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

on EAGF expenditure

Early warning system

No 7-10/2010

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ANNEX : PROVISIONAL CONSUMPTION OF EAGF APPROPRIATIONS UP TO 31/08/2010

1. INTRODUCTION

For the period 16 October 2009 to 31 August 2010, the budget's actual implementation level compared to the expenditure profile foreseen 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 Council Regulation (EC) No 1290/2005 on the financing of the Common Agricultural Policy, 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

As already outlined in previous Early Warning System reports, the Commission's estimates for the available assigned revenue amounted to EUR 922 million. Specifically:

- The assigned revenue expected to be generated in the course of the 2010 budget year was estimated at EUR 789 million. Amounts of EUR 600 million and EUR 91 million were expected from conformity clearance corrections and from irregularities correspondingly. The receipts from the milk levy were estimated at EUR 98 million.
- The amount of assigned revenue expected to be carried over from the budget year 2009 into 2010 was estimated at EUR 133 million.

The Commission assigned this revenue of EUR 922 million to two schemes. Specifically:

- EUR 222 million was assigned to the operational funds for producer organisations in the fruits and vegetables sector, and
- EUR 700 million to the single payment scheme.

For these two schemes, the Budgetary Authority eventually voted appropriations amounting to EUR 547 million and to EUR 28 480 million respectively 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 required of EUR 769 million for the operational funds for

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).

producer organisations in the fruits and vegetables sector and EUR 29 180 million for the single payment scheme.

In the annexed table which presents the 2010 budget's provisional execution for the period to 31.08.2010, 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 720.1 million and to EUR 33 272 million correspondingly without taking account of the aforementioned assigned revenue. After including the revenue assigned to these sectors, the total appropriations foreseen in the 2010 budget amount to EUR 942.1 million for fruits and vegetables and to EUR 33 972 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. As already outlined in previous Early Warning System reports, the estimation of this revenue in 2010 amounted to EUR 606.8 million while an amount of EUR 717.9 million was expected to be carried over from the budget year 2009 into 2010.

4. COMMENTS ON THE PROVISIONAL IMPLEMENTATION OF THE 2010 EAGF BUDGET

A brief commentary is presented for certain budget articles which show, or which will show at the end of the year, the most significant divergences between the actual and the expected level of implementation of the 2010 budget:

4.1. Market measures

The uptake of appropriations for interventions in agricultural markets was lower than the level foreseen by the indicator on 31.08.2010, by - EUR 422.1 million. This divergence is primarily attributed to the food programmes and to the milk and milk products sectors which, at this point in time, present a significant under-implementation. At the same time, other sectors, such as fruits and vegetables and wine present an over-implementation.

4.1.1. Cereals (+ EUR 36.4 million)

The higher uptake of appropriations compared to the level of the indicator at this point in time is primarily due to the higher quantities of cereals entering public storage as well the acceleration of the rhythm of these intakes into public storage compared to the rhythm retained when the 2010 indicator was established. The Commission considers that the expenditure which will be incurred for this scheme by the end of the budget year will be higher than the appropriations initially foreseen for it in the 2010 budget.

4.1.2. *Refunds on non-Annex I products (-EUR 52.5 million)*

The slower uptake of appropriations compared to the level of the indicator at this point in time is primarily due to the lower expenditure incurred by Member States for payment of export refunds for dairy products incorporated in the exported processed agricultural products. This is due to the fact that the situation in dairy markets has much improved compared to the one prevailing at the time when the Amending Letter for the 2010 budget year was being established. As a result of this improvement, the Commission discontinued the payment of export refunds for dairy products in November 2009. The Commission considers that, by the end of the budget year, there will be budget savings in this sector.

4.1.3. *Food programmes (- EUR 208.8 million)*

The slower uptake of appropriations compared to the level of the indicator at this point in time is primarily due to the time lag between the time when Member States declare quantities of products out of store and the time when Member States declare them as taken up for distribution under the plan. Furthermore, additional expenditure is expected to be declared by the end of the budget year as dairy products can be taken out of store by the end of September 2010 instead of the usual deadline of the end of August 2010. At this point in time, the Commission considers that this scheme's implementation rhythm will accelerate by the end of the budget year as it was the case with the 2009 plan.

4.1.4. *Fruits and vegetables (+ EUR 60.9 million in comparison with voted appropriations)*

This implementation level is the result of applying the indicator, for the period to 31.08.2010, to the budget's voted appropriations which do not include the revenue which has been assigned to this sector (NB: For details, please see point 2 above).

NB: For the benefit of the reader, the Commission introduced footnote * to the provisional execution table which appears in the annexed table. This footnote shows which would be the situation had the indicator, as at 31.08.2010, been applied to the total appropriations which are expected to be available in order to fund this sector. As it is pointed out in point 2 above, the total funding expected to be available for this sector is composed of the budget's voted appropriations of EUR 720.1 million and of the revenue assigned to this sector which is estimated to amount to EUR 222.0 million. Therefore, had the indicator been applied to the total funding of EUR 942.1 million expected to be available for this sector, then, an under-execution of – EUR 96.0 million would appear.

At this point in time, the Commission considers that there will be slight savings in this sector as the expected payments for the operational funds for producer organisations are expected to be smaller than the initially foreseen needs.

4.1.5. *Products of the wine-growing sector (+EUR 73.2 million)*

When compared to the level of budget appropriations pointed out by the indicator on 31 August 2010, this execution pattern above the budget's appropriations is due to the acceleration of the rhythm of payments by Member States primarily for the national support programmes. As regards payments for these programmes, in view of their 2009 spending pattern, additional expenditure is expected to be incurred in the

last 2 months of the budget year. However, at this point in time, the Commission considers that there will be slight savings in this sector.

4.1.6. *Milk and milk products (-EUR 316.6 million)*

The situation in dairy markets has much improved compared to the one prevailing at the time when the Amending Letter for the 2010 budget year was being established. As a result, the Commission discontinued the payment of export refunds for dairy products. Furthermore, market prices in the EU have risen substantially, thus stopping the inflow of skimmed milk powder and butter to public storage where the quantity stored for both products has stabilised. The slower uptake of appropriations compared to the level of the indicator, at this point in time, is due to the lower expenditure currently incurred in this sector as a result of the aforementioned factors. Therefore, the Commission considers that there will be considerable budget savings in this sector.

4.2. **Direct aids**

The uptake of appropriations for direct aids compared to the level pointed out by the indicator on 31.08.2010 was higher by EUR 429.3 million.

4.2.1. *Decoupled direct aids (+ EUR 587.9 million in comparison with voted appropriations)*

This implementation level is the result of applying the indicator for the period to 31.08.2010 to the budget's voted appropriations which do not include the revenue which has been assigned to this sector (NB: For details please see point 2 above).

NB: For the benefit of the reader, the Commission introduced footnote * to the provisional execution table which appears in the annexed table. This footnote shows which would be the situation had the indicator, as at 31.08.2010, been applied to the total appropriations which are expected to be available in order to fund this sector. As it is pointed out in point 2 above, the total funding expected to be available for this sector is composed of the budget's voted appropriations of EUR 33 272 million and of the revenue assigned to this sector which is estimated to amount to EUR 700 million. Therefore, had the indicator been applied to the total funding of EUR 33 972 million expected to be available for this sector, then, the result is an under-execution of - EUR 110.8 million amounting to 0.3 % of the aforementioned total funding.

At this point in time, this slight under-execution shows that this scheme shows a much better execution rate in 2010 compared to the one of 2009.

4.2.2. *Other direct aids (-EUR 159.8 million)*

This under-execution pattern is primarily due to certain schemes, like animal premia and area aid for cotton, where smaller number of animals and hectares were claimed, compared to the numbers retained when the 2010 budget was established. At this point in time, the Commission considers that there will be slight savings in this sector.

4.3. Audit of agricultural expenditure

4.3.1. Accounting clearance of previous years' accounts (+ EUR 234.2 million)

The current implementation level results from the comparison of the clearance of accounts corrections already made with the level of the corresponding indicator as of 31 August 2010. At this point in time, this scheme's execution points to an under-execution of this scheme's negative expenditure by EUR 234.2 million.

It should be pointed out that, while the Commission, in its Amending Letter for 2010, proposed corrections amounting to – EUR 80 million, the Budgetary Authority retained an amount of – EUR 310 million. The Commission considers that the expected corrections from its accounting clearance decisions and from the non-respect of aid payments' deadlines by the Member States would not be sufficient to cover the extra-ordinary amount of – EUR 310 million imposed by the Budgetary Authority. The Commission would need to cover the resulting significant shortfall of negative budget appropriations by positive budget appropriations in order to close this budget item in 2010.

5. IMPLEMENTATION OF REVENUE ASSIGNED TO EAGF

The annexed table shows that assigned revenue amounting to EUR 900.3 million was available as of 31 August 2010. Specifically:

- the revenue from corrections based on conformity clearance decisions amounted to EUR 509.7 million with additional amounts expected by the end of the budget year;
- the revenue from irregularities amounted to EUR 146.4 million with additional amounts also expected by the end of the budget year, and
- at this point in time, all of the revenue from the milk levy should have been collected and it amounts to EUR 102.6 million compared to the initial estimate of EUR 98 million;
- finally, contrary to the initially estimated amount of EUR 133 million, the amount of assigned revenue eventually carried over from 2009 into 2010 amounted to EUR 141.5 million.

The amount of assigned revenue collected, as of 31 August 2010, amounts to EUR 758.7 million and additional amounts are expected to be collected by the end of the budget year. At this point in time, the Commission expects that the assigned revenue which will be eventually available in 2010 will be higher than the amount initially foreseen in the 2010 budget. It has to be noted that the amount of unused assigned revenue, collected in 2010, will be carried over into the 2011 budget year.

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

As already outlined in previous Early Warning System reports, the total assigned revenue available to the 2010 budget in the form of temporary restructuring amounts came to EUR 1 375.1 million.

7. IMPLEMENTATION OF SUGAR RESTRUCTURING FUND

As of the end of August 2010, Member States had made payments of EUR 244.5 million for aids to the restructured sugar industry, for diversification aids or for aids to sugar refining. At this point in time, the Commission estimates that the payments to be made under this scheme in 2010 amount to EUR 360 million. Therefore, this execution level is deemed to be temporary and additional amounts are expected to be paid by the end of the budget year.

8. CONCLUSIONS

The provisional execution of the 2010 EAGF budget's appropriations, for the period up to 31 August 2010, shows that monthly reimbursements to Member States exceeded the level foreseen by the indicator by approximately EUR 222.4 million. This over-execution result primarily from the expenditure for direct aids while, as regards the expenditure on interventions in agricultural markets, the improved situation in the milk market will lead to savings both on the expected expenditure for export refunds for dairy products as well as on the expected expenditure for public storage of butter and skimmed milk powder.

As regards, the Budgetary Authority's increase of accounting clearance corrections by – EUR 230.0 million to a total of – EUR 310.0 million, the Commission expects that the corrections imposed through the Commission's accounting clearance decisions as well as other corrections for non-respect of aid payments' deadlines by the Member States will not be sufficient to fund this negative expenditure. The Draft Amending Budget 10/2010, included a reduction of the appropriations of chapter 05 02 (interventions in agricultural markets) by EUR 330 million. Therefore, the Commission expects that the unfunded part of the aforementioned negative expenditure will be covered partly by miscellaneous savings in the current budget and mostly by the assigned revenue which will be available in 2010.

ANNEX

BUDGET YEAR 2010 (**) PROVISIONAL CONSUMPTION OF THE EAGF APPROPRIATIONS

Situation to the 31/08/2010
in EUR million

	Appropriations Budget (***)	Consumption from November to August	Utilisation	Consumption profile as at August		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	9.0	3.8	41.8 %	58.0 %	5.2	-16.2 %	-1.5
Total 05 01 Administrative expenditure for EAGF	9.0	3.8	41.8 %	58.0 %	5.2	-16.2 %	-1.5
05 02 INTERVENTIONS IN AGRICULTURAL MARKETS							
05 02 01 Cereals	115.1	141.6	123.1 %	91.4 %	105.2	31.7 %	36.4
05 02 02 Rice	p.m.	0.0	0.0 %				
05 02 03 Refunds on non-Annex 1 products	114.0	48.7	42.7 %	88.8 %	101.2	-46.0 %	-52.5
05 02 04 Food programmes	500.1	264.0	52.8 %	94.5 %	472.8	-41.7 %	-208.8
05 02 05 Sugar	1.5	11.3	753.2 %	87.5 %	1.3	665.7 %	10.0
05 02 06 Olive oil	57.5	51.7	89.9 %	94.9 %	54.6	-5.1 %	-2.9
05 02 07 Textile plants	30.0	12.9	43.1 %	66.1 %	19.8	-23.0 %	-6.9
05 02 08 Fruits and vegetables (estimated 222 Mio EUR credits coming from assigned revenue)(*)(****)	720.1	570.0	79.2 %	70.7 %	509.1	8.5 %	60.9
05 02 09 Products of the wine-growing sector	1.338.3	791.1	59.1 %	53.6 %	718.0	-5.5 %	73.2
05 02 10 Promotion	57.2	41.5	72.6 %	84.8 %	48.5	-12.2 %	-7.0
05 02 11 Other plant products/measures	356.2	294.7	82.7 %	85.2 %	303.6	-2.5 %	-8.9
05 02 12 (4) Milk and milk products	943.1	555.3	58.9 %	92.4 %	871.9	-33.6 %	-316.6
05 02 13 Beef and veal	26.1	24.8	94.9 %	89.4 %	23.3	-5.4 %	-1.4
05 02 14 Sheepmeat and goatmeat	p.m.	0.0					
05 02 15 Pigmeat, eggs and poultry, bee-keeping and other animal products	136.1	102.6	75.4 %	75.7 %	103.1	-0.4 %	-0.5
Total 05 02 Interventions in agricultural markets (excluding 05 02 16)	4.395.3	2.910.3	66.2 %	75.8 %	3.332.4	-9.6 %	-422.1
05 03 DIRECT AIDS							
05 03 01 Decoupled direct aids (estimated 700 Mio EUR credits coming from assigned revenue)(*)(****)	33.272.0	33.798.1	101.6 %	99.8 %	33.210.3	1.8 %	587.9
05 03 02 Other direct aids	5.995.0	5.811.4	96.9 %	99.6 %	5.971.2	-2.7 %	-159.8
05 03 03 Additional amounts of aid	6.0	3.5	57.5 %	35.9 %	2.2	21.6 %	1.3
Total 05 03 Direct aids	39.273.0	39.613.0	100.9 %	99.8 %	39.183.7	1.1 %	429.3
OTHER EXPENDITURE							
05 04 05040114 Rural development financed by the EAGGF-Guarantee Section-Programming period 2000-2006	p.m.	-5.5					
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	-310.0	-47.0	15.2 %	90.7 %	-281.2	-75.5 %	234.2
(3) 05070107 Conformity clearance of previous years' accounts	p.m.	5.1					
Other lines (05070102 and 050702)	9.5	6.0	63.6 %	98.5 %	9.4	-34.9 %	-3.3
05 08 POLICY STRATEGY AND COORDINATION OF AGRICULTURE AND RURAL DEVELOPMENT POLICY AREA (excl. 050810)	40.6	34.7	85.4 %	97.4 %	39.5	-12.0 %	-4.9
11 02 (2) FISHERIES MARKETS (excl. 11020103)	30.5	30.4	99.7 %	100.0 %	30.5	-0.3 %	-0.1
17 01 (1) (2) ADMINISTRATIVE EXPENDITURE OF 'HEALTH AND CONSUMER PROTECTION' POLICY AREA 17010401, 17010405, 17010407 and 17010431	2.3	1.5	66.8 %	83.6 %	1.9	-16.8 %	-0.4
17 03 (1) (2) PUBLIC HEALTH 17 03 02 Community tobacco fund - direct payments by the EU	16.9	0.0	0.0 %	0.0 %	0.0	0.0 %	0.0
17 04 (1) (2) FOOD AND FEED SAFETY, ANIMAL HEALTH, ANIMAL WELFARE AND PLANT HEALTH 170401 to 170407 (excl. 17040303)	352.7	305.9	86.7 %	89.1 %	314.4	-2.4 %	-8.5
Total Expenditure (excluding 05 02 16)	43.819.8	42.858.2	97.8 %	97.3 %	42.635.8	0.5 %	222.4
Assigned Revenue	taken into account in the budget						
8 7 0 1 Clearance of EAGF accounts — Assigned revenue	600.0	509.7					
8 7 0 2 EAGF irregularities — Assigned revenue	91.0	146.4					
8 7 0 3 Superlevy from milk producers — Assigned revenue	98.0	102.6					
Assigned revenue carried over from 2009	133.0	141.5					
Total Revenue (excluding 6 8)	922.0	900.3					
Sugar Restructuring Fund	taken into account in the budget						
8 8 0 1 8 8 0 1 Sugar Restructuring Fund	439.7	244.5					
Temporary restructuring amounts — Assigned revenue	606.8	606.8					
Assigned revenue carried over from 2009	717.9	768.3					
8 8 0 2 Irregularities concerning the temporary restructuring fund — Assigned revenue	p.m.	0.0					
8 8 0 3 Clearance with regard to the temporary restructuring fund — Assigned revenue	p.m.	0.0					
Total Sugar Restructuring Fund	885.0	1.130.5					

(*) For information only: expenditure against original appropriations and estimated assigned revenue

05 02 08 Fruits and vegetables (including estimated assigned revenue of 222 Mio EUR)(****)

05 03 01 Decoupled direct aids (including estimated assigned revenue of 700 Mio EUR)(****)

(**) Budget year = 16.10.2009 to 15.10.2010 but direct expenditure possible until 31.12.2010

(***) It concerns the commitments

(****) Including use of assigned revenues carried over from the previous 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

(4) Of which 300 EUR million were initially in chapter 40 02