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

on EAGF expenditure

Early Warning System No 7-10/2019

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ANNEX : PROVISIONAL CONSUMPTION OF EAGF APPROPRIATIONS UP TO 31/08/2019

1. THE 2019 EAGF BUDGET PROCEDURE

On 12 December 2018, the European Parliament adopted the 2019 general budget of the European Union. The budget included for the European Agricultural Guarantee Fund (EAGF) commitment and payment appropriations amounting to EUR 43 192 million and EUR 43 116 million respectively, for direct payments and market related expenditure.

The reason for the different amounts for both types of appropriations is the use of differentiated appropriations for certain measures 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

Based on the provisions of Article 43 of Regulation (EU) No 1306/2013, revenue originating from financial corrections under accounting and conformity clearance decisions and irregularities constitutes revenue assigned to the financing of EAGF expenditure.

According to these provisions, assigned revenue can cover the financing needs of any EAGF expenditure. Any part of the revenue left unused within the budget year is automatically carried forward to the following budget year¹.

The 2019 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 2019 EAGF budget appropriations, the Commission took into consideration the total expected assigned revenue, and requested for the 2019 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 2019 budget, the Commission's estimates of the available assigned revenue was EUR 1 078 million, composed of:

- assigned revenue expected to be generated during the 2019 budget year, estimated at EUR 634 million (EUR 499 million from conformity clearance corrections and EUR 135 million from irregularities);
- assigned revenue to be carried over from 2018, estimated at EUR 444 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. Therefore, in the interests of sound budget management, this assigned revenue is generally used first before the voted appropriation of the concerned budget article.

The Commission assigned this estimated revenue of EUR 1 078 million to the following schemes:

- EUR 140 million to the operational funds for producer organisations in fruit and vegetables, and
- EUR 938 million to the basic payment scheme.

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

- EUR 849 million for the operational funds for producer organisations in fruit and vegetables, and
- EUR 17 149 million for the basic payment scheme.

In the annex, presenting the 2019 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 715 million and to EUR 34 388 million respectively.

Including the revenue assigned to these articles, the total amounts foreseen in the 2019 budget are EUR 855 million for fruit and vegetables and EUR 35 326 million for decoupled direct payments.

3. COMMENTS ON THE PROVISIONAL IMPLEMENTATION OF THE 2019 EAGF BUDGET

The annex to this report presents the budget's provisional implementation for the period 16 October 2018 to 31 August 2019. Comparison is made of the implementation level with the expenditure profile of the Early Warning System (EWS) set up in accordance with Article 28 of Regulation (EU) No 1306/2013.

3.1. Market measures

The uptake of appropriations was lower than expected in the sectors of olive oil, wine, milk and school schemes. The implementation of the budget in the fruit and vegetables sector, on the other hand, exceeds the forecasted level under the expenditure profile.

3.1.1. Olive oil

The expenditure made for the quality improvement programmes is EUR 10 million lower than expected at the end of August according to the expenditure profile. The budgeted amount is expected to be implemented by the end of the budget year.

3.1.2. Fruit and vegetables

The expenditure declared in this sector is almost EUR 64 million ahead of the profile. However, at this moment, it is expected that the total budgeted amount will be sufficient to cover all needs.

3.1.3. Products of the wine-growing sector

For this budget article, expenditure declared so far is EUR 49 million lower than the expenditure profile. The small divergence is considered temporary and the budgeted amount is expected to be implemented towards the end of the year.

3.1.4. Milk and milk products

The deviation from the expenditure profile (minus EUR 67 million) is explained by the declaration by Member States of gains (compared to the accounting value) on sales of skimmed milk powder. An end-of-year depreciation of the public stocks of skimmed milk powder was booked in financial year 2018 to adjust the stock value to foreseeable selling price at that moment. Since then, the market has been in a constant upward trend. Therefore, skimmed milk powder has been sold at a higher price than the accounting value, producing gains as declared by the Member States.

3.1.5. School schemes

The divergence from the profile (- EUR 19 million) is considered to be temporary and the budgeted amount is expected to be implemented towards the end of the year.

3.2. Direct payments

The uptake of appropriations for direct payments is slightly higher than forecasted.

3.2.1. Decoupled direct payments

The declared expenditure is EUR 926 million ahead of the profile. However, taking into account the assigned revenue estimated available for the article, i.e. EUR 938 million, the implementation pattern fully fits with the historic profile. There is thus no lack of appropriations as it appears from the profile without assigned revenue.

3.2.2. Other direct payments

The declared expenditure under this budget article is slightly behind the profile, by EUR 115 million. The budgeted amount is however expected to be implemented towards the end of the year.

4. IMPLEMENTATION OF REVENUE ASSIGNED TO THE EAGF

The table in the annex shows that assigned revenue amounting to EUR 634.2 million was collected as of end August 2019, which is EUR 0.2 million more than anticipated when adopting the 2019 budget. It includes in particular:

- the revenue from corrections based on accounting and conformity clearance decisions amounting to EUR 494.4 million,
- the revenue from irregularities amounting to EUR 137.9 million, and
- some residual revenue from the milk levy equal to EUR 1.9 million.

Together with the amount of EUR 448.8 million of revenue carried over from the previous year, makes a total amount of EUR 1 083.0 million of assigned revenue available on 31 August 2019. Additional amounts are expected to be collected during the budget year.

5. CONCLUSIONS

The provisional execution of the 2019 EAGF budget appropriations, for the period up to 31 August 2019, shows that monthly reimbursements to Member States are EUR 680 million higher than the calculated consumption profile.

An amount of EUR 1 083 million of assigned revenue is already available, and additional amounts of revenue are expected to be collected in the course of the budget year.

At present, the Commission expects that the voted appropriations together with the amount of assigned revenue that will be available by the end of the budget year will be sufficient to cover all expenditure. Therefore, in the Amending letter 1 to the 2020 Draft Budget, the Commission has estimated that assigned revenue of EUR 280 million will be available for the carry-over from the 2019 to the 2020 budget.