



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 14.12.2005  
SEC(2005) 1632 final

**COMMISSION STAFF WORKING DOCUMENT**

***Annex to the***

**34th FINANCIAL REPORT**

**on**

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

**– 2004 FINANCIAL YEAR –**

**{COM(2005) 633 final}**

## CONTENTS

1.	BUDGET PROCEDURE.....	4
1.1.	The multiannual financial framework.....	4
1.2.	Preliminary draft budget 2004 .....	4
1.3.	Draft budget 2004 .....	4
1.4.	Letter of Amendment for 2004 .....	5
1.5.	Adoption of the 2004 budget.....	5
1.6.	Amending budget BR 1/2004.....	5
1.7.	Amending budget BR 10/2004.....	5
2.	CASH POSITION AND MANAGEMENT OF APPROPRIATIONS .....	5
A.	MANAGEMENT OF APPROPRIATIONS.....	5
2.1.	Appropriations available for 2004 .....	5
2.2.	Utilisation of appropriations available for 2004 .....	5
2.3.	Automatic carryovers from 2003 to 2004 .....	7
2.4.	Appropriations concerning non-automatic carryovers from 2003 .....	7
2.5.	Transfers within the EAGGF-Guarantee Section .....	7
B.	SYSTEM OF ADVANCES AND DIRECT PAYMENTS .....	8
2.6.	Advances to Member States.....	8
2.7.	Direct payments .....	9
3.	THE IMPLEMENTATION OF THE BUDGET .....	9
A.	INTRODUCTION .....	9
3.1.	The uptake of the EAGGF-Guarantee budget appropriations.....	9
B.	ANALYSIS OF THE IMPLEMENTATION OF THE BUDGET BY CHAPTER .....	10
3.2.	CHAPTER 05 02: PLANT PRODUCTS.....	10
3.3.	CHAPTER 05 03: ANIMAL PRODUCTS.....	15
3.4.	CHAPTER 05 04: RURAL DEVELOPMENT .....	18
3.5.	CHAPTER 05 07: AUDIT OF AGRICULTURAL EXPENDITURE .....	19
3.6.	CHAPTER 05 08: POLICY STRATEGY AND COORDINATION.....	20
3.7.	CHAPTER 11 02: EUROPEAN FISHERIES GUARANTEE FUNDS.....	21
3.8.	CHAPTER 17 04: VETERINARY AND PLANT HEALTH MEASURES .....	21

C.	SPECIFIC ACTIVITIES.....	23
3.9.	Supply of food from intervention stocks for the benefit of the needy in the Community.....	23
3.10.	Promotion Measures – Payments by Members States .....	26
4.	CONTROL MEASURES.....	27
4.1.	Integrated Administration and Control System (IACS).....	27
4.2.	Compatibility with IACS .....	27
4.3.	Olive oil inspection agencies .....	27
4.4.	Application of Council Regulation (EC) No 723/97.....	28
4.5.	Application of Council Regulation (EEC) No 4045/89 ( <i>ex-post</i> controls).....	29
4.6.	Vineyard register – definitive winding-up .....	30
5.	CLEARANCE OF ACCOUNTS .....	30
5.1.	General information .....	30
5.2.	Clearance of accounts – Decisions adopted in 2004.....	31
5.3.	Accounts clearance for the 2003 financial year .....	32
5.4.	Appeals brought before the Court of Justice against clearance decisions .....	33
6.	RELATIONS WITH PARLIAMENT AND THE EUROPEAN COURT OF AUDITORS.....	34
6.1.	Relations with Parliament .....	34
6.2.	Relations with the European Court of Auditors.....	34
7.	BASIC RULES GOVERNING THE EAGGF GUARANTEE SECTION AND AMENDMENTS MADE IN 2004.....	36
7.1.	General/system of advances .....	36
7.2.	Checks .....	37
7.3.	Clearance of accounts .....	38
7.4.	Public storage .....	38
8.	ANNEXES .....	42

## 1. BUDGET PROCEDURE

### 1.1. The multiannual financial framework

CAP expenditure is funded under the Financial Perspectives decided at the Berlin Summit in 1999 and adjusted at the Copenhagen Summit at the end of 2002 to take account of the financial effects to the enlargement of the Union to include the ten new countries. Thus, new ceilings apply for the EU-25 as of the budget year 2004. The financial perspectives for EU-15 and for EU-25 for the budget years 2004–2006 are as follows:

#### Commitment appropriations

*(EUR million at current prices)*

	2000	2001	2002	2003	2004	2005	2006	Total
Total CAP	41 738	44 530	46 587	47 378	49 305	51 439	52 618	333 595
(a) Markets <sup>1</sup> (sub-ceiling 1a)	37 352	40 035	41 992	42 680	42 769	44 598	45 502*	294 928
(b) Rural development (sub-ceiling 1b)	4 386	4 495	4 595	4 698	6 536	6 841	7 116*	38 667

\* In September 2005, the Budgetary Authority agreed to reduce the appropriations under subheading 1a by EUR 655,0 million and to transfer this amount to subheading 1b for the modulation foreseen in Article 10 of Council Regulation (EC) No 1782/2003. Therefore, the appropriations under subheading 1a would amount to EUR 44 847 million while the appropriations under subheading 1b would amount to EUR 7 771 million.

### 1.2. 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.

### 1.3. 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.

---

<sup>1</sup> Including veterinary and plant health measures and excluding accompanying measures.

#### **1.4. 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).

#### **1.5. 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.

#### **1.6. 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.

#### **1.7. 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 subheading 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 for 2004 totalled **€45 080 785 000**. The budget authority approved a non-automatic carryover from 2003 of **€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:

€

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>
<b>Total commitments</b>	<b>44 760 544 197.01</b>
3. Amounts charged	
– for Member States' expenditure against normal appropriations	42 608 520 270.96
– for expenditure against non-automatic carryovers	41 200 000
– for direct payments	<u>658 618 528.22</u>
<b>Total charged</b>	<b>43 308 338 799.18</b>
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>
<b>Total automatic carryovers</b>	<b>1 452 205 397.83</b>
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 not paid for by the end of the year total €1 452.21 million.

### 2.2.3. *Non-automatic carryovers*

Under Articles 9 and 149 of Council Regulation No 1605/2002, the Commission decided to carry over from 2004 to 2005 a total of €49.5 million:

- €8.3 million for item 05 040101 “Investments agricultural holdings”;
- €8.1 million for item 05 040107 “Agri-environment”;
- €2.5 million for item 05 040109 “Improving processing and marketing agricultural products”;
- €14.2 million for item 05 040110 “Forestry – former system”;
- €9.6 million for item 05 040112 “Promotion adaptation and development rural areas”;
- €6.3 million for item 05 040113 “Other rural development measures”;
- €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:

€

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

### 2.4. Appropriations concerning non-automatic carryovers from 2003

Under Articles 9 and 149 of Council Regulation No 1605/2002, the Commission decided to carry over from 2003 to 2004 a total of €41.2 million. This broke down into €8.7 million for item B01-406 (05 040109) “Improving processing and marketing agricultural products” and €32.5 million for item B01-4070 “Forestry – new system Article 31”.

### 2.5. Transfers within the EAGGF-Guarantee Section

In 2004, the budgetary authority approved the following transfers:

- 1) Chapter-to-chapter transfer No 07/04 (outside the EAGGF): (DEC20)
  - from Chapter 05 01 “Administrative expenditure agriculture” (–€0.5 million)
  - to Chapter 07 04 “European Environment Agency” (+€0.5 million);
- 2) Chapter-to-chapter transfer No 14/04:<sup>2</sup> (DEC70)
  - from Chapters 17 01 “Administrative expenditure health and consumer protection” (–€1 million), 17 04 “Food safety and animal welfare/plant health” (–€38.665 million)

<sup>2</sup> Of which €38.665 million from Articles 17 0401 and 17 0404 to Article 17 0403

- to Chapter 17 04 “Food safety and animal welfare/plant health” (+€39.665 million), and

Title-to-title transfer No 13/04:

- from Chapters 05 02 “Vegetable products” (–€20 million), 05 03 “Animal products” (–€80 million)
- to Chapter 17 04 “Food safety and animal/plant health” (+€100.0 million)

## **B. SYSTEM OF ADVANCES AND DIRECT PAYMENTS**

### **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 on the financing of the common agricultural policy<sup>3</sup> states that "the Commission shall decide on monthly advances on the provision of expenditure affected by the accredited paying agencies". Advances are paid to the Member States at the beginning of the second month following that in which the expenditure was affected by the paying agency.

These are not strictly speaking advances but rather reimbursements of expenditure already incurred by the Member States. The 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 under the clearance of accounts.

Payments made by the Member States from 16 October 2003 to 15 October 2004 are covered by the system. 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.

For 2004, the net amount of advances paid totals €42 649 720 270.96.

#### *2.6.2. Decisions on advances for 2004*

The Commission adopted 12 decisions on monthly advances for the 2004 financial year (Annex 4).

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

#### *2.6.3. Reduction and suspension of advances*

In 2004, a correction of –€79.83 million was made to the advances paid to the Member States. The various categories of corrections are given below.

---

<sup>3</sup> OJ L 160 26.6.1999, p. 103.



*a. Reduction of advances for non-compliance with payment deadlines*

In application of Article 14 of Council Regulation (EC) No 2040/2000 on budgetary discipline<sup>4</sup>, the EAGGF found that some Member States did not always comply with the time limits laid down for the payment of aid to recipients.

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

Due to late payments, the Commission twice decided to reduce the monthly advances by a total of €79.83 million.

*b. Reduction of advances on account of failure to charge the additional milk levy for 2003/04*

The Commission made no reduction in advances to Member States for failing to charge the additional milk levy.

*c. Corrections for public storage*

Following the introduction in 2002 of the new e-FAUDIT application, the calculation, declaration and verification of expenditure on public storage by the Member States was considerably improved. Consequently, no correction was necessary in 2004 under these arrangements.

**2.7. Direct payments**

In some cases, the Commission makes direct payments to operators. These are for veterinary and plant health measures (Title 17) and for certain measures that do not come under 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).

**3. THE IMPLEMENTATION OF THE BUDGET**

**A. INTRODUCTION**

**3.1. The uptake of the EAGGF-Guarantee budget appropriations**

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 Commission decided to transfer EUR 1.7 billion from EAGGF-Guarantee to the Structural funds.

---

<sup>4</sup> OJ L 244 26.6.2000, p. 27.

Indeed, the credit appropriations for EU-25 under BR No 1/2004 amounted to EUR 46 781.4 billion and they were reduced, via BR No 10/2004, to EUR 45 081.4 billion. 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 billion, thus presenting a non-utilisation of credit appropriations by EUR 2 061.4 billion 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 361.4 million compared to the level of credit appropriations established by BR No 10/2004.

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 Annex 7. This presentation is made both at the budget article level as well as at the level of each budget item.

The execution report on hand briefly comments on the most significant differences between the expenditure incurred under the different items of the 2004 budget compared to the initial budget appropriations included in BR No 1/2004.

## **B. ANALYSIS OF THE IMPLEMENTATION OF THE BUDGET BY CHAPTER**

### **3.2. CHAPTER 05 02: PLANT PRODUCTS**

#### **Introduction**

The appropriations for this chapter of the budget amounted to EUR 27 537.4 million while payments amounted to approximately EUR 26 669.9 million, i.e. an implementation rate of 96.8% of the budget's initial appropriations. This under-implementation was primarily attributable to the sectors of cereals, arable crops, sugar, wine and other plant products and measures. Details of the differences between the budget's appropriations and their execution by budget item are presented in Annex 7.

#### **Article 05 02 01: Market measures on cereals**

Following the 2003 winter's "frost kill" in certain regions, spring and summer saw poor rainfall and very high temperatures (4° to 5°C above average) in the greater part of Europe. These temperatures peaked in the first three weeks of August. The countries most affected by the long period of high temperatures were Portugal, Spain, France, Germany, Italy, Greece and most Central European countries. These difficult weather conditions and the accompanying measures employed in some regions (restrictions on irrigation) reduced the 2003/04 cereal harvest markedly.

The 2003/04 EU-15 cereals production declined by 26.0 million tonnes, ie: more than 12.0% to approximately 185.0 million tonnes versus 210.0 million tonnes in the previous marketing year. Similarly, the 2003/04 EU-10 cereals production amounted to approximately 45.0 million tonnes, ie: 8.0 million tonnes less than the previous marketing year. In 2004, domestic utilisation of cereals was estimated at approximately 239.8 million tonnes for the EU-25, i.e. cereals production was smaller than consumption, thus, resulting to an increase in the EU's cereals price

level. The Commission addressed the situation by removing any active incentive to export, opening intervention stocks for sale in the internal market and reducing the set-aside rate for the 2004 harvest from 10 to 5%.

Intervention stocks fell, in the course of the 2004 budget year, from around 6.7 million tonnes at the start of the year to around 3.5 million tonnes (92% was rye) by the end of the year versus the initial estimate of 2.5 million tonnes retained in the 2004 budget. Underlying this, however, there were wide variations in changes in the stock levels for individual cereals. Wheat stocks decreased to around 0.2 million tonnes by the end of the year from a level of 1.2 million tonnes at the start of the year while stocks of barley decreased to around 0.1 million tonnes by the end of the year from 0.8 million tonnes and stocks of rye decreased from 4.7 to 3.2 million tonnes. The quantities in stock for maize and sorgho were insignificant. Purchases into intervention amounted to approximately 0.1 million tonnes (barley and rye) while sales amounted to 3.3 million tonnes (approximately 30% wheat, 25% barley and 45% rye) versus the initial 2004 budget estimates of no purchases at all and sales of approximately 4.5 million tonnes. The lower quantity of sales as compared to the quantity retained in the budget resulted to higher than otherwise technical and financial costs. These costs and the end-of-year depreciation for which no appropriations had been foreseen in the 2004 budget resulted to an over-spending of the budget's appropriations by approximately EUR 37.7 million.

The community's production deficit led to the suspension of the weekly export tenders for cereals (except for oats) as of 31 July 2003. The 2004 budget was established on the hypothesis of no export refunds for the major products of wheat and barley (marketing year 2003/04) while it foresaw appropriations for the exports of oats and of processed cereals-based products of the same marketing year. In the course of the 2004 budget year, approximately 1.1 million tonnes of soft wheat and 0.3 million tonnes of barley (both of marketing year 2002/03) were exported with refunds. Furthermore, approximately 0.6 million tonnes of oats and approximately 0.67 million tonnes of maize-based and 0.64 million tonnes (maize equivalent) of starch-based processed products were exported with refunds. The overall low level of cereals exports led to under-spending the 2004 budget's appropriations by –EUR 101.6 million.

The poor harvest also affected the quantities of potato starch for which production refund was granted. These were lower by 17% as compared to the quantities retained in the 2004 budget. At the same time and for most of the budget year the production refund rates for starch were set at "0" because of the high world price CAF Rotterdam for maize. As a consequence, payments for intervention for starch under-spent the 2004 budget's appropriations by –EUR 123.6 million.

#### **Article 05 02 02: Rice**

The production of rice was estimated at 1.6 million tonnes (milled equivalent) for the marketing year 2003/04.

The dollar world market price of rice in the course of the year increased, thus, leading to an overall reduction in the level of export refunds as compared to the level retained when the budget was established. Despite a slight increase in the quantities of rice exported to approximately 0.28 million versus the quantity of 0.24 million tonnes retained in the 2004 budget, the overall reduction in the level of export

refunds led to a decrease in the corresponding expenditure, thus, under-spending the budget's appropriations by approximately –EUR 9.6 million.

With regard to public storage of rice, purchases amounted to approximately 0.14 million t and sales to 0.20 million tonnes compared to the quantities of 0.10 million tonnes and 0.16 million tonnes correspondingly which were retained at the time of the establishment of the 2004 budget. The end-of-year depreciation for the quantities of rice in public storage amounted to approximately EUR 25.0 million as compared to the amount of approximately EUR 3.0 million foreseen in the budget. This factor combined with the increase in the value of sales compared to the values retained in the 2004 budget led to an over-spending of the budget's appropriations by approximately EUR 13.6 million.

#### **Article 05 02 03: Direct payments for arable crops**

The amounts retained in the 2004 budget were estimated on the basis of the Member States communication sent to the Commission on 15 September 2003. However, their final communication of 15 February 2004 pointed out to a level of expenditure for these direct aids which was lower than the one retained in the 2004 budget, thus, under-spending the budget's appropriations by approximately –EUR 96.2 million.

#### **Article 05 02 04: Food programmes**

With regard to the distribution of agricultural products to deprived persons in the Community, the under-execution of –EUR 11.7 million was primarily due to the fact that EL did not distribute any of the quantities of cereals, rice and milk powder foreseen in the approved distribution plan for 2004.

For specific details, please see point 3.9.

With regard to refunds in connection with food aid, the under-execution of –EUR 4.4 million resulted primarily from the lower quantities of cereals and rice exported as food aid compared to the quantities retained in the 2004 budget.

#### **Article 05 02 05: Sugar**

The quantities of sugar accepted for export were substantially lower, at approximately 2.0 million t, than the quantity of 2.6 million t retained when the 2004 budget was established, thus, leading to lower payments for export refunds and to the under-execution of the corresponding appropriations in the 2004 budget by approximately –EUR 296.7 million.

The quantities for which refunds for the marketing year 2003/04 sugar used by the chemical industry were granted were higher by approximately 0.19 million tonnes when compared to the quantity of 0.45 million tonnes retained in the establishment of the 2004 budget. This factor combined with the payment of refunds for the marketing year 2004/05 for which the budget did not foresee any appropriations led to an over-spending of the 2004 budget's appropriations by EUR 45.3 million.

Approximately 0.3 million tonnes of sugar were exported under the non-Annex I regime. They were approximately 28% smaller than the quantities retained in the 2004 budget, thus, leading to an under-spending of the corresponding appropriations by –EUR 45.9 million.

#### **Article 05 02 06: Olive oil**

While Member States did not pay the totality of the production aids due for the marketing year 2002/03, they paid approximately EUR 81.0 million for outstanding balances for previous marketing years for no appropriations were foreseen in the 2004 budget, thus, over-spending the corresponding appropriations by approximately EUR 1.3 million.

Production refunds for olive oil used in the manufacture of preserved fish and vegetables were paid for a quantity of approximately 0.07 million tonnes versus the quantity of 0.05 million tonnes retained in the 2004 budget, thus, over-spending the corresponding appropriations by approximately EUR 5.2 million.

#### **Article 05 02 07: Textile plants**

Payments for aid for cotton were smaller as a result of the higher world prices for cotton and of the lower quantities of cotton produced in EL (approximately 1.0 million tonnes) and ES (approximately 0.3 million tonnes) as compared to the quantities of 1.1 and 0.33 million tonnes correspondingly retained in the 2004 budget, thus, leading to an under-spending of the corresponding appropriations by –EUR 22.7 million.

Processing aid was granted to approximately 0.04 million t of short flax and hemp fibre as compared to the maximum guaranteed quantity of 1.36 million t on which the 2004 budget estimates were based, thus, leading to an under-execution of the corresponding appropriations by approximately –EUR 9.1 million.

#### **Article 05 02 08: Fruits and vegetables**

In 2004, vegetables production was higher for tomatoes while fruit production also increased substantially, with the exception of oranges and lemons. Favourable weather conditions and planted areas favoured the substantial increase in tomatoes for industrial processing.

Lower quantities of fresh fruits and vegetables were exported, thus, leading to an under-spending of the 2004 budget's appropriations by approximately –EUR 13.2 million.

The withdrawal of smaller quantities, approximately 0.25 million tonnes, of fruit and vegetables from the market when compared to the quantities of 1.0 million tonnes which were retained when the 2004 budget was established, thus, under-spending the corresponding appropriations by –EUR 74.8 million.

Member States approved and paid operational funds for producer organisations amounting to approximately EUR 498.0 million, thus, over-spending the budget's appropriations by approximately EUR 93.0 million.

With regard to special measures for nuts, Member States paid aids for quality improvement programmes amounting to approximately EUR 47.0 million, thus, over-spending the budget's appropriations by EUR 27.0 million.

The quantities of bananas produced in 2003 were approximately 2% higher than the level retained when the 2004 budget was established while it is forecasted that production will also be approximately 1% lower for 2004. However, favourable

market conditions led to a higher level of prices which resulted in lowering the effective rates of aid for bananas (–18.3% reduction in total aid for bananas produced in 2003 and –18.3% reduction in the rate of advanced aid for bananas produced in 2004). As a consequence, aid payments for bananas were lower, thus, under-spending the budget's appropriations by –EUR 55.7 million.

The processing aid was paid for approximately 9.1 million tonnes of tomatoes for the marketing year 2003/04 as compared to the quantity of 8.2 million tonnes retained in the 2004 budget, thus, over-spending appropriations by EUR 25.9 million.

The production aid for fruit-based products was paid for smaller quantities of peaches (approximately 0.24 million t compared to 0.47 million t) and pears (approximately 0.11 million t compared to 0.12 million t) than the ones retained in the 2004 budget, thus, resulting to an under-spending of the corresponding appropriations by EUR 12.7 million.

Similar was also the case for the compensation to encourage processing of citrus fruits where the under-spending of –EUR 18.3 million resulted from the lower quantity processed (approximately 2.4 million t) compared to the quantity of 2.6 million t retained in the 2004 budget.

#### **Article 05 02 09: Products of the wine-growing sector**

Total production of wine for the marketing year 2003/04 was estimated at approximately 159.0 million hl as compared to the level of 151.0 million hl retained in the 2004 budget. This production level was 5.0% larger compared to the one of 151.4 million hl for the marketing year 2002/03. The quality of the wine produced in 2004 was very good. Domestic human consumption of wines was estimated at approximately 137.0 million hl while industrial utilisations and distillations were estimated at approximately 28.0 million hl. The corresponding levels of these elements retained in the 2004 budget were correspondingly 120.0 million hl and 31.0 million hl.

The quantities of wine and grape must placed in storage were approximately 14% lower than the quantities retained in the 2004, thus, resulting in an under-spending of approximately –EUR 16.8 million.

Because of the good quality of wine produced in the period 2003/04, the crisis distillation scheme for which appropriations were foreseen in the 2004 budget was not used, thus, leading to an under-spending of –EUR 21.3 million.

The non-use of crisis distillation led to lower quantities of alcohol entering public storage. These quantities amounted to 1.3 million hl versus the quantity of 1.6 million hl retained in the 2004 budget, thus, leading to lower than otherwise depreciation upon entry into intervention by –EUR 16.0 million. Furthermore, the end-of-year foreseeable selling price of alcohol per hl was higher than the one retained in the 2004 budget, thus, leading to lower than otherwise end-of-year depreciation. Finally an amount of approximately EUR 7.0 million was paid for private storage of alcohol versus the amount of EUR 11.0 million foreseen in the 2004 budget. The overall under-spending for this item of the 2004 budget amounted to –EUR 38.0 million.

Finally, the high quality of produced wine did not necessitate the use of all the quantities of must for enriching wines for which credits of EUR 156 million had been retained in the 2004 budget, thus, resulting in an under-spending of –EUR 15.0 million.

#### **Article 05 02 10: Tobacco**

EAGGF and Member States payments under the Community Fund for Research and Information amounted to approximately EUR 5.2 million out of the 2004 budget's appropriations of EUR 14.4 million, thus, leading to an under-spending of –EUR 9.2 million.

#### **Article 05 02 11: Other plant products/measures**

All the programmes in favour of the outermost regions – POSEI were, in varying degrees, under-implemented as compared to the appropriations retained in the 2004 budget, hence, the under-spending of –EUR 51.0 million.

### **3.3. CHAPTER 05 03: ANIMAL PRODUCTS**

#### **Introduction**

The appropriations for this chapter of the budget amounted to EUR 12 717.5 million while payments amounted to approximately EUR 11 692.4 million, i.e. an implementation rate of 92.0% of the budget's initial appropriations. This under-implementation was primarily attributable to the sectors of milk products and beef. Details of the differences between the budget's appropriations and their execution by budget item are presented in Annex 7.

#### **Article 05 03 01: Milk and milk products**

At the time of the establishment of the 2004 budget, production of butter was forecasted at approximately 1.9 million tonnes (EU-15) and total availabilities at 2.4 million tonnes including intervention stocks and imports. At the same time, uses of butter were estimated at approximately 2.4 million tonnes including exports of approximately 0.30 million tonnes and stocks in public storage of approximately 0.21 million tonnes. By the end of the year, production was estimated at 2.1 million tonnes and the uses at 2.6 million tonnes (including the figures for the NMS).

At the same time, production of skimmed milk powder (SMP) was forecasted at approximately 1.0 million tonnes (EU-15) and total availabilities at 1.3 million tonnes including intervention stocks and imports. At the same time, uses of SMP were estimated at approximately 1.3 million tonnes including exports of approximately 0.25 million tonnes and stocks in public storage of approximately 0.2 million tonnes. By the end of the year, production was estimated at 1.1 million tonnes and the uses at 1.4 million tonnes (including the figures for the NMS).

After their fall in 2002, world prices for milk products recovered in 2003 and increased substantially in 2004. The world prices for cheese, butter, skimmed and whole milk powder were substantially increased in the summer and in the autumn of 2004.

The favourable international dairy market situation led to an average decrease in the level of export refunds for the various products of approximately 4% in 2004. At the same time, while exports of butter, butterfat and SMP increased slightly, exports of milk powder and condensed milk decreased to 0.81 million tonnes from 0.96 million tonnes retained in the 2004 budget. As a consequence, 2004 appropriations for export refunds were under-spent by –EUR 236.0 million.

Within the EU, market conditions for dairy products generally improved in 2004 with prices relatively better than in 2003. They remained firm even after the enlargement on the 1<sup>st</sup> of May as well as the introduction of the first step of the support price cuts agreed within the CAP reform of July 2003. This price environment allowed for substantial sales out of intervention stocks and in particular for skimmed milk powder.

With regard to public storage of skimmed milk powder, purchases amounted to approximately 0.02 million tonnes and sales to 0.06 million tonnes compared to the quantity of 0.03 million tonnes correspondingly for both purchases and sales which was retained at the time of the establishment of the 2004 budget. The increase in sales led to the decrease of the final stock in storage to approximately 0.14 million tonnes versus 0.19 million tonnes retained in the 2004 budget and led to an under-implementation of the budget's appropriations for the various cost elements of the public storage operations for skimmed milk powder amounting to approximately –EUR 22.0 million.

With regard to public storage of butter, purchases amounted to approximately 0.03 million tonnes and sales to 0.07 million tonnes compared to the quantities of 0.03 million tonnes and 0.05 million tonnes correspondingly which were retained at the time of the establishment of the 2004 budget. The increase in sales led to the decrease of the final stock in storage to 0.19 million tonnes versus 0.21 million tonnes retained in the 2004 budget and led to an under-implementation of the budget's appropriations for the various cost elements of the public storage operations for butter amounting to approximately –EUR 43.2 million.

The level of aid for skimmed milk processed into casein decreased to an average of EUR 63.0/t compared to the rate of aid of EUR 65.0/t retained in the 2004 budget, while this aid for animal feed was increased to EUR 593.0/t compared to the rate EUR 589.0/t. Furthermore, the quantities of SMP used for animal feed decreased to approximately 0.41 million tonnes compared to 0.44 million tonnes retained in the 2004 budget while they increased to 5.6 million tonnes compared to the quantity 5.3 million tonnes retained in the 2004 budget. As a consequence, aid payments for the use of skimmed milk powder under-spent the budget's appropriations by approximately –EUR 32.6 million.

Under the specific uses for butterfat scheme, the average aid level was decreased by EUR 56/t to EUR 768.0/t and the quantity used increased to approximately 0.52 million tonnes versus the quantity of 0.5 million tonnes respectively retained in the 2004 budget. As a consequence, aid payments for the specific uses of butterfat under-spent the budget's appropriations by approximately –EUR 23.5 million.

The super-levy was collected for approximately 1.1 million tonnes of milk versus the quantity of 0.25 million tonnes retained in the 2004 budget. As a consequence, receipts under the milk super-levy amounted to –EUR 490.0 million versus the



amount of –EUR 172.0 million retained in the 2004 budget. The difference between these two amounts is equivalent to a decrease in expenditure of approximately –EUR 318.0 million.

Approximately 0.06 million tonnes of butter were exported under the non-Annex I regime. They were approximately 15% higher than the quantities retained in the 2004 budget, thus, leading to an over-spending of the corresponding appropriations by EUR 10.9 million.

#### **Article 05 03 02: Beef and veal**

Bovine meat production was estimated at 7.4 million tonnes for 2004, down by approximately 1.3% in comparison to 2003. At the time of establishment of the 2004 budget, internal beef uses were estimated at approximately 7.5 million tonnes and exports were estimated at approximately 0.41 million tonnes. In general, bovine meat prices continued to improve in 2004.

In the international meat markets, sanitary crises and import restrictions led to generally high prices in 2004. The European Union turned from a major net exporter to a net importer of beef for the second consecutive year.

Against this international background export refund rates for certain types of meat were slightly decreased when compared to the ones retained in the 2004 budget. However, the actual quantities of exported meat amounted to approximately 0.37 million tonnes versus the quantity of 0.41 million tonnes retained in the 2004 budget. As a consequence, the corresponding appropriations were under-spent by approximately –EUR 109.0 million.

As it regards exports of live animals, the average export refund rate was increased to EUR 872.0/t compared to EUR 850.0/t retained in the 2004 budget because of changes in the composition of exported animals whereas the quantities exported were lower to approximately 0.06 million tonnes compared to 0.08 million tonnes forecasted in the 2004 budget. As a consequence, the corresponding appropriations were under-spent by approximately –EUR 16.1 million.

The opening stock of beef in public storage stood at approximately 0.031 million tonnes in carcass equivalent weight was almost all sold (except 131 t) while no purchases were made in the course of the year. Therefore, the receipts forecasted in the 2004 budget as a result of expected sales of approximately 0.028 million tonnes were increased by –EUR 3.4 million bringing total receipts for the year to –EUR 8.4 million.

The animal premiums for the calendar year 2003 are paid in the 2004 budget year. When compared to the numbers of animals retained in the 2004 budget, the premiums effectively paid were slightly smaller as regards the supplementary suckler cow, special beef, the slaughter premium and the exceptional support measures. As a consequence, the corresponding appropriations were under-spent by approximately –EUR 143.0 million. Out of this amount, approximately EUR 114.0 million related to the Commission's reimbursement to Member States following the European Court of Justice's ruling in the case C-239/01. This reimbursement was made right at the end of the 2003 budget year but the amount was already included in the appropriations requested through the Amending Letter to the 2004 PDB which had been already submitted to the Budgetary authority by late October 2003.

### **Article 05 03 03: Sheepmeat and goatmeat**

The ewe/goat premiums for the 2003 calendar year are paid out of the 2004 budget year's appropriations. Fluctuations in expenditure by comparison to the budgeted amounts would be normally attributed to the number of eligible animals for which the premiums were granted. Effectively, the 2003 sheep and goat-meat premiums were paid for approximately 68.7 million animals compared to the estimation of 69.9 million animals retained in the 2004 budget while the supplementary fixed annual 2003 premium was paid for approximately 55.7 million animals as compared to the estimate of 56.2 million animals retained in the 2004 budget. Therefore, the corresponding 2004 budget's appropriations were under-executed by –EUR 60.5 million.

### **Article 05 03 04: Pigmeat, eggs and poultry, bee-keeping and other animal products**

The unsettled market situation for pigmeat in 2004 made necessary for the Commission to take measures aiming at balancing this market. These temporary measures were taken at the start 2004 and they were discontinued by mid-year. They involved:

- The reintroduction of export refunds for fresh, chilled and frozen pigmeat which had been discontinued in June 2000. Expenditure for these exports refunds amounted to approximately EUR 25.5 million, thus over-spending the 2004 budget's appropriations, which foresaw appropriations only for export refunds for processed pigmeat, by EUR 4.2 million.
- The opening of private storage of pigmeat for which the 2004 budget did not foresee any appropriations. Under this measure, approximately 0.085 million tonnes were temporarily taken off the market. The corresponding expenditure amounted to EUR 30.0 million.

For poultry, the reduced quantities exported with refunds led to an under-spending of the 2004 budget's appropriations by –EUR 20.8 million.

Approximately 0.04 million tonnes of eggs were exported under the non-Annex I regime versus the quantity of 0.02 million tonnes retained in the 2004 budget, thus, leading to an over-spending of the corresponding appropriations by EUR 6.0 million.

## **3.4. CHAPTER 05 04: RURAL DEVELOPMENT**

### **Article 05 04 01: EU 15 rural development**

From appropriations under Subheading 1b, the EAGGF Guarantee Section part-finances (Regulation (EC) No 1257/1999) 89 rural development programmes adopted for the 15 Member States for the 2000–2006 period.

The allocation entered in the 2004 budget by the budget authority was €4 803.0 million, equivalent to the maximum amount for 2004 under subheading 1b of the 2000–2006 Financial Perspective.

This amount was increased by the €41.2 million carried over from 2003 to 2004. Consequently, the appropriations available were increased to €4 844.2 million.

In 2004, the actual expenditure under the 89 programmes was €4 748.9 million or 98.0% of the appropriations available. Consequently, compared to the amount available of €4 844.2 million, there was an underspend of €95.3 million, contrary to the forecasts submitted by the Member States on 30 September 2003 of an expenditure of €5 036.2 million, which would have exceeded the available appropriations by €192.0 million.

The implementation by budget heading in 2004 of the allocations available showed an underspend principally on measures to promote the adjustment and development of rural areas, investments in agricultural holdings, forestry measures (new and former systems), early retirement (new system) and, to a lesser extent, the processing and marketing of agricultural products and training. On the other hand, environmental measures, particularly under the new system, early retirement (old system) and the setting up of young farmers well exceeded their initial allocation. As a result, transfers within the Article for adjustment purposes were necessary to match budget resources to actual implementation needs.

In the context of the closure of the 2004 financial year and the carryover of unutilised appropriations from 2004 to 2005, €49.5 million was carried over by Commission decision in accordance with Article 149(3) of the new Financial Regulation.

#### **Article 05 04 04: Transitional instrument for the financing of rural development for the new Member States**

Under Regulation (EC) No 1257/1999 the EAGGF Guarantee Section part-finances the rural development programmes adopted in 2004 for the ten new Member States for the period 2004–2006 by means of the transitional instrument and differentiated appropriations.

The budget authority entered an allocation of €1 733.0 million in commitment appropriations and €645.0 million in payment appropriations in the 2004 budget. These amounts correspond to the 2004 instalment of the allocation for 2004–06 established at the Copenhagen European Council.

The actual expenditure of commitment appropriations was €1 733.0 million for the 2004 instalment of the 10 adopted programmes. The actual expenditure for payment appropriations was €628.9 million, comprising €576.0 million for payment of a first advance of 10% of the global amount for 2004–06 (a second advance of 6% will be paid in 2005) and €52.9 million for the reimbursement of expenditure in Slovenia and the Czech Republic.

Unutilised payment appropriations under this heading were transferred in order to increase the financial resources of the SAPARD budget headings.

### **3.5. CHAPTER 05 07: AUDIT OF AGRICULTURAL EXPENDITURE**

#### **Article 05 07 01: Control of agricultural expenditure**

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

Member States incurred expenditure amounting to approximately EUR 18.9 million for the establishment of the olive oil register (Geographical information system) while the 2004 budget foresaw appropriations of EUR 16.0 million for these measures.

The European Community directly financed measures to the tune of EUR 6.4 million for the purchase of satellite images within the framework of the Integrated Administrative and Control System (IACS).

With regard to the clearance of previous years' accounts, the amounts with which the Member States have credited the EAGGF-Guarantee section budget corresponded to the corrections included in the four clearance decisions adopted by the Commission in the course of the 2004 budget year, namely: the Commission decisions 2004/136/EC, 2004/451/EC, 2004/457/EC and 2004/561/EC. With regard to the reduction/suspension of advances, an amount of –EUR 79.8 million was deducted from the Member States advances.

The overall amount of these claw backs was equal to –EUR 508.1 million versus the estimated amount of –EUR 400.0 million retained in the 2004 budget, i.e. approximately –EUR 108.1 million above the appropriations foreseen in the budget.

#### **Article 05 07 02: Settlement of disputes**

This Article intends to cover expenditure for which the Commission may be made responsible by decision of a court of justice. No appropriations were foreseen for this Article in the 2004 budget. Nevertheless in the course of the year, The European Court of Justice rendered its judgement in certain cases for which an amount of EUR 0.124 million was paid.

### **3.6. CHAPTER 05 08: POLICY STRATEGY AND COORDINATION**

#### **Article 05 08 04: Promotion measures – Payments by Member States**

For promotion actions within the EU, 2 decisions were adopted in 2004 for an amount of approximately EUR 40 million. The promotion programmes adopted cover mostly the following products: bio, flowers, milk, cheese, wine, fruit and vegetables etc.

Within the year, payments amounted to approximately EUR 22.1 million involving the following decisions: C(2002)3116: EUR 10.3 million, C(2003)1926: EUR 4.6 million, C(2003)3546: EUR 0.1 million, C(2003)5257: EUR 6.2 million and C(2004)2000: EUR 0.9 million.

For promotions actions in third countries, 2 decisions were adopted in 2004 for an amount of approximately EUR 8.0 million. The promotion programmes adopted cover mostly the following products: pig meat, fresh and packaged peaches and nectarines, fresh fruits and vegetables, olive oil, cheese, wine etc. The targeted countries for these promotion measures are Japan, Romania, Russia, Bulgaria, Canada, Norway, Switzerland, USA, Australia, Brazil and China.

Within the year, payments amounted to approximately EUR 5.1 million involving the following decisions: C(2001) 4005: EUR 1.6 million, C(2003) 15: EUR 2.0 million, C(2003) 3404: EUR 1.2 million and C(2004) 817: EUR 0.3 million.

For specific details, please see point 3.10.

**Article 05 08 05: Promotion measures – Direct payments by the European Community**

For directly managed promotion measures, the Commission paid approximately EUR 2.6 million versus the amount of EUR 11.0 million retained in 2004 budget. An amount of EUR 2.0 million was paid for information campaigns in China, Japan, USA and Canada relating to the community system of protected designations of origin (PDOs) and protected geographical indications (PGIs), to traditional speciality guaranteed (TSGs) and to organic farming. The remaining EUR 0.6 million were used to pay evaluations of promotion programmes, the contribution to the publicity fund of the International Olive Oil Council, etc.

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

The payments incurred with regard to the information measures on the CAP amounted to approximately EUR 3.3 million versus the amount of EUR 6.5 million retained in 2004 budget.

**3.7. CHAPTER 11 02: EUROPEAN FISHERIES GUARANTEE FUNDS**

**Article 11 02 01: Intervention in fishery products**

The budget allocation for fisheries was €18 075 000, of which €14 052 825 was spent, a difference of €4 022 175.

Compared to the forecasts, the overall budget underspend mainly concerns private storage aid (–€301 164) and operational programmes (–€3 489 468). During the 2004 fishing year, producers' organisations actually made little use of private storage aid. Moreover, the compensatory allowance for tuna was not used at all in 2004, although it was activated due to negative developments in the price of tuna in the first and second quarters. The allowance will be paid in 2005.

On the other hand, expenditure on Community withdrawals exceeded the forecasts by €2 340 087 due to considerable decreases in the price of several fisheries products in the 2004 fishing year.

**Article 11 02 03: Fisheries programme for the outermost regions**

The budget allocation for fisheries was €15 000 000, of which €9 904 477.76 were spent, a difference of €5 095 522.24.

**3.8. CHAPTER 17 04: VETERINARY AND PLANT HEALTH MEASURES**

**Generalities on the chapter**

99.14% of the credits available from the 2004 budget have been used; an amount of EUR 346 015 220 out of a global available amount of EUR 349 000 000 has been committed.

The initial amount allocated for chapter 17 reached EUR 249 million. Following the outbreaks of avian influenza in 2003 in three Member States (the Netherlands, Belgium and Germany) and the results of the audit of the operational costs linked to the eradication of foot-and-mouth disease in the United Kingdom in 2001, an external transfer of the credits of 100 million for the emergency fund was obtained. Furthermore, transfers within chapter 17 (from lines 17 010401, 17 0401 and 17 0404) allowed an additional increase of the credits for the emergency fund of another EUR 39.665 million.

## **Chapter details**

### ***Article 17 04 01: Animal disease eradication and monitoring programmes***

After transfer, the amount of available credits was EUR 146 935 000. This total sum was committed, EUR 76 968 000 for TSE activities, EUR 15 675 000 for scrapie monitoring and EUR 54 292 000 for the traditional eradication programmes.

According to the latest estimates available, about 10.5 million TSE-tests were co-financed by the European Union in 2004.

The “scheduled/programmed” expenses were covered by 80% of the available credits. The balance of EUR 36 565 000 was transferred to the emergency fund.

Payment credits were executed via 57 payments. The total amount of EUR 125 853 783.63 came from the 2003 budget.

### ***Article 17 04 02: Other measures in the veterinary, animal welfare and public health field***

The credits for this line reached EUR 12 500 000, of which EUR 9 803 580 were committed in 2004.

The payment credits were executed via 72 payments up to a sum of EUR 6 199 651.93, EUR 3 875 857.08 of which concerned credits of 2003.

### ***Article 17 04 03: Emergency fund for veterinary complaints and other diseases of animal contaminations which are a risk to public health***

The amount of initial credits was EUR 48 000 000. The amount was increased by EUR 139 665 000 to cover the following expenses:

- the balance payment for the operational costs of the eradication of foot-and-mouth disease in UK in 2001 for an amount of more than EUR 116 million;
- the operational costs for the eradication of avian influenza of 2003 in the Netherlands, Belgium and Germany for an amount of approximately EUR 28 million;
- the contribution to compensations and operational costs for the eradication of different diseases in different Member States for a total amount of around EUR 43 million.

Three financing decisions were taken to cover the Community contribution to the Member States’ expenses in the framework of the eradication and monitoring of the

said diseases; one financing decision was taken for each disease that appeared and that was eligible for a contribution from the emergency fund.

Payment credits were executed up to an amount of EUR 148 710 703.26, of which EUR 19 796 027.26 concerned 2003 credits.

***Item 17 01 04 01: Plant-health measures – Expenditure on administrative measures***

The initially allocated credit amount was EUR 1 million. No commitments were made due the lack of a legal base authorising expenditure on the operational line; the available amount was transferred to the emergency fund (17 0403).

***Article 17 04 04: Plant-health measures – Expenditure on operational management***

The initially allocated amount was EUR 4 million. Commitments were executed for a total sum of EUR 1 611 640. The weak utilisation of the credits is due to the lack of a legal basis authorising expenditure on the operational line, in particular for residues.

The sum of EUR 2 100 000 which could not be committed in 2004 was transferred to the emergency fund (17 0403).

Payment credits were executed to an amount of EUR 1 436 245.66, of which EUR 1 398 627.66 concerned 2003 credits.

Finally, attention must be drawn to the fact that the only payment credit available on line 17 04.06 (achievement of previous actions in the veterinary and plant health field – dissociated credits) of DG SANCO remains still open (*file reformulation antigens*).

The details of all the commitments done in 2004 are given in Annex 8.

**C. SPECIFIC ACTIVITIES**

**3.9. 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 most deprived persons in the Community for a limited period.

When this emergency programme ended, the Community received many calls for this type of measure to be applied on a permanent basis. The Commission put a proposal to the Council, which adopted it as Regulation (EEC) No 3730/87 laying down general rules for the supply of food from intervention stocks to designated organisations for distribution to the most deprived persons in the Community<sup>5</sup>. The Commission then adopted an implementing regulation (Regulation (EEC) No 3149/92<sup>6</sup>, as last amended by Regulation (EC) No 1903/2004<sup>7</sup>).

---

<sup>5</sup> OJ L 352, 15.12.1987, p. 1.

<sup>6</sup> OJ L 313, 30.10.1992, p. 50.

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.

Eleven Member States wished to take part in 2004. Although the new Member States could still participate on a *pro rata temporis* basis, only Poland decided to do so. The appropriations were shared among the participating Member States according to the number of needy persons they had, based on the most recent Eurostat statistics. The allocation also reflected any 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 2004 plan (Decision C(2004)2326 amending Commission decision 2003/903/EC<sup>8</sup>) (details of which appear in tables 1 and 2), the participating Member States spent approximately EUR 204,3 million as detailed in Table 3.

---

<sup>7</sup> OJ L 328, 30.10.2004, p. 77.

<sup>8</sup> OJ L 234, 21.6.2004, p. 10.



**Table 1**

Member State	Ceiling in euros
BE	<b><u>3 439 000</u></b>
DK	<b><u>168 000</u></b>
EL	<b><u>12 030 000</u></b>
ES	<b><u>41 125 000</u></b>
FR	<b><u>52 503 000</u></b>
IE	<b><u>207 000</u></b>
IT	<b><u>62 065 000</u></b>
LU	<b><u>42 000</u></b>
PL	<b><u>23 935 000</u></b>
PT	<b><u>15 297 000</u></b>
FI	<b><u>2 933 000</u></b>
Total allocated	<b><u>213 744 000</u></b>
Transfers	<b><u>2 256 000</u></b>
Total 2004 plan	<b><u>216 000 000</u></b>

**Table 2****Distribution of the quantities of products by Member State (2004 plan)**

Member State	Cereals	Rice (paddy)	Butter	Milk powder	Beef and veal (carcase equivalent)
<b>Belgium</b>	<b>7 000</b>	<b>2 000</b>	<b>600</b>		
<b>Denmark</b>					<b>53</b>
<b>Greece</b>	<b>26 000</b>	<b>16 630</b>		<b>1 879</b>	
<b>Spain</b>	<b>70 000</b>	<b>27 975</b>	<b>7 230</b>		
<b>France</b>	<b>83 386</b>	<b>29 077</b>	<b>500</b>	<b>15 200</b>	
<b>Ireland</b>			<b>60</b>		
<b>Italy</b>	<b>90 000</b>	<b>19 625</b>	<b>13 448</b>		
<b>Poland</b>	<b>12 000</b>	<b>25 500</b>	<b>4 257</b>		
<b>Portugal</b>	<b>15 000</b>	<b>16 500</b>	<b>2 476</b>		
<b>Finland</b>	<b>15 500</b>			<b>595</b>	
<b>Total</b>	<b>318 886</b>	<b>137 307</b>	<b>28 571</b>	<b>17 674</b>	<b>53</b>

**Table 3**

Member States participating in the 2004 plan	Uptake of appropriations (EUR million)
Belgium	3,2
Denmark	0,1
Greece	13,6
Spain	41,4
France	90,5
Ireland	0,2
Italy	53,8
Luxembourg	0,00
Poland	24,3
Portugal	15,5
Finland	1,6
All participating Member States	204,3

### 3.10. Promotion Measures – Payments by Members States

Information and promotion programmes for agricultural products implemented in the EU and elsewhere are financed under this chapter. The legal basis is provided by Council Regulations (EC) Nos 2702/1999 and 2826/2000 and Commission Regulations (EC) Nos 2879/2000 and 94/2002.

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

The rate of financing of the action plans is 50%. It is degressive: 60%–40% in the case of two-year programmes and 60%–50%–40% in the case of three-year programmes. The rules also allow the financing of information measures carried out on the initiative of the Commission (sending trade missions to non-member countries and providing the latter with information on protected designations of origin, protected geographical indications and organic production).

All of the information and promotion measures under this chapter were under-implemented because of changes in promotional arrangements and delays in launching new programmes.

Payments made by the Member States for promotion measures amounted to approximately EUR 27.2 million, as compared to the 2004 budget appropriation of EUR 48.5 million.

The number of approved programmes (under shared management) since 2001 were: 18 (2001), 40 (2002), 66 (2003). In 2004, 59 new indirectly managed promotion programmes were approved, both on the internal market and in non-member countries, by four separate Commission Decisions. Since many of the 2004

programmes were approved late in the budget year (for example 28 programmes were approved end of September and later), the corresponding uptake of funds during the year was reduced and, therefore, the payments incurred amounted to only approximately EUR 1.2 million.

#### **4. CONTROL MEASURES**

##### **4.1. Integrated Administration and Control System (IACS)**

The new regulation on IACS was adopted in 2001 – Commission Regulation (EC) No 2419/2001, applicable to marketing years or premium periods commencing as of 1 January 2002 and replacing Regulation (EEC) No 3887/92.

Some important advantages of the new regulation are the general option to transmit claims etc. by electronic means, more efficient controls by maximising the use of computerised and remote controls, an "integrated" bovine premium control covering several schemes and a simplification of provisions concerning animal premium sanctions.

The Commission verifies the conformity of Member States' control systems and ensures a homogenous application of the new regulation. Particular attention was paid during 2003 to the achievement of IACS in the new Member States.

##### **4.2. Compatibility with IACS**

It follows from Articles 9a(1) and 13(1)(d) of Council Regulation (EEC) No 3508/92 that a number of aid schemes must be administered and controlled in a way that is compatible with IACS as of 1 January 2003. The provision concerns a variety of Community aid schemes (e.g. tobacco, wine, olive oil, less-favoured areas etc.) and effectively extends and consolidates the IACS concept and operational effectiveness to Community expenditure not hitherto directly covered.

The Commission's preparatory enquiry undertaken in 2002 showed that all Member States were aware of their obligations in respect of compatibility and that according to Member States compatibility would be reached by 1 January 2003. However, in some Member States compatibility concerning a number of aid schemes could not be reached by the deadline; most problems were found in the sectors of wine, olive oil and dried fodder.

As of 1 January 2003 compliance with the compatibility obligation is integrated into the audits pursuant to Article 7(4) of Regulation (EC) No 1258/1999.

##### **4.3. Olive oil inspection agencies**

In application of Council Regulation (EEC) No 2262/84<sup>9</sup> and Commission Regulation (EEC) No 27/85<sup>10</sup>, olive oil inspection agencies were created for the main olive oil-producing Member States: Italy, Greece, Spain and Portugal (see pp. 53-54 of the 18<sup>th</sup> financial report of the EAGGF).

---

<sup>9</sup> OJ L 208 3.8.1984

<sup>10</sup> OJ L 4, 5.1.1985

The four agencies completed their inspection tasks during the 2003/04 marketing year in accordance with the provisions contained within the action programmes and the forward estimates approved by the authorities of the Member States and by the Commission.

The findings of the olive oil inspection agencies were communicated to the national authorities, who then had to take all necessary steps to ensure that the appropriate penalties were applied.

#### **4.4. Application of Council Regulation (EC) No 723/97**

Under Council Regulation (EC) No 723/97, the Community contributes 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, aimed at improving the structures or effectiveness of EAGGF Guarantee Section expenditure controls.

Under Article 4(3) of the same Regulation, 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.

After consultation with the EAGGF Committee, the Commission establishes for each annual instalment a maximum amount for the Community financial contribution, taking into account the available appropriations and the programmes presented by the Member States. The Community financial contribution is 50% of the payments made by the Member States under the financial year and is in respect of eligible expenditure. However, if the amount of the Member States' payments relative to eligible expenditure is greater than the available budgetary resources, the rate of Community financial contribution is reduced proportionally.

This seventh year of application confirms the importance the Member States attach to the implementation of new control systems. Most of the programmes are connected to the implementation of a geographic information system (GIS) and an identification system for agricultural parcels.

After consultation with the EAGGF Committee on 19 November 2002 and on the basis of Commission Decision C(2003) 394 final of 30 January 2003, a total amount of €15 000 000 was granted to seven Member States who introduced an action programme for 2003.

Council Regulation (EC) No 2136/2001 extended the validity of Council Regulation (EC) No 723/97 by two years and approved an annual part-financing of €15 000 000. This Regulation applied until the end of 2003. The last declaration of expenditure reached the Commission in 2004. Audits were carried out in the final quarter of 2004 in the following Member States: Germany, Austria, Spain, Finland, France, United Kingdom, Sweden, Portugal and Greece.

These audits covered all expenditure declared by the Member States and made it possible for findings to be reached on the accuracy of the declared expenditure. For France, a final audit will be carried out in January 2005 to complete on-the-spot inspections.

#### **4.5. Application of Council Regulation (EEC) No 4045/89 (*ex-post* controls)**

Council Regulation (EEC) No 4045/89 relates to scrutiny of the commercial documents of those entities receiving or making payments relating directly or indirectly to the system of financing by the Guarantee Section of the EAGGF, or their representatives, in order to ascertain whether transactions forming part of the system of financing by the Guarantee Section of the EAGGF have actually been carried out and have been executed correctly.

Each year competent services of Member States conduct *ex-post* scrutinies of larger beneficiaries. These scrutinies are based on commercial documents understood as all books, registers, vouchers and supporting documents, accounts, production and quality records, and correspondence relating to the undertaking's business activity, as well as commercial data, in whatever form they may take, including electronically stored data.

Some 3000 companies are selected for scrutiny each year. These scrutinies are conducted by control bodies and coordinated by special departments. In total some 72 institutions are involved in the 25 Member States. It is estimated that in the 15 Member States only some 1 000 people are full- or part-time carrying out the *ex-post* scrutinies.

##### ***Changes to the Regulation***

No changes were made to the Regulation during the period in question. The Commission services have, however, presented a working document on risk analysis in order to improve the quality of communication received and provide the necessary guidance for the new Member States.

##### ***Monitoring***

As in previous years Commission services have received from Member States and analysed the following documents:

- risk analysis to be applied for the selection of undertakings,
- annual scrutiny programs,
- annual scrutiny reports,
- annual payment overviews,
- mutual assistance requests.

The outcome of the Commission's analysis of the above was provided during the 4045/89 experts group meeting on 17 December 2004 in Brussels.

##### ***Missions***

Three missions were undertaken during the period in question by the Commission services in order to assess the application of the Regulation. The following Member States were visited: Belgium, Portugal and Greece. In general, it has been found that

the Regulation is properly implemented and that the controls performed are of sufficient quality.

The *ex-post* controls need also to be examined by the compliance teams in order to assess the quality and effectiveness of these controls for specific sectors/measures. Such evaluation will be organized jointly in 2005 by the financial audit team and the compliance teams based on the established audit programs.

### ***Other developments***

A seminar on Council Regulation (EEC) No 4045/89 part-funded by OLAF has been organised in Austria. Numerous exchange and study visits were organised by the Member States themselves in which the new Member States were particularly involved. All these initiatives have contributed considerably to the 'success' and quality of *ex-post* scrutiny.

The Commission services have contributed to the above by organising a 4045/89 experts group meeting for the representatives of Member States and New Member States special departments and control bodies. The 4045/89 experts group meeting provided a platform for exchange of experience and information between the Member States and the Commission services.

## **4.6. Vineyard register – definitive winding-up**

In 2004, part-financing was wound up on the basis of the Commission Decisions on Italy and Greece and there should be no more financial operations to be carried out concerning the vineyard register in Greece.

The winding-up of part-financing for Italy and Greece led to the recovery in 2004 of advances amounting to €17 705 137 (66.3%) and €710 341 (100%) respectively.

## **5. CLEARANCE OF ACCOUNTS**

### **5.1. General information**

In 2004, the Commission adopted four decisions on the auditing of agricultural expenditure by the Member States under the EAGGF Guarantee Section:

- Decision of 29 April 2004 (2004/451/EC) for the 2003 financial year<sup>11</sup>;
- Decision of 4 February 2004 (2004/136/EC) on Article 5(2)(c) of Regulation (EEC) No 729/70 and on Article 7(4) of Regulation (EC) No 1258/99 – fifteenth decision<sup>12</sup>;
- Decision of 29 April 2004 (2004/457/EC) on Article 5(2)(c) of Regulation (EEC) No 729/70 and on Article 7(4) of Regulation (EC) No 1258/99 – sixteenth decision<sup>13</sup>;

---

<sup>11</sup> OJ L 155, 30.4.2004.

<sup>12</sup> OJ L 40, 12.02.2004.

- Decision of 16 July 2004 (2004/561/EC) on Article 5(2)(c) of Regulation (EEC) No 729/70 and on Article 7(4) of Regulation (EC) No 1258/99 – seventeenth decision<sup>14</sup>.

## 5.2. Clearance of accounts – Decisions adopted in 2004

The three clearance of accounts (conformity) decisions resulted in the exclusion from Community financing of a total of €406.51 million.

	<i>€ (million)</i>		
	Decision (15) 2004/136/EC 4 February 2004	Decision (16) 2004/457/EC 29 April 2004	Decision (17) 2004/561/EC 16 July 2004
– Arable crops	20.78	46.80	–
– Fruit and vegetables	12.33	32.40	25.36
– Refunds	–	–	1.06
– Financial audit	–0.07	0.07	25.56
– Rural development	0.22	19.06	0.04
– Livestock premiums	90.22	4.70	90.83
– Oils and fats	–0.44	–	–
– Public storage	19.47	16.43	–
– Milk and milk products	–0.14	–	–
– Wine and tobacco	0.12	–	–
– OLAF			
<b>TOTAL</b>	<b>143.19</b>	<b>119.46</b>	<b>143.85</b>

The auditors of agricultural expenditure also completed the tasks listed below:

- 182 on-the-spot inspections in the 25 Member States, including the inspection of direct expenditure – and 104 remote audits;
- 82 bilateral meetings with the Member States on the results of the inspections for the 1999, 2000, 2001, 2002 and 2003 financial years;
- Participation in the work of the European Parliament’s Budgetary Control Committee (COCOBU) for the 2002 budget discharge;
- Replies to the 2003 annual report, to the special reports, and to the 2003 DAS (statement of assurance) of the Court of Auditors;
- Active participation in the work of the Conciliation Body, which delivered 26 opinions in 2004;
- Assistance to the Commission’s Legal Service on cases brought before the Court of Justice with regard to decisions on the clearance of accounts and on direct expenditure;

<sup>13</sup> OJ L 202, 7.06.2004.

<sup>14</sup> OJ L 250, 24.07.2004.

- Active participation in the investigations of the Recovery Task Force into OLAF cases;
- Seminars and training, particularly for the new Member States (on IACS, etc.).

Follow-up on replies to IAS and IAC reports, and on their investigations into clearance of accounts proceedings.

### **5.3. Accounts clearance for the 2003 financial year**

#### **5.3.1. Introduction**

The rules on the clearance of accounts stipulate that paying agencies must be approved and that accounts clearance is to be split into two distinct procedures: one annual accounts clearance decision verifying the veracity, completeness 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) 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 No 1663/95).

The Commission departments examined the annual accounts, certificates and audit reports submitted by the deadline of 10 February 2004 and also visited some of the paying agencies. The purpose of these 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, but 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. Decisions**

##### **5.3.2.1. Decision No 2004/451/CE of 29 April 2004**

It was decided to clear the 2003 accounts of paying agencies where their completeness, accuracy and veracity had been confirmed on the basis of the information received.

The accounts of 29 paying agencies were disjoined from the decision and are the subject of a later decision.

The accounts of 19 paying agencies in Belgium, France, the Netherlands and the United Kingdom were disjoined because the certifying bodies had not applied the sampling parameters in compliance with the recommendations of the Commission.

The accounts of nine paying agencies in Germany, Spain, Portugal and Sweden were disjoined because the certifying bodies needed to carry out further work.



The accounts of the Luxembourg paying agency were disjoined due to the absence in the report of the chapter on the follow-up of the previous year's recommendations.

The follow-up on the 2003 financial clearance (disjunction of 29 paying agencies) should be wound up by the end of 2005.

### **5.3.3. Corrections to accounts**

#### **5.3.3.1. Corrections to amounts declared for 2003**

Corrections were adopted in the light of the remarks of the certifying bodies and of Commission investigations. The total corrections are as follows:

Greece:	–€88 558.86
Spain:	–€2 015 570.04
France:	–€27 441.60
Italy:	–€956 793.04
Luxembourg:	–€1 071 412.86
Netherlands:	+€21 312.39
Portugal:	–€97 085.61
Finland:	–€6 820.82
Sweden:	+€5 834 913.34
United Kingdom:	+€198 391.51

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

### **5.4.1. Judgments handed down**

Since the 33<sup>rd</sup> EAGGF Guarantee Section Financial Report was drawn up, the Court has handed down seven judgments in appeals brought by Member States against clearance decisions.

The Court rejected the appeals brought in the following cases:

- judgment of 4 March 2004 in Case C-344/01 concerning livestock premiums in Germany;
- judgment of 9 September 2004 in Case C-332/01 concerning livestock premiums, olive oil, cotton and dried grapes in Greece;
- judgment of 23 September 2004 in Case C-297/02 concerning the public storage of alcohol and aid for the production of olive oil in Italy;
- judgment of 7 October 2004 in Case C-153/01 concerning arable crops and olive oil in Spain;
- judgment of 7 October 2004 in Case C-312/02 concerning arable crops in Sweden;
- judgment of 14 October 2004 in Case C-298/02 concerning fruit and vegetables in Italy.

The Court accepted in part the following appeal:

- on 7 October 2004, the appeal lodged by Spain in Case C-153/01 concerning milk quotas.

#### **5.4.2. Appeals pending**

The situation as at 31 October 2004 with regard to appeals pending is shown, together with the amounts concerned, in Annexes 18 to 29.

## **6. RELATIONS WITH PARLIAMENT AND THE EUROPEAN COURT OF AUDITORS**

### **6.1. Relations with Parliament**

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

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

The Committee on Budgetary Control monitored the correct implementation of the 2002 budget. It was asked to draw up the Parliamentary Decision (OJ L 330, 4 November 2004) by which discharge (in respect of the implementation of the general budget of the European Union for the 2002 financial year) was granted to the Commission on 21 April 2004.

### **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 Agriculture Directorate-General 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 2003*

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 2003 financial year together with the Commission's replies included one chapter (Chapter 4) on the EAGGF Guarantee Section. The main submissions advanced by the Court and the replies given by the Commission concerned the following:

- Specific appraisal in the context of the Statement of Assurance:
  - Work of the certifying bodies (4.7 – 4.8);
  - IACS (4.9 – 4.12);
  - Post payment checks under Regulation 4045/89 (4.13 – 4.16);
  - Annual Activity Report of the Director General for Agriculture (4.18 – 4.23);
  - Area aid schemes (4.24 – 4.30);
  - Animal premium schemes (4.31 – 4.34);
  - Subsidies paid on the basis of quantity produced (4.35 – 4.39);
  - Rural development (4.40 – 4.43);
  - Other expenditure (4.44 – 4.46);
- Clearance of Accounts:
  - Financial clearance decision for 2003 (4.53 – 4.69);
  - Conformity decisions taken in 2002 (4.70 – 4.76);
  - Clearance of accounts decisions in recent years (4.75 – 4.76);
- Follow-up to previous observations:
  - Export refunds – destination and placing on the market (4.81 – 4.89);
  - Support scheme for olive oil (4.90 – 4.98);
- Principal observations in the Special Reports:
  - Evaluation of farm incomes by the Commission (4.99 – 4.105);
  - Management and supervision by the Commission of control measures and expenditure relating to foot and mouth disease (4.106 – 4.112);
  - Recovery of irregular payments made under the common agricultural policy (4.113 – 4.121);

- The introduction of a System of Identification and Registration of Bovine Animals (SIRB) in the European Union (4.122 – 4.129);
- Sound financial management audit of the common organisation of the market in tobacco (4.130 – 4.139).

The Court's observations on budgetary management were again consolidated into a separate chapter in the report (chapter 2).

### 6.2.3 *Special reports by the Court of Auditors*

In 2004 the Court published two special reports (SR) in the CAP area:

- SR No 14/03 on the measurement of farm incomes by the Commission (OJ C 45, 20 February 2004);
- SR No 3/04 on recovery of irregular payments under the common agricultural policy (OJ C 269, 4 November 2004).

A further three reports were released in 2004 but not published in the Official Journal until 2005:

- SR No 6/04 on the organisation of the system for the identification and registration of bovine animals in the European Union (OJ C 29, 4 February 2005);
- SR No 7/04 on the common organisation of the market in raw tobacco (OJ C 41, 17 February 2005);
- SR No 8/04 on the Commission's management and supervision of the measures to control foot-and-mouth disease and of the related expenditure (OJ C 54, 3 March 2005).

In addition, the Court published one other report of agricultural interest during the year:

- SR No 2/04 on pre-accession aid: "Has SAPARD been well managed?" (OJ C 295, 30 November 2004).

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 2004**

### **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),

- *amended by Council Regulation (EC) No 1259/1996 of 25 June 1996 (OJ L 163, p. 10)*
- 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 2035/2003 of 19 November 2003 (OJ L 302, p. 6),*
- 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),
- *amended by Council Regulation No 2223/2004 of 22 December 2004 (OJ L 379, p. 1),*
- 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, however, still applied during 2001 (OJ L 214, p. 31).
- *Repealed by Commission Regulation (EC) No 817/2004 of 29 April 2004 (OJ L 153, p. 30),*

## **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),
- *amended by Council Regulation (EC) No 2154/2002 of 28 November 2002 (OJ L 328, 5.12.2002, p. 4),*
- 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),
- *repealed by Council Regulation (EC) No 1782/2003 of 29 September 2003 (OJ L 270, p. 1),*
- 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),
- *repealed by Commission Regulation (EC) No 796/2004 of 21 April 2004 (OJ L 141, p. 18),*

- 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),
- *amended by the Act concerning the conditions of accession of the new Members States, TN 02/06/B1/2003 (OJ L 236, p. 381).*

### **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 1769/2004 (OJ L 316, 15.10.2004, p. 1).*

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

- Decision of 29 April 2004 (2004/451/EC) on the 2003 financial year (OJ L 155, 30.4.2004);
- Decision of 4 February 2004 (2004/136/EC) on Article 5(2)(c) of Regulation (EEC) No 729/70 and on Article 7(4) of Regulation (EC) No 1258/1999 – fifteenth decision (OJ L 40, 12.2.2004);
- Decision of 29 April 2004 (2004/457/EC) on Article 5(2)(c) of Regulation (EEC) No 729/70 and on Article 7(4) of Regulation (EC) No 1258/1999 – sixteenth decision (OJ L 202, 7.6.2004);
- Decision of 16 July 2004 (2004/561/EC) on Article 5(2)(c) of Regulation (EEC) No 729/70 and on Article 7(4) of Regulation (EC) No 1258/1999 – seventeenth decision (OJ L 250, 24.7.2004);

### **7.4. Public storage**

#### **(a) Basic rules**

- 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, 5.8.1978, p. 1),  
*amended by Regulation (EC) No 1259/96 of 25 June 1996 (OJ L 163, 2.7.1996, p. 10. ),*

- 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, 13.2.1988, p. 25),  
*amended by Regulation (EC) No 2623/1999 of 10 December 1999 (OJ L 318, 11.12.1999, 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, 13.6.1989, p. 12),  
*amended by Regulation (EEC) No 269/91 of 1 February 1991 (OJ L 28, 2.2.1991, p. 22),*
- Commission Regulation (EEC) No 2734/89 of 8 September 1989 on the factors to be taken into consideration for determining expenditure pursuant to Article 37 (2) of Regulation (EEC) No 822/87 to be financed by the EAGGF Guarantee Section (OJ L 263, 9.9.1989, p. 16),
- 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, 4.12.1990, 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, 14.12.1990, p. 43),  
*amended by Regulation (EC) No 1392/97 of 18 July 1997 (OJ L 190, 19.7.1997, p. 22),*
- 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, 23.1.1991, p. 9),  
*amended by Regulation (EEC) No 652/92 of 16 March 1992 (OJ L 70, 17.3.1992, p. 5),*
- 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, 30.10.1992, p. 50),  
*amended by Regulation (EC) No 1903/2004 of 29 October 2004 (OJ L 328, 30.10.2004, p. 77),*
- 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, 9.11.1996, p. 6)  
*amended by Regulation (EC) No 808/1999 of 16 April 1999 (OJ L 102, 17.4.1999, p. 70).*

(b) Depreciation on buying-in

- Commission Regulation (EC) No 1843/2003 of 17 October 2003 fixing depreciation percentages to be applied when agricultural products are bought in for the 2004 financial year (OJ L 268, 18.10.2003, p. 61).
  - Commission Regulation (EC) No 1768/2004 of 13 October 2004 fixing depreciation percentages to be applied when agricultural products are bought in for the 2005 financial year (OJ L 315, 14.10.2004, p. 30).
- (c) Additional depreciation at the end of the financial year
- Decision C (2003) 3552 of 10 October 2003 (not published) fixing amounts and detailed rules for the depreciation of certain stocks of agricultural products bought into public intervention during the 2003 financial year.
  - Decision C (2004) 3660 of 5 October 2004 (not published) fixing amounts and detailed rules for the depreciation of certain stocks of agricultural products bought into public intervention during the 2004 financial year.
- (d) Uniform interest rate
- Commission Regulation (EC) No 1842/2003 of 17 October 2003 fixing the interest rates to be used for calculating the costs of financing intervention measures comprising buying-in, storage and disposal for the EAGGF Guarantee Section for the accounting year 2004 (OJ L 268, 18.10.2003, p. 60).
  - Commission Regulation (EC) No 1751/2004 of 8 October 2004 fixing the interest rates to be used for calculating the costs of financing intervention measures comprising buying-in, storage and disposal for the EAGGF Guarantee Section for the accounting year 2005 (OJ L 312, 9.10.2004, p. 9).
- (e) Standard amounts
- Commission Decision C(2003) 3914 of 28 October 2003 (not published) fixing, for the 2004 financial year, the standard amounts to be used for financing physical operations arising from the public storage of agricultural products.
  - Commission Decision C(2004) 3706 of 8 October 2004 (not published) fixing, for the 2005 financial year, the standard amounts to be used for financing physical operations arising from the public storage of agricultural products.



**ANNEXES TO THE COMMISSION STAFF WORKING PAPER**

**accompanying the 34<sup>th</sup> FINANCIAL REPORT**

**on**

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

**– 2004 FINANCIAL YEAR –**

## 8. ANNEXES

AVAILABLE IN ELECTRONIC FORM FROM THE WEBSITE OF THE DIRECTORATE-GENERAL FOR AGRICULTURE

### **Budget procedure**

1. Details of the 2004 Budget procedure

### **Cash position and management of appropriations**

2. Exchange rates in 2004
3. Summary of outturn for 2004
4. Advance payments to Member States in the 2004 financial year
5. Direct payments by the European Commission in the 2004 financial year

### **Budget outturn**

6. Expenditure charged against the 2004 Budget
7. Analysis of the execution of the 2004 Budget
8. Veterinary and plan-health measures
9. EAGGF Guarantee Section expenditure by article and by Member State in respect of the 2004 budget
10. Evolution of EAGGF Guarantee Section expenditure by article
11. Evolution of EAGGF Guarantee Section expenditure by Member State
12. Evolution of EAGGF Guarantee Section expenditure by sector (in EUR million)
13. Evolution of EAGGF Guarantee Section expenditure by sector (in EUR million and in percentage terms)
14. Breakdown of EAGGF Guarantee Section expenditure by sector according to the economic nature of the measures (in EUR million and in percentage terms)
15. EAGGF-Guarantee: Expenditure for direct payments to producers (by measure and by Member State) (in EUR million)
16. Breakdown of intervention expenditure in the form of storage (in EUR million)
17. Quantity and value of the products in public storage with intervention agencies (in EUR million)

### **Clearance of accounts**

18. Situation as at 31.10.2004 regarding appeals before the Court against Decision 2002/524/EC on the clearance of accounts (10<sup>th</sup> decision)
19. Situation as at 31.10.2004 regarding appeals before the Court against Decision 2002/816/EC on the clearance of accounts (Financial year 1995)
20. Situation as at 31.10.2004 regarding appeals before the Court against Decision 2002/461/EC on the clearance of accounts (accounts audit)
21. Situation as at 31.10.2004 regarding appeals before the Court against Decision 2002/881/EC on the clearance of accounts (11<sup>th</sup> decision)
22. Situation as at 31.10.2004 regarding appeals before the Court against Decision 2003/102/EC on the clearance of accounts (12<sup>th</sup> decision)
23. Situation as at 31.10.2004 regarding appeals before the Court against Decision 2003/364/EC on the clearance of accounts (13<sup>th</sup> decision)
24. Situation as at 31.10.2004 regarding appeals before the Court against Decision 2003/481/EC on the clearance of accounts (irregularities)
25. Situation as at 31.10.2004 regarding appeals before the Court against Decision 2003/536/EC on the clearance of accounts (14<sup>th</sup> decision)
26. Situation as at 31.10.2004 regarding appeals before the Court against Decision 2004/136/EC on the clearance of accounts (15<sup>th</sup> decision)
27. Situation as at 31.10.2004 regarding appeals before the Court against Decision 2004/451/EC on the clearance of accounts (accounts audit)
28. Situation as at 31.10.2004 regarding appeals before the Court against Decision 2004/457/EC on the clearance of accounts (16<sup>th</sup> decision)
29. Situation as at 31.10.2004 regarding appeals before the Court against Decision 2004/561/EC on the clearance of accounts (17<sup>th</sup> decision)
30. Financial corrections (Decisions 1 – 17) by Decision and Financial year.