



Brussels, 26.9.2013
SWD(2013) 340 final

Part I

COMMISSION STAFF WORKING DOCUMENT
Accompanying the document

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

**6th FINANCIAL REPORT FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT AND THE COUNCIL on the
EUROPEAN AGRICULTURAL GUARANTEE FUND
2012 FINANCIAL YEAR**

{COM(2013) 657 final}

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1. BUDGET PROCEDURE¹

1.1. Financial Framework 2007-2013.

CAP expenditure is funded within the current financial framework as agreed in the Inter-institutional Agreement between the European Parliament and the Council in May 2006, amended to take into account the Galileo-programme in 2007, the reprogramming of rural development in 2008 and the European Economic Recovery Package (EERP) in 2009. CAP expenditure is part of Heading 2: Preservation and management of natural resources. A specific sub-ceiling has been decided for market related expenditure and direct payments within this heading.

To take account of the transfer of amounts to rural development due to the increase in compulsory modulation, to the reform of the cotton, tobacco and wine sectors as well as to the voluntary modulation decided for the UK, the expenditure ceiling for market measures and direct payments had to be reduced accordingly.

The CAP amounts included in heading 2 of the financial framework (2007-2013) are:

(in EUR million current prices)

Heading 2*	2007	2008	2009	2010	2011	2012	2013
Total a), b)	55 143	59 193	56 333	59 955	59 888	60 810	61 289
of which:							
-Rural development a), c), d)	10 902	13 303	14 002	14 364	14 436	14 617	14 817
-Market related expenditure and direct payments, c)	44 753	44 592	44 887	44 276	44 467	44 710	44 939

*) Preservation and Management of Natural resources

a) After reprogramming of Rural Development (EUR 1 469 million).

b) After transfer of EUR 1 600 million to Galileo in 2007 and of EUR 2 000 million to the European Economic Recovery Package in 2009 and the financial needs for ITER in 2011.

c) After transfer into Rural Development of the lower expected expenditure resulting from the reforms of the tobacco, cotton and wine CMOs and from the compulsory and voluntary (UK) modulation Art. 136 of Regulation 73/2009 (SE+DE) and reduction due to financing of the European Economic Recovery Plan (Commission Decision No 2010/273 EU).

d) Including the reinforcement of Rural Development by EUR 1 020 million included in the European Economic Recovery Package, of which EUR 600 million is financed in 2009 within heading 2 while, for 2010, EUR 420 million had been allocated to Rural Development on the basis of the amended Commission Decision No 636/2006.

1.2. Draft Budget 2012

The 2012 Draft Budget (DB) was adopted by the Commission and proposed to the Budgetary Authority on 20.04.2011. The commitment appropriations proposed for the European Agricultural Guarantee Fund (EAGF) under heading 2 of the Financial Framework 2007-2013 totalled EUR 44 179.7 million.

¹ This procedure is presented in annex 1.

The Council adopted its position on the 2012 Draft Budget on 25.07.2011 whereby it reduced commitment appropriations for EAGF by EUR 535.5 million, when compared to the Commission's DB, to EUR 43 644.2 million. On the other hand, the European Parliament adopted its position on the 2012 Draft Budget on 26.10.2011 whereby it increased commitment appropriations for EAGF by EUR 271.9 million, when compared to the Commission's DB, to EUR 44 451.6 million.

1.3. Amending Letter for 2012

On 25.10.2011 the Commission adopted Amending Letter (AL) No 3 to the 2012 DB, setting commitment appropriation requirements for EAGF at EUR 44 091.6 million. This amount was lower by EUR 88.1 million compared to the one foreseen for the Draft Budget. This decrease was mostly attributable to the increase of the expected available assigned revenue in 2012 by EUR 291 million. Specifically, the assigned revenue foreseen in the DB 2012 amounted to EUR 791 million. This amount was increased to EUR 1 010 million in the Amending Letter for 2012.

1.4. Adoption of the 2012 budget

Agreement was reached on the 2012 EAGF budget in November 2011. This budget was adopted by the European Parliament on 1 December 2011. The budget included commitment and payment appropriations as follows:

- Commitment appropriations of EUR 43 603.4 million and payment appropriations of EUR 43 601.3 million for agricultural market measures and direct aids (policy area 05 - Agriculture and Rural Development).
- Commitment appropriations of EUR 335.8 million and payment appropriations of EUR 245.5 million for veterinary and phyto-sanitary measures (policy area 17 -Health and Consumer Protection).
- Commitment appropriations of EUR 30.5 million and payment appropriations of EUR 29.1 million respectively for fisheries markets (policy area 11- Maritime Affairs and Fisheries).

The budget's total commitment appropriations for EAGF amounted to EUR 43 969.6 million and its payment appropriations amounted to EUR 43 876 million. 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 measures relate mainly to the promotion of agricultural products, to policy strategy and coordination measures for agriculture as well as to fisheries and to veterinary and phyto-sanitary measures.

Specifically, of the voted EAGF commitment appropriations for policy area 05 amounting to EUR 43 603.4 million, EUR 3 230.8 million were foreseen for market measures under chapter 05 02, EUR 40 510.7 million were foreseen for direct aids under chapter 05 03, - EUR 192,7 million were foreseen for audit of agricultural expenditure under chapter 05 07 and EUR 45,8 million for policy strategy and coordination under chapter 05 08.

For details, please see annex 1.

1.5. Revenue assigned to EAGF²

In accordance with 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 any EAGF expenditure. In the event part of this revenue is not used, then, this part will be automatically carried forward to the following budget year.

At the time of establishment of the 2012 budget, an estimate of the revenue was made both for the amount expected to be collected in the course of the 2012 budget year as well as of the amount which was expected to be carried over from the budget year 2011 into 2012. This estimate amounted to EUR 1 010 million and it was taken into consideration when the Budgetary Authority adopted the 2012 budget. Specifically:

- Revenue from the conformity clearance corrections and from irregularities was estimated at EUR 600 million and EUR 150 million respectively while the receipts from the milk levy were estimated at EUR 55 million. Thus, the total amount of assigned revenue expected to be collected in the course of the 2012 budget year was estimated at EUR 805 million.
- The amount of assigned revenue expected to be carried over from the budget year 2011 into 2012 was estimated at EUR 205 million.

In the 2012 budget, the Commission assigned this initially estimated assigned revenue of EUR 1 010 million to two schemes. Specifically:

- EUR 310 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 (direct aids).

For these two schemes, the Budgetary Authority eventually voted appropriations amounting to EUR 496 million and to EUR 30 472 million respectively in accordance with the Commission's proposals. The sum of the voted appropriations and the assigned revenue mentioned above corresponds to a total estimate of available appropriations of EUR 806 million for the operational funds for producer organisations in the fruits and vegetables sector and EUR 31 172 million for the single payment scheme.

1.6. Temporary restructuring amounts in the sugar sector³

The temporary restructuring amounts in the sugar sector, as set out in article 11 of Council Regulation (EC) No 320/2006, are treated as assigned revenue intended to finance the sugar restructuring aid and other aids foreseen in the Sugar Restructuring Fund. For the marketing years 2006/07 up to 2008/09, these amounts related to the sugar, inulin syrup and isoglucose quantitative quotas held by operators in each Member State and they were paid by Member States into the Fund.

² These amounts are not entered in the revenue lines of the budget (article 670 for the revenue assigned to the EAGF) but they are mentioned in the budgetary remarks for this article.

³ These amounts are not entered in the revenue lines of the budget (article 680 for the temporary restructuring amounts for the sugar sector) but they are mentioned in the budgetary remarks for this article.

At the time of establishment of the 2012 budget an amount of EUR 832.2 million was expected to be carried over from the budget year 2011 into 2012.

1.7. Part of the EAGF budget in total EU budget

The final EAGF budget's (commitment appropriations) part of the total EU budget for the period 2006–2012 appears in annex 2.

2. CASH POSITION AND MANAGEMENT OF APPROPRIATIONS

2.1. Management of appropriations

2.1.1. Appropriations available for the 2012 financial year

In EUR

Expenditure section of budget (1)	Commitment appropriations	Payment appropriations	Revenue section of budget (AR) (2)	Forecasts
1. Initial appropriations for EAGF of which	43 969 637 305	43 875 978 049	1. Conformity clearance	600 000 000
1a. Appropriations under shared management	43 540 900 000	43 540 900 000	2. Irregularities	150 000 000
1b. Appropriations under centralised direct management (3)	428 737 305	335 078 049	3. Super levy from milk producers	55 000 000
2. Amending Budget 6/2012	-65 420 000	17 000 000	4. Temporary restructuring amounts for sugar sector (4)	0
3. Transfer to / out of EAGF in the year	71 000	10 614 720	Total forecast of AR	805 000 000
4. Final appropriations for EAGF of which	43 904 288 305	43 903 592 769		
4a. Appropriations under shared management	43 540 900 000	43 540 900 000		
4b. Appropriations under centralised direct management	363 388 305	362 692 769		

(1) Appropriations entered in the 2012 budget after deducting the expected assigned revenue to be collected in 2012 and the one carried over from 2011 to 2012 in accordance with Article 10 of the Council Regulation (EC) No 1605/2002.

(2) AR: Assigned revenue to be collected. There are no amounts of revenue entered on the revenue line (p.m.)⁴, but the forecast amount is indicated in the budget comments.

(3) 78% of commitment appropriations concern expenditure for veterinary and phyto-sanitary measures under policy area 17 - Health and Consumer Protection. The rest concern expenditure for policy strategy and coordination under policy area 05 - Agriculture and Rural Development (15%) and for fisheries markets under policy area 11 - Maritime Affairs and Fisheries (7%).

(4) This revenue is used to provide appropriations for the payment of Sugar Restructuring Fund aids. This Fund has ended on 30/09/2012.

2.1.2. Expenditure section of the EU budget in relation to EAGF

The initial commitment appropriations for 2012 totalled EUR 43 969 637 305. This was a net amount after deducting the expected assigned revenue to be collected in

⁴ p.m.: "pour mémoire".

2012 and the one carried over from 2011 to 2012. The initial payment appropriations amounted to EUR 43 875 978 049. The majority of the appropriations for expenditure under centralised direct management made by the Commission are differentiated appropriations.

In financial year 2012, there were the Amending Budget 6/2012 and transfers of commitment and payment appropriations to and out of EAGF. The commitment and payment appropriations finally available to the EAGF, after this Amending Budget and those transfers, for the 2012 financial year amounted to EUR 43 904 288 305 and EUR 43 903 592 769 respectively.

Part of the appropriations coming from assigned revenue received in 2011 was not used in that financial year and it was automatically carried forward to 2012. The amount of these appropriations totalled EUR 1 298.3 million (including EUR 856.8 million for Sugar Restructuring Fund).

2.1.3. *Assigned revenue section of the EU budget in relation to EAGF*

For more details, please see point 1.5.

2.1.4. *Budget execution of appropriations available for the 2012 financial year*

In EUR

	Execution of commitment appropriations	Execution of payment appropriations
Shared management (1)	44 495 484 915.34	44 495 484 915.34
Expenditure under centralised direct management	359 808 478.00	347 851 305.54
Total (including Sugar Restructuring Fund)	44 855 293 393.34	44 843 336 220.88
<i>Sugar Restructuring Fund</i>	109 698 527.03	109 698 527.03
Total (excluding Sugar Restructuring Fund)	44 745 594 866.31	44 733 637 693.85

(1) Committed amounts. Commitments and payments less assigned revenue received for shared management: EUR 43 588 043 789.62.

For the financial year 2012, the actual amount of commitment appropriations used amounted to EUR 44 855 293 393.34 while that for payment appropriations amounted to EUR 44 843 336 220.88.

2.1.5. *Assigned revenue received under shared management*

In EUR

Assigned revenue (excluding Temporary restructuring amounts)	
Forecasted revenue	805 000 000.00
Revenue received	899 612 494.95
Difference	94 612 494.95

For details, please see points 1.5 and 6.1.

2.1.6. *Budget execution (excluding Sugar Restructuring Fund)*

In EUR

Expenditure under shared management (excluding Sugar Restructuring Fund) (1)			
	Final appropriations (C1)	Assigned revenue appropriations (C4)	Carry over of assigned revenue appropriations (C5) from 2011
Appropriations	43 540 900 000.00	899 612 494.95	441 483 318.57
Execution	43 535 354 292.95	408 948 776.79	441 483 318.57
Appropriations cancelled	5 545 707,05	-	0.00
Carry over to 2013	-	490 663 718.16	-

(1) Commitment appropriations = Payment appropriations

Appropriations available for financing measures under management shared with Member States (excluding expenditure under centralised direct management by the Commission) amounted to EUR 43 541 million compared to actual expenditure of EUR 43 535 million.

The 2012 appropriations coming from assigned revenue amounted to EUR 899.6 million of which an amount of EUR 408.9 million was used in chapters 05 02 and 05 03. The remaining amount of EUR 490.7 million was automatically carried over to budget year 2013.

Part of the appropriations coming from assigned revenue received in 2011 was not used in financial year 2011 and was automatically carried forward to 2012 (C5 fund source). These appropriations amounted to EUR 441.5 million and had to be used first in accordance with Article 10 of the Financial Regulation. It should be noted that all appropriations (EUR 441.5 million) carried over from previous financial year have been fully used in accordance with the Financial Regulation.

2.1.7. *Sugar sector: Temporary restructuring amounts. Sugar Restructuring Fund*

In EUR

Temporary restructuring amounts		Sugar Restructuring Fund			
Revenue section of budget		Expenditure section of budget			
	Amount		Final appropriations (C1)	Appropriations from AR (C4)	Carry over of appropriations from 2011 AR (C5)
Forecast revenue	0,00	Appropriations	pm	7 828 630.77	856 828 482.46
Revenue received	7 828 630.77	Execution (1)	-	- 22 993 577.47	132 692 104.50
		Appropriations cancelled	-	-	0
		Carry over to 2013	-	30 822 208.24	724 136 377.96

(1) Commitment appropriations = payment appropriations

Execution of Temporary restructuring amounts - Revenue section. For details, please see point 6.2.

Execution of Sugar Restructuring Fund - Expenditure section. For details, please see point 6.3.

2.1.8. *Budget execution of voted appropriations - Expenditure under centralised direct management made by the Commission*

In EUR

Expenditure under centralised direct management	Commitment appropriations	De-commitments	Payment appropriations	Carry over to 2013 (2)
Appropriations (C1) (1)	363 388 305.00	-	362 692 769.11	-
Execution (C1)	358 622 779.47	-	341 045 358.37	16 140 424.02
Appropriations cancelled	4 765 525.53	-	5 506 986.72	-

(1) C1 denotes the budget's voted appropriations. This amount includes Amending Budget 6/2012 involving transfers to / out EAGF: EUR -65 349 000.00 for commitment appropriations and EUR 27 614 720.11 for payment appropriations

(2) Carry over to 2013 only for non-differentiated appropriations

Commitment appropriations of EUR 363.4 million were foreseen for expenditure under centralised direct management in the 2012 budget. An amount of

EUR 358.6 million was committed in 2012. The balance of these appropriations, EUR 4.8 million, was cancelled. 74.4% of commitment appropriations concern policy area 17-Veterinary and phyto-sanitary measures expenditure. The rest concern policy area 05-Agriculture and Rural Development (17.2%) and policy area 11-Fisheries (8.4%).

The majority of EAGF commitment appropriations for expenditure under direct management made by the Commission are differentiated appropriations. The automatic carry over to 2013, which relates only to non-differentiated appropriations, amounts to EUR 16.1 million.

For details, please see annex 5 and 6.

2.1.9. *Budget execution - Expenditure under centralised direct management made by the Commission - Automatic carryover from 2011*

In EUR

Carry over from 2011 to 2012	Commitments	De-commitments	Payments	Cancelled appropriations
Carried over appropriations	15 480 489.32	1 761 734.14	12 934 000.50	784 754.68

The automatic carry over from 2011 to 2012 only concerned expenditure under centralised direct management for non-differentiated appropriations. As indicated in the table above, an amount of EUR 15.5 million was carried over from 2011 to 2012. In 2012 an amount of EUR 1.8 million from this carry over was de-committed. The payments made amounted to EUR 12.9 million and the appropriations cancelled totalled EUR 0.8 million.

For details, please see annex 6.

2.2. Monthly payments

2.2.1. *Monthly payments to Member States under shared management*

2.2.1.1. Monthly payments on the provision for expenditure

Council Regulation (EC) No 1290/2005 of 21 June 2005 on the financing of the Common Agricultural Policy⁵ states in Article 15 that "*monthly payments shall be made by the Commission ... for expenditure performed by Member States' accredited paying agencies during the reference month*". Monthly payments shall be made to each Member State at the latest on the third working day of the second month following that in which the expenditure is incurred.

The monthly payments are a reimbursement of net expenditure (after deduction of revenue) which has been already carried out and are made available on the basis of the monthly declarations forwarded by the Member States⁶. The monthly booking of expenditure and revenue is subject to checks and corrections on the basis of the

⁵ OJ L 209 of 11.8.2005, p. 1.

⁶ These monthly declarations of expenditure are transmitted by the Member States by the declaration of the 10th of the month N+1.

detailed declaration⁷. Moreover, these payments will become final following the Commission's verifications under the accounting clearance of accounts procedure.

Payments made by the Member States from 16.10.2011 to 15.10.2012 are covered by the system for monthly payments. The remaining payments are made directly by the Commission for a limited number of measures.

For financial year 2012, the total net amount of monthly payments made, after the deduction of clearance and other corrections, was EUR 43 588 043 789.62.

2.2.1.2. Decisions on monthly payments for 2012

For the financial year 2012, the Commission adopted twelve decisions on monthly payments. Furthermore, an additional monthly payment decision, adjusting those already granted for the total expenditure chargeable to the year, was adopted in December 2012. For details, please see Annex 4 of the present working document.

2.2.1.3. Reductions and suspensions of monthly payments

In 2012, reductions for a net amount of EUR 9.2 million were made to the monthly payments effected to the Member States. The most important categories of corrections are detailed in the following points.

a. Reductions of the monthly payments as a result of the non-compliance with the payment deadlines

Pursuant to Article 16 of Council Regulation (EC) No 1290/2005 concerning the budgetary discipline, certain Member States did not always respect the payment deadlines fixed by the Community legislations for the payment of aids to beneficiaries.

The payment deadlines ensure an equal treatment between the beneficiaries in all the Member States and avoid the situation in which delays of payments would result in aids no longer having the intended economic effect. In addition, the deadlines help budgetary discipline by ensuring that the expenditure which falls in each budget year is more easily forecast.

As a result of non-respecting the set payment deadlines, the Commission decided on two occasions, jointly with the monthly payments, reductions for a total amount of EUR 5.7 million.

b. Reductions of the monthly payments as a result of overspending the financial ceilings

For some aid measures financed by EAGF, financial ceilings are determined in the sectoral regulations, which have to be adhered to. Expenditure exceeding these ceilings is considered as "non eligible expenditure" and has to be corrected.

These corrections lead to reductions of the monthly payments. As a result of overspending these financial ceilings, the Commission made financial corrections for a total amount of EUR 3.7 million.

c. Corrections of the monthly payments as a result of the non-payment by Member States of the additional milk levy

⁷ The detailed declarations are transmitted monthly by the Member States (by table 104) on the 20th of the month N+1.

No reduction of the monthly payments as a result of the non-payment of the additional milk levy was carried out by the Commission as all Member States declared the amounts due. On the other hand, an amount of EUR 0.2 million concerning this levy declared in previous years by the Member States was refused, as corrections had already been made in previous financial years.

2.2.2. *Centralised direct expenditure by the Commission*

In certain cases, the Commission makes payments directly for certain measures. These concern payments for veterinary and plant-health measures (policy area 17), payments for certain fisheries market measures (policy area 11) and payments for certain measures which do not have the character of traditional market measures, in particular certain actions related to controls, to promotion actions and to information actions on the agricultural policy.

For details, please see annex 5 and 6.

3. THE IMPLEMENTATION OF THE 2012 EAGF BUDGET

3.1. The uptake of the EAGF budget appropriations

The 2012 budget's commitments were fully executed and payments appropriations at the rate of 99.9% after taking account of the assigned revenue of the year carried over and excluding the execution of the Sugar Restructuring Fund.

Indeed, the implementation of the budget amounted to EUR 44 745.6 million. This expenditure was funded by the budget's initial appropriations, by using the entire amount of assigned revenue of EUR 441.5 million carried over from 2011 and a part of the assigned revenue collected in 2012 amounting to EUR 408.9 million out of a total EUR 899.6 million.

Within policy area 05-Agriculture and Rural Development, the expenditure for market measures amounted to EUR 3 406 million and for direct aids to EUR 40 880 million. The expenditure incurred for certain market measures and direct aids exceeded the budget's voted appropriations and it was partly covered by transfers of appropriations from other items of the budget and partly by the revenue which was assigned to the EAGF budget.

Furthermore, the aforementioned total implementation amount includes expenditure for policy area 11-Fisheries market measures of EUR 30.5 million as well as expenditure amounting to EUR 268.4 million for policy area 17-Veterinary and phyto-sanitary measures.

For details of the budget's implementation by Policy area, please see annexes 7 and 8.

Annex 16 presents a breakdown of the expenditure on market measures, direct payments and audit of agricultural expenditure by item and by Member State.

4. COMMENTS ON IMPLEMENTATION OF 2012 EAGF BUDGET

A brief commentary on the implementation of the 2012 EAGF budget's appropriations as well as on the use of the assigned revenue available in 2012 is presented hereafter based on details appearing in the annexed tables:

- Annexes 7 and 8: Analysis of execution of the 2012 EAGF budget. The expenditure incurred for each item of the budget appears in column 6. Columns 2, 3 and 4 indicate, respectively, the source and amount of funding which originates either from voted appropriations or from transfers of assigned revenue and of voted appropriations from other items of the budget.
- Annex 9: Assigned revenue (C4) collected and used in 2012
- Annex 10: Assigned revenue (C5) carried over from 2011 and used in 2012.

This presentation is made at the level of each chapter, article and item of the agricultural budget.

4.1. Chapter 05 02: Interventions in agricultural markets

4.1.1. Introduction

Total payments for this chapter of the budget amounted to EUR 3 406 million and they were funded by the budget's voted appropriations amounting to EUR 3 230.8 million and by assigned revenue amounting to EUR 177.4 million which was used to cover the expenditure incurred in the fruits and vegetables sector. The remaining balance of assigned revenue collected in 2012 amounting to EUR 143.4 million was carried over to 2013. (NB: Details for this sector appear in point 4.1.8 here below). In items where the budget's appropriations were under-spent, the available appropriations were transferred to other items of the budget in order to cover additional expenditure as needed.

Annex 8 presents these details at the level of each budget item.

4.1.2. Article 05 02 01: Cereals

In the course of the budget year, no cereals were bought into intervention. On the contrary, intervention stocks of barley decreased from around 0.17 million tonnes at the start of the year to around 0.009 million tonnes at the end of the year. The difference amounting to around 0.16 million tonnes was destined for the 2012 food programmes plan for the most deprived persons in the EU. These removals were valued at the product's intervention price. This item's execution, involving mainly technical and financial costs, resulted in taking up almost all of the budget's appropriations of EUR 2 million.

With regard to intervention for starch, Member States incurred expenditure amounting to almost the amount of the 2012 budget's appropriations foreseen for the potato starch premium payments.

4.1.3. Article 05 02 03: Refunds on Non-Annex I products

The expenditure incurred for export refunds for processed agricultural products amounted to EUR 9.1 million thus, under-spending the budget's voted appropriations by EUR 2.9 million. Member States incurred lower expenditure than foreseen in the budget mainly for the payment of refunds for dairy products incorporated in the exported processed agricultural products.

4.1.4. Article 05 02 04: Food programmes

Member States implemented almost fully the 2012 plan for food distribution to the most deprived persons. In addition, Member States paid outstanding balances for

administrative and transport costs for previous years' plans. This resulted in an over-execution of the 2012 budget's appropriations by EUR 15.1 million.

4.1.5. *Article 05 02 05: Sugar*

Export refunds for sugar had been set at zero since the end of September 2008. Therefore, the 2012 budget foresaw only the payments for outstanding export refund balances and other measures in this sector. While these balances were estimated at EUR 1.2 million in the 2012 budget, Member States actually declared recoveries of previous aids amounting to EUR 0.2 million.

4.1.6. *Article 05 02 06: Olive oil*

In 2012, the quantities put into private storage for olive oil under the first of the two established schemes were much lower than initially expected. The appropriations remaining available were used for the financing of the second scheme which was considered necessary as a result of the continuous unfavourable market conditions in this market. The final under-execution is due to the fact that payments for this second scheme started late in the year 2012 and are expected to continue in 2013. Therefore, the overall expenditure incurred by Member States for this scheme was smaller than the one forecasted in the 2012 budget by EUR 10.8 million..

With regard to the aid for the financing of quality improvement work programmes for approved operators' organisations, lower payments were incurred because one Member State did not fully execute the 2012/2013 work programme for these organisations, thus, under-spending the appropriations retained in the 2012 budget by EUR 2.1 million.

4.1.7. *Article 05 02 07: Textile plants*

With regard to the processing aids for long flax fibre and for short flax and hemp fibre, the overall expenditure incurred amounted to EUR 15.1 million, thus, under-spending the appropriations foreseen in the 2012 budget by EUR 1.9 million because of the lower quantities of short flax and hemp fibre receiving this aid.

The expenditure incurred by Member States for the national restructuring programmes for cotton was as foreseen in the 2012 budget.

4.1.8. *Article 05 02 08: Fruits and vegetables*

The expenditure for this sector amounted to EUR 1 071.2 million and its over-implementation was primarily due to the expenditure incurred by Member States for the aid to producer groups for preliminary recognition.

As regards the operational funds for producer organisations, which aim at financing their production quality improvement, promotion and commercialisation programmes, the total needs estimated to cover the expenditure forecasted to be incurred by the Member States concerned amounted to EUR 806 million. Out of this total amount, the Budgetary Authority granted appropriations amounting to EUR 496 million because it took account of estimated revenue amounting to EUR 310 million which had been assigned to the funding of this scheme in the 2012 budget. Member States eventually incurred payments amounting to EUR 723.2 million which were lower compared to the budget's available appropriations mainly because of lower payments of first instalments for plans approved for 2012 as some Member States had overestimated their expenditure

forecasts. In addition, an estimated residual amount under the E-coli measures which was not eventually paid and declared by the Member States concerned.

The expenditure incurred by Member States for the aid to producer groups for preliminary recognition exceeded the budget appropriations by EUR 93 million because of the large number of producer groups which have entered this scheme following the Member States' notification in January 2011 which was the basis for the 2012 budgetary estimate. This over-execution was covered by a transfer of voted appropriations from other items of the budget.

For the School Fruit Scheme, certain Member States incurred expenditure which remained below their budgetary allocation for the school year 2011/12 leading to an under-execution of the budget's appropriations by EUR 31.4 million. As regards the school year 2012/2013 which started on 01/08/2012, no expenditure was incurred by Member States by the end of the 2012 budget year. This expenditure will be made and declared in the course of the 2013 budget.

4.1.9. Article 05 02 09: Products of the wine-growing sector

The wine sector was reformed as of budget year 2009. Currently, the principal measure left in this sector is the national support programmes for wine. For all other measures, the 2012 budget included appropriations destined to cover the estimated balances of still outstanding payments.

No expenditure was incurred for the private storage of alcohol. With regard to the public storage of alcohol, following the reform of the wine sector no intervention purchases of alcohol are possible. A minor quantity of 0.06 million hl was removed from store in January 2012. The 2012 expenditure amounted to EUR 0.1 million involving mainly the technical costs for this quantity.

With regard to the national support programmes, two Member States incurred slightly lower expenditure compared to the amounts foreseen in their programmes. However, all other programmes foreseen under this scheme were fully implemented resulting in an overall implementation of more than 98,4% of the foreseen 2012 appropriations.

Furthermore, for the grubbing-up scheme which was terminated in 2011, Member States incurred significantly smaller expenditure for the payment of still outstanding balances, thus, leading to under-spending the budget's appropriations by EUR 15.2 million.

4.1.10. Article 05 02 10: Promotion

With regard to promotion measures, Member States did not pay all the amounts foreseen in the budget for promotion activities based on the promotion decisions taken by the Commission. Total payments amounted to EUR 47.4 million, thus, under-executing the 2012 budget's appropriations by EUR 6.6 million.

With regard to direct payments by the European Union, the Commission committed almost all the amount of EUR 1.4 million foreseen in the 2012 budget for these promotion measures.

4.1.11. Article 05 02 11: Other plant products/measures

Aids for a quantity of dried fodder of 4.2 million tonnes were retained in the 2012 budget for the marketing year 2011/12. Member States incurred expenditure for

these aids for quantities which were around 6.7% higher than the ones foreseen in the 2012 budget, thus, over-spending the corresponding appropriations by EUR 2 million which was covered by transfer of voted appropriations from other items of the budget.

The expenditure incurred by Member States for the aid for producer organisations for hops was as foreseen in the 2012 budget.

For POSEI measures, the 2012 budget's appropriations were under-executed by EUR 29.3 million because Member States reprogrammed their national plans in the course of the year with a shift of market support actions to actions financed under the corresponding direct aids scheme in item 05 03 02 50 (see point 4.2.2 below). The global execution for the POSEI programmes in 2012, under both this scheme and under direct aids, was around 98% of their budget.

4.1.12. Article 05 02 12: Milk and milk products

The Commission maintained the export refund rate for dairy products at zero in 2012. Member States incurred payments for export certificates still outstanding amounting to EUR 0.2 million, thus, under-spending the 2012 budget's appropriations by EUR 0.8 million.

In the course of the budget year, no skimmed milk powder was bought into intervention. The intervention stock of around 0.054 million tonnes was destined for the 2012 food programmes plan for the most deprived persons in the EU. This stock had been previously depreciated in 2011 and since removals for this scheme are valued at the product's intervention price, then, the resulting gains in 2012 amounted to the ones foreseen in the 2012 budget.

In the course of the budget year, no butter was bought into intervention. As regards the private storage aid for butter, the appropriations foreseen in the 2012 budget amounted to EUR 10 million while the expenditure incurred amounted to EUR 7.8 million because of the lower volume of butter for which this aid was paid.

With regard to school milk, the quantities distributed were lower than the quantities retained in the 2012 budget, thus, leading to an under-execution of the corresponding appropriations by EUR 20.8 million. However, it should be recalled that the 2012 budget for this item was increased by EUR 9 million by the Budgetary Authority compared to the initial needs of EUR 81 million requested by the Commission in its Amending Letter No 3/2012.

4.1.13. Article 05 02 13: Beef and veal

The decrease in the export refund rates for meat and live animals that took place in April 2012 led to the budget's under-execution in this article by EUR 7.5 million for exports of fresh and frozen meat and by EUR 1.3 million for exports of live animals.

4.1.14. Article 05 02 15: Pig meat, eggs and poultry, bee-keeping and other animal products

The expenditure incurred by Member States for export refunds for processed pig-meat products amounted to almost 100% of the foreseen budget appropriations of EUR 19 million.

Following the difficult market situation in the pig-meat sector, the Commission had adopted a private storage aid scheme in January 2011 (Regulation (EU) No 68/2011).

The expenditure incurred amounted to EUR 5.8 million for the balance of the quantities still in storage which, however, were lower than the ones foreseen in the budget, thus, under-spending the 2012 budget's appropriations by EUR 7.2 million.

With regard to export refunds for eggs, both the exported quantities for all types of eggs and the export refund rates were smaller compared to the ones foreseen in the budget, thus, under-spending the 2012 budget's appropriations by EUR 2.2 million.

For export refunds for poultry, the exported quantities for all types of poultry increased compared to the quantities foreseen in the budget, thus, over-spending the 2012 budget's appropriations by EUR 14.3 million which was funded by transfer of voted appropriations from other items of the budget.

The payments incurred by Member States for specific aid for bee-keeping were smaller compared to the appropriations retained in the budget, thus, leading to an under-execution of these appropriations by EUR 3.1 million.

4.2. Chapter 05 03: Direct Aids

The voted appropriations for this chapter of the 2012 budget amounted to EUR 40 510.7 million while payments amounted to approximately EUR 40 880 million. This level of 2012 EAGF expenditure was higher compared to the level of 2011 mainly because of the continuing phasing-in of these aids for the EU-12 in that year. A part of the single payment scheme was foreseen to be funded by assigned revenue, thus, leading to this apparent over-implementation which was covered partly by this revenue and partly by transfers of voted appropriations from other items of the budget.

Annex 8 presents these details at the level of each budget item.

4.2.1. Article 05 03 01: Decoupled direct aids

The main schemes covered by this article's appropriations are the expenditure for the single payment scheme (SPS), for the single area payment scheme (SAPS) which is applied by 10 out of the EU-12 Member States and for the decoupled specific support under article 68 of Council Regulation (EC) No 73/2009. All aid schemes in this article are paid independently of production but on certain conditions e.g. respect of cross-compliance. The expenditure incurred for all schemes in this article amounted to EUR 37 665.5 million, thus, over-spending the 2012 budget's voted appropriations of EUR 37 189 million by EUR 476.5 million because part of the needs for this sector are funded by assigned revenue.

With regard to the single payment scheme, the Budgetary Authority granted appropriations amounting to EUR 30 472 million because it took account of the revenue assigned to this budget item amounting to EUR 700 million. Hence, the total available appropriations for the funding of this scheme's needs amounted to EUR 31 172 million. The Member States concerned incurred expenditure amounting to EUR 31 080.5 million, i.e. an under-execution of EUR 91.5 million, thus reaching 99.7% of the level of the estimated needs (after modulation) for this scheme in 2012. This expenditure was funded by the budget's voted appropriations of EUR 30 472 million as well as by part of the revenue assigned to this scheme amounting to EUR 673.2 million and by transfers of appropriations from other items of the budget amounting to EUR 191.4 million.

With regard to the single area payment scheme, improvements in the implementation of this scheme in the Member States concerned led to its higher implementation rate at 99.2% of the corresponding appropriations in 2012 whereby the Member States concerned incurred payments amounting to EUR 5 915.7 million out of the appropriations foreseen in the 2012 budget amounting to EUR 5 963 million.

With regard to the separate sugar payment scheme, the Member States concerned did not pay the totality of their corresponding budgetary ceilings, thus, resulting in an under-execution of the 2012 budget's appropriations by EUR 1.8 million.

With regard to the separate fruit and vegetables payment scheme, the Member States concerned made payments amounting to EUR 12.3 million, with a slight under-execution of the 2012 budget's appropriations of EUR 0.7 million.

Finally with regard to the decoupled specific support under article 68 of Council Regulation (EC) No 73/2009 scheme, in view of the fact that 2012 was the second year of their implementation with no possibility for review between the two years, the expenditure incurred by Member States amounting to EUR 376.8 million was lower than the one forecasted in the 2012 budget by EUR 81.2 million.

4.2.2. *Article 05 03 02: Other direct aids*

The appropriations of this article cover expenditure for other direct aids for which Member States have chosen to maintain a limited link between the payment of these aids and production for a number of sectors, under well defined conditions and within clear limits, in order to avoid the abandonment of this production.

With regard to these schemes, the Commission had estimated that appropriations amounting to EUR 3 320.7 million (after modulation) were required in 2012. Member States incurred expenditure amounting to EUR 3 213.9 million, thus, under-spending the budget's appropriations by EUR 106.8 million.

Thirty one schemes are funded under this article. For most of these schemes, the Member States concerned incurred expenditure which was lower than the budget's retained appropriations:

- Suckler cow premium: by EUR 5 million probably due to a small decrease in the herd as well as to the application of sanctions for not complying with the scheme's eligibility conditions;
- Payments to starch potato producers: by EUR 1.5 million because of the lower level of production for which this aid was paid;
- Protein crop premium: by EUR 6.4 million because 2012 was the last year for the implementation of this scheme and Member States incurred lower expenditure for this premium;
- Area aid for cotton: by EUR 3.1 million because modulation had been underestimated for this scheme;
- Additional amount for sugar and cane producers: by EUR 6.9 million because modulation had been underestimated for this scheme;
- Specific support under article 68 of Council Regulation (EC) No 73/2009: by EUR 80.5 million due to 2012 being the second year of implementation of this

scheme with no possibility for review between the two years, and to the nature of the measures themselves.

On the other hand, Member States incurred expenditure for POSEI-Union support programmes which was EUR 16.1 million higher than the appropriations foreseen in the 2012 budget, thus, partly compensating the under-execution observed for the POSEI market measures (see point 4.1.11 above). This over-execution was funded by transfer of voted appropriations from other items of the budget. The global execution for the POSEI programmes in 2012, under both this scheme and under market measures, was around 98% of their budget.

4.2.3. Article 05 03 03: Additional amounts of aid

The appropriations foreseen in the 2012 budget for this scheme amounted to EUR 1 million, Member States incurred payments amounting to EUR 0.6 million, thus being in line with the budget rounded in millions..

4.3. Chapter 05 04: Rural Development

4.3.1. Article 05 04 01: Rural Development financed by the ex-EAGGF-Guarantee. Completion of earlier programmes (2000 to 2006)

No commitment appropriations can be made anymore for these programmes. Member States are now closing these programmes and they recover unduly paid amounts. The final net amount recovered under this article was equal to EUR 2.8 million of which the amount of EUR 2.4 million was used for funding other budget items.

4.4. Chapter 05 07: Audit of agricultural expenditure

4.4.1. Article 05 07 01: Control of agricultural expenditure

This article involves the measures taken in order to reinforce the means of on-the-spot controls and to improve the systems of verification so as to limit the risk of frauds and irregularities in detriment of the Community budget. It also includes the amounts credited into the EAGF budget through the corrections based on the accounting clearance procedure and on the procedure relating to the reduction/suspension of advances.

The European Community directly financed measures mostly for the purchase of satellite images within the framework of the Integrated Administrative and Control System (IACS) by committing all the amount of EUR 6.5 million foreseen in the 2012 budget for Monitoring and preventive measures-Direct payments by the European Union.

With regard to the accounting clearance of previous years' accounts, and contrary to expected negative corrections, the Commission made overall positive corrections to Member States' amounting to approximately EUR 28.5 million including the negative corrections imposed to Member States from the penalties for non-respecting payment deadlines. The 2012 budget included appropriations amounting to – EUR 200 million for the negative clearance of accounts corrections. The Commission closed this account by transferring voted appropriations amounting to EUR 228.6 million from other items of the budget where under-execution has been incurred.

With regard to the conformity clearance of previous years' accounts, positive corrections amounting to EUR 36.2 million were made by the Commission within the year. The 2012 budget did not retain any appropriations for such positive corrections which were eventually funded by transferring voted appropriations of the same amount from other items of the budget.

4.4.2. *Article 05 07 02: Settlement of disputes*

The appropriations in this article are intended to cover expenditure for which the Commission could be held liable by decision of a court of justice, including the cost of settling claims for damages and interest. In the 2012 budget appropriations amounting to EUR 0.8 million were foreseen for this article. However, reimbursements to Member States amounting to EUR 39.1 million were made based on the judgment of 29 March 2012 of the European Court of Justice in cases T 243/07, T 247/07, T 248/07 and T 262/07 whereby the Court annulled Commission Decision 2007/361/EC⁸ concerning payments for surplus stock for non-sugar related products. These reimbursements were funded by transferring voted appropriations of the same amount from other chapters of the budget. The Commission's chapter to chapter transfer proposal (DEC 55/2012) in order to fund the afore-mentioned payments was approved by the Council on 5 December 2012 and by the European Parliament on 12 December 2012.

4.5. Chapter 05 08: Policy strategy and coordination

4.5.1. *Article 05 08 01: Farm accountancy data network (FADN)*

Appropriations committed with regard to the cost of data collection on farm holdings under this network amounted to EUR 14.3 million, thus, taking up almost all of the appropriations foreseen in the 2012 budget.

4.5.2. *Article 05 08 02: Surveys on the structure of agricultural holdings*

Appropriations committed with regard to the payment to Member States of EU's contribution for the 2013 surveys on the structure of agricultural holdings and for the maintenance cost of IT infrastructure needed for the processing of the results of these surveys amounted to approximately EUR 19.9 million, thus, taking up almost all of the appropriations foreseen in the 2012 budget.

4.5.3. *Article 05 08 03: Restructuring of systems for agricultural surveys*

Appropriations committed with regard to the cost of operating the MARS meteorological system amounted to approximately EUR 1.5 million thus, taking up slightly more than all of the appropriations foreseen in the 2012 budget.

4.5.4. *Article 05 08 06: Enhancing public awareness of the common agricultural policy*

Appropriations committed with regard to the cost of actions, fairs and publications aimed at improving the level of understanding of the CAP amounted to EUR 7.9 million thus, taking up almost all of the appropriations foreseen in the 2012 budget.

⁸ OJ L 138, 30.5.2007, p. 14.

4.5.5. *Article 05 08 09: EAGF – Operational technical assistance*

Appropriations committed with regard to operational technical assistance for the EAGF amounted to approximately EUR 1.5 million thus, taking up almost all of the appropriations foreseen in the 2012 budget.

5. COMMENTS ON THE IMPLEMENTATION OF THE EAGF BUDGET FOR POLICY AREAS 11 AND 17

5.1. Fisheries markets (Chapter 11 02)

5.1.1. Article 11 02 01: Intervention in fishery products

Almost 100% of both commitment and payment appropriations were implemented.

100% of the payment requests submitted by Member States in 2012 were paid. A particular effort was made to clear the backlog of outstanding declarations open before 31/12/2011. All of these declarations could be closed whereby less than 1% had to be rejected (and the corresponding amounts de-committed) while the remainder was paid.

BUDGET 2012 - Commitments

ITEM	BUDGET 2012	Initial credits	Final credits after transfer	Committed in 2012 financial year	Balance Commitments – final credits
11 02 01 01	Intervention in fishery products	15 000 000	15 000 000	14 946 689	53 311
		15 000 000	15 000 000	14 946 689	53 311

BUDGET 2012 - Payments

ITEM	BUDGET 2012	Initial credits	Final credits after transfer	Committed in 2012 financial year	Balance Commitments – final credits
11 02 01 01	Intervention in fishery products	14 412 834	9 970 330	9 969 386	944
		14 412 834	9 970 330	9 969 386	944

5.1.2. Article 11 02 03: Fisheries programme for the outermost regions

100% of the commitment and payment appropriations were committed

All long outstanding payment requests from Portugal (i.e. submitted before 31/12/2011) could be properly controlled in 2012 and paid. Some of them were initially suspended as a consequence of the Director's General reservation in his declaration of assurance on 2009 and, in a second time, suspended due to difficulties in obtaining the necessary probing documentation.

BUDGET 2012 - Commitments

ITEM	BUDGET 2012	Initial credits	Final credits after transfer	Committed in 2012 financial year	Balance Commitments – final credits
11 02 03 01	Fisheries programme for the outermost regions	14 996 768	14 996 768	14 996 768	0
		14 996 768	14 996 768	14 996 768	0

BUDGET 2012 - Payments

ITEM	BUDGET 2012	Initial credits	Final credits after transfer	Committed in 2012 financial year	Balance Commitments – final credits
11 02 03 01	Fisheries programme for the outermost regions	14 223 191	28 137 797	28 137 796	1
		14 223 191	28 137 797	28 137 796	1

5.2. Veterinary and phyto-sanitary measures expenditure (Chapters 17 01 and 17 04)

5.2.1. Generalities

Almost 99 % of the C1 commitment credits available from the 2012 budget have been used: an amount of EUR 267.2 million out of EUR 270.4 million available for the operational and administrative credits for veterinary and plant health measures has been committed. More than 99% of the C1 payment appropriations have been used for these measures: an amount of EUR 260.1 million out of EUR 261.5 million available was paid.

Through amending budget 6/2012, the commitment appropriations for the eradication/surveillance programmes (line 17.040101), the emergency measures (line 17.040301) and the food and feed safety (line 17.040701) have been decreased by respectively EUR 57.64, 4.4 and 3.38 million. This decrease was possible thanks to the favourable animal health situation as a result of the policy conducted under the motto "prevention is better than cure". Through that same amending budget, payment appropriations were increased by EUR 17 million for line 17.040101. As in previous years, there have been some internal transfers of commitment and payment appropriations.

5.2.2. Details

5.2.2.1. Item 17.040101 Animal disease eradication and monitoring programmes

The amount of available credits (all sources) was EUR 207.9 million. After a reallocation of credits executed in the autumn of 2012, an amount of a bit more than EUR 202 million was committed (140 commitments: comparable to the previous year) according to the details mentioned below:

- EUR 8.0 million for the bovine brucellosis eradication programmes;
- EUR 70.7 million for the bovine tuberculosis eradication programmes;
- EUR 15.4 million for the ovine brucellosis eradication programmes;
- EUR 3.7 million for the bluetongue programmes,
- EUR 55.8 million for the TSE, BSE and scrapie programmes;
- EUR 2.7 million for avian influenza survey programmes;
- EUR 16.7 million for the salmonella control programmes;
- EUR 5.2 million for the swine disease programmes and
- EUR 24.1 million for the rabies programmes.

As in the previous year, the EU contribution towards tuberculosis programmes was very important while, on the other hand, the EU contribution towards bluetongue programmes remained low. Furthermore, it has to be signalled that the EU contribution has been decreased from 60% to 50% for programmes other than rabies and TSE.

Payment appropriations were increased by EUR 24.7 million via the amending budget 6/2012 and internal transfers. Payment credits were executed for 100% via 143 C1 payments for an amount of EUR 209.6 million. Four payments were made on C4 and C5 appropriations for a total amount of EUR 5.8 million. The reinforcement allowed paying the amounts that were considered as eligible at the end of 2012.

5.2.2.2. Item 17.040201 – Other measures in the veterinary, animal welfare and public health field

After an internal transfer of EUR 0.86 million, commitment appropriations of EUR 18.9 million were available. Almost 100% thereof was consumed.

The payment credits were decreased, after an internal transfer of EUR 1.31 million, to EUR 11.02 million almost all of which was consumed in 2012.

5.2.2.3. Item 17.040301 – Emergency fund for veterinary complaints and other diseases of animal contaminations which are a risk to public health

The initial envelope of EUR 10 million was, through the amending budget 6/2012, reduced to EUR 5.6 million of which almost 50% was committed.

The envelope of payment appropriations was decreased through an internal transfer from EUR 9.5 million to EUR 4 million. This envelope was entirely paid.

5.2.2.4. Item 17.040401 Plant-health measures – Expenditure on operational management

The commitment appropriations have been decreased, through an internal transfer from EUR 14 million to EUR 12.8 million. This amount was entirely committed.

Payment appropriations came down after an internal transfer of a bit more than EUR 0.7 million to EUR 8.8 million. Almost 100% thereof was paid out.

5.2.2.5. Item 17.040701 Food and feed control – Expenditure on operational management

Out of the EUR 28.96 million commitment appropriations that remained after amending budget 6/2012 by - EUR 3.38 million and transferring EUR 0.34 million,

almost 100% was committed. More than EUR 13 million went to the programme "Better Training for Safer Food" (BTSF) and more than EUR 14 million went to the activities of the EU reference laboratories.

Almost the full envelope of payment appropriations of EUR 25.3 million that remained after an internal transfer of EUR 1.2 million was paid.

5.2.2.6. Item 17.010401– Plant-health measures – expenditure on administrative measures

The allocated credit amount was EUR 0.6 million. Almost 100% thereof was committed. Only a small amount of EUR 3 787.4 thereof was paid in 2012.

5.2.2.7. Item 17.010405 – Food and feed control - expenditure on administrative measures

93% of EUR 0.7 million available was committed. Only a bit more than 24 % thereof was paid.

5.2.2.8. Item 17.010407 – Animal disease eradication and emergency fund - expenditure on administrative management.

Almost 75% of EUR 0.3 million was committed. No payments on C1 credits were made in 2012.

5.2.2.9. Item 17.010431 Executive agency for health and consumers – Contribution from programmes under Heading 2

100% of the available envelope of EUR 1.17 million was committed and paid in 2012.

Overview of the commitments made in 2012 (C1)

Line	BUDGET 2012	Initial Credits	Final credits after amend. Budget/transfer	Committed	Balance commitments-final credits
17.040101	Animal disease eradication and monitoring programmes and monitoring of the physical conditions of animals that could pose a public-health risk linked to an external factor	259 000 000	201 360 000	201 355 410	-4 590
17.040201	Other measures in the veterinary, animal welfare and public-health field	18 000,000	18 860 000	18 857 507	-2 493
17.040301	Emergency fund for veterinary complaints and other diseases of animal contaminations which are a risk to public health	10 000 000	5 600 000	2 613 487	-2 986 513
17.040401	Plant-health measures – Expenditure on operational management	14 000 000	12 800 000	12 800 000	0
17.040701	Food and feed – Expenditure on operational management	32 000 000	28 960 000	28 954 334	-5 666
17.010401	Plant-health measures – Expenditure on administrative management	600 000	600 000	597 381	-2 620
17.010405	Food and feed – Expenditure on administrative management ⁸	700 000	700 000	652 336	-47 664
17.010407	Animal disease eradication and emergency fund	300 000	300 000	224 052	-75 948
17.010431	Executive Agency for Health and Consumers	1 170 000	1 170 000	1 170 000	0
	Total	335 770 000	270 350 000	267 224 507	-3 125 493

Overview of the payments made in 2012 (C1)

Line	BUDGET 2012	Initial Credits	Final credits after amend. Budget/transfer	Paid	Balance payments- final credits
17.040101	Animal disease eradication and monitoring programmes and monitoring of the physical conditions of animals that could pose a public-health risk linked to an external factor	184 901 486	209 635 168	209 635 168	0
17.040201	Other measures in the veterinary, animal welfare and public-health field	12 326 766	11 017 261	11 004 062	-13 199
17.040301	Emergency fund for veterinary complaints and other diseases of animal contaminations which are a risk to public health	9 482 128	3 976 510	3 976 510	0
17.040401	Plant-health measures – Expenditure on operational management	9 482 128	8 772 186	8 771 355	-831
17.040701	Food and feed – Expenditure on operational management	26 549 957	25 346 327	25 345 320	-1 007
17.010401	Plant-health measures – Expenditure on administrative management	600 000	600 000	3 787	-596 213
17.010405	Food and feed – Expenditure on administrative management ⁸	700 000	700 000	171 114	-528 886
17.010407	Animal disease eradication and emergency fund	300 000	300 000	0	-300 000
17.010431	Executive Agency for Health and Consumers	1 170 000	1 170 000	1 170 000	0
	Total	245 512 465	261 517 451	260 077 315	-1 440 136

Finally, it should be recalled that no appropriations are foreseen on budget lines 17.040501 and 17.040502 relating to the Community plant variety office in Angers (France).

The details of all the commitments done in 2012 by Member State are given in annex 12.

6. IMPLEMENTATION OF ASSIGNED REVENUE (POLICY AREA 05- AGRICULTURE AND RURAL DEVELOPMENT)

6.1. Revenue assigned to EAGF

The assigned revenue actually carried over from 2011 into 2012, amounted to EUR 441.5 million and has entirely been used in financing expenditure of the 2012 budget year in accordance with article 10 of the Financial Regulation. This amount covered expenditure of EUR 10.8 million for the operational funds for producer organisations in the fruits and vegetables sector and of EUR 430.7 million for the single payment scheme.

As far as the assigned revenue collected in 2012, annex 9 shows that this revenue amounted to EUR 899.6 million and it originated from:

- The corrections of the conformity clearance procedure which amounted to approximately EUR 674.8 million.
- The receipts from irregularities which amounted to approximately EUR 160.7 million.
- The milk levy collections which amounted to approximately EUR 64.1 million.

A part of the assigned revenue collected in 2012 amounting to EUR 408.9 million was used within the year. An amount of approximately EUR 166.5 million was used to cover expenditure incurred within the year for the operational funds for producer organisations in the fruits and vegetables sector while the balance of EUR 242.4 million was used to cover expenditure incurred within the year for direct aids.

The balance of the assigned revenue collected in 2012 amounting to EUR 490.7 million was automatically carried over into the 2013 budget in order to fund budgetary needs of that year.

For details, please see annexes 9 and 10.

6.2. Assigned revenue concerning temporary restructuring amounts in sugar sector

In line with the legislation, no new temporary restructuring amounts have been collected from the Member States since November 2009. However, an amount of EUR 7.8 million was declared in 2012 for irregularities. Therefore, the total assigned revenue available to the Sugar Restructuring Fund equals to the aforementioned amount plus the amount of EUR 856.8 million which was carried over from 2011 and which was higher than the amount of EUR 832.2 million foreseen in the 2012 budget as Member States made payments at the end of 2011 which were lower than expected.. After reimbursing Member States the net amount of EUR 109.7 million incurred for Sugar Restructuring Fund aids (see point 6.3 below), the balance of approximately EUR 754.9 million remained available after the temporary Restructuring Fund ended on 30 September 2012. In accordance with Article 1.3 of Regulation (EC) 320/2006, this amount became assigned revenue to EAGF.

For details please see annexes 9 and 10.

6.3. Sugar Restructuring Fund

The reimbursements to Member States for payments made for aids concerning restructuring measures, for diversification aids or for aids to sugar refining were for a

net amount of EUR 109.7 million. These aids were reimbursed to Member States from the assigned revenue amount mentioned in point 6.2 above.

For details, please see annexes 7 and 8.

7. BREAKDOWN BY TYPE OF EXPENDITURE

The total EAGF expenditure amounts to EUR 44 745.6 million (excluding the Sugar Restructuring Fund). Hereafter, this expenditure is presented broken down into the main reporting categories along with the percentage that these represent in the total EAGF expenditure for 2012:

Storage

Expenditure for storage amounted to EUR 17.4 million. This amount mainly represents the expenditure incurred for the private storage of butter and olive oil (For details please see points 4.1.6 and 4.1.12 above).

Export refunds

Spending on export refunds amounted to EUR 146.7 million, i.e.: 0.3% of the total and it related mainly to beef, poultry, pig-meat, eggs and non-annex I products.

Other market measures

In addition to storage and export refunds, the expenditure for other market measures amounted to EUR 3 344.5 million, i.e.: 7.5% of the year's total. This category covers expenditure mainly relating to cereals, food programmes, olive oil, fruit and vegetables, wine, POSEI and dried fodder, milk and milk products, beef and veal and pig meat. This expenditure incorporates other minor amounts and it includes the corrections arising from the financial clearance of accounts.

Direct payments

Expenditure for direct payments amounted to EUR 40 880 million, i.e.: 91.4% of the total.

Direct expenditure under centralised management

This expenditure amounting to EUR 359.8 million, i.e.: 0.8% was paid directly by the Commission and it mostly covered the expenditure relating to veterinary and phyto-sanitary measures as well as to farm accounting, surveys on farm structures, information on the CAP etc.

Rural development under ex-EAGGF-Guarantee

No commitment appropriations can be made anymore for these programmes. Member States are now closing these programmes and they recover unduly paid amounts. The final net amount recovered under this article was equal to EUR 2.8 million.

The evolution of this breakdown by type of expenditure for the period 2007-2012 is presented in annex 32.

8. SPECIFIC ACTIVITIES

8.1. Distribution of food products to the most deprived persons in the Union

On 15 February 2012, the Council and the European Parliament finally adopted Regulation 121/2012, involving the dispositions for the management of this scheme in the budget years 2012 and 2013, amending Council Regulations (EC) No 1290/2005 and (EC) No 1234/2007 as regards distribution of food products to the most deprived persons in the Union⁹.

The main provisions of the revised programme are the following:

- The scheme remains fully funded out of the EU budget with a ceiling of EUR 500 million per budget year.
- The current scheme ends following a phasing-out period, which terminates with the completion of the 2013 annual plan.
- Market purchases are made a regular source of supply for the programme to complement intervention stocks. However, priority is given to the use of suitable intervention stocks where these are available.
- Member States have to choose the food products to be supplied on the basis of objective criteria including nutritional values and suitability for distribution.

Participation in the programme is voluntary. In 2012, a total of 20 Member States wished to take part in the scheme¹⁰. The appropriations were shared among the participating Member States according to the number of persons at risk of poverty and the GNI based on the most recent Eurostat statistics, together with the needs for food aid reported by Member States authorities to the Commission. The annual plan was established after consultation of the charities. It was administered at national level by the authorities of the participating Member States. Each Member State designated the organisations that had to distribute food to the needy.

Following a Court ruling on 13 April 2011 that any food covered by the programme could only be sourced from public intervention stocks, Commission Implementing Regulation (EU) No 562/2011¹¹, adopted on 10 June 2011, initially limited the commitment for the 2012 annual distribution plan to just above EUR 113 million - equivalent to the remaining volumes of public stocks.

Following the entry into force of the new legal frame of the scheme, the Commission adopted Regulation (EU) No 208/2012¹² amending the 2012 annual distribution plan and increasing to EUR 500 million the funds for the most deprived in 2012. A second amendment of the 2012 annual plan was adopted with Commission Implementing Regulation (EU) No 419/2012¹³ to allow Member States to grant advance payments, under specific circumstances.

⁹ OJ L 44, 16.2.2012, p.1.

¹⁰ The Member States finally participating to the 2012 annual distribution plan were 19, following the withdrawal of Slovakia because of problems in the implementing arrangements of the scheme.

¹¹ OJ L 152, 11.6.2011, p. 24.

¹² OJ L 72, 10.3.2012, p. 32.

¹³ OJ L 130, of 17.5.2012, p. 14.

In the 2012 budget year, the total expenditure declared by Member States for this scheme amounted to EUR 515.1 million (NB: For details, please see point 4.1.4 above).

Under the 2012 plan, the resources made available to the participating Member States amounted to EUR 500 million and these are detailed in the following table:

TABLE 1

2012 Plan – Total amounts of financial resources broken down per Member State:

Member State	EUR
Belgium	11 710 463
Bulgaria	21 439 346
Czech Republic	135 972
Estonia	2 359 486
Ireland	2 594 467
Greece	21 651 199
Spain	80 401 345
France	70 563 823
Italy	95 641 425
Latvia	5 558 220
Lithuania	7 491 644
Luxembourg	171 704
Hungary	13 715 022
Malta	721 992
Poland	75 296 812
Portugal	19 332 607
Romania	60 689 367
Slovenia	2 533 778
Slovakia	5 098 384
Finland	2 892 944
Total	500 000 000

Within the aforementioned allocations, the quantities of each type of product foreseen in the 2012 plan to be withdrawn from Community intervention stocks for distribution to the most deprived persons amounted to:

TABLE 2

2012 Plan – Allocation of public storage products – (In tonnes)

Member State	Cereals	Skimmed milk powder
Belgium		1 560.275
Bulgaria	39 150.874	
Czech Republic	450.000	
Estonia		635.325
Ireland		727.900
Greece		2 682.575
Spain		10 093.975
France	249.040	8 858.925
Italy		12 337.975
Latvia		870.050
Lithuania		1 032.575
Hungary		1 807.425
Malta	1 230.373	
Poland		9 662.825
Portugal		2 524.725
Romania	112 527.069	
Slovenia		287.750
Slovakia	8 976.092	
Finland		489.300
Total	162 583.448	53 571.600

Indicative allocations to Member States for the purchase of food products on the Union market within the limits of the total resources made available were the following:

TABLE 3

2012 Plan – Indicative allocations for the purchase of food products on the Union market:

Member State	EUR
Belgium	8 346 393
Bulgaria	14 004 438
Czech Republic	70 619
Estonia	1 136 698
Ireland	1 200 145
Greece	15 656 380
Spain	57 977 800
France	51 172 604
Italy	68 479 620
Latvia	3 736 468
Lithuania	5 281 095
Luxembourg	161 225
Hungary	9 751 550
Malta	493 784
Poland	54 100 415
Portugal	13 763 634
Romania	39 979 504
Slovenia	1 883 893
Slovakia	3 590 632
Finland	1 871 094
Total	352 657 991

TABLE 4

In the 2012 plan, Member States were also allocated indicative amounts for the reimbursement of intra-Union transfer costs, within the limits of the total resources made available to them:

<i>Member State</i>	<i>EUR</i>
Bulgaria	2 300 431
Czech Republic	12 211
Greece	126 066
Spain	401 345
France	17 915
Italy	399 005
Latvia	5 509
Hungary	61 128
Malta	63 361
Poland	205 907
Portugal	108 700
Romania	5 970 071
Slovenia	7 073
Slovakia	305 884
Finland	15 394
Total	10 000 000

In the 2012 budget year, the total expenditure declared by Member States for this scheme amounted to EUR 515.1 million (NB: For details, please see point 4.1.4 above). Out of this total amount, the participating Member States spent over EUR 490.6 million for the 2012 annual plan, representing more than 98 of the allocated resources, as detailed in the following table:

TABLE 5

Expenditure declared on the 2012 annual plan until 15 October 2012

Member State	EUR
Belgium	11 710 463
Bulgaria	21 436 092
Czech Republic	128 279
Estonia	2 230 457
Ireland	2 465 679
Greece	20 923 892
Spain	80 323 314
France	70 475 077
Italy	95 029 629
Latvia	5 244 318
Lithuania	7 433 470
Luxembourg	158 792
Hungary	13 634 679
Malta	661 186
Poland	75 295 815
Portugal	18 686 404
Romania	59 946 690
Slovenia	2 533 778
Finland	2 370 885
Total	490 688 900

8.2. Promotion measures – payments by Member States

The legal basis for information and promotion programmes for agricultural products implemented in the EU and elsewhere is provided by Council Regulation (EC) No 3/2008 and Commission Regulation (EC) No 501/2008.

Programmes are submitted by representative professional and inter-professional organisations to Member States which are responsible for programme management once the Commission has confirmed the selection and agreed the part-financing. The

rate of co-financing of the action plans is 50%. In 2008, the Council accepted an increase of this percentage up to 60% for specific promotion actions concerning fruit and vegetables for school pupils and information on responsible drinking patterns and harm linked to hazardous alcohol consumption.

The rules also allow the implementation of promotion and information measures carried out on the initiative of the Commission. In this framework the Commission organised a collective stand at the Food and Hotel China fair in Shanghai in November 2012.

In 2012, 34 new promotion programmes were approved by two separate Commission decisions concerning the internal market (27) and third countries (7), and payments made by Member States from the EU budget for promotion measures amounted to EUR 47.4 million compared to the 2012 budget appropriations of EUR 54 million.

The selected programmes covered fresh and processed fruits and vegetables, milk and milk products, PDOs (Protected Designation of Origin), PGIs (Protected Geographical Indication) and TSGs (Traditional Specialities Guaranteed), olive oil, organic products, ornamental horticulture, meat, seed oil, and wine. Six of these programmes were proposed by more than one Member State while third country programmes aimed at the Russian, Ukrainian, Chinese, North American and Latin American, Norwegian, Swiss, Spanish and South-East Asia markets.

The reform of the promotion regime is scheduled. Following the green paper consultation in 2011, the Commission adopted a communication in March 2012 to launch a debate on the future promotion policy on the inter-institutional level.

9. CONTROL MEASURES

9.1. Introduction

The EU legislation provides for a comprehensive system of management and controls which relies on four levels:

(a) compulsory administrative structure at the level of Member States, centred around the establishment of paying agencies and an accreditation authority at high level which is competent for issuing and withdrawing the agency's accreditation. The decision for issuing the accreditation is based on a detailed review by an external audit body;

(b) detailed systems for controls and dissuasive sanctions to be applied by those paying agencies, with common basic features and special rules tailored to the specificities of each aid regime;

(c) ex-post controls by independent audit bodies on the paying agencies' annual accounts and the functioning of their internal control procedures (under Regulation (EC) No 885/2006¹⁴) and by special departments on aid measures other than direct payments covered by the IACS (checks based on Regulation (EC) No 485/2008¹⁵);

(d) clearance of accounts procedure through the Commission's annual financial clearance and multi-annual conformity clearance.

14 OJ L 171, 23.6.2006, p. 90–110.

15 OJ L 143, 3.6.2008, p. 1–9.

These four levels establish a comprehensive system for the management and control of agricultural expenditure. It includes, on the one hand, all the necessary building blocks to guarantee a sound administration of the expenditure at Member States' level and, on the other hand, allows the Commission to counter the risk of financial losses as a result of any deficiencies in the set-up and operation of those building blocks through the clearance of accounts procedure.

Article 9(1) of Regulation (EC) No 1290/2005¹⁶ provides for the general obligation of Member States to ensure that transactions financed by the EAGF and the EAFRD are carried out and executed correctly, to prevent and deal with irregularities and to recover amounts unduly paid.

In complement to this general obligation, there is a system of controls and dissuasive sanctions of final beneficiaries which reflects the specific features of the regime and the risk involved in its administration.

The controls are carried out by the paying agencies or by delegated bodies operating under their supervision and effective, dissuasive and proportionate sanctions are imposed if the controls reveal non-compliance with EU rules. The system generally provides for exhaustive administrative controls of 100% of the aid applications, cross-checks with other databases where this is considered appropriate as well as pre-payment on-the-spot controls of a sample of transactions ranging between 1% and 100%, depending on the risk associated with the regime in question. For example, the control rate in the framework of the Integrated Administration and Control System (IACS) is normally 5%. If the on-the-spot controls reveal a high number of irregularities, additional controls must be carried out. The sample of transactions is determined on a risk and/or random basis.

In addition, for most regimes which are not subject to the IACS, on top of the primary and secondary control levels, *ex-post* controls must be carried out in accordance with Regulation (EC) No 485/2008.

9.2. Integrated Administration and Control System (IACS)

Council Regulation (EC) No 73/2009¹⁷ and Commission Regulation (EC) No 1122/2009¹⁸ contain the rules on the IACS.

A fully operational IACS consists of: a computerised database, an identification system for agricultural parcels and farmers claiming aid, a system for identification and registration of payment entitlements, aid applications and integrated controls system (claim processing, on-the-spot checks and sanctioning mechanisms) and a system for identifying and registering animals where applicable. The IACS is fully automated and provides highly efficient controls by maximising the use of computerised and remote controls.

This system foresees a 100% administrative control covering the eligibility of the claim, complemented by administrative cross-controls with standing databases

¹⁶ OJ L 209, 11.08.2005, p. 1.

¹⁷ OJ L30, 31.1.2009, p.16.

¹⁸ Commission Regulation (EC) No 1122/2009 of 29 October 2009 laying down detailed rules for the implementation of Council Regulation (EC) No 73/2009 as regards cross-compliance, modulation and the integrated administration and control system, under the direct support schemes for farmers provided for that Regulation, as well as for the implementation of Council Regulation (EC) No 1234/2007 as regards cross-compliance under the support scheme provided for the wine sector provided for in Council Regulation (EC) No 479/2008.

ensuring that only areas or animals that fulfil all eligible requirements are paid the premium and by a minimum 5% of on-the-spot checks to check the existence and eligibility of the area or the animals claimed.

The use of standing databases, which are appropriately updated, is well adapted to the schemes whereby aids are directly paid to the farmers and based on the surfaces or on the number of animals, in that the risk can be reduced to the lowest levels.

For the financial year 2012, the IACS covered some 91.4% of the EAGF expenditure. Furthermore, the relevant components of the IACS are applicable to the rural development measures, which are based on area or number of animals. Such measures include, inter alia, agri-environment and animal welfare measures, less-favoured areas and areas with environmental restrictions and afforestation of agricultural land. For financial year 2012, around 43% of payments made under the EAFRD were also covered.

The Commission services verify the effectiveness of Member States' IACS and homogenous implementation by means of both on-the-spot auditing and general supervision based on annually supplied financial and statistical data. It has been established already for some years now that the IACS provides an excellent and cost effective means of ensuring the proper use of EU funds.

9.3. Market measures

Market interventions, for example export refunds or storage aid, are not covered by IACS but they are governed by specific rules as regards controls and sanctions which are set out in sector-based regulations.

Aids are paid on the basis of claims, often involving the lodging of administrative and/or end-use securities, which are systematically (100%) checked administratively for completeness and correctness. The more financially important aid schemes are also subject to regular accounting controls performed in situ on commercial and financial documents.

9.4. Application of Council Regulation (EC) No 485/2008 (ex-post controls)

Regulation (EC) No 485/2008 provides for an ex-post control system which is a complement to the sectoral control systems described above. The system constitutes an extra layer of control which contributes to the assurance that transactions have been carried out in conformity with the rules or otherwise allows recovering the unduly paid amounts.

The ex-post scrutiny is to be carried out by a body in the Member State, which is independent of the departments within the paying agency responsible for the pre-payment controls and the payments. It covers a wide range of CAP subsidies including export refunds, fruit and vegetables and wine growing sector subsidies etc. In fact, the ex-post scrutiny covers all subsidies paid to beneficiaries from EAGF (except payments covered by IACS and those excluded by Regulation (EC) No 2311/2000¹⁹).

In 2012, 1 mission was carried out to specifically review the implementation of scrutiny, under Regulation (EC) No 485/2008, by Member States. In 2012, Member States scrutiny services completed ex-post controls in respect of the budget items

¹⁹ OJ L 265, 19.10.2000, p. 10.

subject to scrutiny for which payments were made in financial year 2010. The annual reports on the scrutiny period July 2011-June 2012 shows that 91% of the planned scrutinies were completed and 9% of planned scrutinies were ongoing by the end of the reporting period. The regulation also foresees Member States providing mutual assistance in the performance of scrutinies. In the 2011/2012 scrutiny period, 120 such requests were fulfilled.

10. CLEARANCE OF ACCOUNTS

10.1. Conformity clearance - Introduction

It is primarily the Member States' responsibility to satisfy themselves that transactions are carried out and executed correctly via a system of control and dissuasive sanctions. Where Member States fail to meet this requirement, the Commission applies financial corrections to protect the financial interests of the EU.

The conformity clearance relates to the legality and regularity of transactions. It is designed to exclude expenditure from EU financing which has not been effected in compliance with EU rules, thus shielding the EU budget from expenditure that should not be charged to it (financial corrections). In contrast, it is not a mechanism by which irregular payments to beneficiaries are recovered, which according to the principle of shared management is the sole responsibility of Member States.

Financial corrections are determined on the basis of the nature and gravity of the infringement and the financial damage caused to the EU. Where possible, the amount is calculated on the basis of the loss actually caused or on the basis of an extrapolation. Where this is not possible, flat-rates are used which take account of the severity of the deficiencies in the national control systems in order to reflect the financial risk for the EU.

Where undue payments are or can be identified as a result of the conformity clearance procedures, Member States are required to follow them up by recovery actions against the final beneficiaries. However, even where this is not possible because the financial corrections only relate to deficiencies in the Member States' management and control systems, financial corrections are an important means to improve these systems and thus to prevent or detect and recover irregular payments to final beneficiaries. The conformity clearance, thereby, contributes to the legality and regularity of the transactions at the level of the final beneficiaries.

10.2. Conformity clearance – Audits and decisions adopted in 2012

10.2.1. Audits

The following table presents an overview of the conformity missions and their coverage in respect of financial year 2012, broken down per ABB-activity:

Financial Year 2012	ABB 02	ABB 03	ABB 04 ¹⁾	Total ²⁾
Number of conformity audits with missions carried out ³⁾	22	27	27	88

¹⁾ concerns only EAFRD, thus excluding the EAGGF Guidance section.

²⁾ including 8 audits covering cross-compliance, 2 audit covering entitlements, 4 audits covering irregularities and 1 IT-audit.

³⁾ if an audit covers more than one ABB, it is allocated to all ABBs covered by that audit.

10.2.2. *Conformity decisions*

During the financial year 2012, three conformity decisions were adopted involving financial corrections in a number of sectors. These decisions had an overall financial impact by excluding from EU financing a total of EUR 668.48 million covering expenditure in the financial years from 2000-2010:

- Decision 2011/689/EU of 14/10/2011 – 36th Decision, financial impact of EUR 203.50 million,
- Decision 2012/89/EU of 14/02/2012 – 37th Decision, financial impact of EUR 42.88 million,
- Decision 2012/336/EU of 22/06/2012 – 38th Decision, financial impact of EUR 422.10 million.

For this decision, and due to the relative magnitude of corrections compared to certain Member State's GDP, the Commission decided that corrections amounting to EUR 131.3 million could be paid in 3 equal annual instalments. Furthermore, because of the severe financial difficulties encountered by certain Member States which are also subject to financial assistance, the execution of corrections amounting to EUR 104.9 million has been deferred to December 2013. These corrections will be paid in 3 equal annual instalments following the expiration of this deferral.

The breakdown according to sectors is as follows: (in EUR million)

	Decision 36	Decision 37	Decision 38
Area aids / Arable crops	122.83	52.27	11.63
Dried fodder and seeds	0.00	0.00	0.00
Export Refunds	0.00	0.00	11.58
Financial Audit	3.11	1.83	-1.58
Fruit and vegetables	1.52	0.06	83.55
Intervention storage	0.00	0.00	0.00
Livestock premiums	0.00	-32.88	63.20
Milk Products	70.91	0.00	0.00
Olive oil and oils and fats	0.00	21.46	0.52
Rural development	2.20	0.14	1.68
Sugar	0.00	0.00	0.00
Wine	2.92	0.00	251.52
Grand Total	203.50	42.88	422.10

Council Regulation (EC) No 1290/2005 introduced an automatic clearing mechanism for non recovered irregular payments after 4 years or, in case the recovery is challenged in national courts, 8 years after the establishment of the irregularity. The financial consequences of non recovery are shared by the Member State concerned and the EU on a 50 %-50 % basis. The Commission may still decide to charge the Member State for 100 % in cases of negligence by the Member State.

Regarding financial year 2011, Member States reported the information about recovery cases by 1 February 2012. The Member States recovered around EUR 127.8 million during financial year 2011 solely for EAGF (EUR 172.7 million in total with EAFRD and TRDI). The outstanding amount still to be recovered from beneficiaries at the end of that financial year was EUR 1 119.7 million solely for EAGF (EUR 1 206.9 million in total with EAFRD and TRDI). The financial consequences of non recovery for EAGF cases dating from 2007 or 2003 account to EUR 12.4 million to the Member States. During financial year 2011, around EUR 24.6 million were borne by the EU budget for EAGF cases reported irrecoverable.

10.3. Financial clearance

10.3.1. Introduction

The financial clearance covers the completeness, accuracy and veracity of paying agencies' accounts as well as the internal control systems set up by these paying agencies. Within this framework, DG AGRI pays particular attention to the certifying bodies' conclusions and recommendations (where weaknesses are found), following their reviews of the paying agencies' compliance with the accreditation criteria. As part of this review, the DG AGRI departments also cover aspects relating to conformity issues and protecting the financial interests of the EU as regards the advances paid, securities obtained and intervention stocks.

The Commission adopts an annual clearance of accounts decision clearing the paying agencies' annual accounts on the basis of the certificates and reports from the certifying bodies, but without prejudice to any subsequent decisions to recover expenditure which proves not to have been in accordance with the EU rules. The Commission must clear the accounts and adopt its clearance decision by 30 April of the year following the financial year in question.

10.3.2. Decisions

10.3.2.1. Financial clearance for financial years 2009 and before

All EAGF accounts for the financial years 2006, 2007 and 2009 have been cleared.

In respect of financial year 2008, only the EAGF accounts of OPEKEPE (Greece) are still outstanding. The amount still to be cleared is EUR 2 460.7 million. These accounts are currently proposed for clearance in a Commission Implementing Decision envisaged to be adopted in March 2013.

10.3.2.2. Financial clearance decision for the financial year 2010

On 29 April 2011, the Commission adopted a Decision clearing the annual accounts of 74 paying agencies in respect of their expenditure financed by the EAGF. By means of its decision, it cleared amounts of EUR 38 862.4 million.

An amount of EUR 3 559,6 million were still to be cleared, concerning the paying agencies Rheinland-Pfalz (Germany), OPEKEPE (Greece), ARBEA (Italy) and Dienst Regelingen (the Netherlands). The accounts of Rheinland-Pfalz and Dienst Regelingen have been cleared in the meantime in a Commission Decision adopted on 27 January 2012. The accounts of OPEKEPE (Greece) and ARBEA (Italy) are still outstanding in respect of EAGF. The amount still to be cleared is EUR 2 460.9 million.

10.3.2.3. Financial clearance decision for the financial year 2011

On 27 April 2012, the Commission adopted a Decision clearing the annual accounts of 75 paying agencies in respect of their expenditure financed by the EAGF. By means of its decision, it cleared amounts of EUR 42 364,05 million.

An amount of EUR 790,18 million, concerning the paying agencies Hamburg-Jonas (Germany) and PIAA (Romania) is still to be cleared.

10.4. Appeals brought before the Court of Justice against clearance decisions

10.4.1. Judgments handed down

In the financial year 2012, the Court handed down 14 judgments in appeals brought by the Member States against conformity clearance decisions.

In financial year 2012, the Court partially annulled the Decision 2008/68/CE by the judgment of 3 May 2012 in case C-24/11P brought by Spain.

In financial year 2012, the Court rejected appeals brought in the following cases:

- judgement of 15 December 2011 in cases T-232/08 brought by Luxembourg
- judgement of 31 January 2012 in cases T-206/08 brought by Spain
- judgement of 2 February 2012 in cases T-469/09 brought by Greece
- judgement of 14 February 2012 in cases T-267/06 brought by Italy
- judgement of 6 March 2012 in cases T-230/10 brought by Spain
- judgement of 6 March 2012 in cases T-453/10 brought by UK
- judgement of 2 May 2012 in cases T-339/11 brought by Spain
- judgement of 3 July 2012 in cases T-212/09 brought by Denmark
- judgement of 5 July 2012 in cases T-86/08 brought by Greece
- judgement of 12 September 2012 in cases T-356/08 brought by Greece
- judgement of 26 September 2012 in cases T-84/09 brought by Italy
- judgement of 4 October 2012 in cases T-215/10 brought by Greece
- judgement of 9 October 2012 in cases T-426/08 brought by Italy.

10.4.2. New appeals

In the financial year 2012, 6 new appeals were brought by the Member States against clearance decisions:

- T-661/11 brought by Italy on 21 December 2011
- T-632/11 brought by Greece on 21 December 2011
- C-248/12 P brought by UK on 22 May 2012
- T-376/12 brought by Greece on 21 August 2012
- T-387/12 brought by Italy on 4 September 2012
- C-417/12 P brought by Denmark on 13 September 2012.

10.4.3. Appeals pending

The situation as at 15 October 2012 with regard to appeals pending is shown, together with the amounts concerned, in annex 34.

11. RELATIONS WITH PARLIAMENT AND WITH THE EUROPEAN COURT OF AUDITORS

11.1. Relations with Parliament

The European Parliament is, together with the Council, part of the EU's Budgetary Authority. It is, thus, one of the most important discussion partners of the Commission on budgetary matters and, therefore, on the EAGF.

Three EP committees are involved in the discussions and the preparation for the plenary on agricultural budgetary matters. These are the Committee on Agriculture and Rural Development, the Committee on Budgets and the Committee on Budgetary Control.

The Committee on Budgetary Control monitored the correct implementation of the 2010 budget. It was asked to draw up the Parliamentary Decision (OJ L 286, 17 October 2012) by which discharge (in respect to the implementation of the general budget of the European Union for the 2010 financial year) was granted to the Commission on 10 May 2012.

11.2. Relations with the European Court of Auditors

11.2.1. Mission of the European Court of Auditors

The European Court of Auditors is the external auditor of the European Union. Articles 285 to 287 of the Treaty on the Functioning of the European Union provide that the Court shall audit the Union finances with a view to improving financial management and reporting on the use of public funds. The Court of Auditors should provide the European Parliament and the Council with a statement of assurance as to the reliability of the accounts and the legality and regularity of the underlying transactions. This statement, which can be complemented by specific assessments for various policy areas, is of prime importance to the European Parliament in its deliberations on granting discharge to the Commission for the implementation of the budget.

As part of its work, the Court carries out numerous audits within the Commission services. Court officials frequently visit the Directorate-General for Agriculture and Rural Development to gather facts and figures needed for the Court's opinions, as well as for its annual and special reports. In the light of these investigations the Court frequently makes suggestions and recommendations to the Commission on how to improve its financial management and make supervisory and control systems more effective.

11.2.2. Annual Report 2011

Each year the Court of Auditors draws up a report which over several chapters scrutinises the management of the Union's budget for the previous financial year. This report is forwarded to the other institutions of the Union and is published, together with the Commission replies to the observations of the Court of Auditors, in the Official Journal of the European Union.

According to international audit practices contradictory meetings are held between the auditor (Court of Auditors) and the auditee (Commission) before the report is published. In these meetings the Court's findings and conclusions and the

Commission's arguments and replies are discussed with a view to reaching full agreement on the underlying facts.

The annual report for the 2011 financial year presented a revised structure. The single chapter on agriculture and natural resources as presented in recent annual reports was replaced by two specific assessments and chapters: "Agriculture: market and direct support" (Chapter 3) and "Rural development, environment, fisheries and health" (Chapter 4). In addition, the single chapter on cohesion, energy and transport was replaced by two specific assessments and chapters: "Regional policy, energy and transport" (Chapter 5) and "Employment and social affairs" (Chapter 6).

It is also worth noting that, in contrast to previous years, failure to meet cross-compliance obligations by recipients of payments under the Common Agricultural Policy was included in the calculation of the most likely error (MLE). The errors found represent around 0.1 percentage points of the MLE estimated by the Court for payments as a whole and 0.2 percentage of the total most likely errors for the policy groups "Agriculture: market and direct support" and "Rural development, environment, fisheries and health".

For the policy group "Agriculture: market and direct support", based on the results of transaction testing, the Court estimated the MLE at 2.9%. In the Commission's view, this represents a slight increase compared to last year but is still within the normal range of statistical variation from one year to another and does not point to a deterioration of the overall quality in the management and control of expenditure by Member States.

As regards the legality and regularity of the underlying transactions in the policy group "Rural development, environment, fisheries and health", the Court estimated the MLE was at 7.7 %, based on the results of transaction testing. The Commission's own estimate of the level of undue payments on the basis of the control statistics provided by the Member States in 2011 also showed a deterioration of the situation, albeit of a more limited magnitude. Therefore, the Director-General for DG AGRI has made a reservation, concerning rural development expenditure, in his declaration of assurance for 2011. This reservation is accompanied by a number of corrective actions to be determined by the Commission together with Member States in order to address the situation.

The main findings by the Court pertaining to agriculture and the respective replies given by the Commission concern the following domains:

For "Agriculture: market and direct support" (Chapter 3):

Regularity of transactions (3.10-3.13; Annex 3.1)

Member States' systems related to regularity of transactions (3.14–3.24; Annex 3.2)

The Commission's supervisory system and management representation (3.25-3.41)

Conclusions and recommendations, including the follow-up to previous recommendations (3.42-3.45; Annex 3.3).

For "Rural development, environment, fisheries and health" (Chapter 4):

Regularity of transactions (4.10-4.19; Annex 4.1)

Member States' systems related to regularity of transactions (4.20-4.32; Annex 4.2)

The Commission's clearance of accounts system and management representation (4.33-4.44)

Conclusions and recommendations, including the follow-up to previous recommendations (4.51-4.55; Annex 4.3)

Like in previous years, the Court's statement of assurance is included in Chapter 1 "Statement of Assurance and supporting information".

11.2.3. *Special Reports by the Court of Auditors*

In calendar year 2012, the Court published nine special reports related to the activities of DG AGRI:

Special Report No 14/2011 "Has EU assistance improved Croatia's capacity to manage post-accession funding?";

Special Report No 1/2012 "Effectiveness of European Union development aid for food security in sub-Saharan Africa";

Special Report No 7/2012 "The reform of the common organisation of the market in wine: Progress to date";

Special Report No 8/2012 "Targeting of aid for the modernisation of agricultural holdings";

Special Report No 9/2012 "Audit of the control system governing the production, processing, distribution and imports of organic products";

Special Report No 11/2012 "Suckler cow and ewe and goat direct aids under partial implementation of SPS arrangements";

Special Report No 14/2012 "Implementation of EU hygiene legislation in slaughterhouses of countries that joined the EU since 2004";

Special Report No 16/2012 "The effectiveness of the Single Area Payment Scheme as a transitional system for supporting farmers in the New Member States"; and.

Special Report No 19/2012 "2011 Report on the follow-up of the European Court of Auditors' Special Reports".

12. BASIC RULES GOVERNING EAGF AND AMENDMENTS MADE IN 2012

12.1. Checks

- Council Regulation (EC) No 485/2008 of 26 May 2008 on scrutiny by Member States of transactions forming part of the system of financing by the European Agricultural Guarantee Fund (Codified version) (OJ L 143, 3.6.2008, p. 1);
- Commission Regulation (EC) No 4/2004 of 23 December 2003 laying down detailed rules for the application of Council Regulation (EEC) No 4045/89 on scrutiny by Member States of transactions forming part of the system of financing by the Guarantee Section of the European Agricultural Guidance and Guarantee Fund (OJ L 2, 6.1.2004, p. 3), *as last amended by Regulation (EC) No 40/2006 of 10 January 2006* (OJ L 8, 13.1.2006, p. 4);
- Council Regulation (EC) No 73/2009 of 19 January 2009 (OJ L30, 31.1.2009, p. 16) establishing common rules for direct support schemes for farmers under the common agricultural policy and establishing certain support schemes for

farmers, amending Regulations (EC) No 1290/2005, (EC) No 247/2006, (EC) No 378/2007 and repealing Regulation (EC) No 1782/2003, *as last amended by Regulation (EU) No 671/2012 of the European Parliament and of the Council of 11 July 2012 (OJ L 204, 31.7.2012, p. 11)*;

- Commission Regulation (EC) No 1122/2009 of 30 November 2009 (OJ L 316, 2.12.2009, p. 65) laying down detailed rules for the implementation of Council Regulation (EC) No 73/2009 as regards cross-compliance, modulation and the integrated administration and control system, under the direct support schemes for farmers provided for that Regulation, as well as for the implementation of Council Regulation (EC) No 1234/2007 as regards cross-compliance under the support scheme provided for the wine sector and repealing Commission Regulation (EC) No 796/2004 of 21 April 2004 (OJ L 141, p. 18), *as last amended by Commission Implementing Regulation (EU) No 937/2012 of 12 October 2012 (OJ L 280, 13.10.2012, p. 1)*.

12.2. Clearance of accounts

- Council Regulation (EC) No 1290/2005 of 21 June 2005 on the financing of the common agricultural policy (OJ L 209, 11.8.2005, p. 1), as last amended by Regulation (EU) No 121/2012 of the European Parliament and of the Council of 15 February 2012 (OJ L 44, 16.2.2012, p. 1);
- Commission Regulation (EC) No 885/2006 of 21 June 2006 laying down detailed rules for the application of Council Regulation (EC) No 1290/2005 as regards the accreditation of paying agencies and other bodies and the clearance of the accounts of the EAGF and of the EAFRD (OJ L 171, 23.6.2006, p. 90), as last amended by Commission Implementing Regulation (EU) No 375/2012 of 2 May 2012 (OJ L 118, 3.5.2012, p. 4).

12.3. Public storage

(a) Basic rules

- Council Regulation (EC) No 1290/2005 of 21 June 2005 on the financing of the common agricultural policy (OJ L 209, 11.8.2005, p.1), as last amended by Regulation (EU) No 121/2012 of 15 February 2012 (OJ L 44, 16.2.2012, p. 1);
- Council Regulation (EC) No 1234/2007 of 22 October 2007 establishing a common organisation of agricultural markets and on specific provisions for certain agricultural products - Single CMO Regulation - (OJ L 299, 16.11.2007, p.1), as last amended by Regulation (EU) No 1028/2012 of 25 October 2012 (OJ L 316, 14.11.2012, p.41);
- Commission Regulation (EU) No 807/2010 of 14 September 2010 laying down detailed rules for the supply of food from intervention stocks for the benefit of the most deprived persons in the Union (OJ L 242, 15.9.2010, p. 9) as last amended by Regulation (EU) No 1020/2012 of 6 November 2012 (OJ L 307, 7.11.2012, p.62);
- Commission Regulation (EC) No 884/2006 of 21 June 2006 laying down detailed rules for the application of Council Regulation (EC) No 1290/2005 as regards the financing by the European Agricultural Guarantee Fund (EAGF) of intervention measures in the form of public storage operations and the accounting of public storage operations by the paying agencies of the Member

- States (OJ L 171, 23.6.2006, p. 35), as last amended by Regulation (EU) No 157/2011 of 21 February 2011 (OJ L 47, 22.2.2011, p. 1);
- Commission Regulation (EU) No 1272/2009 of 11 December 2009 laying down common detailed rules for the implementation of Council Regulation (EC) No 1234/2007 as regards buying-in and selling of agricultural products under public intervention (OJ L 349 29.12.2009, p. 1), as last amended by Regulation (EU) No 1222/2012 of 14 December 2012 (OJ L 349, 19.12.2012, p. 35);
 - Commission Regulation (EC) No 720/2008 of 25 July 2008 laying down common detailed rules for the application of Council Regulation (EC) No 1234/2007 as regards the storage and movement of products bought in by a paying agency or an intervention agency (Codified version) (OJ L 198, 26.7.2008, p.17);
 - Commission Regulation (EC) No 1130/2009 of 24 November 2009 laying down common detailed rules for verifying the use and/or destination of products from intervention (OJ L 310 25.11.2009, p. 5);
- (b) Free distribution plan
- Commission Implementing Regulation (EU) No 562/2011 of 10 June 2011 adopting the plan allocating to the Member States resources to be charged to the 2012 budget year for the supply of food from intervention stocks for the benefit of the most deprived persons in the European Union and derogating from certain provisions of Regulation (EU) No 807/2010 (OJ L 152 11.6.2011, p.24), as last amended by Regulation (EU) No 419/2012 of 16 May 2012 (OJ L 130, 17.5.2012, p. 14);
- (c) Depreciation on buying in
- No depreciation on buying-in was fixed for the 2012 accounting year.
- (d) Additional depreciation at the end of the financial year
- No depreciation at the end of the 2012 financial year was fixed;
- (e) Uniform interest rate for reimbursing Member States' financing costs
- Commission Implementing Regulation (EU) No 1036/2011 of 17 October 2011 fixing the interest rates to be used for calculating the costs of financing intervention measures comprising buying-in, storage and disposal for the 2012 EAGF accounting year (OJ L 271, 18.10.2011, p. 42);
- (f) Standard amounts for reimbursing physical storage operations
- Commission Decision C(2011) 6442 final of 20 September 2011 (not published) fixing, for the 2012 financial year, the standard amounts to be used for financing physical operations arising from the public storage of agricultural products.
- (g) Declaration rules
- Commission Regulation (EC) No 883/2006 of 21 June 2006 laying down detailed rules for the application of Council Regulation (EC) No 1290/2005 as regards the keeping of accounts by the paying agencies, declarations of expenditure and revenue and the conditions for reimbursing expenditure under

the EAGF and the EAFRD (OJ L171, 23.6.2006, p.1) as last amended by Regulation (EU) No 1353/2011 of 20 December 2011 (OJ L 338, 21.12.2011, p. 35);

- Commission Regulation (EC) No 885/2006 of 21 June 2006 laying down detailed rules for the application of Council Regulation (EC) No 1290/2005 as regards the accreditation of paying agencies and other bodies and the clearance of the accounts of the EAGF and of the EAFRD (OJ L171, 23.6.2006, p. 90) as last amended by Regulation (EU) No 375/2012 of 2 May 2012 (OJ L 118, 3.5.2012, p. 4).

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