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30th FINANCIAL REPORT

on

THE EUROPEAN AGRICULTURAL GUIDANCE AND GUARANTEE FUND

EAGGF GUARANTEE SECTION

– 2000 FINANCIAL YEAR –

TABLE OF CONTENTS

The French version of the annexes to the 30th report can be obtained on paper from the Directorate-General for Agriculture or downloaded from its website.

30th FINANCIAL REPORT

on the European Agriculture Guidance and Guarantee Fund

EAGGF Guarantee Section – 2000 financial year –

TABLE 1

AVERAGE CONVERSION RATES USED FOR 2000

EUROPEAN COMMUNITY	EUR 1
B	40.3399
DK	7.44632
D	1.95583
EL	331.755
E	166.386
F	6.55957
IRL	0.787564
I	1 936.27
L	40.3399
NL	2.20371
A	13.76030
P	200.482
FIN	5.946
S	8.51787
UK	0.616172

1. BUDGET PROCEDURE

1.1. Berlin Summit agreement and budgetary discipline

The Berlin European Council on 24 and 25 March 1999 concluded with the **Agenda 2000** package. The Regulation on budgetary discipline was also adopted in 2000, entering into force on 1 October 2000.

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

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

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

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

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

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

1 A 2% deflator will be used to calculate amounts at current prices.
2 Including veterinary and plant health measures and excluding accompanying measures.
3 Including accompanying measures
- To this expenditure should be added rural development measures not covered by Objective 1 programmes, currently financed by the EAGGF Guidance Section.
- These amounts roughly correspond, on average, to the Commission's Agenda 2000 proposal.
- All rural development measures are part-financed by the European Union and the Member States.

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

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

1.2. Preliminary draft budget

The preliminary draft budget (PDB) for 2000 was drawn up by the Commission and transmitted to the budget authority at the end of April 1999. The **appropriations proposed** for the EAGGF Guarantee Section totalled **EUR 40 901 million**: EUR 37 314 million for subheading 1a and EUR 3 587 million for subheading 1b. The PDB had to take account of the **ceilings** for subheadings **1a** (**EUR 37 352 million** at current prices) and **1b** (**EUR 4 386 million** at current prices) set in the financial perspective: the estimated requirements for subheading 1a exceeded the ceiling by EUR 212 million. The appropriations proposed were accordingly reduced across the board by EUR 250 million, bringing them down beneath the ceiling. The requirements determined for subheading 1b remained well below the ceiling. The appropriations proposed were thus equal to requirements.

1.3. The consultation procedure – draft budget – Parliament first reading

The **Council** adopted the **draft budge**t in July 1999. It did not touch the appropriations in subheading 1b but **reduced** those in subheading **1a** by **EUR 375 million**. Total EAGGF Guarantee Section appropriations thus amounted to EUR 40 526 million.

At its first reading **Parliament reinstated the appropriations** contained in the PDB for subheading **1a,** except for the lines relating to refunds, and **increased** the rural development appropriations in subheading **1b** by **EUR 547 million**.

1.4. Letter of Amendment No 4/2000

The Commission adopted a Letter of Amendment to the PDB in October 1999. This took account, firstly, of developments on the agricultural markets and, secondly, of recently adopted agricultural legislation.

Unfavourable developments on the agricultural markets at that time kept foreseeable **requirements** for the whole of subheading **1a above the ceiling**, despite a slight decrease in foreseeable requirements compared with the PDB (EUR 67 million).

The chapters for which there was a substantial downward revision were:

– clearance of accounts (- EUR 300 million) as a result of larger-than-expected negative corrections (amounts to be credited to the EAGGF Guarantee Section budget),

– beef and veal (- EUR 191 million) as a result of reduced requirements for public storage and export refunds,

– sheepmeat and goatmeat (- EUR 186 million) due to the rise in the average price on the Community market and, finally,

– olive oil (- EUR 159 million) following the cutback in production in some Member States.

These savings were more than compensated for, however, by increases in the following chapters:

– pigmeat (+ EUR 236 million) as the crisis continued,

– sugar (+ EUR 158 million) as export refunds rose in response to falling world prices;

– arable crops (+ EUR 115 million) when the market price for oilseeds was lower than forecast so the expected reduction in aid was not applied and, lastly,

– milk and milk products (+ EUR 102 million), due to increased production of butter and skimmed-milk powder and some higher rates for export refunds.

For subheading **1b** estimated **expenditure** was **increased** in relation to the PDB by **EUR 200 million**, in anticipation of an acceleration in the Member States' submission and the Commission's approval of the new rural development programmes.

The additional requirements arising from recent agricultural legislation amounted to only EUR 38 million (and affected only subheading 1a). This was because there had been almost no changes to the basic regulations since the presentation of the PDB, which had already absorbed the impact of the Agenda 2000 decisions. Moreover, the financial implications of the Council's decision on the 1999/2000 price package differed little from the Commission's initial proposal.

The requirements thus identified for the EAGGF Guarantee Section in the letter of amendment amounted to EUR 41 324 million[4] Since the requirements for subheading 1a exceeded the ceiling, the appropriations proposed in the letter of amendment were reduced by EUR 200 million, applied across the board to the various budget lines concerned, thereby leaving a margin of EUR 15 million beneath the sub-ceiling concerned.

4 The requirements identified in the letter of amendment did not cover the EUR 20.9 million for Chapter B1-50.

1.5. Budget

The Tripartite Dialogue on the 2000 Budget ended on 16 December 1999 with the adoption of the budget. For the EAGGF Guarantee Section the results were as follows:

For subheading **1a** the **appropriations** totalled **EUR 36 889 million**, i.e. EUR 463 million below the Berlin subceiling, after the budget authority had made further cuts across the board to the various headings.

For subheading **1b**, the **appropriations** amounted to EUR 4 084 million for Title B1-4, i.e. EUR 297 million more than the amount requested by the Commission in its letter of amendment. Parliament therefore increased the appropriations for agri-environment measures and also created a new Title B1-50 Support for the management of resources in support of the common fisheries policy, allocated EUR 20.9 million. The appropriations for subheading 1b thus totalled **EUR 4 104.9 million,** EUR 281 million below the Berlin subceiling.

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

The budget also included provisions of EUR 24.9 million in Chapter B0-40 for veterinary and plant health measures and for support measures for the management of resources – fisheries.

The initial budgetary resources for the 2000 financial year thus totalled EUR 41 493.9 million.

Annex 2 gives the details of the budgetary procedure.

2. CASH POSITION AND MANAGEMENT OF APPROPRIATIONS

A. MANAGEMENT OF APPROPRIATIONS

The 2000 budgetary resources consisted of the following:

– the 2000 budget appropriations;

– automatic carryovers from 1999;

– non-automatic carryovers from the 1999 financial year.

2.1. Initial 2000 budget appropriations

As stated in point 1, the initial budget for the 2000 financial year, adopted in December 1999, provided appropriations of EUR 41 493.9 million, made up of:

– EUR 36 889 million for the subheading "Traditional EAGGF Guarantee Section expenditure and veterinary expenditure" (subheading 1a, covering Titles B1-1 to B1-3);

– EUR 4 104.9 million for the subheading "Rural development and accompanying measures" (subheading 1b, covering Titles B1-4 and B1-5);

– Appropriations of EUR 500 million entered in the monetary reserve, which can be used only where there is a variation in the euro/dollar rate.

2.2. Supplementary and amending budgets (SABs)

The budget authority adopted Supplementary and Amending Budget No 1/2000 on 2 August 2000. This SAB did not alter the initial appropriations, merely made some technical adjustments concerning the EAGGF Guarantee Section.

2.3. Transfers of appropriations within the EAGGF Guarantee Section

The budget authority approved three transfers between chapters in 2000:

transfer No 43/00 of EUR 137 million

– from Chapters B1-15, Fruit and vegetables (- EUR 87.0 million) and B1-20, Milk and milk products (- EUR 50.0 million)

– to Chapters B1-16, Products of the vine-growing sector (+ EUR 36.0 million), B1-18, Other plant sectors or products (+ EUR 15.0 million), and B1-21, Beef and veal (+ EUR 50.0 million), B1-39, Other measures (+ EUR 36.0 million).

transfer No 76/00 of EUR 100 million

– from Chapter B1-37, Clearance of previous years´ accounts and reduction/suspension of advances (- EUR 100.0 million),

– to Chapter B1-40, Rural development (+ EUR 100.0 million).

transfer No 79/00 of EUR 544.0 million (including the transfer to the monetary reserve, see point 2.4)

- from Chapters B1-11, Sugar (- EUR 54.0 million), B1-20, Milk and milk products (- EUR 135.0 million), B1-22, Sheepmeat and goatmeat (- EUR 85.0 million) and B1-37, Clearance of previous years´ accounts and reduction/suspension of advances (- EUR 270.0 million)
- to Chapters B1-10, Arable crops (+ EUR 31.0 million), B1-12, Olive oil (+ EUR 21.0 million), B1-13, Dried fodder and grain legumes (+ EUR 2.0 million), B1-16, Products of the vine-growing sector (+ EUR 35.0 million), B1-17, Tobacco (+ EUR 19.0 Mio), B1-18, Other plant sectors or products (+ EUR 24.0 million), B1-21, Beef and veal (+ EUR 25.0 million), B1-25, Other animal product aid measures (+ EUR 2.0 million), B1-30, Refunds on certain goods obtained by processing agricultural products (+ EUR 22.0 million), B1-36, Monitoring and preventative measures concerning the EAGGF Guarantee Section (+ EUR 19.0 million), B1-39, Other measures (+ EUR 34.0 million) and B1-60, Monetary reserve (+ EUR 310.0 million).

2.4. Transfer to or from the monetary reserve

The average dollar rate over the financial year was higher than that on which the 2000 budget estimates were based, resulting in budget savings of EUR 510 million. Under Regulation (EC) 2040/2000 on budgetary discipline the EAGGF Guarantee Section can benefit only partially from such savings. Savings exceeding the neutral margin of EUR 200 million are transferred to the monetary reserve and cannot be used to finance other measures. EUR 310 million were accordingly transferred to the monetary reserve.

2.5. Appropriations available for the 2000 financial year

The appropriations finally available for the financial year totalled EUR 40 683.9 million: the initial appropriations of EUR 41 493.9 million, minus the monetary reserve of EUR 500 million and EUR 310 million transferred to the monetary reserve.

2.6. Utilisation of appropriations available for the 2000 financial year

2.6.1. Budget operations

The table below details the budget operations over the 2000 financial year:

(EUR)

1. Appropriations available	40 683 900 000.00
2. Details of commitments	
- for Member States' expenditure	40 301 804 475.29
- for direct payments	135 557 546.67
Total commitments	40 437 362 021.96
3. Amounts charged	
- for Member States' expenditure	40 301 804 475.29
- for direct payments	83 284 453.00
Total	40 385 088 928.29
4. Automatic carryovers	
- for Member States' expenditure	0.00
- for direct payments	52 273 093.67
Total automatic carryovers	52 273 093.67
5. Non-automatic carryovers	0.00
6. Lapsed appropriations (= 1 - 2 - 5)	246 537 978.04

2.6.2. Automatic carryovers

Automatic carryovers represent the difference between commitments and amounts actually charged. For the reference year they came to EUR 52.27 million, corresponding to the appropriations committed by the Commission for expenditure it incurs directly but not yet paid by the end of the financial year.

2.6.3. Non-automatic carryovers

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

2.7. Automatic carryovers from 1999

The table below gives an overview of the utilisation of these carryovers during the 2000 financial year:

(EUR)

1. Commitments carried over	
- for Member States' expenditure	75 005 324.79
- for direct payments	30 299 211.92
Total commitments	105 304 536.71
2. Decommitments from carryovers	
- for Member States' expenditure	(1 697 577.29)
- for direct payments	(257 231.00)
Total decommitments	(1 954 808.29)
3. Payments	
- for Member States' expenditure	73 307 747.50
- for direct payments	18 419 166.75
Total charged	91 726 914.25
4. Lapsed appropriations (= 1 + 2 - 3)	
- for Member States' expenditure	0.00
- for direct payments	11 622 814.17
Total carryovers cancelled	11 622 814.15

2.8. Non-automatic carryover of appropriations from the 1999 financial year

The budget authority approved non-automatic carryovers from 1999 to 2000 totalling EUR 33.09 million, consisting of:

– unused appropriations amounting to EUR 4.09 million for Article B1-319. The appropriations not used in 1999 will go to finance the audit programme, contract extensions of some external technical assistants and expenditure on monitoring. As the 2000 budget contained no appropriation for food aid in Russia, the validity of the unused 1999 appropriations had to be extended.

– unused appropriations amounting to EUR 29 million for Article B1-390. In the wake of the revaluation of some Member States' currencies, the Council decided in April 1997 to part-finance agri-monetary aid in three tranches. Under these arrangements the 1999 budget contained appropriations of EUR 130 million for Italy. Since Italy made no payments in that connection during the 1999 financial year, however, the 2000 budget provided for only EUR 101 million and a non-automatic carryover of EUR 29 million was therefore requested to cover additional requirements in the 2000 financial year. These appropriations were all committed and paid during the 2000 financial year.

These carryovers were used as follows:

(EUR)

1. Appropriations carried over	33 094 000.00
2. Commitments	
- for Member States' expenditure	29 000 000.00
- for direct payments	327 378.00
Total commitments	29 327 378.00
3. Payments	
- for Member States' expenditure	29 000 000.00
- for direct payments	53 421.60
Total charged	29 053 421.60
4. Lapsed appropriations (= 1 – 2 - 3)	4 040 578.40

B. THE SYSTEM OF ADVANCES AND DIRECT PAYMENTS

2.9. Advances to Member States

2.9.1. The system of monthly advances

Article 7 of Council Regulation (EC) No 1258/1999 of 17 May 1999 on the financing of the common agricultural policy[5] lays down that the Commission is to "decide on monthly advances on the provision for expenditure effected by the accredited paying agencies". The advances are paid to the Member States at the beginning of the second month following that in which the paying agencies effect the expenditure.

These are not strictly speaking advances but rather reimbursements of expenditure already incurred by Member States. The term "advance" underlines the provisional nature of such payments: the advances are established on the basis of the monthly declarations of expenditure submitted by the Member States; the expenditure is actually charged after on-the-spot checks in subsequent financial years (see section 5 Clearance of accounts).

The system of advances applies to payments effected by Member States from 16 October 1999 to 15 October 2000. Over 99% is expenditure charged to the EAGGF Guarantee Section. The remainder consists of a limited number of measures for which the Commission makes direct payments.

2.9.2. Decisions on advances for the 2000 financial year

The Commission adopted 12 decisions on monthly advances for the 2000 financial year (Annex 4).

An additional advance, adjusting those for all the eligible expenditure for the financial year, was adopted in December 2000.

5 OJ L 160, 26.6.1999, p. 103.

2.9.3. *Reduction and suspension of advances*

a. Reduction of advances for non-compliance with ceilings and payment time limits

Under Article 13 of Council Decision 94/729/EC of 31 October 1994 on budgetary discipline[6] EAGGF staff established that some Member States did not always comply with the deadlines laid down in the relevant Community rules for payment of aid to beneficiaries.

Payment deadlines were introduced to ensure equal treatment of recipients in all Member States and to avoid situations in which delays in payment resulted in the aid no longer having the desired economic effect. Moreover, leaving it to the individual paying agencies to make payments at their administrative convenience would prevent the proper application of budgetary discipline.

The Commission's decisions on monthly advances on three occasions provided for a reduction for late payment; the total reduction came to EUR 15.69 million.

b. Reductions on account of shortcomings in control systems

On account of weaknesses detected in Greece's control system, the Commission applied a reduction of EUR 75.22 million to expenditure.

c. Reduction of advances on account of failure to charge the additional milk levy for 1998/99 and 1999/2000

When the expenditure declared for the 2000 financial year was examined, it was concluded that four Member States had not charged the full amount of the additional levy for the 1999/2000 marketing year in accordance with Article 5(2) of Regulation (EEC) No 536/93.

The Commission decided to reduce the advances of the Member States concerned by EUR 280.19 million.

Following the updating of the questionnaire on the quantities of milk produced, it was also found that for the 1998/99 marketing year the quantities for one Member State in excess of the national quota had been greater than previously stated. As there had been no additional payment by the Member State concerned, the advances were reduced by EUR 134.70 million.

d. Refund of the additional levy charged for marketing years 1994/95, 1995/96 and 1996/97

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

The Commission therefore decided to reduce the advances for the Member States concerned when the expenditure for the financial years in question was entered in the accounts.

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6 OJ L 293, 12.11.1994, p. 14.

In the course of the 2000 financial year these Member States finally obtained levy payments for the marketing years in question. Since these amounts had already been obtained by the EAGGF via reductions in the advances for previous years as described above, the levies declared in 2000 for the marketing years in question were refunded to the Member States to the tune of EUR 5.25 million.

e. Corrections for public storage

Corrections totalling + EUR 19.21 million, including a correction of EUR 19 million for Italy, were made to the Member States' declarations. This correction was made when a discrepancy came to light between the monthly declaration of expenditure and the declaration in the public storage tables.

f. Corrections for rural development

A correction of – EUR 8.51 million was applied to the Member States' declarations. This consisted of – EUR 1.4 million for exceeding the ceiling and – EUR 7.1 million for expenditure effected before the development plan was formally approved.

g. Other corrections

Other corrections totalled + EUR 2.38 million: – EUR 3.4 million for aid for the needy, – EUR 0.5 million for food aid to Russia and altogether EUR 1.4 million for miscellaneous accounting errors.

2.10. Direct payments

In some cases, the Commission makes direct payments to operators. These are payments for certain measures which are not traditional market measures but measures designed to expand outlets for products, particularly olive oil, fibre flax, anti-fraud measures, quality promotion measures and research measures for tobacco.

Annex 5 gives a breakdown of direct payments.

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

3. ANALYSIS OF BUDGET IMPLEMENTATION

A. GENERAL

3.1. Implementation of the budget

The uptake of EAGGF Guarantee Section appropriations for the 2000 financial year (Member States' expenditure from 16 October 1999 to 15 October 2000) totalled **EUR 40 466.7 million**, including expenditure from carryovers of EUR 29.3 million, i.e. 98.7% of the appropriations under heading B1 of the budget.

– The total expenditure under the subheading 1a (traditional EAGGF Guarantee Section and veterinary expenditure, covering Titles B1-1 to B1-3) amounted to EUR 36 261 million, i.e. EUR 1 091 million below the sub-ceiling fixed in the Interinstitutional Agreement of 6 May 1999 and EUR 628 million less than the appropriations available.

– Expenditure under subheading 1b (rural development and accompanying measures, covering Titles B1-4 and B1-5) totals EUR 4 176.4 million, i.e. EUR 209.6 million below the sub-ceiling and EUR 71.5 million less than the appropriations available.

3.2. Impact of euro/dollar rate movements

The level of expenditure depends on, among other things, movements in the dollar rate. This applies to a large part of export refunds for agricultural products, particularly cereals and sugar, and some internal aids such as aid for cotton. The real euro rates recorded were substantially lower than the budget rate. The average dollar rate for the period 1 August 1999 to 31 July 2000 (reference period for determining the impact of the dollar) therefore diverges from the budget rate (EUR 1 = USD 0.99), and the level of expenditure incurred by the Member States was lower as a result. The savings came to EUR 510 million. The EAGGF Guarantee Section can benefit only partially from such savings, however. The savings exceeding the margin of EUR 200 million fixed under the rules of budgetary discipline are transferred to the monetary reserve at the end of the financial year, and cannot be used to finance other measures.

3.3. Dual rate

The dual rates made expenditure substantially lower than in previous years. Abolition of the green rates eliminated the dual rate effect in the countries participating in the euro and thus produced major savings. However, the **cost of the dual rate** to the EAGGF Guarantee Section, estimated in the letter of amendment at EUR 119 million, turned out to be EUR 106 million more and in the end totalled **EUR 225 million**.

3.4. Decision on prices

At its meeting on 17 July 2000 the Council adopted a decision on farm prices for 2000/01. This decision also covered a number of other measures relating to agriculture. The main points were as follows:

– The institutional prices for sugar, sheepmeat and pigmeat, the aid for silkworms, the monthly increases for rice and the monthly refunds for sugar storage were to be kept at the 1999/00 level. These prices and amounts would be valid not only for 2000/01 but also for the following marketing years.

– The monthly increases for cereals were to be cut by 7.5% from 2001/02 (an annual saving of EUR 8 million from 2002); the special aid for Portuguese cereal producers was to be kept at the 2000/01 levels for 2001/02 (cost of EUR 3 million in 2002).

– Payments to nut growers were to be continued in 2001 for programmes expiring in 2000 (cost of EUR 24 million in 2001).

– Aid for school milk was to be cut from 95 to 75% of the target price from 1 January 2001 (savings of EUR 11 million in 2001 and 22 million in 2002 and thereafter).

– The aid scheme for fibre flax and hemp was to be reformed from 2001/02. The existing aid scheme would be kept for 2000/01 but with a maximum budget of EUR 88 million for 2001.

3.5. Agri-monetary decisions

The year 2000 was the first in which Council Regulation (EC) No 2799/98 establishing agrimonetary arrangements for the euro applied. It essentially concerned the four Member States that had not adopted the single currency: Denmark, Greece, Sweden and the United Kingdom.

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

Member States may grant compensatory aid to farmers in cases of appreciable (exceeding 2.6%) revaluation, i.e. “a situation where the annual average exchange rate is below a threshold defined as the lowest average annual conversion rate applied during the preceding three years and the exchange rate of 1 January 1999”. These conditions were met in the case of the pound sterling and the Swedish krona in 2000. Regulation (EC) No 654/2001 fixed the maximum amount of the first tranche of compensatory aid: EUR 224.12 and 11.12 million respectively. The European Union finances 50% of the compensation actually paid. The second and third tranches are to be at least one third less than the first.

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

Maximum amounts of the first instalment of compensatory aid (EUR million)				
Measures		Denmark	Sweden	United Kingdom
Type	Regulation			
Suckler cow premium	Art. 6(1) Reg. 1254/1999	0.021546	1.687232	30.756576
Additional suckler cow premium	Art. 6(5) Reg. 1254/1999	0.000000	0.000000	1.158592
Male cattle premiums	Art. 4 Reg. 1254/1999	0.025935	2.788084	32.507936
Deseasonalisation premium	Art. 5 Reg. 1254/1999	0.000000	0.041152	0.538880
Extensification premium	Art. 13 Reg. 1254/1999	0.003724	1.707808	21.730336
Young farmers + less-favoured areas	Arts. 8 and 13 Reg. 1257/1999	0.000000	1.878667	3.288000
Early retirement	Art. 10 Reg. 1257/1999	0.002138	0.000000	0.000000
Environment	Art. 22 Reg. 1257/1999	0.015162	13.158352	9.012768
Forestry	Art. 29 Reg. 1257/1999	0.004655	0.000000	3.354528
Ewe and she-goat premium	Reg. (EEC) 872/84	0.002358	0.401154	61.760205
Standard-rate ewe premium	Reg. (EEC) 1323/90	0.000000	0.072002	11.856660
Maize: maize base (small producers)	Reg. (EC) 1251/1999		0.000000	0.071253
Other cereals: maize base (small producers)	Reg. (EC) 1251/1999		2.853340	1.984905
Rapeseed and sunflower seed (small producers)	Reg. (EC) 1251/1999		0.018690	0.000000
Peas and field beans (small producers)	Reg. (EC) 1251/1999		0.018690	0.000000
Linseed (small producers)	Reg. (EC) 1251/1999		0.006230	0.000000
Maize: maize base (commercial producers)	Reg. (EC) 1251/1999		0.000000	0.183222
Other cereals: maize base (commercial producers)	Reg. (EC) 1251/1999		13.444340	31.083273
Rapeseed and sunflower seed (commercial producers)	Reg. (EC) 1251/1999		1.495200	6.511167
Peas and field beans (commercial producers)	Reg. (EC) 1251/1999		0.623000	3.175848
Linseed (commercial producers)	Reg. (EC) 1251/1999		0.953190	4.682340
Additional aid for durum wheat (commercial producers)	Reg. (EC) 1251/1999		0.000000	0.020358
Set-aside linked to area payments	Reg. (EC) 1251/1999		4.759720	6.670638
Area payments: dried vegetables	Reg. (EC) 1577/96		0.000000	0.000000
Area payments: hops	Reg. (EC) 1696/71		0.000000	0.033930
Area payments: fibre flax	Reg. (EC) 1308/70		0.003992	0.748098
Hemp production aid	Reg. (EC) 1308/70		0	0.010764

B. FINANCING OF PRODUCT MARKETS

3.6. Agenda 2000

3.6.1. Crop production

Arable crops account for a large part of total EAGGF Guarantee Section expenditure. The percentage in the 2000 budget was 40.8%. Since the 1992 reform, direct aid for producers has come to predominate. After an initial period when expenditure increased from 1994 with the progressive introduction of the reform, it became relatively stable between 1997 and 1999.

Since then arable crops have undergone another stage in the reform process with the adoption of the agriculture chapter of the **Agenda 2000** package. This will enter into force fully only from the 2001 financial year. However, the abolition of an advance on direct aid for large-scale producers of oilseeds relieved the burden on the 2000 financial year by over a billion euros.

With the reform of the sector in 1992 and the Agenda 2000 decisions, the intervention prices for cereals were severely cut to bring them more in line with world prices. The resulting loss of income is offset by an area payment. Oilseeds, protein plants and linseed and, from 2001, fibre flax and hemp are also part of this direct aid system with, for a transitional period, a rate of aid differentiated by type of product.

There are four categories of aid:

– aid for small-scale producers without compulsory set-aside,

– aid for commercial producers subject to compulsory set-aside,

– additional aid for durum wheat producers,

– set-aside (compulsory or voluntary).

For 2000/01 the compulsory set-aside rate was set at 10%, the harvest estimate being around 205 million tonnes.

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

– for cereals the intervention price (EUR 110.25/tonne) is to be progressively cut as direct area payments increase;

– for oilseeds the basic amount for the area payment will be gradually cut to the level of that for cereals and set-aside;

– for durum wheat the fixed-rate additional aid per hectare will remain unchanged;

– for protein crops the payment per tonne of yield will decrease;

– for linseed the compensatory payment per tonne of yield will also decrease;

- in the regions where no maize is grown areas sown to grass for silage making can also qualify for the area payment;
- the minimum price per tonne of potato starch will be reduced.
- for Finland and certain areas of Sweden an additional flat-rate premium will be paid for oilseeds and cereals;
- area payments for flax and hemp will be aligned on those for linseed.

3.6.2. *Livestock production*

The milk and milk products sector is the third largest from the point of view of EAGGF Guarantee Section expenditure. Nonetheless, its share of agricultural expenditure fell sharply between 1980 (42%) and 2000 (6.3%). Milk and milk products was one of the sectors on which the Berlin European Council (March 1999) took a reform decision. The main change is a 15% cut in prices over three marketing years starting in 2005, accompanied by the introduction of a compensatory aid paid direct to producers. This reform had no detectable impact on the 2000 financial year.

In 2000 expenditure on beef and veal accounted for 11.3% of the Guarantee Section's total spending. The Agenda 2000 reform increased or introduced direct aid to offset the cut in institutional prices. This made little impact in 2000, however.

3.7. Breakdown of expenditure by chapter

3.7.1. *Crop production*

Expenditure on crop products totalled **EUR 25 812 million,** i.e. EUR 55 million less than the appropriations entered in the budget: EUR 25 867 million.

Arable crops, within which direct area payments account for nearly 90% of expenditure, represented a total of **EUR 16 663** Mio in the Community budget, EUR 22 million more than the budget appropriations. There was substantial underutilisation in the case of expenditure on storage, due to the fact that there was less intervention buying-in combined with far greater sales as exports rose steeply. This underutilisation was offset by larger area aid payments for large-scale producers.

Expenditure on **sugar** totalled **EUR 1 910 million**, 86 million less than entered in the budget. The main reason for the underutilisation of appropriations was lower expenditure on export refunds.

As for **olive oil**, appropriations were exceeded by EUR 20 million, mainly as a result of greater expenditure on production and consumption aid. Expenditure totalled **EUR 2 210 million**.

Expenditure on **dried fodder and grain legumes** came to **EUR 381 million**, just 1 million more than the appropriations.

In the case of **fibre plants and silkworms** expenditure was EUR 33 million less than expected, totalling **EUR 991 million**, as a result, mainly, of lower expenditure on area payments for flax and hemp.

The expenditure recorded in the **fruit and vegetables** sector — **EUR 1 551 million** — was EUR 103 million less than the appropriations. The main reason for this difference was far less spending on operational funds for producer organisations, bananas and compensation for citrus processing.

As regards products of the **vine-growing** sector, expenditure totalled **EUR 765 million,** EUR 70 million more than the appropriations entered, as a result of greater spending on distillation and aid for must.

The overrun for **tobacco** was EUR 14 million, expenditure totalling **EUR 989 million**, most of it going on premiums.

For **other plant sectors or products** expenditure totalled **EUR 350 million**, an overrun of EUR 38 million, primarily for seeds and rice.

3.7.2. Livestock production

Expenditure on **livestock products** totalled **EUR 9 276 million,** i.e. EUR 245 million less than the appropriations entered in the budget: EUR 9 521 million.

Underutilisation of EUR 191 million was noted for **milk products**, with expenditure totalling **EUR 2 544 million**. EUR 328 million were saved on intervention for skimmed-milk powder, partly cancelled out by less revenue from the financial contribution by milk producers.

Expenditure on **beef and veal** totalled **EUR 4 540 million**, i.e. 75 million more than the appropriations entered in the budget, the substantial increase in intervention expenditure other than storage being offset partially by substantially less expenditure on refunds.

For **sheepmeat and goatmeat** a saving of EUR 96 million was made, mainly under she-goat and ewe premiums, expenditure amounting to **EUR 1 736 million**.

A saving of EUR 30 million on **pigmeat, eggs and poultry** was recorded, mainly for pigmeat, expenditure totalling **EUR 435 million**.

For **other animal product aid measures** expenditure totalled **EUR 11.7 million**, an overrun of EUR 1.7 million for beekeeping aid.

Expenditure from the Guarantee Section for **fisheries** totalled **EUR 9.5 million**, a saving of EUR 45 million.

3.7.3. Related measures

The appropriations entered in Title 3 totalled EUR 2 094.5 million, whereas expenditure finally came to **EUR 2 135.4 million**, an overrun of EUR 41 million.

Expenditure on **non-Annex I product refunds** totalled **EUR 572 million,** an overrun of EUR 21 million, despite the favourable euro/dollar rate.

There was an underspend on **food aid** of EUR 26 million, mainly on account of less being spent on aid for the most deprived. Expenditure totalled **EUR 309 million.**

Expenditure under **programmes to assist the outermost regions and the Aegean islands** totalled **EUR 227 million**, representing underutilisation of EUR 16 million.

Expenditure on **veterinary and plant health measures** totalled **EUR 102.5 Million,** exactly the appropriations entered, not counting the EUR 4 million transferred to the reserve under Chapter B0-40.

On the other hand, expenditure on **monitoring and preventative measures concerning the EAGGF Guarantee Section** overran the appropriations by EUR 18 million to total **EUR 77 million**.

For the **clearance of previous years´ accounts and reduction/suspension of advances** recoveries totalled EUR **1 078 million**, EUR 378 million more than expected, as a result of larger-than-expected reductions/suspensions of advances, primarily on account of non-receipt of the additional milk levy.

Expenditure on **promotion and information measures** totalled **EUR 59 million**, 12 million less than expected.

For **other measures** expenditure came to **EUR 933 million,** an overrun of EUR 98 million, largely attributable to agrimonetary aid.

3.8. Breakdown of expenditure by economic type

EAGGF Guarantee Section expenditure breaks down into two broad categories: refunds, totalling EUR 5 646.2 million, and what is known as intervention expenditure, totalling EUR 30 537.1 million, consisting mainly of direct aid, storage, withdrawals and similar operations and other intervention expenditure.

Then there is expenditure on veterinary and plant health measures, information measures and rural development, which are not included in either of the two above categories and which totalled EUR 4 281.7 million. Annexes 13 to 15 give a breakdown of expenditure by economic type.

3.8.1. Refunds

Expenditure on refunds for the 2000 financial year totalled **EUR 5 646.2 million,** 14% of total Guarantee Section expenditure, remaining at the same level as in the previous year.

3.8.2. Direct aid

Expenditure classed as **direct aid** totalled **EUR 25 529.2 million,** 83.6% of all **intervention** expenditure, which amounted to EUR 30 537.2 million. It accounted for 63.1% of total Guarantee Section expenditure**.** The expenditure included under direct aid is that listed in the Annex to Council Regulation (EC) No 1259/1999 of 17 May 1999 (OJ L 160, p. 113). It includes in particular (this is not a complete list) area payments and set-aside of arable land, production aid for olive oil, area payments for flax, hemp, dried vegetables, rice, dried grapes, premiums for tobacco, suckler cows, male cattle, ewes and she-goats, and agrimonetary aid.

3.8.3. Storage

Expenditure on storage totalled **EUR 951.2 million,** i.e. 3.1% of intervention expenditure and 2.3% of total Guarantee Section expenditure. Between 1 October 1999 and 30 September 2000, when the public storage accounts were closed, the quantities and book value of products in public intervention storage had fallen. The book value of intervention stocks at the end of the 2000 financial year was down to EUR 884.94 million, compared with EUR 1 630.65 million at the end of 1999.

Cereal stocks decreased from 14 944 589 to 8 517 214 tonnes, olive oil from 47 997 to 25 360 tonnes, skimmed-milk powder from 228 725 to 1 007 tonnes, beef from 160 924 to 832 tonnes, and alcohol from 2 108 150 to 1 602 258 hectolitres.

The only stocks to increase during the 2000 financial year were butter, from 46 120 to 71 625 tonnes, and rice, from 502 741 to 703 145 tonnes.

As far as the breakdown of the book value of stocks is concerned, the percentage for cereals and rice continued to progress, these two products alone accounting for 85% of the total value of products in storage. The remaining 15% consisted of olive oil (4%), milk products (10%) and beef and alcohol (1%).

As in each year since 1988, the Commission applied a depreciation to the value of products bought into intervention. This was done in two stages: at the time of buying-in products were depreciated by an amount representing at least 70% of the total foreseeable loss in value. At the end of the financial year the stock was evaluated and if necessary a further depreciation was applied to bring the book value of the products to the level of the expected selling price. For 2000 the depreciation on buying-in amounted to EUR 478.7 million and the additional end-of-year depreciation (including the payment on account of the cost of disposal of certain distillation products) to EUR 44.8 million.

3.8.4. Withdrawals and related operations

Expenditure on withdrawals and related operations totalled **EUR 517 million,** i.e. 1.7% of total intervention expenditure and 1.3% of total Guarantee Section expenditure.

3.8.5. Other intervention

Other intervention expenditure came to **EUR 3 539.8 million,** i.e. 11.6% of total intervention expenditure and 8.7% of total Guarantee Section expenditure. This category of expenditure covers what is not included in the above categories, primarily intervention other than storage costs for sugar, aid for the production of dried fodder, aid for cotton, operating funds of producer organisations, aid for the production of citrus fruit and financial compensation to encourage citrus processing, aid for the use of grape must, aid for the use of skimmed-milk powder and measures relating to butterfat, special support measures for beef, expenditure under food aid programmes and POSEI, clearance of accounts corrections, reductions/suspensions of advances and recoveries.

C. SPECIAL FINANCING

In addition to the market support described above, the EAGGF Guarantee Section is responsible for financing special measures for the supply of foodstuffs to the most deprived in the Community, food aid, veterinary and plant health, fisheries and information measures.

3.9. Supply of food from intervention stocks for the benefit of the most deprived persons in the Community

In the particularly harsh winter of 1986-87 the Community organised an emergency temporary programme for the supply free of charge of foodstuffs to the worst-off in the Community for a limited period.

When this emergency programme ended, the Community received many calls for this type of measure to be applied on a permanent basis. The Commission put a proposal to the Council, which adopted it as Regulation (EEC) No 3730/87 laying down the general rules for the supply of food from intervention stocks to designated organisations for distribution to the most deprived persons in the Community[7]. The Commission adopted an implementing regulation (Regulation (EEC) No 3149/92[8], as last amended by Regulation (EC) No 267/96[9].

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.

Ten Member States wished to take part in **2000**. The appropriations were shared among them according to the number of needy they had. The allocation also reflected a substantial underutilisation in the previous three years.

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

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

Under the **2000 plan (Decision 2000/32/EC)**[10] the participating Member States shared **EUR 196 million** as described in the tables below.

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7 OJ L 352, 15.12.1987, p. 1.
8 OJ L 313, 30.10.1992, p. 50.
9 OJ L 36, 14.2.1996, p. 2.
10 OJ L 11, 15.1.2000, p. 51.

Member State	Ceiling (EUR)	Rate at 1.10.1999	Ceiling (national currency)
B	1 879 000	40.3399	75 798 672.30
DK	464 000	7.43320	3 449 004.80
EL	15 150 000	328.700	4 979 805 000.00
E	54 031 000	166.386	8 990 001 966.00
F	39 785 000	6.55957	260 972 492.45
IRL	3 162 000	0.787564	2 490 277.37
I	52 730 000	1936.27	102 099 517 100.00
L	44 000	40.3399	1 774 955.20
P	22 892 000	200.482	4 589 433 944.00
FIN	1 863 000	5.945730	11 076 894.99
Total allocated	192 000 000		
Transfers	4 000 000		
Total for 2000 plan	**196 000 000**		

2000 plan

Products to be taken from intervention stocks *(tonnes)*

Member State	Cereals	Rice	Olive oil	SMP	Butter	Beef
Belgium	3 500	200			400	
Denmark						127
Greece	20 000	10 000	4 000	1 000		
Spain	60 000	34 000	7 000	1 150	6 000	
France	18 200	2 325		9 350		4 550
Ireland					60	810
Italy	60 000	60 000	5 000	5 000		
Portugal	15 000	10 000	3 000	2 376	2 100	
Finland	9 715			300		
Total	**186 415**	**116 525**	**19 000**	**14 176**	**13 560**	**5 487**

Member States participating in the 2000 plan	Utilisation of appropriations (at 5.6.2001)
Belgium	96%
Denmark	44%
Greece	96%
Spain	100%
France	99%
Ireland	41%
Italy	76%
Luxembourg	66%
Portugal	98%
Finland	98%
All participating Member States	80%

3.10. Food aid

At the end of 1999 the Commission decided that the food aid programme for Russia could be regarded as having ended and that the remaining quantities of each product not yet taken up would not be sent. The only legal commitments remaining in 2000 from the Russia food aid programme related to external assistance with monitoring, auditing, inspection and evaluation of implementation of the operation. Given that there were no longer any appropriations for food aid to Russia in the 2000 budget, the unused 1999 appropriations had to be extended until 31 December 2000. An application was made to the budget authority for a non-automatic carryover of EUR 4 094 000 to cover expenditure on inspection still needed to complete the operation.

3.11. Rural development

The EAGGF Guarantee Section, using appropriations from subheading 1b, part-finances (Regulation 1257/1999) rural development programmes, four measures of which (early retirement, compensatory allowances, afforestation and agri-environment) cover the entire EU, and six (farm investment, young farmers, training, forestry, processing and marketing, adjustment and diversification of rural areas) apply outside the Objective 1 regions, where measures are financed by the EAGGF Guidance Section).

For the period 2000 to 2006 subheading 1b was given a budget of EUR 32 907 million. This amount was divided among the Member States, which were to draw up rural development programmes.

Although the ceiling set by the Berlin European Council was 4 386 million (at current 2000 prices) the **appropriations entered in the 2000 budget** by the budget authority totalled EUR 4 084 million, 302 million less than the ceiling in the financial perspective, on the basis of the assumption that as 2000 was the first year in the programming period, the tranche for 2000 would not be fully used.

Eighty-nine programmes were submitted but only **52** were adopted in 2000 (the others were to be approved in 2001).

Uptake in 2000 totalled EUR 4 176.4 million, including all the expenditure declared for the 52 programmes approved and the advance of 12.5% of an average annual payment, plus payments relating to the old accompanying measures. Total expenditure exceeded the budget allocation by EUR 92.4 million but was within the ceiling so it could be topped up by a transfer from subheading 1a.

3.12. Veterinary and plant health measures

Expenditure on veterinary and plant health measures totalled **EUR 102.5 million,** which, not counting the EUR 4 million in the reserve under Chapter B0-40, equalled the appropriations entered in the budget. This expenditure is administered directly by the Directorate-General for Health and Consumer Affairs under Council Decision 90/424/EEC.

There were several internal transfers in Chapter B1-33 during the year to reinforce item B1-332 (emergency veterinary fund) in response to the outbreak of avian influenza in Italy and to settle the outstanding amounts for the classical swine fever epidemic that had affected some Member States in 1997 and 1998. Community assistance is provided via a 50% contribution towards certain measures (compensation of farmers for the slaughter of their livestock, costs of cleaning and disinfecting farms, etc.). In all **EUR 64.76 million** went on this kind of assistance.

The remainder of the appropriations for the chapter were used to cover expenditure on certain disease eradication programmes (50% part-financing), financing Community reference laboratories (100% grants) and purchases of vaccines, in particular establishing strategic stocks of foot-and-mouth vaccine.

3.13. Fisheries

The budget allocation for fisheries was **EUR 14 million**, **EUR 9.3 million** of which was spent, an underspend of EUR 4.7 million.

This underutilisation was accounted for almost entirely by the compensatory allowance for tuna. A dispute between two Spanish producer organisations over the allocation of the allowance delayed the adoption of a regulation making adjustments for the third and fourth quarters of 1999 and payment of the allowance for the following three quarters (- EUR 3 million).

There was also a low level of intervention in the form of independent withdrawals and carry-overs (- EUR 1.5 million) on account of a good market price level.

3.14. Information measures

Budget line B1-382 is for **enhancing public awareness** of the CAP and rural development policy. It replaced item B2-5122 and its legal basis is Council Regulation (EC) No 814/2000 and Commission Regulation (EC) No 1390/2000.

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

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

The rules also allow funding of activities implemented on the Commission's initiative. For 2001 expenditure on the provision of services and tools relating to CAP information and communication activities will come under this budget line.

The **budget allocated** for information activities in 2000 was **EUR 4 500 000**. The indicative amounts for the various types of activity were as follows:

Work programmes of agricultural organisations and other NGOs	EUR 3 000 000
Specific measures	EUR 500 000
Activities implemented on the Commission's initiative	EUR 1 000 000

For the 2000 financial year — a transitional period as the rules on the matter were published during the year — the following information activities were financed:

1) 7 work programmes	totalling EUR 1 074 928
2) 12 specific measures	totalling EUR 325 431
3) 10 measures on the Commission’s initiative	totalling EUR 1 374 779

4. CONTROL MEASURES

4.1. Integrated administration and control system (IACS)

Parallel to the 1992 CAP reform and the move towards more direct payments to farmers, the integrated administration and control system (IACS) was introduced to provide effective instruments for coping with the greater risk of irregularities and fraud linked to the increasing number of direct payments.

IACS basically consists of alphanumeric systems for identifying animals and arable land, making it possible to carry out computerised cross-checks, thus preventing farmers from, for example, applying more than once for aid for the same plot of land and/or animal.

IACS also stipulates a minimum percentage of on-the-spot checks relating to aid applications, which must be selected on the basis of risk analyses, and a system of penalties going as far, if necessary, as outright rejection of an application.

The sectors covered by IACS include arable crops and set-aside, forage-growing, rice, grain legumes, livestock premiums and a few other direct payments. Some other sectoral regulations also refer to IACS (for instance rural development measures).

The Clearance of Accounts Unit of the Directorate-General for Agriculture (A.I.2) oversees IACS and undertakes audit missions both before and after payments in all Member States.

4.2. Olive oil control agencies

Under Council Regulation (EEC) No 2262/84[11] and Commission Regulation (EEC) No 27/85[12] olive oil control agencies were established in the main producer Member States, i.e. Greece, Spain, Italy and Portugal (see 18th Financial Report on the EAGGF, p. 53).

The four olive oil control agencies carried out their work in the 1999/00 marketing year in line with the work programmes and forward estimates approved by the authorities of the Member States and the Commission.

The **Italian** control agency inspected 2 537 mills, 123 producers, 16 producers' associations and one union of associations in the 1999/00 marketing year. It carried out 2 696 checks on 919 holdings and mills in connection with regional yields (mills + producers). The agency also undertook 2 986 cross-checks, mainly document-based, at mills and on producers' premises. Fines were recommended for 980 mills and withdrawal of approval was proposed for 493 mills. For associated producers and packing plants there were 32 and 20 proposals for administrative penalties respectively. The administrative penalties totalled EUR 1.2 million. Most of these cases were reported to the judicial authority and/or other control authorities.

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11 OJ L 208, 3.8.1984, p. 11.
12 OJ L 4, 5.1.1985, p 5

During the 1999/2000 marketing year the **Greek** control agency the inspected 1 133 mills (of these 218 were cursory checks), 21 associations and 2 754 producers and undertook 2 141 checks at holdings and mills in connection with regional yields (mills + producers). In total it carried out 2 339 cross-checks on mills/producers, 115 on mills/purchasers and 28 on mills/pomace factories. The agency recommended withdrawal of approval from 131 mills, 5 recoveries of subsidies from associations, 452 corrections to crop declarations and 2 275 refusals of applications from producers, mainly on account of insufficient evidence of the use to which the oil produced was to be put. **The total figure for the recoveries proposed was EUR 10.8 million.**

The **Portuguese** control agency in the same marketing year inspected 1 962 producers, 799 mills and 18 associations. It undertook 9 178 cross-checks and 28 checks on table-olive processing plants. In the light of these checks, the agency recommended that 226 mills and one association lose their approval, 102 subsidies be refused and 170 corrections be made to amounts payable to producers. All these recommendations were accepted by the Member State, which generally imposed the penalties recommended. Some of the backlog seen since 1996 in imposing penalties on producers was also cleared.

The **Spanish** control agency inspected 1 164 mills, 2 unions, 25 producer organisations, 633 producers, 64 table-olive processors and carried out 1 328 cross-checks throughout the production chain during the 1999/00 marketing year. It recommended withdrawal of approval from 31 mills, cancellation of aid for 107 producers and a correction to the amounts payable to 77 growers.

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

4.3. Part-financing for tighter controls

Under Council Regulation (EC) No 723/97 of 22 April 1997 the Community contributes towards the expenditure incurred by the Member States in implementing new action programmes arising out of new Community obligations in force from 15 October 1996. The aim of these action programmes is to improve the structure and effectiveness of checks on EAGGF Guarantee Section expenditure.

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

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

This fourth year of application confirmed the importance that Member States attach to setting up new control systems. The largest number of programmes still related to the data base for the identification and registration of cattle required under

Regulation (EC) No 820/97. The Member States concerned were: Belgium, Spain, France, Ireland, Luxembourg, Austria, Portugal and Finland.

The German programme was designed to establish uniform technical standards for rationalising the implementation and administration of aid measures by the paying agencies in the field of the EAGGF Guarantee Section. The Greek programme was for the recruitment of personnel to carry out the checks required under the new market organisation provisions laid down in Regulations (EC) Nos 2200, 2201 and 2202/96. The Swedish programme concerned creating a pig register under Council Directive 97/12/EC (on health problems affecting intra-Community trade in bovine animals and swine). Finally, the United Kingdom programme concerned changes to the computer system for enforcing the new obligations introduced by Regulation (EC) No 1678/98.

Neither Denmark nor Italy submitted a programme, while the two submitted by the Netherlands were not eligible.

The table below shows the Community financial contribution (in euros) for the 2000 financial year (in accordance with Commission Decision C(2000) 493 final of 24 February 2000 fixing the amounts in national currencies). **The total figure is EUR 16 778 415.**

Regulation (EC) No 723/97 – financial year 2000

Member State	**Community contribution (*EUR*)**
Belgium	724 345
Germany	255 646
Denmark	0
Greece	1 776 376
Spain	5 120 623
France	4 421 021
Ireland	1 701 449
Italy	0
Luxembourg	123 203
Netherlands	0
Austria	222 561
Portugal	1 929 337
Finland	369 593
Sweden	55 586
United Kingdom	78 674

5. CLEARANCE OF ACCOUNTS

5.1. General

The Commission adopted **six EAGGF Guarantee Section clearance of accounts decisions** during the 2000 financial year. Firstly, Decisions 2000/197/EC and 2000/448/EC, adopted on 1 March and 5 July 2000 respectively, concerned the clearance of accounts for the 1995 financial year. The total financial correction contained in the two decisions together totalled EUR 39.7 million.

In connection with the clearance of accounts for financial years 1998 and 1999, Decisions 2000/179 and 2000/314/EC were adopted on 14 February and 28 April 2000 respectively, making a financial correction of EUR 10.3 million.

Two further clearance of accounts decisions were adopted under the new clearance procedure: Decisions 2000/216/EC and 2000/449/EC, dated 1 March and 5 July 2000 respectively, involving a total financial correction of EUR 587.8 million.

Other work in 2000 mainly concerned the following areas:

– Continuation of the clearance of accounts procedure for 1997, 1998 and 1999, including the summary report (Doc. VI/17758/00);

– discussions with all Member States on the outcome of the inspection visits for the financial years covered by Article 5(2)(c) of Regulation (EEC) No 729/70;

– participation in the work of the European Parliament's Committee on Budgetary Control in connection with discharge of the 1998 budget.

– the Court of Auditors' opinion on the clearance decision for 1995 (compliance clearance), 1996, 1997 and 1998 (accounting clearance);

– the Court of Auditors' statement of assurance on EAGGF Guarantee Section expenditure in 1999;

– preparation for and participation in inspection visits for clearance for the 1999 and 2000 financial years;

– amendment of Regulation (EEC) No 3508/92 establishing an integrated administration and control system for certain Community aid schemes;

– monitoring the implementation in the Member States of the geographical information system (GIS) for olive cultivation and winegrowing;

– inspection visits to the candidate countries in connection with SAPARD and the pre-accession screening;

– active participation in the Conciliation Body's investigation of Member States' appeals in connection with the clearance of accounts for 1995, 1996 and 1998;

– participation in the work of the Conciliation Body.

5.2. Clearance of accounts for the 1995 financial year

Title IV of the 29th Financial Report on the EAGGF Guarantee Section, 1999 financial year, sets out the reasons behind the financial corrections resulting from the inspection visits to all the Member States.

The financial corrections resulting from the two decisions of 1 March and 5 July 2000 totalled EUR 39.7 million.

The sectors concerned were:

Milk products	EUR 1.2 million
Public storage of cereals	EUR 38.5 million

5.3. Clearance of accounts under the new procedure

The financial corrections resulting from the two ad hoc decisions under the new clearance procedure were as follows:

(EUR million)

Sector	Ad hoc 4 1.3.2000	Ad hoc 5 5.7.2000
Arable crops	18.2	174.4
Fruit and vegetables	8.1	17.9
Refunds	16.7	49.8
Late payments	14.9	8.7
Accompanying measures	4.6	24.9
Animal premiums	26.1	55.6
Flax and hemp	0.2	14.4
Wine	4.0	-
Promotion of agricultural products	0.2	-
Oils and fats	-	0.5
Public storage	-	2.1
Milk	-	2.5
TOTAL	**237.0**	**350.8**

5.4. Clearance of accounts for the 1999 financial year

Introduction

The 1996 reform of the clearance of accounts procedure separated the clearance procedure into two stages: the first clearance decision concerns the integrality, accuracy and veracity of the accounts submitted (Article 5(2)(b) of Council Regulation (EEC) No 729/70); the second concerns the expenditure to be excluded from Community financing where such expenditure has not been effected in compliance with Community rules (Article 5(2)(c) of the above Regulation).

Commission officials examined the annual accounts, certificates and audit reports transmitted by the deadline of 10 February 2000 and also visited some of the paying agencies. The purpose of the visits was to assess the work of the certifying bodies, the extent of the problems reported and the measures taken by the paying agency to solve the problems identified. Problems were not confined to the accuracy of the accounts, they also stemmed from the paying agencies' operational systems. The certifying bodies are required to check that these systems are sound enough to provide reasonable assurance that expenditure complies with Community rules.

Decision 2000/314/EC of 28 April 2000

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

– the accounts of the paying agencies of Catalonia, the Canary Islands and FEGA (Spain), Bremen (Germany) and MMM (Finland) were disjoined from the decision;

– the audit reports of the certifying bodies and the visits by Commission officials showed that, four years after the introduction of the reform, some paying agencies were still not adequately monitoring or supervising tasks carried out by other bodies. It was stressed that such monitoring and supervision was essential to give a reasonable assurance that all the expenditure charged to the Community budget complied with Community rules. If paying agencies' systems did not provide such assurance, the Member States were asked to take prompt action to remedy the shortcomings. If they failed to do so, the budgetary discipline measures would applied. Moreover, the reports by the certifying bodies guided the work of the auditors checking on compliance towards those sectors where controls were weakest.

Corrections to accounts

– *Corrections to amounts declared:*
Corrections were adopted in the light of the remarks of the certifying bodies or of Commission investigations. The total amounts of these corrections are as follows: - EUR 0.2 million for Germany; EUR 1.3 million for Spain; EUR 1.3 million for Greece; EUR 1.5 million for Ireland; EUR 0.2 million for the

Netherlands; EUR 0.5 million for Portugal and EUR 2.2 million for the United Kingdom.

– *Other corrections:*
  Some corrections in the form of cuts in monthly advances were confirmed, among other things for Greece's and Portugal's failure to introduce IACS and for Italy's and Spain's failure to implement the additional milk levy. Corrections totalled EUR 40.7 million.

5.5. Cases brought before the Court of Justice against clearance decisions

<u>Court judgements</u>

After Summary Report AGRI/17822/2000 of 22 June 2000 on Decision No 5 had been drafted, the Court of Justice delivered three judgements in respect of appeals by the Member States against the clearance decision.

The Court rejected the appeals brought in the following cases:

– Judgment of 6 July 2000 (Case C-45/97) concerning 11 of 13 Spanish firms which had received consumption aid for olive oil. In the case of the other two firms, the Court annulled Commission Decision 96/701/EC;

– Judgment of 13 July 2000 (Case C-46/97) concerning production aid for olive oil, premiums for the permanent abandonment of vine-growing areas, production aid for cotton and premiums for leaf tobacco in Greece;

– Judgment of 13 July 2000 (Case C-243/97) concerning production aid for olive oil, overrunning of deadlines for payment to beneficiaries of production aid for olive oil, the export of olive oil from Greece to non-member countries, premiums for leaf tobacco, premiums for the permanent abandonment of vine-growing areas, the public storage of cereals and shortfalls in quantities of durum wheat.

<u>Cases pending</u>

At 16 October 2000 the cases pending and the amounts involved were as shown in Annexes 18 to 23.

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

6.1. Relations with the European Parliament

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

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

In 2000 EAGGF staff took part in the dialogue established between the Commission and Parliament, discussing in particular the draft Community budget for the 2001 financial year in the Committee on Budgets and the Committee on Agriculture and Rural Development. Following debates in Parliament, the 2001 budget was adopted by its President.

6.2. Relations with the European Court of Auditors

6.2.1. Mission of the Court of Auditors

The basic task of the Court of Auditors is to audit the Community accounts. The Maastricht Treaty strengthened this role by requiring it to provide a statement of assurance as to the reliability of the Community accounts and the legality and reliability 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 discharge.

As part of its work, the Court of Auditors carries out many audits within the Commission. Court officials frequently visited the EAGGF to gather facts and figures needed for Court opinions, sector letters or special reports; in the light of these investigations, the Court frequently makes suggestions and recommendations to the Commission as to how to improve its budgetary management to make Community control measures more effective.

6.2.2. 1999 annual report

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

Before the report is published, meetings are held between the Court of Auditors and the Commission, at which the Court's submissions and conclusions and the Commission's replies and explanations can be discussed. The report is the result of audits made by the Court in the Community institutions and inspection visits to the Member States.

The annual report for the 1999 financial year together with the Commission's replies included one chapter (Chapter 2) on the EAGGF Guarantee Section. The main submissions advanced by the Court and the replies given by the Commission concerned the following:

– budgetary management

– statement of assurance

– clearance of accounts

– follow-up to previous Court reports:

  * wine
  * milk quotas
  * skimmed-milk powder used in animal feed
  * preferential imports of New Zealand butter and Swiss cheese.

6.2.3. Special reports by the Court of Auditors

In 2000 the Court of Auditors published eight special reports and a letter from its President on the Fléchard case. The reports were as follows:

– Report No 1/00 on classical swine fever

– Report No 3/00 on measures to assist the employment of young persons (EAGGF Guidance Section)

– Report No 8/00 on Community measures for the disposal of butterfat

– Letter from the President on exportation of intervention butter to the former Soviet Union (Fléchard case)

– Report No 11/00 on the support scheme for olive oil

– Report No 14/2000 on greening the CAP

– Report No 18/00 concerning the programme to supply agricultural products to the Russian Federation

– Report No 20/00 concerning the management of the common organisation of the market for sugar

– Report No 22/00 on evaluation of the reformed clearance of accounts procedure

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

7. SELECTION OF BASIC RULES GOVERNING THE EAGGF GUARANTEE SECTION AND AMENDMENTS THERETO – MAIN RULES AND AMENDMENTS IN THE 2000 FINANCIAL YEAR

7.1. General/system of advances

- Council Regulation (EEC) No 1258/1999 of 17 May 1999 on the financing of the common agricultural policy (OJ L 160, p. 103).
- Council Regulation (EEC) No 1883/78 of 2 August 1978 laying down general rules for the financing of interventions by the European Agricultural Guidance and Guarantee Fund, Guarantee Section (OJ L 216, p. 1).

  Amended by Council Regulation (EC) No 1259/96 of 25 June 1996 (OJ L 163, p. 10).
- Commission Regulation (EC) No 296/96 of 16 February 1996 on data to be forwarded by the Member States and the monthly booking of expenditure financed under the Guarantee Section of the Agricultural Guidance and Guarantee Fund (EAGGF) and repealing Regulation (EEC) No 2776/88 (OJ L 39, p. 5).

  Amended by Commission Regulation (EC) No 2761/1999 of 23 December 1999 (OJ L 331, p. 57).
- Council Regulation (EC) No 2040/2000 of 26 September 2000 on **budgetary discipline** (OJ L 244, p. 27).
- Council Regulation (EC) No 1257/1999 of 17 May 1999 on support for **rural development** from the European Agricultural Guidance and Guarantee Fund (EAGGF) and amending and repealing certain Regulations (OJ L 160, p. 80).
- Commission Regulation (EC) No 1750/1999 of 23 July 1999 laying down detailed rules for the application of Council Regulation (EC) No 1257/1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF) (OJ L 214, p.31).

  Amended by Commission Regulation (EC) No 2075/2000 of 29 September 2000 (OJ L 246, p. 46).

7.2. Control

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

  Amended by Council Regulation (EC) No 1593/2000 of 17 July 2000 (OJ L 182, p. 4).

The purpose of this Regulation is to incorporate the new legislation adopted in the Agenda 2000 package into IACS and to make further improvements to some features of the system, in particular making it compulsory to use computerised geographical information system techniques for the identification of agricultural parcels, including orthoimagery.

– Commission Regulation (EEC) No 3887/92 of 31 December 1992 laying down **detailed rules** for applying the integrated administration and control system for certain Community aid schemes (OJ L 391, p. 36).

  Amended by Commission Regulation (EC) No 2721/2000 of 13 December 2000 (OJ L 314, p. 8).

  The main objective of the various amendments was to specify certain obligations regarding checks on animals and land, adopt detailed rules for the reform of the common agricultural policy, permit national rules authorising electronic aid applications under IACS and lay down rules for transferring holdings.

– Council Regulation (EC) No 820/97 of 21 April 1997 establishing a system for the **identification** and registration of bovine animals and regarding the labelling of beef and beef products (OJ L 117, p. 1).

7.3. Clearance of accounts

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

  Amended by Commission Regulation (EC) No 2245/1999 of 22 October 1999 (OJ L 273, p. 5).

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

  Amended by Commission Regulation (EC) No 2644/2000 of 20 November 2000 (OJ L 307, p. 1).

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

– Decisions 2000/197/EC of 1 March and 2000/448/EC of 5 July relating to the 1995 financial year;

– Decisions 2000/179/EC of 14 February and 2000/314/EC of 28 April relating to the 1999 financial year;

– Decision 2000/216/EC of 1 March under Article 5(2)(c) of Regulation (EEC) No 729/70;

– Decision 2000/449/EC of 5 July under Article 5(2)(c) of Regulation (EEC) No 729/70.

7.4. Public storage

a) <u>Basic rules</u>

– Commission Regulation (EEC) No 411/88 of 12 February 1988 on the **method and the rate of interest** to be used for calculating the costs of financing intervention measures comprising buying-in, storage and disposal (OJ L 40, p. 25). *Amended by Council Regulation (EC) No 2623/1999 of 10 December 1999 (OJ L 318, p. 14).*

– Commission Regulation (EEC) No 1643/89 of 12 June 1989 defining the **standard amounts** to be used for financing material operations arising from the public storage of agricultural products (OJ L 162, p. 12).

– Council Regulation (EEC) No 3492/90 of 27 November 1990 laying down the factors to be taken into consideration in the **annual accounts** for the financing of intervention measures in the form of public storage by the European Agricultural Guidance and Guarantee Fund, Guarantee Section (OJ L 337, p. 3).

– Commission Regulation (EEC) No 3597/90 of 12 December 1990 on the **accounting** rules for intervention measures involving the buying-in, storage and sale of agricultural products by intervention agencies (OJ L 350, p. 43).

– Commission Regulation (EEC) No 147/91 of 22 January 1991 defining and fixing the **tolerances** for quantity losses of agricultural products in public intervention storage (OJ L 17, p. 9).

– Commission Regulation (EEC) No 3149/92 of 29 October 1992 laying down detailed rules for the **supply of food** from intervention stocks for the benefit of the **most deprived** persons in the Community (OJ L 313, p. 50).

– Commission Regulation (EC) No 2148/96 of 8 November 1996 laying down rules for evaluating and monitoring public intervention stocks of agricultural products (OJ L 288, p. 6) *Amended by Commission Regulation (EC) No 808/1999 of 16 April 1999 (OJ L 102, p. 70).*

b) <u>Depreciation on buying-in during the 2000 financial year</u>

– Commission Regulation (EC) No 1518/1999 of 12 July 1999 setting the amount of the payment on account of the cost of disposal of certain distillation products for 2000 (OJ L 177, p. 7).

This sets, for the 2000 financial year, the amount of the payment on account of the cost of disposal of alcohol obtained from the distillation of wine as referred to in Articles 35 and 36 of Regulation (EEC) No 822/87 in the light of the similar depreciation applicable to alcohol obtained from the distillation operations referred to in Article 39 of the above-mentioned Regulation.

– Commission Regulation (EC) No 1519/1999 of 12 July 1999 fixing depreciation percentages to be applied when agricultural products are bought in, for the 2000 financial year (JO L 177, p. 8).

This Regulation sets the systematic depreciation coefficients to be applied, for the 2000 financial year, when each agricultural product is bought in, and also the coefficients to be applied by the intervention agencies to the monthly buying-in values of the products to enable them to determine the depreciation amounts.

c) Additional depreciation at the end of the 2000 financial year

– Decision C(2000) 2954 final of 9 October 2000 (not published) fixing the amounts and detailed rules for the depreciation of stocks of certain agricultural products bought into public intervention during the 2000 financial year.

– Decision C(2000) 2980 final of 11 October 2000 (not published) fixing the total amount of the payments on account for the 2000 financial year of the cost of disposal of certain distillation products held by intervention agencies at the end of the year.

These two decisions set the amounts of additional depreciation at the end of the 2000 financial year.

d) Uniform interest rate for 2000

– Commission Regulation (EC) No 52/2000 of 10 January 2000 on the rate of interest to be used for calculating the costs of financing intervention measures comprising buying-in, storage and disposal (OJ L 6, p. 19).

This Regulation sets the interest rates provided for in Article 3 and Article 4(1) of Commission Regulation (EEC) No 411/88 for the 2000 EAGGF accounting year.

7.5. Agrimonetary measures

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

– Council Regulation (EC) No 2799/98 of 15 December 1998 establishing agrimonetary arrangements for the euro (OJ L 349, p. 1) and

– Council Regulation (EC) No 2800/98 of 15 December 1998 on transitional measures to be applied under the common agricultural policy with a view to the introduction of the euro (OJ L 349 p. 8).

ANNEXES

Available on paper in French from the Directorate-General for Agriculture

and in electronic form from its website

General

1. Exchange rates in 2000

Budget procedure

2. The budget procedure in detail

Cash position and management of appropriations

3. Summary of implementation for 2000

4. Advance payments to Member States for 2000

5. Direct payments

6. Amounts withheld from production and consumption aids for olive oil and their utilisation

6cont'd Amounts withheld from production or consumption aids for fibre flax, grape juice and tobacco and their utilisation.

Budget implementation

7. Expenditure charged against 2000 budget

8. EAGGF Guarantee Section expenditure charged against the 2000 budget, by chapter and by Member State

9. EAGGF Guarantee Section expenditure by chapter

10. EAGGF Guarantee Section expenditure by Member State

11. EAGGF Guarantee Section expenditure by sector

12. EAGGF Guarantee Section expenditure by sector in percentage terms (1996-2000)

13. Breakdown of EAGGF Guarantee Section expenditure by sector according to the economic category of measures (1996-2000)

14. Breakdown of EAGGF Guarantee Section expenditure by sector according to the economic category of measures in 2000

15. Breakdown of intervention expenditure in 2000 by chapter and economic category of measures

16. Breakdown of intervention expenditure on storage in 2000

17. Quantity and value of products held in public storage by intervention agencies.

Clearance of accounts

18. Situation at 16 October 2000 regarding cases before the court against the 1993 clearance of accounts decision

19. Situation at 16 October 2000 regarding cases before the court against the 1994 clearance of accounts decision

20. Situation at 16 October 2000 regarding cases before the court against the 1995 clearance of accounts decision

21. Situation at 16 October 2000 regarding cases before the court against the clearance of accounts decision 1999/603/EC (3rd decision)

22. Situation at 16 October 2000 regarding cases before the court against the clearance of accounts decision 2000/216/EC (4th decision)

23. Situation at 16 October 2000 regarding cases before the court against the clearance of accounts decision 2000/449/EC (5th decision).

The EAGGF and its financial resources – revenue in the sugar sector

24. Compensation for storage costs for Community sugar

25. Revenue in the sugar sector in 2000

26. Self-financing system in the sugar sector from 1995/96 to 1999/2000.