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on

**THE EUROPEAN AGRICULTURAL GUIDANCE AND GUARANTEE FUND,
EAGGF, GUARANTEE SECTION**

– 2004 FINANCIAL YEAR –

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TABLE OF CONTENTS

1.	BUDGET PROCEDURE	3
1.1.	Preliminary draft budget 2004	3
1.2.	Draft budget 2004	3
1.3.	Letter of Amendment for 2004	3
1.4.	Adoption of the 2004 budget	3
1.5.	Amending budget BR 1/2004	3
1.6.	Amending budget BR 10/2004	3
2.	CASH POSITION AND MANAGEMENT OF APPROPRIATIONS	4
A.	MANAGEMENT OF APPROPRIATIONS	4
2.1.	Appropriations available for 2004	4
2.2.	Utilisation of appropriations available for 2004	4
2.3.	Automatic carryovers from 2003 to 2004	5
2.4.	Non-automatic carryovers from 2003	5
2.5.	Transfers within the Guarantee Section	6
B.	ADVANCES	6
2.6.	Advances to Member States	6
3.	EXECUTION OF THE 2004 BUDGET	7
4.	COMMENTS ON THE EXECUTION OF THE BUDGET	7
4.1.	Subheading 1a	7
4.2.	Subheading 1b	9
4.3.	Breakdown by type of expenditure	9
ANNEX – BUDGET YEAR 2004 – FINAL EXECUTION OF EAGGF-GUARANTEE APPROPRIATIONS		11

Note: A Commission staff working document accompanies this report. The full text of this working document (in English) and the annexed tables (in French) will be available on DG Agriculture's website.

1. BUDGET PROCEDURE

1.1. Preliminary draft budget 2004

The 2004 Preliminary Draft Budget (containing estimates for the EU-10) was adopted by the Commission and proposed to the Budgetary Authority in May 2003. The appropriations proposed for the EAGGF-Guarantee section totalled EUR 47 873.9 million, i.e. EUR 41 337.9 million for subheading 1a and EUR 6 536.0 million for subheading 1b.

1.2. Draft budget 2004

The Council adopted the 2004 Draft Budget (containing estimates for the EU-10) in July 2003. The appropriations in subheading 1a were reduced by EUR 160.0 million as compared to the PDB while the ones for subheading 1b were maintained at the level of the PDB.

1.3. Letter of Amendment for 2004

At the end of October 2003 the Commission adopted Letter of Amendment No 2 to the 2004 PDB (containing estimates for the EU-10) setting appropriation requirements at EUR 46 781.4 million, of which EUR 40 245.4 million was allocated to subheading 1a and EUR 6 536.0 million to rural development (subheading 1b).

1.4. Adoption of the 2004 budget

In December 2003, the 2004 budget (EU-15) was adopted. The appropriations for the EAGGF-Guarantee section totalled EUR 44 761.4 million, i.e. EUR 39 958.4 million for subheading 1a and EUR 4 803.0 million for subheading 1b.

1.5. Amending budget BR 1/2004

In April 2004, the Budgetary Authority adjusted, through BR 1/2004, the 2004 budget's appropriations for the EAGGF-Guarantee section (EU-25) at EUR 46 781.4 million broken down as follows:

- for subheading 1a, the appropriations were fixed at EUR 40 245.4 million,
- for subheading 1b, the appropriations were fixed at EUR 6 536.0 million.

1.6. Amending budget BR 10/2004

Favourable developments in agricultural markets in 2003/2004 resulted in an important underutilisation of the 2004 EAGGF-Guarantee's initial budget appropriations. In view of the increased requirements for payment appropriations for the Structural Funds, the Commission proposed a decrease in EAGGF-Guarantee's appropriations through the Amending Budget 10/2004 which was adopted by the European Parliament on 2 December 2004. This decrease involved only schemes under sub-heading 1a of the budget and it amounted to EUR 1.7 billion. Therefore, the overall budget's appropriations were reduced from EUR 46 781.4 million to EUR 45 081.4 million as follows:

- subheading 1a: appropriations for 2004 were reduced to EUR 38 545.4 million,

- subheading 1b: appropriations for 2004 were left at EUR 6 536.0 million.

2. CASH POSITION AND MANAGEMENT OF APPROPRIATIONS

A. MANAGEMENT OF APPROPRIATIONS

2.1. Appropriations available for 2004

The appropriations finally available totalled EUR 45 080 785 000. The budget authority approved a non-automatic carryover from 2003 of EUR 41 200 000.

2.2. Utilisation of appropriations available for 2004

2.2.1. Budget operations

The table below details the budget operations carried out in 2004:

EUR

1. Appropriations available	
– normal appropriations	45 080 785 000.00
– non-automatic carryovers	41 200 000.00
2. Commitments	
– for Member States' expenditure against normal appropriations	42 608 520 270.96
– for expenditure against non-automatic carryovers	41 200 000.00
– for direct payments	<u>2 110 823 926.05</u>
Total commitments	44 760 544 197.01
3. Amounts charged	
– for Member States' expenditure against normal appropriations	42 608 520 270.96
– for expenditure against non-automatic carryovers	41 200 000.00
– for direct payments	<u>658 618 528.22</u>
Total charged	43 308 338 799.18
4. Automatic carryovers	
– for Member States' expenditure against normal appropriations	0.00
– for Member States' expenditure against non-automatic carryovers	0.00
– for direct payments	<u>1 452 205 397.83</u>
Total automatic carryovers	1 452 205 397.83
5. Non-automatic carryovers	49 500 000.00
6. Appropriations lapsing (= 1 – 2 – 5)	311 940 802.99

2.2.2. Automatic carryovers

These are the difference between commitments and amounts charged. For 2004, the appropriations committed by the Commission for its own expenditure were EUR 1 452.21 million and for which no payments had been made by the end of the financial year.

2.2.3. Non-automatic carryovers

Under Articles 9 and 149 of the Financial Regulation (Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002), the Commission decided to carry over from 2004 to 2005 a total of EUR 49.50 million:

- EUR 8.3 million for item 05.040101 “Investments agricultural holdings”,
- EUR 8.1 million for item 05.040107 “Agri-environment”,
- EUR 2.5 million for item 05.040109 “Improving processing and marketing agricultural products”,
- EUR 14.2 million for item 05.040110 “Forestry-former system”,
- EUR 9.6 million for item 05.040112 “Promotion, adaptation and development rural areas”,
- EUR 6.3 million for item 05.040113 “Other rural development measures”,
- EUR 0.5 million for item 17.010404 “Pilot study: risk financing model for livestock epidemics”.

2.3. Automatic carryovers from 2003 to 2004

The table below gives an overview of utilisation of these carryovers in 2004:

EUR

1. Commitments carried over	
– for Member States' expenditure	–
– for direct payments	<u>290 027 351.56</u>
Total	290 027 351.56
2. Decommitments from carryovers	
– for Member States' expenditure	–
– for direct payments	<u>(4 980 533.16)</u>
Total	(4 980 533.16)
3. Payments	
– for Member States' expenditure	–
– for direct payments	<u>271 092 704.60</u>
Total charged	271 092 704.60
4. Appropriations lapsing (= 1 + 2 – 3)	
– for Member States' expenditure	
– for direct payments	<u>13 954 113.80</u>
Total carryovers cancelled	13 954 113.80

2.4. Non-automatic carryovers from 2003

Under Articles 9 and 149 of the Financial Regulation (Council Regulation (EC, Euratom) No 1605/2002), the Commission decided to carry over from 2003 to 2004 a total of EUR 41.20 million.

This broke down into EUR 8.7 million for item 05.040109 (B01-4060) “Improving the processing and marketing of agricultural products”, and EUR 32.5 million for item 05.040111 (B01-4070) “Forestry – new system, Article 31”.

2.5. Transfers within the Guarantee Section

In 2004, the budget authority approved the following transfers:

Chapter-to-chapter transfer No 14/04¹:

- from Chapters 17.01 “Administrative expenditure of ‘Health and Consumer Protection’ Policy Area” (– EUR 1 million), 17.04 “Food safety, Animal Health, Animal Welfare and Plant Health” (– EUR 38.665 million),
- to Chapter 17.04 “Food safety, Animal Health, Animal Welfare and Plant Health” (+ EUR 39.665 million);

Chapter-to-chapter transfer No 07/04 (outside EAGGF):

- from Chapter 05.01 “Administrative expenditure of Agriculture” (–EUR 0.5 million);

Title-to-title transfer No 13/04

- from Chapters 05.02 “Plant Products” (– EUR 20 million), 05.03 “Animal Products” (–EUR 80 million),
- to Chapter 17.04 “Food safety, Animal Health, Animal Welfare and Plant Health” (+ EUR 100 million).

B. ADVANCES

2.6. Advances to Member States

2.6.1. *Monthly advances on the provision for expenditure*

Article 7 of Council Regulation (EC) No 1258/1999 of 17 May 1999 on the financing of the common agricultural policy² states that “the Commission shall decide on monthly advances on the provision for expenditure effected by the accredited paying agencies”. Advances are paid to the Member State at the beginning of the second month following that in which the expenditure was effected by the paying agency.

Payments made by the Member States from 16 October 2003 to 15 October 2004 were covered by the system. For the budget year 2004, the net amount of advances paid was EUR 42 649 720 270.96.

2.6.2. *Decisions on advances for 2004*

The Commission adopted twelve decisions on monthly advances for the 2004 financial year.

An additional advance, adjusting those already granted to total expenditure chargeable to the year, was decided on in December 2004.

¹ EUR 38 665 million from articles 17.0401 and 17.0404 to article 17.0403.

² OJ L 160, 26.6.1999, p. 103.

2.6.3. *Reduction and suspension of advances*

In 2004, a downward correction of EUR 78.36 million was made to the advances paid to the Member States.

3. EXECUTION OF THE 2004 BUDGET

Generally favourable developments in agricultural markets in 2003/04, as well as other factors, affected the level of EAGGF-Guarantee expenditure in certain areas of the 2004 budget and led to a significant non-utilisation of credit appropriations. Because of this non-utilisation and in order to reinforce the available appropriations for structural funds, the EAGGF-Guarantee's credit appropriations were reduced by EUR 1.7 billion.

The execution of the 2004 budget with the differences between this execution and the appropriations included in the initial (BR No 1/2004) and the amending budget (BR No 10/2004) are presented in the annexed table.

Indeed, the credit appropriations for EU-25 under BR No 1/2004 amounted to EUR 46 781.4 million and they were reduced, via BR No 10/2004, to EUR 45 081.4 million. Out of these appropriations an amount of EUR 0.5 million was transferred to DG ENV for a study on environmental indicators. Therefore, available appropriations amounted to 45 080.9 million. Agricultural expenditure for 2004 (including fisheries and veterinary measures amounted to EUR 44 719.3 million, thus presenting a non-utilisation of credit appropriations of –EUR 2 061.5 million when compared to the initial budget (BR No 1/2004). After taking into account the EUR 1.7 billion reduction in credit appropriations, the final under-utilisation of the fund's credits amounted to –EUR 361.5 million compared to the level of credit appropriations established by BR No 10/2004.

4. COMMENTS ON THE EXECUTION OF THE BUDGET

4.1. Subheading 1a

For subheading 1a, the budget's appropriations were under-executed for all budget chapters with the exception of chapter 05 07 – Audit and 17 04 – Food safety, animal health and welfare, plant health which show an over-execution of their respective appropriations. However, the under-execution was concentrated in the following chapters:

- plant products where the under-execution mainly involved cereals, direct aids for arable crops, sugar, textile plants, fruits and vegetables and wine,
- animal products where the under-execution mainly involved milk and beef.

The reasons for the implementation pattern of certain articles of the budget when compared to the budget's final appropriations are briefly presented below:

4.1.1. *Article 05 02 01: Market measures for cereals*

Internal and external market and climatic conditions affected this sector. The poor harvests for 2003, worldwide, lead to higher world prices for the various products of the sector compared to the hypotheses of the 2004 budget. This situation led to lower

quantities of cereals exported and to lower export refund payments made compared to the hypotheses retained in the 2004 budget. Furthermore, the poor harvest also led to lower quantities of potato starch for which production refund was granted as well as to the fact that for most of the budget year the production refunds rates for starch were set at “0” because of the high world price CAF Rotterdam for maize.

4.1.2. *Article 05 02 03: Direct payments for arable crops*

Member States’ final communication of 15.02.2004 on cultivated areas and yields resulted to a level of expenditure for direct aids which was lower than the one retained in the 2004 budget.

4.1.3. *Article 05 02 05: Sugar*

The quantities of sugar exported were substantially lower than the quantity retained when the 2004 budget was established, thus, leading to lower payments for export refunds.

4.1.4. *Article 05 02 07: Textile plants*

This under-execution is mainly due to lower payments made for aid for cotton which resulted from the lower quantities of cotton produced in EL and ES compared to the quantities which were retained in the 2004 budget.

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

The budget’s under-execution is mainly attributable to the favourable market conditions in this sector which led to the withdrawal of lower quantities of fruits and vegetables from the market and to an increase of the prices of bananas, thus, reducing the corresponding rate of aid. Consequently, the level of expenditure incurred for these measures was lower when compared to the level of appropriations resulting from the corresponding hypotheses retained in the 2004 budget.

4.1.6. *Article 05 02 09: Wine*

Lower payments in this sector resulted from the high quality of wine produced in the period 2003/04. This factor led the non-utilisation of the crisis distillation scheme, thus, furthermore, leading to lower quantities of alcohol entering public storage as well as to lower quantities of must used for enriching wines.

4.1.7. *Article 05 03 01: Milk*

Favourable, internal and external, dairy market conditions permitted the fixing of rates of aid for skimmed milk and butter at lower levels than the ones retained in the 2004 budget. Equally, the milk super-levy involved a quantity which was more than 4 times higher than the quantity retained in the 2004 budget, thus, increasing correspondingly the super-levy collection.

4.1.8. *Article 05 03 02: Beef*

Lower payments resulted from the reduction of exported quantities of meat and live animals when compared to the quantities retained in the 2004 budget. Furthermore, the earlier than anticipated payments (in 2003 instead of 2004) of outstanding amounts to be reimbursed to Member States for the financing of the special beef

purchase scheme of 2001 led to the non-utilisation of the corresponding amount included in the 2004 budget.

4.2. Subheading 1b

4.2.1. Article 05.04.01: Rural Development (EU-15)

The EAGGF-Guarantee section uses the subheading 1b appropriations to co-finance (Regulation (EC) No 1257/99) the 89 rural development programmes of the EU-15 which were adopted for the period 2000–2006. In 2004, 98% of available appropriations were paid out in respect of expenditure actually incurred for these programmes. Equally, an amount of EUR 41.9 million carried over from 2003 was also paid out. The programmes for which there was a significant underutilisation of the budget's appropriations were: Investments in agricultural holdings, Early retirement (former system), Agri-environment (former system), Forestry (former system).

4.2.2. Article 05.04.04: Transitional Instrument for the financing of rural development by the EAGGF-Guarantee section for the new Member States

The EAGGF-Guarantee section under this instrument, on the basis of differentiated appropriations, co-finances (Regulation (EC) No 1257/99) the rural development programmes, adopted in 2004, for the 10 new Member States for the period 2004–2006. All the amounts foreseen in the budget were committed while payments amounted to approximately EUR 628.9 million.

4.3. Breakdown by type of expenditure

EAGGF Guarantee Section expenditure falls into two principal categories: export refunds and 'interventions', i.e. spending on direct aids, public storage, withdrawals and similar operations, and other spending. A third category of expenditure, rural development, falls into neither category.

4.3.1. Export refunds

Spending on export refunds amounted to EUR 3 384.2 million, 7.6% of total EAGGF-Guarantee section expenditure in 2004, almost unchanged from 2003.

4.3.2. Direct aids

Expenditure under this heading amounted to EUR 29 824.5 million (EUR 17 122.7 million for arable crops and EUR 8 783.2 million for livestock), i.e. 67% of total 2004 spending of EUR 44 760.5 million. This percentage was also almost unchanged from 2003. The expenditure that counts as direct aid is defined in the Annex to Regulation (EC) No 1259/1999 of 17 May 1999 (OJ L 160, p. 113).

4.3.3. Storage

Storage costs came to EUR 322.4 million, less than 1% of total spending for the year compared with 2% in 2003. The main products involved were cereals (EUR 44.7 million), wine (EUR 203.2 million) and pigmeat (EUR 30.0 million).

4.3.4. *Other*

Other intervention expenditure amounted to EUR 11 229.3 million, i.e. 25% of the year's total. This heading covers expenditure not falling into the above categories.

ANNEX – BUDGET YEAR 2004 – FINAL EXECUTION OF EAGGF-GUARANTEE APPROPRIATIONS

	Initial commitment appropriations	BR 10/2004	Available appropriations	Expenditure from 16/10/2003 to 15/10/2004	Utilisation	Gap execution minus available appropriations		
	EUR million a (1)	EUR million b	EUR million c	EUR million d	% e=(d/c)	EUR mio f=d-c		
Subheading 1a: CAP expenditure (not incl. rural development)								
TITLE 05 AGRICULTURE AND RURAL DEVELOPMENT								
05 01	MANAGEMENT AND SUPPORT EXPENDITURE (2)		(5)					
	05010401 and 05010406: Monitoring and prevention, pilot projects		4,9	4,4	1,8	42,0%	-2,6	
	Total 0501 Management and support expenditure		4,9	4,4	1,8	42,0%	-2,6	
05 02	PLANT PRODUCTS							
05 02 01	Market measures for cereals		563,0	-185,0	378,0	364,1	96,3%	-13,9
05 02 02	Rice		175,0		175,0	180,1	102,9%	5,1
05 02 03	Direct payments for arable crops		17.059,0	-91,0	16.968,0	16.962,8	100,0%	-5,2
05 02 04	Food programmes		226,0		226,0	209,8	92,8%	-16,2
05 02 05	Sugar and monetary measures		1.711,0	-265,0	1.446,0	1.415,7	97,9%	-30,3
05 02 06	Olive oil		2.364,0		2.364,0	2.372,4	100,4%	8,4
05 02 07	Textile plants		886,0	-23,0	863,0	851,0	98,6%	-12,1
05 02 08	Fruit and vegetables		1.617,0		1.617,0	1.577,4	97,6%	-39,6
05 02 09	Products of the vine-growing sector		1.215,0	-93,0	1.122,0	1.092,0	97,3%	-30,0
05 02 10	Tobacco		941,4		941,4	929,3	98,7%	-12,1
05 02 11	Other plant products/measures		780,0	-50,0	730,0	715,4	98,0%	-14,6
	Total 0502 Plant products		27.537,4	-707,0	26.830,4	26.669,9	99,4%	-160,5
05 03	ANIMAL PRODUCTS							
05 03 01	Milk and milk products		2.959,0	-593,0	2.366,0	2.264,7	95,7%	-101,3
05 03 02	Beef and veal		8.054,0	-238,0	7.816,0	7.776,0	99,5%	-40,0
05 03 03	Sheepmeat and goatmeat		1.530,0	-57,0	1.473,0	1.469,5	99,8%	-3,5
05 03 04	Pigmeat, eggs and poultry, bee-keeping and other animal products		174,5		174,5	182,2	104,4%	7,7
	Total 0503 Animal products		12.717,5	-888,0	11.829,5	11.692,4	98,8%	-137,1
05 07	AUDIT (2)							
	05070101-05070102 and 050702: monitoring and preventive measures and settlement of disputes		22,6		22,6	25,5	112,9%	2,9
	Total 0507 Audit		22,6	0,0	22,6	25,5	112,9%	2,9
05 08	POLICY STRATEGY AND COORDINATION FOR "AGRICULTURE" (2)							
	050804 to 050899: promotion and information		66,0	-20,0	46,0	32,9	71,5%	-13,1
	Total 0508 Policy strategy and coordination for "Agriculture"		66,0	-20,0	46,0	32,9	71,5%	-13,1
TITLE 11 FISHERIES								
11 02	FISHERIES MARKETs excl. reserve (3)		33,1		33,1	23,9	72,2%	-9,2
	FISHERIES MARKET reserve (3)					0,0	0,0%	0,0
	Total 1102 Fisheries markets		33,1	0,0	33,1	23,9	72,2%	-9,2
TITLE 17 HEALTH AND CONSUMER PROTECTION								
17 01	ADMINISTRATIVE MANAGEMENT AND SUPPORT EXPENDITURE (2)(3)							
	17010401 and 17010404: Plant health measures – sup. expend. – other meas.		1,5		1,5	0,0	0,0%	-1,5
	Total 1701 Administrative management and support expenditure		1,5	0,0	1,5	0,0	0,0%	-1,5
17 03	PUBLIC HEALTH (2)(3)							
17 03 02	Community tobacco fund – direct payments by the EU excl. reserve		14,4		14,4	14,3	99,2%	-0,1
	Community tobacco fund – direct payments by the EU reserve					0,0	0,0%	0,0
	Total 1703 Public health		14,4	0,0	14,4	14,3	99,2%	-0,1
17 04	FOOD SAFETY, ANIMAL HEALTH AND WELFARE, PLANT HEALTH (2)(3)							
	170401 to 05 Animal disease, veterinary emergency fund, plant health, other		248,0	0,0	248,0	346,0	139,5%	98,0
	Total 1704 Animal health and welfare, plant health, other		248,0	0,0	248,0	346,0	139,5%	98,0
	Total 1a (before clearance of accounts and reduction/suspension of advances)		40.645,4	-1.615,0	39.029,9	38.806,6	99,4%	-223,2
05 07	AUDIT (2)							
	05070103 Clearance of accounts, reduction/suspension of advances for 1a		-400,0	-85,0	-485,0	-508,1	104,8%	-23,1
	Total 0507 Audit		-400,0	-85,0	-485,0	-508,1	104,8%	-23,1
	Total for subheading 1a (after clearance of accounts)		40.245,4	-1.700,0	38.544,9	38.298,5	99,4%	-246,3
Subheading 1b: Rural development								
05 04	RURAL DEVELOPMENT (2)							
	050401 Rural development – EU 15 (4)		4.803,0	0,0	4.803,0	4.707,7	98,0%	-95,3
	050404 Rural development – EU 10		1.733,0	0,0	1.733,0	1.733,0	100,0%	0,0
	Total 0504 Rural development		6.536,0	0,0	6.536,0	6.440,7	98,5%	-95,3
	Total 1b (before clearance of accounts and reduction/suspension of advances)		6.536,0	0,0	6.536,0	6.440,7	98,5%	-95,3
05 07	AUDIT (2)							
	05070104 Clearance of accounts, reduction/suspension of advances for 1b		0,0	0,0	0,0	-19,9	0,0%	-19,9
	Total 0507 Audit		0,0	0,0	0,0	-19,9	0,0%	-19,9
	Total for subheading 1b (after clearance of accounts)		6.536,0	0,0	6.536,0	6.420,8	98,2%	-115,2
	TOTAL EAGGF-Guarantee budget (after clearance of accounts)		46.781,4	-1.700,0	45.080,9	44.719,3	99,2%	-361,5

(1) Includes Amending Budget No 1/2004

(2) Chapter includes appropriations which do not belong to EAGGF-Guarantee

(3) Chapter includes appropriations outside title 05 (Agriculture) but belonging to EAGGF-Guarantee

(4) EUR 41,2 million carried forward from 2003 and committed in 2004. Therefore, the execution for rural development (EU-15), including this amount, would rise to EUR 4 748,9 million while the total for the EAGGF-Guarantee budget to EUR 44 760,5 million.

(5) EUR 0,5 million transferred to DG ENV for study on environmental indicators from item 05 01 04 01