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

on EAGF expenditure

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1. THE 2016 EAGF BUDGETARY PROCEDURE

The key figures for the European Agricultural Guarantee Fund (EAGF) at different steps of the budgetary procedure are summarised in the table presented in Annex 1.

The 2016 EAGF budget was adopted by the European Parliament on 25 November 2015. The budget included commitment and payment appropriations amounting to EUR 42 220.3 million and to EUR 42 212.0 million respectively for agricultural market measures and direct payments.

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

2. REVENUE ASSIGNED TO EAGF

On the basis of the provisions of Article 43 of Regulation (EU) No 1306/2013 on the financing, management and monitoring of the common agricultural policy revenue originating from financial corrections under accounting and conformity clearance decisions, from irregularities and from the milk levy are 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, this part will be automatically carried forward to the following budget year¹. It should be noted that budget year 2016 is the final year when the revenue originating from the milk levy is collected, due to the expiry of the milk quotas on 31 March 2015.

The 2016 EAGF budget included both: the Commission's latest estimates of the needs to finance the expected expenditure for market measures and direct payments, and the estimates of the assigned revenue which was expected to be collected in the course of the budget year concerned as well as the carryover of the balance of assigned revenue left available from the previous budget year. In its proposal for the 2016 EAGF budget appropriations, the Commission took into consideration the total expected assigned revenue and requested for the 2016 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 budget for 2016, the Commission's estimates for the available assigned revenue amounted to EUR 2 980 million. Specifically:

- The assigned revenue expected to be generated in the course of the 2016 budget year was estimated at EUR 2 090 million. Amounts of EUR 1 125 million and EUR 155 million were expected from conformity

¹ Art 14 of Regulation (EU, EURATOM) No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union determines that internal assigned revenue shall be carried over for one year only. 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.

clearance corrections and from irregularities respectively. The receipts from the milk levy were estimated at EUR 810 million.

- The amount of assigned revenue expected to be carried over from the budget year 2015 into 2016 was estimated at EUR 890 million.

In the 2016 budget, the Commission assigned this initially estimated revenue of EUR 2 980 million to the following schemes:

- EUR 600 million was assigned to the operational funds for producer organisations in fruit and vegetables, and
- EUR 2 380 million to the basic payment scheme.

For these schemes, the Budgetary Authority eventually voted appropriations in accordance with the Commission's proposal. The sum of the voted appropriations and the assigned revenue mentioned above corresponds to:

- EUR 898 million for the operational funds for producer organisations in fruit and vegetables,
- EUR 18 307 million for the basic payment scheme.

In annex 2, which presents the 2016 budget's provisional execution for the period to 29 February 2016, 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 611.8 million and to EUR 34 269.2 million respectively. Including the revenue assigned to these articles, the total amounts foreseen in the 2016 budget are EUR 1 211.8 million for fruit and vegetables and EUR 36 649.2 million for decoupled direct payments.

3. COMMENTS ON THE PROVISIONAL IMPLEMENTATION OF THE 2016 EAGF BUDGET

The budget's provisional implementation for the period 16 October 2015 to 29 February 2016 is presented in Annex 2. This implementation level is compared to the expenditure profile based on the indicator, which was established on the basis of the dispositions of Article 28 of Regulation (EU) No 1306/2013. Below a brief commentary is presented for certain budget articles, showing the most significant differences between the actual and the expected level of implementation of the 2016 budget.

3.1. Market measures

The uptake of appropriations for interventions in agricultural markets was lower compared to the level of the budget's voted appropriations, as determined by the level of the indicator on 29 February 2016, by EUR 93 million. This divergence is the net effect of the execution patterns primarily in the fruits and vegetables, wine, milk and milk products and pigmeat sectors.

3.1.1. Fruit and vegetables (- EUR 8.7 million in comparison with voted appropriations)

As regards voted appropriations, the above implementation level is not indicative due to the expenditure for the operational funds for producer organisations scheme and other measures in fruit and vegetables, which are funded both by the budget's voted appropriations and by the revenue assigned to this scheme in the 2016 budget (NB: For details please see point 2 above). It results from applying the indicator for

the period to 29 February 2016 to the budget's voted appropriations, which do not include the revenue assigned to this sector.

A footnote * in the provisional execution table in annex 2 shows what the situation would be, had the indicator been applied to the total appropriations, which are expected to be available in order to fund this article. Had the indicator been applied to the total funding of EUR 1 211.8 million expected to be available for this article, then an under-execution of - EUR 328.1 million would appear.

This is the effect of slower uptake of all the schemes funded by this article. It needs to be noted that the pace of the uptake of budgetary appropriations for the crisis measures could not be reliably estimated, and is likely to diverge from a 3-year average consumption profile which is the basis for the indicator for most of the schemes funded under this article. At this point in time, this situation is considered to be temporary and the execution of this article is closely monitored by the Commission services.

3.1.2. Products of the wine-growing sector (- EUR 13.8 million)

This under-execution is due to a slower rhythm of payments made by the Member States compared to the expenditure profile of the established indicator for the national wine programmes. At this point in time, this situation is considered to be temporary.

3.1.3. Milk and milk products (- EUR 77.3 million)

The main reason for the implementation level in this article can be attributed to the progress of the execution and the application of the targeted aid for the livestock sectors². The amount of EUR 420 million of appropriations for the targeted aid scheme has been budgeted under item 05 02 12 99 – Other measures (milk and milk products). However as the Member States can allocate the aid to producers in all livestock sectors, the uptake of the appropriations in this article will be lower and necessary transfers will have to be foreseen to cover expenditure declared in other articles.

As regards the speed of the uptake, the Commission's indicator estimates expenditure evenly spread over the eligibility period until 30 June 2016. However the current under-implementation is considered to be temporary and the execution of this article is closely monitored by the Commission services. .

3.1.4. Pigmeat, eggs and poultry, bee-keeping and other animal products (EUR 19.8 million)

This over-implementation results from the targeted aid measure mentioned in point 3.1.3 above, whereby the expenditure for the corresponding aid in the pigmeat sector is declared in this article, while the entire amount of budgeted appropriations is entered in article 05 02 12 - Milk and milk products. As a result an over-execution of the voted appropriations for this article appears which is covered by transfers of appropriations from the aforementioned budget article 05 02 12.

3.2. Direct payments

The uptake of appropriations for direct payments compared to the level of the indicator on 29 February 2016 was lower by EUR 13 732.9 million.

² Milk and milk products as well as beef and veal, pigmeat and sheepmeat and goatmeat sectors

3.2.1. *Decoupled direct payments (-EUR 12 296.2 million in comparison with voted appropriations)*

As regards voted appropriations, the above implementation level is not fully indicative, due to the expenditure for the basic payment scheme, which is funded both by the budget's voted appropriations and by the revenue assigned to this scheme in the 2016 budget (NB: For details please see point 2 above). This implementation level is the result of applying the indicator for the period to 29 February 2016 to the budget's voted appropriations, which do not include the revenue assigned to this article.

A footnote * in the provisional execution table in annex 2 shows which would be the situation had the indicator been applied to the total appropriations which are expected to be available in order to fund decoupled direct payments. Had the indicator been applied to the total funding of EUR 36 649.2 million expected to be available for decoupled direct payments, then the under-execution of - EUR 14 612.6 million would appear.

This substantial divergence in the level of implementation of the budget for decoupled direct payments is primarily due to temporary delays of administrative nature encountered by several Member States in the first year implementation of the reformed direct payment schemes. The Commission, on a monthly basis, is closely monitoring the situation and the Member States' execution levels and forecasts of upcoming expenditure and, at this point in time, considers this divergence to be temporary and expects that decoupled direct payments will be finally implemented as foreseen in the 2016 budget.

3.2.2. *Other direct payments (- EUR 1 436.6 million)*

This under-implementation of voted appropriations for other direct payments as compared to the expenditure profile of the established indicator is also attributable primarily to temporary delays of administrative nature encountered by several Member States in the first year of the implementation, mainly of the Voluntary Coupled Support measure which is part of the reformed direct payments schemes. The evolution of the uptake of expenditure is closely monitored by the Commission which, at this point in time, expects full implementation of the 2016 budget for other direct payments.

3.3. Audit of agricultural expenditure (- EUR 15.7 million)

In addition to direct expenditure for monitoring and preventive measures and expenditure for financial corrections in favour of the Member States amounting in total to EUR 29.1 million, the 2016 budget included estimates of EUR 29.5 million for payments concerning settlement of disputes. When establishing the expenditure profile for the settlement of disputes, in absence of established past execution profile, it was assumed that Member States would pay these amounts evenly over the year. However, as of 29 February 2016, Member States have not made any such payments yet. Furthermore, appropriations expected to have been committed by 29 February 2016 for monitoring and preventive measures were delayed. As a consequence, an under-execution in relation to the level of the indicator resulted for this chapter of the 2016 budget. At this point in time, this situation is considered to be temporary and a full execution of the budget is expected.

4. IMPLEMENTATION OF REVENUE ASSIGNED TO EAGF

The table in Annex 2 shows that assigned revenue amounting to EUR 1 305.4 million was collected as of 29 February 2016. Specifically:

- the revenue from corrections based on accounting and conformity clearance decisions amounted to EUR 447.7 million with significant amounts still expected by the end of the budget year;
- the revenue from irregularities amounted to EUR 45.6 million with additional amounts also expected by the end of the budget year, and
- at this point in time, the entire revenue from the milk levy has been collected and it amounts to approximately EUR 812.1 million;

Finally, the amount of assigned revenue eventually carried over from 2015 into 2016 amounted to EUR 896.4 million.

Therefore, the amount of assigned revenue available for financing EAGF expenditure, on 29 February 2016, amounts to EUR 2 201.8 million with additional significant amounts of freshly collected assigned revenue from accounting and conformity clearance decisions and irregularities expected by the end of the budget year.

5. CONCLUSIONS

The provisional execution of the 2016 EAGF budget's appropriations, for the period up to 29 February 2016, shows that monthly reimbursements to Member States are lower than the expenditure profile for budget execution based on the indicator, by approximately EUR 13 853.5 million. This substantial divergence is almost entirely attributable to a temporary delay in the execution of direct payments to farmers.

Assigned revenue amounting to EUR 2 201.8 million is already available and additional amounts are still expected to be collected in 2016.

At this point in time, the Commission expects that the uptake of the appropriations for direct payments should accelerate in the coming months and that all direct payments will be implemented as originally expected when the 2016 budget was established. Furthermore, the Commission considers that the amount of assigned revenue which will be available by the end of the year will be sufficient to cover the funding for both the operational funds for producer organisations in the fruit and vegetables sector as well as for the basic payment scheme as part of the decoupled direct payments as originally expected when the 2016 budget was established.