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

Mid-Term Review of the Common Agricultural Policy

EXPLANATORY MEMORANDUM

The present Communication stems from the mandate of the European Council of Berlin to the Commission to submit a Midterm Review (MTR) of the Agenda 2000, putting it into the wider context of the recent public debate about the Common Agricultural Policy (CAP) and its future.

This debate has demonstrated that while views on what EU citizens expect from the CAP differ, both supporters and critics of the CAP can broadly agree on the set of objectives that agricultural and rural development policy should promote.

These objectives essentially remain today the same as those established in Berlin and enhanced in the European Summit of Göteborg. These objectives, which have to be met within the budgetary framework also agreed in Berlin, are:

- a competitive agricultural sector;
- production methods that support environmentally friendly, quality products that the public wants;
- a fair standard of living and income stability for the agricultural community;
- diversity in forms of agriculture, maintaining visual amenities and supporting rural communities;
- simplicity in agricultural policy and the sharing of responsibilities among Commission and member-states;
- justification of support through the provision of services that the public expects farmers to provide.

Yet significant differences exist as to how to best achieve these objectives. To understand this these differences it is crucial to take account of the difficulty of simultaneously enhancing the competitiveness of EU agriculture and rural areas while responding to the higher costs resulting from the requirements of promoting higher environmental, food safety, food quality or animal welfare standards.

The Communication rejects the notion that EU agriculture can promote the objectives expected from our citizens by abolishing or renationalising support. But it also rejects the notion that EU agriculture should limit itself to a passive role of observing developments without a forward looking policy response.

Instead, the Communication actively responds to the concerns that EU citizens express about the effectiveness of the CAP. It focuses the MTR on the pertinent policy question of how to best support EU agriculture and rural areas. Aiming at the improvement of coherence in CAP policy instruments, it proposes a set of substantial adjustments to achieve the following:

Enhance the competitiveness of EU agriculture by setting intervention as a real safety net measure, allowing EU producers to respond to market signals while protecting them from extreme price fluctuations. To achieve this, the proposed market measures include:

1. In the cereal sector, a series of measures in order to bring to a close the process of reform initiated in 1992 and continued in 1999. These include a final 5% cut in intervention price (based on the Agenda 2000 model), the abolition of the monthly

increments for the cereal intervention price and rye intervention, and the adjustment of the Community border protection system in accordance with the international rights and obligations of the EU.

2. Further measures in the crop sector include:
 - (a) the decrease in the level of the specific additional payment to durum wheat and the introduction of a quality premium;
 - (b) the decrease of the rice intervention price to world market levels and the compensation of producers with direct aid;
 - (c) adjustments in the dried fodder, protein crop and nuts sectors.
3. In the beef sector, a major simplification of the system of direct payments in order to better link producers to consumer demand for better quality and safety.
4. Moreover, four alternative options for the future of support in the dairy sector are presented for discussion.

Promote a market oriented, sustainable agriculture by completing the shift from product to producer support with the introduction of a decoupled system of payments per farm, based on historical references and conditional upon cross-compliance to environmental, animal welfare and food quality criteria.

Strengthen rural development by transferring funds from the first to the second pillar of the CAP via the introduction of an EU-wide system of compulsory dynamic modulation and expanding the scope of currently available instruments for rural development to promote food quality, meet higher standards and foster animal welfare.

The proposed adjustments in CAP policy measures allow maximum flexibility in production decisions and significantly simplify the manner by which support is provided to producers while guaranteeing their income stability. They also promote a substantial simplification in the CAP, facilitate the enlargement process and help to better defend the CAP in the WTO.

This MTR has been clearly designed so as to respect the objectives and overall agricultural and budgetary framework agreed by the Berlin Council. It aims at enhancing the efficiency, sustainability and subsidiarity of the CAP, simplifying its administration while taking into account the need to preserve farming incomes in a less trade distorting way and respecting at the same time trends in consumer choices and public opinion more generally.

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1. THE COMMON AGRICULTURAL POLICY – AN EVOLVING POLICY

1.1. Introduction

In 1999 the European Council in Berlin agreed the Agenda 2000 reform of the common agricultural policy (CAP), a new and important step in the reform process. Agenda 2000 represented a deepening and an extension of the 1992 reform for market policy and the consolidation of rural development as the second pillar of the common agricultural policy.

Agenda 2000 explicitly established economic, social, and environmental goals within a new reformulated set of objectives for the common agricultural policy consistent with the requirements of the Amsterdam Treaty. This had the aim of giving concrete form to a European Model of Agriculture and preserving the diversity of farming systems spread throughout Europe, including regions with specific problems, in the years ahead. These objectives involve more market orientation and increased competitiveness, food safety and quality, stabilisation of agricultural incomes, integration of environmental concerns into agricultural policy, developing the vitality of rural areas, simplification and strengthened decentralisation.

These objectives are in line with the Sustainable Development Strategy (SDS) agreed by the European Council in Göteborg in 2001, which requires that economic, social and environmental effects of all policies should be examined in a co-ordinated way and taken into account in decision-making.

The mid-term review provides the EU with the opportunity to examine its agricultural policies and ensure that they better meet the objectives established in Agenda 2000 and Göteborg. Further policy developments should also continue the process of adapting key policies to the internal and external objectives of sustainable development called for in the Commission communication “Towards a global partnership on Sustainable Development” (COM(2002) 82), particularly in view of the upcoming World Summit on Sustainable Development in Johannesburg in September 2002. Such a process addresses concerns about the balance of global production and consumption patterns, while ensuring the livelihood of European rural communities.

1.2. Achievements and gaps

There is no doubt that much has been achieved in the reform process since 1992. Market balances have been improved and agricultural incomes have developed favourably. A sound basis for enlargement and the current WTO negotiations has been established. Yet in many areas, gaps remain between the objectives set in Agenda 2000 for the CAP, and its capacity to deliver the outcomes expected by society. European citizens generally see their concerns and expectations reflected in the objectives agreed in Agenda 2000. Yet they are less confident as to whether current policies meet these objectives fully, especially in the context of emerging new challenges for EU agriculture.

Economic viability

Market orientation – adapting to new opportunities

In order to help European agriculture take advantage of expected world market developments, Agenda 2000 sought to *improve market orientation and the competitiveness* of EU agriculture

on both domestic and external markets. Price support was reduced further for cereals and beef and direct payments in these sectors were increased and reorganised to compensate farmers, with oilseed payments progressively aligned on those for cereals. A similar reform was decided for the milk sector from 2005 onwards.

Reductions in cereals institutional prices have further improved the prospects for both domestic use and exports. This has helped the EU to maintain its position as a major world exporter and cereal stocks have shrunk to low levels with the exception of rye. Domestic prices are now close to world market prices and prospects appear positive, once again with the exception of rye. However, considerable uncertainties remain, as volatility in price developments and exchange rates could constrain export opportunities in certain years. More generally, EU cereals production is likely to face increased pressure from traditional and new competitors, particularly in feed markets.

Before the beef crisis, intervention stocks had also reached zero in this sector, and the stocks taken into intervention during the crisis are expected to disappear much faster in the coming years than was anticipated initially. In this respect, market management mechanisms agreed in Agenda 2000 appear to have been sufficiently flexible to facilitate the recovery of the beef market. But in the beef sector effective support price levels remain high in comparison to world market prices, although intervention buying has now been set at a safety net level. Direct payments in the beef sector are paid per head of animal and still set incentives to produce up to the payment ceiling. In contrast, support levels in the cereals sector are much closer to world market price levels and direct payments are already more decoupled from production.

Agenda 2000 also anticipated that lower institutional prices would encourage greater market price differentiation between lower cost and higher value added products and a greater orientation of farmers towards market signals. However, while in many sectors market intervention is increasingly limited to a safety net role and production incentives have been considerably reduced in the shift from price support to direct payments, these payments remain partly linked to certain types of production or use of production factors. This makes it difficult for farmers to adapt to new conditions and opportunities, while maintaining their level of income. Further steps are therefore necessary to improve the market orientation of European farming.

Food safety and food quality – more integration into the CAP

Prices are only one aspect of market orientation and competitiveness. *Food safety and food quality* are at least as important. There are growing public concerns about both the way in which food is produced and the way in which agriculture is supported. It is a fundamental obligation to guarantee the safety of food to consumers both within and outside the EU, and this therefore must be a continuous top priority for the CAP. Without food safety there is no market.

Quality promotion is another key aspect of the new direction in agriculture. Consumers also increasingly associate quality with factors not inherent in the product, including, in particular, the conditions under which it has been produced. However, there remains a gap between the preference for quality that consumers express and the way they behave in the marketplace. Guaranteeing that production meets consumer wishes in terms of quality is therefore a dynamic process between consumers and producers, in which agricultural policy could play a greater role. A shift to higher quality production, particularly where this requires specialised expertise, also offers benefits to farmers in terms of income and work quality.

Considerable efforts have already been made to ensure better food safety (testing of animals, traceability, removal of specified risk materials, maximum residue levels for pesticide, etc.) However, policy instruments available to support food safety and quality within the common agricultural policy remain limited. Incentives and signals sent to farmers have to be in line with the objectives of safety and quality, as they have to be in line with environmental and animal health and welfare requirements. There is a broad consensus that more can be done within the policy to meet these objectives.

Social balance

Farm incomes – direct payments continue to be necessary

Ensuring a fair standard of living for the agricultural community and contributing to the stability of *farm incomes* remain key objectives for the CAP. Agenda 2000 therefore foresaw further compensation of farmers for price cuts, in order to avoid a significant loss of farm income and a threat to the economic and social stability of the farming community.

At the level of EU-15 per capita agricultural incomes have developed quite favourably since the beginning of the reform process. However, this favourable development hides the increased importance of direct payments in farm income as well as considerable variations between countries, regions and sectors.

Since market revenues alone are not enough to ensure an acceptable standard of living for many farm households, direct payments continue to play a central role in ensuring a fair standard of living and stability of income for the agricultural community.

Structural development and perspectives for the future

As with the 1992 reform, direct payments under Agenda 2000 have provided a cushion which has allowed the farm sector to adjust to a more market oriented environment without major social or environmental disruptions. Since the mid-1990s the strong decrease in agricultural employment experienced in earlier years has slowed down considerably. Although the rate rose in 1999 and 2000, the annual reduction in 2001 was again lower than any year since 1993. This general trend is, in part, certainly explainable by the income stabilising effect of direct payments.

As in the period preceding the 1992 reform, the long-term trend towards a reduction in the number of holdings, combined with a general stability in utilised agricultural area over the last years, has seen average farm sizes grow. This has been accompanied by increased specialisation into livestock and cereals farming from mixed farming as well as by a notable increase in permanent crops in some countries. The economic benefits of specialisation, particularly when associated with the concentration of production in certain regions, have to be balanced with the resulting long-term environmental pressures. In most countries the amount of tenant farmed land has increased in the period. Although effects have been very variable between countries, these trends have reflected pressures on traditional production and mixed farming methods. These methods are often associated with high nature value agricultural systems and landscapes and traditional products. Many of these farms will need more targeted support to adapt to the opportunities offered by more open markets and consumer demand for quality products.

The balance of income support – gaps remain due to the low take-up of modulation

Agenda 2000 saw questions of differentiation and redistribution of income support among farmers gaining importance, not least from the point of view of social cohesion. Many commentators have observed that a minority of farmers enjoys the benefits of the majority of direct payments. The direct payments of the 1992 reform have lost their compensatory character over time and have become income payments, raising the question of whether the distribution of direct support is optimal.

Larger farms are generally expected to adapt more easily to new conditions through investment and economies of scale. The direct payments of the 1992 and Agenda 2000 reforms leave little scope to target farming systems facing particular social problems of adaptation and restructuring. Here, the imbalance between direct payments and rural development is of particular concern, since rural development provides greater flexibility for Member States to target resources on specific handicaps and pursue longer term strategies of income diversification.

Agenda 2000 put in place a specific voluntary mechanism, modulation, to address these problems by addressing concerns relating to the social distribution of direct aid and the need to reinforce rural development. However, to date only a limited number of countries have shown interest in this optional approach, and at a level considerably lower than that permitted maximum. There would appear to be a number of reasons given by Member States (both those implementing and those not implementing modulation) for the low level of take-up. These include the effects on competition of a voluntary approach, problems with cofinancing, the limitation of scope, the complexity and administrative burden of the scheme, as well as its small contribution to economic and social cohesion.

Environmental integration and animal health and welfare concerns

Environment – getting the incentives right, increasing compliance

The reforms undertaken as part of the Agenda 2000 package represent another significant step forward in putting *the integration of environmental goals* into practice. Member states are obliged to undertake appropriate environmental measures. In fulfilling their obligation, they have several options at their disposal: agri-environmental measures, environmental legislation, and specific environmental requirements. The latter two options can be enforced by reducing direct payments granted under the first pillar of the CAP in the case of non-compliance.

The application of these measures by Member States should enable them to improve the balance between agriculture and the environment, eliminating damaging features of agriculture and improving its performance as a sector in harmony with the environment. There remains, however, considerable scope for further improvement. Implementation of statutory requirements remains uneven, and to date little use has been made of cross-compliance mechanisms, with some reporting difficulties. National envelopes in the livestock sector have tended to focus on direct support rather than on promoting more environmentally friendly types of farming. Some Member States, farmers and environmental groups have signalled that there is considerable scope to further expand agri-environmental programmes within rural development programmes to meet local needs.

Within the market regimes the scale of support still provided through prices and product specific payments may discourage farmers from more environmental friendly production

methods. In certain areas, the linkage of direct payments to production or production factors such as headage encourages many farmers to maintain production intensity above that which would be chosen without support, leading in some areas to production which would not otherwise take place.

Animal health and welfare – Promoting animal husbandry

The European Union has introduced much important legislation concerning minimum standards for the keeping, transport and slaughtering of animals in recent years. The Treaty of Amsterdam, in force since 1 May 1999, lays out new ground rules for the actions of the European Union on *animal health and welfare* in a special "Protocol on the Protection and Welfare of Animals". However, many citizens rightly remain concerned that more can be done to ensure coherence with animal health and welfare objectives. At the same time, farmers express disquiet about the cost that additional animal health and welfare standards bring. The further promotion of good animal husbandry must therefore ensure that services provided by farmers beyond good farming practice are adequately remunerated.

Rural Development

The future of the agricultural sector is closely linked to a balanced development of rural areas, which account for 80 % of European territory. Agricultural and rural policies have an important role to play in promoting territorial, economic and social cohesion in the EU. In this respect, rural development has an increasingly important part to play. Alongside market measures and the elements of a competitive European agriculture, rural development offers, in particular, a specific territorial dimension to address the varied needs of the rural world, together with the expectations of today's society as regards quality, food safety and the environment.

The Agenda 2000 reform implied a considerable overhauling, streamlining and consolidation of rural development policy in a single legal framework. It is now applicable in all rural areas of the Union and has become the second pillar of the CAP, accompanying and complementing changes in market and price policy. The objectives of integrated rural development enjoy much support among farmers and the wider community. It has provided the basis for new ways of tackling problems facing rural areas, through measures such as the Leader+ Community Initiative. The new framework has improved the scope for targeted policies focusing on investments in competitiveness, rural viability, quality of life and sustainable agriculture.

Meeting increased needs and new opportunities

However, implementation will be limited as long as resources are not commensurate with needs. Only 16 % of total EAAGF (guarantee and guidance) expenditure on agricultural policy and only 10 % of EAAGF-Guarantee expenditure are currently used for rural development. Improving the competitiveness of rural areas and creating new income and employment opportunities for farmers and their families, on-farm and off-farm, remain major aims for the future, as employment possibilities in agriculture itself fall away. Rural areas are multifunctional, and farmers should be encouraged to exploit all opportunities for rural entrepreneurs. More resources for rural development would allow a greater focus on these types of activity.

Moreover, a number of Member States have highlighted that current measures do not offer sufficient scope to target new needs and opportunities in rural areas such as the promotion of

food quality, support for local and traditional production, meeting demanding standards or improvement of certification as well as those arising from the Sustainable Development Strategy.

Economic and Social Cohesion – the need for more rural development

The Second Report on Economic and Social Cohesion (COM(2001) 24 final) concluded in 2001 that although recent changes in the CAP implies that it benefits some cohesion countries more than before, its contribution to territorial cohesion remains very variable and depends on regional systems of agricultural production. The second pillar of the CAP, rural development policy, needs to be on a quite different scale, especially in those parts of Europe most affected by the continuing changes in agricultural policies.

Improving implementation

Simplification and decentralisation – effectively targeting needs

In Agenda 2000 and following decisions, the Commission has taken a number of steps to promote further *simplification* of agricultural legislation and its implementation. The Small Farmers Scheme represents an important precedent for reducing the administrative burden. However, the range of mechanisms within the common market organisations continues to create many complex obligations for farmers and difficult control and monitoring responsibilities for Member States and the Commission. This complexity is a brake on initiative and may discourage entry into the farming profession. In some sectors such as beef, farmers are eligible for several premia with different requirements in addition to environmental, food safety and animal health and welfare legislation. Considerable simplification could be achieved if checks at the level of a farm could be brought together into a more integrated framework.

Simpler conditions on payments with less market related procedures would enable farmers to spend more time on making their business successful and meeting their statutory requirements. It would also allow Member States to concentrate on checking environmental, food safety and animal health and welfare requirements. *Greater decentralisation*, particularly, through the reinforcement of the Second Pillar, would allow Member States to better target local needs, and bring agricultural policy closer to consumers.

Budgetary stabilisation – sound management

Agricultural policy expenditure must be justified by the products and services which society at large expects farmers and rural areas to provide. A common agricultural policy that encourages surpluses, which then have to be disposed of - again at considerable costs - is no longer acceptable or sustainable. Public expenditure must yield something in return - whether it is food quality, the preservation of the environment and animal welfare, landscapes, cultural heritage, or enhancing social balance and equity.

Agenda 2000 brought an additional element of *budgetary stabilisation* to the objectives of the common agricultural policy. In managing the budget and agricultural markets, the Commission has taken the necessary steps to ensure that expenditure has remained well below the ceilings set in Berlin, even in the context of particular difficulties linked to the crisis in the beef market. Budget stabilisation will remain a key objective over the coming years.

2. TOWARDS A MORE SUSTAINABLE COMMON AGRICULTURAL POLICY

2.1. The aims of the Mid-Term Review

The first task of the mid-term review is a stocktaking and improvement of the Agenda 2000 reform process, as requested by the European Council. The Commission was invited:

- to examine the development of the cereals and oilseeds markets and to report on the situation;
- to monitor the beef market situation;
- to present a report about the future of the milk quota system with the aim of allowing the present quota arrangements to run out after 2006;
- and to submit an account on the development of agricultural expenditure.

The European Council requested the Commission to make proposals for the adjustment of the common market organisations, where appropriate, in order to ensure that the objectives of the Agenda 2000 reform could be fully realised. The Agricultural Council further requested in its submission to the Göteborg European Council that the Commission should include in the reviews in 2002-2003 the effects on environment and sustainable development.

But beyond this task, the mid-term review also provides a unique opportunity to achieve the objectives set in Berlin and Göteborg, and to respond to the high expectations of European citizens with respect to agriculture and agricultural policy. To fully deliver *Sustainable Agriculture and Rural Development* a number of adjustments to policy instruments in line with the objectives of Agenda 2000 are necessary:

- Common market organisations should be adjusted to reinforce the role of intervention as a safety net without compromising the potential for European agriculture to benefit from positive trends on world markets.
- Agricultural production must be more orientated to the products and services that the public wants and not to artificially created price incentives or product-specific aids. Direct income payments should not steer the production decisions of farmers.
- Food safety must be fully integrated into the CAP through cross-compliance.
- Support and stabilisation of agricultural incomes remains an essential objective. Direct payments must therefore continue to play their role in promoting a fair standard of living for the agricultural community.
- Traditional and high nature value farming systems require more targeted support to adapt to opportunities offered by more market orientation and consumer demand for quality products.
- Further steps are necessary to help meet society's expectations in the field of environment to reinforce compliance, reduce negative pressures of support mechanisms, and strengthen the provision of services. Animal health and welfare concerns must be fully integrated within the CAP.
- Support between the two pillars of the CAP must achieve a better balance to meet society's expectations of a policy that promotes food quality, sustainability, and

value for money through reinforced rural development programmes. This improved balance must promote a more socially acceptable allocation of support and contribute to cohesion. The scope of rural development must be extended to meet new needs and opportunities, particularly in the field of employment and sustainable development.

- Budgetary stabilisation must remain a guiding principle for implementation.
- Finally, further reform steps should help towards simpler agricultural legislation and implementation mechanisms. It is necessary to work out clearly what must be decided together at European level and what should remain the competence of Member States.

2.2. The outlook for the markets

This section is based on the medium term prospects for agricultural markets published in June 2002 by DG Agriculture. Such an outlook is always subject to a degree of uncertainty, particularly as regards world prices and exchange rate trends. At present, these uncertainties are increased by the new US farm bill, which through higher loan rates and target prices for US cereals implies a downward pressure on the level of world prices.

Cereals

On the whole, the market prospects for cereals appear positive. The expected moderate recovery in world cereal prices, a favourable currency environment and the implementation of the Agenda 2000 reform should contribute to the overall balance of EU cereal markets, with the notable exception of rye. This would set the stage for a sustained recovery in cereal exports. By 2009/10 public intervention stocks will be limited to rye (roughly double its annual production).

Oilseeds

According to the most recent outlook by the leading institutes, price developments would also appear to be positive for rapeseed and sunflower seed. This development would be driven by increasing demand for vegetable oils. EU oilseeds area for food purposes is projected to increase from its present levels and reach some 4.7 million ha in 2009/10 while production is expected to grow to 13,5 million t. While the market is driven by oil demand, oilmeals would continue to be marketed at relatively low prices due to downward pressure from soybean prices.

Rice

In the rice sector, the market situation is characterised by considerable public intervention stocks of around a quarter of annual production. A further deterioration of the market imbalance can be expected from the implementation of the Everything but Arms Initiative. By 2009/10, total public rice stocks in the EU are expected to reach an unsustainable level.

Beef

In the beef sector, since the beginning of the second BSE crisis in October 2000, new measures have been taken in order to reduce the growing surplus of supply over demand and to reassure consumers concerning the increased safety standard of EU beef meat. As a result, although intervention stocks grew rapidly and reached around 0.26 million t by mid

December 2001, the market has showed signs of recovery since March 2001 and beef prices have continued to improve. Net production is estimated to increase in 2002 and 2003, as beef production returns to more normal conditions. Beef and veal production is therefore estimated to increase up to 7.7 million t. in 2004 and then remain close to this level in following years. Public stocks are expected to fall to zero by 2005 with exports recovering to around 600 000 t.

Dairy

Several factors have contributed to a short-term deterioration of the dairy market. These include increased milk deliveries as a result of high prices last year and favourable spring conditions and increasing international competition due, in particular, to heavy selling from skimmed milk powder (SMP) intervention in the United States. However, in the medium term overall developments in dairy markets would appear to be quite favourable. Domestic demand for cheese is projected to rise, though at rates below the recent long-term trend. The same holds for fresh dairy products, where expected growth rates are even stronger. Production responses in both sectors would lead to an increased demand for raw milk, which due to the quota regime would then no longer be available for the production of bulk products, in particular SMP and butter. Domestic demand for SMP is projected to fall, due to a reduction in animal feed use, and so would production. In the case of butter too, internal consumption and production would decrease, although here the reduction in consumption would only be quite small.

The increased absorption of raw milk for the production of cheese and fresh milk products would improve the overall market balance, also as far as SMP and butter are concerned. As a consequence, subsidised exports are expected to decrease and less export refunds and internal consumption aids would be necessary. Despite the projected increase in raw milk production, broadly in line with quota increase, the farm gate prices for raw milk are expected to remain firmer than the corresponding 15 % drop in intervention prices for butter and SMP.

2.3. Stabilising markets and improving common market organisations

Cereals

Completing the reform process

In the view of the Commission, the measures proposed in this communication are a necessary final step in the reform process in the sector, which started in 1992. This will guarantee that the full benefits in terms of internal and external competitiveness are felt over the coming years.

Market mechanisms in the cereals sector

In Agenda 2000, it was agreed that in the cereals sector a decision upon a final reduction in the intervention price to be applied from 2002/03 onwards would be taken in the light of market developments. For the EU as one of the major users and exporters of cereals in the world, it is important that prices on the internal market are as far as possible in line with those on world markets, maintaining EU exports without reliance on export subsidies.

Even if the world outlook for wheat, maize and barley are generally positive, past experience clearly demonstrates there can be strong fluctuations from one year to another, and even within a given marketing year, constraining the scope for exports. The Commission therefore continues to believe that it is necessary to establish intervention as a real safety net, to be rarely triggered, through the final 5 % reduction (of the 20 % proposed in Agenda 2000) of

the intervention price from EUR 101.31 to EUR 95.35 from 2004/05. This will be compensated as provided for in Agenda 2000.

In addition to the final steps of support price reduction, the Commission proposes to consider the abolition of the monthly increment. This would imply a major simplification of market management and would help to improve market fluidity over the year.

Recent market developments have given rise to problems in the practical implementation of the cereals and rice border protection system. The Commission intends therefore to undertake steps in this context to negotiate a change and a simplification of the EU's border protection for cereals and rice which, in current circumstances, functions unsatisfactorily and does not meet its objectives.

Rye

Unless measures are taken, the particularly unbalanced situation in the rye market will lead to a dramatic build up of stocks which have very limited outlets on the world market. Given the limited scope for export, the Commission therefore proposes to abolish intervention for rye, a step which, in parallel to the 5% drop in the intervention price for cereals, would enable balance to be maintained in coarse grain markets. Although in the short-term a fall in the price of rye is expected, medium term prospects for cereals on domestic and external markets would lead to an improvement in the rye market balance as well.

Durum wheat

As far as durum wheat is concerned, the Court of Auditors has argued that the level of the specific additional payment could not be justified on economic grounds and represented an overcompensation of producers. This analysis was confirmed by an evaluation study of the sector undertaken by independent experts, which also highlighted a number of quality problems. The Commission therefore proposes to reduce the current specific supplement for durum wheat to 250 EUR/ha in traditional areas and to abolish the special aid in established areas. These changes will be phased in over three years.

In order to promote quality, it is further proposed to introduce a specific premium paid per ton of durum wheat sold to the processing industry within the framework of a contract specifying quality criteria. Minimum requirements would be established at the EU level. This high quality premium is proposed at 15 EUR/t and would be available to producers meeting these criteria throughout the EU from the first year of implementation. Overall, these measures maintain a balance of support between durum wheat producers in traditional and other areas.

Oilseeds

As regards oilseeds, it was decided in the context of the Agenda 2000 reform to abolish the specific support regime and to bring the direct payments for oilseeds down to the level of cereal payments. The Berlin European Council requested the Commission to follow the market closely and submit a report within two years of the application of the new arrangement, making appropriate proposals should the production potential deteriorate seriously. In accordance with the mandate of the Council, the Commission has based its assessment on the medium-term outlook and the evaluation of the oilseeds support regime.

Although the Commission accepts that there has been a short-term decline in oilseed area, no serious deterioration of the EU's production potential is likely to occur in the foreseeable future. The proposed reduction of intervention price guarantees for cereals would be a

favourable element in this context. No specific measure is therefore envisaged and the Commission does not see, at this stage, the need for any additional report. However, it will continue to follow market developments closely.

Following the ban of meat and bone-meals and given a large availability of relatively cheap oil-meals on the world market, net imports of oilmeals and oilseeds in the EU have increased from around 32 million t in 1999 to around 36 million t in 2001 (expressed in meal equivalent). This increase concerns almost exclusively imports of soybeans and soya-meal, which are particularly well suited to replace meat and bone meal. At the same time, the current proposals will allow producers to respond to a more favourable environment for the production of other oil crops and the EU is expected to continue to be a net exporter of vegetable oils.

Altogether, these developments and forecasts would appear to indicate that there is no problem of protein supply in the EU after the meat and bone meal ban and that additional demand in the EU has not and will not lead to market imbalances with significant price increases. Any additional demand, if it should occur at all, is likely to be largely covered through additional imports of soya-meal due to its high suitability. However, the quantities necessary would appear to be quite limited and, depending on price relations, part of the additional protein requirement could be provided by cereals.

Rice

In order to stabilise rice markets in view of long-term prospects and the implementation of the Everything But Arms initiative, the Commission proposes a one step reduction of the intervention price by 50% to a basic price of 150 EUR/t for 2004/05 in line with world prices. A private storage scheme will be introduced which will be triggered when the market price falls below the basic price. Safety net intervention will be established at 120 EUR/t. The global price reduction will be compensated at a rate of 88%, equivalent to the total cereals compensation over the 1992 and Agenda 2000 reforms. This leads to compensation of 177 EUR/t, including the existing payment of 52 EUR/t. Of this, 102 EUR/t multiplied by the 1995 reform yield would become an income payment paid per farm. The remaining 75 EUR/t multiplied by the 1995 reform yield would be paid as a crop specific aid reflecting the role of rice production in traditional production areas. The maximum guaranteed areas (MGA) would be reduced to the 1999-2001 average or the current MGA, whichever is lower.

Dried fodder

Significant criticism has been directed at the dried fodder regime including comments from the Court of Auditors in its report "Greening the CAP". In its reply to the Court of Auditors, the Commission committed itself to ascertain whether a further reform should be proposed, not excluding the possibility of abandoning the scheme. Although the final product is a natural product of high feed value and a source of plant protein, the way in which it is produced, with high inputs of fossil fuel for dehydration and the use of irrigation in some Member States, raises concern and criticism.

The Commission therefore proposes to replace the current arrangements with an income support envelope for farmers of EUR 160 million. This envelope will be distributed between Member States in proportion to national guaranteed quantities for dehydrated and sun-dried fodder. Producer entitlements will be based on the quantities delivered to the industry in a historical reference period. In order to ensure a transition for the industry a simplified single

support scheme for dehydrated and sun-dried fodder with a reduced payment of 33 EUR/t will be maintained and the respective national guaranteed quantities will be merged.

Nuts

In view of the important part played by traditional nut production in protecting and maintaining the environmental, social and rural balance in a number of regions, the Commission suggests maintaining and simplifying the support arrangements for this sector. It is therefore proposed to replace existing arrangements by an annual flat rate payment of 100 EUR/ha. This can be topped up by up to an annual maximum of 109 EUR/ha by Member States. The maximum guaranteed area will be 800 000 ha.

Beef

In Berlin, the intervention price for beef was reduced by 20 % and replaced by a basic price for private storage, fixed at 2 224 EUR/t. Under the reform producers also benefited from safety net intervention when the average market price for bulls or steers is less than 1 560 EUR/t. The European Council of March 1999 asked the Commission to follow closely the beef market and to take relevant measures, if needed.

Following the recent BSE and Foot and Mouth Disease crises, beef markets have entered a phase of recovery of consumption, production and exports. The measures adopted by the Council and the Commission in 2000 and 2001 helped to rebalance EU beef supply and demand. Thus, market management mechanisms agreed in Agenda 2000 appear to have been sufficiently robust and flexible to facilitate the recovery of the beef market. However, concerns remain that the current arrangements for direct payments in the sector remain quite complicated and provide incentives towards intensification generating consumer concerns and a potential fragility in the recovery.

Although much has already been done in favor of extensive beef production, in particular the re-design of the extensification premium under Agenda 2000, on the whole, the CMO is still characterized by policy instruments which have not discouraged intensive production systems as much as intended. These include headage payments, stocking density based on requested premia and not necessarily on the real number of animals, exemption from the stocking density limit up to 15 livestock units ("small producers"), and the derogation to the headage limit of 90 animals per holding. Even if suckler cow headage premia are higher than those for steers and young bulls, analysis shows that on a per hectare basis intensive production systems (e.g. young bulls) receive higher direct support.

The Commission therefore proposes the decoupling of headage payments and their replacement with a single income payment per farm based on historical entitlements. Together with reinforced cross-compliance conditions including land management obligations, this should reduce pressures towards intensive production and help achieve a more balanced market situation. No other specific beef measure appears necessary at this stage for market or environmental reasons.

However, even after reform beef exports continue to rely quite heavily on export subsidies, although small quantities are exported without refunds. Around a sixth of these subsidised exports are live animals. The way in which these take place has raised increasing concerns about the respect of animal health and welfare standards. The Commission therefore intends to reinforce the conditions and controls under which exports subsidies for live animals can be granted.

For the EU as a whole about two thirds of beef meat originates, directly or indirectly from dairy herds. This strong link with the beef sector means that meat of dairy cattle origin contributes a further 10% to total agricultural output. In this context, the evolution of the dairy common market organisation is of particular significance for the beef sector.

Dairy

The Commission prepared its Agenda 2000 proposals with the overall objective of addressing the uncertain prospects for the sector while leaving options for future development open. Market prices were to be lowered through a reduction in intervention support prices of 15 %, in four steps from 2000 with compensation paid to farmers, while quotas were to be increased by 2 %. However, the Berlin European Council of March 1999 delayed the entry into force of the main elements of the reform until the marketing year 2005/06 and introduced the reform over three years. Quota would be increased, from a 1999/2000 reference year, by around 2.4 %. The Council undertook to conduct a mid-term review on the basis of a Commission report, with the aim of allowing the present quota arrangements to run out after 2006.

The report is mainly of a technical nature and accompanies this communication as a working document of the Commission. Only a few key aspects are highlighted here. To prepare this report, the Commission services commissioned a study with the support of an econometric model carried out by experts from the “Institut National de la Recherche Agricole” (INRA, France) and the University of Wageningen (Netherlands).

Altogether, the analysis and projections by the experts would appear to indicate that the support price reductions and limited quota increases decided in the Agenda 2000 reform will clearly have beneficial effects towards the end of the period. Market balance should improve and intervention stocks are expected to fluctuate at low levels. Reliance on export refunds and internal consumption aids would be reduced significantly. Direct payments are expected to adequately compensate producer revenues for the price reductions. In this sense, the Agenda 2000 reform can be seen to have forestalled to a considerable degree the Court of Auditors' requirement for "a fundamental reform of the dairy sector aiming at achieving equilibrium between overall milk production and unsubsidised internal consumption plus potential unsubsidised exports while ensuring a fair standard of living for dairy farmers and allowing the quota regime to expire".

Due to the decision in Berlin to delay implementation of the reform decisions, the full benefits of the reform will not be felt before 2008 and the following years. The question has been raised whether it would not be worthwhile considering an earlier implementation. A second question is whether the reduction of intervention prices for butter (with domestic market prices more than double world levels) should not be proportionately greater than that for skimmed milk powder (closer to world prices). The Commission has examined a number of options for the development of the dairy sector. These are summarised below:

OPTIONS FOR 2008-2015	ADVANTAGES	DISADVANTAGES
1. CONTINUATION OF AGENDA 2000 Simple maintenance of the Agenda 2000 measures until 2015 (status quo)	• Long-term market balance is assured. • Intervention stocks do not reappear • Expenditure on export refunds, consumption aids falls considerably • Beef market balance is improved	• Exports virtually disappear for butter and reach significantly lower levels for cheese • The economic relief generated by the Agenda 2000 is exhausted and the sector remains locked in by quota
2. REPEATING THE AGENDA 2000 APPROACH Further increase in quotas (+3%) and lowering of intervention prices (-15% butter and -5% SMP)	• Long-term market balance is assured • Intervention stocks do not reappear • Export refunds and aids to consumption are much less necessary • Unsubsidised exports increase appreciably, especially in higher value products such as cheese • Improved response to market signals rather than support mechanisms	• Considerable increase in EU budgetary costs through increased direct payments • Continued quotas with associated economic inefficiencies, although to a lesser extent than under option 1. • Quota trading between Member States would only give limited, short-term economic benefits
3. INTRODUCING A TWO-TIER QUOTA REGIME Reduction of EU quota by 5% to establish domestic "A" quota. Export quota "C" is unlimited. Export refund and disposal aids eliminated.	• Internal market balance is assured by a restrictive domestic quota policy • EU export capacity is restored • Export refunds and aids to consumption are eliminated • Intervention and storage costs are heavily reduced	• A serious question mark over WTO compatibility • More exhaustive administration and control of quotas necessary • A greater burden of these controls would fall on the economic actors themselves
4. REMOVAL OF QUOTAS Quota regime abolished from 2008. Intervention support cut by further 25% to safety net mechanism.	• The economic burden on potentially efficient farmers is removed. • Artificial market support measures are eliminated • Consumer prices reflect the cost of producing milk in the EU by the most efficient means • A self-sustaining, unsubsidised export capacity is achieved • Increased transparency and simplified EU milk sector	• Prices fall to a very great extent and are not fully compensated for, in terms of sector income, by the increased market opportunities for the cheap milk. • The potential structural impacts on individual producers and the regional distribution of milk production are difficult to assess and could be appreciable.

A key conclusion that can be drawn from the analysis of these options is that the prospects for the EU milk sector are generally positive in terms of market balance and producer price levels. However, fixed quotas lead to an increasing shortfall in milk supplies on the internal market. As a result, EU exports of high value products to growing world markets will suffer. In contrast, under a more competitive milk regime, the loss of EU export capacity in milk products could be avoided.

2.4. Achieving simpler and more sustainable direct support

One of the objectives of the process of CAP reform since 1992 has been to focus on shifting support for agriculture from the product to the producer. During the 1992 and 1999 reforms, this shift was achieved through the reduction of support prices and the introduction of partially decoupled direct payments in cereals, oilseeds and protein sectors and in the beef sector.

Despite initial concerns, the positive impact of this process in promoting greater market orientation and competitiveness, stabilising agriculture incomes and reducing negative environmental incentives is evident. But while many within the EU advocate full decoupling, some question whether such an additional step is necessary.

Decoupling comes with benefits and risks that need to be weighed carefully. It is the natural conclusion of the shift of support from product to producer, whose advantages can only be exploited (and its risks better dealt with) if it is allowed to reach its full potential.

To fulfil this, it is essential that decoupling is not used as a means of achieving other objectives that should be dealt with through more appropriate policy instruments. This might occur, for example, in the case of a sometimes suggested generalised area payment in current Member States, which would mix the objectives of decoupling with those of income redistribution.

In order to achieve the proper balance in maximising the benefits of decoupling, the Commission proposes to accomplish the final step in the shift of support from product to producer by introducing a system of a single income payment per farm. Such a system would integrate all existing direct payments a producer receives from various schemes into this single payment, determined on the basis of historical references.

With this move, once fully implemented, a major simplification in the support of EU producers will be achieved in a manner that is neutral with respect to payments to producers. This will improve the overall market orientation of agriculture, and will allow farmers to fully benefit from market opportunities in supplying the products that consumers demand. Furthermore, the transfer efficiency of the direct payment as an income aid will increase significantly, which should lead to an improvement in the income situation of farmers. Finally, decoupling will contribute to environmental integration by removing production specific incentives, which potentially damage the environment.

In addition to achieving major internal objectives, the approach also provides benefits in meeting external challenges. First, it will facilitate the integration of the new Member States into the common agricultural policy. Second, it will provide a major advantage within the WTO, since the Green Box compatibility of the scheme will help secure these payments in an international context.

Such an approach may also bring some risks, since it could lead in certain areas to changes in production with a knock-on effect on the processing industry and in some cases abandonment of land. But the more targeted policy instruments envisaged herewith provide Member States the necessary flexibility to reduce these risks. On balance, the Commission is convinced that the benefits of such an approach outweigh the risks.

Decoupling of direct aids – establishment of a farm income payment

The Commission therefore proposes introducing a single decoupled income payment per farm. This payment, based on historical payments adjusted to take into account the full implementation of Agenda 2000, will cover as many sectors as possible. Farms under this scheme will have complete farming flexibility increasing market orientation, but payments will be conditional on compliance with statutory environmental, food safety, and animal health and welfare standards (Cross compliance).

Scope of the scheme

In a first stage, the scheme will cover all products included in the COP regime as well as grain legumes, starch potatoes, beef and sheep. The revised payments for rice, durum wheat and dried fodder will also be integrated into the scheme. The milk sector will be integrated on implementation of the Agenda 2000 decisions. Other sectors scheduled for reform (sugar,

olive oil and some fruit and vegetables, etc.) could follow later. The more sectors that are included, the greater the administrative benefits in terms of simplification.

For the products concerned, the new scheme will replace all existing (or newly introduced) direct payments to producers with a number of exceptions. These include the specific quality premia for durum wheat, a new stand-alone protein crop supplement of 55.57 EUR/ha (9.5 EUR/t multiplied by the EU average reference yield of 5.85 t/ha for those regions where proteins are grown) replacing the existing arrangements, the crop specific payment for rice and the area payment for nuts. These limited and exceptional crop specific aids have been maintained in order to avoid the loss of positive benefits of a certain level of supply, particularly in traditional production areas. Crop-specific aids in the sectors covered by the mid-term review have, in all cases, been simplified as part of the revision process.

Although the new scheme will not cover all sectors at this stage, farmers receiving the new decoupled farm payment will have flexibility to farm all products on their land including those which are still under coupled support except if these productions have been exceptionally and explicitly excluded. Of course, the rules of the coupled market support regimes will apply (e.g. production quotas, planting rights, etc.). At this stage, cultivation of fruit and vegetables would not be eligible for support under the new scheme.

Establishment and transfer of payment entitlements

The decoupled farm income payment will be established at the farm level. The overall amount to which a farm is entitled will be split into parts (payment entitlements) in order to facilitate a partial transfer of the payment when only part of a farm is sold or leased. Such transfers would need to meet a certain number of obligations:

- to ensure that agricultural land throughout the EU is maintained in good agricultural condition and continues to be managed in accordance with mandatory environmental standards;
- to avoid speculative transfers of payment entitlements leading to the accumulation of payment rights without a corresponding agricultural basis;
- to ensure that the total level of support and entitlements do not exceed current levels at an EU, national and where applicable regional level;
- and to conserve the WTO-Green Box compatibility of the payments.

It is proposed, for this purpose, to divide the overall amount of the payment by the number of eligible hectares of the farm concerned. This would give a number of payment rights of a certain amount, which could then be transferred between farms together with the transfer of land. The Commission will provide further details in the context of the legislative proposals.

However, in order to allow sufficient flexibility to respond to specific situations, Member States would have the option to establish different approaches. These include the possibility to define a certain balance between individual payment entitlements (e.g. individual amounts per hectare) and regional or national averages. In any case, however, the rules and criteria established by Member States would have to meet the general obligations outlined above. Member states will notify the solutions for which they opt to the European Commission.

Reinforcement of environmental, food safety, animal health and welfare and occupational safety standards

The full granting of the decoupled farm income payment and other direct payments will be conditional on the respect of certain number of statutory environmental, food safety and animal health and welfare standards, as well as occupational safety requirements for farmers. The focus of cross-compliance requirements for all coupled and decoupled aids to farmers is on supporting the enforcement of “good farming practices” defined as encompassing mandatory standards. Although cross-compliance must reflect regional differences, avoiding distortion of competition requires a level playing field ensured through basic implementation criteria. Member states should define and enforce standards, following a common framework providing basic implementation criteria. The Commission will launch in the next months the work to establish such a framework.

Cross-compliance will be applied as a whole-farm approach with conditions attached to both used and unused agricultural land including the possibility, where Member States consider this necessary, to apply conditions to prevent the conversion of pasture land to arable land. On used and unused land, cross-compliance will involve the respect of statutory management requirements and the obligation to maintain land in good agricultural condition. A whole farm approach follows directly from the logic of decoupling and will emphasise the main purpose of cross-compliance: to support the implementation of environmental, food safety and animal health and welfare legislation. In the case of non-respect of cross-compliance requirements, direct payments should be reduced while maintaining proportionality with respect to the risk or damage concerned.

Farm auditing

In order to meet society’s expectations and to help farmers meet the standards of modern, high quality agriculture, the Commission considers that it is necessary to establish and support a Community wide system of farm auditing for commercial farms, to be defined by Member States on the basis of economic size. Farm audits help farmers become aware of material flows and on-farm processes relating to environment, food safety, animal health and welfare and occupational safety standards. The knowledge that producers are actively managing these processes will be an essential element in regaining full consumer confidence. Many farmers and farming organisations accept the necessity of improving transparency and awareness with respect to on-farm processes. Support for farm audits will be available under rural development.

The introduction of farm audits for all commercial farms is a general objective to be pursued. As a first step, the Commission proposes that a system of farm auditing will be mandatory as a part of cross-compliance requirements for producers receiving more than EUR 5 000 per year in direct payments. This will generate greater transparency, increase farmers’ awareness and help with the smooth phasing-in of cross-compliance. Other farmers will be able to enter the system on a voluntary basis.

Environmental set-aside

In order to maintain the supply control benefits of set-aside, while reinforcing its environmental benefits under the new decoupled system of support, the Commission proposes introducing compulsory long-term set-aside (10 years) on arable land. The replacement of rotational set-aside by long-term environmental set-aside will increase its benefits in many regions while simplifying administration and control, particularly in the framework of

decoupling. Farmers would be obliged to put an amount of arable land equivalent to current compulsory set-aside on their holding into long-term non-rotational set-aside as an element of cross-compliance requirements they have to meet in order to receive direct payments.

Support for energy crops – a carbon credit

Under the Commission proposals the current set-aside arrangements will be replaced by long-term environmental set-aside. Currently, support for energy crops is provided through the possibility to grow industrial crops on set-aside land. Energy crops account for the largest amount of non-food production on set-aside land. They will be of increasing importance should biofuel incorporation become compulsory as foreseen in the Commission's recent Communication. However, the new set-aside arrangements would no longer lend themselves to the production of energy crops.

The Commission therefore proposes replacing the existing arrangements for non-food crops with a carbon credit, a non-crop specific aid for energy crops with the objective of achieving carbon dioxide substitution. Such an aid would complement investment and establishment measures under the second pillar. The aid level will be 45 EUR/ha of energy crops with a maximum guaranteed area of 1.5 million hectares and would be paid to producers entering into a contract with a processor. The area allocation between Member States will take into account historical energy crop production on set-aside and CO₂ commitment burden sharing arrangements. The arrangements will be reviewed five years after its entry into force taking into account the implementation of the EU biofuels initiative.

2.5. A better balance of support for sustainable agriculture and rural development

A better balance of support between market policy and rural development will increase both the social acceptability of the common agricultural policy and the possibility to address consumer, environmental and animal welfare concerns within the second pillar. Furthermore, although the shift to decoupled direct payments will reduce incentives within policy instruments towards environmentally damaging production, it may also create pressures towards abandonment in some marginal areas. The importance of instruments designed to promote sustainable agriculture throughout the EU such as agri-environment and less favoured area payments, as well as other measures within the second pillar is therefore significantly increased. For this reason, it is equally necessary to ensure that Member States are able to make full use of these instruments in the future. The Commission will monitor the situation accordingly.

Dynamic modulation

In order to achieve a better balance between policy tools with the objective of further promoting sustainable agriculture and rural development, the Commission proposes introducing a system of dynamic modulation on a compulsory basis for all Member States. Under this system, which makes compulsory for all Member States the current optional arrangements, all direct payments will be reduced progressively in arithmetic steps of 3 % per year to reach 20%, the maximum agreed in Agenda 2000. This covers both coupled and decoupled payments.

The new compulsory system will replace the current optional arrangements from 2004 onwards. Appropriate transitional arrangements will be proposed for those Member States currently applying modulation on an optional basis.

Modulation can also contribute to the objective of correcting the allocation of funds, in addition to improving the balance of expenditure between markets and rural development. Smaller farms are generally more labour intensive, less prosperous and receive less support. Larger farms are more capable of adapting to new technologies and achieving economies of scale. At the same time, adjustment costs are often born by employees in larger employment intensive farms. It is therefore proposed to introduce a franchise dependent on the employment situation on each farm. For up to 2 (full time) annual work units (AWU), the franchise will be EUR 5 000. This will ensure that the majority of farms will not be subject to modulation. For each additionally employed AWU an additional EUR 3 000 may be granted on an optional basis by Member States. Although such a franchise would fully exempt from modulation around three quarters of the farms in Europe, these would account for less than a fifth of direct payments paid to farmers.

After the application of the franchise and modulation the maximum sum paid to a farm will be EUR 300 000. Direct aids beyond this amount (and the franchise) will be capped and made available for transfer to the second pillar in the Member State concerned.

Currently, Member States which modulate direct payments on an optional basis keep the “savings” in their accounts and have to spend them again for additional rural development activities within a certain time span (3 years). This approach is unorthodox in budget terms and could not be extended to a Community wide system with transfers of important amounts. The Commission therefore proposes replacing the current system by more appropriate arrangements. It will make an ex-ante estimate of the amounts made available under modulation and capping in budget years 2005 and 2006 and propose reducing the ceiling under heading 1a accordingly. A corresponding amount would be proposed for transfer to heading 1b. The financial perspectives would be modified according to the procedure foreseen under article 20 of the Interinstitutional Agreement on Budgetary discipline.

The amounts saved by modulation in this way each year will be distributed to Member States on the basis of agricultural area, agricultural employment and a prosperity criterion, to target specific rural needs. Such a key reflects the important role of agriculture in land use and land management in rural areas. This will allow some redistribution from intensive cereal and livestock producing countries to poorer and more extensive/mountainous countries, bringing positive environmental and cohesion effects. The savings from capping will be distributed according to the amount capped in each Member State.

The additional EAGGF Guarantee funding for rural development generated by dynamic modulation will amount to around EUR 500-600 million in 2005 according to first estimates, and will increase annually by an equivalent amount with each 3 % increase in dynamic modulation.

Member states may use this additional funding to reinforce their rural development programmes. They may wish to allocate such additional resources within their programmes on the basis of needs identified within the framework of the mid-term evaluation of rural development programmes and taking into account the possibilities offered under the new rural development measures which the Commission is now proposing. Member states will be permitted to allocate the modulation money to any of the rural development measures which are eligible to be included in their rural development programming financed under the EAGGF-Guarantee section. They may use the additional funds to increase the level of Community co-financing within their programmes up to the regulatory ceilings, finance new measures, increase the scope of and/or finance additional beneficiaries under existing measures.

In principle, the additional funding transferred from the 1st pillar to the 2nd pillar will not impose any additional budgetary effort by Member States when included within their rural development programming for 2005-06.

2.6. Consolidating and strengthening Rural Development

The Commission proposes to consolidate and strengthen the second pillar by increasing the scope of the accompanying measures and widening and clarifying the scope and level of certain measures.

New accompanying measures

The four accompanying measures are financed inside and outside objective 1 regions by the EAGGF guarantee section and currently comprise agri-environment, less favoured areas, afforestation of agricultural land and early retirement. The Commission proposes to extend the scope of the accompanying measures to better address concerns about food safety and quality, to help farmers to adapt to the introduction of demanding standards, and to promote animal welfare. In order to facilitate the introduction of these measures, appropriate implementation arrangements may be necessary to ease transition. As for the existing four accompanying measures, these new measures will be targeted primarily at farmer beneficiaries.

First, a new food quality chapter will be added into the rural development regulation. It will include:

- Encouraging farmers to participate in quality assurance and certification schemes recognised by the Member State or the EU including geographical indications and designation of origin and organic farming. Incentives will be offered under this indent to farmers who, on a voluntary basis, produce according to the requirements of such schemes. The schemes concerned must be open to all producers who respect the conditions specified. Aid will be paid on a flat rate basis per holding for a period of maximum 5 years.
- Support for producer groups for the promotion activities of agricultural products designated under quality assurance and certification schemes recognised by the Member State or the EU including geographical indications and designation of origin and organic farming. This will complement without overlapping marketing activities funded under article 33 of the rural development regulation. In order to ensure there is no scope for duplication of agricultural promotion activities within the internal market, community support for promotion of agricultural products within the first pillar will from 2005 onwards be targeted only at promotion on third country markets.

Second, the Commission proposes the introduction of a chapter “Meeting standards” to help farmers to adapt to demanding standards based on Community legislation in the field of the environment, food safety and animal welfare as well as implementing farm audits. This will include:

- The possibility to pay temporary and degressive aid to farmers to help them implement demanding standards based on Community legislation in the fields of environment, food safety, animal welfare and occupational safety standards and which will become part of good farming practice or required minimum standards. Introduction and respect of such standards can entail additional costs and obligations

for farmers, and initially lead to loss of income. The aim of the measure would be to encourage a more rapid and widespread adoption of such standards. In no case would aid be payable where the non-application of standards is due to the non-respect by an individual farmer of standards already incorporated in national legislation. Aid would be payable in the form of a degressive annual compensatory payment for a period of maximum of 5 years, up to a maximum of EUR 200 per ha in the first year.

- Support for farm audits. Farmers would receive flat-rate aid to help them meet the costs of such audits, which would identify and propose improvements in current performance with regard to statutory environmental, food safety, animal health and welfare and occupational safety standards. In particular, this will help farmers prepare and implement the proposed introduction of cross-compliance requirements for the receipt of direct payments. This will be complemented by existing provision for training and demonstration projects.

Third, the Commission proposes to introduce into the agri-environment chapter the possibility to offer animal welfare payments for efforts that go beyond a mandatory reference level in line with agri-environment schemes. In addition, in recognition of the considerable importance which the Commission attaches to the further development of agri-environment, particularly in the light of the SDS, and animal welfare schemes, it is proposed to increase the fixed co-financing rate for these measures by a further 10 points, to 85 % in areas covered by Objective 1 and 60 % in other areas. These changes should be accompanied by actions to increase public awareness and promotion of agri-environmental schemes.

The Commission proposes that for the 2005-06 period the inclusion of the food quality chapter would be compulsory for Member States within their rural development programmes (EAGGF-Guarantee), as the agri-environment chapter is already today and will continue to be so after its extension to animal welfare.

Other technical adaptations to the Rural Development Regulation

The Commission proposes to make certain adaptations of non-accompanying measures to complement the introduction of the new measures outlined above. The scope of marketing activities under Article 33 will be clarified to include a specific reference to the eligibility of the cost of setting up quality assurance and certification schemes. The scope of the indent of Article 33 '*setting-up of farm relief and farm management services*' will be widened to include the costs of setting up farm auditing systems.

In addition, in the forestry chapter the possibility will be introduced for Member States to submit changes to their forest fire protection plans/classification of risk areas through a modification of rural development programmes. This adaptation is necessary due to the forthcoming repeal of Regulation (EEC) No 2158/92 at end 2002.

2.7. Budget

The Berlin European Council considered that the Agenda 2000 reform would be implemented within a financial framework of EUR 40.5 billion excluding rural development and veterinary measures in constant 1999 prices and asked the Commission to report to the Council in 2002 on the development of agricultural expenditure.

In response to this request, the Commission has examined the actual and prospective development of agricultural expenditure for the period 2000-2006. The assumptions at the basis of this examination and its results are contained in annex. These results indicate that on

the basis of a continuation of present policies, there will be no overshoot of the annual average of EUR 40.5 billion.

2.8. State aid

In order to accelerate the implementation of new state aid regimes, the Commission is examining the possibilities of adopting exemption regulations in the field of agriculture. For example, a block exemption for various types of state aid would avoid ex-ante notification without relaxing the substance of the current state aid guidelines. The Commission has already adopted several such exemption regulations outside of agriculture. Currently, the need for ex-ante approval from the Commission necessarily delays any plan for granting new agricultural state aid, often by several months. The new approach should also lead to a reduction of the workload of the Commission, thus freeing the services to spend more time on complaints and illegal state aids.

This shall be done at Commission level, within the existing legal framework for state aid exemption regulations, as adopted by the Council. For the state aids covered, ex-ante notification and authorisation would be replaced by ex-post reporting and monitoring. This will simplify and shorten the timeframe for the introduction of new state aid regimes. Thus, Member States who are willing to provide ex-post reporting would be able to provide assistance at national level more rapidly, in particular where such assistance is needed to accompany reform measures in the agriculture sector. To guarantee the internal and external sustainability of the policy the Commission will ensure that state aids will not undermine the objectives of the CAP.

2.9. Next steps

After consultation with the Council, the Parliament and other interested parties, the Commission will bring forward legislative proposals in autumn 2002. For the sectors scheduled for review in 2003 (olive oil, sugar, etc.) the Commission will bring forward proposals within the framework of the new farm income payment.

3. LIKELY EFFECTS OF PROPOSALS

3.1. Internal effects

The proposed adjustments to CAP instruments will significantly improve the capacity of agricultural and rural development policies to achieve the objectives established in Agenda 2000. They will help close the gap between the expectations of farmers, consumers, taxpayers and public authorities and the economic, social and environmental outcomes of the policies.

The farming sector

For the farming sector as a whole prospects should improve. Decoupling will allow farmers in the sectors concerned to focus on products which give them the best return from the market reflecting their skills, initiative and local agronomic conditions. It will also improve in many cases, the efficiency of transfers to farmers, and should help them improve their income situation. Dynamic modulation will provide the means for additional support for quality, transitional help in meeting demanding statutory standards, as well as increasing the scope for farmers to provide environmental services. In combination with the proposed changes to common market organisations, this will fundamentally improve the potential for long-term sustainability in the sector. Farmers will be appropriately compensated for price reductions.

Dynamic modulation will help achieve a better social balance of support within the sector, without, in view of other measures, reducing the economic opportunities for larger farms. The farm income payment will represent a fundamental simplification of current arrangements. The majority of income support will now be made in the form of a single payment. Through the mechanism of the farm audit, all control requirements concerning standards covering environmental, food safety, animal health and welfare and occupational safety for farmers will be combined in a single framework.

Consumers

For consumers, the proposals represent a major step forward in integrating food safety, food quality and animal health and welfare concerns into the CAP. Decoupling will encourage farmers to respond to market signals generated by consumer demand rather than by quantity related policy incentives. The inclusion of food safety and animal health and welfare in cross-compliance and their systematic monitoring through the farm audit framework will improve transparency and give consumers greater confidence. The reinforcement of the scope for support for quality production and improved standards will help farmers to better respond to consumer demand.

Taxpayers

For taxpayers, the proposed adjustments will ensure a better use of public resources. Within the framework of budgetary stabilisation, the proposals will increase the efficiency of necessary income support to farmers, while at the same time improving market orientation. A number of common market organisations will be adjusted to improve their functioning. The changes will considerably reduce the likelihood of the build-up of surpluses.

Citizens

The proposals will help address citizens' concerns. Dynamic modulation will allow a shift towards the increased provision of public goods such as environmental services and animal welfare, as well as measures focused on improving the competitiveness of the sector. The proposed new set-aside arrangements will enhance environmental benefits. The reinforcement of cross-compliance will ensure coherence of agricultural policy with other statutory requirements.

Food industry

The proposals will have positive effects for the food industry by reducing the costs of raw materials in a number of sectors. Encouraging farmers to become more market orientated and focused on quality production will facilitate the access of processors to products adapted to their needs. The benefits of consumer confidence in better safety and quality standards will be felt throughout the food chain.

Administrations

For public administrations, the farm income payment and farm audit represent, once in place, a considerable simplification of implementation and control requirements through the introduction of a single payment for the sectors concerned and a single control framework. In addition, a considerable simplification of the state aid arrangements has been proposed.

A small number of highly targeted instruments have been maintained and improved in the first pillar, in order to avoid destabilisation of agricultural markets during the transition to the

decoupled system, particularly of specialised or traditional products. These include a new aid for energy crops to replace the arrangements under set-aside, and crop specific aids for producers of protein crops, rice, nuts, and a quality supplement for durum wheat.

3.2. External effects

Although these adjustments have been proposed by the Commission to meet internal needs and expectations, they will also help the EU adapt to external challenges.

The approach proposed by the Commission will enhance the integration of new members into the Common Agricultural Policy. The proposed changes in common market organisations will address market balance problems in EU-15 markets before enlargement. Decoupling will help encourage farmers in the new Member States to improve market orientation, rather than focusing production on policy incentives. The farm income payment will offer a considerable simplification compared to existing arrangements. Dynamic modulation would not be applied to farmers in the new Member States before they had reached the normal level of EU direct payments. In addition, it has already been proposed to increase their rural development allocation compared to the normal EU level. The proposed changes to rural development measures would help to implement EU food safety and quality standards, while reinforced cross compliance would improve consumer confidence in production in the new Member States.

The approach proposed by the Commission contributes to the EU's strategic goals and commitments in the international field by making new efforts to promote sustainable development and coherence. In particular, by reorienting support towards more extensive agricultural practices and minimally trade-distorting domestic support, it is expected to improve market opportunities for developing countries. However, the optimum impact on the world trading environment will only be fully realised if others undertake policy reform of equal magnitude. We expect others to make comparable efforts in appropriate areas in such a way that this could be translated into international commitments.

The direction of the EU is clear: reductions in production-distorting support and an increased focus on food safety and quality, rural development, and environmental services for society at large. This reflects the expectations of the European public and is in the best interests of European farmers.

3.3. Financial impact

A rough estimate of the measures proposed in this paper, compared to the updated baseline is given in annex.

ANNEX: THE DEVELOPMENT OF AGRICULTURAL EXPENDITURE 2000 – 2006

Introduction

With a view to achieving the objective of stabilising agricultural expenditure in real terms and beyond the reform measures decided in the context of Agenda 2000, the Berlin European Council in point 22 of its conclusions requested the Commission and the Council to pursue additional savings to ensure that total expenditure excluding rural development and veterinary measures in 2000–2006 will not overshoot an average annual expenditure of EUR 40.5 billion. Therefore, the Commission was invited to report to the Council in 2002 on the development of agricultural expenditure accompanied, if necessary, by appropriate proposals.

In response to the request of the European Council the development of actual agricultural expenditure for 2000 and 2001 has been examined and updated expenditure forecasts have been established for the period 2002–2006 constituting a new base line scenario to be compared with the financial perspective ceilings. The assumptions at the basis of this new scenario and its results are presented below. It should be emphasised that individual forecast amounts by sector are indicative and are in no way meant to represent expenditure objectives or ceilings for each of the sectors concerned.

Methodology for the updated forecasts

The updating of the expenditure forecasts by sector for the period 2000–2006 has been carried out on the following basis:

- actual expenditure in 2000 and 2001;
- the appropriations entered in the 2002 budget and proposed in the Preliminary Draft Budget (PDB) 2003;
- forecasts established for the years 2004–2006.

The forecasts for 2004–2006 have been based on:

- an exchange rate of 1 EUR = 1 dollar;
- the most recent assessment of the prospects for the development of agricultural markets especially concerning arable crops, the meat sectors and milk and milk products;
- the assumption that for the sectors which were the subject of the Agenda 2000 reforms, arable base areas and premium rights in the animal sector will be fully utilised as from the 2004 financial year (2006 for the milk sector).

The effects of legislative decisions adopted after Agenda 2000 and which have modified certain common market organisations or other regimes have also been taken into account (sugar, fruit and vegetables, flax and hemp, cotton, tobacco, olive oil, sheepmeat and goatmeat and the programmes for remote islands and regions, to mention the most important changes).

For the sectors for which there are maximum guaranteed quantities, past experience indicates that in general these are fully utilised (notably olive oil, dried fodder, grain legumes,

processed fruit and vegetables). The maximum guaranteed quantities which have been fixed therefore constitute the basis for the forecasts for these sectors.

For the sectors subject to the Agenda 2000 reforms and for certain other sectors where important legislative changes have been decided subsequently, specific comments are given below.

Arable crops

The Agenda 2000 estimates were drawn up on the assumption that arable base areas would be fully utilised and that high world prices (in dollars) would enable exports to take place without or with very low refunds.

The first budgetary effects of the reform made themselves felt from the 2001 financial year.

Until 2002 per-hectare aid stayed below the Agenda 2000 estimates because some Member States underused the base area. The 2003 PDB assumes that this under-utilisation will continue. However, for the period 2004 to 2006 the estimates have been drawn up by applying the per-hectare aid resulting from the use of historic reference yields to the whole of the base area and include the expenditure on direct aid under the common organisation of the market in flax and hemp which has recently been reformed.

Despite lower world prices than at the time of Agenda 2000, a EUR/dollar rate well under 1 made it possible to minimise export refunds and intervention costs, and expenditure on market measures for 2001 and 2002 therefore stayed below the level envisaged at the time of the Berlin agreement.

From 2004 the forecasts of expenditure on market measures diverge from those at Berlin. Since world prices are expected to be lower than at the time of Agenda 2000 and the exchange rate is assumed to be at parity, expenditure on market measures would be higher.

Sugar

Export refunds account for over 80 % of expenditure under this market organisation and expenditure in the sector is consequently greatly influenced by movements in world prices and in the EUR/dollar parity.

A comparison between the expenditure forecasts currently being drawn up for 2003-2006 and the Agenda 2000 ones calls for the following comments:

- The assumptions concerning the world price level and the EUR/dollar parity in Agenda 2000 and those in the present report exert a contradictory influence on the level of appropriations required. The assumptions regarding the price level and the EUR/dollar parity therefore counterbalance one another.
- The significant reduction in the amount of appropriations currently considered necessary compared with the Agenda 2000 forecast is due mainly to the abolition of the reimbursement of storage costs in the 2001 reform of the market organisation which is applicable from 2001/02.

Fibre plants

In July 2000 the Council reformed the common organisation of the market in flax and hemp. From 2001/02 flax and hemp for fibre production have been included in the arable crop scheme and the per-hectare aid received by growers has been reduced to the level of the aid for arable crops (annual estimated cost of around EUR 40 million when the arrangements are up and running, which should be added to the aid for arable crops and deducted from the amounts for fibre crops).

The second part of the reform involves aid for processing straw, which is estimated at around EUR 26 million per year and remains charged to the "Fibre plants" chapter. The forecast expenditure should remain stable as the system is based on an MGQ and fixed aid per tonne.

For cotton the Council also decided, in April 2001, on a revision of the aid system applicable from 2001/02. The principal change is that penalties are now progressive depending on the amount of production, in order to reinforce the stabiliser mechanism.

Expenditure in the cotton sector, despite the stabiliser system, is still strongly influenced by the world price level (in dollars) and the movement of the EUR/dollar rate. It fluctuated in the period 2000–2002. More particularly in 2002, the increase in expenditure is due to a collapse in world cotton prices compared to those used for Agenda 2000, the effect of which is still significant despite an EUR/dollar rate of less than 1.

A slight recovery in the world price is forecast for 2003 and subsequently. Forecasts regarding the quantities aided are the same as for Agenda 2000, i.e. around 1.5 million t.

Fruit and vegetables

For Agenda 2000, the financial cost was calculated on the basis of the financial estimate made after adoption of the 1996 reform. This estimate included a substantial amount for the operational funds.

At the end of 2000, the Council adopted a mini-reform, which introduced a number of changes, in particular:

- simplification of the system of financing the operational funds, for which the ceiling on Community financial assistance was set at 4.1 %, and
- rationalisation of the scheme for citrus fruits, peaches, pears and processed tomatoes.

The successive extensions of the scheme for nuts, which were adopted by the Council pending a new proposal, have also been taken into account.

The budget estimates up to 2006 have been drawn up in the light of the new aids, thresholds and ceilings fixed and taking into account the expiry of certain schemes (e.g. for nuts). The new forecasts are appreciably lower than for Agenda 2000. This is mainly because the forecasts for producer organisations and withdrawals have been revised downwards and partly because the forecasts for processed tomatoes indicate that expenditure will stabilise as a result of the changes adopted at the end of 2000.

Wine sector

The organisation of the market in wine was reformed under Agenda 2000 and the forecasts take this into account from 2001, which was the first year in which the reform impacted the

budget. The reform provided for the gradual reduction and eventual disappearance of crisis distillation as a result of the expected stabilisation of the sector. It included expenditure on vineyard restructuring which was estimated at EUR 443 million per year when the scheme was up and running.

Expenditure in this sector remains influenced by a greater use of crisis distillation than forecast, as a result of relatively high production and a structural fall in consumption.

Milk

At the time of the Berlin decisions, it was forecast that annual expenditure in the milk sector for the period 2000–2005 would be relatively stable and then increase as from 2006 as a consequence of the introduction of the direct aid system agreed in the context of Agenda 2000.

In reality, expenditure in the initial years of the period has been significantly below the Berlin forecasts due to internal and external market conditions which have been much more favourable than those foreseen at the time of Agenda 2000. For 2000 and 2001, sustained demand for cheese and firm internal and external prices especially for milk powder were essential factors in permitting reductions in rates of export refund and of internal rates of aid for skimmed milk and butter fat disposal measures.

The expenditure estimates for 2004–2006 are based on the recent medium-term forecasts of the development of supply and demand. For the principal milk products, these forecasts indicate a narrowing of the differences between supply and internal consumption compared to those established at the time of Agenda 2000.

Beef and veal

The first years of the reform were influenced particularly by the BSE crisis, which erupted at the end of 2000 and the foot-and-mouth outbreak in 2001 in the United Kingdom.

The Commission took a series of measures in 2000 to remedy the situation following the drop in consumption and in exports and to restore balance between supply and demand (special purchase for destruction, adjustment of the public intervention scheme, etc).

In 2001 a plan was presented to the Council and adopted in June 2001. This plan aimed to create better market balance in the short and medium term.

Although the market was destabilised in 2000 and 2001, the crisis was not as bad as at first feared and there has been a recovery. However, for the period 2001 to 2003, expenditure on the beef and veal sector remains slightly above the amounts initially forecast despite the fact that expenditure on direct premiums is lower because premium rights have been underused.

The estimates for 2004 to 2006 are based on

- the medium-term outlook for supply and demand. Net production is expected to be down on the levels forecast at the time of Agenda 2000. The expected recovery in consumption should enable intervention stocks to be disposed of,
- full utilisation of the direct premium rights.

These estimates exceed the forecasts drawn up at the time of the Berlin agreement because the extensification premium was applied at a higher level than expected and because the estimates regarding export refunds at the time of Berlin were too optimistic.

Sheepmeat

The reform decided on in 2001 was based on an overall estimate of expenditure made at the time of the Berlin agreement (taking into account 92 % utilisation of the premium rights).

Conclusions

As shown in the annexed Table 1, the results of this updating exercise indicate that expenditure under heading 1a will remain within the corresponding financial perspective ceilings throughout the period 2000–2006. Actual expenditure was below the ceiling by nearly EUR 1.1 billion in 2000 and by about EUR 2.3 billion in 2001. The Budget for 2002 and the Preliminary Draft Budget (PDB) for 2003 envisage that the margin under the respective ceilings for these years will remain at around EUR 2.3 billion.

For the period 2004–2006, and on the basis of the methodology outlined above, the annual margin under the ceilings is forecast to be nearly EUR 1 billion in 2004 and just above EUR 1 billion in 2005 and 2006.

As regards the annual average amount of EUR 40.5 billion in 1999 prices specified in points 21 and 22 of the Berlin conclusions, the calculation shown in Table 2 indicates that this amount will be respected since the comparable actual annual average expenditure is forecast to be lower by about EUR 1.5 billion.

Budgetary impact of the proposals

Precise estimates of the budgetary impact of each of the measures outlined in the Mid-Term Review will be established in connection with the presentation of the formal legislative proposals.

However, even if estimates made at this stage can only be preliminary, the changes envisaged for the individual sectors concerned and for the decoupling of direct aids are estimated to lead to an overall annual saving of around EUR 0.2 billion compared to the base line expenditure shown in Table 1.

This saving plus the forecast margin of about EUR 1 billion represents the necessary margin to provide for unforeseen circumstances (depreciation of the dollar, serious animal disease outbreaks, etc) as well as to meet costs which could result from reform measures, which may be prove necessary in sectors not covered by this Mid-Term Review.

TABLE 1
Expenditure and forecasts by sector for heading 1a
(New baseline – status quo without Mid-Term proposals)

Million EUR

	2000 Execution ⁵	2001 Execution	2002 Budget	2003 PDB	2004 Forecasts	2005 Forecasts	2006 Forecasts
Arable crops	16663,1	17466,2	17916	17764	18298	18178	18155
- direct aids	15174,0	16918,0	17486	17325	17541	17530	17530
- other measures	1489,1	548,2	430	439	757	648	625
Sugar	1910,2	1497,1	1401	1339	1429	1429	1429
Olive oil	2210,1	2523,8	2366	2372	2384	2384	2384
- direct aids	2156,2	2468,8	2298	2317	2318	2318	2318
- other measures	53,9	55,0	68	55	66	66	66
Dried fodder and grain legumes	381,3	374,8	385	383	383	383	383
- direct aids	68,7	69,2	72	72	72	72	72
- other measures	312,6	305,6	313	311	311	311	311
Textileplants	991,4	826,3	956	831	881	881	881
- direct aids	105,7	59,8	1	1	1	1	1
- other measures	885,7	766,5	955	830	880	880	880
Fruit and vegetables	1551,3	1558,0	1650	1629	1620	1618	1617
- direct aids	343,0	431,2	430	408	410	413	417
- other measures	1208,3	1126,8	1220	1221	1211	1205	1200
Wine	765,5	1196,7	1392	1381	1381	1381	1381
Tobacco	989,4	973,4	983	973	973	973	973
- direct aids	984,9	964,0	970	956	944	944	944
- other measures	4,5	9,4	13	17	29	29	29
Milk and milk products	2544,3	1906,6	1912	2112	2191	2147	2747
- direct aids	-	-	-	-	-	-	979
- other measures	2544,3	1906,6	1912	2112	2191	2147	1768
Beef and veal	4539,6	6054,0	8095	8369	8596	8570	8499
- direct aids	3646,1	4862,4	6162	7335	7858	8067	8067
- other measures	893,5	1191,6	1933	1034	738	503	432
Sheep and goatmeat	1735,6	1447,3	672	1914	1915	1915	1915
- direct aids	1733,9	1449,3	665	1910	1910	1910	1910
- other measures	1,7	-2,0	7,0	4	5	5	5
Other agricultural products ¹	1891,5	1328,3	1424	1464	1467	1472	1472
- direct aids ²	301,7	279,8	293	309	311	316	316
- other measures	1589,8	1048,5	1131	1154	1156	1156	1156
Fishery products	23,0	20,4	32	29	30	30	30
Control and prevention measures	77,4	32,1	57	48	48	48	48
Clearance of the accounts	-1077,9	-569,7	-500	-500	-500	-500	-500
Promotion measures	58,7	48,9	79	67	67	67	67
Other measures (agrimonetary aids)	933,1	469,8	271	55	-	-	-
- direct aids	948,0	480,6	271	55			
- other measures	-14,9	-10,8	0	0			
Veterinary measures ³	102,5	565,5	570	190	290	290	290
Heading 1a total	36290,0	37719,5	39660	40420	41452	41265	41770
- direct aids ⁴	25462,2	27983,1	28648	30688	31364	31571	32554
- other measures	10827,8	9736,4	11013	9731	10088	9694	9217
Heading 1a ceiling	37352	40035	41992	42680	42408	42310	42834
Difference	-1062,0	-2315,5	-2332	-2260	-956	-1045	-1064

- ¹ seeds, hops, rice, pigmeat, eggs, poultrymeat, apiculture, non-annex I products, food programs, remote regions and islands
- ² seeds, hops, rice, remote regions and islands
- ³ including from 2004, selective slaughter schemes (BSE)
- ⁴ direct aids corresponding to the list contained in the Annex to Regulation (EC) No 1259/1999
- ⁵ including EUR 29 million declared on appropriations carried over from 1999.

TABLE 2**Respect of the annual average of EUR 40 500 million (1999 prices)**

	2000	2001	2002	2003	2004	2005	2006	Average 2000 - 2006 (1999 prices)
1. Average ceiling								40 500
2. 'old' accompanying measures (EUR 2 760 million in current prices)								2 552
3 = 1 - 2 Adjusted ceiling								37 948
4a. Expenditure heading 1a excluding veterinary in current prices	36 188	37 154	39 091	40 230	41 162	40 975	41 480	
4b. Expenditure heading 1a excluding veterinary in 1999 prices	35 478	35 711	36 836	37 166	37 282	36 385	36 111	36 424
5 = 3 - 4b Difference								1 524