after the establishment of the irregularity, or 8 years after the establishment of the irregularity when the recovery is challenged in national courts. The financial consequences of non recovery are shared by the Member State concerned and the EU on a 50% - 50% basis. Even after the application of this mechanism, Member States are, however, obliged to pursue their recovery procedures and, if they fail to do so with the necessary diligence, the Commission may decide to charge the entire outstanding amounts to the Member States concerned.

Regarding financial year 2015, Member States reported the information about recovery cases by 15 February 2016. The Member States recovered during financial year 2015 around EUR 186.1 million for EAGF. Recovered amounts were EUR 153 million for EAFRD and EUR 1.6 million for Transitional Rural Development Instrument (TRDI). The outstanding amount still to be recovered from beneficiaries at the end of that financial year was EUR 1 475.2 million for EAGF, EUR 493.1 million for EAFRD and EUR 17.3 million for TRDI. The financial consequences to the Member States for non recovery of EAGF cases dating from 2011 or 2007 account to EUR 22 million. During financial year 2015, around EUR 35.2 million was borne by the EU budget for EAGF cases reported irrecoverable.

6.2. Financial clearance

6.2.1. Introduction

The financial clearance covers the completeness, accuracy and veracity of paying agencies' accounts as well as the internal control systems set up by these paying agencies. Within this framework, Directorate-General for Agriculture and Rural Development (DG AGRI) pays particular attention to the certifying bodies’ conclusions and recommendations (where weaknesses are found), following their reviews of the paying agencies’ compliance with the accreditation criteria. As part of this review, the DG AGRI departments also cover aspects relating to conformity issues and protecting the financial interests of the EU as regards the advances paid, securities obtained and intervention stocks.

The Commission adopts an annual clearance of accounts decision clearing the paying agencies' annual accounts on the basis of the certificates and reports from the certifying bodies, but without prejudice to any subsequent decisions to recover expenditure which proves not to have been in accordance with the EU rules. As from financial year 2014, these accounts are received by the Commission by 15 February of the year following the financial year in question. The Commission must clear the accounts and adopt its clearance decision by 31 May of the year following the financial year in question.

6.2.2. Decisions

6.2.2.1. Financial clearance decision for the financial year 2010

On 29 April 2011, the Commission adopted a Decision clearing the annual accounts of 74 paying agencies in respect of their expenditure financed by the EAGF. By means of its decision, it cleared amounts of EUR 38 862.4 million.

With Commission Decision C(2012) 369, adopted on 27 January 2012, the accounts of the paying agencies Rheinland-Pfalz (Germany) and Dienst Regelingen (The Netherlands) have been cleared amounting to EUR 1 100 million. With Commission Decision C(2015) 393, adopted on 02 February 2015, the Commission cleared the accounts of OPEKEPE (Greece) and ARBEA (Italy) amounting to EUR 2 460 million.

6.2.2.2. Financial clearance decision for the financial year 2011

With Commission Decision 2012/240/EU adopted on 27 April 2012, the Commission cleared the accounts of all paying agencies for EAGF, except for HAMBURG-JONAS (Germany) and PIAA (Romania).

With Commission Decision C(2016) 15 adopted on 13 January 2016, the accounts of HAMBURG-JONAS (Germany) were cleared amounting to EUR 35 million. The accounts of PIAA (Romania) were cleared by Commission Decision C(2016) 7238 adopted on 16 November 2016, amounting to EUR 766 million.

6.2.2.3. Financial clearance decision for the financial year 2012

On 26 April 2013, the Commission adopted a Decision clearing the annual accounts of 75 paying agencies in respect of EAGF expenditure. With this decision, expenditure amounting to EUR 43 324 million was cleared. On 5 August 2014, the Commission adopted a Decision clearing the annual accounts of financial year 2012 HELABA (Germany). This decision cleared EUR 220 million of expenditure. With Commission Decision C(2016) 1543 adopted on 17 March 2016, the accounts of BIRB (Belgium) and HAMBURG-JONAS (Germany) were cleared amounting to EUR 34.5 million.

6.2.2.4. Financial clearance decision for the financial year 2013

On 29 April 2014, the Commission adopted a Decision clearing the annual accounts of 76 paying agencies in respect of EAGF expenditure. With this decision, expenditure amounting to EUR 40 628.5 million was cleared. The accounts of BIRB (Belgium), OPEKEPE (Greece) and PIAA (Romania) were disjoint.

On 16 November 2016, the Commission adopted Decision C(2016) 7229 clearing the annual accounts of BIRB (Belgium). This decision cleared EUR 15 million. The accounts of OPEKEPE (Greece) and PIAA (Romania) will be cleared in 2017 amounting to EUR 3 515 million.

6.2.2.5. Financial clearance decision for the financial year 2014

On 28 May 2015, the Commission adopted a Decision clearing the annual accounts of 74 paying agencies in respect of EAGF expenditure. With this decision, expenditure amounting to EUR 39 561 million was cleared. The accounts of five paying agencies (Hamburg and Mecklenburg-Vorpommern (Germany), OPEKEPE (Greece), SAISA (Italy) and PIAA (Romania)) were disjoint.

With Commission Decision C(2016) 7237 adopted on 16 November 2016, the accounts of the German Paying Agencies "Hamburg" and "Mecklenburg-Vorpommern", and the Romanian Paying Agency "PIAA" were cleared. This decision cleared EUR 1 716 million. The accounts of OPEKEPE (Greece) and SAISA (Italy) will be cleared in 2017 amounting to EUR 2 077 million.

6.2.2.6. Financial clearance decision for the financial year 2015

On 30 May 2016, the Commission adopted a Decision (2016/941) clearing the annual accounts of all paying agencies, except for the paying agencies State Fund Agriculture (Bulgaria), France Agrimer (France) and AGEA (Italy). This decision cleared EUR 40 111 million. The accounts of the disjoined paying agencies will be cleared in a later decision amounting to EUR 3 307 million.

6.3. Appeals brought before the Court of Justice against clearance decisions

6.3.1. Judgments handed down

In the financial year 2016, the Court handed down 17 judgments in appeals brought by the Member States against conformity clearance decisions.

In financial year 2016, the Court partially annulled:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Case Number** | **MS** | **Date of Judgment** | **Challenged Decision** | **Lodging Date** |
| T-107/14 | EL | 19/11/2015 | 43 | 14/02/2014 |
| T-241/13 | EL | 16/12/2015 | 40 | 25/04/2013 |
| T-667/14 | SI | 28/01/2016 | 45 | 12/09/2014 |

In financial year 2016, the Court annulled:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Case Number** | **MS** | **Date of Judgment** | **Challenged Decision** | **Lodging Date** |
| T-126/14 | NL | 24/11/2015 | 43 | 21/02/2014 |
| T-661/14 | LV | 14/07/2016 | 45 | 11/09/2014 |
| T-12/16 | SI | 07/10/2016 | 49 | 15/01/2016 |

In financial year 2016, the Court rejected appeals brought in the following cases:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Case Number** | **MS** | **Date of Judgment** | **Challenged Decision** | **Lodging Date** |
| T-550/13 | EL | 11/11/2015 | 42 | 15/10/2013 |
| T-255/13 | IT | 12/11/2015 | 40 | 07/05/2013 |
| T-118/15 | SI | 23/11/2015 | 46 | 06/03/2015 |
| T-563/13 | BE | 10/12/2015 | 42 | 24/10/2013 |
| T-686/14 | IT | 04/02/2016 | 45 | 22/09/2014 |
| T-675/14 | ES | 03/03/2016 | 45 | 22/09/2014 |
| T-550/15 | PT | 19/04/2016 | 48 | 23/09/2015 |
| T-551/15 | PT | 19/04/2016 | 48 | 25/09/2015 |
| T-556/15 | PT | 19/04/2016 | 48 | 25/09/2015 |
| T-384/14 | IT | 12/05/2016 | 44 | 03/06/2014 |
| T-437/14 | UK | 28/09/2016 | 44 | 16/06/2014 |

6.3.2. New appeals

In the financial year 2016, 12 new appeals were brought by the Member States against clearance decisions:

|  |  |  |  |
| --- | --- | --- | --- |
| **Case Number** | **MS** | **Lodging Date** | **Challenged Decision** |
| T-26/16 | EL | 22/01/2016 | 49 |
| T-27/16 | UK | 25/01/2016 | 49 |
| T-34/16 | LT | 26/01/2016 | 49 |
| C-279/16P | ES | 19/05/2016 | 45 |
| T-260/16 | SE | 24/05/2016 | 50 |
| T-261/16 | PT | 25/05/2016 | 50 |
| T-272/16 | EL | 25/05/2016 | 50 |
| T-287/16 | BE | 30/05/2016 | 50 |
| T-459/16 | ES | 19/08/2016 | 51 |
| T-462/16 | PT | 22/08/2016 | 51 |
| T-463/16 | PT | 22/08/2016 | 51 |
| T-627/16 | CZ | 31/08/2016 | 51 |

6.3.3. Appeals pending

The situation as at 15 October 2016 with regard to appeals pending together with the amounts concerned is shown in annex 15.

7. RELATIONS WITH PARLIAMENT AND WITH THE EUROPEAN COURT OF AUDITORS

7.1. Relations with Parliament

The European Parliament is, together with the Council, part of the EU’s Budgetary Authority. It is, thus, one of the most important discussion partners of the Commission on budgetary matters and, therefore, on the EAGF.

Three EP committees are involved in the discussions and the preparation for the plenary on agricultural budgetary matters. These are the Committee on Agriculture and Rural Development, the Committee on Budgets and the Committee on Budgetary Control.

Since 2014 the Committee on Agriculture and Rural Development provides an opinion on the discharge procedure to the Committee on Budgetary Control.

The Committee on Budgetary Control monitored the correct implementation of the budget.

The European Parliament granted discharge in relation to the execution of the 2014 budget by a vote in plenary, which took place on 26 April 2016.

The European Parliament granted discharge to the Commission, in respect to the implementation of the general budget of the European Union for the 2015 financial year, by a vote in plenary on a Parliamentary Decision which took place on 27 April 2017.

The same procedure will apply in relation with financial year 2016 and a decision on discharge to the Commission will be submitted to a vote in plenary in 2018.

7.2. Relations with the European Court of Auditors

7.2.1. Mission of the European Court of Auditors

The European Court of Auditors is the external auditor of the European Union. Articles 285 to 287 of the Treaty on the Functioning of the European Union provide that the Court shall audit the Union finances with a view to improving financial management and reporting on the use of public funds. The Court of Auditors should provide the European Parliament and the Council with a statement of assurance as to the reliability of the accounts and the legality and regularity of the underlying transactions. This statement, which can be complemented by specific assessments for various policy areas, is of prime importance to the European Parliament in its deliberations on granting discharge to the Commission for the implementation of the budget.

As part of its work, the Court carries out numerous audits within the Commission services. Court officials frequently visit the Directorate-General for Agriculture and Rural Development to gather facts and figures needed for the Court's opinions, as well as for its annual and special reports. In the light of these investigations the Court frequently makes suggestions and recommendations to the Commission on how to improve its financial management and make supervisory and control systems more effective.

7.2.2. Annual Report for financial year 2015

Every year the Court of Auditors publishes its Annual report on the implementation of the EU budget in which it gives a statement of assurance on the reliability of the consolidated accounts of the EU as well as on the legality and regularity of transactions. This is supplemented with specific assessments of each major area of EU activity. The report is published along with the Institutions' replies and is presented to the European Parliament in November.

In line with International Audit Standards, contradictory meetings take place between the auditor (the Court of auditors) and the auditee (the Commission and the other Institutions and bodies) before the report is published. In these meetings, the Court's findings and conclusions are discussed to ensure agreement on the underlying facts. The wording of the auditee's replies is also discussed.

In the Annual report for financial year 2015, the activities of the Directorate-General for Agriculture and Rural development are considered under one single chapter, Chapter 7 – Natural Resources. However, transactions financed under the EAGF are assessed separately from those financed under the EAFRD which are considered along with other policies (environment, climate action and fisheries).

For **EAGF - Market and direct support**, based on the results of the testing of 180 transactions, the Court estimates the level of error to be 2.2% (para 7.13). For 2014, the error rate for this policy group was 2.9%, including cross-compliance infringements which accounted for 0.7 percentage points. As previously announced, the Court did not include cross-compliance infringements in its error rate in financial year 2015, instead the Court provided an assessment of Member States' systems related to implementation of the cross-compliance obligations (para 7.46 – 7.47).

As it has done in the past, the Court stressed that, in many cases, Member States had sufficient information to detect and correct errors before declaring the expenditure to the Commission. Had they acted on this information, the error rate would have been 0.3 percentage point lower. In addition, the Court reported on the errors made by national authorities. The Court estimate that for this policy area, their impact was 0.6 percentage point (para 7.15).

In total, 29% of transactions audited were affected by error (para 7.13), a substantial decrease from 51% in 2014. Most of the errors (97%) related to overstatement in the number of eligible hectares (figure 7.3). The Court clarified that around half of the quantified errors were smaller than 2%, while a further quarter was between 2% and 5% (para 7.16). The Court also underlined that small errors are, to a large extent, impossible to avoid at a reasonable cost.

In its assessment of the control systems for EAGF, the Court reviewed IACS in six Paying Agencies (Germany – Schleswig-Holstein, Spain – Catalonia, Lithuania, Malta, Finland, UK – Northern Ireland). The Court concluded that some of the control functions were affected by weaknesses but did not flag any major problem in particular (para 7.41).

The Court makes a positive assessment of the Commission's work in the framework of the clearance of accounts procedure (para 7.31) as well as on the Commission's audit work (para 7.33).

**The recommendations addressed to the Commission are (para 7.67):**

For EAGF:

* continue the efforts to follow up on cases where national legislation is not compliant with EU legislation;
* annually monitor the results of the Land Parcel Identification System (LPIS) quality assessment performed by Member States.

For both EAGF and rural development:

* monitor and actively support certification bodies in improving their work and methodology on the legality and regularity of expenditure;
* update DG AGRI's audit manual by including detailed audit procedures and documentation requirements for the verification of the data supplied by Member States and used for calculation of financial corrections.

The Commission has accepted all recommendations.

7.2.3. Special Reports by the Court of Auditors

In calendar year 2016, the Court published seven special reports covering DG AGRI's activities:

* Special Report No 1/2016: Is the Commission’s system for performance measurement in relation to farmers’ incomes well designed and based on sound data? (published on 7 April 2016);
* Special Report No 03/2016: Combating eutrophication in the Baltic Sea: further and more effective action needed (published on 12 April 2016);
* Special Report No 19/2016: Implementing the EU budget through financial instruments – lessons to be learnt from the 2007-2013 programme period (published on 7 July 2016);
* Special Report No 18/2016: The EU system for the certification of sustainable biofuels (published on 21 July 2016);
* Special Report No 25/2016: The Land Parcel Identification System: a useful tool to determine the eligibility of agricultural land – but its management could be further improved (published on 25 October 2016);
* Special Report No 26/2016: Making cross‑compliance more effective and achieving simplification remains challenging (published on 27 October 2016);
* Special Report No 31/2016: Spending at least one euro in every five from the EU budget on climate action: ambitious work underway, but at serious risk of falling short (published on 22 November 2016).

8. ANNEXES

ANNEXES

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5. EAGF 2016 Analysis of budget execution

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7. EAGF 2016 Analysis of execution of assigned revenue C5

8. EAGF 2016 Expenditure for intervention in storage

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**Clearance of accounts**

15. Appeals against Clearance of Accounts Decisions pending on 15 October 2016

16. Financial corrections (Decisions 1 - 51) by decision and financial year

















































1. This procedure is presented in annex 1. [↑](#footnote-ref-1)
2. OJ L 108 of 11.4.2014, p. 13. [↑](#footnote-ref-2)
3. These amounts are not entered in the revenue lines of the budget (article 670 for the revenue assigned to the EAGF), which mention "p.m." ("pro memoria"), but the forecast amount is mentioned in the budgetary remarks for this article. [↑](#footnote-ref-3)
4. OJ L 347 of 20.12.2013, p. 549. [↑](#footnote-ref-4)
5. These monthly declarations of expenditure are transmitted by the Member States by the declaration of the 12th of the month N+1. [↑](#footnote-ref-5)
6. Commission Delegated Regulation (EU) 2015/1853 [↑](#footnote-ref-6)
7. Commission Delegated Regulation (EU) 2016/1613 [↑](#footnote-ref-7)
8. A Member State declared expenditure for the small farmers' scheme under the other direct payments schemes financing the small farmers' scheme. If this expenditure would have been declared under the small farmers' scheme, it would have increased the expenditure for that line by EUR 422.6 million but with a similar off-setting under other lines. [↑](#footnote-ref-8)
9. These appropriations may be carried over, in accordance with Article 169(3) of the Financial Regulation (EU, Euratom) No 966/2012, and in accordance with Article 26(5) of Regulation (EU) No 1306/2013, Member States shall reimburse the final recipients who are subject, in the financial year to which the appropriations are carried over, to the application of financial discipline in accordance with Article 26, paragraphs (1) to (4) thereof. [↑](#footnote-ref-9)
10. OJ L 347, 20.12.2013, p.608 [↑](#footnote-ref-10)
11. OJ L 181, 20.6.2014, p. 1 [↑](#footnote-ref-11)
12. OJ L 181, 20.6.2014, p.48 [↑](#footnote-ref-12)