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31st FINANCIAL REPORT

on the

EUROPEAN AGRICULTURAL GUIDANCE AND GUARANTEE FUND

EAGGF, GUARANTEE SECTION

- 2001 FINANCIAL YEAR -

(presented by the Commission)

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The French version of the Annexes to the 31st Report can be obtained on paper from the Directorate-General for Agriculture or downloaded from its website.

TABLE 1
AVERAGE CONVERSION RATES USED FOR 2001

EUROPEAN COMMUNITY	EUR 1
B	40.3399
DK	7.45508
D	1.95583
EL	340.739
E	166.386
F	6.55957
IRL	0.787564
I	1 936.27
L	40.3399
NL	2.20371
A	13.76030
P	200.482
FIN	5.94573
S	8.98170
UK	0.621063

1. BUDGET PROCEDURE

1.1. Berlin agreement and budgetary discipline

The European Council held in Berlin on 24 and 25 March 1999 reached an overall agreement on **Agenda 2000**. The Regulation on budgetary discipline was also adopted in 2000, entering into force on 1 October 2000.

It will be recalled that the Berlin European Council, as stated in its conclusions, kept the guideline proposed by the Commission (incorporating rural development measures, veterinary measures, the Special Accession Programme for Agriculture and Rural Development (SAPARD) and the amount available under agriculture for accessions) but introduced ceilings on expenditure within the guideline.

There are **two annual sub-ceilings** for the period 2000 to 2006, one for **traditional market expenditure** (subheading 1a) and one for **rural development expenditure** (subheading 1b). These ceilings were set at a level equivalent to the estimate of expenditure that would result from the adoption of the Agenda 2000 proposals. This means that the new ceilings represent estimated expenditure, with no margin for unforeseeable situations that may arise, which has often been the case in the past. These ceilings are shown in the following table:

Expenditure 2000-06 (EUR million, 1999 prices)¹

	2000	2001	2002	2003	2004	2005	2006	Total
Total CAP Agenda 2000	40 920	42 800	43 900	43 770	42 760	41 930	41 660	297 740
(a) markets (sub-ceiling 1a) ²	36 620	38 480	39 570	39 430	38 410	37 570	37 290	267 370
(b) rural development (sub-ceiling 1b) ³	4 300	4 320	4 330	4 340	4 350	4 360	4 370	30 370

The conclusions of the Berlin European Council were followed by the adoption by Parliament and the Council of the following:

- a new **Interinstitutional Agreement on budgetary discipline and improvement of the budgetary procedure**, the financial perspectives (ceilings) and the budgetary procedure incorporating these conclusions and formally providing for the Commission to be allowed to present a letter of amendment to the preliminary draft budget (PDB) in the autumn for the

¹ A 2% deflator will be used to calculate current prices.

² Including veterinary and plant health measures and excluding accompanying measures.

³ Including accompanying measures

- To this expenditure should be added rural development measures not covered by Objective 1 programmes, currently financed by the EAGGF Guidance Section.

- These amounts roughly correspond, on average, to the Commission's Agenda 2000 proposal.

- All rural development measures are jointly financed by the European Union and the Member States.

following year so that the budget estimates reflect the most recent developments;

- a new **Regulation on budgetary discipline** (Regulation (EC) No 2040/2000, OJ L 244, 29.9.2000, p.27), which lays down that all legislative measures decided under the common agricultural policy must remain within subceilings 1a and 1b in the financial perspectives and that appropriations must be within these ceilings; that, with a view to ensuring that the amounts set for subheading 1a (traditional EAGGF Guarantee expenditure) are complied with, the Council may decide to adjust the level of the support measures applicable from the start of the following marketing year in each of the sectors concerned; that the Commission is to present, together with the preliminary draft budget, an analysis of the differences between initial forecasts and actual expenditure for previous financial years and to examine the medium-term situation; that, for the purposes of calculating budget estimates when it draws up the budget, a letter of amendment or a supplementary and amending budget (SAB), the Commission is generally to use the average rate of the dollar over the most recent three-month period; and, lastly, that the monetary reserve is to be cut to EUR 250 million in 2002 and abolished with effect from the 2003 financial year.

1.2. Preliminary draft budget

The 2001 Preliminary Draft Budget was drawn up by the Commission and proposed to the Budgetary Authority in May 2000. The **total amount of appropriations proposed** for the EAGGF Guarantee Section was **EUR 44 100.2 million**, breaking down as EUR 39 605.2 million for subheading 1a (leaving EUR 429.8 million beneath the subheading 1a ceiling of EUR 40 035 million) and EUR 4 495 million for subheading 1b (at the level of the ceiling).

1.3. Draft budget

The **Council** adopted the **draft budget** in July 2000. The appropriations for subheading 1a were cut by EUR 330 million and for subheading 1b by EUR 225 million. Total EAGGF Guarantee appropriations thus amounted to EUR 43 545.2 million: EUR 39 275.2 million for subheading 1a and EUR 4 270.0 million for subheading 1b.

1.4. Letter of amendment

The Commission adopted a Letter of Amendment to the PDB at the end of October 2000. This took account both of the development in agricultural markets and of recent agricultural legislation and the decisions of the Agriculture Council of July 2000, which resulted in the need for EUR 43 167.7 million. The sum of EUR 38 672.7 million for subheading 1a was below the ceiling while the EUR 4 495 million for subheading 1b was equal to the ceiling.

1.5. Adoption of the 2001 budget

The Tripartite Dialogue on the 2001 Budget ended on 14 December 2000 with the adoption of the budget. For the EAGGF Guarantee Section the results were as follows:

For subheading **1a** the **appropriations** amounted to **EUR 38 802.7 million**, which is EUR 1 232.3 million below the Berlin sub-ceiling. That amount took account of the following amendments made to the Letter of Amendment: an increase of EUR 70 million for the fruit and vegetables sector, with EUR 30 million for bananas and EUR 40 million for producer organisations; an extra EUR 60 million was also granted for BSE tests and entered in the reserve. EUR 40 million in provisional appropriations for monitoring and preventative measures was also including, making a total of EUR 100 million entered in Chapter B0-40.

For subheading **1b**, the **appropriations** of **EUR 4 495.0 million** requested by the Commission in its Letter of Amendment were granted; these appropriations are equal to the ceiling.

Appropriations of **EUR 500 million** were also entered in the **monetary reserve**, which can be used only where there is a variation in the euro/dollar rate as defined in Article 9(1) of Council Regulation (EC) No 2040/2000 on budgetary discipline.

The **initial budgetary resources** for the 2001 financial year thus totalled EUR 43 797.7 million.

1.6. Supplementary and amending budget (SAB) No 1/2001

The adoption procedure for SAB No 1/2001 was completed on 28 February 2001. The SAB incorporates EUR 971 million in additional costs related to BSE, resulting from beef market support measures adopted following decisions by the Agriculture Council on 4 December 2000. The main items covered in the SAB are:

- extra costs decided in December by the Agriculture Council concerning the arrangements for culling animals aged over 30 months (item B1-2129: EUR 700 million);
- public intervention storage of beef and veal (items B1-2111 to 2114: EUR 238 million);
- part-financing of BSE tests (item B1-2129: EUR 33 million).

The rules on budgetary discipline require the Commission to update exchange rates when an SAB that affects heading 1 of the financial perspectives is adopted. The exchange rate has accordingly been revised to EUR 1 = USD 0.87 (the original 2001 budget was based on a rate of EUR 1 = USD 0.91). The new exchange rate has led to a reduction in appropriations of EUR 245 million, comprising:

Chapter B1-10: arable crops:	EUR 178 million
Chapter B1-11: Sugar and isoglucose:	EUR 22 million
Chapter B1-14: Fibre plants:	EUR 24 million
Chapter B1-18: Other plant sectors or products (rice):	EUR 16 million
Chapter B1-31: Food programmes (food aid):	EUR 4 million
Chapter B1-32: POSEI:	EUR 1 million

After deduction of EUR 245 million as a result of the new EUR/USD exchange rate, the additional appropriations therefore amount to EUR 726 million.

The updated appropriations amount to EUR 44 023.7 million for budget heading 1 (including EUR 40 million in Chapter B0-40 but excluding EUR 500 million entered in the monetary reserve).

The subheading 1a appropriations are therefore EUR 39 528.7 million, EUR 506 .3 million below the ceiling. The subheading 1b appropriations are unchanged at EUR 4 495.0 million, the ceiling amount.

The appropriations of EUR 40 million entered in Chapter B0-40 “provisional appropriations” will only become available after transfer and are allocated to Chapter B1-36 – monitoring and preventative measures.

Details of the 2001 budget procedure are included in the Annexes available on the website of the DG for Agriculture.

2. CASH POSITION AND MANAGEMENT OF APPROPRIATIONS

A. MANAGEMENT OF APPROPRIATIONS

2.1. Appropriations available for the 2001 financial year

The appropriations finally available for the financial year totalled EUR 44 023.7 million: the initial appropriations of EUR 43 297.7 million plus the monetary reserve of EUR 726 million resulting from SAB No 1/2001.

2.2. Utilisation of appropriations available for the 2001 financial year

2.2.1. Budget operations

The table below details the budget operations over the 2001 financial year:

EUR

1. Available appropriations	44 023 700 000.00
2. Details of commitments	
- for Member States' expenditure	41 472 339 436.39
- for direct payments	<u>611 000 459.25</u>
Total commitments	42 083 339 895.64
3. Amounts charged	
- for Member States' expenditure	41 472 339 436.39
- for direct payments	<u>25 083 454.75</u>
Total charged	41 497 422 891.14
4. Automatic carryovers	
- for Member States' expenditure	0.00
- for direct payments	<u>585 917 004.50</u>
Total automatic carryovers	585 917 004.50
5. Non-automatic carryovers	99 000 000.00
6. Appropriations lapsing (= 1 - 2 - 5)	1 841 360 104.36

2.2.2. Automatic carryovers

Automatic carryovers represent the difference between commitments and amounts actually charged. In this financial year they amount to EUR 585.92 million and are the appropriations committed by the Commission for expenditure to be incurred directly by itself but not yet paid at the end of the financial year.

2.2.3. Non-automatic carryovers

Under Article 7(3) of the Financial Regulation the Commission may request a carryover of appropriations for expenditure planned in the budget for the year just finished but which could not be effected before the end of that year and for which appropriations in the relevant headings of the next budget cannot cover requirements.

For the 2001 financial year the Commission asked the Budget Authority to allow the non-automatic carryover of a total of EUR 99 million from 2001 to 2002. This breaks

down as EUR 82 million for item B1-4050 “Agri-environment measures (new system)” and EUR 17 million for item B1-4070 “Forestry (new system, Article 31)”.

2.3. Automatic carryovers from 2000 to 2001

The table below gives an overview of the utilisation of these carryovers during the 2001 financial year:

(EUR million)

1. Commitments carried over	
– for Member States’ expenditure	0.00
– for direct payments	<u>52.27</u>
Total commitments	52.27
2. Decommitments from carryover	
– for Member States’ expenditure	0.00
– for direct payments	<u>(4.12)</u>
Total decommitments	(4.12)
3. Payments	
– for Member States’ expenditure	0.00
– for direct payments	<u>36.48</u>
Total charged	36.48
4. Lapsing appropriations (= 1 + 2 - 3)	
- for Member States’ expenditure	0.00
- for direct payments	<u>11.68</u>
Total carryovers cancelled	11.68

2.4. Non-automatic carryover of appropriations from the 2000 financial year

There was no budgetary authority decision on non-automatic carryovers from 2000 to 2001.

2.5. Transfers of appropriations within the EAGGF Guarantee Section

The budgetary authority approved four transfers between chapters in 2001:

- Transfer No 25/01 of EUR 400 million
 - from Chapters B1-10 arable crops (- EUR 50.0 million), B1-20 milk and milk products (- EUR 250.0 million) and B1-22 sheepmeat and goatmeat (- EUR 100.0 million),
 - to Chapter B1-33 veterinary and plant-health measures (+ EUR 400.0 million).
- Transfer No 37/01 of EUR 60 million
 - from Chapter B1-21 beef/veal (- EUR 60.0 million)
 - to Chapters B1-30 non-Annex I products (+ EUR 30.0 million) and B1-39 other measures (+ EUR 30.0 million).
- Transfer No 43/01 of EUR 0.585 million
 - from Chapter B1-40 rural development (- EUR 0.585 million).

- to Chapter B1-41 clearance of previous years' accounts and reduction/suspension of advances with regard to rural development (+ EUR 0.585 million)
- Transfer No 63/01 of EUR 254 million
 - from Chapter B1-21 beef/veal (- EUR 254.0 million)
 - to Chapters B1-12 olive oil (+ EUR 52 million), B1-16 products of the vine-growing sector (+ EUR 47 million), B1-37 clearance of previous years' accounts and reduction/suspension of advances under Chapters B1-10 to B1-39 (+ EUR 131 million), B1-39 other measures (+ EUR 24 million).

2.6. Transfer to or from the monetary reserve

The average dollar rate over the financial year was lower than the rate assumed for the 2001 budget and this resulted in additional expenditure estimated at EUR 115 million charged to the EAGGF Guarantee Section for 2001. Since that additional expenditure was less than the neutral margin referred to in Article 11(2) of Regulation (EC) No 2040/2000 no transfer was made from the monetary reserve. In any case, the additional expenditure can be met from the budget appropriations for Titles 1 to 3 of the EAGGF Guarantee Section for 2001.

B. THE SYSTEM OF ADVANCES AND DIRECT PAYMENTS

2.7. Advances to Member States

2.7.1. The system of monthly advances

Article 7 of Council Regulation (EC) No 1258/1999 of 17 May 1999 on the financing of the common agricultural policy⁴ lays down that the Commission is to “decide on monthly advances on the provision for expenditure effected by the accredited paying agencies”. The advances are paid to the Member States at the beginning of the second month following that in which the paying agencies effect the expenditure.

These are not strictly speaking advances but rather reimbursements of expenditure already incurred by Member States. Use of the term “advance” stresses the provisional nature of the payments: the advances are determined on the basis of the monthly expenditure declarations forwarded by the Member States; the expenditure will be booked definitively once it has been verified on the spot during subsequent financial years (cf. Title 5: Clearance of accounts).

The system of advances applies to payments effected by Member States from 16 October 2000 to 15 October 2001. Over 99% is expenditure charged to the EAGGF Guarantee Section. The remainder consists of a limited number of measures for which the Commission makes direct payments.

2.7.2. Decisions on advances for the 2001 financial year

The Commission adopted 12 decisions on monthly advances for the 2001 financial year (Annex 4).

An additional advance, adjusting those for all the eligible expenditure for the financial year, was adopted in December 2001.

2.7.3. Reduction and suspension of advances

In 2001 a correction of - EUR 127.4 million was made on advances paid to the Member States. The various categories of correction are given in the following points.

(a) Reduction of advances for non-compliance with payment time limits

In application of Article 14 of Council Regulation (EC) No 2040/2000 on budgetary discipline⁵ EAGGF staff established that some Member States did not always comply with the time limits laid down in the relevant Community rules for payment of aid to beneficiaries.

Payment deadlines were introduced to ensure equal treatment of recipients in all Member States and to avoid situations in which delays in payment resulted in the aid no longer having the desired economic effect. Moreover, leaving it to the individual

⁴ OJ L 160, 26.6.1999, p. 103.

⁵ OJ L 244, 26.9.2000, p. 27.

paying agencies to make payments at their administrative convenience would prevent the proper application of budgetary discipline.

The Commission's decisions on monthly advances on three occasions provided for a reduction for late payment; the total reduction came to EUR 17.26 million.

(b) Reduction of advances on account of failure to charge the additional milk levy for 2000/01

When the expenditure declared for the 2001 financial year was examined, it was concluded that two Member States had not charged the full amount of the additional levy for the 2000/01 marketing year in accordance with Article 5(2) of Regulation (EEC) No 536/93.

Pursuant to Article 14 of Regulation (EC) No 2040/2000 the Commission decided to reduce the advances for the Member States concerned by EUR 143.47 million.

(c) Refund of the additional levy charged for marketing years 1994/95, 1995/96, 1996/97, 1997/98, 1998/99 and 1999/2000

When the expenditure declared for the 1995, 1996, 1997, 1998, 1999 and 2000 financial years was examined, it was concluded that some Member States had not charged the full amount of the additional levy for the 1994/95, 1995/96, 1996/97, 1997/98, 1998/99 and 1999/2000 marketing years in accordance with Article 5(2) of Regulation (EEC) No 536/93.

Pursuant to Article 14 of Regulation (EC) No 2040/2000 the Commission therefore decided to reduce the advances for the Member States concerned when the expenditure for the financial years in question was entered in the accounts.

In the course of the 2001 financial year these Member States finally obtained levy payments for the marketing years in question. Since these amounts had already been obtained by the EAGGF via reductions in the advances for previous years as described above, the levies declared in 2001 for the marketing years in question were refunded to the Member States in the amount of EUR 32.20 million.

(d) Corrections for public storage

Corrections amounting to + EUR 1.12 million were made to three Member States' declarations.

(e) Other corrections

Other corrections amounting to - EUR 18 475.76 were made. These concerned aid for the needy, - EUR 93 186.89; ineligible expenditure, - EUR 839 638.27; exceeding the ceiling, - EUR 31 324.69; and various accounting errors, + EUR 945 674.09.

2.8. Direct payments

In some cases, the Commission makes direct payments to operators. These are payments for veterinary and plant-health measures and for certain measures which are not traditional market management but are designed to expand outlets for

products, particularly olive oil and fibre flax, and anti-fraud measures, quality promotion and research connected with tobacco.

Annex 5 gives a breakdown of direct payments.

It should be noted that some of these measures are financed by withholding a proportion of the aid payable to producers. Annex 6 gives an overview of the situation of sums withheld in relation to expenditure.

3. ANALYSIS OF BUDGET OUTTURN

A. GENERAL

3.1. Budget outturn

The outturn of EAGGF Guarantee Section appropriations for the 2001 financial year (Member States' expenditure from 16 October 2000 to 15 October 2001) totalled EUR 42 083.3 million, including expenditure from carryovers, i.e. 95.6% of the appropriations under budget heading B1.

- Total expenditure under subheading 1a (traditional EAGGF Guarantee Section and veterinary expenditure, covering Titles B1-1 to B1-3) amounted to EUR 37 719.5 million, i.e. EUR 2 315.5 million below the sub-ceiling fixed in the Interinstitutional Agreement of 6 May 1999 and EUR 1 809.2 million less than the appropriations available.
- Total expenditure under subheading 1b (rural development, covering Title B1-4) amounted to EUR 4 363.8, i.e. EUR 131.2 million below the subceiling and the available appropriations.

3.2. Impact of euro/dollar rate movements

The level of expenditure depends on, among other things, movements in the dollar rate. This applies to a large part of import refunds for agricultural products, particularly cereals and sugar, and some internal aids such as aid for cotton. The real euro rates recorded were higher than the budget rate. The average dollar rate for the period 1.8.2000 to 31.7.2001 (reference period for determining the impact of the dollar) therefore diverges from the budget rate (EUR 1 = USD 0.87), and the level of expenditure incurred by the Member States was higher as a result. The additional expenditure is estimated at EUR 115 million. Since that expenditure in 2001 was less than the neutral margin provided for in Regulation (EC) No 2040/2000 there was no need for a transfer from the monetary reserve. The additional expenditure was covered from budget appropriations entered in EAGGF Guarantee Section Titles 1 to 3 for 2001 as a result of savings made for reasons linked to market movements.

3.3. Dual rates

The dual rates made expenditure substantially lower than in previous years. Abolition of the green rates eliminated the dual-rate effect in the countries participating in the euro. The **cost of the dual rate** to the EAGGF Guarantee Section, estimated in the letter of amendment at EUR 77 million, turned out to be EUR 122 million less and in the end produced **savings of EUR 45 million**.

3.4. Agri-monetary decisions

2001 was the second year in which Council Regulation (EC) No 2799/98 establishing agrimonetary arrangements for the euro applied. It essentially concerned the three Member States that have not adopted the single currency: Denmark, Sweden and the United Kingdom.

The agrimonetary system is by and large comparable to that applicable up to 31 December 1998 as regards compensating for falls in the exchange rates for the various prices and amounts set under the common agricultural policy.

Member States may grant compensatory aid to farmers in cases of appreciable revaluation (exceeding 2.6 %), i.e. “a situation where the annual average exchange rate is below a threshold defined as the lowest average annual conversion rate applied during the preceding three years and the exchange rate of 1 January 1999”. These conditions were not met for any of the three currencies in 2001.

Where the exchange rate applicable to “direct aid” is less than that applicable previously, the Member State concerned may grant compensatory aid to farmers in three successive tranches. The table below lists the compensation fixed for the various kinds of direct aid.

Maximum amounts of the first tranche of compensatory aid, millions of euro		
Measures		United Kingdom
Type	Regulation	
Suckler cow premium	Art. 6(1) Reg. 1254/1999	4.958688
Additional suckler cow premium	Art. 6(5) Reg. 1254/1999	0.157920
Male bovine premiums	Art. 4 Reg. 1254/1999	5.922000
Deseasonalisation premium	Art. 5 Reg. 1254/1999	0.000000
Extensification premium	Art. 13 Reg. 1254/1999	3.182088
Young farmers + less-favoured areas	Arts. 8 and 13 Reg. 1257/1999 Reg. (EC) 950/97	1.099518 1.074290
Early retirement	Art. 10 Reg. 1257/1999	0.000000
Environment	Art. 22 Reg. 1257/1999	1.683822
Forestry	Art. 29 Reg. 1257/1999	0.475734
Ewe and she-goat premium	Reg. (EEC) 872/84	6.470989
Standard-rate ewe premium	Reg. (EEC) 1323/90	1.595146
Maize: maize base area (small producers)	Reg. (EC) 1251/1999	0.071274
Cereals other than maize base area (small producers)	Reg. (EC) 1251/1999	1.870094
Rapeseed, sunflower seed and soya beans (small producers)	Reg. (EC) 1251/1999	0.016970
Peas and field beans (small producers)	Reg. (EC) 1251/1999	0.037334
Linseed (small producers)	Reg. (EC) 1251/1999	0.044122
Maize: maize base area (commercial producers)	Reg. (EC) 1251/1999	0.159518
Cereals other than maize base area (commercial producers)	Reg. (EC) 1251/1999	31.268922
Rapeseed, sunflower seed and soya beans (commercial producers)	Reg. (EC) 1251/1999	8.668276
Peas and field beans (commercial producers)	Reg. (EC) 1251/1999	2.514954
Linseed (commercial producers)	Reg. (EC) 1251/1999	1.126808
Additional aid for durum wheat (commercial producers)	Reg. (EC) 1251/1999	0.000000
Additional aid for durum wheat (traditional zones)	Reg. (EC) 1251/1999	0.016970
Set-aside linked to area payments	Reg. (EC) 1251/1999	6.781212
Area payments: hops	Reg. (EEC) 1696/71	0.098426
Flax grown for fibre	Reg. (EC) 1251/1999	0.295336
Hemp grown for fibre	Reg. (EC) 1251/1999	0.022914

B. FINANCING OF PRODUCT MARKETS

3.5. Agenda 2000

3.5.1. Crop products

Arable crops account for a large part of total EAGGF Guarantee Section expenditure. The percentage in the 2001 budget was 41.5%. Since the 1992 reform, direct aid for producers has come to predominate. After an initial period when expenditure increased from 1994 with the gradual introduction of the reform, it became relatively stable between 1997 and 1999.

Since then arable crops have undergone another stage in the reform process with the adoption of the agriculture chapter of the **Agenda 2000** package. Under the Agenda 2000 decisions, the intervention prices for cereals were severely cut to bring them more into line with world prices. The resulting loss of income is offset by an area payment. Oilseeds, protein crops and non-fibre linseed and, from 2001, fibre flax and hemp are also part of this direct aid system with, for a transitional period, a different rate of aid according to product type.

There are four categories of aid:

- aid for small-scale producers without compulsory set-aside;
- aid for commercial producers subject to compulsory set-aside;
- additional aid for durum wheat producers;
- set-aside (compulsory or voluntary).

For 2001/02 the compulsory set-aside rate was set at 10%, the cereal harvest estimate being around 211.8 million tonnes.

The Agenda 2000 reform of the arable sector, put briefly, involves the following:

- for cereals the intervention price (EUR 101.31/tonne for the 2001/02 marketing year) is to be progressively cut as direct area payments increase;
- for oilseeds the basic amount for the direct area payment will be gradually cut to the level of that for cereals and set-aside;
- for durum wheat the fixed-rate additional aid per hectare will remain unchanged;
- for protein crops the payment per tonne of yield will decrease;
- for linseed the compensatory payment per tonne of yield will also decrease;
- in the regions where no maize is grown areas sown to grass for silage can also qualify for the area payment;
- the minimum price per tonne of potato starch will be reduced;
- for Finland and certain areas of Sweden an additional flat-rate premium will be paid for oilseeds and cereals;
- area payments for flax and hemp will be aligned on those for linseed.

3.5.2. *Livestock products*

The milk and milk products sector is the third largest from the point of view of EAGGF Guarantee Section expenditure. Nonetheless, its share of agricultural expenditure fell sharply between 1980 (42%) and 2001 (4.5%). Milk and milk products was one of the sectors on which the Berlin European Council (March 1999) took a reform decision. The main change is a 15% cut in prices over three marketing years starting in 2005, accompanied by the introduction of a compensatory aid paid direct to producers. This reform had no detectable impact on the 2001 financial year.

In 2001 expenditure on beef and veal, the second largest sector in budget terms, accounted for 14.4% of the Guarantee Section's total spending. The Agenda 2000 reform increased or introduced direct aid to offset the cut in institutional prices. The first phase of that reform had an impact on expenditure in 2001. The increase in expenditure of some EUR 1.5 billion over 2000 can be largely explained by the introduction of new aid schemes or increases in existing aids under the Agenda 2000 package.

3.6. **Breakdown of expenditure by chapter**

3.6.1. *Crop products*

Expenditure on **crop products** totalled **EUR 26 713.6 million**, i.e. EUR 641.4 million less than the appropriations entered in the budget: EUR 27 355 million.

Arable crops, within which direct area payments account for nearly 90% of expenditure, represented a total of **EUR 17 466.2 million** in the Community budget, EUR 381.8 million less than the budget appropriations. There was substantial underutilisation in the case of expenditure on storage, due to the fact that there was more selling from intervention than planned and depreciation costs were lower than expected. Area aid was also lower than predicted, following information on final payments provided by the Member States.

Expenditure on **sugar** totalled **EUR 1 497.1 million**, 206.9 million less than entered in the budget. The main reason for the underutilisation of appropriations was lower expenditure on export refunds.

Appropriations for olive oil were exceeded by EUR 50.8 million, mainly as a result of greater spending on production aid as a result of expenditure which should have been made in 2000 being carried over to 2001; that expenditure totalled **EUR 2 523.8 million**.

Expenditure on **dried fodder and seed legumes** amounted to **EUR 374.8 million**, a slight difference of EUR 9.2 million less than appropriations, as a result of delayed payment of dried fodder production aid by some Member States.

In the case of **fibre plants and silkworms** expenditure was EUR 4.7 million less than expected, totalling **EUR 826.3 million**, as a result mainly of lower expenditure on aid for cotton, partly offset by an increase in expenditure on flax.

The expenditure recorded in the **fruit and vegetables** sector, **EUR 1 558 million**, was EUR 96 million less than the appropriations. The main reason for this difference was far less spending on operational funds for producer organisations, financial compensation for withdrawals and compensation for citrus processing.

As regards **products of the vine-growing sector**, expenditure totalled **EUR 1 196.7 million**, EUR 43.7 million more than the appropriations entered, as a result of greater spending on distillation and the take-over of alcohol into public intervention.

For **tobacco**, expenditure was EUR 26.6 million down owing to total non-implementation of production quotas for four Member States, amounting to **EUR 973.4 million**, almost all of it on premium payments.

For **other plant sectors or products** expenditure totalled **EUR 297.3 million**, a decrease of EUR 10.7 million, primarily for seeds and rice.

3.6.2. *Livestock products*

Expenditure on **livestock products** totalled **EUR 9 558.3 million**, i.e. EUR 1 571.4 million less than the appropriations entered in the budget: EUR 11 129.7 million.

There was an underspend of EUR 438.4 million in the **milk and milk products** sector, expenditure amounting to **EUR 1 906.6 million**. There were savings of EUR 159.5 million on export refunds, EUR 82.9 million on aid for the use of skimmed-milk powder and EUR 77.1 million on aid for the storage of butter and cream.

In the **beef and veal sector** expenditure was **EUR 6 054.0 million**, EUR 924 million less than the appropriations entered. That substantial underutilisation was mainly due to fewer refunds because of the BSE-related drop in exports, and rather lower than anticipated utilisation under slaughtering programmes linked to the BSE crisis, which resulted in the establishment of the SAB.

For **sheepmeat and goatmeat** a saving of EUR 172.7 million was made, mainly under she-goat and ewe premiums, expenditure amounting to **EUR 1 447.3 million**.

A saving of EUR 32.9 million on **pigmeat, eggs and poultry** was recorded, mainly for pigmeat, expenditure totalling **EUR 137.1 million**.

Expenditure from the Guarantee Section for **fisheries** totalled **EUR 13.3 million**, a saving of EUR 3.35 million.

3.6.3. *Related measures*

The appropriations entered in Title 3 totalled EUR 1 704.0 million (including accounts clearance), whereas expenditure finally came to **EUR 2 017.3 million**, an overrun of EUR 313.3 million.

Expenditure on **non-Annex I product refunds** totalled **EUR 435.6 million**, an overrun of EUR 20.6 million, despite the favourable euro/dollar rate.

There was an underspend on **food aid** of EUR 41.2 million, mainly on account of less being spent on aid for the needy and for school milk. Expenditure totalled **EUR 281.8 million**.

Expenditure under **programmes to assist the outermost regions and the Aegean islands** totalled **EUR 183.6 million**, representing an underutilisation of EUR 61.4 million, owing mainly to savings made under the Canary Islands supply programme.

Expenditure on **veterinary and plant-health measures** amounted to **EUR 565.5 million**, an overrun of EUR 400 million. In order to finance extra costs incurred as a result of foot-and-mouth disease, which mainly hit the UK, the budget was increased by EUR 400 million (SAB No 25/2001) to the benefit of heading B1-3320 (emergency funds).

On the other hand, expenditure on **monitoring and preventative measures concerning the EAGGF Guarantee Section** was EUR 40 million less than appropriations, totalling **EUR 32.1 million**.

For the **clearance of previous years' accounts and reduction/suspension of advances**, recoveries totalled **EUR 569.7 million**, EUR 130.3 million less than expected, as a result of a smaller amount of reductions/suspensions of advances than initially anticipated.

Expenditure on **promotion and information measures** totalled **EUR 48.9 million**, 17.6 million less than expected.

For **other measures** expenditure came to **EUR 469.8 million**, an overrun of EUR 52.8 million, largely attributable to agrimonetary aid.

3.7. Breakdown of expenditure by economic type

EAGGF Guarantee Section expenditure breaks down into two broad categories: refunds, and what is known as intervention expenditure, consisting mainly of direct aid, storage, withdrawals and similar operations, and other intervention expenditure. Rural development expenditure must also be added, as this does not fall within refund or intervention expenditure. Annexes 13 to 15 detail the different expenditure by economic type.

3.7.1. Refunds

Expenditure on refunds for the 2001 financial year totalled **EUR 3 400.6 million**, 8.1% of total Guarantee Section expenditure, a reduction of 6% over the previous year.

3.7.2. Direct aid

Expenditure classed as **direct aid** totalled **EUR 27 430.3 million**, 80.0% of all **intervention** expenditure, which amounted to **EUR 34 287.3 million**. They totalled 65,2% of total Guarantee Section expenditure. The types of expenditure included under direct aid are listed in the Annex to Council Regulation (EC) No 1259/1999 of 17 May 1999 (OJ L 160, p. 113). They include in particular (this is not a complete list) area payments and set-aside of arable land, production aid for olive oil, area payments for flax, hemp, dried vegetables, rice, dried grapes, premiums for tobacco, suckler cows, male bovines, ewes and she-goats, and agrimonetary aid.

3.7.3. Storage

Storage expenditure was **EUR 1 059.9 million**, 3.1% of all intervention expenditure. Between 1 October 2000 and 30 September 2001, when the public storage accounts were closed, the quantities and book value of products in public intervention storage increased. The book value of intervention stocks increased from EUR 884.94 million at the end of the 2000 financial year to EUR 984.08 million at the end of 2001.

Cereal stocks decreased from 8 517 214 to 7 304 909 tonnes, olive oil from 25 360 to 6 136 tonnes, skimmed-milk powder from 1 007 to 0 tonnes, and butter from 71 625 to 34 109 tonnes.

The only stocks to increase during the 2001 financial year were beef and veal, from 832 to 232 467 tonnes, and alcohol, from 1 602 258 to 2 248 862 hectolitres.

As far as the breakdown of the book value of stocks is concerned, the percentage for cereals and rice has decreased, these two products now accounting for just on 67% of the total value of products in storage. The remaining 33% consisted of olive oil (1%), milk products (4%), beef and veal (25%), and alcohol (3%).

As in each year since 1988, the Commission applied a depreciation to the value of products bought into intervention. This was done in two stages: at the time of buying-in products were depreciated by an amount representing at least 70% of the total foreseeable loss in value. At the end of the financial year the stock was evaluated and if necessary a further depreciation was applied to bring the book value of the products in line with the expected selling price. In the 2001 financial year the depreciation at the time of buying-in was EUR 417.128 million and the additional depreciation at year-end was EUR 108.208 million.

3.7.4. Withdrawals, slaughtering and related operations

Expenditure on withdrawals, slaughtering and related operations amounted to **EUR 2 732.8 million**, i.e. 8.0% of the total intervention amount.

3.7.5. Other

Other intervention expenditure was **EUR 3 064.2 million**, i.e. 8.9% of the total intervention amount. This category of expenditure covers what is not included in the above categories, primarily intervention other than storage costs for sugar, aid for the production of dried fodder, aid for cotton, operating funds of producer organisations, aid for the production of citrus fruit and financial compensation to encourage citrus processing, aid for the use of grape must for wine-sector products, aid for the use of skimmed-milk powder and measures relating to butterfat, and expenditure under food aid programmes and POSEI.

C. SPECIAL FINANCING

In addition to the market support described above, the EAGGF Guarantee Section is responsible for financing special measures for the supply of foodstuffs to the needy in the community.

3.8. Supply of food from intervention stocks for the benefit of the needy in the community

In the particularly harsh winter of 1986-87 the Community organised an emergency programme for the supply free of charge of foodstuffs to the worst-off 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 the general rules for the supply of food from intervention stocks to designated organisations for distribution to the most deprived persons in the Community⁶. The Commission adopted an implementing regulation (Regulation (EEC) No 3149/92⁷, as last amended by Regulation (EC) No 1098/2001⁸).

Since then 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.

Nine Member States wished to take part in 2001. The appropriations were shared among them according to the number of needy they had. The allocation also reflected a substantial underspend in the previous three years.

The annual plan is established in consultation with the charities on the ground. It is administered at national level by the authorities of the participating Member States. Each Member State designates the organisations that are to distribute food to the needy.

This measure also allows each participating Member State to obtain supplies of products from another Member State where it has no intervention stocks itself of one of the products it is to distribute under the scheme.

Under the 2001 plan (Decision 2001/23/EC⁹) the participating Member States shared EUR 195 million as described in the tables below.

⁶ OJ L 352, 15.12.1987, p. 1.

⁷ OJ L 313, 30.10.1992, p. 50.

⁸ OJ L 150, 6.6.2001, p. 37.

⁹ OJ L 6, 11.1.2001, p. 10.

Member State	Ceiling in euro	Rate at 1.10. <u>2000</u>	Ceiling in national currency
B	2 285 000	40.339900	92 176 671.70
EL	13 383 000	339.300000	4 540 851 900.00
E	55 096 000	166.386000	9 167 203 056.00
F	39 232 000	6.559570	257 345 050.24
IRL	207 000	0.787564	163 025.75
I	56 568 000	1936.270000	109 530 921 360.00
LUX	48 000	40.339900	1 936 314.80
P	24 876 000	200.482000	4 987 190 232.00
FIN	3 305 000	5.945730	19 650 637.65
Total allocated	195 000 000		
Transfers	5 000 000		
Total for <u>2001</u> plan	200 000 000		

Member State	Cereals	Rice	Olive oil	Butter
Belgium	<u>3 500</u>	<u>500</u>		<u>500</u>
Greece	<u>25 000</u>	<u>10 000</u>	<u>4 000</u>	
Spain	<u>65 000</u>	<u>30 000</u>	<u>7 000</u>	<u>7 400</u>
France	<u>17 530</u>	<u>2 700</u>		<u>10 551</u>
Ireland				<u>60</u>
Italy	<u>75 000</u>	<u>30 000</u>	<u>5 000</u>	<u>8 500</u>
Portugal	<u>10 000</u>	<u>7 500</u>	<u>3 000</u>	<u>4 600</u>
Finland	<u>13 670</u>			<u>500</u>
Total	<u>209 700</u>	<u>80 700</u>	<u>19 000</u>	<u>32 111</u>

Member States participating in the 2001 plan	Utilisation rate of allocated appropriations ¹⁰
Belgium	97%
Denmark	0%
Greece	0%
Spain	100%
France	97%
Ireland	95%
Italy	75%
Luxembourg	44%
Portugal	98%
Finland	80%
All participating Member States	85%

3.9. Rural development

The EAGGF Guarantee Section, using appropriations from subheading 1b, part-finances (under Regulation (EC) No 1257/1999) rural development programmes, four measures of which (early retirement, compensatory payments, afforestation and agri-environment) cover the entire EU, while six (farm investment, young farmers, training, forestry, processing and marketing, and adjustment and diversification of rural areas) apply outside the Objective 1 regions, where measures are financed by the EAGGF Guidance Section.

For 2000-06 subheading 1b has been given EUR 32 907 million. This sum has been allocated to the Member States which were to establish programmes to implement rural development policy.

Of the 89 rural development programmes submitted by the Member States 52 were adopted by decision of the Commission in 2000 and 35 were adopted in 2001 (the other two will be approved in 2002).

The allocation to the 2001 budget by the Budgetary Authority was EUR 4 495 million, equivalent to the ceiling for subheading 1b in the financial perspectives.

Outturn in 2001 was EUR 4 363.8 million, comprising all expenditure actually incurred under the 87 programmes approved in 2000 and 2001, the advance of 12.5% of an average annual instalment for the 35 programmes adopted in 2001 (which will be settled at the end of the period) and expenditure on the former accompanying measures for the two measures not yet adopted in 2001.

The outturn for rural development programmes in 2001 of EUR 4 363.8 million was an underspend of EUR 131.2 million compared to the budget allocation of EUR 4 495.0 million. The underutilisation is mainly accounted for by the new schemes for accompanying measures (early retirement, afforestation and agri-

¹⁰ Expenditure declared up to March 2002.

environment) and to a lesser extent the processing and marketing of agricultural products, young farmers and farm investments (measures which were financed by the EAGGF Guidance Section until 1999). In contrast, the measures which greatly exceeded their initial allocation were the former schemes for accompanying measures, compensatory payments, promotion of rural development and training. As a result, transfers within the Chapter for adjustment purposes were needed to re-balance budget resources to real implementation needs.

The low level of uptake is mainly due to the fact that programme approval was not finished until 2001 so that it was impossible in 2001 to achieve the level of implementation which would have absorbed all the funds available, particularly for the more complex measures (such as the new schemes for accompanying measures).

As a result, and in accordance with Article 7(3) of the Financial Regulation, a request to carry over to 2002 appropriations worth EUR 99 million (EUR 82 million for the new agri-environment scheme and EUR 17 million for the new forestry scheme) was presented to the Budgetary Authority.

3.10. Chapter B1-33: Veterinary and plant-health measures

- Background

The uptake of appropriations available in the 2001 budget was 99.99%; only EUR 47 470 out of a total of EUR 565 500 000 was not committed.

To finance the extra costs incurred as a result of the foot-and-mouth epidemic, which mainly hit the United Kingdom, the budget was increased by EUR 400 000 000 via a supplementary and amending budget (No 25/2001) to strengthen heading B1-3320 (emergency funds).

In addition, two transfers within Chapter 33 (for details see below) were made during the second half of 2001 to maximise the use of 2001 budget funds and the emergency funds (EUR 5 484 055 in October 2001 and EUR 628 855 in December 2001) .

Therefore, during the 2001 financial year the total budget for Chapter B1-33 increased from EUR 165 500 000 to EUR 565 500 000; the total for the emergency fund increased from EUR 41 000 000 to EUR 447 112 910.

- Details

Heading B1-330 - Eradication and monitoring programmes

The initial appropriations of EUR 110 700 000 were committed in full in 2001: EUR 44 850 000 for the “traditional” eradication programmes and EUR 65 850 000 for monitoring of transmissible spongiform encephalopathies (TSEs). The “programmed” expenditure corresponds to the initial appropriations. There was no transfer of appropriations to or from that heading.

B1-331 - Other measures in the veterinary field

Only half the initial appropriations (EUR 5 130 120 out of EUR 10 500 000) was committed in 2001.

As a result, EUR 5 369 880 was transferred from heading B1-331 to the “emergency fund” heading (B1-332).

Heading B1-332 - Emergency fund

Initial appropriations were EUR 41 000 000 and were increased via a supplementary and amending budget and transfers within Chapter B1-33 to EUR 447 112 910. This was because following the foot-and-mouth crisis and taking account of forecasts of future payments to the Member States and also of resources available under heading 1, it had been decided to allow for advances relating to foot-and-mouth of EUR 400 000 000 (see below).

Foot-and-mouth disease - UK	+ 355 000 000
Foot-and-mouth disease - NL	+ 39 000 000
Foot-and-mouth disease - F	+ 3 300 0000
Foot-and-mouth disease - IRL	+ 2 700 000
TOTAL	+ 400 000 000

Heading B1-333A - Plant health measures - expenditure on administrative management

Initial appropriations were EUR 1 300 000. A total of EUR 941 278 was committed and EUR 47 470 was not committed in 2001. As a result EUR 311 252 was transferred to heading B1-332, the emergency fund.

Heading B1-333 - Plant health measures - operational expenditure

Initial appropriations were EUR 2 000 000. A total of EUR 1 568 222 was committed. EUR 431 778 was transferred to the emergency fund.

- Summary table - Chapter B1-33

Item	2001 budget	Initial appropriations	Final appropriations after transfer	Committed before 31.12.2001	Balance: commitments - final appropriations
B1-3300	Animal disease eradication and monitoring programmes and monitoring of the physical condition of animals that could pose a public-health risk linked to an external factor	<i>110 700 000</i>	<i>110 700 000</i>	<i>110 700 000</i>	<i>0</i>
B1-3310	Other measures in the veterinary, animal welfare and public-health field	<i>10 500 000</i>	<i>5 130 120</i>	<i>5 130 120</i>	<i>0</i>
B1-3320	Emergency fund for veterinary complaints and other diseases of animal contaminations which are a risk to public health	<i>41 000 000</i>	<i>447 112 910</i>	<i>447 112 910</i>	<i>0</i>
B1-3330A	Plant-health measures – Expenditure on administrative management	<i>1 300 000</i>	<i>988 748</i>	<i>941 278</i>	<i>-47 470</i>
B1-3330B	Plant-health measures – Expenditure on operational management	<i>2 000 000</i>	<i>1 568 222</i>	<i>1 568 222</i>	<i>0</i>
	Total	165 500 000	565 500 000	565 452 530	-47 470

3.11. Fisheries

The budget allocation for fisheries was **EUR 16.7 million**, **EUR 13.4 million** of which was spent, an underspend of EUR 3.3 million.

The overall budget underspend mainly concerns the operational programme mechanism, for which the Member States may decide not to grant financial compensation to the producer organisations, which was the case in 2001 (- EUR 4 million compared to budget forecasts).

By contrast, because of the deterioration in the market for tuna, expenditure on the compensatory payment was higher than forecast (+ EUR 3.5 million).

There was also a low level of intervention in the form of independent withdrawals and carry-overs (- EUR 1.9 million) on account of a good market price level.

3.12. Information measures

Budget line B1-382 has, since 2000, been earmarked for enhancing public awareness of the CAP and rural development policy. Its legal basis is Council Regulation (EC) No 814/2000 and Commission Regulation (EC) No 1557/2001.

Grant applications are submitted by farming organisations for work programmes or specific measures. These have to follow guidelines laid down in a call for proposals published annually.

The rate of financing of work programmes and specific measures is 50%. However, in some cases, particularly measures of exceptional interest based on selection criteria and on certain conditions, the rate may be increased to 75%.

The rules also allow funding of activities implemented on the Commission's initiative.

In 2001 appropriations under heading B1-382 were EUR 4 500 000. During the year the following awareness-raising activities were financed:

- (1) 14 work programmes for EUR 1 335 097,
 - (2) 25 specific measures for EUR 898 236, and
 - (3) 24 measures initiated by the Commission for EUR 696 512.73,
- totalling EUR 2 929 845.73.

4. CONTROL MEASURES

4.1. Integrated Administration and Control System

The departments auditing agricultural expenditure paid particular attention to significantly improving the Integrated Administration and Control System (IACS), which has been in use since 1993 and has proved an effective and efficient tool for managing and controlling expenditure on arable crops and livestock premiums.

The internal audit departments reviewed all the legislation and organised four experts groups and numerous bilateral contacts to that end.

The main objectives of this review were twofold:

1. Produce a new consolidated Regulation in order to:
 - provide a more logical and coherent layout,
 - clarify and simplify certain aspects,
 - facilitate more practical implementation,
 - ensure a more uniform approach.
2. Update the Regulation, taking account of:
 - proposals from Member States received following bilateral contacts,
 - interpretations and other written guidelines provided to Member States,
 - experience gained in recent years from clearance of accounts missions and experts group meetings,
 - recent Community legislation, particularly as regards:
 - the new slaughter and extensification premium schemes,
 - bovine identification and registration,
 - geographical information systems,
 - the incorporation of aids involving sectors not previously covered,

– technological advances, such as databases and satellite imaging.

The principal topics under consideration are:

- extending the “**paperless**” **claim systems**, whereby aid applicants provide far less detail than required in the past;
- efficient use of **control resources** by:
 - maximising the use of computerised and remote controls,
 - improved targeting of, and reaction to, higher risk areas,
 - executing integrated on-the-spot checks covering several schemes,
 - reducing on-the-spot checks, where appropriate,
 - effective and consistent **penalty systems** as deterrents to fraud and irregularity, whilst still ensuring the appropriate degree of proportionality,
 - introduction of a “**holding-based**” approach for the numerous bovine premium schemes.

The new Regulation is (EC) No 2419/2001¹¹.

4.2. Olive oil control agencies

Under Council Regulation (EEC) No 2262/84¹² and Commission Regulation (EEC) No 27/85¹³ olive oil control agencies have been established in the main producer Member States, i.e. Greece, Spain, Italy and Portugal.

The four agencies carried out their work in the 2000/01 marketing year in line with the work programmes and forward estimates approved by the authorities of the Member States and the Commission.

The **Italian** control agency carried out thorough checks on 1 811 mills, shortened checks on 1 210 mills and on-the-spot checks on 220 producers, 15 producer associations and one union in the 2000/01 marketing year. It carried out 2 646 checks on 800 holdings and mills in connection with regional yields (mills + producers). The agency also undertook 1 363 cross-checks, mainly between mills and producers' premises. The number of mills cross-checked was 409, greatly in excess of the 10% laid down in Article 30(3) of Regulation (EC) No 2366/98. During the thorough checks at mills 838 samples of olive oil were taken and 271 were sent to laboratories approved for analysis purposes. Fines/administrative penalties were recommended for 729 mills and withdrawal of approval was proposed for 382 of them. The tax authorities were informed of 106 cases of irregularity and 170 cases were reported to the authorities responsible for investigating infringement of waste-water treatment rules. As regards the producers, there were 14 penalties recommended involving refusal of aid for 23 908 kg of oil.

¹¹ OJ L 317, 12.12.2001.

¹² OJ L 208, 3.8.1984.

¹³ OJ L 4, 5.1.1985.

Most of the cases were reported to the judicial authorities and/or other control authorities.

On the basis of these findings the Member State decided on 52 withdrawals of approval and 197 warnings for mills; 19 cases were not followed up. 115 cases are still being processed. The irregularities relating to producers have been reported to the paying authority (AGEA) for non-payment of the aid.

Financial penalties are imposed by the “Repressione Frodi” directorate of the Ministry of Agriculture, which decides on the imposition of penalties as provided for in Community and national law. To date only a few cases involving the marketing year in question have been examined and penalties imposed.

The **Greek** control agency carried out thorough checks on 939 mills and shortened checks on 460 in the 2000/01 marketing year. This represents 41.3% and 20.3% respectively of the 2 264 mills operating during the marketing year. During the inspections samples were taken at 732 mills and 201 of them were analysed. The agency also checked 1 union, 21 associations, 13 cases of private storage, 50 table-olive packaging plants and 2 910 producers and carried out 2 272 checks on holdings and mills in connection with regional yields (mills + producers). It also helped to set yields in 18 homogeneous zones. In total it carried out 4 768 cross-checks on mills/producers, 142 on mills/purchasers and 87 on mills/pomace factories.

The agency recommended withdrawal of approval for 211 mills and 742 corrections of crop declarations. The impact of the penalties imposed on mills, associations, producers and recipients of the oil produced can be estimated at some EUR 11 million.

The **Portuguese** control agency in the same marketing year inspected 1 678 producers, 552 mills and 19 associations. It undertook 7 636 cross-checks and 20 checks on table-olive processing plants. In the light of these checks, the agency recommended that 227 mills lose their approval, 11 subsidies be refused and 203 corrections be made to amounts payable to producers. No withdrawal of approval from associations was recommended. All these recommendations were accepted by the Member State, which generally imposed the penalties recommended. Some of the backlog since 1996 in imposing penalties on producers was also cleared.

The **Spanish** agency carried out 928 thorough checks and 103 shortened checks on mills during the 2000/01 marketing year. It inspected 21 producer organisations, 708 producers and 73 table-olive processing plants and carried out 1 256 cross-checks up- and downstream of the mills. It recommended loss of approval for 59 mills and sent 352 warnings to mills, mainly for not having sent in monthly declarations in good time. Warnings were sent to 53 table-olive packaging plants for the same reasons. The agency recommended withdrawal of aid for 32 producers and correction of amounts paid to 48 growers, 4 of them table-olive growers.

On the whole, however, except as stated above, the Member States did not adequately follow up the agencies' recommendations on penalties.

4.3. Part-financing to encourage tighter controls

Under Council Regulation (EC) No 723/97 of 22 April 1997, the Community is to contribute towards the costs incurred by Member States in implementing new action

programmes, arising out of new Community obligations, approved by the Commission and in force after 15 October 1996, and aimed at improving the structures or effectiveness of EAGGF Guarantee Section expenditure controls.

Under the same Regulation (Article 4(3)) the Commission may undertake work for the maintenance and development of systems of control and direct electronic information exchange between the Member States and itself.

In consultation with the EAGGF Committee, for each annual instalment the Commission has to set the maximum amount of the Community financial contribution, having regard to the available appropriations and on the basis of the programmes presented by the Member States. The level of the Community financial contribution is 50% of Member States' payments of eligible expenditure over the financial year. However, if the total eligible expenditure exceeds the budget resources available, the Community's contribution rate is reduced proportionally.

This fifth year of application confirmed the importance that Member States attach to setting up new control systems. Most of the programmes relate to implementing a geographical information system (GIS) and an agricultural parcel identification system.

After the EAGGF Committee was consulted in 18 December 2000, Commission Decision C(2001) 175 final of 30 January 2001 was adopted under which EUR 12 973 155 was granted to five Member States which had sent in action programmes for 2001.

Council Regulation (EC) No 2136/2001, adopted by the Council on 23 October 2001, extended the period of validity of Regulation (EC) No 723/97 by two years and approved annual part-financing of EUR 15 000 000.

In 2001 the Commission undertook four audit missions in Member States (Spain, Finland, Portugal and Belgium) to verify conformity of the expenditure declared by the Member States.

Regulation (EC) No 723/97

2001

Member State	
Germany	DEM 19 731 860
Greece	GRD 326 650 000
France	FRF 3 602 000
Austria	ATS 17 478 758
United Kingdom	UKL 64 600

In this, the fifth year of application, Belgium, Spain, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Austria, Denmark and Sweden did not present programmes for part-financing.

5. CLEARANCE OF ACCOUNTS

5.1. General

During 2001 the three units in Directorate A.I presented four decisions on the audit of Member States' agricultural expenditure under the EAGGF Guarantee Section for adoption by the Commission:

- Decision of 5 February 2001 (2001/137/EC) under Article 5(2)(c) of Regulation (EEC) No 729/70 and Article 7(4) of Regulation (EC) No 1258/1999 - sixth decision¹⁴,
- Decision of 8 May 2001 (2001/474/EC) in respect of 2000 - clearance of accounts¹⁵,
- Decision of 11 July 2001 (2001/557/EC) under Article 5(2)(c) of Regulation (EEC) No 729/70 and Article 7(4) of Regulation (EC) No 1258/1999 - seventh decision¹⁶,
- Decision of 12 December 2001 (2001/889/EC) under Article 5(2)(c) of Regulation (EEC) No 729/70 and Article 7(4) of Regulation (EC) No 1258/1999 - eighth decision¹⁷.

The expenditure recovered from Member States in respect of these four Decisions comes to EUR 807 million.

The agricultural expenditure audit units also pursued the other tasks for which they are responsible:

- execution of 184 on-the-spot checks in the 15 Member States and 25 missions in the SAPARD countries;
- organisation of meetings with the Member States on the results of control missions for the 1999 and 2000 financial years;
- participation in the work of Parliament's Committee on Budgetary Control in connection with the discharge of the 1999 and 2000 budgets;
- opinion of the Court of Auditors on the new accounts clearance procedure applied from the 1996 financial year;
- opinion of the Court of Auditors on the SOA 2000 exercise;
- approval of five SAPARD paying agencies (Bulgaria, Estonia, Slovenia, Lithuania and Latvia) and monitoring and assistance for setting up five other SAPARD paying agencies;
- participation in the work of the Conciliation Body;
- adoption of Council Regulations on part-financing olive oil control agencies and on strengthening controls on agricultural expenditure;

¹⁴ OJ L 50, 21.2.2001.

¹⁵ OJ L 167, 22.6.2001.

¹⁶ OJ L 200, 25.07.2001.

¹⁷ OJ L 329, 14.12.2001.

- establishment of a manual of procedures on guidance controls under the Structural Funds, for 1994-99 and 2000-06;
- activities of the Special Bodies of Inspectors for wine and for fruit and vegetables;
- development of controls concerning direct expenditure by the DG for Agriculture;
- organisation of 10 training days as refresher audit courses for staff of the three units.

5.2. Clearance of accounts under the new procedure

(EUR million)

	Decision 6, 5.2.2001	Decision 7, 11.7.2001	Decision 8, 12.12.2001
Arable crops	214.9	5.2	-
Fruit and vegetables	-	9,2	-
Refunds	20.9	-	-
Late payments	7.9	7.7	-
Flanking measures	-	0.4	-
Livestock premiums	10.4	72.5	-
Oils and fats	76.4	48.6	-
Public storage	7.8	0.5	-
Dairy	61.6	- 0.4	264.2
TOTAL	399.9	142.9	264.2

5.3. Clearance of accounts for the 2000 financial year

5.3.1. Introduction

The accounts clearance reform stipulated that paying agencies must be approved and that from the 1996 financial year accounts clearance were to be split into two distinct procedures: one annual accounts clearance decision verifying the veracity, integrality and accuracy of the accounts sent in (Article 5(2)(b) of Council Regulation (EEC) No 729/70 and, from 1 January 2000, Article 7(3) of Council Regulation (EC) No 1258/1999), and separate decisions excluding from Community financing any expenditure not effected in compliance with Community rules (Articles 5(2)(c) and 7(4) respectively of the above Regulations).

Accounts clearance is based on annual accounts supported by certificates and audit reports produced for each paying agency by independent audit bodies, the certifying bodies (Article 3(1) of Commission Regulation (EC) No 1663/95).

Commission officials examined the annual accounts, certificates and audit reports transmitted by the deadline of 10 February 2001 and also visited some of the paying agencies. The purpose of the visits was to assess the work of the certifying bodies,

the extent of the problems reported and the measures taken by the paying agency to solve the problems identified. Problems were not confined to the accuracy of the accounts, they also stemmed from the paying agencies' operational systems. The certifying bodies are required to check that these systems are sound enough to provide reasonable assurance that expenditure complies with Community rules.

5.3.2. *Decision 2001/474/EC of 8 May 2001*

It was decided to clear those paying agencies' accounts of which the integrality, accuracy and veracity had been confirmed on the basis of the information received. The accounts of the other paying agencies were disjoined from the decision and are the subject of a later decision. The results of the examination may be summarised as follows:

- the accounts of 16 Spanish paying agencies were disjoined from the decision;
- the accounts of the Greek paying agency were also disjoined from the decision.

The reason for the disjunction was non-compliance by the paying agencies with Regulation (EC) No 2390/1999 on the form and content of accounting information.

5.3.3. *Corrections to accounts*

Corrections were adopted in the light of the remarks of the certifying bodies or of Commission investigations. The total amount of the corrections is:

Belgium	EUR + 0.5 million
Germany	EUR - 1.3 million
Spain	EUR - 3.0 million
France	EUR - 3.3 million
Ireland	EUR - 0.1 million
Italy	EUR + 29.5 million
Netherlands	EUR + 0.8 million
Portugal	EUR + 0.07 million
United Kingdom	EUR -14.5 million

5.4. **Cases brought before the Court of Justice against clearance decisions**

5.4.1. *Judgments handed down*

Since the establishment of the 30th EAGGF Guarantee Section Financial Report the Court has handed down 7 judgments in appeals brought by Member States against clearance decisions.

The Court rejected the appeals brought in the following cases:

- Judgment of 11 January 2001 (Case C-247/98) concerning the withholding of 2% of the aid for arable crops and animal premiums, withdrawals of citrus fruit, peaches and nectarines from the market, the permanent abandonment of areas under vines and compulsory distillation in Greece;
- Judgment of 6 March 2001 (Case C-278/98) concerning shortcomings in checks relating to the prefinancing of the refund on cereals, beef and veal in the Netherlands;

- Judgment of 20 September 2001 (Case C-263/98) concerning export refunds on cereals and beef and veal in Belgium;
- Judgment of 13 September 2001 (Case C-374/99) concerning aid for the consumption of olive oil and sheep and goat premiums in Spain;
- Judgment of 13 September 2001 (Case C-375/99) concerning the public storage of beef in Spain.

The Court accepted appeals in the following cases:

- Judgment of 9 November 2000 (Case C-148/99) concerning expenditure on fibre flax in the United Kingdom;
- Judgment of 14 December 2000 (Case C-245/97) concerning expenditure on the promotion of milk products in Germany.

5.4.2. *Appeals pending*

At 16 October 2001 the appeals pending and the amounts involved were as shown in Annexes 18 to 24.

6. RELATIONS WITH THE EUROPEAN PARLIAMENT AND COURT OF AUDITORS

6.1. Relations with the European Parliament

The European Parliament, one of the branches of the budgetary authority along with the Council, is one of the most important interlocutors of the Commission and therefore of the EAGGF. The natural framework for this interinstitutional relationship is provided by the parliamentary sessions at which all Community budget matters are dealt with.

The European Parliament has three parliamentary committees with a varying interest in agricultural budgetary matters: the Committee on Agriculture and Rural Development, the Committee on Budgets and the Committee on Budgetary Control.

In 2001 EAGGF staff took part in the dialogue established between the Commission and Parliament, discussing in particular the draft Community budget for the 2002 financial year in the Committee on Budgets and the Committee on Agriculture and Rural Development. Following the debates in Parliament, the 2002 budget was finally adopted by its President.

The Committee on Budgetary Control performed its duty of monitoring the correct implementation of the 1999 budget. It was asked to draw up the Parliament Decision by which that body discharged the Commission.

6.2. Relations with the European Court of Auditors

6.2.1. Mission of the Court of Auditors

The basic task of the Court of Auditors is to audit the Community accounts. The Maastricht Treaty strengthened this role by requiring it to provide a statement of assurance as to the reliability of the Community accounts and the legality and correctness 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 of Auditors carries out many audits within the Commission. Court officials frequently visit the EAGGF to gather facts and figures needed for Court opinions, sector letters or special reports; in the light of these investigations, the Court frequently makes suggestions and recommendations to the Commission as to how to improve its budgetary management to make Community control measures more effective.

6.2.2. Annual Report 2000

The Court of Auditors draws up a general annual report which, over several chapters, scrutinises management of the Community budget for the previous year. One chapter is devoted to the activities of the EAGGF Guarantee Section.

Before the report is published, meetings are held between the Court of Auditors and the Commission, at which the Court's submissions and conclusions and the

Commission's replies and explanations can be discussed. The report is the result of audits made by the Court in the Community institutions and inspection visits to the Member States.

The annual report for the 2000 financial year together with the Commission's replies included one chapter (Chapter 2) on the EAGGF Guarantee Section. The main submissions advanced by the Court and the replies given by the Commission concerned the following:

- budgetary management,
- statement of assurance,
- clearance of accounts,
- follow-up to previous Court reports:
 - agricultural products receiving export refunds,
 - sheepmeat and goatmeat,
 - fruit and vegetables,
- main observations in the special reports:
 - reform of the clearance of accounts procedure,
 - the integrated administration and control system (IACS),
 - milk quotas,
 - BSE - bovine spongiform encephalopathy,
 - potato and cereal starch,
 - export refunds - destination and placing on the market.

6.2.3. *Special reports by the Court of Auditors*

In 2001 the Court published six special reports (SR). The reports were as follows:

- SR No 4/01 on the integrated administration and control system (IACS),
- SR No 6/01 on the milk quotas scheme,
- SR No 7/01 on export refunds - destination and placing on the market of agricultural products,
- SR No 8/01 on refunds for potato starch and cereal starch production and on aid for potato starch,
- RS No 10/01 on financial control of the Structural Funds,
- RS No 14/01 on the follow-up to Special Report 19/98 of the Court on financing certain measures taken as a result of the bovine spongiform encephalopathy (BSE) crisis.

The full texts of the annual report and the special reports, together with the Court of Auditors' comments and the Commission's replies are on the Court's website: <http://www.eca.eu.int> .

7. BASIC RULES GOVERNING THE EAGGF GUARANTEE SECTION AND AMENDMENTS MADE IN 2001

7.1. General/System of advances

- Council Regulation (EEC) No 1258/1999 of 17 May 1999 on the **financing** of the common agricultural policy (OJ L 160, p. 103),
- Council Regulation (EEC) No 1883/78 of 2 August 1978 laying down **general rules** for the financing of interventions by the European Agricultural Guidance and Guarantee Fund, Guarantee Section (OJ L 216, p. 1),
- Commission Regulation (EC) No 296/96 of 16 February 1996 on **data to be forwarded** by the Member States and the monthly booking of expenditure financed under the Guarantee Section of the Agricultural Guidance and Guarantee Fund (EAGGF) and repealing Regulation (EEC) No 2776/88 (OJ L 39, p. 5)
Amended by Commission Regulation (EC) No 1934/2001 of 1 October 2001 (OJ L 262, p. 8),
- Council Regulation (EC) No 2040/2000 of 26 September 2000 on **budgetary discipline** (OJ L 244, p. 27),
- Council Regulation (EC) No 1257/1999 of 17 May 1999 on support for **rural development** from the European Agricultural Guidance and Guarantee Fund (EAGGF) and amending and repealing certain Regulations (OJ L 160, p. 80),
- Commission Regulation (EC) No 445/2002 of 26 February 2002 laying down detailed rules for the application of Council Regulation (EC) No 1257/1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF) (OJ L 74, p.1). That Regulation repealed Commission Regulation (EC) No 1750/1999, which was, however, still in application during 2001 (OJ L 214, p. 31).

7.2. Checks

- Council Regulation (EEC) No 4045/89 of 21 December 1989 on **scrutiny** by Member States of transactions forming part of the system of financing by the Guarantee Section of the European Agricultural Guidance and Guarantee Fund and repealing Directive 77/435/EEC (OJ L 388, p. 18),
- Council Regulation (EEC) No 3508/92 of 27 November 1992 establishing an **integrated administration and control system** for certain Community aid schemes (OJ L 355, p. 1),
Amended by Commission Regulation (EC) No 495/2001 of 13 March 2001 (OJ L 72, p. 6),

- Commission Regulation (EC) No 2419/2001 of 11 December 2001 laying down **detailed rules for applying** the integrated administration and control system for certain Community aid schemes established by Council Regulation (EEC) No 3508/92 (OJ L 327, p. 11),
- Regulation (EC) No 1760/2000 of the European Parliament and of the Council of 17 July 2000 establishing a system for the identification and registration of bovine animals and regarding the labelling of beef and beef products and repealing Council Regulation (EC) No 820/97 (OJ L 204, p. 1).

7.3. Clearance of accounts

- Commission Regulation (EC) No 1663/95 of 7 July 1995 laying down detailed rules for the application of Council Regulation (EEC) No 729/70 regarding the procedure for the clearance of the accounts of the EAGGF Guarantee Section (OJ L 158, p. 6)

Amended by Commission Regulation (EC) No 2025/2001 of 16 October 2001 (OJ L 274, p. 3),

- Commission Regulation (EC) No 2390/1999 of 25 October 1999 laying down detailed rules for the application of Regulation (EC) No 1663/95 as regards the form and content of the accounting information that the Member States must hold at the disposal of the Commission for the purposes of the clearance of the EAGGF Guarantee Section accounts (OJ L 295, p. 1)

Amended by Commission Regulation (EC) No 1863/2001 of 10 September 2001 (OJ L 259, p. 1).

The Commission also adopted a number of decisions on the clearance of accounts of the Member States:

- Decision of 5 February 2001 (2001/137/EC) under Article 5(2)(c) of Regulation (EEC) No 729/70 and Article 7(4) of Regulation (EC) No 1258/1999 - sixth decision (21 February),
- Decision of 8 May 2001 (2000/474/EC) in respect of 1999 - clearance of accounts (22 June),
- Decision of 11 July 2001 (2001/557/EC) under Article 5(2)(c) of Regulation (EEC) No 729/70 and Article 7(4) of Regulation (EC) No 1258/1999 - seventh decision (25 July),
- Decision of 12 December 2001 (2001/889/EC) under Article 5(2)(c) of Regulation (EEC) No 729/70 and Article 7(4) of Regulation (EC) No 1258/1999 - eighth decision (14 December).

7.4. Public storage

a) Basic rules

- Commission Regulation (EEC) No 411/88 of 12 February 1988 on the method and the rate of interest to be used for calculating the costs of

financing intervention measures comprising buying-in, storage and disposal (OJ L 40, p. 25)

Amended by Regulation (EC) No 2623/1999 of 10 December 1999 (OJ L 318, p. 14),

- Commission Regulation (EEC) No 1643/89 of 12 June 1989 defining the **standard amounts** to be used for financing material operations arising from the public storage of agricultural products (OJ L 162, p. 12),
- Council Regulation (EEC) No 3492/90 of 27 November 1990 laying down the factors to be taken into consideration in the **annual accounts** for the financing of intervention measures in the form of public storage by the European Agricultural Guidance and Guarantee Fund, Guarantee Section (OJ L 337, p. 3),
- Commission Regulation (EEC) No 3597/90 of 12 December 1990 on the **accounting rules** for intervention measures involving the buying-in, storage and sale of agricultural products by intervention agencies (OJ L 350, p. 43),
- Commission Regulation (EEC) No 147/91 of 22 January 1991 defining and fixing the **tolerances** for quantity losses of agricultural products in public intervention storage (OJ L 17, p. 9),
- Commission Regulation (EEC) No 3149/92 of 29 October 1992 laying down detailed rules for the **supply of food** from intervention stocks for the benefit of the **most deprived persons** in the Community (OJ L 313, p. 50),
- Commission Regulation (EC) No 2148/96 of 8 November 1996 laying down **rules for evaluating and monitoring** public intervention stocks of agricultural products (OJ L 288, p. 6)

Amended by Commission Regulation (EC) No 808/1999 of 16 April 1999 (OJ L 102, p. 70).

b) Depreciation on buying-in during the 2001 financial year

- Commission Regulation (EC) No 2234/2000 of 9 October 2000 fixing depreciation percentages to be applied when agricultural products are bought in, for the 2001 financial year (OJ L 256, p. 11).

This Regulation sets the systematic depreciation coefficients to be applied, for the 2001 financial year, when each agricultural product is bought in, and also the coefficients to be applied by the intervention agencies to the monthly buying-in values of the products to enable them to determine the depreciation amounts - amended by Regulation (EC) No 151/2001 of 25 January 2001 to include alcohol and beef and veal.

c) Additional depreciation at the end of the 2001 financial year

- Decision C(2001) 2955 final of 8 October 2000 (not published) fixing the amounts and detailed rules for the depreciation of stocks of certain

agricultural products bought into public intervention during the 2001 financial year.

This decision sets the amounts of additional depreciation at the end of the 2000 financial year.

d) Uniform interest rate for 2001

- Commission Regulation (EC) No 2012/2001 of 12 October 2001 on the rate of interest to be used for calculating the costs of financing intervention measures comprising buying in, storage and disposal (OJ L 272, p. 23).

Sets interest rates for the 2001 accounting year as required by Articles 3 and 4(1) of Commission Regulation (EEC) No 411/88.

7.5. Agrimonetary measures

At the end of 1998 the Council adopted two regulations establishing a new agrimonetary system from 1 January 1999 compatible with the introduction of the single currency.

- Council Regulation (EC) No 2799/98 of 15 December 1998 establishing agrimonetary arrangements for the euro (OJ L 349, p. 1),
- Council Regulation (EC) No 2800/98 of 15 December 1998 on transitional measures to be applied under the common agricultural policy with a view to the introduction of the euro (OJ L 349, p. 8).

N.B.: Totals or subtotals of expenditure in the following tables sometimes differ by EUR 0.1 million from the amount obtained arithmetically by adding the lines or columns. This difference is due to rounding up and down. The totals are generally expressed in million euros while the calculations are done using amounts in euros.

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Available on paper in French from the Directorate-General for Agriculture and in electronic form from its website

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