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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 31/12/2017

1. INTRODUCTION

This report presents the provisional implementation of the 2017 budget for the European Agricultural Guarantee Fund (EAGF), with details given in the Annex. The total expenditure of EUR 44 318.0 million mainly includes EAGF expenditure under shared management as declared by Member States between 16 October 2016 and 15 October 2017 and the reductions of monthly reimbursements imposed in the course of the budget year. It further includes an estimate of expenditure under direct management, amounting to approximately EUR 16.6 million, which is still foreseen to be made till 31 December 2017.

A brief commentary for certain budget articles, showing the most significant differences between the actual expenditure incurred and the corresponding appropriations included in the 2017 budget, is presented below.

2. REVENUE ASSIGNED TO THE EAGF

For 2017, 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 and irregularities is designated as revenue assigned to the financing of EAGF expenditure.

According to these provisions, assigned revenue can be used to cover the financing of any EAGF expenditure. If part of this revenue is not used within the budget year, then this part will be automatically carried forward to the following budget year¹.

The 2017 EAGF budget includes:

- the Commission's latest estimates of the financing needs for market measures and direct payments,
- the estimates of assigned revenue to be collected in the course of the budget year,
- and the carry-over of the balance of assigned revenue left available from the previous budget year.

In its proposal for the 2017 EAGF budget appropriations, the Commission took into consideration the total expected assigned revenue, and requested for the 2017 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 2017 budget, the Commission's estimates of the available assigned revenue was EUR 2 732 million, composed of:

- the assigned revenue expected to be generated in the course of the 2017 budget year, estimated at EUR 1 430 million (EUR 1 278 million from conformity clearance corrections and EUR 152 million from irregularities);

¹ Art 14 of Regulation (EU, EURATOM) No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union determines that internal assigned revenue shall be carried over for one year only. Thus, in the interest of sound budgetary management, this assigned revenue is in general used first before any voted appropriation of the budget article concerned.

- the assigned revenue to be carried over from 2016 to 2017, estimated at EUR 1 302 million.

The Commission assigned this estimated revenue of EUR 2 732 million to the following schemes:

- EUR 400 million to the operational funds for producer organisations in fruit and vegetables, and
- EUR 2 332 million to the basic payment scheme.

The sum of the voted appropriations and the assigned revenue for these schemes corresponds to:

- EUR 855 million for the operational funds for producer organisations in fruit and vegetables, and
- EUR 17 628 million for the basic payment scheme.

In the Annex, presenting the 2017 budget's provisional execution for the period up to 15 October 2017, 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 661.5 million and to EUR 33 191.8 million respectively.

Including the revenue assigned to these articles, the total amounts foreseen in the 2017 budget are EUR 1 061.5 million for fruit and vegetables and EUR 35 523.8 million for decoupled direct payments.

3. COMMENTS ON THE PROVISIONAL IMPLEMENTATION OF THE 2017 EAGF BUDGET

3.1. Market measures

The uptake of appropriations for interventions in agricultural markets was higher than expected by EUR 194.2 million. This uptake includes an estimate of EUR 7 million of expenditure under direct management of promotion measures still foreseen to be made till 31 December 2017. However, when taking into account the assigned revenue of EUR 400 million allocated to the fruit and vegetables scheme, the result is an under-execution of EUR 205.8 million (-6.4%).

3.1.1. Fruit and vegetables (+ EUR 333.9 million)

The apparent over-execution of EUR 333.9 million results from not taking into account the revenue assigned to this sector. Taking into account this revenue, there is an under-execution of EUR 66.1 million (-6.2%) (see the (*) footnote in the Annex), as previously expected. The under-execution is spread over the four budget items of this sector (with operational funds for producer organisations accounting for half of the amount).

3.1.2. Products of the wine-growing sector (- EUR 64.3 million)

After the initially good pace of implementation, the final uptake for this article results in an under-execution of 6.0%, due to a lower expenditure in some Member States.

3.1.3. *Milk and milk products (- EUR 139.7 million)*

Under-execution is noticed for all aid schemes within this budget article.

Of the EUR 150 million budgeted for the Milk production reduction scheme, EUR 108.8 million have been spent.

The full EUR 350 million for the exceptional adjustment aid was budgeted under item 05 02 12 99 – Other measures (milk and milk products). However, Member States had the option to use it for all livestock sectors. Member States declared EUR 268.9 million of expenditure for this scheme under the milk sector, while they also used a part of this aid for farmers in other livestock sectors. Budget transfers are made in order to cover the expenditure declared in the other articles, i.e. EUR 23.6 million for beef and veal, EUR 3.5 million for sheep- and goatmeat and EUR 26.9 million for pigmeat.

3.1.4. *Beef and veal (+ EUR 23.6 million), Sheepmeat and goatmeat (+ EUR 3.5 million), Pigmeat, eggs and poultry, bee-keeping and other animal products (+ EUR 56.7 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 are covered via transfers from appropriations available for this measure in article 05 02 12.

Under item 05 02 15 France has declared expenditure for the exceptional support measures for poultry (EUR 29.9 million), which was not foreseen in Budget 2017.

3.2. **Direct payments**

The uptake of appropriations for direct payments was higher by EUR 1 914.6 million. When taking into account the revenue assigned to this budget chapter (see also point 2 above), an under-execution of around EUR 417.4 million is observed (-1%).

3.2.1. *Decoupled direct payments (+ EUR 2 174.5 million)*

Spending compared to budgeted appropriations is not fully indicative, due to the revenue assigned to the basic payment scheme (see also point 2 above). When taking into account the assigned revenue, the payments are EUR 157.5 million or only 0.4% lower than the total budget (see the (*) footnote in the Annex).

The under-execution for the single area payment scheme and for the basic payment scheme as well as the over-execution for the payment for agricultural practices beneficial for the climate and the environment are relatively small compared to the budget (within 1% variance). The only exception is the payments executed for the young farmers scheme, which are 20% less than budgeted (- EUR 88.2 million).

3.2.2. *Other direct payments (- EUR 259.8 million)*

The under-execution for this budget article concerns mainly the small farmers scheme (-EUR 145.9 million or -10.8%), the voluntary coupled support scheme (-EUR 89.2 million or -2.2%) and the crop-specific payment for cotton (-EUR 12.2 million or -5.0%).

3.2.3. *Reimbursement of direct payments in relation to financial discipline (- EUR 7.5 million)*

From the amount of EUR 433.1 million carried over from financial year 2016 to financial year 2017, EUR 425.6 million was finally used by Member States for the reimbursement to beneficiaries in relation to financial discipline.

4. AUDIT OF AGRICULTURAL EXPENDITURE FINANCED BY THE EAGF (+EUR 66.1 MILLION)

The over-execution in this chapter is the final result of higher than expected corrections in favour of the Member States following conformity clearance of accounts, partly offset by lower than expected corrections in favour of Member States following accounting clearance of accounts and by lower payments concerning the settlement of disputes.

5. IMPLEMENTATION OF REVENUE ASSIGNED TO EAGF

The annex shows that the total assigned revenue eventually available in 2017 amounts to EUR 2 786.5 million.

Compared to the estimated amounts, the revenue from clearances turns out to be EUR 70 million higher whereas for irregularities the final amount is EUR 21.3 million lower than expected. Some residual revenue from the superlevy from milk producers has also been booked (EUR 3.7 million).

The balance of assigned revenue not used in financial year 2017 will be carried over to financial year 2018 to contribute to the funding of the EAGF expenditure to be declared by Member States for that year.

6. CONCLUSIONS

The provisional expenditure of the 2017 EAGF budget including estimates for direct expenditure until 31 December 2017 results in an over-execution of EUR 2 172.5 million compared to the budget's voted appropriations. This over-execution is covered by the available assigned revenue of EUR 2 786.5 million.

Moreover the crisis reserve has not been mobilised in 2017, thus the amount of EUR 450.5 million of unused appropriations remains in the 2017 budget and will be used for the carry-over of the appropriations allocated to the reimbursement of direct payments in relation to financial discipline in financial year 2018².

A number of end-of-year adjustments and transfers of appropriations still to be made will influence slightly the final balance of assigned revenue to be carried over to the 2018 budget.

² In accordance with Article 26 (6) of Regulation (EU) No 1306/2013 the Commission may adopt each year a regulation which sets the amounts to be reimbursed to the beneficiaries of direct payments subject to financial discipline.