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accompanying the

2nd FINANCIAL REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on the EUROPEAN AGRICULTURAL GUARANTEE FUND

– 2008 FINANCIAL YEAR –

{COM(2009) 548 final}
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1. **BUDGET PROCEDURE**

1.1. **Financial Framework 2007-2013.**

CAP expenditure is funded within this financial framework as agreed in Interinstitutional 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 aids within this heading.

To take account of the transfer of amounts to rural development due to compulsory modulation (including the increase from the CAP Health check) increase, to the reform of the cotton, tobacco and wine sectors as well as to the voluntary modulation decided for the UK and PT, the expenditure ceiling for market measures and direct aids had to be reduced accordingly.

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

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL a), b)</td>
<td>55 143</td>
<td>59 193</td>
<td>57 639</td>
<td>60 113</td>
<td>60 338</td>
<td>60 810</td>
<td>61 289</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Rural development a), c), d)</td>
<td>10 902</td>
<td>13 303</td>
<td>14 252</td>
<td>14 396</td>
<td>14 414</td>
<td>14 590</td>
<td>14 786</td>
</tr>
<tr>
<td>- Market related expenditure and direct aids, c)</td>
<td>44 753</td>
<td>44 592</td>
<td>44 887</td>
<td>44 745</td>
<td>44 489</td>
<td>44 737</td>
<td>44 970</td>
</tr>
</tbody>
</table>

a) After reprogramming of rural development (1 469 Mio €)
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
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 & PT) modulation
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 has been allocated to Rural Development on the basis of Commission Decision N° 636/2006

1.2. **Preliminary Draft Budget 2008**


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1 This procedure is presented in annex 1
1.3. **Draft Budget 2008**

The Council adopted the 2008 Draft Budget in July 2007. The appropriations of EAGF were reduced by EUR 550.0 million as compared to the PDB.

1.4. **Amending Letter No 2 for 2008**

In October 2007 the Commission adopted the Amending Letter No 2 to the 2008 PDB, setting commitment appropriation requirements for EAGF at EUR 41 166.49 million which was lower by EUR 1 332.5 million compared to the corresponding amount in the Preliminary Draft Budget.

1.5. **Revenue assigned to EAGF**

On the basis of the provisions of Article 34 of the new CAP Financing Regulation (EC) No 1290/2005, 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, partly or wholly, cover the financing of EAGF expenditure. In case that part of this revenue is not used, then, this part will be automatically carried over into the following budget year.

At the time of establishment of the 2008 budget, an estimation of this revenue was made both for the upcoming budget year as well as of the amount which was expected to be carried over from the budget year 2007 into 2008. This estimation was taken into consideration when the Budgetary Authority adopted the 2008 budget's appropriations. Specifically:

- revenue from the conformity clearance claw-backs and from irregularities was estimated at EUR 500.0 million and EUR 80.0 million correspondingly while the receipts from the milk levy were estimated at EUR 219.0 million. Thus, the amount of assigned revenue expected to be generated in the course of the 2008 budget year was estimated at EUR 799.0 million;

- the amount of assigned revenue expected to be carried over from the budget year 2007 into 2008 was estimated at EUR 1 138.0 million;

The total amount of EUR 1 937.0 million was taken into consideration by reducing the appropriations requested for the operational funds for producer organisations in the fruits and vegetables sector by EUR 467.0 million and for the single payment scheme by EUR 1 470.0 million. For these schemes the Budgetary Authority eventually granted appropriations amounting to EUR 105.0 million and EUR 27 220.0 million correspondingly.

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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 comments for these articles.
1.6. Temporary restructuring amounts in the sugar sector

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 each marketing year, starting with 2006/07 up to 2008/09, these amounts relate to the sugar, inulin syrup and isoglucose quantitative quotas held by operators in each Member State and they are to be paid by the Member States into the Fund in two instalments, the deadlines of which are 31 March and 30 November respectively for each year. At the time of establishment of the 2008 budget, this revenue was estimated at EUR 2,374.0 million for the upcoming budget year. At the same time, an amount of EUR 530.0 million was expected to be carried over from the budget year 2007 into 2008.

1.7. Adoption of the 2008 budget

The European Parliament adopted the 2008 budget in its plenary session of December 2007, by increasing the amounts for EAGF proposed in the second reading of the Council by EUR 10.0 million.

The initially available EAGF commitment and payment appropriations amounted to EUR 40,876.5 million and to EUR 40,945.6 million correspondingly. In addition, commitment appropriations amounting to EUR 19.8 million, concerning item 11 02 03 01, were transferred from the reserve, thus, making total commitment appropriations to EUR 40,896.3 million. For Agriculture and Rural Development (policy area 05), commitment appropriations amounting to EUR 4,032.4 million were foreseen for interventions on agricultural markets and EUR 36,832.0 million for direct aids. Furthermore, appropriations of EUR 281.7 million for Veterinary and phyto-sanitary measures (policy area 17) and of EUR 32.5 million for Fisheries market measures (policy area 11) were entered into the 2008 budget. The difference between commitment and payment appropriations is due to the fact that differentiated appropriations are used for the payments made directly by the Commission for promotion of agricultural products, for policy strategy and coordination measures for agriculture, for fisheries market measures and for veterinary and phyto-sanitary measures. (For details, please see annex 1).

1.8. Amending Budget No 3/2008

In June 2008, the Commission proposed and the Budgetary Authority accepted an adjustment, through AB No 3/2008, of the 2008 budget’s commitment and payment appropriations, by increasing commitments appropriations by an amount of EUR 130.0 million and payments appropriations by an amount of EUR 63.95 million of EAGF’s initial appropriations, for the Emergency veterinary fund in policy area 17 in order to finance the cost of the emergency vaccination campaign against the outbreak of the bluetongue disease in several Member States. Final 2008 appropriations for commitments and payments amounted to EUR 41,026.3 million.

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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 comments for these articles.

4 Appropriations not including the forecasted assigned revenue
and EUR 41 009.6 million correspondingly, excluding amounts which were in reserve.

1.9. 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 2002–2008 appears in annex 2.

2. CASH POSITION AND MANAGEMENT OF APPROPRIATIONS

2.1. Management of appropriations

2.1.1. Appropriations available for the 2008 financial year (see also section 1 of this working document):

<table>
<thead>
<tr>
<th>Expenditure section of budget (1)</th>
<th>Commitment appropriations</th>
<th>Payment appropriations</th>
<th>Revenue section of budget (AR) (3)</th>
<th>Forecasts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Initial appropriations for EAGF (2)</td>
<td>40 896 318 768</td>
<td>40 945 600 500</td>
<td>1.Conformity clearance</td>
<td>500 000 000</td>
</tr>
<tr>
<td>2. Amending budget</td>
<td>130 000 000</td>
<td>63 950 000</td>
<td>2. Irregularities</td>
<td>80 000 000</td>
</tr>
<tr>
<td>3. Final appropriations for EAGF of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3a. Appropriations for shared management (excluding TRDI (4) EU 10)</td>
<td>40 510 000 000</td>
<td>40 510 000 000</td>
<td>3. Super levy from milk producers</td>
<td>219 000 000</td>
</tr>
<tr>
<td>3b. Appropriations for expenditure under direct management (6)</td>
<td>516 318 768</td>
<td>379 550 500</td>
<td>4. Temporary restructuring amounts for sugar sector (5)</td>
<td>2 374 000 000</td>
</tr>
<tr>
<td>3c. Appropriations for TRDI EU 10</td>
<td>0</td>
<td>120 000 000</td>
<td>Total forecast of AR</td>
<td>3 173 000 000</td>
</tr>
</tbody>
</table>

(1) Appropriations entered in the 2008 budget taking into account the assigned revenue to be collected in 2008 and the one carried over from 2007 to 2008 in accordance with Article 10 of the Council Regulation (EC) No 1605/2002.

(2) Initial commitment appropriations include an amount of EUR 19.828.768 transferred from reserves concerning item 11 02 03 01.

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

(4) TRDI: Transitional Rural Development Instrument for EU 10.

(5) This revenue is used to provide appropriations for the payment of Sugar Restructuring Fund aids.

(6) 80% of commitment appropriations concern DG SANCO. The rest concern equally DG AGRI and DG MARE.

5 p.m. : "pour mémoire"
2.1.2. **Expenditure section of the EU budget in relation to EAGF:**

The initial commitment appropriations for 2008 totaled EUR 40 896 318 768. This was a net amount taking account of the forecasted assigned revenue to be collected in 2008 and the one carried over from 2007 to 2008. The initial payment appropriations amounted to EUR 40 945 600 500. The appropriations for the Transitional Instrument for the financing of Rural Development for the new Member States (TRDI EU 10) and the majority of the appropriations for expenditure under direct management made by the Commission are differentiated appropriations.

Taking into account the Amending Budget N° 3/2008, the commitment and payment appropriations finally available to the EAGF for the 2008 financial year amounted to EUR 41 026 318 768 and EUR 41 009 550 500 respectively.

Part of the appropriations coming from assigned revenue received in 2007 but not used in that financial year was automatically carried forward from 2007 to 2008. The amount of these appropriations totalled EUR 1 159.5 million.

2.1.3. **Revenue section of the EU budget in relation to EAGF:**

For more details, please see point 1.5.

2.1.4. **Execution of appropriations available for the 2008 financial year:**

<table>
<thead>
<tr>
<th>Execution of commitment appropriations</th>
<th>Execution of payment appropriations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shared management (excluding TRDI EU 10) (1):</td>
<td>42 958 379 420.35</td>
</tr>
<tr>
<td>Expenditure under direct management</td>
<td>506 917 349.70</td>
</tr>
<tr>
<td>TRDI EU 10</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>Total (including Sugar Restructuring Fund)</strong></td>
<td><strong>43 465 296 770.05</strong></td>
</tr>
<tr>
<td>Sugar Restructuring Fund</td>
<td>1 284 099 717.06</td>
</tr>
<tr>
<td><strong>Total (excluding Sugar Restructuring Fund)</strong></td>
<td><strong>42 181 197 052.99</strong></td>
</tr>
</tbody>
</table>

(1) Committed amounts. Commitments and payments less assigned revenue received: EUR 38 803 889 878.22

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6 Initial commitment appropriations include an amount of EUR 19.828.768 transferred from reserves concerning item 11 02 03 01.

7 This amount is the real assigned revenue carried over. However, at the time of the establishment of the 2008 budget, the amount of the assigned revenue expected to be carried over was estimated at EUR 1 138.0 million.
For the financial year 2008, the actual amount of commitment appropriations used amounted to EUR 43,465,296,770.05 while that for payment appropriations amounted to EUR 43,260,934,257.44.

2.1.5. **Assigned revenue received under shared management**

<table>
<thead>
<tr>
<th>Assigned revenue (excluding Temporary restructuring amounts)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forecasted revenue</td>
</tr>
<tr>
<td>Revenue received</td>
</tr>
<tr>
<td>Difference</td>
</tr>
</tbody>
</table>

For details, please see points 1.5 and 6.1.

2.1.6. **Execution (excluding Sugar Restructuring Fund and TRDI EU 10) - Expenditure section:**

<table>
<thead>
<tr>
<th>Expenditure-shared management (excluding Sugar Restructuring Fund and TRDI - EU10) (i)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Appropriations</td>
</tr>
<tr>
<td>Execution</td>
</tr>
<tr>
<td>Appropriations cancelled</td>
</tr>
<tr>
<td>Carry over to 2009</td>
</tr>
</tbody>
</table>

(1) Commitment appropriations = payment appropriations

Appropriations for financing measures under management shared with Member States (excluding expenditure under direct management by the Commission) amounted to EUR 40,510.0 million compared to actual expenditure of EUR 40,427.3 million.

The 2008 appropriations coming from assigned revenue amounted to EUR 1,561.6 million of which an amount of EUR 87.5 million was actually used. The remaining amount of EUR 1,474.1 million is automatically carried over to budget year 2009.

Part of the appropriations coming from assigned revenue received in 2007 was not used in financial year 2007 and was automatically carried forward from 2007 to 2008 (C5 fund source). These appropriations amounted to EUR 1,159.5 million and had to be used first in accordance to Article 10 of the Financial Regulation. It should be
noted that all appropriations (EUR 1 159.5 million) carried over from financial year 2007 have been fully used as required by the Financial Regulation.

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

<table>
<thead>
<tr>
<th>Temporary restructuring amounts</th>
<th>Sugar Restructuring Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue section of budget</strong></td>
<td><strong>Expenditure section of budget</strong></td>
</tr>
<tr>
<td>Amount</td>
<td>Final appropriations (C1)</td>
</tr>
<tr>
<td>Forecast revenue</td>
<td>appropriations pm</td>
</tr>
<tr>
<td>Revenue received</td>
<td>Execution (1)</td>
</tr>
<tr>
<td></td>
<td>Appropriations cancelled</td>
</tr>
<tr>
<td></td>
<td>Carry over to 2009</td>
</tr>
</tbody>
</table>

(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. **Execution of Transitional Instrument for the financing of Rural Development for the new Member States (TRDI EU 10)**

<table>
<thead>
<tr>
<th>TRDI EU 10</th>
<th>Commitment appropriations</th>
<th>Execution of commitment appropriations</th>
<th>Payment appropriations (1)</th>
<th>Execution of payment appropriations</th>
<th>Remaining</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>0.00</td>
<td>0.00</td>
<td>14 095 079.00</td>
<td>14 087 299.00</td>
<td>7 780.00</td>
</tr>
</tbody>
</table>

(1) Transfer of payment appropriations amounting to EUR 105 904 921.00 have been made to finance expenditure of Objective 1 region programmes and LEADER.

There were no commitment appropriations for TRDI EU10. The original payment appropriations foreseen in the 2008 budget totalled EUR 120.0 million. Later in the year, the transfer of payment appropriations amounting to EUR 105.9 million has been made to finance expenditure of Objective 1 region programmes and LEADER, as a result of which the remaining payment appropriations amounted to
EUR 14.1 million. Payments made in 2008 amounted to EUR 14.1 million and were related to the commitments (RAL)\(^8\) of 2006.

### Execution of outstanding commitment appropriations from previous years:

<table>
<thead>
<tr>
<th>TRDI EU 10</th>
<th>Outstanding commitments (RAL)</th>
<th>Execution of payment appropriations</th>
<th>Outstanding commitments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>302 087 301.00</td>
<td>14 087 299.00</td>
<td>288 000 002.00</td>
</tr>
</tbody>
</table>

#### 2.1.9. Budget execution - Expenditure under direct management made by the Commission

<table>
<thead>
<tr>
<th>Expenditure under direct management</th>
<th>Commitment appropriations</th>
<th>Decommitments</th>
<th>Payment appropriations</th>
<th>Carry over to 2009 (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appropriations</td>
<td>516 318 768.00</td>
<td>-</td>
<td>377 935 500.00</td>
<td>-</td>
</tr>
<tr>
<td>Execution</td>
<td>506 917 349.70</td>
<td>-</td>
<td>288 467 538.09</td>
<td>31 608 833.97</td>
</tr>
<tr>
<td>Appropriations cancelled</td>
<td>9 401 418.30</td>
<td>-</td>
<td>89 467 961.91</td>
<td>-</td>
</tr>
</tbody>
</table>

(1) Transfer of payment appropriations amounting to EUR 1.615.000 has been made to finance other expenditure than EAGF

(2) Carry over to 2009 only for non differentiated appropriations

Commitment appropriations of EUR 516.3 million were foreseen for expenditure under direct management in the 2008 budget. An amount of EUR 506.9 million was committed in 2008. The balance of these appropriations, EUR 9.4 million, was cancelled.

Since 2007, and in accordance with article 149 of the Financial Regulation, the majority of EAGF appropriations for expenditure under direct management made by the Commission are differentiated appropriations. The automatic carry over to 2009, which relates only to non-differentiated appropriations, amounts to EUR 31.6 million.

#### 2.1.10. Budget execution - Expenditure under direct management made by the Commission - Automatic carryovers from 2007

<table>
<thead>
<tr>
<th>Carry over from 2007 to 2008</th>
<th>Commitments</th>
<th>Decommitments</th>
<th>Payments</th>
<th>Cancelled appropriations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carried over appropriations</td>
<td>24 884 835.15</td>
<td>1 507 033.19</td>
<td>22 760 724.02</td>
<td>617 077.94</td>
</tr>
</tbody>
</table>

The automatic carry over from 2007 to 2008 only concerned expenditure under direct management for non-differentiated appropriations. As indicated in the table above, an amount of EUR 24.9 million was carried over from 2007 to 2008. In 2008 an amount

\(^8\) RAL: "Reste à liquider", commitments outstanding.
of EUR 1.5 million from this carry over was decommitted. The payments made amounted to EUR 22.8 million and the amounts cancelled totalled EUR 0.6 million.

2.2. Monthly payments

2.2.1. Monthly payments to Member States

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 Policy\(^9\) states in Article 15 that "monthly payments shall be made by the Commission ... for expenditure effected 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 effected.

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 States\(^10\). The monthly booking of expenditure and revenue is subject to checks and corrections on the basis of the detailed declaration\(^11\). Moreover, these payments will become final after the verification during the following exercises in the light of the clearance of accounts decisions.

Payments made by the Member States from 16-10-2007 to 15-10-2008 are covered by the system for monthly payments. Furthermore, the Commission carried out payments under direct management for a limited number of measures.

For financial year 2008, the total net amount of monthly payments effected was EUR 38 803 889 878.22.

2.2.1.2. Decisions on monthly payments for 2008

For the financial year 2008, the Commission adopted twelve decisions on monthly payments. Furthermore, an additional monthly payment, adjusting those already granted for the total expenditure chargeable to the year, was adopted in December 2008. (For details, please see annex 4).

2.2.1.3. Reductions and suspensions of monthly payments

In 2008, corrections of – EUR 25.2 million were made to the monthly payments effected to the Member States. The most important categories of corrections are detailed in the following points.

\(^10\) These monthly declarations of expenditure are transmitted by the Member States by the declaration of the 10\(^{th}\) of the month N+1
\(^11\) The detailed declarations are transmitted monthly by the Member States (by table 104) on the 20\(^{th}\) of the month N+1
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, the EAGF found that 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 were introduced, on the one hand, to ensure an equal treatment between the beneficiaries in all the Member States and, on the other hand, to avoid the situation in which delays of payments resulted in aids no longer having the expected economic effect. Moreover, any scope for payments in accordance with the administrative practices of the different paying services would not allow the correct application of the budget discipline.

Due to the exceeding of the payment deadlines, the Commission decided on two occasions, jointly with the monthly payments, reductions for a total amount of – EUR 21.2 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. Due to the overspending of the financial ceilings including allocations for rural development, the Commission made financial corrections for a total amount of – EUR 3.8 million.

2.2.2. Direct payments by the Commission

In certain cases, the Commission makes payments directly to beneficiaries. 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, promotion measures, measures of research on tobacco and information on the agricultural policy. (For details, please annex 5 and 6).

3. THE IMPLEMENTATION OF THE 2008 EAGF BUDGET

3.1. Introduction

The 2008 agricultural year was marked by very sharp and remarkable decreases in the prices of many agricultural products in both the EU and world markets towards the end of the budget year. These decreases in prices concerned mainly crop and dairy products while meat prices showed a recovery. The volume of overall EU crop production increased substantially in 2008 as compared to 2007, in contrast to the
marginal increase in livestock production. Developments in agricultural markets as well as other factors affected both the level of EAGF expenditure and the utilisation of available credit appropriations in certain areas of the budget.

3.2. The uptake of the EAGF budget appropriations

The implementation of the budget amounted to EUR 42 181.2 million. This expenditure was funded by the budget's initial appropriations, by using the entire amount of assigned revenue, of EUR 1 159.5 million, carried over from 2007 and a part of the assigned revenue collected in 2008 amounting to EUR 87.5 million out of a total EUR 1 561.6 million. As regards Agriculture and Rural Development (policy area 05), the expenditure for market measures amounted to EUR 4 159.3 million and for direct aids to EUR 37 568.6 million and was covered by the budget's initial appropriations and by the revenue which was assigned to these sectors. Furthermore, the aforementioned total implementation amount includes expenditure for Fisheries market measures (policy area 11) of EUR 51.8 million as well as for Veterinary and phyto-sanitary measures (policy area 17) of EUR 407.8 million. (For details, please see the summary and analytical table on execution, annex 7 and 8).

4. COMMENTS ON THE IMPLEMENTATION OF THE AGRICULTURAL BUDGET

A brief commentary on the use of the 2008 agricultural budget's available appropriations is hereby presented. The execution of this budget with the differences between this execution and the appropriations included in the initial budget and in the Amending Budget No 3/2008 are presented in annex 7 and 8.

4.1. Chapter 05 02: Interventions in agricultural markets

4.1.1. Introduction

The Budgetary Authority granted original appropriations amounting to EUR 4 032.4 million for this chapter because it took account of assigned revenue amounting to EUR 467.0 million. Payments amounted to EUR 4 159.3 million. Within this chapter of the budget, the expenditure for fruits and vegetables exceeded their original appropriations but this difference was covered by the revenue assigned to this sector. As regards pig-meat, the expenditure incurred over-implemented the sector's appropriations. The appropriations for the sectors of sugar and wine were under-implemented. The main reasons for these implementation patterns are briefly presented below:

4.1.2. Article 05 02 01: Cereals

The uptake of the 2008 budgetary appropriations was influenced mainly by the 2007/08 total harvest which was estimated at approximately 256.0 million tonnes and it was approximately 8.0 million tonnes lower than the 2006/07 one. This significant decrease in cereals production was mainly due to the less favourable climatic conditions (high summer temperatures in many areas as well as heat waves in Central
and Eastern Europe and a deficit in precipitations when needed in many areas) which occurred in the late spring to the end of September 2007 and which had a strong impact on cereals yields. The reduction of the overall harvest was also due to the continuing influence of the 2003 CAP reforms through the "decoupling" effect. In 2008, domestic demand for cereals was estimated at approximately 271.0 million tonnes.

These developments led to tight cereals balance sheets in 2007/08 and, consequently, to very high prices for cereals which led to practically having no cereals in intervention stocks at the end of the 2008 budget year. Indeed, intervention stocks decreased from around 1.37 million tonnes at the start of the year to around 0.005 million tonnes by the end of the year (approximately 100% was maize). Underlying this, however, there were variations in changes in the stock levels for individual cereals. From a level of 0.1 million tonnes at the start of the year bread-making wheat stocks decreased to almost nil by the end of the year. Stocks were practically nil for barley and rye by the end of the budget year. The quantities in stock for maize amounted to 0.005 million tonnes by the end of the year as opposed to 1.2 million tonnes at the start of the year. In the course of the budget year, there were no purchases of cereals into intervention. For the same period, sales of cereals amounted to 1.33 million tonnes of which bread-making wheat involved 0.1 million tonnes, rye 0.01 million tonnes and maize 1.2 million tonnes. Compared to the quantities retained in the 2008 budget the almost total liquidation of intervention stocks at prices much higher than their intervention accounting values resulted in significantly higher gains for the Community budget of – EUR 100.7 million, which against the budget’s appropriations shows an increase in gains of –EUR 12.7 million.

With regard to export refunds, in the course of 2008, the high world prices for cereals led to setting export refunds at zero for the products of the marketing year 2007/08 while the smallest harvest was mostly destined to the internal market. However, outstanding balances from previous marketing years were paid for soft wheat and for processed products and potato starch. This situation compared to the quantities and rates initially foreseen in the 2008 budget led to under-spending the 2008 budget’s appropriations by –EUR 7.3 million.

With regard to interventions for starch, Member States incurred payments amounting to EUR 39.7 million, thus, under-spending the 2008 budget's appropriations by –EUR 22.3 million. This under-spending concerned mainly the production refund for starch which, due to the high prices for maize since the marketing year 2006/07, was set at zero. Only minor payments for outstanding balances from previous years were made.

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

No refunds were set for cereals and dairy products exported in the form of processed products while the export refund rate for sugar was reduced by approximately 10% in the course of the 2008 budget year. It has to be noted that granting export refunds for sugar was eventually discontinued by the end of September 2008. These factors combined with the slowing down of the rhythm of payments by the Member States concerned resulted to having lower expenditure incurred for export refund payments.
of processed agricultural products, thus, under-spending the corresponding appropriations by –EUR 31.9 million.

4.1.4. Article 05 02 04: Food programmes

With regard to the distribution of agricultural products to deprived persons, most of the Member States, with the exception of Bulgaria and the Czech Republic, have distributed all the quantities of sugar allocated to them in the 2008 plan and made most of the purchases foreseen in this plan. Furthermore, Member States completed their purchases in the market under the 2007 plan, thus, resulting in an over-spending of the 2008 budget's appropriations by EUR 37.4 million.

With regard to export refunds in connection with food aid, the payments incurred by the Member States related to payments of still outstanding balances and amounted to EUR 0.6 million.

4.1.5. Article 05 02 05: Sugar

The quantities of sugar (marketing year 2007/08) exported with refunds amounted to approximately 1.37 million tonnes. The lower export refunds rate level for this marketing year combined with the lower than foreseen residual payments for sugar led to incurring lower expenditure for export refunds and to the under-execution of the 2008 budget's appropriations by –EUR 217.7 million. It has to be noted that granting export refunds for sugar was eventually discontinued by the end of September 2008.

As in 2007, no sugar was purchased into public storage in 2008 a hypothesis also retained for the establishment of the 2008 budget. Sugar sales from intervention stocks amounted to 0.32 million tonnes as opposed to the quantity retained in that budget. The end of year stock stood at approximately 0.34 million tonnes as opposed to 0.06 million tonnes retained in the 2008 budget. The combination of these elements led to realising smaller gains by EUR 116.3 million as the sales of already depreciated sugar were much lower than the ones foreseen in the budget.

For production refunds for sugar used in the chemical industry the expenditure incurred related only to outstanding balances amounting to EUR 0.4 million. The 2008 budget did not foresee any appropriations for this scheme.

4.1.6. Article 05 02 06: Olive oil

With regard to the aid for the financing of quality improvement work programmes for approved operators’ organisations, Member States' incurred payments amounting to EUR 45.1 million, thus, under-spending the appropriations retained in the 2008 budget by –EUR 2.9 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 expenditure incurred amounted to EUR 21.0 million, thus, matching the appropriations foreseen in the 2008 budget.

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

Under the reform of this sector, the payment of export refunds for fruits and vegetables was discontinued from January 1st 2008. However, the 2008 budget included appropriations for the payment of outstanding balances dating before this date which were estimated at EUR 13.0 million. The expenditure incurred for these balances amounted to EUR 18.6 million for the exports of both fresh and processed fruits and vegetables, thus, over-spending the budget’s appropriations by EUR 5.6 million.

The quantities of withdrawn fruits and vegetables were lower by approximately 45% for the marketing year 2007/08, thus, leading to an under-spending of the 2008 budget’s appropriations by –EUR 9.5 million.

For the operational funds for producer organisations, the Budgetary Authority granted original appropriations amounting to EUR 105.0 million because it took account of estimated revenue of EUR 467.0 million which had been assigned towards the financing of this scheme. Member States incurred expenditure amounting to EUR 581.6 million. The expenditure above the budget's original appropriations was covered by the aforementioned amount of assigned revenue and by transferring appropriations of EUR 9.6 million from other items of the budget.

With regard to processing aid for tomatoes, Member States incurred payments for approximately 8.5 million tonnes of tomatoes for the marketing year 2007/08 compared to the quantity of 9.0 million tonnes retained in the 2008 budget, thus, under-spending the budget’s appropriations by –EUR 12.4 million.

Member States paid production aid for fruit-based products quantities, with the exception of peaches and pears, which were lower than the ones retained in the 2008 budget. Specifically, they paid for approximately 0.05 million tonnes of prunes and 0.008 million tonnes of figs compared to the corresponding quantities of 0.06 and of 0.014 million tonnes retained in the 2008 budget. These factors contributed to under-spending of the budget’s appropriations by –EUR 7.8 million.

With regard to dried grapes, aids for storage and compensation for losses on sales were incurred in both cases for only 200 tonnes, as opposed to the quantity of 700 tonnes and 1 200 tonnes correspondingly retained in the 2008 budget, thus, leading to an under-execution of –EUR 0.9 million compared to the budget's appropriations.

Member States paid compensation to encourage the processing of citrus fruits for approximately 21% lower quantities of citrus fruits compared to the corresponding quantities retained in the 2008 budget, thus, under-spending the budget’s appropriations by –EUR 31.1 million.
The 2008 budget included appropriations only for the payment of outstanding balances for the free distribution of fruits and vegetables estimated at EUR 6.0 million. The expenditure incurred for these balances amounted to EUR 2.4 million, thus, under-spending the budget’s appropriations by –EUR 3.6 million.

The payments incurred by Member States for aid to producer groups for preliminary recognition were higher compared to the appropriations retained in the 2008 budget, thus, leading to an over-execution of these appropriations by EUR 7.3 million.

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

Total production of wine for the marketing year 2007/08 was estimated at approximately 166.0 million hl. This production level was approximately 3.0% lower compared to the level of 171.0 million hl for the marketing year 2006/07. For the same period, domestic human consumption of wines was estimated at approximately 136.0 million hl while industrial utilisations and distillations were estimated at approximately 21.0 million hl leaving final stocks of table wines amounting to approximately 171.0 million hl which is higher by 5.0 million hl compared to the one for the marketing year 2006/07. These high stock levels affect negatively the market price for these table wines without geographical indication.

The level of export refund rates for wine was lower than the one retained in the 2008 budget, thus, leading to an under-spending of the budget’s appropriations for export refunds by –EUR 2.5 million.

Member States incurred payments for wine and grape must storage which under-spent the 2008 budget's appropriations by –EUR 13.2 million because of the storage of approximately 8% lower quantities of wine and must compared to the quantities retained in the budget.

The volume of wine distilled for the potable alcohol sector was 51% lower compared to the one foreseen in the 2008 budget. As a consequence, Member States incurred payments for distillation of wine amounting to EUR 241.6 million, thus, under-spending the 2008 budget’s initial appropriations by –EUR 149.4 million.

Payments for the private storage of alcohol amounted to EUR 14.5 million versus the amount of EUR 15.0 million foreseen in the 2008 budget. With regard to the public storage of alcohol, intervention purchases amounted to approximately 1.28 million hl while sales amounted to 1.63 million hl compared to the quantities of 1.48 and 2.8 million hl correspondingly retained in the 2008 budget. The lower purchases resulted to lower expenditure for depreciation at the time of purchase than the one retained in the 2008 budget while the sales were made at prices which were lower than the one retained in the 2008 budget. The final result of these elements was the under-spending of the budget’s appropriations by -EUR 6.7 million.

Aids were paid for a volume of concentrated and rectified must which was 25% lower than the one retained in the 2008 budget, thus, resulting in an under-spending of the budget's appropriations of –EUR 19.8 million.
Aid for the permanent abandonment of vineyards for the marketing year 2007/08 was paid for a larger area (approximately 12 600 ha) than the one retained in the 2008 budget (approximately 7 200 ha), thus, resulting in an over-spending of the budget’s appropriations by EUR 9.7 million.

With regard to restructuring and conversion of vineyards, the payments incurred by the Member States led to an under-execution of –EUR 62.2 million compared to the appropriations retained in the 2008 budget because the area for which this aid was paid (approximately 56 610 ha) was approximately 10% lower than the one retained in the 2008 budget (approximately 63 140 ha).

4.1.10. Article 05 02 10: Promotion

With regard to promotion measures paid by Member States, total payments amounting to EUR 49.4 million were made, thus, leading to over-executing of the 2008 budget's appropriations by EUR 4.4 million. These payments related to promotion actions within the EU and in third countries amounting to EUR 36.7 million and EUR 12.7 million correspondingly. These payments were covered partly by the revenue assigned to market measures and partly by transferring appropriations from other items of the budget.

With regard to promotion measures paid directly by the European Community, the Commission committed EUR 3.8 million versus the amount of EUR 5.4 million included in 2008 budget, thus, under-executing its appropriations by -EUR 1.6 million. These commitments related principally to information and communication campaigns involving the regimes of protected designations of origin (PDO), protected geographical indications (PGI) and traditional speciality guaranteed (TSG).

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

The maximum guaranteed quantity of dried fodder eligible for the aid amounts to approximately 5.0 million tonnes for EU-27. However, the expenditure incurred by the Member States for the payment of the advances for the 2008/2009 marketing year was lower than the appropriations foreseen in the 2008 budget and it led to under-spending them by –EUR 8.9 million.

The expenditure incurred by Member States for the POSEI programmes amounted to EUR 232.7 million, thus, over-spending the 2008 budget's appropriations by EUR 12.7 million. This over-spending concerned primarily the POSEIDOM programme.

With regard to the Community fund for tobacco, the community's contribution towards Member States' tobacco reconversion plans amounted to EUR 6.3 million, thus, under-spending the 2008 budget's appropriations by –EUR 0.7 million.
In 2008, the trend in dairy cow numbers in EU-27 continued with a slight decline compared to 2007. Despite the fall in the number of cows, the increase in the average milk yield resulted in a slight increase in milk production (approximately 149.0 million tonnes). The 2008 market year was characterised by big price movements, running totally in parallel, both internally and in the world market. The prices were still very high at the beginning of the year, decreased during the first months of the year and then stayed stable at a relative level which was historically high until after the summer. Then, a significant price drop began from October onwards in connection both to the broadening of the financial crisis and to increased production in the USA and New Zealand. In 2008, the EU milk market was marked by high input prices for energy, feed and fertilizers combined with a decline in milk prices.

Milk deliveries increased in total by 1.0 million tonnes. Most of this extra production went into cheese production which remained more profitable than butter and skimmed milk powder production. Production for butter remained stagnant in 2008 while the production of skimmed milk powder declined but it was compensated by an equivalent increase in the production of whole milk powder.

The elimination of all export refunds since 15 June 2007 continued in the course of the 2008 budget year. Effectively, export refund rates were still at zero for butter, skimmed milk powder and cheeses. The appropriations retained in the 2008 budget concerned mainly the payment of outstanding balances for export refunds. However, the expenditure incurred for these balances amounted to EUR 28.8 million, thus, over-spending the budget’s appropriations by EUR 1.8 million.

Because of the favourable market conditions, all disposal aids for skimmed milk powder destined for casein production and animal feed remained at zero. No appropriations were foreseen in the 2008 budget for this scheme. Nevertheless, expenditure amounting to EUR 4.7 million was incurred for the payment of outstanding balances from previous marketing years.

The continued favourable market conditions led to having no butter in public storage in 2008. Nevertheless, the private storage scheme was operated and the expenditure incurred amounted to EUR 13.0 million. This expenditure compared to the 2008 budget’s appropriations of EUR 19.0 million for this scheme led to an under-spending of –EUR 6.0 million mainly attributable to a shorter storage period.

Under the specific uses for butterfat scheme, the 2008 budget retained appropriations for aid to non-profit making institutions and organisations using butterfat and for the payment of outstanding balances from previous marketing years. However, the payments for these balances were much lower, thus, resulting to under-spending the budget’s appropriations by –EUR 9.9 million.

With regard to private storage for cheese, payments were made for quantities which were 14% lower than the ones foreseen in the 2008 budget, thus, under-spending the budget’s appropriations by –EUR 3.1 million.
With regard to school milk, the quantities distributed were 5% lower than the quantities retained in the 2008 budget, thus, leading to an under-execution of the corresponding appropriations by –EUR 5.5 million.

4.1.13. Article 05 02 13: Beef and veal

The quantities of fresh meat exported with refunds were lower at approximately 44,000 tonnes compared to the quantity of 52,000 tonnes retained in the 2008 budget. This decline was partly compensated by higher exports of frozen meat than the ones foreseen in the budget. As a consequence, the corresponding appropriations were under-spent by –EUR 4.9 million.

As regards exports of live animals, the estimated quantities exported were approximately 1,000 tonnes lower than the quantity of 18,000 tonnes of carcass equivalent foreseen in the 2008 budget. However, payments were also made for outstanding balances from previous marketing years, thus, over-spending the budget’s appropriations by EUR 1.0 million.

With regard to the exceptional market support measures [(Over Thirty Months Scheme-OTMS) and (Older Cattle Disposal Scheme-OCDS), Member States incurred expenditure amounting to EUR 14.1 million, thus, under-spending the 2008 budget’s appropriations by –EUR 9.9 million. Lower payments made for outstanding balances from previous marketing years compared to the corresponding appropriations retained in the budget was the main reason for this under-spending.

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

Following the difficult situation in the EU pig meat sector, resulting particularly from high feed costs and the sharp drop of the US dollar, the Commission introduced an aid for private storage scheme from 29 October 2007 up to 28 November 2007 when this scheme was ended.

In addition, in order to further help easing the difficult market situation in the sector, the Commission introduced, from 30 November 2007, the payment of export refunds for fresh and frozen pig meat to all destinations. This scheme was terminated in August 2008.

The 2008 budget retained appropriations only for the export of approximately 75,000 tonnes of ham, sausages and conserves. No appropriations were foreseen for the exporting of fresh and frozen pig-meat with refunds. However, the expenditure eventually incurred by Member States involved payment of export refunds for both types of pig-meat amounting to EUR 99.0 million, thus, over-spending the budget’s appropriations by EUR 79.0 million. These payments were covered partly by the revenue assigned to market measures and partly by transferring appropriations from other items of the budget.

Similarly, the 2008 budget did not retain any appropriations for the private storage of pig-meat. However, Member States eventually incurred expenditure for this scheme amounting to EUR 37.0 million. These payments were covered by transferring appropriations from other items of the budget.
With regard to export refunds for eggs, the exported quantities for all types of eggs decreased compared to the quantities retained in the 2008 budget while the export refund rates for “egg products” decreased by 14%. Consequently, Member States incurred lower than otherwise expenditure which led to under-spending the 2008 budget’s appropriations by –EUR 1.7 million.

For export refunds for poultry, the average quantities of exported poultry decreased by approximately 8% compared to the quantities retained in the 2008 budget. This decrease was counter-balanced by an approximate increase of 6% of the average export refund rates for poultry compared to the ones retained in the 2008 budget. These elements resulted in under-spending the budget’s appropriations by –EUR 1.8 million.

The payments incurred by Member States for specific aid for bee-keeping were lower compared to the appropriations retained in the 2008 budget, thus, leading to an under-execution of these appropriations by –EUR 2.7 million.

4.2. Chapter 05 03: Direct Aids

The initial appropriations for this chapter of the budget amounted to EUR 36 832.0 million while payments amounted to EUR 37 568.6 million and were covered by the budget's initial appropriations and by the revenue assigned to this chapter. Details of the differences between the budget’s initial appropriations and their execution by budget item are presented in annex 7 and 8.

4.2.1. Article 05 03 01: Decoupled direct aids

The appropriations of this article cover principally the expenditure for the Single Payment Scheme (SPS) as well as for the Single Area Payment Scheme (SAPS) which is applied by most of the new Member States. Both payment schemes are paid independently of production.

With regard to the SPS, the Budgetary Authority granted appropriations amounting to EUR 27 220.0 million because it took account of the estimated revenue assigned to this budget item amounting to EUR 1 470.0 million. Hence, the total available appropriations for financing the SPS amounted to EUR 28 690.0 million. The expenditure incurred by the Member States amounted to EUR 28 233.8 million. The part of this expenditure (EUR 1 013.8 million) which was not covered by the appropriations granted, was covered by transfers and by the revenue assigned to this scheme.

The difference between the scheme’s initially estimated requirements amounting to EUR 28 690.0 million and its final execution amounting to expenditure of EUR 28 233.8 million shows that a number of Member States did not make full use of their single payment scheme entitlements. Member States, in general, invoked various reasons which made the full utilisation of allocated entitlements difficult like the existence of "sleeping" rights, where a farmer has more entitlements than his eligible hectares or the non-activation of allocated entitlements. Furthermore, the number of hectares for which an application for aid is made could be less than the entitlements granted because of changes in individual personal circumstances of
beneficiaries, like death, retirement etc. It has to be noted that unused entitlements, after 3 years, return to the national reserve and they can be granted to other farmers.

In addition, certain regulatory provisions prevent the transfer of entitlements notably when the farmer did not use at least 80% of his entitlements within the calendar year. Many farmers do not apply for the aid if the amounts concerned are relatively small. Member States have also fixed minimum amounts beneath which the aid to beneficiaries is not paid. Equally in these cases, the unused entitlements, after 3 years, return to the national reserve and they can be granted to other farmers.

With regard to the SAPS, some of the Member States concerned did not pay the totality of their corresponding budgetary ceilings, thus, resulting in an under-execution of the 2008 budget's appropriations by –EUR 90.6 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 2008 budget's appropriations by –EUR 2.8 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 credit appropriations amounting to EUR 5 775.0 million (after modulation) were required. However, Member States incurred expenditure, which was lower than the 2008 budget’s appropriations, and amounted to EUR 5 620.4 million, thus, resulting in under-spending the budget’s appropriations by –EUR 154.6 million. For most schemes the Member States concerned incurred expenditure which was lower than the budget's retained appropriations the most significant of which related to:

- COP area payments: -EUR 17.8 million;
- Sheep and goat premium: -EUR 17.1 million;
- Protein crop premium: -EUR 10.4 million;
- Aid for energy crops: -EUR 13.9 million;
- Payments for specific types of farming and quality production: -EUR 12.1 million;
- Area aid for cotton: -EUR 12.5 million.

4.2.3. Article 05 03 03: Additional amounts of aid

The appropriations of this article cover expenditure for the additional amount of aid paid to farmers in order to compensate for the 5% modulation applicable to their first EUR 5 000 or less of direct payments. The corresponding expenditure incurred by Member States amounted to EUR 533.7 million, thus, resulting in an under-implementation of –EUR 29.3 million of the budget’s appropriations.
4.3. **Chapter 05 04: Rural Development**

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

No appropriations were foreseen in the 2008 budget for this chapter. At the same time, Member States were declaring recoveries of previously paid advances which amounted to EUR 14.1 million.

4.3.2. **Article 05 04 04: Transitional Instrument for the financing of Rural Development by the EAGF-Guarantee section for the new Member States (Completion of programmes 2004-2006)**

As regards the Transitional instrument, the 2008 budget foresaw only payment appropriations amounting to EUR 120.0 million. For the details of the execution of these payment appropriations, please see point 2.1.8 above.

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 to the 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 budget directly financed for the purchase of satellite images within the framework of the Integrated Administrative and Control System (IACS) at a cost of EUR 6.5 million.

With regard to the accounting clearance of previous years' accounts, the Commission made corrections amounting to EUR 18.0 million. These corrections were included in the 4 accounting clearance decisions adopted by the Commission in the course of the budget year, namely: the Commission Decisions 2008/53/EC, 2008/54/EC, 2008/394/EC and 2008/396/EC. With regard to the reduction/suspension of advances, an amount of EUR 21.3 million was deducted from the Member States reimbursements because payment deadlines were not respected. The total amount credited in this item, then, totalled EUR 39.3 million while the 2008 budget retained appropriations amounting to EUR 370.0 million. The Commission closed this account by transferring appropriations from other chapters of the 2008 EAGF budget.

With regard to the conformity clearance of previous years' accounts, the Commission made positive corrections to the Member States’ accounts of EUR 3.3 million. These corrections were included in the conformity clearance decisions 2008/68/EC and 2008/647/EC adopted by the Commission in the course of the budget year.
4.4.2. Article 05 07 02: Settlement of disputes

The appropriations of EUR 21.0 million foreseen in this article intend to cover expenditure for which the Commission may be made liable by decision of a court of justice, including the cost of settling claims for damages and interest. Payments made in 2008 amounted to EUR 0.2 million, thus, under-spending the budget’s appropriations by –EUR 20.8 million.

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 approximately 80 100 farm holdings under this network amounted to EUR 12.7 million, thus, resulting in an under-execution of the 2008 budget’s commitment appropriations of -EUR 1.3 million.

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

Appropriations committed with regard to cost of data collection on the structure of approximately 2.1 million farm holdings amounted to EUR 8.4 million, thus, resulting in an under-execution of the 2008 budget’s commitment appropriations of -EUR 0.2 million.

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 EUR 1.9 million, thus, committing almost all the appropriations foreseen in the 2008 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 6.4 million versus the amount of EUR 7.0 million retained in the 2008 budget.

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

5.1. Chapter 11 02: Fisheries markets (Policy area 11)

5.1.1. Article 11 02 01: Intervention in fishery products

Commitment appropriations for the intervention in fishery products totalled EUR 15 500 000.00 and payment appropriations EUR 14 500 000.00. Commitment and payment appropriations were executed for a total sum of EUR 14 923 731.72 and
EUR 9 533 332.98 respectively, i.e. a difference of EUR 576 268.28 and EUR 4 966 667.02 respectively (See tables below).

Payment and commitment appropriations amounting to EUR 699 716.16 were carried over from 2007 to 2008. While commitment appropriations were fully executed, payment appropriation did not need to be executed as C1 payment appropriations covered all payment needs.

The overall under-use of the budget compared to the forecast figures mostly concerns the compensatory allowance for tuna and compensation under operational programmes. Regarding operational programmes, the compensation awarded by Member States to producer organisations is granted on a voluntary basis. The market situation led to an increase in the utilisation of compensation for withdrawals and independent carry-over.

**Execution of commitment appropriations at 31/12/2008**

<table>
<thead>
<tr>
<th>Article</th>
<th>Budget 2008</th>
<th>Initial appropriations</th>
<th>Final appropriations after transfer</th>
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<th>Balance commitments – final appropriations</th>
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**Execution of payment appropriations at 31/12/2008**

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<td>14 500 000.00</td>
<td>9 533 332.98</td>
<td>4 966 667.02</td>
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5.1.2. **Article 11 02 03: Fisheries programme for the outermost regions**

Commitment appropriations for the five outermost regions, i.e. the Azores, Madeira, the Canary Islands, French Guiana and Reunion, totalled EUR 36 828 768.00 including a transfer of EUR 19 828 768.00. Payment appropriations were set at EUR 17 000 000.00. Commitments and payments appropriations were executed for a total sum of EUR 36 828 013.00 and EUR 16 734 994.40, i.e. a difference of EUR 755.00 and EUR 256 005.60 respectively (See tables below).
Therefore, almost 100% of commitment appropriations and 98% of payment appropriations were executed in 2008.

### Execution of commitment appropriations at 31/12/2008

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<th>Balance commitments – final appropriations</th>
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<td>36 828 013.00</td>
<td>755.00</td>
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<td><strong>Total</strong></td>
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### Execution of payment appropriations at 31/12/2008

<table>
<thead>
<tr>
<th>Article</th>
<th>Budget 2008</th>
<th>Initial appropriations</th>
<th>Final appropriations after transfer</th>
<th>Paid before 31/12/2008</th>
<th>Balance payments – final appropriations</th>
</tr>
</thead>
<tbody>
<tr>
<td>11 02 03</td>
<td>Fisheries programmes for the outermost regions</td>
<td>17 000 000.00</td>
<td>17 000 000.00</td>
<td>16 734 994.40</td>
<td>265 005.60</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>17 000 000.00</strong></td>
<td><strong>17 000 000.00</strong></td>
<td><strong>16 734 994.40</strong></td>
<td><strong>265 005.60</strong></td>
</tr>
</tbody>
</table>

5.2. **Veterinary expenditure (Policy area 17)**

5.2.1. **Chapter 17 01: Administrative expenditure of Health and Consumer Protection**

5.2.1.1. **Item 17 01 04 01: Plant-health measures. Expenditure on administrative management**

The allocated appropriations were EUR 0.3 million but no commitments were made in 2008. The envisaged impact assessment on the plant health policy was not ready.

5.2.2. **Item 17 01 04 05: Feed and food safety and related activities. Expenditure on administrative management**

EUR 0.95 million of the available 1.1 million was committed. Only EUR 0.4 million was paid out in 2008.

5.2.3. **Item 17 01 04 06: Pilot project: improved methods for animal-friendly production**

The appropriations of EUR 1.0 million foreseen on this line were committed. No payments were made in 2008.
Almost 100% of the appropriations available from the 2008 budget, ie: EUR 16.840 million out of EUR 16.897 million, have been committed to fund information programmes for the second phase of the anti-smoking ‘HELP – for a life without tobacco’ campaign.

"HELP" is an integrated communication campaign present in all 27 Member States with a comprehensive action scheme including media (TV spots and Internet banners); a website available in 22 languages; a series of European and national public and press relations events. The campaign targets primarily young people and young adults. The general motto of the campaign is providing help and support “for a life without tobacco” by delivering comprehensive information on health and social problems related to tobacco consumption; tips and advice not to start; help to quit; information about passive smoking and setting out European actions in the field of tobacco control and national relays. It is conducted in partnership with communication experts, tobacco control professionals and youth representatives.

The results of the first phase (2005-2008) are extremely positive. From the beginning of the campaign in March 2005 70,000 TV spots, using 96 national and pan-European TV channels, achieved, along with the internet campaigns and the website, more than 4.5 billion contacts within the target group of young people.

On Internet a popular award-winning viral marketing campaign (Nicomarket) was produced. Furthermore, more than 7 million individual visits were observed on the EU “HELP” website and over 140,000 subscribers signed up for the e-mail coaching programme.

In the field activity was also a vital part of the "HELP" campaign which held 1,100 national events EU-wide with 340,000 CO\textsuperscript{12} measurement tests carried out. Innovative projects were also developed in collaboration with young people, the best example being the "European Youth Manifesto for a life without Tobacco", drafted by young people themselves, on the basis of 25 national consultations. It was promoted in the Members States through national press conferences and in-the-field activities. Finally the campaign was covered by over 6,800 press articles and reports in the European media.

According to an independent survey after 4 years, 152 million Europeans remember seeing the HELP TV campaign, 59 % of young Europeans remember having seen at least one TV film, and most importantly, 79 % of young non-smokers say the adverts made them think about the importance of not smoking.

The second phase of the campaign "HELP 2.0 Empowering young people", launched in December 2008, will reinforce the collaboration with youth organisations. The new strategy relies on the collection, presentation, and implementation of tips addressing

\textsuperscript{12} Carbon monoxide
the three traditional tobacco control themes (prevention; cessation and passive smoking).

5.4. Chapter 17 04: Food safety, animal health, animal welfare and plant health

5.4.1. Generalities on the chapter

Slightly more than 99.0% of the commitment appropriations available in the 2008 budget have been used, i.e.: an amount of EUR 390 936 951 out of EUR 394 810 000 available for the operational and administrative appropriations for veterinary and plant health measures has been committed. A bit more than 86.1% of the payment appropriations have been used for these measures, i.e.: an amount of EUR 234 902 041 out of EUR 272 760 000 available has been paid.

Via an amending budget, the initial commitment and payment appropriations for the emergency fund (budgetary line 17 04 03 01) were increased by respectively EUR 130.0 million and EUR 63.95 million. This increase was due to the contribution towards the emergency vaccination in 2008 against bluetongue in 12 Member States decided by the Commission. On top of this, some minor internal transfers were made to reinforce the budgetary lines 17 04 04 01 (for pinewood nematode in Portugal) and 17 04 07 01 (for the activity of 4 more Community reference laboratories).

5.4.2. Article 17 04 01: 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.

The amount of available appropriations was after transfer reduced to EUR 184.9 million. After a reallocation of appropriations, made in the autumn of 2008, an amount of almost EUR 184.5 million was committed (194 commitments) according to the details mentioned below.

EUR 68 067 000 for TSE\textsuperscript{13} surveillance programmes,
EUR 2 041 000 for the BSE\textsuperscript{14} eradication programmes;
EUR 12 963 000 for scrapie programmes (monitoring and eradication);
EUR 71 707 157 for the traditional eradication programmes;
EUR 4 059 000 for avian influenza survey programmes and
EUR 25 615 000 for the salmonella control programmes.

Payment appropriations were executed via 151 C1 payments for an amount of EUR 147.6 million. Five payments were also made on C5 and four on C4 appropriations for a total amount of EUR 2.8 million.

\textsuperscript{13} TSE: Transmissible spongiform encephalopathy
\textsuperscript{14} BSE: Bovine spongiform encephalopathy
5.4.3. Article 17 04 02: Other measures in the veterinary, animal welfare and public health field.

The amount of available commitment appropriations was after transfer reduced to EUR 14.5 million; EUR 13.6 million thereof were committed.

The payment appropriations were executed via 130 payments (126 C1 and four C4 appropriations) up to a total sum of EUR 4.0 million.

5.4.4. Item 17 04 03 01: Emergency fund for veterinary complaints and other animal contaminations which are a risk to public health.

For the reasons mentioned above, the amount of initial commitment appropriations was increased from EUR 30.0 million to EUR 160.0 million and for payment appropriations the amount was increased from EUR 10.0 million to EUR 73.95 million. Almost 100% of the commitment appropriations and 86% of the payment appropriations were used. As there are no major outbreaks of "emergency fund diseases" other than blue tongue, the bulk of the commitments and payments went to the 12 Member States applying an emergency vaccination against bluetongue in 2008. In total, 32 payments were made in 2008 for an amount of EUR 63.6 million.

5.4.5. Item 17 04 03 03: Preparatory action. Control posts in relation to transport of animals.

The appropriations of EUR 4.0 million foreseen on this line were committed. No payments were made in 2008.

5.4.6. Article 17 04 04: Plant-health measures.

For commitment and payment appropriations, the allocated amount of EUR 2.0 million was increased to EUR 6.97 million in order to be able to finance the EU contribution towards the eradication in 2007 of pine wood nematode in Portugal. Due to unexpected circumstances, it had not been possible to pay for this action before the end of 2007 (last year in which the non differentiated commitments of 2006 could be used).

Eventually EUR 1.0 million was not committed because the claim for the pinewood nematode was smaller than the maximum EU contribution foreseen.

Via 38 transactions, payment appropriations were executed to an amount of EUR 5.3 million, all on C1 appropriations.

5.4.7. Article 17 04 07: Feed and food safety and related activities.

Commitment and payment appropriations were increased for the reasons explained above by a bit more than EUR 2.0 million to reach respectively EUR 22.0 million and EUR 17.3 million. EUR 21.0 million was committed via 98 transactions. Eventually the increase for the payment appropriations seemed not justified because some
invoices related to training in the area of food and feed control came in too late. Only EUR 14.0 million was paid with 148 transactions. Result thereof might be that amount of payment appropriations in the 2009 budget will be insufficient.

5.4.8. **Summary presentation of 2008 commitments and payments made for policy area 17 (except 17 03 02)**

**Overview of commitments made in 2008**

<table>
<thead>
<tr>
<th>BUDGETARY LINE</th>
<th>BUDGET 2008</th>
<th>Initial Appropriations</th>
<th>Final appropriations after transfer</th>
<th>Committed</th>
<th>Balance commitments - final appropriations</th>
</tr>
</thead>
<tbody>
<tr>
<td>17 04 01 01</td>
<td>Animal disease eradication and monitoring programs and monitoring of the physical conditions of animals that could pose a public-health risk linked to an external factor</td>
<td>192 000 000</td>
<td>184 873 151</td>
<td>184 452 357</td>
<td>-420 794</td>
</tr>
<tr>
<td>17 04 02 01</td>
<td>Other measures in the veterinary, animal welfare and public-health field</td>
<td>17 000 000</td>
<td>14 538 000</td>
<td>13 621 935</td>
<td>-916 065</td>
</tr>
<tr>
<td>17 04 03 01</td>
<td>Emergency fund for veterinary complaints and other animal contaminations which are a risk to public health</td>
<td>30 000 000</td>
<td>160 000 000</td>
<td>159 985 729</td>
<td>-14 271</td>
</tr>
<tr>
<td>17 04 03 03</td>
<td>Preparatory action. Control posts in relation to transport of animals</td>
<td>4 000 000</td>
<td>4 000 000</td>
<td>4 000 000</td>
<td>0</td>
</tr>
<tr>
<td>17 04 04</td>
<td>Plant-health measures</td>
<td>2 000 000</td>
<td>6 970 849</td>
<td>5 903 196</td>
<td>-1 067 653</td>
</tr>
<tr>
<td>17 04 07</td>
<td>Feed and food safety and related activities</td>
<td>20 000 000</td>
<td>22 028 000</td>
<td>21 022 256</td>
<td>-1 005 744</td>
</tr>
<tr>
<td>17 04 04 01</td>
<td>Plant-health measures. Expenditure on administrative management</td>
<td>300 000</td>
<td>300 000</td>
<td>0</td>
<td>-300 000</td>
</tr>
<tr>
<td>17 04 04 05</td>
<td>Feed and food safety. Expenditure on administrative management</td>
<td>1 100 000</td>
<td>1 100 000</td>
<td>951 478</td>
<td>-148 522</td>
</tr>
<tr>
<td>17 04 04 06</td>
<td>Pilot project: improved methods for animal-friendly production</td>
<td>1 000 000</td>
<td>1 000 000</td>
<td>1 000 000</td>
<td>0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>267 400 000</td>
<td>394 810 000</td>
<td>390 936 951</td>
<td>3 873 049</td>
<td></td>
</tr>
</tbody>
</table>
## Overview of payments made in 2008

<table>
<thead>
<tr>
<th>BUDGETARY LINE</th>
<th>BUDGET 2008</th>
<th>Initial Appropriations</th>
<th>Final appropriations after transfer</th>
<th>Paid</th>
<th>Balance payments - final appropriations</th>
</tr>
</thead>
<tbody>
<tr>
<td>17 04 01 01</td>
<td>Animal disease eradication and monitoring programs and monitoring of the physical conditions of animals that could pose a public-health risk linked to an external factor</td>
<td>165 000 000</td>
<td>155 519 685</td>
<td>147 639 382</td>
<td>-7 880 303</td>
</tr>
<tr>
<td>17 04 02 01</td>
<td>Other measures in the veterinary, animal welfare and public-health field</td>
<td>13 000 000</td>
<td>12 566 000</td>
<td>3 970 919</td>
<td>-8 595 081</td>
</tr>
<tr>
<td>17 04 03 01</td>
<td>Emergency fund for veterinary complaints and other animal contaminations which are a risk to public health</td>
<td>10 000 000</td>
<td>73 950 000</td>
<td>63 561 047</td>
<td>-10 388 953</td>
</tr>
<tr>
<td>17 04 03 03</td>
<td>Preparatory action. Control posts in relation to transport of animals</td>
<td>4 000 000</td>
<td>4 000 000</td>
<td>0</td>
<td>-4 000 000</td>
</tr>
<tr>
<td>17 04 04</td>
<td>Plant-health measures</td>
<td>2 000 000</td>
<td>6 970 849</td>
<td>5 342 559</td>
<td>-1 628 290</td>
</tr>
<tr>
<td>17 04 07</td>
<td>Feed and food safety and related activities</td>
<td>15 000 000</td>
<td>17 353 466</td>
<td>14 007 176</td>
<td>-3 346 289</td>
</tr>
<tr>
<td>17 01 04 01</td>
<td>Plant-health measures. Expenditure on administrative management</td>
<td>300 000</td>
<td>300 000</td>
<td>0</td>
<td>-300 000</td>
</tr>
<tr>
<td>17 01 04 05</td>
<td>Feed and food safety. Expenditure on administrative management</td>
<td>1 100 000</td>
<td>1 100 000</td>
<td>380 957</td>
<td>-719 043</td>
</tr>
<tr>
<td>17 01 04 06</td>
<td>Pilot project: improved methods for animal-friendly production</td>
<td>1 000 000</td>
<td>1 000 000</td>
<td>0</td>
<td>-1 000 000</td>
</tr>
<tr>
<td>TOTAL</td>
<td>211 400 000</td>
<td>272 760 000</td>
<td>234 902 041</td>
<td>-37 857 959</td>
<td></td>
</tr>
</tbody>
</table>

### 6. ASSIGNED REVENUE AND ITS IMPLEMENTATION

#### 6.1. Revenue assigned to EAGF

The assigned revenue actually carried over from 2007 into 2008, amounted to EUR 1 159.5 million and has been entirely used in financing expenditure of the 2008 budget year in accordance with article 10 of the Financial Regulation. This amount covered expenditure of EUR 362.7 million for the operational funds for producer organisations and of EUR 796.9 million for direct aids of which an amount of EUR 757.4 million for the single payment scheme and of EUR 39.5 million for other direct aids. (For details, please see annex 9 and 10).

As far as the assigned revenue collected in 2008, annex 9 shows that this revenue amounted to EUR 1 561.6 million and it originated from:

- The corrections of the conformity clearance procedure which amounted to EUR 984.6 million and they were higher than the initially expected ones of EUR 500.0 million because 2 additional conformity clearance decisions were taken within the year.
- The receipts from irregularities which amounted to EUR 356.1 million and they were higher than the initially expected ones of EUR 80.0 million. This was an exceptional situation because of the ad hoc corrections imposed to Member States in respect of long-outstanding irregularities in the paying agencies' accounts.

- The milk levy collections which amounted to EUR 220.9 million.

A part of the assigned revenue collected in 2008 was used in order to cover expenditure amounting to EUR 87.5 million incurred within the year for market measures of which an amount of EUR 61.9 million for the operational funds for producer organisations, of EUR 2.4 million for promotion measures and of EUR 22.5 million for export refunds for pig-meat. The balance of the assigned revenue collected in 2008 amounting to EUR 1 474.1 million was automatically carried over into the 2009 budget year in order to finance budgetary needs of that year.

6.2. Assigned revenue concerning temporary restructuring amounts in sugar sector

Contrary to the initially estimated amount of EUR 530.0 million, the assigned revenue eventually carried over from 2007 into 2008 amounted to EUR 735.8 million because Member States paid diversification and additional aids which were smaller than the ones initially expected.

In November 2007, Member States paid the second instalment of the temporary restructuring amounts due for the abandonment of the 2006/07 sugar quotas amounting to EUR 858.1 million. Furthermore, Member States also paid the first instalment of the temporary restructuring amounts due for the abandonment of the 2007/08 sugar quotas amounting to EUR 1 734.7 million. Therefore, assigned revenue of EUR 2 592.9 million in the form of temporary restructuring amounts was transferred to the EU budget in 2008.

At this point in time, after the aid payments made to the beneficiaries of the sugar restructuring fund, the temporary restructuring amounts present a balance of EUR 2 044.6 million which will be carried forward into 2009.

Please see also point 1.6 and annex 9, for more details.

6.3. Sugar Restructuring Fund

In the course of the 2008 budget year, Member States made total payments for aids to the restructured sugar industry, for diversification aids as well as for aids to sugar refining which amounted to EUR 1 284.0 million. These aids were paid from the aforementioned revenue originating from the temporary restructuring amounts in the sugar sector. Specifically, as regards the payment of these aids, an amount of EUR 735.8 million was funded by the assigned revenue carried over from 2007 while the balance amounting to EUR 548.3 million was paid from the assigned revenue transferred to the EU budget in 2008. (For details, please see annex 9 and 10).
7. **BREAKDOWN BY TYPE OF EXPENDITURE**

The total EAGF expenditure amounts to EUR 42 181.2 million (excluding the Sugar Restructuring Fund). Hereafter, this expenditure is presented broken down into the most significant categories along with the percentage that these represent in the total EAGF expenditure for 2008:

**Export refunds**

Spending on export refunds amounted to EUR 925.4 million, i.e.: 2.19% of the total.

**Direct aids**

Expenditure for direct aids amounted to EUR 37 568.6 million, i.e.: 89.06% of the total.

**Storage**

Expenditure for storage amounted to EUR 147.9 million, i.e.: 0.35% of the total. The main products involved were products of the cereals, wine-growing, milk and pigmeat, eggs and poultry meat sectors.

**Market measures and other interventions**

Other intervention expenditure amounted to EUR 3 553.3 million, i.e.: 8.42% of the year's total. This heading covers expenditure not falling into one of the above categories.

**Rural development**

No appropriations were foreseen in the 2008 budget for the Guarantee Section of the ex-EAGGF\(^{15}\). At the same time, Member States were declaring recoveries of previously paid advances which amounted to -EUR 14.1 million.

The evolution of this breakdown by type of expenditure for the period 2003-2008 is presented in annex 33.

8. **SPECIFIC ACTIVITIES**

8.1. **Supply of food from intervention stocks for the benefit of the needy in the Community**

In the particularly harsh winter 1986/87, the Community organised an emergency programme for the supply of foodstuffs to the most deprived persons in the Community for a limited period.

When this emergency programme ended, the Community received many calls for this type of measure to be applied on a permanent basis. The Commission put a proposal to the Council, which adopted it as Regulation (EEC) No 3730/87 laying down general rules for the supply of food from intervention stocks to designated organisations for distribution to the most deprived persons in the Community. The

\(^{15}\) EAGF: European Agricultural Guidance and Guarantee Fund.
Commission then adopted an implementing regulation (Regulation (EEC) No 3149/92\textsuperscript{16}). In 2007, Regulation No 3730/87 was repealed and provisions for the Programme were integrated in article 27 of the "Single CMO"\textsuperscript{17} Regulation.

Since 1987, the Commission has adopted a distribution plan each year specifying the budget resources and quantities of products allocated to the Member States involved in the scheme.

In 2008, a total of 19 Member States wished to take part to the action. The appropriations were shared among the participating Member States according to the number of persons at risk of poverty, based on the most recent Eurostat statistics, and 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.

The measure also allowed the transfer of intervention products from the Member States where stocks were available, to Member States where such stocks were necessary to implement the scheme but unavailable in Community storage. Furthermore, resources for purchase on the market of products not available in intervention were made available.

The annual plan 2008 was published on 3 October 2007 as Reg. (EC) 1146/2007\textsuperscript{18}. With a view to the significant rise of food prices during the second half of 2007, the financial resources put at the disposal of the Member States for the annual distribution plan in the final budget were higher than the resources foreseen. Consequently, Reg. 1146/2007 was amended by Reg. (EC) No 182/2008\textsuperscript{19} in order to allocate these newly available resources. Final appropriations for this measure from the Community budget amounted to EUR 307.0 million.

In the 2008 plan, the budget appropriations allocated to each participating Member State amounted to:

\begin{itemize}
\item OJ L 257, 3.10.2007, p.3
\item OJ L 313, 30.10.1992, p.50
\end{itemize}
### TABLE 1
2008 plan - Allocation of budget appropriations

<table>
<thead>
<tr>
<th>Member State</th>
<th>EUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>8 461 691</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>7 007 310</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>155 443</td>
</tr>
<tr>
<td>Estonia</td>
<td>192 388</td>
</tr>
<tr>
<td>Greece</td>
<td>13 228 830</td>
</tr>
<tr>
<td>Spain</td>
<td>50 419 083</td>
</tr>
<tr>
<td>France</td>
<td>50 982 533</td>
</tr>
<tr>
<td>Ireland</td>
<td>155 965</td>
</tr>
<tr>
<td>Italy</td>
<td>69 614 288</td>
</tr>
<tr>
<td>Latvia</td>
<td>153 910</td>
</tr>
<tr>
<td>Lithuania</td>
<td>4 456 991</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>81 091</td>
</tr>
<tr>
<td>Hungary</td>
<td>8 169 224</td>
</tr>
<tr>
<td>Malta</td>
<td>378 242</td>
</tr>
<tr>
<td>Poland</td>
<td>49 971 042</td>
</tr>
<tr>
<td>Portugal</td>
<td>13 182 946</td>
</tr>
<tr>
<td>Romania</td>
<td>24 258 046</td>
</tr>
<tr>
<td>Slovenia</td>
<td>1 499 216</td>
</tr>
<tr>
<td>Finland</td>
<td>2 741 323</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>305 109 562</strong></td>
</tr>
</tbody>
</table>

Within the aforementioned allocations, the quantities of sugar attributed to each participating Member State for distribution to the most deprived persons amounted to:

### TABLE 2
2008 plan - Allocation of public storage sugar - *(Tonnes)*

<table>
<thead>
<tr>
<th>Member State</th>
<th>Sugar</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>4 154</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>6 385</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>67</td>
</tr>
<tr>
<td>Spain</td>
<td>6 500</td>
</tr>
<tr>
<td>France</td>
<td>3 718</td>
</tr>
<tr>
<td>Italy</td>
<td>7 000</td>
</tr>
<tr>
<td>Lithuania</td>
<td>2 889</td>
</tr>
<tr>
<td>Hungary</td>
<td>1 620</td>
</tr>
<tr>
<td>Malta</td>
<td>397</td>
</tr>
<tr>
<td>Poland</td>
<td>15 552</td>
</tr>
<tr>
<td>Portugal</td>
<td>1 707</td>
</tr>
<tr>
<td>Romania</td>
<td>15 898</td>
</tr>
<tr>
<td>Slovenia</td>
<td>806</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>66 693</strong></td>
</tr>
</tbody>
</table>
Equally within the aforementioned allocations, of budget appropriations to each participating Member State for purchases of products in the market for distribution to the most deprived persons were:

**TABLE 3**

2008 plan - Allocation of budget appropriations for purchases in the market

<table>
<thead>
<tr>
<th>Member State</th>
<th>Cereals</th>
<th>Rice</th>
<th>Skimmed milk powder</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>2 120 960</td>
<td>800 000</td>
<td>3 300 000</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>2 086 200</td>
<td>1 789 818</td>
<td></td>
</tr>
<tr>
<td>Czech Republic</td>
<td>36 472</td>
<td></td>
<td>81 843</td>
</tr>
<tr>
<td>Estonia</td>
<td>182 358</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ireland</td>
<td></td>
<td></td>
<td>147 834</td>
</tr>
<tr>
<td>Greece</td>
<td>4 535 189</td>
<td></td>
<td>8 003 986</td>
</tr>
<tr>
<td>Spain</td>
<td>11 144 100</td>
<td>1 800 000</td>
<td>32 030 700</td>
</tr>
<tr>
<td>France</td>
<td>8 718 857</td>
<td>5 225 181</td>
<td>32 770 000</td>
</tr>
<tr>
<td>Italia</td>
<td>13 514 624</td>
<td>3 000 000</td>
<td>46 438 083</td>
</tr>
<tr>
<td>Latvia</td>
<td>145 886</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lithuania</td>
<td>1 633 305</td>
<td>734 782</td>
<td>706 455</td>
</tr>
<tr>
<td>Luxembourg</td>
<td></td>
<td></td>
<td>76 864</td>
</tr>
<tr>
<td>Hungary</td>
<td>5 713 309</td>
<td></td>
<td>1 328 373</td>
</tr>
<tr>
<td>Malta</td>
<td>62 275</td>
<td>25 078</td>
<td>99 189</td>
</tr>
<tr>
<td>Poland</td>
<td>16 569 956</td>
<td></td>
<td>24 058 983</td>
</tr>
<tr>
<td>Portugal</td>
<td>1 267 856</td>
<td>1 493 221</td>
<td>8 995 335</td>
</tr>
<tr>
<td>Romania</td>
<td>16 106 356</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Slovenia</td>
<td>181 553</td>
<td>107 523</td>
<td>782 637</td>
</tr>
<tr>
<td>Finland</td>
<td>1 724 960</td>
<td></td>
<td>873 450</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>85 744 216</strong></td>
<td><strong>14 975 604</strong></td>
<td><strong>159 693 732</strong></td>
</tr>
</tbody>
</table>
For the 2008 budget year, the participating Member States spent EUR 344.4 million for the food programmes as detailed in the following table:

<table>
<thead>
<tr>
<th>Member States</th>
<th>EUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>8 066 180</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>1 679 288</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>36 289</td>
</tr>
<tr>
<td>Estonia</td>
<td>175 632</td>
</tr>
<tr>
<td>Greece</td>
<td>17 793 749</td>
</tr>
<tr>
<td>Spain</td>
<td>53 684 644</td>
</tr>
<tr>
<td>France</td>
<td>52 582 655</td>
</tr>
<tr>
<td>Ireland</td>
<td>147 834</td>
</tr>
<tr>
<td>Italy</td>
<td>99 043 216</td>
</tr>
<tr>
<td>Latvia</td>
<td>89 540</td>
</tr>
<tr>
<td>Lithuania</td>
<td>4 357 857</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>82 082</td>
</tr>
<tr>
<td>Hungary</td>
<td>9 842 500</td>
</tr>
<tr>
<td>Malta</td>
<td>576 229</td>
</tr>
<tr>
<td>Poland</td>
<td>54 528 427</td>
</tr>
<tr>
<td>Portugal</td>
<td>13 572 777</td>
</tr>
<tr>
<td>Romania</td>
<td>22 993 370</td>
</tr>
<tr>
<td>Slovenia</td>
<td>2 441 411</td>
</tr>
<tr>
<td>Finland</td>
<td>2 723 243</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>344 416 921</strong></td>
</tr>
</tbody>
</table>

8.2. **Promotion measures – payments by Member States**


The programmes are submitted by representative professional organisations as well as inter-professions to the Member States, the latter being responsible for programme management once the Commission has confirmed the selection and agreed part-financing.

The rate of co-financing of the action plans is 50%. During 2008 the Council accepted an increase of this percentage up to 60%, for specific promotion actions concerning fruits and vegetables for school pupils and responsible drinking patterns and harm linked to hazardous alcohol consumption. The rules also allow the
financing of information measures carried out on the initiative of the Commission (sending trade missions to non-member countries and providing the latter with information on protected designations of origin, protected geographical indications and organic production).

Payments made by the Member States on the EU budget for promotion measures amounted to EUR 49.4 million, as compared to the 2008 budget appropriation of EUR 45.0 million. The improvement in the consumption rate of the allocated budget is due to an increased discipline in the management of, on one hand, the launching of the new programmes and, on the other hand, the implementation of ongoing programmes by the Member States.

The number of approved programmes in 2007 was 41. In 2008, (between 1 January and 31 December 2008), 42 new promotion programmes were approved, both on the internal market and in non-member countries, by two separate Commission decisions.

9. CONTROL MEASURES

9.1. Introduction

The Community 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 885/2006\(^20\)) and by special departments on aid measures other than direct payments covered by the IACS (checks based on Regulation (EC) No 485/2008\(^21\));

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

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 1290/2005\textsuperscript{22} 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 Community 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, \textit{ex-post} controls must be carried out in accordance with Regulation (EC) No 485/2008.

\textbf{9.2. Integrated Administration and Control System (IACS)}

Regulations (EC) No 1782/2003\textsuperscript{23} and (EC) No 796/2004\textsuperscript{24} 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 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 ensuring that only areas or animals that fulfil all eligible requirements are paid premium and by a minimum 5\% of on-the-spot checks to check the existence and eligibility of the area or the animals claimed.

\textsuperscript{22} OJ L 209, 11.08.2005, p. 1.  
\textsuperscript{24} OJ L 141, 30.4.2004, p. 18.
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. Moreover, the result of the ECA' work shows that, when accurate and reliable data is introduced and the system is properly implemented, the IACS is an effective control system to limit the risk of irregular expenditure.

For details, please see points 5.20 and 5.52 in the Court's Annual Report for 2007.

For the financial year 2008, IACS covers some 87.5% 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 2008, around 73% of payments made under the EAFRD were concerned.

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 Community funds.

9.3. Market measures

Market refunds not covered by the IACS comprise other aid schemes, for example export or storage aid, which are governed by specific rules as regards controls and sanctions, as set out in the 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.


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 scrutiny relates to the commercial documents of those entities receiving or making payments relating directly or indirectly to the system of financing by the EAGF, or their representatives, in order to ascertain whether transactions forming part of the system of financing by the EAGF have actually been carried out and have been executed correctly.

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, processing and production 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 2311/200025).

In 2008, 7 missions were carried out covering the following Member States: Austria, Germany, Greece, Italy, Latvia, Poland and Slovak Republic.

The missions showed that in general checks pursuant to Regulation (EC) No 485/2008 function well in the Member States.

Although there might not be a direct link between the expenditure incurred in 2008 and the one controlled by the post-payment checks, nonetheless assurance can be derived from those checks for 2008 expenditure because the system of controls as such is functioning properly and the error rate revealed is consistently stable and well below materiality.

10. **CLEARANCE OF ACCOUNTS**

10.1. **Conformity clearance - Introduction**

It is primarily the Member States' responsibility to satisfy them 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 Community.

The conformity clearance relates to the legality and regularity of transactions. It is designed to exclude expenditure from Community financing which has not been effected in compliance with Community rules, thus shielding the Community 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 Community. 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 Community.

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

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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 2008

10.2.1. Audits

The following table presents an overview of the conformity missions and their coverage in respect of financial year 2008, broken down per ABB-activity\(^\text{26}\):

<table>
<thead>
<tr>
<th>Financial Year 2008</th>
<th>ABB 02</th>
<th>ABB 03</th>
<th>ABB 04</th>
<th>Total (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of conformity audits with missions carried out (2)</td>
<td>40</td>
<td>38</td>
<td>18</td>
<td>96</td>
</tr>
</tbody>
</table>

(1) Not including 10 audits covering cross-compliance, 7 audits covering entitlements and 7 audits covering irregularities.
(2) If an audit covers more than one ABB, it is allocated to all ABB covered by that audit.

10.2.2. Conformity decisions

During the financial year 2008, three conformity decisions were adopted which had a financial impact in the year. Decision 2007/647/EC was adopted in financial year 2007 with financial effect in year 2008. These decisions resulted in the exclusion from Community financing of a total of EUR 894.84 million covering expenditure in the financial years from 1997 to 2007:

- Decision 2007/647/EC of 3 October 2007 – 25\(^{\text{th}}\) Decision\(^\text{27}\), amount of EUR 145.22 million,
- Decision 2008/68/EC of 20 December 2007 – 26\(^{\text{th}}\) Decision\(^\text{28}\), amount of EUR 256.31 million,
- Decision 2008/321/EC of 8 April 2008 – 27\(^{\text{th}}\) Decision\(^\text{29}\), amount of EUR 83.00 million,

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\(^{26}\) ABB: Activity Based Budgeting
\(^{27}\) OJ L 261, 6.10.2007, p. 28.
The breakdown according to sectors is as follows:

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>Decision 25</th>
<th>Decision 26</th>
<th>Decision 27</th>
<th>Decision 28</th>
</tr>
</thead>
<tbody>
<tr>
<td>Animal premium</td>
<td>1.52</td>
<td>1.44</td>
<td>-</td>
<td>0.75</td>
</tr>
<tr>
<td>Arable crops</td>
<td>4.31</td>
<td>16.60</td>
<td>-</td>
<td>345.37</td>
</tr>
<tr>
<td>Dried fodder and seeds</td>
<td>6.22</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Export refunds</td>
<td>-</td>
<td>-</td>
<td>0.03</td>
<td>0.51</td>
</tr>
<tr>
<td>Financial audit &amp; other</td>
<td>3.00</td>
<td>29.85</td>
<td>3.74</td>
<td>-</td>
</tr>
<tr>
<td>Flax</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fruit &amp; vegetables</td>
<td>48.74</td>
<td>8.75</td>
<td>13.75</td>
<td>32.37</td>
</tr>
<tr>
<td>Intervention storage</td>
<td>1.68</td>
<td>1.45</td>
<td>-0.05</td>
<td>-</td>
</tr>
<tr>
<td>Irregularities</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Milk and milk products</td>
<td>1.35</td>
<td>-</td>
<td>0.80</td>
<td>24.60</td>
</tr>
<tr>
<td>Olive oil</td>
<td>76.43</td>
<td>183.96</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>POSEI</td>
<td>-</td>
<td>3.03</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Rural development</td>
<td>-</td>
<td>1.78</td>
<td>9.55</td>
<td>6.71</td>
</tr>
<tr>
<td>Wine &amp; Tobacco</td>
<td>1.97</td>
<td>10.45</td>
<td>55.09</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>145.22</strong></td>
<td><strong>256.31</strong></td>
<td><strong>83.00</strong></td>
<td><strong>410.31</strong></td>
</tr>
</tbody>
</table>

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 Community on a 50 %–50 % basis. However, the Commission may still decide to charge the Member State for 100 % in cases of negligence by the Member State.

Regarding financial year 2008, Member States reported the information about recovery cases by 1 February 2009. Based on the information available in February 2009 (that may be subject to change during the clearance exercise) the Member States recovered EUR 108.0 million during financial year 2008, and the outstanding amount still to be recovered from beneficiaries at the end of that financial year was EUR 1 245.0 million. The financial consequences of non recovery for cases dating from previous years' accounts amounted to EUR 32.0 million to the Member States.

Around EUR 20.0 million will be borne by the Community budget for cases reported irrecoverable during financial year 2008. The final figures will be established in April 2009 when the financial clearance decision for financial year 2008 will be adopted.

**10.3. Financial clearance**

**10.3.1. Introduction**

The financial clearance covers the accounts and control systems set up by the 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’ management and control systems. As part of this review, the DG AGRI departments also cover aspects relating to the accreditation criteria for the paying agencies and protecting the financial interests of the Community 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 Community 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 before 2007

In respect of the financial year 2006 the accounts of seven paying agencies had not been cleared until the end of 2007. These amounted to EUR 4 453 million, representing around 9% of total expenditure in the financial year concerned. The paying agencies concerned were NMA (Lithuania), AGEA and ARBEA (Italy), Bayern-Umwelt and Baden-Württemberg (Germany), APA (Slovakia) and IFADAP (Portugal).

Accounts of three paying agencies: NMA, Baden-Württemberg, APA and AGEA were cleared by Commission decision of 30 April 2008 (Decision No 2008/394/EC).

10.3.2.2. Financial clearance decision for the financial year 2007

In financial year 2008 four clearance decision were adopted covering: the European Agricultural Guarantee Fund (EAGF), the European Agricultural Fund for Rural Development (EAFRD) and the Transitional Rural Development Instrument (TRDI) for new Member States. On 30 April 2008 the accounts of 14 paying agencies could not be cleared. The sum involved was EUR 4.868 million for the EAGF, EUR 830.0 million for EAFRD and EUR 45.0 million for TRDI. The paying agencies concerned are: PRIA (Estonia), OPEKEPE (Greece), MAVI (Finland), ARBEA (Italy), MRAE (Malta), Dienst Regelingen (Netherlands), IFADAP, INGA and IFAP (Portugal), AMA (Austria), ALV and Région Wallonne (Belgium), Baden-Württemberg and Bayern (Germany).

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

10.4.1. Judgments handed down

In the financial year 2008 the Court handed down six judgments in appeals brought by the Member States against clearance decisions.

In financial year 2008 the Court rejected appeals brought in the following cases:

– judgment of 9 April 2008 in case T-364/04 brought by Hellenic Republic;
– judgment of 24 April 2008 in case C-418/06 P brought by Kingdom of Belgium;
– judgment of 10 September 2008 in case T-381/04 brought by Italian Republic;
– judgment of 10 September 2008 in case T-181/06 brought by Italian Republic.

In financial year 2008 the Court partially annulled Commission decisions in the following case:

– judgment of 14 February 2008 in case T-266/04 brought by the Kingdom of Spain: concerning ad-hoc decision 16;
– judgment of 10 September 2008 in case T-370/05 brought by French Republic: concerning ad-hoc decision 20.

10.4.2. Appeals pending

The situation as at 15 October 2008 with regard to appeals pending is shown, together with the amounts concerned, in annex 35.

11. RELATIONS WITH PARLIAMENT AND 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 2006 budget. It was asked to draw up the Parliamentary Decision (2009/187/EC, Euratom – Official Journal No L 88 of 31 March 2009) by which discharge (in respect to the implementation of the general budget of the European Union for the 2006 financial year) was granted to the Commission on 22 April 2008.

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 EU’s external auditor, in charge of the audit of EU finances with a view to improving EU financial management. The Maastricht Treaty strengthened its role by requiring it to provide a statement of assurance as to the reliability of the Community accounts and the legality and regularity of the underlying transactions. Issuing this statement certifies that the accounts give an
accurate picture of the year in question. It is also of prime importance to the
budgetary authority in its deliberations on the granting of the discharge.

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, sector
letters and annual and special reports. In the light of these investigations the Court
frequently makes suggestions and recommendations to the Commission as to how to
improve its financial management and make Community supervisory and control
systems more effective.

11.2.2. Annual Report 2007

Each year the Court of Auditors draws up a report which over several chapters
scrutinises the management of the Community budget for the previous financial year.
The report is the result of the audits made by the Court in the Community institutions
and inspection visits to Member States.

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 in order to find full agreement on
the facts. The annual report for the 2007 financial year together with the
Commission's replies included one chapter (Chapter 5) on Agriculture and Natural
Resources, covering the Guarantee Fund expenditure. The main findings by the Court
and the replies given by the Commission concerned the following domains:

Legality and regularity of underlying transactions (5.12-5.15)
IACS (5.19–5.20; 5.29-5.31; Annexes 5.1.1 and 5.1.2)
The Single Payment Scheme (5.21–5.26)
The direct coupled payments (5.27-5.28)
Rural development (5.32)
Ex-post scrutiny of payments to traders and processors (5.33–5.36)
Export Refunds (5.37-5.38)
The Commission's clearance of accounts (5.39–5.48)

Follow-up to previous observations:
The common organisation of the market in raw tobacco (5.59-5.60)
The Commission's management and supervision of the measures to control foot-and-
mouth disease (5.61-5.65)

Measurements of farm incomes by the Commission (5.66-5.67)

Like in previous years, the Court's observations on budgetary management were
consolidated in a separate chapter of the report (Chapter 3), including a new section
on financial corrections and recoveries. Another separate chapter is devoted to the
Commission internal control system (Chapter 2) and the rural development programming period 2000-2006 is covered by Chapter 6 on Cohesion.

**11.2.3. Special Reports by the Court of Auditors**

In 2008, the Court published three special reports relevant to agriculture:


Special Report No 08/2008 "Is cross-compliance an effective policy?" published on 9 December 2008;


**12. BASIC RULES GOVERNING THE EAGF & AMENDMENTS MADE IN 2008**

**12.1. Checks**


12.2. **Clearance of accounts**


12.3. **Public storage**

(a) Basic rules


(b) Depreciation on buying in

– Commission Regulation (EC) No 1189/2007 of 11 October 2007 fixing the depreciation coefficients to be applied when agricultural products are bought in for the 2008 accounting year (OJ L 267, 12.10.2007, p. 3);

(c) Additional depreciation at the end of the financial year

– Commission Decision C (2008) 5895 of 14 October 2008 (not published) fixing the amounts and detailed rules for the depreciation of stocks of certain agricultural products bought into public intervention by the Czech Republic, the Hellenic Republic, the Kingdom of Spain, the French Republic, the Italian Republic, the Republic of Cyprus, the Republic of Hungary, the Portuguese Republic and the Slovak Republic during the 2008 accounting year;
(d) Uniform interest rate

- Commission Regulation (EC) No 1190/2007 of 11 October 2007 fixing the interest rates to be used for calculating the costs of financing intervention measures comprising buying-in, storage and disposal for the 2008 EAGF accounting year (OJ L 267, 12.10.2007, p. 5);

(e) Standard amounts

- Commission Decision C(2007) 3823 of 13 August 2007 (not published) fixing, for the 2008 financial year, the standard amounts to be used for financing physical operations arising from the public storage of agricultural products.
ANNEXES TO THE COMMISSION STAFF WORKING DOCUMENT

accompanying the 2nd FINANCIAL REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on

THE EUROPEAN AGRICULTURAL GUARANTEE FUND

– 2008 FINANCIAL YEAR –
13. **ANNEXES**

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18. EAGF 2008 Expenditure by sector according to the economic nature of the measures
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