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Guarantee Section – 2005 financial year

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accompanying the 35th FINANCIAL REPORT

**on the EUROPEAN AGRICULTURAL GUIDANCE AND GUARANTEE FUND
Guarantee section**

– 2005 FINANCIAL YEAR –

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1. BUDGET PROCEDURE

1.1. The multiannual financial framework

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

Commitment appropriations

(EUR million at current prices)

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

* In September 2005, the Budgetary Authority agreed to reduce the appropriations under subheading 1a by EUR 655.0 million and to transfer this amount to subheading 1b for the modulation foreseen in Article 10 of Council Regulation (EC) No 1782/2003. Therefore, the appropriations under subheading 1a would amount to EUR 44 847 million while the appropriations under subheading 1b would amount to EUR 7 771 million.

1.2. Preliminary Draft Budget 2005

The 2005 Preliminary Draft Budget was adopted by the Commission and proposed to the Budgetary Authority in May 2004. The commitment appropriations proposed for the EAGGF-Guarantee section totalled EUR 50 675.5 million, i.e. EUR 43 834.5 million for subheading 1a and EUR 6 841.0 million for subheading 1b for which the payment appropriations totalled EUR 6 279.4 million due to the inclusion of the Transitional Instrument for the new Member States which is implemented on the basis of differentiated appropriations.

1.3. Draft budget 2005

The Council adopted the 2005 Draft Budget in July 2004. The appropriations in subheading 1a were reduced by EUR 1 000.0 million as compared to the PDB while the ones for subheading 1b were maintained at the level of the PDB.

1.4. Letter of amendment for 2005

At the end of October 2004 the Commission adopted Letter of Amendment No 3 to the 2005 PDB setting appropriation requirements for subheading 1a at EUR 43 610.5

¹ Including veterinary and plant health measures and excluding accompanying measures.

million which was lower by EUR 224.0 million compared to the corresponding amount in the Preliminary Draft Budget. The proposed appropriation requirements for subheading 1b did not change.

1.5. Adoption of the 2005 Budget

In December 2004, the 2005 budget was adopted. The Budgetary Authority rejected the amounts proposed in the Amending Letter No 3 for subheading 1a and adopted a budget for 2005 at the level of the Draft Budget. The appropriations for subheading 1a amounted to EUR 42 835.5 million an amount lower by EUR 775.5 million compared to the corresponding amount in the Amending Letter No 3. The proposed appropriation requirements for subheading 1b did not change. For the details, please see Annex 1.

1.6. Amending budget BR 8/2005

In December 2005, the Commission proposed and the Budgetary Authority accepted an adjustment, through BR 8/2005, of the 2005 budget's commitment appropriations, by cancelling an amount of EUR 650.0 million for subheading 1a, which, then, amounted to EUR 42 185.5 million. For the details, please see point 2.5.

The part of the final EAGGF-Guarantee budget (commitment appropriations) in the total EU Budget for the period 2001–2005 appears in Annex 2.

2. CASH POSITION AND MANAGEMENT OF APPROPRIATIONS

A. MANAGEMENT OF APPROPRIATIONS

2.1. Appropriations available for exercise 2005

The appropriations finally available for EAGGF Guarantee for the financial year amount to EUR 49 026 450 000. The budget authority approved a non-automatic carryover from 2004 to 2005 of EUR 49 500 000 (see Annex 5).

2.2. Utilisation of appropriations available for exercise 2005

2.2.1. Budget operations

The table below details the budget operations carried out in 2005:

	<i>in Euro</i>
1. Appropriations available	
– normal appropriations	49.026.450.000,00
– non-automatic carryovers	49.500.000,00
2. Detailed commitments	
– for Member States' expenditure against normal appropriations	46.690.243.602,43
– for expenditure against non-automatic carryovers	49.000.000,00
– for direct payments	257.947.288,72
– for Member States' expenditure –RDTI EU 10	1.931.000.000,00
Total commitments	48.928.190.891,15
3. Amounts charged	
– for Member States' expenditure against normal appropriations	46.690.243.602,43
– for expenditure against non-automatic carryovers	49.000.000,00
– for direct payments	16.019.711,99
– for Member States' expenditure –RDTI EU 10	316.264.683,00
Total charged	47.071.527.997,42
4. Automatic carryovers	
– for Member States' expenditure –RDTI EU 10	1.614.735.317,00
– for Member States' expenditure against non-automatic carryovers	0,00
– for direct payments	241.927.576,73
Total automatic carryovers	1.856.662.893,73
5. Non-automatic carryovers	43.400.000,00
6. Appropriations lapsing (= 1 – 2 – 5)	104.359.108,85

2.2.2. *Automatic carryovers*

The automatic carryovers represent the difference between commitments and amounts charged. For 2005, an amount of EUR 1 856.66 million is concerned corresponding to the appropriations committed by the Commission for its own expenditure for which no payments have been made by the end of the exercise.

2.2.3. *Non-automatic carryovers*

Under Articles 9 and 149 of the Financial Regulations (Council Regulation (EC) No 1605/2002 of 25 June 2002), the Commission decided non-automatic carryovers from exercise 2005 to exercise 2006 for a total amount of EUR 43.4 million for the item 05.040105 « Early retirement – New system ».

2.3. **Automatic carryovers from exercise 2004 to 2005**

The table below gives an overview of the utilisation of these carryovers in 2005 at the global level:

	<i>in Euro</i>
1. Commitments carried over	
– for Member States' expenditure– RDTI EU 10	1.104.080.140,00
– for direct payments	348.125.257,83
Total commitments	1.452.205.397,83
2. Decommitments from carryovers	
– for Member States' expenditure	–
– for direct payments	-5.418.456,25
Total decommitments	-5.418.456,25
3. Payments	
– for Member States' expenditure– RDTI EU 10	1.098.312.232,00
– for direct payments	295.928.756,46
Total of the amounts charged	1.394.240.988,46
4. Appropriations lapsing (= 1 + 2 – 3)	
– for Member States' expenditure	0
– for direct payments	46.778.045,12
Total carryovers cancelled	46.778.045,12
5. Automatic carryovers	
– for Member States' expenditure– RDTI EU 10	5.767.908,00

2.4. Non-automatic carryovers from 2004

Under Articles 9 and 149 of the Financial Regulation (Council Regulation (EC) No 1605/2002 of 25 June 2002), the Commission decided non-automatic carryovers from exercise 2004 to 2005 for a total amount of EUR 49.5 million.

The amount is broken down as followed:

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

2.5. Transfers and amending budget of appropriations within EAGGF-Guarantee

In 2005, the Budget Authority approved the chapter-to-chapter transfer No 18/05, from chapter 05.03 « animal products » (– EUR 241.5 million), 05.07 « audit of agriculture expenditure » (– EUR 14.0 million), 05.08 « policy strategy and coordination of agriculture policy area » (– EUR 18.0 million), to chapter 05.02 « plant products » (+ EUR 273.5 million)

In 2005, the Budget Authority was informed of the chapter-to-chapter transfer No 19/05, from chapter 05.03 « animal products » (– EUR 82.9 million), to chapter 05.02 « plant products » (+ EUR 82.9 million)

In 2005, the Budget Authority approved amending budget No 8/2005 thereby cancelling total appropriations by an amount of EUR 650.0 million involving chapters 05.03 « animal products » (– EUR 446. million), 05.07 « audit of agriculture expenditure » (– EUR 169.0 million) and 17.04 « food safety, animal health, animal welfare and plant health » (– EUR 35.0 million).

B. ADVANCES AND DIRECT PAYMENTS

2.6. Advances to Member States

2.6.1. Monthly advances on the provision for expenditure

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

In the strict meaning of the term, it is not a payment of advances, but a reimbursement of expenditure which has been already carried out. The expression « advance » underlines the provisional character of these payments: advances are made available on the basis of the monthly declarations forwarded by the Member States³; the monthly booking of expenditure is subject to checks and corrections on the basis of the detailed declaration.⁴ 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 16.10.2004 to 15.10.2005 are covered by the system for advance payments. For the remaining payments, the Commission carries out direct payments for a limited number of measures and in shared management regarding RDTI-EU 10 (Rural Development Transitional Instrument for the new Member States).

For exercise 2005, the total net amount of advances paid was EUR 46 739 243 602,43.

² OJ L 160 of 26.6.1999, p. 103.

³ These payments are transmitted monthly by the Member States by the Fax of the 10th.

⁴ The detailed declaration is transmitted monthly by the Member States by table 104.

2.6.2. *Decisions on advances for 2005*

For exercise 2005, the Commission adopted twelve decisions on monthly advances. An additional advance, adjusting those already granted for the total expenditure chargeable to the year, was adopted in December 2005. For details, please see Annex 6 of the present working document.

2.6.3. *Reductions and suspension of advances*

In 2005, a correction of EUR –28.78 million was made to the advances paid to the Member States. The various categories of corrections are detailed in the following points.

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

Pursuant to Article 14 of Council Regulation (EC) No 2040/2000 concerning the budgetary discipline⁵, the EAGGF found that certain Member States did not always respect the payment deadlines fixed by the Community legislations for the payment of aids to beneficiaries.

The payment deadlines were introduced, on the one hand, to ensure an equal treatment between the 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 the exceeding of the payment deadlines, the Commission decided on two occasions, jointly with the monthly advances, reductions for a total amount of EUR –29.11 million.

b. Reductions of the advances as a result of the non-collection of the additional milk levy for the marketing year 2004/2005

No reduction of the advances as a result of the non-collection of the additional milk levy was carried out by the Commission.

c. Reduction of the advances as a result of overspending the financial ceilings

For some aid measures financed by EAGGF Guarantee, 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 advances. Due to the overspending of the financial ceilings, the Commission made financial corrections for a total amount of EUR 473 334.76 (of which EUR 274 554.01 are for rural development).

⁵ OJ L 244 of 26.9.2000, p. 27.

2.7. Direct payments

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 (see Annex 7).

3. THE IMPLEMENTATION OF THE BUDGET

A. INTRODUCTION

The 2005 agricultural year was marked by an increase in cereals production and a slight decrease in the production of animal products accompanied with favourable prices for animal products and lower prices for crops. These developments in agricultural markets as well as other factors affected the level of EAGGF-Guarantee expenditure in certain areas of the budget and led to a significant non-utilisation of credit appropriations.

3.1. The uptake of the EAGGF – Guarantee budget appropriations

In October 2004, the Commission presented its Amending Letter (AL) which increased the initial credit requirements included in the Preliminary Draft Budget (PDB) of May 2004 on the basis of the most recent developments in legislation, agricultural markets and exchange rates. Nevertheless, the Budgetary Authority cut EUR 775.0 million from the credits requested by the Commission, without examining the Commission's reasoning for its latest estimate of credit requirements as it was included in its AL proposal and adopted a budget for 2005 at the level of the PDB.

The initially available credit appropriations of EAGGF-Guarantee for the 2005 budget year amounted to EUR 49 725.9 million, including the amounts carried forward from 2004 (NB: EUR 49.0 million for subheading 1b and EUR 0.5 million for DG SANCO). An amount of EUR 42 835.9 million was allocated to subheading 1a and the rest EUR 6 890.0 million to subheading 1b.

The implementation of the budget for heading 1 amounted to EUR 48 928.2 million i.e.: to approximately 98.4% of the initial credit appropriations, of which the expenditure for subheading 1a amounted to EUR 42 100.8 million and for subheading 1b to EUR 6 827.3 million.

Concerning in particular subheading 1a, the budget's implementation resulted to an under-spending of EUR 735.1 million. In order to reduce the Member States contributions to the community budget, the Commission proposed, via the Amending Budget no 8/2005, to cancel an amount of EUR 650.0 million out of EAGGF-Guarantee's credit appropriations. Thus, the finally available appropriations for subheading 1a amounted to EUR 42 185.9 million and the resulting under-implementation was reduced to EUR 85.1 million. The appropriations for subheading 1b stayed at the level of the initial budget.

The execution of the 2005 budget with the differences between this execution and the appropriations included in the initial budget and in the amending budget No 8/2005

are presented in Annex 9. This presentation is made both at the level of the budget article as well as at the level of each budget item.

The execution report on hand briefly comments on the most significant differences between the expenditure incurred under the different items of the 2005 budget compared to the budget's initial appropriations.

B. ANALYSIS OF THE IMPLEMENTATION OF THE BUDGET BY CHAPTER

3.2. CHAPTER 05 02: PLANT PRODUCTS

Introduction

The initial appropriations for this chapter of the budget amounted to EUR 29 134.6 million while payments amounted to approximately EUR 29 469.3 million, i.e. an implementation rate of 101.1% of these appropriations. Within this chapter of the budget, certain sectors were over-implemented while others were under-implemented. The general over-implementation, though, was primarily attributable to the sectors of cereals, arable crops, cotton and direct aids of a horizontal nature. Details of the differences between the budget's appropriations and their execution by budget item are presented in Annex 9.

Article 05 02 01: Market measures on cereals

The 2004/05 EU-25 total harvest was estimated to be approximately 287.0 million tonnes and it was approximately 60.0 million tonnes higher than the 2003/04 one. This significant increase in cereals production was mainly due to the optimal climatic conditions which occurred from autumn 2004 to the end of summer 2005 and to a minor extent to the reduction of the set aside rate. In 2005, domestic utilisation of cereals was estimated at approximately 245.0 million tonnes for the EU-25, i.e. cereals production was higher than consumption, thus, resulting to a decrease in the EU's overall cereals price level. In the EU-15 surplus areas, the cereals price level was slightly under the intervention price. In the new Member States, grain prices dipped substantially below the intervention price. These developments resulted to an increase to the overall level of cereals in intervention stocks.

Indeed, intervention stocks increased, in the course of the 2005 budget year, from around 3.5 million tonnes at the start of the year to around 14.6 million tonnes (approximately 60% was soft wheat) by the end of the year. Underlying this, however, there were wide variations in changes in the stock levels for individual cereals. Bread-making wheat stocks increased to around 8.6 million tonnes by the end of the year from a level of 0.2 million tonnes at the start of the year while stocks of barley increased to around 1.1 million tonnes by the end of the year from 0.1 million tonnes and stocks of rye decreased from 3.2 to 2.3 million tonnes by the end of the budget year. The final quantities in stock for maize amounted to 2.6 million tonnes by the end of the year as opposed to nil stocks at the start of the year. Intervention stocks for sorghum were insignificant. Purchases into intervention amounted to approximately 14.7 million tonnes, of which bread-making wheat involved 9.5 million tonnes, barley 2.4 million tonnes and maize 2.8 million tonnes. Sales amounted to 3.6 million tonnes (approximately 32% wheat, 37% barley, 25% rye and 6% maize). The high quantities of purchases and of sales resulted to higher than otherwise technical, financial and end-of-year depreciation costs and resulted to an

over-spending of the adopted budget's appropriations by approximately EUR 381.6 million.

In the course of the 2005 budget year, approximately 6.3 million tonnes of cereals were exported with refunds for a total expenditure of EUR 124.3 million, thus under-spending the budget's appropriations by approximately – EUR 132.7 million.

While at the start of the budget year production refund rates for starch were set at “0” for the marketing year 2004/05, in the course of the year they were raised to EUR 9.2/tonne. This aid was paid for approximately 2.4 million tonnes of starch. As a consequence, payments for intervention for starch over-spent the adopted budget's appropriations by EUR 11.1 million.

Article 05 02 02: Rice

The production of rice was estimated at 1.5 million tonnes (milled equivalent) for the marketing year 2004/05.

The dollar world market price of rice increased in the course of the year, thus, leading to an overall reduction in the export refund rate as compared to the rate retained for the marketing year 2004/05 when the budget was established. In addition, the quantities of rice exported for the same marketing year amounted to approximately 0.02 million tonnes versus the quantity of 0.12 million tonnes retained in the 2005 budget, thus leading to an under-implementation of the budget's appropriations by approximately – EUR 11.3 million.

Following enlargement, the new Member States reduced their imports of rice. As a consequence, no rice was purchased into public storage while sales amounted to approximately 0.29 million tonnes. This situation resulted to lower than otherwise technical, financial and end-of-year depreciation costs and to an under-implementation of the budget's appropriations by approximately – EUR 18.7 million.

Article 05 02 03: Direct payments for arable crops

The appropriations requested in the 2005 budget for this measure were reduced by the Budgetary Authority. However, the expenditure incurred by the Member States for the direct payments for arable crops was higher than the appropriations included in the budget, thus, over-spending these appropriations by approximately EUR 173.4 million.

Article 05 02 04: Food programmes

With regard to the distribution of agricultural products to deprived persons in the Community, the over-execution of EUR 2.7 million was primarily due to the double rate effect arising from the appreciation of the national currency against the euro which resulted to higher than otherwise expenditure in the case of Poland.

With regard to refunds in connection with food aid, the under-execution of – EUR 3.6 million resulted primarily from the lower quantities of rice as well as to the non-utilisation of dairy products exported as food aid compared to the quantities retained in the 2005 budget.

Article 05 02 05: Sugar

The increase in the world market price of sugar led to fixing the export refund rates for the marketing year 2004/05 at lower levels than otherwise, thus, leading to lower payments for export refunds and to the under-execution of the corresponding appropriations in the budget by approximately – EUR 205.5 million.

For the first time in 18 years, a quantity of sugar amounting to approximately 0.67 million tonnes entered public storage. No credit appropriations were foreseen in the 2005 budget for this measure. The payments incurred for technical, financial and end-of-year depreciation costs amounted to approximately EUR 232.4 million.

The quantities of sugar (marketing year 2004/05) used by the chemical industry for which refunds were granted amounted to approximately 0.70 million tonnes. This factor combined with the payment of refunds for the marketing year 2005/06 for which the budget did not foresee any appropriations led to an over-spending of the 2005 budget's appropriations by EUR 38.1 million.

Export refunds were paid for approximately 0.37 million tonnes of sugar used under the Non-Annex I regime. They were approximately 14% lower than the quantities retained in the 2005 budget. This factor combined with the lower level of the export refund rates led to an under-implementation of the budget's appropriations by – EUR 51.9 million.

Article 05 02 06: Olive oil

While Member States did not pay the totality of the production aid due for the marketing year 2003/04, they paid approximately EUR 55.2 million for outstanding balances of the aid for previous marketing years for which no appropriations were foreseen in the 2005 budget, thus, over-spending the budget's appropriations by approximately EUR 10.1 million.

Production refunds for olive oil used in the manufacture of preserved fish and vegetables were paid for approximately 0.06 million tonnes versus the quantity of 0.05 million tonnes retained in the 2005 budget, thus, over-spending the corresponding appropriations by approximately EUR 1.2 million.

Article 05 02 07: Textile plants

The appropriations requested in the 2005 budget with regard to aid for cotton were reduced by the Budgetary Authority. However, the expenditure incurred by the Member States for this measure was higher at EUR 952.0 million, thus leading to an over-spending of these appropriations by EUR 68.2 million.

Processing aid was granted to approximately 0.03 million t of short flax and hemp fibre as compared to the maximum guaranteed quantity of 1.46 million tonnes on which the 2005 budget's estimates were based, thus, leading to an under-execution of the corresponding appropriations by approximately – EUR 8.0 million.

Article 05 02 08: Fruits and vegetables

Lower quantities of fresh fruits and vegetables were exported, thus, leading to an under-spending of the 2005 budget's appropriations by approximately – EUR 15.7 million.

The appropriations requested in the 2005 budget for the withdrawal of fruit and vegetables were increased by the Budgetary Authority. In the course of the year, the expenditure incurred for the withdrawal of approximately 0.34 million tonnes of fruit and vegetables amounted to EUR 27.7 million, thus leading to an under-spending of the budget's appropriations by – EUR 54.3 million.

The appropriations requested in the 2005 budget for operational funds for producer organisations were reduced by the Budgetary Authority. In the course of the year, Member States approved and paid operational funds for producer organisations amounting to approximately EUR 558.0 million, thus, over-spending the budget's appropriations by approximately EUR 61.0 million.

With regard to special measures for nuts, Member States paid aids for quality improvement programmes amounting to approximately EUR 33.7 million, thus, over-spending the budget's appropriations by EUR 13.7 million.

The appropriations requested in the 2005 budget for aid for bananas were increased by the Budgetary Authority. Favourable market conditions led to a higher level of prices, thus, resulting to a decrease in the effective rate of aid for bananas by 11.8%. As a consequence, aid payments for bananas were lower, thus, under-spending the budget's appropriations by – EUR 119.7 million.

The appropriations requested in the 2005 budget for processing aid for tomatoes were reduced by the Budgetary Authority. Member States paid this aid for approximately 11.3 million tonnes of tomatoes for the marketing year 2004/05, thus, over-spending the budget's appropriations by EUR 80.9 million.

The production aid for fruit-based products was paid for approximately 0.42 million tonnes of peaches and for approximately 0.11 million tonnes of pears, thus incurring expenditure amounting to approximately EUR 81.9 million and consequently under-spending the budget's appropriations by – EUR 11.1 million.

The area aid for dried grapes was paid for approximately 0.034 million ha incurring expenditure amounting to EUR 120.1 million, thus, over-spending the budget's appropriations by EUR 5.1 million.

In the case of the compensation to encourage processing of citrus fruits the budget's appropriations were under-spent by –EUR 8.9 million as a result of the lower quantities of lemons and grapefruits processed, i.e.: approximately 0.45 million tonnes compared to the quantity of 0.48 million tonnes retained in the 2005 budget.

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

Total production of wine for the marketing year 2004/05 was estimated at approximately 184.0 million hl. This production level was approximately 14.0% larger compared to the one of 159.0 million hl for the marketing year 2003/04. For the same period, domestic human consumption of wines was estimated at approximately 131.0 million hl while industrial utilisations and distillations were estimated at approximately 33.0 million hl.

Lower quantities of wine were exported, thus, leading to an under-spending of the 2005 budget's appropriations for export refunds by approximately – EUR 8.7 million.

The quantities of wine and grape must placed in storage were approximately 18% higher than the quantities retained in the 2005 budget, thus, resulting to an over-spending of approximately EUR 2.6 million.

Aid payments for the wine distillation scheme amounted to EUR 320.3 million, thus, resulting to an under-spending the 2005 adopted budget's appropriations by – EUR 2.5 million.

Payments for the private storage of alcohol amounted to approximately EUR 6.0 million versus the amount of EUR 12.0 million foreseen in the budget. The overall expenditure incurred for the storage of alcohol amounted to approximately EUR 185.2 million, thus under-spending the budget appropriations by – EUR 3.8 million.

Aid was paid for a quantity of concentrated and rectified must for enriching wines amounting to 72.0 million hl which was higher than the quantity of 51.0 million hl retained in the 2005 budget, thus, resulting in an over-spending of EUR 42.2 million.

Aid for the permanent abandonment was paid for approximately 2 000 ha of vineyards in Cyprus. This aid was not foreseen in the 2005 budget, thus, resulting in an over-spending of EUR 12.4 million.

Article 05 02 10: Tobacco

EAGGF and Member States payments under the Community Fund for Research and Information amounted to approximately EUR 4.7 million out of the budget's appropriations of EUR 14.4 million, thus, leading to under-spending these appropriations by – EUR 9.7 million.

Article 05 02 11: Other plant products/measures

The quantities of dried fodder eligible for the aid amounted to approximately 5.2 million tonnes, thus exceeding the maximum guaranteed quantity of 4.96 million tonnes. This excess quantity reduced the amount of aid to be paid for these quantities as a result of the higher abatement of the amount of aid. Therefore, the expenditure incurred by the Member States for the payment of this aid was lower than otherwise, thus leading to an under-spending of the budget's appropriations by – EUR 53.7 million.

All the programmes in favour of the outermost regions-POSEI were, in varying degrees, under-implemented as compared to the appropriations included in the 2005 budget, hence, the under-spending of – EUR 80.6 million.

Article 05 02 12: Direct aids of a horizontal nature

Payments made by the new Member States for the Single Area Payment Scheme (SAPS) amounted to EUR 1 449.2 million, thus, over-spending the budget's appropriations by EUR 55.2 million. This over-spending is due to the double rate effect arising from the payment of these aids in these Member States' national currencies. The value of some of these currencies appreciated against the euro, specifically the currencies of Hungary and Poland, thus, resulting to higher than otherwise expenditure in euro.

3.3. CHAPTER 05 03: ANIMAL PRODUCTS

Introduction

The initial appropriations for this chapter of the budget amounted to EUR 13 683.8 million while payments amounted to approximately EUR 12 888.5 million, i.e. an implementation rate of 94.2% of these appropriations. All the sectors of this chapter were under-implemented. Details of the differences between the budget's appropriations and their execution by budget item are presented in Annex 9.

Article 05 03 01: Milk and milk products

After their fall in 2002, world prices for milk products rose substantially over the last 3 years and remained relatively stable at a high level in 2005. Substantial price increases in the world prices for cheese, butter, skimmed and whole milk powder were particularly marked in 2005.

The favourable international dairy market situation led to an average decrease in the level of export refunds for the various products of approximately 8% in 2005. At the same time, while exports of butter, butterfat and other dairy products increased, exports of skimmed milk powder and cheese decreased. As a consequence, the budget's appropriations for export refunds were under-spent by – EUR 106.7 million.

The general favourable price environment allowed intervention stocks of dairy products to fall to their lowest levels since 2002.

With regard to public storage of skimmed milk powder, purchases amounted to approximately 0.005 million tonnes and sales to 0.14 million tonnes. The final quantity in store amounted to 0.01 million tonnes. The low level of purchases and the increased sales led to an increase in the net gains account, thus, leading to an under-implementation of the budget's appropriations for the various costs of public storage for skimmed milk powder amounting to approximately – EUR 109.7 million.

With regard to public storage of butter, purchases amounted to approximately 0.04 million tonnes and sales to 0.1 million tonnes. The final quantity in store amounted to 0.1 million tonnes. The low level of purchases and the increased sales led to an increase in the net gains account, thus, leading to an under-implementation of the budget's appropriations for the various costs of public storage for butter amounting to approximately – EUR 135.1 million.

The level of aid for skimmed milk processed into casein decreased to approximately EUR 19.6/t compared to the rate of aid of EUR 35.7/t at the start of the budget year, while the aid for animal feed was decreased to EUR 410.0/t compared to the rate EUR 460.0/t at the same time. The quantities of SMP used for animal feed amounted to approximately 0.39 million tonnes while the ones used for casein amounted to 6.1 million tonnes. As a consequence, aid payments for the use of skimmed milk powder under-spent the budget's appropriations by approximately – EUR 272.6 million.

Under the specific uses for butterfat scheme, the average aid level was decreased by 9% while the quantity used amounted to approximately 0.5 million tonnes. As a consequence, aid payments for this scheme under-spent the budget's appropriations by approximately – EUR 63.0 million.

The super-levy was collected for more than 1.0 million tonnes of milk versus the quantity of 0.25 million tonnes retained in the budget. As a consequence, receipts under the milk super-levy amounted to – EUR 447.0 million versus the amount of – EUR 166.0 million retained in the 2005 budget. The difference between these two amounts is equivalent to a decrease in expenditure of approximately – EUR 281.0 million.

Approximately 0.27 million tonnes of dairy products were exported under the Non-Annex I regime at the prevalent lower level of export refunds, thus, leading to an under-spending of the budget's appropriations by – EUR 42.7 million.

Article 05 03 02: Beef and veal

Bovine meat production was decreased to approximately 7.9 million tonnes in 2005. In the international meat markets, sanitary crises and import restrictions continued to support a level of generally high prices in 2005. The European Union continued to be a net importer of beef.

Against this international background export refund rates for fresh and frozen meat were slightly reduced when compared to the ones retained in the 2005 budget. However, the actual quantities of exported meat amounted to approximately 0.28 million tonnes versus the quantity of 0.34 million tonnes retained in the 2005 budget. As a consequence, the corresponding appropriations were under-spent by approximately – EUR 73.9 million.

As it regards exports of live animals, the average export refund rate was increased to EUR 906.0/t compared to EUR 860.0/t retained in the 2005 budget while the quantities exported were lower to approximately 0.06 million tonnes compared to 0.09 million tonnes forecasted in the 2005 budget. As a consequence, the corresponding appropriations were under-spent by approximately – EUR 24.1 million.

The animal premiums for the calendar year 2004 are paid in the 2005 budget year. The number of premiums paid was higher than in past years and it resulted to an over-implementation of the 2005 budget's appropriations by EUR 378.3 million. It should be reminded that the appropriations of this article had been reduced by the Budgetary Authority by approximately EUR 218.0 million particularly in regard to the suckler cow and the special beef premiums.

Article 05 03 03: Sheepmeat and goatmeat

The ewe/goat premiums for the calendar year 2004 are paid in the 2005 budget year. The Budgetary Authority reduced the appropriations of this article for the ewe/goat premiums by approximately EUR 46.0 million. Nevertheless, the payment of these premiums by the Member States resulted to an over-implementation of the budget's appropriations by EUR 36.3 million.

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

While the 2005 budget retained credits for the export of approximately 0.1 million tonnes of fresh, chilled and frozen pigmeat, these were discontinued because of the improved market situation. Furthermore, export refunds were paid for a quantity of approximately 0.07 million tonnes of sausages and conserves as opposed to the

quantity of 0.1 million tonnes retained in the 2005 budget. Therefore, expenditure for exports refunds amounted to approximately EUR 19.1 million, thus, under-spending the budget's appropriations by – EUR 46.9 million.

For poultry, the reduced quantities exported with refunds led to an under-spending of the budget's appropriations by – EUR 11.0 million.

Approximately 0.04 million tonnes of eggs were exported under the Non-Annex I regime versus the quantity of 0.03 million tonnes retained in the 2005 budget, thus, leading to an over-spending of the corresponding appropriations by EUR 4.4 million.

3.4. CHAPTER 05 04: RURAL DEVELOPMENT

Article 05 04 01: Rural development in the EU 15

The EAGGF Guarantee Section (subheading 1b), co-finances (under Regulation (EC) No 1257/1999), 89 rural development programmes which were adopted by all 15 Member States for the period 2000–2006.

The allocation to the 2005 budget by the budgetary authority was EUR 4 910.0 million, equivalent to the 2005 ceiling for subheading 1b in the financial perspectives 2000–2006.

The amount concerned was increased by carrying over EUR 49.0 million from 2004 to 2005, making the total available EUR 4 959.0 million.

Outturn in 2005 was EUR 4 914.8 million, comprising all expenditure actually incurred under the 89 programmes in force, i.e. 99.1% of the amount available. Accordingly, there was an underspending of EUR 44.2 million in relation to the appropriations available, i.e. less than 1%. Within the framework of the closure of the financial year 2005 and the carryover procedure of unimplemented appropriations from 2005 to 2006, EUR 43.4 million was carried over by Commission Decision in accordance with Article 149(3) of the new Financial Regulation.

Scrutiny of the outturn in 2005 by budget heading shows that there was underutilisation of the appropriations available, mainly in connection with the new systems for forestry, agri-environmental measures, early retirement and incentives for the adaptation and development of rural areas. By contrast, the measure which has largely exceeded the initial allocation is that for the “less-favoured areas”. As a result, transfers within the article for adjustment purposes were needed to re-balance budget resources to meet real implementation needs.

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

The EAGGF Guarantee Section, through the transitional instrument and on the basis of differentiated appropriations, co-finances, under Regulation (EC) No 1257/1999, the rural development programmes which were adopted in 2004 for all 10 new Member States for the period 2004–06.

The allocation to the 2005 budget by the budgetary authority was EUR 1 931.0 million in commitment appropriations and EUR 1 369.4 million in payment appropriations corresponding to the amount set for year 2005 at the Copenhagen European Council for the period 2004–06.

The implementation for 2005, in terms of commitment appropriations, amounted to EUR 1 931.0 million for the adopted 10 programmes. In terms of payment appropriations, the outturn was EUR 1 414.6 million higher than the amount initially available, of which EUR 345.6 million related to a second advance payment of 6% for the 10 programmes calculated on the basis of the overall budget for 2004–06 and EUR 1 069.0 million related to reimbursement of expenditure made by the 10 Member States. Payment appropriations under this heading were increased by a transfer of EUR 45.2 million.

3.5. CHAPTER 05 07: AUDIT OF AGRICULTURAL EXPENDITURE

ARTICLE 05 07 01: CONTROL OF AGRICULTURAL EXPENDITURE

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

Member States incurred expenditure amounting to approximately EUR 4.1 million for the establishment of the olive oil register (Geographical information system) while the budget foresaw appropriations of EUR 16.0 million for these measures.

The European Community directly financed measures to the tune of EUR 7.4 million, mostly for the purchase of satellite images within the framework of the Integrated Administrative and Control System (IACS) while the budget foresaw appropriations of EUR 9.1 million for these measures.

With regard to the accounting clearance of previous years' accounts, Member States have credited the EAGGF-Guarantee section budget with the amount of – EUR 48.5 million which corresponded to the corrections included in the 3 accounting clearance decisions adopted by the Commission in the course of the budget year, namely: the Commission decisions 2005/127/EC, 2005/320/EC and 2005/385/EC. With regard to the reduction/suspension of advances, an amount of – EUR 29.1 million was deducted from the Member States advances. The total amount credited in this item amounted to – EUR 77.6 million while the budget retained appropriations amounting to – EUR 70.0 million for this item.

With regard to the conformity clearance of previous years' accounts, Member States have credited the EAGGF-Guarantee section budget with the amount of – EUR 499.9 million which corresponded to the corrections included in the 3 conformity clearance decisions adopted by the Commission in the course of the budget year, namely: the Commission decisions 2005/354/EC, 2005/555/EC and 2005/579/EC. Therefore, the amount clawed back amounted to approximately – EUR 169.9 million above the appropriations of – EUR 330.0 million retained in the budget.

Article 05 07 02: Settlement of disputes

This article intends to cover expenditure for which the Commission may be made responsible by decision of a court of justice, including the cost of settling claims for damages and interest. No appropriations were foreseen for this article in the 2005 budget and no payments were made.

3.6. CHAPTER 05 08: POLICY STRATEGY AND COORDINATION

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

For promotion actions within the EU, 1 decision was adopted in 2005 for an amount of approximately EUR 26.0 million. The promotion programmes adopted cover mostly the following products: fruit and vegetables, milk, cheese, wine, PDO/PGI/TSG, bio, flowers, etc. Within the year, payments amounted to approximately EUR 26.1 million for previously adopted decisions.

For promotions actions in third countries, 2 decisions were adopted in 2005 for an amount of approximately EUR 23.0 million. The promotion programmes adopted cover mostly the following products: wine, olive oil, protected designations of origin (PDO) / protected geographical indications (PGI), flowers beef and veal, etc. The targeted countries for these promotion measures are Japan, Romania, Russia, Bulgaria, Croatia, Ukraine, Serbia and Montenegro, Canada, Norway, Switzerland, USA, Australia, Brazil and China. Within the year, payments amounted to approximately EUR 4.1 million for previously adopted decisions.

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

For directly managed promotion measures, the Commission committed approximately EUR 2.3 million versus the amount of EUR 11.0 million retained in 2005 budget. An amount of approximately EUR 2.0 million was committed for information campaigns in China, Japan, USA and Canada relating to the community system of protected designations of origin (PDOs) and protected geographical indications (PGIs), to traditional speciality guaranteed (TSGs) and to organic farming. The remaining EUR 0.3 million were used to pay technical assistance and the contribution to the publicity fund of the International Olive Oil Council, etc.

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

Appropriations committed with regard to the information measures on the CAP amounted to approximately EUR 4.0 million versus the amount of EUR 6.5 million retained in 2005 budget.

3.7. CHAPTER 11 02: EUROPEAN FISHERIES GUARANTEE FUNDS

Article 11 02 01: Intervention in fishery products

The budget allocation for fisheries totalled EUR 18 200 000, EUR 13 091 270 of which was spent, i.e. a difference of EUR 5 108 729.

The overall underuse of the budget compared to the forecast figures mostly concerns private storage aid (underrun of EUR 327 536) and compensation under operational programmes (underrun of EUR 4 475 923). During the 2005 fishing year, producer organisations recorded a low take-up of private storage aid. Regarding operational programmes, the compensation awarded by Member States to producer organisations is on a voluntary basis. Moreover, a compensatory allowance scheme for tuna was launched in 2004 following the fall in prices of this product in the Community during the first and second quarters, and was paid in 2005.

By contrast, spending on Community withdrawals exceeded forecast figures (by EUR 487 269) due to the significant fall in prices of several fishery products in 2004.

The negative state of the market led to an increase in take-up of Community carry-overs (by EUR 710 255). This expenditure was paid in 2005.

3.8. CHAPTER 17 03: PUBLIC HEALTH

Article 17 03 02: Community Tobacco Fund

More than 99% of the credits available from the 2005 budget have been used; an amount of EUR 14 271 438.8 out of 14 400 000 available for the information programmes has been committed, essentially for the anti-smoking campaign 'HELP' (EUR 13 999 259.5). 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 14 000 000 for each year.

Overview

Line	BUDGET 2005	Initial Credits	Final credits after transfer	Committed before 31/12//2005	Balance commitments – final credits
17 03 02	Community Tobacco Fund – information programmes	14.400.000	14.400.000	14.271.439	128.561
	Total	14.400.000	14.400.000	14.271.439	128.561

The details of the utilisation of credits can be found in Annex 10 bis.

3.9. CHAPTER 17 04: VETERINARY AND PLANT HEALTH MEASURES

Generalities on the chapter

95% of the credits available from the 2005 budget have been used; an amount of EUR 226 627 931.0 out of EUR 238 575 000.0 available for the operational and administrative credits for veterinary and plant health measures has been committed.

The initial amount allocated for Title 17, subheading 1a, reached EUR 273.6 million. Because no major disease outbreaks appeared during 2005, the credits for the emergency fund (line 17.0403) were reduced by EUR 35.0 million by a rectifying letter in the autumn of 2005. A couple of transfers were made between other lines to cover additional needs for the other veterinary measures of line 17 04 02 (more details below).

Chapter details

Article 17 04 01: Animal disease eradication and monitoring programmes

After a transfer of EUR 3 032 000.0 to the line 'Other veterinary measures' (17 04 02), the amount of available credits was EUR 200 468 000.0. It was totally committed:

- EUR 96 396 000.0 for TSE surveillance programmes, they contain also the goat TSE surveillance programmes that started only in the summer of 2005,
- EUR 15 945 000.0 for the TSE eradication programmes,
- EUR 32 775 000.0 for scrapie programmes (monitoring and eradication) and

– EUR 55 352 000.0 for the traditional eradication programmes.

Payment credits were executed via 94 payments; the total amount reached EUR 128.2 million and was constituted of C8 credits.

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

The credits for this line reached EUR 15 500 000.0 after a transfer of EUR 5.5 million coming from the eradication/surveillance programmes (line 17.0401 for EUR 3.0 million) and food and feed (line 17.0407 for EUR 2.5 million). At the end of 2005, EUR 1.1 million was not committed.

The payment credits were executed via 150 payments up to a sum of EUR 8.5 million, +/- 50% of them concerned credits of 2004.

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

The amount of initial credits was EUR 48 000 000.0. Because no major diseases broke out in 2005 and no arrears were to be made up, the appropriations could be reduced by EUR 35.0 million via a rectifying letter to the 2005 budget. Still EUR 8.2 million was not committed in 2005.

Payment credits were executed up to an amount of EUR 145.6 million, of which EUR 141.8 million concerned 2004 credits.

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

The initially allocated amount was EUR 3.0 million. Commitments were executed for a total sum of EUR 1.8 million. It was decided not to launch new comparative trials in 2005, which explains the weak utilisation of the credits.

Payment credits were executed to an amount of EUR 1.3 million, of which EUR 1 million were 2004 credits.

Article 17 04 07: Food and feed control. Expenditure on operational management

After a transfer of EUR 2.5 million, almost 100% of the available appropriations (EUR 1.40 million out of EUR 1.41 million) were committed for IT related to the food and feed Regulation (EC) No 882/2004.

No payments were made on this line that was newly created in the 2005 budget.

Article 17 01 04 01: Plant-health measures. Expenditure on administrative measures

The initially allocated credit amount was EUR 0.7 million. No other commitments than those for IT and communication were made for a total amount of EUR 0.1 million.

Article 17 01 04 04: Pilot study

The EUR 0.5 million available on this line were committed for the evaluation of the common animal health policy; the results thereof should be available in the autumn of 2006.

Article 17 01 04 05: Food and feed control. Expenditure on administrative measures

Three quarters (EUR 3.0 million) of the available credits were committed for the start of the newly created training tools by the food and feed Regulation (EC) No 882/2004.

Overview

Line	BUDGET 2005	Initial Credits	Final credits after transfer	Committed before 31/12//2005	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	203.500.000	200.468.000	200.468.000	0
17 04 02	Other measures in the veterinary, animal welfare and public-health field	10.000.000	15.500.000	14.390.813	1.109.187
17 04 03	Emergency fund for veterinary complaints and other diseases of animal contaminations which are a risk to public health	48.000.000	13.000.000	4.835.834	8.164.166
17 04 04	Plant-health measures. Expenditure on operational management	3.000.000	3.000.000	1.832.528	1.167.472
17 04 07	Food and feed. Expenditure on operational management	3.875.000	1.407.000	1.403.185	3.815
17 01 04 01	Plant-health measures. Expenditure on administrative management	700.000	700.000	147.809	552.191
17 01 04 04	Pilot study	500.000	500.000	500.000	0
17 01 04 05	Food and feed. Expenditure on administrative management	4.000.000	4.000.000	3.049.762	950.238
	Total	273.575.000	238.575.000	226.627.931	11.947.069

Finally, attention must be drawn to the fact that the only payment credit available on line 17.0406 (achievement of previous actions in the veterinary and plant health field – dissociated credits) of DG SANCO remains still open (file reformulation antigens).

The details of all the commitments made in 2005 are given in the attached Annex 10.

C. SPECIFIC ACTIVITIES

3.10. 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 Community⁶. The Commission then adopted an implementing regulation (Regulation (EEC) No 3149/92⁷, as last amended by Regulation (EC) No 133/2006⁸).

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 2005. 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 underspend 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.

Under the 2005 plan (Decision C 2004/766/CE⁹) (details of which appear in tables 1 and 2), the participating Member States spent approximately EUR 207.41 million as detailed in table 3 (declarations of expenditure until October 2005).

⁶ OJ L 352, 15.12.1987, p. 1.

⁷ OJ L 313, 30.10.1992, p. 50.

⁸ OJ L 023 du 27.1.2006, p. 11.

⁹ OJ L L 339 du 16.11.2004, p. 13.

TABLE 1

Member State	Ceiling in euros
BE	3 047 791
EL	5 704 637
ES	42 544 686
FR	48 620 337
IT	60 294 489
LU	68 537
MT	347 642
PL	35 504 167
PT	12 527 718
FI	2 825 645
Total allocated	211 485 650
Transfers	4 514 350
Total 2005 plan	216 000 000

TABLE 2**Distribution of the quantities of products by Member State (2005 plan)**

Member State	Cereals	Rice (paddy)	Butter	Milk powder
Belgium	6 000	3 500	308	410
Greece	6 972	4 346		2 087
Spain	68 721	29 452	9 547	
France	60 905	31 412	500	18 143
Italy	98 153	22 575	14 446	
Malta	1 383	553		
Poland	17 758	26 835	6 772	3 749
Portugal	8 588	14 708	2 594	480
Finland	15 000			600
Total	283 480	133 381	33 677	25 469

TABLE 3

Member States participating in the 2005 plan	Uptake of appropriations (EUR million)
Belgium	3.03
Greece	5.11
Spain	41.52
France	46.59
Italy	58.82
Luxembourg	0.04
Malta	0.22
Poland	37.16
Portugal	12.34
Finland	2.58
All participating Member States	207.41

3.11. 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 (EC) No 2826/2000 and Commission Regulations (EC) No 1346/2005 and (EC) 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 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 for promotion measures amounted to approximately EUR 29.5 million, as compared to the 2005 budget appropriation of EUR 48.5 million. The under-implementation is due to delays in launching new programmes and in the implementation of programme actions in some Member States

The number of approved programmes (under shared management) since 2001 was: 18 (2001), 40 (2002), 66 (2003), 59 (2004). In 2005, 51 new indirectly managed promotion programmes were approved, both on the internal market and in non-member countries, by three separate Commission Decisions. Since many of the 2005 programmes were approved late in the budget year (for example 41 programmes were approved during October), the corresponding uptake of funds during the year was reduced and, therefore, the payments incurred in 2005 remained lower than expected.

D. BREAKDOWN BY TYPE OF EXPENDITURE

The EAGGF Guarantee Section expenditure for subheading 1a can be broken down into the following principal categories. Hereafter, the corresponding expenditure involved along with the percentage that this expenditure represents in the total EAGGF-Guarantee section expenditure for 2005 are given:

Export refunds

Spending on export refunds amounted to EUR 3 051.9 million, i.e.: 6.2% of the total.

Direct aids

Expenditure under this heading amounted to EUR 33 700.8 million, i.e. 68.9% of the total. The expenditure that counts as direct aid is defined in the Annex to Regulation (EC) No 1259/1999 of 17 May 1999 (OJ L 160, p. 113).

Storage

Expenditure for storage amounted to EUR 851.5 million, i.e.: 1.7% of the total. The main products involved were cereals, sugar, wine and milk products.

Others

Other intervention expenditure amounted to EUR 4 496.6 million, i.e. 9.2% of the year's total. This heading covers expenditure not falling into the above categories.

The evolution of this breakdown of expenditure for the period 2001 to 2005 is presented in Annex 16.

4. CONTROL MEASURES

4.1. General

Article 8(1) of Regulation (EC) No 1258/1999¹⁰ provides for the general obligation of Member States to ensure that transactions financed by the EAGGF Guarantee section are carried out and executed correctly, to prevent and deal with irregularities and to recover amounts unduly paid.

In complement to this general obligation, for each aid regime, 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 systems generally provide 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

¹⁰ OJ L 160, 26.6.1999, p. 103.

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 IACS is normally 5%, while it is 100% for sugar storage. 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, in addition to the primary and secondary control levels, *ex-post* controls must be carried out in accordance with Regulation (EEC) No 4045/89¹¹ (see point 4.4. below).

4.2. Integrated Administration and Control System (IACS)

DG AGRI verifies the effectiveness of Member States' IACS and their uniform implementation by means of both on-the-spot auditing and general supervision based on financial and statistical data supplied annually. For some years now, it has been established that the IACS provides an excellent and cost-effective means of ensuring the proper use of Community funds – IACS has been up and running for several years, IACS compatibility went smoothly and the new Member States were well monitored, largely thanks to the enforcement and preventive efforts involved in the monitoring exercise. This was generally accepted by the Court of Auditors in its 2004 annual report.

Member States have to submit each year reports on the implementation of the IACS, including results of controls carried out and the reductions/dissuasive penalties applied.

These data set out the results of the checks carried out by the Member States under the IACS. Each year the Commission looks at these figures to detect any errors and uses them for its audits. It should be noted that the Commission's assessment of the Member States' systems is based on its audits as a whole and that these data are only one element of the information used. The data are produced by the Member States, which are responsible for their accuracy. However, they do give a practical indication, updated each year, of the operation of the IACS, and its results.

The results of the IACS checks provide useful input for estimating an 'error rate'. Specifically as regards arable crops, areas fell by 0.54% after inspections, to which should be added 0.74% in dissuasive penalties, a total of 1.3% of areas. Clearly the penalties have a dissuasive effect. They should be added to the non-payment of ineligible areas and virtually double the financial impact. In financial terms, the areas where the Member States detected errors represent a reduction of about 2.1% of the amount applied for by farmers, which approximates to the error rate. The penalties concerning arable crops total some EUR 272 million. The situation as regards bovine premiums, where the combination of 'identification' databases and IACS constitutes a very reliable inspection tool, is similar. Administrative checks guarantee the management of individual ceilings and are effective in detecting duplicate applications and animals which are otherwise ineligible. On-the-spot inspection rates which are well above the minimum lead to refusals of Community finance ranging from 1.8% to 2.8% depending on the premium.

¹¹ OJ L 388, 30.12.1989, p. 18.

4.3. Olive oil inspection agencies

In application of Council Regulation (EEC) No 2262/84¹² and Commission Regulation No 27/85¹³, olive oil inspection agencies were created for the main olive oil-producing Member States: Italy, Greece, Spain and Portugal.

The four agencies completed their inspection tasks during the 2004/05 marketing year in accordance with the provisions contained within the last co-financed action programmes and the forward estimates approved by the authorities of the Member States and by the Commission.

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

It has to be noted that Regulation (EEC) No 2262/84 has been repealed as from 1 November 2005.

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

Council Regulation (EEC) No 4045/89¹⁴ relates to scrutiny of the commercial documents of those entities receiving or making payments relating directly or indirectly to the system of financing by the Guarantee Section of the EAGGF, or their representatives, in order to ascertain whether transactions forming part of the system of financing by the Guarantee Section of the EAGGF have actually been carried out and have been executed correctly.

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

Some 3000 companies are selected for scrutiny each year. These scrutinies are conducted by control bodies and coordinated by special departments. In total some 72 institutions are involved in the 25 Member States.

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

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

¹² OJ L 208, 3.8.1984, p. 11.

¹³ OJ L 4, 5.1.1985, p. 5.

¹⁴ See footnote 2.

Visits were carried out to Finland, Latvia, Poland, the Slovak Republic and the Netherlands (joint mission) in the financial year 2005. In addition, 18 missions covering specific sector related issues included the application of Regulation (EC) No 4045/89.

5. CLEARANCE OF ACCOUNTS

5.1. Financial Clearance for the 2004 Financial Year and others years

5.1.1. Introduction

The rules on the clearance of accounts stipulate that paying agencies must be approved and that accounts clearance is to be split into two distinct procedures: one annual accounts clearance decision verifying the veracity, completeness and accuracy of the accounts, and separate decisions excluding from Community financing any expenditure not effected in compliance with Community rules.

Accounts clearance is based on annual accounts supported by certificates and audit reports produced for each paying agency by independent audit bodies, the certifying bodies (Article 3(1) of Commission Regulation (EC) No 1663/95¹⁵).

The Commission examined the annual accounts, certificates and audit reports submitted by the deadline of 10 February 2005 and also visited some of the paying agencies. The purpose of these visits was to assess the work of the certifying bodies, the extent of the problems reported and the measures taken by the paying agency to solve the problems identified. Problems were not confined to the accuracy of the accounts, but also stemmed from the paying agencies' operational systems. The certifying bodies are required to check that these systems are sound enough to provide reasonable assurance that expenditure complies with Community rules.

5.1.2. Decisions

5.1.2.1 Decision No 2005/127/EC of 11 February 2005¹⁶

It was decided to clear the previously disjoined 2001 accounts of one Belgian, two Spanish and one Greek paying agencies where their completeness, accuracy and veracity had been confirmed on the basis of the information received.

5.1.2.2 Decision No 2005/320/EC of 21 April 2005¹⁷

It was decided to clear the previously disjoined 2002 accounts of two German, two Spanish, one Greek, eight French, two Italian, one Portuguese and one paying agency in UK where their completeness, accuracy and veracity had been confirmed on the basis of the information received.

¹⁵ OJ L 158, 8.7.1995, p. 6.

¹⁶ OJ L 43, 15.2.2005, p. 24.

¹⁷ OJ L 103, 22.4.2005, p. 39.

5.1.2.3 Decision No 2005/385/EC of 13 May 2005¹⁸

It was decided to clear the 2004 accounts of paying agencies where their completeness, accuracy and veracity had been confirmed on the basis of the information received.

The accounts of 5 paying agencies were disjoined from the decision and are the subject of a later decision.

5.1.2.4 Decision No 2005/738/EC of 14 September 2005¹⁹

It was decided to clear the previously disjoined 2003 accounts of three Belgian, five German, one Spanish, eight French, the Luxembourg, two Dutch, one Portuguese, the Swedish and four paying agencies in the UK where their completeness, accuracy and veracity had been confirmed on the basis of the information received.

5.1.3. *Corrections to accounts*

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

Austria	-320
Belgium	120.954
Germany	209.049
Denmark	-43.559
Greece	-1.396.887
Spain	-668.745
Finland	449.692
France	-511.509
Ireland	-1.160.213
Italy	-41.461.956
Netherlands	-17.303
Portugal	195.298
United Kingdom	-2.307.472

5.2. **Conformity Audits and Decisions**

5.2.1. *Audits*

In total 282 audits have been carried out of which 163 included an on-the-spot mission. The other 119 audits did not involve an on-the-spot check.

¹⁸ OJ L 127, 20.5.2005, p. 22.

¹⁹ OJ L 276, 21.10.2005, p. 58.

5.2.2. *In the financial year the following three conformity Decisions have been adopted:*

Decision 2005/354/EC of 29 April 2005 under Article 5(2)(c) of Regulation (EEC) No 729/70 and Article 7(4) of Regulation (EC) No 1258/1999 – 18th Decision²⁰;

Decision 2005/555/EC of 15 July 2005 under Article 5(2)(c) of Regulation (EEC) No 729/70 and Article 7(4) of Regulation (EC) No 1258/1999 – 19th Decision²¹;

Decision 2005/579/EC of 20 July 2005 under Article 5(2)(c) of Regulation (EEC) No 729/70 and Regulation (EC) No 1258/1999 – 20th Decision²².

5.2.3. *Financial result*

The three conformity Decisions resulted in the exclusion from Community financing of a total of EUR 635.37 million. The breakdown is as follows:

(EUR million)

	Decision (18) 2005/354/EC 29 April 2005	Decision (19) 2005/555/EC 15 July 2005	Decision (20) 2005/579/EC 20 July 2005
– Arable crops	25.36	26.06	–40.72
– Fruit and vegetables	14.71	86.08	17.46
– Refunds	15.47	–	0.23
– Financial audit	3.46	86.51	19.13
– Rural development	0.29	0.12	18.44
– Livestock premiums	10.81	53.20	37.82
– Oils and fats	68.91	–	–
– Public storage	3.86	2.24	4.57
– Milk & milk products	–0.11	–14.58	1.70
– Wine and tobacco	–	4.79	55.07
– Textiles	134.48	–	–
TOTAL	277.25	244.41	113.70

5.3. **Appeals brought before the Court of Justice against Clearance Decisions**

5.3.1. *Judgments handed down*

In the financial year 2005 the Court handed down 10 judgments in appeals brought by Member States against clearance decisions.

²⁰ OJ L 112, 3.5.2005, p. 14.

²¹ OJ L 188, 20.7.2005, p. 36.

²² OJ L 199, 29.7.2005, p. 84.

* The Court rejected the appeals brought in the following cases:

Judgment of 16 December 2004 in Case C-24/03 concerning fruit and vegetables, public storage of cereals and tobacco in Italy;

Judgement of 20 January 2005 in Case C-448/02 concerning arable crops in Greece;

Judgment of 24 February 2005 in Case C-318/02 concerning swine fever in the Netherlands;

Judgment of 17 March 2005 in Case C-285/03 concerning arable crops in Greece;

Judgment of 14 April 2005 in Case C-335/03 concerning livestock premiums in Portugal;

Judgment of 14 April 2005 in Case C-468/02 concerning arable crops and olive oil in Spain.

* The Court partly annulled a conformity Decision in the following cases:

Judgement of 24 February 2005 in Case C-300/02 concerning the arable crops sector in Greece;

Judgement of 9 June 2005 in Case C-287/02 concerning the financial audit sector in Spain;

Judgement of 7 July 2005 in case C-5/03 concerning fruit and vegetables and livestock premiums in Greece.

* The Court annulled the conformity Decision in respect of the Member State that appealed in the following cases:

Judgement of 21 July 2005 in Case C-370/03 concerning irregularities and fraud in Greece.

5.3.2. *Appeals pending*

The situation at 15 October 2005 with regard to appeals pending is shown, together with the amounts concerned, in Annex 21.

6. RELATIONS WITH PARLIAMENT AND THE EUROPEAN COURT OF AUDITORS

6.1. Relations with Parliament

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

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

The Committee on Budgetary Control monitored the correct implementation of the 2003 budget. It was asked to draw up the Parliamentary Decision (OJ L 196, 27 July 2005) by which discharge (in respect of the implementation of the general budget of the European Union for the 2003 financial year) was granted to the Commission on 12 April 2005.

6.2. Relations with the European Court of Auditors

6.2.1. Mission of the Court of Auditors

The basic task of the Court of Auditors is to audit the Community accounts. The Maastricht Treaty strengthened this role by requiring it to provide a statement of assurance as to the reliability of the Community accounts and the legality and correctness of the underlying transactions. Issuing this statement certifies that the accounts give an accurate picture of the year in question. It is also of prime importance to the budgetary authority in its deliberations on the granting of the discharge.

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

6.2.2. Annual Report 2004

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 2004 financial year together with the Commission's replies included one chapter (Chapter 4) on the EAGGF Guarantee Section. The main submissions advanced by the Court and the replies given by the Commission concerned the following:

Specific appraisal in the context of the Statement of Assurance:

IACS (4.6 – 4.8);

Post payment checks under Regulation 4045/89 (4.9 – 4.10);

Physical checks of subsidised exports of agricultural products (4.11 – 4.14);

Clearance of Accounts (4.15 – 4.25);

Annual Activity Report of the Director General for Agriculture (4.27 – 4.32);

Internal Control Standards (4.33 – 4.34);

Area aid schemes (4.35 – 4.38);
Animal premium schemes (4.39 – 4.42);
Subsidies paid on the basis of quantity produced (4.43 – 4.45);
Rural development (4.46 – 4.48);
Other expenditure (4.49 – 4.54);

New Member States: transition:

Accreditation of the EAGGF paying agencies in the new Member States (4.64 – 4.68);

SAPARD (4.69 – 4.76);

Follow-up to previous observations:

CMO in the banana sector (4.77 – 4.84);

Prefinancing of export refunds (4.85 – 4.91);

Potato and cereal starch (4.92 – 4.95);

Principal observations in the Special Reports:

Forestry measures within rural development policy (4.96 – 4.97);

Agri-environment (4.98 – 4.99).

The Court's observations on budgetary management were again consolidated into a separate chapter in the report (chapter 2). For the first time, the Court reported on the operation of the SAPARD instrument in chapter 4, rather than in chapter 8 (pre-accession strategy). This follows the accession of 10 countries (of which 8 were beneficiaries of SAPARD) to the EU on 1 May 2004.

6.2.3. Special reports by the Court of Auditors

In 2005 the Court published three special reports (SR) in the CAP area:

SR No 9/04 on forestry measures within rural development policy (OJ C 67, 18 March 2005);

SR No 1/05 on the management of the European Anti-Fraud Office (OLAF) (OJ C 202, 18 August 2005);

SR No 3/05 on rural development: the verification of agri-environment expenditure (OJ C 279, 11 November 2005).

The full texts of the Annual Report and the Special Reports, together with the Court of Auditors' comments and the Commission's replies, are on the Court's website: <http://www.eca.eu.int> .

7. BASIC RULES GOVERNING THE EAGGF GUARANTEE SECTION AND AMENDMENTS MADE IN 2005

7.1. Checks

- Council Regulation (EC) No 1782/2003 of 29 September 2003 establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers and amending Regulations (EEC) No 2019/93, (EC) No 1452/2001, (EC) No 1453/2001, (EC) No 1454/2001, (EC) 1868/94, (EC) No 1251/1999, (EC) No 1254/1999, (EC) No 1673/2000, (EEC) No 2358/71 and (EC) No 2529/2001 (OJ L 270, p. 1)²³;
- Commission Regulation (EC) No 796/2004 of 21 April 2004 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 (OJ L 141, p. 18)²⁴;
- 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)²⁵;
- Regulation (EC) No 1760/2000 of the European Parliament and of the Council of 17 July 2000 establishing a system for the identification and registration of bovine animals and regarding the labelling of beef and beef products and repealing Council Regulation (EC) No 820/97 (OJ L 204, p. 1)²⁶.

7.2. Clearance of accounts

- Council Regulation (EC) No 1258/1999 of 17 May 1999 on the financing of the common agricultural policy (OJ L 160, p103)²⁷;
- 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)²⁸;
- 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)²⁹.

²³ OJ L 270, 21.10.2003, p. 1.

²⁴ OJ L 141, 30.4.2004, p. 18.

²⁵ See footnote 2.

²⁶ OJ L 204, 11.8.2000, p. 1.

²⁷ See footnote 1.

²⁸ See footnote 6.

²⁹ OJ L 295, 16.11.1999, p. 1.

7.3. 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),
last amended by Regulation (EC) No 1259/96 of 25 June 1996 (OJ L 163, 2.7.1996, p. 10.),
- Commission Regulation (EEC) No 411/88 of 12 February 1988 on the method and the rate of interest to be used for calculating the costs of financing intervention measures comprising buying-in, storage and disposal (OJ L 40, 13.2.1988, p. 25),
last amended by Regulation (EC) No 2623/1999 of 10 December 1999 (OJ L 318, 11.12.1999, p. 14),
- Commission Regulation (EEC) No 1643/89 of 12 June 1989 defining the standard amounts to be used for financing material operations arising from the public storage of agricultural products (OJ L 162, 13.6.1989, p. 12),
amended by Regulation (EC) No 269/91 of 1 February 1991 (OJ L 28, 2.2.1991, p. 22),
- Commission Regulation (EEC) No 2734/89 of 8 September 1989 on the factors to be taken into consideration for determining expenditure pursuant to Article 37(2) of Regulation (EEC) No 822/87 to be financed by the EAGGF Guarantee Section (OJ L 263, 9.9.1989, p. 16),
- Council Regulation (EEC) No 3492/90 of 27 November 1990 laying down the factors to be taken into consideration in the annual accounts for the financing of intervention measures in the form of public storage by the European Agricultural Guidance and Guarantee Fund, Guarantee Section (OJ L 337, 4.12.1990, p. 3),
- Commission Regulation (EEC) No 3597/90 of 12 December 1990 on the accounting rules for intervention measures involving the buying-in, storage and sale of agricultural products by intervention agencies (OJ L 350, 14.12.1990,p. 43),
last amended by Regulation (EC) No 1392/97 of 18 July 1997 (OJ L 190, 19.7.1997 p. 22),
- Commission Regulation (EEC) No 147/91 of 22 January 1991 defining and fixing the tolerances for quantity losses of agricultural products in public intervention storage (OJ L 17, 23.1.1991, p. 9),
amended by Regulation (EEC) No 652/92 of 16 March 1992 (OJ L 70, 17.3.1992 p. 5),
- Commission Regulation (EEC) No 3149/92 of 29 October 1992 laying down detailed rules for the supply of food from intervention stocks for the benefit of the most deprived persons in the Community (OJ L 313, 30.10.1992, p. 50)
last amended by Regulation (EC)No 1903/2004 of 29 October 2004 (OJ L 328, 30.10.2004, p. 77),

- Commission Regulation (EC) No 2148/96 of 8 November 1996 laying down rules for evaluating and monitoring public intervention stocks of agricultural products (OJ L 288, 9.11.1996, p. 6) *amended by Regulation (EC) No 808/1999 of 16 April 1999 (OJ L 102, 17.4.1999, p. 70).*
- (b) Depreciation on buying-in
- Commission Regulation (EC) No 1843/2003 of 17 October 2003 fixing depreciation percentages to be applied when agricultural products are bought in for the 2004 financial year (OJ L 268, 18.10.2003, p. 61),
 - Commission Regulation (EC) No 1768/2004 of 13 October 2004 fixing depreciation percentages to be applied when agricultural products are bought in for the 2005 financial year (OJ L 315, 14.10.2004, p. 30).
- (c) Additional depreciation at the end of the financial year
- Decision C (2003) 3552 of 10 October 2003 (not published) fixing amounts and detailed rules for the depreciation of certain stocks of agricultural products bought into public intervention during the 2003 financial year,
 - Decision C (2004) 3660 of 5 October 2004 (not published) fixing amounts and detailed rules for the depreciation of certain stocks of agricultural products bought into public intervention during the 2004 financial year.
- (d) Uniform interest rate
- Commission Regulation (EC) No 1842/2003 of 17 October 2003 fixing the interest rates to be used for calculating the costs of financing intervention measures comprising buying-in, storage and disposal for the EAGGF Guarantee Section for the accounting year 2004 (OJ L 268, 18.10.2003, p. 60),
 - Commission Regulation (EC) No 1751/2004 of 8 October 2004 fixing the interest rates to be used for calculating the costs of financing intervention measures comprising buying-in, storage and disposal for the EAGGF Guarantee Section for the accounting year 2005 (OJ L 312, 9.10.2004, p. 9).
- (e) Standard amounts
- Commission Decision C(2003) 3914 of 28 October 2003 (not published) fixing, for the 2004 financial year, the standard amounts to be used for financing physical operations arising from the public storage of agricultural products,
 - Commission Decision C(2004) 3706 of 8 October 2004 (not published) fixing, for the 2005 financial year, the standard amounts to be used for financing physical operations arising from the public storage of agricultural products

**ANNEXES TO THE COMMISSION STAFF WORKING PAPER
accompanying the 35th FINANCIAL REPORT**

**on the EUROPEAN AGRICULTURAL GUIDANCE AND GUARANTEE FUND
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8. ANNEXES

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