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

on EAGF expenditure

Early Warning System No 7-10/2018

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ANNEX 1: PROVISIONAL CONSUMPTION OF EAGF APPROPRIATIONS UP TO 31/08/2018

1. THE 2018 EAGF BUDGETARY PROCEDURE

The 2018 EU budget was adopted by the European Parliament on 30 November 2017. The budget included for the European Agricultural Guarantee Fund (EAGF) commitment and payment appropriations amounting to EUR 43 235 million and EUR 43 189 million respectively, for direct payments and market related expenditure.

The difference between commitment and payment appropriations is due to the fact that differentiated appropriations are used for certain measures that are directly implemented by the Commission. These relate mainly to promotion measures for agricultural products and to policy strategy and coordination measures.

2. REVENUE ASSIGNED TO THE EAGF

On the basis of the provisions of Article 43 of Regulation (EU) No 1306/2013, revenue originating from financial corrections under accounting and conformity clearance decisions 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 it will be automatically carried forward to the following budget year¹.

The 2018 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 2018 EAGF budget appropriations, the Commission took into consideration the total expected assigned revenue, and requested for the 2018 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 2018 budget, the Commission's estimates of the available assigned revenue was EUR 1 475.9 million, composed of:

- the assigned revenue expected to be generated in the course of the 2018 budget year, estimated at EUR 865.9 million (EUR 733.9 million from conformity clearance corrections and EUR 132 million from irregularities);
- the assigned revenue to be carried over from 2017 to 2018, estimated at EUR 610 million.

¹ Art 12(4)(b) of Regulation (EU, Euratom) No 2018/1046 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union determines that appropriations corresponding to internal assigned revenue may be carried over only to the following financial year. 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 Commission assigned this estimated revenue of EUR 1 475.9 million to the following schemes:

- EUR 400 million to the operational funds for producer organisations in fruit and vegetables, and
- EUR 1 075.9 million to the basic payment scheme.

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

- EUR 872 million for the operational funds for producer organisations in fruit and vegetables, and
- EUR 17 402 million for the basic payment scheme.

In the annex, presenting the 2018 budget's provisional execution, 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 531.8 million and to EUR 34 309.1 million respectively.

Including the revenue assigned to these articles, the total amounts foreseen in the 2018 budget are EUR 931.8 million for fruit and vegetables and EUR 35 385 million for decoupled direct payments.

3. COMMENTS ON THE PROVISIONAL IMPLEMENTATION OF THE 2018 EAGF BUDGET

The budget's provisional implementation for the period 16 October 2017 to 31 August 2018 is presented in the annex. This implementation level is compared to the expenditure profile of the Early Warning System (EWS) set up in conformity with Article 28 of Regulation (EU) No 1306/2013.

3.1. Market measures

The uptake of appropriations for interventions in agricultural markets was slightly higher than the profile (+ EUR 37.9 million). When taking into account the assigned revenue of EUR 400 million allocated to the fruit and vegetables scheme, the result is a gap of - EUR 195.2 million against the estimated profile of expenditure.

3.1.1. Fruit and vegetables

Taking into account the revenue assigned to this sector, the apparent lead to the profile of + EUR 126.8 million turns into a gap of - EUR 106.3 million, or - 11.4% (see the (*) footnote in the Annex). A slower rhythm of execution is observed for the aid to "Operational funds for producer organisations".

3.1.2. Products of the wine-growing sector

The execution gap of - EUR 40.6 million compared to the profile for this budget article is mainly due to so far lower expenditure in two Member States that have a significant envelope for the wine support programmes. Member States however foresee to declare considerable amounts over the last two periods of the financial year. The Commission services closely monitor the implementation of this budget article.

3.1.3. *Promotion*

At this point in time, the gap to the profile of - EUR 15.1 million (or - 8.8%) is considered to be temporary and the execution is closely monitored by the Commission services.

3.1.4. *Milk and milk products*

In the 4-6/2018 EWS Report the over-execution on the budget line for storage in 2018 was mentioned. The loss caused by sales of public stocks of skimmed milk powder at prices lower than the intervention price explains the major over-execution for the budget article at the end of August (EUR 70.1 million of expenditure compared to EUR 34.1 million budgeted appropriations). Given the low market price, a depreciation of the stocks will be executed before the end of the budget year.

3.1.5. *Pigmeat, eggs and poultry, bee-keeping and other animal products*

In previous years, this budget article included expenditure for beekeeping and measures for the pig meat sector. In 2018, the article finances the aid for beekeeping and exceptional market support measures related to animal diseases. This year's execution pattern is therefore different from the calculated profile based on previous years' patterns. At year-end, the total expenditure for this budget article is expected to be lower than budgeted.

3.1.6. *School schemes*

As of school year 2017/2018, the previously separate school fruit and school milk schemes have been merged. The expenditure profile for budget article 05 02 18 has been developed on the basis of the execution pattern of the former separate school schemes. At year-end, the total expenditure for this budget article is expected to be lower than budgeted.

3.2. **Direct payments**

The uptake of appropriations for direct payments was higher than the profile (EUR +867.8 million). When taking into account the revenue assigned to this budget chapter (see also point 2 above), the result is a gap of - EUR 206 million against the estimated profile of expenditure.

3.2.1. *Decoupled direct payments*

The declared expenditure exceeds the profile by + EUR 1 036.4 million (+ 3%). When taking into account the revenue assigned to this article, the execution is almost equal to the profile (- EUR 37.4 million or only - 0.1%); see the (*) footnote in the Annex. The over-execution of the budgeted appropriations (EUR 35 238.1 million of expenditure compared to EUR 34 309.1 million appropriations) is within the EUR 1 075.9 million of revenue assigned to this budget article.

3.2.2. *Other direct payments*

The implementation of the other direct payments (covering schemes such as the voluntary coupled support and the small farmers scheme) is close to the profile (minus EUR 168.5 million or - 2.9%). At year-end, the total expenditure for this budget article is expected to be lower than budgeted.

3.3. Audit of agricultural expenditure

For the budget chapter 05 07, the under-consumption indicates that a smaller amount of payments was made compared to the average profile of the previous years. These payments concern mainly financial corrections in favour of Member States following decisions on conformity clearance or financial clearance of previous years' accounts.

4. IMPLEMENTATION OF REVENUE ASSIGNED TO THE EAGF

The table in the annex shows that assigned revenue amounting to EUR 921.3 million was collected as of end August 2018. Specifically:

- the revenue from corrections based on accounting and conformity clearance decisions amounted to EUR 808.5 million;
- the revenue from irregularities amounted to EUR 109.2 million, also with additional amounts expected by the end of the budget year, and
- some residual revenue from the milk levy equal to EUR 3.6 million.

Taking into account the revenue carried over from 2017 to 2018 (EUR 603.3 million), the total amount of assigned revenue available on 31 August 2018 for the financing of EAGF expenditure was EUR 1 524.6 million, which is EUR 48.7 million higher than originally forecasted. An additional amount is expected to be collected before the end of the budget year.

5. CONCLUSIONS

The provisional execution of the 2018 EAGF budget appropriations, for the period up to 31 August 2018, shows that monthly reimbursements to Member States are slightly lower than the calculated consumption profile: -1.8% or minus EUR 789.1 million.

An amount of EUR 1 524.6 million of assigned revenue is already available, and an additional amount is expected to be collected before the end of the budget year.

At this point in time, the Commission expects that the voted appropriations together with the amount of assigned revenue available and to be available by the end of the budget year will be sufficient to cover all expenditure. In the Amending letter No 1 to the Draft General Budget 2019, the Commission has estimated that assigned revenue of approximately EUR 191 million will be available for the carry-over from the 2018 to the 2019 budget.