



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 27.12.2000
COM(2000) 882 final

29th FINANCIAL REPORT

on

THE EUROPEAN AGRICULTURAL GUIDANCE

AND GUARANTEE FUND

(EAGGF)

GUARANTEE SECTION

- 1999 FINANCIAL YEAR -

(presented by the Commission)

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29th FINANCIAL REPORT

on the European agricultural guidance and guarantee fund (EAGGF) Guarantee Section - 1999 financial year -

TABLE 1

AVERAGE CONVERSION RATES USED FOR 1999

(cf. Annex 16)

EUROPEAN COMMUNITY	1 EUR
B	40,335560
DK	7,439393
D	1,955406
EL	325,175392
E	166,380128
F	6,557934
IRL	0,787469
I	1 936,155764
LUX	40,330757
NL	2,203658
A	13,757502
P	200,474899
FIN	5,945171
S	9,214029
UK	0,686409

SUMMARY
of
the 29th FINANCIAL REPORT
on the EAGGF
GUARANTEE SECTION

1. COMMUNITY FINANCING OF PRODUCT MARKETS

1.1. Budget procedure

1.1.1. Preliminary draft budget

The Commission adopted the PDB on 30 April 1998. It was based on an appropriations requirement estimated at EUR 40 440 million, i.e. EUR 4 748 million below the agricultural guideline (EUR 45 188 million).

1.1.2. Letter of amendment

On 28 October 1998 the Commission adopted a letter of amendment to take account, firstly, of unfavourable developments on the agricultural markets and, secondly, of recently adopted agricultural legislation giving rise to a small amount of additional expenditure.

As a consequence of the unfavourable developments on the agricultural markets, foreseeable expenditure was up overall by EUR 436 million in relation to the PDB.

- + *Cereals* (+EUR 1 007 million)
a drop in world prices led to increased requirements for export refunds and public storage;
- + *Sugar* (+ EUR 236 million)
export refunds rose following a drop in world prices;
- *Sheepmeat and goatmeat* (- EUR 255 million)
rise in the average price on the Community market;
- *Milk and milk products* (- EUR 237 million)
lower marketed milk production;
- *Beef* (- EUR 221 million)
less demand for premiums for male bovines, partly offset by an increase in refunds.

The additional requirements arising from recently adopted agricultural legislation amounted to EUR 77 million, including EUR 49 million for the Council's decision on the price proposals.

The requirements identified in the letter of amendment thus amounted to EUR 40 953 million, exceeding the PDB by EUR 513 million. EUR 105 million had been entered in Chapter B0-40 (Provisions).

1.1.3. Budget

On 24 November consultations were held between the Council and Parliament on the basis of the proposals put forward by the Commission on that date, with the following result.

The letter of amendment was adopted but the proposed increase of EUR 513 million was offset by targeted reductions of an equivalent amount in the cereals sector. These reductions were possible thanks to savings from a substantial increase in world cereals prices after the letter of amendment had been drawn up.

The appropriations for agri-environmental measures were increased by EUR 20 million (entered in the reserve: Chapter B0-40) by taking that amount from the allocation for depreciation of cereals stocks.

EUR 80 million was transferred to Chapter B0-40 from fruit and vegetables and milk products.

The **appropriations** adopted by Parliament's President on 17 December 1998 for the EAGGF Guarantee Section amounted to EUR 40 440 million (including EUR 205 million in Chapter B0-40).

1.1.4. Budget outturn

The uptake of EAGGF Guarantee Section appropriations for 1999 was EUR 39 540.8 million, i.e. 97.8% of the budget allocation under heading B1. Expenditure was EUR 899.2 million below the initial appropriations.

The above expenditure includes the reduction in advance payments (reductions in monthly reimbursements) to the Member States decided by the Commission. It was 2% higher than the EUR 38 748 million in 1998.

1.1.5. Chapter-to-chapter transfers within subsection B1

In the course of 1999 there were only two transfers between chapters within the EAGGF Guarantee Section.

The first was transfer No 46/99, proposed to the budgetary authority after the summer break. It was needed to boost the following chapters:

- B1-14 - Fibre plants and silkworms (+ EUR 60 million)
- B1-22 - Sheepmeat and goatmeat (+ EUR 120 million)
- B1-23 - Pigmeat, eggs and poultrymeat (+ EUR 50 million).

The appropriations concerned totalled EUR 230 million, or 0.6% of EAGGF Guarantee Section appropriations.

The second transfer, No 73/99, involving a total of EUR 339.3 million, was proposed to the budgetary authority during December 1999, taking account of the implementation of expenditure in the course of the year. It was needed to increase appropriations in the following two chapters in particular:

B1-11 - Sugar	(+ EUR 180 million)
B1-31 - Food programmes	(+ EUR 55 million).

The additional requirements in the other sectors were not so large.

1.1.6. Supplementary and amending budgets

The financial rules allow a proposal to be made to the budgetary authority for changes to the original budget by means of supplementary and amending budgets (SABs). This possibility was used in 1999 when the Commission, in agreement with the two arms of the budgetary authority, proposed supplementary and **amending budget No 4/99**, reducing EAGGF Guarantee Section appropriations by EUR 200 million in order to top up other parts of the budget. The margin between the budget appropriation and the foreseeable year-end outturn made it possible to transfer this amount without affecting the financing of agricultural expenditure by the EAGGF Guarantee Section. The supplementary and amending budget made it possible to finance, *inter alia*, some measures to assist the reconstruction of Kosovo.

At the triologue meeting of 7 September before the adoption of supplementary and amending budget 4/99, the Commission also suggested to the two arms of the budgetary authority that there could be a supplementary and **amending budget No 5/99** to cover additional requirements, by transferring a further EUR 202 million from the EAGGF Guarantee Section.

1.1.7. Request for a non-automatic carryover of appropriations to the 2000 financial year

At the beginning of 2000 the Commission proposed to the Budgetary Authority a non-automatic carryover of appropriations from 1999. The Commission can propose the non-automatic carryover of appropriations not committed at the end of the financial year when the appropriations entered in the relevant budget headings for the following year do not cover requirements.

The Commission asked for appropriations to be carried over to cover the additional requirement in the 2000 financial year arising from the late payment by Italy of the first annual instalment of agri-monetary aid in 1999 (EUR 130 million). The 2000 budget provided only for the payment of the second instalment, worth EUR 101 million. Since the first instalment was paid late, it is likely that the second instalment will also be paid later than planned, i.e. during 2001. The requested carryover will therefore amount to EUR 29 million.

The Commission also requested the carryover of approximately EUR 4 million for control measures in the context of food aid to Russia. These measures, which involve the monitoring, inspection, evaluation and audit for the quantities mobilised during 1999, had to be continued in 2000 to ensure that the operation ran smoothly. Since the 2000 budget did not provide for any appropriations in this connection, a carryover had to be proposed.

1.1.8. The share of EAGGF Guarantee Section expenditure in the general budget of the European Union

The share of EAGGF Guarantee Section expenditure in the general European Union budget for 1999 was 49.9% (see Figures 1A and 1B), differing little from previous years.

1.2. Breakdown of expenditure by economic type

Out of total expenditure in 1999 of EUR 39 540.8 million, export refunds accounted for EUR 5 572.8 million (14.1%) and intervention for EUR 33 968.0 million (85.9%) (details in Annex 5). In the previous year (1998 budget), export refunds absorbed EUR 4 826.4 million (12.5%) and intervention EUR 33 921.8 million (87.5%) out of a total of EUR 38 748.1 million.

1.2.1. Refunds (Annex 5)

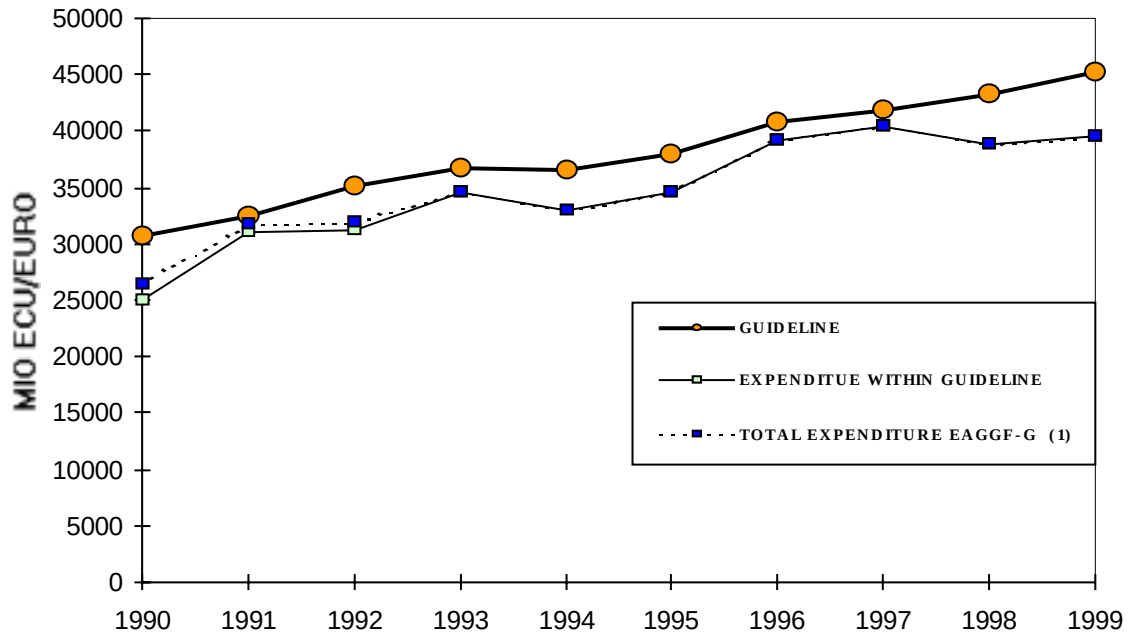
The fall in refund expenditure noted for a number of years was arrested.

1.2.2. Intervention (Annex 6)

Intervention within the meaning of Article 3(1) of Regulation (EEC) No 729/70, which accounted for spending of EUR 33 968.0 million in 1999, includes not only storage aid (EUR 1 568.3 million in 1999, i.e. 4.6% of total intervention expenditure) and withdrawals (EUR 346.2 million, i.e. 1.0%), but also and above all compensatory aid (EUR 31 923.8 million, i.e. 94.0%) and guidance premiums (EUR 154.3 million, i.e. 0.5%) (see Annex 6).

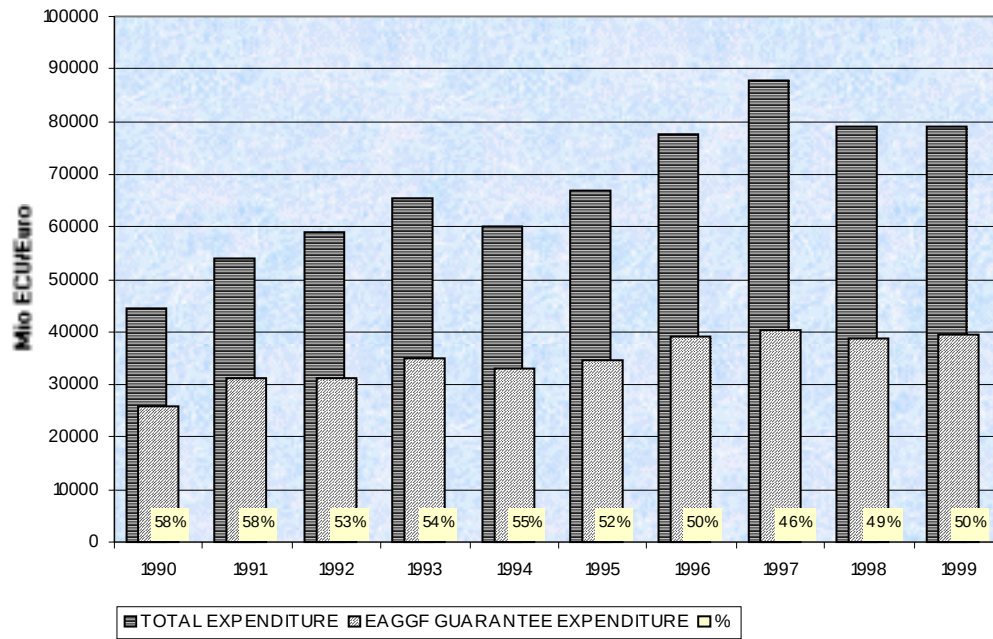
GRAPH 1A

TREND OF EAGGF GUARANTEE SECTION EXPENDITURE



(1) Since 1993 all expenditure has been financed within the guideline.
This does not include expenditure from non-automatic carryovers.

GRAPH 1B
TREND OF EAGGF GUARANTEE SECTION EXPENDITURE IN RELATION TO TOTAL EC
EXPENDITURE



1.2.2.1. Compensatory aid

Compensatory aid remained the most important form of intervention (Annex 7).

It includes aid granted for production (per hectare aid, male bovine and suckler cow premiums, all introduced or increased under the CAP reform), processing, marketing and set-aside, plus income aid.

1.2.2.2. Intervention expenditure on storage

Storage expenditure (Annex 6) amounted to EUR 1 568.3 million i.e. 4.6% of total intervention spending (1994: 4.4%, 1995: 1.3%, 1996: 4.3%, 1997: 4.6% and 1998: 5.2%). This form of intervention covers both private and public storage costs (breakdown of expenditure in Annex 10a).

Of the EUR 1 568.3 million spent on storage overall, private storage expenditure accounted for EUR 562.2 million and public storage expenditure for EUR 1 006.2 million.

Private storage aid was paid mainly in the sugar sector (EUR 342.8 million) but costs in this sector are covered by storage levies on sugar manufacturers (see Annex 13). Sugar was followed by milk products (EUR 114.4 million), pigmeat (EUR 45.9 million) and wine-growing products/alcohol (EUR 41.3 million).

1.2.2.3. Withdrawals and related operations

Withdrawals and related operations (EUR 346.2 million) concern only a few sectors: wine-growing products (distillation) (EUR 247.7 million), fruit and vegetables (EUR 90.6 million) and fishery products (EUR 7.9 million). Their share of intervention spending was 1.0%, down from 1.2% in 1998.

1.2.2.4. Guidance premiums

Guidance premiums (EUR 154.3 million) are granted only in a few sectors: tobacco (EUR 93.7 million), fruit and vegetables (EUR 29.7 million), other measures for livestock products (EUR 16.4 million), wine-growing products (EUR 9.0 million) and milk products (EUR 5.6 million). In 1999 they accounted for 0.5% of all intervention, as against 0.4% in 1998.

1.3. Breakdown of expenditure by product group (Annexes 4 and 21b)

Expenditure on **crop products** (Chapters 10 to 18), was 0.8% lower than the budgetary appropriations. However, underlying this relatively small divergence were opposing trends. Expenditure on **fibre plants and sugar** overshot the appropriations, mainly because of the drop in world prices, but fell short of appropriations for **"other products"**. **In the case of olive oil**, the low outturn is due to payment delays and the reduction of the advance payments to Greece. In the **fruit and vegetable** sector, fewer withdrawals (cauliflowers, peaches, oranges, apples) and lower expenditure on aid for bananas explains the under-utilisation of appropriations. Savings in the **wine** sector resulted from the healthy market situation and the poor uptake of the grubbing programmes. Lastly, expenditure on **tobacco** fell short of appropriations because of a change in the rules governing the payment schedule for premiums.

Savings of around EUR 226 million were recorded for **livestock products** (Chapters 20 to 26). An upturn in **beef and veal** consumption produced some savings. However, additional expenditure was required on **sheepmeat** and **pigmeat** because prices on the Community market in both sectors were lower than expected. Expenditure on **milk** fell to the lowest level since the beginning of the 1980s, thanks to revenue of EUR 498 million from the additional levy, which covered higher-than-expected expenditure on disposal and storage measures.

Less was also spent (EUR 216.6 million) on **additional measures** (Chapters 30 to 39). Slightly less than half the saving came from additional revenue from the **clearance of accounts**. Lastly, turning to **agrimonetary aid**, the United Kingdom only partially used its entitlement and Italy paid out aid late.

Expenditure on **accompanying measures** (Chapter 50) almost equalled the appropriations.

Overall, budget appropriations were under-implemented by EUR 899.2 million, **i.e. approximately 2.2%**. It is worth noting that almost half of the difference (EUR 432 million) can be attributed to the reduction in the advances paid to the Member States. Figure 2 gives the share of other sectors in the breakdown.

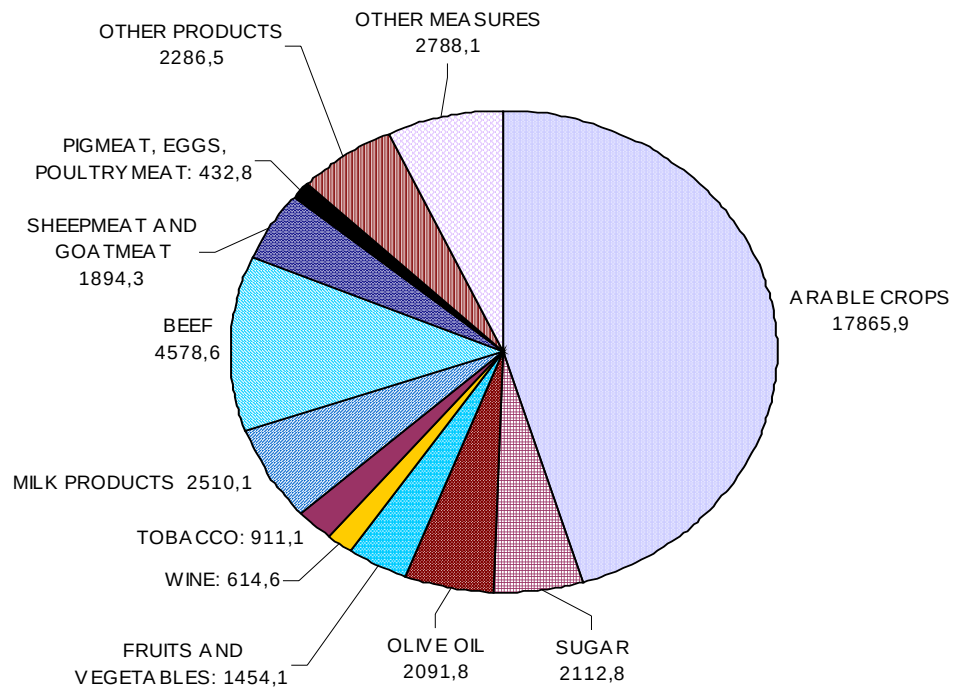
1.4. Breakdown of expenditure by Member State (Figure 3)

With EUR 9 348.3 million, i.e. more than 23% of spending, France remains the principal recipient of EAGGF Guarantee Section payments, followed far behind by Germany (EUR 5 727.7 million), Spain (EUR 5 231.1 million), Italy (EUR 4 656.4 million) and the United Kingdom (EUR 3 922.2 million) .

In their fifth year since accession (fourth financial year in which they received all payments), Austria received EUR 839 million (EUR 843 million in 1998), Finland EUR 559.7 million (EUR 576 million in 1998) and Sweden EUR 734.8 million (EUR 770 million in 1998).

Annex 2b breaks down expenditure by chapter and Member State (summarising Annex 2) and Annex 21a shows the trend since 1984 (amounts and shares).

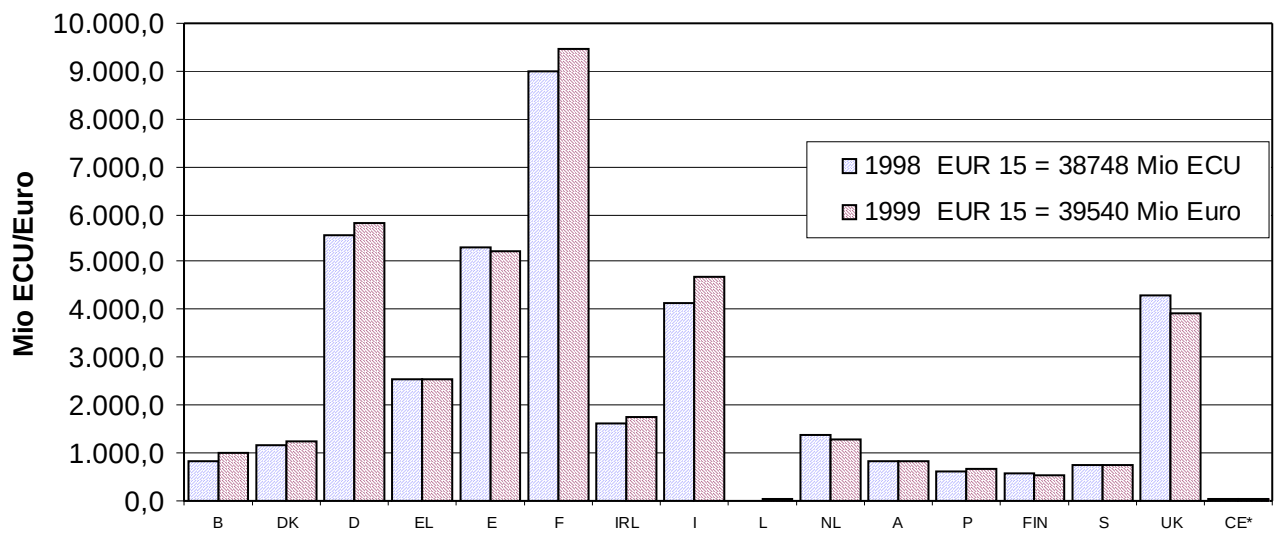
GRAPH 2A
**BREAKDOWN OF EAGGF GUARANTEE SECTION
 EXPENDITURE BY PRODUCT GROUP**
 (Euro million for 1998 financial year)



Total: 39540,8 Mio Euro

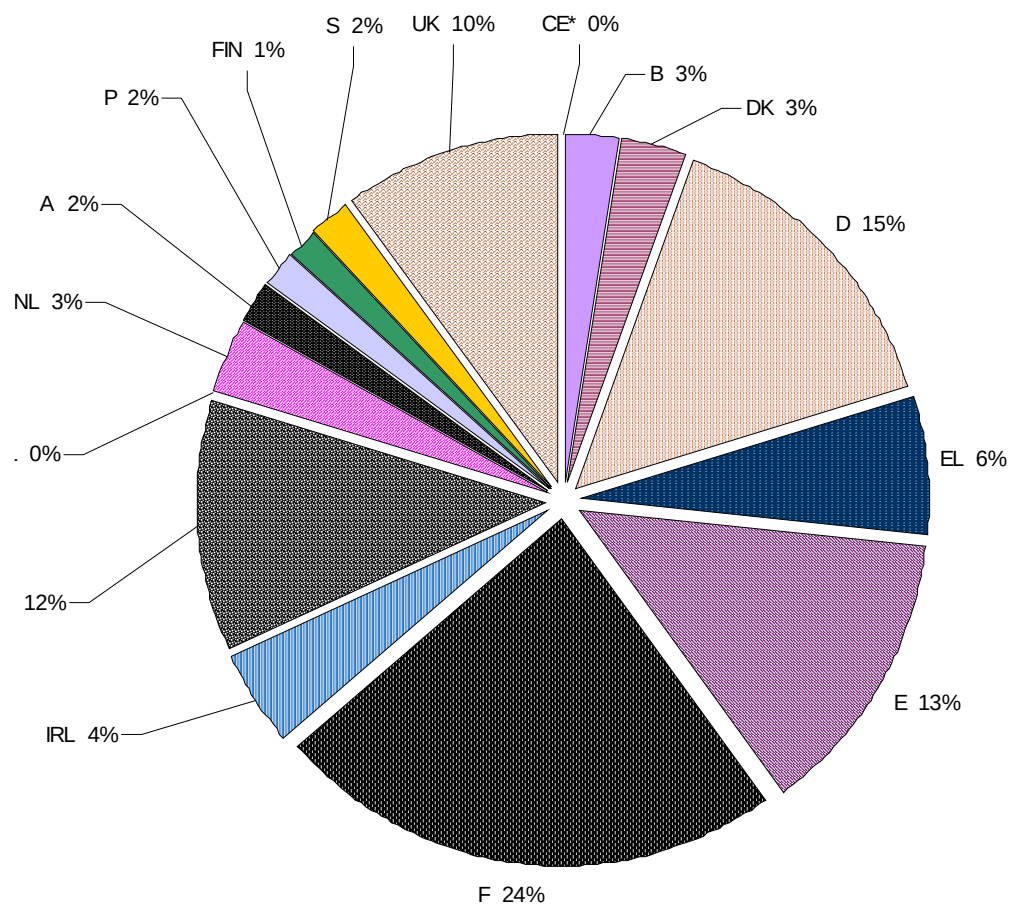
GRAPH 2B

BREAKDOWN OF EXPENDITURE BY MEMBER STATE



* direct payments

GRAPH 3
BREAKDOWN OF EXPENDITURE BY MEMBER STATES



*) direct payments

2. CASH POSITION AND MANAGEMENT OF APPROPRIATIONS

2.1. Budget

The 1999 budget, adopted on 17 December 1998, provided appropriations of EUR 40 940 million for the EAGGF Guarantee Section, including ECU 205 million entered in Chapter B0-40 (Provisions) and ECU 500 million entered as monetary reserve.

Supplementary and amending budget No 4/99, adopted on 16 September 1999, took EUR 200 million from the appropriations of the EAGGF Guarantee Section to top up other parts of the budget. EUR 105 million of the amount thus transferred were taken from Chapter B0-40 (Provisions), and EUR 95 million from Chapter B1-37 (Clearance of previous years' accounts).

Supplementary and amending budget No 5/99, adopted on 18 November 1999, took EUR 202 million from the appropriations of the EAGGF Guarantee Section to top up other parts of the budget. EUR 100 million was taken from Chapter B0-40 (Provisions), EUR 30 million from Chapter B1-12 (Olive oil), EUR 30 million from Chapter B1-15 (Fruit and vegetables) and EUR 42 million from Chapter B1-21 (Beef and veal).

2.2. Appropriations

The situation as regards appropriations was as follows (in EUR million):

	Appropriations 1999 budget	Non-automatic carryovers from 1998 to 1999	Total appropriations	Automatic carryovers from 1998 to 1999
A.				
Initial budget/ carryovers(1)	40 940.0	400.0	41 340.0	15.6
Monetary reserve	-500.0	-	-500.0	-
SAB No 4/99	-200.0	0.0	-200.0	-
SAB No 5/99	-202.0	0.0	-202.0	-
Available appropriations/ carryovers	40 038.0	400.0	40 438.0	15.6
B.				
Commitments	39 540.8	335.5	39 876.3	-
Decommitments	-	-	-	-1.7
Payments	39 435.5	335.5	39 771.0	9.3
Automatic carryovers to 2000	105.3	0.0	105.3	0.0
C.				
Non-automatic carryovers to 2000	33.1	0.0	33.1	-
D.				
Lapsed appropriations	464.1	64.5	528.6	4.5

(1) Including the appropriations allocated to Chapter B0-40 and the monetary reserve.

2.3. Advance payments

The Commission adopted 13 decisions granting advances in 1999, 12 of normal type and an additional one to adjust advances granted to total spending for the year.

2.4. Reduction of advances

Under Article 13 of Council Decision 94/729/EC on budgetary discipline, which authorises the Commission to reduce or provisionally suspend monthly advances to Member States if declarations of expenditure or information submitted by them do not enable it to establish that the commitment of funds is in line with Community rules, the Commission reduced advances by - EUR 462.3 million. Corrections were made for the following reasons:

- failure to collect the additional milk levy in the 1997/98 and 1998/99 marketing years, in particular by Spain, Greece and Italy (- EUR 337.1 million),
- shortcomings in the application of the integrated system by Greece and Portugal and in the implementation of checks by Greece (- EUR 110.97 million),
- expenditure made beyond regulatory ceilings and cut-off dates (- EUR 15.98 million),
- refund of additional milk levy amounts for 1994/95, 1995/96 and 1996/97 already collected by the EAGGF on the occasion of reductions in advances in previous years (+ ECU 2.1 million),
- other corrections of various accounting errors (-EUR 0.37 million).

3. ANTI-FRAUD MEASURES

3.1.1. The integrated administration and control system (IACS)

The integrated administration and control system (IACS) was introduced at the time of the 1992 CAP reform to provide effective instruments for coping with the greater danger of irregularities and fraud as a result of the increasing number of direct payments.

The IACS mainly consists of alphanumeric systems for identifying animals and arable land, making it possible to carry out computerised cross-checks, thus preventing farmers from, for example, applying more than once for aid for the same plot of land and/or animal. The IACS provides for proportional penalties which can even entail rejection of an application.

The IACS covers arable crops, set-aside land, areas under forage, rice, grain legumes, premiums for animals and the direct payments now introduced for milk quotas.

The Directorate-General for Agriculture monitored the introduction of the IACS by carrying out many visits to assist and inspect operations in the Member States. Its clearance of accounts departments continue to carry out checks in the fifteen Member States and scrutinise the working of the system.

3.1.2. Developments in the IACS rules in 1999

Regulation (EEC) No 3887/92 was amended by Regulations (EC) Nos 1678/98 and 2801/1999. The main purpose of these Regulations was to introduce some requirements relating to checks on animals and areas, to lay down detailed rules arising from the reform of the common agricultural policy, to allow Member States to adopt national rules on electronic transmission of aid applications under the integrated system and to lay down rules for the transfer of holdings.

In 1999 the Commission also proposed changes to basic Council Regulation (EEC) No 3508/92, which have been adopted by Council Regulation (EC) No 1593/2000 of 17 July 2000. This regulation aims to extend the IACS to include the new legislation adopted as a result of Agenda 2000, and to improve certain aspects of the system.

3.2. Olive oil control agencies

The four olive oil control agencies, in Italy, Greece, Spain and Portugal, carried out their work in the 1998/99 marketing year in line with the programmes of activity and forward estimates approved by the authorities of the Member States and the Commission. On the whole, however, Member States did not adequately follow up the agencies' proposals on penalties.

3.3. Part-financing for tightening controls

The Community contributes towards the expenditure incurred by the Member States in implementing new action programmes, arising out of new Community obligations, aimed at improving the structure and effectiveness of checks on EAGGF Guarantee Section expenditure.

This third year of application confirms the importance that Member States attach to setting up new inspection arrangements. The majority of programmes concerned the identification and registration of bovine animals. The Community's financial contribution for 1999 was fixed at ECU 15 000 000. Denmark, Sweden and the United Kingdom did not submit programmes for part-financing in 1999.

4. CLEARANCE OF ACCOUNTS

The Commission adopted six EAGGF Guarantee Section clearance of accounts decisions during the 1999 financial year. Firstly, Decisions 1999/187/EC and 1999/596/EC, adopted on 3 February and 28 July 1999 respectively, concerned the clearance of accounts for the 1995 financial year. The two decisions together covered a financial correction of EUR 557 million.

Decision 1999/327/EC, adopted on 18 May 1999, made a financial correction of EUR 38.2 million for the 1998 financial year.

Three further clearance of accounts decisions were adopted under the new clearance exercise, namely Decisions 1999/186/EC, 1999/350/EC and 1999/603/EC, dated 10 March, 28 May and 4 September 1999, respectively, involving a total financial correction of EUR 205.7 million.

The other work carried out during 1999 mainly concerned the following areas:

- the continued clearance of accounts for 1996, 1997 and 1998, including drafting the summary report (doc. VI/10529/99),
- discussions with all Member States on the outcome of the inspection visits for the financial years covered by Article 5(2)(c) of Regulation (EEC) No 729/70,
- participation in the work of Parliament's Committee on Budgetary Control in connection with discharge of the 1993, 1994 and 1995 budgets,
- the Court of Auditors' opinion on the clearance decision for 1995,
- the Court of Auditors' statement of assurance on expenditure in 1998,

- preparation and implementation of inspection visits for the purposes of clearance of the accounts of the 1998 and 1999 financial years or the 24 months preceding official transmission of the letter of observation,
- amendment of Regulation (EEC) No 3508/92 establishing an integrated administration and control system for certain Community aid schemes,
- monitoring the implementation in the Member States of the geographical information system (GIS) for olive cultivation and winegrowing,
- inspection visits to the applicant countries under SAPARD and the pre-accession screening,
- active participation in the Conciliation Body's investigation of Member States' appeals in connection with the clearance of accounts for 1995, 1996 and 1998.

The annexes to this report are available on the following website:
http://europa.eu.int/comm/dg06/fin/finrep99/index_en.htm.

A working document detailing the EAGGF Guarantee Section's activities in the 1999 financial year is available in French, English and German.

NOTE TO THE READER

1. The budget nomenclature is changed each year to take account of developments in the common agricultural policy and its financing. Thus in 1994 some expenditure was not booked in the same chapter as in 1993:

	1993	1994
Cereals	Chapter 10 - Cereals and rice	Chapter 10 - Arable crops
Rice	Chapter 10 - Cereals and rice	Chapter 18 - Other crop products
Olive oil	Chapter 12 - Oils and fats	Chapter 12 - Olive oil
Oilseeds	Chapter 12 - Oils and fats	Chapter 10 - Arable crops
Protein crops	Chapter 13 - Protein crops	Chapter 10 - Arable crops
Dried fodder	Chapter 13 - Protein crops	Chapter 13 - Dried fodder and pulses
Pulses	Chapter 15 - Fruit and vegetables	Chapter 13 - Dried fodder and pulses
Set-aside	Chapter 40 - Set-aside	Chapter 10 - Arable crops

The result was a change in the way expenditure is grouped in the following summary tables (Annexes 3, 4, 8 and 25b).

In order to ensure that comparisons with past data are not distorted, i.e. to avoid cases where there is a large difference in the amount of expenditure from one year to the next in a given sector simply as a result of a change of grouping, the following principle is followed:

- the most recent nomenclature is used (1999 in this report),
- the aggregates for previous years are recalculated in accordance with this nomenclature.

This means, however, that some subtotals in this report differ from those found in reports published in previous years. For example:

1990 expenditure under Chapter 10 (Cereals and rice) amounted to ECU 3 884.6 million (Annex 3 to the Twenty-third Financial Report, page 145). This is "real" expenditure - in the accounting sense of the term - in accordance with the

nomenclature applicable in 1990, which grouped expenditure in a different way from the current nomenclature.

To make comparisons possible, 1990 expenditure under Chapter 10 (Arable crops) when recalculated comes to ECU 7 834.5 million in this report (Annex 3).

This figure was obtained as follows:

1990 expenditure under old Chapter 10 (Cereals and rice)	3 884.6
- 1990 expenditure on rice	- 85.1
+ 1990 expenditure on oilseeds	+ 3 477.0
+ 1990 expenditure on protein crops	+ 834.8
- 1990 expenditure on dried fodder	- 298.0
+ 1990 expenditure on set-aside	+ 21.2

New total for 1990 expenditure under Chapter 10 (Arable crops)	7 834.5

No important changes have been made to the budget nomenclature for 1999. The changes are mainly intended to improve budget transparency.

To that end and in order to show clearly the charging of amounts recovered, penalties and interest collected, securities impounded and amounts withheld by the Member States for Community budget contributions to court expenses incurred with a view to recovering amounts unduly paid, a suitable structure now exists within each chapter in question.

2. Totals or subtotals of expenditure in the tables in the annexes sometimes differ by EUR 0.1 million from the amount obtained arithmetically by adding the lines or columns. This difference is due to rounding up and down. The totals are generally expressed in EUR million while the calculations are done using amounts in euro.