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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND
THE COUNCIL**

**12th FINANCIAL REPORT FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT AND THE COUNCIL on the EUROPEAN AGRICULTURAL
GUARANTEE FUND**

2018 FINANCIAL YEAR

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Note: A detailed Commission Staff Working Document accompanies this report. The full text of this Staff Working Document (in English) and its annexed tables (in English) will be also available on DG Agriculture's Europa website (http://ec.europa.eu/agriculture/cap-funding/financial-reports/eaaf/index_en.htm).

1. BUDGETARY PROCEDURE¹

1.1. Draft Budget 2018 and Amending Letter 1/2018

The Draft Budget 2018 was published by the Commission and proposed to the Budgetary Authority on 29 June 2017. The commitment appropriations proposed for the EAGF totalled EUR 43 518.3 million.

The Council published its position on the Draft Budget 2018 on 4 September 2017, reducing the commitment appropriations for the EAGF by EUR 269.4 million. The European Parliament adopted its position on 25 October 2017, increasing the commitment appropriations for the EAGF by EUR 56.9 million compared to the Draft Budget.

On 16 October 2017 the Commission published Amending Letter (AL) No 1 to the Draft Budget 2018 increasing the needs in commitments by EUR 188.1 million compared to the Draft Budget. However, these additional needs were more than compensated by the EUR 242 million increase in the assigned revenue, expected to be available in 2018. As a result, the requested commitment appropriations for the EAGF in the AL could be decreased by EUR 53.9 million compared to the Draft Budget.

1.2. Adoption of the 2018 budget

The Conciliation Committee, composed of members of the European Parliament and of the Council, agreed on a Joint Text on 27 November 2017. Finally, the 2018 budget was declared as adopted by the European Parliament and by the Council on 30 November 2017. The budget's total commitment appropriations for the EAGF amounted to EUR 43 234.5 million and its payment appropriations amounted to EUR 43 188.7 million.

The difference between commitment and payment appropriations is due to the fact, that for certain measures, which are directly implemented by the Commission, differentiated appropriations are used. These measures relate mainly to the promotion of agricultural products, to policy strategy and coordination measures for agriculture.

Specifically, of the voted EAGF commitment appropriations for policy area 05 (Agriculture and Rural Development) amounting to EUR 43 234.5 million: EUR 2 358.1 million were foreseen for interventions in agricultural markets under chapter 05 02; EUR 40 668.7 million were foreseen for direct payments under chapter 05 03; EUR 160.23 million were foreseen for audit of agricultural expenditure under chapter 05 07; and EUR 36.4 million for policy strategy and coordination under chapter 05 08.

Further details are provided in annex 1.

Subsequently, during financial year 2018, EAGF appropriations for articles 05 01 04 (support expenditure) and 05 08 09 (operational technical assistance) were reduced by respectively EUR 0.4 million and EUR 1.0 million through Amending Budget No 6.

¹ This procedure is presented in annex 1.

1.3. Revenue assigned to the EAGF²

In accordance with Article 43 of Regulation (EC) No 1306/2013 on the financing of the Common Agricultural Policy³, revenue originating from financial corrections under accounting or conformity clearance decisions, from irregularities and from the milk levy are designated as revenue assigned to the financing of EAGF expenditure. According to these rules, assigned revenue can be used to cover the financing of any EAGF expenditure. If a part of this revenue is not used, then this part will be automatically carried forward to the following budget year.

At the time of establishing the 2018 budget, an estimate of the revenue was made both for the amount expected to be collected in the course of the 2018 budget year as well as of the amount which was expected to be carried over from the budget year 2017 into 2018. This estimate amounted to EUR 1 475.9 million and it was taken into consideration when the Budgetary Authority adopted the 2018 budget. In particular:

- revenue from clearance corrections and from irregularities was estimated at EUR 733.9 million and EUR 132 million respectively while no revenue from the milk levy was anticipated. Thus, the total amount of assigned revenue expected to be collected in the course of the 2018 budget year was estimated at EUR 865.9 million;
- the amount of assigned revenue expected to be carried over from the budget year 2017 into 2018 was estimated at EUR 610 million.

In the 2018 budget, this initially estimated revenue of EUR 1 475.9 million was assigned to two schemes, i.e.:

- EUR 400 million for the operational funds for producer organisations in the fruits and vegetables sector;
- EUR 1 075,9 million for the basic payment scheme (direct payments).

For these schemes, the sum of the voted appropriations by the Budgetary Authority and the assigned revenue corresponds to a total estimate of available appropriations of:

- EUR 872 million for the operational funds for producer organisations in the fruits and vegetables sector;
- EUR 17 402 million for the basic payment scheme (direct payments).

² These amounts are not entered in the revenue lines of the budget (Article 670 for the revenue assigned to the EAGF), which mention "p.m." ("pro memoria"), but the forecast amount is mentioned in the budgetary remarks for this article.

³ OJ L 347 of 20.12.2013, p. 549.

2. CASH POSITION AND MANAGEMENT OF APPROPRIATIONS

2.1. Management of appropriations

2.1.1. Appropriations available for the 2018 financial year

In EUR

Expenditure section of budget (1)	Commitment appropriations	Payment appropriations	Revenue section of budget (AR) (2)	Forecasts
1. Initial appropriations for EAGF of which	43 234 516 899.00	43 188 677 466.00	1. Clearance decisions	733 900 000.00
1a. Appropriations under shared management	43 089 300 000.00	43 089 300 000.00	2. Irregularities	132 000 000.00
1b. Appropriations under direct management	145 216 899.00	99 377 466.00	3. Super levy from milk producers	-
2. Amending Budget	-1 400 000.00	-1 400 000.00	Total forecast of AR	865 900 000.00
3. Transfer to / out of EAGF in the year		-7 525 000.00		
4. Final appropriations for EAGF of which	43 233 116 899.00	43 179 752 466.00		
4a. Appropriations under shared management	43 089 150 000.00	43 089 150 000.00		
4b. Appropriations under direct management	143 966 899.00	90 602 466.00		

(1) Appropriations entered in the 2018 budget after deducting the expected assigned revenue to be collected in 2018 and the one carried over from 2017 to 2018 in accordance with Article 12(3) of Regulation (EU, EURATOM) 2018/1046.

(2) AR: Assigned revenue to be collected. There are no amounts of revenue entered on the revenue line (p.m.), but the forecast amount is indicated in the budget remarks

2.1.2. Execution of appropriations available for the 2018 financial year

In EUR

	Execution of commitment appropriations	Execution of payment appropriations
Shared management (1)	44 223 038 392.88	44 223 038 392.88
Expenditure under direct management	141 443 524.13	71 180 250.83
Total	44 364 481 917.01	44 294 218 643.71

(1) Committed amounts. Commitments and payments less assigned revenue of EUR 997 361 033.56 (see point 4 and annex 6) received for shared management: EUR 43 225 677 359.32.

For the financial year 2018, the actual amount of commitment appropriations used amounted to EUR 44 364 481 917.01 while that for payment appropriations amounted to EUR 44 294 218 643.71.

The amount paid out (EUR 43 225 151 242.49) under shared management was less than EUR 43 225 677 359.32 due to suspended amounts for Poland.

2.1.3. *Budget execution of voted appropriations - Expenditure under direct management made by the Commission*

In EUR

Expenditure under direct management	Commitment appropriations	Payment appropriations	Carry-over to 2019 (2)
Appropriations (C1) (1)	143 966 899.00	90 602 466.00	-
Execution (C1)	141 443 524.13	71 180 250.83	17 517 431.10
Appropriations cancelled	2 523 374.87	1 904 784.07	-

(1) C1 denotes the budget's voted appropriations. This amount includes transfers from "shared management" for an amount of EUR 150 000.00 for commitment and payment appropriations, transfers "out" of EAGF for a total amount of EUR -7 525 000.00 for payment appropriations and an Amending Budget of EUR -1 400 000.00 for commitment and payment appropriations.

(2) Carry-over to 2019 only for non-differentiated appropriations.

The available commitment appropriations for expenditure under direct management in the 2018 budget were EUR 144.0 million. An amount of EUR 141.4 million was committed in 2018. The balance of these appropriations, EUR 2.5 million, was cancelled.

The majority of EAGF appropriations for expenditure under direct management made by the Commission are differentiated appropriations.

The automatic carry-over to 2019, which relates only to non-differentiated appropriations, amounts to EUR 17.5 million.

2.2. Monthly payments

2.2.1. Monthly payments to Member States under shared management

2.2.1.1. Monthly payments on the provision for expenditure

Article 18(1) of Regulation (EU) No 1306/2013 states that "*monthly payments shall be made by the Commission for expenditure effected by Member States' accredited paying agencies during the reference month*". Monthly payments shall be made to each Member State at the latest on the third working day of the second month following that in which the expenditure is incurred.

The monthly payments are a reimbursement of net expenditure (after deduction of revenue) which has been already carried out and are made available on the basis of the monthly declarations forwarded by the Member States⁴. The monthly booking of expenditure and revenue is subject to checks and corrections on the basis of these declarations. Moreover, these payments will become final following the Commission's verifications under the accounting clearance of accounts procedure.

Payments made by the Member States from 16 October 2017 to 15 October 2018 are covered by the system for monthly payments.

For the whole financial year, the total net amount of monthly payments decided, after deduction of clearance and other corrections, was EUR 43 225 677 359.32. Taking into account the suspended amounts, EUR 43 225 151 242.49 have effectively been paid to Member States.

⁴ These monthly declarations of expenditure are transmitted by the Member States by the declaration of the 12th of the month N+1.

1.1.1.1. Decisions on monthly payments

The Commission adopted a payment decision for each of the twelve periods of the financial year. Furthermore, an additional decision was adopted in December, adjusting the total expenditure chargeable to the year.

3. THE IMPLEMENTATION OF THE 2018 EAGF BUDGET

3.1. The uptake of the EAGF budget appropriations

The implementation of the budget amounted to EUR 44 364.5 million⁵. This expenditure was funded by the budget's initial appropriations and by using the revenue assigned to policy area 05, composed of the entire amount of EUR 603.3 million carried over from 2017 and of a part of the assigned revenue collected in 2018 amounting to EUR 548.50 million out of a total EUR 997.4 million.

Within policy area 05, the expenditure for market measures amounted to EUR 2.709.4 million and for direct payments to EUR 41 496.5 million.

For details of the budget's implementation by policy area, please see annex 2.

Annex 4 presents a breakdown of the expenditure on market measures, direct payments and audit of agricultural expenditure by item, by fund source and by Member State.

3.2. Comments on the budget implementation

A brief commentary -for the most significant sectors- on the implementation of the appropriations as well as on the use of the assigned revenue is presented hereafter based on details given in the annexes 2, 3-I and 3-II.

3.2.1. Chapter 05 02: Interventions in agricultural markets

3.2.1.1. Introduction

Total payments for this chapter amounted to EUR 2 709.4 million and they were funded by the voted appropriations amounting to EUR 2 358.1 million and by assigned revenue amounting to EUR 400 million. The latter was used to cover the expenditure incurred in the fruit and vegetables sector (for details, see point 3.2.1.2). In items where the needs exceeded the budgetary appropriations, the additional expenditure was covered through transfers from other items of the budget. For the market measures where the budget's appropriations were under-spent, the resulting available appropriations were transferred to other budget lines within the EAGF to cover additional expenditure as needed.

3.2.1.2. Article 05 02 08: Fruits and vegetables

The budget foresaw total available appropriations of EUR 931.8 million to cover the needs of all the measures for this sector. The Budgetary Authority voted appropriations of EUR 531.8 million as it took into account the estimated revenue assigned to this sector (EUR 400.0 million). Moreover, EUR 27.3 million was transferred from other budget lines within the same chapter. The expenditure incurred by Member States in 2018 amounted to EUR 865.2 million. The balance of

⁵ This figure includes the reimbursement of the financial discipline related to the agricultural crisis reserve carried over from financial year 2017.

the unused assigned revenue of EUR 93.9 million was carried over to the budget year 2019 to cover the needs of that year.

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

The budget foresaw total available appropriations at EUR 1 058 million to cover the needs of all the measures for this sector. The under-execution of EUR 89.9 million, compared to the forecasted budget needs, was due to the lower expenditure incurred by some Member States, particularly for the promotion and restructuring components of their national wine programmes.

3.2.1.4. Article 05 02 10: Promotion

As regards promotion measures-payments by Member States, the under-execution of EUR 10.4 million compared to the forecasted budget needs was due to the lower expenditure incurred by some Member States for their promotion programmes approved by the Commission compared to the expenditure foreseen in the budget.

As regards direct payments made by the European Union, the Commission committed appropriations for the total amount foreseen (EUR 88.6 million) in the budget for these actions.

3.2.1.5. Article 05 02 12: Milk and milk products

The budget foresaw total available appropriations amounting to EUR 34.1 million to cover the needs of all the measures for this sector. Expenditure incurred by Member States amounted to EUR 201.1 million. Budget transfers from other articles have been made to cover the extra needs.

1.1.1.2. Article 05 02 13: Beef and veal

The budget foresaw no appropriations while minor expenditure was incurred by Member States (EUR 0.1 million) for residual payments related to export refunds linked to certificates issued before 2014. This residual expenditure was covered via a transfer of appropriations available in the same chapter.

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

The budget foresaw total available appropriations amounting to EUR 95.0 million to cover the needs of all the measures for this sector. However, the expenditure incurred by Member States amounted to only EUR 64.0 million. The difference of EUR 31 million has been transferred to other budget articles.

1.1.1.3. Article 05 02 18: School schemes

The expenditure incurred for school schemes amounted to EUR 155.8 million compared to forecasted needs of EUR 188.0 million included in the budget. The lower uptake reflects the fact that 2017/2018 was the first school year of the integration of the previously separate fruit and milk schemes into one school scheme, with Member States declaring less expenditure than anticipated when drawing up the budget.

3.2.2. *Chapter 05 03: Direct payments*

Financial year 2018 was the third year of implementation of the reformed structure of direct payments as decided in the 2013 reform of the Common Agricultural Policy. Total payments for this budget chapter amounted to EUR 41 496.5 million. This includes an amount of EUR 441.7 million paid for the reimbursement of direct payments to farmers in relation to financial discipline, financed from

EUR 450.5 million carried over from 2017. The rest of the payments made, EUR 41 054.8 million, was funded by voted appropriations (EUR 40 668.7 million) and by assigned revenue (EUR 1 200.7 million). The latter was used to cover part of the expenditure incurred for the basic payment scheme.

The total unused appropriations amounted to EUR 823.3 million, of which EUR 814.4 million have been carried over to financial year 2019. Moreover, the unused amount of the crisis reserve (EUR 459.5 million), which was established from the proposed financial discipline in 2018, was transferred to budget article 05 03 09 so that the amount of the effectively applied financial discipline (EUR 459.5 million) could be carried over to 2019 for the reimbursement to the Member States concerned (see point 3.2.2.5). The remaining balance of assigned revenue collected in 2018 (EUR 354.9 million) was carried over to 2019. In items where the needs exceeded the budget's voted appropriations, the additional expenditure was covered through transfers of voted appropriations from other items of the budget or of assigned revenue. Equally, for direct payments where the budget's appropriations were under-spent, the resulting available appropriations were transferred to other budget lines within the EAGF in order to cover additional expenditure as needed.

3.2.2.1. Article 05 03 01: Decoupled direct payments

The main schemes funded by this article's appropriations are the single area payment scheme (SAPS), the basic payment scheme (BPS), the payment for agricultural practices beneficial for the climate and the environment, the redistributive payment and the payment for young farmers. All aid schemes in this article are paid independently of production but on certain conditions, e.g. the respect of cross-compliance. The 2018 budgetary needs for decoupled direct payments amounted to EUR 35 960.3 million for which the Budgetary Authority voted appropriations amounting to EUR 34 309.1 million after taking into consideration assigned revenue amounting to EUR 1 651.2 million. The expenditure incurred by Member States for all schemes in this article amounted to EUR 35 304.8 million, which corresponds to 98.2% of the needs foreseen in the budget for these schemes.

3.2.2.2. Article 05 03 02: Other direct payments

The appropriations of this article covered expenditure for "other direct payments". This includes schemes for which there may still be a link between the payment and the production, under well defined conditions and within clear limits. As a consequence of the 2013 reform, schemes added under this Article were the voluntary coupled support and the small farmers scheme and a number of lines only covered relatively minor residual payments for expired schemes.

The Commission had estimated that appropriations amounting to EUR 5 900.0 million were needed for this Article in 2018. Member States incurred expenditure amounting to EUR 5 750.0 million hence lower than the appropriations entered in the budget.

3.2.2.3. Article 05 03 09: Reimbursement of direct payments in relation to financial discipline

No appropriations are allocated to this article by the Budgetary Authority. This article serves the purpose of collecting the non-committed voted appropriations including in particular the appropriations of the unused crisis reserve in order to be

carried over into budget year N+1 and finance the reimbursement of the financial discipline applied to direct payments in respect of calendar year N⁶.

Each year, if applicable, a Commission Implementing Regulation sets the amounts that each Member State has to reimburse to farmers and, in accordance with the introductory phrase of Article 12(2) of Regulation (EU, Euratom) 2018/1046, determines that the expenditure in relation to this reimbursement shall only be eligible for Union financing if the amounts have been paid to the beneficiaries before 16 October of the financial year to which the appropriations are carried over. From the amount of EUR 450.5 million, corresponding to the financial discipline applied during financial year 2017 and which was carried over to budget 2018 for reimbursement, Member States reimbursed EUR 441.7 million. The difference of EUR 8.8 million reverted to the 2018 budget for its return to Member States via an Amending Budget in the following budget year.

3.2.2.4. Article 05 03 10: Reserve for crises in the agricultural sector

The appropriations of this article are intended to cover expenditure for measures which have to be taken in order to cope with major crises affecting agricultural production or distribution. The crisis reserve is established by applying, at the beginning of each year, a reduction to the direct payments through the financial discipline mechanism in accordance with Articles 25 and 26 of Regulation (EU) No 1306/2013 as well as Article 8 of Regulation (EU) No 1307/2013⁷. This reserve shall be set up with an annual amount of EUR 400 million (in 2011 prices). For the budget year 2018, the equivalent amount of the crisis reserve in current prices was EUR 459.5 million. The reserve was not used in financial year 2018.

For the 2017 claim year, the financial discipline was calculated exclusively for the constitution of the crisis reserve of EUR 459.5 million. However, by the end of the financial year, non-committed voted appropriations corresponding to the amount of financial discipline effectively applied for claim year 2017 (taking into account the unused amount of the crisis reserve) was transferred to budget article 05 03 09 in order to be carried over to the next financial year and, in this way, fund the reimbursement of financial discipline imposed on farmers in the calendar year 2018.

3.2.3. *Chapter 05 07: Audit of agricultural expenditure*

3.2.3.1. Article 05 07 01: Control of agricultural expenditure

This article involves the measures taken to reinforce the means of on-the-spot controls and to improve the systems of verification so as to limit the risk of fraud and irregularities to the detriment of the Union budget. It also includes the expenditure to finance possible accounting and conformity corrections in favour of Member States.

The European Union directly funded the purchase of satellite images within the framework of the Integrated Administration and Control System (IACS) for an amount of EUR 9.3 million.

⁶ These appropriations may be carried over, in accordance with point (d) of the first subparagraph and the third subparagraph of Article 12(2) of Regulation (EU, Euratom) 2018/1046, and, in accordance with Article 26(5) of Regulation (EU) No 1306/2013, are made available to the Member States for the reimbursement of the final recipients who are subject, in the financial year to which the appropriations are carried over, to the application of financial discipline in accordance with Article 26, paragraphs (1) to (4) thereof.

⁷ OJ L 347, 20.12.2013, p. 608.

The corrections in favour of the Member States following conformity clearance of accounts turned out to be lower than expected (EUR 12.2 million instead of EUR 21.4 million foreseen in the budget), while the corrections in favour of Member States following accounting clearance of accounts were in line with the budgeted amount (EUR 5.2 million).

3.2.3.2. Article 05 07 02: Settlement of disputes

The appropriations in this article are intended to cover expenditure for which the Commission could be held liable by decision of a court of justice, including the cost of settling claims for damages and interest. The 2018 budget foresaw appropriations amounting to EUR 124.5 million, of which EUR 88.8 million were executed. The remainder of appropriations has been transferred to other items of the budget.

4. IMPLEMENTATION OF REVENUE ASSIGNED TO EAGF

The assigned revenue actually carried over from 2017 into 2018, amounted to EUR 603.3 million and was entirely used in financing expenditure of the 2018 budget year in accordance with article 14 of the Financial Regulation. As presented in annex 3-II, this amount covered expenditure of EUR 203.8 million for the operational funds for producer organisations in the fruits and vegetables sector and of EUR 399.4 million for the basic payment scheme.

As regards the assigned revenue collected in 2018, annex 3-I shows that this revenue amounted to EUR 997.4 million and that it originated from:

- the clearance corrections procedure, EUR 861.9 million;
- the receipts from irregularities, EUR 131.6 million;
- the milk levy collections, EUR 3.9 million.

The assigned revenue collected in 2018 was used to cover expenditure incurred for the following measures:

- EUR 102.2 million for the operational funds for producer organisations in the fruits and vegetables sector;
- EUR 446.3 million for the basic payment scheme (BPS) (direct payments).

The balance of the assigned revenue collected in 2018 (EUR 448.8 million) was automatically carried over into the 2019 budget to fund budgetary needs of that year.

For details, please see annexes 3-I and 3-II.