



European Commission

The Agricultural Situation in the European Union

2003 report

Report published in conjunction
with the *General Report on the Activities
of the European Union — 2003*

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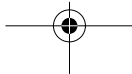
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Foreword

This report, which is the 29th annual agricultural situation report, is published in conjunction with the General Report on the Activities of the European Union — 2003. It is presented in accordance with the procedure laid down in the declaration on the system for fixing Community farm prices contained in the accession documents of 22 January 1972. It was completed in December 2004.

This report follows the same format as that of 2002, and therefore there is no longer a statistical annex. It is available as a separate publication ‘Agriculture in the European Union — Statistical and economic information 2003 (ISBN: 92-894-4995-0).’ It was produced early in 2004 in order to provide the data as quickly as possible to interested readers.

As in earlier years, certain subjects covered by the report have also been dealt with in other Commission documents. The reader will thus find references to various publications available from either the Commission, the Office for Official Publications of the European Communities or Eurostat.

PRINCIPAL ABBREVIATIONS USED

ACP	=	African, Caribbean and Pacific countries
AWU	=	Annual work unit
CAP	=	Common agricultural policy
CEEC	=	Central and east European countries
COM	=	Common organisation of the market
EAGGF	=	European Agricultural Guidance and Guarantee Fund
EFTA	=	European Free Trade Association
EMS	=	European monetary system
FADN	=	Farm accountancy data network
GATT	=	General Agreement on Tariffs and Trade
MCA	=	Monetary compensatory amount
MGQ	=	Maximum guaranteed quantity
NVA	=	Net value added
UAA	=	Utilised agricultural area
USDA	=	United States Department of Agriculture

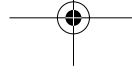
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I — Economic situation and farm incomes

Overview

1. The 2003 agricultural year was marked by lower production for both crops and live-stock products, with the notable exceptions of milk and pigmeat. This fall was partly offset by a fairly favourable price trend. Allowing for inflation, input prices were lower, except for energy, whereas agricultural prices were on the whole unchanged. Price rhythms were highly variable by sector and country but there were increases for all cereals, fruits and vegetables, wine, poultry and eggs, and falls for sugarbeet, potatoes, pigmeat and milk. In these circumstances agricultural incomes rose very slightly for the Union as a whole (up 0.9 % in real terms). The actual range by country was from -14 % for Germany to + 20 % for the United Kingdom.

2. Sowing weather in autumn 2002 was generally favourable but the cold, dry winter and early spring which followed destroyed some of the winter cereal and oilseed rape sown, particularly in central Europe. The late spring and summer then saw poor rainfall and very high temperatures (4°C to 5°C above average) in the greater part of Europe but not in the Scandinavian and Baltic countries. Temperatures peaked in the first three weeks of August, causing higher death rates in certain animal species (poultry and piglets). The countries most affected by the long period of high temperatures were Portugal, Spain, France, Germany, Italy, Greece and most central European countries.

3. These very difficult weather conditions and the accompanying measures needed in some regions (restrictions on irrigation) reduced crop production very markedly. On the livestock side, the drought affected yields from animals kept outdoors (cattle, sheep, goats) owing to the lower productivity of meadows and grazing, while the impact of the extremely high temperatures was greater on animals reared indoors, particularly poultry and pigs, resulting in slower growth, higher death rates and lower fertility.

4. Demand for **cereals** within the Union is estimated to be 1 % lower than in the 2002/03 marketing year, almost exclusively for feed grain, down from 120 million tonnes to 118 million tonnes. For **livestock products**, meat consumption was generally higher, except for poultry. The increase in bovine meat consumption took levels back to what they were before the 2001 BSE (bovine spongiform encephalitis) crisis. This increase in demand was chiefly satisfied by higher imports, mainly from South America. Consumption of poultrymeat and egg were lower however. Production fell as a result of the spring 2003 fowl pest

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epidemic, affecting principally the Netherlands but also Belgium and Germany, and leading to high prices. Consumption of sheepmeat and goatmeat was only slightly up (1.3 %) and has not yet reached the levels achieved in 2000 before the United Kingdom foot-and-mouth epidemic. Consumption of milk products, after falling slightly in 2002, resumed its slight upward trend (0.6 %). Demand for butter remains stable but the increase in cheese consumption was down in 2003 (by 0.9 % compared with a growth trend of 2.3 %).

5. As the result mainly of the fall in oil prices, the world economy continued to show strong growth in 2003 (some 3.3 % for gross domestic production). In the European Union, however, besides geopolitical tensions over the war in Iraq, other factors, including labour market difficulties, poor stock market performance and uncertainty over the future of social security systems, helped hold back the upswing, which only came in the second half of the year, and GDP growth for the entire year was restricted to 0.8 %. At the same time, the monetary and budgetary policies applied in the European Union boosted the financial community's confidence in the euro, which rose significantly in 2003 against most other currencies (by around 13 %). Against the US dollar it rose more than 20 %, closing the year at USD 1.25.

6. The world economic upswing together with low growth in agricultural production led to higher prices for most products on the world market in 2003. In the case of cereals, world wheat prices (in dollars) were higher than in 2002 in the first half of the year but subsequently fell as a result of the satisfactory summer 2003 harvest in the main traditional exporting countries (USA, Canada, Australia, Mercosur, apart from the EU-15) and despite very poor production by the new exporters (including the Ukraine, Russia and the central and east European countries). With the dollar's fall against the euro, from June onwards world wheat prices in euro were 10 % to 33 % lower than 2002 prices. The EU production deficit led to a substantial rise in European cereal prices.

7. Maize prices at the beginning of the year were close to those for 2002. Poor crops in Argentina, Brazil, South Africa, China and Europe were partly offset by high production in the United States but this could not stop a rise in coarse grain prices (maize, sorghum, barley) from the autumn. The market remained unstable owing to uncertainty about the attitude of China, veering between the need to look to its own supply and its role as a maize exporter.

8. World market prices for soya were slightly up on 2002 at the beginning of the year and then rose very markedly from the summer under strong demand from China and from the animal feed industry for oil-crushing by-products (because of the coarse grain shortage) when both North and South American production was down. In addition, strong Asian demand more than doubled freight costs. But big stocks in Argentina and Brazil relieved prices.

9. Despite low growth in demand, meat prices were generally higher on world markets owing to generally restricted supply, to which were added health problems and import restrictions. To encourage expansion of national production, Russia introduced tariff quotas for meat imports and Japan used the safeguard clause against pigmeat imports for the third year in a row. The countries of South America, particularly Brazil, continued to increase

their market shares, exchange rates still being favourable. Discovery of a cow infected with BSE in Canada disturbed the bovine meat markets well beyond North America. The strong world market rise for poultrymeat eased off markedly in 2003 since the epidemic of severe acute respiratory syndrome (SARS) in Asia led to a considerable cut-back in demand. Although the fowl pest epidemic in the Netherlands restricted availability on the world markets, prices were forced down by high supply volumes from Brazil and Thailand. For sheepmeat on the other hand, the drought in Australia and structural supply weaknesses in several Northern Hemisphere countries meant a steep rise in prices.

10. After the heavy fall at the beginning of 2002, world milk prices continued to recover in 2003 owing to sustained demand but poor supply availability (Oceania, South America, Europe). The increase was particularly marked in the second half of the year, more specifically for butter and cheese. As a result, export subsidies fell in both North America and Europe.

11. In the first eight months of 2003, the overall value of Community agricultural exports rose by 4 % compared with the same period in 2002. The increase was particularly marked for wines and spirits, sugar and sugar products, and chocolate and chocolate products. It was also noteworthy for cereals (6.3 %) owing to large volumes at the beginning of the year but there is a risk of reversal of the situation between now and the end of the year. The production shortfall led to a suspension of the weekly export tenders for cereals (except for Finnish and Swedish oats) from August. For pigmeat exports the situation was difficult owing to restrictions on access to certain markets (Japan, Russia) and strong competition from other exporters (Brazil, Poland). Poultrymeat exports fell substantially owing to the production shortfall caused by fowl pest. The overall value of imports was practically unchanged (+ 0.42 %) despite marked increases for animal products (live animals, meat, milk products). Thus, in 2003 the European Union was a net importer of bovine meat for the first time in 20 years. Turning to cereals, the introduction in January 2003 of tariff quotas for low- and medium-quality wheats and for barley curbed the massive imports of 2002 from the Black Sea. Overall, the export balance for the first eight months of the year was slightly positive (EUR 468 million) whereas it had been negative (EUR 479 million) for the same period in 2002.

12. For most products, intervention stocks fell in 2003, a sign of improved markets. Cereal stocks dropped from 8 million tonnes in January to 5.1 million tonnes in December and are expected to fall further. In particular, the large rye stock was reduced from 5.3 to 3.8 million tonnes. On the other hand, rice stocks reached the exceptional level of 700 000 tonnes. Despite the poor harvest for the second year running, total wine stocks held up in 2003. Those of wine alcohol by contrast fell by nearly 30 % to around 2.4 million hectolitres of pure alcohol. Intervention stocks of bovine meat were fully disposed of and there only remains some 34 000 tonnes (carcass equivalent) in store from the special purchase scheme at the time of the BSE crisis. The picture for milk products was less favourable. Over the year, butter stocks rose by only 32 000 tonnes to reach 224 000 tonnes but the rise for skimmed milk powder was from 142 000 to 198 000 tonnes.

Production

13. The latest information is that the 2003/04 **cereal area** at **36.4 million hectares** is down by 2.6 % on 2002/03, a fall that was curbed by new spring sowings following the winter frosts. All cereal areas were down on last year apart from barley, oats and sorghum (small rises). The biggest falls were 17 % for rye and 4 % for common and durum wheat.

14. **Total cereal production** for 2003/04 is at present estimated at 185 million tonnes, a fall of nearly 25 million tonnes or 12 % on 2002/03. Yield would be 5.11 tonnes/hectare, 9 % less than last year and 14 % down on the long-term trend. For common wheat the forecast is 84 million tonnes, 10 million (10 %) less than in 2002/03. For all cereals, production is put lower than last year, with falls ranging from 5 % for barley (45 million tonnes) to 31 % for rye (3 million tonnes). Also particularly large is the 20 % fall for maize, which suffered greatly from the drought and the summer heatwave. The current estimate is 31 million tonnes.

15. **Yields** are without exception poorer than in 2002/03. The biggest fall is 19 % for maize to 7.4 tonnes/hectare, followed by those for rye (– 16 %), triticale (– 9 %) and oats (– 8 %). For common wheat, the yield of 6.2 tonnes/hectare is 7 % lower than last year.

16. France remains the leading cereal grower, producing a total of 57 million tonnes despite an 18 % fall on 2002/03. It is followed by Germany with 40 million tonnes (– 8 %) and the United Kingdom with 22 million tonnes (– 5 %). Only Denmark and Ireland produced slightly more than last year.

17. **Rice** was also affected by the drought. The 2003 production estimate is 5.2 % lower at around 1.5 million tonnes (milled equivalent).

18. Areas under **oilseed** were larger: rape up 5 % to 3.2 million hectares, sunflower up 4 % to 1.7 million hectares and soya up 6 % to 0.26 million hectares, due to good price prospects for rape and the need to resow winter sunflower and soya owing to frost damage. The total oilseed area is currently estimated at 5.2 million hectares, including 0.8 million hectares of non-food crops. But with the difficult weather conditions yields are down on 2002, by 5 % for rape, 13 % for sunflower and 12 % for soya, giving total production of 12.5 million tonnes, 2 % less than for 2002/03. Of this just over 2 million tonnes is estimated as non-food, nearly all of it rape. The 2003/04 crop would be 9.3 million tonnes of rape, 2.5 million tonnes of sunflower and 750 000 tonnes of soya.

19. For the same reasons as for sunflower and soya, there was a marked increase in the area sown to **protein crops** recorded in 2003, up 9 % to 1.35 million hectares. Despite lower yields than in 2002 the production estimate is 4.3 million tonnes, up 6 %, with the increase chiefly for peas (+ 12 %) while field beans and sweet lupins will be 10 % down on 2002/03.

20. The **linseed** area has settled at a very low level in recent years (60 000 hectares) and the 2003 production estimate is 70 000 tonnes.

21. EU **sugar** production in 2003 is estimated at 15.1 million tonnes, some 10 % lower than the 16.9 million tonnes of 2002 mainly as a result of an overall fall of about 7 % in the area sown (2003 estimate: 1.7 million hectares) and the impact of the prolonged drought on yields, particularly in southern Europe (Italy down 30 %, Spain 25 %). In the northern countries (France, United Kingdom, Netherlands) higher sugar contents meant normal per hectare sugar yields. In Germany the joint result of a 3 % drop in area and a 5 % drop in yield was an 8 % fall in production.

22. **Olive oil** production in 2003 is estimated as falling by some 0.5 million tonnes (20 %) from the record EU level of 2002. Despite this, production is still at a high level.

23. Initial estimates give a fall in **fruit** production of 2 % to 7 % depending on product. Crop figures are also lower for the main **vegetables** except tomatoes for industrial processing, which had a very small 2002 crop. For potatoes the estimate is a 13 % fall.

24. Community **wine production** in 2003 at 157 million hectolitres (– 2.1 % on 2002) was the lowest since 1996. This masks contrasts between producer countries. The hot, dry summer particularly affected Germany and Luxembourg (both – 21 % on 2002) and France (– 9 %). Italian and Austrian production was stable. Spanish production at 42.5 million hectolitres was 7 % up, as was that of Portugal, and Greek production was 19 % up. The production fall affected quality wines (quality wines psr) more than table wines, since the two countries most affected are big producers of the former.

25. **Bovine meat production**, in a cyclical fall beginning in 2002, is estimated at 7.3 million tonnes, down 2.35 %, for 2003. Particularly marked falls in Germany, the Netherlands and Belgium (– 9 %) were partly offset by rises of 10 % in Spain and 3 % in Ireland.

26. After the cyclical low of 2001 the upswing in **pigmeat** production seen in 2002 (1.5 %) lasted longer than expected in 2003. In the first half, the structural reductions continued in the Netherlands, Belgium and the United Kingdom but production continued to grow in Germany, Spain and France. The downswing began in the second half in most countries and the production estimate for the year is 0.8 % up at 17.9 million tonnes.

27. After the last three years' growth, poultrymeat production was expected to fall slightly in 2003. The impact of the fowl pest epidemic in the Netherlands, detection of nitrofurans in Portugal and the intense summer heat, however, meant that the fall in production to 8.67 million tonnes, 4.5 % down on 2002, was greater than expected.

28. There was a very small increase (0.4 %) in sheepmeat/goatmeat production in 2003. Falls occurred in Greece, Italy and France and growth was only 1.4 % in the United Kingdom, which has still not returned to its level of production of before the 2001 foot-and-mouth epidemic.

29. The downward trend in dairy cow numbers continued, reaching 19.1 million head at the end of the year, a 1.7 % fall on 2002. The estimate of average milk yield, on the other hand, is 6 276 kilos, up 2.4 %. This gives a **milk** production figure of 121.7 million tonnes, practically unchanged compared with 2002. Deliveries to dairies should be unchanged at 115.6 million tonnes.

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30. After the 2002 increase, **butter** production should be down by 0.5 % in 2003. Cheese production has not stopped growing but in the last few years the rise has been easing: this year's overall increase of only 0.7 % (well below the historic average of around 2.2 % a year) results in production of 7.3 million tonnes. For **milk powders** a fall of 1.2 %, about 24 000 tonnes, to 1.98 million tonnes is expected, all on the whole milk side: production of semi-skimmed and skimmed milk powders is very stable.

Prices

Producer prices

31. The figures available in December 2003 showed a 3.9 % rise in nominal terms in the agriculture producer price index for the European Union as a whole. There are wide price differences between cereals: common wheat up 7.5 %, malting barley up 6.0 %, feed barley up 5.9 %, grain maize up 3.0 %, but durum wheat down 1.0 %, rice down 3.2 % and oats down 6.2 %. After the big falls of 2002, the sugarbeet price fell again, by 3.4 %, but that of potatoes rose 9.8 %. Wine, up 8.4 %, and olive oil, up 3.3 %, rose for a second year and the price index for the horticulture sector has been rising continuously since 2000 with fresh fruit up 13.8 %, dry fruits up 8.2 %, fresh vegetables up 11.9 % and flowers up 2.6 %. The overall index for animal products rose by a mere 0.6 % but this masks wide-ranging changes by sector: beef up 2.5 %, veal up 7.2 %, sheepmeat up 2.5 %, poultry up 3.6 % and eggs up 15.8 %, but after the big falls of 2002 there were further falls in 2003 of 4.5 % for pigmeat and 1.7 % for milk.

32. When inflation is taken into account, the estimated producer price index for the whole of the European Union is up only 1.4 % on 2002. As a result mainly of favourable price movements for wine, fruit and vegetables there were rises of 4.7 % for Greece, 3 % for Portugal, 2.8 % for Spain and 2.7 % for Italy. In the United Kingdom, up 4.4 %, prices moved favourably for both crops and animal products. In Belgium, up 0.5 %, the rise for animal products offset the fall for crops. With high crop prices failing to offset lower animal product prices, there were falls of 6.4 % in Finland, 2.8 % in Austria, 2.3 % in Luxembourg, 1.8 % in Germany, 0.7 % in the Netherlands and 0.6 % in France. Lower prices in real terms for both types of product meant falls of 3.2 % in Sweden, 4.7 % in Ireland and 5.9 % in Denmark.

Market prices

33. **Cereal** prices generally remained lower than in 2002 during the first half of the year (EUR 122 to EUR 126 per tonne for breadmaking common wheat and maize and EUR 110 to EUR 115 for feed wheat and barley). They were fairly stable except for a big fall for oats beginning in April. The only products enjoying better prices during this half year were breadmaking rye, which suffered from very low prices in 2002, and malting barley. The poor 2003 crop ensured big rises in all cereal prices from the summer. By the end of the year, prices per tonne were above EUR 160 for wheat, above EUR 165 for maize, EUR 185 for durum wheat and above EUR 140 for barley. At these price levels for maize, EU border

protection is practically nil, which means no import levy abatement (*abatamiento*) for Portugal and Spain.

34. **Olive oil** prices began the year higher than in 2002 but rose steadily from May to November when they were 40 % to 50 % above those in 2002.

35. **Wine** prices in general were slightly up on 2002 but this figure masks varying movements by wine category, region and country.

36. With demand for **bovine meat** still in the post-BSE recovery stage, prices continued to improve in 2003. For young bulls they were close to those obtaining before Agenda 2000 at the beginning of the year (EUR 280 to EUR 285 per 100 kg for category R3 up to mid-March) but the seasonal fall was more marked and the recovery weak. At year-end, prices were slightly below those at the same period in 2002. The price of cows (category R3) rose in the first half to EUR 234/100 kg by mid-June and stayed at EUR 225 to EUR 230 in the second half, i.e. 3 % to 7 % above the 2002 level. Steer prices, which had fallen in 2002, failed to improve in 2003. They remained for most of the year at EUR 250 to EUR 260 per 100 kg, which corresponded for the end of the year to the 2001 and 2002 prices.

37. The decline in **pigmeat** prices that began in 2002 continued, bottoming out at EUR 120/100 kg at the end of May. Prices then improved steadily to peak at EUR 144/100 kg in mid-September, only to fall abruptly and settle in the EUR 120 to EUR 126 range from mid-October to year-end.

38. **Poultrymeat** prices in the first quarter of 2003 fluctuated between EUR 128 and EUR 133 per 100 kg, the lowest level for that time of year since 1996. The subsequent fowl pest epidemic in the Netherlands followed by the intense summer heat brought prices up to a record level of EUR 166/100 kg in the first week of September. Gradual resumption of Dutch production then brought prices back to more normal but still satisfactory levels (EUR 145 at end-October). Particularly noteworthy was the spectacular rise in Spanish prices from around EUR 100/100 kg in June to more than EUR 150 from mid-July to mid-September. They fell back again to EUR 100 in mid-October. Egg prices maintained record levels from April to August (12 % to 20 % above the seasonal average of recent years). As the upswing was slow to arrive and stocks became limited they again rose abruptly from September, reaching EUR 128/100 kg in October (40 % above the seasonal average).

39. Since **sheepmeat** production had not returned to normal levels in the United Kingdom prices remained high in 2003 for the third year in a row. Slightly lower than those of 2002 at the beginning, they increased strongly from March to move up from EUR 400/100 kg to the record level of EUR 470 at the end of April (+ 21 % on 2002). The seasonal trend brought them down again to end the year just below the level seen in 2002.

40. The very low prices for **milk products** of 2002 did not improve much in 2003. Only from mid-July to September in the case of skimmed milk powder, and from May to

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mid-September for butter, were they slightly higher than in 2002. There was intervention purchasing in 2003 but not to the extent of 2002.

Input prices

41. In 2003 the purchase price index for standard consumption goods and services in agriculture rose by 1.2 % in nominal terms compared with 2002. Except for animal feed, down 1.5 %, all items were higher.

42. After allowing for inflation, the index was 1 % down in real terms and only three items were up: energy (3.8 %), maintenance and repair of equipment (1.9 %), and investment in buildings (0.3 %). The horticulture sector's intensive energy use meant that the index was up 1.8 % in real terms in the Netherlands. A slight increase of 0.6 % was also seen in Germany. In all other countries the index was down, by as much as 6.6 % in Portugal and 3.4 % in Denmark. The other countries showing a fall above the Community average were France (1.4 %), Italy (1.7 %) and Ireland (1.9 %).

Farm income

43. The first estimates of farm income movements in 2003 provided by Eurostat on the basis of information submitted by the Member States in December 2003 show an increase over 2002 of 0.9 % in average farm income (measured, in real terms, as the net value added at factor cost per annual work unit) for the European Union ⁽¹⁾. Incomes were up in seven Member States and down in the others, with the biggest increases in the United Kingdom (20.5 %), Belgium (8.6 %), Spain (4.2 %) and Portugal (3.3 %) and the biggest falls in Germany (-14.2 %), Denmark (-7.9 %), Austria (-6.4 %) and Finland (-5.9 %). The main factor behind these changes is poor crop production owing to the summer drought that was not always offset by adequate price increases, while in the livestock sector falls in milk and pigmeat prices following increased production were the primary drag on incomes. Since movements in intermediate consumption costs did not generally offset those in production costs there is an estimated decline of 1.5 % in real terms in farm income for the European Union as a whole in 2003, the only countries showing increases being the United Kingdom (14.9 %), Belgium (5.3 %), Portugal (3.3 %) and Ireland (0.8 %).

44. Lastly, the structural decline in the agricultural labour force, the final fundamental factor affecting income movement, is put at 2.4 % in 2003 for the EU as a whole. Taking this into account gives an increase in farm income of just under 1 % calculated per person.

⁽¹⁾ At this point the data for Greece had not been sent owing to a strike at the National Statistical Organisation. The estimate is based therefore on data from the other 14 Member States.

Changes in nominal farm-gate prices in 2003 and 2002

(%)

Member State	2003/02 (p)			2002/01		
	Crop products	Livestock products	Total	Crop products	Livestock products	Total
EU-15	7.0	0.6	3.9	0.1	-5.7	-2.6
Belgium	-1.2	4.0	2.0	-4.5	-9.2	-7.5
Denmark	1.9	-6.2	-3.8	-2.4	-12	-9.1
Germany	4.2	-3.3	-0.7	-3.7	-7.5	-6.3
Greece	11.6	0.8	8.5	8.5	-1.8	5.3
Spain	9.6	1.5	6.1	0.5	-8.5	-3.7
France	8.0	1.0	1.4	-4.9	-3.8	-4.4
Ireland	3.6	0.4	-0.8	-1.8	-4.8	-4.4
Italy	6.7	3.5	5.6	4.4	-4	1.4
Luxembourg	5.1	-1.6	-0.2	6.0	-4.1	-2.1
Netherlands	4.2	-1.2	1.7	2.6	-7.3	-2.1
Austria	1.9	-3.2	-1.6	0.3	-7.4	-5.1
Portugal	18.5	2.6	6.4	-10.6	-6.0	-2.4
Finland	1.8	-8.4	-5.1	1.0	-3.4	-2.0
Sweden	2.1	-2.7	-1.1	-4.4	-1.8	-2.7
United Kingdom	4.9	6.3	5.8	-4.1	-2.7	-3.3

(p) provisional
Source: Eurostat.

Changes in nominal purchase prices for agricultural inputs in 2003 and 2002

(%)

Member State	Intermediate consumption		Investment		Total	
	2003/02 (p)	2002/01	2003/02 (p)	2002/01	2003/02 (p)	2002/01
EU-15	1.1	-0.1	2.3	2.5	1.4	0.5
Belgium	1.0	0.2	1.3	2.1	0.8	0.5
Denmark	-0.8	-0.7	-1.4	1.2	-0.2	-0.3
Germany	1.7	-0.6	0.9	1.3	1.5	-0.1
Greece	3.5	1.6	3.3	4.0	3.4	2.1
Spain	2.1	0.7	2.7	3.5	2.1	1.1
France	0.4	-0.1	2.4	2.2	0.9	0.4
Ireland	2.0	1.3	1.4	4.0	1.9	2.1
Italy	0.4	0.2	2.6	2.8	1.3	1.2
Luxembourg	1.2	0.2	1.6	2.3	1.3	1.0
Netherlands	1.7	0.7	2.5	3.6	1.9	1.1
Austria	1.2	-1.4	1.6	2.1	1.4	-0.1
Portugal	0.0	-4.5	3.0	3.0	-3.5	-3.4
Finland	1.1	-0.5	2.6	2.9	1.4	0.3
Sweden	1.8	1.7	2.8	3.5	2.0	2.1
United Kingdom	1.2	-0.9	1.5	2.4	1.3	-0.3

(p) provisional
Source: Eurostat.

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Real output price indices for agricultural products (1996 = 100)

	1996	1997	1998	1999	2000	2001	2002	2003
EU-15	99.0	96.3	91.5	86.4	87.7	89.8	84.9	86.1
Belgium	101.4	101.2	94.2	85.4	91.8	91.8	83.7	84.1
Denmark	101.7	99.8	86.6	81.1	88.0	92.3	81.9	77.0
Germany	98.3	97.8	92.5	86.3	90.4	94.0	87.0	85.4
Greece	99.0	96.0	91.1	89.6	90.6	92.9	94.5	98.9
Spain	98.8	93.9	89.8	85.0	85.9	87.4	81.2	83.5
France	97.7	96.7	95.9	92.3	92.2	93.7	89.4	88.8
Ireland	93.4	86.6	84.1	78.6	79.5	79.9	73.1	69.7
Italy	100.4	99.0	93.9	88.1	87.9	90.2	89.1	91.5
Luxembourg	94.3	95.2	94.3	90.7	88.1	88.0	84.3	82.4
Netherlands	101.5	105.9	98.7	91.2	96.0	96.6	91.1	90.5
Austria	99.9	101.2	93.3	87.1	91.1	95	88.5	86.0
Portugal	99.1	97.9	96.9	90.4	92.2	94	86.6	89.2
Finland	104.1	96.5	93.8	87.8	89.6	91.8	88.2	82.5
Sweden	94.7	91.3	89.0	87.3	85.1	87.3	83.3	80.6
United Kingdom	97.4	83.1	73.5	69.4	67.5	71.7	70.3	73.3

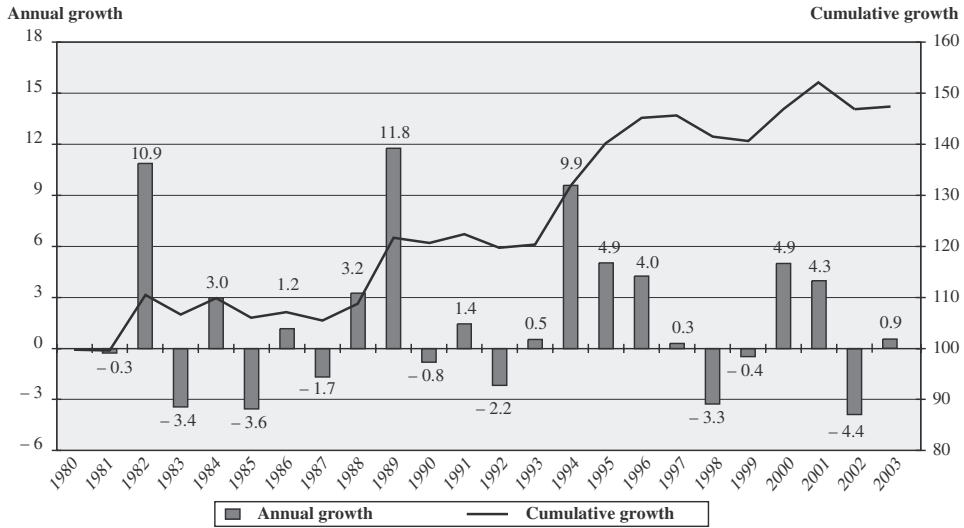
Source: Eurostat.

Indices of real purchase prices for goods and services currently consumed in agriculture (1995 = 100)

	1996	1997	1998	1999	2000	2001	2002	2003
EU-15	101.8	101.1	96.6	94.1	96.3	97.5	95.5	94.7
Belgium	102.1	102.7	98.3	96.6	100.3	100.4	97.5	96.8
Denmark	100.9	101.9	99.1	95.5	95.6	99.9	97.2	94.9
Germany	101.6	101.5	98.1	96.9	101.2	102.4	100.9	101.3
Greece	99.7	96.8	94.4	94.1	96.5	95.3	94.3	94.2
Spain	100.9	101.7	99.4	96	97.7	96.8	94.5	93.6
France	101.3	101.5	98.7	97.3	99.6	100.5	99.5	98.3
Ireland	101.6	99.3	96	95.1	95.6	96.5	93.9	91.9
Italy	104.6	105.2	97.1	91.4	92.5	94	92.6	91.3
Luxembourg	100.7	100.3	99	98.8	99.5	100.6	99.6	98.7
Netherlands	103.7	102.3	98.1	95.8	99.2	101.1	98.4	97.9
Austria	100.6	100.8	97.9	97.2	98.4	98.3	96.4	96.5
Portugal	100.1	97	92.3	90.4	91.3	93.8	90.9	84.9
Finland	100.4	101.1	98.4	97	99.6	98.1	96.5	96.5
Sweden	104.3	103.5	100.8	100.3	102.8	106	106.0	105.7
United Kingdom	98.9	93.6	86.6	84	85.6	88.2	91.8	91.7

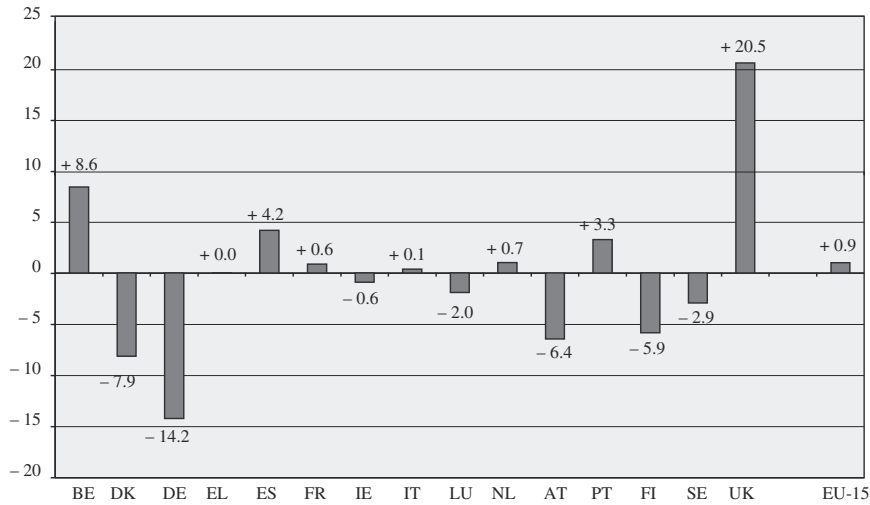
Source: Eurostat.

Development of agricultural income in the EU over the 1980–2003 (p) period, in terms of annual growth (%) and cumulative growth (1980 = 100)



(p) provisional — Source: Eurostat (Agriculture DG calculation).

Development of agricultural income in the EU Member States in 2003 (p) (% change versus 2002)



(p) provisional — Source: Eurostat (Agriculture DG calculation).

**Development of agricultural income in the EU Member States over the 1990–2003 period
(average 1994–96 = 100)**

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003(p)
EU-15	108.6	109.1	106.3	102.5	103.9	93.5	102.6	106.5	100.6	93.1	101.0	109.3	106.3	115.4
Belgium	91.1	88.8	81.1	78.2	89.3	104.9	105.8	101.8	80.0	79.0	95.4	107.3	87.0	80.1
Denmark		86.7	88.4	84.6	90.5	98.1	111.3	114.3	102.7	101.0	124.0	147.9	116.7	100.1
Germany	88.7	113.4	95.7	88.0	98.8	103.1	98.2	98.5	98.7	101.0	105.1	109.0	114.0	
Greece	84.9	84.2	73.2	86.4	96.4	96.0	107.6	108.6	104.1	97.6	108.6	109.1	110.3	114.9
Spain	88.8	78.2	85.0	84.5	95.9	101.8	102.3	105.9	110.5	108.3	107.7	109.5	107.1	107.8
France	77.1	78.3	88.7	90.9	94.8	101.4	103.8	101.3	98.0	93.6	109.2	112.5	104.6	104.0
Ireland	79.0	84.5	83.9	86.2	92.1	101.1	106.8	109.5	109.4	118.0	113.9	112.6	111.3	111.4
Italy	101.9	93.2	95.1	92.7	91.0	102.6	106.4	97.8	107.4	101.3	102.7	96.9	98.1	96.2
Luxembourg	118.6	117.0	107.2	88.4	99.6	102.3	98.1	105.9	95.1	88.4	89.3	91.7	80.7	81.3
Netherlands	101.1	100.9	94.7	89.1	96.1	105.5	98.4	88.3	85.5	85.3	93.4	107.9	102.6	96.1
Austria	94.3	93.5	69.9	67.7	90.8	99.7	109.5	104.3	104.6	125.7	109.6	130.7	126.7	130.8
Portugal	122.4	106.5	101.3	105.3	94.7	112.3	93.0	92.2	73.7	91.5	120.8	123.2	131.1	123.4
Finland	113.3	94.9	84.4	88.5	89.2	106.3	104.5	111.0	113.8	100.4	112.1	125.9	124.4	120.8
Sweden	71.6	70.7	76.9	90.3	96.1	105.4	98.6	76.1	66.0	64.6	61.5	65.7	70.2	84.6
United Kingdom		86.1	84.4	86.4	94.8	100.9	104.4	104.7	101.5	101.2	106.1	110.7	106.4	107.4

(p) provisional — Source: Eurostat — Economic Accounts for Agriculture (EAA), agricultural income index.

Farm accountancy data network (FADN)

45. The FADN is used to calculate output, costs and incomes of commercial farms in the EU from observed data collected in a survey of harmonised farm accounts. The survey provides valuable information about how farm incomes vary according to type of farming and location, which is not apparent from the global averages in the results for the agricultural sector as a whole. This section presents some information by type of farming and by country.

46. At the time of going to press, the 2001 results for some countries were still provisional.

47. Table 1 shows the wide range of economic results among Member States for each type of farming, as measured by the farm net value added (FNVA).

48. The wide differences in average income among Member States reflect the structure of their agriculture. The Member States with the highest average incomes are generally speaking those with many large-sized farms specialising in arable crops, dairy farming or the less regulated sectors of production (pigs, poultry, horticulture, etc.). The southern Member States, with a large number of small farms engaged in 'mixed' farming (crop and livestock production) or 'other permanent crops' (mixes of different cropping enterprises) have average incomes below the EU average.

49. Table 2 shows the contribution of the balance of subsidies and taxes to FNVA. In 2000, the proportion of subsidies net of taxes to FNVA for the EU-15 was 34 %. In 2001, this share was slightly higher. However, the differences among Member States and among types of farming were very significant.

50. In 2000, Finland had an average FNVA lower than the balance of subsidies and taxes. This means that revenue from the market was not enough to cover production costs. On the other hand, the share of subsidies in FNVA was lowest in the Netherlands, Belgium, Spain and Denmark.

51. Regarding types of farming, the differences are also considerable. Net subsidies in the drystock, arable and mixed types of farm were highest as a proportion to income. The horticulture and vineyards types of farm were by far the least subsidised.

52. In 2001, Finland and Sweden had an average FNVA lower than the balance of subsidies and taxes. The Netherlands was by far the country with the lowest share of subsidies in FNVA, followed by Belgium, Italy, Denmark and Spain. By type of farming the order according to the proportion of the balance of subsidies and taxes is the same as in 2000.

53. FADN data can also be used to analyse the degree of concentration in the agricultural sector. This is reflected in Tables 3 and 4 with data for 2000. In order to avoid the problems caused by the presence of some negative values for FNVA, the variable used is total receipts from farming, i.e. receipts from the market and from subsidies.

54. Table 3 shows the share of the 20 % of farms with the highest total receipts per type of farm, by country and for the EU as a whole.

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Table 1 — Farm net value added

Member State	All farms		Arable		Horticulture		Vineyards	
	2000	2001	2000	2001	2000	2001	2000	2001
BE	62 248	64 556	58 925	64 241	77 045	72 630	—	—
DK	64 329	65 654	33 736	32 238	242 451	254 290	—	—
DE	52 690	51 533	62 626	73 891	87 462	88 425	41 491	42 253
EL ⁽¹⁾	11 074	10 851	10 406	11 068	16 484	21 509	10 662	9 463
ES	23 848	22 211	24 840	21 875	42 782	42 175	28 077	18 293
FR	48 804	47 638	47 695	44 279	88 201	80 800	80 771	79 527
IE	18 548	19 708	38 430	41 491	139 353	—	—	—
IT	16 717	17 645	13 826	12 827	36 447	34 882	20 259	19 469
LU	56 565	56 610	28 860	21 044	—	—	91 321	66 432
NL ⁽¹⁾	84 226	99 765	48 572	88 805	177 389	231 029	—	—
AT	30 320	33 635	35 710	35 991	—	—	30 756	36 434
PT	5 488	7 134	4 979	5 733	9 371	7 177	7 204	9 915
FI	30 468	31 410	23 274	20 748	51 581	56 173	—	—
SE	22 535	22 813	12 937	16 422	—	—	—	—
UK	57 288	59 055	78 640	70 091	180 984	161 240	—	—
EU-15	26 820	27 942	23 634	23 996	64 164	66 619	36 127	35 335

⁽¹⁾ Provisional for 2000.**Table 2 — Balance of current subsidies and taxes as % of farm net value added**

Member State	All farms		Arable		Horticulture		Vineyards	
	2000	2001	2000	2001	2000	2001	2000	2001
BE	15.1	20.8	19.4	20.1	-0.1	-0.5	—	—
DK	24.9	25.7	45.0	49.1	2.6	1.8	—	—
DE ⁽¹⁾	38.8	41.8	54.9	51.5	4.0	4.4	15.9	14.2
EL ⁽¹⁾	36.3	35.1	58.9	50.4	2.9	2.8	43.2	47.2
ES	24.3	26.3	41.5	47.5	1.9	1.5	4.5	4.9
FR	37.1	41.5	62.5	69.3	2.1	2.3	-0.3	0.0
IE	54.3	56.2	51.5	52.0	11.4	—	—	—
IT	27.0	22.4	53.0	41.8	0.1	1.5	5.7	5.7
LU	57.1	64.9	85.0	141.3	—	—	12.3	14.3
NL	7.1	2.8	13.2	8.7	2.6	-1.3	—	—
AT	52.2	53.1	63.8	67.8	—	—	30.4	24.4
PT	35.5	42.7	37.3	61.8	-0.7	-0.2	9.7	8.0
FI	113.6	116.6	135.8	154.1	48.6	45.7	—	—
SE	94.8	100.4	138.5	121.4	—	—	—	—
UK ⁽¹⁾	55.3	52.2	67.6	74.8	0.5	1.1	—	—
EU-15	34.3	34.7	55.3	54.7	2.8	1.6	3.7	3.7

⁽¹⁾ Provisional for 2000.

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(EUR)

	Other permanent crops		Dairy		Drystock		Pigs/poultry		Mixed	
	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001
	88 404	79 443	51 986	54 397	47 234	46 422	100 906	95 101	68 805	71 524
	100 336	104 582	74 810	69 050	14 612	15 343	171 176	190 810	67 782	73 947
	73 057	79 789	41 609	38 747	28 055	26 624	77 676	60 853	55 475	47 227
	10 208	8 704	16 893	15 356	15 463	15 750	14 365	59 693	14 469	13 459
	17 654	15 368	21 452	26 037	21 705	22 938	58 062	73 440	36 126	28 809
	68 811	74 697	37 062	35 036	28 863	29 195	53 334	76 089	49 273	48 694
	—	—	37 893	43 032	10 762	10 579	169 957	158 965	33 804	37 060
	10 405	12 839	40 558	52 093	19 271	24 396	118 238	144 727	35 996	28 202
	—	—	54 311	56 963	49 403	49 562	115 997	159 128	51 096	59 203
	86 523	149 590	80 606	81 598	19 067	16 951	91 400	77 094	66 302	50 685
	27 583	27 315	27 952	31 089	26 572	30 459	34 418	42 243	32 224	36 934
	2 739	4 916	14 721	12 568	6 059	6 339	19 234	49 559	5 414	6 933
	23 498	22 883	32 823	35 281	25 451	30 558	42 238	44 191	27 806	31 116
	—	—	40 642	34 062	6 758	7 629	36 860	58 312	16 017	19 493
	256 904	301 288	61 159	78 156	18 136	18 224	125 155	128 504	62 987	58 762
	13 917	15 034	40 989	43 073	19 381	20 473	75 614	84 955	37 628	36 362

(%)

	Other permanent crops		Dairy		Drystock		Pigs/poultry		Mixed	
	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001
	1.0	0.6	13.7	17.3	40.2	59.5	2.8	5.0	16.6	23.6
	1.9	1.4	21.0	23.4	83.0	125.0	11.9	10.0	27.8	28.7
	6.8	7.5	27.8	32.3	73.7	91.2	21.8	24.6	44.5	51.6
	22.1	24.5	15.3	16.5	32.8	29.7	-9.9	-1.0	32.3	34.4
	22.9	26.3	5.4	4.1	36.6	35.1	1.8	3.5	28.8	30.4
	14.9	8.4	28.8	34.7	72.8	86.5	22.6	10.7	49.2	54.9
	—	—	17.3	21.1	94.6	102.4	6.6	6.5	61.0	53.6
	22.8	18.3	7.9	9.5	31.3	30.1	2.6	3.4	16.6	25.0
	—	—	58.2	65.5	85.7	94.6	53.4	34.9	74.9	73.5
	6.4	-0.2	7.4	3.7	29.6	34.6	8.7	2.9	9.3	4.1
	29.4	34.2	48.2	51.8	58.8	62.3	39.8	32.6	53.2	50.1
	42.2	41.9	23.4	29.0	72.6	78.9	-4.4	0.1	46.3	60.5
	48.0	56.1	103.3	104.1	168.8	162.5	118.7	115.3	159.3	146.1
	—	—	60.0	74.9	344.5	311.2	34.2	21.8	150.2	132.6
	0.7	0.7	18.5	11.5	161.1	159.3	5.7	5.2	64.1	70.6
	20.9	19.4	24.9	25.7	69.0	73.5	11.5	9.5	40.4	45.9

**Table 3 — Share of total receipts (output + subsidies) in 2000
20 % of farms with the highest receipts**

	BE	DK	DE	EL	ES	FR	IE	IT	LU	NL	AT	PT	FI	SE	UK	EU-15
Specialist cereals, oilseed and protein crops	51	64	59	47	53	44	62	61	62		45	63	42	53	52	66
General field cropping	48	60	55	48	54	44	66	70		52	44	84	47	61	63	72
Specialist horticulture	55	75	46	55	59	54		57		55		59	62		80	71
Specialist vineyards			44	46	48	58		63	52		45	56				70
Specialist fruit and citrus fruit	44	64	43	40	53	56		61		46	41	65	29		75	66
Specialist olives				46	55			55				54				61
Various permanent crops combined	63	73	52	47	46	51		62			54	61			66	69
Specialist dairying	37	39	43	42	48	39	42	60	35	40	36	52	37	50	45	48
Specialist cattle-rearing and fattening	46	56	47	53	50	41	50	63	41	51	35	58	48	49	44	52
Cattle-dairying, rearing and fattening combined	41		41	51	40	40	51	59	34	65	35	68	45	65	62	48
Sheep, goats and other grazing livestock			45	41	46	41	53	50		60	43	60	43		49	53
Specialist granivores	42	46	38	40	54	48		54	41	48	38	63	44	46	58	54
Mixed cropping	49	65	63	46	55	52		62		67	41	53	64	63	68	72
Mixed livestock, mainly grazing livestock	47	51	45	44	49	44		66	41	34	38	50		44	66	70
Mixed livestock, mainly granivores	38	43	42		69	41	51	82	40	55	37	72			55	50
Field crops-grazing livestock combined	39	62	66	42	51	44	50	69	41	59	41	73	43	59	55	61
Various crops and livestock combined	48	52	40	43	47	42		71	37	56	38	68	43	54	46	61
All types of farming	49	61	52	48	59	49	59	69	40	55	41	68	44	56	61	69

Source: FADN.

**Table 4 — Share of total receipts (output + subsidies) in 2000
50 % of farms with the highest receipts**

	BE	DK	DE	EL	ES	FR	IE	IT	LU	NL	AT	PT	FI	SE	UK	EU-15
Specialist cereals, oilseed and protein crops	84	86	84	76	80	76	89	84	78		77	85	75	81	81	90
General field cropping	79	86	81	79	81	77	88	88	66	82	75	94	75	86	87	92
Specialist horticulture	84	95	79	78	84	82		83		84		83	87		93	91
Specialist vineyards			74	77	76	85		86	74		79	82				91
Specialist fruit and citrus fruit	76	89	78	71	80	85		85		81	76	89	74		92	87
Specialist olives				77	81			79				79				82
Various permanent crops combined	84	87	85	78	75	80		84			86	84			93	88
Specialist dairying	70	72	74	78	77	72	75	85	67	73	69	82	70	79	77	79
Specialist cattle-rearing and fattening	76	88	74	87	79	73	80	87	74	79	71	83	77	77	77	83
Cattle-dairying, rearing and fattening combined	72	55	73	83	77	73	84	83	66	84	68	87	82	90	79	80
Sheep, goats and other grazing livestock		73	76	74	78	73	83	80	81	86	79	85	72	74	80	83
Specialist granivores	76	78	70	78	85	81		83	73	81	72	87	75	78	84	83
Mixed cropping	82	89	83	76	82	80		85	86	90	75	81	80	94	89	91
Mixed livestock, mainly grazing livestock	74	82	74	76	78	78		85	76	85	71	78	78	82	96	94
Mixed livestock, mainly granivores	72	78	75		86	74	93	93	73	84	71	95			81	81
Field crops-grazing livestock combined	74	88	86	75	82	76	80	88	78	89	74	95	76	84	84	87
Various crops and livestock combined	83	83	74	75	80	76		90	77	85	72	87	76	83	85	91
All types of farming	79	89	80	78	83	79	86	89	72	84	73	88	76	85	86	91

Source: FADN.

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55. For the EU and for all types of farms, the 20 % with the highest receipts account for 69 % of the total. By country, however, the degree of concentration is lower and only Portugal, Italy, Denmark and the UK reach 60 %. Luxembourg, Austria and Finland are the countries with the lowest degree of concentration.

56. By type of farm at the EU level, the concentration is highest for general field cropping, horticulture, vineyards and mixed cropping and mixed livestock, mainly grazing livestock. The lowest concentration is found in specialist dairying, cattle-dairying, rearing and fattening combined, specialist cattle-rearing and fattening, mixed livestock, mainly granivores, and sheep and goats.

57. The types of farm in which the concentration is highest vary substantially from country to country. However, specialist dairying is the least or one of the least concentrated types of farm in practically all the countries.

58. Table 4 shows the degree of concentration according to the share of the 50 % of farms with the highest total receipts.

59. At EU level for all types of farm this share is 91 %, while at country level it ranges from 72 % in Luxembourg to 89 % in Italy. By type of farm, specialist dairying, and cattle-dairying, rearing and fattening combined are the least concentrated, followed by mixed livestock, mainly granivores. At the other extreme the highest concentration is found in mixed livestock, mainly grazing followed by general field cropping.

II — Policy developments and legislative initiatives in 2003

CAP reform

60. The Council of Agriculture Ministers of the European Union reached agreement in Luxembourg on 26 June 2003 on a fundamental reform of the common agricultural policy (CAP) based on the Commission proposals ⁽²⁾ presented on 23 January 2003. The basic rules on reform of the CAP were then set out in Council Regulation (EC) No 1782/2003 of 29 September 2003 ⁽³⁾. The reform, which will be introduced over the next two years, sets out to establish a more stable policy framework for European agriculture. The discussion on reform of the sugar sector was opened by a Commission communication ⁽⁴⁾ setting out the implications of three possible reform scenarios for the EU's sugar sector. This communication also described the proposals for a fundamental reform of the common market organisations for olive oil, raw tobacco and cotton in line with CAP reform. For these sectors, it is proposed to transfer a significant part of the current production-linked payments to the decoupled single farm payment scheme, the key feature of the future CAP. Furthermore, on 18 November 2003, the Commission put forward a legal proposal ⁽⁵⁾ concerning olive oil, raw tobacco, cotton and the hops sector.

61. The key elements of the new CAP will be:

- the introduction of a **single payment scheme** for EU farmers, separate (i.e. 'decoupled') from production, with limited 'coupled' elements maintained where Member States consider this necessary to avoid abandonment of production;
- the linking of the **single payment** to observance of a set of environmental, food safety, animal and plant health and animal welfare standards, as well as to the requirement to keep all farmland in good agricultural and environmental condition ('**cross-compliance**');

⁽²⁾ COM(2003) 23 final.

⁽³⁾ OJ L 270, 21.10.2003, p. 1.

⁽⁴⁾ COM(2003) 554 final.

⁽⁵⁾ COM(2003) 698 final.

- the strengthening of rural development policy via ‘modulation’ (the transfer of funds from direct payments to rural development) and new measures to support the environment, promote quality and animal welfare and help farmers meet new EU standards;
- significant reforms to the intervention mechanism in sectors suffering from structural imbalance (butter, rye, rice);
- adjustments to support mechanisms for other sectors (durum wheat, drying aids, starch potatoes, dried fodder, nuts);
- a financial discipline mechanism to ensure that the farm budget — fixed until 2013 — is not overshoot.

62. The CAP reform involves many detailed changes, some of which will be introduced over several years. The most important of these are outlined below.

Single payment scheme

63. A single payment scheme will replace most of the premiums (direct aid payments) currently available to farmers. The new payment will not be linked to what a farmer produces but will be ‘decoupled’. The amount of the payment will be calculated on the basis of the direct aids a farmer received in the 2000–02 reference period. By allowing farmers to become more market oriented the single payment scheme aims to release the entrepreneurial potential of the farming sector. Management decisions which in the past were influenced by what the CAP offered in subsidies can now be based on market requirements. Where a particular production activity is profitable farmers will continue to follow it. The reformed CAP is designed so that farmers can take advantage of opportunities as they arise.

64. In order to ensure the continuing management of land throughout the EU, beneficiaries will be obliged to keep their land in good agricultural and environmental condition. Farmers who fail to comply with this requirement will face reductions in the single payment (see section on cross-compliance below).

65. *Full decoupling*: The single payment scheme comes into operation on 1 January 2005. Implementation may be delayed by a Member State but all Member States should introduce the single payment scheme by 2007 at the latest.

66. *Partial decoupling*: Full decoupling is the general principle from 2005 onwards. Member States may, however, decide to maintain a proportion of direct aids to farmers in their existing form, notably where they believe there may be disturbance to agricultural markets or abandonment of production as a result of the move to the single payment scheme. Member States may apply a number of options, at national or regional level, but only under well-defined conditions and within clear limits, as described below.

- They may retain 25 % of the COP component (basic area payments for cereals and other arable crops) of the single payment scheme or, alternatively, up to 40 % of the supplementary durum wheat aid, as coupled per hectare payments.
- Up to 50 % of the sheep and goat premiums may be granted as coupled payments.

- In the beef sector, Member States may opt to keep up to 100 % of the suckler cow premium and up to 40 % of the slaughter premium coupled. Alternatively, they may keep 100 % of the slaughter premium coupled or, instead, up to 75 % of the special male bovine animal premium.
- Drying aid and seed aid, and direct payments in the outermost regions of the Community and the Aegean Islands need not be integrated into the single payment scheme.

67. *Additional coupled payments:* Member States may grant 'additional payments' to support agricultural activities that are important for the protection or enhancement of the environment or for improving the quality and marketing of agricultural production. These 'additional payments' may use up to 10 % of the funds available for a sector included in the single payment scheme in the Member State concerned. The additional payment must be within the overall limits laid down for the sector in question.

68. *Dairy sector:* Direct aids will be introduced in stages and fully implemented by 2007. Generally speaking, dairy payments will form part of the single payment scheme from 2006/07 onwards, unless Member States decide on the earlier introduction of decoupling within a regionalised application of the single payment scheme.

69. Two years at the latest after implementation of the single payment scheme by all Member States, the Commission will submit a report to the Council, if necessary with appropriate proposals, on any market disturbances or structural developments that may have taken place as a result of maintaining sector-specific direct payments.

Compulsory cross-compliance

70. Up to now cross-compliance has been optional for Member States and applied to environmental standards only. Under the reform it becomes compulsory for all farmers receiving direct payments. In every Member State sanctions will be applied to farmers who fail to respect a 'priority list' of 18 statutory European standards in the fields of environment, food safety, and animal health and welfare, in addition to the sanctions generally applied, through cuts in direct payments.

71. Farmers benefiting from direct payments will also be obliged to maintain their farmland in good agricultural and environmental condition. Failure to comply will result in their payments being reduced.

72. The integrated administration and control system (IACS) already used for EU aid schemes will be used to control cross-compliance. A high degree of flexibility concerning the control rates will ensure that existing mechanisms established in the fields concerned can continue to be used. The Commission will draw up indicators for each legal obligation, to facilitate the application of cross-compliance.

73. Member States may retain 25 % of the money collected through the application of cross-compliance (i.e. non-compliance by farmers). Member States must also ensure that there is no significant decrease in their total permanent pasture area.

Modulation and financial discipline

74. The reinforcement of rural development is an important element of the reform. To finance the additional rural development measures agreed, direct payments to bigger farms will be reduced (or 'modulated') by 3 % in 2005, 4 % in 2006 and 5 % from 2007 onwards (see table). Direct payments up to the amount of EUR 5 000 per farm will remain free of reductions.

BUDGET YEAR	2005	2006	2007	2008–13
Payments up to EUR 5 000 a year	0	0	0	0
over EUR 5 000	3	4	5	5

(%)

75. Twenty per cent of the proceeds from modulation generated in a particular Member State will be allocated to the Member State concerned. The rest will be redistributed among Member States according to clear criteria:

- agricultural area,
- agricultural employment,
- GDP per capita in purchasing power.

76. However, every Member State will receive at least 80 % of the value of its modulation funds. Direct payments in the accession countries will not be modulated until they reach EU-15 levels and the outermost regions of the EU and the Aegean Islands will be exempt from modulation. Member States will be permitted to continue with domestic modulation up to the level required to fund rural development programmes established before 2006.

77. A financial discipline mechanism will be applied in order to keep CAP spending in line with the strict budgetary ceilings laid down by EU leaders at the European Council in October 2002. When forecasts indicate that spending in the relevant areas of the CAP (market expenditure and direct payments — subheading 1a of the financial perspective) is likely to exceed established ceilings, reduced by a safety margin of EUR 300 million, direct aids will be reduced. The Council will fix the necessary adjustment each year on the basis of a Commission proposal.

78. This mechanism should ensure that CAP expenditure is kept on a tight rein and that recent trends in CAP spending (including an effective freeze on overall spending and a shift away from market- and export-related payments) continue.

Strengthened rural development policy

79. A modulation rate of 5 % will result in additional rural development funds of EUR 1.2 billion a year being made available. Starting in 2005, the reform also significantly extends the scope of the instruments now available for rural development, to promote food

quality, meet higher standards and foster animal welfare. These two changes will together strengthen the EU's rural development policy.

80. The new measures, which will be available for Member States and regions to include in their rural development programmes, comprise:

- food quality measures:
 - incentive payments for farmers who participate in recognised schemes designed to improve the quality of agricultural products and the production processes used, and give quality guarantees to consumers;
 - support for producer groups for activities intended to inform consumers and promote the products produced under quality schemes;
- meeting standards: temporary and digressive support to help farmers adapt to the introduction of demanding standards based on EU legislation concerning the environment; public, animal and plant health; animal welfare and occupational safety. Aid will not be payable where an individual farmer fails to respect national standards already in force;
- farm advisory service: support will be available to help farmers meet the cost of using farm advisory services;
- animal welfare: support for farmers who enter into a commitment for at least five years to improve the welfare of their farm animals, going beyond usual good animal husbandry practice. Support will be payable annually on the basis of the additional costs and income forgone as a result of the commitment.

Reform proposals for olive oil, tobacco, cotton and the hops sector

81. On 18 November 2003, the European Commission presented its proposals to reform the common agricultural policy (CAP) rules on tobacco, olive oil and table olives, cotton and hops by emphasising competitiveness, stronger market-orientation, improved respect for the environment, stabilised incomes for farmers and a higher regard for the situation of producers in less-favoured areas. For the four sectors concerned, a significant part of the current production-linked payments would be transferred to the decoupled single payment scheme. The subsidies for hops would be fully decoupled, as well as the aid for tobacco, for which the Commission envisages a gradual three-step approach. For cotton and olive oil, a specific coupled payment would be maintained. Thus, the proposal takes into account the potential impact of full decoupling in these sectors and in particular the risk that production would be abandoned and of declining competitiveness of rural areas. The proposed reforms would enter into force in 2005 and a report would be presented in 2009. They would be budgetary neutral compared with past expenditure.

Quality policy

Protected designations of origin (PDOs) and protected geographical indications (PGIs) — adaptation of legislative measures

82. In order to promote regional specialities and protect their geographical names at Community level, Regulation (EEC) No 2081/92 was adopted on 14 July 1992. Ten years after its entry into force, the system must be improved and adapted to new circumstances. To that end, Council Regulation (EC) No 692/2003 was adopted on 8 April 2003. Its main aims are: to comply with international agreements, to open up the system to third countries in order to have protection outside the EU in exchange, and to improve the system.

83. As regards meeting international obligations, the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) requires us not to allow unfair competition and not to let consumers be misled regarding WTO member countries' geographical indications. In order to ensure that WTO members can defend their interests on Community territory vis-à-vis geographical indications, they must be granted the right to object.

84. The TRIPS Agreement has been a step forward as regards improving protection for our geographical indications outside the EU. But in order for Community names to have the same level of protection outside the EU as under the Community rules, third countries' geographical indications must comply with the requirements laid down in the regulation. Under the regulation, third countries are also required to have a system which is equivalent to the European system and which provides protection equivalent to that available in the EU. This requirement applies only subject to international agreements, however. It therefore does not apply to WTO member countries, which are already required to protect geographical indications.

85. Experience in managing the system has shown that a number of aspects could be improved and deficiencies rectified. To that end, a number of changes have been made to its scope: wine vinegar, not previously eligible for direct Community protection, has been included; mustard, pasta, wicker and wool have likewise been incorporated; by contrast, mineral waters have been excluded because they are adequately covered by other Community legislation. Provisions have also been added to enable registration decisions to be taken in cases involving identical names and to establish a legal framework permitting a limited period of coexistence where a registered name is the same as a name not covered by the regulation. In addition, the so-called simplified procedure has been abolished because it did not enable the right to object to be exercised, a right which is essential to guaranteeing legal certainty and a transparent procedure. Lastly, provision has been included for requiring certain packaging operations to be carried out within the defined geographical area in order to safeguard quality or ensure traceability or monitoring.

New products on the list

86. As provided for in Regulation (EEC) No 2081/92, the Commission has added 28 names to the list of protected designations of origin and protected geographical indications; the list currently comprises a total of 632 products.

87. A further name has been registered under Regulation (EEC) No 2082/92 on certificates of specific character.

Organic farming

Action plan — state of play

88. The Commission is currently preparing a European action plan for organic food and farming that will contain proposals for future initiatives aimed to enhance the further development of the organic farming sector.

89. In December 2002 a working document entitled 'Analysis of the possibility of a European action plan for organic food and farming' was prepared. The paper analyses the state of play of the development of organic farming in Europe and lists possible measures for inclusion in the final action plan.

90. The Ministers for Agriculture discussed this document in the Council in December 2002. They approved the presented roadmap, which includes an in-depth consultation phase and a public hearing.

91. In February 2003, the working document and a questionnaire with 12 key points were put on the Commission's website. The public was invited to respond to the questions and submit additional comments on the working paper by 16 March 2003. A 'Report on the results of the online consultation: action plan for organic food and farming' has been published.

92. In June 2003, the European Parliament held a hearing on organic farming at which the action plan was discussed.

93. The Commission is now due to hold a hearing in Brussels on 22 January 2004. More than 200 organisations and agricultural ministers from Member States, acceding and candidate countries and farmer journals will be invited to take part.

94. By early 2004, the Commission will prepare the final action plan in the form of a communication to the Council and the European Parliament. The plan will propose actions to facilitate the development of organic farming.

Proposal for an amendment to Council Regulation (EEC) No 2092/91 ⁽⁶⁾

95. The proposal was sent to the Council in January 2003 ⁽⁷⁾. The proposal envisages:

- (a) removing any possibility of misinterpretation as regards the scope of the protection for certain terms used to refer to the 'organic' production method;

⁽⁶⁾ OJ L 198, 22.7.1991, p. 1.

⁽⁷⁾ COM(2003) 14.

32 POLICY DEVELOPMENTS AND LEGISLATIVE INITIATIVES IN 2003

List of PDO, PGI and TSG registrations in 2003

Member State	Product	Type of product	Name
Germany	<i>Nürnberger Bratwürste or Nürnberger Rostbratwürste</i>	fresh meat (and offal)	PGI
Greece	<i>Finiki Lakonis</i>	oils and fats	PDO
	<i>Fasolia Gigantes — Elefantes Kastorias</i>	fruit, vegetables and cereals	PGI
Spain	<i>Cítricos Valencianos or Cítrics Valencians</i>	fruit, vegetables and cereals	PGI
	<i>Manzana de Girona or Poma de Girona</i>	fruit, vegetables and cereals	PGI
	<i>Torta del Casar</i>	cheese	PDO
	<i>Clementinas de las Tierras del Ebro or Clémentines des Terres de l'Ebre</i>	fruit, vegetables and cereals	PGI
	<i>Alcachofa de Benicarló or Carxofa de Benicarló</i>	fruit, vegetables and cereals	PDO
Finland	<i>Karjalanpiirakka</i>	bread, pastry, cakes, biscuits and other bakers' wares	TSG
Italy	<i>Soprèssa Vicentina</i>	meat-based products	PDO
	<i>Asparago verdi di Altedo</i>	fruit, vegetables and cereals	PGI
	<i>Pomodoro di Pachino</i>	fruit, vegetables and cereals	PGI
	<i>Uva da tavola di Mazzarrone</i>	fruit, vegetables and cereals	PGI
	<i>Molise</i>	oils and fats	PDO
	<i>Alto Crotonese</i>	oils and fats	PDO
	<i>Pane di Altamura</i>	bread, pastry, cakes, biscuits and other bakers' wares	PDO
	<i>Ficodindia dell'Etna</i>	fruit, vegetables and cereals	PDO
	<i>Monte Etna</i>	oils and fats/olive oils	PDO
	<i>Colline di Romagna</i>	oils and fats/olive oils	PDO
	<i>Pretuziano delle Colline Teramane</i>	oils and fats/olive oils	PDO
	<i>Fagiolo di Sorana</i>	fruit, vegetables	PGI
	<i>Clementine del Golfo di Taranto</i>	fruit, vegetables and cereals	PGI
	<i>Mela Val di Non</i>	fruit, vegetables and cereals	PGI
	<i>Marrone di San Zeno</i>	fruit, vegetables and cereals	PDO
Netherlands	<i>Westlandse druif</i>	fruit, vegetables and cereals	PGI
Portugal	<i>Pêra Rocha do Oeste</i>	fruit, vegetables and cereals	PDO
	<i>Carne dos Açores</i>	fresh meat (and offal)	PGI
	<i>Borrego do Nordeste Alentejano</i>	fresh meat (and offal)	PGI
	<i>Carne de Porco Alentejano</i>	fresh meat (and offal)	PDO
United Kingdom	<i>Welsh Lamb</i>	fresh meat (and offal)	PGI

- (b) reinforcing the inspection system by making it applicable to all operators throughout the production, preparation and marketing process;
- (c) allowing the exchange of information between inspection authorities and approved private inspection bodies;
- (d) specifying that the EU logo may be used for 'organic' produce imported from third countries whose production rules and inspection systems have been assessed and found to be equivalent to the EU system.

96. The proposal was examined during the Greek Presidency. The Italian Presidency took over the file, which is still under discussion in the Council at working group level. The Comagri adopted a report on the proposal on 4 November 2003 and the European Parliament is expected to deliver its opinion on 3 December 2003.

New regulations

97. On 5 February 2003, the Commission adopted Regulation (EC) No 223/2003 on labelling requirements related to the organic production method for feedingstuffs, compound feedingstuffs and feed materials and amending Council Regulation (EEC) No 2092/91 ⁽⁸⁾.

98. On 27 March 2003, the Commission adopted Regulation (EC) No 545/2003 amending Regulation (EEC) No 94/92 laying down detailed rules for implementing the arrangements for imports from third countries provided for in Council Regulation (EEC) No 2092/91 ⁽⁹⁾. The regulation includes Costa Rica on the list of third countries.

99. On 1 April 2003, the Commission adopted Regulation (EC) No 599/2003 amending Council Regulation (EEC) No 2092/91 on organic production of agricultural products and indications referring thereto on agricultural products and foodstuffs ⁽¹⁰⁾.

100. On 14 August 2003, the Commission adopted Regulation (EC) No 1452/2003 maintaining the derogation provided for in Article 6(3)(a) of Council Regulation (EEC) No 2092/91 with regard to certain species of seed and vegetative propagating material and laying down procedural rules and criteria relating to that derogation ⁽¹¹⁾.

101. Seed suppliers can register on the database organically produced seed and seed potatoes which they wish to place on the market. If the database shows that seed of the species which an organic farmer wishes to grow is not available, or if there are no appropriate varieties available, the farmer may ask the inspection body for a derogation to use seed which has not been produced organically.

⁽⁸⁾ OJ L 31, 6.2.2003, p. 3.

⁽⁹⁾ OJ L 81, 28.3.2003, p. 10.

⁽¹⁰⁾ OJ L 85, 2.4.2003, p. 15.

⁽¹¹⁾ OJ L 206, 15.8.2003, p. 17.

102. On 8 December 2003, the Commission adopted Regulation (EC) No 2144/2003 amending Regulation (EEC) No 94/92 ⁽¹²⁾ in order to amend the terms of inclusion of some third countries.

Working documents

103. In accordance with the working programme launched in 2002, the following issues have been addressed and are currently under examination:

- additions to Sections A and B of Annex VI as regards the non-agricultural ingredients and processing aids used in processed livestock products;
- evaluation of the need for feed materials of conventional origin and feed additives;
- issues concerning availability of organically reared livestock.

104. Furthermore, a working document on the use of substrate as a growing medium in organic farming has been examined.

Further issues

105. The assessment of equivalency under Article 11(1) of Regulation (EEC) No 2092/91 was ongoing for several third countries. Progress was made on the technical assessment of India, Japan and Colombia, the DG participated in a mission to New Zealand, and new requests were received from Turkey and Tunisia. Technical discussions on mutual recognition were held with the USA and a mandate to negotiate a mutual recognition agreement was obtained from the Council. Important follow-up actions on included third countries were carried out for Switzerland, Israel and Argentina.

106. Harmonisation of the conditions for issuing import authorisations according to Article 11(6) resulted in a guidance document on harmonised procedures. A guidance document for the evaluation of the equivalence of organic producer group certification schemes in developing countries was also finalised.

107. The Commission database OFIS on the import authorisations granted according to Article 11(6) became operational.

Promotional measures

108. Since the entry into force of Regulation (EC) No 2702/1999 relating to promotion of agricultural products in third countries ⁽¹³⁾ and Regulation (EC) No 2826/2000 relating to their promotion on the EU internal market ⁽¹⁴⁾, the Commission has approved a total of 124 promotion programmes, 30 for third countries and 94 for the EU internal market. Community part-financing (50 % of eligible expenditure) totalled EUR 105.7 million, including EUR 22.7 for third countries and EUR 83.0 for the internal market.

⁽¹²⁾ OJ L 322, 9.12.2003, p. 3.

⁽¹³⁾ OJ L 327, 21.12.1999, p. 7.

⁽¹⁴⁾ OJ L 328, 23.12.2000, p. 2.

109. The promotion measures in third countries aim to publicise/promote the intrinsic characteristics and added value of Community agricultural and food products, thereby making them more competitive.

110. During 2003, the Commission approved 13 of the 29 programmes submitted. Community part-financing for the approved programmes (of one to three years' duration) was EUR 15.9 million, including EUR 7.8 million for the first year.

111. The programmes' main target markets are the United States, Canada, Japan, Russia and Switzerland. The product focus has been on fruit and vegetables, dairy products, ham and wine.

112. The internal market information and promotion programmes' main objective is to publicise and highlight Member States' agricultural products and to promote their marketing within the EU.

113. During 2003, the Commission approved 54 of the 66 programmes received; part-financing totalled EUR 50.8 million, including EUR 27.2 million for the first year.

114. The programmes relate mainly to fruit and vegetables, organic farming products, milk and dairy products, wine and olive oil, as well as to such matters as information on protected names (PDOs/PGIS) and product quality and safety.

Simplification of agricultural legislation

Introduction

115. The Commission's simplification objectives have continued to focus on making agricultural legislation as clear, transparent and easily accessible as possible and on reducing the administrative workload that the common agricultural policy imposes on farmers and administrative authorities.

116. Simplification was discussed by the expert group set up by the Commission in the light of the October 2000 Agriculture Council's conclusions. The group met on 23 June 2003 and discussed issues including: the Commission communication on updating and simplifying the *acquis* ⁽¹⁵⁾ and the associated draft Commission regulation ⁽¹⁶⁾ repealing certain Commission regulations on wine, tobacco, hops, sheepmeat and goatmeat; implementation of the Small Farmers' Scheme in Italy; simplification of Member States' reporting obligations; and progress reports on the CAP-ED project (an electronic dictionary of codes used within the CAP, intended to facilitate and simplify the electronic exchange of information between the Commission and the Member States) and the AMIS-Quota project, which aims to simplify and improve the efficiency of agricultural import tariff quota management by using an integrated information system and web technology.

⁽¹⁵⁾ COM(2003) 71 final.

⁽¹⁶⁾ Commission Regulation (EC) No 1688/2003, 25 September 2003 (OJ L 240, 26.10.2003, p. 11).

Commission communication on updating and simplifying the Community *acquis*

117. Representatives from the Directorate-General for Agriculture took part in the Secretariat-General's task force to prepare the communication, which was adopted on 11 February 2003. The communication sought to programme for the first time at Commission level a process to modernise and simplify existing legislation and policies through a series of measures intended to reduce the volume of the EU *acquis*, clarify its organisation and presentation by removing obsolete legal instruments and codifying current and generally applicable legislation, and introduce priority indicators for assessing different policy areas with a view to simplification. As the Directorate-General for Agriculture had already been undertaking this type of work on its own initiative for a number of years, it was able to contribute substantially to this new Commission-level exercise. The first report on implementation of the communication was adopted by the Commission on 24 October 2003 ⁽¹⁷⁾.

Repeal of agricultural legislation and declaration of obsolescence

118. As a result of its work on removing obsolete legislation, the Directorate-General for Agriculture undertook the repeal of seven Commission legal acts, which was adopted by the Commission on 25 September 2003 ⁽¹⁸⁾.

119. A further list of 99 obsolete legal acts to be removed from the *acquis*, by applying the new declaration of obsolescence procedure introduced by the communication referred to in Section 2.5.2, was sent to the Commission's Legal Service on 5 November 2003 for verification.

Consolidation of agricultural legislation

120. Work on the project to consolidate agricultural legislation in all the EU official languages and make it available on the Internet for the general public through the EUR-Lex website was completed in mid-2003. Consolidation incorporates amendments to agricultural acts into the basic text to produce a single, updated, but not legally binding, version for ease of reference.

Small Farmers' Scheme

121. The implementing rules for the Small Farmers' Scheme (SFS) were adopted at the end of 2001 ⁽¹⁹⁾. As in 2002, only Italy is applying the scheme. Having received requests from over 2 000 farmers to participate in the SFS in 2002, Italy received a further 3 668 requests to participate in 2003. A first report on the implementation of the scheme, giving details of the definition of 'good agricultural conditions' required under the regula-

⁽¹⁷⁾ COM(2003) 623 final.

⁽¹⁸⁾ Commission Regulation (EC) No 1688/2003, 25 September 2003 (OJ L 240, 26.10.2003, p. 11).

⁽¹⁹⁾ Commission Regulation (EC) No 1/2002 of 28 December 2001 laying down detailed rules for the application of Council Regulation (EC) No 1259/1999 as regards the simplified scheme for payments to farmers under certain support schemes (OJ L 1, 3.1.2002, p. 1).

tion, and detailing the administrative and other controls undertaken, was received from the Italian authorities at the end of March 2003.

Study of Member States' reporting obligations

122. Member States' representatives in the experts group on simplification have previously indicated that they consider their various obligations to report to the Commission as a priority area for possible simplification, particularly with a view to eliminating duplication. The results of a study on this were distributed within the Directorate-General for Agriculture on 23 October 2003, together with a set of draft recommendations for discussion.

Simplification measures in various sectors

123. Although the Directorate-General for Agriculture does not operate a sectoral simplification policy as such, simplification is an important objective to be taken into consideration in its ongoing programme of policy sector reviews and reforms.

124. Of particular significance in 2003 was the adoption of the CAP reform package covering a large number of sectors, and especially its extension of the decoupling principle first introduced under the Small Farmers' Scheme (see point 2.5.5). Proposals were made during the autumn to extend the principles of the CAP reform to additional product sectors.

125. Many features of the reform will make agricultural policy more efficient and simpler in the longer term, enabling it to provide more effective support to farming. Clearly, the coexistence of different agricultural support systems in the transitional phase — an option requested by Member States during discussion at the Council of Ministers — may mean more complication rather than simplification, but Member States are not required to apply different support systems simultaneously and the potential for simplification is there should they wish to take advantage of it.

126. In the rural development sector, simplification of the Commission's implementing rules resulted in a package of specific measures being adopted by Member States in the STAR Committee on 19 March 2003 ⁽²⁰⁾.

127. Simplification packages have been adopted in both the fresh and processed fruit and vegetables sectors. In the fresh sector, two new regulations on the recognition of producer organisations ⁽²¹⁾ and on operational funds and operational programmes ⁽²²⁾ have been adopted. Simplifications in the processed fruit and vegetables sector were adopted at the end of July 2003 ⁽²³⁾.

⁽²⁰⁾ Commission Regulation (EC) No 963/2003 (OJ L 138, 5.6.2003, p. 32).

⁽²¹⁾ Commission Regulation (EC) No 1432/2003 (OJ L 203, 12.8.2003, p. 18).

⁽²²⁾ Commission Regulation (EC) No 1433/2003 (OJ L 203, 12.8.2003, p. 25).

⁽²³⁾ Commission Regulation (EC) No 1535/2003 (OJ L 218, 30.8.2003, p. 14).

State aid

Commission regulation on the application of Articles 87 and 88 of the EC Treaty to State aid to small and medium-sized enterprises active in the production, processing and marketing of agricultural products

128. On 23 December 2003, the Commission adopted a new regulation ⁽²⁴⁾ introducing a system of exemption by category of certain types of State aid granted up to certain limits to farmers or firms processing or marketing agricultural products. Member States no longer have to notify such aid in advance to the Commission for approval. The new regulation will apply until the end of 2006.

129. The regulation concerns State aid granted to small and medium-sized enterprises (SMEs) in the agricultural sector. The definition of an SME (250 employees at most and a turnover of EUR 40 million or a balance-sheet total of EUR 27 million) means that almost all agricultural holdings and firms are covered.

130. The Commission is also introducing a new standard of transparency: a summary of all exempted State aid, broken down by Member State, will be published on the Internet five days before its payment commences. All farmers and other interested parties will therefore have access to comprehensive information on all State aid measures falling under the exemption by category. This will ensure transparency and benchmarking, while avoiding the cumbersome procedure of formal notification to the Commission for approval.

131. The following categories of aid are covered by the regulation and are therefore exempt from notification to the Commission, provided that the conditions stipulated are met:

- investment aid of up to 40 % for farmers and 50 % in less-favoured areas, plus an additional 10 % for young farmers. The aid does not have to be restricted to specific agricultural products. Farmers will be free to invest in the sector of their choice, provided that there are sufficient market opportunities. Aid for increasing production capacity is exempt up to 20 %, expressed in livestock units or cultivated area. Aid of up to 60–75 % in less-favoured areas may be granted for investment to protect and improve the environment, improve hygiene in animal-product processing firms and improve livestock welfare, provided that the investment goes beyond the minimum EU requirements. Investment aid may even be targeted at specific products;
- aid of up to 100 % may be granted for costs relating to the conservation of **traditional landscapes and buildings** and may include reasonable compensation for the work undertaken by the farmer himself, or his workers, up to a limit of EUR 10 000 a year;
- aid may be granted for the relocation of farm buildings in the public interest;

⁽²⁴⁾ Commission Regulation (EC) No 1/2004 of 23 December 2003 on the application of Articles 87 and 88 of the EC Treaty to State aid to small and medium-sized enterprises active in the production, processing and marketing of agricultural products (OJ L 1, 3.1.2004, p. 1).

- investment aid of up to 40 % may be granted to firms **processing and marketing** agricultural products; a higher limit of 50 % applies in Objective 1 regions. The aid does not have to be restricted to specific agricultural products. For example, a specific aid scheme applying exclusively to the dairy sector would not be covered by the regulation. Firms will have the option of investing in the sector of their choice, provided that there are sufficient market opportunities;
- aid of up to EUR 30 000 may be granted for setting up **young farmers**;
- aid may be granted for **early retirement**, provided that the cessation of commercial farming activities is permanent and definitive;
- start-up aid may be granted to **producer groups** or producer associations, provided that the total aid amount does not exceed EUR 100 000 and is digressive over a five-year period (100 % of start-up costs in the first year, reducing by at least 20 % in each subsequent year);
- aid towards the payment of **insurance premiums** may be granted up to 80 % of the cost of premiums to cover losses caused by adverse climatic events which can be assimilated to natural disasters; the aid rate is reduced to 50 % for insurance covering other losses caused by climatic events and/or by animal or plant diseases;
- aid of up to 100 % is exempt from notification if it is granted towards and limited to the legal and administrative costs inherent in **land reparation**;
- aid of up to EUR 100 000 per beneficiary over a three-year period may be granted to encourage the production and marketing of **quality agricultural products**; support is available for the costs of market research and similar activities, introducing quality assurance schemes, training personnel to apply those schemes, charges for the initial certification of quality assurance and similar systems, and control measures undertaken by third parties;
- aid of up to EUR 100 000 per beneficiary over a three-year period may be granted for the provision of **technical support** in the agricultural sector and particularly for education and training of farmers and farm workers, certain farmer replacement services, consultancy services as well as organisation of and participation in competitions, exhibitions and fairs;
- aid for the **livestock sector** may be granted at a rate of up to 100 % to cover the administrative costs directly linked to the establishment and maintenance of herd books; at a rate of up to 70 % for tests, performed by or on behalf of third parties, to determine the genetic quality or yield of livestock; at a rate of up to 40 % for investment in animal reproduction centres and for the introduction at farm level of innovative animal breeding techniques or practices; and at a rate of up to 100 % towards the costs of TSE tests, subject to a limit of EUR 40 per test carried out on bovine animals slaughtered for human consumption.

Draft regulation on *de minimis* aid for agriculture and fisheries

132. On 23 December 2003, the Commission adopted a draft regulation on *de minimis* aid for agriculture and fisheries. The future regulation would lift for three years the prior notification requirement for national aid of up to EUR 3 000 per farmer and per fisherman. In order to avoid large-scale support operations, Member States granting such aid would have to comply with an overall limit corresponding to around 0.3 % of their agriculture or fisheries.

133. Member States would be able to grant aid meeting all the conditions stipulated in the regulation without the Commission having to approve it in advance, but they would be required to record the data certifying compliance with both the above limits. The draft will now form the subject of extensive consultation involving the Member States and third parties concerned. The Commission proposes to implement it towards the end of 2004.

Developments in the application of new guidelines

Promotion and advertising

134. In 2003 the Commission had occasion to deal with numerous cases of State aid for promoting and advertising agricultural products. Evaluating and adopting a position on those measures enabled the Commission to develop a degree of practice in applying the new guidelines on advertising agricultural products. Specifically, the decisions taken on this matter made it possible:

- to clarify a number of concepts in the guidelines, particularly ‘promotion’ and ‘advertising’⁽²⁵⁾,
- to adopt a position on aid for numerous labels referring to products’ origin⁽²⁶⁾,
- to draw up a more or less exhaustive list of eligible costs with regard to aid for promotion and advertising⁽²⁷⁾,
- to define the concept of ‘quality’⁽²⁸⁾,
- to adopt a position on 100 % financing of aid for advertising outside the EU⁽²⁹⁾.

⁽²⁵⁾ Aid NN 44/03 (ex-N 6/03) and N 389/03 Italy (Tuscany) ‘Toscana promozione’; Aid N 853/01 Spain; Aid N 727/02 Spain (Madrid); Aid N 829/01 Germany (Saxony); Aid NN 166/02 and N 10/03 Italy (Mantova); Aid N 145/02 Italy (Piedmont); Aid N 434/02 Italy (Bologna Chamber of Commerce); Aid N 418/01 Italy (Veneto).

⁽²⁶⁾ Aid N 525/02 Germany (Baden-Württemberg) ‘Biolabel B-W’.

⁽²⁷⁾ Aid NN 44/03 (ex-N 6/03) Italy (Tuscany); NN 150/02 (ex-109/02) Italy (Tuscany).

⁽²⁸⁾ Aid N 260 A/02 Germany (Hessen); Aid 200/03 Germany (Lower Saxony); Aid N 368/03 Germany (Saxony); Aid 442/02 Germany (North Rhine-Westphalia) ‘Promotion of sales’; Aid N 541/02 Germany (Baden-Württemberg); Aid N 716/2002 United Kingdom (Wales) ‘Meat quality advertising scheme’; Aid N 166/02 France ‘Advertising for quality wines’.

⁽²⁹⁾ Aid N 166/02 France ‘Advertising for quality wines’; Aid N 658/02 United Kingdom ‘Food from Britain’.

TSE and BSE

135. Since the entry into force of the guidelines for State aid concerning TSE tests, fallen stock and slaughterhouse waste ⁽³⁰⁾, adopting a position on numerous notifications has likewise enabled the Commission to establish a degree of practice and to clarify its position in this sphere.

136. In 2003 the Commission adopted a position on the interpretation of certain points in the guidelines when dealing with the following cases:

- Aid N 256/03 Germany (Baden-Württemberg) — ‘Compensation for slaughterhouses that destroy carcasses contaminated with BSE’;
- Aid NN 21/02 (ex-N 730/01) Spain — ‘Measures against BSE’;
- Aid NN 150/02 Germany (Bavaria) — ‘Aid for rapid tests for BSE’;
- Aid No N 371/03 Germany (Saxony) — ‘BSE test costs’;
- Aid N 129/03 Spain (Navarre) — ‘BSE test costs’;
- Aid N 268/03 Italy (Piedmont) — ‘Consortium for animal waste removal’;
- Aid N 164/03 Sweden — ‘TSE and BSE testing costs’;
- Aid NN 48/2003 (ex-N 157/2003) Belgium (Wallonia) — ‘Managing the removal and destruction of carcasses from agricultural holdings in the Walloon Region’.

Drought

137. The drought which affected certain Member States this year required urgent measures, at both Community and national level, to compensate for the considerable losses incurred by the agricultural sector.

138. As well as adopting Community support measures, the Commission had occasion to evaluate several State aid schemes ⁽³¹⁾ and to reiterate its policy in this sphere.

139. When assessing aid schemes to compensate farmers for losses caused by adverse weather conditions, the Commission applies point 11.3 of the Community guidelines for State aid in the agriculture sector ⁽³²⁾. Under point 11.3.1 of the guidelines, adverse weather conditions such as frost, hail, ice, rain or drought cannot of themselves be regarded as natural disasters within the meaning of Article 87(2)(b). However, because of the damage that such events may cause to agricultural production or the means of agricultural production, the Commission has accepted that such events may be considered equivalent to natural disasters once the level of damage reaches a certain threshold, which has been set at 20 % of normal production in less-favoured areas and 30 % in other areas.

⁽³⁰⁾ Community guidelines for State aid concerning TSE tests, fallen stock and slaughterhouse waste (OJ C 324, 24.12.2002).

⁽³¹⁾ Aid N 436/03 Germany — ‘Aid to compensate for drought damage’; Aid N 398/2003 Austria — ‘Aid for the purchase of forage and forage replacement products’; Aid N 661/01 Italy (Sardinia) — ‘Drought compensation, olives’; Aid N 353/02 Greece — ‘Bad weather compensation’.

⁽³²⁾ OJ C 232, 12.8.2000, p. 19.

Overall workload

140. The Commission received 268 notifications of State aid draft measures to be granted in the agricultural and agro-industrial sector. The Commission also started the examination of 29 aid measures, which had not been notified before under Article 88(3) of the Treaty. No review of existing aid measures pursuant to Article 88(1) of the Treaty was commenced or concluded. Overall the Commission raised no objections to 269 measures. Several of these measures were approved after the Member States concerned either amended them or undertook to amend them to bring them in line with Community State aid rules. The Commission started the procedure provided for in Article 88(2) of the Treaty in respect of nine cases, where the measures concerned raised serious doubts of incompatibility with the common market. The Commission closed the procedure under Article 88(2) of the Treaty in respect of six cases by taking a final negative decision in four of them. In all the cases where a negative decision was taken, and State aids had already been granted by the Member State concerned, the Commission requested recovery of the aids paid.

141. The overview of cases which follows includes a selection of the cases which raise the most interesting issues of State aid policy in the agricultural and agro-industrial sector in 2003.

Overview of cases

France

PLAN RIVESALTES

142. On 18 January 2003, the Commission decided to initiate the formal investigation procedure in respect of the *Plan Rivesaltes* and the parafiscal charges for the benefit of the inter-trade committee for natural sweet wines (CIVDN).

143. The *Plan Rivesaltes* sought to replace, by means of grubbing up and replanting with quality wine varieties, part of the Pyrénées-Orientales region's production of natural sweet wines in order to solve that production's structural crisis. The region's growers therefore had access to a per hectare set-aside premium financed by an inter-trade levy, and to per hectare aid financed by the public budgets to cover part of the actual costs of conversion.

144. Set-aside premiums were not provided for by Council Regulation (EC) No 822/87 of 16 March 1987 on the common organisation of the market in wine⁽³³⁾ and its implementing regulations, or more specifically by Council Regulation (EEC) No 456/80 of 18 February 1980 on the granting of temporary and permanent abandonment premiums in respect of certain areas under vines and of premiums for the renunciation of replanting⁽³⁴⁾. The stated purpose of the aid was to provide financial relief to growers who had freely taken an entrepreneurial decision to embark on a purely commercial step, the costs of

⁽³³⁾ OJ L 84, 27.3.1987, p. 1. Regulation repealed by Council Regulation (EC) No 1493/1999 of 17 May 1999 on the common organisation of the market in wine (OJ L 179, 14.7.1999, p. 1).

⁽³⁴⁾ OJ L 57, 29.2.1980, p. 16.

which seem to constitute expenditure linked to the pursuit of economic activity. On initiating the investigation procedure, the Commission considered that the premium seemed to constitute operating aid which risked interfering with the mechanisms governing the common market organisation (CMO) in wine and that, consequently, it could be incompatible with the applicable market and competition rules.

145. Regarding the conversion costs, Article 5 of Commission Regulation (EEC) No 2741/89 of 11 September 1989 laying down criteria to apply under Article 14 of Council Regulation (EEC) No 822/87 on national aid for the planting of wine-growing areas ⁽³⁵⁾ stipulated that the amount of aid granted per hectare of vineyard planted may not exceed 30 % of the actual cost of grubbing up and planting. On initiating the investigation procedure the Commission considered that, given the cost per hectare put forward by the French authorities (FRF 110 000/hectare), the aid granted in this case should have been limited respectively to FRF 33 000/hectare and to 30 % of the costs actually incurred by individual growers. It follows that any amount exceeding that limit, i.e. any amount exceeding 30 % of the actual cost at individual level, could constitute aid which is incompatible with the applicable rules.

146. From 1 January 1998 onwards, the CIVDN introduced a non-notified inter-trade levy aimed at financing advertising/promotion and operating measures for the registered designations of origin *Rivesaltes*, *Grand Roussillon*, *Muscat de Rivesaltes* and *Banyuls*, the compatibility of which will have to be assessed by the Commission in the light of the applicable provisions.

LEVIES FOR THE BENEFIT OF INTERBEV

147. On 9 July 2003, the Commission decided to initiate the formal investigation procedure in respect of levies for the benefit of the French national inter-branch livestock and meat association (Interbev) ⁽³⁶⁾. Interbev has for some years been introducing two types of inter-branch levy made compulsory by the public authorities but never notified to the Commission. The first type comprises a levy on meat and offal from cattle and sheep intended for human consumption and on live cattle and sheep transported to EU countries or exported; the second type comprises a levy for the benefit of the national rearing fund. The levies are intended to finance measures on promotion, technical assistance, research and experimentation, as well as on genetic improvement, the genetic information system, biotechnology and economic studies in the sector.

148. The Commission is examining whether meat introduced or imported for consumption in France from other Member States has been taxed by the levy. This would seem to have discriminated against meat from other Member States. Similarly, taxing live cattle and sheep transported to EU countries or exported could favour national production marketed in France to the detriment of national production which is exported. The

⁽³⁵⁾ OJ L 264, 12.9.1989, p. 5.

⁽³⁶⁾ Aid C 6/2003.

Commission wishes to have more information on the precise nature of the measures financed by the levy for the benefit of the national rearing fund. Lastly, there are also doubts as to the possibility that livestock imported into France for slaughter might have been affected by the latter levy.

AID APPROVED FOR THE FRENCH OVERSEAS DEPARTMENTS

149. Aid schemes for the French overseas departments (FODs) are governed by specific provisions. In particular, Article 24 of Council Regulation (EC) No 1452/2001 of 28 June 2001 states that 'the Commission may authorise operating aid ... with a view to mitigating the specific constraints on farming in the FOD as a result of their remoteness, insularity and outermost location'. Also, under point 16.2 of the agricultural guidelines, the Commission is to examine on a case-by-case basis proposals for granting operating aid in the outermost regions, taking into account the principles laid down by the Treaty and the measures' potential impact on competition in the regions concerned and in other parts of the Community.

(A) AID FOR PRODUCER GROUPS

150. On 13 August 2003, the Commission approved an aid scheme⁽³⁷⁾ aimed at encouraging the organisation of agricultural production in the French overseas departments, which is lagging significantly behind that elsewhere in the EU; the budget for the scheme is EUR 3 million a year. The aid, which is digressive (5 % a year) and of limited duration (five years renewable) covers expenditure on salaries and travel for staff working in producer groups. By way of exception, if there are no producer groups in a region, the aid may be granted to chambers of agriculture. In the fruit and vegetable sector, groups which have not been granted recognition or preliminary recognition will be able to benefit from the measure only once in five years (non-renewable).

151. Assessment established the aid as: directly linked to the overseas departments' specific constraints (insularity, remoteness); facilitating the development of the sector as a whole; complying with the principles of the agriculture guidelines; and in particular seeking to attain the objective stated in point 10 (producer organisations) of those guidelines and having a limited impact on competition. The aid scheme was therefore considered to be compatible with the common market.

(B) AID IN THE LIVESTOCK-REARING SECTOR — FRENCH GUIANA AND RÉUNION

152. On 24 June 2003, the Commission approved a scheme⁽³⁸⁾ of operating aid in the livestock-rearing sector in the overseas departments. The duration of the scheme is limited until 2006, with a budget of EUR 1 million a year (EUR 0.5 million for French Guiana and EUR 0.5 million for Réunion). The scheme comprises two sectoral programmes, for French Guiana and Réunion respectively. The measures (aid for:

⁽³⁷⁾ Decision of 13.8.2003, C(2003) 2922 final — Aid N 362/2002.

⁽³⁸⁾ Decision of 24.6.2003, C(2003) 1910 final — Aid N 363/2002.

disease prevention and mineral supplements, restocking with doe rabbits, livestock insemination, transporting pigs to approved slaughterhouses, importing breeding stock of high genetic quality, disease and performance monitoring) are intended to strengthen the livestock-rearing sector, which meets only 50 % of consumer demand in the overseas departments and has to bear significant extra costs relating in particular to the need to import quality feed, semen and breeding stock.

153. Assessment established the aid as: directly linked to the overseas departments' specific constraints (insularity, remoteness); facilitating the development of the sector as a whole; complying with the principles of the agriculture guidelines; not having a foreseeable impact on competition because the level of self-supply is low and export capacity is highly unlikely to develop. The scheme was therefore considered to be compatible with the common market.

Germany

SUPPORT TO MACHINERY RING ASSOCIATION KBM — BAVARIA

154. On 5 February 2003, the Commission initiated a formal investigation ⁽³⁹⁾ into support for machinery rings in Bavaria, Germany. The Bavarian authorities pay State aid amounting to an average of EUR 4 million per year to the machinery ring association KBM. The aid measure facilitates wide-ranging cooperation between agricultural and forestry holdings through machinery rings and relief services. The aid consists of direct grants. The aid intensity was 42 % in 2001 and will be reduced to 33 % in 2005. The maximum amount of aid was EUR 4.38 million in 2001 and will be reduced to EUR 3.46 million in 2005.

155. Machinery rings are farmers' self-help organisations operating at local or regional level. The machinery rings organise exchanges of farm workers and coordinate the sharing of machinery among holdings. In addition, the machinery rings provide other communal services such as snow clearance, road building/repairs, wastewater treatment plant construction as well as garden/landscape maintenance and the construction of golf courses and other sports facilities. In as far as the proposed measure provides for social assistance in favour of agricultural holdings, the Commission notes that the aid measure meets the conditions laid down in the Community guidelines for State aid in the agriculture sector.

156. However, the measure also seems to contain other aid elements in favour of the KBM and the machinery rings and/or the farmers or businesses calling on the services of the machinery rings. At the present state of the investigation, these aids would be considered as operating aids, which are incompatible with the common market. Moreover, it has been contended that the machinery rings have set up subsidiaries, which are engaged in construction activities, trade in goods and run repair shops for agricultural machinery, thus competing with other undertakings. Due to the close relationship in staffing and

⁽³⁹⁾ Aid C 9/2003.

geographical terms between the machinery rings and their subsidiaries and the insufficient separation of the rings' core tasks and other economic activities, it is not possible to distinguish clearly between the tasks which are supported from public funds and those which are not. Thus the aid is deemed to distort competition and affect other economic activities ('cross-subsidisation').

SUPPORT TO WINEGROWERS' COOPERATIVES AND WINE PRODUCER ORGANISATIONS —
RHINELAND-PALATINATE

157. On 1 October 2003, the Commission initiated a formal investigation ⁽⁴⁰⁾ into support for winegrowers' cooperatives and wine producer organisations in Rhineland-Palatinate, Germany. The regional authorities of three districts in the Mosel-Saar-Ruwer area and the local authority of Schweich paid State aid for the acquisition of business shares in cooperatives in 2000. The Commission has received a complaint concerning this aid. The aid totals EUR 155 460 and was granted to winegrowers who undertook, for five years starting from the filing of their application, to acquire business shares for this period. Each winegrower also had to bring into the cooperative the total area cultivated and deliver all its grapes, must and wine to the cooperative. In this way, the measure should have helped to concentrate wine supply and stabilise prices on the cask-wine market.

158. The measure appears, however, to be designed mainly to assist winegrowers in the relevant district in that they are able to acquire shares at lower cost. Yet it also assists cooperatives by obliging winegrowers to deliver their grapes and/or wine. The cooperatives seem to enjoy a commercial advantage in relation to other enterprises such as private-sector wine merchants and other wine producers. The German authorities, however, regard this measure as an aid for closing production, processing and marketing capacities within the meaning of the Community guidelines on State aids in the agriculture sector. The Commission has serious doubts about the compatibility of the measure with the common market because the aid measure does not comply with the conditions set out in the Community guidelines.

SUPPORT FOR INVESTMENTS BY THE VEGETABLE PROCESSING COMPANY FRENZEL — THURINGIA

159. On 1 October 2003, the Commission decided to terminate the formal investigation ⁽⁴¹⁾ into support for investments made by the vegetable processing company Frenzel in Thuringia, Germany, by issuing a final positive decision. The Free State of Thuringia will grant a State guarantee for loans used by the company for acquiring the assets of a processing plant. The State guarantee will amount to EUR 1 861 103 and covers 65 % of the outstanding amount of the loans. The investment project is a vegetable processing plant with several processing lines as well as a refrigerator installation with a potato ventilating system and two freezer units. The purchase price amounted to EUR 3 016 622. For this investment, the company has taken out three different loans, amounting to a total of

⁽⁴⁰⁾ C 60/2003.

⁽⁴¹⁾ Aid C 1/2001.

EUR 2 863 235. The State guarantee, which covered 65 % of the amount of the loan, was granted by Thüringer Aufbaubank (Thuringia reconstruction bank) with priority given to the creditor on the agreed collateral.

160. Following a preliminary investigation, the Commission concluded that the guarantee constituted aid both to the lender and the borrower. The aid to the lender seemed to be an operating aid. As regards the aid to the borrower, it could not be excluded that the aid intensity exceeded the thresholds normally accepted by the Commission for investment aid. Moreover, it was not clear whether the beneficiary had to be considered as a firm in difficulties, which would mean that the aid had to be assessed on a different legal basis. It was therefore necessary to open the formal investigation procedure and request more information from the German authorities in order to provide a proper assessment of the measure.

161. Under the formal investigation procedure, the German authorities have clearly demonstrated that the beneficiary cannot be considered as a firm in difficulties. They have also demonstrated that the measure does not contain an aid element in favour of the lender. Moreover, the German authorities have provided the necessary information for a proper assessment of the measure. The Commission was able therefore to terminate the proceedings and authorise the relevant measure, finding it to be compatible with the common market.

SUPPORT TO THE DAIRY GROUP ALOIS MÜLLER GMBH & Co KG

162. On 11 October 2003, the Commission authorised Germany to pay national aid worth a total of EUR 40 million to the dairy group Alois Müller GmbH & Co KG. The aid ⁽⁴²⁾ will finance investments in processing and marketing of milk and milk products in Leppersdorf (Saxony). The main objectives of this large-scale investment project are the support of innovative processing methods and technologies, the promotion and development of new and improved products, and the reduction of environmental pollution. The project will be carried out until December 2004.

163. The aid will be in the form of direct grants. The total eligible costs of the project come to around EUR 176 million. This is the biggest individual investment project the Commission has approved under State aid rules in the agriculture sector within the last three years. The State aid authorised will be financed by the Free State of Saxony on the basis of the investment grant law (*Investitionszulagengesetz*). This aid scheme has already been approved by the Commission. However, to be in accordance with the Community guidelines for State aid in the agriculture sector, aids for investments with eligible expenses in excess of EUR 25 million, or where the actual amount of aid will exceed EUR 12 million, must be specifically notified to the Commission. These conditions were met in the present case.

⁽⁴²⁾ Aid N 265/2003.

Belgium

AID FOR REMOVING AND DESTROYING ANIMAL CARCASSES FOUND ON FARMS IN THE WALLOON REGION

164. On 26 November 2003, the Commission approved a regional aid scheme⁽⁴³⁾ designed to cover in full the costs of services provided in connection with the removal, transport, storage, processing and destruction of animal carcasses found on farms in the Walloon Region. The annual budget allocated to this scheme over its five-year duration is EUR 6 017 080.50, starting on 31 January 2002.

165. The disposal of the livestock carcasses from such farms will be managed on the basis of a five-year public service contract awarded by the regional authorities. The contract was awarded to the company SA Rendac-Udes on 31 January 2002, following an open call for tender throughout the Union via the publication of a tender notice in OJ S 156 on 16 August 2001.

166. The scheme represents indirect assistance to farmers, awarded not directly to the farmer but to the service provider but earmarked solely to cover (in full — apart from destruction costs, only 75 % of which will be covered from January 2004 onwards) the costs associated with various removal (collection and transport) and destruction (storage, processing, destruction and final disposal) operations that would otherwise be payable by the farmer. The Belgian authorities also gave an assurance that the amounts directly paid to the company SA Rendac-Udes for the services rendered to the farmers are 100 % in line with the market price for these services and that there was therefore no question of the company being provided with State aid.

Netherlands

SUBSIDIES FOR INSURANCES AGAINST CROP DAMAGE CAUSED BY ABUNDANT RAINS

167. On 15 October 2003, the Commission approved a scheme⁽⁴⁴⁾ enabling the Minister of the Ministry of Agriculture, Nature Management and Fisheries to grant a subsidy in the form of a guarantee as an incentive for insurance companies to introduce insurance for crop damage caused by abundant rains. The subsidy, with an aid intensity of no more than 50 %, would be given to insurance companies offering policies covering all damage affecting more than 25 % of a farm's normal production (based on average production in the three previous years). The subsidy is passed on in full to the arable farmers in question in the form of lower insurance premiums.

168. The scheme is open to all insurance companies, whether Dutch or from other Member States. What is more, the companies will be selected by means of a transparent and non-discriminatory process.

⁽⁴³⁾ Aid NN 48/03 (ex-N 157/03).

⁽⁴⁴⁾ Aid N 36/03.

AID FOR RELOCATING FARMERS FROM NATURE CONSERVATION AREAS — FRIESLAND

169. On 14 May 2003, the Commission approved a scheme ⁽⁴⁵⁾ of the province of Friesland to help farmers situated in nature conservation areas relocate to other areas. This environmentally inspired national scheme for relocating and closing farms involves buying up farms that are (mainly) situated in nature conservation areas at a price commensurate with the value of the land and buildings.

170. However, in some cases the amount received by the relocating farmer for his holding is not sufficient to buy a farm at another location, due to higher land prices there. This subsidy from the province of Friesland aims to help such farmers by compensating the extra relocation costs caused by higher land prices.

171. Under this scheme, farmers can sell part of their newly acquired land at market value to a public body responsible for buying/selling farmland and subsequently lease it back at the maximum rent of 2 % laid down in the Dutch Land Rent Act, applicable to publicly and privately owned land alike.

172. Every year, and at the latest at the end of the lease period (11 years and 11 months), the farmer has the opportunity to buy back the land at the historical selling price. If, at the time the land is bought back, the market price of farmland in the area concerned has risen by more than 40 % (or 50 % in less-favoured areas, as defined in Article 17 of the rural development regulation), the historical price will be increased by an amount representing the increase in market price above 40 % (or 50 %).

AID FOR BUILDING A CHEESE FACTORY IN HOOGEVEEN

173. On 2 September 2003, the Commission approved a measure ⁽⁴⁶⁾ under which the Dutch authorities would grant a subsidy of EUR 6 806 703 — representing an aid intensity of 9.1 % — to DOC Kaas to build a cheese factory in Hoogeveen, a municipality included in the Netherlands' regional aid map.

174. Since expansion at its current location is impossible, DOC is seeking to relocate to a 'dairy park', a single location permitting the clustering of related and complementary activities. DOC will increase its production capacity by creating the most modern cheese factory in Europe, using the most advanced process technology and applying HACCP hygiene standards.

175. The investment will allow DOC to diversify by processing whey into products used in the food and pharmaceuticals industries. Direct employment will increase by 290 jobs.

⁽⁴⁵⁾ Aid N 641/01.

⁽⁴⁶⁾ Aid N 499/02.

United Kingdom

EXPORT-PROMOTION AND ADVERTISING ACTIVITIES BY 'FOOD FROM BRITAIN' AND THE REGIONAL DEVELOPMENT AGENCIES

176. On 23 April 2003, the Commission authorised an aid scheme for export promotion and regional food support for the food sector⁽⁴⁷⁾. This scheme, which covers all related promotion and advertising activities by 'Food from Britain' and the regional development agencies, is designed to help companies producing or processing food or drink in the UK to access and develop export markets, both in the EU and outside it, and to foster the development of the regional food sector. The annual budget for this five-year programme will be GBP 10.5 million (EUR 14.9 million). Aid will be given for participation in exhibitions and fairs, providing information about UK products, organising competitions and award ceremonies, marketing quality products, training and advertising.

177. The scheme is administered by 'Food from Britain' and the regional development agencies, public bodies involved in both non-economic and economic activities. The Commission considered that these bodies should be selected on the basis of a public tendering procedure. The UK authorities have presented information showing that there may exist an 'in-house' relationship between themselves and these bodies. The Commission has concluded that the scheme seems to be in compliance with the applicable EU rules on public procurement, although it reserves the right to examine the public-procurement aspect of the scheme in future.

178. The Commission also authorised two Scottish programmes promoting diversification and higher product standards⁽⁴⁸⁾. These two schemes will run for five years, with respective budgets of GBP 50.9 million (EUR 80.8 million) and GBP 25 million (EUR 36.9 million).

179. The aim of the schemes is to help diversify farm incomes by creating new businesses and improving existing diversified activities by farmers. The schemes give grants for investment (in agriculture and elsewhere) and technical support, to assist the processing and marketing of quality agricultural products and the setting up of producer groups.

INVESTMENTS IN NEW OR IMPROVED FARM-WASTE STORAGE AND HANDLING FACILITIES, FOR LIVESTOCK WASTE AND SILAGE EFFLUENT — ENGLAND AND SCOTLAND

180. In September 2003, the Commission approved two aid schemes⁽⁴⁹⁾ for investment in these areas. These schemes should enable farmers in NVZs (nitrate vulnerable zones) in England and Scotland to comply with restrictions on spreading livestock manures on land

⁽⁴⁷⁾ Aid N 658/02.

⁽⁴⁸⁾ Aid NN 36/03 (ex-N 292/2001) 'Farm business development scheme'; Aid NN 37/03 (ex-N 704/2000) 'Processing and marketing scheme'.

⁽⁴⁹⁾ Aid N 693/02 'Farm waste grant (nitrate vulnerable zones) scheme'; Aid N 800/02 'Nitrate vulnerable zones grants scheme'.

within NVZs. All work must be completed by 31 October 2005. The respective budgets are GBP 13 million (EUR 18.5 million) and GBP 29.4 million (EUR 41.9 million).

181. The Nitrates Directive has proven particularly difficult to implement in many Member States, as witness the long delays and the cases the Commission has had to bring before the Court of Justice. For these reasons and since all work must be completed by 31 October 2005, the Commission has taken the view that the measures in question may be regarded as aid for investment in order to comply with or exceed newly introduced minimum Community standards. However, it has emphasised that this position applies only to the specific situation regarding the implementation of the Nitrates Directive in the agriculture sector.

Italy

'BLUETONGUE' – COMPENSATING FARMERS FOR LOSSES — SARDINIA

182. On 24 July 2003, the Commission approved an aid measure designed to compensate cattle farmers for losses they had suffered due to the disease 'bluetongue'⁽⁵⁰⁾. The measure consists of compensation for farmers of Sardinian calves (aged 6–7 months) who, due to the ban on transporting ruminants imposed by the Italian authorities following the outbreak of a bluetongue epidemic in September 2000, have been unable to send their animals to northern Italy for fattening and slaughter. In the case in question, given that the plan to prevent and eradicate the disease made no provision for the slaughter of cattle, the Commission approved the aid on the basis of point 11.4 of the State aid guidelines for agriculture, in view of the special conditions in the region, such as the type of cattle farming and the time the animals were kept.

REINSURANCE FUND TO COVER INSURANCE PREMIUMS

183. On 10 July 2003, the Commission approved an aid scheme⁽⁵¹⁾ for setting up a reinsurance fund to cover insurance premiums. This is a public reinsurance fund which will reinsure, against payment, risks underwritten by insurance companies in the agriculture sector. The government contribution to the fund is limited to EUR 10 million per year for three years, i.e. a total of EUR 30 million. Considering that the fund is designed to correct a market failure and judging by the data provided by the Italian authorities, the Commission could not rule out the possibility that this constituted State aid for the fund and the insurance companies. However, since all such aid is passed on to farmers and is granted under the conditions laid down in point 11.5 of the Community State aid guidelines for agriculture, the Commission has deemed it to be compatible with the common market.

⁽⁵⁰⁾ Aid N 662/2001 — SG(03) 230990.

⁽⁵¹⁾ Aid N 758/2002 — SG(03) 230498.

SUPPORT FOR SETTING UP AGRICULTURAL SUPPLY CHAINS

184. On 11 November 2003, the Commission approved a major national aid scheme ⁽⁵²⁾ designed to set up supply chains in the agriculture sector, in order to provide a framework for the production, processing and marketing of agricultural products. The budget for this scheme is significant: EUR 300 million over the first three years. The aid will cover investment in holdings and the processing/marketing sector, setting up and extending the activities of producer groups, promotion and advertising, and research and development.

SLAUGHTERHOUSE RESTRUCTURING AID — (MARCHE)

185. On 2 September 2003, the Commission adopted a decision to authorise an aid scheme ⁽⁵³⁾ for the restructuring of a slaughterhouse operating on a local market in which there were a high number of slaughtering facilities. The facility in question is responsible for over half of all cattle slaughtered in the region, but only uses a small portion of its slaughtering capacity. The investment planned under the restructuring plan seeks to modernise some of its installations in order to reduce costs (e.g. the heating system) and develop the cutting operations and vacuum and modified-atmosphere packaging of beef and veal (there are currently no facilities of this type in the region). It should be noted that the scheme was approved on condition that the slaughterhouse provide part of the financing itself. Since it was impossible to request that it close certain sections of one of its slaughter lines, for reasons related to the operation of that line, and since the closure of a line reserved for the slaughter of a single animal species would not have represented compensation for all competitor slaughterhouses in the region, the slaughterhouse in question was asked (and agreed) to reduce by 16 % the number of animals slaughtered in each animal category (adult bovines, pigs and calves) for 10 years following the approval of the restructuring plan.

AID SCHEMES FOR NATURAL DISASTERS AND INSURANCE CONTRACTS

186. On 16 December 2003, the Commission concluded its State aid investigation into the aid granted by Italy since 1992 under its national framework law for natural disasters ⁽⁵⁴⁾.

187. In its decisions the Commission concluded that the aid designed to compensate farmers for the damage caused by natural disasters and extreme weather events was compatible with the common market. However, in future Italy will have to notify the Commission on a case-by-case basis of each weather event giving rise to compensation under Law No 185/92, together with the appropriate supporting meteorological data, as required by points 11.2.1 and 11.3.1 of the Community State aid guidelines for agricul-

⁽⁵²⁾ Aid N 381/03.

⁽⁵³⁾ Decision C(2003) 3149 final — Aid N 741/01.

⁽⁵⁴⁾ Aid C 12/A/95 (concerning aid granted until 31.12.1999) and Aid C 12/B/95 (concerning aid granted from 1.1.2000).

ture⁽⁵⁵⁾. Any compensation paid to marketing and processing cooperatives for loss of income following a natural disaster will also have to be notified individually, as it is current Commission practice⁽⁵⁶⁾ to closely monitor this type of aid on a case-by-case basis.

188. As regards the aid that may have been granted by Italy to cover up to 50 % of the premiums for insurance policies whose cover did not extend to losses caused by (i) natural disasters and exceptional events falling within the scope of point 11.2 or (ii) extreme climatic events which could be considered to be natural disasters in accordance with point 11.3 of the guidelines, the Commission decided not to ask for the recovery of any aid paid, concluding that in this case recovery would have been contrary to the general principles of Community law, in particular the principle of legal certainty. In this respect the Commission had noted an ambiguity in the Italian version of the State aid guidelines for agriculture⁽⁵⁷⁾ that did not exist in any other language version and which may have misled Italian operators. In its decision, however, the Commission clearly indicated that in future Italy will have to adapt its rules on aid for insurance premiums to comply with point 11.5 of the correct version of the guidelines.

COMPENSATION FOR THE DAMAGES SUFFERED DUE TO THE ROAD HAULERS' STRIKE AND ROADBLOCKS — SICILY

189. On 23 April 2003, the Commission started a State aid investigation into the aid planned by Italy (Sicily) to compensate the agriculture sector for damages suffered due to the road haulers' strike and the roadblocks that accompanied it, between 30 September and 8 October 2000 in Sicily. These events made it impossible to find vehicles to transport agricultural produce, which therefore either perished or deteriorated⁽⁵⁸⁾. The Italian authorities claimed that the strike concerned could be considered an exceptional occurrence. After preliminary examination, the Commission had doubts that the event concerned could constitute an 'exceptional occurrence' within the meaning of Article 87(2)(b) of the Treaty, and also regarding some features of the aid measure. Moreover, the possibility that the measure might also constitute indirect operating aid to the striking road haulers could not at this stage be excluded.

AID FOR EXTRA TRANSPORT COSTS FOR AGRICULTURAL PRODUCTS FROM SICILY

190. On 16 December 2003, the Commission decided to close the formal investigation into the aid planned by Italy (Sicily) to cover the extra costs incurred by businesses operating in Sicily for transporting Annex I agricultural goods produced and/or processed in

⁽⁵⁵⁾ Point 11.2.1 states that: '... the Commission will continue to evaluate proposals to grant aid in accordance with Article 87(2)(b) on a case-by-case basis ...'. Point 11.3.1 states that: 'In order to enable the Commission to assess such aid schemes, notifications of aid measures to compensate for damage caused by adverse weather conditions should include appropriate supporting meteorological information'.

⁽⁵⁶⁾ Aid 79/2001 Italy (Bolzano); Aid N 250/2002 Italy (Bolzano); Aid N 301/2002 Italy (Trento).

⁽⁵⁷⁾ OJ C 232, 12.8.2000.

⁽⁵⁸⁾ Aid C 27/2003 (OJ C 127, 29.5.2003).

Sicily⁽⁵⁹⁾ out of the region. The motivation for the aid was the beneficiaries' remoteness from the main national and European markets. Since the aid had no incentive element and did not require beneficiaries to make a contribution themselves, and since Sicily is not an outermost region (as such it could have qualified for operating aid under point 16 of the current State aid guidelines for agriculture), this aid measure could not be justified — it appeared to be straightforward operating aid designed to relieve the beneficiaries of their transport costs, with no long-term structural effect on the sector. Therefore, as it had already done in the past⁽⁶⁰⁾, the Commission declared this aid to be incompatible with the common market⁽⁶¹⁾.

AID FOR ORGANIC FARMING — (CAMPANIA)

191. On 10 December 2003, the Commission concluded its State aid investigation into the aid planned by Italy (Campania) to offset income losses by farmers switching from traditional to organic farming methods as referred to in Regulation (EEC) No 2092/91⁽⁶²⁾. The Commission decided that the aid measure did not satisfy State aid rules on conversion to organic farming methods, as referred to in Regulation (EEC) No 2092/91, nor was the regional law providing for the aid in compliance with all the mandatory conditions laid down in Regulation (EEC) No 2092/91, which must be met if agricultural products are to be deemed organic produce within the meaning of that regulation. In its decision the Commission considered, however, that one of the issues it had raised in its decision to open the investigation of this aid measure⁽⁶³⁾ did not appear to affect the compatibility of the aid with the common market but rather to constitute a separate violation of Community law, which could be subject to infringement proceedings under Article 226 of the Treaty.

Ireland

COMPENSATION PAYMENTS FOR LOSSES ARISING FROM DESIGNATION OF THE 'NATURA 2000' NETWORK

192. On 1 September 2003, the Commission authorised an Irish scheme⁽⁶⁴⁾ to compensate farmers for actual loss of income arising from the implementation of agri-environmental commitments associated with the designation of sites as part of the 'Natura 2000' network, as well as the reduction of quotas or stocking levels on commonage. The scheme will be available as an alternative for those farmers who do not opt to join the Department of Agriculture and Food's 'Rural environmental protection scheme' (REPS) co-funded by the EU under the rural development plan of Ireland 2000–06 approved by the Commission.

⁽⁵⁹⁾ OJ C 201, 1.7.1997, p. 10.

⁽⁶⁰⁾ OJ L 37, 7.2.1997, p. 11.

⁽⁶¹⁾ Aid C 11/97.

⁽⁶²⁾ Aid C 31/95.

⁽⁶³⁾ OJ C 292, 7.11.1995, p. 14.

⁽⁶⁴⁾ Aid NN 123/A/2000 (ex-N 624/99).

193. The Commission assessed the compatibility of the aid regime with point 5.3 of the Community guidelines for State aid in the agriculture sector which deals with aid for agri-environmental commitments. The measure was considered compatible with the common market under Article 87(3)(c) of the Treaty.

‘FOAL LEVY SCHEME’

194. On 23 July 2003, the Commission decided to authorise the ‘Foal levy scheme’⁽⁶⁵⁾ introduced in Ireland in 2000 as a means of funding technical assistance for breeders, breeding stock and their foals born in Ireland.

195. The scheme requires the owner of each thoroughbred foal registered in the *General stud book* in Ireland to pay a levy to the Irish Horseracing Authority. The amount of such levy is related to the nomination fee of the foal’s sire and varies between EUR 31.74 (where the nomination fee is less than EUR 952) and EUR 507.90 (where the nomination fee is in excess of EUR 33 644). The levy is payable by all breeders, irrespective of nationality, once their foal is registered in the *General stud book* in Ireland. To indicate the nationality of the horse, all foals born in Ireland are registered in the *General stud book* of Ireland and carry an IRE suffix.

196. The Commission considered that the foal levy does not apply to imported products. Only foals born and registered in Ireland, and thus bearing the origin-related IRE suffix, are supposed to pay the levy. Therefore, the financing of the aid measures via this special levy was considered not to lead to a distortion of competition and trade.

197. The proceeds from the levy have been used to finance several activities developed in support of the sector by the Irish Equine Centre (40.49 %), the Irish Thoroughbred Breeders Association (20.63 %), Irish Thoroughbred Marketing (22.15 %), the Breeders’ Prizes scheme (13.03 %), as well as the administration costs of Horse Racing Ireland, the public authority responsible for collecting and administering the levy.

198. As regards technical support activities for the sector, it was considered that the scheme complies with the conditions laid down in point 14 of the State aid guidelines for agriculture. The financing of part of the promotion and advertising costs incurred by Irish Thoroughbred Marketing was declared compatible with the following: the Commission communication concerning State involvement in the promotion of agricultural and fisheries products; the framework for national aid for advertising agricultural products and certain products not listed in Annex II to the EEC Treaty, excluding fisheries products; and the Community guidelines for State aid for advertising products listed in Annex I to the EC Treaty and certain non-Annex I products. The measure was therefore considered compatible with the common market under Article 87(3)(c) of the Treaty.

⁽⁶⁵⁾ Aid NN 118/2002.

Case-law

'TAXE D'ÉQUARRISSAGE (RENDERING TAX) — GEMO'

199. In ruling C-126/01, *Ministre de l'économie, des finances et de l'industrie v SA GEMO*, of 20 November 2003, the Court of Justice confirmed the Commission's position expressed in an ongoing formal State aid investigation⁽⁶⁶⁾ that the free removal of slaughterhouse waste and fallen stock offered by the French public service system of *équarrissage* (rendering) is a State aid to farmers and slaughterhouses.

200. The Court held that: 'As to the argument of the French government that the measure in question is part of a health and safety policy which supersedes individual interests, suffice it to observe that, according to settled case-law, Article 92(1) of the Treaty [now Article 87] does not distinguish between measures of State intervention by reference to their causes or aims but defines them in relation to their effects'. The Court thus also confirmed the Commission's line, taken in the recent guidelines on State aid for TSE tests, fallen stock and slaughterhouse waste, that such measures may constitute State aid.

201. Furthermore, the Court confirmed that providing businesses with a free public service constitutes State aid for such businesses, if:

- the State bears the costs of the service;
- the businesses are thereby relieved of costs they would normally have to bear as part of their operations; and
- the service is offered to selected businesses (with the Court holding that 'the fact that the undertakings able to claim entitlement under that measure belong to different sectors of activity is not sufficient to call into question its selective nature ...').

'LEGAL CONSEQUENCES OF FAILURE TO NOTIFY STATE AID'

202. In ruling C-261/01, *Belgium v Van Calster*, of 21 October 2003, the Court of Justice clarified the legal situation regarding 'illegal' State aid, i.e. State aid granted before an approval decision has been made by the Commission.

203. The Court confirmed that the Commission cannot order the return of State aid paid out before its decision on the sole ground that it was not notified in accordance with the Treaty. However, it also confirmed that national courts 'must take all the consequential measures under national law as regards both the validity of decisions giving effect to the aid measures concerned and the recovery of the financial support granted' (point 64).

204. The Court held that since aid measures not notified to the Commission are deemed illegal, this also applies to any special tax levied to finance the aid, in the sense that such amounts are and remain illegal if they are levied and used to finance aid measures before the date of the Commission approval. This situation is not changed by the Commission's approval decision. The Court stated that 'where an aid measure of which the method of

⁽⁶⁶⁾ Aid C 49/2002.

financing is an integral part has been implemented in breach of the obligation to notify, national courts must in principle order reimbursement of charges or contributions levied specifically for the purpose of financing that aid' (point 54). The Commission cannot retroactively legalise such a tax.

SPECIAL TAXES AND MARKET ORGANISATION REGIMES

205. In ruling C-355/00, *Freskot*, of 22 May 2003, the Court had to verify whether a special contribution levied only on domestic products was as such incompatible with a market organisation regime. The contribution was levied on the turnover of farm products, with the proceeds used to finance an insurance scheme (administered by ELGA) for Greek farmers.

206. The Court found that the contribution could not be considered to be discriminatory. It applied equally to domestic agricultural products processed or marketed on the national market and to those intended for export, and the revenue from it was available equally to all agricultural holdings.

207. However, the Court then held that a special tax of this type may still represent an infringement of a market organisation regime. It reiterated that Member States are obliged to refrain from taking any measures that might undermine or create exceptions to the common organisation of a given market.

208. In the opinion of the Court, the possibility of the financial charge represented by contributions of this type having a restrictive effect on intra-Community trade could not be ruled out. 'That is because the advantage enjoyed by products originating in other Member States or in non-member States over Greek products as a result of the fact that only the latter are subject to the contribution might, by reason of the increase in the price of Greek products alone, engender a certain degree of substitution of products originating in other Member States or of products imported from non-member States for domestic products, both on the Greek market and on that of other Member States' (point 29).

209. In conclusion, the Court declared that even where the contribution is confined to domestic products and there is no discrimination between domestic products processed and marketed at home and those exported to other Member States, a special tax of this type can represent an infringement of the market organisation regime if it has an impact on trade. The Court identified several criteria for establishing whether such an impact exists:

- the level of the tax: a high level of tax has more impact on trade than a low level; in the *Freskot* case, the Court tested a tax of 0.5 % on the value of animal products;
- duration: a permanent tax has more impact on trade than a short-term one;
- who benefits from the aid measure financed by the tax and whether there is compensation for the tax. If the proceeds of the tax go back to the products paying it, the possible impact on trade is reduced or can be excluded.

210. As to the question of whether the benefits provided by ELGA to Greek agricultural holdings in the form of compulsory insurance for natural risk may be classified as ‘State aid’, the Court found that the benefits are clearly conferred through State resources and imputable to the State within the meaning of the Court’s case-law. However, the Court did not have sufficient information to answer the following questions, allowing it to decide whether or not these benefits should be classified as State aid: (i) whether and to what extent the ELGA compulsory insurance scheme constitutes an economic benefit for the operators it covers, and (ii) whether the condition of selectivity under Article 87(1) of the Treaty was met. On this last point the Court considered that the scope of the compulsory insurance scheme could, in certain circumstances, be justified, given the type and general structure of the system of benefits provided by ELGA, since it appeared that the scheme is intended to offer a minimum level of protection to agricultural holdings from the natural risks to which they are particularly exposed. It also stated that the term ‘undertaking’, within the meaning of Article 87 of the Treaty, does not cover a body such as ELGA in respect of its activities under the compulsory insurance scheme for natural risk.

OPERATING LOANS

211. In its judgment on 27 November 2003 in Case T-190/00, the Court of First Instance rejected the application to annul Commission Decision 2000/319/EC⁽⁶⁷⁾, which had found State aid granted in the form of operating loans under Article 6 of Sicilian Regional Law No 68 of 27 September 1995 to be incompatible with the common market.

212. In its judgment, the Court confirmed that, contrary to the allegation by the Region of Sicily, the seasonal nature of the State aid granted in the form of a subsidised, short-term loan to the agriculture sector had always been the key criterion for establishing whether or not an aid measure was an operating loan.

213. According to the Court, ‘such a definition cannot disregard the seasonal character of the aid in question, since that character is intrinsic to the very definition of operating loans, which necessarily refers to the notion of “loans for the marketing year”, that is to say, a credit intended to cover advance payments of the operator’s expenditure linked to the agricultural production cycle pending receipt of income during that same cycle’.

214. In its judgment, the Court specified that, even before the currently valid Commission communication on operating loans was adopted⁽⁶⁸⁾, the seasonal nature of an operating loan could also be deducted on the basis of the Commission document entitled ‘Competition policy in agriculture’. According to the *XVIIth Report on Competition Policy*, this document describes the guidelines followed by the Commission in implementing the competition rules in the agriculture sector, which means that this was a reference framework known to the Member States, public bodies and the operators concerned.

⁽⁶⁷⁾ Commission Decision 2000/319/EC of 22 December 1999 (OJ L 110, 6.5.2000, p. 17).

⁽⁶⁸⁾ OJ C 44, 16.2.1996, p. 2.

Assistance to the needy

215. The European Union has continued to implement its aid programme for the needy⁽⁶⁹⁾. This action consists of distributing agricultural products (processed or otherwise) from intervention stocks in the Union to associations working with deprived people on the ground in the Member States.

216. The table below shows the breakdown of this amount and of the quantities that can be withdrawn from the stocks in each participating Member State.

Free distribution of agricultural products (2003)

Member States	Loans granted (EUR)	Quantities (tonnes)				
		Cereals	Rice (paddy rice)	Butter	Milk powder	Beef/veal
Belgium	3 952 000	7 000	700	500		400
Denmark	633 000					200
Greece	13 276 000	25 000	20 000		2 020	
Spain	50 580 000	60 000	20 000		11 660	4 038
France	47 666 000	23 717	8 304		12 306	5 053
Ireland	2 738 000			60		800
Italy	56 568 000	80 000	15 000	1 200	10 846	5 000
Luxembourg	42 000 ⁽⁷⁰⁾					
Portugal	16 903 000	15 000	7 500	345	3 990	1 000
Finland	3 642 000	15 000			400	374
Total EU⁽⁷¹⁾	196 000 000	225 717	71 504	2 105	41 222	16 865

The outermost regions

Amendment of Council regulations (agricultural measures under the POSEI programmes)

217. On 28 June 2001, the Council adopted Regulations (EC) Nos 1452/2001, 1453/2001, 1454/2001, 1455/2001 and 1447/2001, thereby ratifying the reforms of the regulations governing assistance for agriculture in the outermost regions.

218. The Commission finished implementing the reform between the end of 2002 and the beginning of 2003.

⁽⁶⁹⁾ Council Regulation (EEC) No 3730/87 of 10 December 1987 (OJ L 352, 15.12.1987, p. 1) and Commission Decision 2002/905/EC of 29 October 2002 (OJ L 313, 16.11.2002, p. 26).

⁽⁷⁰⁾ Amount provided to Luxembourg for purchasing agricultural products on the Community market (Regulation (EEC) No 3149/92, Article 2).

⁽⁷¹⁾ Not including EUR 4 million earmarked to cover Community transport costs.

CAP reform

219. In summer 2002, the Commission presented a communication on mid-term reforms to the common agricultural policy.

220. It stimulated a wide-ranging debate involving the Member States, the agriculture sectors concerned, consumers and NGOs, culminating in the presentation of a CAP reform proposal to the Council in January 2003. Having examined the proposal in detail and following long discussions, the Council agreed to the Commission's package, subject *inter alia* to certain amendments for the outermost regions to take account of their specific situation.

221. In particular, these regions secured derogations regarding certain aspects of aid modulation and the single payment scheme.

222. In July 2003, the Commission presented the proposals for regulations to the Council in order to ratify the political agreement on reform.

223. One of the reforms proposed by the Commission was to devolve the decisions on how to support their own livestock sectors to the outermost regions, by allocating block grants for the implementation of all such programmes presented by the Member States.

Crop products

224. For crop products, the Commission adopted a regulation consolidating all the applicable implementing rules in a single text, with the intention of giving greater transparency and structure to its support measures for this sector in the outermost regions.

Special supply arrangements (SSA)

225. As regards the special supply arrangements, on 20 January 2003 the Commission adopted Regulation (EC) No 98/2003 establishing the supply balances and Community aid for the supply of certain essential products for human consumption, for processing and as agricultural inputs and for the supply of live animals and eggs to the outermost regions under Council Regulations (EC) Nos 1452/2001, 1453/2001 and 1454/2001.

226. With this regulation, the Commission implemented one of the major steps forward of the 2001 reform, namely that account be taken of the impact of these regions' remote island location on the supply of agricultural inputs and products intended for processing. The regulation also standardised to a large extent the criteria used for calculating the aid.

Impact of the reforms of the market-organisation regimes for rice, sugar and bananas on the outermost regions

Rice

227. The intervention price for rice will be cut by 50 % to EUR 150/tonne, starting on 1 September 2004, and intervention limited to 75 000 tonnes a year. Compensation for loss of income will be provided, within the limit of the maximum eligible area, at a rate of EUR 177/tonne. The system of penalties for exceeding this area has been made proportional.

228. The proposed decoupling at the rate of EUR 102/tonne will not be obligatory for the outermost regions (i.e. in practice for French Guiana).

229. The Council approved a mandate for the Commission to renegotiate the import regime to take into account EBA.

Sugar

230. The new basic regulation adopted by the Council in 2001 extended the scheme for five marketing years, with the special measures in force under the POSEI regulations to continue to operate as normal. The production and price guarantees that will continue under the sugar market organisation also apply to beet and cane in the outermost regions. In September 2003, the Commission will have to present to the Council a communication on reforming the Union's sugar policy.

Bananas

231. The Commission is currently opening a procedure for the evaluation of the operation of the banana market organisation. This study, which will serve as the basis for the report that it has to present before 31 December 2004, will focus mainly on the supply of bananas to the Community market, the production and marketing sectors and the impact of the regime on the income of the producers it covers.

232. In the final quarter of 2003 and the first of 2004, the Commission will be asking the Council for a mandate to open the necessary procedures for altering the size of the import tariff quotas to take into account the supplies required by the new Member States after 1 May 2004.

Rural development

Poseidom

233. Following the adoption by the Council on 28 June 2001 of the proposals for regulations on structural derogations, the work for France's four overseas departments consisted of laying down, in conjunction with the Commission, what constitutes an agricultural holding of small economic size, eligible for public assistance at a rate of 75 %. The Commission then amended the programming procedures. As regards Réunion and Guadeloupe, the amending decisions for the SPDs (single programming documents) were taken at the end of 2002. For the two other regions (Martinique and French Guiana), the amendments to decisions are on hold pending the provision of a consolidated text from the regional authorities.

234. The programming amendments therefore consisted of increasing the levels of aid for certain types of measure (up to a maximum of 75 % for investment in farms and 75 % (or 65 %, depending on the size of the business) for investment in agricultural-product processing and marketing businesses), as well as relaxing the conditions governing support for forestry (regarding the eligibility of forest owned by the State). In addition, the Community contribution to the total eligible cost of investment in small and medium-sized

businesses increased from 35 % to 50 % and for agri-environmental measures from 75 % to 85 %.

Poseima

235. Since the structural derogations introduced by the POSEI regulation, no other amendments have been made to the structural programmes for the Azores and Madeira.

Poseican

236. In June 2002, the operational programme for the Canary Islands was amended to incorporate the structural derogations adopted by the Council in Regulation (EC) No 1454/2001 (OJ L 198, 21.7.2001).

List of adopted texts (whose legal basis is Regulations (EC) Nos 1452/2001, 1453/2001 and 1454/2001)

- Commission Regulation (EC) No 2316/2003 of 29 December 2003 amending Regulation (EC) No 98/2003 as regards the forecast supply balance for the Canary Islands for fat-free milk preparations (OJ L 342, 30.12.2003, pp. 35–36);
- Commission Regulation (EC) No 1987/2003 of 12 November 2003 amending Regulation (EC) No 98/2003 as regards the forecast supply balance for the Azores for cereals and oilseeds, the forecast supply balance for Madeira for vegetable oils, sugar and meats and the forecast supply balance for the Canary Islands for cereals, oilseeds, hops, livestock feed, milk and milk products and meats (OJ L 295, 13.11.2003, pp. 47–53);
- Commission Regulation (EC) No 1812/2003 of 15 October 2003 amending and correcting Regulation (EC) No 43/2003 laying down detailed rules for applying Council Regulations (EC) Nos 1452/2001, 1453/2001 and 1454/2001 as regards aid for the local production of crop products in the outermost regions of the European Union (OJ L 265, 16.10.2003, pp. 21–22);
- Commission Regulation (EC) No 1756/2003 of 3 October 2003 amending Regulation (EC) No 98/2003 as regards the forecast supply balance for the French overseas departments and Madeira in the processed fruit and vegetables sector (OJ L 252, 4.10.2003, pp. 7–10);
- Commission Regulation (EC) No 1493/2003 of 25 August 2003 amending and correcting Regulation (EC) No 98/2003 as regards the forecast supply balance for the cereals sector for the French overseas departments and the forecast supply balance for the processed fruit and vegetable sector for the Canary Islands (OJ L 214, 26.8.2003, pp. 10–11);
- Commission Regulation (EC) No 1174/2003 of 1 July 2003 amending Regulation (EC) No 20/2002 laying down detailed rules for implementing the specific supply arrangements for the outermost regions introduced by Council Regulations (EC) Nos 1452/2001, 1453/2001 and 1454/2001 (OJ L 164, 2.7.2003, pp. 3–7);

- Commission Regulation (EC) No 995/2003 of 11 June 2003 derogating from Regulation (EC) No 43/2003 and amending it as regards the period for the submission of applications for aid for the ageing of Madeira liqueur wine and Azores wine (OJ L 144, 12.6.2003, p. 3);
- Commission Regulation (EC) No 753/2003 of 29 April 2003 amending Regulation (EC) No 98/2003 as regards the number of pigs intended to support livestock farming in the French overseas departments (DOM) (OJ L 107, 30.4.2003, pp. 3–4);
- Commission Regulation (EC) No 457/2003 of 12 March 2003 amending Regulation (EC) No 98/2003 as regards the establishment of the forecast supply balances and the setting of the Community aid for the supply of beef and veal to Madeira and the Canary Islands (OJ L 69, 13.3.2003, pp. 21–24);
- Commission Regulation (EC) No 399/2003 of 3 March 2003 amending and correcting Regulation (EC) No 98/2003 establishing the supply balances and Community aid for the supply of certain essential products for human consumption, for processing and as agricultural inputs and for the supply of live animals and eggs to the outermost regions under Council Regulations (EC) Nos 1452/2001, 1453/2001 and 1454/2001 (OJ L 59, 4.3.2003, pp. 13–15);
- Commission Regulation (EC) No 98/2003 of 20 January 2003 establishing the supply balances and Community aid for the supply of certain essential products for human consumption, for processing and as agricultural inputs and for the supply of live animals and eggs to the outermost regions under Council Regulations (EC) Nos 1452/2001, 1453/2001 and 1454/2001 (OJ L 14, 21.1.2003, pp. 32–52);
- Commission Regulation (EC) No 43/2003 of 23 December 2002 laying down detailed rules for applying Council Regulations (EC) Nos 1452/2001, 1453/2001 and 1454/2001 as regards aid for the local production of crop products in the outermost regions of the European Union (OJ L 7, 11.1.2003, pp. 25–57);
- Commission Regulation (EC) No 2225/2002 of 13 December 2002 amending Regulation (EC) No 21/2002 establishing the supply balances and Community aid for the outermost regions under Council Regulations (EC) Nos 1452/2001, 1453/2001 and 1454/2001 as regards the sugar sector for Madeira and the rice sector for the Canary Islands (OJ L 338, 14.12.2002, pp. 15–17);
- Commission Regulation (EC) No 2205/2002 of 12 December 2002 amending and correcting Regulation (EC) No 21/2002 establishing the supply balances and Community aid for the outermost regions under Council Regulations (EC) Nos 1452/2001, 1453/2001 and 1454/2001 (OJ L 337, 13.12.2002, pp. 15–18);
- Commission Regulation (EC) No 2132/2002 of 29 November 2002 amending Regulation (EC) No 21/2002 establishing the supply balances and Community aid for the outermost regions under Council Regulations (EC) Nos 1452/2001, 1453/2001 and 1454/2001 (OJ L 325, 30.11.2002, pp. 21–22);

- Commission Regulation (EC) No 2101/2002 of 28 November 2002 amending Regulation (EC) No 21/2002 as regards the 2002 forecast supply balance for cereals for the Azores (OJ L 324, 29.11.2002, pp. 8–9);
- Commission Decision 2002/932/EC of 26 November 2002 on the Community's financial contribution to a programme for the control of organisms harmful to plants and plant products in the French overseas departments for 2002 [notified under document number C(2002) 4541] (OJ L 324, 29.11.2002, pp. 64–70);
- Commission Regulation (EC) No 2085/2002 of 25 November 2002 amending Regulation (EC) No 21/2002 establishing the supply balances and Community aid for the outermost regions under Council Regulations (EC) Nos 1452/2001, 1453/2001 and 1454/2001 as regards vegetable oil, products processed from fruit and vegetables and milk and milk products for the French overseas departments and the Canary Islands (OJ L 321, 26.11.2002, pp. 3–7);
- Commission Regulation (EC) No 1976/2002 of 6 November 2002 amending Regulation (EC) No 21/2002 establishing the supply balances and Community aid for the outermost regions under Council Regulations (EC) Nos 1452/2001, 1453/2001 and 1454/2001 (OJ L 305, 7.11.2002, pp. 12–13);
- Commission Regulation (EC) No 1922/2002 of 28 October 2002 amending Council Regulation (EC) No 1454/2001 introducing specific measures for certain agricultural products for the Canary Islands and Council Regulation (EC) No 21/2002 establishing the supply balances and Community aid for the outermost regions (OJ L 293, 29.10.2002, pp. 11–13);
- Commission Regulation (EC) No 1890/2002 of 23 October 2002 amending Regulation (EC) No 21/2002 as regards the forecast supply balance for the French overseas departments in the cereals sector (OJ L 286, 24.10.2002, pp. 13–14);
- Commission Regulation (EC) No 1875/2002 of 21 October 2002 amending Regulation (EC) No 21/2002 establishing the supply balances and Community aid for the outermost regions under Council Regulations (EC) Nos 1452/2001, 1453/2001 and 1454/2001 as regards the pigmeat sector for the French overseas departments (OJ L 284, 22.10.2002, pp. 5–6);
- Commission Regulation (EC) No 1796/2002 of 9 October 2002 amending Regulation (EC) No 1491/2002 laying down detailed rules for the application of the specific measures for wine in the outermost regions introduced by Council Regulations (EC) Nos 1453/2001 and 1454/2001 (OJ L 272, 10.10.2002, p. 19);
- Commission Regulation (EC) No 1491/2002 of 20 August 2002 laying down detailed rules for the application of the specific measures for wine in the outermost regions introduced by Council Regulations (EC) Nos 1453/2001 and 1454/2001 (OJ L 224, 21.8.2002, pp. 49–52).

Information measures concerning the CAP

237. Council Regulation (EC) No 814/2000⁽⁷²⁾ provides for information measures relating to the common agricultural policy, intended for both Member States and the outside world. Commission Regulation (EC) No 2208/2002⁽⁷³⁾ (replacing Commission Regulation (EC) No 1557/2001⁽⁷⁴⁾) lays down detailed rules for applying Regulation (EC) No 814/2000 and introduces significant improvements to the scheme: simplification, transparency, better evaluation of the information actions proposed, better definition of the messages to communicate and means of distribution.

238. The purpose of the policy is to explain the issues surrounding the CAP, promote the European model of agriculture, keep farmers and other rural interests informed and raise public awareness of the implications and goals of the CAP.

Grants

239. The number of applications for grants received from Member States in 2003 has remained at the same high level as in previous years. For budgetary year 2003, a total of 149 applications were received, 55 of which were for programmes and 94 for specific measures.

240. In budgetary year 2003, a total of 40 specific measures were co-financed, 23 of which formed part of nine annual programmes. A high proportion of the measures financed were in Italy and Spain. This reflects the fact that a majority of applications were received from Italy, Spain and France, while there were very few from the Scandinavian countries. Similar trends can be seen in the visits to Brussels requested by French, Spanish and Italian groups and in the volume of letters and e-mail questions submitted to the Agriculture DG.

241. Individual organisations that were successful in budgetary year 2003 in obtaining co-financing for their information programmes include 'traditional' beneficiaries of 'pre-Regulation (EC) No 814/2000 information policy grants' such as COPA-Cogeca or AEFPR, but also national consumer organisations, national journalists' organisations, European environmental organisations and rural development groups. A number of national member organisations of the European umbrella organisations were also successful as were some provincial/regional organisations and academic bodies.

Conferences, events and fairs

242. In November 2003, a major conference on rural development was organised in Salzburg, Austria, which brought together rural development stakeholders, experts, representatives of governments and administrations, NGOs at European, national and regional level, and the media from Member States, new Member States and candidate countries.

⁽⁷²⁾ OJ L 100, 20.4.2000, p. 7.

⁽⁷³⁾ OJ L 337, 13.12.2002, p. 21.

⁽⁷⁴⁾ OJ L 205, 31.7.2001, p. 25.

243. The Commission was represented at various agricultural fairs, including, for example, *Grüne Woche* in Berlin, *Salon de l'Agriculture* in Paris and Verona (Italy).

244. Contacts with the Rural *Carrefours* network continued, including at the Salzburg Conference to which representatives of the *Carrefours* were also invited.

Publications

245. The regular publications programme was maintained with the cooperation of the Publications Office and two external contractors. A number of specific product 'fact sheets', reports, leaflets, conference proceedings and newsletters on international and rural issues were published. Special publications were produced for the WTO ministerial meeting in Cancún and the Salzburg conference. As in previous years, a Eurobarometer survey was conducted in the Member States.

Access to documents

246. Since the entry into force of Regulation (EC) No 1049/2001 on public access to European Parliament, Council and Commission documents, the number of requests from all Member States as well as from candidate countries has been growing. Transparency has been maintained with a minimum number of refusals.

Information and communication technology

247. The use of up-to-date information and communication technologies (ICTs) in the Agriculture DG aims to improve and reinforce the exchange and processing of data and information in order to enhance CAP management and facilitate the sharing of information between the national and European administrations, in line with the *eEurope* and *eCommission* ⁽⁷⁵⁾ initiatives.

248. In this context, investments to maintain and further develop the Agriculture DG's information systems and services have been made in 2003, notably in the domains outlined below.

Developments of the CAP and financial management information

249. Preparations for activity-based budgeting and enlargement were to be undertaken in 2003, as well as the adaptation of financial applications to the new Financial Regulation (EC) No 1605/2002.

250. The financial information systems (*AGREX* and *eFaudit*, etc.) have been adapted in line with the new financial regulation and activity-based budgeting (in use from 1 January 2004). Beyond this, other enhancements to facilitate collection of data and monitoring of expenditure have been made. Work on the enlargement aspects is still under way.

⁽⁷⁵⁾ *eCommission* is an internal European Commission initiative designed to enhance the contribution of ICT to its internal administration.

251. The AMIS application had been extended with Internet-technology-based interfaces with a view to facilitating the reception of data ('AMIS-Web Fruit and Vegetables' module), and with new reporting mechanisms.

252. The CAP electronic dictionary containing the description of data used in the Agriculture DG's information systems was made available to the Member States' administrations during the first half of 2003. The organic farming information systems developed in response to Regulation (EC) No 2092/91 went live also in 2003. Further enhancements to links with the Member States were made with the AWAI application interface portal of the Agriculture DG.

Improvement of administrative document management, filing system

253. The electronic document management system at the Agriculture DG has been improved with the introduction of a high-capacity scanning service. In the near future electronic mails and faxes will also be included in the electronic document management system.

254. A study on a coherent classification plan for the Agriculture DG has been concluded with a view to integrating the Commission's new regulation on document management.

Reporting and analysis for the Agriculture DG

255. The data warehouse project started in 2002 is giving its first modules of results, related to financial data. The aim of the data warehouse ('Agriview') is to provide harmonised and consolidated information for analysis and reporting on the CAP. The project will continue in the coming years in order to integrate both agriculture markets and rural development data.

Maintaining and improving the level of ICT services and related security available in the Agriculture DG

256. The Agriculture DG's ICT infrastructure is advancing in line with the Commission-wide migration to the new Windows XP/Windows 2000 technological platform.

257. In view of extended multilingual requirements following enlargement, the Commission implemented the tools within its office automation environment. This allows the Agriculture DG to handle documents in the 20 languages required.

258. Because of the ever-growing use of ICTs, security issues are of great importance for the Agriculture DG. In line with the new information security legislation of the Commission, the Agriculture DG is investing in improving information systems and data protection and availability, security awareness (an important factor), including training courses to the Agriculture DG staff, and personal data protection.

Advisory committees and relations with bodies representing trade

Advisory committees and relations with bodies representing the EU socio-professional sector

259. At some 80 meetings of the advisory committees and working groups held in 2003, the Commission consulted and informed the representatives of agricultural producers, cooperatives, processors, traders, consumers, workers, environmental-protection, rural-development and animal-welfare interests, among others, of developments in the common agricultural policy and rural development policies.

260. In accordance with Article 4 of Commission Decision 98/235/EC of 11 March 1998 on the advisory committees dealing with matters covered by the common agricultural policy, committee members are appointed by the Commission on proposals from the socio-economic organisations established at Community level. An initial list of members was published in the Official Journal ⁽⁷⁶⁾.

261. Updated versions of the list (to take account of members who resigned, retired, etc.) were published in Official Journal C 122 of 4 May 1999, C 123 of 3 May 2000, C 233 of 17 August 2001, C 167 of 12 July 2002, and C 276 of 17 November 2003.

Coordination with the European Parliament

262. The European Parliament held 18 plenary sessions in 2003. The Agriculture DG attended when subjects were discussed that are of importance for the policies of the DG. The most important item this year was the adoption of the European Parliament reports on CAP reform at the plenary session of 26 May 2003. Another issue concerned the ongoing WTO-Doha Round, specifically the preparation of the Cancún Summit and the debriefing after its failure.

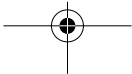
263. The Committee on Agriculture and Rural Development held 20 meetings. The Commission participated and kept the European Parliament informed and assisted individual Members of Parliament (MEPs) with various queries. Main topics were the Commission proposals for the CAP reform: the first set of proposals published in January 2003 and the second package that followed in the second half of the year. The WTO was also regularly placed on the agenda.

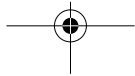
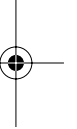
264. Other committees also discussed subjects that affect the Agriculture DG. When this was the case, the DG was represented during the meeting. In 2003 it concerned the Committee on Budget, the Committee on Budgetary Control, the Committee on Women's Rights and Equal Opportunities and the Committee on the Environment, Public Health and Consumer Policy. The latter committee is of particular importance because of the discussions on food safety, animal health and welfare, plant health and the environment, which can have major consequences for agriculture.

⁽⁷⁶⁾ OJ C 370, 30.11.1998, p. 1.



265. The Agriculture DG prepared replies to written and oral questions and letters from MEPs. It also participated in the response to petitions to Parliament. In 2003, 131 letters and 207 written questions were handled for which the Agriculture DG was leader and 468 written questions with which the DG was associated. Replies were prepared for a total of 18 oral questions. The procedure started for three petitions for which the Agriculture DG was leader.





III — Agricultural markets

Market developments — Crop products

Cereals

World market

266. World cereal production (excluding rice) in the 2002/03 marketing year fell sharply against the previous year. The European Union and central and eastern Europe enjoyed a record harvest, but production fell sharply in North America and Australia. According to International Grains Council figures at the end of November 2003, the 2002/03 world harvest was 1 447 million tonnes against 1 485 million tonnes for 2001/02.

267. World wheat production fell from 582 million tonnes in 2001/02 to 567 million tonnes in 2002/03. The European Union harvested 103.2 million tonnes of common and durum wheat (90.5 million tonnes in 2001/02). Production in Australia, which is a key traditional exporter of wheat, plummeted from 24.9 million tonnes in 2001/02 to 10.1 million tonnes in 2002/03. In the CIS countries there was a rise to record levels: 96.2 million tonnes, against 90.7 million tonnes in 2001/02. The 2002 crop in the United States was just 44 million tonnes; it was 53.3 million tonnes in 2001. In Canada, production fell from 20.6 to 16.2 million tonnes as a result of lower yields.

268. World wheat consumption in 2002/03 was 601 million tonnes (586 million tonnes in 2001/02), i.e. 34 million tonnes more than production. Feed grain consumption was 906 million tonnes (911 million tonnes in 2001/02), i.e. 26 million tonnes more than production.

269. The International Grains Council's November 2003 estimates for 2002/03 indicate world coarse grain production of 880 million tonnes (903 million tonnes in 2001/02). In the United States there was a fall from 262 to 245 million tonnes, while production of feed grains in the CIS countries fell from 65.6 million tonnes in 2001/02 to 64.4 million tonnes in 2002/03.

270. World cereal stocks declined once again, the 2002/03 estimate being 324 million tonnes (163 million tonnes of wheat and 161 million tonnes of feed grains) compared with 385 million tonnes in 2001/02 and 393 million tonnes in 2000/01. In the EU, stocks held by the intervention agencies on 1 July 2003 were 7.2 million tonnes (8.1 million tonnes on 1 July 2002): 5.1 million tonnes of rye, 0.9 million tonnes of barley and 1.2 million tonnes of wheat.

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271. The total volume of world trade in cereals in 2002/03 was 212 million tonnes (104 million tonnes of wheat and 108 million tonnes of coarse grains) compared with 213 million tonnes in 2001/02.

272. World cereal production in 2003 has been estimated at 1 446 million tonnes, roughly the same as the 2002 harvest. Wheat production fell sharply once again, from 567 to 552 million tonnes. Feed grain production increased from 880 to 894 million tonnes, mainly as a result of a good maize harvest in the United States. World cereal consumption is constantly rising and is expected to reach 1 510 million tonnes. At the end of 2003/04 world stocks are sharply down, the estimate being 260 million tonnes (64 million tonnes down on 2002/03). For world cereal trade a sharp fall in volume can be expected (201 million tonnes, of which 96 million tonnes of wheat).

Community market

273. Following decisions in the context of the Agenda 2000 reform package, the intervention price for the 2002/03 marketing year was fixed at EUR 101.31 per tonne. The level of aid for cereals remained unchanged at EUR 63 per tonne of yield. The compulsory set-aside rate remained at 10 %, while the monthly increases fell from EUR 1.0 to EUR 0.93 per tonne.

274. Community cereal production in 2002/03 was 212 million tonnes for the 15 Member States, 13 million tonnes less than in 2001/02.

275. This corresponds to an increase in the area sown, from 36.5 million hectares in 2001/02 to 37.5 million hectares in 2002/03.

276. Production of both common wheat (94.2 million tonnes) and durum wheat (9.7 million tonnes) was up, by 13.2 % and 14.1 % respectively. Maize production remained more or less the same, with a slight increase from 40.5 to 40.6 million tonnes.

277. Rye production fell sharply to 4.8 million tonnes, following a reduction in the area sown and a fall in production as a result of floods in the German production areas.

278. For the 2002 harvest the set-aside requirement was kept at 10 %, corresponding to an area of 4 million hectares. Voluntary set-aside of nearly 2.0 million hectares brought the actual set-aside rate to 13.2 %, with farmers in Spain, the United Kingdom, Portugal, Sweden and Finland at the forefront of participation in this scheme.

279. Cereal use was stimulated by the fall in prices and imports of common wheat, and the relatively high prices in the oilseed/protein sector given the dollar's strength against the euro. Animal feed use reached 116.4 million tonnes in the EU-15 in 2002/03.

280. Community exports in 2002/03 (including processed products) were only 26.9 million tonnes against 22.4 million tonnes in 2001/02. Commercial exports amounted to 14.5 million tonnes of common wheat (including flour), 6.9 million tonnes of barley (including malt), 1.4 million tonnes of maize and 1 million tonnes of rye and rye flour.

281. As a result of low production in the United States, durum wheat exports in the form of grain and meal rose to 2.1 million tonnes against 1.3 million tonnes in 2001/02. Oat exports also profited from this situation, rising to 885 000 tonnes against 570 000 tonnes in 2001/02.

Oilseeds

282. The economic position of the oilseeds sector depends on price movements for seeds, oils and cake. Vegetable oils can be used without further processing or as prepared oils and fats, e.g. margarine. Oilseeds yield two products: oil, chiefly for human consumption, and cake for animal feed. In the absence of protective measures at the external frontiers of the Community, prices in the Community are the same as on the world market.

283. The European Union is a net importer of oilseeds, vegetable oils and cake. Annual import volumes are largely dependent on the relative prices of seeds, cake, oils and competing feed products (cereals, corn gluten feed, etc.) and on the opportunities for exporting oil and cake from the EU. Total oilseed imports were 20 million tonnes in 2002 and 21.2 million tonnes in 2001. Most of this (90 %) is soya beans.

284. A total of 29.9 million tonnes of oilseeds were crushed in the Union (EU-15) in 2002/03, against 32.6 million tonnes in 2001/02. The greater part of this was soya beans (approximately 57 %), almost all imported from outside the EU, followed by rapeseed (around 29 %) and sunflower (around 14 %).

285. Under Regulation (EC) No 1251/1999 the area payment for oilseeds is identical with that for cereals from the 2002/03 marketing year. Thus there is no longer a specific area payment for oilseeds. Market prices for oilseeds no longer have any effect on the area payment.

286. Total oilseed production in 2002/03 was 11.4 million tonnes (of which 2 million tonnes of non-food production), against 13.3 million tonnes (of which 1.9 million tonnes of non-food production) in 2001/02.

Peas, field beans and sweet lupins

287. These products, which mainly go to the feed industry, compete with a wide range of other raw materials.

288. Under Regulation (EC) No 1251/1999, from 2000/01 the area aid has been EUR 72.50 multiplied by the historical cereals yield.

289. Compensatory aid was paid on some 1.1 million hectares in 2002/03. Total production was 3.7 million tonnes.

Non-fibre flax

290. The European Union grows both fibre flax (grown primarily for the fibre but also yielding seed) and non-fibre flax (grown solely for seed). The seed (linseed) is used without further processing or crushed to give oil (for industrial use) and cake for animal feed.

291. The Union imports large quantities of linseed (about 600 000 tonnes in previous years). Canada is its biggest supplier.

292. Under Regulation (EC) No 1251/1999 the area payment for non-fibre (oilseed) flax has been identical with the cereals payment since 2002/03.

293. The area sown to non-fibre flax in 2002/03 was 102 000 hectares.

Grain legumes (chickpeas, vetches and lentils)

294. Regulation (EEC) No 762/89 introduced a specific measure for grain legumes in 1989. This was extended by Regulation (EC) No 1577/96. Area aid is granted, outside the arable crops scheme, for a maximum guaranteed area (MGA). Regulation (EC) No 811/2000 divided the MGA between chickpeas and lentils (used for human consumption) and vetches (used in animal feed).

295. The aid is EUR 181 per hectare and the MGA 160 000 hectares for chickpeas and lentils and 240 000 hectares for vetches. If either MGA is not fully taken up, the other MGA is increased by the balance. If an MGA is exceeded, the aid for the marketing year is reduced in proportion.

296. In 2002/03 the area under chickpeas and lentils was 138 004 hectares and that under vetches 315 058 hectares. The MGA overrun for vetches resulted in adjustment of the aid to EUR 150.52 per hectare while that for chickpeas and lentils remained at EUR 181 per hectare.

Non-food production

297. With the entry into force of Council Regulation (EC) No 1251/1999 of 17 May 1999 establishing a support system for producers of certain arable crops, which repeated and replaced Regulation (EEC) No 1765/92, new arrangements were introduced for set-aside under the Agenda 2000 package:

- the basic percentage for compulsory set-aside is 10 % from 2000/01 to 2006/07 inclusive, provided that the grain market remains in balance. Given the grain market balance, the Commission decided to fix the compulsory set-aside rate at 5 % for 2004;
- voluntary set-aside is offered to producers up to 10 %, but Member States may set higher rates up to 100 % of the agricultural area;
- the area payment for set-aside land is EUR 63.00 per tonne multiplied by the cereal yield from 2001/02 onwards for cereal crops.

298. The old non-food production rules were replaced by Commission Regulation (EC) No 2461/1999. New production possibilities have been introduced (crops for production of biogas, biofuels or electricity on the holding, biennial crops for exclusively non-food purposes) and procedures simplified.

299. Regulation (EC) No 1251/1999 contains a corrective mechanism to ensure compliance with point 7 of the memorandum of understanding on certain oilseeds concluded in 1993 between the European Economic Community and the United States of America

within the framework of GATT. This point states that: 'should the by-products made available as a result of the cultivation of oilseeds on land set aside for the manufacture within the Community of products not primarily intended for human or animal consumption exceed one million metric tonnes annually, expressed in soya bean meal equivalent, the Community shall take appropriate corrective action within the framework of the CAP reform'.

300. The new corrective arrangements came into force under Council Regulation (EC) No 2704/1999 amending Regulation (EC) No 1251/1999 establishing a support system for producers of certain arable crops. For the 2002/03 marketing year the quantity of by-products expressed in soya bean meal equivalent was about 750 000 tonnes, a slight decrease of 50 000 tonnes on 2001/02.

301. New industrial uses for hemp and the use of cereals and certain oilseeds to heat agricultural holdings directly without any prior processing have also been allowed as non-food production.

302. Measures to promote renewable energy and/or non-food production are included in most of the rural development programmes presented by the Member States under Council Regulation (EC) No 1257/1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF) and amending and repealing certain regulations.

303. Several central and east European applicant countries have also presented measures for the non-food sector under the special accession programme for agriculture and rural development (Sapard).

304. Out of more than 850 000 hectares of set-aside land used for non-food production in 2001/02 (a slight decrease on 2000/01), almost 800 000 hectares were used for oilseed production and over 50 000 for cereals. Some 60 % of the output was used to manufacture biofuels, and the remaining 40 % for lubricants and chemical feedstock.

305. Owing to the extreme drought in certain regions of the Community, which seriously affected fodder supplies, land declared as set-aside in certain regions of the Community may be used for animal feed purposes in the 2003/04 marketing year. Farmers in a region recognised as affected by drought and authorised by the Member State may amend or terminate the contract or declaration referred to in the implementing regulation during the 2003/04 marketing year.

306. A new aid scheme for energy crops for the eventual production of biofuels, energy or heat was approved in December 2003 (Regulation (EC) No 2237/2003) for the application of certain support schemes provided for in Title IV of Council Regulation (EC) No 1782/2003. Aid of EUR 45 per hectare per year is to be granted for a maximum area of 1 500 000 hectares at Community level, i.e. not allocated among the Member States. Any agricultural raw material, with the exception of sugar beet, may be grown. This scheme is considerably simplified in comparison with the industrial set-aside scheme.

Rice

307. The 2002 world harvest was about 576 million tonnes of paddy rice, 22 million tonnes down on 2001 (598 million tonnes).

308. In the Community, despite a decrease in the area sown in the 2002/03 marketing year, the amount of milled rice sold on the market was 1 580 000 tonnes compared with 1 500 000 in 2001/02, largely owing to excellent milling yields for that harvest.

309. As a result, a total of over 250 000 tonnes of paddy rice was bought into intervention, bringing stocks to a record level of 700 000 tonnes. Rice was bought into intervention in all producing countries except Portugal. The delivery deadline was extended by one month owing to the heat wave in summer 2003.

310. Since August 2003, there has been a new outlet for the disposal of intervention rice. As well as tenders for animal feed, tenders were opened for the processing of intervention rice into broken rice, subsequently used in the manufacture of pastry products and in brewing.

311. A more limited harvest is expected in 2003/04, as well as lower milling yields. Of the 10 new Member States which joined the European Union on 1 May 2004, only Hungary is a producer of rice. It has around 3 000 hectares of rice under cultivation, less than 1 % of the total cultivated area in the European Union (400 000 hectares).

312. Following the political agreement of 26 June 2003 on the CAP reform, the Council adopted, on 29 September 2003, a new regulation on the common organisation of the market in rice (Regulation (EC) No 1785/2003), which will apply from 2004/05. This regulation halves the intervention price, compensating with an increase in per-hectare aid. Part of this aid is to be paid in the form of area aid and part as a crop-specific aid for rice production.

313. The quantities bought in to intervention will in future be limited to 75 000 tonnes per year. In the 2003/04 transitional year, this limit will be 100 000 tonnes, but may be amended by the Commission on the basis of a balance sheet reflecting the situation of the market.

314. On 26 June 2003, the Council also authorised the Commission to remove the system of import duties pursuant to Article XXVIII of the GATT.

Starch

315. In 2002/03, the cereal starch market was relatively stable, as regards both maize-based and wheat-based products. Total EU-15 production was estimated at around 7 million tonnes produced from 12.5 million tonnes of cereals.

316. Potato starch production, which is quota-restricted, remained around 4 % below quota in 2002/03. Under Council Regulation (EC) No 1868/94 establishing a quota system in relation to the production of potato starch ⁽⁷⁾, the Commission is to present to the

⁽⁷⁾ OJ L 197, 30.7.1994, p. 4.

Council, no later than 30 September 2004, a report on the allocation of quotas within the Community, accompanied by appropriate proposals. This report is to take account in particular of developments on the potato starch and cereal starch markets.

317. Market management instruments using refunds were practically limited in 2002/03 to export refunds on products based on maize and potato starch (in receipt of the same amount as maize starch). No export refunds were needed for wheat starch. Almost no production refunds were used in 2002/03.

Sugar

World market

318. After eight consecutive years of surplus (when production exceeded consumption), the world sugar balance is again in surplus, the excess for 2002/03 being 10.1 million tonnes. End stocks in August 2003 stood at 69.7 million tonnes, representing 50.2 % of total consumption, the highest level in this period.

Marketing year September/ August	Production	Consumption	Surplus or deficit	Stock/ consumption ratio (%)
	(1)	(2)	(3) = (1)-(2)	(4)
1993/94	111.6	112.6	- 1.0	33.5
1994/95	116.1	115.1	+ 1.0	33.5
1995/96	125.9	117.9	+ 8.0	39.2
1996/97	124.1	121.1	+ 3.0	38.8
1997/98	128.9	123.3	+ 5.6	41.2
1998/99	134.6	125.6	+ 9.0	45.6
1999/2000	134.0	128.3	+ 5.7	48.0
2000/01	132.0	131.4	+ 0.6	47.1
2001/02	138.5	135.9	+ 2.6	45.9
2002/03	148.8	138.7	+ 10.1	50.2

Source: F. O. Licht (31.10.2003).

319. Early production forecasts had indicated such a development. A large surplus had initially been forecast by all analysts, and revised upwards during the course of 2002/03 into an extremely sizeable surplus. For example, the International Sugar Organisation doubled the surplus of 3.66 million tonnes forecast in September 2002 to 6.15 million tonnes in September 2003. In consequence surplus stocks of 16.6 million tonnes in August 2002 increased to 20.1 million tonnes in August 2003 (surplus stocks are defined as stocks above normal pipeline needs) and so continued to have a generally depressive impact on the market and prices. The stock/consumption ratio comprises all stocks including these accumulated surplus stocks. End stocks representing 50 % of consumption indicate a heavily oversupplied world sugar market when compared with the figure of around 33 % 10 years ago.

320. The world balance-sheet data for 2002/03 (September to August) shows major production increases in beet sugar, particularly in the EU (+ 2.1 million tonnes), Poland (+ 0.5) and Turkey (+ 0.4), and in cane sugar where more significant increases are seen in Brazil (+ 2.6 million tonnes), China (+ 2.3), India (+ 1.7), Thailand (+ 1.2) and Pakistan (+ 0.4). In the latter countries (except India) substantial increases had already been noted the previous year. The only significant decrease was in Cuba (– 1.5 million tonnes).

321. Brazil is again the biggest producer and exporter. It should be noted that its marketing year comprises four months of crop year 2003/04 (May to August 2003) and eight months of crop year 2002/03 (September 2002 to April 2003), both with very high figures; 2003/04 is forecast to be a record year at 24.5 million tonnes.

322. Major producers in 2002/03 were (in million tonnes) Brazil (24.4), India (21.8), the EU (18.2), China (11.5), USA (7.4), Thailand (7.7), Mexico (5.2), Australia (5.3), Pakistan (3.9), South Africa (2.5) and Colombia (2.5). These countries produced about 77 % of the total. The biggest traditional exporters were Brazil, the EU, Thailand, Australia and Cuba, these five countries accounting for two thirds of the total exports of 50.2 million tonnes.

323. Despite a major increase in beet sugar production in Europe, cane sugar production, located mainly in developing countries, has maintained its significant share at 75 % of total production. At the beginning of the 1990s, its share was on average 67 % (*source*: Czarnikow).

324. Prices remained relatively firm in 2002/03, against bearish expectation, as all forecasts pointed to a further surplus situation. This price stability continued even at the start of 2003 even though production estimates, for China and Thailand in particular, were unexpectedly increased late in the marketing year and Brazil's new crop (2003/04 beginning in May 2003) was again forecast to increase. Buying by speculative funds sustained this trend until April/May 2003, influenced by the Iraq war. However, the massive availability of sugar impacted on the market and prices declined steadily until December 2003. New York spot price No 11 stood at 9.17 cts/lb in February 2003, ending the year at 6.95 cts/lb in December.

325. The price situation during the 2002/03 marketing year (July/June) is shown in the following table together with a longer term perspective.

	<i>(EUR/tonne)</i>				
	1999/2000	2000/01	2001/02	2002/03	July/December 2003
White sugar (London)	18.70	28.11	27.15	21.54	17.48
Raw sugar (New York)	14.38	25.24	19.19	17.47	13.31

326. It should also be borne in mind that during 2003 quotations were significantly influenced by a strong euro. In 2002/03 the average exchange rate was USD 1.047:EUR 1.00, against USD 1.155 during the second half of 2003.

327. A further surplus is projected in 2003/04. Bearish fundamentals should therefore continue to keep prices under pressure in 2004, particularly if the anticipated higher production in Brazil materialises.

328. The growth in consumption in 2002/03 was around 2.2 %, slightly above the 2 % average of past years. Higher growth of up to 3.8 % in 2003/04 is forecast by F. O. Licht due to improved economic prospects and population growth, in particular for Asia with 56 % of the world population. Income inelasticity and declining population in developed countries with high levels of consumption is, however, a limiting factor. Growth of 4.4 % on average in 2002/03 has been established by the ISO (International Sugar Organisation). Most regions in Africa and Asia (except the Far East) had above-average growth, in particular the Indian subcontinent and equatorial and southern Africa.

Community market

329. 2002/03 marked a break with the downwards trend in beet areas over recent years, with a 3.5 % increase on 2001/02 taking the total over 1.8 million hectares. Favourable weather led to high yields: 9.13 tonnes of sugar per hectare on average, against 8.46 in 2001/02. As a result, total EU sugar production was 17.2 million tonnes (white sugar equivalent) against just 15.8 million in 2001/02; 16.9 million tonnes came from beet, 261 000 tonnes from cane and 42 000 tonnes from molasses.

330. Given this high production level, non-quota C sugar production was 4.2 million tonnes in 2002/03, against 1.7 million tonnes in 2001/02. C sugar has to be carried over to the next marketing year or exported without refund. The 0.9 million tonne carryover was around the average carryover in previous years; 3.3 million tonnes of C sugar were exported, double the quantity in 2001/02.

331. Total exports of sugar in its natural state were 4.8 million tonnes in 2002/03: 2.6 million tonnes of C sugar exported without refund and 2.2 million tonnes with refund. Most of the latter is exported under a standing tendering procedure.

332. Sugar consumption within the EU rose very slightly to 12.9 million tonnes in the 2002/03 marketing year. Of this, 425 000 tonnes was used by the chemical industry with production refunds, continuing the increase by another + 4 % on last year.

333. For the 2002/03 marketing year, the Commission reduced the quotas, as provided for in Article 10 of Council Regulation (EC) No 1260/2001, in order for the Community to comply with its commitments under the GATT Agriculture Agreement to limit export refunds. The reduction reached a record level of 0.8 million tonnes, or 5.7 % of the quotas. This quantity corresponded to the excess of sugar available on the Community market and exportable with refunds under these commitments, on the basis of production, import, consumption and stock forecasts for that year. This quantity has been reclassified as C sugar.

334. On 30 June 2003, at the end of the marketing year, stocks were at 135 000 tonnes, lower than the stocks at the start of the year. Stocks had increased by more than 200 000 tonnes in the previous marketing year.

335. Under the common market organisation, production of isoglucose and inulin syrup is limited by quotas akin to those for sugar. In 2002/03, as in previous marketing years, isoglucose production did not exceed the maximum amount under the A and B quotas (0.3 million tonnes). Inulin syrup production is rising but still below the A quota alone (0.2 million tonnes). Community consumption of isoglucose and inulin syrup fell to 330 000 tonnes.

336. In 2003/04 another fall in beet areas (7 %) and unfavourable weather limiting yields to below 8.7 tonnes per hectare will be reflected in low production: 15.2 million tonnes, 2.5 million being non-quota. In 2003/04, the quota reduction (see point 5) will be just 0.2 million tonnes.

Legislative framework: main developments

337. The common market organisation for sugar is currently governed by the new basic Regulation (EC) No 1260/2001 adopted by the Council on 19 June 2001. The main change from the previous regulation was termination of storage cost reimbursement. In September 2003, in its communication to the Council and the European Parliament 'Accomplishing a sustainable agricultural model for Europe through the reformed CAP' (COM(2003) 554 final), the Commission presented various options and potential scenarios for a reform of the common organisation of the market in sugar in response to internal and external constraints on the sugar sector. At the close of the Council's discussions the Commission should be able to submit a legislative proposal at the end of the first half of 2004. In 2003, the Commission amended regulations on the establishment of Community balances and laying down detailed rules of application for preferential imports.

Potatoes

338. Potatoes are one of the few agricultural products for which there is no common market organisation. In 1992 the Commission presented a proposal for a minimal common market organisation and again in 1995, but no agreement was reached and it was not accepted.

339. Potatoes are grown in all Member States of the Community. In 2002 the total area grown was 1 254 000 hectares, up from 1 251 000 hectares in 2001. Early potatoes were grown on 108 000 hectares, 2 000 hectares more than in 2001.

340. Total production in 2002 was around 45.7 million tonnes, some 1.25 million tonnes more than in 2001. Early potatoes in 2002 accounted for about 2.85 million tonnes, against 2.7 million tonnes in 2001.

341. In the period 1996 to 2001, human consumption of potatoes in the EU did not move from the 27 to 28 million tonnes range.

342. EU imports of potatoes for human consumption were about 410 000 tonnes in 2002, of which some 390 000 tonnes (95 %) were early varieties. Imports generally occur during winter and spring when EU stocks are low. The main suppliers are southern Mediterranean countries.

343. Production in 2003 is estimated to be 10 % lower (at 41.0 million tonnes) than in 2002.

Dried fodder

344. Dried fodders are the protein-rich products (minimum 15 %) obtained by artificial drying (dehydration) or natural (sun)drying of lucerne, other leguminous crops and certain grasses.

345. The following table summarises the trend of production as reflected in aid applications.

EU production of dried fodder, based on aid applications

(thousand tonnes)

Dried fodder	MGQ ⁽⁷⁸⁾	1995/96	1996/97	1997/98	1998/99	1999/ 2000	2000/01	2001/02	2002/03
Dehydrated	4 412	4 070	3 818	4 283	4 610	4 599	4 720	4 421	4 515
Sun-dried	444	402	253	156	151	162	203	306	216
Total	4 856	4 472	4 071	4 439	4 761	4 761	4 923	4 727	4 731

346. In 2002/03 aid was granted for 4.5 million tonnes of dehydrated fodder (102.3 % of the MGQ) and 0.2 million tonnes of sun-dried fodder (48.7 % of the MGQ).

347. As subsidised production of dehydrated fodder exceeded the MGQ, the co-responsibility clause was applied: in order to remain inside the budget, the aid (EUR 68.83/t) was reduced ⁽⁷⁹⁾ by 2.3 % (to EUR 67.27/t) in every Member State.

348. The aid was, however, paid in full for sun-dried fodder, subsidised production of which was within the MGQ.

349. Under the 'CAP reform — A long-term perspective for sustainable agriculture', the Council adopted a new aid scheme for dried fodder, with part of the production aid being replaced by decoupled income aid to farmers.

— *Partial decoupling* ⁽⁸⁰⁾: The total allocation to be decoupled under the single payment scheme for each holding is limited to EUR 132 million; the amount broken down by

⁽⁷⁸⁾ Maximum guaranteed quantity, Council Regulation (EC) No 603/95 (OJ L 63, 21.3.1995, p. 1).

⁽⁷⁹⁾ Regulation (EC) No 1207/2002 (OJ L 176, 5.7.2002, p. 9).

⁽⁸⁰⁾ Council Regulation (EC) No 1782/2003 of 29 September 2003 establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers (OJ L 270, 21.10.2003, p. 1).

Member State will be allocated by holding according to the quantities of green fodder delivered during the reference period (2000/01, 2001/02 and 2002/03).

— *Simplification of the aid scheme* ⁽⁸¹⁾:

- *Single rate of aid*: The aid payable to processing undertakings is fixed as a single amount for the two subsectors (dehydrated fodder or sun-dried fodder) at EUR 33 per tonne of dried fodder.
- *Single MGQ*: A single maximum guaranteed quantity is fixed for the two subsectors (dehydrated fodder and sun-dried fodder), equal to the sum of the old MGQs fixed by subsector. The new MGQ is divided into national guaranteed quantities (NGQs) for each Member State. The aid is paid in full if the Community production is less than or equal to the MGQ. If there is an overrun on the MGQ the aid will be reduced in each Member State which has exceeded its NGQ so as to avoid any overrun on forecast planned budget expenditure.

Dried fodder	Aid (EUR/tonne)	MGQ (tonnes)
Dehydrated fodder and sun-dried fodder	33	4 855 900

— *Evaluation and report*: Before the end of September 2008, the Commission is to present a report on this sector, based on an evaluation of the common organisation of the market in dried fodder, dealing in particular with the development of the areas of leguminous and other green fodder, the production of dried fodder and the savings of fossil fuels achieved. The report is to be accompanied, if needed, by appropriate proposals.

Application of the old scheme in 2004/05

350. As the new aid scheme applies from 1 April 2005 onwards, the old scheme will remain in force in the 2004/05 marketing year.

351. This will be the first year to cover 25 Member States. The Act of Accession increases the EU-15 MGQ for dehydrated fodder by 104 823 tonnes for the new Member States, based on their average production in 1998/99 (0 for sun-dried fodder).

Fibre flax and fibre hemp

Fibre flax

352. According to the FAO, the total world area sown to fibre flax in 2002 was 610 000 hectares, of which 140 000 hectares in China and 90 000 hectares in the European Union. The EU tends to import medium- and low-quality fibres, which are brought in from eastern Europe, Egypt and China, but supplies the whole world with high- and very high-quality fibres, since these are not produced anywhere else. In 2002 it exported

⁽⁸¹⁾ Council Regulation (EC) No 1786/2003 of 29 September 2003 on the common organisation of the market in dried fodder (OJ L 270, 21.10.2003, p. 114).

74 000 tonnes of flax fibre, more than half of which went to China. The lower costs of spinning in China play a key role in the increase in exports to that country.

353. Market prices for fibre flax fell by between – 12 % and – 20 % in 2002/03 against 2001/02, in which prices had been particularly high. This is due largely to the rise in the euro against the US dollar. On the other hand, sales reached record levels, at more than 20 % higher than the average for the past 10 years.

Fibre hemp

354. According to the FAO, the world area planted with fibre hemp was around 60 000 hectares in 2002. Outside the EU, China, North Korea, India and Russia are the main producers. Production in the European Union remained stable in 2002 compared with 2001 levels: around 15 000 hectares were sown. It has traditionally been concentrated in France and, to a lesser extent, in Spain, Germany, the United Kingdom and the Netherlands, among others. Trade with third countries is very limited.

Legislative framework: main developments

355. In 2002/03 the processing aid was EUR 160 per tonne for long-fibre flax and EUR 90 per tonne for short-fibre flax and for hemp fibre. For long-fibre flax there is a maximum guaranteed quantity of 75 250 tonnes, shared out between the Member States in the form of national guaranteed quantities. The corresponding figure for short-fibre flax and hemp fibre is 135 900 tonnes, also shared out between the Member States in the form of national guaranteed quantities. Each Member State may transfer part of its national long-fibre flax quantity to its national short-fibre flax and hemp fibre quantity and vice-versa, subject to a coefficient of equivalence.

Cotton

356. The world area under cotton in 2002/03 was estimated at around 30.5 million hectares, with production estimated at some 19.2 million tonnes, as against 31.6 million hectares and 19.3 million tonnes in 2000/02.

357. Unginned cotton is not traded internationally, but the European Community, whose cotton-spinning capacity by far exceeds its fibre production, imports substantial quantities of ginned cotton, around 685 000 tonnes in 2002. The countries of central Asia, the CFA area countries, Syria and the United States are the main suppliers.

358. In the European Union, the scale of cotton cultivation is limited, in terms of both the area planted and the number of producers. However, it is concentrated in certain areas of Greece and Spain, where it plays a major socioeconomic role, and is also grown on a very small scale in Portugal. The Community area planted with cotton fell in 2002: 445 000 hectares (as against 514 000 hectares in 2001) producing 1 495 000 tonnes of unginced cotton (1 173 000 tonnes in Greece and 322 000 tonnes in Spain) as against 1 692 000 tonnes in 2001. The European Union is about 50 % self-sufficient in cotton fibres, its consumption in 2002 having been around 925 million tonnes.

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359. The Community aid scheme provides for a guide price (EUR 106.30/100 kg) and aid equivalent to the difference between the guide price and the world price is granted to ginners who pay a minimum price to the grower. If the production of unginning cotton exceeds a maximum guaranteed quantity (MGQ), the guide price and the minimum price are reduced. The reduction is less if the world price level allows expenditure on the aid scheme to be curbed.

360. The guide price is reduced by 50 % of the rate by which the national guaranteed quantity (249 000 tonnes for Spain and 782 000 tonnes for Greece) is overshot, provided that production is lower than 362 000 tonnes in Spain and 1 138 000 tonnes in Greece. Beyond that level, the reduction is increased by 2 % for each step of 4 830 tonnes in Spain and 15 170 tonnes in Greece. In the 2002/03 marketing year, the guide price was reduced by 25 % in Greece, 14.6 % in Spain and 0 % in Portugal.

Silkworms

361. Silkworm rearing is practised in Greece, Italy and, to a lesser extent, France and Spain. It accounts for only a tiny part of the EU's agricultural activity and of world silk production. In certain regions such as Thrace, Veneto and Marche, however, it represents an important activity.

362. Community production fell in 2002: 4 238 boxes were produced successfully, compared with 4 928 boxes in 2001, 4 004 in 2000 and 3 500 in 1999. They yielded 61 017 kilograms of cocoons in 2002 compared with 95 800 kilograms in 2001. As from the 2000/01 marketing year, aid is permanently fixed at EUR 133.26 per box.

Olive oil

363. World production of olive oil averages some 2 700 000 tonnes, of which between 70 % and 80 % (around 1 840 000 tonnes in 2002/03) comes from the European Union. The other main producers are Turkey (140 000 tonnes), Syria (165 000 tonnes), Tunisia (70 000 tonnes) and Morocco (40 000 tonnes). Production varies considerably from one year to another, and the world market fluctuates as a direct result of the Community market situation.

364. Estimated Community production eligible for aid in 2002/03, including olive-pomace oils, was around 2 086 037 tonnes, as against 2 630 418 tonnes in 2001/02, which was an exceptional year. According to information received from the Member States when the olive and olive oil yields were set for the 2002/03 marketing year, there are around 698 million productive olive trees in the European Union. Some two million holdings are engaged in olive growing.

365. In 2001/02, Community consumption was 1 892 000 tonnes (73 % of world consumption). The most recent forecasts show a slight increase in consumption in 2002/03. At the beginning of the 2002/03 marketing year, carryover stocks totalled 722 000 tonnes, but were down to around 395 000 tonnes at the end of the marketing year.

366. Greece and Spain are normally the main suppliers, and Italy, although itself an exporting producer, remains the Community's main purchaser. In 2001/02, imports totalled 42 889 tonnes. Exports for the same marketing year reached 364 192 tonnes, 333 047 tonnes direct and 31 145 tonnes under the inward processing arrangements. No export refunds were paid during 2001/02. As regards international trade, the February 2003 session of the Codex Alimentarius Commission permitted the harmonisation of, on the one hand, Community rules on olive oil, in accordance with the decisions taken at the Council meeting of Agriculture Ministers of July 2001, and, on the other, the IOOC and Codex marketing standards for olive oil and olive-pomace oil.

367. As provided for when the scheme was extended the last time in 2001, in 2003 the Commission presented a proposal to reform the olive-oil and table-olive sector with a view to its application from the 2004/05 marketing year. The proposal provides, among other things, for converting 60 % of payments linked to production made during the reference period to holdings of more than 0.3 hectares into entitlements for single farm payments. For smaller holdings, all such payments would be converted. The Member States would keep the funds not converted into single farm payments as a national fund to finance aid for the maintenance of olive trees of social or environmental interest and to support programmes of quality-improvement measures by olive-growers' organisations. Areas for granting this aid will be calculated using the data from the geographical information system (GIS). As regards market measures, the Commission proposes to make no change to the existing private-storage mechanisms, while export refunds and refunds for the manufacture of certain preserved food, which no longer serve any purpose, will be abolished.

368. Finally, during 2003 the programmes submitted by operators in the sector were launched with Community financing. The measures concerned four areas: market follow-up and administrative management, improving quality, improving environmental impacts, traceability, certification and quality protection.

Fresh fruit and vegetables

World market and international trade ⁽⁸²⁾

369. World production of fresh fruit and vegetables is increasing steadily. In 2002 it totalled 1 260 tonnes, up 3.4 % on 2001. Vegetables accounted for 62.4 % of this total, and 49.1 % in the case of the Community. With production totalling 110 million tonnes, down 2.2 % on 2001, the Community was the world's third largest producer of fruit and vegetables, after China (439 million tonnes) and India (125 million tonnes).

370. In the case of citrus fruit, estimated production for the 2002/03 marketing year was 90 million tonnes, 6.8 % down on the previous year. With production of 10.6 million tonnes, the Community was in third place behind Brazil (18 million tonnes) and the United

⁽⁸²⁾ Source: FAO: <http://www.fao.org>

States (13.7 million tonnes), but ahead of China (10.1 million tonnes) and Mexico (5.9 million tonnes).

371. Community exports in 2001 (excluding intra-Community trade) accounted for 6.4 % of international trade in fruit and vegetables in terms of volume. The figures for the main products were 17.7 % for peaches, 15.1 % for lemons, 10.9 % for oranges, 9.6 % for apples, 6.4 % for pears, 11.3 % for onions and 4.9 % for tomatoes. The Community's share of world imports of fruit and vegetables is much greater, standing at 16 % in terms of volume (excluding intra-Community trade) in 2001.

372. The European Union is a net importer of fresh fruit and vegetables ⁽⁸³⁾: exports were only 73 % of imports in 2000 and 69 % in 2001. At 4.03 million tonnes, the level of exports in 2002 was 64 % of that of imports (6.24 million tonnes). Exports of fruit (excluding citrus fruit) were at only 42 % of the volume of imports (69 % for citrus fruit). On the other hand, the Community became a net exporter of vegetables in 1997. The Community's trade with the rest of the world in vegetables is constantly growing. In 2002, imports of vegetables increased by 9.1 % compared with 2001, while exports grew by 8.1 %.

Community market

373. Apple production in the Community, at 8.2 million tonnes in the 2002/03 marketing year, was down on the previous marketing year (4.9 %). The quantities withdrawn from the market have fallen considerably over recent marketing years, from 3.0 % of Community production in the 2000/01 marketing year to 0.9 % in 2001/02 and 0.5 % in 2002/03.

374. In 2002/03 Community production of pears totalled around 2.5 million tonnes, 3.2 % up on the previous year. The quantities withdrawn from the market in 2002/03 amounted to 1.3 % of production, compared with 1.5 % in 2001/02.

375. The production of peaches increased in 2002, up 3.8 % on 2001 to a total of 3.3 million tonnes. Withdrawals fell significantly to 1.8 % of Community production in 2002/03 compared with 3.7 % in the previous year and well down on the average for the period 1990/91 to 1994/95 of 19.3 %.

376. The production of nectarines in 2002 was down 9.7 % on 2001 at 819 000 tonnes. This is again the sector in which withdrawals are proportionally highest, although they are falling rapidly, as in other sectors: 11.0 % of production in 2000/01, 6.5 % in 2001/02 and 4.8 % in 2002/03.

377. At around 2.2–2.3 million tonnes each year, table grape production has been remarkably stable since 1996. Production in 2002 was, however, down to about 2.0 million tonnes (as against 2.3 million tonnes in 2001). Italy alone accounted for 73 % of Community production in 2002. Withdrawals remained negligible as a percentage of production during the year.

⁽⁸³⁾ Source: Eurostat.

378. Apricot production at 556 000 tonnes in 2002 was up 5 % on 2001. The quantities withdrawn represented 0.2 % of production in 2002, as against 0.7 % in 2001.

379. Citrus fruit production was 2.1 % down in 2001/02, at 9.7 million tonnes. Spain remained Europe's largest producer, with 56 % of the total, followed by Italy (30 %). Community production of oranges was 6.0 million tonnes in 2002/03, 6 % up on the previous marketing year. At 1.5 million tonnes in 2002/03, lemon production was 9 % down on 2001/02.

380. Production of cauliflowers in 2002/03 totalled 2.0 million tonnes, 1.8 % down on 2001/02. Withdrawals have fallen sharply over recent marketing years and represented 1.5 % of Community production in 2001/02 and only 0.6 % in 2002/03.

381. Tomato production has been declining regularly since the 2000/01 marketing year. Production in 2002/03 was 14.4 million tonnes, down 4.1 % on the previous year. The largest fall was in Italy (9 %) where production was 5.8 million tonnes (40.3 % of Community production). Withdrawals remained negligible, at around 1.3 % of the production of tomatoes for the fresh market in 2002/03.

Main legislative and policy developments

382. In 2003, the Community began a process of simplifying the legislation on the common organisation of the market in fresh fruit and vegetables, with two main aims: to simplify the existing rules and, if necessary, to increase flexibility and strengthen subsidiarity in implementing the measures concerned. This led to the adoption of a new regulation on the recognition of producer organisations (Regulation (EC) No 1432/2003) and a new regulation on operational funds and programmes implemented by producer organisations (Regulation (EC) No 1433/2003). This latter regulation gives producer organisations more flexibility in setting up and managing their operational funds. It extends the range of uses to which these funds may be put to include the promotion of trademarks created by producer organisations. This simplification exercise also covers withdrawals.

383. A new system of invitations to tender for export refunds for fresh fruit and vegetables was introduced in November 2001. Since the spring of 2002, the results of invitations to tender (weighted average of the tenders accepted) for each export period (generally two months) are used as a basis for fixing refunds for the following period. This method makes the fixing of refund rates very transparent.

Processed fruit and vegetables

World and Community markets

384. Information available on processed fruit and vegetables remains patchy. As far as the Community is concerned, it relates almost exclusively to products qualifying for processing aid.

385. World production of tomatoes for processing totalled 27 million tonnes in 2002, up 9.6 % on 2001 (23.5 million tonnes). The leading producers were the United States

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(10.0 million tonnes in 2002, as against 7.8 million tonnes in 2001), the Community (7.8 million tonnes in 2002, as against 8.4 million tonnes in 2001), China (2.3 million tonnes in 2002, as against 1.0 million tonnes in 2001) and Turkey (1.5 million tonnes in 2002, as against 0.95 million tonnes in 2001).

386. Community production of tomatoes for processing fell by 8.1 % compared with 2001. This reduction mainly concerned concentrate (– 11.4 %) and, to a lesser extent, ‘other products’ (sauces, tomatoes in pieces, etc.), down by 6.6 %. However, the production of skinned tomatoes increased by 5 %. The production of ‘other products’ as a proportion of total processed tomato production has been increasing in importance since the second half of the 1990s and accounted for 25 % of the total in 2002. In 2002, for the first time, the volume of production of tomatoes for processing did not reach the maximum quantity eligible for processing aid of 8.25 million tonnes.

387. A total of 399 000 tonnes of peaches were tinned in syrup and/or natural juice in the Community in 2002/03, down 15 % on the previous marketing year and well below the record level achieved in the 1999/2000 marketing year (582 000 tonnes).

388. Community production of Williams and Rocha pears tinned in syrup and/or natural juice totalled 132 000 tonnes in 2002/03, 8.3 % up on 2001/02, but below the level of the 1998/99 marketing year (148 000 tonnes). With production of 72 000 tonnes, Italy continues to be the main producer (54.5 % of the total), followed by Spain (28.9 %) and France (13.9 %).

389. In 2002/03, the Community processing thresholds were exceeded for pears, oranges, pomelos and grapefruit. Community aid for these products was accordingly reduced, as shown below, in the Member States whose national threshold had been exceeded.

**Reduction for the 2002/03 marketing year in the Community processing aid
laid down in Council Regulations (EC) Nos 2201/96 and 2202/96**

Member State	Products (%)		
	Grapefruit and pomelos	Oranges	Pears
Greece	19.8	—	55.8
Spain	54.1	—	2.2
France	26.7	—	6.6
Italy	32.3	14.9	28.2
Netherlands	—	—	—
Austria	—	—	—
Portugal	—	—	—
Other Member States	n.a.	n.a.	n.a.

n.a.: not applicable.

390. The basic aid per hectare for dried grapes was EUR 3 031. This aid is paid only for specialised areas meeting certain yield criteria.

Main legislative and policy developments

391. As in the case of fresh fruit and vegetables, the Community rules on the common organisation of the market in processed fruit and vegetables (tomatoes, peaches and pears) and the aid scheme for producers of certain citrus fruits are being simplified and, where possible, made more flexible. For products processed from fruit and vegetables, Regulation (EC) No 1535/2003 improves the arrangements for processing aid and the control arrangements, in particular, increasing compliance with the integrated administration and control system (IACS). The aid scheme for citrus fruit is now being simplified and should lead to increased flexibility in contracts between producer organisations and processors.

Bananas

Community production

392. Banana production in 2002 increased to 790 621 tonnes (+ 3 %) due to an increase of around 10 % in France (Martinique and Guadeloupe).

393. It is estimated that the harvest in 2003 will be approximately 750 000 tonnes.

394. The compensatory aid for 2002 ⁽⁸⁴⁾ has been fixed at EUR 30.33 per 100 kg (+ 7 %), with supplementary aid of EUR 4.57 per 100 kg for bananas produced in Guadeloupe and EUR 3.34 in Martinique. Compensatory aid for 2002 totalled EUR 253 million, compared with EUR 219 million in 2001.

Imports

395. In 2002 ACP banana imports remained stable at 726 469 tonnes, while banana imports from other countries increased to 2 561 000 tonnes (up 85 000 tonnes). This is the result of an increase of 100 000 tonnes in tariff quota B since 2002 at the expense of tariff quota C.

396. Imports under quotas A (2 200 000 tonnes) and B (453 000 tonnes) are open to all countries, while the C quota (750 000 tonnes) is open only to the ACP countries.

397. Imports of bananas from third countries other than ACP countries under A and B quotas are subject to customs duty of EUR 75 per tonne. ACP bananas imported under A/B or C quotas are subject to zero duty.

⁽⁸⁴⁾ Commission Regulation (EC) No 908/2003 of 23 May 2003 (OJ L 128, 24.5.2003, p. 5).

Main legislative and policy developments

398. In order to update the data and simplify administration of the regime, according to Commission Regulation (EC) No 1439/2003⁽⁸⁵⁾ the reference quantities of traditional operators for 2004 and 2005 are based on the use of import licences in 2002 and 2003 respectively.

Wine

399. With Regulation (EC) No 1493/1999 of 17 May 1999⁽⁸⁶⁾, the Council of the European Union adopted the current common organisation of the market in wine. Under that regulation, the Commission adopted a number of implementing regulations in 2003, in particular:

- Regulation (EC) No 1622/2000 establishing a Community code of oenological practices and processes was updated and amended to take account of technical developments by Regulation (EC) No 1410/2003⁽⁸⁷⁾, in particular as regards the limits for the use of certain oenological products. In addition, the extreme weather conditions in the summer of 2003, which caused a catastrophic reduction in the natural acidity of grapes in Community wine-growing zones A and B, required a special derogation to allow the acidification of musts and wines produced in those zones, which was introduced by Commission Regulation (EC) No 1687/2003⁽⁸⁸⁾;
- Regulation (EC) No 1623/2000 was amended as regards market mechanisms by Regulations (EC) Nos 625/2003, 1183/2003, 1411/2003 and 1710/2003. The main purpose was to clarify the provisions on aid for the production of grape juice, introduce Community analysis methods for neutral alcohol and to extend a number of derogations concerning the rules on the enrichment of wine and the arrangements for the distillation of wine from dual-purpose grapes;
- Commission Decision 2003/628/EC⁽⁸⁹⁾ of 22 August 2003 fixing, for the 2003/04 marketing year and in respect of a certain number of hectares, an indicative financial allocation by Member State for the restructuring and conversion of vineyards under Council Regulation (EC) No 1493/1999.

400. Commission Regulation (EC) No 753/2002⁽⁹⁰⁾ laying down certain rules for applying Council Regulation (EC) No 1493/1999 as regards the description, designation, presentation and protection of certain wine sector products, as amended by Regulation (EC) No 2086/2002⁽⁹¹⁾, entered into force on 1 August 2003.

⁽⁸⁵⁾ OJ L 204, 13.8.2003, p. 30.

⁽⁸⁶⁾ OJ L 179, 14.7.1999, p. 1.

⁽⁸⁷⁾ OJ L 201, 8.8.2003, p. 9.

⁽⁸⁸⁾ OJ L 240, 26.9.2003, p. 10.

⁽⁸⁹⁾ OJ L 217, 29.8.2003, p. 73.

⁽⁹⁰⁾ OJ L 118, 4.5.2002, p. 1.

⁽⁹¹⁾ OJ L 321, 26.11.2002, p. 8.

401. With Regulation (EC) No 670/2003 of 8 April 2003 ⁽⁹²⁾, the Council introduced specific measures concerning the market in ethyl alcohol of agricultural origin that will permit economic data to be collected and statistical information to be analysed for the purpose of monitoring the market and trade with third countries. Among other things, the regulation restricts the amount of aid Germany may pay to its alcohol producers and provides for the abolition of this aid at the end of a transitional period of seven years.

402. The Commission concluded an agreement on wine and spirit drinks with Canada.

403. After several invitations to tender/public sales of wine alcohol, a total volume of 2 289 000 hectolitres of wine alcohol was sold, including 1 280 000 hectolitres for motor fuel in third countries, 130 000 hectolitres for new industrial uses and 879 000 hectolitres for motor fuel in the Community (bioethanol).

404. Wine production in the Community (excluding grape must not processed into wine) was as follows:

- 1998/99: 162.562 million hectolitres,
- 1999/2000: 179.117 million hectolitres,
- 2000/01: 176.006 million hectolitres,
- 2001/02 (provisional): 159.570 million hectolitres,
- 2002/03 (provisional): 150.550 million hectolitres,
- 2003/04 (estimate): 152.550 million hectolitres.

405. Forecast total Community production for 2002/03, initially set at 168.277 million hectolitres, was reduced to 160.053 million hectolitres. The forecast for the current marketing year, 2003/04, for the EU-15 is 163.1 million hectolitres (estimate in March 2004). To permit comparison with quantities made into wine in previous marketing years it is necessary to deduct about 11 million hectolitres not made into wine. That gives forecast wine production for 2003/04 of around 152.550 million hectolitres.

406. Forecasts for the current 2003/04 marketing year indicate a small Community harvest similar to that in the previous marketing year (+ 1.1 %). However, there are fairly large differences between Member States, with a forecast fall in production of – 9 % in France (47.300 million hectolitres compared with 51.996 million hectolitres) and – 20 % in Germany (8.182 million hectolitres compared with 9.984 million hectolitres). On a Community basis, those reductions will be offset by an increase in production in Spain (47.3 million hectolitres or + 20 %), in Greece (3.870 million hectolitres or + 20 %) and in Portugal (7.130 million hectolitres or + 7 %). Noticeable is the reduction in the production of quality wine psr since the 1999/2000 marketing year. The table wines currently being produced are of better quality (local wines, PDOs).

⁽⁹²⁾ OJ L 97, 15.4.2003, p. 6.

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Total production (thousand hl) Member State	1999/2000	2000/01	2001/02	2002/03	2003/04 forecast — March 2004
Spain	37 908	45 572	33 850	39 404	47 300
Greece	3 680	3 558	3 477	3 085	3 870
Germany	12 244	9 950	8 980	10 176	8 182
Portugal	7 859	6 694	7 691	6 651	7 130
Italy	58 955	54 088	51 912	46 000	46 650
Luxembourg	184	132	135	160	123
France	62 935	59 740	55 339	51 966	47 300
Austria	2 803	2 337	2 531	2 599	2 556
United Kingdom	13	14	16	9	15
Belgium	2	2	2	2	2
Netherlands		1	1	1	1
Total harvest (EU-15)	186 583	182 088	163 933	160 053	163 129
wine production, of which:	179 117	176 006	158 555	151 479	152 541
quality wine psr	70 858	70 114	66 193	64 251	61 874
table wine	100 522	100 646	84 132	80 159	84 573
other wine	15 203	11 498	13 428	7 069	10 915

407. Information from the IWO⁽⁹³⁾ indicates that Community wine production (151.479 million hectolitres) represents some 58.8% of world wine production (257.8 million hectolitres) for the 2002/03 marketing year. France, Italy and Spain are the top three world producers, followed by the United States (20.450 million hectolitres) and Argentina (12.695 million hectolitres).

408. The European Union is the top world exporter with 12.8 million hectolitres (2003), slightly up from 12.77 million hectolitres in 2002, 12.23 million hectolitres in 2001, 11.518 million hectolitres in 2000 and 11.552 million hectolitres in 1999. In 2003, the main traditional buyers of Community wine⁽⁹⁴⁾ were the United States with 3.541 million hectolitres, Switzerland (1.533 million hectolitres), Canada (1.271 million hectolitres) and Japan (1.090 million hectolitres).

409. The foreign trade figures show that both Community exports and imports were up on 2002 in terms of volume. Where exports were concerned, for the second year running exports of table wine were up (2.8%), while quality wines psr were down (-2.3%). Italian exports fell 240 000 hectolitres or 5.5%. Portuguese exports rose by 170 000 hectolitres or 30%.

⁽⁹³⁾ IWO letter No 149, 2003, p. 3.

⁽⁹⁴⁾ Source: EC-Comext EEC Special trade since 1988.

Extra-Community exports (%)

January–December 2003 vs. 2002	Table wines	Quality wines psr	All wines
France	+ 2.3	– 3.6	– 1.0
Germany	+ 33.0	+ 3.2	+ 10.1
Italy	– 2.3	– 8.9	– 5.5
Greece	+ 21.8	+ 55.7	+ 27.1
Spain	– 5.3	+ 7.6	– 1.0
Portugal	+ 44.5	+ 1.5	+ 29.7
EU-15	+ 2.8	– 2.3	+ 0.3

410. Extra-Community imports were up except in Italy, where there was a noticeable fall of 40 % compared with the previous year (although the absolute level is very low compared with the main importer countries). Imports into the United Kingdom accounted for 47 % of all imports into the EU.

Extra-Community imports

January–December 2003 vs. 2002	2002 (hl)	2003 (hl)	2003 vs. 2002 (hl)	2003 vs. 2002 (%)
United Kingdom	4 309 654	4 799 269	+ 489 615	+ 11.4
Germany	1 782 904	1 947 931	+ 165 027	+ 9.3
Netherlands	946 722	985 072	+ 38 350	+ 4.1
France	512 125	570 136	+ 58 011	+ 11.3
Denmark	519 977	570 136	+ 145 115	+ 27.9
Sweden	288 783	368 148	+ 79 365	+ 27.5
Ireland	254 893	269 693	+ 14 799	+ 5.8
Belgium	191 323	215 715	+ 24 392	+ 12.7
Finland	139 007	187 441	+ 48 434	+ 34.8
Italy	96 649	58 086	– 38 563	– 40.0
Austria	28 953	31 684	+ 2 731	+ 9.4
EU-15	9 091 804	10 117 834	+ 1 026 030	+ 11.3

411. Per capita wine consumption increased during the 2002/03 marketing year to 34.7 litres as against 32.11 litres in 2001/02 and 33.41 litres in 2000/01. This compares with 35.26 litres in 1999/2000, 34.6 litres in 1998/99, 34.05 litres in 1997/98 and 34.7 litres in 1996/97. However, the figures are not necessarily accurate since the figures on consumption are calculated from the supply balances communicated by the Member States and apparent consumption is the remainder of the balances, i.e. the difference between production and stocks. The 2002/03 marketing year is the third one under the new common market organisation.

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412. Contracts for the distillation of potable alcohol under Article 29 of Regulation (EC) No 1493/1999 were concluded in 2003/04 for 10.2 million hectolitres of wine as against 8.8 million hectolitres in 2002/03. In 2001/02, contracts were signed for 12.0 million hectolitres.

413. With a view to restructuring and converting vineyards under Council Regulation (EC) No 1493/1999, the Commission established and made financial allocations to the Member States for a certain number of hectares taking account of compensation paid to winegrowers for loss of income during the period when the vineyards are not yet in production.

414. Decision 2003/638/EC laid down the final financial allocations for 2002/03 as follows ⁽⁹⁵⁾:

Member State	Area (ha)	Financial allocation (EUR)
Germany	2 136	12 481 433
Greece	1 358	7 132 661
Spain	23 902	160 033 831
France	14 635	95 431 219
Italy	18 660	123 950 907
Luxembourg	0	0
Austria	1 918	10 602 842
Portugal	5 362	33 567 107
Total	67 971	443 200 000

415. Decision 2003/628/EC laid down indicative financial allocations for 2003/04 as follows ⁽⁹⁶⁾:

Member State	Area (ha)	Financial allocation (EUR)
Germany	2 116	13 989 772
Greece	1 342	10 041 261
Spain	20 940	150 958 937
France	12 745	111 219 120
Italy	17 063	120 110 532
Luxembourg	11	86 842
Austria	1 260	7 815 311
Portugal	3 174	28 978 225
Total	58 651	443 200 000

⁽⁹⁵⁾ OJ L 224, 6.9.2003, p. 32.

⁽⁹⁶⁾ OJ L 217, 29.8.2003, p. 73.

Tobacco

Market developments

416. World production of leaf tobacco was 6 352 million tonnes in 2002, up 2.5 % from 2001. The 2003 forecast is 5 785 million tonnes. China is still the world's leading producer of raw tobacco with production in 2002 of 2 394 million tonnes (38 % of world production) and forecast 2003 production of 2 225 million tonnes. Brazil is the second largest producer followed by India and the United States. With production in 2002 of 339 043 tonnes (up 3.6 % from 2001), the EU is the fifth largest producer in the world.

417. Compared with 2001 prices, EU market prices in 2002 were higher for tobaccos of groups I (flue cured), II (light-air cured), III (dark-air cured) and V (sun cured). The biggest increase (28 %) was in group I. While four groups (IV, VI, VII and VIII) had an average decrease in price of 17 %, this was balanced by an average increase of 16 % in other groups (I, II, III and V).

418. EU imports of raw tobacco amounted to 491 400 tonnes in 2002, 51 600 tonnes down on 2001. The main suppliers were Brazil, the USA and Zimbabwe. EU exports in 2002 (189 100 tonnes) were slightly higher than those in 2001. The main destinations were Russia, the USA and Egypt.

419. Community leaf tobacco production is restricted by guarantee thresholds set by the Council in Regulation (EC) No 546/2002 in March 2002 for the years 2002 to 2004: 340 738 tonnes for 2002 and 334 064 tonnes for 2003 and 2004.

Main legislative and policy developments

420. Regulation (EC) No 2182/2002⁽⁹⁷⁾ established new application rules for production-switching measures to be financed by the Community Tobacco Fund. The quota buyback for the 2002 harvest was a success resulting in 2 551 tonnes being bought back. A total of 680 production-switching projects and 14 studies are being supported by the fund.

421. An in-depth evaluation of the common market organisation by COGEA was finalised and published on the Europa website⁽⁹⁸⁾ in September 2003.

422. In autumn 2003 the Commission presented to the European Parliament and the Council an extended impact assessment report on the tobacco regime, along with a communication⁽⁹⁹⁾ accomplishing a sustainable agricultural model for Europe through the reformed CAP, concerning the tobacco, olive oil, cotton and sugar sectors. Legal texts of reform proposals followed in November 2003.

⁽⁹⁷⁾ OJ L 331, 7.12.2002, p. 16.

⁽⁹⁸⁾ europa.eu.int/comm/agriculture/eval/index_fr.htm

⁽⁹⁹⁾ COM(2003) 554 final.

Seeds

Market developments

423. In the 2002/03 marketing year, the total certified seed production eligible for Community aid (excluding hybrid maize) was 291 311 tonnes, some 39 % lower than the 477 192 tonnes produced in 2001. The total seed area of 315 259 hectares was again lower (15 % less than in 2001).

424. In 2002 the volume of *Gramineae* seed grown was 152 050 tonnes (19 % less than in 2001) and that of *Leguminosae* seed 50 881 tonnes (74 % lower than the 2001 figure of 199 460 tonnes). *Gramineae* accounted for 140 579 hectares (25 % down on 2001) and *Leguminosae* for 130 892 hectares (down by 3 % on 2001).

425. Rice seed production in 2002 was down 7.4 % to 63 156 tonnes and area fell 9 % to 15 876 hectares.

426. Fibre flax seed was grown on 22 640 hectares in 2002, a 5 % decrease on the 2001 figure of 23 820 hectares but actual production at 14 698 tonnes was 28 % higher than in 2001. The linseed area was 2 796 hectares, almost half (47 %) of the land used in 2001 (5 252 hectares). Actual linseed production rose to 3 112 tonnes (2 402 tonnes in 2001).

Main legislative and policy developments

427. A mechanism to stabilise production was introduced in 2002, and applied for the first time to the production in the 2002/03 marketing year. Rice and other seed production in the 2002/03 marketing year remained under the maximum guaranteed seed quantity for the Community. Consequently no aid reductions were applied.

428. Seed support was integrated in the 2003 CAP reform for application as from the marketing year 2005/06. The Commission presented a proposal to maintain support for the marketing year 2004/05 at the same level as in 2002/03 and 2003/04.

Hops

World market

429. In 2002 the total world hop area was about 56 400 hectares (about 4 % down on 2001), of which 55 071 hectares was in member countries of the IHGC (International Hop Growers' Convention) and the European Community. The five biggest growers are the EU (22 151 hectares, including Germany with 18 352 hectares), the USA (11 776 hectares), the Czech Republic (5 968 hectares), China (5 642 hectares) and Poland (2 197 hectares).

430. World production in 2002 amounted to approximately 95 600 tonnes, about 0.1 % down on 2001. The 8 811 tonnes of alpha acid (8 748 tonnes in 2001) produced was equivalent to an alpha acid yield of 9 %. Average yield per hectare was 1.70 tonnes, 1.7 % up on 2001.

431. At 1 455 million hectolitres, world production of beer in 2003 was 2 % up on 2002. With the addition of 5.2 grams of alpha acid per hectolitre of beer during brewing it is predicted that 7 566 tonnes of alpha acid will have been used in 2003. The amount of alpha acid produced in 2002 was thus 1 245 tonnes more than current consumption.

432. As a consequence of higher demand for less bitter beer and improvements in technology less alpha acid is used than previously.

Community market

433. Hops are grown in eight Member States (Belgium, Germany, Spain, France, Ireland, Austria, Portugal and the United Kingdom). Total area in 2002 was 22 151 hectares, of which 84 % was in Germany. The 2002 area was down 4 % on 2001.

434. The 2002 harvest of 38 380 tonnes was 2 % bigger than in 2001. Average yield was also higher: 1.73 tonnes/hectare against 1.63 tonnes/hectare in 2001.

435. The 2002 harvest was of good quality with an average alpha acid content of 9.03 % for all varieties in the Community. This was equivalent to 3 466 tonnes of alpha acid — 156 kg/hectare — for beer production in 2003.

436. The average price for hops sold on contract in 2002 was EUR 3 667/tonne, very similar to 2001. Hops sold on the spot market fell substantially from EUR 3 440/tonne in 2001 to EUR 2 908/tonne in 2002.

437. Under the common market organisation for hops, aid is given to growers to enable them to enjoy a reasonable income. The Council has set it at EUR 480 per hectare (all varieties) for eight years running from the 1996 harvest year. The same amount is granted on areas temporarily resting or permanently grubbed up. In 2002 such areas amounted to 3 264 hectares (2 449 hectares in Germany).

438. The area harvested in 2003 is estimated to have fallen by at least 3 %.

Main legislative and policy developments

439. The Commission submitted an evaluation report to the Council relating to all the provisions of the hops common market organisation⁽¹⁰⁰⁾. This report contains reform proposals, which should not enter into force until 2005. Therefore in a transitional context, it is indispensable to provide for an extension of the hops production aid arrangements, along with an extension of the special temporary measures of grubbing up and set-aside, both for a period of one year.

⁽¹⁰⁰⁾ COM(2003) 571 final, 30.9.2003.

Flowers and live plants

440. The common market organisation covers a wide range of products: bulbs and tubers, live plants (both ornamental and nursery plants), cut flowers and foliage. It also includes quality standards and customs duties but no other protective measures against imports except emergency safeguard action.

441. Promotion measures for flowers and live plants are covered by the general promotion measures concerning information and sales promotion for agricultural products in third countries, and concerning information and sales promotion of agricultural products on the internal market.

442. Four programmes for flowers and live plants were selected by the Commission for funding in 2003 under the internal market promotion scheme.

443. Production of live plants and flowers in 2002 was worth EUR 17 144 million. The Netherlands is the largest grower with approximately 30 % of the total, followed by Germany, Italy and France.

444. In 2002 Community imports of flowers and plants from third countries was equivalent to 2.5 % of Community production. There were 382 000 tonnes of imports, with a value of EUR 1 267 million, an increase of 5 % on 2001.

445. Cut flowers account for more than 40 % of all imports in the sector, most of which are free of import duty under agreements with third countries (Generalised System of Preferences in the case of South America, Cotonou Convention for the ACP countries, etc.).

446. Some cut flowers (roses and carnations) are exempt from customs duties under tariff quotas for five Mediterranean countries (Cyprus, West Bank and Gaza Strip, Israel, Jordan and Morocco) provided a minimum import price is respected.

447. Kenya is the largest supplier of cut flowers to the Community: 49 000 tonnes in 2002, value EUR 197 million. The second largest exporter to the EU is Israel with 26 500 tonnes in 2002. Israeli exports were 13 % down on 2001 but Kenya's were up 12 %. Among other suppliers, Costa Rica and the USA are the main exporters of foliage, and Costa Rica and China are increasing their exports of live plants to the Community.

448. Exports from the Community rose by almost 12 % in 2002 to 483 700 tonnes but their value increased to EUR 1 639 million (9 % more than in 2001). Biggest exports are of live plants, then bulbs and tubers and then cut flowers. The value of live plant exports increased by 10 % to EUR 581 million for a volume of 249 000 tonnes. Cut flower exports were up at 80 000 tonnes and up 6.5 % in value to EUR 511 million.

449. Exports of bulbs and tubers and of foliage were worth EUR 411 million and EUR 72 million respectively. With the inclusion of these figures, the Community showed a positive trade balance for flowers and live plants of EUR 371 million in 2002.

450. The total value of exports was EUR 1 639 million and that of imports EUR 1 267 million.

Animal feed

451. Animal feed uses large quantities of agricultural products: it is the main outlet for Community production of cereals and oil seeds and virtually the only use for permanent grassland and fodder from arable land. Overall, it occupies 75 % of the Community's UAA (utilised agricultural area). Animal feed as a whole accounts for about 65 % of the total production costs for pigmeat and poultrymeat.

452. Overall demand ⁽¹⁰¹⁾ in 2002/03 was virtually unchanged from the previous year, thanks to increased demand in the pigmeat sector and falls in the cattle (milk and meat) and poultrymeat sectors.

453. About half of total supply comes from feedstuffs not generally marketed (pasture, hay, silage) used mainly for ruminants. The other half, which can be used by all livestock, consists of feedstuffs (cereals, substitutes, cake, etc.) where competition as regards price and nutritional value is keener.

454. Total consumption by animals of the key marketable products ⁽¹⁰²⁾ is estimated at 207.3 million tonnes in 2002/03 in the European Union, virtually the same (– 200 000 tonnes) as in the previous year, but with important shifts between products. Consumption comprised:

- domestically produced products estimated at 148.9 million tonnes, about 1.2 million tonnes more than in the previous year, mainly because of increased consumption by animals of cereals;
- net imports estimated at 57.4 million tonnes, about 1.3 million tonnes less than in the previous year, mainly because of lower imports of manioc.

455. Total consumption of cereals by animals in 2002/03 is expected to be about 1.4 million tonnes higher at 120.0 million tonnes.

456. As regards substitutes subject to import quotas, the quota utilisation rate for manioc imports fell from 46 % in 2001 to 26 % in 2002 for manioc from Thailand and to 1 % for all other origins combined. The rate of use of the quota for sweet potatoes originating in China remained at 0 % in 2002.

457. Industrial production of compound feedingstuffs for animals in the European Union ⁽¹⁰³⁾ is estimated at 122.4 million tonnes in 2002, 2.5 % less than in 2001, mainly because of falls in production in the pigmeat and poultrymeat sectors.

⁽¹⁰¹⁾ This includes all animal feed which is marketable but normally not marketed; estimate for the EU-15.

⁽¹⁰²⁾ Covering most marketable feed used in the Community by the compound feedingstuffs industry and on the farm (own-consumption and purchases of raw materials) and estimated in the detailed table below: 'Animal consumption of key marketable products (estimates EU-15)'. *Source:* Agriculture DG.

⁽¹⁰³⁾ Provisional figures for the EU-15 excluding Greece and Luxembourg. *Source:* European Feed Manufacturers' Federation (FEFAC).

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EU industrial production of compound feedingstuffs by category of animal demand*(million tonnes)*

Compound feedingstuffs for	2001	2002	Difference	% variation
All bovine animals (dairy and beef)	36.6	36.5	- 0.2	- 0.4
Pigs	42.3	41.0	- 1.3	- 3.1
Poultry	38.0	36.5	- 1.5	- 4.0
Other	8.6	8.5	- 0.2	- 1.9
Total compound feedingstuffs	125.5	122.4	- 3.2	- 2.5

458. By Member State in 2002 and for total production of compound feedingstuffs, the main increases were in Germany and Finland and the largest falls in the Netherlands, France and Italy.

459. Cereals incorporated into compound feedingstuffs ⁽¹⁰⁴⁾ in the EU amounted to almost 55 million tonnes in 2002, over 1 million tonnes more than in the previous year.

460. The main factor determining the composition of feed is still the prices of raw materials and their relative trends, together with the share of the various animal demands and the specific qualities sought. For 2003/04, the outturn of animal consumption of cereals will depend on the trend of demand by stock and the prices of imported products.

Market developments — Animal products

Milk and milk products

Milk in the world

461. Initial estimates suggest that world milk production (including cows' milk, buffalo milk, sheep's milk and goats' milk) should increase in 2003 by just over 3 million tonnes (6 %), to 602 million tonnes. The bulk of this increase will come from buffalo milk, thanks to increased production in India. Virtually all (99.8 %) this type of milk is produced in developing countries, Asia accounting for 97 %.

462. Within Asia, production in India, which derives more than half its milk from buffaloes, continues to grow. In 2003, India will produce 87 million tonnes and confirm its place as the world's second largest producer, after the European Union, drawing further ahead of the United States. Increased production is based on rising domestic demand in India. However, per capita consumption is only 85 kg per year (less than one quarter of that in Western countries); milk for consumption accounts for three quarters of this. Pakistan, the other major producer in the region and the fifth in the world, will produce just over 30 million tonnes in 2003. Since 1996, production in Pakistan has grown by 3.4 % per year.

⁽¹⁰⁴⁾ Source: European Feed Manufacturers' Federation (FEFAC).

Animal consumption of key marketable products (estimates EU-15)*(million tonnes)*

Key products	Rate of import duties	2000/01				2001/02			
		Animal consumption				Animal consumption			
		EU	Imp.	Exp.	Total	EU	Imp.	Exp.	Total
Grain cereals					118.5				120.0
Common wheat	T	37.4	3.9	—	41.3	39.5	5.0	—	44.5
Barley	T	31.0	1.0	—	32.0	30.4	0.6	—	31.0
Maize	T	30.9	1.1	—	32.0	30.5	1.5	—	3.0
Others	T	10.9	2.2	—	13.2	11.5	1.0	—	12.5
Total cereals		110.3	8.2	—	118.5	111.9	8.1	—	120.0
<i>Total substitutes ex-Annex D of which:</i>		<i>20.0</i>	<i>10.1</i>	<i>—</i>	<i>30.1</i>	<i>19.7</i>	<i>8.6</i>	<i>—</i>	<i>28.3</i>
Manioc	6 % C/T	—	2.2	—	2.2	—	1.2	—	1.2
Sweet potatoes	0 C/T	—	—	—	—	—	—	—	—
CGF (corn gluten feed)	0 C	1.7	4.3	—	6.0	1.7	4.2	—	5.9
Bran	T	10.5	0.1	—	10.6	10.3	0.1	—	10.4
MGC (maize germ cake)	0 C	0.2	0.2	—	0.4	0.2	0.1	—	0.3
Citrus pellets	0 C	—	1.7	—	1.7	—	1.5	—	1.5
Dried sugar beet pulp	0 C	5.2	0.4	—	5.6	5.1	0.4	—	5.5
Brewing and distilling residues	0 C	2.0	0.8	—	2.8	2.0	0.7	—	2.7
Various fruit waste	0 C	0.4	0.5	—	0.9	0.4	0.4	—	0.8
<i>Total other energy feeds, of which:</i>		<i>2.0</i>	<i>3.1</i>	<i>—</i>	<i>5.1</i>	<i>2.0</i>	<i>3.0</i>	<i>—</i>	<i>5.0</i>
Molasses	T	0.6	2.5	—	3.1	0.6	2.4	—	3.0
Animal and vegetable fats (added to feed)	4–17 % C	1.4	0.6	—	2.0	1.4	0.6	—	2.0
Total high-energy feeds		22.0	13.2	—	35.2	21.7	11.6	—	33.3
<i>Oilcake and seeds (oilcake equivalent), of which:</i>		<i>6.9</i>	<i>38.4</i>	<i>2.5</i>	<i>42.8</i>	<i>6.7</i>	<i>38.8</i>	<i>2.4</i>	<i>43.1</i>
Soya	0 C	1.0	30.4	2.0	29.4	0.6	31.3	2.0	29.9
Rape	0 C	4.4	1.5	0.3	5.6	4.6	1.0	0.2	5.4
Sunflower	0 C	1.5	2.0	0.1	3.4	1.4	2.0	0.1	3.3
Other	0 C	—	4.5	0.1	4.4	—	4.5	0.1	4.4
<i>Other protein feeds, of which:</i>		<i>9.5</i>	<i>1.9</i>	<i>0.5</i>	<i>10.9</i>	<i>9.7</i>	<i>1.8</i>	<i>0.5</i>	<i>11.0</i>
Protein plants	2–5 % C	3.4	1.1	—	4.5	3.5	1.0	—	4.5
Dried fodder, etc.	0–9 % C	4.7	0.1	0.2	4.6	4.8	0.1	0.2	4.7
Fish meal and meat meal	0–2 % C	1.0	0.7	0.3	1.4	1.0	0.7	0.3	1.4
Skimmed-milk powder	T	0.4	—	—	0.4	0.4	—	—	0.4
Total high-protein feeds		16.4	40.3	3.0	53.7	16.3	40.6	2.9	54.0
Grand total key products		148.7	61.7	3.0	207.5	149.9	60.3	2.9	207.3
Key products index 1994/95 = 100									
* consumption index					108.4				108.3
* livestock demand index					108.4				108.3

Notes: T = tariff since 1.7.1995; C = bound under GATT; % = import duty as at 1.7.1995; 0 = exempt.

463. In Latin America, only the two largest producers, Brazil and Argentina, will see significant changes, an increase of 2.6 % and a fall of 9.7 % respectively. In 2002, milk production in most of the countries of the region stagnated. A very slight increase of just over 60 million tonnes is expected for 2003. Brazil is both the largest producer of milk in the region (sixth in the world) and the largest importer among the Mercosur countries. Production in Brazil will reach 23.5 million tonnes in 2003, but internal consumption will absorb a large quantity of milk products, mainly from Argentina and Uruguay. Although imports into Brazil fell sharply between 1998 and 2001, they have risen since then.

464. In eastern Europe (including the former Soviet republics), milk production should rise very slightly in 2003 by scarcely 0.4 %, but with some differences from one country to another. In the former Soviet Union, the decline recorded since its dissolution levelled out in 2000 and the trend was reversed in 2001 with a 3.4 % rise. It is very likely that we will now witness a slight upturn in production over the years to come, although production in Russia fell in 2003 because of climatic conditions. Supplies of animal feed remain limited and so numbers of livestock are continuing to fall, particularly in Russia; however, livestock management appears to be improving so yields are rising. The 1998 rouble crisis is a thing of the past and Russia has entered world markets as a major buyer of milk products, since the domestic industry cannot meet demand. Since 2000, the value of imports of milk products into Russia has risen steadily, reaching USD 244 million in 2000 and USD 426 million in 2002.

465. Milk production in the United States continued the growth it began in 2002 and will exceed 77 million tonnes. In Canada, retention of quotas on milk for processing means that production will be virtually unchanged.

466. In Oceania, weather conditions played a particularly important role in the events of the marketing year with different results in New Zealand and Australia. Milk production in New Zealand rose by 1.9 % while in Australia it fell sharply. Prices on world markets which were relatively favourable compared with other sectors encouraged new investments in the milk sector.

467. The weather in Australia was very unfavourable over the last year, reducing milk production to 10.5 million tonnes, a fall of 10 %. The drought affected the whole country and severely depleted fodder stocks, the number of cows and the availability of grassland. This followed a shortage of water for irrigation, particularly in Victoria, the state which produces most milk. Australian producers are very unhappy with processors and the distribution chains, following the deregulation of the sector. The Australian court with jurisdiction has authorised negotiations on the prices paid to producers, which was previously prohibited.

468. In New Zealand, production rocketed between 1999 and 2003, increasing by 32 % to 14.3 million tonnes and encouraged by a 9 % increase in the price of milk from NZD 3.67 to NZD 3.98. Herds likewise increased by 6.6 % in 2002 and 1.5 % in 2003. Milk deliveries will continue to increase further in 2003/04.

469. Excluding fresh products and casein, world trade in 2003 should reach 44 million tonnes of milk equivalent, to which the EU will contribute 11 million tonnes, or 25 % (New Zealand: 26 %, Australia: 14 %). That may be compared with 1996 when the volume was 32 million tonnes of which the EU accounted for 36 %, or 12 million tonnes (New Zealand: 21 %, Australia: 12 %).

The Community market

470. Dairy herds were expected to fall by 326 000 cows (1.7 %) by the end of 2003 to 19.16 million. Yield, however, should increase by 2.7 % to 6 300 kg per animal per year so slightly increasing milk production by 0.2 % or 266 000 tonnes to 121.7 million tonnes (including deliveries to industry, direct sales and use on the farm). The Member States expect milk deliveries too to rise slightly, by 0.25 % or 287 700 tonnes, to a total volume delivered of 115.6 million tonnes.

471. Drinking milk has remained fairly stable since 1992, at around 29 million tonnes. After a fall in 2002, production of cream for consumption will regain the 2001 level of 2.2 million tonnes.

472. Butter production will fall slightly by 11 000 tonnes to 1.87 million tonnes.

473. The Member States expect consumption of butter to increase by 0.1 %; it has been very stable since 1995 and should reach 1.77 million tonnes. Per capita consumption, which has been very stable since 1998, should then settle at 4.7 kg per year. There is a wide range of consumption between the various Member States with France eating 8.48 kg per year per person while Greece consumes only 660 grams.

474. Total production rose by only 0.7 %, or 54 000 tonnes, well below the historic average of 2.2 % per year. The rise in production of factory-made cheese in 2003 is expected to be still smaller at some 38 000 tonnes (0.6 %).

475. Per capita consumption of cheese should increase by 0.9 % per year (18.2 kg/person), very much less than the trend in the past of 2.3 % per year. Total consumption should rise by 1.1 % to 6.9 million tonnes.

476. Production of milk powder will fall by 1.2 %, about 24 000 tonnes, to 1.98 million tonnes as a result of the downward trends in whole-milk powder and skimmed-milk powder since semi-skimmed-milk powder rose by 6 % to 182 000 tonnes. Accordingly, production of skimmed-milk powder (1.08 million tonnes) fell by 1 %, while that of whole-milk powder (648 000 tonnes) fell by 3.7 %. This type of milk has shown a clear tendency to decline over the last five consecutive years. Production of buttermilk powder should increase by 3.4 %.

477. Manufacture of condensed milk will fall by 1.9 %, very close to the historical trend of 1.7 %. After a sharp fall in 2002 (17 %), production of casein rose by 5.4 % (2 000 tonnes), reflecting 263 000 tonnes of extra liquid skimmed milk.

478. Other figures include the very sharp fall in the number of dairy farms, by 7.7 % in the EU-15 between 1995 and 2003 (the number in 2003 was 538 475); the average number of cows per holding rose to 36 (ranging from 10 in Austria to 98 in the United Kingdom) and the amount of milk delivered per holding exceeded an average of 214 700 kilograms. There is a very wide range in the average quantity delivered per farm, ranging from 46 200 tonnes in Austria to 662 300 tonnes in the United Kingdom.

479. Total consumption of milk products, defined as the total of all uses made of milk available in the European Union, has tended to rise since 1997 by 0.6 % per year, although it fell in 2002 before resuming an upward path in 2003.

480. Community stocks hit their lowest ever level in March 1996, when there was virtually no butter or skimmed-milk powder in public storage. Then stocks of skimmed-milk powder began to grow because of slack domestic and external demand. At the end of 1999, this trend was thrown abruptly into reverse by a sharp increase in demand, mainly on the world market, which meant that all public stocks of skimmed-milk powder could be disposed of in August 2000. Unfortunately, the situation deteriorated in 2002 with 152 814 tonnes being offered for intervention. In 2003, this figure fell to 111 769 tonnes. The 40 277 tonnes of butter taken into intervention in 2003 represented a quarter of the purchases in 2002, fully in line with the average of 30 000 tonnes taken into intervention in the last 10 years.

481. Domestic prices for milk products were steady in the first half of 2003, beginning at very low levels and recovering slightly from August onwards. The average price of butter began the year at 91.2 % of the intervention price and then fluctuated between 90.4 % and 91 % until early June, then starting to rise very gradually to 94.4 % at the end of October, since when it has remained more or less stable. The price of skimmed-milk powder started at 102.7 %, fell to 97.3 % at the end of April, rose during the summer to 103.1 % and remained stable thereafter.

482. During 2003, refunds were amended seven times to take account of market conditions. Even though prices on the world market (in USD) rose, the euro rose considerably against the dollar, which posed problems for European exports. As a result, export refunds for powdered milk were reduced and increased to a level 29.5 % higher than at the beginning of the year; those for whole-milk powder were 5.4 % higher. Refunds for other products were reduced: by 3.8 % for butter, by 5.3 % for butteroil, by 13.6 % for milk for consumption, and by 14.3 % for cheese.

483. In 2001, exports of milk products from the European Union fell by 19.5 %, or almost 3 000 000 tonnes in milk equivalent. That reflects the resumption, until 2000, of export licences not used in earlier years under the agreements under the Uruguay Round of the GATT. Since then, exports have increased steadily. In 2003, the volume of milk exported rose by 8.8 % to 14.8 million tonnes. Imports, which in 2002 remained stable at their 2000 level of 3 million tonnes, rose sharply to 3.8 million tonnes in 2003, mainly as a result of imports of butter, whole-milk powder and cheese.

Beef and veal

World market

484. According to FAO and Eurostat data, world beef production in 2002 amounted to 61.3 million tonnes, i.e. 3.2 % higher than its level in 2001. Beef production represents just over a quarter of the total meat production. For 2003, world beef production is forecast to stabilise at 61.2 million tonnes.

485. The United States remains the main beef-producing country with a share of 20.3 % of world production. Its 2002 production was 3.8 % above the level in 2001. Net beef production in the EU accounted for 12.2 % of the world production in 2002. Strong increases in the South American output continue. Production expanded further in Brazil (by 7.0 %) in 2002, with its total output just under the EU production. Beef production also increased in Argentina (by 10.1 %).

World beef production

Country	2001	2002	% change 2002/01
Argentina	2 452	2 700	10.1
Australia	2 080	2 034	- 2.2
Brazil	6 671	7 136	7.0
China	5 130	5 320	3.7
EU-15	7 266	7 454	2.2
Russian Federation	1 872	1 858	- 0.8
USA	11 983	12 438	3.8

Source: FAO and Eurostat.

486. In 2002 world beef exports were 6.0 % above their level reached in 2001, particularly due to the gradual reopening of markets affected by animal disease concerns as well as a general recovery in world beef consumption. Total beef exports in 2002 amounted to 5.9 million tonnes. A further increase in world exports is anticipated for 2003.

Community market

487. The May/June 2003 survey showed a further decrease of 1.9 % in EU bovine live-stock compared with the preceding year. Livestock numbers increased only slightly in the UK (1.1 %). In most other Member States, further decreases were seen, most notably in Belgium (4.3 %), Denmark (3.5 %), Germany (2.7 %), France (2.0 %) and Italy (5.3 %). The total number of cows declined by 2.5 % on average, with the number of suckler cows decreasing by 1.3 %.

488. Net beef production in 2002 amounted to 7.45 million tonnes, an increase of 2.6 % over 2001. Output increased most notably in Ireland (10.5 %), France (4.7 %), Spain (3.4 %) and the United Kingdom (6.2 %). However, the contracting cattle herd is reflected

in an output fall in the cases of Germany (3.3 %) and Austria (1.6 %). Community beef production in 2003 is estimated to stabilise at 7.29 million tonnes, i.e. a decrease of 2.2 % compared with 2002.

489. Beef consumption in 2002 is estimated at 7.45 million tonnes, a similar level to net beef production. Average per capita consumption was approximately 20.2 kg in 2002. Consumption levels in most Member States have returned to their pre-BSE crisis level. However, the overall economic climate has tended to put some pressure on the consumption of beef in some Member States. Nevertheless, for 2003 beef consumption in the EU is expected to increase to 7.67 million tonnes. Hence, it is anticipated that as of 2003 EU beef consumption will exceed net production.

490. As regards external trade, the EU exported in 2002 around 550 000 tonnes of beef (meat and live animals in carcass weight equivalent). The volume thereby remained at a level comparable to that exported in 2001, but clearly below the pre-crisis situation. This reflects, on the one hand, a more balanced supply-demand situation on the Community market and, on the other, a continued reluctance of some traditional importing countries to acknowledge the substantial efforts made by the Community in terms of measures to increase food safety and improve animal health standards. The majority of exports were destined for the Russian market (65 %, mainly beef) as well as Lebanon (12 %, mainly live animals).

491. Beef imports in 2002 amounted to 476 000 tonnes, approximately 26 % higher than in 2001 when particularly some South American countries were blocked due to FMD outbreaks. Around 50 000 tonnes were imported with full duties paid, reflecting the strong competitive position of some beef suppliers. It is anticipated that the Community will become a net beef importer as of 2003. In the period January to July 2003 total beef imports already exceeded the total Community exports by 67 000 tonnes.

492. Producer prices have recovered solidly from the sharp decreases during the 2000–01 crises, with prices in 2002 generally higher than in the course of 2001, with the exception of steer prices. The average EU-15 prices for carcasses of adult bovines in 2002 are presented in the table below.

	Average price (EUR/100 kg carcass weight)	% change 2002/01
Young bulls	267.5	+ 15.5
Steers	260.5	- 2.9
Cows	178.0	+ 6.6
Heifers	263.8	+ 2.8

493. In general, prices are higher than anticipated in Agenda 2000, which assumed a 20 % price decrease compared with 1999. At present, prices tend to follow normal seasonal trends.

494. The overall stabilisation of the Community beef market was sustained even though none of the crisis support measures have been operative since March 2002. On 1 July 2002, the public intervention regime was replaced by a system of private storage aid. For private storage aid to be granted, the average EU market price for carcasses of male adult bovines would have to fall below 103 % of the basic price (EUR 222.4/100 kg). Throughout the period July 2002 to November 2003, the average price has varied between 118 % and 126 % of the basic price.

495. The overall satisfactory market situation allowed the Commission to gradually sell as of June 2002 the stock of public intervention beef. By November 2003 more than 200 000 tonnes of bone-in and boneless were sold on the market. In addition, around 58 000 tonnes were used for aid programmes for deprived persons. It is assumed that the remaining stock of intervention beef will be sold by the end of 2003.

496. During the BSE crisis, around 205 000 tonnes of essentially cow beef was taken off the market under the **special purchase scheme** (SPS). Most of this beef has either been destroyed or used for humanitarian aid programmes. At present, around 57 000 tonnes is still stored by the Member States. The stock may only be brought back on the market after the Commission has authorised the Member States concerned to do so. Spain is preparing to use its stock (around 17 000 tonnes) for humanitarian aid programmes. Moreover, in view of the steadily progressing intervention sales, during 2003, the Commission authorised Germany, France, the Netherlands, Austria and Portugal to either sell parts of their SPS stocks or use such stock for aid programmes to deprived persons. It is assumed that the remaining stocks will be cleared by early 2004.

Main legislative and policy developments

497. The Agenda 2000 agreement, as laid down in the beef sector by Council Regulation (EC) No 1254/1999 ⁽¹⁰⁵⁾, was fully implemented in July 2002. In the context of the new agricultural reform laid down in Council Regulation (EC) No 1782/2003 ⁽¹⁰⁶⁾, a fundamental change was made as regards the system of direct payments which in the past were directly or indirectly linked to production. The new reform provides for a single payment scheme which is based upon decoupling from production. However, Member States may decide to partially implement this scheme by opting to retain: (a) up to 100 % of the suckler cow premium and up to 40 % of the slaughter premium for adult bovines, or (b) up to 100 % of the slaughter premium for adult bovines or (c) up to 75 % of the special male premium. Moreover, Member States may retain up to 100 % of the calf slaughter premium.

498. Member States have to decide by 1 August 2004 at the latest whether they will apply, on a national or regional basis, the single payment scheme or, alternatively, a partial implementation of that scheme. The reform will enter into force in January 2005. However, where the specific agricultural situation so justifies, Member States may apply the single

⁽¹⁰⁵⁾ OJ L 160, 26.6.1999, p. 21.

⁽¹⁰⁶⁾ OJ L 270, 21.10.2003, p. 1.

payment scheme after a transitional period which expires at the end of 2005 or 2006. In any event it is assumed that, as a result of the reforms, Community beef production will decrease in the coming years while market prices should correspondingly strengthen.

499. In view of the exceptionally unfavourable weather conditions during the summer of 2003, characterised by an intense and prolonged drought, the Commission took several measures to contribute to the alleviation of the difficult situation faced by farmers in many parts of the EU. As regards the beef sector, the Commission adopted Regulation (EC) No 1473/2003⁽¹⁰⁷⁾ offering all Member States the possibility of increasing for all producers the advance payments of the premiums in the beef sector from 60 % to 80 % from 16 October 2003 onwards. Moreover, the Commission adopted Regulation (EC) No 1503/2003⁽¹⁰⁸⁾ authorising Germany, France, Italy, Luxembourg and Portugal to bring forward to 1 September 2003 the advance payments of the suckler cow and special beef premiums for the producers/areas most affected. Subsequently, the Commission adopted Regulation (EC) No 1621/2003⁽¹⁰⁹⁾ to add Spain to the list of beneficiary countries.

500. Since the introduction of the over-thirty-months scheme (OTMS) in the United Kingdom in the wake of the first BSE crisis in 1996, the scheme has removed between 750 000 to 900 000 animals annually from the British market, corresponding to up to 250 000 tonnes of beef every year. Throughout 2003, a review of the scheme was undertaken by the UK authorities. While a final decision on the future of OTMS has not yet been taken, it is obvious that terminating the scheme, partially or completely, would result in increased supplies of essentially cow beef that will become available on the UK market. Consequently intra-Community trade in beef is likely to be redirected in the coming years.

501. The Commission adopted Regulation (EC) No 1215/2003⁽¹¹⁰⁾ allowing Member States to authorise, under certain conditions, the use of automated grading techniques for the classification of carcasses of adult bovines. So far, the classification had to be carried out by licensed classifiers. With this regulation, Member States can now choose either of the two options.

Beef labelling

502. European Parliament and Council Regulation (EC) No 1760/2000 lays down provisions for the compulsory labelling of the origin (country/ies) of birth, fattening and slaughtering of animals from which beef comes and for voluntary labelling mentions related to pieces of information other than origin.

503. Around three years after the entry into force of that regulation, the Commission drafted a report to the European Parliament and the Council on its implementation by

⁽¹⁰⁷⁾ OJ L 211, 21.8.2003, p. 12.

⁽¹⁰⁸⁾ OJ L 216, 28.8.2003, p. 23.

⁽¹⁰⁹⁾ OJ L 231, 17.9.2003, p. 7.

⁽¹¹⁰⁾ OJ L 169, 8.7.2003, p. 32.

Member States and on the possible extension of its scope to processed products containing beef and beef-based products.

504. The report provides a detailed assessment of the implementation of origin traceability and origin labelling, which apply from the slaughterhouses to retail shops. Based on Commission Food and Veterinary Office audits in the 15 Member States, the Commission report highlights successes and difficulties of practical implementation by all operators along the beef processing chain. It also establishes a set of proposals aiming at facilitating or improving the implementation of both mandatory and voluntary beef labelling systems by operators, without compromising traceability and reliability of consumers' information.

505. These proposals should be discussed, by the first semester of 2004, both at Council and European Parliament levels. If necessary, the Commission will then propose a revision of some provisions of current legislation.

Sheepmeat and goatmeat

World market

506. The world's largest producer of sheep and goat meat is China, where production expands year by year attaining 3.044 million tonnes in 2002 ⁽¹¹¹⁾. The European Union comes second with little more than 1 million tonnes, followed by India, Australia, New Zealand and Turkey.

507. Although Chinese output is by far the largest, the country is still almost absent from the world market due to the fact that domestic consumption fully absorbs production. World trade in sheepmeat is dominated by New Zealand and Australia, accounting for more than 80 % of world exports. Other notable suppliers are Argentina, Uruguay and Chile.

Community market

508. According to December 2002 livestock surveys, the sheep population in the European Union was around 86.9 million heads, 3.8 % less than in 2001. Five Member States, the United Kingdom, Spain, Greece, France and Italy, keep more than 85 % of the total sheep flock. Of these countries, sheep numbers increased only in the UK (1.9 %) as sheep farming began its recovery from the crisis caused by foot-and-mouth disease (FMD) in 2001. The sheep population in the UK is expected to continue to grow in 2003 though it is less likely to reach the pre-crisis level. Retention of the breeding flocks (ewes and ewe-lambs) decreased by 1.7 % throughout the Community. The UK and Ireland are exceptions to this trend as breeding flocks expanded by 1.9 % and 0.5 % respectively from 2001.

509. Following a substantial decline of 10.6 % in Community sheepmeat production in the FMD-affected 2001, 2002 witnessed a modest increase in production at the rate of little more than 2 % to reach a quantity of 1.054 million tonnes in carcass weight equivalent. Amongst the principal producing Member States, production increased considerably in the

⁽¹¹¹⁾ Source: FAO.

UK by 14 % and to a lesser extent in Greece and Spain but decreased in France, Italy and Ireland.

510. In terms of consumption, the EU with 1.3 million tonnes comes second in the world, after China.

511. Community exports are almost non-existent. The European Union imports a quantity corresponding to about one fifth of its needs. With over 284 000 tonnes, the European Union is the largest importer of sheepmeat in the world. The main suppliers are New Zealand and Australia, accounting for 84 % and 8 % of total Community imports, respectively. The principal destinations of sheepmeat from New Zealand are the UK, German and French markets representing little less than 75 % of its total exports to the EU, although there are moves towards diversification to several other Member States.

512. Imports into the Community are carried out principally under tariff rate quotas with exemption of or reduced rate import duties. For market management reasons, these quotas are managed on a calendar year basis. New Zealand possesses the largest tariff rate quota for 226 700 tonnes in carcass weight equivalent, followed by Argentina and Australia. The quotas of New Zealand and Australia were fully utilised in 2002. Additional quantities were granted in 2002 to most of the candidate countries within the framework of the so-called 'double profit' agreements entailing an adjustment of certain agricultural concessions provided for in their respective Europe Agreements. The main sheep and goat producing candidate countries, namely Romania, Hungary and Bulgaria, used this quota principally for the export of live animals. Most of these deliveries went to the Italian markets. The Cotonou Agreement provides the ACP countries with a small quota with tariff-free or tariff-reduced rights.

513. Sheep and lamb prices in 2002 were at a high level throughout the Community within the range of EUR 380–440 per 100 kg carcass weight. Prices recorded in the Member States followed the seasonal variation with significant falls during mid-April after Easter, relatively lower prices during the summer period and higher at the end of the year. Lamb prices in the UK under a heavy lambing system moved around EUR 370 per 100 kg throughout the year, and were less volatile than in some of the southern countries. Sheep and lamb prices in Spain were highly volatile, moving within the range of EUR 380–480 per 100 kg, while fluctuation in Greece was somewhat less important, ranging from EUR 380 to 440 per 100 kg. Sheep and lamb prices on the French market were well above the Community average, ranging from EUR 450 to 550 per 100 kg.

514. Average lamb carcass weights in the southern and the northern Member States were around 11 kg and 20 kg respectively.

Main legislative and policy developments

515. The reform of the common organisation of the market in sheepmeat and goatmeat entered into force in January 2002. The ewe and goat premium is permanently fixed at EUR 21 per eligible animal. The amount of the premium is EUR 16.8 per ewe for producers marketing sheep milk or products based on sheep milk. A supplementary

premium was granted for eligible producers in less favoured areas (LFAs) at the rate of EUR 7 per ewe. Member States have the option of granting additional payments to producers, annually and up to the limit of a global amount fixed for each country, to support specific agricultural activities within the sheep and goat sector. This amount can also be supplemented.

516. On 10 July 2002, the Commission adopted a communication on the mid-term review of the common agricultural policy ⁽¹¹²⁾, which also concerned the sheep and goat sector. The Commission proposals focused on two main points: (1) removing from direct payments the incentive to overproduce through decoupling and introducing single payments, and (2) expanding rural development policy through dynamic modulation. In the case of the sheep and goat sector, the communication envisaged the incorporation of sheep and goat premiums into a single decoupled income payment.

517. The regulation on the subsequent CAP reform was adopted by the Council in September 2003 ⁽¹¹³⁾. Member States have to decide by 1 August 2004 to fully decouple direct payments and apply the single income payment scheme or retain a certain percentage of direct payments coupled through partial decoupling.

518. Under full decoupling, the ewe and she-goat premium, the supplementary premium and certain additional payments are entirely incorporated into the single payment.

519. Partial decoupling of the single payment scheme for the sheep and goat sector means that Member States may retain up to 50 % of the component of their respective national ceilings corresponding to the sheep and goat payments and grant this amount as an additional payment to farmers rearing sheep and goats.

520. The reform will enter into force in January 2005. However, where specific agricultural conditions so warrant, Member States may apply the single payment scheme after a transitional period that would expire by the end of 2006, at the latest. During this transitional period, the current sheep and goat payment scheme will apply.

Pigmeat

521. In 2002, world production of pigmeat rose by 3.2 % to 94.1 million tonnes (*source*: FAO). China remains the leading producer in the world with 44.6 million tonnes, 3.8 % more than the previous year. The European Union is second with annual production of 17.8 million tonnes, 1.3 % more than in the previous year. In 2003, Community production should fall slightly by 0.4 % to 17.7 million tonnes. The United States is the third largest producer of pigmeat, at 8.9 million tonnes, 2.8 % more than in 2001.

522. In 2002, world market prices for pigmeat fell, reversing the trend of the previous year. Between December 2002 and February 2003, an exceptional private storage measure was introduced to offset the impact of this sharp fall in prices. The contracts concluded

⁽¹¹²⁾ COM(2002) 394 final, 10.7.2002.

⁽¹¹³⁾ OJ L 270, 21.10.2003, p. 1.

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covered 104 836 tonnes of pigmeat to be stored for up to five months. As an annual average, prices remained at an acceptable level (EUR 135.5 per 100 kg) in 2002. In 2003, the average price fell to EUR 128 per 100 kg, 5.5 % less than in 2002, which should be regarded as an average year. Because of this market situation, export refunds for fresh and frozen pigmeat remained at zero.

523. Per capita consumption of pigmeat remained stable in 2002 at 43.8 kg/year. In 2003, it could fall slightly in view of the general economic situation.

524. In 2002, the European Union exported 1.24 million tonnes (carcass weight equivalent), an increase of 20 % over 2001. That was due to a lifting of the trade restrictions imposed by some non-member countries following the declaration of foot-and-mouth disease in four Member States in 2001. Imports fell by 2.4 % to 51 000 tonnes in 2002. The main destination for exports of pigmeat in 2002 was Russia, which took 361 500 tonnes (23.8 % of the Union's exports) during the year. Japan was in second place with 265 000 tonnes, followed by Hong Kong and China with 138 000 tonnes. In 2002, the share of exports receiving refunds was estimated at about 64 000 tonnes.

Poultrymeat

525. Since 1991, world production of poultrymeat has grown steadily but more slowly: by 7 % per year between 1991 and 1995 and by 4.2 % per year between 1997 and 2002. Of the main producing regions, production grew at an above-average rate in China (5 % per year between 1997 and 2002) and Brazil (9.6 % per year between 1997 and 2002). Following a fall in 1997, production in Russia resumed its upward trend. The average increase in the European Union has been 1.5 % per year since 1997, although it has fallen since 2001.

Poultrymeat production

(thousand tonnes)

	USA	Brazil	China	Japan	Russia	Hungary	Thailand	EU	Other	World production
1997	14 999	4 571	10 585	1 234	630	402	1 057	8 636	18 011	60 125
1998	15 178	4 969	11 349	1 212	690	452	1 189	8 823	18 582	62 444
1999	16 039	5 647	11 951	1 213	748	399	1 190	9 148	19 092	65 427
2000	16 416	6 125	12 873	1 195	766	470	1 220	8 939	20 673	68 676
2001	16 813	6 395	12 866	1 216	884	484	1 366	9 365	21 658	71 047
2002	17 331	7 229	13 523	1 221	987	485	1 450	9 281	22 361	73 869
2003 ^E	17 399	7 349	13 809	1 234	1 150	490	1 535	8 813	22 363	74 142
% annual rate of change 2002/1997	2.9	9.6	5.0	-0.2	9.4	3.8	6.5	1.5	4.4	4.2

E = estimate.

Sources: European Union; FAO.

526. The world market again stagnated in 2003, mainly because of lower imports by Russia, Japan and China. The United States remained the main exporting country in 2003, mainly because of exports of low-value cuts which, however, rose only slightly, remaining below the record level of 2001. In 2003, exports from Brazil, supported by the devaluation of the real, should rise by over 10 %. Russia remains the main importer but has reduced quantities by imposing import quotas to encourage its own production.

527. After the slight fall in 2002, the European Union should see its production fall sharply in 2003 (by 5.0 %) because of avian influenza in the Netherlands and Belgium, the nitrofurane crisis in Portugal and a reduction in production due to the economic situation in several Member States (Spain, France, Italy, Sweden). Community exports, which rose sharply in 2002 (by 13 %), particularly to Russia, fell in 2003, by 20 %. Imports of 'salted' frozen meat from Brazil and Thailand substantially swelled imports in 2001 (by 45 %). They remained around that level in 2002 (4 % lower) before rising in 2003 (by 15 % in eight months), still at lower prices. A classification regulation in July 2002 specified the classification of 'salted' meat which, from mid-August 2003, should be classified in accordance with its method of preservation as frozen meat.

528. Prices, which fell in the second half of 2001 and early in 2002 before rising to their multiannual level for the bulk of 2002, reached a high level from May 2003 following the outbreak of avian influenza.

529. Poultrymeat received no support on the domestic market. Measures governing trade with non-member countries were adapted to bring them into line with WTO rules, particularly the cap on exports with refunds (286 000 tonnes per year from 2000/01). This restriction meant that refunds were targeted as regards both countries of destination and products. As a result, in 2002/03, only 22 % of Community exports received refunds.

530. Import quotas at reduced rates of duty applied to a total of 207 000 tonnes in 2003/04 under the association and 'double profit' agreements (Poland, Hungary, Czech Republic, Slovakia, Romania, Bulgaria, the Baltic States and Slovenia). In addition, 15 500 tonnes of de-boned chicken and 2 500 tonnes of turkey could be imported free of customs duties each year in addition to 11 900 tonnes for 2003/04 (July/June) under the quotas for minimum access at reduced duties and 2 400 tonnes under other bilateral agreements (Turkey, Israel).

Eggs

531. World production rose by 4.4 % (annual rate of change) from 1991 to 1995 and continued to rise by 3 % from 1997 to 2002. Although the average increase was higher in the United States than in the European Union, the Union still occupies second place. Production in China grew at a relatively high rate (4.6 % from 1997 to 2002) and is the largest egg producer in the world.

Egg production*(thousand tonnes)*

	USA	Mexico	Brazil	Japan	Russia	China	EU	Other	World production
1997	4 600	1 329	1 509	2 573	1 805	19 359	5 267	13 594	50 036
1998	4 731	1 461	1 431	2 536	1 835	20 591	5 354	13 885	51 823
1999	4 912	1 635	1 511	2 539	1 857	21 740	5 479	14 160	53 833
2000	4 998	1 788	1 569	2 535	1 905	22 826	5 708	14 075	55 405
2001	5 083	1 892	1 604	2 514	1 973	23 763	5 752	14 543	57 124
2002	5 128	1 896	1 617	2 512	2 028	24 193	5 703	15 024	58 102
2003 ^E	5 138	1 924	1 585	2 562	2 078	24 798	5 574	15 227	58 887
% annual rate of change 2002/1997	2.2	7.4	1.4	-0.5	2.4	4.6	1.6	2.0	3.0

E = estimate.

Sources: European Union; FAO.

532. World exports from the developed countries (United States, Europe) fell in 2002/03 while those from developing countries increased. The main importing countries remained Japan (egg products) and Hong Kong (eggs in shell). Community exports fell by 7.5 % in 2002 and should fall further in 2003 (by 20 % from January to July), particularly as regards eggs in shell.

533. On the Community market, the number of laying hens outside the Benelux fell slightly by 0.5 % in 2003. In the Netherlands almost 50 % of laying hens had to be slaughtered to eradicate fowl pest while in Belgium the slaughter rate was almost 15 %. As a result, Community production of eggs for consumption should fall in 2003 by 2.3 %. Prices have been well above their multiannual average since Easter 2003.

534. The common organisation of the market is similar to that for poultrymeat.

535. As regards trade, refunds are capped by the WTO at 98 800 tonnes equivalent of eggs in shell in 2002/03. Since summer 1995, the quantities exported have been below the limit agreed within the WTO.

536. Agreements with the candidate countries included for 2002/03 either a reduction of 80 % in customs duties on certain egg products or 'double profit' agreements. As part of minimum access, import quotas at reduced rates of duty have been opened for an annual volume of 157 500 tonnes since 2000/01, divided into three groups of products of which only that for egg products has been fully used.

Honey*World situation*

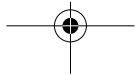
537. In 2002, world production of honey reached 1.27 million tonnes, about the same figure as the previous year (*source*: FAO). China remained the major producer at 258 000 tonnes. The European Union was second with 112 000 tonnes.

European market

538. Self-supply in the European Union was 46 % in 2001/02, slightly less than in the previous year because of poor weather conditions and higher imports. Consumption increased slightly to 0.8 kg per person per year.

539. Pursuant to Council Regulation (EC) No 1221/97 laying down general rules to improve the production and marketing of honey ⁽¹¹⁴⁾, the Commission adopted decisions approving national programmes for 2004. Groups of beekeepers in some Member States complained of falls in the numbers of bees because of the use of systemic plant-health products to coat seeds for arable crops.

⁽¹¹⁴⁾ OJ L 173, 1.7.1997, p. 1.



IV — Agrimonetary arrangements

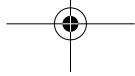
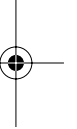
Developments in 2003

540. The agrimonetary measures adopted in 2003 were limited to the application of Council Regulation (EC) No 2799/98 establishing agrimonetary arrangements for the euro ⁽¹⁵⁾, which provides for agrimonetary compensatory aid to be granted where necessary to offset a reduction in direct aid and in certain prices and amounts converted into national currency in Denmark, Sweden and the United Kingdom as a result of the revaluation of those currencies against the euro. The payments corresponding to this compensatory aid are made in three successive tranches lasting 12 months each. It should be noted that the regulation does not provide for the possibility of granting agrimonetary compensatory aid for monetary revaluations occurring after 2001. In 2003, therefore, implementation of the regulation was limited to any adjustments requiring to be made to outstanding tranches of compensatory aid granted during the preceding years.

541. In 2003, only the United Kingdom was still being granted compensatory aid. Following the depreciation of sterling, Commission Regulation (EC) No 786/2003 of 8 May 2003 adjusting certain compensatory agrimonetary aids granted in the United Kingdom ⁽¹⁶⁾ cancelled the third tranches of compensatory aid for beef and veal, structural measures, and sheepmeat and goatmeat resulting from the exchange rates applicable on 31 December 2000 and 1 January 2001. That regulation also cancelled the third tranche of compensatory aid relating to the appreciable revaluation of sterling in 2000.

⁽¹⁵⁾ OJ L 349, 24.12.1998, p. 1.

⁽¹⁶⁾ OJ L 115, 9.5.2003, p. 16.



V — Rural development in 2003

542. Rural development programming for the period 2000–06 comprises the following: 68 rural development programmes (RDPs) (part-financed by the EAGGF Guarantee Section), 69 Objective 1 region programmes with rural development measures (part-financed by the EAGGF Guidance Section) and 20 for Objective 2 regions with rural development measures (part-financed by the EAGGF Guarantee Section).

543. In 2003, Community expenditure on rural development amounted to EUR 6 871 million (Guarantee and Guidance Sections combined).

544. EAGGF Guarantee Section payments amounted to EUR 4 705 million in the 2003 financial year (October 2002 to October 2003). Average Community execution stood at 99.13 % of annual appropriations, so that virtually the entire budget available for 2003 was spent. By Member State, there was overspending (of the annual financial allocation) on the part of France, Luxembourg, the Netherlands, Finland and Sweden and underspending on the part of the remaining countries. Guarantee spending up to 2003 represents 53 % of the financial allocations for the 2000–06 programming period.

545. EAGGF Guidance Section payments for rural development programmes amounted to EUR 2 166 million in 2003 (calendar year). At the end of 2003, total payments represented 32 % of the financial plan for the entire 2000–06 programming period. In 2003, following the *n + 2* rule laid down in Regulation (EC) No 1260/1999, the European Commission decommitted EUR 7.15 million corresponding to credits committed in 2000 and not used for payments by the end of 2002. These decommitments affected four rural development programmes (Flevoland, two regional programmes in Ireland, and the Highlands and islands of Scotland).

546. Thirty-three rural development programme amendments were approved by the Commission in 2003.

547. A total of 73 Leader+ programmes have been approved for the period 2000–06. EAGGF Guidance Section payments for these programmes in 2003 amounted to EUR 87 million. Due to the lead time of this initiative (e.g. selection of local action groups — LAGs), financial execution has been slow, with payments up to 2003 representing only 12 % of the amount programmed for the whole programming period.

548. Of the 938 LAGs planned, 853 had been selected by the end of December 2003. The selection process started in 2001 and has been completed in all Member States except Italy.

The local development strategy theme 'Making the most of natural and cultural resources' is the most popular (with one third of LAGs having chosen it), followed by 'Quality of life' (chosen by 25 % of LAGs). By the end of 2003, national networks had been established in all Member States except Ireland and Luxembourg.

549. Transnational cooperation projects (Action 2 of the Leader+ initiative) between local action groups started slowly in 2003. By the end of 2003, around 50 projects had been approved by the managing authorities.

Belgium

Rural development plans (EAGGF Guarantee Section)

550. Three rural development plans have been in place since autumn 2000: one federal plan and one regional plan each for Flanders and Wallonia. According to the latest financial tables decided on, the respective amounts of overall public expenditure and of the EAGGF contribution were: for the federal plan EUR 92.98 and EUR 42.363 million, for the Flanders plan EUR 514.44 and EUR 214.19 million and for the Wallonia plan EUR 235.68 and EUR 104 million. For the three plans combined, total public spending amounted to EUR 843.117 million and the EAGGF contribution to EUR 360.555 million.

Amendments to rural development plans

551. Rural development plan amendments introduced in 2002 were approved by Decisions 2003/81/EC of 27 January 2003 (federal plan), 2003/2948/EC of 5 August 2003 (Flemish plan) and 2003/4320/EC of 13 November 2003 (Walloon plan).

552. A factor common to those three amendments concerns the new distribution of responsibilities deriving from the special law of 13 July 2001 transferring various responsibilities, including some in the agricultural sphere, to the Belgian regions and communities. Under this law, most measures covered by the federal rural development plan and the corresponding budgets are to be transferred to the Flemish and Walloon plans as from the 2003 budget year. The amounts of overall public expenditure and the EAGGF contribution to the federal plan were thus reduced by EUR 61.230 and EUR 29.373 million respectively.

553. The amendment to the Flemish rural development plan also concerns agri-environmental measures, measures associated with the adaptation and development of rural areas, and evaluation. The amendment to the Walloon rural development plan relates in particular to agri-environmental measures and investment aid.

554. In addition, the Commission received a communication on a financial amendment to the Flanders rural development plan on 30 July 2003 and a notification concerning an amendment to the same plan on 25 August 2003.

Level of payments for the period from 16 October 2002 to 15 October 2003

555. The budgetary allocation to Belgium for 2003 amounted to EUR 57.38 million, of which EUR 46.23 million, or 80 %, was used.

Operational programmes or single programming document

556. Belgium has only one single programming document (Structural Funds) paid for from EAGGF Guidance Section appropriations: Objective 1 phasing-out for the province of Hainaut in Wallonia. The respective amounts of overall public expenditure and Community support for this single programming document are EUR 1 302.3 and EUR 645.0 million. The EAGGF contribution amounts to EUR 41.57 million, or 6.4 % of total Community support. EAGGF expenditure for the period from 1 January 2000 to 31 December 2003 was EUR 7.53 million (18 % of the amount provided for during the 2000–06 programming period).

Leader+ programmes

557. Two Leader+ programmes, one for Flanders and one for Wallonia, were approved in December 2001. The respective amounts of overall public expenditure and the EAGGF contribution were: for the Flemish programme EUR 8.58 and EUR 4.29 million and for the Walloon programme EUR 23.21 and EUR 11.60 million. The local action groups (LAGs) were selected at the end of 2002 and the programmes therefore became fully operational in 2003.

558. In Flanders, five LAGs, covering 12 % of the area and 6 % of the population, were selected. The body to be responsible for networking was appointed at the end of 2003. In Wallonia, 15 LAGs, covering 32 % of the area and 12 % of the population, were selected. The body to be responsible for networking was appointed at the end of 2003.

559. Distribution of LAGs according to the unifying theme adopted: theme 1 (use of new know-how): one LAG; theme 2 (improving the quality of life): five LAGs; theme 3 (adding value to local products): three LAGs; theme 4 (making the best use of natural resources): eight LAGs; theme 5 (improving relations between traditional rural dwellers and newcomers arriving from urban areas): three LAGs.

Denmark**Rural development programme (EAGGF Guarantee)**

560. The total public cost of the Danish rural development programme (RDP) for 2000–06 is EUR 829 million, including an EU contribution of EUR 348.8 million from the EAGGF Guarantee Section. The programme includes support for farm investments, setting up of young farmers, training, less-favoured areas, agri-environment, improving processing and marketing of agricultural products, and promoting the adaptation and development of rural areas and forestry.

Amendments to the RDP

561. The amendments to the Danish RDP for 2002 were approved by Decision C(2003) 54 of 9 January 2003. The main amendments concern investments in farms, organic farming and forestry in Natura 2000 areas.

Level of payments for the period from 16 October 2002 to 15 October 2003

562. The plan provides for total public expenditure of EUR 125.6 million for 2003, including an EU contribution of EUR 49.8 million. Agri-environmental measures account for EUR 38.7 million of total public expenditure, including an EU contribution of EUR 19.3 million. For the period from 16 October 2002 to 15 October 2003, there was expenditure of EUR 46.43 million (93 % of the amount allocated for the year).

563. Overall financial execution for the EAGGF Guarantee Section since the beginning of the programming period stands at 47 % of the total budget allocated for 2000–06, i.e. EUR 165.6 million out of a total of EUR 348.8 million.

Leader+ programme

564. The total public cost of the Danish Leader+ programme 2000–06 is EUR 34 million, including an EU contribution of EUR 17 million.

565. After three years of implementation, financial execution stands at 13 % of the amount allocated for the programming period 2000–06.

Selection of the local action groups

566. As a result of a public tendering procedure, 12 local action groups have been selected under the programme. They cover 11 500 km², i.e. approximately a quarter of the territory, and a population of 593 000.

567. One group has chosen theme 1 (use of new know-how and new technologies to make the products and services of rural areas more competitive), six groups have chosen theme 2 (improving the quality of life in rural areas) and five groups have chosen theme 3 (adding value to local products, particularly by facilitating access to markets for small production units via collective actions).

Germany

Amendments to RDP

568. In 2003 Germany submitted 16 requests for amendments to programmes. Those requests were aimed mainly at bringing the financial allocation for specific measures into line with requirements and at introducing optional modulation. The objective of the modulation is to strengthen the second pillar. The funds transferred by means of modulation from the first to the second pillar were used to introduce new agri-environmental measures.

569. Following the flooding in 2002, Germany reinforced its flood prevention measures and stepped up the conversion of arable land into grassland in specific areas at risk from flooding.

570. Fifteen amendments were approved before the end of the financial year (EAGGF Guarantee Section).

Level of payments for the period from 16 October 2002 to 15 October 2003 (EAGGF Guarantee Section)

571. For 2003, the plans provided for an EU contribution of EUR 803.83 million. For the period from 16 October 2002 to 15 October 2003, EUR 799.14 million was paid (99.42 %).

572. Overall financial execution for the EAGGF Guarantee Section since the beginning of the programming period stands at 55 % of the total budget allocated for 2000–06, i.e. EUR 2 920.8 million out of a total of EUR 5 308.6 million.

Objective 1 programmes

573. Six German *Länder* are classified as Objective 1 regions: Berlin, Brandenburg, Mecklenburg-Western Pomerania, Saxony, Saxony-Anhalt, Thuringia

574. For those regions, measures other than the accompanying measures are funded by the EAGGF Guidance Section (EUR 3 442.24 million for the period 2000–06). Financial execution since the beginning of the programming period stands at 39 % of the amount committed (EUR 1 344.01 million has been paid). Payments for 2003 amounted to EUR 477.81 million.

Amendments to OPs and SPDs

575. The Commission approved the amendments to the Objective 1 operational programme (OP) for Saxony Anhalt and Thuringia to take account of changes to the plans, which became necessary as a result of natural disasters in 2002.

Leader+ programmes

576. In Germany, 14 Leader+ programmes are being implemented, with part-financing of EUR 262.8 million from the EAGGF Guidance Section, during 2000–06. In 2003 financial execution stands at 9 % of the amount committed at the beginning of the programming period. Six German *Bundesländer* could be affected by the n + 2 rule in 2003.

Greece

Rural development programmes (EAGGF Guarantee Section)

577. The rural development programming document (RDPD) for Greece amounts to EUR 2 686.4 million, with a European Community contribution of EUR 993.4 million from the EAGGF Guarantee Section. It comprises the four accompanying measures. Despite a sound rate of payment, the RDPD is still encountering certain difficulties in

starting up the agri-environmental schemes. In July 2003 an amendment to the RDPD, involving a revision of the codes of good agricultural practice and changes to agri-environmental measures, was adopted by the Commission.

Level of payments for the period from 16 October 2002 to 31 August 2003

578. Payments during the period concerned amounted to EUR 136.44 (90.72 % of the EAGGF Guarantee Section budget for 2003).

579. Overall financial execution for the EAGGF Guarantee Section since the beginning of the programming period stands at 50 % of the amounts allocated for 2000–06, i.e. EUR 506.1 million out of a total of EUR 993.4 million.

**Operational programmes or single programming documents
(EAGGF Guidance Section)**

580. The national single-fund (EAGGF Guidance Section) programme was approved by the Commission on 6 April 2001. The Community contribution towards this programme amounted to EUR 1 233.4 million, out of a total cost of EUR 3 010.2 million. The multi-fund regional programmes approved in the course of the first half of 2001 represent a total cost of EUR 10 914.4 million, a total Community contribution of EUR 7 041.7 million and an EAGGF Guidance Section contribution of EUR 1 026.9 million. All the programme complements were also adopted by the monitoring committees, which met in June 2003. Certain activities which encountered implementing difficulties had to be reviewed with the Greek authorities.

Level of payments in 2003

581. For 2003, payments totalled EUR 75.13 million. Total EAGGF Guidance Section payments (EUR 422.52 million) since the beginning of the 2000–06 programming period represent 19 % of the budget allocated (EUR 2 260.3 million).

Leader+ programmes

582. There is only one programme for the whole of Greece, which was approved on 19 November 2001. Its total cost is EUR 392.6 million, EUR 182.9 million of which is to be provided by the EAGGF Guidance Section. In 2002 the managing authority selected the 40 local action groups provided for by the programme. The agreements between 39 local action groups and the managing authority were signed at the beginning of 2003. The managing authority also selected the assessor for the mid-term review and the national networking unit. The Monitoring Committee met twice in 2003.

583. For 2003, payments totalled EUR 2.9 million (30 November 2003).

584. Total EAGGF Guidance Section payments (EUR 15.72 million) since the beginning of the 2000–06 programming period represent 9 % of the budget allocated.

Spain

Rural development plans (EAGGF Guarantee Section)

585. In 2000 the Commission had adopted two horizontal plans (accompanying measures and improvement of production structures) and seven regional programmes (Aragon, Catalonia, Basque Country, Navarre, Balearic Islands, Rioja and Madrid).

Amendments to rural development plans

586. On 8 April 2003, the Commission approved an amendment to the programme for Catalonia aimed mainly at enabling the Proder local action groups to select projects under the measure for processing and marketing agricultural products, and at raising to 100 % the rate of part-financing for the measure entitled 'Restoring production potential damaged by catastrophes' and introducing complementary State aid for this measure.

587. The second amendment to the horizontal programme for accompanying measures was approved by the Commission on 5 August 2003. This amendment relates in particular to agri-environmental measures (irrigation-water savings in overexploited aquifer areas, preservation of pure breeds threatened with extinction and organic banana production in the Canary Islands) and to the introduction of additional national aid of EUR 67.76 million for compensatory allowances in Spain.

Level of payments for the period from 16 October 2002 to 15 October 2003

588. Payments during the period concerned amounted to EUR 496.92 million (97.3 % of the EAGGF Guarantee Section budget for 2003).

589. After four years of implementation, overall financial execution for the EAGGF Guarantee Section stands at 54 % of the amounts allocated for 2000–06, i.e. EUR 1 877.8 million out of a total of EUR 3 481 million.

Operational programmes (EAGGF Guidance Section)

590. In 2000 and 2001, the Commission had approved two horizontal programmes (one single-fund to improve production structures in the Objective 1 regions and one multifund for technical assistance) and 10 multifund regional programmes (Andalusia, Asturias, Cantabria, Castile-La Mancha, Castile-Leon, Extremadura, Galicia, Murcia, the Canary Islands and Valencia), as well as the corresponding programme complements.

591. In March 2003, the Commission approved an amendment to the common management and financial execution indicators for all OPs with a view to allocating the performance reserve, in accordance with the communication on simplification. Amendments were subsequently made to the operational programmes for improving structures (introduction of a new measure and modification of the financial table) and for Castile-La Mancha (modification of the financial table), and to the programme complements for the following autonomous communities: Castile-La Mancha (introduction of a new measure), Castile-Leon, Cantabria and Extremadura.

592. For 2003, payments totalled EUR 792.43 million. After four years of implementation, financial execution stands at 40 % (EUR 2007.26 million) of the budget available for the entire programming period (EUR 5 021.20 million).

Leader+ programmes

593. By the end of 2002, the Commission had approved 18 Leader+ programmes (one horizontal programme and 17 regional programmes, i.e. one per autonomous community).

594. Seventeen programmes were covered by a global grant and one (Basque Country) by a programme complement. In all, 150 local action groups were set up.

595. After four years of implementation, financial execution stands at 10 % (EUR 50.78 million) of the budget available for the entire programming period (EUR 496.9 million).

France

Amendments to national rural development plan

596. On 10 October 2002, the French authorities submitted a request to amend the national rural development plan. This amendment was the subject of a decision dated 21 August 2003. The budgetary impact of the amendment is very limited. The various changes involved concern the following aspects of the programming document: (i) agri-environmental measures relating to breeds threatened with extinction; (ii) the main features of support measures for farm investments; (iii) less-favoured areas; (iv) the agri-environment (adjustments and additional information for regional summaries); (v) processing and marketing of agricultural products; (vi) forestry; (vii) stockfarming; (viii) measures benefiting farmland; (ix) measures benefiting peri-urban areas; and (x) the financing plan.

Level of payments for the period from 16 October 2002 to 15 October 2003 (EAGGF Guarantee Section)

597. Payments during the period concerned amounted to EUR 832.30 million (103.86 % of the EAGGF Guarantee Section budget of EUR 801.38 million for 2003).

598. After four years of implementation, overall financial execution for the EAGGF Guarantee Section stands at 44 % of the amounts allocated for 2000–06, i.e. EUR 2 572.7 million out of a total of EUR 5 763.4 million.

Operational programmes or single programming documents

599. Six French regions are classified as Objective 1 regions: the four overseas departments (Guadeloupe, Martinique, French Guiana and Réunion), Corsica and part of the region of Nord/Pas-de-Calais (the districts of Douai, Valenciennes and Avesnes-sur-Helpe). The latter two regions are receiving transitional support.

600. For each region, measures other than the four accompanying measures are financed by the EAGGF Guidance Section. The forecasts for the year stand at EUR 101 million.

Amendments to the SPDs of Objective 2 regions in 2003

601. Many SPD monitoring committees approved proposals for amending programmes with a view to improving the rate of use of the funds available, particularly by simplifying management. These amendments were transmitted to the Commission in order to allow the SPDs to be formally amended.

Amendments to the OPs of Objective 1 regions

602. Following the adoption by the Council on 28 June 2001 of Regulation (EC) No 1447/2001 providing for exemptions for the outermost regions, such as an increase in the rate of public funding for smaller farms and for the agri-food industries, the different monitoring committees approved the amendments to the SPD and programme complement of each of the programmes for the overseas departments.

603. The regions of Réunion and Guadeloupe benefited from a decision ratifying those amendments. In the case of Martinique and French Guiana the decisions are still under consideration.

604. In the case of Corsica, a new decision confirmed the amendments submitted to the 2001, 2002 and 2003 monitoring committees, including an increase in EAGGF funding for technical assistance following a new Commission statement to the STAR Committee on the use of technical assistance for regions receiving funding from the EAGGF Guidance Section.

Leader+ national programme

605. A global grant was adopted in the context of the Community Leader+ initiative on 8 August 2001. The Centre national pour l'aménagement des structures des exploitations agricoles (CNASEA) was chosen to manage the grant. The overall amount of the Community contribution is EUR 268.1 million.

606. Implementation is being carried out by 140 local action groups selected in 2002, whose action programmes have been set in place following the signature of the agreements.

607. Overall financial execution since the beginning of the programming period stands at 11 % of the budget available for the entire programming period, i.e. an amount of EUR 29.32 million out of a total of EUR 268.1 million.

Ireland

Rural development programmes (EAGGF Guarantee Section)

608. Total public expenditure under the programme is EUR 3 675.1 million, including an EU contribution of EUR 2 388.9 million from the EAGGF Guarantee Section. The programme covers all rural areas. The programme includes support for early retirement, less-favoured areas, the agri-environment and afforestation.

Amendments to RDP

609. There were no amendments to the programme in 2003.

Rate of payments for the period from 16 October 2002 to 15 October 2003

610. EU expenditure for the programme in the period concerned amounted to EUR 341 million, i.e. almost 100 % of the budget allocated.

611. Overall financial execution for the EAGGF Guarantee Section since the beginning of the programming period stands at 56 % of the total budget allocated for 2000–06, i.e. EUR 1 341.5 million out of a total of EUR 2 388.9 million.

Operational programmes (EAGGF Guidance Section)

612. The EAGGF Guidance Section contributes to rural development measures under two operational programmes (operational programmes for the border, midland and western regions, and the southern and eastern regions) in the Community support framework 2000–06. EU contributions towards part-funded measures (forestry and farm investment) during 2000–06 amount to EUR 169.4 million.

613. Agricultural and rural development measures in the two regional operational programmes are still behind schedule. The Commission had to go ahead with the automatic decommitment of EAGGF allocations totalling EUR 5 million which were unspent at the end of 2002 on account of low spending in 2001 because of the foot-and-mouth crisis.

614. The PEACE II operational programme (the Community special support programme for peace and reconciliation in Northern Ireland and the border country of Ireland) was approved in 2001. The programme got off to a very slow start and no EAGGF spending has been recorded to date.

Leader+ programme

615. The Leader+ programme for Ireland was adopted on 3 July 2001 (Commission Decision C(2001) 1296). Twenty-two local action groups have been selected. The programme became fully operational in 2002. Leader+ is now starting to make progress following the initial delays.

616. The EU contribution for 2000–06 amounts to EUR 47.9 million. EU expenditure for the programme amounted to EUR 5.47 million by the end of 2002 (11 % of the total budget allocated).

Italy**Rural development programmes (EAGGF Guarantee Section)**

617. Twenty-one rural development programming documents are financed by the EAGGF. The total public cost of the Italian rural development programme is

EUR 8 815.2 million, including a Community contribution of EUR 4 512.3 million from the EAGGF Guarantee Section.

Amendments to RDPs

618. The Commission approved amendments to the following RDPs: Bolzano, Emilia-Romagna, Friuli, Lombardy, Piedmont, Liguria and Campania. The amendments related mainly to the adjustment of several measures in the programme to take account of actual implementation, and reprogramming of the financial plan.

Level of payments for the period from 16 October 2002 to 15 October 2003

619. At 15 October 2003, aggregate expenditure during the financial year under way on the 21 rural development programming documents financed by the EAGGF Guarantee Section amounted to EUR 655.556 million in Community contributions, which represents 95.97 % of the budget allocated.

620. Overall financial execution for the EAGGF Guarantee Section since the beginning of the programming period stands at 60 % of the amounts allocated for 2000–06, i.e. EUR 2 723.8 million out of a total of EUR 4 512.3 million.

Operational programmes or single programming documents (EAGGF Guidance Section)

Amendments to OPs or SPDs

621. The Commission approved an amendment to the regional operational programme for Campania concerning the adjustment of a measure aimed at promoting the marketing of quality products.

Level of payments in 2003

622. The seven Objective 1 regions (Sicily, Sardinia, Calabria, Basilicata, Campania, Apulia and Molise) benefited from an amount of EUR 200.923 million in payments.

623. EAGGF Guidance Section payments (EUR 486.97 million) since the beginning of the programming period represent 16 % of the amount allocated from the EAGGF Guidance Section for the entire period (EUR 2 982.6 million).

Leader+ programmes

624. The approval phase for the 22 Leader+ programmes closed in 2002.

625. For the entire programming period, the total public cost of the Italian Leader+ programmes stands at EUR 482.3 million, including a Community contribution of EUR 284.1 million from the EAGGF Guidance Section.

626. For the 22 Leader+ programmes, expenditure for 2003 stands at EUR 0.294 million for payments.

Luxembourg

Rural development plan (EAGGF Guarantee Section)

627. The entire budgetary allocation for the RDP was used in full for the first time in 2002. The fact that the budget was overrun by 22 % in 2003 confirms that the programme has been well implemented. Three measures account for most of the funds available, namely the agri-environment, the compensatory allowance, and investment. It may also be emphasised that the latter measure over-performed in 2003, since all the funds available for the period were used.

Amendments to the RDP

628. Two amendments were introduced in 2003. The first related to compensatory allowances for less-favoured areas (introduction of economic modulation) while the second was purely financial (reallocation of funds between measures).

Level of payments for the period from 16 October 2002 to 15 October 2003

629. The 2003 EAGGF Guarantee Section allocation for Luxembourg amounted to EUR 13.7 million. Use was made of EUR 16.82 million, i.e. 122 % of the allocation.

630. Overall financial execution for the EAGGF Guarantee Section since the beginning of the programming period stands at 49 % of the amounts allocated for 2000–06, i.e. EUR 44.3 million out of a total of EUR 91 million.

Leader+ programmes

631. The programme complement was submitted in May 2003. The initiative was therefore actually implemented for the first time in 2003.

Netherlands

Rural development programme (EAGGF Guarantee Section)

632. The total public cost of the rural development programme for the Netherlands is EUR 1 057.39 million, including an EU contribution of EUR 417 million from the EAGGF Guarantee Section.

Amendments to RDP

633. A notification setting out a number of technical changes to the programme was sent on 19 June 2003 and entered into force on 19 September 2003. On 2 October 2003 the European Court of Justice ruled against the Netherlands on the implementation of the Nitrates Directive. The implications of this Court ruling must be taken into account in the rural development plan.

Rate of payments for the period from 16 October 2002 to 15 October 2003

634. For this period, the Netherlands claimed an EU contribution of approximately EUR 69.36 million towards the programme. The total budget of EUR 59.50 million was accordingly (over)spent (116 %).

635. Overall financial execution for the EAGGF Guarantee Section since the beginning of the programming period stands at 56 % of the total budget allocated for 2000–06, i.e. EUR 234.7 million out of a total of EUR 417.0 million.

The Objective 1 programme of Flevoland (EAGGF Guidance Section)

636. Flevoland is classified as a phasing-out Objective 1 region. In 2003 an amount of EUR 700 000 was committed for this programme. However, an amount of EUR 71 750 was decommitted from the 2000 annual budget which had not been spent in time (by 31 December 2002 — application of n + 2 rule, Regulation (EC) No 1260/1999). The results of the mid-term evaluation of this programme are expected by the end of this year.

637. An amendment to the Flevoland Objective 1 programme, concerning the automatic decommitment of the amount mentioned above, was approved by a Commission decision before the end of 2003.

Leader+ programmes

638. In the Netherlands four Leader+ programmes have been approved. For 2003 EUR 13.6 million was allocated. Since the adoption of the Leader+ programmes a total EU contribution of EUR 9.41 million has been paid (11 % of the total budget for the period).

639. The selection and implementation of projects under priority 1 are making good progress. Priority 2 (transnational cooperation) is behind schedule.

Austria**Rural development programme (EAGGF Guarantee Section)**

640. The total public cost of the Austrian rural development programme for 2000–06 is EUR 6 570.06 million, including an EU contribution of EUR 3 208.10 million from the EAGGF Guarantee Section. The programme includes support for farm investments, setting up of young farmers, training, less-favoured areas, agri-environment, improving processing and marketing of agricultural products, and promoting the adaptation and development of rural areas and forestry.

Amendments to RDP

641. The amendment to the Austrian RDP for 2002 was approved by Decision C(2003)149 of 19 February 2003. The main changes relate to farm investments, agri-environmental measures, setting up of young farmers, less-favoured areas, processing and marketing, and the financial plan.

Rate of payments for the period from 16 October 2002 to 15 October 2003

642. For 2003, the plan makes provision for total public expenditure of EUR 964.62 million, including an EU contribution of EUR 460.00 million. Agri-environmental measures represent EUR 573.83 million of total public expenditure, including an EU contribution of EUR 296.07 million. For the period from 16 October 2002 to 15 October 2003, payments from the EAGGF Guarantee Section totalled approximately EUR 458.13 million (almost 100 % of available funds).

643. Overall financial execution for the EAGGF Guarantee Section since the beginning of the programming period stands at 56 % of the total budget allocated for 2000–06, i.e. EUR 1 810.7 million out of a total of EUR 3 208.1 million.

Annual report

644. The annual report for 2002 showed that in general the implementation of measures relating to the most important measures, such as less-favoured areas and agri-environmental measures, was satisfactory. An important priority for 2002 was the mid-term evaluation of the RDP.

Objective 1 programme of Burgenland

645. The total public cost of the 2000–06 Austrian Objective 1 programme is EUR 365.1 million, including an EU contribution of EUR 271.0 million from the ERDF, ESF and EAGGF (EUR 41.3 million).

Amendments to OP or SPD

646. The third amendment to the Austrian Objective 1 programme in 2002 was approved by Decision C(2002)4158 of 3 December 2002. The fourth modification is in the process of being approved. The amendments relate mainly to the distribution of contributions from the funds.

Rate of payments in 2003

647. The programme provides for public expenditure for RDP measures (EAGGF) totalling EUR 7.9 million and an EU (EAGGF) contribution of EUR 5.9 million in 2003. Since the adoption of the Objective 1 programme for Burgenland, an EU contribution of EUR 18.5 million has been paid (44 % of the total budget for the period).

Annual report

648. The structure of the 2002 annual report complies with the relevant Commission guidelines. The annual report also includes a brief analysis and tables of indicators relating to priorities and measures. There have been no major changes in socioeconomic trends or in national, regional or sectoral policies.

Leader+ programme

649. The Leader+ programme for Austria was approved by Decision C(2001) 820 of 26 March 2001. During the period 2001–06, total expenditure under the programme is EUR 161.50 million. This includes an EU contribution of EUR 75.50 million and a contribution of EUR 58.00 million from the private sector.

650. The Leader+ programme for Austria covers eight regions (excluding the urban area of Vienna).

Selection of local action groups

651. Following a public tendering procedure, 56 local action groups have been selected under the programme. The groups cover 46 996 km², i.e. approximately 45 % of the territory, and a population of 2 175 079.

Rate of payments

652. The programme provides for expenditure of EUR 22.2 million in 2003. This includes an EU contribution of EUR 10.4 million and a contribution of EUR 7.9 million from the private sector.

653. Since the adoption of the Austrian Leader+ programme, an amount of EUR 11.4 million has been paid (15 % of the total budget for the period 2000–06).

Portugal

Rural development programmes (EAGGF Guidance Section)

654. Total public expenditure under the three rural development programmes for Portugal (mainland Portugal, Azores and Madeira) amounts to EUR 1 829.921 million, including a Community contribution of EUR 1 372.146 million from the EAGGF Guarantee Section.

Amendments to the RDPs

655. Two programmes (mainland Portugal and Madeira) were amended in 2003.

Rate of payments for the period from 16 October 2002 to 15 October 2003

656. Payments totalled EUR 153.11 million on 30 November 2003.

657. The EAGGF Guarantee Section budget for 2003 was EUR 169.15 million. Consumption was EUR 153.1 million, i.e. 90.52 %.

658. Since the beginning of the programming period, overall financial execution for the EAGGF Guarantee Section is 42 % of the amounts scheduled for 2000–06, i.e. EUR 642.9 million executed out of the amount of EUR 1 516.8 million provided for.

Operational programmes or single programming documents (EAGGF Guidance Section)

Amendments to the OPs (situation on 15 October 2003)

659. All eight of the Portuguese OPs (the five regional OPs for mainland Portugal — North, Centre, Alentejo, Lisboa e Vale do Tejo, and Algarve — and the OP for Madeira, the OP for the Azores and the national OP 'Agriculture and rural development') were amended as regards the criteria and indicators for management and financial execution for allocating the performance reserve.

660. The national OP 'Agriculture and rural development' was also amended to increase the funding under the EAGGF Guidance Section and amend the annex on sectoral restrictions.

661. The OP for Madeira was amended to include an exception to Article 37(3) of Regulation (EC) No 1275/1999 in the vine and fruit and vegetable sectors.

662. Amendments have been made to the OPs for Centre, Lisboa e Vale do Tejo, Alentejo and Algarve as regards the financing plan and adjustments to the content of the EAGGF Guidance Section measures. The amendment of the OP for Lisboa e Vale do Tejo also reduced the amount of EAGGF Guidance Section funding to strengthen the OP 'Agriculture and rural development'.

Rate of payments in 2003

663. For 2003, payments for the eight Objective 1 operational programmes totalled EUR 263.65 million. On aggregate since the beginning of the period, these amounts totalled EUR 701.86 million on 30 November 2003 (33 % of the total budget for the period 2000–06).

Leader+ programmes

664. There is one single national Leader+ programme. The total cost is EUR 266.92 million, EUR 161.6 million of which is to be paid from the EAGGF Guidance Section.

665. Payments since the start of the programming period amount to EUR 31.657 million, i.e. 33 % of the total budget for the entire period (at 30 November 2003).

666. The programme was amended in 2003, among other things to include a 'technical assistance' measure in strand 2 'Cooperation'.

Finland

Rural development programmes (EAGGF Guarantee Section)

667. In 2000 the Commission approved three rural development programmes, two for mainland Finland and one for the Åland Islands, which is an autonomous province of Finland.

Amendments to the RDP

668. In 2003 the Commission approved an amendment of the horizontal rural development programme to include revenue from the application of cross-compliance and take better account of the financial distribution across the various measures.

Rate of payments for the period from 16 October 2002 to 15 October 2003

669. For this period Finland claimed an EU contribution for the programme of approximately EUR 336.97 million. This means that the total budget of EUR 314.00 million was (over)spent (107.32 %).

670. From the beginning of the programming period, global financial execution for the EAGGF Guarantee Section is 44 % of the total budget for 2000–06, i.e. EUR 2 572.7 million out of a total of EUR 5 763.4 million.

Single programming documents (EAGGF Guidance Section)

671. In 2000 the Commission approved two single programming documents (SPDs) for Objective 1 implemented in Finland: eastern Finland and northern Finland.

Rate of payments

672. After four years of implementation, an amount of EUR 50.42 million (26 %) has been paid out of the total budget 2000–06.

Leader+ programme

673. In 2001 the Commission approved one Leader+ programme for Finland, and 25 local action groups (LAGs) were appointed and are supported by a national network.

674. After three years of implementation of the programme, an amount of EUR 7.7 million (30 %) has been paid out of EUR 25.6 million committed in 2001–03.

Sweden

Rural development programme (EAGGF Guarantee Section)

675. In 2000 the Commission approved one rural development programme (accompanying measures covering the entire country, other measures covering non-Objective 1 regions). The total public cost of the Swedish rural development programme 2000–06 is EUR 2551.63 million, including a contribution of EUR 1 130.05 million from the EAGGF Guarantee Section. The programme includes support for investments in agricultural holdings, setting up of young farmers, training, less-favoured areas, agri-environmental measures, improving processing and marketing of agricultural products, and promoting the adaptation and development of rural areas and forestry.

Amendments to the RDP

676. No amendments were submitted in 2003.

Rate of payments for the period from 16 October 2002 to 15 October 2003

677. The rate of payments is 101.18 % (expenditure/envelope) with total expenditure amounting to EUR 165.82 million compared with an envelope of EUR 163.89 million.

678. From the beginning of the programming period, overall financial execution for the EAGGF Guarantee Section is 57 % of the total budget for 2000–06, i.e. EUR 655.3 million out of a total of EUR 1 129.9 million.

Single programming documents (EAGGF Guidance Section)

679. In 2000 the Commission approved the Objective 1 programmes for Norra Norrland and Södra Skogslänsregionen.

680. After three years of implementation, the financial execution is 36 % of the funds committed at the beginning of the programming period. This means that for these Objective 1 programmes, an amount of EUR 39.9 million has been paid out of the EUR 111.7 million available for the period 2000–06.

Leader+ programme

681. In 2001 the Commission approved one Leader+ programme. In total, 12 local action groups have been appointed.

682. After three years of implementation, the financial execution is 32 % of the amount available for all the programming period, i.e. EUR 6.8 million paid out of the EUR 40.5 million available for all the programming period.

United Kingdom**Rural development programmes (EAGGF Guarantee Section)**

683. There are four rural development programmes for the period 2000–06: England, Northern Ireland, Scotland and Wales. The total cost for these programmes is EUR 3 276 million, of which the EAGGF Guarantee Section contributes with EUR 1 168 million.

Amendments to the rural development programmes

684. The respective United Kingdom authorities notified the Commission of amendments to the rural development programmes for England, Scotland and Wales. The changes concerned the measures for training, less-favoured areas, agri-environmental measures and the adaptation and development of rural areas.

685. Proposals to amend the rural development programmes for England and Scotland, for which a Commission decision is required, were submitted to the Commission in October. The amendments concerning the measures for support to less-favoured areas and for agri-environmental measures were considered by the management committee in December with a view to having a Commission decision adopted in early 2004. No changes

were proposed regarding the EU financial contribution to these programmes, but for Scotland there was a proposal for additional national aid.

Rate of payments for the period from 16 October 2002 to 15 October 2003

686. The level of payment for all UK rural development programmes is 89.6% of the envelope for the 2003 EAGGF year. Total expenditure amounts to EUR 151 662 270 compared with an envelope of EUR 169.23 million.

687. From the beginning of the programming period, overall financial execution for the EAGGF Guarantee Section is 54% of the total budget for 2000–06, i.e. EUR 635 million out of a total of EUR 1 168 million.

Operational programmes or single programming documents (EAGGF Guidance Section)

688. EAGGF Guidance support is available only in regions eligible for Objective 1 (or regions in transition): Cornwall and the Scilly Isles, Merseyside, Northern Ireland (in transition), South Yorkshire, Highlands and islands (in transition) and West Wales and the Valleys. In addition, EAGGF Guidance contributes to the special programme for Northern Ireland — Peace II. There were no changes to the single programming documents in 2003.

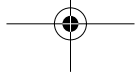
Rate of payments

689. The total amount paid by the end of 2003 was EUR 68.07 million (19% of the total budget for the 2000–06 programming period). Further claims for payment were made before the end of December 2003 and these will be paid in 2004.

Leader+ programmes

690. The UK has four Leader+ programmes: England, Northern Ireland, Scotland and Wales with a total of 55 local action groups. The total public cost of the four programmes amounts to EUR 253 million, of which the EAGGF contributes with EUR 113 million.

691. By the end of 2003 a total amount of EUR 9.6 million has been paid (10% of the total budget for the 2000–06 programming period).



VI — Environment and forestry

Other environmental measures

692. In the wake of its January 2000 and March 2001 communications entitled ‘Indicators for the integration of environmental concerns into the common agricultural policy’⁽¹¹⁷⁾ and ‘Statistical information needed for indicators to monitor the integration of environmental concerns into the common agricultural policy’⁽¹¹⁸⁾, the Commission provided the conceptual input for the IRENA⁽¹¹⁹⁾ project and presented an analytical framework including the identification of a set of 35 agri-environmental indicators as well as the available sources of information for that set of indicators. A specific final output of the project will be a report to be presented to the European Council in December 2004. An interim report was produced in 2003.

693. Implementation of the ‘Biodiversity action plan for agriculture’⁽¹²⁰⁾, adopted by the Council in June 2001 and by the European Parliament in March of the following year, also continued in 2003. The action plan sets specific targets and establishes a timetable for carrying out priority tasks. It also indicates the main instruments to be used to contribute to the conservation of biodiversity in agriculture by means of good farming practice. To ensure effective monitoring of the implementation of the proposed instruments and evaluation of their results with regard to the conservation and sustainable use of genetic resources in agriculture, the communication also underlines the need to develop operational indicators in this area.

694. In 2003 the Commission adopted a proposal for a Council regulation establishing a new multiannual Community programme on the conservation, characterisation, collection and utilisation of genetic resources in agriculture⁽¹²¹⁾. This new programme will cover actions that aim to support, complement or coordinate at Community level work undertaken at local, regional, or Member State level in line with the aims of the CAP towards sustainable agriculture. Smaller-scale measures may also cover *in situ/on-farm* genetic resources’ conservation activities (reproduction of genetic resources by farmers, on their

⁽¹¹⁷⁾ COM(2000) 20 final.

⁽¹¹⁸⁾ COM(2001) 144 final.

⁽¹¹⁹⁾ IRENA is the acronym of ‘Indicators report on the integration of environmental concerns into agriculture policy’.

⁽¹²⁰⁾ COM(2001) 162 final, volume III.

⁽¹²¹⁾ COM(2003) 817 final.

own farm). The actions will be transnational, taking into account, where appropriate, bio-geographic regional aspects.

695. Agriculture plays a determining role in other Community initiatives aimed at safeguarding the environment. The measures currently being carried out to protect surface water and groundwater ⁽¹²²⁾ are one example of this. Under the Nitrates Directive, Member States must draw up action plans in designated vulnerable zones in order to reduce nitrate pollution at source. The 1979 Birds Directive is another relevant Community initiative, which obliges Member States to protect the habitats of their wild bird populations. Lastly, an ecological network known as 'Natura 2000' has been set up under the 1992 Habitats Directive.

696. Other recent initiatives include the Commission communication entitled 'Towards a thematic strategy on the sustainable use of pesticides' ⁽¹²³⁾, the purpose of which is to launch a broad consultation to assist in the development of a thematic strategy on the sustainable use of pesticides. This strategy is to complement the existing legislative framework, which focuses on the beginning and end of the life cycle of pesticides. The Commission also presented a communication entitled 'Towards a thematic strategy for soil protection' ⁽¹²⁴⁾, which constitutes a first step towards drawing up a genuine Community protection strategy and is both descriptive and action-orientated, thus providing a full picture of this complex issue that can serve as a basis for future work. The Commission communication 'Towards a thematic strategy on the sustainable use of natural resources' ⁽¹²⁵⁾ also seeks to stimulate debate on a framework for exploiting and managing resources in line with the objectives of the European Union's rural development strategy. A further example is the Commission's proposal for a directive of the European Parliament and of the Council on environmental liability with regard to the prevention and remedying of environmental damage ⁽¹²⁶⁾, which aims at setting up a system of environmental liability under the 'polluter pays' principle to prevent or repair environmental damage affecting biodiversity, water and soil.

Other forestry measures

697. In the context of the protection of forests against atmospheric pollution (Council Regulation (EEC) No 3528/86) ⁽¹²⁷⁾, the Commission continued the management of projects and national programmes 2000, 2001 and 2002. The results were presented in the series of reports *The condition of forests in Europe* (2003 executive report, 'Results of the large-scale survey and intensive monitoring of forest ecosystems in Europe') jointly

⁽¹²²⁾ COM(2003) 550 final.

⁽¹²³⁾ COM(2003) 349 final.

⁽¹²⁴⁾ COM(2003) 179 final.

⁽¹²⁵⁾ COM(2003) 572 final.

⁽¹²⁶⁾ COM(2002) 17 final; SEC(2003) 1027 final.

⁽¹²⁷⁾ OJ L 326, 21.11.1986, pp. 2-4 (Finnish and Swedish special editions, Chapter 3, Volume 22, p. 59).

published by the United Nations Economic Commission for Europe and the European Commission.

698. On the protection of Community forests against fire (Council Regulation (EEC) No 2158/92)⁽¹²⁸⁾, the Commission continued the management of projects and national programmes 2000, 2001, 2002. The results were included in the report presented to the Council and the European Parliament on activities during the period 1992–02. The data on the forest fire information system⁽¹²⁹⁾ were also collected and analysed in the 2003 report.

699. Commissioner Fischler participated on behalf of the European Commission⁽¹³⁰⁾ in the Fourth Ministerial Conference on the Protection of Forests in Europe (MCPFE) held in Vienna on 28–30 April 2003. Following a Council decision⁽¹³¹⁾, the Commission signed, on behalf of the European Community and alongside the Member States, the declaration and five resolutions adopted at the conference. A work programme for implementation of the resolutions was subsequently adopted at the MCPFE Expert Level Meeting held in Vienna on 16–17 October 2003. The Vienna Conference reaffirmed the commitment of 40 European countries and the European Community to the protection and sustainable management of forests.

700. An information brochure⁽¹³²⁾ on EU forest-related activities was presented at the XIIth World Forestry Congress held in Quebec (Canada) from 21 September to 28 September 2003. The brochure provides an updated factual overview of EU activities and actions in forestry under the various Community policies.

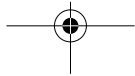
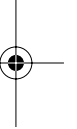
⁽¹²⁸⁾ OJ L 217, 31.7.1992, p. 3 (Finnish and Swedish special editions, Chapter 3, Volume 44, p. 3).

⁽¹²⁹⁾ Commission Regulation (EC) No 804/94.

⁽¹³⁰⁾ COM(2003) 166 final, 3.4.2003.

⁽¹³¹⁾ Council Decision 8224/2003, 14.4.2003.

⁽¹³²⁾ ISBN 92-894-6092-X.



VII — Financing of the CAP in 2003

701. CAP expenditure is funded under the financial perspective decided at the Berlin Summit in 1999 and adjusted at the Copenhagen Summit at the end of 2002 to take account of the financial effects of the enlargement of the Union to include the 10 new countries.

702. The financial perspective for the EU-15 and EU-25 from 2004 is shown in the table below.

Financial perspective

(million EUR)

	2000 current prices	2001 current prices	2002 current prices	2003 current prices	2004 ⁽¹⁾ current prices	2005 ⁽¹⁾ 2004 prices	2006 ⁽¹⁾ 2004 prices
Total for CAP under Agenda 2000	41 738	44 530	46 587	47 378	49 305	50 431	50 575
(a) Markets (subceiling 1(a))	37 352	40 035	41 992	42 680	42 769	43 724	43 735
(b) Rural development (subceiling 1(b))	4 386	4 495	4 595	4 698	6 536	6 707	6 840

⁽¹⁾ EU-25.

The EAGGF Guarantee Section in 2003

703. The EAGGF Guarantee Section appropriations adopted in the general budget for 2003 total EUR 44 780.5 million (including EUR 18 million for the agricultural budgetary reserves and provisions — Chapter B0-40). The appropriations under:

- the subheading for the CAP (subheading 1(a) covering Titles B1-1 to B1-3) amount to EUR 40 082.5 million, i.e. EUR 2 597.5 below the subceiling of the financial perspective;
- the subheading for rural development (subheading 1(b) covering Title B1-4) amount to EUR 4 698 million, i.e. the same as the subceiling fixed in the Interinstitutional Agreement.

Budgetary procedure

Stages of the budgetary procedure

704. The 2003 preliminary draft budget (PDB) was adopted by the Commission and proposed to the budgetary authority in April 2002. The appropriations proposed for the EAGGF Guarantee Section totalled EUR 45 117.8 million, i.e. EUR 40 419.85 million for subheading 1(a) (EUR 2 260.2 million below the ceiling for subheading 1(a) at EUR 42 680 million) and EUR 4 698 million for subheading 1(b) (i.e. at the same level as the ceiling).

705. The Council adopted the 2003 draft budget in July 2002. The appropriations in subheading 1(a) were reduced by EUR 288 million. Those in subheading 1(b) were maintained by the Council at the level of the financial perspective. EAGGF Guarantee Section appropriations accordingly totalled EUR 44 829.8 million, of which EUR 40 131.9 million for subheading 1(a) and EUR 4 698 million for subheading 1(b).

706. At the end of October 2002 the Commission adopted Letter of Amendment No 3/2003 to the preliminary draft budget in order to take account of developments on the agricultural markets and recent agricultural legislation.

707. While taking these factors into consideration, the amending letter to the PDB set appropriation requirements for the 2003 financial year at EUR 44 780.5 million, of which EUR 40 082.5 million was allocated to market measures (leaving a margin of EUR 2 597.6 below the ceiling) and EUR 4 698 million to rural development (equal to the ceiling).

708. In December 2002, following the consultation procedures between the three institutions, the final budget for 2003 was established as follows:

- for subheading 1(a), appropriations for 2003 were fixed at EUR 40 082.5 million (EUR 2 597.6 million below the Berlin ceiling);
- for subheading 1(b), appropriations for 2003 were fixed at the level of the ceiling, i.e. EUR 4 698 million.

The monetary reserve

709. In accordance with Council Regulation (EC) No 2040/2000 of 26 September 2000 on budgetary discipline, the monetary reserve regime no longer applies from the 2003 financial year.

The EAGGF Guarantee Section in the context of the general budget

710. Of the overall commitment appropriations of EUR 99 685.7 million entered in the 2003 general budget ⁽¹³³⁾, an amount of EUR 44 780.5 million (including the appropriations entered in Chapter B0-40 'provisions'), i.e. 44.9 %, was allocated to the Guarantee Section.

⁽¹³³⁾ Figures by financial perspective heading. Commitment appropriations — 2003 budget.

In 2002, EAGGF Guarantee Section commitments accounted for 45.6 % of commitments in the general budget.

The EAGGF and its financial resources

711. Agricultural policy also generates revenue in the form of sums collected under the common market organisations. This revenue, which forms part of the Union's own resources (¹³⁴), consists of:

- levies, which are variable charges on imports from non-member countries of agricultural products covered by the common market organisations; such charges are intended to compensate for the difference between prices on the world market and prices agreed within the Union. Under the Agreement on Agriculture following the Uruguay Round of multilateral trade negotiations, levies have been replaced by fixed import duties since 1995;
- levies collected under the common organisation of the market in sugar; these are divided into production levies on sugar and isoglucose, sugar storage levies and additional elimination levies which ensure that farmers and sugar manufacturers finance the cost of disposing of sugar which is surplus to Community internal consumption.

Revenue Charges accruing to the Union's own resources under the CAP (amounts prior to deduction of collection costs)

(million EUR)

Type of charge	1997	1998	1999	2000	2001	2002 (¹³⁵)	2003 (¹³⁶)
Agricultural levies	1 025.2	1 102.2	1 187.3	1 198.4	1 132.9	1 180.2	879.8
Sugar levies	1 114.0	1 070.1	1 203.6	1 196.8	840.0	864.8	546.6
Total	2 139.2	2 172.3	2 390.9	2 395.2	1 972.9	2 045.1	1 426.4

712. It should be noted that there are other sources of agricultural revenue. Under the common organisation of the market in milk and milk products, producers pay an additional levy if milk quotas are exceeded. This revenue does not, however, form part of the Union's own resources and is considered to be part of the measures to stabilise agricultural markets. It covers the additional expenditure brought about by the production overrun on the quotas and is thus deducted from that expenditure.

(¹³⁴) The Union's other own resources are: the levy on VAT, customs duties collected under the common customs tariff and Member States' contributions.

(¹³⁵) Execution 2002.

(¹³⁶) Estimates (net) in the 2003 budget.

EAGGF Guarantee Section expenditure

Expenditure

713. EAGGF Guarantee Section expenditure comprises:

- export refunds (EUR 3 432.3 million in 2002);
- public and private storage (EUR 1 163.1 million in 2002);
- withdrawals and similar operations (EUR 831.9 million in 2002);
- direct payments ⁽¹³⁷⁾ (EUR 28 800.8 million in 2002);
- other intervention relating to the common market organisations (EUR 3 479.4 million in 2002);
- other expenditure, principally rural development (EUR 5 506.7 million in 2002).

714. Direct payments to producers are thus currently by far the largest type of aid.

715. The EAGGF Guarantee Section also finances the accompanying measures introduced under the CAP reform in 1992 to assist farmers with projects to protect the environment, maintain the landscape, develop the use of woodland resources or transfer their holdings with a view to early retirement, plus, under the 1999 reform, other rural development measures, including compensation granted in less-favoured areas under the second pillar of the CAP.

716. Furthermore, as a result of the reorientation and later the reform of the CAP, the EAGGF Guarantee Section has been used to finance, in whole or in part, various specific measures for the management of agricultural markets such as the distribution of agricultural products to the needy in the Community, measures to combat fraud, measures to promote quality and measures designed to compensate for the geographical isolation of the French overseas departments (Poseidom), Madeira and the Azores (Poseima), the Canary Islands (Poseican) and the Aegean Islands.

Public stocks

717. Between 1 October 2001 and 30 September 2002, when the public storage accounts were closed, the quantities and book value of public intervention stocks developed as follows. The book value of products in storage rose from EUR 984.08 million at the end of the 2001 financial year to EUR 1 419.9 million at the end of the 2002 financial year. The share of cereals and rice diminished, these two products now accounting for around 52 % of the total value of products in storage. The remaining 48 % comprises milk products (30 %), beef and veal (15 %), and alcohol (3 %).

⁽¹³⁷⁾ Direct payments as defined in the Annex to Regulation (EC) No 1259/1999 of 17 May 1999 (OJ L 160, 26.6.1999, p. 113).

Clearance of accounts

718. The Commission adopted the following decisions on the clearance of EAGGF Guarantee Section accounts:

- Decision of 10 April 2003 (2003/273/EC) in respect of the 2000 financial year as regards the paying agency in Greece ⁽¹³⁸⁾;
- Decision of 7 May 2003 (2003/313/EC) in respect of the 2002 financial year ⁽¹³⁹⁾;
- Decision of 14 February 2003 (2003/102/EC) under Article 5(2)(c) of Regulation (EEC) No 729/70 — 12th decision ⁽¹⁴⁰⁾;
- Decision of 15 May 2003 (2003/364/EC) under Article 5(2)(c) of Regulation (EEC) No 729/70 — 13th decision ⁽¹⁴¹⁾;
- Decision of 27 June 2003 (2003/481/EC) on the financial treatment to be applied in certain cases of irregularity by operators (OLAF) ⁽¹⁴²⁾;
- Decision of 22 July 2003 (2003/536/EC) under Article 5(2)(c) of Regulation (EEC) No 729/70 — 14th decision ⁽¹⁴³⁾.

719. The expenditure recovered from Member States comes to EUR 382.49 million (including EUR 5.28 million for OLAF).

720. The agricultural expenditure audit departments also performed the other tasks allocated to them:

- 195 on-the-spot inspection missions in the 15 Member States and 10 Sapard countries, including checking of direct expenditure;
- 51 discussions with the Member States on the findings of inspection missions in respect of 1999, 2000, 2001 and 2002;
- the work of the European Parliament's Budgetary Control Committee in the context of the discharge of the 2001 budget;
- the replies to the Court of Auditors' 2002 annual report, special reports and Statement of Assurance for 2002;
- the decentralised management of the Sapard programme for new measures at nine Sapard paying agencies;
- active participation in the work of the conciliation body and the control evaluation advisory committee (CEEC — Comité consultatif d'évaluation des contrôles);
- assistance for the Commission's Legal Service in connection with cases before the Court of Justice associated with clearance of accounts and direct expenditure decisions;

⁽¹³⁸⁾ OJ L 99, 17.4.2003, p. 52.

⁽¹³⁹⁾ OJ L 114, 8.5.2003, p. 55.

⁽¹⁴⁰⁾ OJ L 42, 15.2.2003, p. 47.

⁽¹⁴¹⁾ OJ L 124, 20.5.2003, p. 45.

⁽¹⁴²⁾ OJ L 160, 28.6.2003, p. 83.

⁽¹⁴³⁾ OJ L 184, 23.7.2003, p. 42.

- the reply to the IAS reports on its enquiries into clearance of accounts work;
- active participation in enquiries conducted by the Task Force Recovery as regards OLAF cases;
- close monitoring of pending cases relating to Greece;
- organisation of seminars and on-the-spot missions in the 10 accession countries as regards the setting up of paying agencies, the IACS and other agricultural measures.

Expenditure on agricultural markets in 2003

721. The uptake of EAGGF Guarantee Section appropriations for the 2003 financial year (expenditure by the Member States from 16 October 2002 to 15 October 2003) amounted to EUR 44 462.0 million (including 2002 carryovers), i.e. 99.1 % of the appropriations entered under Subsection B1 of the budget. The initial appropriations of EUR 44 780.5 million thus exceeded expenditure by EUR 318.5 million.

- Total expenditure for subheading 1(a) (the CAP, covering Titles B1-1 to B1-3) amounts to EUR 39 782.4 million, i.e. EUR 2 897.6 million below the subceiling laid down in the Interinstitutional Agreement of 6 May 1999.
- Total expenditure for subheading 1(b) (rural development, covering Title B1-4) amounts to EUR 4 679.6 million, i.e. EUR 18.4 million below the subceiling.

EAGGF Guidance Section

722. Implementation of the reform of the Structural Funds since 1 January 1989 has gradually changed the nature of the assistance granted by the EAGGF Guidance Section. In the first programming period from 1989 to 1993, a share of Community contributions was still taken up by the annual reimbursement of national expenditure and the remainder by part-financing of operational programmes. In the second reform of the Structural Funds covering the period 1994–99, the entire Community contribution was programmed in the form of operational programmes.

723. In accordance with the conclusions of the Berlin European Council in 1999, a third programming period for the Structural Funds was introduced to run from 2000 to 2006. EAGGF Guidance Section involvement in this new period on the basis of Council Regulations (EC) Nos 1260/1999 (the general Structural Fund regulation) and 1257/1999 (support for rural development) only covers Objective 1 areas, the Community initiative Leader+ programme and technical assistance.

724. For the new period from 2000 to 2006, there is no decrease in Community support for rural areas, although the EAGGF Guidance Section allocations for the new period might give such an impression. In actual fact, measures targeting agricultural structures and the diversification of rural areas (former Objectives 5(a) and 5(b)) outside Objective 1 regions and compensatory allowances, which up to 1999 were funded by the EAGGF Guidance Section, are now covered by the EAGGF Guarantee Section.

725. Thus, Community support for the four accompanying measures, consisting of compensatory allowances for less-favoured areas and areas subject to environmental constraints (funded up to 1999 by the EAGGF Guidance Section), early retirement, agri-environmental measures and woodland management, is funded out of the EAGGF Guarantee Section throughout the Community. Community support for other rural development measures in areas outside Objective 1 is also funded out of the EAGGF Guarantee Section.

Funding in the new 2000–06 programming period

726. In the new 2000–06 programming period, the EAGGF Guidance Section contributes to Objective 1 (regions whose development is lagging behind), the Leader+ initiative and technical assistance as indicated above. It also continues to cover payment commitments under programmes from previous periods which were wound up by 31 December 2001 and the final balance of which must in principle be paid by the end of 2003.

727. However, by way of exception, an amount of EUR 148 million was committed in 2000 to cover the outstanding part of the last tranche (1999) of the 1994–99 programming period. This was because, as a result of the lack of budget allocations at the end of the 1999 financial year and the late adoption of the last programming adjustment decisions outside the accounting deadline, it was not possible to commit all of the 1994–99 Structural Fund CSF programmes and Community initiative programmes in 1999 (Tables 1a and 1b).

728. The new programmes for the EAGGF Guidance part of Objective 1 and PEACE comprise 70 single programming documents and operational programmes, of which only 35 were adopted by a Commission decision in time to be covered by commitments/payments in the 2000 financial year on account of delays in the approval procedure in 2000. At the beginning of 2001, authorisation was granted to carry over commitment appropriations for 20 other programmes from 2000 to 2001 and, for the remaining 15 programmes, a request was made, in accordance with the 1999 Interinstitutional Agreement, for the appropriations to be transferred from the year 2000 to the years 2002–06. As a result, in 2001 all the 70 OPs/SPDs had been adopted.

729. As regards the Leader+ initiative, on account of a lengthier procedure following the adoption of the guidelines, none of the 73 programmes provided for was adopted by the end of 2000 and, consequently, it was requested in 2001 that all the appropriations be transferred from the year 2000 to the years 2000–06. Seventy programmes were adopted in 2001 and the remaining three were adopted in 2002.

Execution of 2002 budget

730. In terms of the appropriations available in 2002, including those originally entered in the budget together with transfers and carryovers (EUR 2 998.1 million in commitment appropriations and EUR 2 640.5 million in payment appropriations), execution of the 2002 budget for the whole of the EAGGF Guidance Section was 99.9 % (EUR 2 996.9 million) for commitment appropriations and 63.3 % (EUR 1 672.2 million) for payment appropriations (Table 2).

Table 1a: Expenditure by objective, 2000–06 period*(commitment appropriations, million EUR)*

Objective	2000	2001	2002	2003	2004	2005	2006
<i>Community support frameworks</i>							
Objective 1: 2000–06 period (regions lagging behind)	1 239.3	3 237.2	2 639.1				
Former Objectives 1 and 6 (1994–99 period)	76.9	*****	*****	*****	*****	*****	*****
Former Objective 5(a) (1994–99 period)	29.4	*****	*****	*****	*****	*****	*****
Former Objective 5(b) (1994–99 period)	1.0	*****	*****	*****	*****	*****	*****
<i>Community initiatives</i>							
Leader+ (2000–06 period)	0.0	271.3	356.8				
Previous CIPs (1994–99 period)	37.0	*****	*****	*****	*****	*****	*****
<i>Technical assistance</i>							
2000–06 period: innovative measures and technical assistance	0.0	0.0	1.1				
Previous transitional measures/technical assistance (1994–99 period)	3.7	0.3	*****	*****	*****	*****	*****
Total	1 387.3	3 508.8	2 997.0				

731. The year 2002 was the third in the new 2000–06 programming period, in which the source of funding for rural development programmes depends on the type of measure and the geographical area.

732. The EAGGF Guarantee Section continued to finance, across the whole of the EU territory, the three accompanying measures introduced with the 1992 CAP reform, to which the compensation scheme for farmers in less-favoured areas was added from 2000, which up to 1999 was covered by the EAGGF Guidance Section.

733. For all other rural development measures, the source of financing is differentiated according to the geographical context:

- in regions eligible under Objective 1 (regions whose development is lagging behind), the EAGGF Guidance Section will continue to finance rural development measures which will be fully integrated as at present into development programmes, in combination with the other Structural Funds;
- outside the Objective 1 regions, the source of finance for rural development measures will be the EAGGF Guarantee Section.

Table 1b: Expenditure by objective, 2000–06 period*(payment appropriations, million EUR)*

Objective	2000	2001	2002	2003	2004	2005	2006
<i>Community support frameworks</i>							
Objective 1: 2000–06 period (regions lagging behind)	587.6	1 276.9	1 474.7				
Former Objectives 1 and 6 (1994–99 period)	1 353.2	488.3	5.1				
Former Objective 5(a) (1994–99 period)	803.1	69.4	79.2				
Former Objective 5(b) (1994–99 period)	629.9	142.9	26.1				
<i>Community initiatives</i>							
Leader+ (2000–06 period)	0.0	81.9	74.9				
Previous CIPs (1994–99 period)	178.4	79.8	10.3				
<i>Technical assistance</i>							
2000–06 period: innovative measures and technical assistance	0.0	0.0	0.2				
Previous transitional measures/technical assistance (1994–99 period)	6.5	5.8	1.6				
Total	3 558.7	2 145.0	1 672.1				

734. For Objective 1, execution in 2002 represents the third instalment committed in respect of the 55 programmes adopted in 2000, and the second instalment committed in respect of the 15 programmes adopted in 2001, which were rebudgeted. All payments executed in 2002 were reimbursements made for the 70 current programmes, representing an amount equivalent to 56 % of the instalment committed in 2002.

735. For the Leader+ initiative, the commitments made in 2002 were for the second instalment of the 51 programmes adopted in 2001 and the first and second instalments of the 19 remaining programmes adopted late in 2001. Most (EUR 65.4 million) of the payments made in 2002 were advances, whereas the amount for reimbursements (EUR 9.5 million) was very small.

736. For programmes from previous programming periods, the low level of utilisation of appropriations is attributable to the fact that the outstanding payments constitute the final balance payable under these programmes, for which it is necessary to submit the rather complex final implementing report giving the results of the checks carried out, and the Member States were therefore late in presenting the requests for final balances, which had to be submitted to the Commission by 31 March 2003.

Table 2 — Implementation of EAGGF Guidance budget in 2002

	Total	2000–06 programming period			
		Objective 1	PEACE (Objective 1)	Leader+	Innovative measures/ Technical assistance
A — Commitments					
Belgium	12.900	6.965		5.300	0.636
Denmark	2.500			2.500	
Germany	548.193	494.304		53.889	
Greece	411.484	384.984		26.500	
Spain	833.349	759.720		73.629	
France	140.630	101.728		38.900	
Ireland	36.210	26.810	2.500	6.900	
Italy	487.104	419.065		68.039	
Luxembourg	0.300			0.300	
Netherlands	13.400	1.400		12.000	
Austria	17.003	6.103		10.900	
Portugal	352.957	329.557		23.400	
Finland	37.027	29.027		8.000	
Sweden	22.367	16.467		5.900	
United Kingdom	81.541	53.959	6.450	20.635	0.497
Others	0.008				
Total	2 996.973	2 630.089	8.950	356.800	1.132
B — Payments					
Belgium	7.929	4.623		1.113	0.0054
Denmark	0.230				
Germany	451.166	409.495		15.520	
Greece	86.340	86.304			
Spain	645.743	611.723		33.957	
France	113.814	39.781			
Ireland	11.351	11.351	0.000		
Italy	64.621	33.694		12.814	
Luxembourg	0.147			0.147	
Netherlands	0.924	0.081			
Austria	9.037	7.348		1.619	
Portugal	240.669	234.853		5.816	
Finland	16.454	14.407		1.933	
Sweden	11.744	11.631			
United Kingdom	11.778	9.433	0.000	1.977	0.149
Others	0.202				
Total	1 672.150	1 474.724	0.000	74.898	0.203

(EUR million)

	Previous programming periods				
	Former Objectives 1 and 6	Former Objective 5a	Former Objective 5b	Former CIPs	Former transitional measures
					0.002
					0.002
		1.021		0.904	0.214
			24.601	1.361	0.230
					0.189
					0.037
					0.063
	5.065	65.133	1.505	2.247	0.082
		13.068		4.741	0.304
				0.843	
					0.071
					0.114
					0.113
					0.219
				0.199	
	5.065	79.222	26.107	10.295	1.636

Evaluation

737. The Directorate-General for Agriculture carries out regular evaluations of common market organisations and measures applicable to agriculture. The purpose of these evaluations is to contribute to policy preparation and decision-making by providing information on the effectiveness, efficiency and impact of measures financed by the CAP. Evaluations examine in particular the impact of CAP measures on market equilibrium, producers' incomes and production structures, the environment and rural development. Evaluation reports are publicly available on the Europa website.

Evaluation of market-related measures

738. In the field of market policies, evaluations of the tobacco and olive oil CMOs were completed. A contract was signed for wine, a call for tender was published for bananas and preparatory work is well advanced on pork, eggs and poultry, as well as the environmental effects of CMOs relating to permanent crops.

Evaluation of structural and rural development measures

739. In the field of rural development policies, four evaluation studies were finalised (Regulations (EC) Nos 950/97 and 951/97, Objective 5(b), and Leader II). A study on mainstreaming Leader innovations reached a mature phase.

VIII — Enlargement

Main developments

Agricultural accession negotiations

740. Discussion proceeded with the 10 accession countries on implementing the results of the negotiations which were finalised at the Copenhagen European Council in December 2002. As part of the preparation for enlargement, a package was prepared to adapt the texts of the CAP reform in the light of enlargement and to adapt the Act of Accession in the light of the CAP reform. The package was transmitted to the Council and Parliament.

741. Negotiations with Bulgaria and Romania continued. In agreement with the Enlargement DG, it was decided not to prepare EUCPs (European Union common positions — official common positions after adoption by the Council) for these countries in 2003 (principally because the timetable for their accession was unclear up to the December European Council, and because of protracted negotiations on CAP reform). However, technical meetings were held with them in October 2003 to examine more closely their negotiating positions. Preparations were made for draft common positions to be formulated in early 2004.

742. Pre-accession work on Turkey continued.

743. Work began in 2003 on the preparation of the Commission opinion on Croatia's accession. The agriculture questionnaire was drafted and substantial comments made at the end of December on Croatia's response.

Transitional measures

744. In order to tackle the risk of speculative trade distortions harmful to the common organisation of the agricultural markets as a result of the accession of the new Member States, the Commission adopted a regulation on transitional measures⁽¹⁴⁴⁾. It stipulates in particular that holders of excess stocks in the new Member States must pay a tax, which will be allocated to the States' national budget.

⁽¹⁴⁴⁾ OJ L 293, 11.11.2003, p. 3.

Sapard

745. During the year all countries continued to implement their Sapard programmes on the basis of the Commission decisions to confer management that were adopted in 2001 and 2002. Further conferral decisions were adopted in 2003 for some countries, which allowed them to start implementing other programme measures: in February for the Czech Republic; in August for Bulgaria, Slovakia and again the Czech Republic; in September for Latvia; in October for Lithuania; in November for Poland; and in December for Romania.

746. In April the Council adopted an amendment to Regulation (EC) No 1268/99 of 21 June 1999 (the Sapard Regulation), in order to increase the ceiling on public aid to 75 % and the Community contribution to 85 % for relevant projects in areas affected by exceptional natural disasters.

747. As of end-December a total amount of EUR 1.214 million (cumulative amount of Community contribution) has been committed to beneficiaries by the Sapard agencies, corresponding to 56 % of the available Community funds for the years 2000–04, involving 12 913 approved projects.

748. By decision of 31 October 2003, the Commission cleared the accounts of the Sapard agencies of all the 10 countries in respect of 2002 expenditure and no problems were encountered.

749. Amendments to the Sapard programmes of certain countries were also approved by Commission decisions during the year. The amendments primarily sought to adjust the programmes in line with the finalisation of the implementing systems for the measures still to be accredited, to update the financial tables and to revise certain aspects of the accredited measures in the light of the experience with implementation (sectors covered, eligibility conditions, rate of public aid, ranking criteria, etc.).

750. The annual financing agreements for 2002 and for 2003 were concluded with most countries during the year, the prime objective being to make available the Community contribution for those two years, to adjust certain provisions of the multiannual financing agreements in the light of the experience gained and finally to extend the deadlines by which committed Community funds could be used for payments. For the Community contribution committed in 2000 the deadline was put back to end-2004, for the 2001 allocation it is now end-2005 and for the 2002 and 2003 allocations it is end-2006.

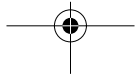
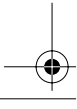
751. A total amount of EUR 560 million in commitment appropriations was allocated to the instrument for 2003.

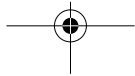
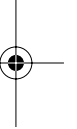
752. In May a conference was organised by the Commission in the Czech Republic on the development of local initiatives. The purpose was to exchange experience between experts from the Member States and the Sapard countries on how to develop efficient partnerships at local level and with central government to support the implementation of the Sapard programme (which could also help the rural development programmes in future).



753. In order to assist the countries in their preparations for the mid-term evaluation of the Sapard programmes, a number of workshops were organised in Brussels, involving the relevant national authorities and the chosen evaluators. The aim was to discuss and have an exchange of views on certain important aspects (evaluation plan, Commission guidelines, expectations) at an early stage of the evaluation exercise. The final evaluation reports were then finalised and sent to the Commission at the end of the year.

754. The monitoring committees in all countries continued their work during the year with the participation of Commission representatives acting in an advisory capacity.





IX — International relations

International organisations and agreements

World Trade Organisation (WTO)

WTO consultations and dispute settlement

755. On 7 November 2003, the panel requested by Brazil (WT/DS269) on the EC customs classification of frozen boneless chicken cuts and in particular on Commission Regulation (EC) No 1223/2002 of 8 July 2002 concerning the classification of certain goods (boneless chicken cuts, frozen and impregnated with salt in all parts) in the Combined Nomenclature was established. Brazil claims that through this regulation its commerce has been accorded treatment less favourable than that provided in the EC schedules in violation of Articles II and XXVIII of the GATT 1994. Brazil claims also violation of Article XXIII:1 of the GATT 1994.

756. Thailand requested consultations and the establishment of a panel (WT/DS286) essentially on the same grounds. The panel requested by Thailand was established on 21 November 2003.

757. On 2 October 2003, the panel requested by the United States (WT/DS174) and Australia (WT/DS290) concerning Regulation (EEC) No 2081/92 on the protection of geographical indications and designations of origin for agricultural products and foodstuffs was established. The United States and Australia claim, *inter alia*, violations of TRIPs and GATT provisions on national treatment and most favourite nation and of TRIPs provisions regulating the relationship between geographical indications and trademarks. The United States had initially requested consultations on 1 June 1999 and additional consultations on 4 April 2003. Australia requested consultations on 17 April 2003.

758. On 29 August 2003, the panel requested by Australia (WT/DS265), Brazil (WT/DS266) and Thailand (WT/DS283) on the EC's common market organisation for sugar and its application and implementation was established. Australia, Brazil and Thailand claim the EC provides export subsidies in excess of its WTO commitments in relation to 'C sugar' and to the exclusion of 1.6 million tonnes of ACP and Indian sugar from export reduction commitments. Consultations had been requested by Australia and Brazil on 27 September 2002 and by Thailand on 14 March 2003.

759. On 29 August 2003, the panel requested by the United States (WT/DS291), Canada (WT/DS292) and Argentina (WT/DS293) concerning certain EC measures affecting the approval and marketing of biotech products (GMOs) was established. The complainants claim violations of a number of WTO provisions, notably in the SPS Agreement, in relation to the alleged standstill in the EU GMO/GM food approval procedures, the alleged failure of the EC to consider or approve, without undue delay, applications for the approval of certain products and certain safeguard measures adopted by a number of EC Member States.

760. The EC has intervened as third party in a number of WTO dispute settlement cases concerning agricultural products, in particular:

- panel on ‘United States — Subsidies on upland cotton’, requested by Brazil and established on 18 March 2003 (WT/DS267), concerning claims by Brazil that US subsidies to cotton are not protected by the ‘peace clause’ of the Agreement on Agriculture and violate a number of provisions of the Subsidies Agreement;
- panel on ‘Canada — Measures relating to exports of wheat and treatment of imported grain’ requested by the United States and established on 31 March 2003 (WT/DS276), concerning claims by the United States that the Canadian Wheat Board violates Article XVII of the GATT on State trading enterprises and the national treatment principle in the Canadian grain handling and rail transportation system.

Doha Development Agenda: Cancún Ministerial Conference

761. According to the work programme adopted by the Special Session of the Committee on Agriculture on 26 March 2002, the first draft of the arrangements for further commitments was prepared by Mr Harbinson in advance of the Special Session held on 25–31 March 2003. However, this text was found unacceptable by many members, so that the deadline of 31 March for establishing arrangements was not met.

762. At the Montreal Ministerial Conference in July, WTO members asked the EC and USA to produce a joint proposal bridging the opposing positions of WTO members. In August the two parties were able to present a text which greatly contributed to the work of the Chairman of the General Affairs Council, Mr Perez del Castillo.

763. However, the Fifth Ministerial Conference, held on 10–14 September in Cancún, failed to reach a compromise. A majority of the members found many points of the draft framework agreement submitted by the Chairman, the Mexican Foreign Minister Mr Derbez, unacceptable. This led Mr Derbez to close the conference earlier than scheduled.

764. The EC spent the last part of the year reflecting on the causes of the failure and concluded that the WTO multilateral negotiations remained a priority and that the EC should do what it could to revitalise the process, provided other members also demonstrated flexibility in trying to reach an agreement.

Organisation for Economic Co-operation and Development (OECD)

765. EU Member States account for half of the OECD members and are the major contributors to the OECD budget, including voluntary contributions. The Commission participates actively in the work of this organisation, in particular, as far as agriculture is concerned, in the Committee for Agriculture (COAG), its working parties and at the interface with the Committees on Trade and Environment (joint working parties).

766. Core to COAG activities is the annual preparation of a mid-term market prospect for the main OECD agricultural commodities (the *Agricultural outlook* report) and the yearly review of the main developments in the agricultural policies of member countries (*Agricultural policies, markets and trade in OECD countries*, generally known as the *Monitoring report*). A similar review focuses on the main developments of major non-OECD members, whether economies in transition or emerging countries. These reviews include in particular a calculation of aggregated estimates of support to farmers, the 'producer support estimate' (PSE) expressed as the percentage share of public financing (budgetary payments and economic transfers from consumers and taxpayers caused by policy measures) in the overall income of the farming sector and the 'total support estimate' (TSE) for the whole agriculture and food sector, which indicates the degree of support in the OECD economies expressed as a percentage share of GDP.

767. Other regular COAG activities address agriculture and trade, agri-environment, rural development, agricultural structures and statistics, the 'Agricultural knowledge system' (extension, education and research) and international standards (in particular, certification of seeds, forestry reproductive material and tractors). Stocktaking of the past five years of OECD work on agri-environmental indicators was done in 2000; another interim report is scheduled for 2004.

768. As mandated by OECD Ministers for Agriculture in March 1998, the COAG is engaged in a substantial and broad-ranging work programme relating to the WTO negotiations on agriculture. At the end of 2000, a first series of analytical background material was published. This work covers traditional trade issues such as market access, domestic support, export competition, although in a more comprehensive manner than before, thanks to new analyses of subjects such as the use of officially supported export credits, the trade impact of State trading enterprises, decoupling, impact of support measures through a matrix evaluation of policies (the policy evaluation matrix), etc. It also covers concerns going beyond trade issues, such as multi-functionality, food security, the relationship between trade and environment, the impact of biotechnology, food quality and designations of origin, etc.

769. In 2003, the first year of the two-year work programme of the Committee for Agriculture, the OECD went deeper into issues of trade distortion by continuing studies on 'decoupling' and the impact of risk-related support on production decisions. The horizontal programme on economic and administrative aspects of food safety was brought to an end. Policy analysis continues on aspects of decoupling, transaction costs and farm household income, and the methodology is being further developed on the basis of the US Farm Secu-

riety and Rural Investment Act and the 'EU CAP reform — A long-term perspective for sustainable development'. The trade impact of both policies has been analysed. The CAP reform analysis has been refined and will be published in 2004. A further evolution and adaptation of the measurement of support (PSE) has been launched and a number of new challenging analyses have been initiated, such as 'The trade impact of food aid' and the further analysis of agreements on preferential access and regional free trade. The series of documents on multi-functionality entered a new phase of practical policy design with a first paper on policy implications. Expert meetings on biomass and support measurement allowed valuable scientific feedback for the further development of sectoral studies.

770. The interface between agriculture and environment continued the working programme on indicators and agricultural impact measurement on the environment. A series of workshops were held to produce a methodology for state-of-the-art indicators and further development in the fields of soil erosion and soil biodiversity, water quality and ecosystem management. Sectoral studies on the impact of dairy production followed the one on pigmeat production, demonstrating the environmental burden of intensive production and demanding alternative production systems and revised sectoral policy measures.

771. Horizontal issues of importance to agriculture are being addressed through other OECD bodies such as regulatory reform, governance, e-commerce, a code for multinational companies, sustainable development and territorial development.

772. All these activities have produced valuable material for the EU, particularly as regards the process to reform the agricultural sector and ongoing multilateral negotiations.

Generalised system of preferences (GSP)

773. The aim of the GSP is to foster the integration of developing countries into the world economy and the multilateral trading system. The GSP focuses on the needs of the poorest beneficiary countries through the 'Everything but arms' initiative in particular, which is incorporated into the GSP.

774. In 2001 the EU adopted a new generalised system of preferences, Council Regulation (EC) No 2501/2001, for the period from 1 January 2002 to 31 December 2004. This latter date will see the expiry of both the 10-year guidelines for the period 1995 to 2004 and of the last implementing regulation for the years 2002 to 2004. The new 10-year guidelines and their first implementing regulation should normally enter into force on 1 January 2005.

775. The Commission proposed amending some provisions of this regulation, based on the experience gained, and extending its application to 31 December 2005. The main objective of these amendments is to encourage the poorest beneficiary countries to make more and better use of the opportunities offered by the scheme, and thus to increase imports for which preferential treatment is available.

776. Preferences provided under the special arrangements for least developed countries (the 'Everything but arms' initiative, which was adopted in February 2001) as well as under the other special arrangements continue to apply without major changes.

United Nations Food and Agricultural Organisation (FAO)

777. As a member of FAO, the EC took part in the work of the various technical committees. The EC attended in particular the meetings of the Committee on Agriculture (COAG), the Committee on World Food Security, the Committee on Commodity Problems (CCP), the Committee on Forestry (COFO) and the Committee on Fisheries (COFI), presenting its agricultural, fisheries and forestry policies and setting out its approach to food security.

778. The Commission also participated and played an active role in:

- the Intergovernmental Working Group (IGWG) for the elaboration of a set of voluntary guidelines to support the progressive realisation of the right to adequate food in the context of national food security established following a decision at the ‘World Food Summit: five years later’ (June 2002);
- the FAO’s technical assistance contribution to developing countries in the context of the new trade negotiations within the WTO. The Commission also contributed to the FAO’s discussions on trade-related but non-commercial issues, such as the multi-functional aspects of agriculture and its links in less advanced countries;
- the FAO Councils of June and November 2003; and
- the FAO Conference in December 2003, with the participation of Commissioner Fischler at the plenary session to discuss the state of food and agriculture in 2003 and in the ministerial round table on developments in the WTO negotiations on agriculture and implications for food security — including the work of the FAO.

International agreements

779. The conventions on food aid and cereals were extended to 30 June 2005. The revision of the food aid convention was discussed at the 89th session of the Food Aid Committee in December 2003.

780. The international agreement on sugar was also extended for two years (to 31 December 2005).

781. The international agreement on olive oil and table olives was extended to 31 December 2004. With a view to updating the management of the secretariat and certain provisions of the International Olive Oil Council’s standing orders, the 88th session of the IOOC (June 2003) adopted a new regulatory framework for its executive secretariat. In addition, the Council decided to review the agreement. To this end the new executive director and a ‘financial delegate’ were appointed at the 89th session of the IOOC in December 2003.

Bilateral and regional trade relations

ACP countries

782. The ACP Council of Ministers and EC Commissioners for Trade and Development met in Brussels on 2 October 2003. They declared that the results of the first phase of nego-

tiations on the economic partnership agreements (EPAs), which were launched in September 2002 at all-ACP-EC level, had been satisfactory as regards the high degree of convergence reached. They also said that the joint report on the first phase served as a point of reference and provided guidance for the negotiations at regional level. They indicated that stage two of the EPA negotiations would be launched in October 2003, with regional negotiations in central Africa on 4 October and in western Africa on 6 October 2003. The Cotonou Agreement provides for the negotiation of economic partnership agreements in the preparatory period, which ends on 31 December 2007, and the new trading arrangements will enter into force on 1 January 2008.

783. The ACP-EU Joint Working Group on rice met on 24 October 2003. The Commission explained the reform of the rice sector and other upcoming developments.

784. The Commission has launched an evaluation of the common organisation of the market (COM) in bananas. This evaluation will also cover the import arrangements for ACP bananas.

785. Negotiations on the guaranteed prices for cane sugar originating in the ACP States as referred to in Protocol 3 of Annex V to the ACP-EC Partnership Agreement (Cotonou) for 2003/04 were concluded on 28 October 2003. Negotiations were opened for the 2004/05 period on the same date.

Bilateral trade relations with South Africa

786. Further discussions were held on outstanding issues relating to the EU-South Africa wine and spirits agreements and the EU-South Africa TDCA. It is hoped that these discussions will be completed in 2004.

EFTA countries

Bilateral relations with Switzerland

787. The Joint Agricultural Committee, established at the end of 2002 following the entry into force on 1 June 2002 of the agreement between the European Community and the Swiss Confederation on trade in agricultural products, met twice in 2003. The Joint Committee established its rules of procedure and 10 working groups⁽¹⁴⁵⁾, with a view to monitoring and implementing the details of the agreement as regards trade concessions and the reduction of non-tariff barriers to trade, as listed in the annexes to the agreement. The working groups cover the following: liberalisation of the cheese market, plant health, animal feed, seeds, wine-sector products, spirit drinks and aromatised wine-based drinks, agricultural products and organically produced foodstuffs, and conformity checks for fresh fruit and vegetables subject to marketing standards. A group was also set up to deal with the consequences of enlargement and an exploratory group was established to prepare an

⁽¹⁴⁵⁾ Decisions 1 and 2 of the Joint Committee on Agriculture relating respectively to the adoption of its rules of procedure and the establishment and mandates of its working groups (OJ L 303, 21.11.2003, pp. 24 and 27).

agreement for the reciprocal protection of designations of origin of agricultural products and foodstuffs, as provided for in one of the joint declarations attached to the agreement.

788. The working groups met at least once in 2003 and began work under the guidance of the Joint Committee, each group having a dedicated task. The groups must propose in particular recommendations to the Joint Committee in respect of their particular field with a view to adapting and updating the annexes in the light of a changing Community *acquis* and the equivalence of each side's legislation. In 2003 the Joint Committee and its working groups also monitored issues relating to the agreement's implementation and bilateral relations. The contracting parties noted that the agreement's entry into force did not create any major problems for bilateral trade or implementation of the preferential concessions. The concessions on meat as laid down in the agreement will not be put into effect, however, until the Joint Veterinary Committee reaches a bilateral solution on bovine spongiform encephalopathy (BSE). In the meantime, autonomous measures apply, as provided for in the joint declaration on the meat sector attached to the agreement. The Council has mandated the Commission to increase the bilateral trade concessions in the Joint Committee, in accordance with the agreement's 'evolutionary clause'. Also addressed was the issue of information exchange procedures, particularly on animal feed and organic products. Switzerland will participate in the OFIS system (organic farming information network). As regards the exploratory work on mutual protection of designations of origin and geographical indications, problem names were focused on in particular. The Commission expressed its concerns regarding the application by the 'Emmentaler Switzerland' inter-branch organisation to have 'Emmental' registered on the Swiss protected designations of origin register and it was agreed that the matter would be considered closely by the Joint Committee and its working group on designations of origin.

Relations with the countries in the European Economic Area (EEA)

789. Norway and the Community concluded a bilateral agreement to increase the preferential concessions in the agricultural trade between them ⁽¹⁴⁶⁾. These concessions will free up trade in a significant number of uncontentious products and increase reciprocal trade in sensitive products through preferential quotas. Involved in particular are cheeses, flowers and ornamental plants, and fruit and vegetables. The agreement entered into force on 1 July 2003. Norway is a net importer of agricultural products and a large share of its imports come from the EU. Agricultural products do not freely circulate between the EEA countries and the EU. Article 19 of the EEA Agreement requires the contracting parties to progressively liberalise their agricultural trade on a reciprocal and mutually beneficial basis, particularly in the light of trade developments, their respective agricultural policies and multilat-

⁽¹⁴⁶⁾ Council Decision 2003/465/EC of 16 June 2003 concerning the conclusion of the agreement in the form of an exchange of letters between the European Community and the Kingdom of Norway concerning additional trade preferences in agricultural products undertaken on the basis of Article 19 of the agreement on the European Economic Area (OJ L 156, 25.6.2003, p. 48).

eral negotiations. The agreement, signed in June 2003, also makes provision for further bilateral negotiations to increase these preferential concessions to start in two years' time.

790. The revision of the EEA Agreement to prepare for enlargement took account of the existing preferential trade flows in agricultural products between the accession countries and the EEA countries under the bilateral preferential agreements concluded at the beginning of the 1990s between the EFTA countries and the countries of eastern Europe. All the parties were involved in the revision of the EEA Agreement in autumn 2003. Ratification of this revision was to occur before the accession of the candidate countries to the EU. Among other things, the revision provides for preferential quotas of agricultural products allocated by Norway to the Community, based on preferential trade flows.

Asia

Bilateral trade relations with China

791. Relations with China centred on ongoing discussions on questions relating to market access.

Trade relations with ASEM

792. The European Commission participated in the High-Level Conference on Agricultural Cooperation, held in Beijing on 11–12 November 2003, in the context of the Asia–Europe Meeting (ASEM), an informal process of dialogue and cooperation bringing together the 15 EU Member States and the European Commission, with 10 Asian countries (Brunei, China, Indonesia, Japan, South Korea, Malaysia, the Philippines, Singapore, Thailand and Vietnam). Topics of discussion were agricultural policies, trade and investment, sustainable agricultural development and organic farming, farm products quality and safety control, and agricultural biotechnology.

Bilateral trade relations with Korea and Japan

793. Relations with Japan and South Korea centred mainly on market access and deregulation. Progress was made in a number of areas, whereas in other areas discussions in particular on certain fruit, meat and dairy products were ongoing.

Bilateral trade relations with India

794. In the EC/India Working Group on Agricultural and Marine Products, the Commission explained the need to amend the GATT 1994 concessions on rice imports.

795. Following discussions between the Indian and Commission delegations, checks on conformity to the marketing standards applicable to fresh fruit and vegetables carried out by India prior to exports to the Community have been approved. The relevant Regulation (EC) No 761/2003 entered into application on 17 June 2003.

796. Consultations were held with India on the Commission's intention to include a more accurate definition of basmati varieties and adequate control mechanisms in the Commu-

nity's preferential import regime for this product in order to ensure that relevant preferential imports in the EU from that country are in line with this definition.

Bilateral trade relations with Pakistan

797. Consultations were held with Pakistan on the Commission's intention to include a more accurate definition of basmati varieties and adequate control mechanisms in the Community's preferential import regime for this product in order to ensure that relevant preferential imports in the EU from that country are in line with this definition.

Middle East and Mediterranean region

798. As part of the Barcelona process, new association agreements have now been signed with all Middle Eastern and Mediterranean countries, except Syria. Association agreements have been concluded with Morocco, Tunisia, Israel, Jordan and Egypt. The European Union and Syria concluded negotiations on the conclusion and provisional application of certain provisions of a Euro-Mediterranean association agreement on 9 December 2003 and its signature by both parties is now pending. The new agreements, which replace the cooperation agreements dating back to the 1970s, aim to further liberalise — and thus increase — agricultural trade. They provide for reciprocal trade concessions on agricultural products and regular reviews of the agricultural chapters of the agreements. The agreement with Algeria is in the process of ratification by the parliaments of the Member States.

799. Middle East: An interim agreement has been in force with the Palestinian Authority since 1997; its agricultural protocols will be reviewed in 2004. The agreement with Israel entered into force in 2000, the reciprocal agricultural concessions were reviewed in 2003 and have been in force since 1 January 2004. The agreement with Jordan entered into force in 2002 and will be reviewed in 2004. The agreement with Egypt (signed in 2001) is in the process of being ratified. In the meantime and while awaiting the completion of the ratification procedure, the trade-related provisions of that agreement have been in force since 1 January 2004. The year 2002 saw the signature of an association agreement with Lebanon; an interim agreement entered into force in March 2003.

800. Mediterranean: Revisions of the agricultural concessions under the 1998 agreement with Tunisia were agreed in 2000 and have been in force since 2001. The agreement with Morocco entered into force in 2000, the reciprocal agricultural concessions were reviewed during 2003 and have been in force since 1 January 2004. The agreement negotiated with Algeria in 2001 was signed in April 2002 and will enter into force after ratification by all EU Member States (still ongoing).

Western Balkans

801. Under Regulation (EC) No 2007/2000, as amended, the Community extended unilateral and autonomous trade liberalisation to the Western Balkans in the framework of the stabilisation and association process (SAP), in line with the conclusion of the March 2000 Lisbon Council. Agricultural imports from Albania, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia (FYROM) and the Federal Republic

of Yugoslavia, including Kosovo, have been fully liberalised since 30 September 2000. Exceptions to these arrangements are beef — individual tariff quotas for baby-beef are granted to all the above countries except Albania and Kosovo — and wine, for which there is a shared duty-free quota of 545 000 hectolitres. Since May 2003, preferences on sugar for Serbia and Montenegro have been suspended following a report of insufficient controls of the origin of the products.

802. Trade with FYROM and Croatia in agricultural products (except wine) is subject to reciprocal concessions under the 2001 stabilisation and association agreements (SAAs). Pending ratification, the trade preferences have been applied from June 2001 and March 2002 under interim agreements (IAs) with FYROM and Croatia respectively. Additional protocols to the agreements to cover trade in wine, including the reciprocal recognition, protection and control of wine names and designations of spirits and aromatised drinks (without lists), have been in force since 1 January 2002. In line with Article 16 of the EU-FYROM IA, negotiations to improve concessions granted to the EU were concluded in 2003 and have been in force since 1 January 2004.

803. In September 2003, the Council adopted negotiating directives for the adaptation of the SAAs/IAs with FYROM and Croatia. The directives call for the technical adaptations that must be made as a result of the accession of the 10 new Member States. Negotiations on the adaptations started in 2003 and are ongoing.

804. At the end of 2002, the Council adopted directives for the negotiation of a stabilisation and association agreement with Albania. Negotiations started in early 2003.

Latin America

805. Mexico: A free-trade agreement (FTA) between the EU and Mexico has been in force since 1 July 2000 under Decision 2/2000 of the EU-Mexico Joint Council. The Commission started talks with Mexico on technical adaptations of the FTA and of the agreement on the mutual recognition and protection of designations for spirit drinks, with a view to taking account of enlargement. The EU and Mexico are still discussing changes to the Mexican Tequila standard (as regards bottling at source).

806. Chile: The trade-related provisions of the EU–Chile association agreement have been applied on a provisional basis since 1 February 2003. As regards agriculture, it provides for the gradual creation of a free-trade area (including a review clause for possible improved concessions in the future) and incorporates specific agreements on wines and spirits and on sanitary and phytosanitary matters. Implementation of the agreement is ongoing. No major problems occurred so far. The Commission started talks with Chile on technical adaptations of the association agreement, to take into account the enlargement.

807. The specific agreements on wines, spirits and aromatised drinks are designed to facilitate and promote trade in this important sector. Initial feedback on both sides is positive. Further technical work was done to finalise issues still outstanding in the negotiations on the protection of geographical indications, traditional expressions and other wine varieties.

808. Central America: The Agriculture DG has been associated to the negotiations of a political dialogue and cooperation agreement between the European Community and Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama), which was signed on 15 December 2003 in Rome.

809. Andean Community: The Agriculture DG has been associated to the negotiations of a political dialogue and cooperation agreement between the European Community and Andean Community (Bolivia, Colombia, Ecuador, Peru, Venezuela), which was signed on 15 December 2003 in Rome.

810. Mercosur: Negotiations are ongoing for an EU–Mercosur association agreement which should include provisions on agricultural trade and incorporate agreements on wine and spirits and sanitary and phytosanitary matters. No major advance was made in the negotiations before the end of 2003. However, on 12 November 2003, a meeting was held at ministerial level to give new impetus to the negotiations. At this meeting an ambitious work programme was agreed, involving five negotiating rounds at technical level and two meetings at ministerial level. The objective is to conclude the negotiations in October 2004.

NIS countries

811. Some NIS countries adopted restrictive import measures in several products in the form of higher import tariffs and restrictive import quotas. This was very noticeable in Russia, with the adoption at the beginning of year 2003 of import quota limits for poultrymeat and tariff-rate quotas for beef and pork.

812. Bilateral relations in agriculture intensified notably with Russia in the framework of the partnership and cooperation agreement and as part of the preparations for joining the WTO. As for the other NIS countries, there are prospects for increased bilateral relationships in agriculture, although the scope for such cooperation is very limited.

813. The situation remains critical in some places, the Caucasus States in particular, where EU assistance helps to alleviate food security problems.

Canada and USA

United States

814. Intensive negotiations on a comprehensive EU–US wine agreement continued throughout 2003 with a view to facilitating the trade in wine while improving protection for the European and American names used in winemaking and guaranteeing oenological standards used by winemakers. However, no agreement was achieved and the two parties' positions at the end of the year were no closer. The Council agreed to extend for two years the derogations on US winemaking standards, certification and labelling which were otherwise due to expire on 31 December 2003.

815. In the *Hormones* case, despite the Council's adoption of legislation bringing EC provisions into compliance with the WTO ruling, the USA continued to apply 100 % *ad valorem* tariffs on USD 116.8 million of EU exports. Contacts continued between veteri-

nary health authorities on testing requirements for US beef exported to the EC. However, no progress was made in talks aimed at replacing the tariffs by compensation.

816. The Commission secured a mandate to negotiate with the USA on the mutual recognition of organic production standards and controls. However, for US domestic reasons discussions could not begin before the end of 2003.

817. The Commission continued to make representations to the USA following the adoption of rules implementing the US Bioterrorism Act. These require all foreign food processing facilities, including farms that pack or bottle foods, to register with the US authorities and every shipment must be notified to the FDA using different specifications to those for notifications to other US agencies and departments. The Commission highlighted the difficulties for small farmers, which include hiring the necessary US-resident agent when they have no experience of exporting to the USA. In addition, the Commission expressed its concern about the operational integrity of the programme. Close contacts were maintained with industry representatives, both producers and exporters.

818. The Corn Gluten Feed Monitoring Group continued to meet.

Canada

819. After two years of negotiation, the EC–Canada agreement on trade in wines and spirit drinks was concluded and signed at Niagara-on-the-Lake on 16 September 2003. The agreement provides for an end to the generic use of EU wine and spirit names in Canada in three phases, beginning with the entry into force for most names, up to 31 December 2013 when the last four names (Chablis, Champagne, Port and Sherry) will no longer be classed as generic. The parties also agreed on compositional standards for wines and spirit drinks. Trade disciplines applicable to Canada's Provincial Liquor boards were strengthened by a series of amendments to a 1989 agreement that followed a successful WTO panel brought by the EC. The parties also set down a framework for continuing discussions on matters such as the rules on labelling wines and spirits. The agreement, which is expected to enter into force in June 2004, ends the trade tension that existed between Canada and the EC for over 10 years. Canada is a key market for EC wine and spirit exports, importing products worth over EUR 500 million a year.

820. Canada continued to apply 100% *ad valorem* tariffs on CAD 11.3 million of EU exports pursuant to the *Hormones* case.

Oceania

Bilateral trade relations with Australia

821. Discussions were held in the framework of the annual EC–Australia ATMEG meeting on the state of play of the wine negotiations, the Australian import risk assessments, EU sugar exports and market access issues.

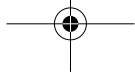
822. Negotiations on outstanding issues of the 1994 EU–Australia wine agreement had to be postponed due to the link between some of the issues on wine labelling and proposed amendments to Regulation (EC) No 753/2002, which were subject to internal discussions.

823. Pending a final decision on the Australian practice of using cation exchange resins to treat wines which are then imported and marketed in the Community, authorisation to use this practice has been granted provisionally until 30 June 2004.

Bilateral trade relations with New Zealand

824. Intensive consultations were held on the Commission's intention to switch the management of the Community–WTO TRQ for sheepmeat from a licensing-based system to a first-come, first-served system, which is expected to enter into force in 2004.

825. Thorough discussions should lead to an agreement, a side letter and letter of undertaking, which both the Commission and the New Zealand government see as an integral part of the outcome of the discussions that led to the adoption of Regulation (EC) No 970/2000 on the detailed rules for the application of the import arrangements and opening tariff quotas for milk and milk products. In this context, New Zealand submitted a description of its control processes and procedures for the country-specific tariff quota for butter and the Commission is accordingly confident that the eligibility criteria and the weight declarations of each consignment are valid.





European Commission

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