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

on EAGF expenditure

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ANNEX 1: PROVISIONAL CONSUMPTION OF EAGF APPROPRIATIONS UP TO 31/12/2016

1. INTRODUCTION

The provisional implementation of the 2016 European Agricultural Guarantee Fund (EAGF) budget is presented in the Annex with expenditure amounting to EUR 43 899.1 million. This amount mainly includes EAGF expenditure under shared management as declared by Member States between 16 October 2015 to 15 October 2016 and the reductions of monthly reimbursements imposed in the course of the budget year. It further includes an estimate of direct expenditure, amounting to approximately EUR 10.9 million, which is still foreseen to be made till 31 December 2016.

2. REVENUE ASSIGNED TO EAGF

On the basis of the provisions of Article 43 of Regulation (EU) No 1306/2013¹ 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 year². 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 not only the Commission's latest estimates of the needs to finance the expected expenditure for market measures and direct payments, but also 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

¹ Regulation (EU) No 1306/2013 of the European Parliament and of the Council of 17 December 2013 on the financing, management and monitoring of the common agricultural policy and repealing Council Regulations (EEC) No 352/78, (EC) No 165/94, (EC) No 2799/98, (EC) No 814/2000, (EC) No 1290/2005 and (EC) No 485/2008

² 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.

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 the Annex, which presents the 2016 budget's provisional execution for the period to 15 October 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 15 October 2016 is presented in the Annex. A brief commentary is presented hereafter for certain budget articles showing the most significant differences between the actual expenditure incurred and the corresponding appropriations included in the 2016 budget.

3.1. Market measures

The table in Annex shows an over-execution of EUR 483.2 million. However, when taking into account assigned revenue, this becomes an under-execution of EUR 116.8 million (for details please see point 2 above), which is net effect of the execution patterns primarily in the wine, fruit and vegetables and animal products sectors.

3.1.1. Fruit and vegetables (+ EUR 560.9 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 39.1 million would appear.

This under-execution concerns the school fruit scheme and the aid for producer groups for preliminary recognition.

3.1.2. Products of the wine-growing sector (- EUR 46.6 million)

This under-execution was due to the lower expenditure incurred in 2016 by some Member States compared to the amounts foreseen in the Member States' wine programmes.

3.1.3. Milk and milk products (EUR -130.5 million)

The under-execution of 130.5 million is mainly due to the combined effect of lower uptake in the school milk scheme and storage schemes. For the exceptional targeted aid scheme for farmers in the livestock sectors, the whole amount of EUR 420 million of appropriations for this scheme was budgeted under item 05 02 12 99 – Other measures (milk and milk products) despite the fact that Member States had the option to use it for all livestock sectors. This approach was chosen because ex-ante information on the planned uptake in different livestock sectors was not available at the moment of budgeting.

Member States declared expenditure of EUR 324 million for this aid scheme under the milk sector, while they also used a part of this aid for farmers in other livestock sectors. Hence, the uptake of appropriations in this article is lower by the budget transfers which had to be made in order to cover the expenditure declared in the other livestock sectors, i.e. for beef and veal EUR 29.6 million, for sheep- and goat-meat EUR 1.8 million and for pig-meat EUR 74.9 million.

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 414.6 million or 98.7% of the total allocation of EUR 420 million).

3.1.4. Beef and veal (+ EUR 30.1 million), Sheep and goat (+ EUR 1.8 million) and Pigeat, eggs and poultry (+ EUR 76.6 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 table in Annex shows an over-execution of EUR 1 585.4 million. However, when taking into account assigned revenue, this becomes an under-execution of around EUR 794.6 million.

3.2.1. Decoupled direct aids (+EUR 935.5 million in comparison with voted appropriations)

The table in Annex shows an over-execution of EUR 935.5 million compared to voted appropriations. But, compared to total available appropriations of

EUR 36 649.2 million, which appear in the footnote and include the revenue assigned to this sector, this over-execution turns to an under-execution of EUR 1 444.5 million (for details please see point 2 above).

However, Small farmers scheme (SFS) under Other direct payments is financed from the ceilings of all other schemes, decoupled or not. Due to the absence of any information on the possible execution in this first year of implementation of the reformed direct payments, as agreed in the 2013 CAP reform, there was no budget foreseen for SFS in budget 2016. Therefore, an amount of EUR 874 million has been declared for SFS under Other direct payments but financed from the budget allocated to decoupled direct payments.

The remaining under-execution of EUR 570 million concerned mainly the basic payment scheme (BPS), the payment for agricultural practices beneficial for the climate and the environment and the payment for young farmers.

3.2.2. Other direct payments (+ EUR 650.1 million in comparison with voted appropriations)

As explained concerning decoupled direct payments, SFS is financed from various other schemes. Excluding this effect, there is an under-execution of EUR 224 million almost exclusively attributable to the voluntary coupled support.

3.3. Audit of agricultural expenditure (+ EUR 52.4 million)

The over-execution in this chapter is due to higher than expected accounting and conformity clearance of accounts corrections in favour of the Member States and to higher payments concerning the settlement of disputes.

4. IMPLEMENTATION OF REVENUE ASSIGNED TO EAGF

The annex shows that the total assigned revenue eventually available in 2016 amounted to EUR 3 423.5 million.

Assigned revenue estimated in budget 2016 amounted to EUR 2 980 million, of which EUR 890 million was carried-over from 2015, EUR 1 125 million was expected from clearance of EAGF, EUR 155 million from irregularities and EUR 810 million from Superlevy from milk producers.

Whereas the actual revenue from the superlevy was similar to what was expected, the revenue from irregularities is EUR 37 million lower and from clearance EUR 469 million higher.

These variations in clearance and irregularities were already noted by June and taken into account when establishing the amending letter to draft budget 2017. The balance of the assigned revenue which was not used in 2016 will be carried over into 2017 and it will be used to fund the EAGF expenditure declared by Member States in that year.

5. CONCLUSIONS

The provisional expenditure of the 2016 EAGF budget including estimates for direct expenditure until 31 December 2016 results in an over-execution of EUR 2 120.4 million compared to the budget's voted appropriations. This over-execution is covered by the available assigned revenue of EUR 3 423.5 million. Moreover the crisis reserve has not been mobilised in 2016, thus the amount of EUR 441.6 million of unused appropriations remains in the 2016 budget.

In accordance with Article 26 (6) of Regulation (EU) No 1306/2013³ the Commission adopts a regulation which sets the amounts that in 2017 shall be reimbursed to the beneficiaries of direct payments subject to financial discipline in that financial year. The amount of EUR 435 million of non-committed appropriations corresponding to the amount of financial discipline deducted in the Member States in 2016 from direct payments should be then transferred to financial year 2017 and used to reimburse the Member States' expenditure in that respect.

A number of end-of-year adjustments and transfers of appropriations still have to be made. Taking into account these adjustments as well as the funding needs of the 2016 budget outlined above, it is estimated that the remaining balance of assigned revenue to be carried over will amount to around EUR 1.3 billion and will be incorporated in the 2017 budget.

³ Regulation (EU) No 1306/2013 of the European Parliament and of the Council of 17 December 2013 on the financing, management and monitoring of the common agricultural policy and repealing Council Regulations (EEC) No 352/78, (EC) No 165/94, (EC) No 2799/98, (EC) No 814/2000, (EC) No 1290/2005 and (EC) No 485/2008