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2000 Report

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1. THE AGRICULTURAL YEAR

1.1. Overview

1. The 2000 agricultural year was notable mainly for three trends:(a) the recovery of prices in the pigmeat and poultry sectors after the falls in 1999, (b) a surge in oil prices, leading to a steep rise in energy costs and, to a lesser degree, the cost of fertilisers, and (c) the collapse of consumption and prices of beef and veal from October onwards as a new BSE crisis struck following the discovery of fresh cases of the disease in several Member States. On the whole, weather conditions over the agricultural year were favourable, contributing to a record cereals harvest, while the overall domestic and international economic situation remained conducive to growth and helped ensure EU agricultural exports remained competitive.
2. Overall, initial estimates at the end of 2000 (before the full impact of the BSE crisis could be assessed) put farm incomes for the European Union as a whole on an upward trend by 1.3% in real terms, following the slight rise recorded in 1999 (+ 0.7%, according to the most recent figures). This provisional estimate for 2000 will probably have to be revised downwards, however, to account for the fall in beef and veal prices in the final quarter of the year. This news should be tempered by the fact that the fall was accompanied by a contrasting recovery in pigmeat and poultry prices, a process that had started before the crisis and which picked up over the year.
3. In terms of weather conditions, the 2000 agricultural year generally started out quite favourably at the winter sowing period (autumn 1999). This led to an increase in the area sown with common wheat in France, the Benelux countries and especially Germany, compared with the previous year's contraction. In addition, water reserves in southern Europe, low after a summer marked by relatively high temperatures and a long drought in Spain, were replenished by substantial rainfall just before the winter sowing period. This largely offset the mix of low rainfall and above-average temperatures experienced by these regions over the winter. Indeed, most regions in central Europe and Scandinavia also enjoyed a mild winter (with temperatures some 2 degrees above average) and a generally fair spring, with relatively high temperatures accelerating crop growth. In the summer, however, conditions deteriorated somewhat, with excessive rainfall in northern Europe and the unseasonably high temperatures lingering in the south. The heavy rainfall in the north in July and August considerably delayed the winter cereals harvest and affected the quality of the harvested crop. On the other hand, these conditions were relatively favourable for summer crops, especially potato and beet, although beet yields were generally below the record harvest of the previous year. These two crops, in particular beet, suffered from the excessive autumn rainfall in the north, which delayed harvests in most areas.
4. Domestic demand for cereals is estimated to have risen 2.5%, after levelling off in 1999, due mainly to the resumption of cereal use in animal feed as cereals regained their competitive position in relation to substitutes. Before the BSE crisis, the forecast for beef and veal consumption in 2000 was for flat or limited growth compared with 1999, putting it slightly above the long-term trend (which, despite everything, was still on a downward curve - from over 23 kg per capita in 1986 to some 20 kg in 1999). The widespread loss of consumer confidence in the wake of the discovery of fresh cases of "mad cow disease", even in Member States which had

hitherto been considered BSE-free, sparked a nosedive in beef and veal sales in most Member States, with some seeing falls of up to 60-70%. Averaged out over the year, it is estimated that the crisis will eventually be responsible for beef and veal consumption dropping by 5% in 2000, although significant fallout from the crisis could continue into 2001. As in the past, the slump in beef and veal sales has led to a corresponding increase in poultry and pigmeat consumption, which, according to estimates, was in decline somewhat before the BSE crisis. As a result, consumption levels for these meats should on the whole remain more or less flat in 2000 compared with the previous year, with poultry consumption perhaps dipping slightly. Lastly, while butter consumption fell off again after having picked up slightly in 1999, consumption of cheese continued its upward trend, growing by some 1.5% in 2000.

5. The general economic scene was characterised by relatively steady growth in the European Union and the world at large, a steep fall in the euro against the dollar (increasing the competitiveness of Community exports in world markets), and rocketing oil prices, which, together with the weak euro, put upward pressure on inflation in most Member States.
6. Globally, agricultural markets continued their improvement on 1999, although in the context of recent years they remained relatively depressed. While world wheat prices, in particular, recovered in the second half of the year on the expectation of reduced stocks for the marketing year 2000-01, they were still down considerably on the record prices of 1994-96. In the maize sector, despite rallying in the second half of the year, world prices at the end of 2000 had done little more than return to their levels of the start of the year, having plummeted some 20% between May and July. Similarly, over the year world soya prices fluctuated around levels just slightly above those of the previous year, even though, as mentioned above, the depreciation of the euro against the dollar made Community grain and oilcake imports more expensive. World beef and veal prices were on an upward trend during 2000 as demand picked up, particularly in North America. Poultry prices, however, remained in the doldrums, depressed by a combination of increased supply and sluggish demand. In the global markets for milk products, cheese and butter prices rose slightly and those for skimmed milk powder steeply, following their sharp drop of recent years in the wake of the economic and financial crisis in Asia, Latin America and Russia.
7. The solid overall performance of the European Union on world agricultural markets in 2000 (with the exception of some sectors, such as beef, veal and grain oils) can largely be attributed to the improvement in international markets and the weak euro boosting the competitiveness of Community exports. In the first ten months of 2000, the value of Community agricultural exports was up 13.6% on the same period in 1999. Cereal exports in particular increased by some 7% in volume and 27% in value, with Community exports of wheat and barley competitive enough to be made without export refunds in the second half of the year. The value of milk product exports also surged ahead (by more than 22.6% overall), especially milk powder (up 84.7%) and cheese (up 19.8%). The same was true of sugar (up 22.7%), fruit (up 25.7%), vegetables (up 7.2%), olive oil (up 46.9%) and wine (up 7.2%). Pigmeat exports, which had reached record levels in 1999, remained relatively constant in 2000 (up 0.6% in volume in the first ten months of the year, compared with the same period the previous year) but leapt in value (up 24.3%). Exports of poultrymeat moved ahead slightly (up 4.2% in value), while those of beef and veal lost more than 20% in both volume and value.

8. On the whole, for most agricultural products covered by the intervention regime, intervention stocks fell considerably in 2000. This was especially true of cereals, with stock levels easing from a level of 14.9 million tonnes to 7.8 million tonnes in the eight months from the end of January 2000. While wheat and barley stocks were run down appreciably, stocks of rye, which did not dip below 3 million tonnes during the year, remained a cause for serious concern. Intervention stocks of milk powder practically disappeared in the first eight months of the year. Butter stocks, however, were mounting until May, after which they fell back slightly. Another development worthy of note was the big increase in rice stocks, which had breached the 700 thousand tonne mark by September 2000 as a result of mushrooming imports and internal production.

1.2. Output

9. **Cereal** production hit new highs in 2000 (over 211 million tonnes), breaking the record levels of 1998, due to increases in the area under cultivation and in yields. The area under cereals grew by some 3% in 2000, linked to the fall in the area under oilseeds, protein crops and non-fibre flax. The move from oilseeds/protein crops to cereals can be partly explained by the relatively low prices for the latter in the 1999/2000 marketing year, but also by the disruption caused to winter cereal sowing in the previous year by poor soil conditions in certain regions. Of the different cereal crops, the area under common wheat grew by 6%, that under maize by 4.5% and that under rye by 7%.
10. Cereal yields rose by 3% compared with 1999, reaching 5.7 t/ha on average, i.e. some 1% above the long-term trend. However, the pattern of development differed greatly from one Member State to another. For example, while yields leapt by over 30% in Spain and in Finland following 1999's disastrous results, they fell in Austria, Germany, Belgium and France as a result of less favourable weather than the previous year. The return to normal in Spain largely accounts for the big rises in average yields for durum wheat (17% up in the European Union as a whole) and barley (up 7%). Yields of common wheat rose slightly and those of maize fell somewhat.
11. Overall, cereal production was more than 11 million tonnes up on the previous year (i.e. some 6%). About half of this rise was accounted for by common wheat, with the other half being feed grains (in particular barley).
12. After 1999's record harvest, total **oilseed** production (rape, sunflower and soya) fell off by 15% in 2000 as a result of the smaller area under cultivation (8% down) and lower yields (7% down). Most of the overall drop in oilseeds production could be attributed to the fall in rape production (down 24%) as a result of the smaller cultivated area (down 13%) and lower yields (down 11%). Sunflower production, however, rose by 11%, driven by a big increase in yields in Spain following 1999's catastrophic drought-affected harvest. Overall the area under sunflowers remained the same. Soya production was 5% down on the previous year.
13. **Protein crop** output also fell in 2000 (by 15%), due to a smaller area under cultivation and lower yields, reaching its lowest level since 1995. In addition, **non-fibre flax** production fell by almost half from the previous year's level as the area under cultivation returned to normal following spectacular increases the previous year in the United Kingdom and Germany.

14. Following substantial growth in 1999, **sugar** production was estimated to have fallen by over 5% in 2000 as the area under beet declined steeply (down 7.3% on 1999) in anticipation of the cuts in production quotas and also as a result of less favourable world export markets. However, generally favourable climatic conditions for beet, at least up to the harvest period, ensured that sugar yields in 2000 were relatively high in spite of the smaller area planted. In several regions, however, harvesting was disrupted by heavy rainfall, leading to a somewhat lower sugar yield.
15. Early estimates (as of mid-January 2001) put **olive oil** production in 2000 at some 1.9 million tonnes, an increase of around 12% on the previous year.
16. Early estimates have production of both **fruit** (-2.5% on 1999) and **vegetables** (-2.0%) down in 2000. **Potato** output is estimated to have remained more or less stable compared with the previous year.
17. Following an exceptional harvest in 1999, up by some 20 million hectolitres on the previous year, **wine** production fell again in 2000 (down 8% approximately) to around 165 million hectolitres. Big falls were seen in Austria and Portugal (some 25% in each), Germany (around 13%), France (9%) and Italy (8%). Spanish wine production, on the other hand, was estimated to have risen by 7% following its decline the year before.
18. While **beef** and **veal** production was continuing to grow in 2000 before the new BSE crisis broke, and up slightly on the previous year, the collapse in consumption in the last months of the year - despite the measures taken to strengthen existing consumer protection arrangements - led to an estimated fall in slaughterings, and thus in production, of some 5% for the year as a whole. Similarly, while per-capita consumption of beef and veal seemed to have recovered completely from its post-1996 falls in the wake of the first BSE crisis, it was hit again at the end of the year, especially in those Member States in whose national herd BSE was detected for the first time.
19. **Pigmeat** production was estimated to have fallen by 2.5% following strong growth in recent years and the price falls of 1998 and 1999. However, the impetus given to white meat consumption by the BSE crisis had by the end of the year curtailed the overall fall in pigmeat production (-1.8% for the year).
20. The long upward trend in **poultrymeat** production was halted in 1999 due partly to lower export growth and partly to the impact on consumption of the dioxin crisis that hit Belgium in spring 1999. Fresh falls in output were forecast for 2000, in the wake of the previous year's falls. As with pigmeat, however, output fell less than initially anticipated (some 1.1% down for the year) due to the revival of poultrymeat consumption as a result of the BSE crisis.
21. After recovering in 1998 from falls the previous year, production in the **sheepmeat** and **goatmeat** sectors more or less stabilised in 1999 and 2000 at levels well down on those of the early 1990s.
22. While the Community dairy herd is still shrinking by around 1.5% a year, **milk** production for 2000 should be around the 122 million tonne mark, i.e. more or less unchanged from 1999, although that year's output was up one million tonnes on the previous year. Yields are still growing and generally offsetting the fall in the size of

the herd. Deliveries to dairies were also flat or even slightly down on the previous year, although reference quantities were increased for a number of Member States under the Agenda 2000 package. However, the impact of these measures had probably been felt already in the 1999 deliveries.

23. After the increases posted the previous year, **butter** production is estimated to have turned down again in 2000 (by 1.2% according to initial estimates), in parallel with the fall in domestic consumption and despite the recovery of exports from the previous year's difficulties on the Russian market. **Cheese** production, however, rose by 2.3%, boosted both by rising domestic consumption and export growth. Production of **skimmed milk powder** fell off heavily in 2000 (-5%) following the previous year's rise.

1.3. Producer prices and market prices

24. According to the figures available at the end of December 2000, **the index of farm-gate prices** was estimated to have grown in 2000 by an average of 2.9% in nominal terms compared with the previous year, fuelled by a 7.7% increase in the price of animal products (compared with the previous year's fall), as against a 1.5% drop in crop prices. It should however be pointed out that these estimates probably do not take full account of the impact of the beef price collapse in the wake of the new BSE crisis. The steepest drops in crop prices were recorded by potatoes (down 19.5%), wine (down 5.3%), rice (down 4.3%) and fresh fruit (down 2.0%). Falls were also registered by cereals (down 1.5%), sugar beet (down 1.7%) and dried pulses (down 1.4%). This trend was bucked by fresh vegetable prices, which improved slightly (up 2.6%). As regards animal products, pigmeat prices (as already mentioned) leapt by 25.0% following their fall the previous year. Significant rises were also recorded for beef and veal (up 2.0%), mutton and lamb (up 5.1%), poultry (up 7.0%) and milk (up 2.6%). Egg prices also leapt upwards by 20.0%.
25. After accounting for inflation, the producer price index for the European Union as a whole was estimated to have risen by 0.6% on the previous year. The biggest rises were in Belgium (up 6.3%), Denmark (up 7.2%), Germany (up 7.6%) and the Netherlands (up 7.2%), i.e. those Member States in which the recovery of pigmeat prices from the previous year's falls had the greatest effect on overall prices. Farm-gate prices also rose slightly in Greece (up 1.0%), Ireland (up 1.3%) and Austria, while holding more or less steady in France in real terms. Real producer prices fell, however, in Spain (by 2.4%) Italy (1.6%), Luxembourg (3.5%), Portugal (1.1%), Finland (1.8%), Sweden (2.9%) and the United Kingdom (4.7%).
26. Having bottomed out at the beginning of the 1999/2000 marketing year, **cereals** prices made modest gains up to May 2000, as intervention stocks were wound down (from 18 million to some 9 million tonnes over the marketing year from start to finish) through a combination of increased exports and greater internal demand, in particular for feed grains. From June onwards, however, cereal prices in the Community slumped as prospects firmed for a record cereals harvest. The fall was, however, exacerbated by the entry into force on 1 July 2000 of the cuts (of some 7.5%) in intervention prices decided under Agenda 2000, although this downward pressure on prices was attenuated somewhat by an increase in assistance levels (from EUR 54.34/t to EUR 58.67/t).

27. The cuts in intervention prices were fully reflected in market prices. However, the picture varies appreciably from one Member State to the other and between different types of cereal. While in France, for example, prices for common wheat remained at relatively low levels just above the intervention price because of the poor quality of bread wheat, Italian and German market prices for this cereal recovered steadily to reach a level comfortably above the intervention price at the year end. Similarly, French barley prices surged ahead early in the marketing year on the back of a comparatively poor harvest of brewing barley, whereas increases in Spain and Germany were much more muted. Lastly, although still below 1999 levels, maize prices remained well above intervention prices in most producer Member States.
28. **Olive oil** prices remained relatively depressed throughout 2000, with Spanish and Greek extra-virgin even dipping below the trigger rate for private storage as the new harvest, higher than in the previous year, was brought in. In Italy, however, rates for both extra-virgin and lampante remained above this level.
29. **Wine** prices continued to fall from the levels of the previous year. At the beginning of January 2001, compared with the same period the previous year, market rates for red wine were down by 4% in Italy, 10% in France and 37% in Spain; white wine prices had fallen by 3% in Italy, 7% in France and 27% in Spain.
30. **Butter** prices remained relatively depressed (fluctuating between 90 and 93% of the intervention price) during the first part of the year. From June they picked up, however, finishing the year at a level close to the intervention price, having even exceeded this level during the autumn. **Skimmed milk powder** prices increased markedly in the first six months of the year as intervention stocks were gradually run down to zero by August 2000 by the sharp increase in demand, especially on world markets. Thereafter, they more or less stabilised at relatively high levels. **Cheese** prices were also higher than the previous year.
31. Before the new BSE crisis broke, prices on **beef** and **veal** markets had been relatively stable, at levels comfortably above previous years and - in the case of cows - even rising steadily. From October onwards, however - following the discovery of fresh cases of BSE, in particular in France, Belgium, Germany and Italy - the beef and veal market collapsed abruptly in the face of tumbling domestic consumption. For example, prices for adult bovines fell by some 14% in November and December 2000, young bovines by 14% and cows by over 20% (in some Member States ending the year at levels close to the "safety net" value - between 60 and 70% of the intervention price).
32. The **poultry** market made a strong recovery in 2000, after its collapse the previous year when consumers abandoned poultry in reaction to the contamination of poultry feed by dioxin. Near the year end, moreover, prices were given a fillip by the BSE crisis and the resultant increase in demand for white meats. Chicken prices, in particular, rose by an average of more than 8% in the last two months of the year.
33. Driven by falling output and rising demand, **pigmeat** prices improved markedly throughout 2000, following the previous year's falls. At the end of 2000, prices were up some 30% on those of twelve months earlier.
34. The markets for **sheep-** and **goatmeat** products remained buoyant throughout 2000, well in excess of the previous year when they had been depressed by rising

production in the United Kingdom and Ireland. The recovery was particularly strong after the summer, with prices rising some 25% between August and December.

1.4. Input prices

35. In 2000, the index of **purchase prices for staple goods and services in agriculture** was up by an average of 5.8% in nominal terms on the previous year. The biggest rises were in energy (up 25.4%, mainly due to soaring oil prices), livestock (up 13.5%), fertilisers (up 6.5%) and feedingstuffs (up 3.4%).
36. When account is taken of inflation, the real increase in the index of purchase prices for staple goods and services in agriculture since 1999 was 3.7% for the European Union as a whole. Above-average rises were recorded in Belgium (up 5.6%), Germany (up 7.9%), Finland (up 4.1%), Sweden (up 4.1%) and the Netherlands (up 3.9%). The input price index was also up in Greece (by 3.2%), Spain (2.0%), France (3.3%), Austria (2.6%), Portugal (1.9%) and the United Kingdom (2.2%), and more or less stable in Denmark and Italy.

1.5. Farm income¹

37. Eurostat's initial estimates, based on information received by Member States as at mid-December 2000 and using the new agricultural accounting methods, put average farm income² across the European Union as a whole 1.3% up on the previous year. Income was up in Belgium (by 12.2%), Denmark (24.1%), Germany (6.9%), Spain (4.6%), France (1.3%), Ireland (6.5%), the Netherlands (3.7%), Finland (22.0%) and Sweden (4.9%). Italy (down 4.3%), Austria (down 4.8%), Portugal (down 7.5%) and the United Kingdom (down 10.8%), on the other hand, all recorded contractions in farm income. Income levels in Greece and in Luxembourg remained stable.

¹ A more detailed analysis of trends in farm incomes in 2000 can be found in Eurostat's booklet *Statistics in Focus - Theme 5 (22/2000)*.

² Measured by net value added at factor cost per unit of work.

Changes in nominal farm-gate prices in 2000* and 1999

(%)

Member State	2000*/1999			1999/1998		
	Crop products	Livestock products	Total	Crop products	Livestock products	Total
EU-15	- 1.5	7.7	2.9	- 2.4	- 4.6	- 3.4
Belgique/België	0.7	15.1	9.2	- 5.1	- 9.1	- 7.4
Danmark	6.5	12.0	10.2	- 3.6	- 4.7	- 4.3
Deutschland	- 2.2	9.4	5.4	- 3.0	- 5.6	- 4.7
Elláda	2.8	6.0	3.7	- 1.0	3.5	0.2
España	- 3.4	9.0	0.9	1.6	- 6.3	- 1.3
France	- 1.7	5.3	1.8	- 3.3	- 3.8	- 3.5
Ireland	- 2.0	7.7	6.5	- 2.0	- 4.6	- 4.2
Italia	- 2.5	6.8	1.1	- 3.5	- 3.2	- 3.4
Luxembourg	1.3	- 0.6	0.2	- 0.1	- 2.1	- 1.7
Nederland	3.6	15.8	9.6	- 5.6	- 9.8	- 7.6
Österreich	0.9	5.9	4.6	- 1.8	- 3.6	- 3.2
Portugal	- 5.2	10.7	1.7	- 5.2	- 4.1	- 4.7
Suomi/Finland	- 2.7	3.3	1.0	- 1.1	- 2.3	- 2.0
Sverige	- 9.5	2.7	- 1.6	9.7	- 7.4	- 2.8
United Kingdom	- 7.8	- 0.8	- 3.5	- 4.1	- 3.5	- 3.7

* 2000 forecasts

Source: Eurostat

Changes in nominal purchase prices for agricultural inputs in 2000* and 1999

(%)

Member State	Intermediate Consumption		Investment		Total	
	2000*/1999	1999/1998	2000*/1999	1999/1998	2000*/1999	1999/1998
EU-15	5.8	- 1.4	1.7	1.0	4.7	- 0.7
Belgique/België	8.4	- 1.2	- 0.4	1.8	7.1	- 0.7
Danmark	2.8	- 1.5	1.3	2.2	2.5	- 0.7
Deutschland	10.0	- 0.9	0.9	0.8	7.6	- 0.4
Elláda	6.0	0.6	1.9	1.9	5.2	0.9
España	5.6	- 1.3	4.3	- 0.7	- 0.8	- 1.2
France	5.2	- 1.8	1.4	1.1	4.3	- 1.2
Ireland	5.4	0.7	4.1	1.7	5.3	1.0
Italia	2.9	- 1.7	1.5	0.9	2.2	- 0.4
Luxembourg	6.6	- 0.9	0.9	1.7	4.1	0.3
Nederland	6.3	- 2.1	3.0	2.3	5.4	- 1.0
Österreich	4.5	- 2.4	0.8	1.0	2.8	- 0.9
Portugal	4.4	- 1.1	4.8	1.3	4.7	- 0.5
Suomi/Finland	7.1	- 2.0	2.5	0.7	5.9	- 1.1
Sverige	5.5	- 0.7	2.2	0.7	4.7	- 0.4
United Kingdom	3.2	- 2.0	1.3	1.1	2.8	- 1.5

* 2000 forecasts

Source: Eurostat

Real producer price indices

(1990=100)

Member State	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000*
EU-15	100	97.2	89.1	84.6	84.8	85.2	83.0	80.0	76.6	72.8	73.1
Belgique/België	100	98.1	92.3	83.8	84.8	79.4	79.2	79.2	74.6	68.3	72.6
Danmark	100	96.2	92.8	80.0	79.5	77.8	77.3	76.0	66.7	62.6	67.1
Deutschland	100	95.2	91.2	80.6	79.5	78.7	76.8	76.1	71.1	67.3	72.4
Elláda	100	100.6	90.5	84.3	87.5	87.8	86.5	84.7	80.9	79.3	80.1
España	100	94.9	83.5	84.1	88.8	94.1	90.5	84.8	81.7	78.9	77.0
France	100	97.6	88.2	81.8	80.7	80.2	78.6	78.0	77.6	74.5	74.5
Ireland	100	93.4	91.9	96.7	95.8	95.6	89.3	82.5	79.9	74.6	75.6
Italia	100	102.8	89.8	87.8	87.5	90.9	89.2	87.4	85.3	81.1	79.8
Luxembourg	100	89.6	82.3	78.0	75.9	73.6	71.0	71.4	69.6	67.8	65.4
Nederland	100	100.8	92.1	83.4	84.2	84.9	84.8	87.1	81.8	74.1	79.4
Österreich	100	97.1	92.5	87.3	85.5	63.2	62.7	63.4	58.7	56.6	58.1
Portugal	100	87.3	74.3	71.3	73.8	72.2	69.8	64.4	66.6	62.2	61.5
Suomi/Finland	100	92.5	89.6	87.7	86.6	63.9	54.4	53.0	51.8	50.2	49.3
Sverige	100	91.5	86.4	79.3	81.6	79.8	76.2	73.7	74.7	72.2	70.1
United Kingdom	100	93.7	91.9	95.2	93.3	98.2	94.4	79.1	69.6	66.1	63.0

* 2000 forecasts

Source: Eurostat

Indices of real purchase prices for staple goods and services in agriculture

(1990=100)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000*
EU-15	100	97.4	95.0	93.4	91.3	90.8	92.2	90.9	86.4	84.1	87.2
Belgique/België	100	97.1	94.5	91.0	88.5	87.4	89.4	89.7	84.4	82.4	87.0
Danmark	100	96.7	94.1	92.7	89.0	87.6	88.6	88.7	85.5	82.5	82.6
Deutschland	100	98.3	96.0	91.9	90.0	88.5	89.8	89.9	85.0	83.7	90.3
Elláda	100	101.7	99.2	96.5	97.4	94.2	94.6	92.0	87.8	86.4	89.2
España	100	96.1	92.0	91.1	89.5	88.4	88.7	89.0	86.4	83.4	85.1
France	100	97.9	96.2	94.2	92.6	92.6	94.4	94.9	91.6	89.5	92.5
Ireland	100	97.3	94.3	93.0	91.7	90.8	92.7	90.0	86.1	84.6	84.7
Italia	100	95.9	92.8	95.6	93.1	97.9	97.0	93.2	89.1	86.1	86.4
Luxembourg	100	98.7	96.0	91.4	89.5	89.0	91.1	90.4	87.4	85.8	88.1
Nederland	100	96.9	95.2	90.9	87.5	88.7	91.0	89.3	84.8	81.3	84.5
Österreich	100	98.8	96.3	93.7	88.8	84.8	87.5	89.7	86.0	83.5	85.7
Portugal	100	94.5	89.3	79.7	79.1	76.0	73.4	69.0	65.4	63.4	64.6
Suomi/Finland	100	102.8	102.4	102.0	96.6	74.7	75.9	77.0	73.9	71.6	74.5
Sverige	100	95.4	92.9	88.4	88.1	90.8	96.6	98.2	96.5	95.3	99.2
United Kingdom	100	97.5	97.2	99.9	97.0	97.0	101.0	93.4	83.9	81.1	82.9

* 2000 forecasts

Source: Eurostat

1.6. Farm accountancy data network (FADN)

1.6.1. Farm incomes

38. The FADN is used to calculate output, costs and incomes of commercial farms in the EU from observed data collected in a survey of harmonised farm accounts (see Chapter VII, Table 3.2.1). The survey provides valuable information on the way in which farm incomes vary according to type of farming and location, information which is not apparent from the global averages in the results for the agricultural sector as a whole. This section features information by type of farming and by country. For an explanation of the various types of farming, see Statistical annex, Table 3.2.2.
39. At the time of going to press, some results for 1998 were not yet available and those available were still provisional for some countries. More detailed results for the different types of farming and different levels of economic size are given in the Statistical annex, Tables 3.2.3 and 3.2.4.

1.6.2. Income by type of farming

40. The considerable differences in average income between Member States are inherent in the structure of their agriculture (Tables 1, 2 and 3).
41. The Member States with the highest average incomes are, generally speaking, those with a sizeable number of large-sized farms specialising in arable crops or involved in the most competitive sectors of production (pigs and/or poultry, horticulture and dairy). In the southern Member States, where large numbers of small farms are engaged in "mixed" farming (crop and livestock production) or "other permanent crops" (mixes of different cropping enterprises), incomes tend to be below the EU average.
42. Table 3 shows the wide range of incomes among Member States for each type of farming. Particularly significant are the negative income figures for several Member States for 1998 in the pigs/poultry and mixed type of farms. This mainly reflects the severity of the crisis in the pig sector in that year.
43. Table 4 shows the contribution of the balance of subsidies and taxes to family farm incomes. For the Community of Fifteen in 1997 the proportion of subsidies, net of taxes, to family farm income was 47% but there were considerable differences among Member States and between types of farming.
44. Luxembourg, Finland, Sweden and the United Kingdom had an average family farm income that was lower than the balance of subsidies and taxes. This means that revenue from the market was not enough to cover production costs. On the other hand, the share of income represented by subsidies was lowest in the Netherlands, Italy, Belgium, Greece and Spain.
45. There are also considerable differences with regard to types of farming. Net subsidies in the drystock, mixed and arable types of farming were the highest in proportion to income. The horticulture and vineyard sectors were by far the least subsidised.

TABLE 1

TOTAL OUTPUT

(ECU)

	All farms		Arable		Horticulture		Vineyards		Other perm. crops		Dairy		Drystock		Pigs/poultry		Mixed	
	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998
B	126920	123306	101382	101985	161556	179539	-	-	154465	143290	101568	102928	80878	84934	258455	191764	142738	141550
DK	136440	123583	57461	53407	416476	458114	-	-	163174	180509	150818	157972	62447	47496	355322	268886	148879	120915
D*	110706	106464	124452	120209	217933	215419	70444	75416	173374	164036	84203	85425	78141	72241	146938	126377	135308	122625
EL	15703		16541	-	34771	-	12506	-	11327	-	38729	-	21149	-	114353	-	18761	-
E	30168	28843	25885	27430	59015	47692	21229	20275	19281	17002	32976	38339	29889	31958	167196	134462	40735	38670
F	103095	107351	98783	102015	182550	184007	135535	156417	146366	147248	82586	87350	58921	60882	312961	272632	125819	125705
IRL	32199	27960	64717	68818	-	283973	-	-	-	-	65461	61859	15701	12448	366129	249484	66159	54052
I	29818	30206	20595	20709	55018	52459	30301	30030	18087	19216	104035	106684	49669	49239	262655	272719	49147	45173
L	95744	111437	15235	44261	-	-	66933	108143	-	-	102297	117187	93095	100578	119931	236123	99232	108410
NL	222557	209949	164285	190266	394114	428073	-	-	169869	162539	178087	167330	64559	59629	370206	256827	245810	207870
A*	52193	50652	55007	53077	-	-	51533	51366	66751	65576	39834	42811	42746	43399	98250	81091	64667	58105
P	9964	11220	8075	9562	19072	21330	9652	12554	8270	9160	28685	31646	9906	10144	62908	58021	7361	8588
FIN	50354		31044	-	158733	-	-	-	14514	-	43917	-	26369	-	76432	-	49589	-
S*	78010		53151	-	-	-	-	-	-	-	97212	-	56290	-	194814	-	76243	-
UK	154834		178677	-	347203	-	-	-	478223	-	196644	-	56897	-	417487	-	186862	-
EU 15	54766		40768		130519		52999		21928		87725		39998		239253		76532	

* The figures for S for 1997 are provisional, as are those for D and A for 1998.

TABLE 2

BALANCE: CURRENT SUBSIDIES AND TAXES

(ECU)

	All farms		Arable		Horticulture		Vineyards		Other perm. crops		Dairy		Drystock		Pigs/poultry		Mixed	
	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998
B	8370	7747	10677	101985	-44	-523	-	-	832	489	5366	5803	14842	14147	4525	1202	10205	9256
DK	12619	13196	11900	53407	5457	9095	-	-	2149	1998	11819	12411	13087	14715	15617	17108	14932	14800
D*	17825	17957	28921	29968	4149	4704	6633	6461	6082	6134	11188	11637	19635	19007	13722	12376	23644	23242
EL	2519		2181	-	679	-	5878	-	1983	-	2988	-	4684	-	-2194	-	3545	-
E	5524	5591	7613	27430	920	-579	722	679	5920	5289	1048	933	6725	7673	1689	2081	7146	7599
F	15118	15482	26925	102015	1549	1481	-776	-698	5278	7933	7136	7285	17495	18145	5613	6844	18310	18663
IRL	9526	8981	25438	68818	-	3672	-	-	-	-	6778	5974	9348	9098	16757	15810	22063	18637
I	3201	2961	4476	4512	-1	-121	989	844	2024	1576	3782	1259	3633	3950	2919	2338	4075	3802
L	26460	26813	10180	44261	-	-	13862	8566	-	-	26313	27317	33441	37487	23524	37113	31599	32180
NL	5521	4129	7505	8515	4226	4916	-	-	4118	3054	4782	3603	5298	3551	7287	377	6771	3210
A*	15694	14516	22308	20486	-	-	7944	8813	13287	12512	13220	12377	15218	14170	13685	11743	16783	15095
P	1609	1979	1441	1715	-15	-41	151	982	750	1031	3450	3165	3675	4361	-286	-184	1854	2333
FIN	26807		24259		24372	-	-	-	9871	-	24257	-	34495	-	38166	-	37779	-
S*	16341		16451			-	-	-	-	-	17120	-	22792	-	9194	-	14121	-
UK	29034		48330		767	-	-	-	745	-	10634	-	29334	-	4813	-	37645	-
EU 15	8120		9789		1864		1455		3046		8674		12221		8889		11957	

* The figures for S for 1997 are provisional, as are those for D and A for 1998.

TABLE 3

FAMILY FARM INCOME

(ECU)

	All farms		Arable		Horticulture		Vineyards		Other perm. crops		Dairy		Drystock		Pigs/poultry		Mixed	
	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998
B	36723	34450	40814	44364	43610	58269	-	-	50210	38128	33222	35967	27897	33233	45127	-9282	38416	34751
DK	16444	-550	3133	-3210	41114	41873	-	-	23022	15999	21002	22203	1890	-8017	59738	-34538	16678	-11223
D*	23488	20355	28855	23980	30386	28540	22569	26681	31838	25270	19697	23676	22217	16402	31038	-1047	23566	13006
EL	9059		8038	-	17923	-	12157	-	8188	-	16954	-	12805		24241	-	10351	
E	16571	15857	16286	17365	26942	18817	12187	12749	14126	11382	12852	15658	18933	22053	36500	25726	19666	20524
F	28322	29965	30567	30188	28736	31805	42654	57952	26789	30992	22360	25165	20130	21088	45364	835	29612	26765
IRL	15332	11952	17058	26656	-	46296	-	-	-	-	26335	22458	10491	7170	46924	-7222	24620	20156
I	14671	14314	10365	10550	26261	24767	17078	17194	10515	11181	44619	40715	21726	16604	94630	80419	21460	18747
L	24989	31347	-2680	8221	-	-	21475	49619	-	-	23432	30494	36143	28877	20998	42640	24573	25056
NL	43579	25884	41575	49538	68702	80814	-	-	54999	40508	37448	29330	6449	-564	64068	-52159	39812	-10408
A*	25581	23601	28474	26007	-	-	26314	26631	32523	27913	22234	23352	24345	24890	32786	18000	26210	20300
P	2623	3948	1822	3352	6150	5932	2656	6273	2885	3902	6705	7560	3323	4649	7991	-8375	1942	3372
FIN	19368		14245	-	5573	-	-	-	766	-	22605	-	14545	-	27681	-	20464	-
S*	5349		4370	-	-	-	-	-	-	-	11811	-	-3810	-	7303	-	-3739	-
UK	26935		30292	-	38888	-	-	-	69151	-	40199	-	14837	-	33065	-	20962	-
EU 15	17134		14058		30213		21249		11328		24189		16064		43947		18277	

* The figures for S for 1997 are provisional, as are those for D and A for 1998.

TABLE 4

BALANCE: CURRENT SUBSIDIES AND TAXES AS A PERCENTAGE OF FAMILY FARM INCOME

(ECU)¹

	All farms		Arable		Horticulture		Vineyards		Other perm. crops		Dairy		Drystock		Pigs/poultry		Mixed	
	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998
B	22.8	22.5	26.2	229.9					1.7	1.3	16.2	16.1	53.2	42.6	10.0		26.6	26.6
DK	76.7		379.8		13.3	21.7			9.3	12.5	56.3	55.9	692.4		26.1		89.5	
D*	75.9	88.2	100.2	125.0	13.7	16.5	29.4	24.2	19.1	24.3	56.8	49.2	88.4	115.9	44.2		100.3	178.7
EL	27.8		27.1		3.8		48.4		24.2		17.6		36.6		-9.1		34.2	
E	33.3	35.3	46.7	158.0	3.4		5.9	5.3	41.9	46.5	8.2	6.0	35.5	34.8	4.6	8.1	36.3	37.0
F	53.4	51.7	88.1	337.9	5.4	4.7			19.7	25.6	31.9	28.9	86.9	86.0	12.4	819.6	61.8	69.7
IRL	62.1	75.1	149.1	258.2		7.9					25.7	26.6	89.1	126.9	35.7		89.6	92.5
I	21.8	20.7	43.2	42.8			5.8	4.9	19.2	14.1	8.5	3.1	16.7	23.8	3.1	2.9	19.0	20.3
L	105.9	85.5		538.4			64.5	17.3			112.3	89.6	92.5	129.8	112.0	87.0	128.6	128.4
NL	12.7	16.0	18.1	17.2	6.2	6.1			7.5	7.5	12.8	12.3	82.2		11.4		17.0	
A*	61.4	61.5	78.3	78.8			30.2	33.1	40.9	44.8	59.5	53.0	62.5	56.9	41.7	65.2	64.0	74.4
P	61.3	50.1	79.1	51.2			5.7	15.7	26.0	26.4	51.5	41.9	110.6	93.8	-3.6	2.2	95.5	69.2
FIN	138.4		170.3		437.3				1288.6		107.3		237.2		137.9		184.6	
S*	305.5		376.5								144.9		-598.2		125.9			
UK	107.8		159.5		2.0				1.1		26.5		197.7		14.6		179.6	
EU 15	47.4		69.6		6.2		6.8		26.9		35.9		76.1		20.2		65.4	

* The figures for S for 1997 are provisional, as are those for D and A for 1998.

¹ The % is not calculated where the income is negative or no figures are available.

2. POLICY DEVELOPMENTS AND LEGISLATIVE INITIATIVES IN 2000

2.1. Quality policy

46. It is increasingly clear that there is growing concern about food quality among consumers, a concern which producers cannot ignore. Now that food safety - a basic requirement - is assured, the quality demanded by consumers must also be expressed via a wide choice of food products with objective and guaranteed characteristics. Moreover the long-lasting nature of this choice underpins the potential for diversifying production, something which is particularly important for the least-favoured rural areas of the Union. It is against this background that the Community has proceeded with the development of a policy of identification based on products quality guarantee symbols. The aim under that policy is to provide guarantees as to both the origin of the products and the way in which they are produced.
47. The Commission has, pursuant to Council Regulation (EEC) No 2081/92³, made additions to the list of protected designations of origin (PDOs) and protected geographical indications (PGIs), the combined total of which now stands at 544.
48. In terms both of the number of Member States and the types of products concerned, the new product registrations reflect growing interest in the production of foodstuffs which consumers can associate with a particular production method and geographical origin.
49. A further two designations have been registered under Regulation (EEC) No 2082/92 on certificates of specific character and introducing the "guaranteed traditional speciality" GTS indication⁴. On the whole, though, very little use has been made of the Regulation, with a total of only nine GTSs registered to date. Following a report from the Commission to the Council on the detailed implementing rules concerned, a Regulation is being drafted which, it is hoped, will resolve the difficulties that have come to light. The aim is, in particular, to specify legitimate grounds for objection.
50. At multilateral level, work is under way on clarifying certain aspects of Regulation (EEC) No 2081/92 as regards the TRIPS (Trade-Related Aspects of Intellectual Property Rights) Agreement. Moreover the European Union is seeking progress via proposals for a system of notification of registered designations of origin. This is a priority objective, which will help Community producers entitled to the use of a geographical indication to protect themselves more effectively and find a niche on the international market.

³ OJ L 208, 24.7.1992, p. 1.

⁴ OJ L 208, 24.7.1992, p. 9.

List of PDOs, PGIs and GTSs registered in 2000

Member State	Product	Name
Germany	<i>Meissner Fummel</i> (pastry)	PGI
Spain	<i>Espárrago de Huétor-Tajár</i> (asparagus)	PGI
Spain	<i>Montes de Toledo</i> (olive oil)	PDO
France	<i>Haricot Tarbais</i> (bean)	PGI
France	<i>Pomme de terre de l'Île de Ré</i> (potato)	PDO
France	<i>Riz de Camargue</i> (rice)	PGI
France	<i>Huile d'olive de la vallée des Baux-de-Provence</i> (olive oil)	PDO
France	<i>Miel de Corse - Mele de Corsica</i> (honey)	PDO
France	<i>Canard à foie gras du Sud-Ouest</i> (Chalosse, Gascogne, Gers, Landes, Périgord, Quercy) (fresh and preserved meats)	PGI
France	<i>Agneau du Limousin</i> (lamb)	PGI
Portugal	<i>Queijo mestiço de Tolosa</i> (cheese)	PGI
Portugal	<i>Anona da Madeira</i> (cherimoya)	PDO
Sweden	<i>Skansk spettekaka</i> (pastry)	PGI
Italy	<i>Aceto balsamico tradizionale di Modena</i> (balsamic vinegar)	PDO
Italy	<i>Aceto balsamico tradizionale di Reggio Emilia</i> (balsamic vinegar)	PDO
Netherlands	<i>Kanterkaas, Kanternagelkaas, Kanterkomijnekaas</i> (cheese)	PDO
Italy	<i>Castagna del Monte Amiata</i> (chestnut)	PGI
Italy	<i>La Bella della Daunia</i> (olive)	PDO
Spain	<i>Leche certificada de granja</i> (milk)	GTS
United Kingdom	<i>Traditional farm-fresh turkey</i>	GTS

2.2. Organic farming

51. On 19 May and 25 September 2000 the Commission adopted Regulation (EC) No 1073/2000⁵ and Regulation (EC) No 2020/2000⁶ respectively, the aim being to update technical Annexes II and VI to Regulation (EEC) No 2092/91⁷.
52. Following the adoption of Regulation (EC) No 1804/1999⁸ bringing organic livestock production within the scope of Regulation (EEC) No 2092/91, the Commission launched a work programme aimed at clarifying certain issues relating to organic livestock production which were raised by the Council at the time of the adoption of Regulation (EC) No 1804/1999. The main issues currently covered by the programme are as follows:
- amendment of Annex III concerning minimum inspection requirements and precautionary measures,
 - development of a regulation establishing labelling and inspection requirements for animal feedingstuffs,
 - additions to sections A and B of Annex VI as regards the non-agricultural ingredients and processing aids used in processed livestock products,
 - examination of the conditions governing access to pasturage,
 - implementation measures concerning the prohibition of the use of GMOs (genetically modified organisms) and GMO derivatives.
53. The assessment of equivalency according to Article 11(1) of Regulation 2092/91 is ongoing for several third countries, in particular with regard to the extension of the equivalency to livestock production. On 24 July and 31 October 2000 the Commission adopted Regulations (EC) Nos 1616/2000⁹ and 2426/2000¹⁰ extending the equivalency recognition to livestock production for Argentina and Switzerland and adding a new inspection body for Argentina.

2.3. Promotional measures

54. In the context of a reorientation of the policy on the promotion of agricultural products, the Council adopted a Regulation on measures to provide information on, and to promote, agricultural products in third countries¹¹. Under the Regulation, support may be given to information and promotional measures for agricultural products in any third country. The recently adopted Commission Regulation No 2879/2000 of 28 December 2000¹² lays down the detailed implementing rules applicable to the promotional scheme in third countries.

⁵ OJ L 119, 20.5.2000, p. 27.

⁶ OJ L 241, 26.9.2000, p. 39.

⁷ OJ L 198, 22.7.1991, p. 1.

⁸ OJ L 222, 24.8.1999, p. 1.

⁹ OJ L 185, 25.7.2000, p. 62.

¹⁰ OJ L 279, 1.11.2000, p. 19.

¹¹ Regulation (EC) No 2702/1999 (OJ L 327 of 14.12.1999, p. 7).

¹² OJ L 333, 29.12.2000, p. 63.

55. As part of the programmes run directly by the Commission, 1999 saw the preparation of a new three-year campaign for olive oil based on the results of the evaluation of the preceding campaign. A new two-year campaign for fibre flax was launched in September. The programmes run indirectly by the Commission comprised a continuation of the promotional campaigns for milk and milk products, quality beef, potatoes, citrus fruit and grape juice. The assessment reports were encouraging for these groups of products too.
56. In addition, information measures were drawn up for the new labelling system for beef and veal (EUR 7 million).
57. The final set of promotion programmes for flowers and live plants (EUR 15 million) was launched in 14 Member States.
58. The information campaign on the logos identifying quality agricultural products from the outermost EU regions has now ended.
59. Budget spending by group of products was as follows (EUR million):

	Payments in 1999
Programmes run directly by the Commission (Olive oil, Fibre flax, Quality agricultural products from the outermost EU regions)	21.1
Measures run indirectly (Grape juice, Apples/citrus fruit, Table olives, Quality beef/veal, Milk and milk products, Flowers and live plants)	47.4
Total	68.5

60. On 8 September 2000, moreover, the Commission adopted a proposal for a Council Regulation aimed at harmonising information and promotion measures for agricultural products on the internal market¹³. This was adopted by the Council as Regulation (EC) No 2826/2000¹⁴ of 19 December 2000.

2.4. Simplification of agricultural legislation

2.4.1. Introduction

61. Over the past few years the Commission has undertaken a number of major concrete initiatives aimed at simplifying agricultural legislation. The simplification work in 2000 focused on making agricultural legislation as clear, transparent and easily accessible as possible and reducing the administrative workload that the common agricultural policy (CAP) imposes on farmers and administrative authorities.

¹³ COM(2000) 538 final.

¹⁴ OJ L 328, 23.12.2000, p. 2.

2.4.2. *Transparency and accessibility of agricultural legislation*

2.4.2.1. Consolidation

62. A project to consolidate agricultural legislation in all official languages of the EU and make it available on the internet for the general public was launched at the beginning of 1999. Modifications to agricultural legal acts are integrated into the basic texts so that a single and updated version of the text can be consulted. Although not legally binding, the consolidated versions substantially facilitate the consultation of the rules in force.
63. By the end of 2000 around 500 consolidated agricultural acts had already been made available on the EUR-LEX website.

2.4.2.2. Recasting of the regulations relating to import and export licences

64. The horizontal regulations on import and export licences have been amended on many occasions, in some cases substantially. In the interests of clarity and administrative efficiency these rules have been consolidated to form a single text: Commission Regulation (EC) No 1291/2000¹⁵. The new Regulation entails substantial simplification, e.g. Member States may introduce a simplified procedure avoiding the physical transmission of licences, and the amount below which no licence is required has been raised from EUR 5 to EUR 60. These changes will substantially ease the administrative burden both on trade and on the national administrations concerned.

2.4.2.3. Export destination codes

65. A simplified system for indicating destinations when fixing export refunds has been applied since September 2000. This new unified system, which replaces the different and complex systems used in the various sectors to date, will reduce the risk of misunderstanding and error. Furthermore, it will facilitate electronic exchange of data and information between the Commission and Member States.

2.4.2.4. Paying agencies' proposals

66. Over the last few years, the national paying agencies in the Member States have submitted for consideration 246 proposals for legislative and/or administrative simplification. The Commission has now reviewed these proposals¹⁶, and a significant number of them have been partially or fully adopted. Some of the proposals are still under consideration and may lead to further simplification in the future.

2.4.2.5. New guidelines for state aids

67. The new Community guidelines for state aids in the agricultural sector adopted in February 2000 replace and consolidate a great variety of other frameworks, guidelines and Commission working documents and practices. This review results in greater transparency and facilitates the task of the competent authorities.

¹⁵ OJ L 152, 24.6.2000, p. 1.

¹⁶ SEC(2000) 1775.

2.4.3. *Simplification measures in the market sectors*

68. Reforms adopted or proposed in 2000 have brought or will bring about simplification of agricultural legislation in a number of market sectors.

2.4.3.1. Flax and hemp

69. The reform of the fibre flax and hemp sector, which was adopted in July 2000, integrates these crops into the arable system as regards direct aid to producers. In addition, the reform has reduced the number of regulations.

2.4.3.2. Meat

70. A number of simplification measures have been adopted in the meat sector in 2000, for example:

- slaughter premiums in the beef sector can, under certain conditions, be paid automatically to the farmer concerned,
- Member States may allow farmers to opt for simplified application of the extensification premium,
- the export refund nomenclature for processed beef has been significantly simplified, with 47 highly technical and complex product lines being reduced to eight,
- in line with the approach followed by other sectors under Agenda 2000, the basic prices for pigmeat and sheepmeat will, instead of being fixed annually, be set - without specific time limits - under the respective basic regulations,
- the procedures for "immediate" export licences for pigmeat, eggs and poultrymeat have been simplified and aligned with the licence system in the beef sector.

2.4.3.3. Milk and milk products

71. Following the adoption of a new basic Regulation in the milk sector, a substantial number of consequential amendments to Commission implementing regulations were required. It was decided that, instead of amending existing regulations, the opportunity should be used to consolidate large sections of the legislation in the dairy sector. This consolidation served to reduce the number of regulations, simplify administrative procedures and harmonise administrative and control procedures between different schemes.

2.4.3.4. Fruit and vegetables

72. The proposal to amend the common organisation of the market in fruit and vegetables, including processed fruit and vegetables, aims to rationalise and simplify the arrangements and adapt the relevant production thresholds. It will simplify and stabilise the support scheme for producer organisations and improve the management of export refunds for fresh fruit and vegetables.

2.4.3.5. Rice

73. Under the Commission proposal of June 2000, rice will be integrated into the arable crop system. Major advantages in terms of simplification should result from this integration.

2.4.4. *Small farmers' scheme*

74. In December 2000 the Commission adopted a proposal for a simplified scheme for paying small amounts of direct aid to farmers¹⁷. Under the proposal, farmers entitled to EUR 1 000 or less in direct aid may submit a single application and receive one global amount per year instead of several small payments.

2.5. State aids

2.5.1. *A new legal framework*

75. On 1 January 2000 the Commission began applying the "Community Guidelines for State aid in the agriculture sector"¹⁸, as adopted on 24 November 1999, to new state aids introduced after that date. Member States have until the end of 2000 to adjust their existing aid schemes and thereby comply with the new rules.
76. The new guidelines consolidate and simplify the rules applied by the Commission in the past. In addition, a number of important changes have been made to ensure that the European Union rules for State aids are consistent with the new rural development policy introduced as part of the "Agenda 2000 reforms".
77. The starting point for the new guidelines is that any state aid for the agriculture sector must be compatible with the EU's common agricultural policy (CAP) and with the EU's international obligations, in particular the WTO Agreement on Agriculture. As the Member States decided to rule out the possibility of individual Member States distorting the delicately balanced EU support for product prices or rural development schemes, any state aid which interferes with the mechanisms of the common market organisations is prohibited.
78. In essence, the following aid granted by Member States can, subject to certain conditions, be approved by the EU under the new guidelines:
- investment aid for farms can normally be approved at up to 40% of eligible expenditure (50% in less-favoured areas); higher rates of aid may be allowed for investments linked to the conservation of traditional landscapes, for the relocation of farm buildings in the public interest or for the improvement of the environment, animal welfare or hygiene,
 - aid for investment in the processing and marketing of agricultural products can normally be permitted at rates of up to 40%, or 50% in Objective 1 areas, provided that it can be shown that normal market outlets exist for the products concerned,

¹⁷ COM(2000) 841.

¹⁸ OJ C 28, 1.2.2000, p. 2; OJ C 232, 12.8.2000, p. 19.

- aid granted in return for agri-environmental undertakings given by farmers and other environmental aids,
- aid to compensate for handicaps in less-favoured areas,
- aid to help the installation of young farmers,
- aid for early retirement, the cessation of farming, or for closing down production, processing and marketing capacity,
- aid for the establishment of producer groups,
- aid to compensate for damage caused to agricultural production or the means of production caused by natural disasters or exceptional occurrences, adverse weather conditions or outbreaks of animal or plant disease, and aid granted towards insurance cover against such risks,
- aid to encourage the production and marketing of quality agricultural products, the provision of technical support for producers and the improvement of the genetic quality of livestock,
- aid to grant specific support for the outermost regions and the Aegean islands.

79. In addition to these categories, which are specifically covered in the guidelines, aid may also be granted in accordance with other Community texts for research and development, for short-term operating loans, for rescue and restructuring farms in difficulty, and for employment support.

80. Furthermore, consideration is being given by the Commission to a new promotion and advertising framework for agricultural products. Accordingly, the new guidelines simply refer to the existing guidelines, which were published in 1987.

2.5.2. *Overview of the year*

81. In 2000 the Commission received 248 notifications of draft state aid measures to be granted in the agricultural and agro-industrial sector. The Commission also began a scrutiny of 26 aid measures which had not been notified beforehand in accordance with Article 88(3) of the EC Treaty. No review of existing aid measures pursuant to Article 88(1) of the EC Treaty began or was concluded. The Commission decided to raise no objection against a total of 183 measures. Several of these were approved after the Member States concerned amended or undertook to amend them in order to bring them into line with Community rules on state aid. The Commission initiated the procedure provided for in Article 88(2) of the EC Treaty in respect of seven cases in which the measures concerned raised serious doubts as to compatibility with the common market. The Commission brought to a close the procedure provided for in Article 88(2) of the EC Treaty in respect of 13 cases, taking a final negative decision in seven of them. In all the cases in which a negative decision was taken and state aids had already been granted by the Member State concerned, the Commission requested recovery of the aids paid.

82. The following overview includes a selection of cases which raise interesting issues of state aids policy in the agricultural and agro-industrial sector. For the sake of clarity, the cases have been classified by topic and sector.

2.5.3. *Exceptional occurrences and natural disasters*

2.5.3.1. Dioxin - (B)

83. State aid for "exceptional occurrences" covered by Article 87(2)(b) of the EC Treaty: in 2000 the Commission authorised, as in the previous year, an aid package for producers and undertakings affected by the crisis resulting from dioxin contamination of feedingstuffs. The aid package included an allowance designed to offset the economic harm suffered by agricultural producers as a result of the crisis¹⁹. The aid applies to all livestock products but excludes the value of destroyed animals and products already covered by other national provisions authorised by the Commission²⁰. It is in the form of a single payment and is arrived at only on the basis of flat-rate amounts derived from macroeconomic calculations, with payments taking place solely per unit marketed or per means of production. This avoids the risk of cumulation with other aids authorised in the past, in particular allowances for the destruction of animals or products of animal origin that are unfit for consumption or marketing. The Commission took the view that a link had clearly been demonstrated between the reduction in turnover and the exceptional occurrence resulting from the dioxin crisis. The reduced turnover was allegedly attributable in particular to losses of market share and to a sharp drop in consumption brought about by public anxiety, by chaotic management of the crisis and by special measures which prevented the products concerned from being marketed normally.

2.5.3.2. Recovery of the French forestry sector - (F)

84. Aid to make good the damage caused by natural disasters within the meaning of Article 87(2)(b) of the Treaty: the Commission authorised a scheme designed to help the French forestry sector recover from severe damage caused by bad weather towards the end of December 1999. The scheme, with a total budget of about EUR 3 billion for the various types of aid²¹, included urgent measures such as aid for reopening forest roads and tracks, building forest tracks and damp-timber storage areas, preparing temporary storage sites and financing timber removal costs; timber storage aid; and aid for treating windthrow timber, repairing damaged forests and deducting storm-related costs from the flat-rate forestry income of the owners whose forests were damaged by the storms. Also covered by the plan were incentives such as: aid for timber transportation; investment aid, in particular for the purchase and rapid depreciation of forestry equipment; training and employment aid; and aid for organisational and technical monitoring. The Commission felt that, although outwardly different, the measures provided for in the plan were part of a whole and had a common objective - the recovery of an entire sector following a natural disaster - and should therefore be regarded as measures intended to make good damage caused by natural disasters as referred to in the Treaty.

85. Also in the forestry sector but not in relation to the damage caused by storms in December 1999, the Commission authorised aid to ONF (Office national des

¹⁹ Case No N 770/1999. (Where no specific reference to the publication of a decision in the OJ is made in this text, the decision has not yet been published. The authentic texts of the decisions approving aids can generally be found at http://europa.eu.int/comm/sg/sgb/state_aids).

²⁰ Cases Nos NN 87/1999, NN 88/1999, NN 89/1999, N 380/1999 and N 386/1999.

²¹ Case No N 92/2000.

forêts)²² in a case where there was a potential problem of central government resources being used to support the competitive activities of a public agency. ONF is a national public body whose activities are of a twofold nature in so far as, on the one hand, it carries out an exclusive public mandate and, on the other, it is engaged in a commercial activity in competition with other market operators. The public activity consists in managing, on behalf of their owners, forests subject to the French forestry regime. ONF receives a central government contribution in the form of compensatory payments designed to cover its management costs. Further public, or even private, funding is available for general-interest operations of the State carried out by ONF. Such activities may involve in particular protecting and monitoring forests, preventing fires, combating erosion and avalanches, etc. The Commission concluded that they constituted activities pursued in the general interest and that the transfer of funds should be seen as taking place from one level of the state apparatus to another. Moreover, since some public-service activities are carried on throughout the State, they should be regarded as measures which do not favour certain undertakings or the production of certain goods and do not, therefore, fulfil all the criteria of Article 87(1) of the Treaty. With regard to its commercial activities, ONF may conclude agreements with private or public bodies with a view to carrying out management operations, studies, surveys and works and to protecting, improving and developing forestry resources. For this type of activity, the Commission did not detect any public aid element in the form of a cross-subsidising of these competitive activities; the prices charged by ONF are not lower than those of its competitors and at all events the compensatory payments made by the State do not even cover all "public" ONF expenditure, which in practice would rule out any cross-subsidising.

2.5.4. *Privatisation and restructuring*

2.5.4.1. Aid for land purchase - (D)

86. In 1999 the Commission communicated to Germany a final negative decision on the aid granted by the German government under the "*Entschädigungs- und Ausgleichsleistungsgesetz*" Law (EALG)²³. The Law provides for a scheme for the purchase of land at reduced prices in former Eastern Germany which amounted to state aid to some beneficiaries.
87. The aid rate granted to certain beneficiaries appeared too high in relation to the rates that the Commission could normally accept for the purchase of farmland. In addition, the aid in question appeared to be discriminatory and thus infringe Articles 12, 34(3) and 43 of the EC Treaty.
88. In the course of 1999 an amended version of the land purchase programme was notified to the Commission and approved by letter of 19 January 2000²⁴. The problems which had led to a partially negative decision in 1999 have been resolved:
- in its decision of 20 January 1999 regarding the erstwhile EALG the Commission considered that discrimination existed in the requirement of residency on a given date for eligibility under the programme, a requirement

²² Case No NN 96/95.

²³ Opening of the procedure in Case No C 17/98, OJ C 215, 10.7.1998, p. 7; final negative decision adopted on 20.1.1999, OJ L 107, 24.4.1999, p. 21.

²⁴ Case No N 506/1999.

which in practice this requirement could be met by (East) Germans only. All such dates have been deleted from the new programme;

- the Commission further objected to the aid intensity for the purchase of agricultural land outside LFAs. The aid rate has now been brought fully into line with the rates the Commission usually accepts. Any aid granted in excess under the erstwhile EALG will be recovered, with interest, as required by the Commission decision of 20 January 1999.

89. In the light of the assurances provided by the German authorities, the Commission has established that there is sufficient land to remove any potential discrimination without rescinding contracts already concluded under the erstwhile EALG. In so far as residual elements in the new scheme would, all other criteria being equal, give priority to East Germans, the Commission regards such preference as falling within the objective of restructuring agriculture in the new *Länder* while at the same time ensuring that potential purchasers - or their families - who had lived and worked in the former GDR for several decades may participate in the land purchases, an objective which has been accepted as legitimate in the Commission decision of 20 January 1999 and which has not been challenged.
90. The Commission therefore considers that the new scheme proposed by the German government will facilitate the development of economic activities in the sector. The measure therefore falls within the scope of Article 87(3)(c) of the Treaty.

2.5.4.2. Restructuring and privatisation plans of EPAC and Silopor²⁵ - (P)

91. In 1998 the Commission opened the procedure pursuant to Article 88(2) of the EC Treaty in relation to the restructuring and privatisation plans of both publicly owned companies: the cereal trading company EPAC and the port handling company Silopor²⁶. In the meantime, Portugal decided to liquidate both companies, but has so far failed to present an official position on this to the Commission.
92. On 27 June 2000 the European Court of Justice issued a judgement concerning Portugal's failure to comply with the 1997 Commission Decision to the effect that the guarantee provided to EPAC constituted illegal and incompatible state aid²⁷. In essence, the Court confirmed the Commission's position as to the aid character and incompatibility of the guarantee provided to EPAC by the State.

2.5.4.3. Centrale del Latte di Roma²⁸ - (I)

93. The Commission also decided to close, by the adoption of a partially negative decision²⁹, the procedure on aids granted to *Centrale del Latte di Roma*. The Commission took the view that the operating losses systematically written off by the municipality of Rome in 1992 and 1997 were operating aids that could not be regarded as constituting a public service, but that there was no state aid to the Lazio milk producers or to the buyer in the privatisation procedure. As the transfer of the

²⁵ Case No C 51/98 (ex Nos N 852/97 and N 6/98).

²⁶ OJ C 363, 25.11.1998, p. 4.

²⁷ Case No C 404/97.

²⁸ Case No C 28/98 (ex NN 185/97).

²⁹ OJ L 265, 19.10.2000, p. 15.

factory can be considered an asset deal, recuperation of the aids will concern the erstwhile *Centrale del Latte* (in liquidation).

2.5.5. Fiscal measures

2.5.5.1. CO₂ tax exemption for the glasshouse horticulture sector³⁰ - (NL)

94. On 5 January 2000 the Commission approved partial relief from a Dutch CO₂ tax for the glasshouse horticulture sector.
95. The original version of the Law on environmental taxes "*Wet belastingen op milieugrondslag*" was approved by the Commission on 3 December 1992. Various amendments were made to this Law, among them the introduction of a regulatory energy tax, the purpose of which is to contribute to reducing CO₂ emissions and to promote energy conservation. The Dutch government has amended the energy tax rates applicable with effect from 1 January 1999. The rates have been increased and the tax brackets adjusted. The revenues obtained from this increase will be clawed back to households and businesses in the form of a reduction in wage and income tax. The Dutch government expects this heavier taxation of energy consumption to have a positive effect on CO₂ emissions.
96. The regulatory energy tax also applied a zero rate on natural gas used in glasshouse cultivation. The Dutch authorities requested an extension of the zero rate on such natural gas for the glasshouse horticulture sector for at least another year. If a glasshouse has no natural gas connection, a zero rate applies to middle oil, gas oil and liquefied petroleum gas.
97. Following contacts with the Commission services, the Dutch authorities amended the measure: the zero rate would apply only in 1999. In 2000 and 2001 the sector would be taxed on a (gradually increasing) basis similar to other energy-intensive sectors. The Dutch authorities undertook to re-notify the scheme in 2002.
98. The measure falls within the scope of the Community guidelines on State aid for environmental protection because its objective is precisely environmental protection. It is intended to reduce energy consumption through an increase in energy taxation. The tax exemption would appear to be an operating aid. The Community guidelines apply strict conditions on operating aid awarded in relation to environmental problems:
 - the aid should be temporary and, in principle, degressive: the Dutch authorities have given a precise date by which the zero rate will end and gradually be brought within the general framework. The measure is degressive since the zero rate is applicable in 1999 only, with taxation increasing gradually thereafter;
 - the aid should be necessary to offset a competitive disadvantage: the Commission has taken account of the fact that the glasshouse horticulture sector has below average relative labour costs. Therefore, these undertakings will derive very limited benefits from the reductions in labour taxes. The

³⁰ Case No N 589/B/98.

previous preferential pricing system for natural gas to the glasshouse horticulture sector ceased to exist at the end of 1998;

- a counterpart must be provided by the beneficiaries: a covenant has been concluded with the sector under which targets are also set for renewable energy use: 4% of the energy use in 2010 must consist of renewable energy. Energy efficiency must improve by 65% compared with 1980. A further counterpart can be seen in the increasing total tax burden. Indeed, by providing for gradually increasing taxation of gas (and full taxation of electricity use), the new measure gives a clear impetus to the glasshouse horticulture sector for a rational use of energy and a reduction of CO₂ emissions.

99. The Commission therefore concluded that the measure met the requirements applicable under the environmental guidelines, and approved it.

2.5.5.2. Exemption from mineral levies³¹ - (NL)

100. The Dutch authorities intend to introduce certain exemptions from the mineral levies introduced under the manure law. This provides for an obligatory bookkeeping system for minerals on each individual holding and establishes maximum phosphate and nitrogen emissions into the environment for each holding. If emissions exceed these maximum quantities, taxes will become payable in respect of the quantities concerned. The farmer can choose how to reduce mineral emissions to the maximum quantities allowed. Prohibitive mineral levies are levied only if the total amount of phosphate and nitrogen produced on a farm, less the total amount of minerals removed in a calendar year, exceeds the norms for permissible releases of phosphate and nitrogen into the environment (the so-called "loss norms"). If an undertaking takes effective measures, e.g. the removal of manure that may not be spread on the land, it will not have to pay any levies.
101. Under the proposed measure, small undertakings (so-called "hobby-undertakings") and garden centres are fully exempt from the mineral levies provided for in Chapter IV of the manure law. Horticultural farms growing crops in glasshouses or on substrate are partially exempt.
102. Point 23 of the Commission notice on the application of the state aid rules to measures relating to direct business taxation³² provides that the differential nature of fiscal measures does not necessarily mean that they must be regarded as state aid. This is the case with measures whose economic rationale makes them necessary for the functioning and effectiveness of the tax system. It is up to the Member State, however, to provide such justification.
103. At the present stage in the procedure, the Commission considers that the Dutch authorities have not shown that the various tax exemptions are justified by the nature and economy of the mineral levy system.
104. In the absence of such justification, the exemptions must be regarded as constituting state aid since they would appear to meet all the conditions mentioned at points 9 to 12 of the Commission notice on the application of the state aid rules to measures

³¹ Case No C 14/2000, OJ C 190, 8.7.2000, p. 4.

³² OJ C 384 of 10.12.1998, p. 3.

relating to direct business taxation, and must therefore be regarded as operating aid. The Commission has therefore decided to open the procedure against the proposed measures.

105. The Commission also has doubts regarding the environmental impact of the proposed exemptions and compatibility with the nitrates Directive. It has issued a letter of formal notice³³, to which the Netherlands has sent a reply. The latter is currently being examined by the Commission.

2.5.6. *Operating aids: Greek cooperatives - (EL)*

106. In 2000, by virtue of the general principle whereby Member States are prohibited from granting operating aid in the agriculture sector, the Commission adopted a final negative decision on two illegal Greek national measures writing off and consolidating loans for a significant number of agricultural cooperatives (116 for each measure)³⁴. The debts are accounted for mainly by the operational losses of the holdings, which are caused by intervention from the Greek State in the production and marketing of the products concerned (price-fixing, storage, intervention and export). Other debts relate to investments and natural disasters. These measures are of the same nature as the 1997 Law - cleared by the Council in December 1998 - on a EUR 450 million debt write-off for agricultural cooperatives.

107. The measures currently under scrutiny were taken in application of two laws adopted in 1992 and 1994. The Commission decision was taken following a complaint in relation to illegal and incompatible state aids received by the AGNO dairy cooperative. In the final negative decision, the Commission also issued an injunction to Greece to supply all relevant information in order to launch a state aid investigation into the activities of the Agricultural Bank of Greece.

2.5.7. *RIBS: State aid granted under market conditions - (I)*

108. In 1999 and 2000 Italy notified three projects supported by Itainvest, a public financing company. In essence, aid is granted by the company in the form of the acquisition of a holding in the beneficiary company's capital in accordance with the principle of a private investor operating under normal market economy conditions, as defined in the document "Application of Articles 92 and 93 of the EC Treaty to public authorities' holdings"³⁵. The capital injection is reimbursed after a number of years at a rate of interest higher than the reference rate used by the Commission, and with guarantees enabling the financing company to take control of the recipient company. To date, two of the projects have been approved³⁶. The third is still under scrutiny. Concomitantly with this, Italy notified five aid projects funded by the public financing company RIBS. It withdrew four of them when the Commission expressed doubts as to whether the assistance was being provided under market conditions. In 2000 Itainvest and RIBS were merged to form a new public financing company called *Sviluppo Italia*. Just as it did in the case of RIBS, Italy submitted an outline of the activities of the new financing company, an outline which is under scrutiny by the Commission.

³³ Letter of 29.9.1998.

³⁴ Cases No C 78/97 and No C 82/97 (ex NN 33/96 and NN 168/97).

³⁵ Bulletin of the European Communities 9-1984.

³⁶ Cases Nos N 652/1999 and N 164/2000.

2.5.8. *Pigmeat sector*

2.5.8.1. Aid for pigmeat production - Stabiporc - (F)

109. The Commission adopted a partly negative final decision on a three-stranded French scheme to assist pigmeat production³⁷ in respect of which it had initiated the scrutiny procedure provided for in Article 88(2) of the Treaty³⁸. The French authorities wished first of all to reactivate the system of refundable advances of Stabiporc, the pigmeat regulatory fund. Under the system, producer groups receive fully refundable cash advances to enable them to adjust the price of fattening pigs belonging to producers who are members of the scheme and hence to even out pigfarmers' incomes, affected as they were by crises in pigmeat production. The Commission concluded that reactivating Stabiporc did not constitute state aid since the intervention of the State was limited to granting a loan at the market interest rate. Moreover, should the capital and interest on the loan not be paid or be paid late, the public bodies involved would still seek to claim the sums due, plus interest, from the groups concerned. The Commission did, however, conclude that the other two strands under scrutiny were incompatible with the Treaty. They concerned in particular the possibility of staggering the payment of social security contributions in the case of farms experiencing financial difficulties, and relieving farmers from part of the burden of interest payments on bank loans intended to finance initial investment in pigmeat production. The negative decision was based on the fact that not all the requirements laid down in the Community guidelines on state aid for rescuing and restructuring firms in difficulty had been satisfied: there was insufficient evidence that the situation was a "difficult" one; there was no viability plan for the firms concerned and respect for the principle that the rescue should be a one-off operation could not, therefore, be guaranteed.

2.5.8.2. Pig assembly centres³⁹ - (NL)

110. All pig assembly centres in the Netherlands have been closed since the outbreak of classical swine fever. Every operating permit was revoked. The undertakings cannot reopen unless they apply for a new permit, which can be obtained only if the centres meet new hygiene requirements, regarded as necessary to avoid the spread of classical swine fever. Undertakings that do not want or are not able to meet the new hygiene requirements - and therefore remain closed - are offered subsidies for permanently closing down their activities. The recipients (including their shareholders) must undertake not to participate directly or indirectly in the operation of a pig assembly centre. The subsidy on offer is in two parts: compensation for loss of income and compensation for loss of capital.

111. When it initiated the procedure, the Commission indicated that undertakings which are unable or unwilling to meet the new hygiene requirements would be regarded as making a normal business decision to close down. In principle, aid for closing down in such circumstances would not be acceptable, as the new hygiene requirements constitute a normal entrepreneurial risk.

³⁷ Case No C 74/98.

³⁸ Decision published in OJ C 61 of 3.3.1999, p. 7.

³⁹ Case No C 80/98; opening of proceedings published in OJ C 108, 17.4.1999, p. 5.

112. It became evident, however, that such closing down following the tightening of hygiene requirements should be viewed in the context of a broader policy, in which the aim is to reduce veterinary risks through a reduction in the number of pig assembly centres, and thus to contribute to the development of the sector.
113. Aid is given for investments to upgrade the facilities and meet the new hygiene requirements, but such aid alone would certainly not attain the additional objective of reducing the number of pig assembly centres, an objective which further contributes to reducing the veterinary risk. This animal health aspect justifies the aid for abandoning production.
114. The aid measure must be examined in the context of a two-track policy whereby aid is given for both upgrading and abandoning production. Accordingly, pig assembly centres had to choose between upgrading or closing down in the same way as they would have done for reasons other than as a result of government intervention. The aid clearly constitutes an inducement for the undertakings to adopt a certain course of action (i.e. closure) that they would not have chosen otherwise. The aid can therefore be regarded as having an incentive effect.
115. All other conditions required by the Commission before accepting aid for abandoning production capacity would also seem to have been met in this particular case.
116. The Commission accordingly accepted that the aid measures proposed by the Dutch Government facilitate the development of economic activities in the sector. The measure thus falls within the scope of Article 87(3)(c) of the Treaty.

2.5.9. *Livestock sector: general measures*

2.5.9.1. Abandoning capacity: exiting scheme for intensive livestock farming⁴⁰ - (NL)

117. The Dutch authorities have proposed an integrated approach for tackling the manure problem. This approach will require a special effort from the agriculture sector.
118. Within this context, farmers are given an opportunity to cease farming or one or more of the intensive livestock farming activities carried on on their farms. This scheme should lead to a permanent reduction in the production of animal manure. The scheme is also linked to the improvement of the countryside in areas with high livestock density. In these areas, livestock farmers who cease (part of) their activities can receive compensation for the demolition of their redundant buildings.
119. To qualify under the scheme, the pig or manure production rights must be sold to the government. In the "concentration areas" (i.e. areas in the east and the south of the Netherlands with a high pig density), an allowance can be obtained for the demolition of farm buildings which consequently become redundant.
120. The subsidy granted under the scheme consists of two elements. The first consists of an amount for the cancellation of the part of the pig rights not tied to land or manure production rights. The second is an allowance for the costs of the demolition of the redundant farm buildings for livestock farmers situated in the concentration areas.

⁴⁰ Case No N 177/2000.

Part of the demolished farm buildings can, in certain cases, be replaced by residential dwellings. In such cases no subsidies are granted. This conversion generates additional financial means that can be used for financing the demolition of further farm buildings.

121. The Community guidelines for state aid in the agriculture sector refer at point 8 to aid for early retirement or for the cessation of farming activities and at point 9 to aid for closing production, processing and marketing capacity. Point 8 is clearly not applicable, as such aid requires the permanent and definitive cessation of all farming activities. It would therefore seem that the scheme should be examined in the light of point 9 of the Community guidelines.
122. The Commission concluded that the scheme meets the requirements set out at point 9 of the Community guidelines:
- the aid is in the general interest of the sector concerned. The scheme benefits the whole sector, which is under pressure from environmental and animal welfare constraints. The scheme will also benefit the environment through a reduction in animal manure production. Other (non-participating) undertakings will be able to continue farming operations in a better business environment;
 - there is a counterpart on the part of the beneficiary. Participants must give up pig rights or manure production rights and demolish their farm buildings. The location can no longer be used for similar livestock activities for a period of 10 years;
 - there is no possibility of the aid being used for rescue and restructuring. Although the scheme can be expected to be used especially by farmers who see no long-term prospects in continuing their activities, the aid is not granted on the basis of past or current commercial problems but is open to all livestock farmers;
 - there will be no overcompensation of loss of capital value and of future income.
123. As regards the other requirements mentioned at point 9 of the Community guidelines, the aid scheme is of limited duration. The aid does not appear to interfere with the mechanisms of the various common market organisations. The scheme is accessible to all economic operators in the sector concerned. No contribution from the sector is required as capacity is closed for environmental reasons.
124. As regards the environmental benefits of the scheme, the Dutch authorities explained that in the Netherlands manure production not tied to the land is fully subject to a quota system. Thus the total amount of production rights cannot increase; it can only go down. Any undertaking participating in the exiting scheme must totally or partially cancel its production rights. At national level, the exiting scheme will lead to a considerable and permanent reduction in manure production and the number of animals kept.
125. The Commission therefore concluded that the measure satisfies the criteria for exemption under Article 87(3)(c) of the Treaty because it facilitates the development

of the sector concerned without affecting conditions of trade to an extent contrary to the common interest.

2.5.9.2. Livestock transport: "Gaelic Ferries"⁴¹ - (IRL)

126. The Commission decided to adopt a final negative decision on operating aid, granted by Ireland, which related to both agriculture and transport. It concerned in particular the payment of State aid of IEP 1.58 million to the Irish company Gaelic Ferries for the operation of a ferry service available for livestock transport from Ireland to continental Europe⁴². The State intervention was triggered by the decision of a private ferry operator to discontinue a livestock transport service for commercial reasons relating to pressure from animal welfare groups. The Commission considered that the beneficiary of the aid was the entire Irish livestock sector, since the professed objective and the effect of the State aid was to guarantee access to the continental market to Irish producers of livestock. Ireland is now obliged to recover the aid granted from the beneficiaries.

2.5.9.3. Aid to livestock farmers affected by adverse weather conditions - (IRL)

127. The Commission has decided to authorise the Irish culling programme under the "Ewe Supplementary Measure" and three items under the "Scheme for assistance of winter fodder losses"⁴³. These programmes provided for a number of aid measures aimed at alleviating the situation of livestock farmers whose production was affected by adverse weather conditions in the summer and autumn of 1998.

128. Earlier on, the Commission had expressed doubts about compatibility with Articles 87 and 88 of the Treaty. In particular, the measure appeared to constitute operating aid, possibly in that it helped farmers to dispose of their (at the time) worthless sheep.

129. On the basis of additional information supplied by the Irish authorities, however, the Commission accepted that the primary objective of the measure was to minimise environmental damage resulting from overgrazing and the presence of dead and dying livestock on the land. It enabled the Commission to treat the measure in the same way as aid for the disposal of waste.

130. In accordance with 3.4 of the Commission's guidelines on state aid for environmental protection⁴⁴, which were applicable to the agriculture sector when the aid was granted, aid for the collection, recovery and treatment of agricultural waste has to be considered on a case-by-case basis. However, since the acceptance of such aid implies derogating from the "polluter pays" principle, it may be permitted only in specific and well-justified cases.

131. In the present case it appeared that the aid had a clear incentive effect, and that there was a counterpart from the producers who agreed to the slaughter of 30% of their ewes, some of which might have survived the winter. From the farmers' standpoint the aid was limited to the free disposal of the animals. No payment was made in

⁴¹ Case No C 7/90 (ex NN 1/98).

⁴² OJ L 263, 18.10.2000, p. 17.

⁴³ Case No N 44/1999.

⁴⁴ OJ L 72, 10.3.1994, p. 3.

return for the livestock. These factors encouraged farmers to dispose of stock which was of the worst quality and had the fewest prospects of survival. The aid thus produced durable benefits both for the sector and, by avoiding environmental problems, for the wider community. Given that the aid was granted on a one-off basis to resolve a specific environmental problem resulting from a very unusual combination of events and with an additional risk for animal welfare, the Commission took the view that derogating from the "polluter pays" principle was justifiable in this case.

2.5.10. *Sugar sector*

132. In 1999, the Commission adopted a final negative decision in relation to several Italian State aid measures in the sugar sector granted through the State holding company RIBS between 1988 and 1992⁴⁵. These aids, which were linked to the operation of two sugar plants in Central Italy (Abruzzi and Tuscany), included commercial guarantees, capital holdings to cover losses, capital holdings for investments, extension of capital holdings, renunciation of privileged credits, favourable terms for the sale of public property, and loans at subsidised rates. The recipient of the aid was the SADAM group and the overall amount to be repaid (including interest) was estimated at EUR 45.548 million. Following this decision, the Commission was notified of five other cases where aids were granted through the State-owned holding RIBS to undertakings operating in the sugar sector in the same time frame.
133. Following a request from Italy, the Council approved an overall aid package to the sugar sector in Italy. This aid package included clearance of the five newly notified cases, the closure of a pending aid file concerning a factory at Ostellato, as well as aid to the SADAM group to repay the amounts outstanding following the 1999 Commission Decision. With regard to the latter, there is a new element in this Council Decision, since it is the first time the Council has cleared new aid with the economic effect of annulling the effect of a Commission final negative decision ordering recovery. The Commission decided not to appeal against this Council decision, however, in order not to discriminate between sugar operators in Italy.
134. In the wake of the Council Decision, the Commission approved a EUR 34 million investment aid package for the Villasor sugar plant - owned by the SADAM group - in Sardinia⁴⁶. The aid was granted according to the rules of the public agency RIBS (shareholding and loan at a subsidised rate). The aid was approved under the national aid provisions of the market organisation for sugar which, until 2001, exempt the South of Italy from the general ban on processing and marketing investment in the sugar sector.
135. Moreover, the package was authorised by the Commission on the strength of an undertaking by the Italian authorities that they would recover previous operating aids granted to the owner of the sugar plant.

⁴⁵ OJ L 236, 7.9.1999, p. 14.

⁴⁶ Case No N 157/99.

2.5.11. Citrus sector

2.5.11.1. Aids for the citrus sector in Sicily⁴⁷ - (I)

136. In January 2000 the Commission communicated to Italy its final negative decision on the aid provided for in Articles 1, 3, 5, 6 and 7 of Law No 68/95 of the Sicily Region ("Establishment of a guarantee fund for the consolidation of debts of industrial and commercial undertakings and of a guarantee fund for the consolidation of debts of craft undertakings - Aid to commercial operators")⁴⁸; in so far as it applied to undertakings engaged in the production, processing and marketing of Annex I products.
137. Article 6 of the Regional Law provided for the financing, in 1995-97, of aid in respect of 1993/94, 1994/95 and 1995/96. This consisted in contributions towards the interest payable on loans granted, for a period not exceeding one year, to traders operating in Sicily whose sales of citrus fruit, fruit and vegetables outside the region accounted for 70% or more of their turnover. Altogether, 70% of the financial resources allocated to Article 6 was earmarked for the citrus sector.
138. According to Commission practice, short-term loans ("*crédits de gestion*") are aids granted in order "to allow the operator to cover advance payment of his expenditure linked to the agricultural production cycle pending receipt of income during that same cycle". The loans must be "seasonal credits" to cover general overheads: the purchase of inputs, wages, etc.
139. Before the application of the Commission communication on subsidised short-term loans in agriculture⁴⁹, the Commission regarded these aids as compatible if the following requirements were satisfied: the loan may not be granted for a single product or linked to a single operation and the duration of the loan may not exceed 12 months. Export aids *per se* are prohibited (see Commission communication on application of the *de minimis* rule⁵⁰).
140. Accordingly, the Commission considers that: (i) a short-term loan ("*crédit de gestion*") cannot be granted "retroactively", since it then simply constitutes operating aid which has no justification in agriculture (Annex I products); (ii) if aid notified as a *crédit de gestion* may *de facto* also constitute export aid (although it fulfils the criterion of seasonality and the other applicable criteria), it cannot be regarded as "*crédit de gestion*" compatible with the common market.
141. Following the opening of the procedure in Case No C 1/98, the national authorities claimed that the measure was the refinancing of an aid scheme already approved by the Commission in the past (Article 48 of Act No 32/91) and that it constituted a "subsidised short-term loan" to be examined in the light of the criteria applicable to this type of measure before the entry into force of the Commission communication on subsidised short-term loans in agriculture⁵¹.

⁴⁷ Case No C 1/98.

⁴⁸ Case No C 1/98 (ex-N 750/B/95); Commission Decision of 22.12.1999 (OJ L 110, 6.5.2000).

⁴⁹ OJ C 44, 16.2.1996, p. 2.

⁵⁰ OJ C 68, 6.3.1996.

⁵¹ OJ C 44, 16.2.1996, p. 2.

142. In its final negative decision, the Commission decided that the measure could not be regarded as the refinancing of an aid scheme approved by the Commission, because the measure previously approved (Article 48 of Act No 32/91) concerned financing limited both in its amount (ITL 30 billion) and in its period of application (1991-93).
143. Moreover, the criteria for subsidised short-term loans did not appear to be fulfilled for the following reasons:
- firstly, since the national authorities specified that the aid concerned the repayment ("*ripiamento*") of debts arising from short-term banking credits granted at very high interest rates, the aid did not appear to satisfy the core requirement underlying "seasonal credits", which is: to allow the operator to cover advance payment of his/her general management expenditure linked to the agricultural production cycle pending receipt of income during that same cycle;
 - secondly, Article 6 concerned only trading undertakings in Sicily at least 70% of whose turnover was accounted for by the sale of citrus fruit, fruit and vegetables outside the region (70% of the resources was reserved for citrus fruits); therefore the aid would appear to be granted exclusively for two specific categories of products (and mainly for one of them) and to be linked, mainly, to a single operation (export from Sicily);
 - thirdly, considering the unclear observations of the national authorities reported in the decision on the amortisation of loans in 36 months, it could not be excluded that the loans in question had a maximum duration of more than 12 months.
144. Furthermore, with regard to the export-oriented nature of the measure, the national authorities could not dispel the Commission's doubts that the measure could be an export aid. Therefore the measure, which the national authorities stated was aimed at the repayment of debts, appeared to be a retroactive operating aid, mainly addressed to "export-oriented" citrus undertakings, which did not comply with any of the rules applicable to state aids in agriculture.
145. An application for annulment of the Commission decision was lodged by the Region of Sicily before the Court of First Instance in July 2000. The case is pending.

2.5.11.2. National action plan for the citrus sector⁵² - (I)

146. In May 2000 the Commission adopted a decision approving a comprehensive action plan for the citrus sector in Italy. The plan provided aid for the following measures: monitoring of markets; citrus classification system; R&D; communication and promotion; creation of, and increased tasks for, consortia and associations of producers of quality products; and technical assistance and monitoring.
147. The plan originally notified envisaged total support amounting to ITL 110 000 million (\pm EUR 55 million) over three years and included a measure entitled "Support for the integrated intervention plans of producers' associations for improving marketing and strengthening producers' organisations", providing aid for

⁵² Case No 560/1999.

the capitalisation of producers' organisations, for the acquisition of liquidity, for acquisitions of shares in marketing, processing, transport companies in Italy and abroad, mergers, etc.

148. The Commission departments expressed doubts as to the compatibility of the latter measure both with EC legislation on the common market organisation for fruits and vegetables and with state aid rules applicable to agriculture.
149. Given the need to reconsider this measure and to further clarify and define its content, the national authorities have undertaken to notify separately, at a future stage under Article 88(3) of the EC Treaty, the detailed implementing measures of the aid included under the title "Support to the integrated intervention plans of the producers' organisations for improving marketing and strengthening producers' organisations" (ITL 60 200 million), which will therefore not be applicable until its specific approval by the Commission.

2.5.12. *Wine-growing*

150. The Commission adopted a negative final decision on a scheme, notified and implemented by France in favour of wine-growing⁵³, against which the Commission had initiated a scrutiny procedure in October 1999⁵⁴.
151. The scheme concerned proceeds with the conversion of the *charentais* vineyards - currently used for cognac production - to the production of other wines: local wines. The conversion is centred on a supplement to the national aid for vine improvement, the objective of which is the qualitative improvement of vineyards. The measure is thus intended to help cognac producers convert to the production of local wines by encouraging the use of certain varieties of vine. The scheme is a consequence of the crisis experienced by the sector, a crisis which has resulted in a heavy build-up of stocks.
152. The Commission concluded that one of the objectives pursued by the legislator in drawing up Council Regulation (EC) No 1493/1999 of 17 May 1999 on the common organisation of the market in wine⁵⁵ was that of preventing an increase in wine production in the Community. While accepting that the varietal conversion of vineyards in the Charentes region had the advantage of reducing the production of wine for which there was no market, the Commission took the view that the resulting increase in the production of local wine in France would not be in keeping with the principles enshrined in the new market organisation in wine and was likely to distort competition on a market which, judging from the figures available, shows no signs of growth. Wines resulting from the conversion of the vineyards would enter the ordinary wine market, whereas current production by definition goes to other destinations outside that market. Accordingly, the general conversion of these vineyards could well shift the problem onto other markets. Moreover, the Commission feels that the conversion ought to have been accompanied by a substantial reduction in wine-growing areas and in yields.

⁵³ Aid No C 70/99; Decision No C(2000) 2754 of 20.9.2000, yet to be published.

⁵⁴ OJ C 359, 11.12.1999.

⁵⁵ OJ L 179 of 14.7.1999.

153. The Commission takes the view that only measures adopted under the common agricultural policy and more specifically the market organisation in wine can ensure that the interests of those involved in this market generally, i.e. in the Community as a whole, are taken into account.

2.6. Assistance to the needy

154. The European Union continued to implement its food aid programme for the needy⁵⁶. This involved making agricultural produce and processed agricultural produce from intervention stocks available to the organisations concerned working in the field in the Member States.

155. The table below gives a breakdown of the total budget and shows the quantities, as adjusted during the year, that can be withdrawn from intervention stocks by each participating Member State.

Free distribution of agricultural products (2000)

Member State	Appropriation allocated (EUR)	Quantity (tonnes)					
		Cereals	Rice	Olive oil	Skimmed milk powder	Butter	Beef
Belgium	1 879 000	3 500	200			400	
Denmark	464 000						127
Greece	15 150 000	20 000	10 000	4 000	1 000		
Spain	54 031 000	60 000	34 000	7 000	1 150	6 000	
France	39 785 000	18 200	2 325		9 350		4 550
Ireland	3 162 000					60	810
Italy	52 730 000	60 000	60 000	5 000		5 000	
Luxembourg	44 000				12		5
Portugal	22 892 000	15 000	10 000	3 000	2 376	2 100	
Finland	1 863 000	9 712			300		
Total⁵⁷	192 000 000	186 415	116 525	19 000	14 188	13 560	5 492

2.7. The outermost regions

156. The Treaty of Amsterdam includes a new provision (Article 299(2)) on the outermost regions of the Community (the Spanish archipelago of the Canaries; the French overseas departments of Martinique, Guadeloupe, French Guiana and Réunion; and the Portuguese archipelagos of Madeira and the Azores).

157. On 14 March 2000 the Commission produced a report on measures intended to implement that new provision (doc. COM(2000) 147 - C5-0247/2000). The report includes a major section on agriculture, given the role played by the latter in the economy of those regions. It takes stock of Council Regulations Nos 3763/91

⁵⁶ Regulation (EEC) No 3730/87 of 10.12.1987 (OJ L 352, 15.12.1987, p. 1); Commission Decision 2000/32/EC of 16.12.1999 (OJ L 11, 15.1.2000, p. 51).

⁵⁷ To this EUR 192 million should be added EUR 4 million for financing Community transport costs.

(POSEIDOM)⁵⁸, 1600/92 (POSEIMA)⁵⁹ and 1601/92 (POSEICAN)⁶⁰, and maps out future courses of action in the sector.

158. Moreover, the agriculture strands of the three options programmes specific to the remoteness and insularity of those regions were the subject of an external evaluation under the SEM 2000 programme of the Directorate-General for Agriculture.
159. The study devoted to the agriculture strands of POSEICAN and POSEIDOM was published on the Commission's website⁶¹; the one corresponding to POSEIMA is in the process of being submitted and should be available before the end of 2000.
160. Altogether, three reports on the implementation of the schemes in 1992-98 have been drawn up with a view to transmission to the Council and Parliament.
161. On 29 November, in the light of the external evaluation reports and the difficulties experienced when implementing the three schemes, the Commission transmitted to the Council three proposals for regulations intended to replace the regulations based on the agriculture chapters of the programmes of options specific to remoteness and insularity - (EEC) No 3763/91 (POSEIDOM), (EEC) No 1600/92 (POSEIMA) and (EEC) No 1601/92 (POSEICAN) - and an amendment to Council Regulation (EC) No 1254/1999 on the common organisation of the market in beef and veal. The proposals, plus an addendum on milk production in the Azores announced at the European summit in Nice - are aimed at consolidating the existing legislation and improving the schemes concerned in order to take account of the experience and changes that have taken place both within the Union and elsewhere. They are accompanied by reports on the progress made in the implementation of the programmes in 1992-98⁶². Given the economic and social importance of the dairy sector to those outermost regions, the Commission has proposed that the consumption of dairy products in the Azores could, subject to certain conditions, be excluded from the national calculation of the additional levy for four years with effect from 1999/2000.
162. The period of validity of Decision 91/482/EEC on the association of the overseas countries and territories with the European Economic Community (the "overseas countries and territories Decision") was extended by one year, until 28 February 2001. Some problems relating to the commercial regime having arisen in the sugar sector, safeguard measures had to be adopted by the Commission.

2.8. Information measures concerning the CAP

163. On 17 April 2000 the Council of Agriculture ministers adopted Regulation (EC) No 814/2000⁶³ on EAGGF Guarantee Section funding for a consistent, objective and comprehensive information drive on the CAP, aimed at both the Member States and the world outside. Its purpose is to explain the issues surrounding the CAP, promote

⁵⁸ OJ L 356, 24.12.1991, p. 1.

⁵⁹ OJ L 173, 27.6.1992, p. 1.

⁶⁰ OJ L 173, 27.6.1992, p. 13.

⁶¹ http://europa/comm/agriculture/eval/index_fr.htm.

⁶² COM(2000) 790.

⁶³ OJ L 100, 20.4.2000, p. 7.

the European model of agriculture, keep farmers and other rural interests informed and raise public awareness of the implications and goals of this policy.

164. The adoption of the Regulation proposed by the Commission reflects a desire to bridge an information gap in relation to what is one of the most important of the integrated policies implemented by the Union: the CAP, and to do so by means of a targeted information campaign. The Community will be providing part-financing for three types of measures:
- annual programmes run mainly by farmers' or rural development organisations, consumer associations and environmental protection associations;
 - individual projects implemented mainly by the public authorities in the Member States, the media and universities; and
 - activities initiated by the Commission.
165. For the first two types of measures the Commission will fund up to 50% of the eligible costs, though this may rise to 75% in exceptional cases (to be defined in the implementing Regulation).
166. Projects should involve a mix of presentations, seminars, promotional visits, publications, media events and productions, participation in international events, programmes to facilitate the sharing of experience, etc. They are to be selected directly by the Commission on quality and cost-effectiveness criteria. Measures required by law and those that already benefit from other forms of Community assistance will not be considered. The Commission will be responsible for monitoring and checking the funded measures, using techniques such as on-the-spot inspections and, in particular, sampling methods.
167. The Commission subsequently adopted Regulation (EC) No 1390/2000⁶⁴ laying down the implementing rules.

2.9. Report on activities in the field of ICT (information and communication technologies)

168. The Commission uses ICT in support of all activities involved in the design, implementation, management and evaluation of the CAP.
169. ICT-related activities centred on three main objectives in 2000:
- (a) **Updating strategic information systems** which are vital to the day-to-day running of the market organisations and the financial mechanisms. It became clear that the old information systems had to be replaced in order to be able to provide the desired functionalities in terms of new regulations, comprehensiveness, coherence and exchange of information. An information technology architecture based on open systems and internet technologies widely used in the European Union was adopted and revision/review, migration and redevelopment of applications are under way or in the final stages:

⁶⁴ OJ L 158, 30.6.2000, p. 17.

- the AMIS (Agricultural Market Intelligence System) application, which processes market management data transmitted by the Member States, has migrated to an open environment (UNIX/Oracle). Concomitantly with this it was enriched in terms of functionalities and a report-generating mechanism in order better to monitor developments in terms of agricultural legislation;
- migration - also to an open technology - of the Interactive Data Entry System (IDES) used by national administrations for transmitting data on the management of agricultural markets and the EAGGF is under way. The objective was for the application to be in production in June 2001;
- the financial management applications (Agrex, Faudit and Feorient) are undergoing review with a view to being put on open environments and adapting their functions to the new rules;
- the tools which assist and make EAGGF expenditure control more effective are also undergoing development. New data exchange mechanisms are being introduced.

(b) Making better daily work tools available to users in the Agriculture DG, the aim being to improve effectiveness, enable dovetailing with information technology instruments and permit effective management of the CAP. The following are covered:

- migration to the new electronic mail system;
- pilot tests for the introduction of an electronic document management system aimed at reinforcing the electronic archives system already in operation;
- the Geographic Information System (GIS), which combines geographical data and agricultural information on land use, products, forestry, etc.;
- increased use of internet technologies (Europa, CIRCA, etc.) to make it easier for the information available to be disseminated to EU citizens and national administrations.

(c) Analysing requirements jointly with users with a view to producing new information systems for sectoral policies, such as organic farming and rural development, in which the use of information technology has thus far not been very widespread.

2.10. Advisory committees and relations with bodies representing the trade

170. At the 80 meetings of advisory committees and working groups held in 2000 the Commission the Commission consulted and informed the representatives of producers, processors, traders, consumers, workers and environmental protection and rural development agencies of, in particular, developments in the common agricultural policy and the rural development policies.

171. In accordance with Article 4 of Commission Decision 98/235/EC of 11 March 1998 on the advisory committees dealing with matters covered by the common agricultural

policy⁶⁵, committee members are appointed by the Commission on proposals from the socio-economic organisations established at Community level. An initial list of members was published in the Official Journal of the European Communities⁶⁶.

172. Updated versions of the list were published in Official Journal C 122 of 4 May 1999 and C 123 of 3 May 2000.

⁶⁵ OJ L 88, 24.3.1998, p. 59.

⁶⁶ OJ C 370, 30.11.1998.

3. AGRICULTURAL MARKETS

3.1. The 2000/01 price package

173. On 17 July 2000 the Council adopted the institutional prices and amounts for cereals, rice, silkworms and sheepmeat on the basis of the Commission's proposals of 23 February 2000. The price proposals for sugar and pigmeat were adopted on 19 June 2000. The monthly increases for cereals will remain unchanged in 2000/01 and will be reduced by 7.5% from 2001/02, whereas the Commission proposal was to reduce them in two stages, by 7.5% each time. The Council did not endorse the proposal to bring the intervention period for cereals in Sweden into line with that of the other Nordic countries.
174. Furthermore, it called on the Commission: to consider the advisability of a regulatory framework, confined to certain points, for alcohol of agricultural origin; to look into the definition of sheepmeat producers in less-favoured areas; to propose continuing payments to nut producers under the 2001 budget for programmes that would otherwise expire in 2000; and lastly, to propose that the rate of specific aid fixed in 2000/01 for producers of cereals in Portugal be carried over to 2001/02.

3.2. Crop products

3.2.1. Cereals

3.2.1.1. World market

175. World production of cereals (excluding rice) in 1999/2000 was down on the previous marketing year, owing to a decline in wheat production in the European Community, North Africa and the Middle East, and in maize production in the United States. According to International Grains Council figures, the world harvest was 1 464 million tonnes in 1999/2000, compared with 1 479 million tonnes the previous year.
176. World production of wheat fell from 587 million tonnes in 1998/99 to 584 million tonnes in 1999/2000. The European Union and North Africa also harvested less wheat than in 1998. China is the world's largest producer, with an output of 114 million tonnes (+4%). The total harvest in the CIS countries rose to 65 million tonnes from 55.6 million tonnes in 1998. Production of feed grains fell from 892 million tonnes in 1998/99 to 880 million tonnes in 1999/2000.
177. World consumption of wheat in 1999/2000 is estimated at 592 million tonnes, or 8 million tonnes more than the harvest. Estimated consumption of feed grains is stable at 877 million tonnes.
178. World cereal stocks declined, after having been restored by the end of the 1998/99 crop year to a level comparable with that of the early 1990s. Cereal stocks stood at 279 million tonnes, comprising 122 million tonnes of wheat and 157 million tonnes of feed grains; this level is 5 million tonnes less than at the end of the 1998/99 crop year.
179. The total volume of world trade in cereals in 1999/2000 was 211 million tonnes, including 106 million tonnes of wheat, compared with a total volume of 192 million

tonnes (including 97 million tonnes of wheat) in the previous crop year. Imports of wheat increased especially in Russia and Iran, and imports of feed grains in Asia. The shortfall in Russia's production was partially offset by special aid measures by the United States.

180. The International Grains Council harvest forecasts for the 2000/01 crop year as at 28 September 2000 implied little change in world output (1 465 million tonnes compared with 1 464 million tonnes in the preceding crop year). World stocks were expected to be down from 279 to 261 million tonnes and the volume of world trade in cereals was expected to rise to 212 million tonnes, including 106 million tonnes of wheat.

3.2.1.2. Community market

181. On the basis of Eurostat figures, Community output of cereals for 1999/2000 was estimated at 201.4 million tonnes for the fifteen Member States, 9.6 million tonnes less than in 1998/99.
182. The change in output corresponds to a decline in the area sown to cereals, from 37.4 million hectares in 1998/99 to 36.4 million hectares (a reduction of 2.6 %), and to a decline in yield from the 1998 level (5.53 t/ha instead of 5.65 t/ha). This decline is due to the higher rate of compulsory set-aside, increased from 5% to 10%.
183. For the 1999 harvest, the set-aside requirement was 10%, corresponding to an area of 4.2 million hectares. However, voluntary set-aside of almost 1.7 million hectares brought the actual total rate of set-aside to 14.1%, with Spanish, Swedish and Finnish farmers in the forefront.
184. Production of common wheat (89.3 million tonnes) and durum wheat (8.3 million tonnes) declined by 5.8% and 10% respectively. Maize production, on the other hand, increased by 3.6%, from 36.2 million tonnes to 37.5 million tonnes.
185. Rye production declined by 13.3% to 5.6 million tonnes.
186. Together with the cut in cereal prices under the 1992 reform, high prices for oilseeds and protein crops up to the end of 1998 boosted the use of cereals for livestock feed. In addition, white meat production (pigmeat and poultrymeat) was boosted by the drop in prices for compound feedingstuffs. The use of cereals in the feedingstuffs sector totalled 114 million tonnes for the Fifteen in 2000/01, over 25 million tonnes more than during the period preceding the reform.
187. At the same time, internal trade in cereals between the Member States continued to develop, contributing to the establishment of the single market.
188. Community exports (including processed products and food aid) rose to 36.5 million tonnes in 1999/2000, as against 31 million tonnes the previous marketing year. Commercial exports totalled 15.7 million tonnes of common wheat (including flour), 13.3 million tonnes of barley (including malt) and 1.3 million tonnes of rye and rye flour. Durum wheat exports remained lower than in the past.
189. The decline in output in 1999/2000 and the appreciable increase in exports led to a decline in intervention stocks, from 18 million tonnes at the start of the marketing year to about 8.8 million tonnes by the end, the latter figure being made up of

3.1 million tonnes of common wheat, 2.3 million tonnes of barley and 3.3 million tonnes of rye.

190. The 2000/01 marketing year is the first under the Agenda 2000 arrangements. Consequently, the intervention price was cut by 7.5% and aid was adapted (EUR 58.67 per tonne of yield, instead of EUR 54.34). The rate of compulsory set-aside was set at 10%. The Council left the monthly increase in the intervention price unchanged at EUR 1.0/t/month.

3.2.2. *Oilseeds*

191. Oilseeds yield two products: oil, chiefly for human consumption, and cake for animal feed. This means that the economic position of the sector depends on price movements for seeds, oils and cake. Vegetable oils may be consumed without further processing or as prepared oils and fats, e.g. margarine.
192. The European Union is a net importer of oilseeds, vegetable oils and oilcake, annual import volumes being largely dependent on the relative prices of seeds, cake, oils and competing feed products (cereals, corn gluten feed, etc.) and on the opportunities for exporting oils and cake from the EU. Total imports of oilseeds amounted to 18.4 million tonnes in 1999 and 17.6 million tonnes in 1998. Soya accounts for most of this quantity (80%).
193. Altogether, 30.9 million tonnes of oilseeds were crushed in the European Union in 1999/2000, as against 32.6 million tonnes in 1998/99. Most of these were soya beans (around 49%), followed by rapeseed (around 33%) and sunflower seeds (around 18%).
194. Since 1993/94, the support arrangements for producers of oilseeds (rapeseed, sunflower seeds and soya beans) have been part of the support scheme for producers of certain arable crops (cereals, oilseeds, protein plants and linseed). Under these arrangements, a basic payment of EUR 433.50/ha was made until 1999/2000. The amount actually paid to growers varies regionally according to historical yields of cereals or oilseeds and is adjusted where necessary in line with world price fluctuations beyond a certain margin.
195. For 1999/2000, a total of 4 795 557 hectares qualified for the crop-specific compensatory payment, i.e. less than the maximum guaranteed area (MGA) of 4 933 800 hectares. As there was no overshoot of the MGA, there was no need to adjust the compensatory payment. The reference price observed for the 1999/2000 marketing year was EUR 188 per tonne, which is below the projected reference price of EUR 196.8 per tonne. Taking account of the 8% margin, this observed price did not result in an increase in compensatory payments.
196. Total oilseed production in 1999/2000 was 16.1 million tonnes (including 2.7 million tonnes of non-food production), as against 15.3 million tonnes (including 1.1 million tonnes of non-food production) in 1998/99.
197. Regulation (EC) No 1251/1999 provides for the alignment of area payments for oilseeds and cereals from the 2002/03 crop year; alignment will be preceded by a transition period during which area payments for oilseeds will be based on a set amount (EUR 81.74/tonne in the 2000/01 marketing year and EUR 72.37/tonne in

the 2001/02 marketing year) multiplied by the average cereal yield, or the oilseeds yield multiplied by 1.95. Market prices for oilseeds will no longer influence the level of area payments.

3.2.3. *Peas, field beans and sweet lupins*

198. These products, which go chiefly to the feed industry, compete with a wide range of other raw materials.
199. From 1993/94, the system of aid to processors and minimum prices was replaced by the aid scheme for certain arable crops (cereals, oilseeds, protein plants and linseed), which requires producers taking part in the general scheme to set aside land. The aid payable is EUR 78.49, multiplied by the historical cereal yield.
200. Compensatory aid was paid for around 1.1 million hectares in 1999/2000. Total production amounted to 4.7 million tonnes.
201. With the introduction of Regulation (EC) No 1251/1999, the calculation of area aid is based, from the 2000/01 marketing year, on an amount of EUR 72.50 multiplied by the historical cereal yield.

3.2.4. *Linseed*

202. The European Union produces both fibre flax, which is grown primarily for use in the textile industry but also gives seeds, and seed flax, which is grown exclusively for linseed. Linseed is either used without further processing or crushed to obtain oil (for industrial applications) and cake used for animal feed.
203. The European Union imports large quantities of linseed (around 400 000 tonnes a year). Canada is its major supplier.
204. In order to control production, a better balance between the support granted for linseed production and that for other current crops was sought. From 1993/94, linseed was added to the list of arable crops qualifying for area payments under the reform adopted in 1992. The compensatory payment granted is ECU 105.1 per tonne, multiplied by the cereal yield.
205. The area sown to linseed in 1999 totalled 537 000 hectares.
206. Regulation (EC) No 1251/1999 provides for the alignment of area payments for linseed on those for cereals from the 2002/03 crop year; alignment will be preceded by a transition period during which area payments for linseed will be based on a set amount (EUR 88.26/tonne in the 2000/01 marketing year and EUR 75.63/tonne in the 2001/02 marketing year) multiplied by the average cereal yield.

3.2.5. *Grain legumes (chickpeas, vetches and lentils)*

207. Council Regulation (EEC) No 762/89 introduced a specific measure for grain legumes in 1989. Its period of validity was extended by Regulation (EC) No 1577/96. The measure comprises area payments for a maximum guaranteed area (MGA) not covered by the arable crops scheme. Under Regulation (EC) No 811/2000, this MGA was subdivided between, on the one hand, chickpeas and

lentils (used for human consumption) and, on the other, vetches (used for animal feed).

208. Aid per hectare is set at EUR 181, and the MGA is 160 000 hectares for chickpeas and lentils, and 240 000 hectares for vetches. If the area for either crop is less than the MGA, the balance is transferred to the other one. Should an MGA be exceeded, the aid is proportionally reduced during the marketing year in question.
209. In 1999/2000 the area under grain legumes totalled 462 882 hectares; overrun of the MGA led to adjustment of the aid, which was set at EUR 156.41 per hectare.
210. The area for the 2000/01 marketing year is estimated at 115 000 hectares for chickpeas and lentils, and at 302 000 hectares for vetches.

3.2.6. *Non-food production*

211. With the entry into force of Council Regulation (EC) No 1251/1999 of 17 May 1999 establishing a support system for producers of certain arable crops, which repeals and replaces Regulation (EEC) No 1765/92, new arrangements were introduced for set-aside, as decided under the Agenda 2000 package:
- the basic percentage for compulsory set-aside is set at 10% from 2000/01 to 2006/07 inclusive,
 - the minimum percentage for voluntary set-aside is 10%, but Member States may set much higher rates, up to 100% of the agricultural area,
 - the area payment for set-aside land is EUR 58.67 per tonne for 2000/01, rising to EUR 63.00 per tonne thereafter.
212. As the new basic Regulation applied from the 2000/01 marketing year, the former implementing Regulation also had to be replaced.
213. The new Commission Regulation (EC) No 2461/1999 laying down detailed rules for the application of Council Regulation (EC) No 1251/1999 as regards the use of land set aside for the production of raw materials for the manufacture within the Community of products not primarily intended for human or animal consumption thus recasts the old Regulation, but at the same time introduces amendments concerning new possibilities of production (the possibility of producing biogas on the holding or of growing biennial crops, classification in Annex I of certain raw materials which, by virtue of their characteristics, are used exclusively for non-food purposes) or matters of procedure (the possibility of transferring the security between processors).
214. For the 1999/2000 marketing year, information from the Member States on set-aside indicated a substantial increase in the surface area, which had more than doubled since the previous year.
215. It was therefore necessary to introduce a corrective mechanism into Regulation (EC) No 1251/1999 to ensure compliance with point 7 of the Memorandum of Understanding on certain oilseeds which was concluded in 1993 between the European Economic Community and the United States of America within the framework of GATT. The said point specifies that “should the by-products made

available as a result of the cultivation of oilseeds on land set aside for the manufacture within the Community of products not primarily intended for human or animal consumption exceed one million metric tonnes annually expressed in soya bean meal equivalents, the Community shall take appropriate corrective action within the framework of the CAP reform”.

216. The new corrective arrangements came into force on 28 December 1999 under Council Regulation (EC) No 2704/1999 amending Regulation (EC) No 1251/1999 of 17 May 1999 establishing a support system for producers of certain arable crops.
217. The new implementing provisions required as a result of the amendment of the basic Regulation were incorporated into Commission Regulation (EC) No 2461/1999 with the adoption of Commission Regulation (EC) No 827/2000 amending Regulation (EC) No 2461/1999 laying down detailed rules for the application of Council Regulation (EC) No 1251/1999 as regards the use of land set aside for the production of raw materials for the manufacture within the Community of products not primarily intended for human or animal consumption.
218. Measures to promote renewable energy and/or non-food production are included in most of the rural development programmes presented by the Member States under the new Council Regulation (EC) No 1257/1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF) and amending and repealing certain Regulations.
219. Several eastern and central European applicant countries have also presented measures concerning the non-food sector under the Special accession programme for agriculture and rural development (SAPARD).
220. Out of 1 011 000 hectares of set-aside land used for non-food production in 1999/2000, about 952 000 hectares was used for oilseed production. This is a 140% increase on 1998/99. Some 60% of the output is used to manufacture biodiesel, and the remaining 40% for lubricants and other processed products.

3.2.7. *Rice*

221. The world harvest in 1999 totalled about 400.7 million tonnes of milled rice equivalent, 6.9 million tonnes up on 1998 (393.8 million tonnes.)
222. The volume of world trade in 1999/2000 amounted to some 22.3 million tonnes, i.e. about 5.6 % of world production.
223. In the Community, the production of milled rice sold on the market totalled 1 551 329 tonnes in 1999. This was about 0.7% less than in 1998 (1 561 596 tonnes), owing to a decline in the area sown.
224. Production of indica rice was up by about 26% to 502 229 tonnes, equivalent to around 60% of consumption (50% in 1998/99); production of japonica was down by about 10% at 1 049 101 tonnes, about 17% more than consumption (25% in 1998/99).
225. Throughout the marketing year, market prices for paddy rice were below the intervention price. They were especially low for indica rice in Greece. Although the surplus of japonica and the shortfall of indica were smaller in 1999/2000, the volume

of the harvest and the continuing strength of imports resulted in a total of about 280 000 tonnes of paddy rice being bought into intervention, bringing total stocks at the end of the marketing year to about 700 000 tonnes of paddy rice.

226. Forecasts for 2000/01 indicate that the total area sown will remain unchanged, with an increase of about 5% in the area under indica rice and a reduction of about 2% in the area under japonica.

3.2.7.1. Reform of the rice sector

227. On 7 June the Commission adopted a proposal to reform the common organisation of the market in rice⁶⁷. The aim of the proposal is to restore equilibrium on the European market in rice and improve the competitiveness of Community rice production by increasing direct payments to producers and abolishing intervention (there is corresponding provision for private storage). The proposal is also intended to ensure that rice production is maintained in the areas where it is beneficial to the environment. The reform was expected to come into force from the 2001/02 marketing year onwards.

3.2.8. *Starch*

228. Overall, the production of cereal and potato starch and of starch derivatives such as glucose continues to progress, providing an essential raw material for the food sector and other industries such as biotechnology and paper manufacture. About 15 to 20% of the starch produced is exported to countries outside the EU.
229. The expansion of output is due to wheat starch. Production of maize starch, which accounts for about half of total starch production, is levelling off.
230. EU production of potato starch is restricted by a quota scheme; it amounted to 1.805 million tonnes in 1999/2000, which was 3% below the quota. Under the Agenda 2000 decisions, total European Union production quotas were cut by 2.7% for 2000/01 and by an additional 2.9% for 2001/02. The Council decided on these cuts in order to neutralise the additional budget expenditure entailed by the fact that payments to potato growers to compensate for price cuts are higher than those to cereal producers.

3.2.9. *Sugar*

3.2.9.1. World market

231. For the sixth consecutive year the world sugar balance was in surplus. The surplus for 1999/2000 was 4.0 million tonnes. Ending stocks in this latest year reached 58.6 million tonnes, equal to nearly 46% of total consumption – the highest level ever recorded.

⁶⁷ COM(2000) 278 final.

Marketing year Sept./Aug.	Production	Consumption	Surplus or deficit	Stock/ consumption ratio
	(1)	(2)	(3)=(1)-(2)	(4)
1990/91	116.1	110.1	+ 6.0	32.4
1991/92	117.1	111.2	+ 5.9	36.5
1992/93	113.0	112.1	+ 0.9	35.9
1993/94	111.6	112.6	- 1.0	33.5
1994/95	116.1	115.0	+ 1.1	33.3
1995/96	125.6	117.8	+ 7.8	38.8
1996/97	124.1	120.9	+ 3.2	38.5
1997/98	128.1	123.2	+ 4.9	40.1
1998/99	135.1	126.1	+ 9.0	44.7
1999/2000	132.3	128.3	+ 4.0	45.7

Source: F. O. Licht

232. Early forecasts for production again pointed to a very large surplus, but were revised downwards in the course of 1999/2000; although lower than originally expected, the surplus for the year was still sizeable at 4.0 million tonnes. With production tending to exceed consumption year after year, surplus stocks have now built up to more than 16 million tonnes, well above normal pipeline needs. The stock/consumption ratio reflects the build-up of surplus stocks in recent years and the increase in pipeline needs. However, ending stocks equivalent to 46% of consumption suggest a steady deterioration in the world sugar balance when compared with the figure of 32.4% recorded ten years ago.
233. The world balance-sheet data (September 1999 to August 2000) include a major production increase in the EU, the USA, India and to a lesser degree Cuba, Thailand and the Dominican Republic. Brazil, which last year became the world's biggest producer and exporter, represents a statistical anomaly; as its crop year starts in May and ends in March, it is split between two world crop years, with the result that its 1999/2000 figures include part of the record 1999 crop and part of a much reduced 2000 crop. Brazil accordingly recorded the biggest fall in production after China and Pakistan.
234. Cane sugar, mainly produced in developing countries, has increased its share of output. Beet sugar accounted for only 27% of total output in 1999/2000, compared with 37% in 1990/91.
235. Because of early forecasts of a further large surplus in 1999/2000, prices remained at the level reached at the end of the preceding marketing year, just under 7 cts/lb for raw sugar in New York. The 1999/2000 marketing year was characterised by a 14-year low in prices, recorded in April 1999.
236. At first, only white sugar prices were affected by the bearish forecasts. Raw sugar prices withstood the supply pressure better, even during the period up to December 1999, when prohibitive import duties were applied by Russia (the major world market buyer). Subsequently, when the expected massive imports by Russia failed to materialise early on in 2000, prices drifted back down a historical low by February. During this period, large amounts were invested by speculators in short positions. However, prices began to rally in April 2000 when the production forecasts for

certain major producers such as China, Pakistan and Australia were revised downwards. In particular, with growing signs that the forthcoming marketing year will be affected by the impact of a lasting drought in Brazil's Centre/South region, the market is becoming much firmer, a development that many analysts failed to foresee.

237. The following table shows how prices have moved in recent years.

EUR/t	1998/99	1999/2000	Sept. 2000
White sugar (London)	20.41	18.70	28.01
Raw sugar (New York)	15.15	14.38	26.22

238. It should be borne in mind that figures for September 2000 are affected by the growing weakness of the euro.

239. This price rally continued into 2000/01, with confirmation of a 21% reduction in Brazil's crop and the prospect of Australian cane production suffering further severe damage as a result of natural calamities.

240. Initial estimates for the 2000/01 marketing year consequently point to a substantial global deficit.

241. Although the present overall surplus will not be absorbed by one year's deficit (estimated at 1 to 3 million tonnes), markets tend to react not only to statistical data but also to the perception of the situation. Surplus stocks which are not made available are discounted by the market.

242. This is the case for large quantities of Indian sugar accumulated over two years. India was importing sugar in spite of its own overproduction, and although at the prevailing world market price exports are on the point of becoming profitable, the quality and logistical problems should not be ignored.

243. The favourable outlook for prices is enhanced by the relatively low positions of funds operating on the futures markets at a time of transition between two marketing years, something which could be seen as having bullish potential, and by the recovery of world sugar demand to a normal annual growth rate of up to 2%.

3.2.9.2. Community market

244. In 1999 beet areas were reduced by 2.0% (to 1 961 000 ha) compared with the previous marketing year. The high average yield reached (8.98 tonnes of sugar per hectare) was 11.7% up on the preceding year and 12.8% above the five-year average for 1994-98. France in particular recorded an average yield of 11.7 tonnes per hectare, which helped EU production reach a total (white sugar equivalent) of 17.943 million tonnes, comprising 17.609 million tonnes from beet, 289 000 tonnes from cane and 49 000 tonnes from molasses.

245. Total internal consumption of sugar of around 12.800 million tonnes was slightly up on the previous year. Of this, 376 000 tonnes was used by the chemical industry, a significant increase over the preceding marketing year.

246. The sum of internal production and imports of 2.354 million tonnes – comprising preferential sugar imports (ACP sugar protocol, India Agreement, special preferential

sugar and MFN (most favoured nation) reduced tariff quotas) and non-preferential sugar imports (mainly in processed goods) – generated a surplus over internal consumption, which is either exported or carried forward as blocked sugar (non-quota production to become A quota sugar in the following marketing year). A volume of 1 340 000 tonnes was carried forward from 1998/99, and 1 602 000 tonnes from 1999/2000 to 2000/01. Exports of sugar in its natural state totalled 6.181 million tonnes in 1999/2000, comprising 3.381 million tonnes as C sugar and 2.800 million tonnes as Community sugar. Exports of sugar in its natural state within the quota take place mainly under a weekly tender system with a refund. C sugar must be exported without a refund.

247. Exports have increased as a consequence of the larger crop, but useable stocks were also more than 266 000 tonnes higher than in 1998/99.
248. Like sugar, production of isoglucose and inulin syrup is regulated by quotas within the common market organisation. As in past years, no isoglucose in excess of the A and B quota was produced. Production of inulin syrup has not yet reached the maximum level fixed by the quota. After poor chicory harvests in Belgium and the Netherlands in 1998, the production of inulin syrup resumed its upward trend in 1999, when it was expected to exceed 235 000 tonnes.
249. Beet and sugar production forecasts for the 2000/01 marketing year are significantly down, because of a slightly lower yield (reduction of 3.7%) and a reduction of 7.1% in acreage. EU production was expected to total around 16.2 million tonnes, representing a reduction of 1.743 million tonnes or 9.7%.

3.2.9.3. Main legislative and policy developments

250. For the first time the Commission made use of the possibility to reduce quotas as laid down in Article 26 of the basic Regulation (Regulation (EC) No 2038/1999) in order to comply with GATT commitments.
251. On 4 October the Commission adopted a proposal for amending the common organisation of the market in sugar. The proposal makes several substantial changes to the current arrangements, in particular reducing production quotas by 115 000 tonnes and discontinuing the reimbursement of storage costs to producers. The production quota system, production levies and preferential import arrangements (ACP countries and India) would be maintained until the 2002/03 marketing year. The proposal aims to increase competition in the sector, maintain reasonable prices for sugar on the Community market and simplify the rules. It must deal with the challenge of overproduction on a market characterised by very low world prices, taking into account the strict limits on exports with refunds under the GATT agreements.
252. The guaranteed quantities for the 2000/01 marketing year have effectively been reduced by 498 800 tonnes (478 277 tonnes for sugar, 9 931 tonnes for isoglucose and 10 592 tonnes for inulin syrup).
253. For comparison, the normal sugar quotas are 11 982 756 tonnes for A sugar and 2 609 655 tonnes for B sugar.

3.2.10. Potatoes

254. Potatoes are one of the few agricultural products for which there is no market organisation. The Commission did present a proposal for a common organisation of the market in potatoes in 1992, renewed in 1995 by the Spanish Presidency of the Council of Ministers and again in 1996 by the Irish Presidency, but opposition from certain Member States has prevented its adoption.
255. The total area under cultivation is about 1 400 000 hectares, making potatoes a major crop in the EU. They are grown in all the Member States, although, because of climatic and soil conditions, they are more widely grown in northern regions.
256. The Union is self-sufficient in potatoes with the exception of early varieties. These are imported in winter and early spring from Mediterranean countries when Community output is limited or unavailable. The main suppliers are Cyprus, Egypt, Morocco and Israel. During the past few years, an annual average of some 400 000 tonnes of early potatoes has been imported from non-member countries.
257. EU production of potatoes totalled 45.4 million tonnes in 1998, rising to 47.9 million tonnes in 1999. No estimates are as yet available for the 2000 harvest.

3.2.11. Dried fodder

258. Dried fodder is made up of protein-rich (minimum 15%) products, derived from the artificial drying (dehydration) or natural drying (sun drying) of lucerne, other leguminous crops and certain grasses.
259. The following table gives a summary of output figures based on aid applications.

European Union production of dried fodder (based on aid applications)

('000 tonnes)

Dried fodder	1995/96	1996/97	1997/98	1998/99	1999/2000
Dehydrated	4 070	3 818	4 283	4 610	4 599
Sun-dried	402	253	156	151	162
Total	4 473	4 071	4 439	4 761	4 761

260. In 1999/2000, the fifth year since the introduction of the new market organisation, aid was granted for 4 599 000 tonnes of dehydrated fodder (104.2% of the MGQ) and for 162 000 tonnes of sun-dried fodder (36.5 % of the MGQ).
261. As subsidised production of dehydrated fodder exceeded the MGQ, the co-responsibility clause was applied: aid per tonne was reduced (from EUR 68.83 to EUR 66.03) in all the Member States.
262. However, aid was paid in full for sun-dried fodder, where subsidised production was well within the MGQ.

3.2.12. *Fibre flax and hemp*

3.2.12.1. Fibre flax

263. According to the FAO the total world area sown with fibre flax in 1999 was 443 000 hectares, producing around 625 000 tonnes of fibre, of which 368 000 tonnes was produced in China and 52 000 tonnes in Belarus. For their part, fibre imports occasionally reach levels capable of disrupting the Community market. The EU tends to import medium and low quality fibres, which are brought in from Eastern Europe, Egypt and China, but supplies the whole world with high and very high quality fibres, since these are not produced anywhere else. In 1999 it exported 91 000 tonnes, mainly to China and Brazil.
264. Market prices for flax fibres improved considerably in 1999/2000 but, in spite of efforts to diversify by seeking new outlets, the market is still very much dependent on fashion in the clothing industry.
265. Despite the phasing in of a series of control measures and successive reductions in aid, the Community area sown with fibre flax increased substantially between 1992 (44 000 ha) and 1999 (211 000 ha). Since an increase on this scale was likely to outstrip the processing capacity available in the EU, the Council decided to adopt the reform of the sector described below. Although this reform will not apply until 2001/02, it already appears to have influenced producers, since the latest sowing forecast for the 2000 harvest was just 101 000 hectares.

3.2.12.2. Hemp

266. The world area planted with hemp has fallen sharply in recent years, from an average of 119 000 hectares in 1989-91 to 67 000 hectares in 1999. China, North Korea, India and Russia are the main producers. Production in the European Union is limited. It has traditionally been concentrated in France and, to a lesser extent, in Spain, although a few other Member States (Germany, the United Kingdom and the Netherlands) have for some years now been producing this crop again. The total area under hemp in the EU in 2000 was about 22 000 hectares (as against 32 000 in 1999). Trade with third countries is very limited. Aid for hemp was unchanged at EUR 662.88 per hectare in 1999/2000.

3.2.12.3. Reform of fibre flax and hemp

267. On 17 July 2000 the Council adopted a reform of the common organisation of the market in flax and hemp. Under the reform, which is applicable from 2001/02 onwards, the two crops are included in the support scheme for producers of certain arable crops under Council Regulation (EC) No 1251/1999⁶⁸ and additional help is provided for authorised processors in the form of aid for processing flax and hemp straw for fibre production⁶⁹. Promotion measures for flax fibre and private storage aid for flax and hemp fibre are also to be discontinued from 2001/02 onwards.

⁶⁸ OJ L 160, 26.6.1999, p. 1.

⁶⁹ Council Regulation (EC) No 1672/2000 of 27 July 2000 amending Regulation (EC) No 1251/1999 establishing a support system for producers of certain arable crops, to include flax and hemp grown for fibre (OJ L 93, 29.7.2000, p. 13).

268. The inclusion of these two crops in the arable crops scheme means aligning the per hectare aid with that for linseed. The additional support for processing of straw comprises aid per tonne of long fibres and temporary aid (until 2005/06) per tonne of short fibres. Both are subject to a system of maximum guaranteed quantities divided into national guaranteed quantities per Member State. Moreover, for some Community areas, an additional flat-rate per hectare aid will be payable until 2005/06 where production is the subject of a sales contract with processors of long-fibre flax straw.
269. The Council decided that, for 2000/01, the amounts of aid for fibre flax and hemp were to be fixed by the Commission by 31 October 2000 at the latest, in the light of crop declarations and subject to a maximum budget of EUR 88 million.

3.2.13. Cotton

270. The world area under cotton in 2000/01 was put at around 32.6 million hectares, with production estimated at some 19.0 million tonnes, as against 32.2 million hectares and 18.9 million tonnes in 1999/2000.
271. Unginned cotton is not traded internationally, but the European Community, whose cotton-spinning capacity by far exceeds its fibre production, imports substantial quantities: more than 1 million tonnes from 1988 to 1993 and 855 000 tonnes in 1995-99. The former Soviet Union, the United States, Syria and the CFA area countries are the main suppliers. Intra-Community trade is rising, but remains limited.
272. In the European Union, the scale of cotton production is limited, in terms of both surface area planted and the number of producers. It is, however, concentrated in certain areas of Greece and Spain, where it plays a major socio-economic role. The Community area planted with cotton was slightly down: 538 000 hectares in 1999 and 494 000 hectares in 2000 (405 000 ha in Greece and 89 000 ha in Spain), producing an estimated 1 570 000 tonnes of unginned cotton (1 250 000 tonnes in Greece and 320 000 tonnes in Spain), as against 1 760 000 in 1999. The European Union is about 40% self-sufficient in cotton fibres, its consumption from 1995 to 1999 having been around 1.153 million tonnes.
273. The Community aid scheme provides for a guide price (EUR 106.30/100 kg) and aid, equivalent to the difference between that price and the world price, granted to ginnerers who pay a minimum price to the grower. If the production of unginned cotton exceeds a maximum guaranteed quantity (MGQ), the guide price and the amount of aid are reduced proportionally.
274. The reduction in aid in each Member State is proportional to the overrun of the NGQ concerned, the latter being set at 782 000 tonnes for Greece and 249 000 tonnes for Spain. The reduction is cut if the world price level allows expenditure on the aid scheme to be curbed. For 2000/01 the provisional reduction in the guide price is estimated at 41.9% for Greece and 24.0% for Spain.

3.2.13.1. Reform of the aid scheme for cotton

275. On 14 December 1999 the Commission proposed a reform of the common organisation of the market in cotton, in order in particular to neutralise the effect of

the scheme on the budget and introduce environmental criteria similar to those contained in the common rules for the direct support scheme under the common agricultural policy (COM(1999) 492 final). The European Parliament and the Committee of the Regions have yet to submit their opinions.

3.2.14. *Silkworms*

276. Silkworm rearing is practised in Greece, Italy and, to a lesser extent, France and Spain. It accounts for only a tiny part of the EU's agricultural activity and of world silk production. In certain regions such as Thrace, Veneto and Marche, however, it represents an important activity and know-how worth preserving.
277. World production of raw silk stabilised in 1998, totalling, according to the FAO, 87 000 tonnes, the same as the average from 1995 to 1997. The industry is dominated by Asian producers (77 000 tonnes), with China (51 000 tonnes), India (16 000 tonnes), Korea (4 000 tonnes) and Japan (3 000 tonnes) together accounting for more than 90% of world production.
278. Community silkworm rearing is finding it difficult to sustain its level of activity. Increases in production costs are not always offset by a growth in market prices.
279. In 1999 a total of 3 516 boxes were produced successfully, compared with 2 841 in 1998. They yielded 70 500 kilograms of cocoons. The aid for 1999/2000 was again EUR 133.26 per box.

3.2.15. *Olive oil*

280. World production averages some 2 200 000 tonnes, of which between 70% and 80% (around 1 750 000 tonnes in 1999/2000) comes from the European Union. The other main producers are Tunisia (200 000 tonnes), Turkey (70 000 tonnes), Syria (81 000 tonnes) and Morocco (40 000 tonnes). Production varies considerably from one year to another, and the world market fluctuates as a direct result of the Community market situation.
281. Estimated Community production eligible for aid in 1999/2000, including olive-pomace oils, was around 1 883 500 tonnes, as against 1 951 000 tonnes in 1998/99. According to information received from the Member States when the olive and olive oil yields were set for the 1999/2000 marketing year, there are around 530 million productive olive trees in the European Union. Some 2 million farms are engaged in olive growing.
282. In 1998/99 Community consumption was around 1 700 000 tonnes (71% of world consumption). The most recent forecasts show a slight increase in consumption in 1999/2000. At the beginning of the 1999/2000 marketing year, carryover stocks totalled 565 000 tonnes, but were down to around 438 500 tonnes at the end.
283. Greece and Spain are normally the main suppliers, and Italy, although itself an exporting producer, remains the Community's main purchaser. In 1998/99 imports totalled 46 000 tonnes. Exports for the same marketing year reached 221 800 tonnes, 72 600 tonnes direct and 148 200 under the inward processing arrangements. No export refunds were paid that year. The limit imposed on exports with refunds for that period under the GATT Agreements was 160 986 tonnes (including carryover).

284. Since the 1998/99 marketing year substantial changes have been made to the market organisation for olive oil, and the maximum guaranteed quantity (MGQ) has been divided among the producer Member States into national guaranteed quantities (NGQs). When production exceeds the NGQ, plus, where applicable, the carryover from the previous year, production aid (paid to olive growers) is reduced proportionally.
285. The Commission has accordingly undertaken to step up inspections at mills, adopt an objective method for determining yields in homogenous areas and draw up a strategy for olive oil quality. Lastly, the scheme provides for aid measures for the production of table olives for those producer Member States who so desire.
286. In addition, consumption aid has been abolished, the intervention system replaced by private storage arrangements, the small producers scheme discontinued and new planting discouraged.
287. All these measures were provided for for the three marketing years from 1998/99 to 2000/01. This three-year period was expected to allow the Commission to collect more detailed information on the sector, in particular on production capacity. Towards the end of 2000 the Commission submitted a proposal to extend the current arrangements for two marketing years, from 2001/02 onwards, and to introduce measures relating to olive oil quality.

3.2.16. *Fresh fruit and vegetables*

3.2.16.1. World market

288. World production of fresh fruit and vegetables is increasing steadily. In 1998 it totalled nearly 932 million tonnes, 1.6% up on 1997 and 30.3% above the average for the period 1989 to 1991⁷⁰. Vegetables (including melons) account for around 65% of this total. With production totalling 88 million tonnes, the Community was the world's second largest producer in 1998, after China (288 million tonnes).
289. In the case of citrus fruit, estimates for the 1999/2000 marketing year⁷¹ point to world production totalling some 98.3 million tonnes, 0.5% less than in 1998/99 and 4.8% down on 1997. With production estimated at around 10.2 million tonnes, the Community was, in 1999/2000, in third place behind Brazil (24.0 million tonnes) and the United States (12.6 million tonnes), but ahead of China (10.1 million tonnes) and Mexico (4.5 million tonnes).

3.2.16.2. International trade

290. The volume of international trade in fresh fruit and vegetables varies from one product to another. In 1998, imports accounted for an average of 10% of world production for pears, 10% for onions, 8% for apples, 8% for peaches and 4% for tomatoes. In 1998, Community exports accounted for the following percentages of international trade: lemons 16%, oranges 12%, apples and tomatoes 7% and pears 6%.

⁷⁰ Source : FAO Production Yearbook Vol. 52 - 1998.

⁷¹ Source : FAO: <http://www.fao.org>.

291. The European Union is a net importer of fresh fruit and vegetables: the volume of exports was only 54% of that of imports in 1996 and 70% in 1997. In 1998 exports (3.35 million tonnes) represented 63% of total imports (5.3 million tonnes). In the case of fruit only, exports (excluding citrus fruit) represented only 38% of imports in 1998 (67% for citrus fruit). By contrast, while the Community was a net importer of vegetables in 1996, it recorded a surplus in 1997, with a drop in imports (-39%) and an increase in exports (up 38%). In 1998 exports were again down on 1997 (-9%) and imports were up (+31%). Tomatoes account for a major share of these fluctuations.

3.2.16.3. Community market

292. There was a sharp increase in Community **fruit** production - and in withdrawals - in 1999/2000 compared with 1998/99.

293. At about 8.6 million tonnes in 1999/2000, **apple** production in the Community was slightly up on the three previous marketing years. The quantities withdrawn from the market varied from 4.6% of EU production in 1996/97 to 5.4% in 1997/98 and 3.7% in 1998/99.

294. In 1999/2000 the production of **pears** totalled around 2.4 million tonnes, 6.5% up on 1998/99. The quantities withdrawn from the market in 1998/99 amounted to 2.9% of production, compared with 4.1% in 1997/98 and 7.1% in 1996/97.

295. In 1999/2000 the production of **peaches** increased sharply, by 32% on 1998, to a total 3.4 million tonnes. The increase was attributable mainly to Greece (+105%). Withdrawals were also up (7.8% of production, as against 1% in 1998, 3.7% in 1997 and 16.4% in 1996), but remain far below the 19.3% average for the period 1990/91 to 1994/95.

296. The market for **nectarines** in 1999 developed in much the same way as that for peaches, rising by 38% to 934 000 tonnes, with increases being recorded mainly in Greece (+74%). Withdrawals amounted to 12.7% of production, an increase of 5.4% on 1998, but still below the 21.5% average for the period 1990/91 to 1994/95.

297. At 2.2 million tonnes, the production of **table grapes** for the 1999 marketing year was much the same as in 1996 and 1997. Italy alone accounted for 66% of Community production. Withdrawals remained negligible at less than 1% of production.

298. The production of **apricots** rose sharply in 1999 (52% up on 1998). Withdrawals increased from 2.4% in 1998 to 3.8% of production in 1999.

299. Citrus production, which totalled 10.2 million tonnes in 1999/2000, was 18% up on 1998/99, returning production to 1997/98 levels. Spain remained Europe's largest producer, with 56% of the total in 1999/2000. Community production of **oranges** increased to 5.8 million tonnes (22% up on 1998/99). At 1.6 million tonnes in 1999/2000, **lemon** production returned to the average for the 1991/92 to 1998/99 marketing years. Production of **mandarins**, **clementines**, and **satsumas** also increased, by 8%, 21% and 16% respectively on 1997/98.

300. Production of **cauliflowers** in 1999/2000 was 2.2 million tonnes (2.7% down on 1998/99). Withdrawals were down to 2.1% of production, compared with 5.1% in 1998/99, 7.8% in 1997/98 and 8.8% in 1996/97.
301. **Tomato** production in 1999/2000 was up 14% on 1998/99. Production rose significantly in Italy (+27%) to 7.6 million tonnes. Its share of Community production rose from 40% in 1998/99 to 45% in 1999/2000. Withdrawals remained negligible at 1.2% of production.

3.2.16.4.Reform of the fruit and vegetables sector

302. The new market organisation adopted by the Council in 1996 was, in 2000, being implemented for the fourth consecutive year.
303. Under the market organisation, Community financing can be granted to recognised producer organisations setting up an operational fund. A total of 1 008 producer organisations, accounting for about 40% of fruit and vegetable production in the European Union, submitted operational programmes for 1999. This is a clear advance on 1998 (845 producer organisations) and 1997 (680). In 2000, the number of producer organisations submitting an operational programme rose to 1 120.
304. The amount of Community aid available for 1999 was EUR 311 million, compared with EUR 238 million in 1998 and EUR 199 million in 1997. From 1999 the value of financing rose to 2.5% of the value of production marketed by producer organisations, compared with 2.0% in 1997 and 1998.
305. The Council adopted amendments to various Regulations on the market organisations for fresh and processed fruit and vegetables. One such amendment simplifies the procedure for fixing aid for the operational funds of producer organisations by setting a standard maximum limit on aid of 4.1%, calculated on the basis of the value of production marketed by each producer organisation. Another amendment is aimed at improving the management of export refunds for fresh fruit and vegetables.
306. To avoid any risk of budget difficulties as a result of an excessive volume of withdrawals, the Commission set intervention thresholds for the 1999/2001 marketing year for the following products: tomatoes (360 000 tonnes), cauliflowers (111 700 tonnes), apples (486 900 tonnes), peaches (238 200 tonnes), nectarines (83 200 tonnes), table grapes (160 200 tonnes), lemons (87 400 tonnes), oranges (390 300 tonnes), satsumas (21 100 tonnes), mandarins (20 600 tonnes) and clementines (132 800 tonnes).
307. In May 2000 the Commission extended by one year the period of validity of the machinery for controlling imports of garlic originating in China.

3.2.17. *Bananas*

3.2.17.1.Community production

308. Community production in 1999 (729 304 tonnes) was in the end below the estimated 800 000 tonnes after storms hit the Canary Islands and Madeira at the beginning of the year. The estimate for 2000 is 805 000 tonnes, with production expected to resume in the Canary Islands and Guadeloupe.

EU BANANA SUPPLIES
FRESH BANANAS (tonnes)

ORIGIN	1998		1999	
	Tonnes	Market share	Tonnes	Market share
EU	786 232	20.32%	729 304	18.56%
Greece	3 589	0.09%	3 336	0.08%
Spain	437 414	11.30%	362 188	9.22%
France				
Martinique	240 499	6.22%	258 501	6.58%
Guadeloupe	74 294	1.92%	83 508	2.13%
Portugal	30 436	0.79%	21 771	0.55%
ACP	656 959	16.98%	676 638	17.22%
Belize	53 431	1.38%	55 650	1.42%
Cameroon	157 123	4.06%	161 347	4.11%
Cape Verde	0	0.00%	10	0.00%
Dominica	27 144	0.70%	27 583	0.70%
Dominican Rep.	56 182	1.45%	42 122	1.07%
Grenada	54	0.00%	621	0.02%
Côte-d'Ivoire	158 243	4.09%	192 558	4.90%
Jamaica	61 929	1.60%	51 635	1.31%
Madagascar	0	0.00%	0	0.00%
Somalia	7 018	0.18%	0	0.00%
Saint Lucia	70 461	1.82%	65 532	1.67%
Saint Vincent	38 737	1.00%	37 910	0.96%
Suriname	21 218	0.55%	39 029	0.99%
Other	5 419	0.14%	2 641	0.07%
DOLLAR AREA	2 426 210	62.70%	2 523 160	64.22%
Colombia	540 561	13.97%	555 112	14.13%
Costa Rica	639 928	16.54%	663 386	16.88%
Ecuador	568 449	14.69%	696 821	17.73%
Honduras	150 713	3.89%	68 267	1.74%
Guatemala	61 226	1.58%	42 402	1.08%
Nicaragua	10 740	0.28%	15 336	0.39%
Panama	416 775	10.77%	422 387	10.75%
Venezuela	30 069	0.78%	41 801	1.06%
Other	7 749	0.20%	17 648	0.45%
NOT SPECIFIED	0	0.00%	0	0.00%
TOTAL	3 869 401	100.00%	3 929 102	100.00%

Source: Member States in the case of the EU; Comext (Eurostat) in the case of ACP and dollar area; Cameroon 1998: estimate

3.2.17.2.Imports from ACP countries

309. Banana imports from ACP countries totalled 676 638 tonnes in 1999. They were set to increase in 2000.

3.2.17.3.Reform of the market organisation for bananas

310. The new provisions of Title IV (Trade with third countries) of Regulation (EEC) No 404/93⁷² have applied since 1 January 1999 in the wake of the reform adopted in July 1998. The summary table below shows the main features of market supply management.

311. Following the 1997 decision of the Dispute Settlement Body of the World Trade Organisation (WTO), the Commission drew up a proposal on 10 November 1999 to amend the present banana import arrangements⁷³. The proposal recommended a two-stage approach. During a transitional period, a system of tariff quotas would apply, together with a tariff preference for the ACP States; at the end of that period, the tariff quota system would be replaced by a tariff-only system by 1 January 2006 at the latest.

312. The Communication from the Commission to the Council of 5 July 2000 on the consultations held by the Commission with the aim of resolving the banana dispute⁷⁴ notes that consultations with the parties concerned on the maintenance, during the first stage, of tariff quotas managed on a historical basis have reached an impasse.

313. At its meeting on 10 July 2000 the General Affairs Council took note of the report presented by the Commission and called on the latter to consider the possibility of managing the tariff quotas on a "first come, first served" basis. It also asked the Commission to report on its consultations.

314. At its meeting on general affairs of 9 October 2000, the Council viewed the Communication from the Commission to the Council of 4 October 2000⁷⁵ as providing a viable solution to the WTO dispute over the Community banana import arrangements. The document follows the main thrust of the proposal submitted on 10 November 1999. Under the proposed solution, the procedure for managing access to A, B and C quotas (see box below) would be on a "first come, first served" (FCFS) basis; the maximum customs duty for the C quota would be EUR 300/tonne; the maximum tariff preference for ACP banana imports would be EUR 300/tonne instead of the EUR 275/tonne initially proposed. Since it is compatible with WTO rules, the FCFS approach provides a sound alternative to the present system. The Council meeting on agriculture of 20 December 2000 gave its political agreement to the reform of the banana import arrangements on the basis of the Commission proposal of 10 November 1999, as amended by the Communication of 4 October 2000.

⁷² OJ L 47, 25.2.1993, p. 1.

⁷³ COM(1999) 582 final.

⁷⁴ COM(1999) 431 final.

⁷⁵ COM(1999) 621 final.

315. For 2000, imports of bananas under the tariff quotas and of traditional ACP bananas were covered by Regulations (EC) Nos 2268/1999⁷⁶ (first quarter) and 250/2000⁷⁷ (other quarters).
316. Commission Regulation (EC) No 2362/98, which lays down detailed rules for implementing the arrangements for importing bananas into the Community, was amended by Regulation (EC) No 1632/2000⁷⁸ to step up checks of licences with a view to the sound management of the import arrangements.
317. Convergence of prices in the wake of the unified market in 1993 implies lower prices for Community bananas. To cope with the introduction of the common organisation of the market, producer groups receive aid to make up for the difference between the flat-rate reference income, an average established on the basis of the 1991 figures for the four production areas and adjusted upwards (+5% for 1998 and up to 8% from 1999), and the average production income during the year in question.
318. For bananas marketed in 1999 the compensatory aid⁷⁹ was EUR 29.69/100 kg with additional aid of EUR 4.99/100 kg for Portuguese bananas, EUR 2.99/100 kg for bananas produced in Martinique and EUR 8.45/100 kg for bananas produced in Guadeloupe. The quantity marketed was 729 304 tonnes. Expenditure on the compensatory aid for 1999 totalled EUR 232 million, compared with EUR 193 million in 1998.

3.2.18. *Processed fruit and vegetables*

3.2.18.1. World and Community markets

319. Information available on processed fruit and vegetables remains patchy. As far as the Community is concerned, it relates almost exclusively to products qualifying for processing aid.
320. World production of **tomatoes for processing** totalled around 29.6 million tonnes for the 1999/2000 marketing year. The leading producer countries were the United States (11.6 million tonnes in 1999/2000 as against 8.5 million tonnes in 1998/99), the EC (9.1 million tonnes as against 8 million tonnes) and Turkey (1.8 million tonnes as against 1.7 million tonnes).
321. The rise in Community production (1.1 million tonnes) concerned all products, i.e. concentrate (+ 0.7 million tonnes), peeled tomatoes (+ 0.2 million tonnes) and "other products" (+ 0.2 million tonnes). However, of the 9.1 million tonnes of tomatoes processed in the Community into products on which processing aid is payable, Community aid was actually paid on only 6.9 million tonnes. With the exception of 1997/98, the quota of 6.9 million tonnes continues to be exceeded. In 2000/01, production is expected to fall not only in the Community but also in the rest of the world, owing to the fall in prices resulting from the rise in production during the preceding marketing year.

⁷⁶ OJ L 227, 28.10.1999, p. 10.

⁷⁷ OJ L 26, 2.2.2000, p. 6.

⁷⁸ OJ L 187, 26.7.2000, p. 27.

⁷⁹ Commission Regulation (EC) No 1157/2000 of 30 May 2000 (OJ L 130, 31.5.2000, p. 26).

322. Around 668 000 tonnes of peaches were **tinned in syrup and/or natural juice** in the Community in 1999/2000, compared with around 480 000 tonnes in the previous marketing year, which is a record after two years of very low production. This product continues to feature among the Community's exports (105 000 t in 1999).
323. EC production of Williams and Rocha pears in syrup and/or natural juice totalled 106 000 tonnes for the 1999/2000 marketing year, which is significantly below the record of 162 000 tonnes in the previous marketing year. Italy continues to be the main EC producer (39% of the total), followed by Spain (34%) and France (21%). The Community is a net importer of this product, its exports in 1999 totalling 3 500 tonnes of finished product as against imports of 24 000 tonnes.

3.2.18.2. Main developments in legislation and policy (see Section 3.2.16.4)

324. In principle the market organisation for this sector covers all products processed from fruit and vegetables. However, Community support is concentrated on a few products:
- Processing aid for peaches, pears, tomatoes, prunes, dried figs and pineapples;
 - Storage aid and storage aid at the end of the marketing year for dried grapes and dried figs and aid per hectare for dried grapes;
 - In response to the request from the Council in connection with the 1999/2000 prices review, Portugal's tomato-concentrate quota was increased by 29 561 tonnes for the 2000/01 marketing year;
 - Raspberries and asparagus for processing and dried grapes qualify under specific measures to improve quality and marketing.
325. For the 1999/2000 marketing year, the Council amended Regulation (EC) No 2202/96 so that the penalty for exceeding the threshold for the processing of citrus fruit is applied not in the same marketing year but in the following one.
326. For the 2000/01 marketing year the minimum producer price for tomatoes was kept at the same level as the previous marketing year. The minimum price for peaches, pears and figs was unchanged. The processing aid was cut by 32.2% for peaches in syrup and/or natural juice, by 4.5% for Williams and Rocha pears in syrup and/or natural juice, by 14.5% for prunes and by 2.8% for figs. This development is connected with the recorded increase in raw-material prices expressed in euros in non-member countries.
327. New detailed implementing rules for the granting of Community aid and for the storage arrangements for dried grapes and dried figs have been laid down and have been applied from 1999/2000.
328. In the case of dried grapes, the basic aid per hectare was kept at EUR 2 785. This aid is paid only for specialised areas meeting certain yield criteria.
329. The measures covering imports provide in particular for the following:
- duty-free import quotas for mushrooms;

- the minimum import price arrangements introduced in 1997 for certain soft fruit originating in Bulgaria, Hungary, Poland, Romania, Slovakia and the Czech Republic remain applicable. Under those arrangements, the minimum import prices apply permanently and no longer on the basis of an ad hoc decision by the Commission. Those arrangements were extended to the Baltic States. Import prices remained above the minimum prices fixed.
330. In accordance with the WTO Agreement on Agriculture, the minimum import price arrangements for dried grapes and certain processed cherry products were abolished on 1 January 2000.
331. The Commission proposed amendments to the market organisation for processed fruit and vegetables, namely a change in the current system for processed tomatoes, the aim being to apply the best points of the arrangements for peaches, pears and citrus fruit (in particular the replacement of quotas by thresholds, subdivided into national thresholds and expressed in terms of raw material, and direct payment to the producer organisation of the aid fixed on a standing basis by the Council).
332. In addition, the arrangements for peaches, pears and citrus fruit are brought into line with the new proposed arrangements for tomatoes.

3.2.19. *Wine*

333. The Council adopted Regulation (EC) No 1493/1999⁸⁰ establishing a new common organisation of the market in wine. Pursuant to that Regulation, the Commission adopted the following in 2000:
- Regulation (EC) No 1227/2000⁸¹ on production potential (prohibition of new planting, rules on planting and replanting rights, abandonment of wine-growing areas, aid for conversion and restructuring of vineyards),
 - Decision 2000/503/EC⁸², adopted by the Commission on 25 July 2000, fixes the financial allocations for the eight producer Member States for the restructuring and conversion of vineyards for 2000/01. The amounts given, which correspond to totals of 53 986 ha and EUR 379.73 million, are ceilings which cannot be carried over to the following wine years,
 - Regulation (EC) No 1607/2000⁸³ on detailed rules relating to quality wine produced in specified regions,
 - Regulation (EC) No 1622/2000⁸⁴ establishing a Community code of oenological practices and processes and methods of analysis,
 - Regulation (EC) No 1623/2000⁸⁵ relating to market mechanisms (storage aid, distillation measures, aid for the use of grape must, and disposal of alcohol of

⁸⁰ OJ L 179, 14.7.1999, p. 1.

⁸¹ OJ L 143, 16.6.2000, p. 1.

⁸² OJ L 201, 9.8.2000, p. 4.

⁸³ OJ L 185, 25.7.2000, p. 17.

⁸⁴ OJ L 194, 31.7.2000, p. 1.

⁸⁵ OJ L 194, 31.7.2000, p. 45.

vinous origin). A new outlet for the disposal of alcohol in the Community was authorised: the motor fuel sector.

334. The Commission departments also drew up draft regulations relating to description and presentation, wine-sector controls and relations with non-member countries. The draft regulations, which were under discussion by the Management Committee for Wine, were expected to be adopted by December 2000.
335. Wine production in the Community (excluding must not processed into wine) was as follows:
- in 1998/99: 162.562 million hl,
 - in 1999/2000: 175.683 million hl,
 - in 2000/01: 163.000 million hl.
336. Total Community production for 2000/01 was expected to reach 171.8 million hl. It is felt that, in order to compare this forecast with those for preceding wine years, 8.8 million hl should be deducted in respect of quantities of must not processed into wine. This gives a forecast production of 163 million hl before vinification. The foreseeable fall **in total production** is -8.6% in France (57.5 million hl compared with 63 million hl), -9.3% in Italy (52.6 million hl compared with 58.1 million hl), -24.6% in Austria (2.2 million hl compared with 2.9 million hl) and -25.6% in Portugal (5.8 million hl compared with 7.8 million hl).
337. Production in Greece and Spain in 1999/2000 appears to be confirmed (at 3.680 million hl and 32.902 million hl respectively).
338. Based on the most recent figures from the IWO, Community wine production (162.562 million hl) accounted for around 62.8% of world output (258.776 million hl) in 1998/99.
339. The European Community was the world's leading exporter with 11.552 million hl in 1999, down on the 12.9 million hl exported in 1998. For 1999 the chief traditional buyers of Community wine were the United States (3.070 million hl), Switzerland (1.616 million hl), Japan (1.162 million hl, as against 1.975 million hl in 1998) and Canada (1.098 million hl).
340. Imports from non-member countries rose to 6.327 million hl in 1999, i.e. 8% more than in 1998.
341. Wine imports in 1999 came mainly from Australia (1.368 million hl), Chile (912 564 hl), the United States (912 251 hl), South Africa (794 901 hl) and Bulgaria (508 463 hl). Exports from Australia (+31%) and Chile (+18%) were substantially up on 1998.
342. The figures for trade within the Community (based on imports) remained stable from 1998 to 1999: around 34 million hl.
343. Wine consumption totalled 34.6 l/head during the 1998/99 wine year, as against 34.05 l/head in 1996/97 and 34.7 l/head in 1996/97.

344. At the end of 1999/2000, stocks amounted to 135 million hl, whereas they had totalled 125 million hl at the end of 1998/99.
345. Preventive distillation under Article 38 of Council Regulation (EEC) No 822/87 was opened for a total of 9.45 million hl for 1998/99. It was opened for 12 million hl in 1999/2000 and could well total around 10 million hl in 2000/01.
346. The area under vines was stable: 3.286 million ha as at 1 September 1998. The yield for 1998/99 was 48 hl/ha, down on the last two wine years (50.8 hl/ha in 1996/97 and 51.5 hl/ha in 1997/98).

3.2.20. Tobacco

3.2.20.1. Market developments

347. At 6.842 million t, world tobacco production in 1999 was slightly up (+2.5%) on 1998. China continues to be the largest producer, its 2.380 million t accounting for 34.8% of world production (37.8% in 1998). Overtaking the United States, India came second, with Brazil in fourth place. The European Union was fifth, with 5% of world production. In 1999 the EU produced 345 225 t of leaf tobacco,⁸⁶ an increase of +0.9% compared with 1998.
348. Tobacco prices fell on the Malawian and Zimbabwean markets. Those markets give a good indication of world price trends, particularly for flue-cured and light air-cured varieties. Prices on European markets fell, in particular for oriental varieties. The world market is currently affected by substantial surpluses of leaf tobacco that built up between 1998 and 2000. Demand for leaf tobacco continued to fall in the wake of a 2% decline in cigarette output from 1998 to 1999.
349. Figures for international trade have in essence remained stable: the EU exported 172 134 t to the rest of the world in 1999, compared with 178 674 t in 1998. Exports were mostly of oriental varieties, which are sought after for their aromatic characteristics. Imports totalled 528 734 t in 1999 (541 200 t in 1998).
350. The quota system to which Community production is subject was confirmed in 1998 on the occasion of a further reform applicable as from the 1999 harvest. On the occasion of this latest change in the market organisation, the Council set the overall guarantee thresholds for the 1999, 2000 and 2001 harvests at 348 568 t, 347 475 t and 347 055 t respectively.

3.2.20.2. Main legislative and policy developments

351. The reform of the market organisation for tobacco⁸⁷ was adopted at the end of 1998 and was applicable as from the 1999 harvest. The Council has set the premiums and guarantee thresholds for the 1999, 2000 and 2001 harvests. The reform had several objectives.

⁸⁶ The figure may change, depending on adjustments to Italy's production.

⁸⁷ Council Regulation (EC) No 1636/98 of 20 July 1998 amending Regulation (EEC) No 2075/92 (OJ L 210, 28.7.1998, p. 23); Commission Regulation (EC) No 2848/98 of 22 December 1998 (OJ L 358, 22.12.1998, p. 17).

352. To encourage production of tobacco of higher quality, new arrangements for varying the premiums are to be phased in over a three-year period, becoming fully operational from 2002. The underlying principle is that a variable component of the premium available (from 30% to 45%) must be allocated to producers in the light of the market price, the designated indicator of quality. The variation is applicable by batch and by variety within each producer group.
353. In order better to take account of environmental protection and contribute towards research into the least harmful types of tobacco possible, the amount currently withheld from the premium and used for financing the Community Tobacco Fund was doubled. The detailed implementing rules concerned are laid down in Commission Regulation (EC) No 1648/2000⁸⁸.
354. With a view to encouraging producers to switch to other crops, a system was introduced for buying back quotas from producers abandoning tobacco-growing. Producers whose quotas are bought back in a given harvest qualify, from the 1999 harvest, for amounts determined by group of varieties on payment of the premiums for the following three harvests. The scheme does not cover sensitive production areas or the high-quality varieties determined for 1999 and 2000 by Commission Regulations (EC) Nos 1823/1999⁸⁹ and 1534/2000 respectively⁹⁰.
355. To the same end and in order to introduce some flexibility in production-quota management, the Member States must set up a national reserve of production quotas by group of varieties for each harvest; that reserve must be divided up according to objective criteria laid down by the Member States with a view to encouraging restructuring of agricultural holdings.
356. The reform's objectives also include administrative simplification of the management of the scheme and more effective checks.
357. The introduction, after the 1999 harvest, of all these new legislative provisions called for a number of minor adjustments and amendments in 1999 and 2000 relating mainly to the management of, and the detailed rules for paying, the specific aid for producer groups, the rules for transferring and giving up production quotas and the way the national reserve is to be used.

3.2.21. *Seeds*

3.2.21.1. Market developments

358. In 1999 the total area given over to production of seeds eligible for Community aid⁹¹ was 439 512 ha. For the Member States as a whole, this represents a reduction of about 1% on the previous year.
359. The area used for producing seeds of fodder grasses and legumes was 187 981 ha and 175 267 ha respectively. Compared with 1998, there was a reduction in the

⁸⁸ OJ L 189, 27.7.2000, p. 9.

⁸⁹ OJ L 221, 21.8.1999, p. 5.

⁹⁰ OJ L 175, 14.7.2000, p. 78.

⁹¹ The market organisation for seeds provides for aid for the production of basic seed and certified seed of some 40 species of agricultural plants, including various species of fodder plants, rice and flax.

Community area used for producing seeds of fodder grasses (around 9%) and an increase in that for seeds of fodder legumes (around 6%).

360. The total area used for rice seeds was 20 351 ha, representing an increase of around 5% on 1998. More specifically, compared with the preceding year, the area used for the production of rice seeds was slightly up in the case of the indica type (6 407 ha, i.e. an increase of 44% compared with 1998) and down in the case of the japonica type (12 035 ha, i.e. 2.5% down on 1998).
361. The areas used for growing seeds for fibre flax and linseed production were 24 972 ha and 25 612 ha respectively. Compared with 1998 and taking all Member States together, this meant a fall of around 7% in the case of fibre flax and a rise of 5% in the case of linseed.
362. The hybrid maize seed production area measured a total of 47 967 ha. This represents a reduction of around 15% on 1998 for the EU as a whole.
363. Although exports of seeds falling within the scope of the market organisation rose sharply (by around 60%) in 1998/99, the EU's total imports (70 287 tonnes) continued to exceed exports to non-member countries (37 729 tonnes). Imports of hybrid maize seed totalled 62 831 tonnes, including 57 687 tonnes (around 92%) of simple hybrids.

3.2.21.2. Main legislative and policy developments

364. Regulation (EC) No 1529/2000⁹² establishing the list of varieties of *Cannabis sativa L.* whose seeds are eligible for aid under the market organisation was adopted. With a view to alignment on the aid scheme applicable under the market organisation for flax and hemp, the list was taken from Regulation (EEC) No 1164/89⁹³ laying down detailed rules concerning the aid for fibre flax and hemp.
365. In the case of ryegrass, with prices on the external markets no longer justifying the distinction between three groups of varieties, a single rate of aid will apply from the 2002/03 marketing year after a transitional period during which the aid for the three groups is to be aligned gradually.
366. The Commission Decision of 11 February 2000 on Finnish State aid for seeds authorised Finland to grant aid for the production of certified seeds of varieties of the species red clover (*Trifolium pratense L.*), timothy (*Phleum pratense L.*), meadow fescue (*Festuca pratensis huds.*), cocksfoot (*Dactylis glomerata L.*) and ryegrass (*Lolium perenne L.*) from 1 January 1996 and until 1998, including the production planned for 1999.

3.2.22. Hops

3.2.22.1. World market

367. In 1999 the world area under hops was around 58 000 ha, including almost 52 000 ha located in EU producer Member States/countries belonging to the International Hop

⁹² OJ L 175, 14.7.2000, p. 67.

⁹³ OJ L 131, 1.6.2000, p. 4.

Growers' Convention (IHGC). China, too, is a major producer, but no precise figures are available.

368. Areas under hops in the IHGC member countries and the EU were down by 4% in 1999, the total reduction being around 1 900 ha, with falls approximating 1 400 ha in Germany, 900 ha in the United States, 230 ha in the UK and 200 ha in Slovenia. In other countries (Australia, Russia, the Czech Republic and Poland), however, there was an increase in the area under hops.
369. At around 1 875 000 Ztr, the 1999 world harvest was slightly down (-1%) on 1998. The quality of production improved, with an alpha acid content of 7.80% and alpha acid production of 7 310 tonnes (7 026 tonnes in 1998). The yield was 3.18% up on the 1998 harvest and 18% above the average for the last 20 years.
370. World beer output for 2000 was expected to amount to 1 337 million hl. At a hopping rate of 5.5 g alpha acid/hl beer, breweries need around 7 354 tonnes of alpha acid; the quantity of alpha acid produced during the 1999 harvest therefore fell slightly short of requirements (by 44 t).
371. Moreover, breweries would appear to have sufficient stocks to satisfy production requirements for several months. Thanks to constant technical progress and the trend towards the brewing of beer that is less bitter, less alpha is needed than before.

3.2.22.2. Community market

372. Hops are grown in eight Member States of the Community (Belgium, Germany, Spain, France, Ireland, Austria, Portugal and the United Kingdom), with Germany accounting for 80% of the 22 686 ha used for hop-growing in the EU in 1999. Compared with the 1998 harvest, areas were down by about 1 700 ha (-7%).
373. With production totalling 692 409 Ztr, the 1999 harvest was far smaller than in 1998 (-8%). The average yield per hectare, however, was very close to the previous harvest's figure at 1.53 t/ha or 30.6 Ztr/ha. Production was of good quality and the average alpha acid content was 7.38% for all varieties in the Community as a whole, i.e. the equivalent of 2 554 tonnes of alpha acid at 113 kg/ha for beer production in 2000.
374. The average price of hops sold under contract was EUR 191/Ztr, i.e. EUR 6/Ztr down on the 1998 harvest. The average price for hops sold on the spot market rose sharply (from EUR 92/Ztr in 1998 to EUR 156/Ztr in 1999).
375. Under the market organisation for hops, aid is granted to hop producers to enable them to attain a reasonable level of income. The Council fixed the aid at EUR 480/ha for all varieties for a period of five years from the 1996 harvest. The same rate of aid is granted for areas where temporary resting or grubbing-up measures are applied; in 1999 these totalled 1 546 ha, including 1 174 ha in Germany.
376. Estimates for the Community harvest in 2000 are slightly higher than for the previous year.

3.2.22.3. Main legislative and policy developments

377. On 14 December 2000 the European Commission adopted a proposal to extend by two years the period of validity of the production aid regime applicable under the common market organisation in hops. In the light of the success of the existing regime in encouraging production to adapt to demand, the proposal does not provide for any change in the current rate of aid to hops producers of EUR 480/ha. The Commission also proposes to review the entire hops regime in a report to be published before 31 December 2002. The effectiveness of the "special temporary measures" – namely set-aside and permanent grubbing up – applicable under the hops regime will be taken into account in the review, as they are set to run out in 2002. The review will also consider the potential impact of enlargement on the sector, given that a number of candidate countries are major hop producers. The proposal is set to be adopted by the EU's Council of Ministers and would apply from 1 January 2001.

3.2.23. *Flowers and live plants*

378. This sector covers a wide range of products: bulbs, live plants (ornamentals and nursery products), cut flowers and foliage. The market organisation provides for quality standards and customs duties, with no specific protective measures against imports apart from any safeguard measures that might prove necessary. In 1996 the Council adopted a three-year promotion programme (1997-99) eligible for Community financing of EUR 15 million a year, possibly rising to 60% of the actual cost of the measures implemented by groups representative of activities in this sector, the aim being to boost consumption of Community products in the EC.

379. In the last few years, both production and trade have grown significantly in this sector. In 1999 Community production amounted to around EUR 13.5 billion.

380. The total area devoted to ornamental horticulture is around 115 000 ha, the main producer being the Netherlands.

381. Community imports from non-member countries account for around 7% of EU production by value. In 1999 they totalled 353 000 tonnes (EUR 1 015 million), a rise of around 97% on the figure for 1990. Fresh cut flowers accounted for about half of those imports, the EU being the biggest market in the world in this respect. Under agreements with non-member countries, such as the Generalised System of Preferences in the case of Central and South American countries and the agreements concluded with the ACP States under the Lomé Convention, most of the flowers (approximately 80%) are exempt from customs duty.

382. All told, five Mediterranean countries (Cyprus, Israel, Jordan, Morocco, and the West Bank and the Gaza Strip) enjoy tariff exemptions for certain cut flowers (roses and carnations) under set quotas and provided that the price is not below a minimum import price.

383. Kenya has become the EC's main supplier of fresh cut flowers (35 700 tonnes), followed by Israel (33 700 tonnes) and Colombia (26 700 tonnes).

384. Among the other countries in the EC's top 10 suppliers for the sector as a whole are Costa Rica and the USA, notable as the main suppliers of foliage, Ecuador and

Zimbabwe, whose exports to the EC grew more slowly in 1999 (at +22% and +17% respectively compared with 1998). Poland's exports of live plants and nursery products to the EC rose by 20%.

385. Import prices for fresh cut flowers were 9% down on 1998; this fall is greater than in 1995-98 and competition with EC production is accordingly stiffer.
386. EC exports to non-member countries totalled around 362 000 tonnes in 1999 and were worth EUR 1 186 million, 10% up on 1998. In decreasing order of importance, they are made up of live plants and nursery products, fresh cut flowers, bulbs and foliage. In 1999, exports of cut flowers (EUR 371 million) were 17% up on 1995-98, when they tended to be around EUR 310 million.
387. The external trade balance for 1999 was positive for the sector as a whole, both financially (at around EUR 170 million) and in terms of quantities (9 400 tonnes). This was due to export surpluses for bulbs and live plants, which amounted to EUR 278 million and EUR 219 million respectively.

3.3. Animal feed

388. Huge quantities of agricultural products go into animal feed, which is the main outlet for EC production of cereals and oilseeds and practically the only utilisation of permanent grassland and fodder grown on arable land. Altogether, feed accounts for three quarters of the Community's UAA (utilised agricultural area). Moreover, animal feed generally represents about 65% of all pigmeat and poultrymeat production costs.
389. Overall demand⁹⁴ rose only slightly in 1999/2000, mainly because of stagnating demand in the pig-farming and poultry sectors. Half of the total supply⁹⁵ comes from feed (pasture, hay and silage) that is not generally marketed and is consumed mainly by ruminants. The other half, which can be consumed by all livestock, is made up of marketable feeds (cereals, substitutes, oilcake, etc.) which are the subject of very stiff competition (on price and nutritional value).
390. Total animal consumption of the key marketable products⁹⁶ in 1999/2000 in the EC is put at 204.5 million tonnes, which would be 0.7 million tonnes up on 1998/99. This consumption is made up of:
- on the one hand, domestically produced products, estimated at 150.5 million t (down 1.1 million tonnes on the preceding marketing year), and consisting mainly of cereals and protein plants; and
 - on the other, of net imports estimated at 54.0 million tonnes, up approximately 1.8 million t on the preceding marketing year thanks to the resumption of imports of citrus pellets and manioc.

⁹⁴ This comprises all feed, marketable and unmarketed (estimate for the EU).

⁹⁵ Estimate based on the Eurostat feed balance expressed in FU (feed units, one FU being equivalent to the average energy produced by 1 kg of barley).

⁹⁶ Covers most of the marketable feedingstuffs used in the Community by the compound feed industry and by farmers (farm consumption and purchases of raw materials) and set out in the table below headed "Animal consumption of key marketable products (estimates for EU 15)". Source: Agriculture DG.

391. As regards substitutes subject to import quotas, the quota utilisation rate for manioc imports increased overall; it rose from 52% in 1998 to 73% for manioc from Thailand, while it remained at 3% on average for all other origins. The quota utilisation rate for sweet potatoes from China was again 0% in 1999.
392. Industrial production of compound feedingstuffs in the EU⁹⁷ is estimated at 121.3 million tonnes in 1999, up 0.8 million tonnes on 1998. There are, however, differences between the various livestock sectors: production increased for bovine animals (milk and meat) while there were slight falls in the pig-farming and poultry sectors.

EU industrial production of compound feedingstuffs by category of animal

(million tonnes)

Compound feedingstuffs for	1998	1999	Difference	Percentage variation
All bovine animals (milk and meat)	34.3	35.4	1.1	3.2%
Pigs	43.2	43.1	-0.1	-0.2%
Poultry	35.4	35.2	-0.2	-0.7%
Other	8.4	8.4	0.0	0.1%
TOTAL	121.3	122.1	0.8	0.7%

393. In terms of total production of compound feedingstuffs by Member State in 1999, the main increases were recorded in Spain and Ireland while the largest falls were recorded in France, Denmark and Italy.
394. Cereals incorporated⁹⁸ into compound feedingstuffs in the EC in 1999 were stable at around 50 million tonnes.
395. The decisive factor in determining the composition of feedingstuffs continues to be prices for raw materials relative to one another and the percentage of total demand accounted for by the different animal species. In 2000/01 the quantity of cereals in animal feed will depend on livestock demand and the prices of imported products. By enhancing the competitive edge of cereals over substitute products, the implementation of Agenda 2000 will increase the percentage of cereals used in animal feed.

⁹⁷ Provisional figures for the EU, not including without Greece or Luxembourg, Table 4.13.7.3, Part 2. Source: European Feed Manufacturers' Association (FEFAC).

⁹⁸ Table 4.13.7.5, Part 2. Source: European Feed Manufacturers' Association (FEFAC).

Animal consumption of key marketable products

(estimates for EU 15)

(million tonnes)

KEY PRODUCT	Rate of import duty	1998/99				1999/2000e			
		ANIMAL CONSUMPTION				ANIMAL CONSUMPTION			
		EU	IMP	EXP	TOTAL	EU	IMP	EXP	TOTAL
GRAIN									
Common wheat	T	38.7	-	-	38.7	38.5	-	-	38.5
Barley	T	29.5	-	-	29.5	30.1	-	-	30.1
Maize	T	27.8	1.5	-	29.2	28.4	0.9	-	29.3
Other	T	12.2	0.9	-	13.1	10.6	1.2	-	11.8
TOTAL: CEREALS		108.2	2.4	-	110.5	107.6	2.1	-	109.7
<i>TOTAL SUBSTITUTES (ex Annex D), of which:</i>		<u>20.6</u>	<u>11.9</u>	<u>-</u>	<u>32.5</u>	<u>20.6</u>	<u>13.9</u>	<u>-</u>	<u>34.5</u>
Manioc	6% C/T	-	3.3	-	3.3	-	4.2	-	4.2
Sweet potatoes	0 C/T	-	-	-	-	-	-	-	-
CGF (corn gluten feed)	0 C	1.6	5.2	-	6.8	1.6	5.1	-	6.7
Bran	T	11.0	0.1	-	11.1	11.0	0.1	-	11.1
MGC (maize germ cake)	0 C	0.2	0.4	-	0.6	0.2	0.4	-	0.6
Citrus pellets	0 C	-	0.7	-	0.7	-	1.7	-	1.7
Dried sugar beet pulp	0 C	5.4	0.8	-	6.2	5.4	0.8	-	6.2
Brewing and distilling residues	0 C	2.0	0.6	-	2.6	2.0	0.7	-	2.7
Various fruit waste	0 C	0.4	0.9	-	1.3	0.4	1.0	-	1.4
<i>TOTAL OTHER ENERGY FEEDS, of which:</i>		<u>1.5</u>	<u>3.4</u>	<u>-</u>	<u>4.9</u>	<u>1.5</u>	<u>3.4</u>	<u>-</u>	<u>4.8</u>
Molasses	T	0.9	3.0	-	3.9	0.9	3.0	-	3.8
Animal and vegetable fats (added to feed)	4-17% C	0.6	0.4	-	1.0	0.6	0.4	-	1.0
TOTAL: HIGH-ENERGY FEEDS		22.0	15.3	-	37.4	22.1	17.3	-	39.3
<i>OILCAKE AND SEEDS (oilcake-equivalent), of which:</i>		<u>8.1</u>	<u>34.8</u>	<u>0.9</u>	<u>42.0</u>	<u>8.5</u>	<u>34.9</u>	<u>0.9</u>	<u>42.5</u>
Soya	0 C	1.4	26.9	0.7	27.6	1.0	26.9	0.7	27.2
Rape	0 C	4.8	0.7	0.1	5.4	5.9	0.7	0.1	6.5
Sunflower	0 C	1.8	2.7	-	4.5	1.6	2.7	-	4.3
Other	0 C	-	4.5	0.1	4.4	-	4.6	0.1	4.5
<i>TOTAL OTHER PROTEIN FEEDS, of which:</i>		<u>13.3</u>	<u>1.5</u>	<u>0.9</u>	<u>13.9</u>	<u>12.4</u>	<u>1.5</u>	<u>0.9</u>	<u>13.0</u>
Protein plants	2-5% C	5.5	0.7	-	6.2	4.4	0.7	-	5.1
Dried fodder, etc.	0-9% C	4.8	0.1	0.2	4.7	4.8	0.1	0.2	4.7
Fish meal and meat meal	0-2% C	2.6	0.7	0.7	2.6	2.6	0.7	0.7	2.6
Skimmed-milk powder	T	0.5	-	-	0.5	0.6	-	-	0.6
TOTAL: HIGH-PROTEIN FEEDS		21.4	36.3	1.8	55.9	20.9	36.4	1.8	55.5
GRAND TOTAL: KEY PRODUCTS		151.6	54.0	1.8	203.8	150.5	55.8	1.8	204.5
Key products index: 1994/95 = 100									
* Consumption index					107.5				107.9
* Livestock demand index					107.5				107.9

Notes: e = Estimate; T = Tariff since 1 July 1995; C = bound under GATT; % = import duty as at 1 July 1995; 0 = exempt.

3.4. Animal products

3.4.1. Milk and milk products

3.4.1.1. World market

396. Initial estimates put world production of milk (including cow's milk, buffalo milk, sheep's milk and goat's milk) in 2000 at 565 million tonnes, i.e. 2.5 million tonnes (just 0.5%) more than in 1999. The production of cow's milk was expected to account for most of the increase, whereas in the past, despite an increase in production in Australasia, it had been more or less stable given the decline in production in Russia and the other countries of eastern Europe.
397. Asia: the rise in production in India, where more than half the milk produced is buffalo milk, slowed down in some regions. In 2000 India was expected to produce more than 79 million tonnes and confirm its position as the world's second producer after the EU, thereby increasing its lead over the United States. The increase in production in India has been underpinned by growing domestic demand. Nevertheless, per capita annual consumption is only 82 kg, less than a quarter of what it is in western countries. Pakistan, the other major producer in the region and fifth largest in the world, was expected to produce just over 24 million tonnes in 2000, its production having risen by 1 million tonnes per year since 1994.
398. In Latin America production looked set to increase in most countries, from just over 59 million tonnes in 1999 to more than 60 million tonnes in 2000. Brazil is both the region's biggest milk producer (the sixth largest in the world) and the foremost importer among the Mercosur countries. While its production was expected to reach 23.8 million tonnes in 2000, Brazil's domestic consumption was also set to absorb large additional quantities of milk products from Argentina and Uruguay.
399. At 83.3 million tonnes, milk production in Eastern Europe in 2000 looked set to reach the same overall total as in 1999, but with some differences as between countries. The decline in production in the former Soviet Union following the break-up of the country was less marked in 1999, and there is every probability that production will now begin to pick up again. On the other hand, production in 2000 in eastern European countries (Poland, Romania, the Czech Republic, etc.) was expected to revert to the upward trend recorded in 1997 and 1998. Supplies of feedingstuffs are still limited, however, with consequent further reductions in herds. The financial crisis Russia experienced in 1998 is keeping it away from the markets: in 1998 and 1999 it imported half as much as in 1997. Its position as the largest purchaser of butter explains why that market remained rather depressed, with very low prices of around USD 1 100 a tonne. Russian domestic demand remains weak following consumer price rises. In addition, consumers are now moving towards cheaper substitute products such as vegetable oils. Similarly, consumers in the region are switching to products such as long-life milk, soft cheeses, ice cream and desserts, while consumption of traditional products is falling.
400. In the United States, production was expected to increase by 2.3% in 2000 after remaining more or less unchanged for five years despite the use of BST, a substance which had initially been expected to bring about a dramatic increase in production but was to prove disappointing. In Canada the maintenance of processing quotas for milk left production practically unchanged.

401. In Australasia, weather conditions were particularly favourable to both the region's major players. In this region of the world, milk production can be affected by highly changeable weather conditions from one year to the next. The weather in 1996 was very favourable, but this was followed in 1997 by a drought affecting much of Australia. Weather conditions were also unfavourable in the first half of 1998. Favourable prices in comparison with other sectors are encouraging new investment in the dairy industry.
402. In Australia, weather conditions have been very favourable over recent marketing years, enabling milk production to rise above 11 million tonnes - an increase of 16.8% since 1998. There is a trend towards increased use of compound feed in dairy farming in Australia. The Australian authorities have introduced a new support scheme⁹⁹ which will lead producers towards a non-subsidised system. The aim is to increase the size of holdings, even if this entails reducing the number of producers.
403. In New Zealand milk production fell by 5% in the 1998/99 marketing year in the aftermath of a drought. This explains the sharp 15% recovery in 2000 when, aided by good weather conditions for grazing and favourable world price trends in 1995 and 1996, production reverted to the trend followed in 1995-98 and reached 12.8 million tonnes. Falls in world prices have always been offset by devaluations of the New Zealand dollar, a policy sometimes also followed by Australia with regard to its own currency.

3.4.1.2. Community market

404. The dairy herd was expected to be down by 264 000 head to 20.9 million (a fall of 1.3%) by the end of 2000, the reduction being partly offset by a 1.1% increase in yields. Production would thus be down by about 186 000 tonnes to 122 million tonnes. Member States forecast that milk deliveries will total 114.2 million tonnes, a fall of 323 000 tonnes. This appears to be a logical development following the 1.4% increase recorded in 1999, which was accounted for mainly by growth in the United Kingdom.
405. The output of drinking milk has remained fairly stable since 1998, at around 29 million tonnes. Production of cream for direct consumption is expected to show very little change compared with 1999.
406. Butter production was expected to fall slightly to 1.8 million tonnes in 2000. The reduction is expected to come from dairy butter, since the figures for farm butter are unchanged.
407. Butter consumption looked set to fall by 0.7% to 1.77 million tonnes. Per capita consumption also fell, by 1% to 4.72 kg.
408. Cheese production was expected to increase by around 135 000 tonnes to 6.9 million tonnes (+2 %) in 2000. Consumption was also expected to increase, by 1.3% or 83 000 tonnes in 2000. This followed a very modest increase of 30 000 tonnes in 1999, the smallest since the introduction of the quota system.

⁹⁹ AUD 0.46/litre of milk for consumption and AUD 0.09/litre of milk for processing. Payments are to be made on a quarterly basis for a total of eight years.

409. Per capita cheese consumption is once again on the increase. Strangely enough, it is falling in most Member States but rising in the EU as a whole, thanks to an increase in some Member States.
410. Milk powder production was expected to fall slightly by some 7 000 tonnes (-0.3%) to 2.1 million tonnes, the net result of a forecast 2.1% drop in skimmed-milk powder output to 1.09 million tonnes, and a 2.7% increase in whole-milk powder production.
411. It was expected that casein production would remain stable at around 153 000 tonnes and that condensed-milk production would fall to 1.29 million tonnes in 2000, a reduction of 1.1% which is slightly below the historical trend of -1.6%.
412. Other figures worth noting include: the sharp reduction - 675 800 in 2000 - in the number of dairy farms (the annual rate of change in 1995-2000 (EUR 15) being 5.2%); the average number of cows per holding, which was expected to rise to 30.8; and the average quantity of milk delivered per holding, which was set to reach 168.5 tonnes.
413. Since 1997, overall consumption of dairy products in the EU has been increasing. In 2000 it was expected to increase by 1% to 115.6 million tonnes. This figure is the total for all uses made of the milk available in 2000.
414. Community stocks were at an all-time low in March 1996, when there was scarcely a single tonne of either butter or SMP (skimmed-milk powder) in public storage. Stocks of SMP subsequently began to rise in response to slack demand both within the EU and elsewhere. At the end of 1999 a sharp increase in demand, particularly on the world market, suddenly reversed that trend. Those favourable market conditions made it possible to sell off all public stocks of SMP in August 2000. Expected to be around 50 000 tonnes, the quantity of butter entering intervention in 2000 was very limited.
415. Internal prices for milk products in 2000 showed conflicting trends, particularly early on in the year. The average price for butter began the year at 99.2% of the intervention price, drifted down until the end of May (91.3%) and held steady at that level until August, whereupon it began to climb again, ending the year at 94.5%. The price for SMP showed little or no change, remaining close to the intervention price during the first half of the year before climbing to 106% of the intervention price at the end of the year. The upward trend then continued for both intervention products.
416. There were several sharp reductions in the export refunds for milk powder, in particular in the summer. This was because of a lack of availability throughout the year, particularly as regards SMP, and significant external demand for that product, which caused its price on the world market to soar from USD 1 400 per tonne to USD 2 100 per tonne, taking it past the whole-milk powder price of USD 1 900 per tonne.
417. EU dairy exports rose 5.8% in 1999, i.e. by 620 000 tonnes milk equivalent, this being entirely consistent with the resumption of export licences which, under GATT Uruguay Round agreements, had not been used in previous years. The volume exported in 2000 is expected to be similar to that in 1998. Imports in 1999 fell to three million tonnes (including caseins and fresh products). Forecasts for the current year also show a slight reduction in imports.

3.4.2. *Beef and veal*

3.4.2.1. Implementing the reform of the beef and veal sector

418. In May 1999, with a view to preparing the sector for the challenges awaiting it beyond 2000, the Council radically altered the common organisation of the market in beef and veal (Regulation (EC) No 1254/1999¹⁰⁰).
419. The Commission adopted detailed implementing rules governing premium schemes (Regulation (EC) No 2342/1999¹⁰¹), buying-in (Regulation (EC) No 562/2000¹⁰²) and private storage aid (Regulation (EC) No 907/2000¹⁰³).

3.4.2.2. Beef labelling

420. Council Regulation (EC) No 820/97¹⁰⁴ introduced a beef labelling system in the EU. The system is voluntary but, like France, Belgium, Finland and, latterly, Denmark, Member States may wish to adopt a compulsory national system for their home-produced beef. Third countries may submit voluntary notifications to the Commission on any indications they can prove are true.
421. On 13 October 1999 the Commission formally adopted a report¹⁰⁵ and proposals¹⁰⁶, which set the timeframe for the compulsory labelling of beef in the Community. Both proposals were based on Article 152 (Public Health) of the Amsterdam Treaty, which meant that the Regulation would be adopted by co-decision between the European Parliament and Council.
422. The objective of the proposed Regulation was to replace Council Regulation (EC) No 820/97 and to lay down general rules for a compulsory labelling system in two stages. The first stage, for immediate entry into force, made provision for the obligatory indication on labels of information readily available concerning:
- the traceability code of the beef and the place of slaughter and cutting of the carcass, with the approval number of the establishments concerned,
 - the quality of the beef (i.e. the category of the animal from which the beef was derived, slaughter date and ideal maturation period).
423. The Commission proposed that, from 1 January 2003, the beef label should also include precise information about where the animal was born and reared (i.e. the full origin of the beef, leaving the option to state the name of the Member State concerned or the indication "Origin: EC"). Certain simplified arrangements for minced beef and beef imported from third countries were also proposed.

¹⁰⁰ OJ L 160, 26.6.1999, p. 21.

¹⁰¹ OJ L 281, 4.11.1999, p. 30.

¹⁰² OJ L 68, 16.3.2000, p. 22.

¹⁰³ OJ L 105, 3.5.2000, p. 6.

¹⁰⁴ OJ L 117, 7.5.1997, p. 1, as implemented by Commission Regulation (EC) No 1141/97, OJ L 165, 21.6.1997, p. 7.

¹⁰⁵ COM(1999) 486 final, 13.10.1999.

¹⁰⁶ COM(1999) 487 final, 13.10.1999.

424. The proposal for compulsory beef labelling has been discussed under the co-decision procedure since the beginning of 2000. Firstly, the Parliament adopted its amendments on first reading to the Commission's proposal at its plenary session of 12 April 2000¹⁰⁷. On 17 May 2000, the Commission presented an amended proposal¹⁰⁸, taking into account those amendments, which were accepted by the Commission in the plenary session.
425. The Council adopted its first Common Position on 6 June 2000¹⁰⁹ and the Commission published a Communication on that Common Position on 8 June 2000¹¹⁰, supporting the Council's position. The Parliament proceeded with its second reading, on 6 July 2000¹¹¹, when the Council's Common Position was accepted with two major amendments, relating to the inclusion of the origin of minced beef and the deletion of the indication of the category of the animal from which the beef was derived.
426. Spurred on by the tight deadline for the adoption of the Regulation, the Agriculture Council was, at its meeting of 17 July 2000, able to define rapidly a unanimous position in favour of Parliament's amendments. Consequently, European Parliament and Council Regulation (EC) No 1760/2000¹¹² was adopted, replacing Regulation (EC) No 820/97 with a compulsory beef labelling system for origin. The voluntary system continues to apply for all indications other than origin.
427. The main features of the new Regulation are:
- As from 1 September 2000, the label is to contain the indications of a reference number ensuring the link between the meat and the animal or animals, the words "Slaughtered in (name of Member State or third country) (approval number)" and the words "Cutting in: (name of Member State or third country) (approval number)";
 - As from 1 January 2002, the label is to contain also an indication of the Member State or third country of birth, all Member States or third countries where fattening took place and the Member State or third country where slaughter took place;
 - However, where the beef is derived from animals born, raised and slaughtered in the same Member State or third country, the indication may be given as "Origin: (name of Member State or third country)";
 - Until 31 December 2001, Member States where sufficient details are available under the identification and registration system for bovine animals, may continue to decide that, for beef from animals born, raised and slaughtered in the same Member State, supplementary items of information must also be indicated on labels;

¹⁰⁷ Co-decision 1999/0204 (COD) (drafted by Mr Papayannakis), Document A5-88/00.

¹⁰⁸ COM(2000) 301 final.

¹⁰⁹ Document 8251/00 Rev.1, 6.6.2000.

¹¹⁰ SEC(2000) 956 final, 8.6.2000.

¹¹¹ Document A5-0193/2000, 6.7.2000.

¹¹² OJ L 204, 11.8.2000, p. 1.

- The specific provisions for minced beef outlined above will, from 1 January 2002, be reinforced by the indication of origin;
- Third country derogation: Article 15 of the new Regulation lays down simplified labelling arrangements for beef imported from third countries which cannot meet the compulsory EU system. In such a case, the beef must be labelled "Origin: non-EC" and "Slaughtered in: [name of third country]".

428. The Commission also adopted Regulation (EC) No 1825/2000¹¹³, laying down the implementation rules for the new base regulation. The key elements are:

- The size of a homogenous group of animals, from which a lot of beef is derived, can be no greater than one day's production in a beef cutting plant;
- In accordance with the basic regulation, details are given on how operators may, in addition to the basic provisions for labelling laid down in the base regulation, label minced beef in exactly the same way as normal beef if they wish;
- The continued validity of voluntary specifications approved under the previous regulation.

3.4.2.3. World market in 1999

429. According to FAO and Eurostat data, at an estimated 55.9 million tonnes for 1999, world beef and veal production was slightly up, by around 1%, on 1998 and still accounted for just over a quarter of total meat production.
430. EU beef and veal production, totalling some 7.681 million tonnes in 1999, was slightly up, by 0.5%, on 1998. It now accounts for only about 13.8% of world production.
431. The supply of beef and veal increased in North America, Brazil, Argentina and in some producer countries in Asia, in particular China and India.
432. The United States remains the world's leading producer, with a 21.6% market share. Its production rose by 2% because of a rise in the number of adult animals slaughtered and, encouraged by very low feed prices, an increase in carcass weight.
433. Brazil's increased production can be attributed to the devaluation of the Brazilian real, which boosted international demand. In Argentina the supply of slaughter animals rose above the very low levels recorded in 1998 because of difficulties with foot-and-mouth disease.

¹¹³ OJ L 216, 26.8.2000, p. 8.

Beef and veal production

('000 tonnes carcass weight)

Country	1996	1997	1998	1999	% change	
					1998/1997	1999/1998
Argentina	2 694	2 705	2 656	2 850	-1.81%	7.30%
Australia	1 745	1 816	1 955	2 009	7.65%	2.76%
Brazil	6 187	5 922	5 794	6 182	-2.16%	6.70%
China	3 311	4 104	4 474	4 674	9.02%	4.47%
United States	11 749	11 714	11 803	12 050	0.76%	2.09%
India	1 370	1 378	1 401	1 421	1.67%	1.43%
Japan	555	530	529	515	-0.19%	-2.65%
Russian Federation	2 630	2 394	2 247	2 229	-6.14%	-0.80%
EU	7 950	7 888	7 646	7 681	-3.07%	0.46%
Mexico	1 330	1 340	1 380	1 390	2.99%	0.72%
World	54 535	55 169	55 316	55 867	0.27%	1.00%

Sources: FAO and Eurostat

434. World cattle numbers increased slightly in 1999. Expansion is occurring above all in China, where cow herds are constantly increasing, and in India, where demand for beef and veal products is rising sharply. The trend is downward in Russia, where cattle numbers are continually declining because of ongoing difficulties on the food market, and in Australia, owing to increased slaughter because of the 1998 drought.
435. Trade: the volume of exports rose by 6%, thanks to an increase in food aid to Russia from the United States and the EU and a 40% increase in exports from Brazil in the wake of the devaluation of the *real* and a rise in production. Australia became the world's leading exporter thanks to an increase in production and a devaluation of the Australian dollar, which improved international competitiveness. New Zealand suffered from that competition and saw its exports fall. The same applies to Uruguay, which experienced a great deal of competition on the Mercosur market.
436. World imports increased by around 5%, because of food aid to Russia and the sharp rise in imports by South Korea when it recovered after the economic crisis. Imports to the United States also rose slightly, with larger quantities being imported from Canada and South America. Japan's imports fell by 5% because of high prices in the supplier countries.
437. Consumption of beef and veal rose in areas where production increased and/or the economic climate was favourable. Both these factors applied to the United States, whose already high per capita consumption rose by a further 1.7%. Argentina's consumption also rose, due to a production increase and low prices.
438. Consumption fell in Russia, where lower production was not fully offset by higher imports, and in Australia and New Zealand, where a fall in production linked to beef and veal prices faring badly vis-à-vis those for pigmeat and poultrymeat created a climate favourable to exports.
439. World beef and veal prices improved slightly in 1999. In the United States prices were generally higher than in 1998. This was also the case in Australia, because of

the weak Australian dollar, and in Brazil, due to the limited supply of cows and delayed slaughter because of the drought.

3.4.2.4. Community market

440. Up until the fourth quarter of 2000 the Community beef and veal market continued to recover from the BSE crisis, which began in 1996. In October 2000 a cow intended for the food chain in France was found to be suffering from BSE and, with BSE cases occurring in several Member States which had until then escaped the disease, a new BSE crisis broke out with sharp falls in consumption and many repercussions throughout the industry. Although slowed down by the health measures and the ceilings on premiums introduced when the 1996 crisis broke out, production remained stable in 1999, increasing slightly by 0.5% that year and by 0.9% in 2000 up to October. This indicates that the low point in the production cycle was reached in 1999 and that an upturn should be expected over the coming years, with production rising and prices falling.
441. In order to explain this situation, it should be recalled that the processing premium for young calves continued in 1999 (until July in the United Kingdom and until the end of the year in France, Portugal and Ireland), excluding from meat production around 500 000 head which would have reached the market in 2000 in particular. Lastly, slaughter of cattle older than 30 months and selective slaughter in the United Kingdom reached around 1 000 000 head in 2000 (the same figure as in 1999).
442. The Community cattle herd fell slightly, by 0.3% in 1999, with the dairy herd (which represents two thirds of the total number of cows) down 1.5% and the suckler herd up 1.8%. The same trend is expected in 2000. The decrease in the dairy herd is seen as the result of an increase in the milk yield per cow and stricter application of the quota system. Conversely, the view is that the suckler herd is expanding because producers are looking forward to increased premiums under Agenda 2000.
443. Community exports picked up again in 1999. The 25% increase (960 000 tonnes exported) results from continued food aid to Russia, the availability of low-price meat sold from intervention stocks, a reduction in market prices and an increase in exports to the Middle East and North Africa. It is estimated that the total exported in 2000 (630 000 tonnes) was about 35% down, with the result that, for three quarters of the year, domestic prices were too high and that, during the last quarter, the BSE crisis caused external demand to fall.
444. Imports also recovered in 1999, reaching 430 000 tonnes, up 10% on 1998. The rise resulted from improved consumption and increased supply from South America, particularly Brazil, Argentina and Uruguay, which constitute our main suppliers. A similar volume is forecast for 2000.
445. Meat consumption continued to recover (+3% in 1999 compared with 1998), reaching more than 20 kg per head of the population annually, an indication of renewed consumer confidence reinforced by the meat labelling and promotion measures. By October 2000 consumption had returned to pre-BSE levels, in spite of low pigmeat prices. The substantial reductions in consumption which then followed are expected to result in a 5% fall for the year as a whole.

446. The producer market price for adult cattle, which fell by 5% in the last quarter of 1998 because of the crisis in Russia and benefited from the dioxin crisis affecting poultrymeat and pigmeat, gradually recovered during 1999 to reach average levels slightly above those for 1997 but still below the prices for 1998. Record levels were attained in 2000 (surpassing pre-BSE levels for much of the year) until the new crisis erupted, after which prices progressively fell in most Member States, in particular in central and southern Europe.
447. Lastly, the most salient feature of the year as a whole was the fact that the market situation continued to be favourable until October 2000, resulting in the total clearance of the intervention stocks which had built up during the previous BSE crisis. Around 55% of the beef and veal in question went to the internal market, and the remainder was exported (much of it as food aid). The repercussions of the new crisis, which struck in the last quarter of 2000, cannot be assessed at this stage.
448. In conclusion, the beef and veal market came close to achieving equilibrium in 2000 but was then severely disrupted by the recent events linked to BSE, necessitating the application of all available market instruments (private storage, public intervention, export aid and cattle premiums) and the introduction of new measures: mandatory testing of all animals supplied for human consumption which are older than 30 months, and a scheme under which adult animals can be purchased and the meat destroyed in order to provide an outlet for animals which the producer wishes to sell but which cannot be processed for human consumption owing to a lack of testing facilities.

3.4.3. *Sheepmeat and goatmeat*

449. The European Union is, after China¹¹⁴, the world's second biggest producer of sheepmeat and goatmeat, followed by India, Australia, New Zealand, Turkey, Saudi Arabia and the Russian Federation.
450. New Zealand is the leading world exporter (it accounts for more than half of all world exports), followed by Australia. Imports are substantial in the EU (more than half of all world imports), Saudi Arabia, the United States, South Africa and Japan. The EU is also the world's second biggest consumer after China.
451. On the European market, production was nearly stable, with a slight downward trend in recent years. Gross domestic production is expected to be 1 146 000 tons c.w.e. in 2000. Of the major EU producers, France has recorded reductions in production decreases year after year. It also remains the leading destination of internal trade, chiefly from the UK.
452. The European market imports close to a fifth of its requirements. The main supplier is New Zealand, largely through the UK, although there is a move to diversify to markets in several other Member States.
453. Prices were at very satisfactory levels during most of 1996 and 1997. The prices for 1998 mirror the pattern observed in previous years, with prices high towards the middle of the year and very low in the first and last third of the year. The level in

¹¹⁴ China is expected to produce about 2.5 million tonnes in 2000 according to FAO. The anticipated figure for the United States is a modest 0.097 million tonnes.

1999 was initially very low, recovered towards Easter and remained firm in the spring. Nevertheless, prices collapsed in the UK and Ireland during the summer due to high levels of supply. The autumn featured low prices and aid to private storage was introduced in October for the UK, Ireland and Finland. The year ended on relatively good price levels following supply shortages and high prices in Spain.

454. The year 2000 has experienced a major price recovery. The European average has also been boosted by the strength of sterling against the euro, something which has had an impact on the calculation of the premium by reducing its estimated value. The market in sheepmeat has achieved a certain stability in most Member States and in the EU as a whole. Most of the reasons for concern which existed a year ago have been dispelled: (a) demand levels are reasonable; (b) skin prices improved; (c) levels of supply are moderate or decreasing; (d) some efforts in terms of lamb quality are having a positive effect; and (e) there is decreasing competition from other cheap meats.
455. Imports into the Community are carried out principally under free WTO or tariff-reduced quotas, together with additional quantities provided for in the Europe Agreements. For market management reasons, the quotas are managed on a calendar year basis. The increasing proportion of chilled meat which is being sent by New Zealand is worrying some Member States. New Zealand is by far the EU's main supplier, exporting a quantity that is close to its tariff-free quota of 226 700 tonnes. Australia is the second exporter to the EU, with just under 19 000 tons. EU applicant countries from Central Europe (in particular Hungary) and Uruguay export less than 10 000 tons.
456. The EU ewe premium for the marketing year 1999 was EUR 21.7, this being the difference between the basic price after applying the stabiliser (EUR 468.785/100 kg) and the market price (EUR 330.616/100 kg), multiplied by a technical coefficient (0.1569). Producers in less-favoured areas (LFAs) received a supplementary "Rural World" premium.

3.4.4. *Pigmeat*

457. In 1999 world production of pigmeat increased slightly by 0.4 % to arrive at a total of 88.4 million tonnes (source: FAO). China remains the world's leading producer with an output of 39.9 million tonnes, up 1.5% from the previous year. The European Union remained second in the world with an annual production of 18.0 million tonnes, which was 2.2% more than in 1998. Persistently low market prices since the summer of 1998 led the production cycle to turn downwards in the second half of 1999. In 2000 production is expected to decrease again, to about 17.6 million tonnes (-2.3%). The world's third most important producer of pigmeat was the USA with 8.8 million tonnes (+1.9%) in 1999.
458. As the production started to decrease in the second half of 1999, EU pigmeat market prices started to recover. However, due to the very low prices in the early part of 1999 the average price remained very low (EUR 112/100 kg) and farmers made heavy losses. Market prices showed further improvement (by an average of EUR 141/100kg) in 2000, this being a year in which farmers could again compensate for the losses they made in the two preceding years. When production was at its highest (and prices at their lowest) the Commission adopted a number of measures - mainly in the form of export refunds and aid for private storage - with a view to improving

the market situation. Export refunds for fresh and frozen products were available between May 1998 and July 2000. A private storage aid scheme was available between September 1998 and September 1999 and, altogether, 428 000 tonnes of pigmeat benefited from the scheme. In June 2000 the Commission completed trade liberalisation negotiations with most PECO countries, resulting in the abolition of export refunds and import duties between the EU and those countries.

459. The per capita consumption of pigmeat increased by 2% in 1999 to 44.5 kg/year. In 2000 consumption is expected to fall since output, too, is decreasing.

460. In 1999 the quantity of pigmeat exported from the European Union totalled 1.5 million tonnes (carcass weight), a 25% increase on 1998. Similarly, imports increased by 24% to 63 000 tonnes in 1999. The leading destination for pigmeat exports in 1999 was Russia, which took a total of 591000 tonnes (38% of EU exports) for the year as a whole. Japan came second with 258 000 tonnes, and Hong Kong plus China was the third biggest destination, with 134 000 tonnes. The share of subsidised exports increased in 1999, as the Commission supported exports actively. In 1999 50% of exports benefited from a refund compared to 35% in 1998. The share of subsidised exports will again decrease in 2000 as GATT commitments have become significantly tighter since July 2000.

3.4.4.1. Main legislative and policy developments (Pigmeat regulatory fund)

461. In April 2000 the European Commission presented a proposal to the Council to amend the common organisation of the market in pigmeat (COM(2000) 193 final). The aim of the proposal is to introduce a pig regulatory fund in the sector in order to support pigfarmers' incomes when market prices are low. The proposed fund will enable producers' incomes to be stabilised by a system of levies to be collected during periods when the short-term economic situation is satisfactory and by a system of payments to be granted in times of recession. To reflect the major responsibility given to producers as part of the common market organisation of the market in pigmeat, there is provision for self-financing of the new arrangements by producers and for control over pigmeat production. The proposal was discussed on several occasions by the Council. The European Parliament delivered its opinion in November 2000. In December 2000, however, the Agriculture ministers failed to reach an agreement on the proposal.

3.4.5. *Poultrymeat*

462. World production of poultrymeat has increased at a steady but slower pace since 1991: by 7% a year from 1991 to 1995 and by 4.1% a year from 1995 to 2000. The rate of increase was higher in the main producer regions, viz. 6.8% a year from 1995 to 1999 in China and 6.2% a year from 1995 to 1999 in Brazil. Production fell in Russia (annual percentage change: -7.1%). In eastern Europe production has been rising again since 1995.

Poultrymeat production									
('000 tonnes)									
	United States	Brazil	China	Japan	Russia	Hungary	EU 15	Other	World production
1995	13 786	4 140	8 440	1 282	859	368	8 042	10 607	47 524
1996	14 522	4 144	9 630	1 249	705	365	8 358	11 456	50 429
1997	14 952	4 562	10 400	1 234	630	372	8 550	12 008	52 708
1998	15 128	4 600	10 700	1 221	640	400	8 740	12 049	53 478
1999	15 981	5 269	11 000	1 190	640	400	8 819	12 587	55 886
Market share in 1999 (%)	28.6	9.4	19.7	2.1	1.1	0.7	15.8	22.5	100.0
2000	16 623	5 577	11 350	1 185	600	405	8 711	13 451	57 902
Annual rate of change (%): 1999/95	3.8	6.2	6.8	-1.8	-7.1	2.1	2.3	4.4	4.1
1999: estimates; 2000: forecasts									
Sources: Community (October 2000) and USDA (March 2000)									

463. The world market continued to expand in 2000, thanks in particular to growing demand in Russia, China and Japan. The United States remained the world's leading exporter in 1999 and 2000, owing in particular to its exports of cheap cuts and various promotion programmes. Russia is still the world's biggest importer but, although its production did not increase in 1999 or 2000, it is expected to reduce its imports considerably.
464. EU production is expected to have fallen by 1.2% in 2000. Community exports rose sharply from 1996 to 1998. They continued to increase in 1999, but at a slower pace.
465. Market prices regained their equilibrium in 2000.
466. Poultrymeat does not qualify for support on the internal market. The measures governing trade with non-member countries have been adapted to comply with WTO rules. In particular, exports attracting refunds are being cut by some 30 000 tonnes a year (to 286 000 tonnes for 2000/01). This restriction has led to a targeting of refunds as regards countries of destination and products. Thus, in 1999, only around 31% of Community exports qualified for refunds.
467. Import quotas at reduced customs duties for a total of 150 770 tonnes continue to apply under the association agreements (with Poland, Hungary, the Czech Republic, Slovakia, Romania, Bulgaria, the Baltic States and Slovenia). These concessions have been expanded under the "double zero" approach. Furthermore, 15 500 tonnes of boned chicken and 2 500 tonnes of turkey meat can be imported free of customs duty each year, in addition to 11 900 tonnes for 2000/01 (July/June) under the minimum access arrangements at reduced duty and 2 400 tonnes under other bilateral agreements (with Turkey and Israel).

3.4.6. *Eggs*

468. World production increased by 4.4% (annual rate of change) from 1991 to 1995 and continued to rise from 1995 to 1999 (4.1%). Although only average, the increase in production in the United States is expected to enable that country to overtake the European Union, where production was set to fall by 0.4% in 2000. Growth in China was high, at 6.9% from 1995 to 2000.

Egg production									
(billion eggs)									
	United States	Mexico	Eastern Europe	Japan	Russia	China	EU 15	Other	World production
1995	75	26	12	42	34	302	86	94	670
1996	77	26	14	43	32	313	84	98	685
1997	78	28	14	43	32	340	86	98	719
1998	80	30	14	42	33	363	88	95	745
1999	83	32	14	42	33	375	88	98	765
Market share in 1999 (%)	10.8	4.2	1.8	5.5	4.2	49.1	11.5	12.8	100.0
2000	85	33	14	42	32	394	84	107	791
Annual rate of change (%): 1999/1995	3.2	6.6	3.9	-0.1	-1.3	6.9	-0.7	3.5	4.2
1999: estimates; 2000: forecasts									
Sources : Community (October 2000) and USDA (March 2000)									

469. After rising since 1996, world exports fell in 1999 and were expected to remain fairly stable in 2000. The main importing countries are still Japan (egg products) and Hong Kong (eggs in shell). Community exports increased by 2.7% in 1999 and early reports for 2000 suggest a slight rise of 1%.
470. On the Community market, the number of laying hens remained stable in 1999 and is expected to fall by 2.7% in 2000. Prices were weak until the beginning of 2000 but then recovered. Since Easter 2000 they have been above the multiannual average.
471. The market organisation is similar to that for poultrymeat.
472. Trade: refunds are, under the WTO, payable on up to 98 800 tonnes (eggs-in-shell equivalent) in 2000/01. Since the summer of 1995, exports have remained below the limit agreed within the WTO.
473. The association agreements with Poland, Hungary, the Czech Republic, Slovakia and Bulgaria provide for an 80% reduction in customs duties on certain egg products. Under the minimum access arrangements, import quotas at a reduced duty were opened in 2000/01 for an annual volume of 157 500 tonnes, broken down into three groups of products, those for egg products and ovalbumin being the only ones used.
474. On 19 December the Council adopted the Commission proposal¹¹⁵ to amend Regulation (EEC) No 1907/90 of 26 June 1990 on certain marketing standards for eggs¹¹⁶ and to make it compulsory to indicate the farming method on eggs and packs and simplify the classification of eggs by amalgamating the current classes B and C.

¹¹⁵ COM(2000) 522.

¹¹⁶ OJ L 173, 6.7.1990, p. 5.

3.4.7. *Honey*

475. World production of honey was stable at around 1.17 million tonnes in 1999. Prices on the world market were lower than in the previous year (-14%).
476. The self-sufficiency rate in the EU was 47.4% in 1998/99, slightly down on the previous marketing year. This was due to the fall in production and the increase in imports. Per capita human consumption was stable at 0.7 kg a year.
477. Pursuant to Council Regulation (EC) No 1221/97 of 25 June 1997 laying down general rules for the application of measures to improve the production and marketing of honey¹¹⁷, the Commission adopted decisions approving the national programmes for the fourth year (2001 marketing year). At the beginning of 2001 the Commission presented a report to the Council and the European Parliament on the implementation of the Regulation.

¹¹⁷ JO L 173 du 1.7.1997, p. 1.

4. AGRIMONETARY ARRANGEMENTS

4.1. Developments in 2000

478. The agrimonetary measures adopted in 2000 were limited to the application of Council Regulation (EC) No 2799/98 establishing agrimonetary arrangements for the euro¹¹⁸, namely the fixing of agrimonetary compensation for the reduction in national currency of certain amounts in Denmark, Sweden and the United Kingdom because of the revaluation of their currencies.
479. Regulation (EC) No 801/2000 of 17 April 2000 accordingly set the maximum amount of compensatory aid resulting from the exchange rates for the Danish krone, the Swedish krona and the pound sterling applicable to the beef/veal and sheepmeat sectors and to structural measures¹¹⁹. The reductions are 1.3%, 9.3% and 11.9% respectively and the total maximum amounts EUR 0.075, 19.8 and 172 million respectively, 50% of which is financed by the European Union. The appreciable revaluation of the pound sterling in 1999 (4.221%, less the neutral margin of 2.6%, making 1.621%) resulted in agrimonetary compensation being fixed at EUR 55.21 million, of which 50% is financed by the European Union on condition that the Member State contributes an equivalent amount [Regulation (EC) No 802/2000¹²⁰].
480. The compensatory aid for Sweden and the United Kingdom resulting from the rates applicable to arable crops was set by Regulation No 1612/2000¹²¹. The reductions are 6.23 and 3.39% respectively; the total maximum amounts of aid are EUR 24.17 and 54.42 million respectively, half of which is financed by the European Union. Following the devaluation of the Danish krone, however, Regulation (EC) No 1611/2000¹²² reduced the second instalment of compensatory aid for arable crops by virtue of the conversion rate applicable on 1 July 1999. The overall amount went down from EUR 17.59 to 15.06 million.
481. Regulation (EC) No 2293/2000¹²³ set the maximum amount of compensatory aid resulting from the exchange rates for the Swedish krona and the pound sterling for flax and hemp. The reductions are 3.99% and 5.38% respectively and the overall maximum amounts EUR 0.03 and 0.75 million respectively, of which 50% is financed by the European Union.

¹¹⁸ OJ L 349, 24.12.1998 p. 1.

¹¹⁹ OJ L 96, 18.4.2000, p. 34.

¹²⁰ OJ L 96, 18.4.2000, p. 36.

¹²¹ OJ L 185, 25.7.2000, p. 36.

¹²² OJ L 185, 25.7.2000, p. 34.

¹²³ OJ L 262, 17.10.2000, p.12.

5. RURAL DEVELOPMENT IN 2000

482. Rural Development Plans (RDPs) were presented for Commission approval in the last few months of 1999 and early in 2000, mostly within the time limits specified in Council Regulation (EC) No 1257/1999¹²⁴. A total of 69 plans were thus submitted, most of which were then adopted by the Commission in the course of 2000.
483. The Community Support Frameworks (CSFs) and most Single Programming Documents (SPDs) were adopted (on the basis of Council Regulation (EC) No 1260/1999¹²⁵) for Objective 1 and 2 regions, where the rural development measures are integrated in Structural Funds programming. Many Operational Programmes (OPs) were adopted in 2000 as a development of the CSF. In total some 100 programming documents for Objective 1 and 2 regions were submitted.
484. The Commission guidelines for the Community Initiative Leader+ were adopted in May 2000, and the Member States presented their programmes for approval by the Commission in the second half of the year. In total around 70 programmes were submitted.

5.1. Belgium

5.1.1. Adoption of the new programmes

485. The horizontal rural development programme for Belgium is intended to help shift agricultural land use towards wider adoption of environmentally friendly methods of production and the conservation of the countryside and biodiversity, mainly by encouraging organic farming and introducing demonstration projects and aid schemes for management. The total public cost of the programme is EUR 156.68 million, to which the European Commission will contribute EUR 72.31 million from the Guarantee Section of the European Agricultural Guidance and Guarantee Fund (EAGGF Guarantee Section). This federal programme covers all rural areas of the country, but excludes those rural development measures part-financed by the EAGGF Guidance Section in Hainaut, a region which is eligible for transitional support under Objective 1 of the Structural Funds. It supplements the regional (Flanders and Wallonia) rural development plans.

5.1.1.1. Flanders

486. The rural development programme for Flanders seeks to promote the diversity of agricultural and rural activities and quality products, while expanding employment through support for the multifunctional role of the countryside using an integrated policy based on sustainable development and biased towards the protection of the environment, the countryside and animal welfare. The total public cost of the programme is EUR 537.388 million, to which the European Community will contribute EUR 204.123 million from the Guarantee Section of the European Agricultural Guidance and Guarantee Fund (EAGGF Guarantee Section).

¹²⁴ OJ L 160, 26.6.1999, p. 80.

¹²⁵ OJ L 161, 26.6.1999, p. 1.

5.1.1.2. Wallonia

487. The general aim of the rural development programme for Wallonia is to offer good prospects for the sustainability of agriculture there by encouraging efforts to increase value added through more attractive working and living conditions and provision of the resources to meet collective requirements as regards the environment and food quality. The total public cost of the programme is EUR 227.3270 million, to which the European Community will contribute EUR 83.7581 million from the Guarantee Section of the European Agricultural Guidance and Guarantee Fund (EAGGF Guarantee Section).

5.1.2. *Evaluation of old programmes*

5.1.2.1. Belgium - Federal

488. The measure concerning the aid scheme for early retirement in the agriculture sector proved ineffective. Evaluation has demonstrated that continuation of this type of measure would have had a greater effect if it had been directed towards intensive stock-raising. The figures show that the success of the measure was very slight.

489. Deliberate policies to improve and protect the countryside have been followed for several years. Since 1995, there have been agri-environmental programmes (demonstration projects, management contracts, etc.), including measures to promote organic farming and integrated and more environmentally friendly agriculture (less use of pesticides and fertilisers). Aid has also been provided for the integrated cultivation of seed fruits (apples and pears).

490. The area premium for applying organic production methods in Belgium proved relatively successful during the programming period 1994-99 (expected number of beneficiaries: 175, actual number: 305; expected area farmed: 2 595 hectares, actual area farmed: 11 300 ha). Extension of the scheme to 1999 and 2000 was approved in 1998.

491. The number of holdings notified increased from 168 in 1994 to 439 in 1998 and 586 in 1999 (+249%); the number of holdings eligible under the aid scheme increased from 95 in 1994 to 330 in 1998.

492. The area premium for integrated production methods (ornamental horticulture) was introduced as a new measure in 1997 and has enjoyed considerable success.

493. Demonstration projects have shown producers how to apply agri-environmental techniques in practice and what the consequences were.

5.1.2.2. Brussels Region

494. Only Council Regulation (EC) No 951/97 of 20 May 1997 on improving the processing and marketing conditions for agricultural products¹²⁶ was implemented during the previous programming period. Six projects were financed (EUR 1.110 million) in the meat and ornamental plants sectors and implementation proved satisfactory.

¹²⁶ OJ L 142, 2.6.1997, p. 22.

5.1.2.3. Flemish Region

495. A prudent investment climate ensured continuity in agriculture and permanent support. The structural adjustments needed could be made in an economically and socially responsible fashion during 1994-99.
- 1 934 investment projects to reduce production costs (works to improve holdings) were subsidised,
 - 4 594 investment projects for socio-economic purposes (improvement of living and working conditions) were subsidised,
 - liquidations of firms notified to the Flemish Investment Fund (VLIF) remained relatively limited (117 in 1994-99),
 - there were 2 822 investments to improve quality and for conversion;
 - 9 666 improvement plans were approved.
496. Establishment aid was granted for the installation of 1 947 young farmers.
497. A total of 181 842 hours of training were provided. Of the agri-environmental projects completely or partially implemented 90% concerned ways of making the sector more competitive by adjusting requirements for quality, innovation and modernisation in general. About 54% of total investment costs were used for this purpose.

5.1.2.4. Wallonia

498. The diversification measures in earlier programming (Objectives 1 and 5(b)) concerned various strategies such as multiactivity, rural tourism, the development of forestry and the exploitation of animal production.
499. Aid for investment and for the installation of young farmers part-financed by Objective 5(a) are vital to the sustainability of agriculture in Wallonia but their success is highly dependent on how they are implemented. Much reference is made to the problem of the weight of the past, viz. the debts to banks and other credit institutions which farmers have built up.
500. As regards the processing and marketing of agricultural products, Regulation (EC) No 951/97 applied throughout Wallonia, although aid rates were differentiated by region. As regards good practice, the success of capital premiums should be noted. This demonstrates the feasibility of the instrument in Wallonia and the success of the measure devoted to potatoes and potato plants, which really opened the way to an important means of diversification in Wallonia, and especially in Hainaut.
501. *Ex ante* evaluation raised one main problem, the slight quantitative impact of the measures applied, which illustrates the difficulty of mobilising private investors in Wallonia and the crying need to consider a systematic and integrated programme of development by sector.

502. In the case of the environment, implementation of protective measures under Objectives 1 and 5(b) and Regulation (EC) No 951/97 was very low. Some explanations are :

- the traditional reluctance of farmers to include environmental considerations in their work,
- lack of dynamism in the communications policy which should accompany measures to protect the environment (except for agri-environmental measures),
- frequent misunderstanding of the purpose of these measures,
- conflicts between the various instruments seeking the same objective which create confusion in the minds of operators and the various potential target groups.

5.2. Denmark

5.2.1. Adoption of new programmes

503. The rural development programme for Denmark aims to create the right conditions for sustainable development by improving rural employment opportunities, developing new agricultural products and better integrating environmental requirements with an efficient agricultural and forestry sector. The total cost of the programme is EUR 944.5 million, including an EU contribution of EUR 348.8 million from the EAGGF Guarantee Section. The programme covers the whole of Denmark. Measures concerning less-favoured areas (LFAs) apply to 31 smaller islands.

5.3. Germany

5.3.1. Adoption of new programmes

5.3.1.1. Background and programming framework

504. Because of the federal structure of Germany several regional plans as well as a general framework were established in that country in order to implement rural development. Germany is divided in Objective 1 and non-Objective 1 regions. The authorities accordingly submitted 17 Rural Development Plans - one of which is the general framework - and, for the Objective 1 region, one CSF and six operational programmes. In non-Objective 1 regions rural development measures are presented in one programme funded by the EAGGF Guarantee Section. In Objective 1 regions the measures are either part of the Rural Development Plan, which applies to only four measures funded by the EAGGF Guarantee Section concerning: agri-environment, afforestation and compensatory allowances, or part of the operational programme, e.g. farm investment. In addition, the German authorities will present 14 Leader+ programmes, one of which is a “national network programme”.

5.3.1.2. Fabric of programmes and priorities

505. The Commission approved the CSF for the Structural Funds (2000-2006) on 19 June 2000. The CSF will include regional programmes and three subject-related

programmes. The participation of the EAGGF Guidance Section in the CSF amounts to EUR 3 400 million.

506. The general framework Regulation for rural development in Germany seeks to make agriculture and forestry more competitive, retain and create jobs in rural areas and further improve the protection of nature and the environment in those areas. To ensure sustainable development, support measures must take account of the ecological, economic and social aspects of rural areas. At the same time, the Regulation makes a considerable contribution to harmonising support measures for agricultural structures at federal and Land level, ensuring that all the regions participate in these measures, concentrating and coordinating the resources provided by the EU, the federal government and the Länder and making the public management of financial resources more effective. Basically, the measures under the general framework Regulation form part of the plans for the Länder and are part-financed by the EAGGF. The framework plan is not, therefore, a rural development programme within the meaning of Regulation (EC) No 1257/1999 giving rise to an application for part-financing by the EAGGF. The framework Regulation covers the whole of the Federal Republic of Germany. It also includes measures part-financed by the Guidance Section of the EAGGF in the regions eligible under Objective 1 of the Structural Funds.

5.3.1.2.1. Baden-Württemberg

507. The rural development programme for Baden-Württemberg is aimed at revitalising agricultural businesses in line with current consumer demands, diversifying farm incomes and safeguarding their long-term viability, enhancing the environment through extensive farming techniques and extending forestry. The total public cost of the programme is EUR 1 888.67 million, including an EU contribution of EUR 763 million from the EAGGF Guarantee Section.

5.3.1.2.2. Bavaria

508. The rural development programme for Bavaria is aimed at restructuring land and businesses to improve market prospects, developing new sources of income from nature conservation and new environmental commitments, diversifying rural employment, improving the rural infrastructure and increasing forestry. The total public cost of the programme is EUR 3 269 million, including an EU contribution of EUR 1 634.5 million from the EAGGF Guarantee Section.

5.3.1.2.3 Brandenburg

509. The aim of the rural development plan for Brandenburg is to ensure sustainable rural development to preserve, maintain and further develop crop areas by supporting throughout the Land holdings whose main or subsidiary business is agriculture and forestry. Implementation of this plan should help ensure the continued viability and development of the rural areas of Brandenburg as a unified region combining social and economic use with a natural environment. The budget for this programme totals EUR 364.20 million. The European Commission is helping finance this programme by providing aid worth EUR 273 million through the EAGGF Guarantee Section.

5.3.1.2.4 Bremen

510. The rural development programme for Bremen aims to improve the economic viability of agriculture, horticulture and forestry through diversification and increased value-added, to develop rural infrastructure and living standards and improve environmental management. Total public expenditure on the programme is EUR 23.966 million, including an EU contribution of EUR 10.500 million from the EAGGF Guarantee Section.

5.3.1.2.5 Hamburg

511. The rural development programme for Hamburg is aimed at creating more competitive farms that supply products which meet high environmental and welfare standards, strengthening rural infrastructure to serve the residential, employment and recreational needs of the population and supporting farm incomes through payments for environmental benefits. The total public cost of the programme is EUR 76.741 million, including an EU contribution of EUR 37.800 million from the EAGGF Guarantee Section.

5.3.1.2.6 Hessen

512. The rural development plan for Hessen encourages the success of local agriculture by stressing its multifaceted, sustainable and competitive aspects. Particular importance is given to agri-environmental measures which encourage production processes aimed at the protection and improvement of the quality of the environment and the preservation of the countryside. At the same time, great value is attached to sustainable measures, those which are effective in economic and ecological terms. The budget for this programme totals EUR 637.382 million. The European Commission is helping finance this programme by granting aid worth EUR 278.400 million through the EAGGF Guarantee Section.

5.3.1.2.7 Mecklenburg-Western Pomerania

513. The rural development plan for Mecklenburg-Western Pomerania uses compensatory, agri-environmental and forestry measures to preserve agriculture in less-favoured areas while also supporting the maintenance and development of organic methods of agricultural production through measures to protect nature. The budget for this programme totals EUR 208.76 million. The European Commission is helping finance this programme by granting aid worth EUR 155.70 million through the EAGGF Guarantee Section.

5.3.1.2.8 Lower Saxony

514. The preservation of vibrant rural areas which exploit the diversity of the roles agriculture can play is the broad objective of the 'ProLand Niedersachsen' programme being implemented in Lower Saxony. Through this programme for agricultural and rural development, Lower Saxony is presenting a plan which, while using an integrated approach, seeks to link it constructively both with measures for the agriculture sector and with intersectoral and specifically environmental measures. These measures are intended to make a lasting contribution to improving economic competitiveness and the ecological functions of rural areas. The budget for this programme totals EUR 1 168.450 million. The European Commission is helping

finance this programme by granting aid worth EUR 544.4 million through the EAGGF Guarantee Section.

5.3.1.2.9 North Rhine-Westphalia

515. The rural development programme for North Rhine-Westphalia aims to produce competitive food products that meet high welfare and environmental standards, ensure the maintenance of the rural population through improved infrastructure and services and increase the environmental value of rural areas and forests. The total cost of the programme is EUR 940 million, including a contribution of EUR 302.5 million from the EAGGF Guarantee Section.

5.3.1.2.10 Rheinland-Pfalz

516. The aim of Rheinland-Pfalz's "Future-Oriented Initiative for Rural Areas" (ZIL) is to improve agricultural structures, promote environmentally friendly agriculture and develop rural areas, thereby creating a comprehensive, market-oriented and competitive agricultural sector which farms in a sustainable manner and makes economical use of natural resources. The total budget for the programme is EUR 589.694 million. The European Community will be contributing EUR 279.200 million through the EAGGF Guarantee Section.

5.3.1.2.11 Saarland

517. The aim of the rural development plan for Saarland is to maintain and further develop economically and ecologically stable agriculture and forestry as the backbone of intact, living rural areas. The total budget for the programme is EUR 79.020 million, of which EUR 36.800 million will be contributed by the European Community through the EAGGF Guarantee Section.

5.3.1.2.12 Saxony

518. The rural development programme for Saxony is aimed at: restructuring farms through early retirement schemes; ensuring the continued viability of farms in less-favoured areas; supporting local communities; increasing environmental measures to reduce erosion and nitrate and pesticide use; and using forestry to achieve environmental and economic gains. The total public cost of the programme is EUR 443.86 million, including an EU contribution of EUR 330.50 million from the EAGGF Guarantee Section.

5.3.1.2.13 Saxony-Anhalt

519. The rural development programme for Saxony-Anhalt aims to ensure structural change and environmentally beneficial farming methods in a way that secures the long-term viability of farm businesses. Forestry measures aim to safeguard output and infrastructure while at the same time expanding markets. The total public cost of the programme is EUR 235.158 million, including an EU contribution of EUR 175.600 million from the EAGGF Guarantee Section.

5.3.1.2.14 Schleswig-Holstein

520. The rural development programme for Schleswig-Holstein aims to develop new economic opportunities in rural areas and improve infrastructure and services while

safeguarding a diverse landscape. Public expenditure on the programme totals EUR 573.57 million euro, including an EU contribution of EUR 239.10 million from the EAGGF Guarantee Section.

5.3.1.2.15 Thuringia

521. The aim of the rural development plan for the free State of Thuringia is to develop effective tools to deal with the radical change in structure caused by the alteration of the age pyramid and the rapid expansion of innovative economic sectors with the concomitant risk of the loss of, or decline in, cultivated landscapes. The goal of the plan is to support measures to reconcile economic requirements with ecological, social and cultural requirements and supporting measures to ensure sustainable rural development. The budget for this programme totals EUR 324.64 million. The European Commission is helping finance this programme by granting aid worth EUR 243.00 million through the EAGGF Guarantee Section.

5.3.2. *Evaluation of the old programmes*

522. Evaluation of agri-environmental programmes under Council Regulation (EEC) No 2078/92 proceeded. Different evaluation methods and the lack of agreed indicators prevent the comparison of evaluation results. However, evaluation had an impact on the drafting of the new Rural Development Programmes and led to the adaptation of agri-environmental measures. The evaluation of measures under Regulation (EC) Nos 950/97 and 951/97 has begun.

5.3.2.1. Objective 1

523. The new German Länder committed all the appropriations available (EUR 2 807 332 181). Payments will continue to be made until 31 December 2001.

524. The measures for processing and marketing have stabilised a large number of agricultural firms. The absolute priority was to support measures to develop villages and rural tourism, which maintained existing jobs and created fresh alternative employment.

525. The assistance obtained by the EAGGF Guidance Section operational programmes has made a significant contribution to improving living conditions for people in the countryside.

5.3.2.2. Objective 5(b)

526. At the end of 1999 all available 5(b) EAGGF money for the German 5(b) programmes was committed. The annual reports for 2000 indicate that money will be spent as planned until the end of 2001. *Ex post* evaluation began, in most cases on the basis of restricted tenders. Final results will not be available until the end of 2001.

5.3.2.3. Leader II

527. All the appropriations available have been committed and will be spent up to the end of 2001.

5.4. Greece

5.4.1. Adoption of new programmes

528. The horizontal rural development programme for Greece aims to strengthen the competitiveness of agriculture and at the same time safeguard the environment and promote the sustainable and integrated development of rural areas. The total cost of the programme is EUR 2 686.4 million, with an EU contribution of EUR 993.4 million from the EAGGF Guarantee Section. The programme covers all rural areas and supplements the measures part-financed by the EAGGF Guidance Section under Objective 1 of the Structural Funds, for which Greece as a whole is eligible.

5.4.2. Evaluation of old programmes

529. Evaluations at both CSF and programme level highlight the shortfall between needs and available funds in the previous period for rural development. More effort is therefore required for the sectoral restructuring and global competitiveness of agriculture and rural areas. Furthermore, implementation has shown that "traditional" infrastructure and productive investments were easier to carry out, while technically more complex projects and innovative actions were difficult to initiate. Finally, the implementation and management mechanisms require improvements (planning, design and implementation of projects).

530. However, the bulk of the goals envisaged were reached, i.e. implementation of about 30 000 investment plans in farming, investment in 750 marketing and processing firms, setting-up of about 15 000 young farmers and stabilisation of fixed private capital in agriculture. These are laudable results.

531. For the new period more attention should be paid to targeting priorities, implementing integrated approaches, tackling difficulties in complex or innovative actions and projects, designing and managing projects and improving the implementation and management mechanisms.

5.5. Spain

5.5.1. Adoption of new programmes

532. The No 1 horizontal rural development programme for Spain seeks to support the sustainable management of the countryside by improving conditions of production and the structures of agricultural holdings, while also protecting the environment. The total public cost of the programme is EUR 3 132.081 million, to which the European Community will contribute EUR 2 222.856 million from the EAGGF Guarantee Section. The programme covers all the rural areas of the country, apart from Navarre and the Basque Country, which have their own resources for part-financing the measures. It supplements the rural development measures programmed at regional level and the No 2 horizontal programme, which is limited to certain regions.

5.5.1.1. Aragon

533. The main aim of the rural development programme for Aragon is to develop the many functions of agriculture and the countryside: economic (production of agricultural raw materials, processing and marketing, tourism and leisure activities),

social (emphasising the role of human resources in consolidating rural society) and environmental (which is also a means of diversifying rural activities). The total public cost of the programme is EUR 471.358 million, to which the European Community will contribute EUR 257.695 million from the EAGGF Guarantee Section.

5.5.1.2. Catalonia

534. The rural development programme for Catalonia seeks to adjust the agriculture and agri-industrial sector to market conditions, make the countryside more competitive by renewing infrastructure and diversifying services and preserving and exploiting the forests. The total public cost of the programme is EUR 400.98 million, to which the European Community will contribute EUR 206.95 million from the EAGGF Guarantee Section.

5.5.1.3. Balearic Islands

535. The rural development programme for the Balearic Islands seeks maintain and expand employment and increase income, particularly in agriculture, so as to create the conditions for a renewal of the rural population and consolidation of the social fabric, while giving maximum protection to the environment and the countryside. The total public cost of the programme is EUR 48.042 million, to which the European Community will contribute EUR 21.619 million from the EAGGF Guarantee Section.

5.5.1.4. Rioja

536. The aim of the rural development programme for Rioja is to support economic growth in the region and combat depopulation by improving living conditions and the quantity and quality of services and infrastructure. It also includes encouraging the sustainable development of the countryside in order to limit erosion, increasing the wooded area and raising the percentage of good-quality surface water. The total public cost of the programme is EUR 82.54 million, to which the European Community will contribute EUR 39.94 million from the EAGGF Guarantee Section.

5.5.1.5. Madrid

537. The rural development programme for the region of Madrid seeks to encourage environmentally friendly agriculture in order to support the sustainable development of rural areas and to diversify and promote agricultural activities while ensuring the better integration of residents. The total public cost of the programme is EUR 139.042 million, to which the European Community will contribute EUR 69.526 million from the EAGGF Guarantee Section.

5.5.1.6. Navarre

538. The rural development programme for the region of Navarre seeks to encourage environmentally friendly agriculture and encourage the social development of rural areas by improving living and working conditions, checking the flight from the countryside and encouraging women to work. It is also intended to promote the economic development of the countryside by supporting agriculture and the agri-food sector, diversifying activities and promoting vocational training. The total public cost of the programme is EUR 285.519 million, to which the European

Community will contribute EUR 143.871 million from the EAGGF Guarantee Section.

5.5.1.7. Basque Country

539. The rural development programme for the Basque Country is intended to promote the sustainable and diversified development of the countryside and the restoration of the most run-down rural areas (those eligible under Objective 2 of the Structural Funds), through consolidation of the economic and social role of agriculture (greater professionalism, competitiveness, outlets), encouragement of ecologically favourable agricultural practices, improved quality of life to retain the rural population and the preservation of agricultural and forestry natural resources and the countryside. The total public cost of the programme is EUR 235.760 million, to which the European Community will contribute EUR 121.199 million from the EAGGF Guarantee Section.

5.5.2. EAGGF Guidance Section programming

540. The Commission approved the Community support framework for the Spanish regions eligible under Objective 1, which includes a contribution from the EAGGF Guidance Section of EUR 5 021 million for agriculture and rural development, of which EUR 65 million is for the region of Cantabria, which is eligible for transitional support.

541. The forms of assistance submitted for support for rural development are as follows:

- One multiregional operational programme (EAGGF Guidance Section) to improve structures and systems of agricultural production in all the Objective 1 regions of Spain except Cantabria. This OP contains four measures (management of water resources, support for investments in holdings, the installation of young farmers and technical assistance);
- Eligible public expenditure is EUR 2 480 million, of which EUR 1 489 million will come from the EAGGF Guidance Section;
- Nine multifund regional operational programmes (ERDF, EAGGF Guidance Section, ESF). The EAGGF Guidance Section will contribute EUR 3 432 million to these OPs;
- One multifund operational programme (ERDF, EAGGF Guidance Section, ESF) for the region of Cantabria which is eligible for transitional support. This OP contains all the measures for rural development listed in Regulation (EC) No 1257/1999. The EAGGF Guidance Section will contribute EUR 65 million;
- One multifund multiregional operational programme (ERDF, EAGGF Guidance Section, ESF) for technical assistance. The EAGGF Guidance Section will contribute EUR 9 million.

5.5.3. Evaluation of old programmes

542. The *ex post* evaluations of rural development programmes for 1994-99 are in progress; the reports should be available during 2002.

543. Total Community aid (in commitment appropriations) for Objective 5(a) for 1994-99 amounted to EUR 438 million; the implementation rate at 31 December 1999 was 61% (EAGGF Guidance Section).
544. Aid from the EAGGF Guidance Section for Objectives 1 and 5(b) (in commitment appropriations) for that period totalled EUR 3 455 million and EUR 423 million respectively; the implementation rates at 31 December 1999 were 90% and 88%.
545. Total aid from the EAGGF Guidance Section for the Community Initiative programmes (Interreg, Regis (Canary Islands) and Leader II) (in commitment appropriations) is EUR 300 million; the overall implementation rate at 31 December 1999 was 49%.
546. The EAGGF Guarantee Section paid EUR 912 million for the accompanying measures in 1994-99 of which EUR 230 million was for agri-environmental measures, EUR 612 million for the afforestation of agricultural land and EUR 70 million for early retirement.

5.6. France

5.6.1. Adoption of new programmes

547. The horizontal programme for rural development in France seeks to promote the more harmonious development of rural areas through sustainable management and a better balanced division of activities and to strengthen the multifaceted functions of agriculture and forestry: production, job creation, maintenance of the countryside and environmental protection. The total public cost of the programme is EUR 12 849.4 million, to which the European Community will contribute EUR 4 994.9 million from the EAGGF Guarantee Section. This programme covers all rural areas and supplements the rural development measures, also part-financed by the EAGGF Guarantee Section, included in the regional development programmes for the areas eligible under Objective 2 of the Structural Funds and the measures part-financed by the EAGGF Guidance Section in the Objective 1 regions.

5.6.1.1. Objective 1 programmes

548. The areas eligible under Objective 1 are the four overseas departments, Corsica and Hainaut (transitional support for the last two). All the measures in Regulation (EC) No 1257/1999 are open for programming in the form of the regional SPD, the four accompanying measures being financed from the NRDP. Total funding from the EAGGF Guidance Section for these six programmes is EUR 606 million (Réunion: 303, Martinique: 100, Guadeloupe: 140, French Guiana: 63) for the four overseas departments and EUR 74 million (Corsica: 35, French Hainaut: 39) for transitional support.

5.6.1.2. Objective 2 programmes

549. The NRDP for metropolitan France is supplemented by 20 regional SPDs with an EAGGF Guarantee Section element totalling EUR 768.340 million. The French authorities have opened measures A and G and all the measures under Article 33 (J to V) of Regulation (EC) No 1257/1999 for these regional programmes. There should be no redundancy in terms of the NRDP (hence, as a rule, for the measures used in

the two levels of programming, the actions in the SPD should form part of collective approaches contributing to territorial development).

5.6.1.3. Leader+

550. Leader+ will be implemented in the form of a national programme applicable throughout France, with the exception of certain urban areas, and a global grant. Submitted on 19 July 2000, the draft programme was expected to be adopted no later than December. Its funding was set to be EUR 252 million.

5.6.2. *Evaluation of old programmes*

551. The *ex post* evaluations of the rural development programmes for 1994-99 are in progress; the reports will be available during 2002.

552. Total Community aid for Objective 5(a) for 1994-99 amounts to EUR 1 536 million under Regulation (EC) No 950/97 and to EUR 297 million under Regulation (EC) No 951/97.

553. Figures available for the six Objective 1 programmes show commitments approaching 100%. In the case of the Objective 5(b) programmes for 1994-99, the consolidation of progress following technical and financial adjustments in 1999 shows that 96% of total EAGGF appropriations were programmed, a total of EUR 841 794 355. Payments amounted to 56%.

554. Taking Leader II and the Objective 1 and 5(b) areas together, the rate of programming was just over 90%. Implementation, however, still remains poor, below 30% in the case of EAGGF appropriations.

5.7. Ireland

5.7.1. *Adoption of new programmes*

5.7.1.1. Background and programming framework

555. Ireland has been divided in two NUTS II regions: Border, Midlands and Western region (Objective 1); and Southern and Eastern region (phasing-out). Both regions will, for the period 2000-06, benefit from the Community Support Framework (CSF). The participation of the EAGGF Guidance Section in the Irish CSF is concentrated on the two regional programmes and on the PEACE programme. Under Leader+, the EAGGF Guidance Section will also co-fund rural development measures. The participation of the EAGGF Guarantee Section in the Rural Development Plan will supplement the actions of the Guidance Section.

5.7.1.2. Fabric of programmes and priorities

556. The Commission agreed the CSF for the Structural Funds (2000-06) on 27 July 2000. Under the CSF there will be three interregional programmes in Ireland (Economic and Social Infrastructure, Employment and Human Resources and Productive Sector). These three interregional programmes will be supplemented by two regional Operational Programmes, each focusing on *four priorities*: Local Infrastructure, Local Enterprise Development, Agriculture and Rural Development and Social Inclusion and Childcare. A PEACE programme will be implemented in the border

counties with Northern Ireland. The contribution of the EAGGF Guidance Section to the CSF amounts to EUR 182.0 million, concentrated on the two regional programmes (EUR 169.4 million) and in the PEACE programme (EUR 12.6 million). In the regional programmes, two of the four priorities above are concerned. The draft Operational Programmes were submitted in April 2000.

557. The rural development programme for Ireland forms part of an overall strategy aimed at promoting more competitive primary agriculture, fostering environmentally sustainable production systems, diversifying activities on- and off-farm to generate alternative sources of incomes for farmers and promoting rural development at local level. Public expenditure on the programme totals EUR 3 675.1 million, including an EU contribution of EUR 2 388.9 million from the EAGGF Guarantee Section. The programme, which covers all rural areas, does not include the measures co-financed by the EAGGF Guidance Section in Objective 1 regions of the Structural Funds, which cover the whole territory of Ireland (Objective 1 Region in the North-West, Objective 1 Region in transition in the South-East).

5.7.2. *Evaluation of old programmes*

558. All commitments under the programmes from the previous period were made before the end of 1999 and the Irish authorities were in the process of finalising expenditure in 2000. An evaluation has been completed of the implementation of measures under Regulation (EC) No 950/97. This evaluation emphasised the importance of the compensatory allowances in the less-favoured areas. Further evaluation of other measures and programmes will be undertaken.

5.8. **Italy**

5.8.1. *Adoption of new programmes*

559. Programming for 2000-06 is being implemented exclusively through regional programmes. The Commission approved the rural development plans submitted at the beginning of the year by each of the 19 regions and two autonomous provinces subject to several revisions following long negotiations.
560. Under the new rules, the EAGGF Guarantee Section contributes to financing the plans submitted by the non-Objective 1 regions (located in central and northern Italy). The *Mezzogiorno*, with six regions eligible under Objective 1 and one region, Molise, qualifying for transitional support, will receive a contribution from the EAGGF Guarantee Section only for the three accompanying measures forming part of the reform of the CAP and for the compensatory allowance for farmers in areas which are less-favoured or subject to environmental constraints. All other assistance forming part of programming in the agriculture sector is part-financed by the EAGGF Guidance Section.
561. To that end, it is included in the regional operational programmes (with assistance part-financed by the Regional Fund, the Social Fund and the Financial Instrument for Fisheries Guidance) which implement the Objective 1 CSF for Italy.
562. These seven multifund programmes were also approved by the Commission and then included by means of programme complements giving details of implementation.

5.8.1.1. Abruzzi

563. The rural development programme for the Abruzzi sets out to improve links between the countryside and society as a whole, check the depopulation of inland areas, develop rural cultural assets and support the agri-food sector to maintain and increase employment. The total public cost of the programme is EUR 292.59 million, to which the European Community will contribute EUR 132.66 million from the EAGGF Guarantee Section.

5.8.1.2. Bolzano

564. The aim of the rural development programme for the Autonomous Province of Bolzano is to make the agriculture and forestry sectors more competitive while protecting the environment and retaining population in rural areas by encouraging their sustainable development. The total public cost of the programme is EUR 265.88 million, to which the European Community will contribute EUR 118.67 million from the EAGGF Guarantee Section.

5.8.1.3. Emilia-Romagna

565. The rural development programme for Emilia-Romagna is designed to make firms more competitive and protect the environment to promote the sustainable and integrated development of rural areas through a strategy based on the quality of every type of agricultural production. The total public cost of the programme is EUR 852.2 million (total cost EUR 1 269.8 million), to which the European Community will contribute EUR 386.7 million from the EAGGF Guarantee Section.

5.8.1.4. Friuli-Venezia Giulia

566. The main aim of the rural development programme for the region of Friuli-Venezia Giulia is a thorough overhaul of the agriculture sector, based on the exploitation of environmental resources and the multifunctional role of agriculture. To that end, it seeks to make holdings more competitive, promote product quality and environmentally friendly practices in agriculture and forestry and promote synergies in the rural economy. The total public cost of the programme is EUR 212.984 million, to which the European Community will contribute EUR 99.740 million from the EAGGF Guarantee Section.

5.8.1.5. Lazio

567. The general aim of the rural development programme for the region of Lazio is to consolidate the productive system in rural areas, particularly disadvantaged inland areas, to ensure balanced growth in terms of economic and social development and the protection and exploitation of natural resources. The total public cost of the programme is EUR 585.36 million (total cost EUR 849.23 million), to which the European Community will contribute EUR 255.39 million from the EAGGF Guarantee Section.

5.8.1.6. Liguria

568. The rural development programme for Liguria is intended to improve the competitiveness of agriculture in the region, develop its various aspects so as to ensure the balanced occupation of the area and the protection of the environment and

to adjust rural services and infrastructure to the changes brought about by European integration and the globalisation of trade. The total public cost of the programme is EUR 210.655 million, to which the European Community will contribute EUR 87.08 million from the EAGGF Guarantee Section.

5.8.1.7. Lombardy

569. The rural development programme for Lombardy is intended to make agriculture in the region more competitive, consolidate the economic and social fabric of the countryside and employment in the primary sector (particularly for women), give agriculture a greater role in the protection of the environment (especially soil) and in the maintenance of the countryside through less intensive methods and to raise farmers' incomes by diversifying activities. The total public cost of the programme is EUR 805.435 million, to which the European Community will contribute EUR 337.07 million from the EAGGF Guarantee Section.

5.8.1.8. Marche

570. The rural development programme for the Marche region is intended to encourage sustainable development in economic, social and environmental terms by making holdings more competitive, exploiting the resources of the region and improving the quality of life in rural areas and supporting action by the public authorities to ensure sustainability. The total public cost of the programme is EUR 691.1 million, to which the European Community will contribute EUR 185.4 million from the EAGGF Guarantee Section.

5.8.1.9. Umbria

571. The rural development programme for the region of Umbria is intended to support the competitiveness of rural areas through a policy of quality, the promotion de employment (in particular for young people) and the protection of the environment and the countryside; the key to the work is the search for synergies between productive activities and those concerned with the countryside and rural traditions. The total public cost of the programme is EUR 533.04 million, to which the European Community will contribute EUR 179.61 million from the EAGGF Guarantee Section.

5.8.1.10. Piedmont

572. The aim of the rural development programme for Piedmont is to support the sustainable economic, social and environmental development of rural areas by developing the various aspects of agriculture, creating activities and extra income for farmers (particularly in declining agricultural areas) and promoting equal opportunities for men and women. The total public cost of the programme is EUR 868.45 million (total cost EUR 1 233.91 million), to which the European Community will contribute EUR 363.24 million from the EAGGF Guarantee Section.

5.8.1.11. Tuscany

573. The rural development programme for Tuscany seeks to increase the competitiveness of agriculture and related industry and product quality, protect the environment and farmland and take advantage of the opportunities offered by rural areas in a strategy

to support the quality of life there. The total public cost of the programme is EUR 730.412 million (total cost EUR 1 062.603 million), to which the European Community will contribute EUR 328.903 million from the EAGGF Guarantee Section.

5.8.1.12.Trento

574. The rural development programme for the Autonomous Province of Trento seeks to develop agriculture in a context of sustainable development, maintain population and activity in agriculture and protect the environment and rural landscapes. The total public cost of the programme is EUR 210.200 million, to which the European Community will contribute EUR 90.250 million from the EAGGF Guarantee Section.

5.8.1.13.Valle d'Aosta

575. The rural development programme for the Valle d'Aosta is intended to make agriculture and forestry more competitive, support the sustainable and integrated development of rural areas and protect the environment in the context of an alpine area where mountain agriculture plays a key role. The total public cost of the programme is EUR 119.142 million, to which the European Community will contribute EUR 43.775 million from the EAGGF Guarantee Section.

5.8.1.14.Veneto

576. The general aim of the rural development programme for the Veneto is the consolidation and sustainable development of rural activities in the economic, social and territorial context of the region using a strategy based on recognition of the key role and multiple functions of agriculture. The total public cost of the programme is EUR 660.65 million (total cost EUR 944.94 million), to which the European Community will contribute EUR 297.35 million from the EAGGF Guarantee Section.

5.8.2. *Evaluation of old programmes*

577. All regions have worked hard to ensure full commitment of the amounts entered in the operational programmes and SPDs (EUR 4 400 million for Objective 1 and EUR 1 900 million for Objective 5(b)). Some regional budgets even committed amounts well in excess of those in their financing plans.

578. During 2000 this initial result was followed by a good level of implementation which should mean that closures are satisfactory by the 2001 deadline.

579. The situation with regard to the Leader II Community Initiative programme is similar but less satisfactory because of the delay (two years or more) in finalising the programmes and starting work on them. Commitments stand at 70% to 140% of the amount planned.

580. Implementation improved sharply in 2000; although still very low it should be compared with the virtually zero situation in previous years. Obviously, a greater effort will have to be made if the result is to be acceptable by the 2001 deadline.

5.9. Luxembourg

5.9.1. Adoption of new programmes

581. The purpose of the rural development programme for the Grand Duchy of Luxembourg is to foster competitiveness, support agricultural incomes, maintain farming in less-favoured areas, protect the environment and natural heritage and promote sustainable forestry by means of a strategy in which the multiple functions of agriculture and forests, as well as product quality, are to the forefront. The total public cost of the programme is EUR 373 639 000. The European Community's contribution of EUR 91 000 000 comes from the EAGGF Guarantee Section. The programme fully covers Luxembourg's rural areas.

5.9.2. Evaluation of old programmes

582. All commitments under the programmes from the previous period were made before the end of 1999 and the Luxembourg authorities were in the process of finalising expenditure in 2000.

583. An *ex post* evaluation of the measures from the period 1994-99 will be undertaken.

5.10. Netherlands

5.10.1. Adoption of new programmes

584. In the Netherlands a Single Programming Document for Community structural assistance under Objective 1 Flevoland (phasing-out) for the period 2000-06 has been approved, with part-financing by the EAGGF Guidance Section totalling EUR 10 million.

585. The rural development programme for the Netherlands is aimed at restructuring the agricultural sector to meet new challenges through innovation, the diversification of agricultural activities, the promotion of nature conservation, the improvement of water management and the development of amenities for rural communities, tourism and recreation. The total public cost of the programme is EUR 1 057.39 million, including an EU contribution of EUR 417 million from the EAGGF Guarantee Section. The programme covers the whole of the Netherlands.

5.10.2. Evaluation of old programmes

586. All commitments under the programmes from the previous period were made before the end of 1999 and the Dutch authorities were in the process of finalising expenditure in 2000. The four Leader II programmes, in North-East Friesland/North-West Groningen, North-West Friesland, Drenthe and Flevoland, are aimed mainly at stimulating sustainable economic and farming activities and tourism and are proceeding satisfactorily.

587. Implementation of the Objective 5(b) programmes in the Netherlands is now progressing satisfactorily way. For all the Objective 5(b) areas in the Netherlands, over 80 % of the payments have been made.

588. Friesland, Groningen/Drenthe, Overijssel and Limburg are concentrating generally on the creation of new holdings, on tourism and on the upkeep of the landscape, while Zeeland is putting the accent in particular on the diversification of agriculture.
589. The Single Programming Document for improving the processing and marketing conditions for agricultural and forestry products in respect of Objective 5(a) shows that programme implementation and payments have now reached about 55% but that implementation itself could be speeded up.

5.11. Austria

5.11.1. Adoption of new programmes

590. The rural development programme for Austria aims to promote a competitive and environmentally sustainable agricultural sector while maintaining the importance of family farms. Three sets of objectives are defined: compensation for special services by farmers, preservation of assets with regard to the maintenance of holdings, and improving competitiveness. The total public cost of the programme is EUR 6 896.074 million, including an EU contribution of EUR 3 208.10 million from the EAGGF Guarantee Section. The programme covers the whole of Austria. However, it does not include the measures part-financed by the EAGGF Guidance Section in Objective 1 regions of the Structural Funds, which include the Austrian region of Burgenland.

5.11.1.1. Objective 1 programme for Burgenland

591. Geographical area covered: Objective 1 – Burgenland region (Austria)

5.11.1.1.1. Strategy

592. The Burgenland programme is a multisectoral programme for the development and structural adjustment of the region. It receives assistance from the ERDF, the EAGGF (Guidance Section) and the ESF and includes six priorities, one of which, "Agriculture, forestry, fisheries and protection of nature", is split into three sub-priorities: "Agriculture and forestry", "Rural development, diversification and protection of nature" (part-financed by the EAGGF Guidance Section) and "Fisheries and aquaculture" (part-financed by the FIFG). The two agricultural priorities cover the same assistance fields as the corresponding RDP priorities and the provisions of the RDP apply. On the matter of agricultural strategy, please see point 5.11.1 above.

5.11.2. Evaluation of old programmes

593. *Ex post* evaluation: final report expected in 2002.

594. The financial allocation under the RDP is also to cover the following:

- expenditure incurred by the EAGGF Guarantee Section on accompanying measures under Council Regulations (EEC) No 2078/92 (EEC) No 2079/92 and (EEC) No 2080/92 from the 2000 budget year:

Total public cost (part-financed): EUR 641.62 million (EAGGF: EUR 331.06 million);

- expenditure on other rural development operations approved before 1 January and included in the new programming under Article 4(2) of Regulation (EC) No 2603/1999.

Total public cost: EUR 3.68 million (EAGGF: EUR 0.92 million).

5.12. Portugal

5.12.1. Adoption of new programmes

5.12.1.1. Community support framework and other instruments

595. The whole territory of Portugal is eligible under Objective 1 apart from the region of *Lisboa e Vale do Tejo* which, because it is receiving transitional support, is subject to the same rules. During the period 2000-06, rural development policy will be implemented mainly through three groups of instruments: the Community support framework (CSF) and the Leader+ Community Initiative programme, part-financed by the EAGGF Guidance Section, and the rural development plans (RDP), part-financed by the EAGGF Guarantee Section.

596. The CSF and the seven regional operational programmes were adopted in the first half of 2000. The large national operational programme "Agriculture and rural development" will be approved shortly. Portugal submitted three RDPs, one for continental Portugal and one each for the autonomous regions of the Azores and Madeira. Since the Portuguese authorities have not yet submitted the Leader+ programme, it remains to be seen whether this will be a single national programme or whether it will be divided into a number of regional programmes.

5.12.1.2. Aim

597. The aims of rural development are to make agriculture more competitive through restructuring and investment based on quality products, information and support for farmers and rural populations. This presupposes the implementation of integrated rural development at an appropriate local level, preservation of the environment, the management of natural resources and the permanent protection of the countryside and the cultural heritage.

5.12.1.3. Programme priorities and structures

598. The rural development supported by the CSF comprises seven multifund regional operational programmes (OPs) and a national operational programme. In general, the national programme is intended to support major projects while the regional OPs are directed at small projects, the diversification of agricultural activity or specific clearly defined sectors. These OPs cover investment in agricultural holdings, the installation of young farmers, the training of farmers, investment in improving the processing and marketing of agricultural products and encouragement for the adaptation and development of rural areas. Total funding by the EAGGF Guidance Section amounts to EUR 2 177.3 million.

599. The rural development plans to be financed by the EAGGF Guarantee Section to the tune of EUR 1 554 million include aid for early retirement, aid for the less-favoured areas and those subject to environmental constraints, agri-environmental measures and aid for the afforestation of agricultural land.

600. The Leader+ Community Initiative programme will be implemented by local action groups, in agreement with the Commission and in accordance with its instructions. Total funding by the EAGGF Guidance Section amounts to EUR 161.2 million.

5.12.2. Evaluation of old programmes

601. The agriculture sector in Portugal is very important in social and economic terms, more so than in the Community as a whole. The main problems it faces which prevent the sector from being competitive and modern mainly concern land tenure, climatic conditions, the poor level of professional training, the advanced age of farmers and the lack of infrastructure for the processing and marketing of agricultural and forestry products.

602. The results of CSF II are more competitive agriculture, the integration of various incomes and activities on agricultural holdings and the preservation of the environment. The measures have resulted in the modernisation of about 45 000 holdings and the installation of 5 000 young farmers. In addition to the afforestation of agricultural land under Regulation (EEC) No 2080/92¹²⁷, some 48 000 hectares of trees will be planted.

5.13. Finland

5.13.1. Adoption of new programmes

603. The horizontal rural development programme for Finland seeks to support agricultural incomes, raise the profitability of production by taking account of specific natural handicaps and environmental constraints, retain population in rural areas and diversify activity there. The total public cost of the programme is EUR 5 008.33 million, to which the European Community will contribute EUR 2 061.44 million from the EAGGF Guarantee Section. The programme covers all the rural areas of continental Finland but not the measures part-financed by the EAGGF Guidance Section in the regions eligible under Objective 1 of the Structural Funds.

5.13.1.1. Continental Finland

604. The non-Objective 1 rural development programme for continental Finland seeks to check the depopulation of rural areas (particularly isolated areas) and support their balanced development by making villages and the countryside more attractive, encouraging business initiative, creating jobs, diversifying activities and improving the training of farmers and skills in rural communities. The total cost of the programme is EUR 387.77 million, to which the European Community will contribute EUR 116.33 million from the EAGGF Guarantee Section. The rural areas concerned are the part of continental Finland not eligible under Objective 1 of the Structural Funds.

5.13.1.2. Åland islands

605. The rural development programme for the Åland islands aims to secure the viability of small farms through compensatory allowances, payments for environmentally

¹²⁷ OJ L 215, 30.7.1992, p. 96.

sensitive farming methods and installation assistance for young farmers. The total cost of the programme is EUR 48.093 million, which includes an EU contribution of EUR 21.495 million from the EAGGF Guarantee Section. The programme is a specific programme for the Åland Islands, which is an autonomous province of Finland. The programme is in addition to the horizontal programme for continental Finland and the regional programme for continental areas outside Objective 1 regions.

5.13.2. *Evaluation of old programmes*

606. *Ex post* evaluators have been selected for the Objective 6 SPD, for the Continental Finland and Åland Islands 5(b) programmes and the two Leader II programmes and are performing the tasks assigned to them. Evaluation of processing and marketing outside Objective 6 regions will be carried out with national financing.

5.14. Sweden

5.14.1. *Adoption of new programmes*

607. The rural development programme for Sweden aims to promote environmentally sustainable development with the twin objective of supporting farmers through agri-environment payments and generating new opportunities for economic diversification through forestry and tourism. It also focuses on economically and socially sustainable rural development. The total public cost of the programme is EUR 2 551.63 million, including an EU contribution of EUR 1 130.05 million from the EAGGF Guarantee Section. The programme covers every rural area. It does not include two regions, Norra Norrland and Södra Skogslänen (with the exception of agri-environmental measures and compensatory allowances in less-favoured areas, which cover the entire Swedish territory), which are Objective 1 regions, in which measures are financed by the EAGGF Guidance Section.

5.14.1.1. Objective 1

608. In Sweden there are two Objective 1 programmes. Most measures in Regulation (EC) No 1257/1999 suitable for the Nordic region except for the accompanying measures are used in the Objective 1 programmes for Sweden. The EAGGF contribution for Norra Norrland amounts to EUR 50.6 million. That for Södra Skogslänsregionen totals EUR 61.0 million.

5.14.2. *Evaluation of old programmes*

609. The *ex post* evaluations of the rural development programmes for the period 1994-99 are under way. The reports are expected to be available in 2002.

610. After a slow start, commitments picked up in 1998 and even more so in 1999. The total EC contribution to the five Swedish Objective 5(b) programmes amounts to EUR 153 million. The level of payments has increased significantly. By the end of January 2000 it had reached 49 %.

611. Commitments picked up during 1998 after a slow start. The total Community contribution to the Swedish Objective 6 programme amounts to EUR 309 million. The level of payments has increased significantly as the programme has unfolded and, by the end of January 2000, had reached 60 %.

612. The total EU contribution to the Swedish Leader II Objective 5(b) programme amounts to EUR 12 478 million. Commitments picked up after a slow start and by the end of January 2000 a total of 22% of the funds had been paid. The total EU contribution to the Swedish Leader II Objective 6 programme amounts to EUR 4.16 million. Commitments picked up after a slow start and by the end of January 2000 a total of 33% of the funds had been paid.

5.15. United Kingdom

5.15.1. Adoption of new programmes

5.15.1.1.England

613. The rural development programme for England is aimed at diversifying farming and forestry businesses and increasing competitiveness, developing new food and non-food products, ensuring the sustainable management of less-favoured areas and significantly increasing the areas covered by environmental schemes. The total expenditure under the programme is provided through part-financing based on the EU allocation to the UK, together with appropriations from the application of modulation which are also matched by equivalent national resources. The expenditure represented by part-financing is EUR 1 496.7 million, which includes an EU contribution of EUR 615.2 million from the EAGGF Guarantee Section. The appropriations from modulation provide a further EUR 757.3 million, including EUR 381.6 million from the EAGGF. In addition, the UK has committed a further EUR 404.1 million of national state aids associated with measures under the programme, thereby increasing the full financial effort for the rural development programme for England to an overall total of EUR 2 658.1 million, with an EU contribution of EUR 996.8 million from the EAGGF.

5.15.1.2.Northern Ireland

614. The rural development programme for Northern Ireland aims to strengthen the economic position of agriculture through increased efficiency and diversification, while conserving, where possible, the existing agricultural structure. It is designed to protect and promote the image of environmentally friendly farming and to encourage forestry and other activities providing public amenities. The total public cost of the programme is EUR 332.11 million, which includes an EU contribution of EUR 129.64 million from the EAGGF Guarantee Section. The appropriations from the use of modulation provide a further EUR 69.49 million, including EUR 47.16 million from the EAGGF Guarantee Section.

5.15.1.3.Scotland

615. The rural development programme for Scotland aims to promote the sustainable economic, environmental and social development of rural areas through extensive land management and enhancing biodiversity, encouraging diversification into forestry and supporting farming incomes in the less-favoured areas. The total expenditure is provided through part-financing based on the EU allocation to the UK, together with appropriations from the application of modulation, which is also matched by equivalent national resources. The expenditure from part-financing is EUR 879.99 million, including an EU contribution of EUR 273.25 million from the EAGGF Guarantee Section. The appropriations from the use of modulation provide a

further EUR 181.64 million, including EUR 97.91 million from the EAGGF Guarantee Section. In addition, the UK has committed EUR 10.69 million of national top-up aid, thereby increasing the full financial "effort" in respect of the rural development programme for Scotland to EUR 1 072.32 million, with an EU contribution of EUR 371.16 million from the EAGGF Guarantee Section.

5.15.1.4.Wales

616. The rural development programme for Wales aims to make farm businesses stronger through increased productivity and diversification, supporting rural communities by increasing rural employment and extending initiatives to protect the environment and rural heritage. The total expenditure is provided through part-financing based on the EU allocation to the UK together with appropriations from the application of modulation which is also matched by equivalent national resources. The expenditure from part-financing is EUR 600.09 million, including an EU contribution of EUR 149.57 million from the EAGGF Guarantee Section. The appropriations from the use of modulation provide a further EUR 98.70 million, including EUR 60.84 million from the EAGGF Guarantee Section. In addition, the UK has committed EUR 113.85 million of national top-up aid, thereby increasing the full financial "effort" towards the rural development programme for Wales to EUR 746.79 million, with an EU contribution of EUR 210.41 million from the EAGGF Guarantee Section.

5.15.1.5.Objective 1

617. A total of four regions are eligible under Objective 1; Cornwall and the Scilly Isles, Merseyside, South Yorkshire, and West Wales and the Valleys. The Highlands and Islands and Northern Ireland are Objective 1 regions in transition. In all cases except for Northern Ireland the Objective 1 SPDs have been approved. They are structured in such a way that the rural areas have access to the same measures (under Regulation 1257/1999) funded by the EAGGF Guidance Section, as do rural areas outside Objective 1 regions under the RDP funded by the EAGGF Guarantee Section.

6. ENVIRONMENT AND FORESTRY

6.1. Other environmental measures

618. On 27 January 1999 the Commission adopted a communication entitled "Directions towards sustainable agriculture"¹²⁸, in which it takes stock of the integration of environmental aspects in the agricultural policy. The reforms undertaken in the context of Agenda 2000 greatly contribute to the process of integration of environmental concerns in the agricultural policy by placing at the disposal of the Member States, local authorities and agricultural and rural communities a wide range of instruments for introducing sustainable agriculture¹²⁹. The reforms confirm the essential role played by farmers as paid providers of environmental services that go beyond good farming practice and compliance with environmental legislation.
619. On 26 January 2000, seeking to monitor progress towards integration in line with the requests made by the European Councils in Cardiff and Vienna in June and December 1998 respectively and the integration strategy defined in November 1999 by the Helsinki European Council, the Commission adopted a communication entitled "Indicators for the integration of environmental concerns into the common agricultural policy"¹³⁰.
620. Agriculture plays a key role in other Community initiatives relating to environmental protection, viz. the measures being implemented with a view to protecting surface and underground water. Under the nitrates Directive Member States must, in particular, establish action plans in specified vulnerable areas in order to bring about a reduction in nitrate pollution at source. The 1979 Directive on birds is another noteworthy Community initiative, providing as it does that Member States must protect the habitat of their wild bird populations. Lastly the Natura 2000 ecological network was created in the context of the 1992 habitats Directive.
621. It should be noted that Member States must, in the interests of good programming and proper implementation of the rural development measures, fulfil their obligations under the three directives.

6.2. Forestry

622. The national protection programmes are part of a total of 80 forest fire protection plans - including 62 which have been updated or are being renewed - which were the subject of a favourable opinion by the Commission.
623. The plans are essential to the eligibility of certain forestry measures adopted pursuant to Community action to support rural development by the EAGGF (European Agricultural Guidance and Guarantee Fund).
624. Moreover, the Member States and the Commission have set up a Community system of information on forest fires, the aim being to make available a monitoring and

¹²⁸ COM(1999) 22 final.

¹²⁹ OJ L 160, 26.6.1999, p. 80 and p. 113.

¹³⁰ COM(2000) 20 final.

evaluation instrument in connection with the national and Community protection measures concerned.

625. The system currently contains details of over 500 000 fires recorded in at-risk regions in the Community since 1985. The information is set out in monthly publications, the most recent of which - published in October 2000 - also includes a study of the link between the data on forest fires and the meteorological, geographical and socio-economic information available.

7. FINANCING OF THE CAP IN 2000

7.1. Berlin Summit Agreement and budgetary discipline

626. The Berlin Summit of 24 and 25 March 1999 produced an agreement on the Agenda 2000 proposals. From a financial perspective its conclusions differ appreciably from the Commission's initial proposals of EAGGF Guarantee funding for market support and rural development measures, including accompanying measures, under a single heading. The total expenditure is of course expected to remain below the agricultural guideline, but the expected trend of the guideline suggests that there will be a substantial margin over and above the anticipated expenditure, a margin which could well be needed after 2002 for the expected new members.
627. The conclusions of the Berlin Summit include the Commission's proposed guideline (and within it rural development measures, veterinary measures, the SAPARD pre-accession agricultural instrument and the amount available for agriculture in connection with accessions), but introduce sub-guideline ceilings on expenditure in the shape of two annual subceilings for 2000-06: one for traditional market expenditure (1(a)) and one for expenditure on rural development (1(b)). These ceilings have been set at a level corresponding to the estimated expenditure resulting from the adoption of Agenda 2000, i.e. at the level of the expected expenditure, with no allowance made for unforeseeable events, even though events of that type often do occur. The ceilings have been set as follows:

Expenditure in 2000-06 (in EUR million at 2000 prices)¹³¹

	2000	2001	2002	2003	2004	2005	2006	Total
Total future CAP	40920	42800	43900	43770	42760	41930	41660	297740
(a) markets ¹³² (subceiling 1(a))	36620	38480	39570	39430	38410	37570	37290	267370
(b) rural development ¹³³ (subceiling 1(b))	4300	4320	4330	4340	4350	4360	4370	30370

628. The conclusions of the Berlin Summit were followed by the adoption by Parliament and the Council of:
- a new Interinstitutional Agreement - on budgetary discipline, the financial perspective (ceilings) and the budgetary procedure - which lists those conclusions and formally allows the Commission to put forward in the autumn a letter amending the preliminary draft budget for the following year, thereby

¹³¹ A 2% deflator will be used for calculating amounts at current prices.

¹³² Including veterinary and plant health protection measures but excluding accompanying measures.

¹³³ Including accompanying measures.

- To this expenditure should be added rural development measures - other than under Objective 1 - which are currently financed by EAGGF Guidance.

- These amounts roughly correspond, on average, to the proposal put forward by the Commission as part of Agenda 2000.

- All rural development measures are co-financed by the European Commission and the Member States.

enabling the budgetary forecasts to reflect the most recent developments. The Agreement also includes provisions on flexibility and on revision of the financial perspective (ceilings), but responsibility for invoking those provisions rests with the budgetary authority.

- A new Regulation (Regulation (EC) No 2040/2000)¹³⁴ on budgetary discipline, stipulating, *inter alia*: that all the legislative measures adopted under the common agricultural policy must comply with subceilings 1(a) and 1(b), as laid down in the financial perspective, and that appropriations must comply with these ceilings; that, with a view to ensuring that the amount of subheading 1(a) (traditional EAGGF Guarantee Section expenditure) is observed, the Council may decide to adjust the level of the support measures applicable as from the start of the following marketing year in each of the sectors concerned; that the Commission is to submit along with the preliminary draft budget an analysis of the differences between initial forecasts and actual expenditure for the previous financial years and examine the medium-term situation; that, for the purposes of calculating budget estimates when it draws up the budget, a letter of amendment or a supplementary and amending budget (SAB), the Commission is generally to use the average rate of the dollar over the most recent three-month period; and, finally, that the monetary reserve is to be reduced to EUR 250 million in 2002 and is to be abolished with effect from financial year 2003.

7.2. EAGGF Guarantee Section

629. The EAGGF Guarantee appropriations adopted for 2000 total EUR 40 993.9 million (including EUR 24.9 million for the agricultural budgetary reserve - Chapter B0-40)¹³⁵. The agricultural guideline¹³⁶ is EUR 46 549 million and covers not only expenditure under Subsection B1 but also the expenditure under the SAPARD pre-accession instrument (EUR 529 million of commitment appropriations entered in Chapter B7-01). There is thus a margin of more than EUR 5 000 million between the agricultural guideline and the related appropriations. The appropriations under:

- the subheading for traditional EAGGF Guarantee Section expenditure and veterinary expenditure (subheading 1(a) covering Titles B1-1 to B1-3) amount to EUR 36 889 million, i.e. EUR 463 million below the subceiling fixed in the Interinstitutional Agreement of 6 May 1999¹³⁷;
- the subheading "rural development and accompanying measures" (subheading 1(b) covering Titles B1-4 and B1-5) amount to EUR 4 104.9 million, i.e. EUR 281.1 million below the subceiling fixed in the Interinstitutional Agreement.

7.2.1. Stages of the budgetary procedure

630. The 2000 Preliminary Draft Budget was drawn up by the Commission and proposed to the Budget Authority at the end of April 1999. The appropriations proposed for the EAGGF Guarantee Section totalled EUR 40 901 million, i.e. EUR 37 314 million for

¹³⁴ OJ L 244, 29.9.2000, p. 27.

¹³⁵ Not including EUR 500 million of appropriations entered in the monetary reserve (B1-6).

¹³⁶ An instrument of budgetary discipline setting a maximum growth threshold for agricultural spending.

¹³⁷ Interinstitutional Agreement of 6 May 1999 between the European Parliament, the Council and the Commission on budgetary discipline and the improvement of the budgetary procedure (1999/C 172/01).

subheading 1(a) and EUR 3 587 million for subheading 1(b). The Preliminary Draft Budget had to take account of the ceilings for subheadings 1(a) (EUR 37 352 million at current prices) and 1(b) (EUR 4 386 million at current prices) laid down in the financial perspective: the requirements identified for subheading 1(a) exceeded the ceiling by EUR 212 million. The proposed appropriations were, therefore, reduced across the board by EUR 250 million and so remained below the ceiling. The requirements identified for subheading 1(b) were well below the ceiling. The proposed appropriations thus matched the requirements.

631. The Council adopted the draft budget in July 1999. It left the appropriations in subheading 1(b) unchanged but reduced those in subheading 1(a) by EUR 375 million. EAGGF Guarantee Section appropriations thus totalled EUR 40 526 million.
632. In October 1999 the Commission adopted a letter of amendment to the Preliminary Draft Budget to take account, firstly, of developments on agricultural markets and, secondly, of recently adopted agricultural legislation.
633. Unfavourable developments on agricultural markets at that time kept foreseeable requirements for the whole of subheading 1(a) at a level above the ceiling, despite a slight reduction (EUR 67 million) in foreseeable requirements compared with the Preliminary Draft Budget. The chapters for which requirements were appreciably revised downwards were: clearance of accounts (-EUR 300 million), following larger-than-expected negative corrections; beef/veal (-EUR 191 million), requirements for public storage and export refunds having decreased; sheepmeat and goatmeat (-EUR 186 million), as a result of a rise in the average price on the Community market; and, lastly, olive oil (-EUR 159 million), the reduction in this case being attributable to a downward revision for production in certain Member States. These savings were, however, more than offset by increases in the chapters for: pigmeat (+EUR 236 million), the crisis having lasted longer than expected; sugar (+EUR 158 million), as a result of higher export refunds deriving from the drop in world prices; arable crops (+EUR 115 million), after the price for oilseeds proved to be lower than expected; and, finally, milk and milk products (+EUR 102 million), owing to higher production of butter and skimmed-milk powder and an increase in some export refund rates.
634. For subheading 1(b), foreseeable expenditure was increased by EUR 200 million in relation to the Preliminary Draft Budget, in anticipation of the speedier submission by Member States of their new rural development programmes.
635. The additional requirements arising from recent agricultural legislation amounted to only EUR 38 million (and affected only subheading 1(a)). This was because there had been practically no changes to the basic regulations since the presentation of the Preliminary Draft Budget, which had already absorbed the impact of the Agenda 2000 decisions. Moreover, the financial implications of the Council's decision on the 1999/2000 price package differed little from the Commission's initial proposal.
636. The requirements thus identified for the EAGGF Guarantee Section in the letter of amendment amounted to EUR 41 324 million.¹³⁸ Since the requirements for

¹³⁸ The requirements identified in the letter of amendment did not cover the requirement of EUR 20.9 million for Chapter B1-50.

subheading 1(a) exceeded the ceiling, the appropriations proposed in the letter of amendment were the subject of a EUR 200 million reduction, applied across the board to the different budget items concerned, which left a margin of EUR 15 million below the subceiling concerned.

637. The Tripartite Dialogue on the 2000 budget was concluded on 16 December 1999, with the following results for the EAGGF Guarantee Section:
638. Appropriations for subheading 1(a) stand at EUR 36 889 million, i.e. EUR 463 million below the subceiling fixed in Berlin, following the application of a further across-the-board reduction to the different headings.
639. Appropriations for Title B1-4 in subheading 1(b) amount to EUR 4 084 million, i.e. EUR 297 million above the amount that the Commission requested in its letter of amendment. Parliament, therefore, increased the appropriations for agri-environment measures and, in addition, created a new title B1-50 for support for the management of resources in support of the common fisheries policy, with an allocation of EUR 20.9 million. Appropriations for subheading 1(b) thus amount to EUR 4 104.9 million, i.e. EUR 281 million below the Berlin subceiling.
640. Since the Commission can request the non-automatic carryover of appropriations not committed at the end of the financial year when the appropriations entered in the relevant budget headings for the following year do not cover requirements, the budget authority authorised appropriations of EUR 29 million to be carried over to cover the additional requirement, in the 2000 financial year, arising from the late payment by Italy of the first annual instalment of agrimonetary aid in 1999. It also authorised the carryover of approximately EUR 4 million for inspection measures in the context of humanitarian aid to Russia. Budgetary resources for 2000 thus amounted to EUR 41 026.9 million.
641. It should be emphasised that estimating future expenditure on agriculture is particularly difficult. Up to twenty months can elapse between the forecast and the execution of certain expenditure, and many unforeseeable factors, both internal and external - including the value of the euro in relation to the dollar - can have a major effect on expenditure.
642. Moreover the Commission's budgetary forecasts are heavily dependent on the expenditure forecasts and on some production forecasts which Member States must produce and transmit to it in accordance with the rules applicable. The Commission has accordingly looked into possible improvements in financial management and has implemented an action programme in this respect. It has asked Member States to contribute to this effort by improving the quality and the speed of transmission of the information concerned, in line with the current rules.
- 7.2.1.1. The monetary reserve
643. The operating mechanisms for the monetary reserve are set out on page 139 of the 1995 Report on the Agricultural Situation.
644. In accordance with the Council Decision on budgetary discipline, the euro/dollar parity used for drawing up the Preliminary Draft Budget and the amending letter for

the 2000 financial year was EUR 1 = USD 1.12 and was equal to the average dollar parity for January, February and March 1999.

645. For a large proportion of export refunds for agricultural products, particularly cereals and sugar, and some internal aid such as that for cotton, however, expenditure depends on the movement of the dollar rate. The real euro rates recorded were thus substantially lower than the budgetary parity. The average dollar rate for the period 1 August 1999 to 31 July 2000 (reference period for determining the impact of the dollar) diverged from this budgetary parity (EUR 1 = USD 0.99) and the amount of expenditure incurred by Member States is lower as a result of the trend in the dollar rate. Savings amount to EUR 510 million. The EAGGF Guarantee Section can benefit only in part from these savings. Savings exceeding the margin of EUR 200 million fixed under the rules of budgetary discipline were transferred to the monetary reserve at the end of the financial year and cannot be used to finance other measures.
646. Expenditure was appreciably lower than in previous years as a result of the impact of the dual rate. Abolition of the green rates eliminated the effect of the dual rate in the countries participating in the euro and thus resulted in major savings. However, the cost of the dual rate to the EAGGF Guarantee Section, which had been estimated at EUR 119 million when the letter of amendment was drawn up, proved to be EUR 106 million higher, at EUR 225 million.

7.2.2. *The EAGGF Guarantee Section in the context of the general budget*

647. In a general budget of the European Union for the 2000 financial year totalling EUR 87 752.4 million (in payment appropriations entered in the 2000 budget), EUR 40 993.9 million in payment appropriations (excluding the monetary reserve, but including the appropriations entered in Chapter B0-40 "provisions"), i.e. 47%, was allocated to the Guarantee Section. In 1999 EAGGF Guarantee Section expenditure accounted for 48% of general budget expenditure.

7.2.3. *The EAGGF and its financial resources*

648. The EAGGF forms an integral part of the European Union's budget. Its appropriations are therefore determined in accordance with budget procedures, in the same way as other Community expenditure.
649. The CAP also generates revenue in the form of sums collected under the common market organisations. This revenue, which forms part of the Union's own resources,¹³⁹ consists of:
- levies, which are variable charges on imports from non-member countries of agricultural products covered by the common market organisations; such charges are intended to compensate for the difference between prices on the world market and prices agreed within the Union. Under the Agreement on Agriculture following the Uruguay Round of multilateral trade negotiations, levies have been replaced by fixed import duties since 1995;

¹³⁹ The Union's other own resources are: the levy on VAT, customs duties collected under the Common Customs Tariff and Member States' contributions.

- levies collected under the common organisation of the market in sugar; these are divided into production levies on sugar and isoglucose, sugar storage levies and additional elimination levies which ensure that farmers and sugar manufacturers finance the cost of disposing of sugar which is surplus to Community internal consumption.

Revenue

Charges accruing to the Union's own resources under the CAP
(amounts prior to deduction of collection costs)

(EUR million)

Type of charge	1994	1995	1996	1997	1998	1999	2000 ¹⁴⁰
Agricultural levies	922.4	844.3	810.1	1025.2	1102.2	1187.3	1102.2
Sugar levies	1382.1	1316.4	1213.7	1114.0	1070.1	1203.6	1162.7
Of which:							
- production ¹⁴¹	849.4	773.5	722.1	765.1	790.0	827.0	875.8
- storage costs	532.1	542.0	490.8	348.9	281.1	288.5	286.9
- other	0.6	0.8	0.8	0.01	0.0	88.1	0.0
Total	2304.5	2160.7	2023.8	2139.2	2172.3	2390.9	2264.9

650. It should be noted that there are other sources of agricultural revenue. Under the common organisation of the market in milk and milk products, producers pay an additional levy if milk quotas are exceeded. This revenue does not, however, form part of the Union's own resources and is considered to be part of the measures to stabilise agricultural markets. It covers the additional expenditure brought about by the production overrun on the quotas and is thus deducted from this same expenditure.

7.2.4. EAGGF Guarantee Section expenditure

651. In essence, the EAGGF Guarantee Section finances expenditure on the common organisations of agricultural markets, comprising:

- market support (EUR 10 301.4 million in 1999),
- direct aid to producers (EUR 29 239.4 million in 1999).

652. Market support covers export refunds (EUR 5 572.8 million in 1999), storage (EUR 1 568.3 million in 1999), guidance premiums (EUR 154.3 million in 1999), processing and consumption aid (EUR 2 684.3 million in 1999), withdrawals and the like (EUR 346.2 million in 1999) and miscellaneous other expenditure (EUR 24.5 million in 1999).

653. Direct aid to producers is thus currently by far the largest type of assistance.

654. Furthermore, as a result of the reorientation and later the reform of the CAP, the EAGGF Guarantee Section has been used to finance, in whole or in part, various specific measures for the management of agricultural markets such as the distribution of agricultural products to the needy in the Community, measures to combat fraud, measures to promote quality and measures designed to compensate for the geographical isolation of the French overseas departments (POSEIDOM), Madeira and the Azores (POSEIMA), the Canary Islands (POSEICAN) and the Aegean

¹⁴⁰ Figures entered in the budget.

¹⁴¹ Including the additional elimination levy.

islands. In connection with the CAP reform in 1992 and, more recently, in 1999, mention should also be made of the accompanying measures to assist farmers with projects to protect the environment, maintain the landscape, develop the use of forest resources or transfer their holdings with a view to early retirement, as well as the other rural development measures, including compensation granted in less-favoured areas, all of which make up the second pillar of the CAP.

7.2.4.1. Public storage

655. As shown in Table [3.4.5] (statistical part of this Report), between 1 October 1998 and 30 September 1999, when the public storage accounts were closed, the book value of the products in storage was significantly up on 1998: from ECU 1 397.8 million to ECU 1 621.9 million, an increase of 16%.

656. This resulted from:

- a marked increase in stocks of cereals and rice (from 13 602 995 tonnes on 30 September 1998 to 14 944 589 tonnes on 30 September 1999),
- an increase in milk products (from 208 395 tonnes on 30 September 1998 to 274 845 tonnes on 30 September 1999),
- a sharp reduction in beef/veal stocks (from 544 037 tonnes on 30 September 1998 to 160 924 on 30 September 1999).

657. The following developments took place in 2000:

- a fall in stocks of cereals (8 million tonnes in storage on 30 September 2000), olive oil (25 000 tonnes in storage on 30 September 2000), alcohol (1.6 million hectolitres in storage on 30 September 2000), powdered skimmed milk (2 000 tonnes in storage on 30 September 2000), and beef/veal (1 000 tonnes in storage on 30 September 2000),
- a rise in stocks of rice (700 000 tonnes in storage on 30 September 2000) and butter (72 000 tonnes in storage on 30 September 2000).

7.2.5. Clearance of accounts

658. In 2000 the Commission adopted six Decisions on the clearance of the accounts presented by the Member States in respect of EAGGF Guarantee Section expenditure:

- Decision of 1 March 2000 (2000/197/EC) in respect of 1995¹⁴²,
- Decision of 5 July 2000 (2000/448/EC) in respect of 1995¹⁴³,
- Decision of 14 February 2000 (2000/179/EC) in respect of 1999 – clearance of accounts¹⁴⁴,

¹⁴² OJ L 61, 8.3.2000.

¹⁴³ OJ L 180, 19.7.2000.

¹⁴⁴ OJ L 57, 2.3.2000.

- Decision of 28 April 2000 (2000/314/EC) in respect of 1999 – clearance of accounts¹⁴⁵,
- Decision of 1 March 2000 (2000/216/EC) pursuant to Article 5(2)(c) of Regulation (EEC) No 729/70 - fourth *ad hoc* Decision, applicable from 1996¹⁴⁶,
- Decision of 5 July 2000 (2000/449/EC) pursuant to Article 5(2)(c) of Regulation (EEC) No 729/70 - fifth *ad hoc* Decision, applicable from 1996¹⁴⁷.

659. The expenditure recovered from Member States in respect of these six Decisions comes to EUR 632.6 million.

660. In the case of the agricultural guarantee sector, where Member States are responsible for executing virtually all payments and for collecting all levies and recoveries, the Commission has taken firm steps to encourage Member States to reduce the rates of irregularity. Firstly, it has worked with the Member States to ensure that, throughout the Union, the paying agencies see to it that there are very strict controls on all claims before they are paid, and that the paying agencies' accounts and procedures are audited each year to internationally accepted standards. Secondly, it has actively assisted all Member States both in putting into place an integrated control system which uses the most advanced techniques, viz. checking of fields by aerial and satellite photography, and in cross-checking claims in computer databases.

661. The Commission also took part in the following in connection with the clearance of accounts:

- discussions with the Member States on the findings of the inspection missions in respect of 1999 and drawing up of a new decision on the clearance of accounts,
- the work of the European Parliament's Budgetary Control Committee in the context of the discharge of the 1998 budget,
- opinion of the Court of Auditors on the clearance of accounts decision for 1995 (conformity clearance), 1996, 1997 and 1998 (clearance of accounts) and on the 1999 Statement of Assurance,
- supervision of and assistance with the setting up paying agencies in the SAPARD countries,
- work of the conciliation body.

7.2.6. *Expenditure on agricultural markets in 2000*

662. The uptake of EAGGF Guarantee Section appropriations for the 2000 financial year (expenditure by the Member States from 16 October 1999 to 15 October 2000) amounted to EUR 40 348.6 million, i.e. 98.4% of the appropriations entered under

¹⁴⁵ OJ L 104, 29.4.2000.

¹⁴⁶ OJ L 67, 15.3.2000.

¹⁴⁷ OJ L 180, 19.7.2000.

Subsection B1 of the budget. After the transfer of appropriations to the monetary reserve, the initial appropriations of EUR 40 683.9 million exceeded expenditure by EUR 335.3 million.

- Total expenditure for subheading 1(a) (traditional EAGGF Guarantee Section expenditure and veterinary expenditure, covering Titles B1-1 to B1-3) amounts to EUR 36 172.2 million (provisional figure), i.e. EUR 1 179.8 million below the below the subceiling fixed in the Interinstitutional Agreement of 6 May 1999.
- Total expenditure for subheading 1(b) (rural development and accompanying measures, covering Titles B1-4 and B1-5) amounts to EUR 4 176.4 million, i.e. EUR 209.6 million below the subceiling.

663. The principal sectors where there was underutilisation were:

- sugar (-EUR 86 million), as a result of lower payments for export refunds deriving from the favourable trend of the dollar exchange rate;
- fibre plants and silkworms (-EUR 33 million), the underrun being attributable to lower expenditure on production aid for fibre flax following tighter controls by the national authorities;
- fruit and vegetables (-EUR 103 million), in particular, in the case of bananas, modernisation programmes and producer organisations' operational funds;
- milk and dairy products (-EUR 189 million), appropriations for public storage of skimmed milk powder having been greatly underused as a result of the favourable prices obtained when substantial quantities of this product were sold from public intervention stocks;
- sheepmeat and goatmeat (-EUR 96 million), on account of lower expenditure on the ewe premium.

664. On the other hand, expenditure under the following chapters appreciably exceeded budget appropriations:

- olive oil (+EUR 20 million), as a result of the payment of the balance on consumption aid;
- wine (+EUR 71 million), because of higher expenditure on aid (for distillation, private storage and use of grape must);
- other vegetable sectors (+EUR 38 million), this overrun being partly attributable to an increased requirement for production aid for seeds;
- beef/veal (+EUR 75 million), due to higher-than-expected expenditure under exceptional support measures (BSE);
- rural development (+EUR 100 million), as a result of the speeding-up both of Member States' payments on the former accompanying measures and of the measures implemented under new rural development programmes approved during the second half of 2000.

7.3. EAGGF Guidance Section

665. Implementation of the reform of the Structural Funds since 1 January 1989 has gradually changed the nature of the aid granted by the EAGGF Guidance Section. An ever-increasing share of Community contributions is taken up by the part-financing of operational programmes (99.8% of the total in 1998, as compared with 52% in 1993 and 40% in 1991). The second reform of the Structural Funds, which came into force on 1 January 1994, put the finishing touches to the system of annual reimbursement of national expenditure that had not been programmed. Virtually all financing under the EAGGF Guidance Section is now provided through measures programmed on a multiannual basis in accordance with the principles of partnership and subsidiarity between the Commission and the Member States.
666. The second programming period, which covers 1994 to 1999, is marked by consolidation of the principles governing the first programming period following the reform of the Funds. It also includes some simplification of procedures, for example under Regulation (EC) No 951/97 on improving the processing and marketing conditions for agricultural products¹⁴⁸. Furthermore, Regulation (EC) No 950/97 on improving the efficiency of agricultural structures¹⁴⁹ has been amended so that financing is based on multiannual programmes, in a manner similar to that for the other Objectives, thus harmonising the funding mechanisms. In this way the Community schemes implemented by Member States, which account for a significant share of financing by the Guidance Section (farm improvement plans, compensatory allowances, etc.), give rise to reimbursements up to the limits laid down in the corresponding multiannual programmes.
667. The measures undertaken on the initiative of the Member States under the Community support frameworks are supplemented by those launched by the Commission, i.e. programmes under the Leader, Interreg, Regis II and Peace Community Initiatives, and measures financed under Article 8 of Regulation (EC) No 4256/88¹⁵⁰ and transitional measures.

7.3.1. Funding carried out

668. EAGGF Guidance Section expenditure by Member State during the period 1991 to 1999 is shown in the table below.
669. It is also worth noting the breakdown of expenditure by Objective. The EAGGF Guidance Section contributes to the following four Objectives:
- Objective 1 (regions whose development is lagging behind),
 - Objective 5(a) (agricultural structures in all regions),
 - Objective 5(b) (rural development in designated areas),
 - Objective 6 (Nordic regions), following the accession of the new Member States.

¹⁴⁸ OJ L 142, 2.6.1997, p.22.

¹⁴⁹ OJ L 142, 2.6.1997, p. 1.

¹⁵⁰ OJ L 374, 31.12.1988, p.25.

670. The following table also shows expenditure from 1994 onwards under the Community Initiatives and under Article 8 of Regulation (EEC) No 4256/88 (finance for technical assistance, general studies, pilot and demonstration projects) and transitional measures (old measures which cannot be assigned to an Objective under the new rules).

EAGGF Guidance expenditure (commitment appropriations)

(EUR million)

Member State	1991	1992	1993	1994	1995	1996	1997	1998	1999
BELGIQUE/BELGIË	30.5	28.2	1.7	37.6	40.0	39.9	32.5	40.2	86.5
DANMARK	18.0	23.5	20.0	42.5	16.7	29.1	17.2	27.4	47.1
DEUTSCHLAND	200.2	253.7	348.7	700.2	807.9	805.1	718.6	839.4	893.1
ELLÁDA	274.2	392.2	402.9	266.3	463.8	328.3	339.1	374.5	321.1
ESPAÑA	514.2	633.6	412.9	544.7	709.5	695.0	925.2	788.2	991.2
FRANCE	425.3	554.4	633.5	619.7	347.8	526.3	633.1	600.3	857.9
IRELAND	168.5	194.5	165.7	178.3	157.3	261.1	285.2	111.1	121.8
ITALIA	326.5	375.9	625.0	263.2	454.2	428.1	580.1	753.1	1350.7
LUXEMBOURG	6.7	6.3	9.0	9.8	6.0	4.3	1.1	12.2	11.2
NEDERLAND	20.5	21.9	19.5	32.1	13.1	27.3	13.6	8.3	60.8
ÖSTERREICH					97.7	122.6	84.5	127.7	187.9
PORTUGAL	313.4	289.8	313.9	510.5	282.7	379.5	309.4	444.1	159.7
SUOMI/FINLAND					109.8	102.4	129.3	98.8	174.7
SVERIGE					24.7	65.4	14.4	60.9	79.6
UNITED KINGDOM					74.1	116.0	45.7	75.2	231.8
OTHER (technical assistance for Leader)	110.2	100.8	99.5	130.5	3.7	4.1	3.4	5.5	5.4
TOTAL	2408.2	2874.8	3093.4	3335.4	3609.1	3934.5	4132.4	4366.9	5580.5

Expenditure by objective

(EUR million)

Objective	1991	1992	1993	1994	1995	1996	1997	1998	1999
<i>Community Support Frameworks</i>									
Obj. 1 (regions lagging behind)	1 440.8	1 634.7	1 599.2	1 905.3	2 395.2	2 416.5	2 578.7	2 502.8	2 534.6
Obj. 5(a) (agricultural structures)	631.3	701.3	923.9	1 131.6	655.9	802.4	974.7	1 066.3	1 310.9
Obj. 5(b) (rural areas)	260.2	475.8	508.7	265.8	249.5	508.4	421.5	562.8	1 170.9
Obj. 6 (Nordic areas)					47.7	44.7	51.3	51.2	93.9
<i>Community Initiatives</i>									
Leader		}		0.3	235.9	83.1	65.4	116.4	303.1
Interreg		}		0.0	12.8	31.3	17.6	44.7	100.3
REGIS		}		0.0	0.0	17.0	4.6	6.3	53.5
Envireg		}		---	---	---	---	---	---
		Included under other headings							
PEACE		}		0.0	1.3	8.1	13.0	7.9	7.0
POSEI		}		---	---	---	---	---	---
Art. 8 of Reg.4256/88		}		5.2	0.6	15.4	5.3	1.0	6.2
Transitional measures	75.9	63.0	61.6	27.2	10.3	7.6	0.4	7.5	0.1
TOTAL	2 408.2	2 874.8	3 093.4	3 335.4	3 609.1	3 934.5	4 132.4	4 366.9	5 580.5

671. Expenditure under Objective 1, which had increased from 1991 onwards, steadied towards the end of the first programming period, only to rise again from 1994 on.
672. Expenditure under Objective 5(a) was fairly stable during the period under review, but peaked strongly in 1994 as a result of the change in the system of financing the "indirect" measures (former Regulation (EEC) No 2328/91¹⁵¹), which meant that reimbursements for 1993 and new financing for 1994 were charged to the 1994 financial year. The sharp increase in commitments for 1999 is attributable to the commitment of amounts outstanding from the 1994-99 programming period.
673. Expenditure under Objective 5(b) grew substantially from 1991 to 1993, reflecting the emphasis on rural development policy, but fell sharply in 1994 following delays in launching the new programming period. The delays were made up from 1996 onwards and, above all, in 1999 (last financial year of the programming period).
674. Expenditure under Objective 6 remained fairly stable during the years 1995-98, subsequently registering a sharp increase in 1999 (last year of the programming period).
675. Since the transitional measures are being wound up, expenditure on them has fallen almost every year since 1991.
676. While the amounts under Objectives 1 and 5(b) for 1991 to 1993 include measures under the Community support frameworks, under the Community Initiatives and under Article 8 of Regulation (EEC) 4256/88¹⁵², from 1994 onwards the amounts corresponding to the last two are shown separately.

7.3.2. *Budget execution*

677. In terms of the appropriations available in 1999, including those originally entered in the budget together with transfers and carryovers (EUR 5 717.3 million in commitment appropriations and ECU 4 013.2 million in payment appropriations), execution of the 1999 budget for the whole of the EAGGF Guidance Section was 97.6% for commitment appropriations and 99.9% for payment appropriations.
678. The financial year 2000 was the first in the new programming period 2000-06, in which the source of funding for rural development programmes depended on the type of measure and the geographical area.
679. The EAGGF Guarantee Section will continue to finance, across the whole of the EU territory, the three accompanying measures introduced with the 1992 CAP reform, to which the compensation scheme for farmers in less-favoured areas will be added.
680. For all other rural development measures, the source of financing will be differentiated according to the geographical context:
- in regions eligible under Objective 1 (regions whose development is lagging behind), the EAGGF Guidance Section will continue to finance rural

¹⁵¹ OJ L 218, 6.8.199, 1 p. 1.

¹⁵² OJ L 374, 31.12.1988, p.25.

development measures which will be fully integrated as at present into development programmes, in combination with the other Structural Funds;

- outside the Objective 1 regions, the source of finance for rural development measures will be the EAGGF Guarantee Section.

681. The appropriations in the 2000 budget for the EAGGF Guidance Section amounted to EUR 2 909.2 million for commitments and EUR 3 918.2 million for payments. These figures include the appropriations for the new Objective 1 programmes for the period 2000-06 and the Community Leader+ initiative, as well as payment appropriations for the closure of programmes under Objectives 1, 5(a), 5(b) and 6 and integrated Community programmes for the period 1994-99.

7.4. Evaluation

682. The evaluation of agricultural measures is divided into two major parts: one dealing with market-related measures and one concerned with structural and rural development measures.

7.4.1. Evaluation of market-related measures

683. Three evaluations launched in 1999 - on sheepmeat, the common organisation of the market in sugar and the Poseima programme - were completed in 2000. During the same period, six evaluations were launched on afforestation policy, oilseeds, set-aside, promotion policy, starch and the common organisation of the market in milk products. These studies should be available between the beginning of 2001 and the beginning of 2002. Evaluations are normally published on the Commission website, along with the steering group's quality judgment.

7.4.2. Evaluation of structural and rural development measures

684. In addition to the guidelines for evaluating rural development programmes during the period 2000-06, a document set out the common evaluation questions, assessment criteria and indicators to be used. Member States accompanied their programming plans with information on the *ex ante* evaluations.

685. For Leader II and Leader+, the evaluation work has begun in the Member States and discussions are under way on the task of drawing up a summary and establishing common methodologies.

686. For SAPARD, an *ex ante* evaluation guide made it possible to secure sound evaluations from a number of applicant countries.

8. PREPARING FOR ENLARGEMENT

8.1. Main developments

8.1.1. Accession negotiations

687. Further to the recommendations of the Helsinki European Council of December 1999, accession negotiations were formally opened with Bulgaria, Romania, Latvia, Lithuania, Slovakia and Malta in February 2000. Each candidate country will be judged on its own merits in the negotiations. The process of screening agricultural legislation with these six countries including veterinary and plant health legislation, was carried out between October 1999 and February 2000. They have not yet submitted a negotiation position on agriculture. The agricultural chapter has not been opened for negotiation with them: it will be opened only when and if they have made sufficient progress with the implementation of the agricultural part of the Community *acquis*.
688. Negotiations with Poland, Hungary, Estonia, the Czech Republic, Slovenia and Cyprus were formally opened in March 1998. The screening of the Community *acquis* with these six countries was carried out between September 1998 and June 1999. They submitted their negotiation positions on the agricultural chapter in November and December 1999. These positions specify, in particular, their requests for transitional arrangements and for technical adaptations of the *acquis*. In response, the European Union has submitted to the six candidate countries its own common negotiation position on agriculture. Although there are a vast number of specific negotiating requests in relation to the agricultural chapter, some important common negotiation issues can be identified (with the exception of veterinary and phytosanitary legislation), namely the issue of direct payments, the fixing of quantitative production thresholds and the possible granting of transitional arrangements. The agricultural chapter of the Community *acquis* was formally opened for negotiation with these six countries at ministerial conferences held in Luxembourg in June 2000.
689. With regard to Turkey, the Helsinki European Council underlined Turkey's status as a candidate but negotiations have not yet been formally opened. In June 2000 in line with the invitation of the Helsinki European Council, the Commission started to prepare the screening of the *acquis* in the agricultural sector with Turkey, within the framework of the Ankara Association Agreement.

8.1.2. Pre-accession strategy

690. On 6 December 1999, the Council adopted the revised accession partnerships with regard to the central and east European countries, and on 20 March 2000 the accession partnerships concerning Cyprus and Malta. The accession partnership sets out in a single framework the priority areas, both short and medium-term, for further work identified in the Commission's 1999 Regular Reports on the progress made by each candidate country towards EU membership, the financial means available to assist these countries in the implementation of these priorities and the conditions which will apply to that assistance.
691. For the agricultural sector, objectives common to all or most of the candidate countries in these accession partnerships cover:

- for the veterinary and phyto-sanitary sector: alignment and upgrading of inspection arrangements, in particular at future external borders, and establishment of a nationwide animal identification system,
- re-enforcement of common agricultural policy management mechanisms and administrative structures (monitoring of agricultural markets and implementation of structural and rural development measures, setting up of bodies and control mechanisms),
- restructuring of the agri-food sector and reinforcement of food control administration,
- the establishment or improvement of a functioning land market, the completion of land registration and a property register, as well as land reform.

692. Specific objectives are:

- for Poland: further elaboration and implementation of a rural development plan, to ensure a sustainable future for the Polish rural economy, including measures dealing with the modernisation of farming and related industries, and a review of Polish agricultural trade policy with a view to both reducing dependency on import barriers and increasing competitiveness,
- for Hungary, Latvia, Bulgaria, Estonia, Slovenia, the Czech Republic and Lithuania: modernisation of meat and dairy plants to meet the EU's hygiene and public health standards,
- for Hungary, Bulgaria, Slovakia and Romania: the establishment of a vineyard register.

693. Complementary to the accession partnership is each candidate country's national programme for the adoption of the *acquis* (NPAA). The objective of the NPAA is to set out detailed plans on how the candidate country will prepare for accession in each sector, both from the perspective of the transposition and implementation of legislation and as regards the development and reinforcement of administrative structures. The NPAAs also include a timetable for the implementation of the accession priorities and provide indications of the human and financial resources required for this purpose.

694. The appropriate framework within which to discuss bilateral matters with the countries of central and eastern Europe, Cyprus and Malta, is constituted by the bodies provided for in the Europe or Association Agreements concluded with these countries, in particular the Association Council, the Association Committees and sub-committees for agriculture in the case of agricultural matters. They represent a forum for discussing agricultural matters, including enlargement-related issues, and the state of play regarding the implementation of the agricultural *acquis*.

695. The EC-Romania Association Committee met on 21 March 2000 in Brussels; the EC-Slovenia Association Committee on 25 March 2000 in Ljubljana and on 14 June 2000 in Brussels; the EC-Hungary Association Committee on 12 April 2000 in Brussels; the EC-Estonia Association Committee on 9 June 2000 in Brussels; the EC-Lithuania Association Committee on 15 June 2000 in Brussels; the EC-Latvia Association Committee on 16 June 2000 in Brussels; the EC-Bulgaria Association

Committee on 20 June 2000 in Sofia; the EC-Czech Republic Association Committee on 6-7 June 2000; the EC-Poland Association Committee on 27 June 2000 in Brussels; the EU-Poland Sub-Committee on Agriculture met on 16 March 2000; the EU-Bulgaria Sub-Committee on Agriculture on 16 June 2000 and the EU-Turkey Sub-Committee on Agriculture on 23 June 2000.

696. In its Regular Reports the Commission monitors the overall progress made by each candidate country with regard to the three accession criteria established by the Copenhagen European Council (political criteria, economic criteria and the ability to assume obligations of EU membership), as well as progress on the development of those countries' administrative capacities.
697. Following Agenda 2000, Phare support has been re-focused on two priorities, namely investment and institution-building. While support for investment will help the candidate countries bring their economic and social structures into line with Community standards, institution-building will help them to reinforce their institutional and administrative capacities so that they can take on the obligations of membership. Twinning arrangements are a specific form of institution-building in addition to technical assistance, training programmes and exchanges of experts.
698. The main feature of twinning is that it is designed to deliver specific results for the implementation of priority areas of the Community *acquis* as set out in the accession partnerships. In practice, these projects involve the twinning of Member States' administrations with their counterparts in the candidate countries for institution-building. Since 1998 many twinings have been set up in agriculture. They cover priorities such as improvements of veterinary and phyto-sanitary controls, modernisation of the agricultural statistical system, setting up of the integrated administration and control system in agriculture, implementation of the animal identification and registration system, agricultural policy reform, preparation for the common agricultural policy, farm registry, approximation of legislation in the wine sector and modernisation of the rural administrative system.

8.1.3. SAPARD

699. The legal framework of SAPARD was completed in 2000. After the adoption, in 1999, of Council Regulation (EC) No 1268/1999,¹⁵³ the Commission Regulation laying down the detailed implementing rules concerned (Regulation (EC) No 2759/1999)¹⁵⁴ and the Commission Decision of 20 July 1999 on the indicative allocation of the annual Community financial contribution (EUR 529 million at 2000 prices) among the 10 recipient countries, the following stages were completed:
700. On 26 January 2000 the Commission adopted a communication laying down the principles of a new system of financial management of SAPARD. The system features three components: complete decentralisation of programme management to an agency set up under the responsibility of each country, a mode of financing based on dissociated appropriations, and application of the EAGGF (Guarantee) accounts clearance procedure.

¹⁵³ OJ L 161, 26.6.1999, p. 87.

¹⁵⁴ OJ L 331, 23.12.1999, p. 51.

701. On 7 June 2000, on the basis of these components, the Commission adopted a Regulation laying down financial rules for the implementation of the SAPARD programmes and the conditions under which the management of the aid is conferred to approved implementing agencies in the 10 recipient countries.
702. Lastly, in the final stage of the process relating to the legal framework, the provisions to be adopted by the Commission with regard to the recipient countries will have to form part of bilateral agreements. Negotiations with the countries concerned led to approval of the text of the agreement. The actual date on which each agreement is concluded will depend on the constitutional rules of the country concerned.
703. The rural development plans presented to the Commission by the 10 recipient countries were scrutinised and negotiated with the Commission. This led to the adoption by the Commission of 10 SAPARD rural development programmes, for Hungary, Poland, Lithuania, Bulgaria, the Czech Republic, Slovenia, Romania, Estonia, Lithuania and Slovakia respectively.
704. The aim of the SAPARD programmes is to help implement established EU law and practice regarding the common agricultural policy and the policies concerned and underpinning the effectiveness and competitiveness of the agricultural and agro-industrial sectors, job creation and sustainable economic development in rural areas. The principal measures financed under SAPARD programmes are: investment in agricultural holdings; improvement of the conditions under which agricultural and fishery products are processed and marketed; development and improvement of rural infrastructure; development and diversification of the economy with a view to creating multiple activities and alternative incomes; renovation and development of villages and protection and conservation of the rural heritage.
705. Priority is given to measures to improve market efficiency and quality and health standards and to measures to create fresh employment opportunities in rural areas in accordance with environmental protection provisions.
706. Before the implementation of the SAPARD programmes can begin, the establishment of the approved SAPARD agencies in each recipient country must be completed and be approved by the Commission.
- 8.1.4. *CEECs, progressive liberalisation of bilateral agricultural trade*
707. In March 1999 the Council authorised the Commission to open negotiations with each of the CEECs with a view to further liberalising bilateral trade in agriculture. Negotiations with each of the countries have been carried out on a reciprocal basis, with no products *a priori* excluded from the negotiations. In accordance with the Council directives, a global balance of the negotiations has been achieved. The negotiations were equally founded on the principle of neutrality with respect to the functioning of the CAP.
708. The negotiating approach covered three different kinds of bilateral concessions linked to the degree of sensitivity of the products and to the nature of the CAP mechanism:

8.1.4.1. List 1:

709. For the least-sensitive products (CEEC products currently facing EU import duty of less than 10 % and products imported from the EU and not cultivated in the CEECs), an immediate and full liberalisation of trade has been agreed for unlimited quantities. The list covers more than 400 products and includes, in particular, citrus fruits, olive oil and horsemeat.

8.1.4.2. List 2:

710. The so-called 'double zero' approach provides for the reciprocal elimination of export refunds and the elimination of import tariffs within the framework of tariff quotas. The initial level of the tariff quota has been set, as far as possible, at the level corresponding to the current trade pattern (based on the average of the past three years). A substantial yearly increase of the tariff quotas has been agreed bilaterally, taking into account the sensitivity of the products and the potential trade development.

8.1.4.3. List 3:

711. This involves a limited exchange of ad hoc concessions decided on the basis of specific requests made and agreed on a case-by-case basis. The list also aims at balancing the overall agreement.

712. The approach is identical for all the CEECs – both for those in the Luxembourg group (Hungary, Poland, Czech Republic, Estonia, Slovenia) with whom negotiations on the agricultural chapter of the *acquis* were opened on June 14 and in the Helsinki group (Bulgaria, Romania, Lithuania, Latvia, Slovakia) with whom negotiations on the agriculture chapter have not yet begun.

8.1.5. *Results of the negotiations*

713. New progressive trade liberalisation agreements have been concluded with the 10 CEECs. Foreseeing immediate liberalisation of most of the non-sensitive products, in particular a large number of Mediterranean products, the agreements provide equally for progressive liberalisation in the sectors of poultrymeat, pigmeat, cheese and some fruits and vegetables, based on the 'double zero' approach. The results differ from one country to another, according to their readiness to liberalise the trade.

714. Based on current trade figures (1996-1998), CEEC agricultural exports to the EU to be exempt from duty will increase from, on average, 37 % to, on average, 81 %. (EU agricultural exports to the nine CEECs to be exempt from duty will increase from, on average, 18% to 36%).

715. While the results achieved so far are satisfying, negotiations will continue with a view to progressively expanding agricultural trade liberalisation with each country, in order to avoid the potential negative impact of an immediate opening of markets upon accession.

8.2. Bulgaria

716. The Bulgarian SAPARD plan was declared admissible on 7 April 2000 and adopted on 20 October 2000.

717. The annual allocation for SAPARD in Bulgaria is EUR 53 million. The operational plan is based on four priority areas:
- improvement of the production, processing and marketing of agricultural products and processing of fishery products and the development of environmentally friendly agricultural practices;
 - integrated development of rural areas aiming at protecting and strengthening their economies and communities and helping to reduce the process of rural depopulation;
 - investment in human resources;
 - technical assistance.
718. A major part of the funds available for the first priority area is dedicated to investment in agricultural holdings and the processing and marketing of agricultural and fishery products. The other measures under this priority relate to forestry and the development of environmentally friendly agricultural practices and activities. The second priority area includes measures for the development and diversification of economic activities and alternative income, renovation and development of villages, protection and conservation of rural heritage and cultural traditions and of rural infrastructure. The third and fourth priorities include, respectively, improvement in vocational training and technical assistance.

8.3. Czech Republic

719. The Czech SAPARD plan was declared admissible on 28 April 2000 and, after negotiations, was adopted by a Commission decision.
720. The annual allocation for SAPARD in the Czech Republic for 2000 is approximately EUR 22.4 million. The Czech national contribution will be around EUR 7.3 million in 2000. The Czech rural development plan identifies three priorities:
721. There is provision for allocating 60 % of the Community contribution (65 % of the total cost) to investment measures in agricultural and the agri-food sectors, in order to strengthen competitiveness and, in particular, to support the adoption of the various Community standards. A measure for the improvement of the land and reparation is also envisaged.
722. The second major priority of the plan (one third of the annual Community contribution) is the development of rural areas, combining infrastructure measures with a diversification measure. This also includes the agri-environmental pilot measure. Finally, measures aimed at supporting the implementation of the SAPARD programme are also envisaged (Priority 3), by means of training or technical assistance.

8.4. Estonia

723. The Estonian SAPARD plan was declared admissible on 12 May 2000 and adopted on 17 November 2000.

724. The annual allocation for SAPARD in Estonia for 2000 is approximately EUR 12.3 million. On the Estonian side, approximately EUR 4 million has been reserved for the national contribution in 2000. The operational plan is in the process of being drawn up. It will include measures covering investment in agricultural holdings, improvements in the processing of agricultural and fishery products, diversification and improvement of the rural infrastructure.

8.5. Hungary

725. The Hungarian SAPARD plan was declared admissible on 24 March 2000 and was adopted by a Commission decision after negotiations with Commission services and modifications of the text. The annual allocation for SAPARD in Hungary for 2000 is EUR 38.7 million. On the Hungarian side, EUR 12.5 million has been reserved for the national contribution in 2000. The operational plan is based on two major priorities:

- competitiveness of agriculture and the processing industry and focus on environmental protection aspects (five measures: 62 % of the EU funds);
- adaptation of rural areas (three measures: 36.5 %).

726. A major part of the funds available for the first priority area is dedicated to investments in agricultural holdings (28.3 % of the EU funds). The other measures under this priority concern the improvement of marketing and processing of agricultural and fisheries products (20.5 % of the EU funds), the setting-up of producer groups (7.3 % of the EU funds), the agro-environment measure (4.2 %) and the improvement of vocational training (1.7 %).

727. The second priority area includes measures for the development and diversification of economic activities providing alternative income (15.4 %), the improvement of rural infrastructure (12 %); and the renovation and development of villages (9 %).

728. The allocation for technical assistance towards implementation of the programme, including studies, monitoring, information and publicity campaigns, is about 1 % of the EU funds.

8.6. Latvia

729. The Latvian SAPARD plan was declared admissible on 5 April 2000 and, after negotiations with Commission services and modifications of the text, was adopted by a Commission decision.

730. The annual allocation for SAPARD in Latvia for 2000 is EUR 22 million. On the Latvian side, EUR 7 million has been reserved for the national contribution in 2000. The operational plan is based on three objective areas:

- development of sustainable agriculture (four measures: 54% of the EU funds);
- integrated rural development (two measures: 36 % of the EU funds);
- improvement of the environment (three measures: 4 % of the EU funds);

731. A major part of the funds available for the first objective area is dedicated to the improvement of marketing and processing of agricultural and fisheries products (26 % of the EU funds). The other measures under this objective area concern the modernisation of agricultural machinery (23 %), afforestation of agricultural land (3 %) and land reparation (2 %). The second objective area includes measures for development and diversification of economic activities providing alternative income (24 %) and the improvement of general rural infrastructure (12 %). The third objective area covers measures for organic farming, preservation of biodiversity and rural landscape and reduction of agricultural run-off that will be developed at pilot level. Vocational training (4 %) and technical assistance (2 %) constitute two separate supporting measures.

8.7. Lithuania

732. The Lithuanian SAPARD plan was declared admissible on 25 April 2000 and adopted on 27 November 2000.

733. The annual allocation for SAPARD in Lithuania for 2000 is EUR 30 million. On the Lithuanian side, EUR 9 million has been reserved for the national contribution in 2000. The SAPARD plan provides funding for the following seven operational measures:

- investments in agricultural holdings (47 % of the EU funds);
- improving the processing and marketing of agricultural and fisheries products (21 %);
- development and diversification of economic activities, providing for multiple activities and alternative income (8 %);
- improvement of rural infrastructures, renovation of villages and maintenance of rural heritage (15 %);
- forestry, including afforestation of agricultural land and processing and marketing of forestry products (5 %);
- vocational training (2 %);
- technical assistance (2 %).

8.8. Poland

734. The Polish SAPARD plan was declared admissible on 6 April 2000 and, after negotiations with Commission services and modifications of the text, was adopted by a Commission decision.

735. The annual allocation for SAPARD in Poland for 2000 is EUR 171 million. The operational plan is based on two priority areas:

- improvement of the market efficiency of the agri-food sector;
- improvement of the conditions for economic activities and job creation.

736. A major part of the funds available for the first priority area is dedicated to the improvement of marketing and processing of agricultural products. The other measures under this priority concern investment in agricultural holdings. The second priority area includes measures for the development of rural infrastructure and diversification of economic activities in rural areas. Supplementing these priorities the plan includes measures for vocational training and technical assistance. Pilot projects on agri-environment and afforestation will also be implemented through the plan.

8.9. Romania

737. The Romanian SAPARD plan was declared admissible on 27 April 2000 and adopted on 12 December 2000.

738. The annual allocation for SAPARD in Romania is EUR 153 million. The operational plan is based on four priority areas:

- improvement of the competitiveness of processed agricultural and fisheries products;
- improvement of infrastructure for rural development and agriculture;
- development of the rural economy;
- development of human resources.

739. At this stage, a major part of the funds available for the first priority area is dedicated to the improvement of processing and marketing of agricultural products. Other measures under this priority concern the improvement of structures for quality, veterinary and plant-health controls, foodstuffs and consumer protection. The second priority area includes measures for the development of rural infrastructure and the management of water resources. The third area includes investment in agricultural holdings, setting up producer groups, forestry, diversification of economic activities and agri-environmental pilot projects. The fourth area includes vocational training and technical assistance.

8.10. Slovakia

740. The Slovakian SAPARD plan was declared admissible on 6 June 2000. The Commission, however, drew attention to the poor quality of the prior appraisal. As the latter is a formal requirement under Regulation 1268/99, the Slovakian plan must be improved significantly with regard to this point. In order to achieve this and to finalise the plan, partnership is being provided by the Austrian Federal Ministry of Agriculture. The revised plan was adopted on 17 November 2000.

741. The annual allocation for SAPARD for Slovakia for 2000 is approximately EUR 18.6 million. The Slovakian national contribution will be approximately EUR 5.9 million in 2000. The Slovakian SAPARD plan identifies three priorities.

742. Improvement of the agricultural production sector including the food industry: this will account for 61 % of the Community contribution for *acquis*-related investment in farm holdings and for investments aimed at contributing to the upgrading of agri-

food enterprises to EU standards, as well as increasing their competitiveness. In addition, a small amount is aimed at helping to set up producer groups.

743. The second major priority of the plan (one third of the annual Community contribution) is the development of rural areas that will embrace measures on diversification of economic activities, forestry, agri-environment pilot schemes and land consolidation. Finally, measures aimed at supporting the implementation of the SAPARD programme are also envisaged (Priority 3), by means of training or technical assistance.

8.11. Slovenia

744. The Slovenian SAPARD plan was declared admissible on 20 April 2000 and, after negotiations with Commission services and modifications of the text, was subsequently adopted by a Commission decision.
745. The annual allocation for SAPARD in Slovenia for 2000 is EUR 6.4 million. On the Slovenian side, EUR 3.4 million has been reserved for the national contribution in 2000. The operational plan is based on two major priorities: the improvement of production and marketing structures in agriculture and food-processing, and economic diversification and improvement of rural infrastructure.
746. A major part of the funds is dedicated to investment in agricultural holdings and to the improvement of processing and marketing of agricultural and fishery products (75 % of the EU funds).
747. The two measures on diversification of economic activities and improvement of rural infrastructure will receive 24 % of EU funds.
748. The allocation for technical assistance towards implementation of the programme, including studies, monitoring, information and publicity campaigns, amounts to approximately 1 % of the EU funds.

9. INTERNATIONAL RELATIONS

9.1. International organisations and agreements

9.1.1. World Trade Organisation (WTO)

9.1.1.1. WTO consultations and dispute settlement

749. A panel was established on 23 July 1998 at the request of the EU to examine Korea's definitive safeguard measure on imports of certain dairy products (i.e. an import quota on skimmed-milk powder preparations). The Appellate Body confirmed the Panel Report that Korea had acted inconsistently with the provisions of the Agreement on Safeguards. On 20 May 2000 Korea revoked the safeguard measures.

9.1.2. Organisation for Economic Cooperation and Development (OECD)

750. EU Member States account for half of the OECD members and are the major contributors to the OECD budget. The Commission participates actively in the work of this organisation, in particular, as far as agriculture is concerned, in the Committee on Agriculture (COAG).

751. Core to COAG activities is the annual preparation of a mid-term market prospect for the main OECD agricultural commodities (the 'Agricultural Outlook' report) and the yearly review of the main developments in agricultural policies of member countries ('Agricultural Policies, Markets and Trade in OECD Countries'). A similar review focuses on the main developments of major non-OECD members, whether transition economies or emerging countries. These reviews include in particular a calculation of aggregated estimates of support to farmers and to the agricultural sector, the so-called PSE database.

752. Other regular COAG activities address agriculture and trade, agri-environment, rural development, agricultural structures and statistics, the Agricultural Knowledge System (extension, education and research) and international standards (in particular, certification of seeds and forestry reproductive material). Stocktaking of the past five years of OECD work on Agri-Environmental Indicators was done in 2000.

753. As mandated by OECD Ministers of Agriculture in March 1998, the COAG is now engaged in a substantial and broad-ranging work programme relating to the WTO negotiations on agriculture. At the end of 2000, a first series of analytical background material was published. This work covers traditional trade issues such as market access, domestic support, export competition, although in a more comprehensive manner than before, thanks to new analyses such as on the use of officially supported export credits, the trade impact of state trading enterprises, decoupling, impact of support measures through a matrix evaluation of policies (the Policy Evaluation Matrix), etc. It also covers concerns going beyond trade issues, such as multifunctionality, food security, the relationship between trade and environment, the impact of biotechnology, food quality and appellations of origin, etc.

754. Other OECD bodies are deliberating issues that are of importance to agriculture. These tend to bear a horizontal character: regulatory reform, governance, e-commerce, code for multinational companies, sustainable development and

territorial development. In particular, in 2000, at the request of the G8, the OECD provided a major contribution to the fields of food safety and biotechnology.

755. All these activities have produced valuable material for the EU, particularly with regard to the reform process of the agricultural sector and related international developments. However, the Commission was disappointed that the OECD negotiation of an Understanding disciplining the use of export credits to agriculture has so far proved unsuccessful, notwithstanding the commitment made under the Uruguay Round WTO Agreement on Agriculture.

9.1.3. *Generalised System of Preferences (GSP)*

756. The provisions of the Council Regulation applying the new multiannual generalised system of preferences (GSP) for agricultural products entered into force on 1 January 1997. The aim of GSP is to foster the integration of developing countries into the world economy and the multilateral trading system. The new scheme grants preferential access to Community markets to a wide range of agricultural products from the developing countries, except where those products are the subject of a market organisation. Products are classified in one of four categories - each corresponding to a separate preferential margin - according to their sensitivity. Inclusion in a category is based on the evaluations which had led to the tariff offer presented by the European Union in the context of the Uruguay Round.

757. The four categories are:

- *highly sensitive products*, which have a preferential margin of 15%;
- *sensitive products*, which have a preferential margin of 30%;
- *semi-sensitive products*, which have a preferential margin of 65%;
- *non-sensitive products*, which have a preferential margin of 100% and are entirely free of customs duty.

758. GSP focuses on the needs of the poorest beneficiary countries by transferring preferences gradually from the developed to the developing countries.

759. There is also provision for special arrangements for countries undertaking to abide by social and environmental standards. GSP coverage of agricultural products was substantially widened by Council Regulation (EC) No 1256/96 of 20 June 1996¹⁵⁵, with the addition of 527 products and the removal of 64 others. The basic principle is that GSP should cover all products except those which are the subject of a market organisation. Additional preferences are also granted to Latin American countries which commit themselves to combating the production of drugs.

9.1.4. *United Nations Food and Agriculture Organisation (FAO)*

760. As a member of the United Nations Food and Agriculture Organisation, the EU took part in the work of the various bodies belonging to the Organisation, in particular the meetings of the Committee on Agriculture, the Committee on World Food Security,

¹⁵⁵ OJ L 160, 29.6.1996, p. 1.

the Committee on Commodity Problems and the Committee on Forestry, presenting its agricultural policy and setting out its approach to food security. It also participated in the technical consultations on the revision of the International Plant Protection Convention (IPPC), which is aimed, *inter alia*, at bringing the Convention into line with the Agreement on the Application of Sanitary and Phytosanitary Measures of the Final Act of the Uruguay Round. The Community also played an active part in the meetings on food security and, in particular, the implementation of the code of conduct for the granting of food aid.

761. The Commission took part in the drawing up of FAO's new strategic framework, which will lay down the policy guidelines for 2000 onwards. The Commission also played an active role in the FAO's technical contribution to developing countries in preparation for the talks in the context of the new negotiations within the WTO.

762. The Commission also contributed to the FAO's discussions on trade-related but non-commercial issues, such as the multifunctional aspects of agriculture and its links in less advanced countries.

9.1.5. *International Grains Agreement (IGA)*

763. The Agreement, which was renewed in 1995, consists of two separate legal instruments: the 1995 Grains Trade Convention and the 1995 Food Aid Convention. Both were due to expire on 30 June 1998, but their period of validity was initially extended by one year (until June 1999) to enable the Food Aid Convention to be renegotiated.

9.1.5.1. Grains convention

764. The period of validity of the Grains Trade Convention was again extended, from 1 July 1999 to 30 June 2001.

9.1.5.2. Food Aid Convention

765. The European Union and its Member states are signatories to the Food Aid Convention, whose aim is to contribute to world food security and improve the international community's ability to respond to food emergencies and other food needs of developing countries.

766. Renegotiation of the 1995 Food Aid Convention began in 1998 in the context of the Marrakesh and Singapore Ministerial Decisions.

767. The text of the Food Aid Convention was approved on 24 March 1999, at a meeting of the Convention Council working group concerned.

768. The Convention was applied on a provisional basis from 1 July 1999.

769. After being adopted by the Council (Decision of 13 June 2000) and Parliament it was notified to the United Nations and applied outright.

9.1.6. *International Sugar Organisation*

770. The EU has continued to play a full role in the affairs of the International Sugar Organisation, which is the body responsible for administering the 1992 International

Sugar Agreement (ISA). The two major issues dealt with have been the response to the very low world market prices for sugar and the possible relocation of the ISO offices.

9.2. Bilateral and regional trade relations

9.2.1. United States

771. Negotiations continued on a comprehensive EU/US wine agreement at a meeting in April 2000. Pursuant to Article 1 of Council Regulation (EC) No 2839/98¹⁵⁶ of 17 December 1998, the Commission reported orally to the Agriculture Council in June 2000 on progress in the negotiations with the US. The Council then examined various aspects of wine trade policy, concluding on a number of issues at the October Council. The Council reaffirmed its policy designed to protect consumers by underpinning the quality of wines placed on the EU market in relation to acceptance of winemaking practices and the use of geographical names and traditional terms describing wine. The Council also expressed the general principle that, in the event of disagreements with trading partners, trade should continue while the dispute was being resolved. The Commission welcomed these conclusions, while specifying that nothing in any agreement should limit the EU's ability to take action for the protection of health. Following these deliberations with Member States, negotiations with the US were resumed in December 2000 and at least one more meeting was scheduled for early 2001.
772. With regard to EU support measures for canned fruit (peaches and pears), annual bilateral discussions under the existing bilateral arrangement with the US took place on the level of support for the 2000 marketing year. In December, the Agriculture Council adopted the new support regime in the sector. This reform abolishes payments to processors in favour of direct payments to producers. As the mechanism described in the arrangement with the US applies with respect to payments to processors, consultations were held with the US in December 2000 to examine the implications of the reform on the bilateral arrangement.
773. In the beef hormones and banana trade disputes, the US continued to impose 100 % *ad valorem* tariffs on EU exports. The retaliation lists covered a wide range of products, but focused on pigmeat, fruit juice, cheese, and fruit and vegetables. Unsuccessful attempts were made throughout 2000 to agree on an equivalent level of compensation in the beef dispute in the form of increased access to the EU market for hormone-free beef and on new banana import measures aimed at stopping retaliation. The US increased the level of commercial damage applied to the above-mentioned EU exports that permitted under WTO rules in these disputes by warning of their readiness to alter the lists of products subject to 100 % tariffs.
774. In the Foreign Sales Corporation tax dispute, the WTO Appellate Body ruled in February 2000 in favour of the EU that the US scheme provided tax reductions dependent on export which were contrary to WTO rules, including under the Agriculture Agreement. While seeking to negotiate a solution compatible with WTO obligations, the EU reserved its right to impose retaliatory measures, if necessary, on

¹⁵⁶ OJ L 354, 30.12.1998, p. 12.

industrial and agricultural products up to a value of USD 4 043 million and notified the WTO thereof in November 2000.

775. The Commission followed closely the continued expansion of trade-distorting US farm subsidies and surplus disposal mechanisms. With the package approved by the US in June 2000, farm payments had increased sevenfold in four years, exceeding by a factor of 300 % the amounts paid per farm in the EU. These developments have informed the Commission's position in the WTO negotiations under the Agriculture Agreement.
776. In July 2000 a WTO panel ruled that a US safeguard action in the form of a quantitative limit on imports of wheat gluten, particularly from the EU, was incompatible with WTO rules. The US appealed against the ruling: the decision of the Appellate Body was expected by January 2001 at the latest. With regard to US measures to manage the quota in a restrictive and discriminatory manner, the Commission registered its dissatisfaction with the US actions in various bilateral forums, under the New Transatlantic Agenda (NTA), the Transatlantic Economic Partnership (TEP) and at the EU/US Lisbon Summit in May. In December 2000 the Cereals Management Committee delivered a positive opinion on a Commission proposal to adopt the necessary implementing regulation, as required under Council Regulation (EC) 1804/98¹⁵⁷ of 14 August 1998, should the US fail to lift the quota in compliance with WTO obligations and procedures. The regulation will enable trading concessions withdrawn by the US in respect of wheat gluten to be rebalanced through the application of an EUR 5 per ton tariff on the import of corn gluten feed from the US, up to a quantity of 2 730 000 tons.
777. The Corn Gluten Feed Monitoring Group continued to meet regularly.
778. Regular exchanges of views between the US and the Commission were held on the implications of concerns about the use of genetically modified products for trade in agricultural products.

9.2.2. *Canada*

779. Discussions concerning trade in wine and spirits with a view to consideration of an EU/Canada agreement were held, specifically at the Joint Cooperation Council meeting in November and at the EU-Canada Summit in December. The talks focused on protection of the use of names, on the use of oenological practices, on certification requirements, particularly for certain quality wines with a high alcohol content, and on the trading conditions applied by Canadian alcohol monopolies.
780. In the beef hormones dispute, Canada continued to impose 100 % *ad valorem* tariffs on CAD 11.3 million of EU exports, including pigmeat and fruit and vegetables. Attempts to agree an equivalent level of compensation to bring an end to the retaliation were unsuccessful.

¹⁵⁷ OJ L 233, 20.8.1998, p. 1.

9.2.3. *Mexico*

781. A Free Trade Agreement between the EU and Mexico entered into force on 1 July 2000. Mexico has also given a commitment to negotiate a wine agreement with the EU.
782. A series of lists outlines the different ways in which various agricultural products will be administered, from immediate elimination of duties, to elimination of duties between three and ten years after entry into force. The EU will benefit in particular from Mexican liberalisation for wines, spirits, and olive oils. The EU will grant limited partial liberalisation quotas to Mexico for certain cut flowers, eggs and albumin, honey, fruit, vegetables, orange juice and pineapple juice and a transitional quota for avocados. Mexico will grant immediate or early liberalisation to EU exports for most of these products. Both parties have a waiting list of sensitive products that they cannot liberalise at this stage, subject to future review. (Bananas, sugar, beef, dairy products, rice, maize, sweet corn, starches and many fruits and vegetables are among the products on the EU reserve list). Essential elements of the CAP, including the EU entry price system and export refunds have been maintained. The agreement also includes a protocol on rules of origin, which sets out the requirements for eligibility for originating status for the various products.

9.2.4. *Mercosur and Chile*

783. In July 1998 the Commission adopted draft proposals for directives for the negotiation of an association agreement between the European Union and Chile. The draft was approved by the Council on 13 September 1999. The directives state that:
- the parties are to give confirmation of their common objective of gradual mutual liberalisation of trade in goods and services as a whole with a view to the introduction of free trade and taking into account the sensitiveness of certain products and sectors in accordance with WTO rules;
 - in the second half of 1999 the parties are to begin concertation on the round of multilateral negotiations in the context of the WTO and on the preparation of the forthcoming negotiations. The concertation could well cover a number of issues and include regular talks on agriculture, trade and services;
 - the parties are to begin negotiations immediately on non-tariff matters;
 - the process of negotiation on tariff reductions and on services is to begin on 1 July 2001, the said negotiations being conducted and concluded in the light of the results of the WTO round and the anticipated timetable for the Free Trade Area of the Americas. They are expected to be concluded after the WTO round.
784. In 2000 the Commission took part in two sets of meetings with Mercosur and Chile respectively (6-7 April in Buenos Aires, 10-11 April in Santiago and 13-16 and 20-23 June in Brussels). A third set of meetings was held in Brasilia and Santiago in November 2000.
785. In the case of agriculture this gave rise to exchanges of technical information in preparation for tariff negotiations in 2001.

9.2.5. *South Africa*

786. The Agreement on Trade, Development and Co-operation (TDCA) between the EU and South Africa (SA) entered into force on a provisional basis on 1 January 2000. Details on parallel wine and spirits agreements still remain to be settled.
787. The agriculture part of the TDCA involves various degrees of trade liberalisation, ranging from immediate liberalisation to liberalisation over longer periods of up to 10 years by the EU (up to 12 years by SA). Both parties also have a 'reserve list' of sensitive products that they exclude from liberalisation for the moment. Bananas, sugar, beef, rice, maize, sweet corn, starches and many fruits and vegetables are among the products on the EU reserve list. SA excluded products such as fresh meats, dairy products, some cereals and sugar products. The reserve lists will be subject to future review. For certain products which are to be liberalised, but not immediately, some preferential transitional quotas will be introduced with immediate effect (the EU will benefit from such quotas on certain wines, SA will benefit on certain cheeses, cut flowers and wines). In addition, the EU allowed partial liberalisation for some of the Community's other sensitive products, such as some citrus fruits, canned fruit, juices, cut flowers and wines, some of which featured on the original Council Mandate exclusion list. This was in the form of tariff quotas, generally limited to levels of recent imports from SA. In return, SA offered the EU some reciprocal tariff quotas in the cheese sector. Tariff quotas have in-built growth factors. Essential elements of the CAP, including the EU entry price system and export refunds, have been maintained. The agreement also includes a protocol on rules of origin, which sets out the requirements for eligibility for originating status for the various products.

9.2.6. *Japan and South Korea*

788. Relations with Japan and South Korea continued to be centred on market access and deregulation issues, particularly in relation to continued removal of trade barriers in the areas of plant and animal health. Progress was evident in a number of areas, particularly stabilisation of the pigmeat trade, following an exchange of letters between Commissioner Fischler and the Japanese Minister for Agriculture.

9.2.7. *New Zealand*

789. With regard to dairy imports under reduced tariff arrangements, further clarification of the technical parameters and control mechanisms (in particular for New Zealand butter exports requested by New Zealand) will soon allow a stricter verification of full compliance with the respective quota conditions. The corresponding implementing legislation was adopted and implemented on 1 July 2000. At the request of the European Union, the New Zealand MAF, Food Assurance Authority, took over responsibility for the issuing of compliance certificates (JMA1) from the New Zealand Dairy Board with a view to ensuring that conflicts of interest are avoided.

9.2.8. *Mediterranean countries*

790. New association agreements are being negotiated under the Euro-Mediterranean Partnership concluded with the EU's Mediterranean partners at the Barcelona conference in 1995. The agreements replace the cooperation agreements dating back

to the 1970s. The new agreements, which are aimed at stepping up trade, provide for reciprocal trade concessions on agricultural products. The negotiations with Israel, Morocco and Tunisia were concluded in 1995, those with Jordan and the Palestinian Authority in 1997. The negotiations with Egypt were concluded in 1999, but the agreement has not yet been initialled by Egypt. The negotiations with Algeria, the Lebanon and Syria are proceeding.

791. The agreement with Tunisia entered into force in 1998, those with Morocco and Israel in 2000, although the reciprocal agricultural concessions agreed with Israel and some provisions of the new agreement with Morocco entered into force early. The reciprocal agricultural concessions agreed with the Palestinian Authority entered into force provisionally in 1997.
792. The agricultural chapter of the agreements with Morocco, Tunisia and Israel is, under the terms of those agreements, subject to a review aimed at achieving greater liberalisation of trade. The negotiations concerned were concluded at the end of 2000 in the case of Tunisia, are proceeding in the case of Israel and have yet to begin in the case of Morocco.
793. For Turkey new arrangements have been applicable to agricultural products since 1998. Under those arrangements the preferential regime is extended to Turkish goods imported into the EU and there are concessions for Community agricultural products exported to Turkey.
794. Malta and Cyprus are in a pre-accession phase, in which their agricultural policy is being adapted in the light of the body of EU law.
795. In the case of Malta there has been no substantial progress on the legal set-up, administrative structures or the rules governing market organisations. While there is monitoring of the veterinary aspects the provisions governing slaughterhouses are not yet in line with established EU law and practice.
796. There has been substantial progress in adapting Cyprus' agricultural policy, in particular with regard to the abolition of state monopolies and neighbouring reforms. A number of improvements are also required in the operation of market organisations. Transposal of the established body of EU law and practice remains patchy, in particular with regard to inspection at frontiers.