



COMMISSION OF THE EUROPEAN COMMUNITIES

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

on EAGF expenditure

Early warning system

No 1/2007

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1. THE 2007 BUDGETARY PROCEDURE

The 2007 budgetary procedure for the European Agricultural Guarantee Fund (EAGF) and the corresponding amounts of appropriations involved at each stage of the procedure are summarised in Annex 1.

The Commission adopted the preliminary draft budget (PDB) for agriculture in early May 2006 involving commitment appropriations amounting to EUR 43 343.7 million and payment appropriations amounting to EUR 43 342.2 million. The amounts of forecasted appropriations were based on an evaluation of internal and external market conditions for the various products concerned, on the impact of the 2003/2004 CAP reforms as well as on the recent sugar reform.

In July 2006, the Ecofin-Budget Council adopted the Draft Budget (DB) whereby it reduced the requested appropriations by EUR 730.0 million from the corresponding PDB appropriations. Appropriations for market measures were reduced by EUR 525.0 million and the ones for the accounting clearance by EUR 205.0 million. In contrast, the European Parliament, in its first reading of the PDB, restored the Council's reductions while increasing substantially the appropriations in the milk sector.

In October 2006, the Commission updated the initial estimates of needs of the PDB, on the basis of the more recent developments in agricultural legislation, in agricultural markets and in the EUR/US \$ exchange rate and submitted Amending Letter No 3/2007 to the Budgetary Authority. The Commission therein requested total commitment appropriations amounting to EUR 42 492.0 million and total payment appropriations amounting to EUR 42 490.5 million. By comparison to the initially requested appropriations in the PDB, the Commission reduced the requested appropriations for the budget year 2007 by EUR 851.7 million.

The 2007 budget was adopted in the European Parliament's plenary session of December 2006. The 2007 EAGF budget's commitment appropriations amounted to EUR 42 711.7 million and its payment appropriations amounted to EUR 42 435.6 million. With regard to the most significant agricultural sectors, an amount of EUR 5 615.2 million for market measures and an amount of EUR 36 878.5 million for direct aids are foreseen. Furthermore, an amount of EUR 309.8 million for policy area 17 -veterinary and phyto-sanitary measures and of EUR 30.5 million for policy area 11 - fisheries (NB: EUR 15.0 million is in the reserve account) are foreseen in the 2007 budget. The difference between commitment and payment appropriations, amounting to EUR 276.1 million, is due to the fact that differentiated appropriations are used for the payments made directly by the Commission for promotion of agricultural products, for policy strategy and coordination measures for agriculture and for veterinary and phyto-sanitary measures.

2. COMMENTS ON THE IMPLEMENTATION OF THE 2007 BUDGET

For the period 16 October 2006 to 30 November 2006, the budget's actual implementation level compared to the expenditure profile pointed out by the indicator, established on the basis of the dispositions of Article 20 of Council Regulation (EC) No 1290/2005¹ is presented in Annex 2. Hereafter, a brief commentary on the reasons for which the most significant divergences between the actual and the expected level of implementation for certain sectors of the 2007 budget follows:

2.1. Monetary factors

The expenditure incurred in the aforementioned period takes account of the movement in the US\$/EUR rate. For a large part of export refunds for agricultural products, particularly for cereals and sugar, and of some internal aids such as aid for cotton, expenditure is influenced by the trend in this parity rate.

In accordance with Article 21 of Regulation (EC) No 1290/2005, the budget adopted by the Budgetary Authority was drawn up on the basis of the average parity rate for July-September 2006 of EUR 1 = \$ 1.27. It should be noted that for the period 1 August 2006 to 30 November 2006 the average parity rate was approximately equal to EUR 1 = \$ 1.28, i.e. less than 1.0% above the rate used for the establishment of the 2007 budget.

2.2. Market factors

2.2.1. Sugar (+ EUR 134.2 million)

This over-implementation of appropriations when compared to the level of the indicator is probably due to an acceleration of the rhythm of liquidation and payment of the previous marketing year's 2005/06 sugar export refund files.

2.2.2. Wine (+ EUR 41.3 million)

The Commission considers that this over-implementation is temporary and that it is mainly due to the payments arising from the crisis distillations for the marketing year 2005/2006 carried out but not paid for in the 2006 budget year. These payments are currently being made, thus, leading to a temporary over-execution of appropriations by comparison to the level of the indicator.

2.2.3. Milk and milk products (+ EUR 38.5 million)

This over-execution of appropriations by comparison to the indicator is due to technical reasons whereby the indicator was established on the past 3 budget years' expenditure which included the effect of the collection of the milk levy payments while for the budget year 2007 this levy is separately treated as assigned revenue and it is not immediately included in the sector's appropriations.

¹ OJ L 209, 11.8.2005, p. 1. Regulation last amended by Regulation (EC) No 320/2006 (JO L 58, 28.2.2006, p. 42).

2.3. Direct aids (+ EUR 81.4 million)

The Commission established the corresponding indicator on the basis of the payment forecasts forwarded by all Member States. The current over-execution is minimal when compared to the level of this indicator. However, from the low level of total payments made by Member States for decoupled aids, it is concluded that very few Member States took advantage of the Commission's rule allowing that 50% of all these aids could be advanced as of 16 October instead of waiting for the normal payment date of 1 December.

2.4. Assigned revenue (EUR 353.3 million)

Out of all types of assigned revenue, only the payments for the milk levy were made in the course of the period 16 October to 30 November 2006 as it is foreseen by the new rules on the payment of this levy.

3. CONCLUSIONS

The uptake of appropriations for the Member States' expenditure from 16 October 2006 to 30 November 2006 for market measures and direct aids amounted to EUR 5 466.7 million, i.e: it involved an over-execution of these appropriations by approximately EUR 236.5 million. At this point in time, this over-execution appears to be temporary on the basis of the comments made in points 2.2 and 2.3 above.

ANNEX 2

BUDGET YEAR 2007 (*)

PROVISIONAL CONSUMPTION OF THE APPROPRIATIONS AGAINST ORIGINAL APPROPRIATIONS OF EAGF

Situation to the 30/11/2006
in EUR million

	Original	Consumption	Utilisation	Consumption profile (**) as at		Gap between implementation and	
	Appropriations	of		November (provisional)		indicator	
	Budget (*)	November		%	EUR million	%	EUR mio
	EUR mio	EUR mio	%	%	EUR million	%	EUR mio
	a	b	c = b/a	d	e = (d*a)	f = c-d	g = b-e
Expenditure (A)							
05 01	ADMINISTRATIVE EXPENDITURE OF AGRICULTURE AND RURAL DEVELOPMENT POLICY AREA						
	05010401, 05010406 & 05010407: Monitoring/prevention and pilot projects						
	8,5	0,0	0,0%	0,0%	0,0	0,0%	0,0
	8,5	0,0	0,0%	0,0%	0,0	0,0%	0,0
05 02	INTERVENTIONS IN AGRICULTURAL MARKETS						
05 02 01	Cereals						
	516,0	64,3	12,5%	18,9%	97,7	-6,5%	-33,4
05 02 02	Rice						
	-2,0	0,2	-11,7%	28,1%	-0,6	-39,8%	0,8
05 02 03	Refunds on non-Annex 1 products						
	299,0	30,5	10,2%	11,9%	35,7	-1,7%	-5,2
05 02 04	Food programmes						
	278,0	15,5	5,6%	1,2%	3,2	4,4%	12,3
05 02 05	Sugar						
	323,0	116,6	36,1%	-5,5%	-17,6	41,6%	134,2
05 02 06	Olive oil						
	50,0	14,8	29,5%	49,5%	24,7	-20,0%	-10,0
05 02 07	Textile plants						
	22,0	2,4	10,9%	8,2%	1,8	2,7%	0,6
05 02 08	Fruit and vegetables						
	1.319,8	179,2	13,6%	14,6%	193,1	-1,1%	-13,9
05 02 09	Products of the wine-growing sector						
	1.487,0	166,1	11,2%	8,4%	124,8	2,8%	41,3
05 02 10	Promotion						
	45,3	3,9	8,6%	7,0%	3,2	1,6%	0,7
05 02 11	Other plant products/measures						
	379,0	36,3	9,6%	11,7%	44,5	-2,2%	-8,2
05 02 12	Milk and milk products (estimation of 349 Mio EUR credits coming from revenue)(**)						
	587,0	110,5	18,8%	12,3%	72,1	6,6%	38,5
05 02 13	Beef and veal						
	117,0	25,3	21,6%	13,3%	15,5	8,3%	9,7
05 02 14	Sheepmeat and goatmeat						
	0,0	0,0	0,0%				
05 02 15	Pigmeat, eggs and poultry, bee-keeping and other animal products						
	194,1	19,9	10,3%	13,0%	25,3	-2,8%	-5,4
05 02 16	Sugar Restructuring Fund (estimation of 757 Mio EUR credits coming from revenue)(**)						
	0,0	0,0	0,0%				
	5.615,2	785,5	14,0%	11,1%	623,5	2,9%	162,1
05 03	DIRECT AIDS						
05 03 01	Decoupled direct aids (estimation of 638 Mio EUR credits coming from revenue)(**)						
	30.196,0	4.004,1	13,3%	12,9%	3.886,0	0,4%	118,2
05 03 02	Other direct aids						
	6.214,5	689,0	11,1%	11,5%	714,7	-0,4%	-25,7
05 03 03	Additional amounts of aid						
	468,0	0,3	0,1%	0,0%	0,0	0,1%	0,3
05 03 04	Ancillary direct aids (outstanding balances, small producers, agrimonetary aids, etc.)						
	0,0	-11,3	0,0%				
	36.878,5	4.682,0	12,7%	12,5%	4.600,7	0,2%	81,4
OTHER EXPENDITURE							
05 04	Rural development (050401 and 05040302)						
	0,0	-0,9	0,0%				
05 07	AUDIT OF AGRICULTURAL EXPENDITURE						
05 07 01 01	Monitoring and preventive measures - Payments by the Member States						
	0,0	0,0	0,0%				
05 07 01 02	Monitoring and preventive measures - Direct payments by the European Community						
	6,0	0,0	0,0%	0,0%	0,0	0,0%	0,0
05 07 01 05	Checks on application of the rules in agriculture						
	0,0	0,0	0,0%				
05 07 01 06	Accounting clearance of previous years' accounts with regard to shared management expenditure under the EAGGF Guarantee Section (ex heading 1a) and under the EAGF						
	-178,0	0,0	0,0%	-3,4%	6,1	3,4%	-6,1
05 07 01 07	Conformity clearance of previous years' accounts of shared management expenditure under the EAGF						
	0,0	0,0	0,0%				
05 07 01 08	Accounting clearance of previous years' accounts with regard to rural development under the EAGGF Guarantee Section (ex heading 1b)						
	0,0	0,0	0,0%				
05 07 01 09	Conformity clearance of previous years' accounts of rural development under the EAGGF Guarantee Section (ex heading 1b)(2000 to 2006)						
	0,0	0,0	0,0%				
05 07 02	Settlement of disputes						
	0,0	0,0	0,0%				
05 08	POLICY STRATEGY AND COORDINATION OF AGRICULTURE AND RURAL DEVELOPMENT POLICY AREA						
	41,2	0,0	0,0%	0,0%	0,0	0,0%	0,0
11 02	FISHERIES MARKETS (2)						
	30,5	0,0	0,0%	0,0%	0,0	0,0%	0,0
17 01	ADMINISTRATIVE EXPENDITURE OF POLICY AREA HEALTH AND CONSUMER PROTECTION (1)(2)						
	1,3	0,0	0,0%	0,0%	0,0	0,0%	0
	17010401 and 17010404&05: Plant health measures - pilot study - feed&food safety						
17 03	PUBLIC HEALTH (1)(2)						
	13,5	0,0	0,0%	0,0%	0,0	0,0%	0
	17 03 02 Community tobacco fund - direct payments by the EU						
17 04	FOOD SAFETY, ANIMAL HEALTH AND WELFARE, PLANT HEALTH (1)(2)						
	295,0	0,0	0,0%	0,0%	0,0	0,0%	0,0
	170401 to 170407: Veterinary, animal welfare, public health, plant health, feed&food and other measures						
	209,5	-0,9	-0,4%	2,9%	6,1	-3,3%	-7,0
	42.889,7	5.466,7	12,7%	12,2%	5.224,1	0,6%	242,6
	42.711,7	5.466,7	12,8%	12,2%	5.230,2	0,6%	236,5
REVENUE (B)							
67 01	Conformity clearance of previous years' accounts - EAGF (estimation: 568 Mio EUR)						
	0,0	0,0					
67 02	Irregularities - EAGF (estimation: 70 Mio EUR)						
	0,0	8,0					
67 03	Superlevy from milk producers (estimation: 349 Mio EUR)						
	0,0	345,3					
68 01	Temporary restructuring amounts- Assigned revenue (estimation: 1259 Mio EUR)						
	0,0	0,0					
68 02	Irregularities concerning the temporary restructuring fund - Assigned revenue						
	0,0	0,0					
	0,0	353,3					
Expenditure and revenue (A-B)							
	42.889,7	5.113,3	11,9%	12,2%	5.224,1	-0,3%	-110,8
	42.711,7	5.113,3	12,0%	12,2%	5.230,2	-0,3%	-116,8

(*) Budget year = 16.10.06 to 15.10.07 but direct expenditure possible until 31.12.07

(1) Chapter not exclusively EAGF

(**) For direct payments it concerns the commitments

(2) Chapter outside title 05 but included in EAGF

(***) Including possible use of assigned revenue: see 'revenue' lines