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

**7th FINANCIAL REPORT FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT AND THE COUNCIL on the EUROPEAN AGRICULTURAL
GUARANTEE FUND**

2013 FINANCIAL YEAR

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Note: A detailed Commission Working Document accompanies this report. The full text of this Working Document (in English) and the annexed tables (in English) will be also available on DG Agriculture's Europa website (http://ec.europa.eu/agriculture/cap-funding/financial-reports/eagf/index_en.htm).

1. BUDGET PROCEDURE¹

1.1. Budgetary procedure 2013

On the basis of the initial Draft Budget (DB) 2013 including the Amending Letter related to it, the 2 arms of the Budgetary Authority (Council and European Parliament) could not agree on a common position on the European Union's general budget for 2013 in accordance with Article 314, paragraphs 4 to 7 of the TFEU. Accordingly, the Commission submitted on 23.11.2012 a new DB 2013 in accordance with Article 314, paragraph 8 of the TFEU and seeking to reconcile the positions of both arms. The Budget 2013 finally was adopted taken into account a compromise reached between the European Parliament and the Council on several elements.

1.2. Initial Draft Budget 2013 and Amending Letter 1/2013

The initial 2013 Draft Budget was adopted by the Commission and proposed to the Budgetary Authority on 15.04.2012. The commitment appropriations proposed for the European Agricultural Guarantee Fund (EAGF) under heading 2 of the Financial Framework 2007-2013 totalled EUR 44 130.3 million.

The Council and the European Parliament adopted their position on the initial 2013 Draft Budget on 25.07.2012 and 23.10.2012 respectively, reducing the commitment appropriations for EAGF by EUR 335 million and EUR 43.8 million respectively.

On 19.10.2012 the Commission adopted Amending Letter (AL) No 1 to the 2013 DB, setting commitment appropriation requirements for EAGF EUR 29.8 million lower than in the initial Draft Budget.

1.3. Adoption of the 2013 budget

The Commission submitted a new Draft Budget 2013 on 23.11.2012 setting commitment appropriation requirements for EAGF at EUR 44 056.5 million. Following the presentation of this new Draft Budget for 2013, intensive trilogues between the 3 parties (Commission, Council and European Parliament) took place on 28-29 November 2012. The Council agreed to the compromise package on 6 December 2012. Finally, the 2013 budget was adopted by the European Parliament on 12 December 2012. The budget included commitment and payment appropriations as follows:

- Commitment appropriations of EUR 43 654.7 million and payment appropriations of EUR 43 660 million for agricultural market measures and direct aids (policy area 05 - Agriculture and Rural Development).
- Commitment appropriations of EUR 274.7 million and payment appropriations of EUR 247.3 million for veterinary and phyto-sanitary measures (policy area 17 - Health and Consumer Protection).
- Commitment appropriations of EUR 27.2 million and payment appropriations of EUR 26.9 million respectively for fisheries markets (policy area 11 - Maritime Affairs and Fisheries).

The budget's total commitment appropriations for EAGF amounted to EUR 43 956.5 million and its payment appropriations amounted to EUR 43 934.2 million. The difference between commitment and payment

¹ This procedure is presented in annex 1.

appropriations is due to the fact, that for certain measures, which are directly implemented by the Commission, differentiated appropriations are used. These measures relate mainly to the promotion of agricultural products, to policy strategy and coordination measures for agriculture as well as to fisheries and to veterinary and phyto-sanitary measures.

Specifically, of the voted EAGF commitment appropriations for policy area 05 amounting to EUR 43 654.7 million, EUR 2 771.4 million were foreseen for market measures under chapter 05 02, EUR 40 931.9 million were foreseen for direct aids under chapter 05 03, - EUR 84.9 million were foreseen for audit of agricultural expenditure under chapter 05 07 and EUR 27.3 million for policy strategy and coordination under chapter 05 08.

For details, please see annex 1.

1.4. Revenue assigned to EAGF²

In accordance with Article 34 of Council Regulation (EC) No 1290/2005 on the financing of the Common Agricultural Policy revenue originating from financial corrections under conformity clearance decisions, from irregularities and from the milk levy are designated as revenue assigned to the financing of EAGF expenditure. According to these rules, assigned revenue can be used to cover the financing of any EAGF expenditure. In the event part of this revenue is not used, then, this part will be automatically carried forward to the following budget year.

At the time of establishment of the 2013 budget, an estimate of the revenue was made both for the amount expected to be collected in the course of the 2013 budget year as well as of the amount which was expected to be carried over from the budget year 2012 into 2013. This estimate amounted to EUR 1 533 million and it was taken into consideration when the Budgetary Authority adopted the 2013 budget. Specifically:

- Revenue from the conformity clearance corrections and from irregularities was estimated at EUR 389 million and EUR 161 million respectively while the receipts from the milk levy were estimated at EUR 78 million. Thus, the total amount of assigned revenue expected to be collected in the course of the 2013 budget year was estimated at EUR 628 million.
- The amount of assigned revenue expected to be carried over from the budget year 2012 into 2013 was estimated at EUR 905 million.

In the 2013 budget, the Commission assigned this initially estimated assigned revenue of EUR 1 533 million to two schemes. Specifically:

- EUR 500 million was assigned to the operational funds for producer organisations in the fruits and vegetables sector, and
- EUR 1 033 million to the single payment scheme (direct aids).

For these two schemes, the Budgetary Authority eventually voted appropriations amounting to EUR 267 million and to EUR 30 635 million respectively in accordance with the Commission's proposals. The sum of the voted appropriations and the assigned revenue mentioned above corresponds to a total estimate of available appropriations of EUR 767 million for the operational funds for producer

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

organisations in the fruits and vegetables sector and EUR 31 668 million for the single payment scheme.

1.5. Part of the EAGF budget in total EU budget

The final EAGF budget's (commitment appropriations) part of the total EU budget for each year of the period 2007–2013 appears in annex 2.

2. CASH POSITION AND MANAGEMENT OF APPROPRIATIONS

2.1. Management of appropriations

2.1.1. Appropriations available for the 2013 financial year

In EUR

Expenditure section of budget (1)	Commitment appropriations	Payment appropriations	Revenue section of budget (AR) (2)	Forecasts
1. Initial appropriations for EAGF of which	43 956 548 610	43 934 188 711	1. Conformity clearance	389 000 000
1a. Appropriations under shared management	43 610 600 000	43 610 600 000	2. Irregularities	161 000 000
1b. Appropriations under direct management (3)	345 948 610	323 588 711	3. Super levy from milk producers	78 000 000
2. Amending Budget			Total forecast of AR	628 000 000
3. Transfer to / out of EAGF in the year	-7 944 450	-12 869 715		
4. Final appropriations for EAGF of which	43 948 604 160	43 921 318 996		
4a. Appropriations under shared management	43 610 250 000	43 610 250 000		
4b. Appropriations under direct management	338 354 160	311 068 996		

(1) Appropriations entered in the 2013 budget after deducting the expected assigned revenue to be collected in 2013 and the one carried over from 2012 to 2013 in accordance with Article 14 of Regulation (EU, EURATOM) No 966/2012.

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

(3) 79% of commitment appropriations concern expenditure for veterinary and phyto-sanitary measures under policy area 17 - Health and Consumer Protection. The rest concern expenditure for policy strategy and coordination under policy area 05 - Agriculture and Rural Development (13%) and for fisheries markets under policy area 11 - Maritime Affairs and Fisheries (8%).

³ p.m.: "pour mémoire".

2.1.2. *Budget execution of appropriations available for the 2013 financial year*

In EUR

	Execution of commitment appropriations	Execution of payment appropriations
Shared management (1)	44 961 909 263.95	44 961 909 263.95
Expenditure under direct management	340 229 347.87	312 088 996.62
Total	45 302 138 611.82	45 273 998 260.57

(1) Committed amounts. Commitments and payments less assigned revenue received for shared management: EUR 44 132 955 071.43.

For the financial year 2013, the actual amount of commitment appropriations used amounted to EUR 45 302 138 611.82 while that for payment appropriations amounted to EUR 45 273 998 260.57.

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

In EUR

Expenditure under direct management	Commitment appropriations	De-commitments	Payment appropriations	Carry over to 2014 (2)
Appropriations (C1) (1)	338 354 160.00	-	311 068 995.90	-
Execution (C1)	332 522 151.49	-	292 180 573.98	13 121 493.82
Appropriations cancelled	5 832 008.51	-	3 911 831.14	-

(1) C1 denotes the budget's voted appropriations. This amount includes transfers to / out EAGF: EUR -7 594 450.00 for commitment appropriations and EUR -12 519 715.10 for payment appropriations

(2) Carry over to 2014 only for non-differentiated appropriations. For budget items under titles 11 and 17, the amounts left over from 2013 execution were carried over into budget items which belong to financial heading 2 (non-EAGF) and financial heading 3 respectively.

Commitment appropriations of EUR 338.4 million were foreseen for expenditure under direct management in the 2013 budget. An amount of EUR 332.5 million was committed in 2013. The balance of these appropriations, EUR 5.8 million, was cancelled. 79% of commitment appropriations concern policy area 17-Veterinary and phyto-sanitary measures expenditure. The rest concern policy area 05-Agriculture and Rural Development (13%) and policy area 11-Fisheries (8%).

The majority of EAGF commitment appropriations for expenditure under direct management made by the Commission are differentiated appropriations. The automatic carry over to 2014, which relates only to non-differentiated appropriations, amounts to EUR 13.1 million.

2.2. Monthly payments

2.2.1. Monthly payments to Member States under shared management

2.2.1.1. Monthly payments on the provision for expenditure

Council Regulation (EC) No 1290/2005 of 21 June 2005 on the financing of the Common Agricultural Policy⁴ states in Article 15 that "*monthly payments shall be made by the Commission ... for expenditure performed by Member States' accredited paying agencies during the reference month*". Monthly payments shall be made to each Member State at the latest on the third working day of the second month following that in which the expenditure is incurred.

The monthly payments are a reimbursement of net expenditure (after deduction of revenue) which has been already carried out and are made available on the basis of the monthly declarations forwarded by the Member States⁵. The monthly booking of expenditure and revenue is subject to checks and corrections on the basis of the detailed declaration⁶. Moreover, these payments will become final following the Commission's verifications under the accounting clearance of accounts procedure.

Payments made by the Member States from 16.10.2012 to 15.10.2013 are covered by the system for monthly payments. The remaining payments are made directly by the Commission for a limited number of measures.

For financial year 2013, the total net amount of monthly payments made, after the deduction of clearance and other corrections, was EUR 44 132 955 071.43.

2.2.1.2. Decisions on monthly payments for 2013

For the financial year 2013, the Commission adopted twelve decisions on monthly payments. Furthermore, an additional monthly payment decision, adjusting those already granted for the total expenditure chargeable to the year, was adopted in December 2013.

3. THE IMPLEMENTATION OF THE 2013 EAGF BUDGET

3.1. The uptake of the EAGF budget appropriations

The implementation of the budget amounted to EUR 45 302.1 million. This expenditure was funded by the budget's initial appropriations and by using the revenue assigned to policy area 05-Agriculture and Rural Development, composed of the entire amount of EUR 1 245.6 million carried over from 2012 and of a part of the assigned revenue collected in 2013 amounting to EUR 118.7 million out of a total EUR 829 million.

Within policy area 05-Agriculture and Rural Development, the expenditure for market measures amounted to EUR 3 193.2 million and for direct aids to EUR 41 658.3 million. The expenditure incurred for certain market measures and direct aids exceeded the budget's voted appropriations and it was partly covered by transfers of appropriations from other items of the budget and partly by the revenue which was assigned to the EAGF budget.

⁴ OJ L 209 of 11.8.2005, p. 1.

⁵ These monthly declarations of expenditure are transmitted by the Member States by the declaration of the 10th of the month N+1.

⁶ The detailed declarations are transmitted monthly by the Member States (by table 104) on the 20th of the month N+1.

Furthermore, the aforementioned total implementation amount includes expenditure for policy area 11-Fisheries market measures of EUR 32.2 million (commitment appropriations) as well as expenditure amounting to EUR 265.9 million for policy area 17-Veterinary and phyto-sanitary measures (commitment appropriations).

For details of the budget's implementation by policy area, please see annex 3.

Annex 5 presents a breakdown of the expenditure on market measures, direct payments and audit of agricultural expenditure by article and by Member State.

4. COMMENTS ON THE IMPLEMENTATION OF THE 2013 EAGF BUDGET

A brief commentary on the implementation of the 2013 EAGF budget's appropriations as well as on the use of the assigned revenue available in 2013 is presented hereafter based on details appearing in the annex 3.

4.1. Chapter 05 02: Interventions in agricultural markets

4.1.1. Introduction

Total payments for this chapter of the budget amounted to EUR 3 193.2 million and they were funded by the budget's voted appropriations amounting to EUR 2 771.4 million, by assigned revenue amounting to EUR 532.5 million which was used to cover the expenditure incurred in the fruits and vegetables sector (NB: Details for this sector appear in point 4.1.3 here below) and by transfers of appropriations from other parts of the EAGF budget amounting to EUR 162.7 million. The remaining balance of assigned revenue collected in 2013 amounting to EUR 710.2 million was carried over to 2014. In items where the budget's appropriations were under-spent, the available appropriations were transferred to other items of the budget in order to cover additional expenditure as needed.

4.1.2. Food programmes

The under-execution of the appropriations foreseen in the 2013 budget for food programmes amounted to EUR 8.5 million and resulted from the fact that one Member State encountered difficulties in implementing its programme towards the end of the budget year. It should be noted that 2013 was the last year of implementing food programmes within the EAGF.

4.1.3. Fruits and vegetables

The expenditure for this sector amounted to EUR 1 138.1 million and its over-implementation was primarily due to the expenditure incurred by Member States for the aid to producer groups for preliminary recognition.

As regards the operational funds for producer organisations, which aim at financing their production quality improvement, promotion and commercialisation programmes, the total needs estimated to cover the expenditure forecasted to be incurred by the Member States concerned amounted to EUR 767 million. Out of this total amount, the Budgetary Authority granted appropriations amounting to EUR 267 million because it took account of estimated revenue amounting to EUR 500 million which had been assigned to the funding of this scheme in the 2013 budget. Member States eventually incurred payments amounting to EUR 726.8 million which were lower compared to the budget's available appropriations mainly because of lower payments for the second instalment for plans approved in 2012 as some Member States had overestimated their expenditure forecasts.

The expenditure incurred by Member States for the aid to producer groups for preliminary recognition exceeded the budget appropriations by around EUR 90.4 million because of the large number of producer groups which have entered this scheme in certain Member States.

The 2013 budget for the School Fruit Scheme was under-executed by around EUR 23.3 million primarily because certain Member States incurred expenditure which remained below their budgetary allocation for the school year 2011/12. As regards the school year 2012/2013 which started on 01/08/2013, the expenditure incurred by Member States by the end of the 2013 budget year was as foreseen in the 2013 budget.

4.1.4. Products of the wine-growing sector

The wine sector was reformed as of budget year 2009. Currently, the principal measure left in this sector is the national support programmes for wine. For all other measures, the 2013 budget included appropriations destined to cover the estimated balances of still outstanding payments.

With regard to the national support programmes, four Member States incurred slightly lower expenditure compared to the amounts foreseen in their programmes. However, all other programmes foreseen under this scheme were fully implemented resulting in an overall implementation of more than 98.1% of the foreseen 2013 appropriations.

Furthermore, for the grubbing-up scheme which was terminated in 2011, Member States incurred significantly smaller expenditure for the payment of still outstanding balances, thus, leading to under-spending the budget's appropriations by around EUR 4.6 million.

4.1.5. Milk and milk products

In the course of the budget year, no skimmed milk powder or butter were bought into intervention.

As regards the private storage aid for butter, the appropriations foreseen in the 2013 budget amounted to EUR 9 million while the expenditure incurred amounted to EUR 7.1 million because of the shorter average storage time for the quantities of butter concerned.

With regard to school milk, the quantities distributed by almost all Member States concerned were lower than the quantities retained in the 2013 budget, thus, leading to an under-execution of the corresponding appropriations by around EUR 10.8 million.

4.1.6. Beef and veal

The expenditure for this sector amounted to EUR 6.5 million for payments of export refunds for beef and veal and for live animals compared to the 2013 budget's appropriations of EUR 7.1 million for these payments, thus, leading to an overall under-execution of around EUR 0.6 million.

4.2. Chapter 05 03: Direct Aids

The voted appropriations for this chapter of the 2013 budget amounted to EUR 40 931.9 million while payments amounted to approximately EUR 41 658.3 million. A part of the single payment scheme was already foreseen to be funded by assigned revenue, thus, leading to this apparent over-implementation

which was covered partly by this revenue and partly by transfers of voted appropriations from other items of the budget.

4.3. Chapter 05 07: Audit of agricultural expenditure

4.3.1. Article 05 07 01: Control of agricultural expenditure

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

The European Union directly financed measures mostly for the purchase of satellite images within the framework of the Integrated Administrative and Control System (IACS) by committing all the amount of EUR 6.8 million foreseen in the 2013 budget for Monitoring and preventive measures-Direct payments by the European Union.

With regard to the accounting clearance of previous years' accounts, and contrary to expected negative corrections, the Commission made overall positive corrections to Member States' amounting to approximately EUR 3.4 million including the negative corrections imposed to Member States from the penalties for non-respecting payment deadlines. The 2013 budget included appropriations amounting to – EUR 200 million for the negative clearance of accounts corrections. The Commission closed this account by transferring voted appropriations amounting to EUR 203.6 million from other items of the budget.

With regard to the conformity clearance of previous years' accounts, the Budgetary Authority had granted appropriations amounting to EUR 108.3 million with regard to previous years' positive conformity clearance corrections under this item. However, the Commission took decisions in 2013 involving positive corrections in favour of the Member States of approximately EUR 109.1 million. The resulting over-execution of EUR 0.8 million was funded by a transfer from other items of the budget.

5. IMPLEMENTATION OF ASSIGNED REVENUE

5.1. Revenue assigned to EAGF

The assigned revenue actually carried over from 2012 into 2013, amounted to EUR 1 245.6 million, including the balance of the Sugar Restructuring Fund, and has entirely been used in financing expenditure of the 2013 budget year in accordance with article 14 of the Financial Regulation. As presented in annex 4-II, this amount covered expenditure of EUR 143.5 million for the operational funds for producer organisations in the fruits and vegetables sector and of EUR 1 102.2 million for the single payment scheme.

As regards the assigned revenue collected in 2013, annex 4-I shows that this revenue amounted to approximately EUR 829 million and it originated from:

- The corrections of the conformity clearance procedure which amounted to approximately EUR 593.6 million.

- The receipts from irregularities which amounted to approximately EUR 155.1 million.
- The milk levy collections which amounted to approximately EUR 80.2 million.

A part of the assigned revenue collected in 2013 amounting to EUR 118.7 million was used within the year to cover expenditure incurred for the operational funds for producer organisations in the fruits and vegetables sector.

The balance of the assigned revenue collected in 2013 amounting to EUR 710.2 million was automatically carried over into the 2014 budget in order to fund budgetary needs of that year.

For details, please see annexes 4-I and 4-II.

6. BREAKDOWN BY TYPE OF EXPENDITURE

The total EAGF expenditure amounts to EUR 45 302.1 million. Hereafter, this expenditure is presented broken down into the main reporting categories along with the percentage that these represent in the total EAGF expenditure for 2013:

Storage

Expenditure for storage amounted to EUR 25.1 million, i.e.: 0.06% of the total expenditure . This amount mainly represents the expenditure incurred for the private storage of butter and olive oil.

Export refunds

Spending on export refunds amounted to EUR 62.4 million, i.e.: 0.1% of the total expenditure and it related mainly to beef, poultry, pig-meat and non-annex I products.

Other market measures

In addition to storage and export refunds, the expenditure for other market measures amounted to EUR 3 217.2 million, i.e.: 7.1% of the year's total. This category covers expenditure mainly relating to food programmes, olive oil, fruit and vegetables, wine, textile plants, POSEI and hops, milk and milk products, beef and veal, pig meat and bee-keeping. This expenditure incorporates other minor amounts and it includes the corrections arising from the clearance of accounts.

Direct payments

Expenditure for direct payments amounted to EUR 41 658.3 million, i.e.: 92 % of the total.

Expenditure under direct management

This expenditure amounting to EUR 340.2 million (in commitment appropriations), i.e.: 0.8% of the total, was paid directly by the Commission and it mostly covered the expenditure relating to veterinary and phyto-sanitary measures as well as to farm accounting, surveys on farm structures, information on the CAP etc.

Rural development under ex-EAGGF-Guarantee

No commitment appropriations can be made anymore for these programmes. Member States are now closing these programmes and they recover unduly paid amounts. The final net amount recovered under this article was around EUR 1 million.

The evolution of this breakdown by type of expenditure for the period 2007-2013 is presented in annex 6.