USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - Public distribution

Date: 6/22/2007

GAIN Report Number: E47052

EU-27

Trade Policy Monitoring

EU Preliminary Draft Budget - Agriculture and Rural Development, 2008

2007

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Report Highlights:
For 2008, the European Commission has proposed a Preliminary Draft Budget (PDB) of 56,275.8 million EUR to cover policy areas under budget heading 2 "Preservation and management of natural resources". This is the first time in EU budget history where heading 2 is not the largest heading. The proposed amount includes 42,195 million EUR for agricultural expenditure, 273.7 million EUR for veterinary and phyto-sanitary measures, and 12,571 million EUR for rural development. Under this new budget, the European Commission estimates that about 83 percent of all direct aids to farmers will be decoupled from production.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Brussels USEU [BE2]
[E4]

The EU Annual Budget

Background

The EU budget, which charts the European Community's income and expenditure[1], is set on an annual basis. The EU does not levy any taxes itself. Income is derived from four "own resources," which are made available by the Member States through customs duties[2], agricultural levies, a share of the harmonized Value Added Tax (VAT[3]) base and a further contribution from Member States based on the size of their Gross National Income (GNI). Own resources are levied by the Member States on behalf of the Community. EU budget expenditures fall into two categories: compulsory expenditure, which arises from EU legislation (i.e. the Common Agricultural Policy), and non-compulsory expenditure (i.e. structural fund subsidies and administrative expenditure).

EU budgets are based on multi-annual (5 to 7 years) financial perspectives that are approved by the Council of Ministers, the European Parliament, and the European Commission. Initially proposed by the Commission, financial perspectives are amended, adjusted and revised by the European Parliament and by the Council. The Commission updates the financial perspective each year to account for growth and inflation. Within this framework, there are broad policy areas (called headings), which set out the maximum appropriations that can be put into the annual EU budget, fixing an overall annual ceiling on payments and commitments. In light of the financial perspective and the budget guidelines for the coming year, the European Commission prepares the preliminary draft budget (PDB), and submits it for Council approval in April or May.

After the PDB has been discussed and adjusted as appropriate, the Council establishes the draft budget by qualified majority[4] before July 31st, and forwards it to the Parliament. Parliament conducts its first reading in October on the basis of the Council's draft. At first reading, Parliament can decide on amendments to non-compulsory expenditure with an absolute majority of Members (i.e. 393 votes), and proposed modifications to compulsory expenditure with an absolute majority of votes cast. The PDB is then referred back to the Council.

The Council conducts a second reading during the third week of November, after a conciliation meeting with a delegation from Parliament. The Council can change the draft budget to take account of amendments voted by Parliament in its first reading. As a rule, the Council's decisions on second reading relating to compulsory expenditure determine the final amount. The draft budget as amended is returned to Parliament towards the end of November. If Parliament is dissatisfied with the outcome, it has the power to reject the entire budget.

[1] The European Community is the first pillar of the EU, and concerns economic, social and environmental policies (see GAIN Report E47043 for further details).
[2] Member States collect customs duties on behalf of the EU. From these, they retain 25 percent for financing border controls and customs.
[3] By far the largest share of VAT collected by the Member States is retained by them. Only a small share (around 0.33 percent for 2007) goes to the EU. As there is no harmonized VAT rate in the EU, a 'VAT uniform rate of call' is applied in accordance with the calculation method provided by Article 2 of Council Decision 2000/597/EC.
[4] A qualified majority is reached when at least 255 votes (73.9 percent) out of 345, and cast by at least two-thirds of the members are in favor. Germany, France, Italy and UK have 29 votes each; Spain and Poland have 27 votes each; Romania 14 votes; Netherlands 13 votes; Belgium, Czech Republic, Greece, Hungary and Portugal have 12 votes each; Austria, Bulgaria and Sweden have 10 votes each; Denmark, Ireland, Lithuania, Slovakia and Finland have 7 votes each; Cyprus, Estonia, Latvia, Luxembourg and Slovenia have 4 votes each; Malta 3 votes

As the Council typically has had the last word on compulsory expenditure, Parliament uses most of its December session to review non-compulsory expenditure. Parliament can accept or refuse the Council's proposals within the framework of a 'global agreement' reached at the conciliation meeting. Acting on a Parliamentary majority and three-fifths of the votes cast, Parliament can adopt the budget. If it is adopted, the President of Parliament declares the budget to be officially adopted, and it can be subsequently implemented. If on the other hand, Parliament rejects the budget, it can potentially request the submission of a new draft budget (note: this has never been done).

The adopted budget is usually slightly lower than the PDB. For example, in 2007 the difference was 900 million EUR in payment appropriations and 300 million Euro in commitments. In 2006, the difference was 700 million EUR in payment appropriations and 100 million EUR in commitments.

Calendar for discussion and approval of the 2008 budget

July 13, 2007: Conciliation meeting between the Council and the Parliament. A first reading of the budget by the Council establishes the draft budget.

October 22-25, 2007: Parliament's plenary and first reading.

November 23, 2007: Conciliation meeting between the Council and Parliament, and the Council's second reading.

December 10-13, 2007: Parliament's plenary and second reading. The final adoption of the EU budget.

Broad lines of the 2008 PDB

The European Commission's 2008 PDB amounts to 129,200 million EUR in commitment appropriations[5], a 2 percent increase of over the 2007 budget. Payment appropriations[6] are proposed at 121,600 million EUR, a 5.5 percent increase on the previous year.

Commitment appropriations in the PDB are at a level of 1.03 percent of Gross National Income (GNI) of the combined EU-27, and payment appropriations at 0.97 percent of GNI. Spending on the heading 'sustainable growth' including cohesion and competitiveness, growth and employment policies increases by 4.2 percent compared to 2007, reaching 44.2 percent of the total EU budget. Preservation and management of natural resources, which includes the Common Agricultural Policy (CAP), accounts for 43.6 percent (32.9 percent agriculture plus 10.7 percent rural development, fisheries and environment). This is the first time in the history of the EU budget that heading 2 'natural resources' of the financial perspectives is not the most significant heading.

[5] Commitment appropriations cover the total cost in the current financial year of the legal obligations entered into for operations to be carried out over more than one financial year. This type of appropriation constitutes the upper limit of expenditure which can be committed during the financial year.
[6] Payment appropriations cover expenditure arising from commitments entered into during the current financial year or preceding years.

Agriculture and rural development

PDB Budget 2008 as compared to Budget 2007
(million EUR)

Item	2007	2008	Change
Cereals	516	279	- 237
Rice	- 2	/	+ 2
Processed food	299	198	- 101
Food programs	278	301	+ 23
Sugar	323	441	+ 118
Olive Oil	50	50	-
Textile crops	22	21	- 1
Fruit and Vegetables	1,320	1,325	+ 5
Wine	1,487	1,377	- 110
Promotion	45	43	- 2
Other plant/POSEI[7]	167/212	152/213	- 15/+ 1
Milk	587	406	- 181
Beef and Veal	117	57	- 60
Sheepmeat	p.m.	p.m.	-
Pigmeat/Eggs/Poultry	194	140	- 54
Irregularities	/	/	-
Total Market Spending	**5,615**	**5,003**	**- 612**
Decoupled Direct Aids	30,196	30,870	+ 674
Of which: - SPS[8] (EU-15 and EU-2)	*27, 918*	*27,596*	*- 322*
- SAPS[9] (8 NMS)	*2,111*	*3,072*	*+ 961*
- Separate sugar payment	*167*	*202*	*+ 35*
Other Direct Aid	6,215	5,780	- 435
Additional Amounts	468	468	-
Total Direct Aids	**36,879**	**37,213**	**+ 1,709**
Rural Development	**12,366**	**12,565**	**+ 199**
Audit of Agriculture Spending	**- 172**	**- 80**	**+ 92**
Policy strategy and coordination	**41**	**33**	**- 8**
TOTAL POLICY AREA AGRICULTURE AND RURAL DEVELOPMENT	**54,910**	**54,972**	**+ 62**

Source: Statement of estimates of the Commission for 2008 (Preparation of the 2008 Preliminary Draft Budget) – SEC(2007) 500 final – 2 May 2007

Agriculture and rural development fall under heading 2 of the budget, 'Preservation and management of natural resources'.

For 2008, the Commission proposes budgeting 56,275.8 million EUR for the policy areas covered by heading 2. This amount includes 42,195 million EUR for **agricultural expenditure**, 273.7 million EUR for **veterinary and phyto-sanitary measures**, and 12,571 million EUR for **rural development**. Furthermore, within the total amount for heading 2, 938 million EUR is foreseen for **fisheries**, and 298 million EUR for **environment**.

[7] Programme d'Options Specifiques a l'Eloignement et l'Insularite (Specific Options Program for Remoteness and Insularity)
[8] Single payment scheme
[9] Single area payment scheme

This leaves a margin of 2,524 million EUR under the 2008 ceiling fixed in the financial framework 2007 – 2013.

As a result of the CAP reform process that began in 2003, shifting towards decoupling from production and direct aid to farmers, only 12 percent of the proposed agricultural expenditure in 2008 is used for interventions in agricultural markets (i.e. export refunds and public intervention). Almost 83 percent of all direct aids to farmers are decoupled to the extent that the subsidies are paid independently from the volume of production.

The estimated needs for agricultural expenditure amount to 43,820 million EUR (after the transfer from direct aids (modulation), and from cotton for restructuring in the cotton regions to Rural Development). This also includes the impact of the reform proposal for fruit and vegetables, the proposal for the abolition of corn intervention, and the linked proposal on the derogation to the general rules for financing of public storage. 1,625 million EUR is deducted from this amount for assigned expenditure (i.e. revenue in 2008 plus sums left over from 2007) for elements such as clearance of accounts and the dairy superlevy), leaving a total of 42,195 million EUR.

The 2008 PDB takes into consideration 155 million EUR of revenue assigned to the milk sector, which leads to an 11 percent decrease (to 5,003 million EUR) in appropriations for interventions in agricultural markets compared to 2007. This reduction is derived from the combined effects of the reform process and of expected favorable market conditions, in particular for cereals and milk (see GAIN Reports E47035, E47046 on grains, E47008 on livestock and E36134 and E47016 on dairy).

As for direct aids, the increase of 334 million EUR to 37,213 million EUR in 2008 compared with 2007 is largely due to the inclusion for the first time of the payment of direct aids to Romania and Bulgaria, to the continued phasing-in of direct aids for EU-10 (which reach 40 percent of the EU-15 level for direct payments), and to the increased direct aids for sugar and energy crops.

The 2008 PDB is the third consecutive budget affected by modulation. For calendar year 2007, direct aids in EU-15 will be reduced by a modulation rate of 5 percent, an increase of 1 percent over the previous year. However, the first EUR 5,000 are returned to each farmer as 'additional aid' (see GAIN Report E47034).

The proposal on voluntary modulation, adopted by the Council on March 27, 2007, has not been taken into account for the 2008 PDB due to its late adoption. The Council Regulation allows only Portugal and the United Kingdom to apply the voluntary modulation scheme. As such, those Member States will be able to reduce their direct payments and use the funds for financing rural development programs in addition to the compulsory modulation that has already applied in EU-15 since the 2006 budget (see GAIN Report E47026).

The appropriations for veterinary and phyto-sanitary measures show a decrease from 309.8 million EUR in 2007 to 273.7 million EUR proposed in 2008. This is due to a more realistic assessment of expected expenditure for animal disease eradication. More specifically, the appropriations for the 2008 PDB are lower as smaller amounts are foreseen for eradication/surveillance programs (192 million EUR in place of 209.5 million EUR), and for the emergency fund (30 million EUR in place of 48 million EUR). These transactions are financed and managed in a centralized manner. Member States fund 50 percent for implementing eligible measures, the remaining 50 percent is financed by the Commission.

Rural development programs will be built around three thematic axes aimed at improving the competitiveness of the agricultural and forestry sector, improving the environment and the countryside, and improving the quality of life in rural areas and encouraging diversification of the rural economy. In addition, there is one horizontal axis allowing for possibilities for locally based bottom-up approaches to rural development. It is expected that all of the programs implementing the rural development policy (about 100 programs) will be approved in 2007, and the Commission's proposal for the 2008 PDB is based on this assumption. These are multi-annual programs covering the period 2007 to 2013. The main priority for 2008 will therefore be the implementation and uptake of Community funds for the rural development programs agreed in line with the adopted national strategy plans of the EU Member States.

For 2008, 12,565 million EUR is requested for commitment appropriations in line with the bands agreed for financing rural development policy.

The Commission proposes 11,379 million EUR for rural development in payment appropriations, 4.5 percent more than in the previous year. This figure comprises two main components: advance and interim payments for the new 2007 – 2013 programs funded by the European Agricultural Fund for Rural Development (EAFRD), and reimbursements to clear the outstanding commitments from those budget lines that formed part of the 2000 – 2006 Structural Funds programs under the Guidance Section of the European Agricultural Guidance and Guarantee Fund (EAGGF).

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