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

**on EAGF expenditure**

**Early Warning System No 8-10/2016**

## TABLE OF CONTENTS

1.	Introduction.....	3
2.	Revenue assigned to EAGF .....	3
3.	Comments on the provisional implementation of the 2016 EAGF budget .....	4
4.	Implementation of revenue assigned to EAGF.....	6
5.	Conclusions.....	7

ANNEX 1:                   PROVISIONAL CONSUMPTION OF EAGF APPROPRIATIONS UP TO 31/08/2016

## 1. INTRODUCTION

This report presents an update of the provisional 2016 budget execution for the European Agricultural Guarantee Fund (EAGF). In particular, Annex 1 presents the comparison between the actual level of the implementation of the EAGF budget for the period 16 October 2015 to 31 August 2016 and the forecasted expenditure profile. The latter results from the application of the indicator to the level of the budgetary appropriations. The indicator is established on the basis of the provisions of Article 28 of Regulation (EU) No 1306/2013 on the financing, management and monitoring of the common agricultural policy<sup>1</sup>.

## 2. REVENUE ASSIGNED TO EAGF

On the basis of the provisions of Article 43 of Regulation (EU) No 1306/2013 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 year<sup>2</sup>. 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 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.

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<sup>1</sup> OJ L 347, 20.12.2013, p.549

<sup>2</sup> 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.

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 1, which presents the 2016 budget's provisional execution for the period to 31 August 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 31 August 2016, as presented in Annex 1, is compared to the expenditure profile based on the indicator established in accordance with 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 EUR 158.6 million higher than the level of the budget's voted appropriations as determined by the level of the indicator on 31 August 2016. This variance is influenced by the technical effect of the revenue assigned to the operational funds for producer organisations in fruit and vegetables, whereas the indicator for the period to 31 August 2016 is applied only to the voted budget (NB: For details please see point 2 above).

After elimination of this effect an under-execution of approximately EUR 272.5 million would appear, which is net effect of the execution patterns primarily in the fruit and vegetables and animal products sectors.

##### *3.1.1. Fruit and vegetables (+ EUR 189.0 million in comparison with voted appropriations)*

As indicated above, this implementation level is primarily due to the expenditure for the operational funds for producer organisations scheme - funded both by the voted appropriations and by the assigned revenue.

A footnote \* in the provisional execution table in annex 1 shows what the situation would be, had the indicator been applied to the total appropriations for this article

including the assigned revenue of EUR 600 million. Had the indicator been applied to the total funding expected to be available for this article (EUR 1 211.8 million), then an under-execution of - EUR 272.6 million would appear.

This is the effect of a slower uptake of the various schemes funded by this article. The profile of execution of the crisis measures, available under the operational funds for producer organisations and other measures in fruit and vegetables could not have been reliably estimated. Thus it is likely to diverge from the assumed consumption profiles which are the basis for the indicator for these items.

At this point in time, as still significant amounts remain in expenditure forecasts until the end of the year, this situation is considered to be temporary. The execution of this article is closely monitored by the Commission services.

### *3.1.2. Milk and milk products (- EUR 135.2 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 sectors. 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 decided to use part of this aid to producers in other livestock sectors, the uptake of the appropriations in this article is lower by approximately EUR 106 million and necessary transfers had to be foreseen to cover expenditure declared in other articles.

As regards the global amount of implementation of the targeted aid, until the eligibility deadline of 30 June 2016, the available appropriations have been almost entirely consumed (expenditure amounting to EUR 414.7 million or 98.7% of the total allocation).

The remainder of the under-execution in the article is the combined effect of slower uptake in the school milk scheme and storage schemes.

### *3.1.3. Beef and veal (+ EUR 30.1 million), Sheep and goat (+ EUR 1.8 million) and Pigeon, eggs and poultry (+ EUR 74.8 million)*

The over-execution in these articles is the mirror picture of the under-implementation in milk and milk products resulting from the application of the targeted aid for the livestock sectors. The expenditure declared for these sectors are covered via transfers from appropriations available for this measure in article 05 02 12.

## **3.2. Direct payments**

The uptake of appropriations for direct payments compared to the level of the indicator on 31 August 2016 was lower by EUR 4 793.5 million.

### *3.2.1. Decoupled direct payments (- EUR 5 195.5 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 31 August 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 1 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 7 573.1 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 some Member States in the first year implementation of the reformed direct payment schemes. Since 31 May 2016 Member States have further progressed in their execution pattern in decoupled direct aids and currently 79% of available appropriations including the assigned revenue have been paid.

The Commission continues to monitor the Member States' execution levels and forecasts of upcoming expenditure. At this point in time and taking into account that exceptionally no reductions for payments made after 30 June but before 16 October 2016 will be applied, the Commission considers this divergence to be temporary and expects that decoupled direct payments will be implemented as foreseen in the 2016 budget.

3.2.2. *Other direct payments (+ EUR 402.1 million in comparison with voted appropriations)*

This over-execution for other direct payments as compared to the expenditure profile of the established indicator is the effect of under-execution mainly in Voluntary Coupled Support netted off by over-execution in the Small Farmers Scheme.

Several Member States in the first year of the implementation encountered temporary delays of administrative nature which is the reason for a slower uptake of the Voluntary Coupled Support.

As regards the Small Farmers Scheme, the budget 2016 did not include any appropriations for this budget item as the amounts of the needs could not have been reliably estimated. The scheme is financed from the amounts available for the other direct payments schemes. As at 31 August 2016, expenditure declared for this item amounted to approximately EUR 905 million and was covered by transfers from other direct payments items financing the scheme.

The evolution of the uptake of expenditure in Voluntary Coupled Support is closely monitored by the Commission.

**4. IMPLEMENTATION OF REVENUE ASSIGNED TO EAGF**

The table in annex 1 shows that assigned revenue amounting to EUR 2 497 million was collected as of 31 August 2016. Specifically:

- the revenue from corrections based on accounting and conformity clearance decisions amounted to EUR 1 583.7 million;
- the revenue from irregularities amounted to EUR 98.9 million with some additional amounts 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 814.5 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 31 August 2016, amounts to EUR 3 393.4 million with additional amounts of freshly collected assigned revenue from 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 31 August 2016, shows that monthly reimbursements to Member States are lower than the expenditure profile for budget execution based on the indicator, by approximately EUR 4 572.4 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 3 393.4 million is already available and some 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 be close to the level originally expected when the 2016 budget was established. Furthermore, the Commission considers that somewhat higher amounts of assigned revenue available by the end of the year will be not only sufficient to cover the budgeted gap between the needs and the voted appropriations, but also will result in a balance available for carry-over to budget 2017, as foreseen by the Draft Budget 2017, though the exact amount cannot be reliably estimated yet.