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TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

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– 2007 FINANCIAL YEAR –

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TABLE OF CONTENTS

1.	BUDGET PROCEDURE	4
1.1.	The Financial Framework 2007-2013	4
1.2.	Preliminary draft budget 2007	4
1.3.	Draft budget 2007	5
1.4.	Amending Letter for 2007	5
1.5.	Revenue assigned to EAGF	5
1.6.	Temporary restructuring amounts in the sugar sector	5
1.7.	The adoption of the 2007 budget	6
1.8.	The Amending Budget No 7/2007	6
2.	CASH POSITION AND MANAGEMENT OF APPROPRIATIONS	7
2.1.	Management of appropriations	7
2.2.	Monthly payments	12
3.	THE IMPLEMENTATION OF THE 2007 EAGF BUDGET	13
3.1.	Introduction	13
3.2.	The uptake of the EAGF budget appropriations	14
4.	COMMENTS ON THE IMPLEMENTATION OF THE BUDGET	14
4.1.	Chapter 05 02: Interventions in agricultural markets	14
4.2.	Chapter 05 03: Direct aids	22
4.3.	Chapter 05 04: Rural development	25
4.4.	Chapter 05 07: Audit of agricultural expenditure	26
4.5.	Chapter 05 08: Policy strategy and coordination	27
4.6.	Chapter 11 02: Fisheries markets	28
4.7.	Chapter 17 01: Administrative expenditure of health and consumer protection	29
4.8.	Chapter 17 03: Public health	29
4.9.	Chapter 17 04: Food safety, animal health, animal welfare and plant health	30

5.	IMPLEMENTATION OF ASSIGNED REVENUE AND OF SUGAR RESTRUCTURING FUND.....	32
5.1.	Revenue assigned to EAGF	32
5.2.	Temporary restructuring amounts in the sugar sector.....	32
5.3.	Sugar Restructuring Fund expenditure	32
6.	BREAKDOWN BY TYPE OF EXPENDITURE.....	33
7.	SPECIFIC ACTIVITIES	33
7.1.	Supply of food from intervention stocks for the benefit of the needy in the Community.....	33
7.2.	Promotion measures – payments by Members States	37
8.	CONTROL MEASURES	37
8.1.	Introduction.....	37
8.2.	Integrated Administration and Control System (IACS).....	38
8.3.	Market measures	40
8.4.	Application of Council Regulation (EEC) No 4045/89 (ex-post controls).....	40
9.	CLEARANCE OF ACCOUNTS.....	41
9.1.	Conformity clearance - introduction	41
9.2.	Conformity clearance – audits and decisions adopted in 2007	41
9.3.	Financial clearance for the 2006 financial year	43
9.4.	Appeals brought before the Court of Justice against clearance decisions	44
10.	RELATIONS WITH PARLIAMENT AND THE EUROPEAN COURT OF AUDITORS ..	44
10.1.	Relations with Parliament	44
10.2.	Relations with the European Court of Auditors.....	45
11.	BASIC RULES GOVERNING THE EAGF AND AMENDMENTS MADE IN 2007	46
11.1.	Checks	46
11.2.	Clearance of accounts	47
11.3.	Public storage	47
12.	ANNEXES.....	50

1. BUDGET PROCEDURE¹

1.1. The Financial Framework 2007-2013

CAP expenditure is funded within this financial framework as agreed in Inter-institutional Agreement between the European Parliament and the Council in May 2006, and amended to take into account the Galileo-programme in 2007. In this financial framework, CAP expenditure is part of Heading 2: Preservation and management of natural resources. A specific sub-ceiling has been decided for market measures and direct aids within heading 2. Furthermore to take into account the transfer of amounts to rural development due to compulsory modulation, the reform of the cotton, tobacco and wine sector as well as the voluntary modulation as decided for the UK, the ceiling for market measures and direct aids had to be reduced accordingly.

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

(Mio € current prices)

HEADING 2. Preservation and Management of Natural resources	2007	2008	2009	2010	2011	2012	2013
TOTAL a), b)	55 143	59 193	69 639	60 113	60 338	60 810	61 289
of which :							
- Rural development a), c)	10 902	13 303	13 402	13 453	13 679	13 635	13 580
- Market related expenditure and direct aids, c)	44 753	44 592	44 845	45 226	45 183	45 165	46 131

a) After reprogramming of rural development (1 469 Mio €)

b) After transfer to Galileo 1 600 Mio €

c) After transfer of tobacco, cotton, compulsory modulation, wine reform & UK voluntary modulation

1.2. Preliminary draft budget 2007²

The 2007 Preliminary Draft Budget (PDB) was adopted by the Commission and proposed to the Budgetary Authority in April 2006. The commitment appropriations proposed for the European Agricultural Guarantee Fund (heading 2) totalled EUR 43 684.0 million.

¹ This procedure is presented in annex 1

² Including reserves

1.3. Draft budget 2007

The Council³ adopted the 2007 draft budget in July 2006. The appropriations of EAGF were reduced by EUR 730.0 million as compared to the PDB.

1.4. Amending Letter for 2007

At the end of October 2006 the Commission adopted the Amending Letter No 3 to the 2007 PDB setting appropriation requirements for EAGF at EUR 42 832.3 million which was lower by EUR 851.7 million compared to the corresponding amount in the Preliminary Draft Budget.

1.5. Revenue assigned to EAGF⁴

In accordance with Article 34 of the new CAP Financing Regulation (EC) No 1290/2005, the receipts originating from financial corrections under conformity clearance decisions, from irregularities and from the milk levy are designated as revenue assigned to the financing of EAGF expenditure. At the time of establishment of the 2007 budget, an estimation of this revenue was made, amounting to EUR 987.0 million, and this estimation was taken into consideration when the Budgetary Authority adopted the 2007 budget's appropriations. Specifically:

- the receipts from the milk levy were estimated at EUR 349.0 million and they were taken into consideration by reducing the appropriations requested for the milk and milk products sector for which the Budgetary Authority granted an amount of EUR 587.0 million;
- the receipts from the conformity clearance corrections and from irregularities were estimated at EUR 568.0 million and EUR 70.0 million correspondingly. The total amount of EUR 638.0 million was taken into consideration by reducing the appropriations requested for the single payment scheme for which the Budgetary Authority granted an amount of EUR 27 918.0 million.

According to the rules, this revenue can be used, partly or wholly, to cover the financing of EAGF expenditure if the budget appropriations granted by the Budgetary Authority are not sufficient to finance the expenditure incurred by the Member States. In the case where part of this revenue is not used, then, this part will be automatically carried over into the following budget year.

1.6. Temporary restructuring amounts in the sugar sector⁵

The temporary restructuring amounts in the sugar sector are treated as assigned revenue intended to finance the sugar restructuring aid and other aids foreseen in the restructuring fund. For the marketing year 2006/07 these amounts relate to the sugar, insulin syrup and isoglucose quantitative quotas held by operators and they are to be paid by the Member States into the Fund in 2 instalments, the deadlines of which are

³ First reading

⁴ These amounts are not inscribed in the revenue lines of the budget (article 670 for the revenue assigned to the EAGF) but they are mentioned in the budgetary comments for these articles.

⁵ These amounts are not inscribed in the revenue lines of the budget (article 680 for the temporary restructuring amounts for the sugar sector) but they are mentioned in the budgetary comments for these articles.

31 March and 30 November 2007 respectively. An amount of EUR 1 259.0 million had been estimated as assigned revenue under this fund.

1.7. The adoption of the 2007 budget

The European Parliament adopted the 2007 budget in its plenary session of December 2006, as per the amounts proposed in the second reading of the Council.

The initially available EAGF commitment and payment appropriations amounted to EUR 42 711.7 million⁶ and to EUR 42 435.6 million correspondingly. For policy area 05-agriculture and rural development, commitment appropriations amounting to EUR 5 615.2 million were foreseen for interventions on agricultural markets, while EUR 36 878.5 million were foreseen for direct aids. Furthermore, credits of EUR 309.8 million for policy area 17-Veterinary and phyto-sanitary measures and of EUR 30.5 million for policy area 11-Fisheries markets⁷, were foreseen in the 2007 budget. The difference between commitment and payment appropriations, amounting to EUR 276.0 million, is due to the fact that differentiated appropriations are used for the payments made directly by the Commission for promotion of agricultural products, for policy strategy and coordination measures for agriculture and for veterinary and phyto-sanitary measures.

For details, please see annex 1.

1.8. The Amending Budget No 7/2007

In December 2007, the Commission proposed and the Budgetary Authority accepted an adjustment, through AB No 7/2007, of the 2007 budget's commitment and payment appropriations, by cancelling an amount of EUR 400.0 million out of EAGF's initial credit appropriations, which, then, amounted to EUR 42 311.7 million. In detail, the Amending Budget involved a reduction of appropriations for chapter 05 02 "Interventions in agricultural markets" by EUR 673.5 million, while it increased them for chapter 05 03 "Direct aids" by EUR 188.0 million and chapter 05 07 "Audit of agriculture expenditure" by EUR 85.5 million.

The part of the final EAGF budget (commitment appropriations) in the total EU budget for the period 2002–2007 appears in annex 2.

⁶ Net amount including the forecasted assigned revenue
⁷ Including reserves

2. CASH POSITION AND MANAGEMENT OF APPROPRIATIONS

2.1. Management of appropriations

2.1.1. Appropriations available for the financial year 2007 (see also section 1 of this working document)

In EUR

<u>Expenditure section of budget (1)</u>	Commitment appropriations	Payment appropriations	<u>Revenue section of budget (AR) (2)</u>	Forecasts
1. Initial appropriations for EAGF	42 711 661 000	43 875 641 756	1. Conformity clearance	568 000 000
2. Amending budget	-400 000 000	-400 000 000	2. Irregularities	70 000 000
3. Final appropriations for EAGF of which:	42 311 661 000	43 475 641 756	3. Super levy from milk producers	349 000 000
3a. Appropriations for shared management (excluding TRDI (4) EU 10)	41 908 432 000	41 908 432 000	4. Temporary restructuring amounts for sugar sector (3)	1 259 000 000
3b. Appropriations for direct expenditure	403 229 000	127 209 756	Total forecast of AR	2 246 000 000
3c. Appropriations for TRDI EU 10	0	1 440 000 000		

(1) Credits inscribed in budget 2007 taking into account the forecasted assigned revenue

(2) There are no amounts of revenue inscribed on the revenue line (pm), but the forecasted amount is indicated in the budget comments. (AR: Assigned revenue)

(3) Revenues are used to provide appropriations for Sugar Restructuring Fund

(4) Transitional Rural Development Instrument for EU 10

2.1.2. Expenditure section of the EU budget in relation to EAGF:

The initial commitment appropriations for 2007 totalled EUR 42 711 661 000. This was a net amount including the forecasted assigned revenue. The initial payment appropriations amounted to EUR 43 875 641 756 (appropriations for the Transitional instrument for the financing of rural development for the new Member States (TRDI EU 10) and the majority of appropriations for direct expenditure made by the Commission are differentiated appropriations).

Taking into account the amending budget, the commitment appropriations and payment appropriations finally available for EAGF for the financial year amounted to EUR 42 311 661 000 and EUR 43 475 641 756 respectively.

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

In accordance with Article 34 of Council Regulation (EC) No 1290/2005, assigned revenue has been defined as revenue from conformity clearance decisions, recoveries of amounts related to irregularities, super levy from milk producers and temporary restructuring amounts for the sugar sector.

An amount of EUR 987.0 million has been forecast for the assigned revenue in 2007 (there are no amounts of revenue inscribed on the revenue line (pm), but the forecasted amount is indicated in the budgetary comments) resulting from conformity clearance decisions, recoveries of amounts related to irregularities, super levy from milk producers and an amount of EUR 1 259.0 million resulting from the temporary restructuring amounts for the sugar sector (see point under Sugar Restructuring Fund).

The assigned revenue received creates additional appropriations for EAGF from 2007 budget year onwards.

2.1.4. *Sugar Restructuring Fund:*

In accordance with Council Regulation (EC) No 320/2006, the Sugar Restructuring Fund has been established from the budget year 2007 onwards.

- Revenue section of the Sugar Restructuring Fund:

An amount of EUR 1 259.0 million was forecasted for assigned revenue in 2007 (there is no amount of revenue inscribed on the revenue line for (pm), but the forecasted amount is indicated in the budgetary comments).

- Expenditure section of the Sugar Restructuring Fund:

There were no commitment and payment appropriations foreseen in the budget for the Sugar Restructuring Fund as it will be exclusively financed from assigned revenue received from the temporary restructuring amounts for sugar sector.

For details, please see annexes 4 and 9.

2.1.5. *Execution of appropriations available for the 2007 financial year*

	Execution of commitment appropriations	Execution of payment appropriations
Shared management (excluding TRDI EU 10) (1):	42 335 567 108.49	42 335 567 108.49
Direct expenditure	336 739 778.86	78 872 905.36
TRDI EU 10	0.00	1 298 701 347.00
Total (including Sugar Restructuring Fund)	42 672 306 887.35	43 713 141 360.85
<i>Sugar Restructuring Fund</i>	551 435 562.68	551 435 562.68
Total (excluding Sugar Restructuring Fund)	42 120 871 324.67	43 161 705 798.17

(1) Committed amounts. Commitment and payment less assigned revenue received: EUR 39 887 650 082.38

For the financial year 2007, the execution of commitment appropriations made amounted to EUR 42 672 306 887.35 while the payment appropriations made amounted to EUR 43 713 141 360.85.

2.1.6. *Assigned revenue execution under shared management (see also section 5.1 of this working document)*

Assigned revenue (excluding Sugar Restructuring Fund)	
Forecasted revenue	987 000 000.00
Revenue received	1 160 702 264.73
Difference	-173 702 264.73

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

It was forecast to receive assigned revenue totalling EUR 987.0 million. The final amount of assigned revenue received in 2007 amounted to EUR 1 160.7 million creating additional appropriations under the expenditure part of the budget (C4 credits).

Expenditure - shared management (excluding Sugar Restructuring Fund and TRDI EU 10) (1)			
	<u>Final (C1) appropriations</u>	<u>Appropriations (C4) from AR</u>	<u>Carry over of appropriations (C5) from 2006 AR</u>
Appropriations	41 908 432 000.00	1 160 702 264.73	NA
Execution	41 782 969 545.81	1 162 000.00	NA
Appropriations cancelled	125 462 454.19	-	NA
Carry over to 2008	-	1 159 540 264.73	NA

(1) Commitment appropriations = payment appropriations

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

The amount of the appropriations foreseen in the 2007 budget was EUR 41 908.4 million (excluding direct expenditure by the Commission) and their execution amounted to EUR 41 782.9 million.

The appropriations coming from assigned revenue amounted to 1 160.7 million of which an amount of EUR 1.2 million was actually used. The remaining amount of EUR 1 159.5 million automatically carried over to budget year 2008.

2.1.9. *Temporary restructuring amounts in the sugar sector. Sugar restructuring Fund*

Sugar Restructuring Fund					
Revenue section of budget		Expenditure section of budget			
			Final appropriations (C1)	Appropriations from AR (C4)	Carry over of appropriations from 2006 AR (C5)
Forecast revenue	1 259 000 000.00	Appropriations	pm	1 287 214 761.38	NA
Revenue received	1 287 214 761.38	Execution (1)	-	551 435 562.68	NA
		Appropriations cancelled	-	-	NA
		Carry over to 2008	-	735 779 198.70	NA

(1) Commitment appropriations = payment appropriations

2.1.10. *Execution of Sugar Restructuring Fund - Revenue section (see section 5.2 of this working document):*

An amount of EUR 1 259.0 million has been forecast as assigned revenue in 2007. The final amount of assigned revenue received in 2007 was EUR 1 287.2 million.

2.1.11. *Execution of Sugar Restructuring Fund - Expenditure section (see section 5.3 of this working document):*

There were no initial appropriations foreseen in the budget for the Sugar Restructuring Fund (pm). The expenditure financed from assigned revenue amounted to EUR 551.4 million.

The remaining amount of assigned revenue received of EUR 735.8 million is automatically carried over to the following financial years until the end of Sugar Restructuring Fund.

2.1.12. *Execution of Transitional instrument for the financing of rural development for the new Member States (TRDI EU10) (see also section 4.3.2. of this working document)*

TRDI EU 10	Commitment appropriations	Execution of commitment appropriations	Payment appropriations	Execution of payment appropriations	Remaining (1)
2007	0.00	0.00	1 440 000 000	1 298 701 347	141 298 653

(1) Transfer of appropriations have been made to finance expenditure of Objective 1 and 6 regions programmes and the SAPARD programme

There were no commitment appropriations for TRDI EU10. The payment appropriations foreseen in the 2007 budget totalled EUR 1 440 million. Payments made amounted to EUR 1 298.7 million and were related to the commitment appropriations of previous years (2005 and 2006).

Execution of outstanding commitment appropriations from previous years:

TRDI EU 10	Outstanding commitment appropriations	Execution of payment appropriations	Outstanding commitment appropriations remaining for 2008
2005	5 745 553.00	5 745 553.00	-
2006	1 595 043 095.00	1 292 955 794.00	302 087 301.00

2.1.13. Budget execution - Direct expenditure by the Commission

Direct expenditure	Commitment appropriations	Decommitments	Payment appropriations	Carry over to 2008 (1)
Appropriations	403 229 000.00		127 209 756.00	-
Execution	336 739 778.86		78 872 905.36	24 884 835.15
Appropriations cancelled	66 489 221.14		48 336 850.64	-

(1) Carry over to 2008 only for non differentiated credits

Commitment appropriations of EUR 403.2 million were foreseen for direct expenditure in the budget. An amount of EUR 336.7 million was committed in 2007. The remainder of these appropriations (EUR 66.5 million) were cancelled.

Since 2007, and in accordance with article 149 of Financial Regulation, the majority of appropriations for direct expenditure made by the Commission under the EAGF are differentiated. The automatic carry over to 2008, which relates only to non-differentiated appropriations, are for an amount of EUR 24.9 million.

2.1.14. Automatic carryovers from 2006

Carry over from 2006 to 2007	Commitments	Decommitments	Payments	Cancelled appropriations
Carried over appropriations	265 366 752.43	3 917 107.82	206 772 710.88	54 676 933.73

Automatic carry over from 2006 to 2007 only concerned direct expenditure for non-differentiated appropriations. As indicated in the table above, an amount of EUR 265.4 million was carried over from 2006 to 2007. In 2007 an amount of EUR 3.9 million from this carry over was decommitted. The payments made amounted to EUR 206.8 million and the amounts cancelled totalled EUR 54.7 million

2.2. Monthly payments

2.2.1. Monthly payments to Member States

2.2.1.1. Monthly payments on the provision for expenditure

Council Regulation (EC) No 1290/2005 of 21 June 2005 on the financing of the Common Agricultural Policy⁸ states in Article 15 that "monthly payments shall be made by the Commission for expenditure effected by Member States' accredited paying agencies during the reference month". Monthly payments shall be made to each Member State at the latest on the third working day of the second month following that in which the expenditure is effected.

The monthly payments are a reimbursement of net expenditure (after deduction of assigned revenue) which has been already carried out and are made available on the basis of the monthly declarations forwarded by the Member States⁹; the monthly booking of expenditure and revenue is subject to checks and corrections on the basis of the detailed declaration¹⁰. Moreover, they will become final after the verification during the following exercises in the light of the clearance of accounts decisions.

Payments made by the Member States from 16-10-2006 to 15-10-2007 are covered by the system for monthly payments. For the remaining payments, the Commission carries out direct payments for a limited number of measures.

For financial year 2007, the total net amount of monthly payments effected was EUR 39 887 650 082.38.

2.2.1.2. Decisions on monthly payments for 2007

For financial year 2007, the Commission adopted twelve decisions on monthly payments. An additional monthly payment, adjusting those already granted for the total expenditure chargeable to the year, was adopted in December 2007. For details, please see annex 5 of the present working document.

2.2.1.3. Reductions and suspension of monthly payments

In 2007, a correction of – EUR 105.3 million was made to the monthly payments made to the Member States. The most important categories of corrections are detailed in the following points.

a. *Reductions of the monthly payments as a result of the non-compliance with the payment deadlines*

Pursuant to Article 16 of Council Regulation (EC) No 1290/2005 concerning the budgetary discipline, the EAGF found that certain Member States did not always respect the payment deadlines fixed by the Community legislations for the payment of aids to beneficiaries.

⁸ OJ L 209 of 11.8.2005, p. 1

⁹ These monthly declarations of expenditure are transmitted by the Member States by the declaration of the 10th.

¹⁰ The detailed declarations are transmitted monthly by the Member States (by table 104) on the 20th.

The payment deadlines were introduced, on the one hand, to ensure equal treatment of beneficiaries in all the Member States and, on the other hand, to avoid the situation in which delays of payments resulted in aids no longer having the expected economic effect. Moreover, any scope for payments in accordance with the administrative practices of the different paying services would not allow the correct application of the budget discipline.

Due to non-respecting of payment deadlines, the Commission decided on two occasions, jointly with the monthly payments, reductions for a total amount of – EUR 105.3 million.

b. Reductions of the monthly payments as a result of the non-payment by Member States of the additional milk levy for the marketing year 2006/2007

No reduction of the monthly payments as a result of the non-payment of the additional milk levy was carried out by the Commission as all Member States declared the amounts due. On the other hand an amount of EUR 2.4 million concerning this levy declared in previous years by the Member States was refused, as corrections had already been made in previous financial years.

c. Reductions of the monthly payments as a result of overspending the financial ceilings

For some aid measures financed by EAGF, financial ceilings are determined in the sectoral regulations, which have to be adhered to. Expenditure exceeding these ceilings is considered as "non eligible expenditure" and has to be corrected.

These corrections lead to reductions of the monthly payments. Due to the overspending of the financial ceilings including allocations for rural development, the Commission made financial corrections for a total amount of – EUR 8.0 million (of which - EUR 0.2 million were for rural development).

d. Corrections of the monthly payments in order to respect clearance decisions

These corrections lead to a reimbursement of EUR 6.2 million.

2.2.2. Direct payments by the Commission

In certain cases, the Commission carries out direct payments to beneficiaries. These are payments for veterinary and plant-health measures (Chapter 17) and payments for certain measures which do not have the character of traditional market measures, in particular certain actions related to controls, promotion measures, measures of research on tobacco and information on the agricultural policy. For details, please see annex 6.

3. THE IMPLEMENTATION OF THE 2007 EAGF BUDGET

3.1. Introduction

The 2007 agricultural year was marked by remarkable increases in the prices of many agricultural products in both the EU and world markets. These rises concerned mainly cereals and dairy products. In contrast to livestock production, the overall EU crop

production fell in 2007. These developments in agricultural markets as well as other factors affected the level of EAGF expenditure in certain areas of the budget and led to the under-execution of its credit appropriations.

3.2. The uptake of the EAGF budget appropriations

The implementation of the budget amounted to EUR 42 120.9 million, i.e. to approximately 98.6 % of the initial credit appropriations. This amount includes the implementation of the credits corresponding to the fisheries markets (Policy area 11) of approximately EUR 25.1 million as well as those corresponding to veterinary expenditure (Policy area 17) of EUR 260.3 million. As regards agriculture (Policy area 05), the expenditure for interventions on agricultural markets amounted to EUR 4 867.6 million and for direct aids to EUR 37 044.7 million. Therefore, the implementation of the EAGF budget resulted in an under-spending of EUR 591.9 million, before adoption of the Amending Budget No° 7/2007. For details, please see annex 8.

Following the adoption of the Amending Budget No 7/2007, whereby the initial credit appropriations were reduced by EUR 400.0 million, the budget's under-implementation was reduced to EUR 191.9 million, i.e.: 0.5% of finally available appropriations.

4. COMMENTS ON THE IMPLEMENTATION OF THE BUDGET

A brief commentary on the use of the 2007 agricultural budget's initial appropriations is hereby presented. The execution of this budget with the differences between this execution and the appropriations included in the initial budget and in the Amending Budget No 7/2007 are presented in annex 8. This presentation is made both at the level of the budget article as well as at the level of important budget items.

4.1. Chapter 05 02: Interventions in agricultural markets

4.1.1. Introduction

The initial appropriations for this chapter of the budget amounted to EUR 5 615.2 million while payments amounted to approximately EUR 4 867.6 million, i.e. an implementation rate of 86.7 % of these appropriations. Within this chapter of the budget, certain sectors were over-implemented while others were under-implemented. The overall under-implementation, though, was primarily due to the sectors of cereals, refunds on Non-Annex I products and fruits and vegetables.

4.1.2. Article 05 02 01: Cereals

The 2006/07 total harvest was approximately 264.0 million tonnes and it was approximately 15.0 million tonnes lower than the 2005/06 one. This significant decrease in cereals production was mainly due to the less favourable climatic conditions (high summer temperatures in many areas as well as heat waves in Central and Eastern Europe and a deficit in precipitations when needed in many areas) which occurred in the late spring to the end of September 2006 and which had a strong impact on cereals yields. The reduction of the overall harvest was also due to the

continuing influence of the 2003 CAP reforms through the "decoupling" effect. In 2007, domestic use of cereals was estimated at approximately 267.0 million tonnes.

These developments led to high prices and to tight cereals balance sheets and resulted in a significant fall in the overall level of cereals in intervention stocks in 2007. Indeed, intervention stocks decreased, in the course of the 2007 budget year, from around 12.2 million tonnes at the start of the year to around 1.3 million tonnes by the end of the year (approximately 11% was soft wheat and 89% was maize). Underlying this, however, there were wide variations in changes in the stock levels for individual cereals. Bread-making wheat stocks decreased to around 0.2 million tonnes by the end of the year from a level of 4.2 million tonnes at the start of the year while there were no stocks of barley by the end of the year from the initial stock of 2.1 million tonnes. Since the 2003 reform, rye can no longer be offered in intervention and its stock was practically nil (only 38 tonnes) by the end of the budget year. The quantities in stock for maize amounted to 1.2 million tonnes by the end of the year as opposed to 5.4 million tonnes at the start of the year. In the course of the budget year, purchases of cereals into intervention were minimal amounting to approximately 3 000 tonnes, half of which concerned barley and the rest maize. For the same period, sales of cereals amounted to 10.9 million tonnes of which bread-making wheat involved 4.1 million tonnes, barley 2.1 million tonnes, rye 0.5 million tonnes and maize 4.1 million tonnes. Compared to the quantities retained in the 2007 budget, the almost total lack of purchases into intervention combined with a 36.2% increase of the quantities sold of the same products at prices much higher than their intervention accounting values resulted in significantly higher gains for the Community budget, thus, resulting in an under-spending of the budget's appropriations by approximately – EUR 541.8 million.

With regard to export refunds, the remarkable decrease in the volume of the exported cereals and the lower levels of the average rate of export refunds, or even their setting at "0", compared to the quantities and rates initially foreseen in the 2007 budget led to a reduction of the total expenditure incurred for export refunds, thus, under-spending the 2007 budget's appropriations by approximately – EUR 61.2 million.

With regard to intervention for starch, Member States incurred payments amounting to approximately EUR 50.7 million, thus, under-spending the 2007 budget's appropriations by -EUR 46.3 million. This under-spending concerned mainly the decrease in the payments of the production refund for starch since the high prices for maize led to setting this refund at zero for the marketing year 2006/07.

4.1.3. *Article 05 02 02: Rice*

Following the 2003 CAP reform, the support for the rice sector has been transformed in aids paid directly to farmers according to the surface area of their holdings.

The last quantities of rice in stock, amounting to approximately 61 600 tonnes, were sold to the most deprived persons programme, thus, resulting in expenditure amounting to approximately – EUR 0.75 million which arose from the costs of storage of this quantity in combination with the closing accounting value of the stored rice.

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

The overall reduction in export refunds rates as well as the reduction in the exported quantities of cereals, butter and eggs, when compared to the levels retained in the 2007 budget, led to lower expenditure incurred by the Member States for payment of export refunds for processed agricultural products, thus, under-spending the corresponding appropriations by approximately – EUR 113.8 million.

4.1.5. *Article 05 02 04: Food programmes*

With regard to the distribution of agricultural products to the most deprived persons, most of the Member States, with the exception of Romania and Estonia, have withdrawn and distributed all the quantities of public storage products allocated to them in the 2007 plan, thus, resulting in an under-spending of the 2007 budget's appropriations by approximately – EUR 26.3 million.

With regard to export refunds in connection with food aid, the payments incurred by the Member States led to an under-execution of – EUR 2.4 million compared to the appropriations retained in the 2007 budget.

4.1.6. *Article 05 02 05: Sugar*

The free market quantities of sugar (marketing year 2006/07) exported with refunds, through the tender system, amounted to approximately 1.67 million tonnes as compared to the quantity of approximately 0.7 million tonnes retained in the 2007 budget. This situation led to higher payments for export refunds and to the over-execution of the 2007 budget's appropriations by approximately EUR 90.3 million.

In the course of this budget year, the average intervention stock amounted to approximately 0.84 million tonnes compared to the hypothesis retained in the 2007 budget of approximately 1.0 million tonnes. Furthermore, no sugar was purchased into public storage in 2007 a hypothesis also retained for the establishment of the 2007 budget. However, sales amounted to 0.46 million tonnes as opposed to 0.47 million tonnes retained in that budget. These stock movements led to under-spending the budget's appropriations by approximately EUR 41.9 million.

The quantities of sugar (marketing year 2005/06) used by the chemical industry for which production refunds were granted amounted to approximately 0.67 million tonnes, i.e. a quantity lower than the quantity of 0.75 million tonnes retained in the budget. The reduction in the amount of the production refunds paid, compared to the level retained in the budget, combined with the lower quantities of sugar for which this refund was paid, resulted in an under-spending of the 2007 budget's appropriations by – EUR 9.0 million.

With regard to measures to aid the disposal of raw sugar, the payments incurred involved payment of outstanding balances from previous years and amounted to EUR 4.0 million.

With regard to the adjustment aid for the refining industry, the payments incurred involved payment of outstanding balances from previous years and amounted to EUR 5.1 million.

4.1.7. *Article 05 02 06: Olive oil*

Expenditure for production refunds for olive oil used in the manufacture of preserved fish and vegetables amounted to EUR 0.6 million and it involved payment of balances still outstanding from previous years.

With regard to quality improvement measures, Member States' incurred payments amounting to EUR 60.3 million involving not only the totality of expenditure relating to the 2006 programme but they also paid an advanced instalment of the cost of the 2007 programme which was not foreseen at the time of instalment of the 2007 budget. Thus, the appropriations retained in the 2007 budget were over-spent by approximately EUR 10.3 million.

4.1.8. *Article 05 02 07: Textile plants*

Processing aid was granted to approximately 0.10 million tonnes of long flax fibre compared to the quantity of 0.11 million tonnes retained in the budget and to 0.032 million tonnes of short flax and hemp fibre, i.e. the quantity retained in the 2007 budget, thus, leading to an under-execution of the corresponding appropriations by approximately – EUR 2.1 million.

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

The quantities of fresh fruits exported with refunds were lower compared to the ones retained in the 2007 budget, thus, leading to an under-spending of the budget's appropriations by approximately – EUR 6.2 million.

The quantities of withdrawn fruits and vegetables were lower by 12% and by 30% for the marketing years 2006/07 and 2007/08 correspondingly compared to the ones retained in the 2007 budget, thus, leading to an under-spending of the budget's appropriations by – EUR 9.3 million.

The expected increases in the approved producer organisations' programmes did not materialise. Therefore, Member States paid for operational funds for producer organisations an amount of approximately EUR 577.0 million, thus, under-spending the budget's appropriations by approximately – EUR 66.9 million.

With regard to special measures for nuts, Member States paid outstanding balances for previously approved quality improvement programmes amounting to approximately EUR 4.7 million. No appropriations were foreseen in the 2007 budget as this measure as such is finished.

With regard to processing aid for tomatoes, Member States incurred payments for approximately 8.0 million tonnes of tomatoes for the marketing year 2006/07 compared to the quantity of 9.0 million tonnes retained in the 2007 budget, thus, under-spending the budget's appropriations by – EUR 35.3 million.

Member States paid production aid for fruit-based products quantities which were lower than the ones retained in the 2007 budget. Specifically, they paid for approximately 0.42 million tonnes of peaches, 0.112 million tonnes of pears, 0.050 million tonnes of prunes and 0.011 million tonnes of figs compared to the corresponding quantities of 0.40, of 0.115, of 0.055 and of 0.016 million tonnes

retained in the 2007 budget. Furthermore, Romania and Bulgaria did not pay the quantities of peaches foreseen in the 2007 budget. These factors contributed to an under-spending of the budget's appropriations by – EUR 4.2 million.

With regard to dried grapes, compensation aids for losses on sales were incurred for only 900 tonnes, as opposed to the quantity of 1 200 tonnes retained in the 2007 budget, by the Member States concerned, thus, leading to an under-execution of – EUR 0.6 million compared to the budget's appropriations.

Member States paid compensation to encourage the processing of citrus fruits for approximately 10% higher quantities of citrus fruits compared to the corresponding quantities retained in the 2007 budget, thus, over-spending the budget's appropriations by EUR 45.3 million.

Transport, sorting and packing costs related to the free distribution of fruits and vegetables, were higher than the ones retained in the 2007 budget, thus, resulting in an over-execution of the budget's appropriations by EUR 1.3 million.

The payments incurred by Member States for aid to producer groups for preliminary recognition were higher compared to the appropriations retained in the 2007 budget, thus, leading to an over-execution of these appropriations by approximately EUR 1.3 million.

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

Total production of wine for the marketing year 2006/07 was estimated at approximately 177.3 million hl. This production level was approximately 7.0% higher compared to the one of 166.0 million hl for the marketing year 2005/06. For the same period, domestic human consumption of wines was estimated at approximately 139.0 million hl while industrial utilisations and distillations were estimated at approximately 29.0 million hl.

The level of export refund rates for wine was lower than the one retained in the 2007 budget, thus, leading to an under-spending of the 2007 budget's appropriations for export refunds by approximately – EUR 10.9 million.

Member States incurred payments for wine and grape must storage which under-spent the 2007 budget's appropriations by – EUR 1.5 million because of the storage of lower quantities of must while the quantities of wine stored were higher than foreseen.

Member States incurred payments for distillation of wine amounting to EUR 445.7 million. The crisis distillation hypothesis for the marketing year 2006/2007 did not materialise and the corresponding appropriations were taken up by the aids paid for the higher content of alcohol of the wine distilled for the potable alcohol sector, as well as by a higher volume of distillation of wine by-products than foreseen in the budget, thus, resulting in a minor under-spending of – EUR 0.3 million compared to the budget's retained initial appropriations.

Payments for the private storage of alcohol amounted to approximately EUR 11.2 million versus the amount of EUR 14.0 million foreseen in the 2007 budget. With regard to the public storage of alcohol, intervention purchases amounted

to approximately 2.1 million hl while sales amounted to 2.7 million hl compared to the quantities of 2.1 and 2.8 million hl correspondingly retained in the 2007 budget. These higher sales at prices higher than the ones retained in the 2007 budget resulted in lower than otherwise end-of-year depreciation of the alcohol in stock, thus, finally resulting in an under-spending of the budget's appropriations by approximately – EUR 36.3 million.

Member States paid aids for processing into grape juice amounting to approximately EUR 50.0 million compared to the amount of EUR 40.0 M€ retained in the 2007 budget, while the payments for concentrated rectified musts were lower than foreseen, thus, resulting in an over-spending of the budget's appropriations for the aid for the different uses of must of approximately EUR 3.2 million.

Aid for the permanent abandonment of vineyards for the marketing year 2006/07 was paid for a larger area (approximately 17 200 ha) than the one retained in the 2007 budget (approximately 10 000 ha), thus, resulting in an over-spending of EUR 21.8 million.

With regard to restructuring and conversion of vineyards, the payments incurred by the Member States led to an under-execution of – EUR 10.4 million compared to the appropriations retained in the 2007 budget because this aid was paid for an area (approximately 59 400 ha) which was 7% lower than to the one retained in the 2007 budget (approximately 63 300 ha).

4.1.11. Article 05 02 10: Promotion

With regard to promotion measures-Payments by Member States, total payments amounting to EUR 47.9 million were made, thus, leading to an over-execution of the 2007 budget's appropriations of EUR 9.9 million. These payments related to promotion actions within the EU and in third countries amounting to approximately EUR 36.8 million and EUR 11.1 million correspondingly.

With regard to promotion measures-Direct payments by the European Community, the Commission committed approximately EUR 2.7 million versus the amount of EUR 7.3 million retained in 2007 budget, thus, leading to an under-execution of the 2007 budget's appropriations of – EUR 4.6 million. These commitments related principally to information and communication campaigns on the European regimes of protected designations of origin (PDO), protected geographical indications (PGI) and traditional speciality guaranteed (TSG).

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

The quantities of dried fodder eligible for the aid amounted to approximately 4.3 million tonnes compared to the maximum guaranteed quantity of 4.6 million tonnes retained in the 2007 budget. However, the amount paid as advance for the 2007/2008 marketing year was higher than foreseen. Therefore, the expenditure incurred by the Member States for the payment of this aid was higher and led to an over-spending of the budget's appropriations by EUR 2.1 million.

The payments made, under the transitional regime put in place for the POSEI programmes in expectation of the new programmes which were approved later than foreseen in 2007, led to an under-spending of the 2007 budget's appropriations for

these programmes by – EUR 10.8 million. This under-spending concerned primarily the POSEIMA programme.

With regard to Community fund for tobacco, the community's contribution towards Member States' tobacco reconversion plans amounted to approximately EUR 7.6 million, thus, under-spending the 2007 budget's appropriations by – EUR 7.4 million.

4.1.13. Article 05 02 12: Milk and milk products

In 2007, the downward trend in dairy cow numbers in EU-27 continued. Despite the increase in the average milk yield, the fall in the number of cows resulted in a slight reduction in milk production (approximately 148 million tonnes) and in butter and skimmed milk powder compared to the one of 2006. On the other hand, the consumption for dairy products increased slightly by an average 2-3 % compared to the 2006 levels.

As a consequence market prices for dairy products, in general, increased considerably throughout the period January-September 2007 with prices for butter and skimmed milk powder remaining well above their intervention buying-in price. An upward trend was observed for whole milk powder prices while cheese prices remained relatively stable and started increasing only in the second semester of the year.

In the course of the 2007 budget year, the aforementioned favourable market conditions led to an elimination of all export refunds as from 15 June 2007. The community's expenditure for export refunds, amounting to EUR 513.4 million, overspent the budget's initial appropriations of EUR 362.0 million by EUR 151.4 million. This was due to the fact that, starting with the 2007 budget, the revenue from the milk levy which was initially estimated at EUR 349.0 million was separately treated as revenue assigned to the EAGF. Therefore, the 2007 budgetary appropriations requested and granted by the Budgetary Authority for this sector were reduced by this amount. (NB: It has to be noted that the declared revenue assigned to this scheme was not used and it was carried over in 2008 in order to cover needs of that budget year).

The favourable market conditions allowed for the complete sale of all butter in intervention, resulting in net gains amounting to – EUR 58.0 million and leading to an under-implementation of the budget's appropriations for butter by approximately - EUR 77.0 million because the initial appropriations retained for this scheme were not used.

Furthermore, because of the favourable market conditions, all disposal aids for skimmed milk powder destined for casein production and animal feed were set at zero for $\frac{3}{4}$ of the budget year. As a consequence, aid payments for the use of skimmed milk powder under-spent the corresponding budget appropriations by approximately – EUR 21.1 million.

Under the specific uses for butterfat scheme, aid was paid for a quantity of approximately 0.5 million tonnes, i.e. the level retained in the 2007 budget, while the rates of aid were increased by approximately 10%. As a consequence, aid payments for this scheme were over-implemented by approximately EUR 9.0 million compared to the appropriations retained in the 2007 budget.

With regard to intervention storage for cheese, the payments incurred by the Member States led to an under-execution of – EUR 2.1 million compared to the appropriations retained in the 2007 budget, mainly due to a shorter period of storage than the one initially foreseen.

With regard to school milk, the quantities distributed were lower than the quantities retained in the 2007 budget, thus, leading to an under-execution of the corresponding appropriations by – EUR 7.9 million.

4.1.14. Article 05 02 13: Beef and veal

Over the past years, dairy cow herds have been decreasing as a result of increased productivity and lower profitability in the dairy sector, while increasing beef herds in some Member States, such as France, were offset by decreasing beef herds elsewhere, for example in Italy and Ireland. Therefore, EU beef and veal production declined to approximately 8.0 million tonnes in 2007, i.e. by -0.3% compared to 2006. The average prices for 2007 were well above prices levels in earlier years.

The quantities of meat exported with refunds were lower at approximately 0.08 million tonnes versus the quantity of 0.1 million tonnes retained in the 2007 budget. As a consequence, the corresponding appropriations were under-spent by approximately – EUR 14.3 million.

As regards exports of live animals, the estimated quantity exported was 60 000 tonnes (carcass equivalent) compared to 40 000 tonnes forecasted in the 2007 budget. As a consequence, the corresponding appropriations were over-spent by approximately EUR 2.5 million.

With regard to the exceptional market support measures [(Over Thirty Months Scheme-OTMS) and (Older Cattle Disposal Scheme-OCDS), Member States paid outstanding balances amounting to EUR 51.9 million, thus, under-spending the 2007 budget's appropriations by – EUR 7.1 million, mainly because of the lower number of animals entering OCDS than estimated in the budget.

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

While the 2007 budget retained credits for the export of approximately 0.08 million tonnes of ham, sausages and conserves, export refunds were paid only for a quantity of approximately 0.07 million tonnes. Therefore, the corresponding expenditure amounted to approximately EUR 20.3 million, thus, under-spending the budget's appropriations by – EUR 1.7 million.

With regard to export refunds for eggs, their exported quantities decreased compared to the quantities retained in the 2007 budget while the export refund rates for eggs in shell increased by 70%. Consequently, the 2007 budget's appropriations were under-spent by approximately – EUR 2.2 million.

For export refunds for poultry, the exported quantities of chicks decreased by 8% compared to the quantities retained in the 2007 budget. Nevertheless, higher export refund rates for both chicks and chicken, compared to the ones retained in the 2007 budget, resulted in over-spending the budget's appropriations by approximately EUR 1.4 million.

The 2007 budget foresaw appropriations of EUR 60.0 million intended to cover the balances of aids still outstanding for the exceptional support measures for the poultry and eggs sectors taken by the Commission in response to the 2004 avian influenza epidemic. Member States incurred payments amounting to EUR 42.2 million, thus, under-spending the corresponding appropriations by – EUR 17.8 million.

4.2. Chapter 05 03: Direct aids

The initial appropriations for this chapter of the budget amounted to EUR 36 878.5 million while payments amounted to approximately EUR 37 044.7 million, i.e. an implementation rate of 100.5 % of these appropriations. For this reason the initial appropriations of this chapter were reinforced by an amount of EUR 188.0 million through the Amending Budget No 7/2007. Within this chapter of the budget, decoupled and other direct aids were over-implemented while payments for the additional amounts of aids were under-implemented. Details of the differences between the budget's appropriations and their execution by budget item are presented in annex 8.

4.2.1. Article 05 03 01: Decoupled direct aids

The appropriations of this article cover expenditure for the single payment scheme as well as for the single area payment scheme for EU-12. Both payment schemes are paid independently of production.

With regard to the single payment scheme, the Commission had estimated that, for this budget item, credit appropriations amounting to EUR 28 555.9 million (after modulation) were required. The Budgetary Authority granted appropriations amounting to EUR 27 918.0 million after taking into consideration the revenue assigned to this budget item amounting to EUR 638.0 million. However, Member States were expected to incur payments higher than the budget's initial appropriations amounting to approximately EUR 141.0 million. In order to be able to reimburse Member States' expenditure, the Commission proposed the reinforcement of the budget's initial credit appropriations by that amount through the Amending Budget No 7/2007. This item's final appropriations amounted to EUR 28 059.0 million. However, by the end of the budget year, Member States had incurred payments amounting to EUR 28 119.3 million, thus, resulting in an over-execution of the initial appropriations retained in the 2007 budget by EUR 201.3 million and also in an over-execution of the budget's final appropriations by EUR 60.3 million. This latter amount was covered through internal article to article and item to item budget transfers. (NB: It has to be noted that the declared revenue assigned to this scheme was not used and it was carried over in 2008 in order to cover needs of that budget year).

The difference between the budget's initial requirements amounting to EUR 28 555.9 million and its final execution of EUR 28 119.3 million shows that a number of Member States did not make full use of the single payment scheme. Member States, in general, invoked various reasons which made the full utilisation of allocated entitlements difficult like the existence of "sleeping" rights, where a farmer has more entitlements than his eligible hectares or the non-activation of allocated entitlements. Furthermore, the number of hectares for which an application for aid is made could be less than the entitlements granted because of changes in individual

personal circumstances of beneficiaries, like death, retirement etc. It has to be noted that unused entitlements, after 3 years, return to the national reserve and they can be granted to other farmers.

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

With regard to the single area payment scheme, some Member States did not pay the totality of their corresponding budgetary ceilings, thus, resulting in an under-execution of the 2007 budget's appropriations by – EUR 28.0 million.

With regard to the separate sugar payment scheme, the Member States concerned paid almost the totality of their corresponding budgetary ceilings, thus, resulting in a minor under-execution of the 2007 budget's appropriations by – EUR 0.3 million.

4.2.2. *Article 05 03 02: Other direct aids*

The appropriations of this article cover expenditure for other direct aids for which Member States have chosen to maintain a limited link between the payment of these aids and production for a number of sectors, under well defined conditions and within clear limits, in order to avoid the abandonment of this production.

With regard to these schemes, the Commission had estimated that credit appropriations amounting to EUR 6 214.5 million (after modulation) were required. However, Member States were expected to incur expenditure higher than the budget's initial appropriations amounting to approximately EUR 47.0 million. Therefore, in order to be able to reimburse the Member States' expected expenditure, the Commission requested the reinforcement to the budget's initial credit appropriations by the same amount through the Amending Budget No 7/2007. However, by the end of the budget year, Member States had incurred payments amounting to EUR 6 259.6 million, thus, resulting in an over-execution of the initial appropriations retained in the 2007 budget by EUR 45.1 million and to an under-execution of the budget's final appropriations by – EUR 1.9 million. With regard to the implementation of the main schemes financed under this article, the following comments can be made:

- COP area payments: Member States concerned incurred total expenditure amounting to EUR 1 488.6 million thus, over-implementing the budget's initial appropriations by EUR 8.6 million. This over-implementation resulted from the payment of balances still outstanding from previous years. In order to cover the payment of these balances, this item's appropriations were reinforced by EUR 18.0 million, through Amending Budget No 7/2007. However, by the end of the budget year, the Member States concerned did not pay all the COP area payments expected for the year 2006, thus, leaving the budget's final appropriations under-implemented by approximately – EUR 9.0 million.
- Beef extensification premium: Member States concerned incurred total expenditure amounting to EUR 12.2 million thus, over-implementing the

budget's initial appropriations by EUR 6.2 million. This over-implementation resulted from the payment of balances still outstanding from previous years. In order to cover the payment of these balances, this item's appropriations were reinforced by EUR 8.0 million, through Amending Budget No 7/2007. However, by the end of the budget year, the Member States concerned did not pay all beef extensification premiums expected for the year 2006, thus, leaving the budget's final appropriations under-implemented by approximately – EUR 1.8 million.

- Additional payments to beef producers: Member States concerned incurred total expenditure amounting to EUR 4.3 million thus, over-implementing the budget's initial appropriations by EUR 3.3 million. This over-implementation resulted from the payment of balances still outstanding from previous years. In order to cover the payment of these balances, this item's appropriations were reinforced by EUR 4.0 million, through Amending Budget No 7/2007. However, by the end of the budget year, the Member States concerned did not pay all the additional payments expected for the year 2006, thus, leaving the budget's final appropriations under-implemented by approximately – EUR 0.7 million.
- Sheep and goat premium: The budget's appropriations for this scheme had been set at the ceiling foreseen in the appropriate regulations. However, the Member States concerned incurred payments lower than this ceiling, thus, under-spending the budget's retained appropriations by – EUR 11.3 million.
- Payments to starch potato producers: The budget's appropriations for this scheme had been set at the ceiling foreseen in the appropriate regulations. However, the Member States concerned incurred payments lower than this ceiling, thus, under-spending the budget's retained appropriations by – EUR 23.3 million.
- Aid for olive groves: Member States concerned incurred total expenditure amounting to EUR 119.3 million thus, over-implementing the budget's initial appropriations by EUR 20.3 million. This over-implementation resulted from the payment of balances still outstanding from previous years. In order to cover the payment of these balances, this item's appropriations were reinforced by EUR 17.0 million, through Amending Budget No 7/2007. Therefore, by the end of the budget year, the Member States concerned had over-implemented the budget's final appropriations by approximately EUR 3.3 million.
- Tobacco premium: Member States concerned incurred total expenditure amounting to EUR 335.5 million thus, over-implementing the budget's initial appropriations by EUR 33.9 million, mainly because of the payment of balances still outstanding from previous years.
- Specific quality premium for durum wheat: certain Member States granted aids to farmers producing durum wheat for areas which were lower than the ones retained in the 2007 budget. They incurred total expenditure amounting to EUR 82.3 million thus, under-implementing the budget's initial appropriations by – EUR 10.7 million.

- Compensatory aid for bananas: The 2007 budget initially retained appropriations amounting to EUR 70.0 million intended to cover the estimated income loss to Community producers for bananas produced in 2006. However, because of the difficult marketing conditions in certain regions of the Member States, the payment of supplementary aid covering 75% of the difference between the average income in the Community and the average income estimated on selling bananas in those regions was made. The payment of this compensatory aid amounted to EUR 121.6 million thus, over-implementing the budget's initial appropriations by EUR 51.6 million.
- Payments for specific types of farming and quality production: certain Member States granted additional payments for specific types of farming in the arable crops and beef and veal sectors which were lower than the ones retained in the 2007 budget. The incurred total expenditure amounted to EUR 419.8 million and it under-spent the budget's initial appropriations by – EUR 14.4 million.

4.2.3. *Article 05 03 03: Additional amounts of aid*

The appropriations of this article cover expenditure for the additional amount of aid to farmers in order to compensate for the 4% modulation applicable to their first EUR 5 000 or less of direct payments. The corresponding expenditure incurred by Member States amounted to approximately EUR 434.0 million, thus resulting in an under-implementation of – EUR 33.9 million of the budget's appropriations.

4.2.4. *Article 05 03 04: Ancillary direct aids*

In this article, Member States declare expenditure resulting from the payments of outstanding balances of certain discontinued measures, other per hectare compensatory payments, the de-seasonalisation premiums as well as corrections involving positive and negative adjustments of previously paid aids. The 2007 budget foresaw no appropriations for this line while the amount actually declared by the Member States amounted to – EUR 18.1 million.

4.3. **Chapter 05 04: Rural development**

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

On the basis of article 39 of Council Regulation (EC) n° 1290/2005, Commission Decision C(2006) 4368 final of 06/X/2006 authorised certain Member States to continue carrying out payments concerning rural development expenditure financed by the EAGGF-Guarantee until 31 December 2006 for certain measures and limits set by Member State. No appropriations were foreseen in the 2007 budget for this chapter. At the same time, Member States were declaring recoveries of previously paid advances. The final net expenditure incurred under this article amounted to – EUR 30.0 million.

4.3.2. *Article 05 04 04: Transitional instrument for the financing of rural development by the EAGGF-Guarantee section for the new Member States (Completion of programmes 2004-2006)*

As regards the Transitional instrument, the 2007 budget foresaw only payment appropriations amounting to EUR 1 440.0 million. The payments which were made amounted to EUR 1 298.7 million and were related to commitment appropriations made in previous years.

4.4. Chapter 05 07: Audit of agricultural expenditure

4.4.1. *Article 05 07 01: Control of agricultural expenditure*

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

The European Community directly financed measures of approximately EUR 6.0 million mostly for the purchase of satellite images within the framework of the Integrated Administrative and Control System (IACS).

With regard to the accounting clearance of previous years' accounts, the Commission credited the Member States concerned with the amount of approximately EUR 4.0 million arising from the positive corrections included in the 3 accounting clearance decisions adopted by the Commission in the course of the budget year, namely: the Commission decisions 2007/327/EC, 2007/326/EC and 2006/936/EC. With regard to the reduction/suspension of advances, an amount of – EUR 105.3 million was deducted from the Member States reimbursements because of the non-respect of payment deadlines. The total amount credited in this item, then, amounted to – EUR 101.3 million while the budget retained initial appropriations amounting to – EUR 178.0 million. In order to close this account, the Commission proposed, through Amending Budget No° 7/2007, the increase of the budget's initial appropriations by EUR 80.0 million, thus, leaving final appropriations for this item amounting to – EUR 98.0 million. Therefore, by the end of the budget year, the total amount credited in this item of – EUR 101.3 million resulted in an under-execution of the initial appropriations retained in the 2007 budget by EUR 76.6 million and in an over-execution of the budget's final appropriations by -EUR 3.3 million.

With regard to the conformity clearance of previous years' accounts, the Commission credited the Member States concerned with the amount of approximately EUR 1.6 million arising from the positive corrections included in the conformity clearance decision 2007/243/EC adopted by the Commission in the course of the budget year. In the absence of any appropriations in this budget item, the Commission proposed, through Amending Budget No 7/2007, appropriations amounting to EUR 2.0 million. Therefore, by the end of the budget year, the total amount entered in this item of EUR 1.6 million resulted in an over-execution of the 2007 budget's initial appropriations by EUR 1.6 million and in an under-execution of the budget's final appropriations by – EUR 0.4 million.

With regard to the accounting clearance of previous years' rural development (ex-heading 1b) accounts, the Commission credited the Member States concerned with the amount of approximately EUR 3.2 million arising from the positive corrections included in the 2 accounting clearance decisions No 2007/327EC and 2006/936/EC adopted by the Commission in the course of the budget year. In the absence of any appropriations in this budget item, the Commission proposed, through Amending Budget No 7/2007, appropriations amounting to EUR 3.5 million. Therefore, by the end of the budget year, the total amount entered in this item of EUR 3.2 million resulted in an over-execution of the 2007 budget's initial appropriations by EUR 3.2 million and in an under-execution of the budget's final appropriations by - EUR 0.3 million.

4.4.2. *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, including the cost of settling claims for damages and interest. No appropriations were foreseen for this article in the 2007 budget while payments were made for an amount of EUR 0.008 million.

4.5. **Chapter 05 08: Policy strategy and coordination**

4.5.1. *Article 05 08 01: Farm accountancy data network (FADN)*

Appropriations committed with regard to the cost of data collection on approximately 84 300 farm holdings under this network amounted to approximately EUR 12.9 million, thus, resulting in an under-execution of the 2007 budget's initial commitment appropriations of - EUR 0.97 million.

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

Appropriations committed with regard to cost of data collection on the structure of approximately 801 500 farm holdings amounted to approximately EUR 16.2 million, thus, resulting in an under-execution of the 2007 budget's initial commitment appropriations of - EUR 2.8 million.

4.5.3. *Article 05 08 03: Restructuring of systems for agricultural surveys*

Appropriations committed with regard to the cost of 19 projects covering the need to collect new statistical information arising from changes in the CAP amounted to approximately EUR 1.3 million, thus, resulting in an under-execution of the 2007 budget's initial commitment appropriations of - EUR 0.4 million.

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

Appropriations committed with regard to the cost of actions, fairs and publications aimed at improving the level of understanding of the CAP amounted to approximately EUR 5.8 million versus the amount of EUR 6.5 million retained in the 2007 budget, thus, under executing these appropriations by -EUR 0.7 million.

4.6. Chapter 11 02: Fisheries markets

4.6.1. Article 11 02 01: Intervention in fishery products

The budget allocation for intervention in fishery products totalled EUR 15.5 million. Commitments and payments appropriations were executed for a total sum of EUR 10 625 640.93 and EUR 10 142 284.27 respectively, i.e. a difference of EUR 4 874 359.07 and EUR 5 357 715.73 respectively.

The overall under use of the budget's appropriations concerns mostly the compensation for withdrawals, compensation under operational programmes, and the evaluation studies which will be totally paid in 2008. During the financial year 2007, the favourable market situation led to a general decrease in the utilisation of the different intervention mechanisms, except carry-over aid and private storage aid. Regarding operational programmes, the compensation awarded by Member States to producer organisations is granted on a voluntary basis. Moreover, the compensatory allowance scheme for tuna was triggered in 2004 following the fall in prices of this product in the Community during the first and second quarters, and was partially paid in 2007.

BUDGET 2007 – Commitments

Budgetary Line	Heading	Initial credits	Final credits after transfer	Committed	
11 02 01	Intervention in fishery product	15 500 000.00	15 500 000.00	10 625 640.93	4 874 359.07
	Total	15 500 000.00	15 500 000.00	10 625 640.93	4 874 359.07

BUDGET 2007 – Payments

Budgetary Line	Heading	Initial credits	Final credits after transfer	Payments	
11 02 01	Intervention in fishery product	15 500 000.00	15 500 000.00	10 142 284.27	5 357 715.73
	Total	15 500 000.00	15 500 000.00	10 142 284.27	5 357 715.73

4.6.2. Article 11 02 03: Fisheries programme for the outermost regions

The budget allocation for the five outermost regions the Azores, Madeira, the Canary Islands, French Guiana and Reunion totalled EUR 15.0 million (initially in a reserve line). Commitments and payments appropriations were executed for a total sum of EUR 14.5 million, i.e. a difference of EUR 0.5 million.

BUDGET 2007 – Commitments and Payments

Budgetary Line	Heading	Initial credits	Final credits after transfer	Committed and paid before 31/12//2007	
11 02 03	Fisheries programme for the outermost regions	0.00	15 000 000.00	14 493 191.42	506 808.58
	Total	0.00	15 500 000.00	14 493 191.42	506 808.58

4.7. Chapter 17 01: Administrative expenditure of health and consumer protection

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

The allocated credit amount was EUR 0.5 million euro. More than EUR 0.4 million were committed.

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

Slightly more than half of the EUR 0.8 million appropriations available on this line was committed.

4.8. Chapter 17 03: Public health

4.8.1. Article 17 03 02: Community Tobacco Fund. Direct payments by the European Union

Close to 100 % of the credits available from the 2007 budget have been used as an amount of EUR 13 499 876.78 out of 13 500 000.00 available for the information programmes has been committed for the anti-smoking 'HELP' – for a life without tobacco campaign. This campaign has been launched successfully at the end of 2004, and is due to take place during four years, with a budget of about EUR 14.0 million for each year.

The 'HELP' – for a life without tobacco campaign is an integrated communication campaign present in all 27 Member States with a comprehensive action scheme including media (TV spots and Internet banners); a website available in 22 languages; a series of European and national public relation events and press relation.

The campaign targets primarily young people and young adults. The general motto of the campaign is providing help and support “for a life without tobacco” by delivering comprehensive information on health and social problems related to tobacco consumption; tips and advice not to start; help to quit; passive smoking and setting out European actions in the field of tobacco control and national relays. It is conducted in partnership with communication experts, tobacco control professionals and Youth representatives.

From its beginning in March 2005, more than 46 000 TV spots, using 96 national TV channels and Internet, achieved more than 3.2 billion contacts within the target group of young people. In parallel, more than 4.2 million individual visits were observed on

the EU “Help” website and over 5000 press articles were triggered in the European press. The CO measurement campaign launched in March 2006 achieved more than 200.000 tests and over 600 national events were run EU-wide. Finally, the European Youth Manifesto against Tobacco, drafted by young people themselves, on the basis of 25 national consultations, was promoted in the Members States through national activities.

Overview			2007 Budget		
Budgetary Line	Heading	Initial Credits	Final credits after transfer	Committed	
17 03 02	Community Tobacco Fund – information programmes	13 500 000.00	13 500 000.00	13 499 876.78	123.22
	Total	13 500 000.00	13 500 000.00	13 499 876.78	123.22

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

4.9.1. Generalities on the chapter

Slightly more than 83% of the credits available from the 2007 budget have been used; an amount of EUR 246.0 million out of EUR 296.3 million available for the operational and administrative credits for veterinary and plant health measures has been committed.

No transfers of commitment appropriations were organised in 2007.

4.9.2. Article 17 04 01: Animal disease eradication and monitoring programmes

The amount of available credits was EUR 209.5 million. After a reallocation of credits executed in the autumn of 2007, an amount of almost EUR 204 million was committed according to the details mentioned below.

- EUR 87.4 million for TSE surveillance programmes,
- EUR 3.8 million for the BSE eradication programmes,
- EUR 24.4 million for scrapie programmes (monitoring and eradication) and
- EUR 83.7 million for the traditional eradication programmes.

Payment credits were executed via 126 payments; the total amount reached EUR 152.8 million and was constituted of 124 C8 credits and two C1 credits.

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

The credits for this line reached EUR 15.0 million; EUR 13.3 million thereof were committed.

The payment credits were executed via 246 payments up to a sum of EUR 19.6 million. Approximately 75% of them concerned credits of 2006.

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

The amount of initial credits was EUR 48.0 million. Because no major disease outbreaks occurred in 2007 only EUR 9.4 million were committed in 2007.

Payment credits were executed up to an amount of EUR 8.3 million via 9 payments, 6 payments concerned 2006 credits.

4.9.5. *Article 17 04 04: Plant-health measures*

The allocated amount was EUR 2.5 million. Almost EUR 1.5 million was committed.

Via 47 transactions, payment credits were executed to an amount of EUR 2.59 million, of which EUR 2.57 million were 2006 credits.

In 2006 an important transfer of appropriations was organised in order to finance the pine wood nematode clear cut belt in Portugal. Due to unexpected circumstances, it has not been possible to pay for this action before the end of 2007.

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

Almost EUR 17.0 million of an available amount of EUR 20.0 million for commitment appropriations were committed. The under-use of credits is explained by the fact that the organised training activities in the feed and food safety area were less than expected.

Via 152 transactions, payment credits were executed to an amount of EUR 7.8 million, of which EUR 5.2 million were 2007 credits.

Overview					2007 Budget	
Budgetary Line	HEADING	Initial Credits	Final credits after transfer	Committed before 31/12/05	Balance commitments-final credits	
17 04 01	Animal disease eradication and monitoring programmes and monitoring of the physical conditions of animals that could pose a public-health risk linked to an external factor	209 500 000	209 500 000	203 984 156	5 515 844	
17 04 02	Other measures in the veterinary, animal welfare and public-health field	15 000 000	15 000 000	13 304 888	1 695 512	
17 04 03	Emergency fund for veterinary complaints and other animal contaminations which are a risk to public health	48 000 000	48 000 000	9 460 384	38 539 616	
17 04 04	Plant-health measures	2 500 000	2 500 000	1 457 063	1 042 937	
17 04 07	Feed and food safety and related activities	20 000 000	20 000 000	16 944 069	3 055 931	
17 01 04 01	Plant-health measures – Expenditure on administrative management	500 000	500 000	412 905	87 095	
17 01 04 05	Food and feed – Expenditure on administrative management	800 000	800 000	453 750	346 250	
	Total	296 300 000	296 300 000	246 017 215	50 282 785	

The details of all the commitments done in 2007 are given in the attached annexes 10 and 11.

5. IMPLEMENTATION OF ASSIGNED REVENUE AND OF SUGAR RESTRUCTURING FUND

5.1. Revenue assigned to EAGF

In the course of the 2007 budget year, the Member States declared revenue assigned to EAGF amounting to EUR 1 160.7 million. Out of this revenue, payments were made for other direct aids amounting to EUR 1.2 million. The balance amounting to EUR 1 159.5 million was carried forward into 2008 to cover the expected budgetary needs for that year. This amount involved:

An amount of EUR 557.8 million collected under the conformity clearance procedure and EUR 240.3 million under irregularities, i.e. a total amount of EUR 798.1 million which was higher than the amounts initially estimated at EUR 638.0 million by approximately EUR 160.0 million. The reason for this increase was due to the application for the first time of the rules of article 32(5) of Council Regulation (EC) No 1290/2005 whereby 50% of the financial consequences of non-recovery of irregularities shall be borne by the Member State concerned and 50% by the Community budget if the recovery of those irregularities has not taken place within four years of the primary administrative or judicial finding, or within eight years if the recovery is taken to the national courts. Furthermore, an amount of EUR 362.7 million was collected from the milk levy, i.e. an amount higher by EUR 13.2 million compared to the initial estimate of EUR 349.0 million.

5.2. Temporary restructuring amounts in the sugar sector

The temporary restructuring amounts in the sugar sector, as set out in article 11 of Council Regulation No 320/2006, are treated as assigned revenue intended to finance the sugar restructuring aid and other aids foreseen in the Sugar Restructuring Fund. For the marketing year 2006/07, these amounts related to the sugar, inulin syrup and isoglucose quantitative quotas held by sugar operators and they were to be collected and paid by the Member States in 2 instalments, the deadlines of which were 31 March and 30 November 2007 respectively. In the framework of establishing the 2007 budget, an amount of EUR 1 259.0 million was taken into account for this revenue. Indeed as of the end of March 2007, Member States had transferred to the assigned revenue account the first instalment of the temporary restructuring amounts of approximately EUR 1 287.2 million. (NB: The second instalment was paid in November 2007 and it amounted to approximately EUR 858.0 million. This latter amount falls within the execution of the 2008 budget year). For details, please see annexes 4 and 9.

5.3. Sugar Restructuring Fund expenditure

A part of the initially estimated assigned revenue, amounting to EUR 757.0 million, was earmarked for payments of aids to the restructured sugar industry, for diversification aids as well as for aids to sugar refiners. However, in the course of the 2007 budget year, Member States paid approximately EUR 551.4 million for these aids. The unused balance between the collected assigned revenue of

EUR 1 287.2 million and the payment of EUR 551.4 million for the different types of aid amounted to EUR 735.8 million and it was carried forward into 2008 to finance payments for these aids expected to be made in that year. For details, please see annexes 4 and 9.

6. BREAKDOWN BY TYPE OF EXPENDITURE

The total EAGF expenditure amounts to EUR 42 120.9 million and can be broken down into the following principal categories. Hereafter, the corresponding expenditure along with the percentage that this expenditure represents in the total EAGF expenditure for 2007 are given:

Export refunds

Spending on export refunds amounted to EUR 1 444.7 million, i.e.: 3.43% of the total.

Direct aids

Expenditure under this heading amounted to EUR 37 045.8 million, i.e.: 87.95% of the total.

Storage

Expenditure for storage amounted to -EUR 106.7 million, i.e.: -0.25% of the total. The main products involved were cereals, sugar and alcohol.

Other measures

Other intervention expenditure amounted to EUR 3 763.9 million, i.e.: 8.94% of the year's total. This heading covers expenditure not falling into one of the above categories.

Rural development

Spending on Rural development related to the Guarantee Section of ex-EAGGF amounted to - EUR 26.8 million, i.e.: -0.06%.

The evolution of this breakdown by type of expenditure for the period 2002-2007 is presented in annex 20.

7. SPECIFIC ACTIVITIES

7.1. 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 Community¹¹. The Commission then adopted an implementing regulation (Regulation (EEC) No 3149/92¹², as last amended by Regulation (EC) No 1127/2007¹³).

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.

A total of 18 Member States wished to take part in 2007. The appropriations were shared among the participating Member States according to the number persons at risk of poverty, based on the most recent Eurostat statistics. The allocation also reflected any substantial under-spend in the previous 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. Furthermore, resources for purchase on the market of products not available in intervention were made available.

The annual plan 2007 was published on 14 October 2006 as Reg. (EC) 1539/2006¹⁴. In order to allow for the participation of Romania, the plan was modified on 21 March 2007. A second modification on 6 August 2007 was required in order to re-distribute financial resources made available by a significant under-use of butter from intervention.

Under the 2007 plan, details of which appear in the following tables 1 to 3, the participating Member States spent approximately EUR 247.6 million as detailed in table 4, expenditure declared until October 2007. This under-spending is due to the fact that a part of the expenditure for direct purchase on the market was not yet declared at that time. Some Member States could not execute the plan, as no suitable offers were made by the operators.

¹¹ OJ L 352, 15.12.1987, p. 1.

¹² OJ L 313, 30.10.1992, p. 50.

¹³ OJ L 255, 29.9.2007 p. 18

¹⁴ OJ L 283, 14.10.2006, p. 14

TABLE 1
Financial ceiling in the annual plan 2007

Member State	Euros
Belgique/België	5 817 428
Eesti	324 891
Elláda	6 689 132
España	50 340 744
France	49 940 164
Ireland	217 997
Italia	70 764 888
Latvija	18 446
Lietuva	3 273 261
Luxembourg	80 707
Magyarország	7 896 638
Malta	384 898
Polska	42 884 522
Portugal	14 904 058
România	16 649 889
Slovenija	1 929 341
Suomi/Finland	2 709 509
Total	274 826 513
Transfers	6 173 487
Total	281 000 000

TABLE 2
Allocation of products by Member State (2007 plan)

Member State	Tonnes			
	Cereals	Rice (paddy rice)	Butter	Sugar
Belgique / België	12 000			2 000
Eesti	3 000			
Ireland			80	
Elláda	11 760	2 755		
España	110 000		12 000	6 443
France	82 641	23 641	6 500	3 338
Italia	122 465	20 000	3 570	6 847
Latvija	173			
Lietuva	12 000			2 760
Magyarország	52 000			900
Malta	1 550			
Polska	120 433		2 400	11 522
Portugal	20 000	14 000	3 160	1 435
România	96 712			11 986
Slovenija	3 610			653
Suomi / Finland	14 651		422	
Total	662 995	60 396	28 132	47 884

TABLE 3

**Grants to Member States for purchase of skimmed-milk powder
on the Community market subject to the maximum amounts:**

Member State	Euros
Belgique / België	2 893 618
Eesti	5 190
Elláda	4 765 946
France	14 494 803
Italia	39 261 578
Luxembourg	76 864
Magyarország	1 797 520
Malta	118 789
Portugal	1 141 888
Polska	16 770 240
Slovenija	1 051 634
Total	82 378 070

TABLE 4

Expenditure declared until October 2007

Member States participating in the 2007 plan	(in EUR million)
Belgium	3 949 037
Czech Republic	0
Estonia	80 112
Greece	7 535 472
Spain	49 995 816
France	47 603 830
Ireland	207 616
Italy	66 325 197
Latvia	30 232
Lithuania	3 203 697
Luxembourg	61 129
Hungary	6 636 145
Malta	298 649
Poland	43 224 661
Portugal	14 398 228
Romania	0
Slovenia	1 393 523
Finland	2 702 208
TOTAL	247 645 552

7.2. Promotion measures – payments by Member 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) No 2702/1999 and No 2826/2000 and Commission Regulations (EC) No 1346/2005 and No 1071/2005.

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 co-financing of the action plans is 50%. The rules also allow the financing of information measures carried out on the initiative of the Commission (sending trade missions to non-member countries and providing the latter with information on protected designations of origin, protected geographical indications and organic production).

Payments made by the Member States on the EU budget for promotion measures amounted to approximately EUR 47.9 million, as compared to the 2007 budget appropriation of EUR 38.0 million. The improvement in the consumption rate of the allocated budget is due to an increased discipline in the management of, on one hand, the launching of the new programmes and, on the other hand, the implementation of ongoing programmes by the Member States (see also point 4.1.11).

The number of approved programmes (under shared management) since 2001 was: 18 (2001), 40 (2002), 66 (2003), 59 (2004), 51 (2005), 75 (2006). In 2007, i.e. between 16 October 2006 and 15 October 2007, 33 new indirectly managed promotion programmes were approved, both on the internal market and in non-member countries, by two separate Commission decisions. This decrease in the number of decisions taken each year by the Commission is due to the entry into force of an amended legislation, which foresees one Commission decision per year for programmes operated on the Internal Market and one for programmes operated in Third Countries.

8. CONTROL MEASURES

8.1. Introduction

The Community legislation provides for a comprehensive system of management and controls which relies on four levels:

(a) compulsory administrative structure at the level of Member States, centred around the establishment of paying agencies and an accreditation authority at high level which is competent for issuing and withdrawing the agency's accreditation. The decision for issuing the accreditation is based on a detailed review by an external audit body;

(b) detailed systems for controls and dissuasive sanctions to be applied by those paying agencies, with common basic features and special rules tailored to the specificities of each aid regime;

(c) ex-post controls by independent audit bodies on the paying agencies' annual accounts and the functioning of their internal control procedures (under Regulation (EC) No 885/2006) and by special departments on aid measures other than direct payments covered by the IACS (checks based on Regulation (EEC) No 4045/89);

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

These four levels establish a comprehensive system for the management and control of agricultural expenditure. It includes, on the one hand, all the necessary building blocks to guarantee a sound administration of the expenditure at Member States' level and, on the other hand, allows the Commission to counter the risk of financial losses as a result of any deficiencies in the set-up and operation of those building blocks through the clearance of accounts procedure.

Article 9(1) of Regulation (EC) No 1290/2005¹⁵ provides for the general obligation of Member States to ensure that transactions financed by the EAGF and the EAFRD are carried out and executed correctly, to prevent and deal with irregularities and to recover amounts unduly paid.

In complement to this general obligation, there is a system of controls and dissuasive sanctions of final beneficiaries which reflects the specific features of the regime and the risk involved in its administration.

The controls are carried out by the paying agencies or by delegated bodies operating under their supervision and effective, dissuasive and proportionate sanctions are imposed if the controls reveal non-compliance with Community rules. The system generally provides for exhaustive administrative controls of 100% of the aid applications, cross-checks with other databases where this is considered appropriate as well as pre-payment on-the-spot controls of a sample of transactions ranging between 1% and 100%, depending on the risk associated with the regime in question. For example, the control rate in the framework of the Integrated Administration and Control System (IACS) is normally 5%. If the on-the-spot controls reveal a high number of irregularities, additional controls must be carried out. The sample of transactions is determined on a risk and/or random basis.

In addition, for most regimes which are not subject to the IACS, to the primary and secondary control levels, *ex-post* controls must be carried out in accordance with Regulation (EEC) No 4045/89 (See point 'Application of Council Regulation (EEC) No 4045/89'¹⁶, *ex-post* controls, No 8.4 below).

8.2. Integrated Administration and Control System (IACS)

Regulations (EC) No 1782/2003¹⁷ and (EC) No 796/2004¹⁸ contain the rules on the IACS.

¹⁵ OJ L 209, 11.08.2005, p. 1.

¹⁶ OJ L 388, 30.12.1989, p. 18.

¹⁷ OJ L 270, 21.10.2003, p. 1.

¹⁸ OJ L 141, 30.4.2004, p. 18.

A fully operational IACS consists of: a computerised database, an identification system for agricultural parcels and farmers claiming aid, a system for identification and registration payment entitlements, aid applications and integrated controls system (claim processing, on-the-spot checks and sanctioning mechanisms) and a system for identifying and registering animals where applicable. The IACS is fully automated and provides highly efficient controls by maximising the use of computerised and remote controls.

This system foresees a 100% administrative control covering the eligibility of the claim, complemented by administrative cross-controls with standing databases ensuring that only areas or animals that fulfil all eligible requirements are paid premium and by a minimum 5% of on-the-spot checks to check the existence and eligibility of the area or the animals claimed.

The use of standing databases, which are appropriately updated, is well adapted to the schemes whereby aids are directly paid to the farmers and based on the surfaces or on the number of animals, in that the risk can be reduced to the lowest levels. Moreover, the result of the ECA' work shows that, where properly applied, the IACS is an effective control system to limit the risk of irregular expenditure. (see point 5.65 in the Court's Annual Report for 2006).

The following schemes are, for the period covered by this report, fully covered by the IACS under Council Regulation (EC) No 1782/2003: de-coupled area aid (SPS and SAPS), specific quality premium for durum wheat, protein crop premium, crop specific payment for rice, area payment for nuts, aid for energy crops, aid for starch potatoes, dairy premium, specific regional aid for arable crops, seed aid, arable crops area payment, sheep and goat premiums, beef and veal payments, specific types of farming and quality production, payment of olive groves, tobacco and hops, transitional aid for sugar beet growers, additional amount for sugar beet and cane producers, cotton, aid for grain legumes and co-financing of the Complementary National Direct Payments (CNDP). For these aid schemes, the rules on controls and reductions/dissuasive sanctions are set out in Regulation (EC) No 796/2004.

For the financial year 2007, IACS covers some 84.5 % of the EAGF-expenditure. The effects of the different reforms will further enhance this positive evolution by extending this coverage to 89 % by 2010 and to 91 % by 2013.

For other aid schemes, such as dried fodder, dried grapes, tomato and citrus processing and wine restructuring, certain parts of the IACS are also applicable.

Furthermore, the relevant components of the IACS are applicable to the rural development measures, which are based on area or number of animals. Such measures include, inter alia, agri-environment and animal welfare measures, less-favoured areas and areas with environmental restrictions and afforestation of agricultural land. The IACS rules to be applied concern applications, the administrative and on-the-spot controls and recovery conditions for undue payments. For financial year 2007, around 72% of all payments made under the EAFRD and the Transitional Rural Development Instrument (TRDI) were concerned.

The Commission services verify the effectiveness of Member States' IACS and homogenous implementation by means of both on-the-spot auditing and general supervision based on annually supplied financial and statistical data. It has been

established already for some years now that the IACS provides an excellent and cost effective means of ensuring the proper use of Community funds.

8.3. Market measures

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

Aids are paid on the basis of claims, often involving the lodging of administrative and/or end-use securities, which are systematically (100%) checked administratively for completeness and correctness. The more financially important aid schemes are also subject to regular accounting controls performed in situ on commercial and financial documents.

8.4. Application of Council Regulation (EEC) No 4045/89¹⁹ (ex-post controls)

Regulation (EEC) No 4045/89 provides for an ex-post control system which is a complement to the sectoral control systems described above. The system constitutes an extra layer of control which contributes to the assurance that transactions have been carried out in conformity with the rules or otherwise allows recovering the unduly paid amounts.

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

The ex-post scrutiny is to be carried out by a body in the Member State, which is independent of the departments within the paying agency responsible for the pre-payment controls and the payments. It covers a wide range of CAP subsidies including export refunds, processing and production subsidies etc. In fact, the ex-post scrutiny covers all subsidies paid to beneficiaries from EAGF (except payments covered by IACS and those excluded by Regulation (EC) No 2311/2000²⁰).

As regards inspections carried out from 1 July 2006 to 30 June 2007 with respect to financial year 2005 and reported upon by 31/12-2007, the rate of completed scrutinies has according to the control statistics from the Member States risen from 67 % in the scrutiny period 2005/2006 to 79 % in the scrutiny period 2006/2007. At the same time, the rate of inspections carried out (i.e. completed + on-going) has risen from 95 % in the 2005/2006 scrutiny period to 97 % in the 2006/2007-scrutiny period.

Although, all the 2006/2007 inspections should according to the Regulation have been finalised prior to 1 July 2007, the total number of completed and on-going inspections (2 820) exceeds actually the required minimum number of inspections to be carried out (2 765).

¹⁹ OJ L 388, 30.12.1989, p. 18.

²⁰ OJ L 265, 19.10.2000, p. 10.

9. CLEARANCE OF ACCOUNTS

9.1. Conformity clearance - introduction

It is primarily the Member States' responsibility to satisfy themselves that transactions are carried out and executed correctly via a system of control and dissuasive sanctions. Where Member States fail to meet this requirement, the Commission applies financial corrections to protect the financial interests of the Community.

The conformity clearance relates to the legality and regularity of transactions. It is designed to exclude expenditure from Community financing which has not been effected in compliance with Community rules, thus shielding the Community budget from expenditure that should not be charged to it (financial corrections). In contrast, it is not a mechanism by which irregular payments to beneficiaries are recovered, which according to the principle of shared management is the sole responsibility of Member States.

Financial corrections are determined on the basis of the nature and gravity of the infringement and the financial damage caused to the Community. Where possible, the amount is calculated on the basis of the loss actually caused or on the basis of an extrapolation. Where this is not possible, flat-rates are used which take account of the severity of the deficiencies in the national control systems in order to reflect the financial risk for the Community.

Where undue payments are or can be identified as a result of the conformity clearance procedures, Member States are required to follow them up by recovery actions against the final beneficiaries. However, even where this is not possible because the financial corrections only relate to deficiencies in the Member States' management and control systems, financial corrections are an important means to improve these systems and thus to prevent or detect and recover irregular payments to final beneficiaries. The conformity clearance thereby contributes to the legality and regularity of the transactions at the level of the final beneficiaries.

9.2. Conformity clearance – audits and decisions adopted in 2007

9.2.1. Audits

The 2007 audit programme, approved by the Director General of Agriculture and Rural Development on 11 January 2007, foresaw in total 239 audits (139 on-the-spot checks and an estimated 100 desk-checks). As of 31 December 2007, 158 on-the-spot checks were carried out and 217 desk-checks were launched. Out of these, 105 on-the-spot checks and 69 desk-checks concerned conformity work. The 105 on-the-spot checks, in turn, covered aid schemes which accounted for around 30 % of the 2007 expenditure under the EAGF and the EAFRD.

9.2.2. Conformity decisions

During the financial year 2007, three conformity decisions were adopted, but only two of them (ad-hoc 23 and 24) had a financial impact in this year. They resulted in the exclusion from Community financing of a total of EUR 715.9 million covering expenditure in the financial years from 1997 to 2005:

- Decision 2006/932/CE of 14 December 2006 – 23rd Decision²¹, amount of EUR 285.4 million,
- Decision 2007/243/CE of 18 April 2007 – 24th Decision²², amount of EUR 285.3 million,

The breakdown according to sectors is as follows:

In EUR million

	Decision 23	Decision 24
Animal premium	-	-
Arable crops	4.35	35.8
Export refunds	-	33.29
Financial audit	20.06	126.37
Flax	-	-
Fruit & vegetables	53.19	65.18
Intervention storage		8.69
Irregularities	-	-
Milk and milk products	-0.015	3.84
Olive oil	201.16	-
POSEI	-	1.9
Rural development	6.69	7.85
Wine	-	2.38
TOTAL	285.4	285.3

Regulation (EC) No 1290/2005 introduced an automatic clearing mechanism for non recovered irregular payments after 4 years or, in case the recovery is challenged in national courts, 8 years after the establishment of the irregularity. The financial consequences of non recovery are shared by the Member State concerned and the Community on a 50 %-50 % basis. However, the Commission may still decide to charge the Member State for 100 % in cases of negligence by the Member State.

This mechanism was first applied by Commission Decision 2007/327/EC of 27 April 2007, and cleared all pending non-recovered cases dating from before 2003 or 1999 (cases that were 4 or 8 years old respectively). EUR 131.7 million were charged to the Member States in this way and EUR 128.7 million were charged to the Community budget for reasons of irrecoverability. A further EUR 100 million has been charged to Member States by subsequent Commission decisions clearing the accounts for financial year 2006 which were disjoined in April 2007.

Regarding financial year 2007, Member States reported the information about recovery cases by 1 February 2008. During financial year 2007, EUR 152 million were recovered by the Member States, and the outstanding amount still to be recovered at the end of that financial year was EUR 1 428.3 million. The financial consequences of non recovery for cases dating from 2003 or 1999 will be determined

²¹ OJ L 355, 15.12.2006, p. 96.

²² OJ L 106, 24.07.2007, p. 55.

according to the 50-50 rule mentioned above by charging EUR 136.4 million to the Member States. Moreover, EUR 165 million will be charged to the Community budget for cases reported irrecoverable during financial year 2007.

9.3. Financial clearance for the 2006 financial year

9.3.1. Introduction

The financial clearance covers the accounts and control systems set up by the paying agencies. Within this framework, the DG AGRI departments pay particular attention to the certifying bodies' conclusions and recommendations (where weaknesses are found), following their reviews of the paying agencies' management and control systems. As part of this review, the DG AGRI departments also cover aspects relating to the accreditation criteria for the paying agencies and protecting the financial interests of the Community as regards the advances paid, securities obtained and intervention stocks.

The Commission then adopts an annual clearance of accounts decision, by which it conveys that it accepts the Member States' annual accounts on the basis of the certificates and reports from the certifying bodies, but without prejudice to any subsequent decisions to recover expenditure which proves not to have been in accordance with the Community rules. The Commission must clear the accounts and adopt its clearance decision by 30 April of the year following the financial year in question.

9.3.2. Decisions

9.3.2.1. Financial clearance for financial years before 2006

In respect of the financial year 2004 the accounts of 5 paying agencies had not been cleared until the end of 2006. These amounted to EUR 3 956.0 million, representing around 9% of total expenditure in the financial year concerned. The paying agencies concerned were AGEA (Italy), Bayern Umwelt (Germany), Autonomous Community of Madrid (Spain), Ministry of Agriculture (Luxembourg) and SDE (France).

As regards the financial year 2005, the accounts of 4 paying agencies, corresponding to EUR 3 960.0 million (around 9 % of total expenditure) had not been cleared. The paying agencies concerned were AGEA (Italy), Bayern Umwelt (Germany), Ministry of Agriculture (Luxembourg) and IFADAP (Portugal).

All these accounts were cleared by Commission decision of 20 December 2007.

9.3.2.2. Financial clearance decision for the financial year 2006

When the annual decision clearing the accounts of the paying agencies in respect of financial year 2006 was adopted, on 27 April 2007, the accounts of 7 paying agencies could not be cleared. These amounted to EUR 4 453.0 million, representing around 9 % of total expenditure in the financial year concerned. The paying agencies concerned are Baden-Württemberg and Bayern Umwelt (Germany), AGEA and ARBEA (Italy), NMA (Lithuania), IFADAP (Portugal) and APA (Slovakia).

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

9.4.1. Judgments handed down

In the financial year 2007 the Court handed down two judgments in appeals brought by the Member States against clearance decisions.

The Court rejected appeals brought in the following cases:

- judgment of 22 November 2006 (Case T-282/04) brought by Italy, concerning Rural Development measures and public storage;
- judgment of 12 September 2007 (case T-230/04) brought by Finland, concerning area aids sector;
- judgment of 11 October 2007 (case C-332/06 P) brought by Greece, concerning public storage of rice, food aid of Community and fruits and vegetables sector.
- The Court partially annulled the conformity decisions in respect of the Member State which brought the appeal in the following case:
 - in its judgement of 28 March 2007 (case T-220/04) the Court partially annulled a financial correction imposed on Spain by Commission Decision 2004/136/CE of 4 February 2004 (15th decision);
 - in its judgment of 12 September 2007 (case T-243/05) the Court partially annulled corrections imposed on Greece by Commission Decision 2005/354/CE of 29 April 2005 (18th decision).

9.4.2. Appeals pending

The situation as at 15 October 2007 with regard to appeals pending is shown, together with the amounts concerned, in annex 25.

10. RELATIONS WITH PARLIAMENT AND THE EUROPEAN COURT OF AUDITORS

10.1. Relations with Parliament

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

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

The Committee on Budgetary Control monitored the correct implementation of the 2005 budget. It was asked to draw up the Parliamentary Decision by which discharge

(in respect to the implementation of the general budget of the European Union for the 2005 financial year) was granted to the Commission on 24 April 2007.

10.2. Relations with the European Court of Auditors

10.2.1. Mission of the European Court of Auditors

The main task of the Court of Auditors is to audit the accounts of the Community. 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 carries out numerous audits within the Commission. Court officials frequently visit the Agriculture Directorate-General to gather facts and figures needed for the Court opinions, sector letters and special reports. In the light of these investigations the Court frequently makes suggestions and recommendations to the Commission as to how to improve its budgetary management to make Community control measures more effective.

10.2.2. Annual Report 2006

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

Before the report is published, meetings are held between the Court of Auditors and the Commission, at which the Court's findings and conclusions and the Commission's replies and explanations can be discussed. The annual report for the 2006 financial year together with the Commission's replies included one chapter (Chapter 5) on agriculture, covering the Guarantee Fund expenditure. The main findings by the Court and the replies given by the Commission concerned the following:

Specific assessment in the context of the Statement of Assurance:

IACS (5.6–5.10)

The Situation in Greece (5.11–5.14)

The Single payment scheme (5.15–5.38)

The Single Area Payment Scheme (5.39–5.41)

Rural development (5.42–5.47)

Ex-post scrutiny of subsidies paid to traders and processors (5.48–5.53)

Export Refunds (5.54–5.55)

The Commission's clearance of Accounts (5.56–5.64)

Follow-up to previous observations:

Recoveries of irregular payments (5.79-5.81)

Olive oil (5.82-5.84)

Like in previous years, the Court's observations on budgetary management were consolidated in a separate chapter of the report (Chapter 3). Also this year the Court devoted a separate chapter on the Commission internal control (Chapter 2).

10.2.3. *Special Reports by the Court of Auditors*

In 2007, the Court published one special report relevant to agriculture:

SR No 04/2007 on Physical and substitution checks on export refund consignments. (OJ C 252, 26.10.2007)

The full text of the Annual Report and the Special Reports, together with Commission's replies can be consulted on the Court's website: <http://eca.europa.eu>

11. **BASIC RULES GOVERNING THE EAGF AND AMENDMENTS MADE IN 2007**

11.1. **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, 30.12.1989, p. 18);
as last amended by Regulation (EC) No 2154/2002 (OJ L 328, 5.12.2002, p.4);
- Commission Regulation (EC) No 4/2004 of 23 December 2003 laying down detailed rules for the application of Council Regulation (EEC) No 4045/89 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 (OJ L 2, 6.1.2004, p. 3);
as last amended by Regulation (EC) No 40/2006 (OJ L 8, 13.1.2006, p.4);
- Council Regulation (EC) No 1782/2003 of 29 September 2003 (OJ L 270, 21.10.2003, p. 1) establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers, and repealing Council Regulation (EEC) No 3508/92 of 27 November 2002 (OJ L 94, 31.3.2004, p. 70),
as last amended by Regulation (EC) No 1276/2007 (OJ L 284, 30.10.2007, p. 11);
- Commission Regulation (EC) No 796/2004 of 21 April 2004 (OJ L 141, p. 18) laying down detailed rules for the implementation of cross-compliance, modulation and the integrated administration and control system provided for in of Council Regulation (EC) No 1782/2003 establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers and repealing Commission Regulation (EC) No

2419/2001 of 11 December 2001 (OJ L 141, 30.4.2004, p. 8.),
as last amended by Regulation (EC) No 1550/2007 (OJ L 337, 21.12.2007, p.79);

- Commission Regulation (EC) No 1423/2006 of 26 September 2006 establishing a mechanism for appropriate measures in the field of agricultural spending in respect of Bulgaria and Romania (OJ L 269, 28.9.2006, p. 10).

11.2. Clearance of accounts

- Council Regulation (EC) No 1290/2005 of 21 June 2005 on the financing of the common agricultural policy (OJ L 209, 11.8.2005, p. 1),
as last amended by Regulation (EC) No 1437/2007 of 26 November 2007 (OJ L 322, 7.12.2007, p. 1);
- Commission Regulation (EC) No 885/2006 of 21 June 2006 laying down detailed rules for the application of Council Regulation (EC) No 1290/2005 as regards the accreditation of paying agencies and other bodies and the clearance of the accounts of the EAGF and of the EAFRD (OJ L 171, 23.6.2006, p. 90),
as last amended by Regulation (EC) No 1233/2007 (OJ L 279, 23.10.2007, p. 10)

11.3. 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),
as last amended by Regulation (EC) No 734/2007 of 11 June 2007 (OJ L 169, 29.6.2007, 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),
as last amended by Regulation (EC) No 1127/2007 of 28 September 2007 (OJ L 255, 29.9.2007, p. 18),
- Commission Regulation (EC) No 884/2006 of 21 June 2006 laying down detailed rules for the application of Council Regulation (EC) No 1290/2005 as regards the financing by the European Agricultural Guarantee Fund (EAGF) of intervention measures in the form of public storage operations and the accounting of public storage operations by the paying agencies of the Member States (OJ L 171, 23.6.2006, p. 35),
amended by Regulation (EC) No 721/2007 of 25 June 2007 (OJ L 164, 26.6.2007, p. 4);

(b) Depreciation on buying in

- Commission Regulation (EC) No 1488/2006 of 9 October 2006 fixing the depreciation coefficients to be applied when agricultural products are bought in for the 2007 accounting year (OJ L 278, 10.10.2006, p. 9);

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

- Commission Decision C(2007) 4579 (not published) fixing the amounts and detailed rules for the depreciation of stocks of certain agricultural products bought into public intervention by the Czech republic, the Republic of Cyprus, the Greek Republic, the Republic of Spain, the French Republic, the Republic of Hungary, the Portuguese Republic and the Slovak Republic during the 2007 accounting year;

(d) Uniform interest rate

- Commission Regulation (EC) No 1489/2006 of 9 October 2006 fixing the interest rates to be used for calculating the costs of financing intervention measures comprising buying-in, storage and disposal for the 2007 accounting year (OJ L 278, 10.10.2006, p. 11), amended by Regulation (EC) No 981/2007 of 21 August 2007 (OJ L 217, 22.8.2007, p. 21);

(e) Standard amounts

- Commission Decision C(2006) 4095 of 13 October 2006 (not published) fixing, for the 2007 financial year, the standard amounts to be used for financing physical operations arising from the public storage of agricultural products.

ANNEXES TO THE COMMISSION STAFF WORKING DOCUMENT

**accompanying the 1st^h FINANCIAL REPORT FROM THE COMMISSION
TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

on

THE EUROPEAN AGRICULTURAL GUARANTEE FUND

– 2007 FINANCIAL YEAR –

12. ANNEXES

General

1. EAGF budgetary procedure for 2007
2. Part of ex-EAGGF-Guarantee & EAGF budget in the EU budget, 2002 to 2007

Cash position and management of appropriations

3. 2007 exchange rates used in monthly reimbursements
4. Summary of outturn for 2007
5. Monthly reimbursements to Member States in the 2007 financial year
6. Direct payments by the European Commission in the 2007 financial year

Budget outturn

7. Expenditure charged against the 2007 EAGF budget (Part I & Part II)
8. Analysis of the 2007 EAGF budget execution. Summary & Detailed tables
9. Analysis of the 2007 execution of assigned revenue for EAGF
10. Execution of 2007 budget for chapter 17, financed by EAGF.
11. Execution by Member State of 2007 budget for chapter 17, financed by EAGF.
12. EAGF 2007 expenditure by article and by Member State in respect of the 2007 budget
13. EAGF 2007 expenditure for direct aids to producers by measure & by Member State
14. EAGF 2007 expenditure by sector according to the economic nature of the measures
15. Evolution of EAGF expenditure by article, 2007 financial year
- 15.Bis Ex-EAGGF-Guarantee section expenditure by article, 2004 to 2006
16. Ex-EAGGF-Guarantee section & EAGF expenditure by sector, 2007 financial year
- 16.Bis Ex-EAGGF-Guarantee section expenditure by sector, 2001 to 2006
17. Ex-EAGGF-Guarantee section & EAGF expenditure by sector and in % terms, 2001 to 2007
18. Ex-EAGGF-Guarantee section -Sub-headings.1a/1b- & EAGF expenditure by M.S., 1998 to 2007
19. Ex-EAGGF-Guarantee section & EAGF expenditure by Member State & in % terms, 1991 to 2007
20. Breakdown of ex-EAGGF-Guarantee section & EAGF expenditure 2002 – 2007
21. Expenditure for export refunds, 1998 to 2007
22. Expenditure for storage. Summary & analytical tables, 2000 to 2007
23. Expenditure for intervention in storage. Detailed table for 2007 financial year
24. Quantity and value of the products in public intervention stores of the intervention agencies

Clearance of accounts

25. Situation at 15.10.2007 regarding appeals before the Court of Justice against clearance of accounts.
26. Financial corrections by decision and financial year
27. Clearance of accounts: average exchange rates