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

**11th FINANCIAL REPORT FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT AND THE COUNCIL on the EUROPEAN AGRICULTURAL
GUARANTEE FUND**

2017 FINANCIAL YEAR

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Note: A detailed Commission Staff Working Document accompanies this report. The full text of this Staff Working Document (in English) and its annexed tables (in English) will be also available on DG Agriculture's Europa website (http://ec.europa.eu/agriculture/cap-funding/financial-reports/eagf/index_en.htm).

1. BUDGET PROCEDURE¹

1.1. Draft Budget 2017 and Amending Letter 1/2017

The Draft Budget 2017 was adopted by the Commission and proposed to the Budgetary Authority on 18 July 2016. The commitment appropriations proposed for the EAGF totalled EUR 42 937.6 million.

The Council adopted its position on the Draft Budget 2017 on 12 September 2016, reducing the commitment appropriations for the EAGF by EUR 177.1 million. The European Parliament adopted its position on 26 October 2016, increasing the commitment appropriations for the EAGF by EUR 600.0 million compared to the Draft Budget.

On 17 October 2016 the Commission adopted Amending Letter (AL) No 1 to the Draft Budget 2017 increasing the needs in commitments by EUR 527.0 million compared to the Draft Budget. However, these additional needs were fully compensated by increased assigned revenue, expected to be available in 2017. As a result, the requested commitment appropriations for the EAGF in the AL remained unchanged compared to the Draft Budget.

1.2. Adoption of the 2017 budget

The Conciliation Committee, composed of members of the European Parliament and of the Council, agreed on a Joint Text on 28 November 2016. Finally, the 2017 budget was declared as adopted by the European Parliament on 1 December 2016. The budget's total commitment appropriations for the EAGF amounted to EUR 42 612.6 million and its payment appropriations amounted to EUR 42 563.0 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 42 612.6 million: EUR 2 806.8 million were foreseen for interventions in agricultural markets under chapter 05 02, EUR 39 661.7 million were foreseen for direct payments under chapter 05 03, EUR 85.3 million were foreseen for audit of agricultural expenditure under chapter 05 07 and EUR 48.6 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 articles 05 01 04 (support expenditure) and 05 08 09 (operational technical assistance) were reduced by respectively EUR 0.9 million and EUR 1.0 million through Amending Budget No 6.

1.3. Revenue assigned to the EAGF²

In accordance with Article 43 of Regulation (EC) No 1306/2013 on the financing of the Common Agricultural Policy³, revenue originating from financial corrections

¹ This procedure is presented in annex 1.

² 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.

³ OJ L 347 of 20.12.2013, p. 549.

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 2017 budget, an estimate of the revenue was made both for the amount expected to be collected in the course of the 2017 budget year as well as of the amount which was expected to be carried over from the budget year 2016 into 2017. This estimate amounted to EUR 2 732 million and it was taken into consideration when the Budgetary Authority adopted the 2017 budget. In particular:

- revenue from the conformity clearance corrections and from irregularities was estimated at EUR 1 278 million and EUR 152 million respectively while there were no longer receipts from the milk levy estimated. Thus, the total amount of assigned revenue expected to be collected in the course of the 2017 budget year was estimated at EUR 1 430 million;
- The amount of assigned revenue expected to be carried over from the budget year 2016 into 2017 was estimated at EUR 1 302 million.

In the 2017 budget, this initially estimated revenue of EUR 2 732 million was assigned to two schemes, i.e.:

- EUR 400 million for the operational funds for producer organisations in the fruits and vegetables sector;
- EUR 2 332 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 855 million for the operational funds for producer organisations in the fruits and vegetables sector;
- EUR 17 628 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 2017 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	42 612 572 079.00	42 562 967 974.00	1. Clearance decisions	1 278 000 000.00
1a. Appropriations under shared management	42 490 000 000.00	42 490 000 000.00	2. Irregularities	152 000 000.00
1b. Appropriations under direct management	122 572 079.00	72 967 974.00	3. Super levy from milk producers	-
2. Amending Budget	-1 900 000.00	-1 900 000.00	Total forecast of AR	1 430 000 000.00
3. Transfer to / out of EAGF in the year		-2 640 390.66		
4. Final appropriations for EAGF of which	42 610 672 079.00	42 558 427 583.34		
4a. Appropriations under shared management	42 489 315 000.00	42 489 315 000.00		
4b. Appropriations under direct management	121 357 079.00	69 112 583.34		

- (1) Appropriations entered in the 2017 budget after deducting the expected assigned revenue to be collected in 2017 and the one carried over from 2016 to 2017 in accordance with Article 14 of Regulation (EU, EURATOM) No 966/2012. Concerns only fresh appropriations (C1 plus C4), i.e. without any carry-over amounts (C2 credits for reimbursing the unused agricultural crisis reserve 2016 and C5 assigned revenue from EAGF surplus).
- (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. Execution of appropriations available for the 2017 financial year

In EUR

	Execution of commitment appropriations	Execution of payment appropriations
Shared management (1)	44 639 387 611.79	44 639 387 611.79
Expenditure under direct management	119 428 161.33	58 396 372.68
Total	44 758 815 773.12	44 697 783 984.47

(1) Committed amounts. Commitments and payments less assigned revenue of EUR 1 482 465 754.02 (see point 4 and annex 3-I) received for shared management: EUR 43 156 921 857.77.

For the financial year 2017, the actual amount of commitment appropriations used amounted to EUR 44 758 815 773.12 while that for payment appropriations amounted to EUR 44 697 783 984.47.

The amount paid out (EUR 43 153 914 666.63) under shared management was less than EUR 43 156 921 857.77 due to suspended amounts for Poland.

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

In EUR

Expenditure under direct management	Commitment appropriations	Payment appropriations	Carry over to 2018 (2)
Appropriations (C1) (1)	121 357 079.00	69 112 583.34	-
Execution (C1)	119 428 161.33	47 177 737.98	17 671 686.06
Appropriations cancelled	1 928 917.67	4 263 159.30	-

(1) C1 denotes the budget's voted appropriations. This amount includes transfers from "shared management" for an amount of EUR 685 000.00 for commitment and payment appropriations, transfers "out" of EAGF for a total amount of EUR -2 986 000.00 for payment appropriations, transfers to EAGF for a total amount of EUR 345 609.34 for payment appropriations and an Amending Budget of EUR -1 900 000.00 for commitment and payment appropriations.

(2) Carry over to 2018 only for non-differentiated appropriations.

The available commitment appropriations for expenditure under direct management in the 2017 budget were EUR 121.4 million. An amount of EUR 119.4 million was committed in 2017. The balance of these appropriations, EUR 1.9 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 2018, which relates only to non-differentiated appropriations, amounts to EUR 17.7 million.

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 States⁴. 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 2016 to 15 October 2017 are covered by the system for monthly payments.

For financial year 2017, the total net amount of monthly payments decided, after the deduction of clearance and other corrections, was EUR 43 156 921 857.77. Taking into account the suspended amounts only EUR 43 153 914 666.63 was paid out.

⁴ These monthly declarations of expenditure are transmitted by the Member States by the declaration of the 12th of the month N+1.

2.2.1.2. Decisions on monthly payments for 2017

For the financial year 2017, 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 2017.

3. THE IMPLEMENTATION OF THE 2017 EAGF BUDGET

3.1. The uptake of the EAGF budget appropriations

The implementation of the budget amounted to EUR 44 758.8 million⁵. 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 1 304.0 million carried over from 2016 and of a part of the assigned revenue collected in 2017 amounting to EUR 879.2 million out of a total EUR 1 482.5 million.

Within policy area 05-Agriculture and Rural Development, the expenditure for market measures amounted to EUR 3 001.1 million and for direct payments to EUR 41 551.2 million.

For details of the budget's implementation by policy area, please see annex 2.

Annex 4 presents a breakdown of the expenditure on market measures, direct payments and audit of agricultural expenditure by article and by Member State.

3.2. Comments on the implementation of 2017 EAGF budget

A brief commentary for the most significant sectors on the implementation of the 2017 EAGF budget's appropriations as well as on the use of the assigned revenue available in 2017 is presented hereafter based on details appearing in the annexes 2, 3-I and 3-II.

3.2.1. Chapter 05 02: Interventions in agricultural markets

3.2.1.1. Introduction

Total payments for this chapter in 2017 amounted to EUR 3 001.1 million and they were funded by the voted appropriations amounting to EUR 2 805.0 million and by assigned revenue amounting to EUR 196.2 million. The latter was used to cover the expenditure incurred in the fruits and vegetables sector (for details, see point 3.2.1.2). In items where the needs exceeded the budgetary appropriations, the additional expenditure was covered through transfers from other budget lines within the EAGF. 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.

3.2.1.2. Article 05 02 08: Fruits and vegetables

The 2017 budget foresaw total available appropriations amounting to EUR 1 061.5 million to cover the needs of all the measures for this sector. The Budgetary Authority voted appropriations of EUR 661.5 million as it took into account the estimated revenue assigned to this sector which amounted to EUR 400 million. Moreover, EUR 137.8 million was transferred from other budget lines

⁵ This figure includes the reimbursement of the financial discipline related to the agricultural crisis reserve carried over from financial year 2016.

within the same chapter. The expenditure incurred by Member States in 2017 amounted to EUR 995.4 million. The balance of the unused assigned revenue of EUR 203.8 million was carried over to the budget year 2018 to cover the needs of that year.

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

The 2017 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 64.2 million, compared to the forecasted 2017 budget needs, 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 13.2 million compared to the forecasted 2017 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 2017 budget for these programmes.

As regards direct payments made by the European Union, the Commission committed appropriations for the total amount foreseen (EUR 52.5 million) in the 2017 budget for these payments.

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

From the forecasted 2017 budget needs of EUR 239.4 million for this budget article, the expenditure amounted to 99%.

3.2.1.6. Article 05 02 12: Milk and milk products

The 2017 budget foresaw total available appropriations amounting to EUR 607.7 million to cover the needs of all the measures for this sector. Expenditure incurred by Member States in 2017 amounted to EUR 468.0 million. All the schemes funded under this article were under-implemented compared to the estimated needs foreseen in the 2017 budget.

1.1.1.1. Article 05 02 13: Beef and veal

The 2017 budget foresaw no appropriations while the expenditure incurred by Member States in 2017 amounted to EUR 23.6 million. The over-execution in this article 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 this sector was covered via transfers from appropriations available for this measure in article 05 02 12.

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

The 2017 budget foresaw total available appropriations amounting to EUR 34.0 million to cover the needs of all the measures for this sector. However, the expenditure incurred by Member States in 2017 amounted to EUR 90.7 million and it was funded both by the voted appropriations and by transfers of appropriations amounting to EUR 56.7 million from other budget lines within the same chapter.

3.2.2. *Chapter 05 03: Direct payments*

Financial year 2017 was the second 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 2017 budget amounted to EUR 41 551.2 million. This includes an amount of EUR 425.6 million paid for the reimbursement of direct payments to farmers in relation to financial discipline, financed from EUR 433.1 million carried over from 2016 (for details, see point 3.2.2.3). The rest of the payments made, EUR 41 125.6 million, was funded by voted appropriations amounting to EUR 39 138.5 million and by assigned revenue amounting to EUR 1 987.0 million. The latter was used to cover the expenditure incurred for the basic payment scheme. The unused voted appropriations amounted to EUR 523.2 million as evidenced by the difference between the voted appropriations of EUR 39 138.5 million used for the reimbursement to Member States and the initial voted appropriations of EUR 39 661.7 million included in the 2017 budget. These unused voted appropriations were decreased by a transfer of voted appropriations of EUR 66.8 million to other parts of the EAGF budget. Moreover, the unused amount of the crisis reserve (EUR 450.5 million), which was established from the proposed financial discipline in 2017, was transferred to budget article 05 03 09 so that the amount of the effectively applied financial discipline (EUR 450.5 million) could be carried over to 2018 for the reimbursement to the Member States concerned (see point 3.2.2.4). The remaining balance of assigned revenue collected in 2017 amounted to EUR 399.4 million and was carried over to 2018. 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 budget lines within the EAGF in order to cover additional expenditure as needed.

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 2017 budgetary needs for decoupled direct payments amounted to EUR 35 523.8 million for which the Budgetary Authority voted appropriations amounting to EUR 33 191.8 million after taking into consideration assigned revenue amounting to EUR 2 332.0 million. The expenditure incurred by Member States for all schemes in this article amounted to EUR 35 366.2 million, thus exceeding the voted appropriations by EUR 2 174.4 million. This latter amount of expenditure declared was covered by assigned revenue. The expenditure incurred by Member States for decoupled direct payments corresponded to 99.6 % of the needs foreseen in the 2017 budget for these schemes.

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, schemes added under this Article were the voluntary coupled support and the small farmers scheme and a number of lines only covered relatively minor residual payments for expired schemes.

The Commission had estimated that appropriations amounting to EUR 6 019.3 million were needed for this Article in 2017. Member States incurred expenditure

amounting to EUR 5 759.4 million hence lower than the appropriations entered in the budget.

3.2.2.3. 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 N⁶.

From the amount of EUR 433.1 million, corresponding to the financial discipline applied during financial year 2016 and which was carried over to budget 2017 for reimbursement, Member States reimbursed EUR 425.6 million. The difference of EUR 7.5 million reverted to the 2017 budget for its return to Member States via an Amending Budget in the following budget year.

3.2.2.4. 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 /2013⁷. This reserve shall be set up with an annual amount of EUR 400 million (in 2011 prices). For the budget year 2017, the equivalent amount of the crisis reserve in current prices was EUR 450.5 million. The reserve was not used in financial year 2017.

For the 2016 claim year, the financial discipline was calculated exclusively for the constitution of the crisis reserve of EUR 450.5 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 2016 (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 2017.

3.2.3. *Chapter 05 07: Audit of agricultural expenditure*

3.2.3.1. 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 for an amount of

⁶ 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.

⁷ OJ L 347, 20.12.2013, p.608

EUR 11.3 million, thus taking up all of the appropriations foreseen in the 2017 budget.

There were much higher than expected corrections in favour of the Member States following conformity clearance of accounts (EUR 125.3 million instead of EUR 25.0 million foreseen in the Budget). This over execution was partly offset by lower than expected corrections in favour of Member States following accounting clearance of accounts (EUR 14.8 million instead of EUR 20.0 million foreseen in the Budget).

3.2.3.2. 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. The 2017 budget foresaw appropriations amounting to EUR 29.0 million, however no expenditure was declared. Therefore, these appropriations were transferred to other items of the 2017 budget.

4. IMPLEMENTATION OF REVENUE ASSIGNED TO EAGF

The assigned revenue actually carried over from 2016 into 2017, amounted to EUR 1 304.0 million and was entirely used in financing expenditure of the 2017 budget year in accordance with article 14 of the Financial Regulation. As presented in annex 3-II, this amount covered expenditure of EUR 118.7 million for the operational funds for producer organisations in the fruits and vegetables sector and of EUR 1 185.3 million for the basic payment scheme.

As regards the assigned revenue collected in 2017, annex 3-I shows that this revenue amounted to EUR 1 482.5 million and it originated from:

- the corrections of the conformity clearance procedure, EUR 1 348.0 million;
- the receipts from irregularities, EUR 130.7 million;
- the milk levy collections, EUR 3.7 million.

The assigned revenue collected in 2017 was used to cover expenditure incurred for the following measures:

- EUR 77.5 million for the operational funds for producer organisations in the fruits and vegetables sector;
- EUR 801.7 million for the basic payment scheme (BPS) (direct payments).

The balance of the assigned revenue collected in 2017 amounting to EUR 603.3 million was automatically carried over into the 2018 budget in order to fund budgetary needs of that year.

For details, please see annexes 3-I and 3-II.