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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 6/2009

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1. INTRODUCTION

For the period 16 October 2008 to 30 April 2009, 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 the annexed table.

2. REVENUE ASSIGNED TO EAGF

On the basis of the rules of Article 34 of the new CAP Financing Regulation (EC) No 1290/2005, revenue originating from financial corrections under 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 EAGF expenditure incurred by the Member States. In the case where part of this revenue is not used, then, this part will be automatically carried over into the following budget year.²

The Commission's Amending Letter presents both its latest estimate on the amount of appropriations which will be needed in order to finance the expected expenditure for market measures and direct aids and estimates of the assigned revenue which is expected to be collected in the course of the budget year concerned and the carry over of the balance of assigned revenue left available from the previous budget year. As a consequence, in its proposal for an Amending Letter on the amount of appropriations to grant to the EAGF, the Commission takes into consideration the total assigned revenue expected to be available in the coming budget year by requesting a level of appropriations calculated by deducting the estimated level of assigned revenue from its estimated expenditure for EAGF for the same year. The Budgetary Authority, then, adopts the new EAGF budget whose appropriations do not include the expected assigned revenue.

At the time of establishment of the 2009 Amending Letter, the Commission's estimates for the available assigned revenue amounted to EUR 2 376.0 million. Specifically:

- The assigned revenue expected to be generated in the course of the 2009 budget year was estimated at EUR 1 042 million. Amounts of EUR 600.0 million and EUR 105.0 million were expected from conformity clearance corrections and from irregularities correspondingly. The receipts from the milk levy were estimated at EUR 337.0 million.
- The amount of assigned revenue expected to be carried over from the budget year 2008 into 2009 was estimated at EUR 1 334.0 million.

In its 2009 Amending Letter, the Commission assigned this revenue of EUR 2 376.0 million to 2 schemes. Specifically:

¹ OJ L 209, 11.8.2005, p. 1.

² Assigned revenue carried over has to be used first, this means before the appropriations voted by the Budgetary Authority or the assigned revenues generated in the year (Art 10 of the Financial Regulation).

- EUR 515.0 million was assigned to the operational funds for producer organisations in the fruits and vegetables sector, and
- EUR 1 861.0 million to the single payment scheme.

For these 2 schemes, the Budgetary Authority eventually voted appropriations amounting to EUR 260.0 million and EUR 27 239.0 million in accordance with the Commission's Amending Letter. The sum of the voted appropriations and the assigned revenue mentioned above corresponds to a total estimate of appropriations requirements of EUR 775.0 million for the operational funds for producer organisations in the fruits and vegetables sector and EUR 29 100.0 million for the single payment scheme.

In the annexed table which presents the 2009 budget's execution for the period to 30 April 2009, the voted appropriations for the aforementioned two schemes are included in the original budget appropriations for the fruits and vegetables sector and for the decoupled direct aids sector which amount to EUR 343.6 million and to EUR 31 295.0 million correspondingly without taking account of the aforementioned assigned revenue. After including the revenue assigned to these sectors, the total foreseen appropriations amounts to EUR 858.6 million for fruits and vegetables and EUR 33 156.0 million for decoupled direct aids.

3. REVENUE ORIGINATING FROM THE TEMPORARY RESTRUCTURING AMOUNTS (SUGAR SECTOR)

The temporary restructuring amounts in the sugar sector are treated as assigned revenue intended to finance the sugar restructuring aid and other aids foreseen in the Sugar Restructuring Fund. For each marketing year, starting with 2006/07 up to 2008/09, these amounts relate to the sugar, inulin syrup and isoglucose quantitative quotas held by operators in each Member State and they are to be paid by the Member States into the Fund in two instalments, the deadlines of which are 31 March and 30 November respectively for each year. At the time of establishment of the 2009 budget, the estimation of this revenue amounted to EUR 1 742.0 million for the upcoming budget year. At the same time, an amount of EUR 2 006.0 million was expected to be carried over from the budget year 2008 into 2009.

4. COMMENTS ON THE IMPLEMENTATION OF THE 2009 EAGF BUDGET

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 2009 budget is presented hereafter:

4.1. Monetary factors

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 2008 of EUR 1 = US \$ 1.51. It should be noted that, for the period 1 August 2008 to 30 April 2009, the average parity rate was approximately equal to EUR 1 = US \$ 1.35, i.e. 10.6% below the rate used for the establishment of the 2009 budget.

4.2. Market factors

4.2.1. Refunds on non-Annex I products (- EUR 28.5 million)

This scheme is also affected by the crisis in the dairy sector (NB: for details, please see point 4.2.5 below) as refunds are also paid for the milk and milk products contained in the exported processed agricultural products. The 2009 budget did not foresee sufficient appropriations to cover the expenditure resulting from these refunds.

It should be pointed out that the current execution level of this scheme, which stands below the budget's appropriations when compared to the level pointed out by the indicator, is probably due to the slower rhythm followed by the Member States concerned in paying the expenditure related to this scheme's refunds. At this point in time, the Commission does not dispose of any information as to the probable level of expenditure for this scheme and considers this execution pattern to be temporary. However, the Commission expects that the appropriations foreseen in the 2009 budget for this scheme will not be sufficient to cover its expected requirements to the end of the budget year.

4.2.2. Food programmes (-EUR 139.2 million)

This execution below the budget's appropriations is due to the slowing down of the rhythm of implementation of the 2009 plans for the most deprived persons by the Member States when compared to the level pointed out by the indicator. As concerns the quantities of intervention sugar included in this plan, only 3 out of the 12 Member States have so far distributed a part or the total quantity of sugar foreseen in this plan. As regards market purchases, only 5 of the 18 Member States have spent a part of the resources allocated for these purchases. At this point in time, the Commission does not dispose of any information as to the Member States' intentions with regard to the implementation of these plans and, therefore, considers this execution pattern to be temporary.

4.2.3. Fruits and vegetables (+EUR 154.6 million)

The implementation pattern of this sector is primarily due to the payments made by the Member States for the operational funds for producer organisations compared to the level of the indicator on 30 April 2009.

The main reason for this apparent over-implementation is that the total credit appropriations foreseen for this sector amount to EUR 858.6 million when taking account of the assigned revenue. The foreseen assigned revenue of EUR 515.0 million will be used to cover expenditure incurred in this sector above the voted appropriations of EUR 343.6 million. (NB: for details, please see point 2 above).

At this point in time, the Commission considers that the total credit appropriations available for this sector will be sufficient to cover the expenditure expected to be incurred by the Member States in 2009.

4.2.4. *Wine (–EUR 403.4 million)*

This execution below the budget's appropriations is due to the very slow implementation rhythms of the national support programmes by Member States when compared to the level of budget appropriations pointed out by the indicator on 30 April 2009. It should be noted that as of 30 April 2009, the expenditure incurred by Member States for these programmes amount to only 17% of the respective amount foreseen. At this point in time, the Commission regards this execution pattern to be temporary. In order to reduce the insecurity resulting from this slow implementation rhythm, the Commission has initiated an enquiry as to the Member States' intentions with regard to their expected expenditure relating to these national support programmes.

4.2.5. *Milk and milk products (+EUR 28.6 million)*

The implementation level of this sector is slightly above the level of budget appropriations pointed out by the indicator on 30 April 2009. In order to counter the deteriorating situation in dairy markets, the Commission re-introduced export refunds for dairy products. Furthermore, since market prices in the EU have fallen below intervention buying-in prices, the Commission opened butter and skimmed milk powder intervention. As of 30 April 2009, the quantity of butter in public storage amounted to approximately 60 000 t while the one for skimmed milk powder amounted to approximately 120 000 t. This situation was not foreseeable at the time of establishing the 2009 budget which did not foresee sufficient appropriations for these schemes to face off this crisis. While the budget's implementation level has not yet shown the full impact of the measures taken to counter this crisis as of 30 April 2009, the Commission expects that the appropriations foreseen in the 2009 budget for this sector will not be sufficient to cover its expected requirements to the end of the budget year.

4.3. **Direct aids (+EUR 1 688.2 million)**

4.3.1. *Decoupled direct aids (+EUR 1 710.1 million)*

The total credit appropriations foreseen for this sector amount to EUR 33 156.0 million including the revenue of EUR 1 861.0 million assigned to it. (NB: for details, please see point 2 above).

This implementation level is primarily due to the payments made by Member States for the single payment scheme compared to the level of budget appropriations pointed out by the indicator on 30 April 2009.

To assess the implementation level account must be taken of the assigned revenue. The indicator foresees an execution of 95.3% of the voted appropriations compared to an actual execution of 100.8% (execution on voted budget and assigned revenue compared with voted budget) as of 30 April 2009. However, the amount of revenue assigned to this line in the budget (EUR 1 861.0 million) presently amply covers the apparent over-implementation (EUR 1 710.0 million)

4.3.2. *Other direct aids (-EUR 31.7 million)*

This implementation pattern is primarily due to the rhythm of payments made for this scheme which has been slightly slower than expected. Indeed, as of 30 April 2009, Member States had used 79.1% of the budget's appropriations compared to the indicator's level of 79.6%.

This implementation pattern relates mainly to the transitional fruits and vegetables payment for tomatoes and for other products, to the sheep and goat premium and to the payments to starch potato producers. At this point in time, the Commission considers this implementation pattern to be temporary.

4.4. Audit of agricultural expenditure

4.4.1. *Accounting clearance of previous years' accounts (+EUR 245.6 million)*

This implementation pattern results from the comparison of the clearance of accounts corrections already made with the level of the corresponding indicator as of 30 April 2009. The accounting clearance decisions expected within this budget year have been taken but the resulting corrections have not been yet declared by the Member States. However, these amounts will far from cover the totality of the increase of accounting clearance corrections by – EUR 410.0 million agreed by the Budgetary Authority for this item.

5. IMPLEMENTATION OF REVENUE ASSIGNED TO EAGF

The annexed table shows that assigned revenue amounting to EUR 880.3 million was collected as of 30 April 2009. Specifically:

- the revenue from corrections based on conformity clearance decisions amounted to approximately EUR 472.7 million with additional amounts expected by the end of the budget year;
- the revenue from irregularities amounted to approximately EUR 70.2 million with additional amounts also expected by the end of the budget year, and
- at this point in time, most of the revenue from the milk levy has been collected and it amounts to approximately EUR 337.4 million compared to the initial estimate of EUR 337.0 million.
- Finally, contrary to the initially estimated amount of EUR 1 334.0 million, the amount of assigned revenue eventually carried over from 2008 into 2009 amounted to EUR 1 474.1 million.

Therefore, the amount of assigned revenue available for financing EAGF expenditure, on 30 April 2009, amounts to EUR 2 354.4 million. At this point in time, the Commission estimates that the amount of assigned revenue still to be collected amounts to EUR 161.7 million (estimated assigned revenue to be generated in the 2009 budget of EUR 1 042.0 million of which EUR 880.3 million has been collected) and this amount would be needed in order to cover the expenditure estimated at the time of the establishment of the 2009 budget.

6. IMPLEMENTATION OF REVENUE ORIGINATING FROM THE TEMPORARY RESTRUCTURING AMOUNTS (SUGAR SECTOR)

As of 30 April 2009, the total temporary restructuring amounts declared by the Member States amount to EUR 1 741.4 million involving both the payment of the second instalment of the amounts due for the marketing year 2007/08 and the first instalment of these amounts for the marketing year 2008/09.

Contrary to the initially estimated amount of EUR 2 006.0 million, the amount of assigned revenue carried over from 2008 into 2009 eventually amounted to EUR 2 044.6 million.

7. IMPLEMENTATION OF SUGAR RESTRUCTURING FUND

As of the end of April 2009, Member States made payments for aids to the restructured sugar industry, for diversification aids or for aids to sugar refining amounting to EUR 298.5 million.

8. CONCLUSIONS

The provisional execution of the 2009 EAGF budget's appropriations, for the period up to 30 April 2009, shows that monthly reimbursements to Member States exceeded the budget's voted appropriations, pointed out by the current level of the indicator, by approximately EUR 1 468.6 million and are covered by the assigned revenue of EUR 2 354.4 million collected as of the same date leaving a balance of available assigned revenue of EUR 885.8 million. Furthermore, assigned revenue amounting to EUR 161.7 million is still expected to be collected in 2009.

The Commission expects that the Budgetary Authority's increase of accounting clearance corrections by – EUR 410.0 million, the major part of which will need to be covered at the end of the budget year has to be taken into account in conjunction with the situation in the non-Annex I and in milk and milk products sectors where additional expenditure can be expected. Therefore, and despite the possible availability of assigned revenue to cover a part of this additional expenditure, the Commission, at this point in time, cannot exclude that the budget's available appropriations will not be sufficient to cover the foreseen EAGF expenditure.

ANNEX

BUDGET YEAR 2009 (*)

PROVISIONAL CONSUMPTION OF THE EAGF APPROPRIATIONS

Situation to the 30/04/2009

in EUR million

	Original appropriations Budget (**)	Consumption from November to April	Utilisation	Consumption profile as at April		Gap between implementation and indicator	
	EUR mio	EUR mio	%	%	EUR mio	%	EUR mio
	A	B	C= B/A	D	E= D*A	F=C-D	G=B-E
Expenditure							
05 01 (1) ADMINISTRATIVE EXPENDITURE FOR EAGF 05010401 and 05010407	9,0	1,3	14,3 %	0,0 %	0,0	14,3 %	1,3
Total 05 01 Administrative expenditure for EAGF	9,0	1,3	14,3 %	0,0 %	0,0	14,3 %	1,3
05 02 INTERVENTIONS IN AGRICULTURAL MARKETS							
05 02 01 Cereals	40,2	31,8	79,0 %	77,8 %	31,3	1,2 %	0,5
05 02 02 Rice	p.m.	0,0	0,0 %				
05 02 03 Refunds on non-Annex 1 products	127,0	48,2	38,0 %	60,4 %	76,7	-22,4 %	-28,5
05 02 04 Food programmes	500,1	78,6	15,7 %	43,6 %	217,8	-27,8 %	-139,2
05 02 05 Sugar	182,3	122,6	67,3 %	61,1 %	111,3	6,2 %	11,3
05 02 06 Olive oil	46,5	29,7	63,9 %	68,4 %	31,8	-4,4 %	-2,1
05 02 07 Textile plants	19,8	7,9	40,0 %	34,5 %	6,8	5,5 %	1,1
05 02 08 Fruits and vegetables (estimation of 515 Mio EUR credits coming from revenue)***	343,6	276,5	80,5 %	35,5 %	121,9	45,0 %	154,6
05 02 09 Products of the wine-growing sector	1.321,0	235,7	17,8 %	48,4 %	639,1	-30,5 %	-403,4
05 02 10 Promotion	58,1	27,5	47,4 %	50,3 %	29,3	-3,0 %	-1,7
05 02 11 Other plant products/measures	386,7	191,4	49,5 %	48,6 %	188,1	0,8 %	3,3
05 02 12 Milk and milk products	137,9	105,8	76,7 %	56,0 %	77,2	20,7 %	28,6
05 02 13 Beef and veal	50,6	31,4	62,0 %	62,2 %	31,5	-0,2 %	-0,1
05 02 14 Sheepmeat and goatmeat	p.m.	0,0					
05 02 15 Pigmeat, eggs and poultry, bee-keeping and other animal products	195,8	102,2	52,2 %	48,9 %	95,7	3,3 %	6,4
Total 05 02 Interventions in agricultural markets (excluding 05 02 16)	3.409,5	1.289,2	37,8 %	48,6 %	1.658,5	-10,8 %	-369,2
05 03 DIRECT AIDS							
05 03 01 Decoupled direct aids (estimation of 1861 Mio EUR credits coming from revenue)***	31.295,0	31.543,0	100,8 %	95,3 %	29.832,9	5,5 %	1.710,1
05 03 02 Other direct aids	5.922,0	4.683,0	79,1 %	79,6 %	4.714,7	-0,5 %	-31,7
05 03 03 Additional amounts of aid	562,0	111,9	19,9 %	18,2 %	102,1	1,7 %	9,8
Total 05 03 Direct aids	37.779,0	36.337,9	96,2 %	91,7 %	34.649,8	4,5 %	1.688,2
OTHER EXPENDITURE							
05 04 05040114 Rural development financed by the EAGGF-Guarantee Section-Programming period 2000-2006	p.m.	-8,2					
05 04 05040302 Plant and animal genetic resources-Completion of earlier measures	p.m.	0,0					
05 07 05070106 Accounting clearance of previous years' accounts	-490,0	-20,0	4,1 %	54,2 %	-265,6	-50,1 %	245,6
(3) 05070107 Conformity clearance of previous years' accounts	p.m.	0,0					
Other lines (05070102 and 050702)	31,5	13,5	43,0 %	92,9 %	29,3	-49,9 %	-15,7
05 08 POLICY STRATEGY AND COORDINATION OF AGRICULTURE AND RURAL DEVELOPMENT POLICY AREA (excl. 050810)	42,1	15,1	35,8 %	64,5 %	27,2	-28,7 %	-12,1
11 02 (2) FISHERIES MARKETS (excl. 11020103)	29,5	0,1	0,2 %	100,0 %	29,5	-99,8 %	-29,4
17 01 (1) (2) ADMINISTRATIVE EXPENDITURE OF 'HEALTH AND CONSUMER PROTECTION' POLICY AREA 17010401, 17010404 to 17010406, and 17010431	2,1	1,2	58,5 %	38,8 %	0,8	21,7 %	0,5
17 03 (1) (2) PUBLIC HEALTH 17 03 02 Community tobacco fund - direct payments by the EU	16,0	0,0	0,0 %	0,0 %	0,0	0,0 %	0,0
17 04 (1) (2) FOOD SAFETY, ANIMAL HEALTH, ANIMAL WELFARE AND PLANT HEALTH 170401 to 170404 and 170407	302,6	226,1	74,7 %	85,4 %	258,4	-10,7 %	-32,3
Total Expenditure (excluding 05 02 16)	41.131,4	37.856,3	92,0 %	88,5 %	36.387,7	3,6 %	1.468,6

Assigned Revenue	taken into account in the budget						
6 7 0 1 Clearance of EAGF accounts — Assigned revenue	600,0	472,7					
6 7 0 2 EAGF irregularities — Assigned revenue	105,0	70,2					
6 7 0 3 Superlevy from milk producers — Assigned revenue	337,0	337,4					
Assigned revenue carried over from 2008	1.334,0	1.474,1					
Total Revenue (excluding 6 8)	2.376,0	2.354,4					

Sugar Restructuring Fund	taken into account in the budget						
05 02 16 Sugar Restructuring Fund	1.898,0	298,5					
6 8 0 1 Temporary restructuring amounts — Assigned revenue	1.742,0	1.741,4					
Assigned revenue carried over from 2008	2.006,0	2.044,6					
6 8 0 2 Irregularities concerning the temporary restructuring fund — Assigned revenue	p.m.	0,0					
6 8 0 3 Clearance with regard to the temporary restructuring fund — Assigned revenue	p.m.	0,0					
Total Sugar Restructuring Fund	1.850,0	3.487,5					

(*) Budget year = 16.10.2008 to 15.10.2009 but direct expenditure possible until 31.12.2009

(**) For direct payments it concerns the commitments

(***) Including use of revenues carried over of last year

(1) Chapter not exclusively EAGF

(2) Chapter outside title 05 but included in EAGF

(3) Used only for cases in which Member States are beneficiaries