



COMMISSION OF THE EUROPEAN COMMUNITIES

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

**AMENDING LETTER N°3
TO THE PRELIMINARY DRAFT BUDGET 2003**

SECTION III - COMMISSION

Having regard to:

- Article 272 of the Treaty establishing the European Community,
- Article 177 of the Treaty establishing the European Atomic Energy Community,
- Article 14 of the Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities¹ as last amended by Regulation n° 762/2001² of 9 April 2001,

The European Commission hereby presents the letter of amendment n° 3 to the 2003 preliminary draft budget for the reasons set out in the explanatory memorandum.

1 OJ L 356, 31.12.1977, p. 1.

2 OJ L 111, 20.4.2001, p. 1.

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EXPLANATORY MEMORANDUM

1. GENERAL INTRODUCTION

Under the Interinstitutional Agreement on budgetary discipline and improvement of the budgetary procedure signed by the European Parliament, the Council and the Commission on 6 May 1999, " If it considers it necessary, the Commission may present to the budgetary authority an ad hoc letter of amendment to update the figures underlying the estimate of agricultural expenditure in the preliminary draft budget and/or to correct, on the basis of the most recent information available concerning fisheries agreements in force on 1 January of the financial year concerned, the breakdown between the appropriations entered in the operational items for international fisheries agreements and those entered in reserve." This letter of amendment must be sent to the budgetary authority by the end of October.

The Commission presents herewith this ad-hoc amending letter for the budget 2003. It covers the following elements:

1. Agricultural expenditures
2. External Actions : update on the international fisheries agreements concluded
3. A provisional estimation of the budget surplus from the 2001 implementation

1.1. Agricultural expenditures

The Commission has carefully updated the agricultural budget on a line by line basis. Besides taking into account market factors, the letter of amendment also incorporates legislative decisions adopted in the agricultural sector since the preliminary draft budget was drawn up, as well as proposals, which do not however have any significant effect on 2003. The euro-dollar rate now to be used according to the Council Regulation on Budgetary Discipline is based on the actual rate between 1 July and 30 September 2002. It comes to 0.98 (€1 = \$0.98), and results in some increases compared to the preliminary draft budget for export sectors.

For *subheading 1a (CAP expenditure except for rural development)*, the new assessment leads to lower needs than estimated in the PDB (- €337.4 million). This saving, however, is the result of sizeable increases in some sectors, countered by reductions in others. The most substantial increase in needs is in the dairy sector, where needs increase by €560 million. In the sugar sector a combination of lower world market prices and the appreciation of the euro against the dollar has led to increased needs. The need for cotton are also increased by the effect of a stronger euro on world prices. On the other hand savings have been recorded in other sectors, notably in Chapter B1-10 Arable Crops, which can be reduced by €974 million, primarily as a result of advances of direct aids, that have been paid from the 2002 budget.

Overall needs for subheading 1a are estimated at around €40 082.45 million, €337.4 million lower than in the preliminary draft, leaving a margin of approximately €2 597.55 million below the ceiling in the Financial Perspectives.

For *rural development (subheading 1b)*, the Commission proposes to maintain the appropriations in the 2003 budget at the ceiling of the Financial Perspective (€4 698 million). The breakdown of appropriations between the various measures, however, has been updated, in line with Member States' communications.

1.2. External Actions : update on the concluded international fisheries agreements

As provided in the Interinstitutional Agreement, the Commission is correcting the breakdown for appropriations for the international fisheries agreements between the amounts in the reserve and on the line. The operational item B7-8000 is increased by around €30.1 million for both commitment appropriations and payment appropriations. Three agreements have been initialled during 2002 (Angola, Senegal, São Tomé & Príncipe) that either have already been proposed or will soon be proposed to the Budget Authority.

1.3. A provisional estimation of the budget surplus from the 2002 implementation

Besides the familiar components of the traditional ad hoc letter of amendment and as has been done already in the last two years, the Commission wishes to add one further item relating to the balance for 2002. Under Article 32 of the Financial Regulation, the balance from each financial year is entered in the budget for the following financial year as revenue in the case of a surplus or expenditure in the case of a deficit. The second paragraph of this Article of the Financial Regulation specifies that the estimates of this revenue or expenditure will be entered in the budget during the budget procedure, and, where appropriate, in a letter of amendment.

The Commission considers that a prudent estimate of the balance of €500 million can at this stage be included in the PDB 2003. As last year, this does not result from a surplus in revenues but from savings in the 2002 budget, in heading 1, agriculture, where the budget year is finalised, except for measures directly managed by the Commission.

2. HEADING 1: AGRICULTURE

The purpose of the amending letter (AL) is to ensure that the agricultural budget is based on the most up-to-date economic data and legislative framework. By the month of October, the Commission has at its disposal a first indication of the level of production (harvests) for 2002, which is the basis for any reliable estimate of the budgetary needs for 2003.

As in the past, the Commission has carefully reviewed all its estimates of agricultural expenditure line by line. Besides taking into account market factors, the letter of amendment also incorporates legislative decisions adopted in the agricultural sector since the preliminary draft budget was drawn up, as well as proposals. These decisions, however, have little or no effect on the budget appropriations for 2003.

In accordance with the Council Regulation on Budgetary Discipline, the letter of amendment is based on the euro-dollar rate recorded between 1 July and 30 September 2002. The rate comes to 0.98 (€1 = \$0.98), and results in some increases compared to the preliminary draft budget (€1 = \$0.88).

For *subheading 1a (CAP expenditure except for rural development)*, the new assessment leads to lower needs than estimated in the PDB (- €337.4 million). This saving, however, is the result of sizeable increases in some sectors, countered by reductions in others. The most substantial increase in needs is in the dairy sector, where needs increase by €560 million. In the sugar sector a combination of lower world market prices and the appreciation of the euro against the dollar has led to increased needs. The credits for cotton are also increased by the effect of a stronger euro on exports.

Savings in other sectors, however, counteract these increases. Most notably, Chapter B1-10 Arable Crops sees a saving of €974 million, primarily as a result of advances of direct aids, that have been paid from the 2002 budget. In the aftermath of foot-and-mouth disease, the needs for the sheep and goat premiums decrease, since there are fewer animals.

Total requirements for subheading 1a are estimated at €40 082.45 million, leaving a margin of €2 597.55 below the ceiling of the Financial Perspective.

For *rural development (subheading 1b)*, the Commission proposes to maintain the appropriations in the 2003 budget at the ceiling of the Financial Perspective (€4 698 million). The breakdown of appropriations between the various measures, however, has been updated, in line with Member States' communications.

The following table sums up the budgetary forecasts for the various chapters of the EAGGF Guarantee Section, and shows the margins under the Financial Perspectives.

Letter of Amendment N° 3/2003
Heading 1

Title/Chapter		<i>million €</i>		
		PDB	New assessment of needs	AL
		1€=\$0.88 (a)	1€=\$0.98 (b)	(c)=(b)-(a)
B1-1 Plant products				
B1-10 Arable crops		17.764,0	16.790,0	-974,0
B1-11 Sugar		1.339,4	1.482,0	142,6
B1-12 Olive Oil		2.372,0	2.341,0	-31,0
B1-13 Dried Fodder and grain legumes		383,0	389,0	6,0
B1-14 Textile plants		831,0	908,0	77,0
B1-15 Fruit and vegetables		1.629,0	1.609,0	-20,0
B1-16 Products of the wine-growing sector		1.381,0	1.381,0	0,0
B1-17 Tobacco		973,0	973,0	0,0
B1-18 Other products		314,0	303,0	-11,0
Total		26.986,4	26.176,0	-810,4
B1-2 Animal products				
B1-20 Milk and milk products		2.112,0	2.672,0	560,0
B1-21 Beef and veal		8.369,0	8.404,0	35,0
B1-22 Sheep meat and goat meat		1.914,0	1.805,0	-109,0
B1-23 Pig meat, eggs and poultry and others		185,5	203,5	18,0
B1-26 Fisheries Guarantee fund		14,5	14,5	0,0
Total		12.595,0	13.099,0	504,0
B1-3 Ancillary expenditure				
B1-30 Non-annex I products		415,0	415,0	0,0
B1-31 Food programmes		308,0	306,0	-2,0
B1-32 POSEI		256,0 (1)	264,0 (1)	8,0
B1-33 Veterinary and plant-health measures		190,0 (2)	190,0 (2)	0,0
B1-36 Monitoring and preventive measures		48,0	48,0	0,0
B1-37 Clearance and reduction/suspension		-500,0	-500,0	0,0
B1-38 Promotion measures		66,5	66,5	0,0
B1-39 Other measures		55,0	18,0	-37,0
Total		838,5	807,5	-31,0
Sub-Heading 1a	<i>titles B1-1 to B1-3</i>			
Sub-total		40.419,9	40.082,5	-337,4
Sub-ceiling		42.680,0	42.680,0	
Margin		2.260,1	2.597,6	
Sub-Heading 1b	<i>title B1-4</i>			
Sub-total Rural Development		4.698,0	4.698,0	0,0
Sub-ceiling		4.698,0	4.698,0	
Margin		0,0	0,0	
Total expend./approp. HEADING I		45.117,9	44.780,5	-337,4
of which in B0-40:				
(1): 15 Mio€for remote and insular regions (B1-324)				
(2): 3 Mio€for other veterinary actions (B1-331)				

2.1. Subheading 1a: cap expenditure except for rural development

2.1.1. The market organisations and related expenditure

In the letter of amendment, the total appropriations for *subheading 1a (CAP expenditure except for rural development)* are lower than estimated in the PDB (- €337.4 million). This saving is the result of a combination of increases and reductions across the different sectors.

Appropriations for milk and milk products increase by €560 million, or almost 27% compared to the PDB. The main reason for this significant increase is the continuing deterioration of world market prices, which has led to further increases in export refunds and internal aids. In the sugar sector a combination of lower world market prices and the appreciation of the euro has led to increased needs of €102 million. The adjustment aid for the refining industry has also been fixed, leading to an additional cost of €40 million. Appropriations for textile plants rise by €77 million. This can be explained by the effect of a stronger euro on world prices for cotton, and also by a smaller overshoot of the national guaranteed quantities, which means that aid intensity is penalised to a lesser extent. Increases are seen for beef (+ €35 million), due to slower than anticipated repayments by Member States of the advances paid by the Commission for the destruction scheme arising from the BSE crisis. There are also increases for pig meat, eggs and poultry (+ €18 million), dried fodder and grain legumes (+ €6 million), and the POSEI (+ €8 million).

Considerable savings are seen for arable crops (- €974 million). As a result of unfavourable climatic conditions, part of the direct area payments was advanced for Italy and Germany, and is paid from the 2002 budget. Lower stocks of cereals also account for a considerable reduction of the needs of this sector. Further significant savings occur for sheep and goat meat (- €109 million), reflecting a sizeable decrease in the number of ewes eligible for the premium for the calendar year 2002, notably in the UK as a consequence of the large-scale slaughtering necessitated by the 2001 foot-and-mouth outbreak. Reduced needs are also foreseen for olive oil (- €31 million) due to a drop in the level of production eligible for aid in Greece and Portugal; for fruit and vegetables (- €20 million); and for food aid (- €2 million). Reduced intervention stocks for rice, lead to a reduction in Chapter B1-18 of €11 million. Chapter B1-39 Other Measures sees a decrease of €37 million, as a result of lower agrimonetary aids and the proposal to finance the genetic resources measure under B2-517.

Overall needs are estimated at around €40 082.45 million, €337.4 million lower than in the preliminary draft, leaving a margin of approximately €2 597.55 million below the ceiling in the Financial Perspective for subheading 1a. This margin was €2 260.15 million in the preliminary draft.

2.1.2. Changes in legislation

Since the adoption of the draft budget, there have been some legislative decisions concerning Heading 1. The Council of Ministers (Agriculture) adopted the proposal concerning potato starch quotas as Council Regulation (EC) n°962/2002 of 27 May 2002 amending Regulation (EC) n°1868/94 establishing a quota system in relation to the production of potato starch. The decision has no perceptible effect on the budget, since it prolongs an existing situation.

In the PDB, line B1-392, concerning genetic resources, was given an appropriation of €10 million, placed in the reserve chapter B0-40, while awaiting a Council decision on the Commission proposal of 31 October 2001 (COM(2001)617). Given that there has been little support in the Budget Authority for the proposed financing of this measure under the EAGGF Guarantee, the existing proposal will be withdrawn, and replaced by a new one under which the measure would be financed from line B2-517. For this purpose an amount of €1.5 million should be placed in the reserve.

More detailed information is given in the section on sectoral developments.

2.1.3. *Euro-dollar exchange rate*

In accordance with Article 8(1) of Council Regulation (EC) n°2040/2000 on budgetary discipline, the euro-dollar rate to be used for the letter of amendment is the average rate over the most recent three-month period. In the case of this letter of amendment, this means the period between 1 July and 30 September 2002. The average exchange rate recorded is €1 = \$0.98, which is higher than the rate used for the preliminary draft (€1 = \$0.88). This leads to some increases, particularly for sectors such as sugar and cotton.

2.1.4. *Sectoral Developments*

The comments below set out and explain the main differences between the appropriations of the PDB and those of the AL.

Chapter 10 - Arable crops (appropriations - €974 million)

appropriations in preliminary draft budget: €17 764 million

appropriations after letter of amendment: €16 790 million

By far the greatest change in appropriations is that for arable crops. The credits estimated at the time the preliminary draft budget was drawn up are now some 5.5% lower. The most significant reduction is for direct area aids (-€899 million).

The principal explanation for this reduction is the advances that have been authorised for direct payments relating to the 2002/2003 marketing year. As a result of drought in certain regions of Italy, a 50% advance was permitted, at an estimated cost to the 2002 budget of €331 million. A further €60 million was made available in order to advance direct payments to those areas of Germany affected by the severe flooding of summer 2002.

Important savings are recorded in the cost of **public storage** (-€16 million) owing to the downward revision of stocks:

	PDB (million t)	AL (million t)
Opening Stocks	8.1	7.9
Purchases	6.4	1.3
Sales	5.6	4.3
Closing Stocks	9.4	4.9
Average Stocks	9.8	6.5

The appropriations for export refunds increase by €36 million to €104 million. The quantities available for export are fairly stable, and world market prices are foreseen to remain high. However, the significant appreciation of the euro against the dollar makes Community exports more expensive, and export refunds rise accordingly, notably for barley and rye.

Chapter 11 - Sugar (appropriations + €142.6 million)

appropriations in preliminary draft budget: **€1 339.4 million**

appropriations after letter of amendment: **€1 482 million**

In the sugar sector estimated expenditure for **refunds** is €102 million more than the appropriations in the 2003 preliminary draft budget. Firstly, the Commission expects a continuing deterioration in world market prices. To calculate refund rates, a world price of USD 190/tonne has been used, instead of the USD 215/tonne in the preliminary draft. Secondly, the updated euro/dollar exchange rate induces additional expenditure. Both elements combined translate into a refund rate of €483, instead of €433 per tonne.

The needs for **adjustment aid for the sugar refining industry** was established in the PDB at the basic rate of 1€/tonne set by Council regulation 1260/2001. In accordance with Commission regulation 1164/2002 of 28 June 2002, the **adjustment aid** has been raised to 29.2€/tonne. This has led to an overall increase of €40 million in the AL.

Chapter 12 - Olive oil (appropriations - €31 million)

appropriations in preliminary draft budget: **€2 372 million**

appropriations after letter of amendment: **€2 341 million**

The appropriations for olive oil have been reduced, mainly because of the drop in production levels. The PDB requirements were based on a first estimate of production. According to the final production statements, Greece and Portugal have produced, in the campaign 2001/02, 399 000 tonnes, instead of 453 000 tonnes and 34 000 tonnes, instead of 50 000 tonnes, respectively. The decrease in appropriations for production aid comes to €39 million.

New estimates of the likely expenditure linked to past campaigns led to an increase in the appropriation for the actions for the “**improvement of quality**”. The Commission proposes to increase this amount by €8 million.

Chapter 13 – Dried Fodder and Grain Legumes (appropriations +€6 million)

appropriations in preliminary draft budget: **€383 million**

appropriations after letter of amendment: **€389 million**

The slight increase in needs arises from the increased production figures communicated by the Member States. For the marketing years 2002/2003 and 2003/2004, production of artificially dried fodder is expected to increase from 4.6 million tonnes to 4.8 million tonnes, while sun-dried fodder rises from 0.2 million tonnes to 0.35 million tonnes. The maximum guaranteed quantity is surpassed, and thus the aid intensity is reduced, but even at these lower aids, the increased quantity leads to an increase in needs of €6 million to €317 million.

By contrast, the appropriations for grain legumes remain at €72 million.

Chapter 14 - Fibre plants and silkworms (appropriations + €77 million)

appropriations in preliminary draft budget: €831 million

appropriations after letter of amendment : €908 million

The increase in expenditure vis-à-vis the PDB is exclusively due to cotton (+ €77 million). This is the consequence of both a revision of estimated production in line with Member States' declarations, and the updating of the €/\$ exchange rate.

According to Member States' declarations, submitted recently as required by current legislation, production should be 1 061 978 tonnes in Greece and 313 828 tonnes in Spain. The preliminary draft budget was based upon higher production figures of 1 150 000 and 325 000 tonnes, for Greece and Spain respectively. Both the PDB and the AL production figures are above the national guaranteed quantities and, therefore, imply reductions in the aid intensity. However, the AL production figures being lower, the reductions in the aid intensity are smaller than foreseen in the PDB, with a corresponding increase in the budget.

The second factor driving the increase in the budget is the EUR/USD exchange rate. The world price for cotton being fixed in USD, the appreciation of the euro is a factor in the AL, and results in a lower world price in euro. According to existing legislation, the lower the world price in EUR, the higher the cotton aid, and this leads to higher budget expenditure.

Chapter 15 - Fruit and vegetables (appropriations - €20 million)

appropriations in preliminary draft budget: €1 629 million

appropriations after letter of amendment : €1 609 million

Forecast expenditure for fruit and vegetables is down vis-à-vis the PDB, due to lower estimates for the compensatory aid for bananas (- €22 million). As a result of the smaller area used for the production of raisins (35 700 ha instead of 38 000 ha), the appropriations for this scheme are also revised downwards (- €8 million).

These decreases are partially offset by small increases in expenditure for compensation for withdrawals and buying in (+ €6 million) and production aid for fruit-based products (+ €4 million). This arises from an adjustment in surface areas planted and in yields.

Chapter 18 - Other plant sectors (requirements - €11 million)

appropriations in preliminary draft budget: €314 million

appropriations after letter of amendment : €303 million

A number of measures are financed from this Chapter: production aid for seeds, aid per hectare for hops, and intervention measures and income support under the common organisation of the market in rice.

For **seeds**, appropriations remain unchanged at €110 million. For **hops** there is a slight increase to €13 million (+€1 million), as the area under cultivation rises to 26 000ha.

For **rice**, there is an overall reduction in appropriations of €12 million. In the case of export refunds, however, an increase of €2 million is foreseen, due to a combination of exchange rate and market values

A slight decrease (-€3 million) in appropriations is foreseen for public storage. Opening stocks have been revised downwards, and with higher sales anticipated, the closing balance should also be reduced.

	PDB (t)	AL (t)
Opening Stocks	587 000	550 000
Purchases	86 000	130 000
Sales	120 000	150 000
Closing Stocks	553 000	530 000

The main reduction, however, is for direct aids (-€1 million). The latest figures communicated by the Member States indicate some changes in the declared surface area. In the case of Spain, the MGA has been surpassed, and the aid rate has been reduced accordingly.

Chapter 20 - Milk and milk products (appropriations + €560 million)

appropriations in preliminary draft budget: € 112 million

appropriations after letter of amendment : € 672 million

Expenditure for milk and milk products is seen to increase dramatically (+ €560 million). This is the consequence of both the deterioration in internal and external markets since the spring, and the impact of the appreciation of the euro. The result is an increase in public stocks, and in the forecast rates for export refunds and internal aid.

An upwards revision of the **refund rates** has led to increases of €8 million for skimmed milk powder, €7 million for butter and butteroil, €60 million for cheese, and €146 million for other products (whole milk powder, condensed milk, yoghurt etc) respectively.

As regards **intervention in the form of aid for the use of skimmed milk**, a higher aid for skimmed milk processed into casein has led to an increase of €10 million, and a greater quantity attracting aid has led to an increase of €10 million for skimmed milk powder for use as feed for calves.

For **public intervention** for butter, more appropriations (€76 million) are foreseen due to higher opening stocks (172 800 tonnes instead of 96 200 tonnes) and greater purchases (45 000 tonnes instead of 35 000 tonnes).

Although these figures show substantial increases, they are in fact a sign of some improvement in the sector, as compared to the actual situation, since the forecast rates for export refunds and internal aid are lower than the current ones.

Chapter 21 - Beef/veal (appropriations + €35 million)

appropriations in preliminary draft budget: € 369 million

appropriations after letter of amendment: € 404 million

Production of beef and veal is predicted to remain fairly stable, and once consumer confidence is fully restored, consumption is also forecast to remain steady over the next few years. The level of beef production in the EU is expected to settle around 7.5 – 7.6 million tonnes.

As a result of the livestock related crises (BSE, FMD), beef prices remained well below the average price level in the year 2002. However from March 2002 onwards the market has shown steady signs of recovery. The Commission has started selling from intervention, albeit in very small quantities, and envisages a continuation of sales in 2003.

Requirements for export **refunds** (€34 million) are foreseen to remain at the level of appropriations in the preliminary draft budget. Estimates of the amount to be sold with refunds show a difference with the preliminary draft of 145 000 tonnes but since refund levels have also been adjusted, the final amount necessary is neutral compared with the preliminary draft. In the interests of transparency in regard to animal welfare, the European Parliament requested that lines concerning export refunds for animals should be split, so that refunds for meat and those for live animals would appear on different lines. Thus it is proposed to split line B1-210 as follows: B1-2100 for exports refunds for beef meat, and B1-2101 for export refunds for live bovines. The total credits for these two lines should equal the total credits on the existing line B1-210, that is, €34 million.

Requirements for **storage** should be lower than the level estimated in the preliminary draft (-€30 million). The forecasted saving is the result of lower opening valuations for beef in stock, especially bone-in (-€36 million), partly offset by higher technical costs of storage (+ €6 million).

Estimated requirements for the **premium schemes** (€7 879 million) are close to those forecast in the preliminary draft. All the requirements for the direct premium schemes are the same as forecasted in the preliminary draft except for 'other interventions'. Requirements under 'other interventions' are increased by €65 million for the destruction scheme. This arises from the fact that advances paid out by the Commission are refunded later than expected by the Member States.

Chapter 22 – Sheep meat and goat meat (appropriations -€109 million)

appropriations in preliminary draft budget: €1 904 million

appropriations after letter of amendment: €1 805 million

The appropriations for sheep meat and goat meat have been reduced (-€109 million), because of the drop in production levels. According to Member States' declarations the number of ewes and goats eligible for premium will amount to 68.9 million instead of 73.2 million, as foreseen in the PDB. The supplementary premium, granted to producers in Less Favoured Areas and/or practising transhumance, will be paid for only 55.4 million ewes and goats, instead of 57.6 million. The flock is smaller in most Member States, and not only in the United Kingdom, where foot and mouth was most severe.

Chapter 23 – Pig meat, eggs, poultry and other animal product aid measures (appropriations + €18 million)

appropriations in preliminary draft budget: €185.5 million

appropriations after letter of amendment : €203.5 million

For pig meat, there is an increase in the appropriations foreseen for exceptional market support measures to deal with epizootic diseases (+ €6 million), because there is a delay in the payments by Spain concerning swine fever.

For eggs and poultry, the difference in relation to the preliminary draft is entirely accounted for by an increase in **refund rates** for eggs (+ €1 million) and poultry meat (+ €1 million).

Chapter 30 - Non-Annex I products (appropriations: remain unchanged)

appropriations in preliminary draft budget: €415 million

appropriations after letter of amendment: €415 million

This chapter covers products obtained by processing agricultural products such as cereals, sugar, milk products and eggs, into spirits made from cereals, chocolate products, preparations for dietary or kitchen use, bakery products, etc.

The overall budget appropriations for this chapter are governed by a WTO ceiling of €415 million. Although this remains unchanged in the letter of amendment, there is some alteration in the base product quantities and refund rates.

Base Product	Quantity (000 t)		Refund (€t)		Cost (million €)	
	PDB 2003	LA 2003	PDB 2003	LA 2003	PDB 2003	LA 2003
Cereals for spirits	250	175	5	5	1.3	0.9
Cereals and rice	1 949	1881	17.9	10.6	34.9	19.9
Sugar	385	350	400	445	154	155.8
Milk	200	160	593.4	884.4	118.7	141.5
Butter	63	54	1621.4	1662.5	102.2	89.8
Eggs	35	52	116.3	119.6	4.1	6.2
Other	-	-	-	-	p.m.	p.m.

Chapter 31 - Food programmes (appropriations - €2 million)

appropriations in preliminary draft budget: €308 million

appropriations after letter of amendment : €306 million

The appropriations for refunds in connection with **food aid** have been reduced by €2 million. This reflects the smaller quantity of powder milk used in the past for this purpose.

Chapter 32 - POSEI (appropriations +€8 million)

appropriations in preliminary draft budget: €256 million

appropriations after letter of amendment : €264 million

The increase can be explained by the existence of outstanding appropriations from the 2002 budget for certain supporting measures: aid for processing pineapple for POSEIDOM, and aid to livestock production for POSEIDOM and POSEIMA.

Chapter 39 - Other measures (agri-monetary aid) (appropriations - €37 million)

appropriations in preliminary draft budget: €55 million

appropriations after letter of amendment: €18 million

Expenditure for the agrimonetary compensation payments is slowing down (-€29 million), especially as the United Kingdom has not used this possibility.

For the direct aid scheme for small producers an amount of €2 million is now foreseen, as some farmers in Italy will start to avail of the measure.

For **genetic resources**, the PDB put an appropriation of 10 Mio € in the reserve chapter B0-40, intended for line B1-392 of the EAGGF Guarantee, on the basis of the Commission proposal for a new Council Regulation, allowing for the prolongation of the actions in the field of the conservation, collection and the utilisation of genetic resources in agriculture (COM(2001) 617 final).

However the within other institutions, notably the Council, have shown strong opposition to the proposed origin of funding under the EAGGF Guarantee which is considered unsuitable for the management of multi-national projects. Instead it should be financed under chapter B2-51 (line B2-517).

The Commission accepts that the measure should not be financed under the EAGGF Guarantee and should be returned to line B2-517. However, given that, on the one hand, the measure will now be directly managed by the Commission and, on the other hand, that 2003 will be the first year of implementation, the appropriations required for that on line B2-517 will not be more than €1.5 million. This amount should be put in the reserve pending the adoption of a modified legal basis. For the following years, the needs are estimated at about €4 million per year.

2.2. Subheading 1b: rural development

Chapter 40 - Rural development (appropriations unchanged)

appropriations in preliminary draft budget: €4 698 million

appropriations after letter of amendment: €4 698 million

The Commission has not changed its position regarding the overall level of appropriations, which corresponds to the ceiling permitted by the Financial Perspective.

However, in accordance with Regulation 1750/2000, the Member States communicated their estimates of expenditure for 2003 to the Commission by 30 September 2002, and these forecasts exceed the PDB figure of €4 698 million.

The Commission has therefore updated the breakdown of appropriations between the various measures in line with the Member States' communications.

2.3. Changes in the nomenclature and in the budget remarks

In the interests of transparency in regard to animal welfare, the European Parliament requested that lines concerning export refunds for animals should be split, so that refunds for meat and those for live animals would appear on different lines. The Commission is prepared to accept this change in the beef and sector, since there are little or no live exports in the other animal sectors. Thus it is proposed to split line B1-210 into two lines: B1-2100 for exports refunds for beef meat, and B1-2101 for export refunds for live bovines. The total credits for these two lines should equal the total credits on the existing line B1-210, that is, €534 million.

As a result of the proposal to fund the genetic resource measure under B2-517, line B1-392 will be deleted.

As concerns line B2-511 (“checks on application of the rules in agriculture”) the references to the legal basis have to be completed.

3. HEADING 4 : EXTERNAL ACTIONS

3.1. International fisheries agreements

The Commission proposes to amend the Preliminary draft budget as follows:

- Budget item B7-8000 *International fisheries agreements*: €179 642 450 in commitment appropriations (compared to €149 545 000 in the PDB) and €185 392 450 in payment appropriations (compared to € 155 295 000 in the PDB) for agreements in force by 31 December 2002.
- Provisional appropriations chapter B0-40: €8 323 550 in commitment appropriations (compared to €38 421 000 in the PDB) and €8 004 550 in payment appropriations (compared to €38 102 000 in the PDB).

There is an increase on item B7-8000 of €30 097 450 of both commitment appropriations and payment appropriations. The amounts entered in the reserve are reduced with the same amounts since many of the uncertainties that remained at the time of the drafting of the PDB by now have been removed. The net overall effect is thus zero since the increase on item B7-8000 is made possible by a corresponding reduction of chapter B0-40.

The major reasons for the proposed changes compared to the PDB are:

- Three agreements have been renewed during 2002 (Angola, Senegal, São Tomé and Príncipe) that either have already been proposed or will soon be proposed to the Budget Authority (for a total amount of €32 137 500).
- As far as the “reserve” is concerned, this has to allow for the conclusion of another seven possible new agreements/financial protocols: Equatorial Guinea (initialled in 2001 but still is suspended), Ivory Coast, Mauritius, Republic of Guinea, Kiribati (initialled in 2002 but not yet proposed to the budgetary authority), Mozambique and Russia.
- Lastly, the figure for payment appropriations on item B7-8000 is overall some € 5.75 million higher compared to the commitment appropriations to allow for some outstanding payments to be made.

4. ANTICIPATION OF THE SURPLUS FOR 2002

Besides the familiar components of the traditional ad hoc letter of amendment and as has been done already last two years, the Commission wishes to add one further item relating to the balance for 2002. Under Article 32 of the Financial Regulation, the balance from each financial year is entered in the budget for the following financial year as revenue in the case of a surplus or expenditure in the case of a deficit. The second paragraph of this Article of the Financial Regulation specifies that the estimates of this revenue or expenditure will be entered in the budget during the budget procedure, and, where appropriate, in a letter of amendment.

The Commission considers that a prudent estimate of the balance of €500 million can at this stage be included in the PDB 2003. As last year, this does not result from a surplus in

revenues but from under-implementation in the 2002 budget, expenditure side. This stems from heading 1, agriculture, for which the budget year is already finalised, except for the measures directly managed by the Commission. For the structural funds the Commission will aim at paying as much as possible, even if Member States introduce their claims very late. Some amount to be used for the EU solidarity Fund will also have to be subtracted. This is why for the moment no estimate of underspending in heading 2 has been included in the provisional estimate for the surplus.

5. SUMMARY TABLE BY FINANCIAL PERSPECTIVES

	FP 2003	PDB 2003+AL 1+2/2003		AL 3/2002		PDB + AL1+2+3/2003	
		CA	PA	CA	PA	CA	PA
1. Agriculture	47.378.000.000	45.117.850.000	45.117.850.000			44.780.450.000	44.780.450.000
Agricultural expenditure	42.680 000.000	40.419.850.000	40.419.850.000	-337 400 000	-337 400 000	40.082.450.000	40.082.450.000
Rural development	4.698 000 000	4.698.000.000	4.698.000.000			4.698.000.000	4.698.000.000
2. Structural operations	33 968 000 000	34.027.000.000	33.548.097.000			34.027.000.000	33.548.097.000
Structural funds	31 129 000 000	31.188.000.000 **	31.048.097.000			31.188.000.000	31.048.097.000
Cohesion fund	28 39 000 000	2.839.000.000	2.500.000.000			2.839.000.000	2.500.000.000
3. Internal policies	6 796 000 000	6.714.965.000	6.131.747.000			6.714.965.000	6.131.747.000
4. External actions	4 972 000 000	4.911.882.000	4.691.618.000			4.911.882.000	4.691.618.000
5. Administration *	5 381 000 000	5.436.332.143 **	5.436.332.143			5.436.332.143	5.436.332.143
6. Reserves	434 000 000	434.000.000	434.000.000			434.000.000	434.000.000
Reserve for guarantees	217 000 000	217.000.000	217.000.000			217.000.000	217.000.000
Reserve for emergency aid	217 000 000	217.000.000	217.000.000			217.000.000	217.000.000
7. Pre-accession aid	3 386 000 000	3.386.000.000	2.857.400.000			3.386.000.000	2.857.400.000
SAPARD	564 000 000	564.000.000	542.900.000			564.000.000	542.900.000
ISPA	1 129 000 000	1.129.000.000	767.500.000			1.129.000.000	767.500.000
PHARE	1 693 000 000	1.693.000.000	1.547.000.000			1.693.000.000	1.547.000.000
Total	102 315 000 000	100.028.029.143 **	98.217.044.143			99.690.629.143	97.879.644.143
Margin		2.286.970.857				2.624.370.857	

(*) including staff contributions to the pension scheme, according to footnote n°2 in the tables of the financial perspectives and the financial framework for the EU21 attached to the IIA of 6/5/1999.

(**) including the use of the flexibility instrument