ISSN 1025-6660

European Commission

THE AGRICULTURAL SITUATION IN THE EU

2004 REPORT

KF-BC-06-001-EN-C

2004

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EN

Price (excluding VAT) in Luxembourg: EUR 25

Publications Office
Publications.europa.eu

ISBN 92-79-01679-2

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European Commission

The agricultural situation in the EU

2004 report

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Luxembourg: Office for Official Publications of the European Communities, 2006

ISBN 92-79-01679-2

Printed in Italy

PRINTED ON WHITE CHLORINE-FREE BLEACHED PAPER

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1.1. Overview

1. The 2004 agricultural year was marked by an increase in crop production and a recovery or a stabilisation of production for livestock products, combined with favourable prices for livestock products and lower prices for crops. Input prices were substantially higher in 2004 mainly due to increased prices for energy, fertilisers and feedingstuff. Price developments were highly variable by sector and country. Under these circumstances, agricultural income rose for the European Union as a whole by + 3.3 % in real terms. The actual range by country was from – 11.5 % for the Netherlands to + 107.8 % for the Czech Republic.

2. As far as the weather is concerned, the autumn 2003 **weather conditions** had been generally favourable for winter crops' sowings. A colder than average October was followed by a warmer than average period, particularly in central and eastern EU countries, Russia and Ukraine. Winter was characterised by higher seasonal temperatures in the central and eastern European areas with generally low risk of frost damage due to an extended and sufficient snow cover. Whereas northern Spain, Portugal and north-west Italy were relatively dry, cumulated rainfall was higher in eastern and central EU countries, southern Spain, north-east Italy and northern Germany.

3. During spring 2004, the climatic conditions were satisfactory for crop growth and farming operations. Very scarce rainfall was recorded in France, Portugal and eastern countries, whilst in Mediterranean basin countries (except southern Greece) rainfall was above or exceptionally above the historical average with sufficient water supplies for the winter crops. The northern countries recorded seasonable milder temperatures and more solar radiation which favour crop growth. Finally, in June in the western part of Europe higher than average temperatures were recorded particularly in western Ireland, western England, south-western France and the Iberian peninsula.

4. Summer 2004 was within the normal thermal conditions. It was drier than expected in the Mediterranean basin (especially in northern and central Italy), the Czech Republic and north-west Hungary. In August excessive rainfalls in the North Sea area (Great Britain, Sweden and the Netherlands) determined good water supply for maize and sugar beets.

Short windows without rain allowed winter cereal harvesting. September was significantly drier than expected (except in Germany, Ireland and northern Greece). These very normal mild weather conditions in winter and favourable to optimal maturity and pre-harvest as well as harvest conditions led to record volumes in cereals production.

5. In 2004/05, demand for **cereals** within the European Union is estimated to stand about 3 % higher than the 2003/04 marketing year almost exclusively in feed grain demand due to the low cereal prices. Only the use of barley was lower in 2004 due to the relatively higher prices for feed barley than for feed maize, feed wheat and feed rye. As regards **livestock products**, after the very high level of 2003, meat consumption was slightly lower or stable. Despite a slight increase in production combined with higher imports, mainly from South America, and lower exports, the lack of stock availability and higher prices did not allow beef meat consumption to rise further. The slight decrease in pig meat consumption in the whole EU was caused mainly by a decline in the new Member States, due to a drop of pig meat production that was not compensated by higher imports from EU-15 Member States. Consumption of poultry meat was stable and sheep meat and goat meat consumption was only slightly up (+0.6 %). Overall consumption of milk products continued to show a slight upward growth. A slight increase in demand for butter (+0.5 %) and cheese (+1.3 %) was registered whilst skimmed-milk powder consumption declined (–3.5 %) in 2004 in both the new and old EU Member States.

6. Concerning the global economic situation, the world growth has matured in 2004 (world GDP growth is estimated at 5 %), the fastest pace since the 1970s. The surge in economic activity is driven by a number of factors, including supportive macroeconomic policies, historically low interest rates, and particularly strong growth in some emerging economies, such as China. The global recovery has put upward pressure on both fuel and non-fuel commodity prices. Oil prices rose sharply since the first quarter of 2004, peaked in October 2004 at about USD 55 per barrel (Brent crude), before declining gradually to USD 42.10 per barrel at the end of the year. This implies that the average annual oil price in 2004 was 38 % higher than in 2003. The persistence of higher oil prices and their volatility already dented world growth for 2004. It should also have adverse implications for the economic outlook of the next years.

7. In the European Union, economic activity gathered pace this year and the growth rate is projected to have reached 2.5 % in 2004. Besides the external impacts from global demand, the main factors behind this development include accommodative macroeconomic policies, low inflation, supportive financial conditions, widening profit margins and progress in structural reforms. The euro recorded some highs against the dollar in February, followed then by a more moderate exchange rate before exhibiting again a strong growth against the dollar in the last months of 2004, closing the year at USD 1.36.

8. Record growth in agricultural production exceeded global utilisation and led to lower prices for most cereals in 2004. Global meat and dairy product prices were somewhat above the levels of 2003. In the case of cereals, world wheat prices (in dollars) were higher than in 2003 in the first half of the year but subsequently fell significantly given the record world harvest in summer 2004 thanks especially to exceptional production in Europe (EU-25, Balkan countries, Ukraine) and Russia, but also higher production in Far East Asia (India and China), Africa and South America, despite some decline in Central and North America and Australia. The EU production surplus led to a substantial fall in European cereal prices.

9. At the beginning of the year, maize prices were substantially higher than in 2003. As a result of favourable crops prospects especially in the United States but also in China, several European countries and Mexico, increased exportable supplies among the major exporters and large feed wheat availability, international maize prices declined substantially since April and remain mostly below the previous year's level. Weaker demand from Asia also contributed to the decline in prices in recent months.

10. World market prices for soya bean increased substantially at the beginning of the year due to strong demand from China. In addition, the strong Asiatic demand more than doubled freight costs during spring. From the beginning of March prices for soya bean declined very markedly but were still above the 2003 price level.

11. For meat products, the world market situation in 2004 has been mainly determined by sanitary crises and import restriction, leading to generally higher prices. Outbreaks of pathogenic avian influenza in the Far East and increased food safety concerns caused an unprecedented drop in poultry meat consumption; consequently, production in many disease-affected areas in Asia, particularly in Thailand, Vietnam and Indonesia, collapsed. Imports from Thailand, the second main poultry exporter to the EU, dropped. By contrast, high poultry prices induced strong production and exports gains in South America, particularly Brazil, Argentina and Chile. Despite the increased competition from South America and a decrease in shipments, the USA maintained its position as the world's largest exporter of poultry meat. On the beef market, after the discovery of a BSE case in Canada in 2003, a first case was discovered in the USA in 2004, leading to import restrictions for North American beef to Asia, particularly Japan. As a result of the BSE-related import bans on North American beef exports, the countries of South America, particularly Brazil, continued to increase their market shares with exchange rates which still remained favourable. Among the developed countries, Australia and New Zealand have maintained high levels of exports but have been not able to cover the increased demand for beef from these countries. The EU, previously a large competitor in international markets, remained a net importer of beef for the second consecutive year. These developments on international markets generated a rise of pig meat output supported by higher prices and lower feed prices in the latter part of the year. The USA, thanks to a favourable exchange rate, but also the EU and Brazil increased their exports of pig meat in 2004. Higher prices for meat during the year limited global meat consumption. The latter is estimated to have increased slowly, mainly due to the higher pig

meat output, favoured by limitations on poultry and beef production. Sheep meat prices remained high in general, reflecting low supplies.

12. After the heavy fall at the beginning of 2002, world milk prices recovered in 2003 and increased substantially in 2004 owing to a sustained demand in Asia and a limited supply availability despite increasing production in Asia, Latin America and New Zealand. The substantial price increase was particularly marked for cheese, butter, skimmed-milk powder and whole-milk powder as dairy markets are very sensitive to supply changes. As a result, export subsidies fell in both North America and Europe.

13. In the first nine months of 2004, the overall value of Community agricultural exports was relatively stable (+ 0.2 %), even if the development of exports diverged widely between products. An increase was particularly marked for meat products and products of animal origin, whereas the highest decline in exports was found for cereals, sugar and sugar products and vegetables. The noteworthy drop in cereals export (– 50 %) was due to the drought in summer 2003 and subsequent lower harvest in most EU countries. Pig meat exports increased despite the market access restrictions in certain markets (Japan, Russia) and strong competition from other exporters (Brazil), since the world market was favoured by the sanitary problems for other meats. After the fall of 2003, due to the avian influenza epidemic, poultry meat exports recovered slightly in 2004. The overall value of imports rose by 4 % in the first nine months of 2004 compared with the same period of 2003. In 2004, the European Union remained a net importer of bovine meat for the second consecutive year. Turning to cereals, increased imports and significantly lower exports led to negative cereal trade balance in 2004. The overall trade deficit in agricultural products in the first nine months of 2004 deepened to EUR 3 426 million compared with EUR 1 551 million in 2003.

14. For meat and dairy products, intervention stocks fell in 2004, a sign of improved market conditions. On the contrary, cereals stocks are expected to increase significantly. Due to an exceptional harvest in 2004 and low international market prices, cereal intervention stocks are expected to reach 10 million tonnes in 2004 compared with 3.6 million in 2003. Particularly barley and soft wheat stocks would rise to 4.8 and 2.9 million tonnes respectively; on the other hand, rye stock would decline from 3.3 to 2.3 million tonnes. Rice stocks declined due to reduced production in the major exporting countries and reached 600 000 tonnes at the end of 2004. After several poor harvests in the previous years, wine production recovered in 2004, particularly in France and Italy. As a result, wine stocks increased by 8 million tonnes in 2004. The stocks of wine alcohol increased slowly to around 2.5 million hectolitres of pure alcohol in intervention stocks at the end of 2004. Intervention stocks of bovine meat were fully disposed. Intervention (public) stocks of dairy products in the EU fell to their lowest levels since the autumn of 2002. Skimmed-milk powder stocks dropped significantly over the year from 198 000 to 20 000 tonnes and butter stocks dropped by 53 000 tonnes to reach 170 000 tonnes at the end of 2004.

1.2. Production

15. The latest information shows that the EU-25 **cereal area** increased by 2.5 % and reached 52.6 million ha in 2004/05, of which 37.1 million ha in the old Member States. Looking at individual cereal, the area of most cereals increased, particularly for rye (+ 8 %), wheat (+ 6 %), durum wheat (+ 4.2 %) and maize (+ 2.7 %). On the other hand the area of barley (– 1.8 %) and oats (– 5.7 %) declined in 2004/05. The most significant increase in cereal area is observed in the new Member States.

16. **Total cereal production** is estimated slightly above **281 million tonnes** for 2004/05, an increase of 21 % (about 50 million tonnes) compared with 2003/04. Cereal production was about 220 million tonnes in the old Member States (+ 18 % in comparison with 2003/04), and 61 million tonnes in the new Member States (+ 30 %). This is mainly due to the good and sometimes excellent climatic conditions in Europe over the whole harvest season, and, to a minor extent, to the reduction in the mandatory set-aside rate. The increase in cereal production ranges from 2 % for oats to 39 % for rye. Significant increases were also estimated for durum wheat (+ 30 %), maize (+ 29 %), triticale (+ 27 %) and soft wheat (+ 25 %).

17. All cereals had higher yield in comparison with last year. Average **cereal yield** was about 5.33 tonnes/ha, 19 % higher than in 2003/04. The highest yield increases are estimated for rye (+ 28 %), maize (+ 25 %), durum wheat (+ 25 %), triticale (+ 22 %), soft wheat (+ 18 %) and barley (+ 12 %).

18. France remained the leading cereal producer in the EU, totalling 69 million tonnes (+ 25 %) which equals the record harvest of 1998. It is followed by Germany with 50 million tonnes (+ 2 %) and Poland with 28 million tonnes (+ 19 %). Hungary nearly doubled its cereal production from 8.7 million tonnes in 2004/05 to 16.2 million tonnes in 2003/04. Only the Netherlands produced a little less than last year (– 0.5 %).

19. **Rice** production was high in 2004 with excellent milling yields. The 2004 production estimate is 7 % higher at around 1.6 million tonnes (milled equivalent).

20. The total EU-25 **oilseed** area was quite stable in 2004 (+ 1 % compared with 2003) with rapeseed up 5 % to 4.4 million ha, sunflower seed down 5 % to 2.2 million ha and soya bean down 6 % to 275 000 ha. The rapeseed area increased due to good price prospects during sowing and very low frost damages compared with 2003/04. The total oilseed area is currently estimated to stand at 7 million ha, including 200 000 ha of non-food crops (the mandatory set-aside rate was reduced to 5 %). With the excellent weather conditions, yields recovered after the low 2003 yields, by 23 % for rapeseed, 10 % for sunflower seed and even 39 % for soya bean, giving a total production of 19.5 million tonnes, 23 % higher than in 2003/04. Part of the 1.7 million tonnes estimated as non-food was rapeseed. The 2004/05 crop would be made of 14.6 million tonnes of rapeseed, 4.1 million tonnes of sunflower seeds and 860 000 tonnes of soya beans.

21. The EU-25 **linseed** area settled at a very low level in recent years (100 000 ha) and the 2004 production estimate is to reach 125 000 tonnes.

22. The **protein crop** area increased slightly by 2 % to reach 1.43 million ha. A slight increase in peas yield (3.3 tonnes/ha) combined with a yield stability for beans and sweet lupines (2.8 tonnes/ha) led to a total protein crop production of 4.5 million tonnes (up 4 % compared with the 2003/04 marketing year).

23. EU **sugar** production in 2004 is estimated at 18.7 million tonnes (18.4 million tonnes from beet, and 0.3 million tonnes from cane or molasses), 2.7 % above the 18.2 million tonnes of 2003. After the severe drought that hit southern and central Europe in 2003, weather conditions have been favourable in most beet-growing regions of the enlarged EU in 2004. The moderate decrease in area sown (– 1.7 %, down to 2.15 million ha from 2.19 million ha in 2003) has in general been compensated by higher yields, although sugar content has been rather variable due to abundant precipitations. Production has significantly increased in Germany, where 4.1 million tonnes were produced, nearly 10 % more than in 2003 and Hungary (increase by more than 70 % up to 450 000 tonnes compared with 260 000 tonnes in 2003). Among other Member States, production has also increased in Italy (increase by 27 % up to 1.15 million tonnes) and Greece (increase by 24 % up to 255 000 tonnes). Production has remained rather stable in the United Kingdom (1.35 million tonnes) and the Netherlands (1.07 million tonnes). In France, production has increased moderately by around 100 000 tonnes up to 4.3 million tonnes.

24. **Olive oil** production in 2004 (marketing year 2003/04) is estimated to reach 2 437 000 tonnes (1 412 000 tonnes in Spain, 685 000 tonnes in Italy, 306 000 tonnes in Greece, 310 000 tonnes in Portugal and 3 000 tonnes in France). This quantity constitutes a new record for the Community.

25. Initial estimates give an increase in **fruit** production from 5 % to almost 50 % depending on the product with the exception of oranges and lemons for which production decreased by 3 % and 8 % respectively. The highest increases in 2004 were found for stone fruit for which 2003 was a miserable year. Initial figures indicate an increase of the production of peaches of almost 50 %. As regards **vegetables**, production figures are higher for tomatoes, cabbages, onions and carrots. Production of tomatoes for industrial processing increased by 8 % and reached 11.2 million tonnes in 2004 mainly due to increased areas and favourable weather conditions.

26. EU **wine** production rose to 184.5 million hectolitres in 2004. The production in the 10 new Member States stood at 7.0 million hectolitres, whilst wine production in the EU-15 was around 177.5 million hectolitres (up by 13 % compared with 2003 and highest since 1999). The overall EU production masks wide contrasts between producer countries: wine production remained stable in Spain (+ 2 %) but increased in Italy (+ 18 %), France (+ 23 %)

and Germany (+28 %). The increase in production is more intense for the table wine market, up 14 % compared with 2003 in the EU-15 (+19 % in France and +23 % in Italy).

27. **Bovine meat** production is estimated to stabilise at 8.1 million tonnes, up 0.6 %, for 2004. Falls in some Member States (e.g. France, Czech Republic, etc.) were offset by rises in others (e.g. Germany, Italy, United Kingdom, etc.).

28. The cyclical up of **pig meat** production of 2002 and 2003 is expected to lead to a slight decrease in 2004 (–0.8 % at 21.1 million tonnes). Sharp decreases occurred in the new Member States (e.g. – 8 % in Poland and – 10 % in Hungary) whereas production increases continued in most EU-15 Member States (e.g. +2.5 % in Denmark, +2.4 % in the Netherlands, +1.2 % in Germany, +1 % in Spain), except in France (–0.9 %) and in the United Kingdom (–2.1 %).

29. After the fall in production of 2003, mainly due to the avian influenza outbreak and the intense summer heat, **poultry meat** production recovered in 2004, but less than expected. Production is estimated to reach 11.1 million tonnes (+2.8 %).

30. **Sheep meat/goat meat production** also recovered from the drought conditions of summer 2003. In 2004, falls occurred only in France, Greece and Spain whereas growth was particularly sharp in Italy, in Ireland and in the United Kingdom. For EU-25, the overall increase of production is expected to reach 1 % on 2003.

31. The downward trend in dairy cow numbers in the EU-15 is expected to continue and to reach 23.4 million heads at the end of the year, a 2 % fall compared with end 2003. The average milk yield on the other hand is expected to increase to 6 031 kg, up 1.3 %. This gives a **milk production** figure of 143.0 million tonnes, down 0.9 % compared with 2003. Deliveries to dairies would decrease by 0.6 % to 130.6 million tonnes.

32. **Butter** production is expected to decline by 0.9 % in 2004. **Cheese** production continues to increase although considerably less than during the last few years: this year's overall increase of 1.6 % (well below the historic average of around 2.1 % a year) would result in a production of 7.8 million tonnes. For **milk powder** a significant decrease of 7 %, about 157 000 tonnes, to 2.1 million tonnes in 2004 is expected. The main reason is a reduction of skimmed-milk powder production by 19 %.

1.3. Prices

1.3.1. Producer prices

33. The figures available in December 2004 show an increase in nominal terms in the agricultural producer price index for most EU Member States. Producer prices are expected to increase most in Latvia (+20.9 %), but also in the Czech Republic (+6.9 %), Luxembourg

(+4.4 %), the United Kingdom (+4 %), Finland (+3.2 %), Ireland (+2.3 %), Austria (+2.2 %), Denmark (+1.7 %) and Lithuania (+1.1 %), to remain relatively stable in Spain (+0.6 %) and Greece (+0.3 %), but to decline in the Netherlands (–6.7 %), Hungary (–4.7 %), Sweden (–1.4 %) and France (–1 %).

34. Prices of cereals developed differently among the EU Member States. High price drops are expected in Austria (–22.1 %), Hungary (–20.6 %), Ireland (–12.9 %), the Netherlands (–7.1 %) and Belgium (–7 %), but also in Sweden (–4.4 %), Finland (–2.5 %), Luxembourg (–2.4 %) and Denmark (–1.5 %). On the other side, prices of cereals are expected to increase significantly in the Czech Republic (+15.9 %), the United Kingdom (+9.8 %), Greece (+5.5 %) and France (+4.8 %), but also in Latvia (+3 %), Spain (+1.4 %) and Lithuania (+0.7 %). After the large falls recorded in 2002 and 2003 sugar beet prices recovered significantly in some EU Member States: Hungary (+47 %), Belgium (+37.7 %), Latvia (+24.2 %), the Czech Republic (+23.4 %) and Denmark (+14.4 %). On the contrary, sugar beet price is expected to decrease in Greece (–17.2 %), Finland (–10.3 %), Lithuania (–5.5 %) and Spain (–5.5 %). Wine and olive oil prices increased in nominal terms in most wine producing countries, except for Spain and France were the prices remained almost stable. After rising continuously since 2000, the price index for horticultural products dropped in most EU Member States, except for Luxembourg, Hungary, Finland and Ireland where the nominal prices were up.

35. The overall index for animal products rose in most EU Member States but this masks wide-ranging changes by sector and by Member States. Pig meat price recovered notably from the last years' decline in most EU Member States except for Greece where the nominal price was down by 1.9 %. Beef and veal prices increased in most EU countries but declined slightly in Sweden (–6.4 %), Belgium (–4.5 %) and Spain (–2.6 %). Poultry meat prices rose or remained stable in most EU Member States but decreased in Lithuania (–5.5 %). Sheep and goat meat price was up in most countries, except for the Netherlands (–3.6 %), the Czech Republic (–5.7 %), Hungary (–5.3 %) and Ireland (–1.6 %). Milk price changes in nominal terms over 2003 varied significantly between countries: while milk price declined in some EU Member States it increased significantly in Latvia (+34.4 %) and Lithuania (+15.3 %), but was also up in Spain (+4.8 %), Belgium (+4.3 %), the United Kingdom (3.2 %), the Czech Republic (+2.4 %) and Greece (+1.8 %). Egg prices dropped significantly in some Member States such as Belgium (–67.3 %), the Netherlands (–56.4 %), France (–38 %) and Lithuania (–20.2 %) in 2004 after a substantial price increase in 2003 while in other Member States the price change was more moderate.

1.3.2. Market prices

36. In general, **cereal** prices stayed at a higher level than in 2003 during the first months of 2004 (EUR 164 to EUR 168 per tonne for bread-making common wheat, EUR 167 to EUR 175 per tonne for maize and EUR 155 to EUR 165 for feed wheat and malting barley) as a result of last year's poor crop production due to the drought in summer 2003. Prices then began to decline in May–June when the prospects for a good harvest in 2004 increased. The record crop production in 2004 then resulted in large falls in all cereal prices from the summer onwards. Prices fell significantly for all cereals and by the end of year they were (per tonne) about EUR 117 for bread wheat and feed barley, about EUR 100 for feed wheat and feed maize, about EUR 90 for bread rye, about EUR 75 for feed rye and about EUR 125 for malting barley. Only prices for quality durum wheat declined less and stayed at the end of the year by EUR 155–165.

37. **Olive oil** prices decreased (–4.5 %) in general compared with 2003 but some increases in extra virgin oil and virgin olive oil prices were registered in Greece.

38. In general, **wine** prices were slightly down in 2004 but this figure masks varying movements by wine category, region and country. Prices decreased in Germany, Luxembourg, the Czech Republic, France and Spain but increased in Italy, Greece and Portugal.

39. In general, **bovine meat** prices continued to improve in 2004. For young bulls (category R3) prices were quite stable, varying from EUR 260 to EUR 275 per 100 kg. During the first 18 weeks of the year, they stayed around 1 % to 4 % below the level of 2003. Thus they dropped slightly to EUR 260 when the enlargement took place and recovered progressively during the next 18 weeks. During the last seven weeks of the year, they stayed 3 % to 5 % above the prices of 2003. The price of cows (category R3) rose more or less regularly up to the end of September then started to decline following the seasonal pattern. It must be noticed that from mid-August, they stood at the level of 1999 (before the cut of institutional price introduced by Agenda 2000). After two years at low level, steer prices started to recover during the last quarter of 2003. They continued to improve during 2004, reaching record levels in June, and then decreased to stabilise at around EUR 267 per 100 kg during the last quarter of the year.

40. Following the low level of 2003, **pig meat** prices improved in 2004 with two remarkable increases during March and during June when they reached EUR 150 per 100 kg. Prices stayed around that level until the second part of October when they declined to EUR 140 kg with a progressive improvement during the end of the year.

41. During the first five months of 2004, **poultry meat** prices improved progressively from EUR 140 per 100 kg up to EUR 150 per 100 kg and fluctuated at this favourable level up to the end of the year. After the record level at the end of 2003, egg prices fell sharply during the first half of the year down to around EUR 80 per 100 kg and even less during August. They did not follow the seasonal pattern of increase in the second part of the year but remained at this low level up to the end of the year.

42. Due to a lack of availability **sheep meat** prices stayed at a high and relatively stable level in 2004 for the fourth year in a row. For heavy lamb they fluctuated very close to the levels of 2003, between EUR 374 and EUR 452 following the seasonal pattern. For light lambs, prices were in general lower than in 2003. They decreased regularly from EUR 656 to EUR 453 per 100 kg during the first part of the year. The seasonal trend took them up to end the year at EUR 613 per 100 kg, 4 % below the level of 2003.

43. The weak prices for **milk products** experienced in 2002 and 2003 improved during 2004 and remained firm even after the EU enlargement on 1 May 2004 and the introduction of the first step of the support price cuts agreed within the CAP reform from July 2003. Domestic prices for butter and skimmed-milk powder remained at around 115 % of the new buying-in price. This price environment allowed for substantial sales out of intervention in particular for skimmed-milk powder.

1.4. Input prices

44. In 2004, the purchase price index for standard consumption goods and services in agriculture rose in most EU Member States in nominal terms over 2003. Prices were particularly higher for feedingstuff, energy and fertilisers. Total input prices increased most in Hungary up 12.4 %, Greece up 7.7 %, the United Kingdom up 7.3 % and the Czech Republic up 7 %. In other countries the index rose more slowly with 5.1 % in Spain, 4.2 % in France, 4 % in Sweden, 3.8 % in Ireland, 3.6 % in Austria, 3.4 % in Denmark, 3 % in Finland, 1.6 % in Belgium and 0.2 % in Luxembourg. Only Lithuania registered a fall in nominal input prices by 3.1 %.

1.5. Farm income

45. The first estimates of farm income in 2004 provided by Eurostat, on the basis of information sent by the Member States in December 2004, show an average increase of 3.3 % in farm income (measured, in real terms, as the net value added at factor cost per annual work unit) as compared with 2003 for the European Union as a whole. This improvement was caused by a marked increase by 53.8 % in the new Member States, while it rose only slightly by 0.8 % in the old Member States. Incomes were up in 19 Member States, the strongest rates observed in most new Member States. Agricultural income in the Czech Republic (+ 107.8 %), Poland (+ 73.5 %), Estonia (+ 55.9 %), Latvia (+ 46.6 %) and Lithuania (+ 41.8 %) benefited most from the introduction of enlargement. In the old Member States, a significant increase can be observed in Germany (+ 16.6 %), Denmark (+ 12.2 %) and Luxembourg (+ 7.8 %). Income was down in only six Member States. The largest drop in agricultural income is estimated in Belgium (– 8.8 %) and the Netherlands (– 11.5 %).

46. The main factor behind these changes is a sharp increase in agricultural output quantities as compared with 2003, notably for cereals, oilseed, wine, olive oil and potato sectors. The total volume of crop production rose by 12.5 %, while a sharp decrease in real crop prices was recorded (– 8.4 %). The real value of animal production, in particular for pork and poultry, increased (supported by lower feed prices). The levels of subsidies granted to the farm sector in the new Member States increased substantially from EUR 1.2 billion in 2003 to EUR 3.0 billion in 2004 (including national top-ups). These favourable developments offset the strong rise in total input prices (energy, lubricants, and fertilisers) linked to the sharp increase in oil prices.

47. Lastly, the structural decline in the agricultural labour force, the final fundamental factor affecting income movement, is assessed at 1.5 % in 2004 for the whole EU. The highest reduction in agricultural labour was recorded in the Czech Republic (– 6.1 %), Slovenia (– 5.9 %), Estonia (– 5 %) and Hungary (– 4.1 %).

Changes in nominal farm-gate prices in 2004 and 2003

(%)

Member States	Crop products		Livestock products		Total	
	2004/03 (p)	2003/02	2004/03 (p)	2003/02	2004/03 (p)	2003/02
EU-25						
Belgique/België			0.3	1.9		
Česká republika	9.8	– 0.9	5.4	– 5.0	6.9	– 3.7
Danmark	– 2.5	3.3	3.3	– 5.3	1.7	– 4.4
Deutschland		6.9		– 2.9		1.0
Eesti						
Elláda	– 1.2	13.5	2.1	1.3	0.3	9.4
España	– 1.1	8.4	3.2	1.3	0.6	5.5
France	– 0.7	5.8	– 0.1	0.4	– 1.0	2.7
Ireland	– 11.3	5.8	4.5	– 1.3	2.3	– 0.4
Italia						
Kýpros/Kıbrıs						
Latvija	11.3	4.9	23.8	– 12.5	20.9	– 2.8
Lietuva	– 6.9	– 12.7	10.0	– 11.9	1.1	– 12.3
Luxembourg	3.0	6.1	4.6	– 0.1	4.4	1.0
Magyarország	– 12.5	19.5	3.4	– 7.2	– 4.7	6.4
Malta						
Nederland	– 11.5	5.3	– 1.4	– 1.0	– 6.7	2.2
Österreich	1.8	8.7	2.4	– 3.7	2.2	0.4
Polska						
Portugal						
Slovenija						
Slovensko						
Suomi/Finland	3.2	3.0	3.2	– 8.5	3.2	– 4.7
Sverige	1.9	1.9	– 3.3	– 3.2	– 1.4	– 1.3
United Kingdom	4.8	6.7	3.3	6.8	4.0	6.6

(p) = provisional.
Source: Eurostat.

Changes in nominal purchase prices for agricultural inputs in 2004 and 2003

(%)

Member States	Intermediate consumption		Investment		Total	
	2004/03 (p)	2003/02	2004/03 (p)	2003/02	2004/03 (p)	2003/02
EU-25						
Belgique/België	1.8	– 0.1	0.4	1.4	1.6	0.1
Česká republika	7.8	– 2.1	2.2	1.3	7.0	– 1.6
Danmark	3.3	– 2.1	3.9	3.0	3.4	– 1.0
Deutschland		0.1		0.9		0.3
Eesti						
Elláda	9.2	4.4	3.5	3.5	7.7	4.2
España	5.2	1.2	2.0	2.9	5.1	1.4
France	4.3	1.0	3.7	2.6	4.2	1.4
Ireland	4.3	2.7	1.6	1.7	3.8	2.5
Italia						
Kýpros/Kıbrıs						
Latvija						
Lietuva	– 3.1	– 3.6			– 3.1	– 3.6
Luxembourg	0.1	1.1	0.5	1.8	0.2	1.4
Magyarország	13.2	6.8	7.2	7.2	12.4	6.8
Malta						
Nederland		1.7		2.5		2.0
Österreich	4.3	2.3	2.2	1.6	3.6	2.0
Polska						
Portugal						
Slovenija						
Slovensko						
Suomi/Finland	2.7	1.0	3.6	2.6	3.0	1.4
Sverige	4.0	1.9	3.6	2.9	4.0	2.3
United Kingdom	8.0	2.8	2.8	1.5	7.3	2.6

(p) = provisional.
Source: Eurostat.

Nominal output price indices for agricultural products over the 2000–04 (p) period (2000 = 100)

Member States	2000	2001	2002	2003	2004 (p)
EU-25					
Belgique/België	100.0				97.5
Česká republika	100.0	110.9	100.1	96.4	103.3
Danmark	100.0	107.4	96.9	92.5	94.2
Deutschland	100.0	107.4	100.4	101.4	
Eesti					
Elláda	100.0	106.1	113.6	123.0	123.3
España	100.0	103.0	100.3	105.8	106.4
France	100.0	103.5	100.1	103.4	102.4
Ireland	100.0	104.3	100.0	99.6	101.9
Italia					
Kýpros/Kıbrıs					
Latvija	100.0	102.7	99.9	97.1	118.0
Lietuva	100.0	114.7	114.2	101.9	103.0
Luxembourg	100.0	101.8	99.5	100.5	104.9
Magyarország	100.0	106.0	104.1	110.5	105.8
Malta					
Nederland	100.0	105.9	103.7	105.9	99.2
Österreich	100.0	106.7	101.7	102.1	104.3
Polska					
Portugal					
Slovenija					
Slovensko	100.0				103.4
Suomi/Finland	100.0	105.2	103.7	99.0	102.2
Sverige	100.0	105.1	102.1	100.8	99.4
United Kingdom	100.0	108.3	103.3	109.9	113.9

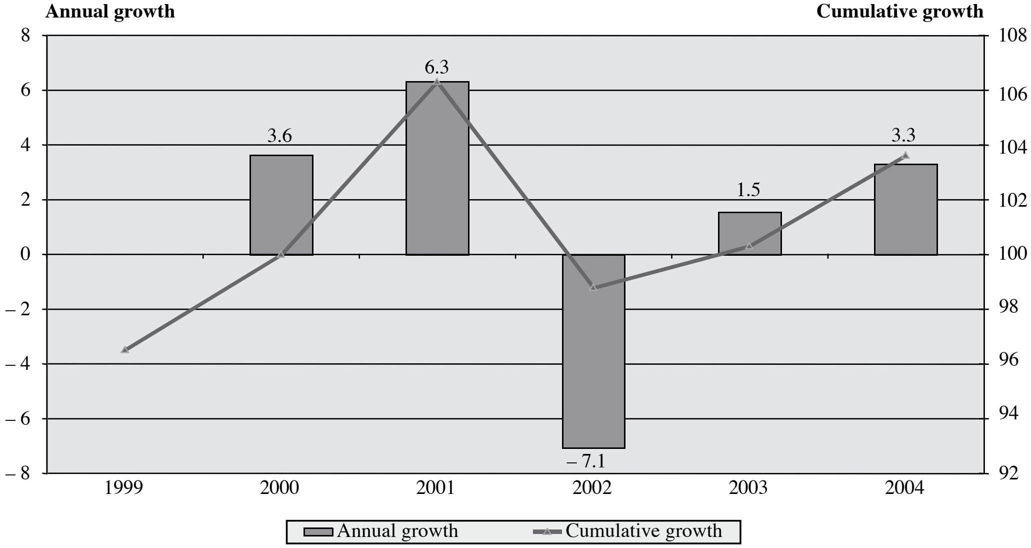
(p) = provisional.
Source: Eurostat.

Indices of nominal purchase prices for goods and services currently consumed in agriculture over the 2000–04 (p) period (2000 = 100)

Member States	2000	2001	2002	2003	2004 (p)
EU-25					
Belgique/België	100.0	102.6	102.8	102.7	104.5
Česká republika	100.0	105.1	103.4	101.3	109.1
Danmark	100.0	106.6	107.7	105.6	108.9
Deutschland	100.0	105.2	104.1	104.2	:
Eesti	:	:	:	:	:
Elláda	100.0	101.5	103.7	108.1	117.3
España	100.0	102.2	103.0	104.2	109.4
France	100.0	103.4	103.2	104.2	108.5
Ireland	100.0	104.8	106.1	108.8	113.1
Italia	:	:	:	:	:
Kýpros/Kıbrıs	:	:	:	:	:
Latvija	100.0	:	:	:	114.3
Lietuva	100.0	96.4	100.4	96.0	92.9
Luxembourg	100.0	104.0	104.5	105.6	105.7
Magyarország	100.0	112.1	112.3	119.1	132.3
Malta	:	:	:	:	:
Nederland	100.0	107.8	108.5	110.2	:
Österreich	100.0	102.0	100.5	102.8	107.1
Polska	:	:	:	:	:
Portugal	:	:	:	:	:
Slovenija	:	:	:	:	:
Slovensko	100.0	:	:	:	115.2
Suomi/Finland	100.0	101.8	101.5	102.5	105.2
Sverige	100.0	105.6	107.2	109.3	113.3
United Kingdom	100.0	104.3	103.7	106.5	114.5

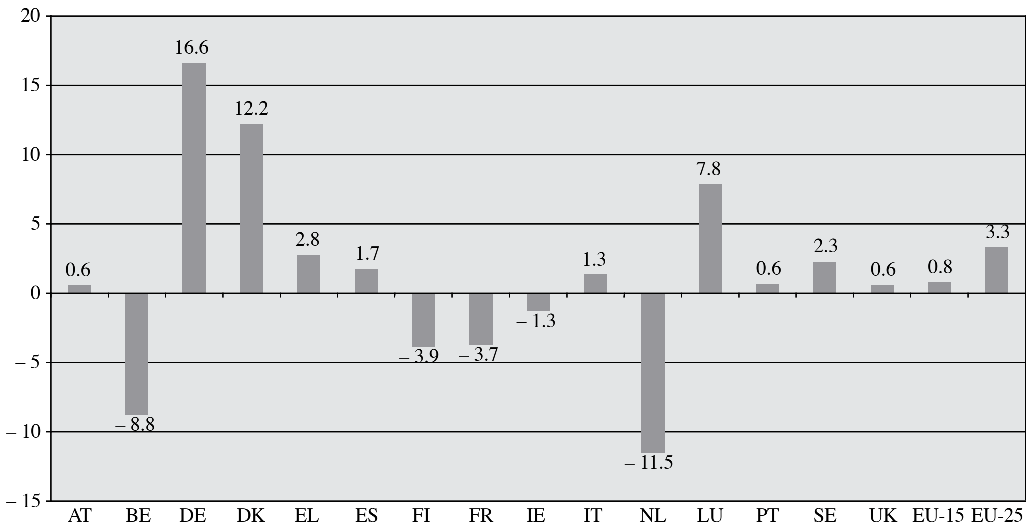
(p) = provisional.
Source: Eurostat.

Development of the agricultural income in the EU-25 over the 1999–2004 (p) period, in terms of annual change (%) and cumulative growth (2000 = 100)



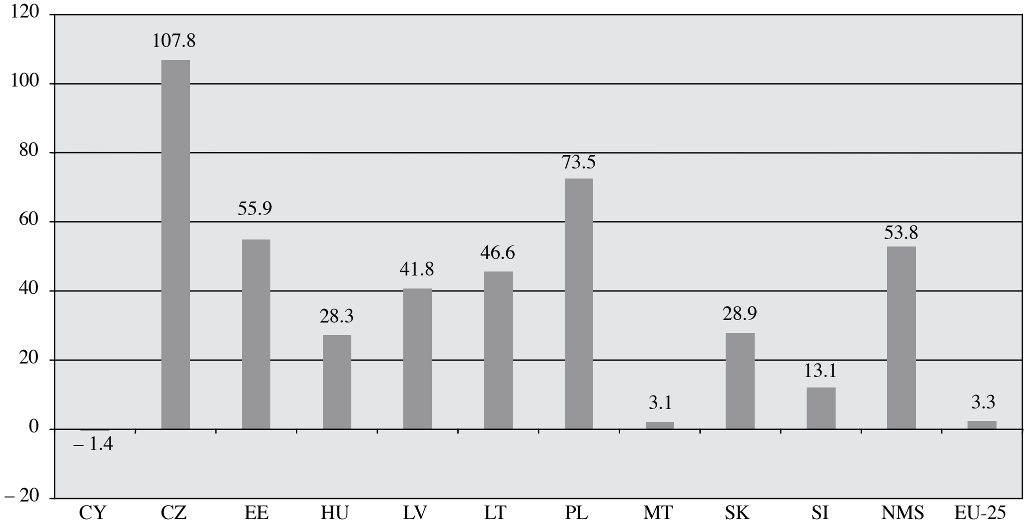
(p) = provisional.
Source: Eurostat.

Development of agricultural income in the EU-15 Member States in 2004 (p) (% change versus 2003)



(p) = provisional.
Source: Eurostat.

Development of agricultural income in the new Member States in 2004 (p)
(% change versus 2003)



(p) = provisional.
NMS = New Member States.
Source: Eurostat.

Development of agricultural income in the EU Member States over the 1999–2004 (p) period (2000 = 100)

Member States	1999	2000	2001	2002	2003	2004 (p)
EU-25	95.6	99.1	105.3	97.9	99.4	102.7
Belgique/België	92.0	99.9	108.1	90.9	91.7	83.6
Česká republika	79.3	96.9	123.8	97.3	95.3	198.0
Danmark	83.8	101.7	114.4	85.6	82.6	92.7
Deutschland	79.7	97.9	122.4	89.6	87.3	101.8
Eesti	69.2	103.7	127.1	126.5	178.7	278.5
Elláda	98.2	99.3	102.5	100.0	99.0	101.7
España	91.2	100.3	108.5	105.7	113.3	115.3
France	100.0	99.4	100.6	98.4	97.6	93.9
Ireland	90.5	105.5	103.9	99.0	99.3	98.0
Italia	102.3	98.7	99.1	94.9	95.7	97.0
Kýpros/Kıbrıs	103.7	99.3	97.0	94.4	98.7	97.3
Latvija	84.1	102.2	113.7	116.7	109.7	155.5
Lietuva	106.9	100.7	92.4	81.8	97.3	142.6
Luxembourg	103.6	98.7	97.7	100.4	96.0	103.5
Magyarország	106.1	93.8	100.2	85.2	85.0	109.0
Malta	105.7	95.1	99.1	99.0	91.1	93.9
Nederland	98.6	99.7	101.6	89.4	93.4	82.6
Österreich	89.7	97.0	113.3	107.8	105.2	105.8
Polska	93.9	95.9	110.2	88.6	82.4	143.0
Portugal	102.9	88.9	108.2	101.1	101.7	102.3
Slovenija	99.8	107.6	92.6	125.6	95.4	107.9
Slovensko	97.2	94.5	108.3	102.3	88.3	113.7
Suomi/Finland	83.4	108.1	108.5	114.8	90.3	86.8
Sverige	92.1	100.0	108.0	108.8	107.1	109.5
United Kingdom	101.1	96.0	102.9	110.3	133.2	134.0

(p) = provisional.
Source: Eurostat — Economic Accounts for Agriculture (EAA), Agricultural Income Index.

1.6. Farm accountancy data network (FADN)

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

49. It is important to take into account when studying these tables that FADN uses a threshold and collects information only for commercial farms. This means that they exceed a minimum economic size, measured in European size units (ESU), which differs from country to country ranging from 2 ESU to 16 ESU for the years 2001 and 2002.

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

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

52. Table 2 shows the contribution of the balance of subsidies and taxes to FNVA. In 2001, the proportion of subsidies net of taxes to FNVA for the EU-15 was almost 35 %. However, the differences among Member States and among types of farming were very significant.

53. In 2001, Finland and Sweden had an average FNVA lower than the balance of subsidies and taxes. This means that revenue from the market was not enough to cover production costs. On the other hand, the share of subsidies in FNVA was the lowest in the Netherlands, Belgium, Italy and Denmark.

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

55. In 2002, Finland and Sweden had an average FNVA lower than the balance of subsidies and taxes. For Denmark and Ireland there has been an increase of more than 10 % of the balance of current subsidies and taxes as a percentage in farm net value added. The Netherlands was by far the country with the lowest share of subsidies in FNVA, followed by Italy, Belgium and Spain.

56. FADN data can also be used to analyse the degree of concentration in the agricultural sector. This is reflected in Tables 3 and 4 with data for 2001. In order to avoid the problems caused by the presence of some negative values for FNVA, the variable used is total receipts from farming, i.e. receipts from the market and from subsidies.

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

58. For the EU and for all types of farms the 20 % with the highest receipts account for 69 % of the total. Per country, however, the degree of concentration is lower. Luxembourg, Austria and Finland are the countries with the lowest degree of concentration, while Italy, Portugal and Denmark have the highest degree of concentration with 69, 67 and 63 % respectively.

59. Per type of farm at the EU level, the concentration is the highest for horticulture, various permanent crops combined, mixed cropping, general field cropping and vineyards. The lowest concentration is found in cattle-dairying, rearing and fattening combined, specialist dairying, mixed livestock (mainly granivores, sheep/goats and other grazing livestock) and specialist cattle-rearing and fattening.

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

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

62. At the EU level for all the types of farm, this share is 91 %, while at the country level it is between 72 % in Luxembourg and 89 % in Denmark. Per type of farm, horticulture is the most concentrated, followed closely by vineyards, general field cropping, mixed livestock (mainly grazing livestock) and specialist cereals, oilseed and protein crops. On the other hand, the lowest concentration can be found in cattle-dairying, rearing and fattening combined, followed by various permanent crops combined.

Table 1 — Farm net value added

	All farms		Arable		Horticulture		Vineyards	
	2001	2002	2001	2002	2001	2002	2001	2002
BE	64509	55271	63978	55150	72630	83026		
DK	64042	47320	29583	23788	252993	244523		
DE	51533	49344	73891	60480	88425	95435	42253	47132
EL	10856	13825	11080	11558	21509	25011	9463	10574
ES	22211	23814	21875	22974	42175	46509	18293	21096
FR	47638	48999	44279	47276	80800	92298	79527	80827
IE	19708	18987	41491	36059				
IT	17645	24119	12827	16651	34882	39194	19469	23307
LU	57503	53579	21380	17078			68461	75205
NL	99856	90941	88755	70212	231029	234786		
AT	33635	32469	35991	34789			36434	37401
PT	7134	7747	5733	6060	7177	10966	9915	8259
FI	31392	33237	20696	21762	56173	62093		
SE	22813	22627	16422	17558				
UK	59055	63616	70091	75714	161240	182398		
EU-15	**27924**	**30164**	**23943**	**25806**	**66609**	**73983**	**35337**	**38767**

Source: FADN.

Table 2 — Balance current subsidies and taxes as % of farm net value added

	All farms		Arable		Horticulture		Vineyards	
	2001	2002	2001	2002	2001	2002	2001	2002
BE	20.7	23.6	19.8	23.8	– 0.5	– 0.5		
DK	25.6	38.6	50.9	66.7	1.8	2.2		
DE	41.8	49.7	51.4	65.5	4.4	3.8	14.2	15.5
EL	35.2		50.5		2.8		47.2	
ES	26.3	24.6	47.5	43.2	1.5	2.5	4.9	8.1
FR	41.5		69.3		2.3		0.0	
IE	56.2	67.9	52.0	64.9				
IT	22.4	19.5	41.8	39.1	1.5	1.1	5.7	2.9
LU	65.4	70.1	140.6	169.4			16.9	20.2
NL	2.8	3.2	8.7	6.5	– 1.3	– 1.1		
AT	53.1	56.8	67.8	70.9			24.4	27.7
PT	42.7	42.5	61.8	69.4	– 0.2	0.9	8.0	5.9
FI	116.6	115.6	154.3	147.9	45.7	42.8		
SE	100.4	106.4	121.4	115.7				
UK	52.2	55.2	74.8	66.9	1.1	0.2		
EU-15	**34.7**	**35.9**	**54.7**	**54.8**	**1.6**	**1.5**	**3.7**	**4.2**

Source: FADN.

(EUR)

	Other permanent crops		Dairy		Drystock		Pigs/poultry		Mixed	
	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
	79443	110207	54397	47236	46403	44501	95101	43396	71497	54357
	104764	93885	69018	72478	15622	15056	191415	85467	72175	43010
	79789	82804	38747	40767	26624	33192	60853	37456	47227	42601
	8704	14290	15356	19448	15754	17803	59693		13461	16212
	15368	16852	26037	23724	22938	27771	73440	57492	28809	38546
	74697	79916	35036	35505	29195	33206	76089	34359	48694	47283
			43032	37350	10579	11594	158965		37060	28668
	12839	17732	52093	54503	24396	31228	144727	227140	28202	35519
			57772	53505	50233	48601	161076		59897	48797
	149582	126066	81892	74863	16951	24154	77094	33642	50685	50901
	27315	29808	31089	31772	30459	31820	42243	28918	36932	32068
	4916	5156	12568	15314	6339	9410	49559	33470	6933	7277
	22883		35275	36946	30558	29642	44191	45612	31116	37224
			34062	36295	7629	8783	58312	24766	19493	15682
	301288	235041	78156	71442	18224	29363	128504	124242	58762	69733
	15034	**18441**	**43093**	**42686**	**20474**	**24494**	**84989**	**62200**	**36313**	**36055**

(%)

	Other permanent crops		Dairy		Drystock		Pigs/poultry		Mixed	
	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
	0.6	1.3	17.3	19.1	59.4	62.9	5.0	6.2	23.6	29.1
	1.1	0.9	23.6	25.7	120.4	158.4	9.9	22.6	28.6	58.3
	7.5	7.8	32.3	37.1	91.1	100.7	24.6	42.6	51.5	65.3
	24.5		16.5		29.8		– 1.0		34.4	
	26.3	21.7	4.1	5.3	35.1	35.1	3.5	2.2	30.4	30.8
	8.4		34.7		86.5		10.7		54.9	
			21.1	27.0	102.4	111.7	6.5		53.6	72.7
	18.3	14.6	9.5	7.3	30.1	32.9	3.4	1.6	25.0	23.2
			66.0	67.9	94.6	96.2	35.7		73.9	99.9
	– 0.2	– 0.7	3.6	5.1	34.6	38.8	2.9	2.0	4.1	5.7
	34.2	32.3	51.8	51.7	62.3	66.2	32.6	42.4	50.0	58.6
	41.9	31.4	29.0	22.0	78.9	66.2	0.1	2.1	60.5	59.1
	56.1		104.1	105.6	162.5	195.9	115.3	111.4	146.1	133.4
			74.9	74.8	311.2	282.3	21.8	55.5	132.6	178.3
	0.7	1.8	11.5	21.1	159.3	123.9	5.2	4.9	70.6	70.7
	19.4	**17.1**	**25.7**	**28.8**	**73.5**	**73.1**	**9.5**	**11.6**	**45.9**	**52.4**

Table 3 — Share of total receipts (output + subsidies) in 2001
20 % of farms with the highest receipts

	BE	DK	DE	EL	ES	FR	IE	IT	LU	NL	AT	PT	FI	SE	UK	EU-15
Specialist cereals, oilseed and protein crops	78	64	63	45	55	45	61	63	44	49	45	64	42	55	53	68
General field cropping	47	62	55	49	56	45	66	64	46	52	40	84	45	59	62	71
Specialist horticulture	52	77	51	48	61	55		55		54		64	58		83	75
Specialist vineyards			46	41	48	57		67	40		52	62				70
Specialist fruit and citrus fruit	40	63	52	45	52	54		62		52	43	68	41		64	67
Specialist olives				49	60	100		57				58				57
Various permanent crops combined	61	69	59	48	47	49		63		62	53	52	100		65	72
Specialist dairying	37	39	45	45	46	39	42	62	35	40	36	56	38	50	46	49
Specialist cattle-rearing and fattening	45	50	45	35	51	40	48	62	45	52	35	56	39	44	47	52
Cattle-dairying, rearing and fattening combined	41	77	43	67	40	40	56	60	34	55	34	72	67	58	50	48
Sheep, goats and other grazing livestock	100	100	41	41	47	42	53	48	44	60	41	55	39	84	49	51
Specialist granivores	41	45	40	47	58	50	98	64	44	51	40	72	42	48	58	56
Mixed cropping	56	71	67	46	57	50	100	62	49	57	42	57	65	69	75	72
Mixed livestock, mainly grazing livestock	40	47	47	40	53	42		61	45	48	40	54	37	48	78	64
Mixed livestock, mainly granivores	40	47	37	100	71	43	37	67	45	56	35	100	100	73	39	49
Field crops-grazing livestock combined	41	65	65	43	59	44	50	61	45	68	39	75	45	55	56	61
Various crops and livestock combined	45	52	42	44	47	45		67	43	53	41	56	49	48	49	60
All types of farming	**48**	**63**	**54**	**50**	**61**	**49**	**59**	**69**	**39**	**58**	**41**	**67**	**45**	**56**	**61**	**69**

Source: FADN.

Table 4 — Share of total receipts (output + subsidies) in 2001
50 % of farms with the highest receipts

	BE	DK	DE	EL	ES	FR	IE	IT	LU	NL	AT	PT	FI	SE	UK	EU-15
Specialist cereals, oilseed and protein crops	78	86	86	75	82	78	86	86	97	81	75	88	74	82	83	91
General field cropping	80	88	81	79	82	77	92	86	86	82	73	95	75	87	87	91
Specialist horticulture	83	95	81	78	85	83		83		86		87	86		95	92
Specialist vineyards			77	70	75	85		86	74		81	86				91
Specialist fruit and citrus fruit	71	87	81	73	83	85		86		82	84	88	67		89	88
Specialist olives				80	87			82				82				83
Various permanent crops combined	88	88	86	77	78	80		84		87	88	81			91	89
Specialist dairying	71	73	76	79	77	72	75	86	67	72	69	85	70	79	78	79
Specialist cattle-rearing and fattening	76	85	76	70	81	72	79	86	77	82	70	83	75	76	76	83
Cattle-dairying, rearing and fattening combined	73	92	73	67	73	74	87	82	67		67	92	86	79	79	78
Sheep, goats and other grazing livestock			70	73	78	72	81	79	76	85	72	79	72	84	79	81
Specialist granivores	77	77	74	77	86	82	98	87	74	82	75	91	76	80	86	85
Mixed cropping	83	90	86	76	83	80		84	88	84	74	78	87	88	91	90
Mixed livestock, mainly grazing livestock	71	85	78	74	84	75		84	75	85	72	78	76		96	91
Mixed livestock, mainly granivores	72	76	71		87	74	69	89	75	86	68			96	72	81
Field crops-grazing livestock combined	73	89	85	76	87	77	78	85	80	86	72	90	78	83	84	88
Various crops and livestock combined	82	83	75	77	78	78		89	73	89	75	84	79	81	86	89
All types of farming	**79**	**90**	**81**	**79**	**86**	**79**	**86**	**89**	**72**	**85**	**73**	**87**	**76**	**84**	**86**	**91**

Source: FADN.

2. Policy developments and legislative initiatives in 2003

2.1. CAP reform — second package

63. As a next step in the CAP reform process started in 2003 and as a follow-up to the Commission's communication of September 2003 to accomplish a sustainable agricultural model, the European Commission has presented proposals to reform the common agricultural policy (CAP) rules on tobacco, olive oil and table olives, cotton and hops ([1]). Sustainability will be achieved by emphasising competitiveness, stronger market orientation, improved environmental respect, stabilised incomes for farmers and a higher regard for the situation of producers in less-favoured areas (LFAs).

64. A significant part of the current production-linked payments will be transferred to the decoupled single payment scheme agreed under the first package. In addition, and as with other direct aids to producers already reformed, the decoupled and the production aids adopted under this second package will have to comply with horizontal obligations like cross compliance, modulation and financial discipline.

65. The reform will enter into force in 2006 (2005 for hops).

66. The main specific elements agreed by the Council in Regulation (EC) No 864/2004 are outlined below.

2.1.1. Tobacco

67. From 2010 onwards, the current direct payment will be decoupled and integrated into the single payment scheme, but to avoid a disruptive effect, Member States agreed, on the one hand, a four-year transition period (2006–09) and, on the other hand, a financial envelope for restructuring tobacco producing areas (50 % of the tobacco envelope). From 2010 onwards, the total amount of each part (decoupled payment and restructuring envelope) will be EUR 494 million.

([1]) COM(2003) 698 final, 18.11.2003.

68. Between 2006 and 2009, Member States may retain up to 60 % of the historical payments (2000–02) and grant it as a coupled payment with the possibility to reserve it for producers in Objective 1 regions or producing varieties of a certain quality. Consequently, a minimum of 40 % will be granted decoupled (this means that full decoupling can be applied from 2006 for producers in other regions or producing other varieties than those being granted the maximum 60 % coupled).

69. This would be accompanied by the end of the current quota system and a phasing out of the Community Tobacco Fund.

70. This would provide the most sustainable policy for the future in line with the European Union's strategy for sustainable development, agreed at the Gothenburg European Council.

2.1.2. Cotton

71. For cotton, transfer of the part of EAGGF expenditure for cotton during the 2000–02 reference period into the funding of two support measures and of one tool transferring funds to structural measures:

- the single payment scheme: 65 % of the budget envelope for producer support would be granted decoupled;
- taking into account the potential impact that a full decoupling in the cotton sector could have, and in particular the risk that production would be abandoned and of declining competitiveness of rural areas, 35 % of the budget envelope will be destined for the granting to producers of an aid per hectare of cotton. Maximum guarantee areas have been set and the current proportional penalisation in case of overrun is maintained;
- an amount of EUR 21.9 million per year will be included in a rural development envelope for cotton areas. This last envelope is shared between Member States according to the average area eligible for aid over the reference period and will be an integral part of the second pillar of the CAP;
- quality measures have been introduced as well as a new mechanism in order to monitor the impact of the reform on production and trade.

2.1.3. Olive oil

72. A minimum of 60 % of the average production-linked payments during the reference period 2000–02 will be converted into entitlements under the single payment scheme for holdings larger than 0.3 ha. Smaller holdings will have their payments completely decoupled. This will be limited to olive-growing areas existing prior to 1 May 1998 (31 December

2001 for Malta and Cyprus) and to new plantings provided for under the programmes approved by the Commission (30 000 ha in Portugal, 3 500 ha in France).

73. For the Member States' budget ceiling, the reference period is three marketing years (2000/01 to 2002/03) but, for setting the individual payment, the reference period covers four marketing years (from 1999/2000 to 2002/03).

74. As for cotton, the Council agreement takes into account the potential impact that a full decoupling could have, and in particular the risk that production would be abandoned and of declining competitiveness of rural areas: this is why the remaining maximum of 40 % of the direct aid paid to olive-growing holdings of more than 0.3 ha during the reference period 2000–02 can be retained by the Member States as national envelopes for the granting to producers of an additional olive grove payment maintaining the number of trees existing on 1 January 2005 (with a maximum tolerated variation of 10 %) and for quality measures.

75. Quality measures will be reinforced, private storage for crisis management maintained and export refunds for preserves suppressed on 1 November 2005.

76. Good agricultural and environment condition requirements have been decided to permit prohibition of the grubbing up of olive trees, to avoid encroachment and to maintain olive groves in good vegetative conditions.

2.1.4. Hops

77. For hops, the subsidies will be fully decoupled but Member States may keep 25 % maximum coupled.

2.1.5. Sugar

78. In addition, as a follow-up to the options for reform presented in the September 2003 communication, the Commission presented to the Council and the Parliament on 14 July 2004 a communication on the reform of the sugar sector (COM(2004) 499) to be followed by the legislative proposal in mid-2005. The submission of the legislative text was postponed in order to take into consideration the final ruling of the dispute settlement body (WTO) in the framework of the appeal made by Brazil, Australia and Thailand against the Community sugar regime.

2.2. Quality policy

2.2.1. Protected designations of origin (PDO), protected geographical indications (PGI) and traditional specificity guaranteed (TSG) — implementing rules

79. In order to ensure the transparency of the requirements in the specifications for names listed in the register of protected designation of origin and protected geographical indications, the Commission has adopted Regulation (EC) No 383/2004 ([2]) of 1 March 2004, laying down detailed rules for applying Council Regulation (EEC) No 2081/92 as regards the summary of the main points of the product specification. Member States must now provide the Commission with updated forms to be published in the Official Journal when they apply to register a name or to amend specifications. In addition, summaries of specifications of products whose names have been registered under the simplified procedure should also be published.

80. In order to ensure continuing protection of the relevant geographical indications and designations of origin following the accession of the new Member States, the Commission has adopted Regulation (EC) No 918/2004 ([3]) of 29 April 2004, introducing transitional arrangements for the protection of geographical indications and designations of origin for agricultural products and foodstuffs in connection with the accession of the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia. This regulation has introduced a transitional period of six months to uphold the national protection, existing on 30 April 2004 in those new Member States, until a decision has been taken under Article 6 of Regulation (EEC) No 2081/92 ([4]) of 14 July 1992 on the protection of geographical indications and designations of origin for agricultural products and foodstuffs, provided that an application for registration under that regulation has been sent to the Commission by 30 October 2004.

81. The Commission has adopted Regulation (EC) No 1842/2004 ([5]) allowing the coexistence of the name 'Munster or Munster-Géromé' registered as a protected designation of origin under Council Regulation (EEC) No 2081/91 and the unregistered name 'Münster Käse' designating a place in Germany. The period of coexistence is for 15 years, after which the unregistered name shall cease to be used. During the coexistence period the name of the country of origin shall be clearly and visibly indicated on the label of the cheese bearing the name 'Münster Käse'.

82. The Commission has adopted two regulations which are technical adaptations of the detailed rules of application of Council Regulation (EEC) No 2081/92 and of the detailed

([2]) OJ L 64, 2.3.2004, p. 16.
([3]) OJ L 163, 30.4.2004, p. 8.
([4]) OJ L 208, 24.7.1992, p. 1.
([5]) OJ L 322, 23.10.2004, p. 8.

rules for the application of Council Regulation (EEC) No 2082/92 ([6]) on certificates of specific character for agricultural products and foodstuffs. The accession of the new Member States renders it necessary to provide for the Community symbols, respectively logo PDO, PGI and TSG and indications in the new Member State languages. The regulations are based on Article 57(2) of the Act of Accession of the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia, which allows the Commission to make the necessary adaptations to its acts.

83. The Commission has prepared and inserted in the website of the unit a guide to Community regulations in order to explain the purpose, scope and implication of Regulation (EEC) No 2081/92, on the protection of geographical indications and designations of origin for agricultural products and foodstuffs and of Regulation (EEC) No 2082/92, on certificates of specific character for agricultural products and foodstuffs. The guide aims to provide a clear and concise approach to the procedure of registering names within a Community framework and to help consumers, producers and those interested to understand the regulation both in theory and in practice. The guide also gives a presentation of the legal effects attached to the registration of names. The guide is addressed to the Member States and, given the increasing interest in the protection of geographical indications from outside the EC, also provides guidance to third countries and interested applicants.

2.2.2. New product names on the list

84. As provided for in Regulation (EEC) No 2081/92, the Commission has added 49 names (listed in the Annex) to the list of protected designations of origin and protected geographical indications; the list currently comprises a total of 681 products. Five modifications of the specifications of PDO/PGI are also listed in the Annex.

85. A further name (listed in the Annex) has been registered under Regulation (EEC) No 2082/92.

2.2.3. International issues

2.2.3.1. Codex alimentarius

86. The Commission has to be vigilant in order that decisions taken at international level do not have negative effect on the protection of names registered in the Community register of PDOs and PGIs. In 2004, a proposal for a new standard on ‘Parmesan’ was on the agenda of the sixth meeting of the Codex Committee on Milk and Milk Products. The adoption of such a standard could undermine the protection granted to the registered PDO ‘Parmigiano-Reggiano’; therefore the Commission proposed to the Council an EC common position ac-

([6]) OJ L 208, 24.7.1992, p. 9.

New names entered in the registers of designations of origin and geographical indications and of traditional specialities guaranteed and amendments since the 2003 Annual Report

Member State	Product	Type of product	PDO/PGI/TSG
CZ	Budějovické pivo	Beer	PGI
	Českobudějovické pivo	Beer	PGI
	Budějovický měšťanský var	Beer	PGI
DE	Thüringer Leberwurst	Meat products	PGI
	Thüringer Rotwurst	Meat products	PGI
	Thüringer Rostbratwurst	Meat products	PGI
ES	Mantequilla de l'Alt urgell y la Cerdanya or Mantega de l'Alt Urgell i la Cerdanya	Oils and fats	PDO
	Queso de Valdeón	Cheese	PGI
	Ensaimada de Mallorca or Ensaimada mallorquina	Bread, pastry, cakes, confectionery	PGI
	Peras de Rincón de Soto	Fruits, vegetables and cereals	PDO
	Aceite de Mallorca Aceite mallorquin or Oli de Mallorca or Oli mallorqui	Oils and fats	PDO
	Ternera de Extremadura	Fresh meat (and offal)	PGI
	Carne de la Sierra de Guadarrama	Fresh meat (and offal)	PGI
	Ternera de Navarra or Nafarroako Araxtea	Fresh meat (and offal)	PGI
	Carne de Vacuno del Pais Vasco or Euskal Okela	Fresh meat (and offal)	PGI
	Ternera Asturiana	Fresh meat (and offal)	PGI
	Carne de Cantabria	Fresh meat (and offal)	PGI
	Pimiento Riojano	Fruits, vegetables and cereals	PGI
	Le Garrigues (*)	Oils and fats	PDO
	Esparrago de Navarra (*)	Fruits, vegetables and cereals	PGI
EL	Agios Mathaios Kerkyras	Oils and fats	PGI
FR	Fraise du Périgord	Fruits, vegetables and cereals	PGI
	Agneau de Pauillac	Fresh meat (and offal)	PGI
	Agneau du Poitou-Charentes	Fresh meat (and offal)	PGI
	Brioche vendéenne	Bread, pastry, cakes, confectionery	PGI
	Anchois de Collioure	Fresh fish, molluscs and crustaceans	PGI
	Melon du Quercy	Fruits, vegetables and cereals	PGI
	Valençay	Cheese	PDO
	Domfront	Other Annex I products	PDO
	Noix du Périgord	Fruits, vegetables and cereals	PDO

Member State	Product	Type of product	PDO/PGI/TSG
IT	Spressa delle Giudicarie	Cheese	PDO
	Farina di Neccio della Garfagnana	Fruits, vegetables and cereals	PDO
	Carciofo di Paestun	Fruits, vegetables and cereals	PGI
	Salame d'oca di Mortara	Meat products	PGI
	Kiwi Latina	Fruits, vegetables and cereals	PGI
	Valle de Belice	Oils and fats	PDO
	Tergeste	Oils and fats	PDO
	Miele della Lunigiana	Other products of animal origin	PDO
	Lucca	Oils and fats	PDO
	Lardo di Colonnata	Meat products	PGI
	Terre Tarentine	Oils and fats	PDO
	Cartoceto	Oils and fats	PDO
	Nocciola del Piemonte (*)	Fruits, vegetables and cereals	PGI
PT	Paia de Lombo de Estremoz e Borba	Meat products	PGI
	Paia de Estremoz e Borba	Meat products	PGI
	Morcela de Estremoz e Borba	Meat products	PGI
	Chouriço grosso de Estremoz e Borba	Meat products	PGI
	Paia de Toucinho de Estremoz e Borba	Meat products	PGI
	Chouriço de Carne de Estremoz e Borba	Meat products	PGI
	Farinheira de Estremoz e Borba	Meat products	PGI
SV	Hushållsost	Cheese	TSG
UK	Scottish farmed Salmon	Fresh fish, molluscs and crustaceans	PGI
	Arbroath Smokies	Fresh fish, molluscs and crustaceans	PGI
	Scotch Lamb (*)	Fresh meat (and offal)	PGI
	Scotch Beef (*)	Fresh meat (and offal)	PGI

(*) Amendments to the register made in accordance with Article 9 of Regulation (EEC) No 2081/92.

cording to which the work on this new standard should be abandoned and it proposed instead to update the standard on 'extra hard grating cheese'. This position was adopted by the Community, but no consensus could be reached in the Codex Committee. The question was then forwarded to the Commission of the Codex where the Commission reiterated the position taken by a qualified majority of the Member States.

87. Working Group on PDO/PGI of the Joint Committee of the Agreement for Agriculture between the European Community and Switzerland. The working group had its third meeting on 26 May in Berne and has progressed in the technical preparation of the next bilateral negotiation. This refers in particular to the equivalency of legislation, the identification of problem cases in the EC and Switzerland, and the analysis of the bilateral agreements between Switzerland and eight Member States and the Stresa Convention. A new expert group will be necessary and the Commission must prepare the mandate of negotiation to be proposed to the Council.

2.3. Organic farming

2.3.1. Action plan

88. In June 2004, the Commission launched the European action plan (EAP) for organic food and farming in the form of a communication to the Council and the European Parliament. The EAP analyses the current state of development of the organic sector in the European Union and lays down an overall framework for organic farming policy. It also sets out 21 actions, including regulatory initiatives, to advance Community policy favouring a further balanced development of the organic farming sector.

89. The Council adopted its conclusions endorsing the EAP in October 2004. The European Parliament is expected to deliver its opinion at the beginning of 2005. The European Economic and Social Committee and the Committee of the Regions delivered their opinions in December 2004.

90. The EAP is the outcome of a three-year-long public consultation exercise, to which Member States, Community institutions, stakeholders and all interested people have contributed. In this regard, the Commission organised a public hearing, which took place in Brussels on 22 January 2004. More than 200 organisations and agricultural ministers from Member States, former acceding and candidate countries and NGOs participated.

2.3.2. New regulations

91. On 24 February 2004, the Council adopted Regulation (EC) No 392/2004 amending Council Regulation (EEC) No 2092/91 on organic production of agricultural products and indications referring thereto on agricultural products and foodstuffs.

92. Regulation (EC) No 392/2004 envisages:

(a) removing any possibility of misinterpretation regarding the scope of the protection of certain terms used to refer to the ‘organic’ production method;

(b) reinforcing the inspection system by submitting all operators throughout the production, preparation and marketing process to that system;

(c) allowing the exchange of information between inspection authorities and approved private inspection bodies;

(d) clarifying that the EU logo may be used for 'organic' produce imported from third countries where equivalent rules of production and inspection systems of equivalent effectiveness have been assessed and found equivalent to the EC system.

93. On 22 April 2004, the Commission adopted Regulation (EC) No 746/2004 adapting certain regulations concerning organic production of agricultural products and indications referring thereto on agricultural products and foodstuffs by reason of the accession of the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia to the European Union. This regulation also included the models of the EU organic logo in the languages of the new Member States.

94. On 19 August 2004, the Commission adopted Regulation (EC) No 1481/2004 amending Council Regulation (EEC) No 2092/91. This regulation allows the use in organic farming of casings not produced according to this production method, as organically produced casings are not available in sufficient quantities within the Community. The regulation also allows further typography in the organic farming logo graphic manual in order to take account of specific characters and accents in the official languages of the new Member States.

2.3.3. Working documents

95. Following issues have been addressed and are currently under examination:

- issues concerning availability of organically reared livestock,
- additions to Sections A and B of Annex VI regarding non-agricultural ingredients and processing aids used in processed livestock products,
- evaluation of the need for feed materials of conventional origin and synthetic vitamins for ruminants,
- addition of some fertilisers and pesticides to Annex II,
- amendment to Annex III to include inspection requirements for the newly included operators,
- review of Article 11 on imports.

2.3.4. Further issues

96. The assessment of equivalency under Article 11(1) of Regulation (EEC) No 2092/91 was ongoing for several third countries. The technical assessment of India, Japan and Turkey progressed, the DG participated in a mission to India and new requests were received from Dominican Republic, Ecuador, Guatemala and Honduras. During negotiations with the USA on a mutual recognition agreement, progress was made but a number of substantial differences in the regulatory provisions have been identified. Important follow-up actions in third countries whose standards and controls are already recognised as equivalent were carried out for Argentina and Switzerland. The Commission contributed to the development of the Codex Alimentarius guidelines on organic labelling.

2.4. Promotional measures

97. Council Regulations (EC) Nos 2702/1999 ([7]) and 2826/2000 ([8]) define the provisions for Community support for measures to provide information on and to promote agricultural products in third countries and on the internal market. Community promotional policy covers several products, stressing their general characteristics and common themes such as quality, safety, labelling and particular production methods as well as respect for animal welfare and the environment in their production. It aims at adding value to national and private initiatives by reinforcing or stimulating the Member States and private companies in their own promotion measures. The eligible products and themes are defined in Commission Regulations (EC) Nos 2879/2000 and 94/2002.

98. Programmes are proposed by professional organisations representative of the product sector concerned, and preselected by competent authorities of the Member States, who are responsible for the management and control of the approved programmes. The total annual budget for Community co-financing for approved programmes was EUR 48.5 million in 2004.

99. In 2004, the Commission approved for co-financing 13 new programmes operated outside the EU. The target countries of these programmes include Japan, Russia, USA, Canada, Australia, Brazil, China and non-EU European countries. The products promoted include quality wines, olive oil, cheeses, meat products, and fruit and vegetables. Most programmes last for three years. Total EU co-financing for these programmes amounts to EUR 8 million.

100. For the EU internal market, the Commission approved altogether 46 new programmes for a total budget of EUR 34.8 million of Community co-financing. Most programmes last for three years. The promoted products include fruit and vegetables, organic products, products with a PDO or PGI denomination, flowers and plants, milk products, olive oil and to a limited extent beef. In 2004, the new Member States did not present any proposals for co-financing.

101. In addition to co-financing promotional programmes proposed by professional organisations in the Member States, the Commission can carry out high-level promotional missions and organise information campaigns on Community systems for geographical indications (PDO, PGI and TSG) and for organic products. In 2004, the Commission started three-year information campaigns in the USA, China and Japan. Commissioner Fischer Boel made a promotional visit to China, visiting Beijing and an international food fair in Shanghai.

([7]) OJ L 327, 21.12.1999, p. 7.
([8]) OJ L 328, 23.12.2000, p. 2.

2.5. Simplification of agricultural legislation

102. Simplification continued to be an important objective in 2004, focusing in particular on making agricultural legislation as clear, transparent and easily accessible as possible, and on reducing the administrative workload imposed on farmers and the various authorities which are responsible for administering the provisions of the CAP within the Member States.

103. Simplification increasingly forms an integral part of the ongoing programme of reviews and reforms of the agricultural policy sectors. A notable success has been in the area of State aid. A new exemption regulation adopted in 2004 reduced the time for introducing new State aid regimes from an average of several months to just a few days; a new *de minimis* regulation significantly burdens national administrations by eliminating previous reporting requirements; and rules relating to restructuring aid were simplified.

104. Work has continued on the 'cleaning of the *acquis*' through the removal of obsolete legislation and through codification work being carried out at Commission level. In addition to the 99 obsolete legal acts identified in 2003, which were removed by use of the new 'declaration of obsolescence' procedure during 2004, a further 56 legal acts have been identified as obsolete and 216 Commission acts identified for removal from the Directory of Legislation in Force.

105. During the second part of 2004, Member States put forward simplification suggestions, as part of a Council presidency exercise. During the discussion of these suggestions and the Agriculture and Rural Development DG responses, which took place in the December meeting of the Agriculture Council, the Commissioner for Agriculture, Mrs Fischer Boel, undertook to present a reflection paper on the possibilities and limitations of simplification in agriculture during the autumn of 2005.

2.6. State aid

2.6.1. Policy developments and legislative initiatives in 2004

2.6.1.1. De minimis aid

106. On 6 October 2004, the European Commission adopted Regulation (EC) No 1860/2004 on the application of Articles 87 and 88 of the EC Treaty to *de minimis* aid in the agricultural and fisheries sectors ([9]). The regulation exempts national aid of up to EUR 3 000 per farmer and fisherman over three years from the requirement of prior notification. This initiative will be a useful tool to help farmers in a crisis situation. To avoid distortions of competition, Member States granting such aid will have to respect an overall ceiling roughly

([9]) OJ L 352, 28.10.2004, p. 4.

equal to 0.3 % of agricultural or fisheries output. Member States may grant aid fulfilling all the conditions of the regulation without prior approval by the Commission. But they will have to keep registers to show both ceilings have been respected.

107. If all Member States fully use this possibility, this would amount to an average amount of *de minimis* aid of around EUR 317 million per year for agriculture and around EUR 27 million per year for fisheries, for the whole of the EU. In order to offer more flexibility to Member States, the regulation sets out amounts to be respected over a period of three years (and not per year). The amounts that each Member State may grant per three-year period have been calculated by the Commission and are set out in an annex. The three-year periods are mobile, so that for each new grant of *de minimis* aid, the total amount of such aid granted during the previous three years needs to be determined.

108. Member States may grant *de minimis* aid in any way they like. However, the regulation sets out a few limitations in order to avoid distortions: i.e. no export aid may be granted; aid may not be linked to price or quantity of products put on the market, nor may it be made contingent upon the use of domestic products.

109. This new regulation will apply from 1 January 2005 to the end of 2008. However, before the adoption of the regulation — and in view of the reduced amount of aid per beneficiary, the method of granting and the overall level of aid granted — the Commission has already applied the reasoning of the *de minimis* approach for agriculture in the following cases.

- 'Aid for milk producers (Parmalat)' — France ([10]). On 14 July 2004, the Commission decided that an aid of approximately EUR 200 000 for approximately 120 milk producers that have not been paid for their deliveries to Parmalat was *de minimis* and therefore not covered by Article 87(1) EC. The aid intensity was in no case more than EUR 2 000 per producer. The aid was granted through partially taking over the interest and capital payments for outstanding loans, up to 10 % of the annuity and never more than EUR 2 000 per beneficiary.

- 'Urgent provisions for agriculture (Parmalat)' — Italy ([11]). On 14 July 2004, the Commission decided that aid of approximately EUR 995 per beneficiary (overall amount EUR 1 327 per year and a total of EUR 3.98 million) is *de minimis* and therefore not covered by Article 87(1) EC. The aid is granted through a 12-month suspension of social security payments for farmers who have been supplying Parmalat without having been paid for the delivered milk. The Commission also concludes that a subsidiary guarantee for credits offered to these farmers, through a special bank guarantee fund, does not contain State aid because the guarantee is offered in line with market principles.

([10]) Case N 145/2004.
([11]) Case N 33/A/2004.

- 'Aid to producer organisations' — Spain ([12]). On 7 May 2004, the Commission adopted a final decision considering that a State aid which Spain intended to grant to olive oil producer organisations in Extremadura is not State aid in the meaning of Article 87(1) of the Treaty. The aid is granted to finance the costs of applying for the Community support for olive oil producers and amounts to approximately EUR 12 per application. The decision considers that the producers' organisations, beneficiaries of the aid, carry on their activity for the benefit of olive oil producers. The aid therefore allows members' contributions to the organisation receiving aid to be reduced or even eliminated. For this reason the real beneficiaries of the aid are the producers who benefit from lower annual contributions. As the total budget for the scheme aid is EUR 120 200 per year and the number of producers who benefit from the scheme is said to be 11 500, the amount of aid per beneficiary and year is EUR 10.4.

2.6.1.2. Rescue and restructuring aid

110. The new Commission guidelines on State aid for rescuing and restructuring firms in difficulty ([13]) were published on 1 October 2004 and will be applied from 10 October 2004 onwards, until 9 October 2009. The new guidelines entail a significant simplification as to the rules applicable to agriculture.

- Restructuring aid rules for companies processing and marketing agricultural products will be exactly the same as for other sectors. The existing special rules disappear. This will notably enable Member States to have consistent restructuring regimes for SMEs operating in all sectors. The current principle that even small enterprises have to offer a counterpart for receiving restructuring aid is given up. The 'one time last time' principle will be 10 years instead of 5.
- For farmers (and only for farmers), some special rules are maintained. They are first of all simplified by allowing Member States in all cases (and not only if restructuring is limited to small agricultural enterprises) to implement capacity reductions at sector level instead of the level of the farm receiving restructuring aid.
- It is clarified that capacity closures have to be permanent (and not only for five years). Open farmland may be brought back into production after 15 years.
- Minimum capacity closure requirements are simplified.
- Where capacity closure is done at sector level, this must be achieved within a year of granting the aid. To ensure that closure is not circumvented, the Member State must undertake not to grant investment aid for increasing capacities for five years.

([12]) Case C 50/02 (ex N 371/2001).

([13]) Communication from the Commission — Community guidelines on State aid for rescuing and restructuring firms in difficulty (OJ C 244, 1.10.2004, pp. 2–17).

- The *de minimis* threshold below which no capacity closure is required is simplified and reformulated. As long as restructuring aid is not granted for more than 1 % of the production capacity of a given sector over any consecutive 12-month period, no capacity closures will be required.

111. Notifications of rescue and restructuring aid registered prior to 10 October 2004 will be examined in the light of the criteria in force at the time of the notification. However, compatibility of aid granted without Commission authorisation will be examined on the basis of the new guidelines if some or all of the aid is granted after their publication in the Official Journal, i.e. 1 October 2004.

2.6.1.3. Block exemption regulation

112. The new Commission Regulation (EC) No 1/2004 granting exemption for certain types of State aid accorded to small and medium-sized agricultural enterprises ([14]) entered into force on 24 January 2004. Member States will no longer be required to notify these aids to the Commission in advance to obtain approval.

113. Under Articles 3 and 19 of the regulation, for individual aid or an aid scheme to be exempted, Member States must, ‘At the latest 10 working days before the entry into force of an aid scheme, or the granting of individual aid outside any scheme, exempted by this regulation, […], forward to the Commission, with a view to its publication in the *Official Journal of the European Union*, a summary of the information regarding such aid scheme or individual aid in the form laid down in Annex I’.

114. In accordance with this procedure, Member States have already communicated to the Commission services the summaries of around 70 different measures. The Commission has published these summaries on the Internet at the following address: http://europa.eu.int/comm/agriculture/stateaid/exemption/index_en.htm

2.6.1.4. Procedures — New notification forms

115. The new Commission Regulation (EC) No 794/2004 of 21 April 2004 ([15]) with details for State aid notification procedures entered into force on 21 May 2004. This regulation applies to all sectors including agriculture. This regulation has notably made compulsory from 21 October 2004 onwards the use of new and detailed notification forms for each type of State aid.

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

([15]) Commission Regulation (EC) No 794/2004 of 21 April 2004 implementing Council Regulation (EC) No 659/1999 laying down detailed rules for the application of Article 93 of the EC Treaty (OJ L 140, 30.4.2004, p. 1).

116. With the view of facilitating the use by Member States of the notification forms and their transmission to the Commission, the notification forms relating to the agricultural sector are published at the following address: http://europa.eu.int/comm/agriculture/stateaid/forms/index_fr.htm.

117. The regulation also introduces a new, simplified format for the annual State aid reports to be submitted in the field of agriculture. The format is also available at the above-mentioned address.

2.6.1.5. Developments in the application of existing guidelines

Promotion and advertising of quality products

118. In 2004, the Commission decided several cases of State aid related to the promotion and advertising of agricultural products. The assessment of those measures and the taking of decisions had enabled the Commission to:

- clarify and develop the application of the guidelines on the advertising of agricultural products to quality labels and the establishment of criteria for the qualification of what can be considered as 'quality product' by referring to the conditions of Article 24b(3) of Regulation (EC) No 1257/1999 as amended by Regulation (EC) No 1783/2003 ([16]);
- set up the limits for the granting of State aid for so-called 'joint promotions', e.g. the limits for a direct linkage between a marketing organisation and individual companies (within the meaning of point 29 of the advertising guidelines, advertising activities which are jointly financed through public funds and one or more particular firm or firms must be considered to be incompatible with the rules due to the fact that the target group — e.g. the consumer — possibly cannot distinguish whether an advertising measure for one or more particular firms is part of a publicly supported campaign or not) ([17]);
- confirm its position on aid for labels referring to the origin of products ([18]) and on certain general requirements of the guidelines ([19]).

([16]) Case NN 34/A/2000 —Quality programmes and quality labels AMA Biosiegel and AMA Gütesiegel— Austria and Case No N 195/2003 —MLC quality beef and sheep meat advertising— and No N 196/2003 —MLC quality pig meat advertising— United Kingdom.

([17]) Case N 571/02 'CMA promotion fund law' — Germany.

([18]) Case N 195/2003 'MLC quality beef and sheep meat advertising' and Case N 196/2003 'MLC quality pig meat advertising' — United Kingdom.

([19]) Case N 175/03 —Meat and livestock Commission generic meat advertising scheme— UK and Case C 78/2003 (ex NN 36/98, ex N 610/97) —Advertising of Sicilian products (Article 4 Regional Law No 27/1997) — Italy (Sicily).

2.6.2. Overall workload

119. The Commission received 252 notifications of State aid draft measures to be granted in the agricultural and agro-industrial sector. The Commission also started the examination of 13 aid measures, which had not been notified before under Article 88(3) of the EC Treaty. No review of existing aid measures pursuant to Article 88(1) of the EC Treaty was commenced or concluded. Overall the Commission raised no objections to 212 measures. Several of these measures were approved after the Member States concerned either amended them or undertook to amend them in order to bring them in line with Community State aid rules. The Commission started the procedure envisaged by Article 88(2) of the EC Treaty in respect of eight cases, where the measures concerned raised serious doubts of incompatibility with the common market. The Commission closed the procedure envisaged by Article 88(2) of the EC Treaty in respect of 14 cases, by taking in 10 of them a final negative decision, some of them with recovery.

2.6.3. Overview of cases

120. The overview of cases which follows includes a selection of some of the cases that raise the most interesting issues of State aid policy in the agricultural and agro-industrial sector in 2004.

2.6.3.1. France

PMPOA

121. On 19 February 2004, the Commission adopted a final positive decision ([20]) declaring compatible with the Treaty an aid for investments for environmental protection granted in France before 2000. A procedure had been opened because France had granted up to 60 % investment aid at a time when it was only possible to grant 35 %. The rate of 35 % had also been authorised in a decision which France had not respected by granting more aid. However, from 2000 on, the Commission increased the maximum aid rate allowed. This higher aid rate has been confirmed in Article 4 of the exemption Regulation (EC) No 1/2004. This regulation applies retroactively to aid granted before its entry into force. On this legal basis, the aid was declared compatible.

Slaughter tax (taxe d'abattage)

122. On 30 March, the Commission decided ([21]) not to raise objections regarding a State aid of approximately EUR 156 million for 2004 (and similar amounts for the time thereafter) for the removal and destruction of fallen stock at farm level. The aid intensity is up to

([20]) Case C 27/2001 (ex NN 2/2001).
([21]) Case N 515/2003.

100 %. The aid is in line with the TSE guidelines and the duration of the regime is unlimited. As far as the financing of the removal of slaughterhouse waste is concerned, the decision finds that an amount of approximately EUR 91 million is non-aid, the reason being that slaughterhouses pay more through the new slaughter tax imposed per tonne of waste than they get back in terms of benefits through free picking up of the waste so they do not derive any financial advantage.

Compensation for drought 2003

123. On 20 October 2004, the Commission decided not to raise objections regarding a State aid of approximately EUR 664 million in favour of farmers hit by the drought in 2003 ([22]). Compensation was paid through a combination of cash grants (EUR 339 million), subsidised 'catastrophe' loans (EUR 20 million), taking over of interest on outstanding loans (EUR 20 million), consolidation loans (EUR 20 million to support loans of EUR 225 million), postponement of payments due of direct taxes and VAT (without charging additional interest due to the delay), cancellation of these taxes, non-payment of land tax, and postponement of social security contributions. The subsidy element contained in the taking over of interest on outstanding loans was considered *de minimis*. The aid intensity was up to 100 % of damages and the duration varied depending on the type of aid.

Taxe d'équarrissage

124. On 14 December 2004, the Commission adopted a mixed positive and negative final decision with recovery on the so-called French *taxe d'équarrissage* ([23]). From 1997 to 2003, France levied a sales tax imposed on sales of both French meat and meat from other Member States (*taxe d'équarrissage*). The tax financed free removal of slaughterhouse waste and fallen stock. The tax first went into a special fund reserved for financing this aid. Following a Commission infringement procedure considering the tax on meat from other Member States discriminatory, France moved the tax proceeds into the general budget, and financed the aid from the general budget for the years 2001 and 2002.

125. The aid measures financed between 1997 and 2002, and amounting to a total of EUR 829 million, are in principle compatible with State aid rules. However, because of the discriminatory financing from 1997–2000, aid of approximately EUR 400 million would have to be found to be incompatible. But, the reimbursement of the aid by farmers would not necessarily repair the discrimination against meat from other Member States caused by the tax levied at supermarket level. Therefore, with the condition that France reimburses the tax levied on meat from other Member States, it is decided to declare the aid compatible. France has submitted an undertaking in this respect.

([22]) Case NN 154/2003.
([23]) Case C-49/2002 (ex NN 49/2002).

126. As to the years 2001 and 2002, for aid amounting to a further EUR 400 million, the Commission came to the conclusion that the link between the tax and the aid has been disrupted since the tax has been attributed to the general budget ([24]) and the revenue from the tax did not correspond to the cost of the public rendering service. The decision thus altogether covers the years 1997 to 2002. For 2003, a decision will still have to be taken. Furthermore, aid granted to small meat sellers via an exemption from the tax in question is found incompatible and will have to be recovered.

2.6.3.2. Finland

Article 141 of the Treaty of Accession

127. On 16 March 2004, the Commission decided to authorise the special support package notified by Finland under Article 141 of the Treaty of Accession ([25]). The decision is the formal outcome of lengthy discussions and negotiations at the highest level, through 2003. The decision authorises Finland to grant between 2004 and 2007 special income support to farmers in southern Finland, to the tune of approximately EUR 420 million, plus additional income aid in the form of incentive top-ups to existing agri-environmental programmes in southern Finland to the tune of EUR 225 million for the same period. The condition for granting the income aid is the implementation of aid measures to promote investments, setting-up of young farmers and business counselling to farmers.

2.6.3.3. Germany

Aid for machinery rings

128. On 19 May 2004 and 14 December 2004, the Commission decided to terminate the formal investigation into the support granted for machinery rings in Bavaria, by means of two final decisions: a conditional decision ([26]) and a partially negative decision with recovery ([27]).

129. Both decisions clarify the Commission policy on State aid granted in connection with machinery rings, which are self-help organisations of farmers whose ‘core activities’ include the management of farm relief and machinery sharing between farmers. Complaints received by the Commission pointed to a possible cross-subsidisation of other commercial (‘non-core’) activities of the rings. The Commission recognises, in principle, the positive

([24]) The Commission had recognised that, by attributing the revenue from the tax to the general budget, France has put an end to the discriminatory taxation and has closed the infringement proceedings.

([25]) Case N 518/2003 — Finland.

([26]) Case C 9/A/2003 — Germany (Bavaria).

([27]) Case C 9/B/2003 — Germany (Bavaria).

role played by machinery rings in the agricultural sector, as they allow farmers to improve their efficiency by sharing costly machinery.

130. In its decision *pro-futuro* (C9/A/2004), the Commission has therefore cleared aid (worth EUR 19.6 million over six years) benefiting farmers in the form of subsidised services on the basis of point 14 of the agricultural guidelines. Such aid is degressive and does not exceed 50 %. The Commission notes, however, that permanent public support of 100 % of such costs, which tend to be recurrent for farmers, might constitute incompatible operating aid. The Commission requires Germany to introduce in its scheme the obligation for the machinery rings to pass on the full amount of aid to farmers; and to either prohibit 'non-core activities' of machinery rings, or to limit the exercise of 'non-core activities' to legally independent subsidiaries of the machinery rings and thus prevent cross-subsidisation.

131. In its decision concerning past (unlawful) aid (C9/B/2003), the Commission has found that the amounts of aid received by individual beneficiaries (approximately EUR 50 per farmer) were too small to distort competition. However, the Commission has also come to the conclusion that the Bavarian system for granting such aid did not effectively preclude the granting of pure operating aid to the machinery rings themselves, or the cross-subsidisation of other commercial activities carried out by the machinery rings. Therefore, the Commission has concluded that any aid for which no evidence can be produced that it benefited only farmers is incompatible and should be recovered.

2.6.3.4. Greece

Bad weather compensation programme — RAGBY

132. On 20 April 2004, the Commission adopted a decision ([28]) not to raise objections to State aid of approximately EUR 60 million to compensate farmers and fishermen for losses caused by catastrophes (landslides, floods), bad weather (frost, rain, storm, drought) and diseases between March 2002 and March 2003. Aid intensity: 50–80 % of losses, or lump sum payments per 1 000 m^2 for certain cultures. The duration of the measure is of five years (aid will be paid in various steps).

2.6.3.5. Netherlands

Avian flu measures

133. On 8 September 2004, the Commission adopted a decision not to raise objections to State aid of approximately EUR 11.3 million towards the cost of combating avian flu ([29]).

([28]) Case N 249/2003.
([29]) Case N 429/2003.

The measure is a modification of the measure approved as N 700/2000. The announced aid intensity is up to 100 % and the duration of the measure is to 1 January 2010.

Foot-and-mouth disease measures

134. On 8 September 2004, the Commission adopted a decision not to raise objections to State aid of approximately EUR 2.7 million towards the cost of combating foot-and-mouth disease ([30]). The measure is a modification of the measure approved as N 700/2000. The aid intensity is up to 100 % and the duration of the measure is to 1 January 2010.

2.6.3.6. Italy

Risk capital for agricultural SMEs

135. On 3 February 2004, the Commission decided not to raise objections to the granting of risk capital from public funds of approximately EUR 5 million per year until 2005 ([31]). The objective is to set up a risk capital fund to promote the access of agricultural SMEs to risk capital in the form of the acquisition of minority shareholdings, participatory loans and the participation in other risk capital funds. There are some clear State aid elements contained. For example, the public fund renounces profits going above a certain profit margin, in favour of private investors. This is one of the measures to attract private investors. The duration of the measure is 10 years.

Bluetongue compensation

136. On 16 March 2004, the Commission adopted a final negative decision concerning State aid of approximately EUR 2.6 million to compensate processing companies for alleged losses due to the bluetongue disease ([32]). Aid to compensate farmers for their losses had been authorised in parallel with the decision to open the procedure for the processing sector. The aid has been found incompatible because:

- our guidelines only foresee the possibility to compensate primary producers; losses in turnover are part of normal business risk, and may be caused by various factors;
- the link between the losses and bluetongue has not been shown;
- there was a drought in Sardinia at the same time, that may also have led to reductions in turnover;
- certain cooperatives may have had less raw material delivered (and hence suffered losses) for other reasons than bluetongue.

([30]) Case N 431/2003.
([31]) Case N 384/2003 — OJ C 56, 4.3.2004, p. 4.
([32]) Case C 5/2001 (ex N 775/2000) — Italy (Sardinia).

137. Since the aid has not been paid out, no recovery is necessary.

AIMA — poultry sector

138. On 19 May 2004, the Commission adopted a final negative decision to declare State aid of approximately EUR 10.3 million incompatible with the Treaty ([33]). The aid is supposed to compensate poultry producers in Italy for alleged losses due the dioxin scare in Belgium in 1999. Aid intensity: between EUR 7.95 and EUR 10.92 per 100 kg of poultry meat.

139. Italy claimed that the dioxin scare in Belgium caused a media scare in Italy, with a resulting drop in the consumption of poultry meat in Italy. Consequently, Italy proposed to compensate its own poultry producers. It argued that the dioxin scandal should not only be considered an 'extraordinary event' in Belgium, but also in Italy.

140. Under State aid rules, the only way to authorise such a State aid would be to consider the effects of the dioxin scare an 'extraordinary event'. However, in its opening decision, the Commission had expressed serious doubts that one could follow this logic for the Italian market. The information received after the opening has not dispelled the doubts. Therefore, a final negative decision has been adopted. Since the aid has not been paid out, no recovery order was necessary.

Rescue aid in favour of Parmalat suppliers

141. On 14 July 2004, the Commission adopted the decision ([34]) not to raise objections to one-off aid of approximately EUR 1 million for milk producers in Lombardy who are in financial difficulties because they have not been paid for milk delivered to the Parmalat group. The rescue aid consists in a guarantee, in line with the conditions of the guidelines for R & R aid. Italy has proposed average calculation methods for establishing when a typical dairy farmer can be considered in difficulty and therefore qualifies for aid. Certain farmers will be excluded because they are considered too rich to be in difficulties. Aid intensity: the maximum value of the guarantee eligible under the present scheme is EUR 500 000 for individual companies and EUR 5 million for cooperatives.

Regional intervention for the development of Confidi in the agricultural sector

142. On 10 May 2004, the Commission approved an aid ([35]) of EUR 1 032 913.80 for guarantees and EUR 516 456.90 for technical assistance in favour of Confidi, which are

([33]) Case C 59/2001 (ex N 797/1999).
([34]) Case N 75/2004 — Italy (Lombardy).
([35]) Case N 536/2003 — Italy (Campania).

cooperatives made up of undertakings of the agricultural sector and of associations thereof, managing guarantee funds.

143. Aid is granted, for a duration of five years, in view of:

- providing subsidiary guarantees to farmers or cooperatives, provided that the guarantees are linked to operations financed by a regional/national aid scheme approved by the Commission and that the cumulating aid does not exceed the thresholds set in the Commission decisions approving the aids;
- providing consultancy services to all the farmers operating in the region.

136. The cash grant equivalent of the aid for subsidiary guarantees is calculated as for subsidised loans, as the difference between market loan rates and the actual loan stipulated with the bank, following the existence of the guarantee, deduced the amount paid by the beneficiary.

Aids for the BSE crisis — Law No 49/2001; articles other than Article 7a

144. On 1 December 2004, the European Commission retroactively authorised ([36]) Italy to grant State aid of approximately EUR 169 million for the costs of compulsory destruction of specific risk materials and the storage of low risk material as well as income aid for the beef producers sector to counter the effects of the 2001 BSE crisis. The measures approved are part of Italian Law No 49/2001, partially approved by the Commission at the time when the 2001 BSE crisis occurred.

145. The income aid in favour of beef producers, granted via suspension and prolongation of tax deadlines and social security obligations, is authorised under Article 87(2)(b) of the Treaty; the income aid to the downstream sector (slaughtering undertakings, wholesale and retail traders of meat) covered by the decision amounts to around EUR 103.25 per holding and is considered to be *de minimis* aid and therefore not caught by the State aid prohibition of the EC Treaty.

2.6.4. Case-law

2.6.4.1. C-278/00 Greece/Commission 'Greek cooperatives'

146. In its ruling of 29 April 2004, the Court fully upheld a final negative decision concerning the recovery of State aid of approximately EUR 763 million (amount calculated by Greece in 2000 given to various loss-making cooperatives, including the dairy AGNO). Recovery will now finally be inevitable.

([36]) Case NN 151/2002 (ex N 113/B/2001).

147. Points of interest from the ruling:

- in this case of aid paid without Commission authorisation, the Court has considered that recovery taken place seven years after payment, including interests, is legal and does not run foul of legitimate expectations (point 102);
- the Court confirms that even in case of notification, if the Commission does not react within two months, granting of the aid by the Member State without informing the Commission about the payment ('Lorenz' information) makes the aid non-notified (point 32/33).

2.6.4.2. C-159/01 Netherlands/Commission 'MINAS'

148. In its ruling of 29 April 2004, the Court has fully upheld the final negative decision concerning aid granted to glasshouses and certain other horticultural producers via an exemption from a 'nitrates tax' (MINAS). The Court notably holds:

- it is for the Member State to show that a tax differentiation for certain companies is justified by the nature and general scheme of the system (point 43);
- the argument that the MINAS system is not intended to generate a tax revenue does not suffice to exclude the exemption at issue outright from the classification as aid. It is not disputed that the exemption leads to a loss of resources which ought to be paid into the State budget.

2.6.4.3. C-110/02 Commission/Council

149. In its ruling of 29 June 2004, the Court of Justice clarifies and strengthens the Commission's powers in the field of State aid control.

150. *Background:* On 25 November 1999 and 4 October 2000, the Commission had taken two final negative decisions concerning State aid Portugal had illegally granted to pig farmers to compensate them for low prices. The decisions obliged Portugal to recover the aid from the farmers. Portugal did not attack the decisions before the Court of Justice. Instead, much later, it asked the Council to authorise a new State aid corresponding to the amount of aid that would have to be recovered under the Commission decisions — so that the farmers would not have to repay. On 21 January 2002, the Council used its special powers under Article 88(2) of the EC Treaty to unanimously authorise State aid in exceptional circumstances. The Commission attacked the decision saying it was a circumvention of the Commission decision, an abuse of power by the Council and that it would create legal uncertainty if the Council could at any time repeal a Commission decision that had entered into force.

151. By its ruling of 29 June 2004, the Court fully upheld the Commission's position and annulled the Council decision. The Court of Justice states the following:

- once the Commission has taken a final negative decision on a State aid, the Member State does not have the right anymore to go to the Council; and the Council does not have the power anymore to approve this aid. Exceptional circumstances cannot be invoked anymore at this stage. So, where the Commission opens a formal investigation procedure, a Member State must go to the Council before the Commission takes its final decision. In that case, the Commission procedure is suspended for three months. If the Council unanimously takes a decision within these three months, the Commission may not continue. If the Council does not take a decision within three months, the Commission continues with its examination. In the present case, the Council had taken its decision long after the Commission had taken a final decision;
- the Council may not adopt a decision to authorise new State aid that 'compensates' companies for the recovery of an aid that the Commission has declared incompatible in a final decision. The Council cannot block or annul the full effect of a Commission final negative decision ordering recovery. This is precisely what the Council had done in the present case;
- to ensure legal certainty, it is essential that contradictory decisions of the Commission and the Council concerning the same aid are avoided.

2.6.4.4. C-345/02 Pearle BV

152. In its ruling of 15 July 2004, the Court of Justice has held that by-laws adopted by a trade association governed by public law for the purpose of funding an advertising campaign organised for the benefit of its members and decided on by them, through resources levied from those members and compulsorily earmarked for the funding of that campaign, do not constitute an integral part of an aid falling under the notion of State aid of Article 87(1) EC. That funding was carried out by means of resources which that trade association, governed by public law, never had the power to dispose of freely.

2.6.4.5. C-173/02 Spain/Commission

153. In this ruling of 14 October 2004, the Court fully upheld a final negative decision with recovery concerning State aid paid by a Spanish region towards the costs of purchasing milk quota. The Commission considered such aid incompatible because the way it was done was not covered by the common market organisation (CMO) in the milk sector. The Court notably held that under the milk CMO, only State aid 'expressly authorised' by this CMO is lawful.

154. The Court held that, once the Community has established a common market organisation in a particular sector, it is for the Community to seek solutions to problems arising in the context of the common agricultural policy. Member States must therefore refrain from taking any unilateral measure in that area, even if that measure is likely to support the common policy of the Community. In the context of the common organisation of the market for milk products, only State aid expressly authorised by Regulation (EEC) No 3950/92, in particular Articles 5 and 8, is lawful.

2.6.4.6. C 73/2003 Spain/Commission

155. In this case of 11 November 2004, the Court of Justice fully rejected the Spanish government's appeal against the negative parts with recovery of a final decision concerning aid to compensate farmers for the rise of energy prices in 2000.

156. The Court of Justice states the following ([37]):

- the notion of advantage granted to beneficiaries of a State aid within the meaning of Article 87(1) of the EC Treaty shall be determined by comparison with other undertakings in the same Member State, not with undertakings of other Member States (see, to this effect, the ruling of 2 July 1974, Italy/Commission, 173/73, ECR p. 709, points 36 to 39);
- impact on trade between Member States depends on the existence of actual competition between undertakings established in the Member States in the sector concerned. There can be no doubt that the agriculture sector in the European Union is very competitive;
- Article 87(2)(b) of the EC Treaty must be interpreted restrictively. Only disadvantages directly caused by natural disasters or other extraordinary occurrences may be compensated for under this provision. Therefore, there must be a direct link between the damage caused by the extraordinary occurrence and the State aid, and damages suffered by the producers concerned should be estimated as precisely as possible;
- the contested measures, that is, the tax rebate on sales of agricultural land and the subsidised loans and guarantees, are implemented on the basis of land sold or loans taken out, regardless of the extent of damages suffered. Such measures do not therefore aim to compensate directly the losses suffered;
- the figures provided by Spain concerning fuel consumption by agricultural undertakings are only averages and only concern two types of crops. According to the Court, Spain has not submitted comparative figures showing, on one hand, the amount of aid resulting from the tax rebate and, on the other, the losses suffered.

([37]) Case not yet published and not available in English.

2.7. Assistance to the needy

157. The European Union has continued to implement its aid programme for the needy ([38]). This action consists of distributing agricultural products (processed or otherwise) from intervention stocks in the Union to associations working with deprived people on the ground in the Member States.

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

Free distribution of agricultural products (2004)

Member State	Appropriations allocated (*EUR*)	Quantities (*tonnes*)				
		Cereals	Rice (paddy rice)	Butter	Milk powder	Beef/veal
Belgium	3 439 000	7 000	2 000	600		
Denmark	168 000					53
Greece	12 030 000	26 000	16 630		1 879	
Spain	74 125 000	70 000	27 975	7 230		
France	52 503 000	83 386	29 077	500	15 200	
Ireland	207 000			60		
Italy	92 065 000	90 000	19 625	13 448		
Luxembourg	42 000					
Poland	23 935 000	12 000	25 500	4 257		
Portugal	15 297 000	15 000	16 500	2 476		
Finland	2 933 000	15 500			595	
Total EU	**213 744 000**	**318 833**	**137 307**	**28 571**	**17 674**	**53**

2.8. The outermost regions

2.8.1. Amendment of the Council regulations (agricultural — POSEI)

159. The Commission adopted on 28 October 2004 a proposal for a Council regulation for reforming the support schemes for agriculture in the EU's outermost regions as referred to in Article 299(2) of the EC Treaty.

160. These measures, first introduced in 1991 and 1992, have proved effective in promoting agriculture in and securing supplies to these regions ([39]) but the administration of these

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

([39]) Cf. Communication de la Commission «Un partenariat renforcé pour les régions ultrapériphériques» du 26.5.2004, doc. COM(2004) 343final. Commission communication 'A stronger partnership for the outermost regions' (COM(2004) 343 final, 26.5.2004).

arrangements leaves something to be desired: the management of the two strands of the POSEI schemes, i.e. the specific supply arrangements and support for local lines of production in the outermost regions, has proved somewhat inflexible. Adapting the supply balances to take account of even small fluctuations in demand requires the Commission to adopt legislation and the arrangements for supporting local lines of production require to be adjusted through an interinstitutional legislative procedure.

161. The proposed reform aims to change the philosophy behind the way assistance is provided for these regions: by encouraging participation in decision-making and speeding up the response to their specific needs. The regulation provides for the submission by the Member States of one programme per outermost region. These programmes will include a section on the specific supply arrangements for those agricultural products which are essential in the outermost regions for human consumption, as agricultural inputs or for processing, and another section on support for local production.

162. The regulation does not affect the sources of financing or the intensity of Community support. The Community will finance the programme under the EAGGF Guarantee Section at 100 % up to an annual ceiling established in the Council Regulation. Part of this aid will have to be reserved for local agricultural production. The amounts have been calculated on the basis of the average expenditure on financing the specific supply arrangements during the reference period 2001–03 and on the basis of expenditure ceilings applicable to support for local production.

163. Part of the aforementioned amounts fall within the scope of Regulation (EC) No 1782/2003 ([40]) and are encompassed by the ceilings provided for in Annex VIII to said regulation. In order to comply with the obligation set forth in the second subparagraph of Article 70(2) of the aforementioned regulation, the Commission will adapt accordingly the national ceilings set in said Annex VIII.

164. The exemptions from the general ('horizontal') agricultural provisions contained in the POSEI 2001 regulations have been incorporated into this regulation.

2.8.2. The CAP reform

165. On 1 December 2004, the Commission obtained the favourable opinion of the Management Committee for direct payment on a draft regulation establishing detailed rules for the application of the aid programmes for the traditional activities connected with beef and veal as well as sheep and goat production and measures to improve product quality in the

([40]) Establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers amending Regulations (EEC) No 2019/83, (EC) No 1452/2001, (EC) No 1453/2001, (EC) No 1454/2001, (EC) No 1868/94, (EC) No 1251/1999, (EC) No 1254/1999, (EC) No 1673/2000, (EEC) No 2358/71 and (EC) No 2529/2001.

French overseas departments, in the Azores and Madeira and in the Canary Islands, within the limits of the consumption needs of these regions other than the Azores. These programmes are provided for by Article 9(1) of Regulation (EC) No 1452/2001, Articles 13(1) and 22(2) of Regulation (EC) No 1453/2001 and Article 5(1) of Regulation (EC) No 1454/2001.

166. The detailed rules refer in particular to the establishment, the content and the transmission of the programmes, the Community financing for 2005, the indicator of the development of the local production, the controls and payments as well as the annual report on the implementation of the programmes.

167. In addition, the regulation maintains detailed rules of the aid for disposal of young bovine animals born in the Azores set out in Article 22(9) of Regulation (EC) No 1453/2001, laid down so far in Regulation (EC) No 170/2002 which is henceforth repealed.

2.8.3. Crop products

168. Concerning the crop products, a regulation was adopted on 21 December 2004. By this regulation, the Commission proposes gathering the expiry dates for the submission of the reports concerning the various support measures that Member States are required to submit to the Commission.

2.8.4. Specific supply arrangement (SSA)

169. On 11 December 2003, the Commission adopted Regulation (EC) No 14/2004 establishing the supply balances and Community aid for the supply of certain essential products for human consumption, for processing and as agricultural inputs and for the supply of live animals and eggs to the outermost regions under Council Regulations (EC) Nos 1452/2001, 1453/2001 and 1454/2001.

2.8.5. RUP aspects of the reforms — sugar and bananas COM

2.8.5.1. Sugar

170. In July 2004, the Commission submitted to the Council and to the European Parliament its second communication on the reform of the sugar policy of the European Union, entitled 'Accomplishing a sustainable agricultural model for Europe through the reformed CAP — Sugar sector reform'. The communication sets forth in particular a considerable drop in the price of sugar compensated by a direct aid to beet or cane producers. However, with regard to direct income support for farmers to compensate for price decreases, the outermost regions will benefit from a special treatment by excluding direct payment from the single farm payment scheme, as is already the case in other reformed sector.

2.8.5.2. Bananas

171. An in-depth evaluation of the common organisation of the market (COM) in bananas and its implementation as of 1993 is currently under way and is to be completed in spring 2005. On the basis of this evaluation and the negotiations of Article XXVIII of the GATT, a proposal of modification of the COM could be presented to the European Parliament and the Council in the second semester of 2005.

172. Awaiting the results of the evaluation, the Commission services have prepared a factual report to be presented to the European Parliament and the Council. This report provides an overview of the COM as of 1999. It analyses the economic trends in the sector as well as the common market organisation in its current shape.

2.8.6. List of adopted regulations (based on Regulations (EC) Nos 1452/2001, 1453/2001 and 1454/2001)

- Commission Regulation (EC) No 1997/2004 of 19 November 2004 amending Regulation (EC) No 14/2004 as regards the forecast supply balance for beef and veal for Madeira
  Official Journal L 344, 20.11.2004, pp. 28–29

- Commission Regulation (EC) No 1796/2004 of 15 October 2004 amending and correcting Regulation (EC) No 14/2004 as regards the forecast supply balance for the French overseas departments in the cereal and processed fruit and vegetable product sector and the forecast supply balances for Madeira in the vegetable oil, processed fruit and vegetable product, milk and milk product, and pig meat sectors
  Official Journal L 317, 16.10.2004, pp. 23–30

- Commission Regulation (EC) No 1232/2004 of 2 July 2004 amending Regulation (EC) No 14/2004 as regards Community aid for the supply of dairy products to Madeira and the Canary Islands
  Official Journal L 234, 3.7.2004, pp. 5–6

- Commission Regulation (EC) No 1137/2004 of 21 June 2004 amending Regulation (EC) No 43/2003 laying down detailed rules for applying Council Regulations (EC) Nos 1452/2001, 1453/2001 and 1454/2001 as regards aid for the local production of crop products in the outermost regions of the European Union
  Official Journal L 221, 22.6.2004, pp. 3–5

- Commission Regulation (EC) No 489/2004 of 16 March 2004 amending Regulation (EC) No 20/2002 laying down detailed rules for implementing the specific supply arrangements for the outermost regions introduced by Council Regulations (EC) Nos 1452/2001,

1453/2001 and 1454/2001
Official Journal L 79, 17.3.2004, pp. 18–22

- Commission Regulation (EC) No 14/2004 of 30 December 2003 establishing the supply balances and Community aid for the supply of certain essential products for human consumption, for processing and as agricultural inputs and for the supply of live animals and eggs to the outermost regions under Council Regulations (EC) Nos 1452/2001, 1453/2001 and 1454/2001
Official Journal L 3, 7.1.2004, pp. 6–27

2.9. Information measures concerning the CAP

173. Council Regulation (EC) No 814/2000 ([41]) provides for information measures relating to the common agricultural policy, intended for both Member States and the outside world. Commission Regulation (EC) No 2208/2002 ([42]) (which replaced Commission Regulation (EC) No 1557/2001 ([43]) and was modified by Commission Regulation (EC) No 1820/2004 ([44])) lays down detailed rules for applying Regulation (EC) No 814/2000 and introduces significant improvements to the scheme: simplification, transparency, better evaluation of the information actions proposed, better definition of the messages to communicate, and means of distribution.

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

2.9.1. Grants

175. The number of applications for grants received from Member States has in 2004 remained at the same high level as in previous years. For the budgetary year 2004, a total of 146 applications were received, 64 of which were for annual programmes and 82 for specific measures.

176. In the budgetary year 2004, a total of 31 specific measures were co-financed, 12 of which were part of 4 annual programmes. Co-financed measures included seminars, conferences, printed publications and audiovisual media productions, and the main topics included CAP reform, rural development, enlargement, consumer protection and sustainable production. A high proportion of the financed measures were organised by beneficiaries from Belgium and Spain. This reflects the fact that the European organisations whose projects were

([41]) OJ L 100, 20.4.2000, p. 7.
([42]) OJ L 337, 13.12.2002, p. 21.
([43]) OJ L 205, 31.7.2001, p. 25.
([44]) OJ L 320, 21.10.2004, p. 14.

co-financed are mainly located in Brussels, and that a big proportion of the applications received were from Spain, but also Italy and France, while again there were very few demands from the Scandinavian countries.

177. Individual organisations which in the budgetary year 2004 were successful in obtaining co-financing of their information programmes included NGOs on a European scale such as COPA, CEA, WWF or Euromontana, but also national and regional organisations, representing the farming sector, or active in consumer protection, rural development, or environment protection. In addition, beneficiaries included some regional authorities and academic bodies, as well as media.

2.9.2. Conferences, events and fairs

178. During 2004, the Commission organised events covering a range of themes. In January there was a hearing on organic farming and in March there was an enlargement conference held in Sofia, Bulgaria. During the summer a meeting was held with the communication directors of all Member States to consider communication strategy. In the autumn there was a press briefing on the proposals for regulations on rural development and in October a Leader+ European seminar was held on exchanging experiences and cooperation on the quality of life in rural areas.

179. The Commission was represented at various agricultural fairs, as for example in the 'Grüne Woche' in Berlin, 'salon de l'Agriculture' in Paris, 'Fieragricola' in Verona, Libramont Agricultural Fair in Belgium and 'Gornja Radgona' in Slovenia.

2.9.3. Publications

180. The regular publications programme was maintained with the cooperation of the Publications Office and an external contractor. A number of specific fact sheets, reports, leaflets, bookmarks, postcards, posters, conference proceedings and newsletters on international and rural issues were published. Special publications were produced for the WTO ministerial meeting in Cancun, the conference on rural development in Salzburg as well as for the CAP reform.

2.9.4. Access to documents

181. The year 2004 was the third full year in which Regulation (EC) No 1049/2001 regarding public access to European Parliament, Council and Commission documents was applicable. The number of initial requests from EU citizens for access to one or more Commission documents rose by 70 % compared with 2003. For the Agriculture and Rural Development DG the increase in number was even more important: around 100 %. This brought the number of requests for documents in the agricultural area in 2004 to around 150.

2.9.5. Missions

182. Various missions were carried out during 2004, following requests from regional and/or specialised organisations (cooperatives, farmers, various intermediary bodies) in order to explain the new regulations of the CAP, the consequences of the enlargement or the evolution of the WTO negotiations. In most cases, round tables followed with national heads of the organisations, MES, journalists and the public itself. Most areas, productions and countries are concerned by these actions, sometimes prepared or followed by visits to Brussels in order to complete discussion and information.

2.10. Information and communication technology (ICT)

183. The use of up-to-date information and communication technologies (ICTs) in the Agriculture and Rural Development DG aims to support the DG's administrative and operational needs and to improve and reinforce the exchange and processing of data and information in order to enhance CAP management and facilitate the sharing of information between the national and European administrations, in line with the *e*Europe and *e*Commission ([45]) initiatives.

184. In this context in 2004 investments to maintain and further develop the Agriculture and Rural Development DG's information systems and services have been made. Developments were driven by two major events: the enlargement and the introduction of accrual accounting. Two important factors of ICT security and governance were also to the fore.

2.10.1. The enlargement

185. The integration of the 10 new Member State administrations into the processes of the Agriculture and Rural Development DG managed by information systems was well prepared and thus no significant disruption of the ICT services/systems was registered. Requests for adaptations of the reporting are still being received and they are treated as part of the normal maintenance of the information systems concerned.

2.10.2. Introduction of the accrual accounting

186. The Agriculture and Rural Development DG put in place an appropriate structure to follow up the various aspects of the accrual accounting based system, but it was still a major challenge to respond to the specifications provided and to respect the associated deadlines. As far as the IT actions were concerned, our systems managing the guarantee fund payments (AGREX) and applications for the management of the Structural Funds (FEORIENT and

([45]) *e*Commission is an internal European Commission initiative to enhance the contribution of ICT to its internal administration.

GFO) were adapted according to the requirements and passed the validation of local systems performed by the Budget DG.

2.10.3. ICT security

187. The security of the Agriculture and Rural Development DG data and the availability of the major DG information systems are of concern in supplying transparent and well-organised IT management. In line with this, projects have been developed and will continue in 2005 and 2006 for (i) improved versions of the disaster recovery plan to underpin our major information systems, (ii) the elaboration of an information security policy document, and (iii) the elaboration of an appropriate secure exchange and storage of agricultural data (SESAD) framework for the Agriculture and Rural Development DG.

2.10.4. ICT governance in the Agriculture and Rural Development DG

188. For several years now, the Agriculture and Rural Development DG has clear procedures for the provision of important ICT services, user support and for managing the ICT functions and operations. In 2004, we added specific procedures in particular for managing the changes requested by users for the most important information systems. Work has also been carried out to align to COBIT standards and internal controls such as the Commission's 24 internal control standards (this work continues in 2005).

2.11. Advisory committees and relations with bodies representing trade

2.11.1. Institutional relations

189. Agriculture and Rural Development DG services participated actively in committee discussions on agricultural issues in the Council, the European Parliament, the European Economic and Social Committee (EESC) and the Committee of the Regions (CoR). Much of these discussions related to the reform of the tobacco, olive oil, cotton, hops and sugar sectors and rural development.

190. The DG was represented in the European Parliament at all meetings of the Committee on Agriculture and Rural Development and at particular meetings of other committees such as Budget, Budget Control, Environment, Public Health and Food Safety Petitions, and International Trade. It also attended all 15 plenary sessions of the Parliament.

191. Agriculture and Rural Development DG services also participated in numerous meetings of the NAT (EESC) and DEVE (CoR) Committees on Agriculture and Rural Development issues.

192. Responses or contributions to responses were provided by the DG to 616 questions from MEPs. Furthermore, 85 letters from MEPs were responded to:

Year	'H' questions AGRI-Leader	'H' questions AGRI-Associated	'O' questions AGRI-Leader	'O' questions AGRI-Associated	Written questions AGRI-Leader	Written questions AGRI-Associated
2004	27	36	1	2	178	372
2003	42	72	2	4	207	468
2002	45	42	1	9	197	448
2001	41	54	1	9	231	415

2.11.2. Consultations with agricultural non-governmental organisations and the socioeconomic sector

193. The structure and certain operational aspects of the Agriculture and Rural Development DG's stakeholder/civil society consultation process were reformed in 2004 to take account of CAP reform and enlargement.

194. Comprehensive stakeholder consultation was ensured through 85 different meetings involving the participation of 2 500 representatives of socioeconomic organisations; additionally three special seminars on the reform of the tobacco, olive oil and cotton regimes were held involving stakeholders and regional political representatives and also a special discussion with development of NGOs in relation to CAP reform and the WTO negotiations.

3. Agricultural markets

3.1. Market developments — Crop products

3.1.1. Cereals

3.1.1.1. World market

195. World cereal production (excluding rice) in the 2003/04 marketing year rose against the previous year. The European Union and central and eastern Europe substantially reduced production, in contrast to the substantial production increases in North and South America and Australia. According to International Grains Council figures at the end of January 2005, the 2003/04 world harvest was 1 468 million tonnes against 1 449 million tonnes for the previous marketing year.

196. World wheat production fell from 566 million tonnes in 2002/03 to 554 million tonnes in 2003/04. The European Union (25 Member States) harvested 106.2 million tonnes of common and durum wheat (121.8 million tonnes in 2002/03). Wheat production in the CIS (Commonwealth of Independent States) countries fell from the record level of 96.2 million tonnes in 2002/03 to 61.5 million tonnes in 2003/04. Production in Australia, which is a key traditional exporter of wheat, increased spectacularly from 10.1 million tonnes in 2002/03 to 24.9 million tonnes in 2003/04. The 2003 crop in the United States was 63.8 million tonnes against 43.7 million in 2002. In Canada, production increased from 16.2 to 23.6 million tonnes as a result of higher yields.

197. World wheat consumption in 2003/04 was 593 million tonnes (600 million tonnes in 2002/03), i.e. 39 million tonnes more than production. Feed grain consumption was 942 million tonnes (907 million tonnes in 2002/03), i.e. 28 million tonnes more than production.

198. The International Grains Council's harvest data for 2003/04 indicate world coarse grain production of 914 million tonnes (883 million tonnes in 2002/03). The United States harvest rose sharply from 244 million tonnes to 276 million tonnes in response to strong domestic demand, particularly for production of bioethanol. Production of feed grains in all the CIS countries fell from 64.2 million tonnes in 2002/03 to 58.6 million tonnes in 2003/04.

199. World cereal stocks declined once again, the 2003/04 estimate being 262 million tonnes (against 324 million tonnes in 2002/03 and 385 million tonnes in 2001/02), comprising 125 million tonnes of wheat and 137 million tonnes of feed grains. Although this level of world stocks marked a historic low, it did not cause unexpected movements in the world market. In the EU, stocks held by the intervention agencies on 1 July 2004 were 3.6 million tonnes (against 7.2 million tonnes on 1 July 2003): 3.3 million tonnes of rye, 0.1 million tonnes of barley and 0.2 million tonnes of wheat.

200. The total volume of world trade in cereals in 2003/04 was 207 million tonnes (102 million tonnes of wheat and 105 million tonnes of coarse grains) against 212 million tonnes the previous year. Trade was affected by the significant increase in maritime freight rates at the end of 2003.

201. World cereal production in 2004 has been estimated at 1 615 million tonnes, up by 147 million tonnes compared with the 1 468 million tonnes harvest obtained in 2003. Wheat production increased sharply, from 554 million tonnes to 618 million tonnes, thanks to large harvests in all the producer regions (particularly the EU); feed grain production increased from 914 to 997 million tonnes, thanks in particular to the continuing strength of United States maize production. World cereal consumption increased and is expected to reach 1 574 million tonnes. At the end of 2004/05, world stocks are increasing for the first time in five years, the estimate being 303 million tonnes (41 million tonnes more than in 2003/04). For world cereal trade, a fall in volume can be expected (204 million tonnes, of which 102 million tonnes of wheat), due to lower demand and increased maritime freights.

3.1.1.2. Community market

202. Following decisions in the context of the Agenda 2000 reform package, the intervention price for the 2003/04 marketing year was fixed at EUR 101.31 per tonne (unchanged for the past three years). The level of aid for cereals also remained unchanged at EUR 63 per tonne of yield. In response to the decrease in the EU harvest caused by drought in the summer of 2003 and the sharp fall in world stocks, the set-aside rate was temporarily fixed at 5 % (against 10 % in 2002/03).

203. Community cereal production in 2003/04 was 230 million tonnes for the 25 Member States, 33 million tonnes less than the 2002/03 figure of 263 million tonnes. For the first time in several years, Community cereal production was less than consumption. The shortfall in common wheat and maize was particularly marked.

204. The fall in production corresponds to a reduction in the area sown with cereals (51.4 million ha in 2003/04 against 52.7 million ha in 2002/03), but above all to a sharp fall in average yields (from 3.5 tonnes/ha in 2002/03 to 3.0 tonnes/ha in 2003/04).

205. Production of both common wheat (99.9 million tonnes) and durum wheat (8.3 million tonnes) was down, by 13 % and 14 % respectively compared with the previous year. Maize production fell by almost 18 %, from 49.7 million tonnes to 40.9 million tonnes.

206. Rye production fell from 9 to 7.2 million tonnes, following a reduction in the area sown largely due to Commission proposals to abolish the intervention scheme for rye.

207. Following the drought and the fall in world stocks, the set-aside requirement was reduced to 5 % for the 2004/05 marketing year, which represents an additional area of approximately 2 million ha. However, this measure's late adoption meant that its impact was felt mainly in respect of crops sown in the spring.

208. Increased cereal use was offset by the rise in cereal prices. Also, the dollar's fall lessened the effect of high prices in the oilseed/protein sector. Despite the high prices, use of cereals in animal feed fell by only 1 million tonnes (from 153 to 152 million tonnes).

209. Community exports in 2003/04 (including processed products) were only 19.5 million tonnes against 29.5 million tonnes the previous year. Commercial exports amounted to 9.4 million tonnes of common wheat (including flour), 6.2 million tonnes of barley (including malt), 2.0 million tonnes of maize and 0.5 million tonnes of rye and rye flour. The fall was due, in particular, to measures restricting cereal exports — including the termination of export tendering for common wheat, barley and rye.

210. Durum wheat exports in the form of grain and meal fell to 0.9 million tonnes against 2.1 million tonnes the previous year. Oat exports also fell by 0.9 million tonnes to 0.5 million tonnes.

3.1.2. Oilseeds

211. Oilseeds are used for producing oil, mainly intended for human consumption, and oil cakes, intended for animal feed. The economic situation of the oilseeds sector depends on the trend of the seeds, oil and oil cakes prices. Vegetable oil can be consumed without modification or in the form of oil or artificial fats, like margarine.

212. The European Union is a net importer of oilseeds, vegetable oil and oil cakes. The annual imports of these products depend largely, on one hand, on the ratio between the prices for oilseeds, oil cakes and oil as well as the prices for other competing products intended for animal feed (such as cereals, foodstuffs containing maize gluten, etc.) and, on the other hand, on the marketing outlets that make it possible to export oil and oil cakes from the European Union. Total imports of oilseeds reached 17 million tonnes in 2003/04 and 18 million tonnes in 2002/03, of which the main part was soya beans (90 %).

213. The total quantity of crushed oilseeds in the European Union (EU-15) amounted to 28.6 million tonnes in 2003, compared with 30.5 million tonnes in 2002. The main part is made up by soya beans (about 55 %), followed by rapeseed (30 %) sunflower (about 12 %) and cottonseeds (2 %).

214. Total EU-25 imports of oil cakes represented 22.1 million tones in 2003/04, against 19.9 in 2002/03.

215. The total EU-25 oilseed area was quite stable in 2004 (+ 1 % compared with 2003) with rapeseed up 5 % to 4.4 million ha, sunflower seed down 5 % to 2.2 million ha and soya bean down 6 % to 275 000 ha. The total oilseed area is currently estimated at 7 million ha, including 200 000 ha of non-food crops. With the excellent weather conditions, yields recovered after the low 2003 yields, giving a total production of 19.5 million tonnes, 23 % higher than in 2003/04. Big parts of the 1.7 million tonnes estimated as non-food were rapeseed. The 2004/05 crop would be made of 14.6 million tonnes of rapeseed, 4.1 million tonnes of sunflower seeds and 860 000 tonnes of soya beans.

3.1.3. Peas, field beans and sweet lupins

216. These products (their principal outlet is the animal feed industry) are in competition with a broad range of other raw materials.

217. The surfaces which benefited from compensatory aid in 2003/04 were about 1.4 million ha. Total production amounted to approximately 4.5 million tonnes.

3.1.4. Linseed

218. Farming of flax in the European Union includes fibre flax (cultivated especially for fibre but also bearing seeds) and linseed (cultivated only for obtaining seeds). Seeds are used directly or are crushed to obtain oil (with industrial destination) and oil cake intended for animal feed.

219. The European Union imports large quantities of linseed (526 000 tonnes in 2004 against 584 000 tonnes in 2003); Canada is the largest supplier (85 %).

220. The EU linseed area settled at a very low level in recent years: 100 000 ha. The European production in 2004 is estimated to reach 125 000 tonnes.

3.1.5. Grain legumes (chick peas, lentils and vetches)

221. A specific measure for grain legumes was established in 1989. It comprises an aid per hectare, within a maximum guaranteed area (MGA), apart from the arable crops' system. With Regulation (EC) No 811/2000, this MGA was subdivided between chick peas and lentils, which are used for the human consumption, and vetches, which are used for animal feed.

222. Aid per hectare is fixed at EUR 181, the MGA amounts to 160 000 ha for chick peas and lentils and to 240 000 ha for vetches. When one of these MGAs is not reached, the balance is transferred to the different MGA before establishing the possible overrun. The overrun of the MGA leads to a proportional reduction of aid during the campaign in question.

223. In 2003/04, the chick peas and lentils surface amounted to 128 219 ha, the surface in vetches was 299 969 ha; this overrun of the MGA for vetches led to an adaptation of aid; it was fixed at EUR 163.99/ha, while aid for chick peas and lentils remained unchanged at EUR 181/ha.

224. For the marketing year 2004/05, the surface is considered at 134 000 ha for chick peas and lentils and at 274 000 ha for vetches. As a result, the MGA will probably not be overrun and final aid will stay fixed at EUR 181/ha.

3.1.6. Non-food production

225. The non-food set-aside regime has been in force since the 1992 CAP reform. The area payment for set-aside land has been EUR 63 per tonne multiplied by the cereal yield, from 2001/02 onwards. The last CAP reform confirmed the possibility of using set-aside land for non-food production. The accession countries are exempted from obligatory set-aside as far as they apply the simplified payment system.

226. The area put into obligatory set-aside in 2003/04 was about 4 million ha, applying a set-aside rate of 10 %. In addition, 2.3 million ha were put into set-aside under the voluntary regime. In particular, about 900 000 ha of set-aside land was used for non-food oilseeds, mainly for biodiesel production. Total production of non-food crops cultivated in set-aside surfaces amounted to 2.3 million tonnes.

227. For the marketing year 2004/05, a reduction to around 2 million ha (50 %) is expected due to a temporary reduction in the mandatory set-aside rate to 5 %, as well as a similar reduction in the set-aside surface intended for non-food crops, which would reach around 500 000 ha according to first estimations.

228. Under the CAP reform, a new aid of EUR 45/ha is granted for areas sown to energy crops. The support is limited to a maximum guaranteed area (MGA) of 1.5 million ha. This regime has been applied during 2004 for the first time. According to first estimations, which are made on the basis of Member States' communications, the area under this scheme will reach about 303 000 ha, which represents 20 % of MGA and around 35 % of traditional non-food set-aside oilseeds surface. It is expected that production of energy crops under the new regime reaches about 1.1 million tonnes.

3.1.7. Rice

229. During the marketing year 2003/04, 2 700 000 tonnes of paddy rice have been harvested, which is above the average. But, as this rice was of poor milling yield — 57 % on average — the production to sale was only 1 500 000 tonnes milled rice.

230. Hungary joined the Community on 1 May 2004, increasing the European rice area by 3 000 ha, which represents less than 1 % of the total area (400 000 ha).

231. Intervention buying was initially capped at 100 000 tonnes, but this ceiling was increased by the Commission to 145 000 tonnes during the buying-in period, according to the provisions of the rice reform (Regulation (EC) No 1785/2003). For the following marketing years, the ceiling is fixed at 75 000 tonnes. Intervention stocks amounted to some 600 000 tonnes on 1 September 2004.

232. A new rice import regime is in force since 1 September. Simultaneously, the intervention price was halved in application of the reform. Import duties for husked and milled rice were reduced accordingly: EUR 65 per tonne for husked rice and EUR 175 per tonne for milled rice. Husked Basmati rice can be imported duty free.

For the marketing year 2004/05, an important harvest is estimated, together with high milling yields, resulting in a high production of milled rice.

3.1.8. Starch

233. In 2003/04, the cereal starch market was relatively stable, as regards both maize-based and wheat-based products. Total EU-15 production was estimated at around 7 million tonnes produced from 12.5 million tonnes of cereals.

234. EU-15 potato starch production, which is quota-restricted, dropped by 13 % below quota in 2003/04, due to bad weather conditions. As foreseen by Council Regulation (EC) No 1868/94 establishing a quota system in relation to the production of potato starch ([46]), the Commission presented a report on the allocation of quota within the Community, accompanied by appropriate proposals ([47]), in view to extend the current quotas for the two marketing years 2005/06 and 2006/07, with the expectation of measuring effects of the CAP reform and the EU enlargement

In the framework of the 2003 CAP reform, the Council decided to introduce decoupling in the potato starch sector from 2005/06, while a part will be maintained coupled to the produc-

([46]) OJ L 197, 30.7.1994, p. 4. Regulation as last amended by Regulation (EC) No 1782/2003 (OJ L 270, 21.10.2003, p. 1).

([47]) COM(2004) 772 final, 6.12.2004.

tion. The present direct payment (EUR 110.54/tonne of starch) to producers of starch potatoes will be split in two parts within Council Regulation (EC) No 1782/2003 ([48]):

- 40 % will be integrated into the single farm payment, on the basis of the historical deliveries to the industry;
- the remainder (60 %) will be maintained as crop specific payment for starch potatoes.

Market management instruments using refunds were practically limited in 2003/04 to export refunds on products based on maize and potato starch (in receipt of the same amount as maize starch). No export refunds were needed for wheat starch. Almost no production refunds were used in 2003/04.

3.1.9. Sugar

3.1.9.1. World market

235. Following the huge surplus production in 2002/03, global sugar output has significantly decreased in 2003/04, although, after all, it was once again a 'surplus' year (i.e. production exceeded consumption). According to the figures of F.O. Licht, ending stocks stood at 65.9 million tonnes at the end of August 2003, nearly 2 million tonnes lower than a year before. Subsequently the stock/consumption has also been reduced to 46.1 %.

Marketing year September/August	Production (*)	Consumption (*)	Surplus or deficit (*)	Stock/ consumption ratio (%)
	(1)	(2)	(3)=(1)–(2)	(4)
1999/2000	134.0	128.1	5.9	48.3
2000/01	131.9	131.1	0.8	47.3
2001/02	138.3	135.7	2.6	45.5
2002/03	148.8	139.9	8.9	48.4
2003/04	144.2	142.8	1.4	46.1

(*) In million tonnes, raw value; *Source*: F.O. Licht (27.7.2004).

236. Looking merely at the production figures, one could conclude that at last producers have responded appropriately to depressed world market prices and constant global over-

([48]) Council Regulation (EC) No 1782/2003 of 29 September 2003 establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers (OJ L 270, 21.10.2003, p. 1).
Articles 93–94, Title IV — Specific aids (coupled), Chapter 6.
Article 148 (amendments to Regulation (EC) No 1868/94).
Annex VII-B (calculation of the reference amount referred to in Article 37).

production. However, that is not the case. The massive drop in production is first of all due to a sharp decrease of output in India and also in Europe as a consequence of adverse weather conditions. Initially analysts had forecast 2003/04 production at around 146 million tonnes, revising it downwards, however, as severe drought persisted in India but also in central and southern Europe. Although Brazilian sugar production has reached once again a record, it could only partially compensate the reduced output elsewhere. The 2003/04 campaign having reached its end, final estimates point to a rather balanced situation, some even suggesting minor deficit.

237. The world balance sheet data (September/August; raw value) for 2003/04 include major production decreases in the following regions: enlarged EU-25 (– 2.4 million tonnes), India (– 6.8 million tonnes), Australia (– 0.3) and South Africa (– 0.3). A major production increase has taken place in Brazil (+ 2.8), Pakistan (+ 0.5) and USA (+ 0.4). For both Brazil and Pakistan, the dynamic production increase of the previous year has continued reaching record levels in 2003/04.

238. For Brazil, it has not posed a particular problem to further expand its already dominant sugar sector which has become the single major decisive factor in the global sugar trade. Production has kept growing in both the central/south and the northern producing regions, the latter usually representing 15–18 % of total Brazilian output.

239. Major producers in 2003/04 were (raw value; in million tonnes) Brazil (26.7), India (15), the EU-25 (19.8), China (10.9), USA (7.9), Thailand (7.4), Mexico (5.3), Australia (5.4) Pakistan (4.3), South Africa (2.6), Cuba (2.5) and Colombia (2.6). These countries produced about 78 % of the total global output. As in previous years the biggest traditional exporters were Brazil, the EU, Thailand, Australia and Cuba, representing nearly 70 % of total exports.

240. Cane sugar has continued to maintain is dominant share in global sugar production with 76 % close to the previous year, as reduced production in 2003/04 has affected both cane and beet sugar. In the early 1990s this share was on average 67 %.

241. Prices were relatively stable although quite depressed until spring 2004 following a huge surplus in 2002/03, a record level of global stocks and another forecast of a surplus year for 2003/04. Raw sugar was traded mostly around 6 cts/lb. However, market sentiment has started to change as from March 2004 due to a major deficit in India, as well as growing interest of financial funds to invest more in the sugar futures markets. This has led to increased volatility in the markets, although the trend was positive and prices continued to improve to exceed 9 cts/lb in the fourth quarter of 2004. Similarly, white sugar prices have improved significantly over the 2003/04 season, first exceeding USD 200/tonne and finally reaching USD 250/tonne as well towards the end of the period.

242. The price situation during the 2003/04 campaign is shown in the following table together with a longer-term perspective.

Quarter of year	Raw sugar (cts/lb) (New York No 11)	White sugar (USD/t) (London No 5)
2003. Q1	8.15	228.62
2003. Q2	7.02	205.69
2003. Q3	6.49	197.09
2003. Q4	6.21	184.08
Average 2003	**6.97**	**203.92**
2004. Q1	6.01	199.52
2004. Q2	6.75	220.68
2004. Q3	7.98	240.74
2004. Q4 (*)	9.2	251.32
Average 2004 (*)	**7.49**	**227.95**

(*) Forecast; *Source*: LMC.

243. It has to be noted that the weakening of the US dollar has continued throughout the period, reaching 1.3 against 1 euro in the second half of 2004. Besides this, world trade was severely affected by the high level of freight rates, mostly caused by rapid economic growth in China. The country buys significant quantities of various raw materials, thus pushing up transport costs.

244. After several years of surplus production, 2003/04 has been a rather balanced year, although the reduction of global stocks was moderate. In 2004/05, a major deficit is expected with a likely further decrease of output in India, Thailand and Cuba, which would be only partly compensated by the 'usual' Brazilian record production. Although the Indian deficit of 2003/04 could have been covered mostly by existing stocks, massive imports may not be avoided probably in order to meet domestic demand in 2004/05. In addition, Russia is also expected to increase its imports after a rather disappointing year in 2003/04, when imports were around 1 million tonnes below recent average. Consequently, markets are fundamentally rather optimistic, although volatility is foreseen to intensify depending on actual forecasts/rumours with regard to Brazilian output and Indian deficit. Furthermore, stock levels continue to be very high, limiting potential additional price gains.

245. Consumption has continued to grow in 2003/04 close to the 10-year average of 2.5 %, although forecasts have ranged between 2.1 % (F.O. Licht) and 2.8 % (ISO). With the saturation of the sugar markets in the developed world, growth is mainly concentrated in developing countries, especially in Asia. The major driving force of growth is India and China. In the case of India, it is primarily the population growth that leads to higher consumption of around 3.5–4 %, whereas in China, the rapidly increasing demand + (9–10 %) is due to several factors like the continued economic as well as population growth, but also the replacement of saccharin by sugar and intensive urbanisation. On the other hand, consumption is very stagnant in western and central Europe, with a moderate increase in eastern Europe. In the USA and Canada, consumption has actually started to decline slightly, mainly as a result of health concerns and switch of consumer preference towards non-caloric sweeteners.

3.1.9.2. Community market

246. In the 2003/04 marketing year, following the long-term trend, the sugar beet area has decreased once again compared with the previous year to 1.705 million ha (– 7.8 %). Therefore 2002/03, when the sugar beet area exceeded 1.8 million ha, seems rather an exception with its increasing beet areas. Besides the lower beet area, unfavourable weather conditions, particularly in southern Europe, have contributed to a significantly lower sugar production in 2003/04. Community sugar production in white sugar equivalent has dropped to 15.2 million tonnes from 17.2 million tonnes in 2002/03 (– 11.6 %), including 280 000 tonnes from cane and 33 500 tonnes from molasses. Production has particularly decreased in Italy (0.5 million tonnes), France (0.76 million tonnes), Spain (0.28 million tonnes) and Germany (0.26 million tonnes). Sugar yield per hectare has also decreased, although moderately to 8.92 tonnes/ha (– 2.3 %) from 9.13 tonnes/ha in 2002/03.

247. The lower output has certainly affected the production of non-quota 'C' sugar, which either has to be exported without refund or carried forward to the following campaign. 'C' sugar production in 2003/04 has dropped to 2.7 million tonnes from 4.2 million in 2002/03. Out of the 2.7 million tonnes, 2.1 million has to be exported without refund while producers have decided to carry forward into the 2004/05 marketing year 0.6 million tonnes.

248. Total exports of sugar as such have dropped by 680 000 tonnes to 4 175 000 tonnes in 2003/04, including 2 220 000 tonnes 'C' sugar exported without refund and 2 025 000 tonnes of quota sugar exported with refund. Most of the sugar exported with refund has actually been exported in the framework of a standing tender system.

249. In the 2003/04 marketing year, Community sugar consumption remained very stable at 12.9 million tonnes if compared with previous years. However, the quantity of sugar with production refund used by the chemical industry has increased significantly by 200 000 tonnes (46 %).

250. Following a very important quota reduction of 0.826 million tonnes for the 2002/03 marketing year, a significantly lower quantity of 206 000 tonnes was reduced in 2003/04. As foreseen by Article 10 of Council Regulation (EC) No 1260/2001, this moderate quota reduction was necessary, in order to comply with the Community's international commitments under the WTO as far as the limitation on export subsidisation is concerned. The quantity 'declassified' has thus become 'C' sugar with the relevant obligation of export without refund or carry forward into the following marketing year.

251. In the common market organisation of the sugar markets, the production of isoglucose and inulin syrup with a view to their marketing in the Community, similarly to that of sugar, is also limited by production quotas. Like in the previous marketing years, the production of isoglucose was very close to the maximum of the 'A' and 'B' quotas at 300 000 tonnes, although including rather exceptionally a small quantity of 'C' isoglucose (4 600 tonnes) as well. On the other hand, inulin syrup production has increased significantly by 50 000 tonnes (24 %), although it is still well below the maximum level of the 'A' and 'B' quotas. While most of the isoglucose is destined for Community consumption, about one third of the inulin syrup is exported with refund.

252. As far as the 2004/05 marketing year is concerned, at the level of the EU-25, Community sugar production is estimated at 18.7 million tonnes (18.4 million tonnes from beet, while 0.3 million tonnes from cane or molasses), 2.7 % more than in 2003. After the severe drought that hit southern and central Europe in 2003, weather conditions have been favourable in most beet-growing regions of the enlarged EU in 2004. The moderate decrease of area sown (– 1.7 %, down to 2.156 million ha from 2.194 million ha in 2003) has in general been compensated by higher yields, although sugar content has been rather variable due to abundant precipitation. Unlike in previous years, in 2004/05 it was not necessary to reduce Community quotas in order to comply with WTO commitments.

3.1.9.3. Legislative framework: major developments

253. The basic regulation of the sugar regime is Council Regulation (EC) No 1260/2001 of 19 June 2001 on the common organisation of the markets in the sugar sector.

254. With regard to enlargement of the EU, Commission Regulation (EC) No 60/2004 of 14 January 2004 laid down transitional measures in the sugar sector for the period 1 May–30 June 2004, in order to facilitate the transition of the new Member States from their regime to the EU CMO. In addition, the regulation established provisions to avoid speculative movements of sugar products and to eliminate excess quantities of sugar, isoglucose and fructose at the time of accession at the cost of the new Member States, as foreseen by the Act of Accession. The sugar CMO has become fully applicable in the new Member States as from 1 July 2004, the start of the 2004/05 marketing year.

255. Regulation (EC) No 40/2004 of 9 January 2004 on proof of completion of customs formalities for the import of sugar into third countries, as provided for in Article 16 of Regulation (EC) No 800/1999, was adopted in order to facilitate operators obtaining the proofs of arrival at destination necessary in the case of differentiated refunds.

256. With Regulation (EC) No 1409/2004 of 2 August 2004, Regulation (EC) No 1159/2003 ([49]) was amended in order to improve the management of preferential sugar

([49]) Commission Regulation (EC) No 1159/2003 of June 2003 laying down detailed rules of application for the 2003/04, 2004/05 and 2005/06 marketing years for the import of cane sugar under certain tariff quotas and preferential agreements and amending Regulations (EC) Nos 1464/95 and 779/96.

imports in the light of the experience gained in the first months of application of Regulation (EC) No 1159/2003.

257. In 2004, the Commission adopted regulations concerning the determination of production levies, on the basis of Community balance sheets.

258. The preferential access of Serbia and Montenegro to the Community sugar market was reopened in August 2004, marking the end of a temporary suspension.

Following the publication in September 2003 by the Commission of the three options regarding the future of the sugar CMO, the proposed alternatives have been analysed and discussed in detail with the Member States, as well as the major stakeholders concerned. Taking into account these discussions and based on further analysis, the Commission published on 14 July 2004 its communication to the Council and the European Parliament ‘Accomplishing a sustainable agricultural model for Europe through the reformed CAP — sugar sector reform’(COM(2004) 499). In this communication, the Commission has proposed a reform of the sugar CMO based on a significant reduction of sugar beet and sugar prices, as well of production quotas, allowing for the transferability of quotas between Member States, introducing private storage based on a reference price system for sugar to replace the intervention scheme. The reduction of beet prices would be partially compensated according to the proposal by direct payments to be integrated into the single farm payment.

3.1.10. Potatoes

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

260. Potatoes are grown in all Member States of the Community. In 2003, the total area grown was 1 200 362 ha, down from 1 254 000 ha in 2002. Early potatoes were grown on approximately 104 000 ha, slightly down from the area in 2002.

261. Total production in 2003 was around 41.1 million tonnes, some 4.6 million tonnes less than in 2002. Early potatoes accounted for about 2.9 million tonnes.

262. In 2002, human consumption of potatoes in the EU remained around 28 million tonnes.

263. EU imports of potatoes for human consumption, mainly early varieties, were about 420 000 tonnes in 2003. Imports generally occur during winter and spring. The main suppliers are southern Mediterranean countries.

264. Production in 2004 is estimated to be higher, 44.8 million tonnes, than in 2003.

265. Enlargement to the 10 new Member States on 1 May 2004 has approximately doubled the production area of potatoes. The potatoes production area in 2003 in the new Member States amounted to 1.03 million ha; the total production was around 18 million tonnes. The main producer among the new Member States is Poland: its production area totalled 766 000 ha in 2003 or 7 % of the total production area in the new Member States.

3.1.11. Dried fodder

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

267. The following table summarises the evolution of production as reflected in aid applications.

EU-15 production of dried fodder, based on aid applications (1 000 tonnes)

Dried fodder	MGQ (*)	2002/03		2003/04	
EU-15		Production	% MGQ	Production	% MGQ
Dehydrated fodder	4 412.4	4 515	102.3	4 571	103.6
Sun-dried fodder	443.5	216	48.7	214	48.2

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

268. In 2003/04, aid was granted for 4.57 million tonnes of dehydrated fodder (103.6 % of the MGQ) and 0.2 million tonnes of sun-dried fodder (48.2 % of the MGQ).

269. As subsidised production of dehydrated fodder exceeded the MGQ, the co-responsibility clause was applied: in order to remain inside the budget, the aid (EUR 68.83/tonne) was reduced ([50]) by 3.5 % (to EUR 66.45/tonne) in every Member State.

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

271. In the framework of the CAP reform, the Council adopted a new aid scheme for the dried fodder sector, with part of the current aid being replaced by decoupled aid to farmers.

- Partial decoupling ([51]): the total allocation to be decoupled under the single payment scheme for each holding is limited to EUR 132 million; the amount broken down by

([50]) Commission Regulation (EC) No 1326/2004 (OJ L 246, 20.7.2004, p. 22).

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

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

- Simplification of the aid scheme ([52]):
  - single rate of aid: the aid payable to processing undertakings is fixed as a single amount for the two subsectors (dehydrated fodder or sun-dried fodder) at EUR 33 per tonne of dried fodder;
  - single MGQ: a single maximum guaranteed quantity is fixed for the two subsectors (dehydrated fodder and sun-dried fodder), equal to the sum of the old MGQs fixed by subsector. The new MGQ is divided into national guaranteed quantities (NGQs) for each Member State. The aid is paid in full if the Community production is less than or equal to the MGQ. If there is an overrun on the MGQ, the aid will be reduced in each Member State which has exceeded its NGQ so as to avoid any overrun on forecast planned budget expenditure;

Dried fodder	Aid (EUR/tonne)	MGQ (tonnes)
Dehydrated fodder and sun-dried fodder	33	4 960 723

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

3.1.11.1. Application of the old scheme in 2004/05

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

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

3.1.12. Fibre flax and fibre hemp

3.1.12.1. Fibre flax

273. According to the FAO, the total world area sown to fibre flax in 2003 was 480 000 ha, of which 143 000 ha in China. In the European Union, the area sown was 103 000 ha. The

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

EU tends to import medium- and low-quality fibres, which are brought in from eastern Europe and Egypt, but supplies the whole world with high- and very high-quality fibres, since these are not produced anywhere else. In 2003, it exported 136 000 tonnes of flax fibre, of which 108 000 correspond to long fibres and 28 000 to short fibres. Of the total exported quantities, 79 000 went to China: the lower costs of spinning play a key role in the increase in exports to that country.

274. Market prices for fibre flax fell by between 13 % and 20 % in 2003/04 against 2002/03, following the downward curve started the previous year after the record levels attained before. This is due partially to the rise in the euro against the US dollar and also to the increase in quantities produced after the poor production in 2001/02 due to weather conditions. On the other hand, long-fibre flax sales increased more than 20 % compared with the previous year.

3.1.12.2. Fibre hemp

275. According to the FAO, the world area planted with fibre hemp was around 60 000 ha in 2003. Outside the EU, China, North Korea, India and Russia are the main producers. Production in the European Union remained stable in 2003 compared with 2002 levels: around 15 000 ha were sown. It has traditionally been concentrated in France and, to a lesser extent, in Germany, the United Kingdom, the Netherlands and Spain, among others. Trade with third countries is very limited.

3.1.12.3. Legislative framework: main developments

276. In 2003/04, the processing aid was EUR 160 per tonne for long-fibre flax and EUR 90 per tonne for short-fibre flax and for hemp fibre. For long-fibre flax there was a maximum guaranteed quantity of 75 250 tonnes, shared out between the Member States in the form of national guaranteed quantities. The corresponding figure for short-fibre flax and hemp fibre was 135 900 tonnes, also shared out between the Member States in the form of national guaranteed quantities. These maximum guaranteed quantities have been respectively increased up to 80 823 tonnes and 146 296 tonnes as from the 2004/05 marketing year due to the EU enlargement. Each Member State may transfer part of its national long-fibre flax quantity to its national short-fibre flax and hemp fibre quantity and vice versa, subject to a coefficient of equivalence.

3.1.13. Cotton

277. The world area under cotton in 2003/04 was estimated at around 32.0 million ha, with production estimated at some 20.5 million tonnes, as against 30.5 million ha and 19.2 million tonnes in 2002/03.

278. Unginned cotton is not traded internationally, but the European Community, whose cotton-spinning capacity by far exceeds its fibre production, imports substantial quantities of ginned cotton, around 532 000 tonnes in 2003. The countries of central Asia, the CFA (African franc) area countries, Syria and the United States are the main suppliers.

279. In the European Union, the scale of cotton cultivation is limited, in terms of both the area planted and the number of producers. However, it is concentrated in certain areas of Greece and Spain, where it plays a major socioeconomic role, and is also grown on a very small scale in Portugal. The Community area planted with cotton raised in 2003: 463 000 ha (as against 445 000 ha in 2002) producing 1 274 000 tonnes of unginned cotton (975 000 tonnes in Greece and 297 000 tonnes in Spain) as against 1 444 000 tonnes in 2001. The European Union is about 50 % self-sufficient in cotton fibres, its consumption in 2003 having been around 711 million tonnes.

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

281. The guide price is reduced by 50 % of the rate by which the national guaranteed quantity (249 000 tonnes for Spain and 782 000 tonnes for Greece) is overshot, provided that production is lower than 362 000 tonnes in Spain and 1 138 000 tonnes in Greece. Beyond that level, the reduction is increased by 2 % for each step of 4 830 tonnes in Spain and 15 170 tonnes in Greece. In the 2003/04 marketing year, the guide price was reduced by 14.3 % in Greece, 11.3 % in Spain and 0 % in Portugal.

3.1.14. Silkworms

282. 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.

283. Due to a high decrease in Italy, Community production fell in 2003: 2 535 boxes were produced successfully, compared with 4 238 boxes in 2002 and 4 928 in 2001. They yielded 53 000 kg of cocoons in 2003 compared with 64 000 kg in 2002. As from the 2000/01 marketing year, aid is permanently fixed at EUR 133.26 per box.

3.1.15. Olive oil

284. World production of olive oil averages some 3 157 000 tonnes, of which between 70 % and 80 % (around 2 444 000 tonnes in 2003/04) come from the European Union. The *other main producers are Tunisia (280 000 tonnes), Syria (110 000 tonnes), Morocco (100 000 tonnes) and Turkey (75 000 tonnes). Production varies considerably from one year to another, and the world market fluctuates as a direct result of the Community market situation.*

285. Estimated Community production eligible for aid in 2003/04, including olive pomace oils, was around 2 632 672 tonnes, as against 2 086 203 tonnes in 2002/03.

286. In 2002/03, Community consumption was 1 918 500 tonnes (70 % of world consumption). Preliminary forecasts for 2003/04 show a slightly increased consumption at around 1 978 500 tonnes.

287. Greece and Spain are normally the main suppliers, and Italy, although itself an exporting producer, remains the Community's main purchaser. In 2002/03, imports totalled 91 167 tonnes. Exports for the same marketing year reached 356 517 tonnes, 298 977 tonnes direct and 57 540 tonnes under the inward processing arrangements. No export refunds have been paid since the 1998/99 marketing year.

288. The second wave of the CAP reform adopted in April 2004 provides the following for the olive oil sector: a minimum of 60 % (Member States may decide by 1 August 2005 to set a higher decoupling rate) of the average production-linked payments during the reference period 2000–02 will be converted into entitlements under the single payment scheme (SPS) for holdings larger than 0.3 ha. Olive farms smaller than 0.3 ha will receive 100 % of their average production-linked payments in order to simplify aid for smaller growers while providing a stable income support. Having decided on the proportion of aids to be paid via the SPS (60 % or more), the remaining aid (up to a maximum of 40 %) will be retained by Member States as national envelopes to make additional payments to olive groves of environmental or social value according to objective criteria (e.g. including aspects of local traditions and culture, in particular in marginal areas), in order to avoid the degradation of land cover and landscape or negative social consequences. Within the limits of their national envelopes, Member States may define up to five different categories of olive groves eligible for support, based on their environmental and socioeconomic value, and fix an aid per hectare accordingly. In the interest of simplification, these olive grove payments will only be made for amounts of at least EUR 50 per aid claim. To avoid encouraging new plantings, access to the support regime (both SPS and the aid for olive groves) will be limited to areas associated with olive trees existing prior to 1 May 1998 or new trees replacing them and to new plantings authorised under programmes approved by the Commission. Regarding quality, Member States may use up to 10 % of their national envelope for quality measures under activity programmes carried out by operator organisations; though, if the chosen decoupling rate is higher than 60 %, the maximum of 10 % would apply to the decoupled element and not to the national envelope. Concerning market measures, the existing private-storage scheme is maintained while export refunds and refunds for the manufacture of certain preserved food are abolished. The reform will come into effect from the 2005/06 marketing year. The current support regime will continue to apply for the marketing year 2004/05.

289. Finally, in 2004 the second series of work programmes submitted by operators' organisations in the olive sector were launched with Community financing. The measures concern four areas: market follow-up and administrative management, improving the production quality of olive oil and table olives, improving the environmental impacts of olive cultivation and, finally, traceability, certification and quality protection.

3.1.16. Fresh fruit and vegetables

3.1.16.1. World markets and international trade ([53])

290. World production of fresh fruit and vegetables ([54]) has steadily increased in the last years. It has grown by 36 % in volume in the period 1995–2003. Two thirds of this growth originates from China where production has increased by an outstanding 96 % (from 250 million tonnes in 1995 to 480 million tonnes in 2003). Growth in the other large producers has been more modest: 38 % in India, 6 % in the EU and 3 % in the USA. World production of fruit and vegetables reached 1 320 million tonnes in 2003, an increase of 2.2 % compared with 2002. The share of vegetables was 63.7 % (49.6 % in the EU). With 110 million tonnes (stable compared with 2002), the EU was the third largest world producer of fruit and vegetables after China (483 million tonnes) and India (128 million tonnes).

291. As regards citrus fruit, estimates for the 2003/04 campaign were of 93.5 million tonnes, an increase of 1.9 % in comparison with the previous campaign. With a production of 10.4 million tonnes, the EU ranked fourth after Brazil (19 million tonnes), the USA (15.2 million tonnes) and China (12.2 million tonnes), but before Mexico (6.1 million tonnes).

292. For 2003, the share of EU exports in world trade (intra-EU trade excluded) was 7.7 % for fruit and vegetables. For the main products, this share was 13.9 % for lemons, 11.7 % for oranges and peaches/nectarines, 9.9 % for onions, 9.4 % for pears, 7.9 % for apples and 6.3 % for tomatoes. The weight of the EU in world imports is significantly more important: for all fruit and vegetables it stood at 17.7 % in 2003 (in volume, intra-EU trade excluded).

293. The EU runs a trade deficit in fresh fruit and vegetables ([55]): in 2003, the volume of exports reached only 38.9 % of the volume of imports (once bananas are excluded the ratio increases to 57.6 %). Exports of fruit represented 27.4 % of their imports (43 % if bananas are not taken into consideration). Exports of citrus fruit reached 1.2 million tonnes in 2003,

([53]) *Source*: FAO: http://www.fao.org

([54]) FAO aggregates exclude potatoes but include all kinds of grapes.

([55]) Bananas and tropical fruit included, potatoes excluded. *Source*: Eurostat.

i.e. 70.1 % of the level of imports of the same products. The situation is different with fresh vegetables, for which exports have been exceeding imports since 1997. EU trade with the rest of the world in fresh vegetables has increased steadily in recent years. In 2003, EU imports and exports stood respectively at 1.2 million tonnes (+ 7 % in comparison with 2002) and 1.5 million tonnes (+ 10.2 %).

294. An important part of EU exports of fruit and vegetables was destined to the 10 countries that joined the EU in 2004. In 2003, these countries represented 34.7 % of EU exports of fruit and 27 % of those of vegetables.

3.1.16.2. Community market

295. In the Community in the period 2001–03, the fruit and vegetables sector represented an average of 16.4 % of total agricultural production. In the period 2000–02, annual production of vegetables in the Community (potatoes excluded) stood at 55 million tonnes in average, of which 15 tonnes of tomatoes. Fruit production stood at 35 million tonnes, of which almost 10 million tonnes of citrus fruits. With the enlargement of the EU to 10 new members, EU production will increase to 64 million tonnes for vegetables (+16 % in comparison with EU-15) and to 40 million tonnes for fruit (+ 14 %).

296. Community production of apples reached 8.1 million tonnes in the 2003/04 campaign, a significant diminution in comparison with the previous campaign (– 8.8 %). Withdrawn quantities have significantly reduced in recent campaigns. They decreased from 3 % in 2000/01 to 0.4 % in 2003/04.

297. Community production of pears stood at 2.3 million tonnes in 2003/04, a decrease of 6.1 % in comparison with the previous campaign. In 2003/04, quantities withdrawn from the market stood at 1.2 % of production (same level as in 2002/03).

298. For peaches, the 2003 campaign was very bad with a production of 2.2 million tonnes, a significant decrease of production of 22.9 % in comparison with 2002. Withdrawals consequently lowered significantly: they stood at 1.3 % of Community production in 2003/04, against 1.5 % in the previous campaign. This is an important retreat in comparison with the average of the 1999/2000 to 2001/02 campaigns which was 6.7 %.

299. Production of nectarines in 2003 stood at 827 000 tonnes, a fall of 20.1 % in comparison with 2002. This sector keeps levels of withdrawals that are proportionately more important than in the other sectors although, as in the other sectors, they have also decreased significantly in the last few years. Withdrawals stood at 11 % of total production in 2000/01, 7.4 % in 2001/02 and further decreased to 3.7 % in 2003/04.

300. Production of table grapes in the Community has remained remarkably stable since 1996 around the level of 2.2–2.3 million tonnes. However, in 2002 production fell to 1.8 million tonnes. In 2003, production increased to 2 million tonnes, still around 200 000 tonnes less than in the preceding years. Italy alone makes up 68 % of Community production in 2003. Products withdrawn from the market represent a negligible part of production.

301. Production of apricots stood at 438 000 tonnes in 2003, 8.6 % less than in 2002. Products withdrawn from the market represented 0.2 % of Community production in 2003, as in 2002 (0.8 % in 2001).

302. Production of citrus fruit reached 10.6 million tonnes in 2002/03, an increase of 6.5 % from the previous campaign. Spain was the largest producer with a share of 57 %, followed by Italy with 26 %. The Community produced 6 million tonnes of oranges in 2003/04, 2.7 % less than in 2002/03. With 1.7 million tonnes in 2003/04, production of lemons increased by 6.6 % in comparison with 2002/03.

303. In 2003/04, production of cauliflower was stable in comparison with the previous campaign at 2.2 million tonnes. The quantities of products withdrawn from the market have decreased markedly in the last few years and stood at only 0.6 % of Community production in the 2002/03 campaign. Withdrawals, however, increased in 2003/04 at 2 % of the production of the Community.

304. After having steadily diminished since 2000/01, tomato production increased in 2003 to 15.2 million tonnes, a growth of 5.3 % in comparison with 2002. Production in Italy, the main producer, reached 6.7 million tonnes (43.8 % of all Community production), an increase of 15.9 % from the previous campaign. Withdrawals represented a minor share of total production of tomatoes destined to the fresh market (0.9 % for the 2003/04 campaign).

3.1.16.3. Main legal and policy changes

305. In 2003, the Community initiated an exercise of simplification of the legislation of the fresh fruit and vegetables CMO with two main objectives: simplify existing rules and, if necessary, increase flexibility and subsidiarity in the implementation of the measures. This exercise extended into 2004 with the adoption of Regulation (EC) No 103/2004 for intervention (withdrawals). Several changes were made, in particular free distribution was facilitated and controls were reinforced. The modalities of the communication by the Member States to the Commission of production prices were also updated with Regulation (EC) No 877/2004. In addition, transitional regulations were adopted for the implementation of several measures of the CMO in the wake of the enlargement of May 2004 in order to extend and facilitate the access of the new Member States to these measures. As regards external trade, autonomous import quotas were opened for garlic and preserved mushrooms pending the results of the negotiations at the World Trade Organisation (WTO) on the compensations related to the enlargement of the EU.

306. The report of the Commission to the Council and the European Parliament on the simplification of the CMO in fruit and vegetables (COM(2004) 549 final) and the Commission staff working document on the analysis of the CMO in fruit and vegetables (SEC(2004) 1120) were published in the course of the summer with the objective to initiate a debate on the adaptations that could be brought to the CMO. Discussions at the Council showed that Member States are in favour of keeping the main orientations adopted with the CMO reform of 1996. The Commission will prepare legislative proposals in the course of 2005.

3.1.17. Bananas

3.1.17.1. Community production

307. Banana production in 2003 decreased to 754 216 tonnes (– 4.6 %) in comparison with the production of 2002.

308. It is estimated that the harvest in 2004 will be approximately 750 000 tonnes.

309. The compensatory aid for 2002 ([56]) has been fixed at EUR 29.46 per 100 kg with supplementary aid of EUR 5.15 per 100 kg for bananas produced in Guadeloupe and EUR 5.19 in Martinique. The cost of the compensatory aid for 2003 totalled EUR 239 million, compared with EUR 253 million in 2002.

3.1.17.2. Imports

310. In 2003, ACP banana imports were at the level of 787 007 tonnes, showing an increase of over 60 000 in comparison with the previous year. Banana imports from other countries amounted to 2 580 000, a similar figure as in 2002.

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

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

3.1.17.3. Main legislative and policy developments

313. In view of the accession of the 10 new Member States on 1 May 2004, an additional quantity of 300 000 tonnes has been made available for imports of bananas into the new Member States for the period 1 May–December 2004. This additional quantity was fixed on

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

a transitional basis and should in no way prejudge the outcome of the negotiations within the context of Article XXIV.6 GATT in which the European Union is engaged. The additional quantity due to its transitional character is managed separately, but using the same mechanisms and instruments as in the case of the tariff quotas A/B and C. For 2005, the additional quantity that has been made available for imports of bananas into the new Member States is 460 000 tonnes.

3.1.18. Processed fruit and vegetables

314. Available information related to the sector of processed fruit and vegetables remains incomplete. For the Community, a large part of the available information concerns only products that benefit from an aid for processing.

315. World production of tomatoes for processing stood at 28.5 million tonnes in 2003, 3.1 % higher than in 2002 (27.7 million tonnes). The main producers were the USA (8.4 million tonnes against 10 million in 2002), the EU (9.1 million tonnes against 7.8 in 2002), China (2.8 million tonnes against 2.3 in 2002) and Turkey (2 million tonnes against 1.5 in 2002).

316. In 2003, Community production of tomato for processing increased by 17 % in comparison with 2002 (production had been very poor in 2002). Growth was the highest in Italy where production increased by around 1 million tonnes from 4.3 to 5.3 million tonnes. Raw material was utilised at 58 % for the preparation of concentrates and 15 % for whole peeled tomatoes. The weight of 'other products' in tomato processing has been steadily increasing since the second half of the 1990s and reached 26.6 % in 2003 (25 % in 2002).

317. As a result of a very bad harvest in Greece, only 293 000 tonnes of peaches were processed into preserved peaches in the Community in the 2003/04 campaign, a fall of 26.6 % in comparison with the previous campaign and well below the record level of the 1999/2000 campaign (582 000 tonnes).

318. Community production of preserved Rocha and Williams pears stood at 107 000 tonnes in 2003/04, a fall of 15.6 % from 2002/03. Italy remains the main producer with 54 000 tonnes (50.4 % of total Community production), followed by Spain (33.9 %) and France (14.1 %).

319. For the 2003/04 campaign, Community thresholds for processing have been exceeded for pears, oranges, grapefruits and pomelos and tomatoes. As a consequence, Community aid has been cut for the 2004/05 campaign as follows in the Member States where the national threshold was exceeded.

320. For dried grapes, the base amount of aid is EUR 3 031/ha. This aid is only granted to specialised areas which meet certain yield criteria.

Decrease of Community aid to processing for the 2004/05 campaign in comparison with the aid fixed by Council Regulations (EC) Nos 2201/96 and 2202/96

Member State	Products (%)			
	Grapefruits and pomelos	Oranges	Pears	Tomatoes (*)
Greece	7	0.64	1.5	
Spain	16.45		19.5	19.9
Italy		14.95	26	
Portugal		0.29		

(*) The reduction does not apply to processing into whole peeled tomatoes.

3.1.18.1. Main legal and policy changes

321. The exercise of simplification of the legislation has extended to the CMO for processed fruit and vegetable products (tomatoes, peaches and pears) and the Community aid scheme for producers of certain citrus fruits. In this process, Regulation (EC) No 1535/2003 for processed fruit and vegetable products and Regulation (EC) No 2111/2003 for the aid scheme for citrus have been adopted. Both regulations improve the modalities of implementation of the measures and control mechanisms.

3.1.19. Wine

322. With Regulation (EC) No 1493/1999 of 17 May 1999 ([57]), the Council of the European Union adopted the current common organisation of the market in wine. Under that regulation, the Commission adapted in 2004 a number of measures in order to take into account the situation in the 10 new Member States, as well as:

— Commission Decision 2004/687/EC ([58]) of 6 October 2004 fixing, for the 2004/05 marketing year and in respect of a certain number of hectares, an indicative financial allocation by Member State for the restructuring and conversion of vineyards under Council Regulation (EC) No 1493/1999.

323. Commission Regulation (EC) No 753/2002 ([59]) laying down certain rules for applying Council Regulation (EC) No 1493/1999 as regards the description, designation, presentation and protection of certain wine sector products, has been amended in order to facilitate the transition from the wine labelling regime that existed in the new Member States before the accession to the Community rules.

([57]) OJ L 179, 14.7.1999, p. 1.
([58]) OJ L 313, 12.10.2004, p. 23.
([59]) OJ L 118, 4.5.2002, p. 1.

324. After several invitations to tender/public sales of wine alcohol, a total volume of 1 331 733 hectolitres of wine alcohol was sold, of which 241 733 hectolitres for new industrial uses and 1 090 000 hectolitres for motor fuel in the Community (bioethanol).

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

- 1998/99: 162.562 million hectolitres,
- 1999/2000: 179.117 million hectolitres,
- 2000/01: 176.006 million hectolitres,
- 2001/02: 159.122 million hectolitres,
- 2002/03 (provisional): 150.741 million hectolitres,
- 2003/04 (provisional): 152.921 million hectolitres,
- 2004/05 (EU-25 estimate): 183.681 million hectolitres.

326. Forecast total Community production (harvest) for 2002/03, initially set at 168.277 million hectolitres, was reduced to 160.280 million hectolitres. The provisional harvest for the marketing year 2003/04, for the EU-15, is 163.8 million hectolitres (estimate in March 2004). The forecast for the current marketing year, 2004/05, for the EU-25, is 194.39 million hectolitres, of which 6.8 million is produced in the new Member States. To permit comparison with quantities made into wine in previous marketing years, it is necessary to deduct 10.7 million hectolitres of must not transformed into wine. This results in a provisional wine production for 2003/04 of around 152.921 million hectolitres (EU-15) and forecast wine production for 2004/05 of around 183.7 million hectolitres (EU-25).

327. As regards the Community harvest for the current 2004/05 marketing year, forecasts indicate an important increase (+ 14.6 % regarding the previous campaign and + 12 % regarding the average over the 10 previous campaigns) compared with the previous marketing year. The main producing Member States have communicated the following.

Total production 1 000 hl Member State	2000/01	2001/02	2002/03	2003/04	2004/05 forecast (May 2005)
Czech Republic	520	545	495	510	545
Germany	9 950	8 980	9 984	8 289	10 147
Greece	3 558	3 477	3 085	3 815	4 295

Total production 1 000 hl Member State	2000/01	2001/02	2002/03	2003/04	2004/05 forecast (May 2005)
Spain	45 572	33 937	39 419	47 300	49 038
France	59 740	55 339	51 966	47 519	58 845
Italy	54 088	52 293	46 200	46 650	55 000
Cyprus	570	503	240	400	414
Luxembourg	132	135	154	123	156
Hungary	4 329	5 450	3 500	3 900	4 800
Malta		67	62	70	70
Austria	2 337	2 531	2 599	2 556	2 579
Portugal	6 694	7 790	6 651	7 283	7 475
Slovenia	1 097	1 090	900	671	506
Slovakia	427		332	540	500
Other EU-25	17	18	12	18	20
Total EU-15 Total EU-25	182 088 (189 031)	164 500 (172 155)	160 280 (165 599)	163 553 169 644	(187 555) 194 390

328. The European Union is the top world exporter with 13.8 million hectolitres (2004), slightly up from 12.78 million hectolitres in 2003. In 2004, the main traditional buyers of Community wine ([60]) were the United States with 3.949 million hectolitres, Switzerland (1.588 million hectolitres), Canada (1.320 million hectolitres) and Japan (1.139 million hectolitres). In value, the exports of 2004 counted for up to EUR 4 516 million.

329. Contracts for the distillation of potable alcohol under Article 29 of Regulation (EC) No 1493/1999 were concluded in 2004/05 for 11 million hectolitres of wine as against 10.2 million hectolitres in 2003/04 and 8.8 million hectolitres in 2002/03. In 2001/02, contracts were signed for 12.0 million hectolitres.

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

([60]) *Source*: EC-Comext EEC special trade since 1988.

331. Decision 2004/688/EC laid down the final financial allocations for 2003/04 as follows ([61]):

Member State	Area (*ha*)	Financial allocation (*EUR*)
Germany	2 198	13 989 772
Greece	1 519	7 176 037
Spain	22 482	152 001 024
France	21 058	111 840 613
Italy	17 990	120 341 710
Luxembourg	10	81 856
Austria	1 837	7 798 847
Portugal	4 854	29 967 725
Total	**71 948**	**443 197 584**

332. Decision 2004/687/EC laid down indicative financial allocations for 2004/05 as follows ([62]):

Member State	Area (*ha*)	Financial allocation (*EUR*)
Czech Republic	189	1 743 010
Germany	1 971	12 671 756
Greece	1 360	9 704 037
Spain	19 379	145 492 269
France	13 541	107 042 204
Italy	14 529	103 020 889
Cyprus	196	2 378 955
Luxembourg	14	112 000
Hungary	1 261	10 086 046
Malta	17	171 637
Austria	1 271	7 224 984
Portugal	6 987	44 532 820
Slovenia	172	2 919 879
Slovakia	801	2 899 514
Total	**61 688**	**450 000 000**

([61]) OJ L 313, 12.10.2004, p. 25.
([62]) OJ L 313, 12.10.2004, p. 23.

3.1.20. Tobacco

3.1.20.1. Market developments

333. World production of leaf tobacco was 5 371 million tonnes in 2003. The 2004 forecast is 5 827 million tonnes. China is still the world's leading producer of raw tobacco with production in 2003 of 1 918 million tonnes (36 % of world production) and forecast 2004 production of 2 013 million tonnes. Brazil is the second largest producer followed by India and the United States. With production in 2003 of 312 873 tonnes, the EU is the fifth largest producer in the world.

334. Compared with 2002 prices, EU market prices in 2003 were higher for tobaccos of groups IV (fire cured), VI (Basmas) and VII (Katerini). The biggest increase (43.6 %) was in group VI.

335. EU imports of raw tobacco amounted to 509 000 tonnes in 2003, 17 600 tonnes more than in 2002. The main suppliers were Brazil, the USA and Zimbabwe. EU exports in 2003 (192 000 tonnes) slightly increased compared with those in 2002. The main destinations were Russia, the USA and Ukraine.

336. Community leaf tobacco production is restricted by guarantee thresholds set by the Council in Regulation (EC) No 546/2002 in March 2002 for the years 2002 to 2005: 340 738 tonnes for 2002 and 334 064 tonnes for 2003, 2004 and 2005.

3.1.20.2. Main legislative and policy developments

337. The quota buyback for the 2003 harvest was a success resulting in 3 602 tonnes being bought back; 192 individual reconversion projects and 17 studies are being supported by the fund.

338. In April 2004, the Council decided that decoupling will be carried out gradually over a four-year transition period, starting in 2006. In these four years, at least 40 % of the tobacco premiums have to be included in the decoupled single payment for farmers. Member States may decide to retain up to 60 % as a coupled payment. The coupled payment may be reserved for producers in Objective 1 regions or for farmers producing varieties of a certain quality. After the four-year transition period, from 2010, tobacco aid will be completely delinked from production; 50 % will be transferred to the single farm payment and the remaining 50 % will be used for restructuring programmes under the rural development policy.

339. For 2005, the current tobacco regime including the aids fixed for 2004 will apply. In 2006, the reform will start with the transfer of all or part of the current tobacco premium into entitlements for the single payment.

340. Following the enlargement on 1 May 2004, four new producer countries joined the EU: Cyprus, Slovakia, Poland and Hungary. The quota of these new countries totals 52 353 tonnes. Poland has the highest quota (37 933 tonnes).

3.1.21. Seeds

3.1.21.1. Market developments

341. In the 2003/04 marketing year, the total certified seed production eligible for Community aid (excluding hybrid maize) was 354 348 tonnes, some 22 % higher than the 291 311 tonnes produced in 2002. The total seed area of 386 553 ha was a substantial increase compared with the 315 259 ha in 2002.

342. In 2003, the volume of *Gramineae* seed grown was 197 266 tonnes (up 28 % on 2002) and that of *Leguminosae* seed 51 735 tonnes. *Graminae* accounted for 188 517 ha and *Leguminosae* for 144 774 ha.

343. The rice seed production in 2003 went up to 68 962 tonnes compared with 63 156 tonnes in 2002 and the area increased to 17 541 ha.

344. Fibre flaxseed was grown on 26 418 ha in 2003, a substantial increase compared with the 2002 figure of 22 640 ha with an actual production in 2003 of 18 079 tonnes. The linseed area was 6 561. The actual linseed production in 2003 rose to 8 375 tonnes (3 112 tonnes in 2002).

3.1.21.2. Main legislative and policy developments

345. Rice and other seed production in the 2003/04 marketing year have remained under the respective maximum guaranteed seed quantities for the Community. Consequently, no aid reductions were applied.

346. Following the integration of the seed support in the 2003 CAP reform for application as from the marketing year 2005/06, detailed rules have been laid down in Regulations (EC) Nos 795/2004, 796/2004 and 1973/2004.

Following the accession, the annual maximum quantity of seed other than rice eligible for Community aid for the EU as a whole has augmented from 305 752 tonnes to 332 842 tonnes (+ 27 089 tonnes).

3.1.22. Hops

3.1.22.1. World market

347. In 2003, the total world hop area was about 55 029 ha (about 2.5 % down on 2002), of which 53 121 ha was in member countries of the IHGC (International Hop Growers' Convention) and the European Community. The five biggest growers are the EU (20 962 ha, including Germany with 17 562 ha), the USA (11 541 ha), the Czech Republic (5 942 ha), China (5 920 ha) and Poland (2 172 ha).

348. World production in 2003 amounted to approximately 84 333 tonnes, about 13 % down on 2002. The 6 099 tonnes of alpha acid (8 811 tonnes in 2002) produced was equivalent to an alpha acid yield of 7.2 %. Average yield per hectare was 1.53 tonnes, 10 % down on 2002.

349. At 1 478 million hectolitres, world production of beer in 2003 was up on 2002 by 2.7 %. Since 5.2 grams of alpha acid per hectolitre of beer is added during brewing, 6 727 tonnes of alpha acid has been used in 2003. The amount of alpha acid produced in 2003 was thus 628 tonnes less than consumption in the same year.

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

3.1.22.2. Community market

351. Hops are grown in eight Member States (Belgium, Germany, Spain, France, Ireland, Austria, Portugal and the United Kingdom). Total area in 2003 was 20 962 ha, of which 84 % was in Germany. The 2003 area was down 5 % on 2002.

352. The 2003 harvest of 30 698 tonnes was 20 % lower than in 2002. Average yield was also lower: 1.46 tonnes/ha against 1.73 tonnes/ha in 2002.

353. The 2003 harvest was of lower quality with an average alpha acid content of 6.66 % for all varieties in the Community. This was equivalent to 2 045 tonnes of alpha acid — 98 kg/ha — for beer production in 2004.

354. The average price for hops sold on contract in 2003 was EUR 3 532/tonne, which is lower than in 2002 (EUR 3 668/tonne). Hops sold on the spot market rose substantially from EUR 2 908/tonne in 2002 to EUR 3 533/tonne in 2003.

355. Under the common market organisation for hops, aid is given to growers to enable them to enjoy a reasonable income. The Council has set it at EUR 480/ha (all varieties) for nine years running from the 1996 harvest year. The same amount is granted on areas temporarily resting or permanently grubbed up. In 2003, such areas amounted to 6 235 ha (3 909 ha in Germany).

356. The area harvested in 2004 is estimated to have fallen by approximately 3.6 % . Still, hop harvest 2004 is considered to be of good quality.

3.1.22.3. Main legislative and policy developments

357. The hop sector is affected by the CAP reform in that, from 1 January 2005, it will be integrated into the single farm payment system. In that context, the complete decoupling of aid will enable producers to switch to other production while receiving a stable income.

358. Flexibility is nevertheless possible at Member State level, in order to be able to respond to specific regional production characteristics; thus Member States may decide whether to keep part of the aid coupled (this must not exceed 25 %), which they will pay directly to individual hop producers or producer groups. The latter will manage that budget according to collective needs in terms of variety conversion, market support, research, promotion, investment in equipment, etc. and divide the remaining portion among their individual members in proportion to the areas under hops.

359. Since the enlargement on 1 May 2004, the Community's area under hops has increased by almost 50 % (an additional 10 116 ha). The area in the 25 Member States is therefore approximately 31 100 ha. The main producers among the new Member States are the Czech Republic, Poland, Slovenia and Slovakia.

The production of hops in the new Member States in 2003 amounted to 10 251 tonnes which is approximately 34 % of the production of the EU-15.

3.1.23. Flowers and live plants

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

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

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

363. Production of live plants and flowers in 2003 was worth EUR 17 590 million. The Netherlands is the largest grower with approximately 30 % of the total, followed by Italy, Germany and France.

364. In 2003, Community imports of flowers and plants from third countries was equivalent to 7 % of Community production. There were 427 000 tonnes of imports, with a value of EUR 1 228 million, a decrease of 3 % on 2002.

365. Cut flowers account for more than 50 % of all imports in the sector, most of which are free of import duty under agreements with third countries (generalised system of preferences in the case of South America, Cotonou Convention for the ACP countries, etc.).

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

367. Kenya is the largest supplier of cut flowers to the Community: 54 500 tonnes in 2003, value EUR 208 million. The second largest exporter to the EU is Israel with 23 250 tonnes in 2003. Israeli exports were 13 % down on 2002, but Kenya's were up 11 %. Among other suppliers, Costa Rica and the USA are the main exporters of foliage, and Egypt and China are increasing their exports of live plants to the Community.

368. Exports from the Community rose by approximately 4 % in 2003 to 504 665 tonnes. Their value increased also by 4 % to EUR 1 567 million. Biggest exports are of live plants, then bulbs and tubers and then cut flowers. The value of live plant exports decreased by almost 3 % to 564 million while their volume increased by almost 6 % to 263 280 tonnes. Cut flower exports were up at 84 600 tonnes (+ 6 %) but value decreased to EUR 465 million (− 9 %).

369. Exports of bulbs and tubers and of foliage were worth EUR 394 million and EUR 72 million respectively. With the inclusion of these figures, the Community showed a positive trade balance for flowers and live plants of EUR 339 million in 2003.

370. The total value of exports was EUR 1 567 million and that of imports EUR 1 228 million.

On 1 May 2004, 10 new countries entered the EU. Exports of flowers and live plants from these countries to the EU-15 are limited. In 2003, these exports amounted to 7 128 tonnes with a value of EUR 8 430. Imports of floricultural products from the EU-15 were also limited: 78 479 tonnes (value EUR 119 855).

3.1.24. Animal feed (EU-15)

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

372. Overall demand ([63]) in 2003/04 was practically unchanged from the previous year, thanks to increased demand in the marketable feed for cattle (milk and meat) and decreased use of roughages due to bad climatic conditions, mainly drought. Apart from a small increase in the feed demand for pigs, feed demand for other sectors remained stable.

([63]) This includes all animal feed which is marketable and normally not marketed, estimate for the EU-15.

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

374. Total consumption by animals of the key marketable products ([64]) is estimated at 210.2 million tonnes in 2003/04 in the European Union, an increase of 3.0 million tonnes compared with the previous year, but with important shifts between products.

Consumption comes from:

- domestically produced products estimated at 150.1 million tonnes, about 0.9 million tonnes more than in the previous year, mainly from the cereal sector;
- net imports estimated at 60.1 million tonnes, about 2.0 million tonnes more than in the previous year, mainly because of higher imports of manioc and soya.

375. Total consumption of cereals by animals in 2003/04 is expected to be about 2.0 million tonnes lower at 118.0 million tonnes.

376. As regards substitutes subject to import quotas, the quota utilisation rate for manioc imports recovered from 26 % in 2002 to 33 % in 2003 for manioc from Thailand and continued at 1 % for all other origins combined. The rate of use of the quota for sweet potatoes originating in China remained at 0 % in 2003.

377. Industrial production of compound feedingstuffs for animals in the European Union ([65]) is estimated at 124.8 million tonnes in 2003, 0.6 % less than in 2002, mainly because of falls in production in the pig meat and poultry meat sectors.

EU-15 industrial production of compound feedingstuffs by category of animal demand (million tonnes)

	2002	2003	Difference	% variation
Compound feedingstuffs for: All bovine animals (dairy and beef)	36.6	37.5	0.8	2.2
Pigs	42.3	41.7	–0.6	–1.4
Poultry	38.0	36.8	–1.2	–3.2
Other	8.6	8.9	–0.3	3.0
Total compound feedingstuffs	**125.5**	**124.8**	**–0.7**	**–0.6**

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

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

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

(million tonnes)

Key products	Rate of import duties	Animal consumption							
		2002/03				2003/04			
		EU	IMP	EXP	TOTAL	EU	IMP	EXP	TOTAL
GRAIN CEREALS									
Common wheat	T	38.9	5.6	—	44.5	35.8	3.5	—	39.3
Barley	T	30.2	0.8	—	31.0	34.0	0.1	—	34.1
Maize	T	30.6	1.4	—	32.0	27.1	1.5	—	28.6
Others	T	11.3	1.2	—	12.5	15.1	0.9	—	16.0
TOTAL CEREALS		111.0	9.0	—	120.0	112.0	6.0	—	118.0
TOTAL SUBSTITUTES ex-Annex D of which:		19.9	8.6	—	28.5	19.9	10.1	—	30.0
Manioc	6 % C/T	—	1.2	—	1.2	—	2.6	—	2.6
Sweet potatoes	0 C/T	—	—	—	—	—	—	—	—
CGF (corn gluten feed)	0 C	1.7	4.2	—	5.9	1.7	4.0	—	5.7
Brans	T	10.3	0.1	—	10.4	10.2	—	—	10.2
MGC (maize germ cake)	0 C	0.2	0.1	—	0.3	0.2	0.1	—	0.3
Citrus pellets	0 C	—	1.5	—	1.5	—	1.5	—	1.5
Dried sugar beet pulp	0 C	5.3	0.4	—	5.7	5.3	0.5	—	5.8
Brewing and distilling residues	0 C	2.0	0.7	—	2.7	2.0	0.9	—	2.9
Various fruit waste	0 C	0.4	0.4	—	0.8	0.5	0.5	—	1.0
TOTAL OTHER ENERGY FEEDS, of which:		2.0	3.0	—	5.0	2.0	2.9	—	4.9
Molasses	T	0.6	2.4	—	3.0	0.6	2.3	—	2.9
Animal and vegetable fats (added to feed)	4–17 % C	1.4	0.6	—	2.0	1.4	0.6	—	2.0
TOTAL HIGH-ENERGY FEEDS		21.9	11.6	—	33.5	21.9	13.0	—	34.9
OILCAKE AND SEEDS (oilcake equivalent), of which:		6.7	38.5	2.4	42.8	6.5	42.1	2.4	46.2
Soya	0 C	0.6	31.0	2.0	29.7	0.5	33.6	2.0	32.0
Rape	0 C	4.6	1.0	0.2	5.4	4.7	1.0	0.2	5.5
Sunflower	0 C	1.4	2.0	0.1	3.3	1.3	2.5	0.1	3.7
Other	0 C	—	4.5	0.1	4.4	—	5.0	0.1	4.9
OTHER PROTEIN FEEDS, of which:		9.6	1.8	0.5	10.9	9.7	1.9	0.5	11.1
Protein crops	2–5 % C	3.5	1.0	—	4.5	3.5	1.1	—	4.6
Dried fodder and related	0–9 % C	4.7	0.1	0.2	4.6	4.8	0.1	0.2	4.7
Fish meal and meat meal	0–2 % C	1.0	0.7	0.3	1.4	1.0	0.7	0.3	1.4
Skimmed-milk powder	T	0.4	—	—	0.4	0.4	—	—	0.4
TOTAL HIGH-PROTEIN FEEDS		16.3	40.3	2.9	53.7	16.2	44.0	2.9	57.3
GRAND TOTAL KEY PRODUCTS		149.2	61.0	2.9	207.2	150.1	63.0	2.9	210.2
Key products index 1994/95 = 100									
(*) consumption index					108.3				109.8
(*) livestock demand index					108.3				109.8

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

378. By Member State in 2003 and for total production of compound feedingstuffs, the main increases were in Spain and in Germany; falls are mainly in the Netherlands.

379. Cereals incorporated into compound feedingstuffs ([66]) in the EU amounted to around 55 million tonnes in 2003, at the same level as the previous year.

380. The main factor determining the composition of feed is still the prices of raw materials and their relative trends, together with the share of the various animal demands and the specific qualities sought. For 2004/05, the outturn of animal consumption of cereals will depend on the trend of demand by stock and the prices of imported products.

3.2. Market developments — Animal products

3.2.1. Milk and milk products

3.2.1.1. Milk in the world

381. Initial estimates suggest that world milk production (including cows' milk, buffalo milk, sheep's milk and goats' milk) should increase in 2004 by just over 5 million tonnes (0.8 %), to 606 million tonnes. The bulk of this increase will come from buffalo milk, thanks to increased production in India. Virtually all (99.8 %) this type of milk is produced in developing countries, Asia accounting for 97 %.

382. Within Asia, production in India, which derives more than half its milk from buffaloes, continues to grow. In 2004, India will produce 91.5 million tonnes and confirm its place as the world's second largest producer, after the European Union, drawing further ahead of the United States. Increased production is based on rising domestic demand in India. However, Indian per capita consumption is only 85 kg per year (less than one quarter of that in western countries); milk for consumption accounts for three quarters of this. Pakistan, the other major producer in the region and the fifth in the world, will produce just under 30 million tonnes in 2004. Since 1996, production in Pakistan has grown by 2.9 % per year.

In south-east Asia, the demand for dairy products continues to grow since the family income increases and in this way the consumer demands more sophisticated products with higher quality. The development of school milk programmes has permitted to enhance domestic demand in this region and also in China.

383. In Latin America, a very slight increase of just over 60.6 million tonnes is expected for 2004; milk output grows by 0.6 %. Main increases in milk production appear in Mexico (+4.5 %), Argentina (+2.5 %) and Brazil (+0.6 %). These three countries correspond to

([66]) *Source*: European Feed Manufacturers' Federation (FEFAC).

67 % of milk output in this region. Elsewhere, milk production continues to increase in Peru (+ 3 %), be it small in absolute terms. Brazil is both the largest producer of milk in the region (sixth in the world) and the largest importer among the Mercosur countries. Production in Brazil will reach 24.2 million tonnes in 2004, but internal consumption exceeds production giving rise to the need for imports from Argentina and Uruguay. Although imports into Brazil fell sharply between 1998 and 2001, they have risen since.

384. In eastern Europe (including the former Soviet republics), milk production should drop again in 2004 by more than 2 %, but with some differences from one country to another. In the former Soviet Union, the decline recorded since its dissolution levelled out in 2000 and the trend was reversed in 2001 with a 1.9 % rise. It lasted only until 2002. Since 2002, the reduction of the production has continued. In 2004, a further fall in production is expected, as many producers are restructuring to become efficient. The dairy herd declined by 5 % in 2003, but productivity per cow increased. In Ukraine, the other large producing country in the region, the same downward trend is expected. Nevertheless, most countries in the CIS are increasing their milk output and this is expected to continue in 2004.

385. Milk production in the United States during 2004 stays at the same level, 77 million tonnes, of the previous year. In Canada, retention of quotas on milk for processing means that production will be virtually unchanged.

386. In Oceania, weather conditions played a particularly important role in the events of the marketing year with different results in New Zealand and Australia. Milk production in New Zealand rose by 1.8 % while in Australia it fell sharply and for the second consecutive year. Prices on world markets which were very favourable compared with other sectors encouraged new investments in the milk sector.

387. The weather in Australia was very unfavourable over the last years, reducing milk production to 10.1 million tonnes, a fall of 2.5 % which added to the stronger drop in the previous year of 10 %. The drought affected the whole country and severely depleted fodder stocks, the number of cows and the availability of grassland. This followed a shortage of water for irrigation, particularly in Victoria, the state which produces most milk. Australian producers are indebted and dissatisfied with processors and the distribution chains, following the deregulation of the sector.

388. In New Zealand, production rocketed between 1999 and 2004, increasing by 34 % to 14.6 million tonnes and encouraged by a 17 % increase in the price of milk from NZD 3.63 to NZD 4.25. Furthermore, New Zealand forecasts an additional herd increase by 2.5 % in 2004 and 2 % in 2005. Milk deliveries are likely to continue increasing during the next years.

389. Excluding fresh products and casein, world trade in 2004 should reach 44 million tonnes of milk equivalent, to which the EU will contribute 10.4 million tonnes, or 24 % (New Zealand: 28 %, Australia: 15 %). That may be compared with 1996 when the volume was 32 million tonnes of which the EU accounted for 36 %, or 12 million tonnes (New Zealand: 21 %, Australia: 12 %).

3.2.1.2. The Community market

390. Dairy herds were expected to fall by 526 000 cows (– 2.2 %) by the end of 2004 to 23.5 million. Yield, however, should increase by 1.5 % to 6 033 kg per animal per year.

Milk production decreases by 0.5 % or 711 000 tonnes to 143.6 million tonnes (including deliveries to industry, direct sales and use on the farm). The Member States expect milk deliveries to drop quite significantly, by 0.8 % or 1.1 million tonnes, to a total volume delivered of 130.2 million tonnes.

391. Drinking milk has remained fairly stable since 1992, at around 29 million tonnes in the EU-15; for the EU-25 it shows a moderate growth to 33.2 million tonnes. Production of cream for consumption follows a positive trend around 1 % per year to 2.6 million tonnes.

392. Butter production will fall by 38 000 tonnes to 2.17 million tonnes.

393. The Member States expect consumption of butter to decrease by 0.3 %; it has been very stable and should reach 2.02 million tonnes. Per capita consumption, which has been very stable too, should then settle at 4.5 kg per year. There is a wide range of consumption between the various Member States with France at 8.45 kg per year per person while the average Greek only consumes 660 grams.

394. Total cheese production rose by 1.8 %, or 152 000 tonnes, well below the historic average of 2.6 % per year. The rise in production of factory-made cheese in 2004 is expected to be smaller by about 143 000 tonnes (1.9 %).

395. Per capita consumption of cheese should increase by 0.9 % per year (to 17.4 kg/person), very much less than the trend in the past of 2.7 % per year. Total consumption should rise by 0.7 % to 7.9 million tonnes.

396. As regards milk powder, there a strong decline of production (6 %, or about 140 000 tonnes), bringing the total to 2.16 million tonnes. The decline of skimmed-milk powder is partially compensated by an increase of whole-milk powder and semi-skimmed-milk powder (16 500 tonnes, or an increase of 9 %). Therefore, the production of skimmed-milk powder (1.12 million tonnes) is reduced by 17 %, while whole-milk powder (722 000 tonnes) increased by 2.3 %. The production of buttermilk powder progresses by 0.9 %.

397. The manufacture of condensed milk will fall by 5 %, but not more than the trend for the last four years (– 6 %). After a sharp fall in 2002 (– 17 %), the production of casein rose in 2003 and 2004 by 9 % and 3 %, respectively. That means 450 000 tonnes of additional liquid skimmed milk.

398. A very sharp fall in the number of dairy farms, by 7.7 % per year in the EU-15 between 1995 and 2004, can be noted (the number in 2004 was 513 406); the average number of cows per holding rose to 37 (ranging from 10 in Austria to 110 in the United Kingdom) and the amount of milk delivered per holding exceeded an average of 222 000 kg. There is a very wide range in the average quantity delivered per farm, ranging from 48 300 tonnes in Austria to 730 600 tonnes in the United Kingdom.

399. Total consumption of milk products, defined as the total of all uses made of milk available in the European Union, has tended to rise since 1996 by 0.3 % per year, although it fell in 2002 before resuming an upward path since 2004.

400. Community stocks hit their lowest ever level in March 1996, when there was virtually no butter or skimmed-milk powder in public storage. Then stocks of skimmed-milk powder began to grow because of slack domestic and external demand. At the end of 1999, this trend was thrown abruptly into reverse by a sharp increase in demand, mainly on the world market, which meant that all public stocks of skimmed-milk powder could be disposed of in August 2000. Unfortunately, the situation deteriorated in 2002. However, in 2004, only 21 285 tonnes were purchased for intervention.

In 2004, 22 624 tonnes of butter were taken into intervention, fully in line with the average of 30 000 tonnes taken into intervention in the last 10 years.

401. Domestic prices for milk products were steady in the first half of 2004, beginning at very low levels and recovering slightly from September onwards. The 1 July institutional prices have been reduced by 7 % for butter and 5 % for skimmed-milk powder, to EUR 305.23 and 195.24 per 100 kg respectively.

In 2001, exports of milk products from the European Union fell by 19.5 %, or almost 3 000 000 tonnes in milk equivalent. That reflects the resumption, until 2000, of export licences not used in earlier years under the agreements under the Uruguay Round of the GATT. Since then, exports have increased steadily. In 2004, the volume of milk exported fell by 3 % to 14.5 million tonnes. Imports, which from 2000 until 2002 remained stable (3 million tonnes), rose to 3.2 million tonnes in 2003. And for this year, imported quantities will come back to 3 million tonnes.

3.2.2. Beef and veal

3.2.2.1. World market

402. According to FAO and Eurostat data, world beef production in 2003 amounted to 58.9 million tonnes, i.e. 1.5 % higher than its level in 2002. Beef production represents just under a quarter of the world meat production.

403. The USA remains the main beef-producing country with a share of 20.2 % of the world production. Its 2003 production was 3.1 % below the level in 2002. Net beef production in the EU accounted for 12.5 % of world production in 2003. The steady increase in the South American output of beef continues. Production expanded further in Brazil (+ 2.9 %) in 2003, with its total output of 7.5 million tonnes surpassing the EU supplies. Beef production also increased in Argentina (+ 3.7 %). Beef production in China reached 6.2 million tonnes in 2003.

World beef production

(million tonnes)

	2002	2003	% change 2003/02
Argentina	2.700	2.800	+ 3.7
Australia	2.028	2.073	+ 2.2
Brazil	7.314	7.526	+ 2.9
China	5.479	6.218	+ 13.5
EU-15	7.466	7.359	− 1.4
Russia	1.957	2.000	+ 2.2
USA	12.288	11.906	− 3.1

Source: FAO and Eurostat.

3.2.2.2. Community market

404. The May/June 2004 survey showed a further decrease of 1.9 % in the EU bovine livestock compared with the preceding year. The livestock only increased slightly in Ireland (+ 0.6 %) and the UK (+ 0.3 %). The livestock in the other Member States continues to decrease, particularly in Denmark (− 3.0 %), Germany (− 3.3 %), Spain (− 3.4 %), France (− 2.0 %) and Finland (− 3.2 %). The bovine livestock in the new EU Member States also continues to decrease steadily, namely in the Czech Republic (− 2.6 %), Hungary (− 4.3 %), Poland (− 2.5 %) and Slovakia (− 6.7 %). The total number of cows in the EU declined on average by 2.0 %, with the number of suckler cows decreasing by 0.7 % and the number of dairy cows falling by 2.6 %.

405. Net beef and veal production in 2003 is estimated at 7.36 million tonnes, a decrease of 1.4 % over 2002. Production increased in Spain by 4.1 %, mainly due to a higher volume of cow production, whereas an increase of 5.2 % was recorded in Ireland mostly due to an increased slaughtering of steers and cows. Production decreased in 2003 in Belgium (− 9.9 %), Denmark (− 4.5 %), Germany (− 6.8 %) and the Netherlands (− 5.0 %), mainly as a result of the continuing decline in the livestock. For 2004, beef and veal production in the EU-15 is forecast at 7.40 million tonnes or an increase of 0.6 % compared with 2003. This increase reflects partly an increased slaughtering of bovines in some Member States, like Germany, Italy and the UK, anticipating the implementation of the new CAP premium regimes. The total production for the EU-25 is estimated at 8.05 million tonnes, with the 10 new Member States accounting for around 8 %. Production in the new Member States has decreased in recent years, a trend that is expected to continue in the near future.

406. Beef and veal consumption in the EU-15 in 2003 is estimated at 7.69 million tonnes, an increase of 3 % compared with the level in 2002. For 2004, consumption is expected to remain at a similar level, i.e. 7.63 million tonnes. The average per capita consumption is estimated at 19.9 kg in 2004. In general, consumption has remained rather firm, despite the relatively producer prices on the market. The total consumption for the EU-25 in 2004 is forecast at around 8.23 million tonnes. Per capita consumption of beef and veal in the new Member States is estimated at around 8.0 kg in 2004, well below the average level in the EU-15.

407. As regards external trade, the EU exported in 2003 around 442 000 tonnes of beef (meat and live animals in carcass weight equivalent). This volume was almost 20 % lower than the level exported in 2002, which illustrates the balanced supply–demand situation on the Community market. The majority of exports were destined for the Russian market (60 %, mainly beef) as well as Lebanon (12 %, mainly live animals). In the period January to September 2004, total beef exports amounted to 295 000 tonnes, a 4.6 % decrease compared with the same period in 2003. For the first four months of 2004, the figures relate to the 15 Member States, and thereafter they relate to the exports of the EU-25 to third countries. Discussions in the course of 2004 with the Russian authorities regarding veterinary certificates led to some fluctuations throughout the year in the volumes exported to that market. While the new EU Member States substantially increased their beef sales to other Member States after the EU enlargement in May 2004, their share in the beef exports to third countries has remained relatively small.

408. Beef imports in 2003 amounted to around 508 000 tonnes, approximately 6.7 % higher than in 2002. Imports originated primarily from Brazil (55 % of the total imports), Argentina (18 %), Poland (9 %) and Uruguay (5 %). In the period January to September 2004, total beef imports amounted to 409 000 tonnes, with an increase observed in the imports at full duty illustrating the strong competitive position of some beef suppliers. Since 2003, the Community became a net importer of beef. Total beef imports exceeded the total Community exports by around 66 000 tonnes in 2003. Net imports of beef meat only amounted to approximately 98 000 tonnes. During the period January to September 2004, the total imports exceeded by around 114 000 tonnes the exports. When considering beef meat trade only, the net import amounted to 147 000 tonnes.

409. Producer prices in 2003 remained relatively firm, with on average somewhat higher price levels than in 2002, except for steers. The average EU-15 prices for carcasses of adult bovines in 2003 were:

	Average price in EUR/100 kg carcass weight	% change 2003/02
Young bulls	*270.2*	+ 1.0
Steers	*254.5*	− 2.3
Cows	*184.1*	+ 3.4
Heifers	*274.6*	+ 4.1

410. In 2004, carcass prices remained relatively stable for young bulls and heifers, while steer and cow prices were among the highest in recent years. The firm price levels are mainly due to the tight supplies on the market, reinforced by the clearance of the intervention stocks as of spring 2004. During the last weeks of the year, some price decreases were observed in some Member States, as a result of the increased slaughter supplies in anticipation of the change in the CAP premium regimes as of 2005.

411. Beef producer prices in the new Member States have substantially increased since the accession to the EU, reflecting the intensified trade in both live animals and beef meat between the old and new Member States. The price adjustment was most obvious in the first two to three months after the enlargement, followed by a price stabilisation in most cases.

412. The overall satisfactory market situation allowed the Commission to gradually sell as of June 2002 the stock of public intervention beef. The largest part of the stock was sold during the period October 2002 to November 2003. The final quantities of the stock were disposed of by March 2004.

413. Since the introduction of the 'over-thirty-months scheme' (OTMS) in the United Kingdom in the wake of the first BSE crisis in 1996, the scheme has removed between 750 000 and 900 000 animals annually from the British market, corresponding to approximately 250 000 tonnes of beef every year. Following a review of the scheme, the UK authorities announced early December 2004 the start of a gradual transition towards the lifting of the scheme and its replacement with a BSE testing system. It is anticipated that this may result in some increased supplies of essentially cow beef on the British market as of autumn 2005.

3.2.2.3. Beef labelling

414. European Parliament and Council Regulation (EC) No 1760/2000 lays down provisions for the compulsory labelling of the origin (country of birth, fattening and slaughtering) of animals from which beef comes and for voluntary labelling indications related to breeds, types of production, feedingstuffs, extensive breeding, etc.

415. Three years after the entry into force of the regulation, the Commission has published a report to the European Parliament and the Council on its implementation by Member States and on the possible extension of its scope to processed products containing beef and beef-based products. The report includes a detailed assessment of the implementation of origin traceability and origin labelling, which apply from the slaughterhouses to retail shops or the catering sector. It also contained a set of proposals aiming at facilitating or improving the implementation of both mandatory and voluntary beef labelling systems by operators without compromising traceability and reliability of consumers' information. The proposals are under discussion at Council level, while in the course of 2005 a discussion at Parliament level is planned. Where appropriate, the Commission may subsequently propose a revision of some aspects of the current legislation.

3.2.3. Sheep meat and goat meat

416. The overall situation of the EU sheep and goat market was satisfactory until the declaration of bluetongue disease in the southern Iberian peninsula in October 2004. Prices were at the highest historical levels since the spring of 2001 (foot-and-mouth crisis) due to a major reduction of supply from which recovery has been very slow and very limited. Among the bluetongue effects, however, there was a very substantial price fall in the affected area which had a significant impact on the EU's average.

417. Heavy ([67]) lamb prices in 2001–04 follow a seasonal pattern and were at a high level (until the appearance of bluetongue) throughout the Community within the range of EUR 340–475 per 100 kg carcass weight. Light ([68]) lamb prices also have a seasonal pattern and were at very high levels on average, ranging from over EUR 450 to 770 per 100 kg carcass weight, with a major reduction due to the bluetongue associated problems.

418. The world's largest producer of sheep and goat meat is China, where production expands year by year, attaining 3 800 million tonnes in 2004 ([69]). The European Union comes second with more than 1 million tonnes, followed by India, Australia, Pakistan, New Zealand, Iran, Turkey and Sudan.

419. Although the Chinese output is by far the largest, still the country has little presence in the world market due to the fact that domestic consumption absorbs most of the national production. World trade in sheep meat is dominated by New Zealand and Australia, accounting for more than 80 % of world exports. Other notable suppliers are Romania, Argentina, Uruguay, Bulgaria, Chile and the former Yugoslav Republic of Macedonia.

420. Community export is almost non-existent. The European Union imports a quantity corresponding to over one fifth of its needs. The main suppliers are New Zealand and Australia, accounting for 84 % and 8 % of total Community imports, respectively. The principal

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([67]) Heavy lambs are lambs weighing 13.1 kg (carcass weight) or more.

([68]) Light lambs are lambs weighing 13 kg (carcass weight) or less.

([69]) *Source*: FAO.

destinations of sheep meat from New Zealand are the UK, Germany and France, although there is a development towards diversification to several other Member States.

421. Imports into the Community are carried out principally under tariff rate quotas with exempt or reduced rate import duties. For market management reasons, these quotas are managed on a calendar year basis. New Zealand possesses the largest tariff rate quota for 226 700 tonnes in carcass weight equivalent, followed by Argentina (23 000 tonnes) and Australia (18 650 tonnes).

422. According to the December livestock surveys, the sheep and goat population in the European Union is over 100 million heads. Five Member States (United Kingdom, Spain, Greece, France and Italy) account for about 85 % of total sheep and goat numbers. The 10 new Member States represent about 3 % of the EU's total. The proportion of goats in the EU is about 12 %, of which nearly half are found in Greece, a quarter in Spain and a significant number in France, Italy and Portugal.

3.2.3.1. Main legislative and policy developments

423. The first come, first served system has been adopted as the quota management for all the third countries from 2004 onwards (1 May for New Zealand and Australia, 1 January for other countries) ([70]) in replacing the licence system. Following a smooth transition from one system to the other in 2004, this change represents a major modernisation and simplification of the sheep and goat import quota management system.

424. The Council adopted the Council regulation on the CAP reform in September 2003 ([71]). Chapter 11 of that regulation deals with sheep and goat premiums.

The new detailed rules implementing the Council regulation have been published ([72]). Chapter 12 deals with sheep and goat premiums.

3.2.4. Pig meat

425. In 2003, world production of pig meat rose by 3.3 % to 98.6 million tonnes (*source*: FAO). China remains the leading producer in the world with 47.8 million tonnes, 4.2 % more than the previous year. The European Union is second with annual production of 17.8 million tonnes. This was an increase of 0.4 % compared with the previous year. In 2004, Community production is expected to increase further by 1.1 % to 18.0 million tonnes. The United States is the third largest producer of pig meat, at 9.1 million tonnes, 1.4 % more than in 2002.

([70]) Regulation (EC) 2233/2003 of 23 December 2003 (OJ L 339, 24.12.2003, p. 22).

([71]) OJ L 270, 29.9.2003, p. 1.

([72]) Commission Regulation (EC) No 1974/2004 of 29 October 2004 (OJ L 345, 20.11.2004, p. 85).

426. Due to the increase in EU production, in 2002 and 2003, production and consumption were unbalanced. The prices in 2003 started below average, peaked in the middle of the year, and returned to a very low level at the end of the year. The annual average price for 2003 was EUR 127.3/100 kg and was 6.1 % lower than in 2002. In 2004, the average price was expected to increase.

427. Due to the low market price in winter 2002/03 and 2003/04, aid for private storage has been applied. In the 2002/03 action, around 110 000 tonnes of pig meat were stored for three, four or five months by operators.

428. Per capita consumption of pig meat in the EU remained stable in 2003 at 43.7 kg per year. In 2004, it could decrease slightly to 43.3 kg/capita due to the expected increasing pig prices.

429. In 2003, the European Union exported in terms of meat 1.19 million tonnes (carcass weight equivalent). This was an increase of 2.9 % compared with the previous year. In 2003, the share of exports benefiting an export refund was about 5 % of this export.

Also imports of pig meat increased in 2003. The import increased by 34.4 % to a total of 68 300 tonnes, coming mainly from the candidate countries.

The main destinations for exports of pig meat, including fats and offals, in 2003 were Russia and Japan. To Russia 287 456 tonnes were exported (19.1 % of the EU total pig meat exports), to Japan 282 491 tonnes (18.7 %), followed by Hong Kong and China with 178 981 tonnes (11.9 %).

3.2.5. Poultry meat

World production of poultry meat

(1 000 tonnes)

	USA	Brazil	China	Japan	Russia	India	Thailand	EU-15	EU-25	World
1998	15 178	4 969	11 349	1 212	690	710	1 210	8 823		62 400
1999	16 039	5 647	11 951	1 213	748	820	1 180	9 148		65 333
2000	16 416	6125	12 873	1 195	754	1 081	1 194	8 939		69 156
2001	16 761	6 380	12 866	1 216	861	1 250	1 336	9 381		71 643
2002	17 268	7 239	13 262	1 229	937	1 401	1 414	9 383	11 109	74 377
2003	17 468	7 967	13 687	1 218	1 034	1 600	1 291	9 066	10 880	75 823
2004 E								9 149	11 063	
% TAV 2003/98	**15.08**	**60.3**	**20.6**	**0.4**	**49.8**	**125**	**6.6**	**2.7**	**—**	**21.5**

Source: FAO, European Union.

430. Since 1998, the world production of poultry meat has increased regularly and in a substantial way (+ 21.5 %). If overall that increase has been slowing down since 2001, the percentages of growth are very heterogeneous according to the producing countries. Among the large producing regions, production increased at a higher rate than the average in India, Brazil, Russia, China and the United States (with increases varying between 15 % and 125 % between 1998 and 2003). In the European Union, since 1998, the average increase has been 2.7 % with, however, falls of production in 2000 (avian influenza in Italy) and 2003 (avian influenza in the Netherlands and Belgium).

431. The European Union's production strongly decreased in 2003 (– 6.6 %) due to the avian influenza in the Netherlands and Belgium, and the reduction of production in several Member States (France, Italy, Sweden). The production of the EU should again increase in 2004 (+ 1.4 %) without, however, going back to the level of 2002, France and Italy always experiencing production falls.

432. The imports of poultry meat and meat preparations increased in 2003 (+ 18.8 %) with a total of 788 000 tonnes, but should decrease by 20 % in 2004 (625 000 tonnes) because of the avian influenza outbreaks in south-east Asia and certain modifications of the tariff classification of poultry cuts.

433. Community exports should increase by 8 % in 2004 with a total of 1.06 million tonnes while they had fallen by more than 15.5 % in 2003.

434. The poultry meat sector gets no support on the internal market. The measures governing trade with third countries have been adapted to respect the rules of the WTO and in particular the level of export refunds (220 000 tonnes a year since 2000/01 for the whole chicken). This limitation led to a targeting of the refunds both at the level of the countries of destination and of the products. Thus, during the GATT year 2003/04, 215 500 tonnes of poultry were exported with export refunds, i.e. 20 % only of Community exports.

435. In total, 15 500 tonnes of de-boned poultry meat and 2 500 tonnes of turkey meat can be imported without customs duties each year, to which 10 400 tonnes with reduced rate of duties within the framework of the quotas of minimum access and 11 900 tonnes under other bilateral agreements (Turkey, Israel, Chile) should be added.

436. Poultry meat prices which reached a high level as from May 2003 following the appearance of the avian influenza maintained themselves at a rather high level for all 2004, oscillating between EUR 140 and 150 per 100 kg.

3.2.6. Eggs

World production of eggs in shells

(1 000 tonnes)

	USA	Mexico	Brazil	Japan	Russia	India	China	EU-15	World
1998	4.731	1.461	1.467	2.536	1.827	1.623	17.532	4.934	51.823
1999	4.912	1.635	1.509	2.539	1.846	1.683	18.510	5.066	53.833
2000	4.998	1.788	1.539	2.535	1.894	1.749	19.433	5.289	55.405
2001	5.084	1.892	1.604	2.514	1.960	1.870	20.229	5.328	52.766
2002	5.131	1.900	1.547	2.514	2.022	2.000	21.288	5.259	54.564
2003	5.123	1.882	1.550	2.500	2.040	2.200	22.333	5.185	55.828
2004 E % > TAV 2003/98	8.2	28.2	5.5	– 1.5	11.6	35.5	27.3	5	7.7

Source: European Union, FAO.

437. The world production of eggs in shells increased by 7.7 % (TAV) between 1998 and 2003. Although the average increase in the United States was higher than in the European Union, the EU always remains in second place. China experienced a very high expansion rate: 27.3 % between 1998 and 2003 and remains the first world producing country of eggs. India also experienced a sharp increase in its production (35 % between 1988 and 2003). On the other hand, the production of Brazil, Mexico and Japan has been falling since 2001.

438. The world exports of the developed countries (the United States, EU) recorded a fall in 2003 while those of the developing countries (China, India and Mexico) progressed in a substantial way. The principal importing countries remain the EU and Japan (egg products) and Hong Kong (eggs in shells). The volume of Community exports decreased in 2003 (– 25 %) in particular with regard to eggs in shells, due to the avian influenza in the Netherlands.

439. On the Community market, the number of laying hens decreased in 2003 since, in the Netherlands, almost 50 % of laying hens had to be culled within the framework of the eradication of the avian influenza while in Belgium the destruction rate was almost 15 %. Accordingly the Community output of eggs for consumption decreased in 2003 and prices reached exceptionally high levels in relation to a multiannual average. In 2004, the number of laying hens increased by more than 2 %, not without having an important impact on the prices which reached historically low levels (lower than EUR 80/100 kg for several months). These prices should hardly go back to higher levels before summer 2005 in view of the placings.

440. The common market organisation is similar to that of poultry meat.

441. With regard to trade, export refunds remained stable by the WTO in a volume of 87 400 egg equivalent tonnes in shells in 2003/04. Since summer 1995, the exported quantities remained below the limitation agreed upon under the WTO agreement. During the GATT year 2003/04, only 41 % of the volumes and 7.5 % of the budget were used. Volumes will be used in better proportion during the marketing year 2004/05 in view of the level of prices and of the overproduction situation in the EU.

3.2.7. Honey

3.2.7.1. World situation

442. In 2003, world honey production reached 1.31 million tonnes, which represents a slight increase (+ 2.5 %) in relation to the previous year (FAO source). China remains the first world producer with a production of 273 000 tonnes. The EU-15 remains in second position with 125 000 tonnes, while the EU-25 produces 166 000 tonnes.

Honey world production by country

(1000 tonnes)

	1999	2000	2001	2002	2003
China	236	252	255	258	273
EU-25	153	150	159	156	166
EU-15	115	111	119	116	125
USA	94	100	100	100	82
Argentina	93	98	90	85	85
Turkey	67	60	60	60	75
Ukraine	55	52	60	60	60
Mexico	55	59	59	61	56
World (total)	1 236	1 252	1 259	1 278	1 311

Source: FAO.

3.2.7.2. European market

443. The degree of self-sufficiency in the EU-15 was 43.6 % during the marketing year 2002/03, which represents a slight reduction in relation to the previous marketing year. Taking into account the EU enlargement, the degree of self-sufficiency would have been 51.9 %. Human consumption decreases slightly with 0.7 kg per capita and per year.

444. While honey imports remained stable in 1998–2002 and then decreased a bit in 2003, Argentina remains the EU's leading supplier, accounting for 35 % of total Community honey imports in 2003. China slipped into 11th place behind Mexico, Hungary, Turkey, etc., since following the detection of residues of veterinary medicines in certain products of animal origin (including honey), the Commission took certain protective measures with regard to Chinese animal products in 2002. The import of honey from China was banned until 31 August 2004.

445. Pursuant to new Council Regulation (EC) No 797/2004 ([73]) replacing Regulation (EC) No 1221/97, on measures improving general conditions for the production and marketing of apiculture products, the Commission has adopted the decisions approving the national programmes for the marketing years 2005–07.

([73]) OJ L 125, 28.4.2004, p. 1.

4. Agrimonetary arrangements

4.1. Developments in 2004

446. The agrimonetary measures adopted in 2004 were limited to fixing the exchange rates to be applied to direct aids in Member States not having adopted the euro. Taking account of the EU enlargement on 1 May, specific exchange rates were fixed ([74]) for converting, into the national currencies of the new Member States, the amounts that usually have an operative event for the exchange rate fixed at 1 January. Likewise, specific exchange rates were fixed for the conversion into national currency of the amounts to be granted under the single area payment scheme (SAPS) in the new Member States applying that scheme, i.e. the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Poland and Slovakia ([75]).

([74]) Commission Regulation (EC) No 1117/2004 (OJ L 217, 17.6.2004, p. 8).

([75]) Commission Regulation (EC) No 1407/2004 (OJ L 256, 3.8.2004, p. 6).

5. Rural development in 2004

447. For the period 2000–06, the rural development programming consists of the following: 68 rural development programmes (RDPs) (co-financed by the EAGGF Guarantee Section), 69 Objective 1 region programmes (operational programmes and single programming documents) with rural development measures (co-financed by the EAGGF Guidance Section) and 20 for Objective 2 regions with rural development measures (co-financed by the EAGGF Guarantee Section).

448. With the enlargement of the European Union on 1 May 2004, a special rural development regime has been introduced for the new Member States: temporary rural development instrument (TRDI). Across the EU-10 territory, there are two types of programming: 10 RDPs co-financed by the TRDI and 9 Objective 1 region programmes, covering most of the territory of the new Member States, (co-financed by the EAGGF Guidance Section).

449. In 2004, Community expenditure on rural development amounted to EUR 8 174.9 million (Guarantee and Guidance Sections combined).

450. The payments for the EAGGF Guarantee Section amounted to EUR 4 748.9 million in the 2004 financial year (from October 2003 to October 2004). The Community average execution (compared with annual appropriations) reached 98 %, meaning that almost all the budget available for 2004 was spent. By Member State, there was overspending (Member States that spent more than their annual financial allocation) in Germany, Ireland, Luxembourg, Netherlands, Austria and Finland and underspending in the rest of the countries. Guarantee Section spending up to 2004 represents 68 % of the financial allocations for the 2000–06 programming period.

451. Payments for the EAGGF Guidance Section reached EUR 3 426 million in 2004 (calendar year): 2 962.6 million for 2000–06 programmes (Objective 1: 2 709.0; Leader+: 238.8; Peace: 14.8) and EUR 463.8 million for the closure of the 1994–99 programmes.

452. The closure of the 1994–99 programmes progressed reasonably in 2004; 164 programmes remained open at the end of 2004 (out of the 402 received in March 2003). For the 164 programmes still open, an estimated amount of EUR 700 million (out of an RAL of

EUR 1 billion) remains to be paid. An important RAL subsists for Spain (EUR 230 million), France (EUR 191 million), Italy (EUR 188 million) and Germany (EUR 135 million).

453. At the end of 2004, the total payments for the 2000–06 programmes represent 42 % of the financial plan for the 2000–06 programming period. According to the n + 2 rule established in Regulation (EC) No 1260/1999, EUR 23.96 million was decommitted in 2004. These decommitments affected nine rural development programmes (four German programmes, two Irish, one Italian, one Spanish and one Dutch).

454. Fifty-two RDP modifications were approved by the Commission during 2004.

455. Seventy-three Leader+ programmes have been approved for the period 2000–06. The payments in 2004 for these programmes amounted to EUR 238 million from the EAGGF Guidance Section. Due to the lead time of this initiative (e.g. selection of local action groups — LAGs), the first years of the programming period were characterised by a low financial execution. Although the payments up to 2004 represent only 15.9 % of the amount programmed for the whole programming period, considerable progress was made in 2004.

456. Of the expected 938 LAGs, 892 have been finally selected. The selection process started in 2001 and finished with the selection of 12 LAGs in Sicily in the middle of 2004. The local development strategy theme 'valorisation of natural and cultural resources' is the most popular (with one third of the LAGs having chosen it), followed by the subject 'quality of life' (chosen by 25 % of the LAGs). More than 20 000 projects were approved by the LAGs. The main domains of intervention are the following: tourism, support to SMEs, renovation and development of villages and rural heritage, basic services to the rural population and rural economy.

457. Transnational cooperation projects (Action 2 of the Leader+ initiative) has slowly started. There are much more interterritorial projects within Member States than transnational projects between Member States.

5.1. Belgium

5.1.1. Rural development programmes (EAGGF Guarantee Section)

458. Three rural development programmes for the period 2000–06 were approved for Belgium: one federal and two regional (Flanders and Wallonia) programmes. The total public cost for these three programmes amounts to EUR 849.0 million, of which the EAGGF contributes EUR 360.6 million.

5.1.1.1. Modifications of the RDP

459. In 2004, three amendments of the Flemish RDP were approved by the Commission. The 2003 amendment was approved by Decision C(2004) 1490 of 15 April 2004 and related to changes in the less-favoured areas measure and to the introduction of new measures for the protection of hamsters and support for agri-environmental advice. The 2004 amendment was approved by Decision C(2004) 4412 of 11 November 2004 and related to a thorough review of several agri-environmental measures. A further amendment was approved by Decision C(2004) 5875 of 30 December 2004, which related to the introduction of a new measure providing support for meeting standards.

460. The 2003 amendment of the Walloon RDP was approved by Decision C(2004) 2930 of 22 July 2004. It related to a complete review of the agri-environmental measures.

461. Under the notification procedure, three amendments of the Flemish RDP were received in 2004: on 15 January in relation to the agri-environmental measure 'reduced input of crop protection substances and fertilisers', on 16 April in relation to the measure 'support for the marketing of quality agricultural products', and on 18 June in relation to the agri-environmental measure 'protection against soil erosion'. Finally, under the information procedure, the Commission received two amendments to the financial plan of the Walloon RDP, on 31 March and 23 September, respectively.

5.1.1.2. Level of payments in the period from 16 October 2003 to 15 October 2004 (EAGGF Guarantee Section)

462. The total 2004 budgetary envelope for Belgium amounts to EUR 55.3 million. The level of payments for the three programmes amounts to EUR 49.0 million, which is 88.5 % of the annual envelope.

5.1.2. Operational programmes or single programming documents

463. One single programming document (SPD) was approved for Belgium: the phasing-out Objective 1 SPD for the Hainaut province (Wallonia). Total public expenditure for this SPD amounts to EUR 1361.1 million, of which the Structural Funds contribute EUR 672.9 million. The EAGGF Guidance Section contribution amounts to EUR 44.1 million, which is 6.6 % of the total Community contribution. These amounts take account of the indexation, of the performance reserve allowances and of mid-term transfers between funds, approved in 2004.

464. From the beginning of the programming period, global financial execution for EAGGF Guidance Section is 24.7 % in relation to the total budget foreseen for 2000–06, i.e. EUR 10.9 million on a total of EUR 44.1 million.

5.1.3. Leader+ programme

465. Belgium has two Leader+ programmes: one for Flanders, involving total public expenditure of EUR 8.6 million, and one for Wallonia involving total public expenditure of EUR 23.2 million.

466. In Flanders, five LAGs were selected, covering 12 % of the region's territory and 6 % of its population. For Wallonia, 15 LAGs were selected, covering 32 % of the region's territory and 12 % of its population. The two regional Leader+ network units became fully operational in 2004, and the two regions have agreed that the Walloon network unit would act as national contact point where appropriate.

467. By Decision C(2004)2307 of 18 June 2004, the Commission approved certain amendments to the Flemish Leader+ programme, relating to the arrangements for cooperation between territories and to the administrative provisions of the programme.

468. At the end of 2004, after five years of implementation, the total financial execution is 5.3 % in relation to the total amount of EAGGF Guidance Section expenditure foreseen for the period 2000–06, i.e. EUR 0.8 million on a total of EUR15.9 million.

5.2. Czech Republic

5.2.1. Rural development programmes (EAGGF Guarantee Section)

469. The Czech horizontal rural development plan was approved by Decision C(2004) 3290 of 3 September 2004. The budget of the programme is EUR 542.8 million during the period of 2004–06, which will be complemented with national public funding of EUR 135.7 million. The horizontal rural development plan aims to mitigate the differences in farm profitability in less-favoured areas that result from natural conditions, to improve the unfavourable age structure of farmers, to reduce the share of arable land in the total agricultural land area, and to provide to a sufficient extent for the farming of agricultural land in conformity with the principles of good farming practice.

5.2.1.1. Modifications of the RDP

470. The request for a change to the programme was received by the Commission on 15 November 2004 and the procedure has not been completed by the end of 2004. The change concerns an introduction of a new agri-environmental measure.

5.2.1.2. Level of payments in the period from 16 October 2003 to 15 October 2004 (EAGGF Guarantee Section)

471. For 2004, the consolidated financial table lays down an EU contribution of EUR 163.3 million. For the period of 1 January 2004 to 15 October 2004, the EU contribution for the plan equals the advance payment of EUR 54.28 million (10 % of the overall amount for the plan).

5.2.2. Objective 1 programmes

472. The operational programme 'Rural development and multifunctional agriculture' was approved by Commission Decision C(2004)2689 of 2 July 2004. The financial contribution from the EAGGF amounts to EUR 173.9 million during the period 2004–06, which will be complemented by national public funding of EUR 76.7 million. As regards measures, special emphasis is laid on replacement of outdated technologies, increase of competitiveness, consolidation of land ownership, protection of the environment as well as the stabilisation of existing work places in the Czech rural areas. The Czech Republic, except for the territory of its capital city, is entirely classified as an Objective 1 area.

5.3. Denmark

5.3.1. Rural development programme (EAGGF Guarantee Section)

473. The total public cost of the Danish rural development programme 2000–06 is EUR 829.6 million, including the EU contribution of EUR 348.8 million from the EAGGF Guarantee Section. The programme includes support for investments in holdings, organic farming, training, less-favoured areas, agri-environment, improving processing and marketing of agricultural products, promoting the adaptation and development of rural areas and forestry.

5.3.1.1. Modifications of the RDP

474. The Danish authorities notified to the Commission modifications of the rural development programme which concerned changes in support rates for agri-environmental measures and for less-favoured area measures.

475. Proposals to modify the rural development programme, for which a Commission decision is required, were submitted in July 2004. The modifications mainly concern amendments of the existing measures as well as four new measures on agri-environment, training and forestry. The Commission decision is expected to be adopted early 2005.

5.3.1.2. Level of payments in the period from 16 October 2003 to 15 October 2004 (EAGGF Guarantee Section)

476. For 2004, the plan foresees a total public expenditure of EUR 125.6 million, including an EU contribution of EUR 50.9 million, of which the agri-environmental measures represent EUR 34.3 million of total public expenditure, including an EU contribution of EUR 19.7 million. For the period of 16 October 2003 to 15 October 2004, the EAGGF expenditure amounted to EUR 44.3 million corresponding to 87 % of the foreseen expenditure for the year.

477. From the beginning of the programming period, global financial execution for the EAGGF Guarantee Section is 60.1 % in relation to the total budget foreseen for 2000–06, or EUR 209.5 million on a total of EUR 348.8 million.

5.3.2. Leader+ programme

478. The total public allocation for the Danish Leader+ programme 2000–06 was increased in 2004 following indexation and now amounts to EUR 34.6 million, including an EU contribution of EUR 17.3 million.

479. The programme is progressing well. The payments in 2004 amounted to EUR 1.7 million. After four years of implementation, the financial execution is 16 % in relation to the amount foreseen for the programming period 2000–06.

5.4. Germany

5.4.1. Rural development programmes (EAGGF Guarantee Section)

5.4.1.1. Modifications of the RDP

480. In 2004, Germany introduced one amendment concerning the German framework regulation and 11 requests to amend the regional programmes. In 2004, a consolidated financial table for Germany was established summarising all regional financial tables. The consolidated financial table was already amended once in 2004. Additionally 13 amendments were notified to the Commission.

481. The amendments introduced the following new measures: animal welfare, support of use of farm advisory services by farmers, funding of management of integrated rural development strategies by local partnerships and also support for farmers participating in food quality schemes. Some minor changes were done under the agri-environmental schemes.

482. All amendments were approved before the end of the financial year.

5.4.1.2. Level of payments in the period from 16 October 2003 to 15 October 2004 (EAGGF Guarantee Section)

483. For 2004, the consolidated financial table lays down an EU contribution of EUR 784.800 million. For the period of 16 October 2003 to 15 October 2004, the EU contribution for the plan came to approximately EUR 799.864 million.

484. From the beginning of the programming period, global financial execution for the EAGGF Guarantee Section is 70 % in relation to the budget foreseen for 2000–06, i.e. EUR 3 720.7 million on a total of EUR 5 308.6 million.

5.4.2. Objective 1 programmes

485. Six German *Bundesländer* are classified as Objective 1 regions: Berlin, Brandenburg, Mecklenburg-West Pomerania, Saxony, Saxony-Anhalt and Thuringia.

486. Measures other than the accompanying measures are paid from the EAGGF Guidance Section for these regions. The total eligible costs foreseen for 2004 were

EUR 639.665 million, including an EAGGF Guidance Section contribution of EUR 472.786 million. In 2004, EUR 593.356 million were paid, thereof EUR 24.917 million on 2004 commitment.

5.4.3. Operational programmes on single programming documents

487. In 2004, all regional operational programmes (OPs) as well as the common support framework were amended. Due to the mid-term review, the performance reserve was allocated to the Structural Fund programmes. Two regions did not receive any performance reserve at all; for the other regions the performance was allocated to the EAGGF a little bit lower or equal according to the budget share. Whereas funds where shifted from the EAGGF to the ERDF in one region, the EAGGF received no additional money from the ERDF or the ESF. Funds were also shifted between the measures of priority 5.

5.4.4. Annual reports

488. The annual reports for 2003 showed that in general the implementation of measures relating to the most important measures, such as Article 33 measures and agri-environmental measures, were satisfactory. The uptake of the investment aid, lagging behind the forecasts until 2003, has further improved.

5.4.5. Leader+ programme

489. In 2004, all 13 German regional programmes were amended. In total EUR 4.64 million indexation funds were allocated. Two regions did not make use of the additional funds and the money was reallocated to the other regions. Due to the low demand until now, most regions also made a shift from Action 2 (support for cooperation between rural territories) to Action 1 (integrated territorial rural development strategies of a pilot nature). The measures of Leader+ were rarely the subject of amendments.

490. Due to the n + 2 rule in four Leader+ programmes, a total amount of EUR 4.531 million had to be decommitted.

5.5. Estonia

5.5.1. Rural development programme (EAGGF Guarantee Section)

491. The total EAGGF (Guarantee Section) budget 2004–06 for the Estonian rural development programme is EUR 150.5 million. The total eligible public cost of the programme is EUR 188.16 million.

5.5.1.1. Modifications of the RDP

492. A modification of the RDP was approved by the monitoring committee of 11 November 2004; the proposal of the modification has not yet been presented to the Commission.

The modification concerns the introduction of a payment of compensatory allowances to farmers in Natura 2000 areas.

5.5.1.2. Level of payments in the period from 16 October 2003 to 15 October 2004 (EAGGF Guarantee Section)

493. For this period, Estonia has not spent any money under the measures of the RDP.

5.5.2. Objective 1 programmes

494. The whole of Estonia is classified as an Objective 1 region. The total EAGGF budget 2004–06 is EUR 56.798 million and the total eligible public expenditure of the EAGGF-related measures is EUR 78.758 million. A 10 % advance payment of EUR 5.679 million was done. Leader+ activities like acquisition of skills and support to pilot projects is supported within the framework of the Objective 1 programme. The Leader measure has a budget of EUR 1.843 million of total public expenditure. The EAGGF contribution is EUR 1.475 million. The measure has not yet been implemented.

495. The measures for supporting advisory service, the Leader initiative, forestry and land improvement have not been approved as operational by the national authorities. We are encouraging the authorities to launch the measures without further delay.

5.6. Greece

5.6.1. Rural development programme (EAGGF Guarantee Section)

496. The rural development programming (RDP) document for Greece accounts for EUR 2 686.4 million, with an EU contribution of EUR 993.4 million from the EAGGF Guarantee Section. It includes the four accompanying measures. Despite good payment levels, the RDP still encounters some difficulties particularly with regard to the agri-environmental actions.

5.6.1.1. Modifications of the RDP

497. A modification was notified to the Commission in 2004.

5.6.1.2. Level of payments in the period from 16 October 2003 to 15 October 2004 (EAGGF Guarantee Section)

498. In 2004, payments reached EUR 125.6 million (corresponding to 85.5 % of the EAGGF Guarantee Section budget planned for 2004).

499. Since the beginning of the programming period, the overall financial implementation for the EAGGF Guarantee Section has reached 64.9 % of the planned amount for 2000–06, i.e. an amount of EUR 644.7 million has been paid out of the foreseen amount of EUR 993.4 million.

5.6.2. Operational programmes or single programming documents

500. The national mono-fund EAGGF Guidance Section programme for Greece was approved by the Commission on 6 April 2001. The Community contribution to this programme is EUR 1 233.4 million for a total cost of EUR 3 010.2 million. On 24 November 2004, the Commission approved the decision for the mid-term revision of this programme which included an additional amount of EUR 250 000 coming from the programming and performance reserves. The regional multi-fund programmes, approved during the first half of 2001 and amended in 2004 because of the mid-term revision, represent a total cost of EUR 10 914.4 million with a total Community contribution of EUR 7 041.7 million of which the EAGGF Guidance Section contributes EUR 1 026.9 million. All the programming complements were also adopted by the monitoring committees. These committees took place during October–November 2004 and some actions facing implementation difficulties had to be reconsidered with the competent authorities of the Member States in the context of the mid-term revision.

501. In 2004, payments reached EUR 140.228 million. The accumulated payments of the EAGGF Guidance Section (EUR 453.062 million) since the beginning of the 2000–06 programming period account for 30.9 % of the foreseen budget.

5.6.3. Leader+ programme

502. There is only one Leader+ programme for Greece. It was approved on 19 November 2001 with a total cost, after the 2004 indexation, of EUR 368.7 million of which EUR 186.13 million is the EAGGF Guidance Section contribution. In 2002, the management authority selected the 40 local action groups as provided by the programme. The programme was amended in August 2004 following the mid-term evaluation and planned indexation. The monitoring committee met twice in 2004.

503. For 2004, the payments amount to EUR 19.820 million.

504. The accumulated EAGGF Guidance Section payments (EUR 39.613 million) since the beginning of the 2000–06 programming period account for 21 % of the total budget of the programme.

5.7. Spain

5.7.1. Rural development programme (EAGGF Guarantee Section)

505. In 2000, the Commission approved two horizontal plans (‘Accompanying measures’ and ‘Improvement of structures’) and seven regional programmes (Aragon, Catalonia, Basque Country, Navarre, Balearic Islands, La Rioja, Madrid).

5.7.1.1. Modifications of the RDP

506. On 24 March, the Commission approved an amendment of the rural development programme of Aragon. This amendment increases the maximal aid intensity for the measure 'Training' and modifies both exceptions to Article 37(3) of Regulation (EC) No 1257/1999 and sectors involved in the measure 'Processing and marketing of agricultural products'. This amendment completes a series of minor adjustments (which do not require any new Commission decision) submitted as 'notification' to the STAR Committee in March 2004.

507. On 19 November, the Commission approved an amendment of the rural development programme of Navarre. This amendment increases the financial ceiling of the measure 'processing and marketing of agricultural products' and introduces two Natura 2000 actions in the framework of the measure 'compensatory allowances in favour of areas with environmental restrictions' (Article 16 of Regulation (EC) No 1257/1999). This amendment completes a series of minor adjustments (which do not require any new Commission decision) submitted as 'notification' to the STAR Committee in July 2004.

508. On 13 December, the Commission approved an amendment of the rural development programme of the Basque Country. This amendment modifies the measures 'Agri-environment' (by modifying six actions and introducing three new areas) and 'processing and marketing of agricultural products' (by adding a new eligible sector).

509. Finally, the Spanish authorities communicated on 5 August the new financial tables according to Commission Decision C(2004) 592. These tables take into account the expenditure forecasts provided by the Spanish authorities in their statement of 30 September 2003.

5.7.1.2. Level of payments in the period from 16 October 2003 to 15 October 2004 (EAGGF Guarantee Section)

510. For this period, payments reached EUR 515.3 million (98.4 % of the EAGGF Guarantee Section budget planned for 2004).

511. After five years of implementation, the global financial expenditure amounts to EUR 2.392 million, which represents 68.7 % of the EUR 3.481 million expenditure planned for 2000–06.

5.7.2. Operational programmes or single programming documents

512. In 2000 and 2001, the Commission approved two horizontal programmes (one mono-fund for 'Improvement of structure' in Objective 1 areas and one multi-fund for 'Technical assistance') and 10 multi-fund regional programmes (Andalusia, Asturias, Cantabria, Castile-La Mancha, Castile-Leon, Extremadura, Galicia, Murcia, Canary Islands and Valencia), supplemented by their programme complement.

513. During 2004, the Commission amended the operational programmes and their programme complements in the framework of the mid-term review, in order to incorporate the additional EAGGF Guidance Section funds resulting from the performance reserve allocation (EUR 213.25 million). Accordingly, individual EAGGF envelopes have increased for all programmes except for 'Technical assistance'. In addition, the Spanish authorities have taken advantage of this exercise to reallocate funds between different measures within several programmes.

514. After five years of implementation, the global financial expenditure amounts to EUR 2 367.816 million, which represents 47.2 % of the EUR 5 021.2 million expenditure planned for 2000–06.

5.7.3. Leader+ programme

515. By the end of 2002, the Commission had approved 18 Leader+ programmes (one horizontal programme and 17 regional programmes).

516. Seventeen programmes are currently implemented under global grants, and one (Basque Country) under the common operational programme form with a programme complement; 150 local action groups have been created.

517. During 2004, the Commission amended the 18 programmes, in order to incorporate the additional EAGGF Guidance Section funds resulting from the indexation exercise (EUR 8.77 million). Accordingly, individual EAGGF envelopes have increased for all programmes. In addition, the Spanish authorities have taken advantage of this exercise to reallocate funds between different measures within some programmes, as well as to amend the Leader+ aid scheme.

518. After five years of implementation, the global financial expenditure amounts to EUR 50.268 million, which represents 10.1 % of the EUR 496.9 million expenditure planned for 2000–06.

5.8. France

5.8.1. Rural development programme (EAGGF Guarantee Section)

5.8.1.1. Modifications of the RDP

519. On 25 September 2003, the French authorities submitted a draft amendment of the national RDP, in order to take account of the appropriations released from the modulation

(EUR 213 million). The new funds were allocated to agri-environmental actions. The amendment was approved by a Commission decision on 15 March 2004.

520. On 23 December 2003, the Commission received from the French authorities a second amendment request, which was approved on 7 October 2004.

521. It adapts priority 'Orienting farms towards sustainable agriculture by investing in orchards'. It also covers the main features of the support measures for investments in the farms, less-favoured areas, agri-environment, processing and marketing of agricultural products and environmental protection. Finally, it adapts the financial table according to Commission Decision C(2004) 592, which fixes the new indicative allocations of the appropriations relating to the measures of rural development under the EAGGF Guarantee Section, for the period 2000–06. This decision increases France's EAGGF Guarantee Section appropriations by EUR 10.8 million in 2004, by EUR 2.4 million in 2005 and by EUR 195.8 million in 2006.

5.8.1.2. Level of payments in the period from 16 October 2003 to 15 October 2004 (EAGGF Guarantee Section)

522. During this period, payments reached EUR 843.4 million (98.98 % of the EAGGF Guarantee Section's budget planned for 2004 (EUR 852.1 million).

523. After five years of implementation, the overall financial implementation for the EAGGF Guarantee Section is 59.1 % of the amounts planned for 2000–06, i.e. a carried-out amount of EUR 3 408.4 million.

5.8.2. Operational programmes or single programming documents

524. The monitoring committees approved draft SPD amendments further to the allocation of the performance reserve, the outcome of the mid-term evaluations, the experience from the management of 1994–99 programmes and the specific needs of the regions. These modifications were forwarded to the Commission and were to be adopted as formal amendments of the SPDs.

525. Both full and phasing-out Objective 1 regions were concerned by this exercise.

526. Six French regions are classified under Objective 1: the four overseas departments (Guadeloupe, Martinique, French Guiana, Réunion), Corsica and partially the region Nord/Pas-de-Calais Area (the three Douai, Valenciennes and Avesnes on Helpe districts). The latter two are in phasing-out support.

527. The payments for 2004 amount to EUR 83.596 million, taking the total payments for the period 2000–04 to EUR 216.996 million. As in 2003, none of the six regions were affected by the n + 2 decommitment.

5.8.3. Leader+ programme

528. The French national programme on the Community Leader+ initiative was adopted on 8 August 2001 under the form of a global grant. Accordingly, the national centre for the setting-up of farming structures (CNASEA) was designated as management authority. The total Community contribution amounts to EUR 268.1 million.

529. The implementation is carried out by 140 local action groups (LAGs), which were selected in 2002. Their action plans were set up in 2003, after signature of bilateral conventions with CNASEA.

530. Payments reached EUR 32.685 million in 2004, although the expenditure statements carried out did not allow avoiding the n + 2 decommitment. The financial implementation since 2000 has reached EUR 62 million, which represents 23 % of the total budget appropriations for 2000–06.

5.9. Ireland

5.9.1. Rural development programme (EAGGF Guarantee Section)

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

5.9.1.1. Modifications of the RDP

532. In 2004, Ireland introduced one amendment concerning the agri-environmental measure (REPS). Payments are increased up to the maximum allowed (EUR 200/ha) subject to additional undertakings for farmers. Moreover, degressive payments are introduced for any hectare of land declared in the scheme. A revised financial table taking into account the adjusted allocation in Commission Decision C(2004) 592 was notified to the Commission.

5.9.1.2. Level of payments in the period from 16 October 2003 to 15 October 2004 (EAGGF Guarantee Section)

533. For 2004, the revised financial table lays down an EU contribution of EUR 348.70 million. For the period of 16 October 2003 to 15 October 2004, the EU expenditure for the programme amounted to EUR 350.08 million.

5.9.2. Operational programmes or single programming documents

534. The EAGGF Guidance Section contributes to rural development measures under the two operational programmes (operational programmes for the border Midland and western region, and southern and eastern region) in the Community support framework 2000–06. Progress of expenditure in the two regional operational programmes is still low due to difficulties encountered in implementing certain co-funded measures. The EU contribution was revised in 2004 taking into account 2000 decommitment (by 2003 Commission decision)/recommitment (by 2004 Commission decision) due to *force majeure* (foot-and-mouth outbreaks) and 2001 decommitment (2004 Commission decision). The EAGGF Guidance Section contribution for the 2000–06 period amounts to EUR 164.34 million. Up to the end of 2004, 22 % of the EAGGF funds have been absorbed (EUR 36.224 million).

535. The EAGGF Guidance Section contributes to the Peace II operational programme in the border regions. No decommitment of EAGGF credits is at stake.

536. In 2004, the Community support framework and regional operational programmes were amended. Due to the mid-term review, the performance reserve was allocated to the Structural Fund programmes for regional development. No performance reserve was allocated to the EAGGF.

5.9.3. Leader+ programme

537. In 2004, the Leader+ programme was amended and EUR 845 878 indexation funds were allocated to Ireland. These funds were allocated to Action 1 (Integrated territorial rural development strategies of a pilot nature). An additional EUR 41 000 has been shifted from Action 2 (support for cooperation between rural territories) to Action 1.

538. The EU contribution 2000–06 now amounts at EUR 48.745 million. After five years of implementation, the financial expenditure amounts to EUR 13.4 million, which represents 28 % of the initial budget of EUR 47.9 million for 2000–06.

5.10. Italy

5.10.1. Rural development programme (EAGGF Guarantee Section)

539. In Italy, 21 rural development programmes are co-financed by the EAGGF. The total amount of public expenditure of the rural development programmes for Italy amounts to EUR 8 815.2 million including a Community contribution of EUR 4 473.1 million provided by the EAGGF Guarantee Section.

5.10.1.1. Modifications of the RDP

540. The Commission approved modifications for the following RDPs: Umbria, Marche, Emilia-Romagna, Trento and Liguria. Modifications concerned primarily the adaptation of several measures of the programme to take account of the effective implementation and reprogramming of the financial scheme.

5.10.1.2. Level of payments in the period from 16 October 2003 to 15 October 2004 (EAGGF Guarantee Section)

541. At the date of 15 October 2004, the expenditure carried out in the current financial year for all the 21 rural development programming documents financed by the EAGGF Guarantee Section amounted to EUR 635 million of Community contribution, which accounts for 95 % of the annual budget envisaged.

542. Since the beginning of the programming period, the overall financial implementation for the EAGGF Guarantee Section has been of 74 % in relation to the amounts planned for 2000–06, i.e. a carried-out amount of EUR 3 355 million for an amount envisaged of EUR 4 473.1 million.

5.10.2. Operational programmes or single programming documents

5.10.2.1. Amendments of the OPs or SPD

543. The seven Objective 1 regions (Sicily, Sardinia, Calabria, Basilicata, Campania, Puglia and Molise) are covered by multi-fund operational programmes. In 2004, the Commission approved modifications of the OPs in all the seven regions following the results of the mid-term evaluation and the distribution of the performance reserve at Community (+ 4 %) and national level (+ 6 %). The increase of the EU contribution due to the performance reserve amounts to EUR 309.7 million. Therefore the total amount of the EAGGF contribution (Guidance Section) in the operational programmes amounts to EUR 3 292.3 million for the entire programming period 2000–06.

5.10.2.2. Level of payments in 2004

544. The seven Objective 1 regions benefited from an EAGGF contribution of EUR 418.9 million in terms of payments in 2004. Since the beginning of the programming period, the paid amounts (EUR 789.2 million) have accounted for 25 % of the amount of the EAGGF Guidance Section planned for the whole programming period (EUR 3 292.3 million)

5.10.3. Leader+ programme

545. For the programming period 2000–06, Italy has approved 21 regional programmes and one national network programme. During 2004, five programmes were modified with Commission decision (Campania, Sardinia, Toscana, Friuli and network). Modifications concerned primarily the adaptation of several measures of the programme to take account of the effective implementation and the reprogramming of the financial scheme.

546. For the programme Leader+ Lazio, a Commission decision was approved in 2004 to decommit an amount of EUR 1.118 million of the EAGGF contribution in application of the ‘n + 2’ rule (expenditure not declared before the end of 2003).

547. In 2004, the total amount of the indexation for the years 2004–06 (EUR 5 million of the EAGGF Guidance Section) was distributed between 12 regional programmes. To allocate the new amounts between the existing priorities, all these 12 programmes have been modified by Commission decision.

548. Following the indexation, the total amounts of public expenditure planned for the Leader+ programmes for Italy amount to EUR 487.5 million for the present programming period, including a Community contribution of EUR 289.1 million provided by the EAGGF Guidance Section.

549. For the 22 Leader+ programmes, the total expenditure incurred up to 2004 amounts to EUR 16.9 million of EAGGF contribution, which represents less than 6 % of the total budget for the period 2000–06.

5.11. Cyprus

5.11.1. Rural development plans (EAGGF Guarantee Section)

550. Cyprus is the only country among the new Member States to benefit from the Community solidarity as defined for Objective 2 regions.

551. The Commission approved in 2004 the rural development plan (2004–06) for Cyprus, to be co-financed by the EAGGF Guarantee Section. The rural development plan (2004–06) for Cyprus will cover the areas of the country under effective control of the internationally recognised government of the Republic of Cyprus.

552. The rural development plan (2004–06) for Cyprus represents 58 % of the overall Community financial contribution during the current programming period and the remaining 42 % regards ERDF, ESF and FIFG contributions. The EAGGF contributes with a total amount of EUR 74.8 million during this period and will be complemented by national public funding of EUR 69.08 million and by EUR 14.42 million additional State aids. In addition, it is estimated that the private sector will contribute with EUR 33.91 million. It is the most important programming document from a financial point of view, reflecting the importance of the sector in the country and the attention paid to this sector by the Cypriot authorities.

553. The programme includes a broad range of rural development measures which give a special emphasis to the improvement of infrastructure and the competitiveness of the rural economy of the country, the strengthening and diversification of rural areas, and protection of the environment. The general aim is to foster the sustainable economic development of the rural areas and to improve the prosperity of the population living in the countryside. The plan intends not only to respond to the structural needs of Cyprus agriculture and rural economy but aims also to improve its competitiveness and multi-functionality, to accelerate its economic diversification, to promote entrepreneurship and, finally, to strengthen its export-oriented growth and interaction with tourism.

554. In addition to purely economic objectives, the plan puts great emphasis upon the protection of the environment as a service to society for which the most important resources are from tourism (the backbone of the economy). Environment-friendly land management is one of the prerequisites for sustainable tourist development. The physical and architectural environment, the cultural heritage, public health and the specific national and regional features will be protected and further developed to this end.

555. The Department of Agriculture of the Ministry of Agriculture, Natural Resources and Environment of Cyprus is the managing authority, and a paying agency (CAPO) was established. The big majority of the calls for expressions of interest for the various measures of the rural development plan (2004–06) of Cyprus have been published.

5.11.1.1. Modifications of the RDP

556. No modifications were submitted in 2004.

5.11.1.2. Level of payments in the period from 16 October 2003 to 15 October 2004 (EAGGF Guarantee Section)

557. For the period of 1 January 2004 to 15 October 2004, the EU contribution for the plan equals the advance payment of EUR 7.48 million (10 % of the total amount of the plan).

5.12. Latvia

5.12.1. Rural development plans (EAGGF Guarantee Section)

558. In 2004, the Commission approved the Latvian rural development plan (RDP) 2004–06. The total public cost is EUR 410.1 million, including a contribution of EUR 328.1 million from the EAGGF Guarantee Section. The programme includes support for producer groups, meeting standards, less-favoured areas, agri-environment, early retirement and support for semi-subsistence farms.

5.12.1.1. Modifications of the RDP

559. No modifications were submitted in 2004.

5.12.1.2. Level of payments in the period from 16 October 2003 to 15 October 2004 (EAGGF Guarantee Section)

560. The total amount paid by the end of 2004 was EUR 32.8 million (10 % of the entire budget foreseen for the 2004–06 programming period).

5.12.2. Operational programmes or single programming documents

561. In 2004, the Commission approved the Latvian single programming document (SPD) for Objective 1. The programme includes support for investments in agricultural holdings, setting-up of young farmers, training, improving processing and marketing of agricultural products, promoting the adaptation and development of rural areas, and forestry and development of local actions (Leader+ type measures).

562. The total public cost of the Latvian single programming document 2004–06 from the EAGGF Guidance Section is EUR 140.6 million, including an EU contribution of EUR 93.33 million.

5.12.3. Level of payments

563. The total amount paid by the end of 2004 was EUR 11.82 million (8.47 % of the entire budget foreseen for the 2004–06 programming period).

5.13. Lithuania

5.13.1. Rural development plans (EAGGF Guarantee Section)

564. The rural development plan for Lithuania, which covers the whole territory of the country, was approved in 2004. The total public expenditure for the period 2004–06 is EUR 611.87 million and the maximum contribution from the EAGGF Guarantee Section is EUR 489.50.

565. The plan contains the following measures: early retirement, less-favoured areas, agri-environment, afforestation of agricultural land, support for semi-subsistence farms undergoing restructuring, meeting standards, technical assistance, complementary national direct payments, and Sapard over-commitments.

5.13.1.1. Modifications of the RDP

566. No modifications were submitted in 2004.

5.13.1.2. Level of payments in the period from 16 October 2003 to 15 October 2004 (EAGGF Guarantee Section)

567. The advance payments from the Commission have been transferred. No spending by Lithuania was declared for 2004.

5.13.2. Operational programmes or single programming documents

568. In 2004, the Commission approved the Objective 1 programme for Lithuania. The EAGGF contributes with EUR 122.898 million to the SPD, which is 13.7 % of the total Structural Fund envelope for the period 2004–06.

569. The measures chosen for implementation are the following: investments in agricultural holdings, setting-up of young farmers, training, improving processing and marketing of agricultural products, forestry, promoting the adaptation and development of rural areas, and Leader+ type measures.

5.13.3. Level of payments

570. No spending by Lithuania has been declared for 2004.

5.14. Luxembourg

5.14.1. Rural development programme (EAGGF Guarantee Section)

571. The year 2004 confirms an effective implementation of the programme. Three measures absorb the main part of the total allocation, namely the agri-environment, the compensatory allowance, and the investment measure.

5.14.1.1. Modifications of the RDP

572. A financial amendment was introduced in 2004, which took into account Commission Decision C(2004) 592 modifying the indicative rural development allocation for the Member States under the EAGGF Guarantee Section.

5.14.1.2. Level of payments in the period from 16 October 2003 to 15 October 2004 (EAGGF Guarantee Section)

573. The 2004 allowance of the EAGGF Guarantee Section for Luxembourg amounted to EUR 13.5 million. The EU expenditure reached EUR 16.2 million, or an overspending of 20 %.

5.14.2. Leader+ programme

574. In 2004, the programme absorbed EUR 473 000.

575. The report concerning the mid-term evaluation was submitted and will be the subject of an update in 2005. Indeed at the time of the first report, it was too early to draw conclusions regarding the implementation of the programme.

576. A financial modification was carried out to take into account the indexation.

5.15. Hungary

5.15.1. Rural development plans (EAGGF Guarantee Section)

577. The national rural development plan was approved by Commission Decision C(2004) 3235 of 26 August 2004.

578. The total public expenditure to implement the plan is set at EUR 754.14 million for the period 2004–06. This includes a contribution from the EAGGF Guarantee Section of EUR 602.30 million. Expenditure is eligible from 13 April 2004 onwards.

579. The programme includes support for measures aimed at: safeguarding and improving the conditions of the environment through a number of agri-environmental schemes; support to help farmers to comply with the new demanding EU standards in the field of environmental and hygiene prescriptions; afforestation of agricultural land; providing additional income and job opportunities for farmers on weaker areas through compensatory allowances for less-favoured areas; increasing the economic viability, financial conditions and market positions of producers through the early retirement measure; support for semi-subsistence farms undergoing restructuring and to the establishment and starting-up of producer groups. Technical assistance will assist in the implementation of the priorities and measures of the programme and contribute to the achievement of its objectives.

5.15.1.1. Modifications of the RDP

580. No modifications were submitted in 2004.

5.15.1.2. Level of payments in the period from 16 October 2003 to 15 October 2004 (EAGGF Guarantee Section)

581. A commitment of EUR 181.20 million and a payment on account of EUR 60.23 million was made in 2004.

5.15.2. Operational programmes or single programming documents

582. The agriculture and rural development operational programme for Community structural assistance under Objective 1, covering the whole territory of Hungary, was approved by Commission Decision C(2004) 2322 of 21 June 2004.

583. Negotiations had been closed in time to allow for expenditure to be eligible as from 1 January 2004. However, to ensure sound financial management, contracts under this programme could be signed only when contracts under the pre-accession instrument, Sapard, stopped. The starting date of eligibility of expenditure part-financed by the EAGGF under the operational programme was therefore set at 30 September 2004.

584. The total public expenditure for the operational programme is set at EUR 428.5 million for the period 2004–06. This includes a financial contribution of EUR 317.2 million from the European Union: respectively EUR 312.8 million from the EAGGF Guidance Section and EUR 4.4 million from the Financial Instrument for Fisheries Guidance (FIFG).

585. The operational programme is based on the following priorities: (1) establishment of competitive basic material production in agriculture through support to investments in the agriculture and fisheries sector; setting-up of young farmers and acquisition of adequate skills and targeted training for persons involved in agricultural activities and in the conservation of landscape; (2) modernisation of food processing; (3) development of rural areas, through diversification of the agricultural activities and expansion of rural business activities, improvement of the infrastructure, preservation of the natural and cultural heritage, and strengthening rural communities through the implementation of the Leader+ approach. Technical assistance will assist in the implementation of the programme.

5.15.2.1. Level of commitments and payments in 2004

586. On the basis of the decision approving the programme, the Commission made a Community budget commitment of EUR 74.16 million (of which EUR 73.13 million for the EAGGF and EUR 1.02 million for the FIFG) and a payment on account of EUR 31.72 million (of which EUR 31.28 million for the EAGGF part-financed measures and EUR 0.43 million for the FIFG part-financed measures).

5.16. Malta

5.16.1. Rural development plans (EAGGF Guarantee Section)

587. The rural development programme for Malta aims to modernise holdings with respect to quality and competitiveness in order to offer more differentiated, higher quality products and services to domestic consumers and foreign tourists, to promote environment-friendly production methods in line with rural heritage, to diversify and develop the multi-functional role of rural enterprises and to improve and expand capacity building in order to ensure the successful implementation of the rural development plan. The total cost of the programme is EUR 33.6 million. The contribution of the EAGGF Guarantee Section amounts to EUR 26.9 million and the co-financing rate is 80 %. The programme covers all rural areas. It must be underlined that most of the measures are specific (or content specific derogations) to Malta which means that this plan is not a standard one. There are seven measures in this plan: producer groups, meeting standards, 'Special market policy programme for Maltese agriculture' (SMPPMA), ad hoc measure (full-time farmers), technical assistance, agri-environment and less-favoured areas.

5.16.1.1. Modifications of the RDP

588. Technical modification of the meeting standard measure in order to take into account all the possible waste structures.

5.16.1.2. Level of payments in the period from 16 October 2003 to 15 October 2004 (EAGGF Guarantee Section)

589. On the basis of the decision approving the programme, the Commission made a Community budget commitment of EUR 8.1 million and an advance payment on account of EUR 2.69 million. No payments by the Maltese authorities have been carried out.

5.16.2. Operational programmes or single programming documents

590. The single programming document under Objective 1 of the Structural Funds, for which Malta as a whole is eligible, contains two measures which are 'Investments in agricultural holdings' and 'Improving the marketing and processing of agricultural products'. Total public expenditure is EUR 6 million and the EU contribution is EUR 4.2 million.

591. On the basis of the decision approving the programme, the Commission made a Community budget commitment of EUR 983 219 and an advance payment on account of EUR 420 000. No payments by the Maltese authorities have been carried out.

5.17. The Netherlands

5.17.1. Rural development programme (EAGGF Guarantee Section)

592. The total public cost of the rural development programme for the Netherlands is EUR 951.60 million, including an EU contribution of EUR 417 million from the EAGGF Guarantee Section.

5.17.1.1. Modifications of the RDP

593. In the STAR Committee of January 2004, a modification of the Dutch rural development plan was approved. A new measure was included to stimulate regional policy initiatives for the environment. Also some financial changes have been made.

594. A notification — following Commission Decision C(2004) 592 — including a new financial table was sent on 18 November 2004 and thus entered into force on 19 November 2004.

595. At the end of the year, a new proposal for support of young farmers was sent to the Commission. It will be discussed in the first months of 2005.

5.17.1.2. Level of payments in the period from 16 October 2003 to 15 October 2004 (EAGGF Guarantee Section)

596. For this period, the Netherlands claimed an EU contribution for the programme of approximately EUR 67.8 million. This means that the Netherlands spent more than their total annual budget of EUR 60.9 million.

597. From the beginning of the programming period, global financial execution for the EAGGF Guarantee Section is 72 % in relation to the total budget foreseen for 2000–06, i.e. EUR 302.5 million on a total of EUR 417 million.

5.17.2. Objective 1 programmes

598. Flevoland is classified as a phasing-out Objective 1 region. In 2004, the Commission provided a performance reserve of EUR 6 million to the single programming document. An amount of EUR 470.000 million was added for the EAGGF for this programme. In 2004, an amount of EUR 700 000 of the EAGGF was committed for this programme.

599. The results of the mid-term evaluation of this programme have been discussed this year.

600. A modification of the Flevoland Objective 1 programme, concerning the indexation and the performance reserve, was approved by Commission decision by the end of 2004.

5.17.3. Leader+ programme

601. In the Netherlands, four Leader+ programmes were approved.

602. In 2004, for all the four Leader+ programmes new modifications have been sent and approved. Modifications mostly concerned indexation and changes in priorities. For 2004, EUR 13.8 million was foreseen. Since the adoption of the Leader+ programmes a total amount of EUR 26 million EU contributions was paid (28 % of the total budget for the period). The selection and implementation of projects under priority 1 is running well. Priority 2 ‘Transnational cooperation’ is lagging behind schedule.

5.18. Austria

5.18.1. Rural development programme (EAGGF Guarantee Section)

603. The total public cost of the Austrian rural development programme 2000–06 is EUR 6 570.06 million, including an EU contribution of EUR 3 208.10 million from the EAGGF Guarantee Section. The programme includes support for investments in holdings, setting-up of young farmers, training, less-favoured areas, agri-environment, improving processing and marketing of agricultural products, promoting the adaptation and development of rural areas and forestry.

5.18.1.1. Modifications of the RDP

604. A modification of the Austrian RDP for 2003 was proposed by the Austrian authorities in 2003 and approved on 11 November 2004. The late approval was due to a missing notification concerning the Austrian good farming practice. The modification concerned a regional measure 'Preventing water pollution' and the financial plan.

5.18.1.2. Level of payments in the period from 16 October 2003 to 15 October 2004 (EAGGF Guarantee Section)

605. For 2004, the plan foresees a total public expenditure of EUR 997 million, including an EU contribution of EUR 468.20 million (of which the agri-environmental measures represent EUR 605.93 million of total public expenditure, including an EU contribution of EUR 314.95 million). For the period of 16 October 2003 to 15 October 2004, the payments of the EAGGF Guarantee Section amount to approximately EUR 468.18 million (almost 100 % of the available funds).

606. From the beginning of the programming period, global financial execution for the EAGGF Guarantee Section is 71.6 % in relation to the total budget foreseen for 2000–06, i.e. EUR 2 286.14 million on a total of EUR 3 208.1 million.

5.18.1.3. Annual report

607. The annual report for 2003 showed that the implementation of measures relating to the most important measures as less-favoured areas and agri-environmental measures were satisfactory.

5.18.2. Objective 1 programmes

608. The total public cost of the Austrian Objective 1 programme (Burgenland) for the programming period 2000/06 is EUR 365.1 million, including an EU contribution of EUR 117.315 million.

5.18.2.1. Operational programmes or single programming documents

609. The third modification of the Austrian Objective 1 programme was approved by Decision C(2003) 3975 of 21 October 2003 and the fourth modification of the Austrian Objective 1 programme was approved by Decision C(2004) 3961 of 8 October 2004. The fifth modification is on the way to be approved. The modifications mainly deal with the distribution of the contribution of the funds.

5.18.2.2. Level of payments in 2004

610. The programme foresees public expenditure for RDP measures (EAGGF) in 2004 totalling EUR 7.5 million and an EU (EAGGF) contribution of EUR 5.6 million. Since the adoption of the Objective 1 programme, Burgenland, an amount of EUR 29 million EU contribution has been paid (71 % of the total budget for the period).

5.18.2.3. Annual report

611. The annual report includes a short analysis and tables about the indicators on priority and measure levels. There have been no major changes in the socioeconomic trends, or the national, regional and sectored policies. The only important change was a money transfer from the fishery funds to the EAGGF. Concerning the n + 2 rule, no problem was encountered during 2004.

5.18.3. Leader+ programme

612. The Leader+ programme for Austria was approved by Decision C(2001) 820 of 26 March 2001. During the period 2001–06, the total expenditure under the programme is EUR 161.50 million. This includes an EU contribution of EUR 75.50 million and a contribution of EUR 58 million from the private sector.

613. The Leader+ programme for Austria covers eight regions (not in the urban area of Vienna).

614. As a result of public tender, 56 local actions groups have been selected under the programme. The groups cover 46 996 km^2 or approximately 45 % of the territory with a population of 2 175 079 inhabitants.

615. The programme foresees expenditure in 2004 totalling EUR 26.9 million. This includes an EU contribution of EUR 12.6 million and a contribution of EUR 9.6 million from the private sector.

616. Since the adoption of the Austrian Leader+ programme, an amount of EUR 47.5 million has been paid (63.3 % of the total budget for the period 2000–06). Concerning the n + 2 rule, no problem was encountered during 2004.

5.19. Poland

5.19.1. Rural development plans (EAGGF Guarantee Section)

617. The Polish authorities presented the final version on 12 August 2004; this document was approved by Commission decision of 6 September 2004. The programme offers a set of instruments to help restructuring the agricultural sector and its environmental sustainability and contains the following measures: early retirement, support for semi-subsistence farms undergoing restructuring, support for less-favoured areas, support for agri-environment and animal welfare, support for farms to meet the EU standards (environmental protection, public health, and animal health and welfare).

618. Complementary measures include afforestation of agricultural land, support to agricultural producers' groups and technical assistance. RDP funding also supplements the direct payments and finances the outstanding projects approved under the Sapard programme.

619. The total public expenditure foreseen for the period 2004–06 is EUR 3 571.8 million of which the EU contribution makes up EUR 2 866.4 million.

5.19.1.1. Modifications of the RDP

620. No modifications were submitted in 2004.

5.19.1.2. Level of payments in the period from 16 October 2003 to 15 October 2004 (EAGGF Guarantee Section)

621. Under the RDP, payments to 1.4 million farmers have already been executed for the measure 'Complement to the direct payments' which are included in the RDP started on 18 October 2004 (in total EUR 64.071 million was paid to the beneficiaries by 3 December; the EU contribution was EUR 51.258 million and this is 5.02 % of the total RDP budget).

5.19.2. Operational programmes or single programming documents

622. The Polish authorities presented on 17 May 2004 the draft SOP; this document was approved by Commission decision of 7 July 2004.

623. The programme offers 15 measures structured around two priorities complemented by technical assistance.

624. The first priority is to support changes and adjustments in the agricultural and food sector. It includes support for farm investment, for setting-up of young farmers, investments in food processing and marketing firms which intend to bring them to EU standards and closer to consumer demands. As a complement to investment aid, soft measures are provided in the form of vocational training and farm advisory services.

625. The second priority is aimed at sustainable development of rural areas. Measures to facilitate land reparcelling and ameliorate agricultural water management as well as infrastructure for farming households are designed to improve farm structure and broader environmental sustainability. Assistance to rural diversification, inter alia into tourism, craft, services and adding value to farm produce are envisaged. Support to village renewal, and improving cultural and natural heritage of rural areas is expected to increase the attractiveness of rural areas for business development. A support is envisaged to Leader+ like activities, which aims to support grassroots level initiatives, and enhance broad institutional co-operation, promote innovation and rural networks. A separate measure is designed to help the forestry potential damaged by a hurricane in north-east Poland.

626. Technical assistance measures are planned to facilitate the monitoring, implementation and evaluation of the SOP.

627. The total public expenditure foreseen for the period 2004–06 is EUR 1 784.1 million of which the EU contribution makes up EUR 1 192.6 million.

5.20. Portugal

5.20.1. Rural development programme (EAGGF Guarantee Section)

628. The total public expenditure for the three rural development programmes (mainland Portugal, Azores and Madeira) is set at EUR 2 005.525 million for the period 2000–06. This includes a contribution from the EAGGF Guarantee Section of EUR 1 516.8 million.

5.20.1.1. Modifications of the RDP

629. Two programmes (mainland and Azores) were modified in 2004.

5.20.1.2. Level of payments in the period from 16 October 2003 to 15 October 2004 (EAGGF Guarantee Section)

630. The 2004 EAGGF Guarantee Section allocation for Portugal was set at EUR 221.4 million. The payments for the same period amounted to EUR 193.275 million, i.e. 87 % of that allocation.

631. Since the beginning of the programming period, overall financial execution for the EAGGF Guarantee Section in Portugal amounted to EUR 843.975 million, which is 55.6 % of the total allocation for 2000–06.

5.20.2. Operational programmes or single programming documents

5.20.2.1. Modifications of the operational programmes

632. All the eight Portuguese OPs (five regional OPs of mainland Portugal — North, Centre, Alentejo, Lisboa e Vale do Tejo and Algarve — OP Madeira, OP Azores and mainland OP ‘Agriculture and rural development’) were modified due to the allocation of the EU performance reserve and the national reserve.

633. The technical assistance OP has included an EAGGF measure from 2004 to 2006 with an amount of EUR 250 000.

634. The national reserve allocated approximately EUR 111 million to the EAGGF with the following distribution: mainland OP 'Agriculture and rural development' EUR 60.5 million; OP Centre EUR 4 million; OP Alentejo EUR 46.86 million.

635. The EAGGF amount allocated to OP Alentejo from the national reserve is to be used in the Alqueva project. In fact, a total of EUR 143.4 million was allocated to this project, of which EUR 46.9 million to the EAGGF (secondary irrigation system) and EUR 96.5 million to the ERDF (primary irrigation system).

636. The performance reserve allocated approximately EUR 58 million to the EAGGF, with the following distribution: OP 'Agriculture and rural development' EUR 45.3 million; OP Madeira EUR 8 million; OP Azores EUR 3 million; OP Lisboa e Vale do Tejo EUR 1.7 million.

637. OP North, Centre and Alentejo each reduced their EAGGF amounts by EUR 1.5 million (transfer of EUR 4.5 million to OP 'Agriculture and rural development').

638. In the context of the mid-term review, a new action ('setting-up and modernisation of small scale handicraft enterprises') was included in the five regional OPs of mainland Portugal and one other in the mainland OP 'Agriculture and rural development' ('Innovative actions for development and improvement of support infrastructures in agriculture').

5.20.2.2. Payments in 2004

639. In 2004, payments for the eight OPs amounted to EUR 334.910 million. As from the beginning of the programming period, payments amounted to EUR 1 036.773 million, i.e. 45.2 % of the total budget (EUR 2 288.977 million) for the period 2000–06, following the mid-term review.

5.20.3. Leader+ programme

640. Portugal has one single national Leader+ programme. The total costs are set at EUR 271.625 million for the period 2001–06. This includes a contribution from the EAGGF Guidance Section of EUR 164.454 million.

641. Since the beginning of the programming period, payments have amounted to EUR 66.926 million, i.e. 4.7 % of the total budget allocation for the same period.

642. In 2004, the Leader+ programme was modified twice: the first modification aimed notably to take into consideration the 2 % indexation of the 2004, 2005 and 2006 commitment appropriations; the second modification aimed at improving certain aspects of the programme management, following the main findings and recommendations of the mid-term evaluation.

5.21. Slovenia

5.21.1. Rural development plans (EAGGF Guarantee Section)

643. The Slovene rural development plan was approved by Commission Decision C(2004) 3224 of 24 August 2004. The financial contribution from the EAGGF amounts to EUR 281.6 million during the period 2004–06, which will be complemented with national public funding of EUR 71.5 million. The rural development plan aims to ensure the goals of the rural development policy through two main priorities: sustainable development of agriculture and the countryside, and economic and social restructuring of agriculture. The first objective shall be achieved through agri-environmental measures and support to less-favoured areas while measures aiming at early retirement and meeting standards shall contribute to economic and social restructuring.

5.21.1.1. Modifications of the RDP

644. No modifications were submitted in 2004.

5.21.1.2. Level of payments in the period from 16 October 2003 to 15 October 2004 (EAGGF Guarantee Section)

645. For 2004, the consolidated financial table lays down an EU contribution of EUR 84.7 million. For the period of 26 February 2004 (the eligibility date) to 15 October 2004, the EU contribution for the plan amounts for EUR 28.16 million which represents the advance payment (10 % of the overall amount for the plan).

5.21.2. Operational programmes or single programming documents

646. The Slovene single programming document was approved by Commission Decision C(2004) 2122 of 18 June 2004. One of the four identified priorities of this programme is restructuring of agriculture, forestry and fisheries. Within this priority, the financial contribution from the EAGGF amounts to EUR 23.6 million during the period 2004–06, which will be complemented by national public funding of EUR 23.6 million. As regards measures supported through the EAGGF, emphasis is laid on increasing economic efficiency and competitiveness and meeting demands for food safety and quality. Importance is also given to forest management in order to improve their economic and ecological value and functions. This is closely connected with support to development of tourism and promotion of alternative income sources in rural areas. The whole territory of Slovenia is classified as an Objective 1 area.

5.21.3. OP or SPDs modified

647. No modifications were submitted in 2004.

5.22. Slovakia

5.22.1. Rural development plans (EAGGF Guarantee Section)

648. The rural development plan of Slovakia 2004–06 was approved in July 2004, by Commission Decision C(2004) 3238. The budget of the programme represents EUR 397.1 million, which is completed by EUR 123.5 million from the Slovak national budget and by EUR 41.1 million from private expenditure. The overall amount allocated for the rural development plan is EUR 561.8 million. The plan has two priorities and contains 14 measures. The global objective of the plan is to improve efficiency in the agricultural production sector and the quality of life of rural populations — 'Multifunctional agriculture and sustainable rural development'.

649. The specific objectives of the plan are to:

(a) support the development of the rural economy and to guarantee improvement of the standard of life of rural populations;

(b) improve the development of rural areas through access to infrastructure services, thus retaining the population of rural communities;

(c) guarantee environmental protection and biodiversity of rural environments, while taking care of sustainability of utilisation of rural resources.

5.22.1.1. Modifications of the RDP

650. No modifications were submitted in 2004.

5.22.1.2. Level of payments in the period from 16 October 2003 to 15 October 2004 (EAGGF Guarantee Section)

651. The advance payments from the Commission have been transferred.

5.22.2. Operational programmes or single programming documents

652. The Slovak operational programme 'Agriculture and rural development' was approved by Commission Decision C(2004) 2791 of 12 July 2004. The financial contribution from the EAGGF amounts to EUR 181.158 million during the period 2004–06, which will be complemented by national public funding of EUR 72.8 million. Major attention has been given to the maintenance and creation of competitive jobs in the rural areas. Therefore the Slovak operational programme is focused on investments in the farming sector (including the diversification of farm activities), as well as in the processing and marketing sector, the fisheries and the forestry sector. These investments in the rural economy will not only create sustainable and competitive jobs, they will also significantly contribute to the improvement of the rural environment, the improvement of animal welfare and food safety. As a precondition for investments in the rural economy, two major obstacles have to be tackled urgently: the problem of land ownership and improvements in the field of professional skills. Therefore, specific attention within the programme will be paid to activities in the areas of land consolidation and trainings.

5.23. Finland

5.23.1. Rural development programme (EAGGF Guarantee Section)

653. In 2000, the Commission approved three rural development programmes, two for continental Finland and one for the Åland Islands, which is an autonomous province of Finland.

5.23.1.1. Modifications of the RDP

654. No modifications were submitted in 2004.

5.23.1.2. Level of payments in the period from 16 October 2003 to 15 October 2004 (EAGGF Guarantee Section)

655. For this period Finland claimed an EU contribution for the programmes of approximately EUR 330 million. This means that the total budget of EUR 321 million was (over) spent (3 %).

656. From the beginning of the programming period, global financial execution for the EAGGF Guarantee Section is 70 % in relation to the total budget foreseen for 2000–06, i.e. EUR 4 000.5 million on a total of EUR 5 711.1 million.

5.23.2. Operational programmes or single programming documents

657. In 2000, the Commission approved two single programming documents (SPDs) for Objective 1 implemented in Finland: eastern Finland and northern Finland.

5.23.2.1. Level of payments in 2004

658. After four years of implementation, an amount of EUR 78.79 million (39.97 %) has been paid out of the total budget 2000–06.

5.23.3. Leader+ programme

659. In 2001, the Commission approved one Leader+ programme for Finland; 25 local action groups (LAGs) were selected and are supported by a national network.

660. After three years of implementation of the programme, an amount of EUR 19.08 million (54.6 %) has been paid out of EUR 34.94 million committed in 2001–04.

5.24. Sweden

5.24.1. Rural development programme (EAGGF Guarantee Section)

661. In 2000, the Commission approved one rural development programme (accompanying measures covering the entire country, other measures covering non-Objective 1 regions). The total public cost of the Swedish rural development programme 2000–06 is EUR 2 558.7 million, including a contribution of EUR 1 129.9 million from the EAGGF Guarantee Section. The programme includes support for investments in agricultural holdings, setting-up of young farmers, training, less-favoured areas, agri-environment, improving processing and marketing of agricultural products, afforestation of non-agricultural land, and promoting the adaptation and development of rural areas and forestry.

5.24.1.1. Modifications of the RDP

662. A proposal to modify the rural development programme for Sweden, for which a Commission decision is required, was submitted to the Commission in July. The modification proposal concerned agri-environment and promoting the adaptation and development of rural areas and was considered by the management committee in December with a view to having a Commission decision adopted early 2005.

5.24.1.2. Level of payments in the period from 16 October 2003 to 15 October 2004 (EAGGF Guarantee Section)

663. The level of payment is 98.08 % (expenditure/envelope); the total expenditure amounts to EUR 163.79 million compared with an envelope of EUR 167 million.

664. From the beginning of the programming period, global financial execution for the EAGGF Guarantee Section is 72.5 % in relation to the total budget foreseen for 2000–06, i.e. EUR 819.1 million on a total of EUR 1 129.9 million.

5.24.2. Operational programmes or single programming documents

5.24.2.1. Level of payments in 2004

665. In 2000, the Commission approved the Objective 1 programmes for Norra Norrland and Södra Skogslänsregionen.

666. After four years of implementation, the financial execution is 38.83 % in relation to the funds committed in the beginning of the programming period for Objective 1 Norra Norrland. The corresponding figure for Objective 1 Södra Skogslänsregionen amounts to 45.76 %. This means that, for Objective 1 Norra Norrland, an amount of EUR 20 33 million has been paid out of the EUR 52.34 million available for the period 2000–06. The corresponding figures for Objective 1 Södra Skogslänsregionen amount to EUR 29.15 and 63.7 million.

5.24.3. Leader+ programme

667. In 2001, the Commission approved one Leader+ programme. In total, 12 local action groups have been selected.

668. After four years of implementation, the financial execution is 34.66 % in relation to the amount available for the whole programming period, thus EUR 14.04 million paid out of the EUR 40.5 million available for the whole programming period.

669. During 2004, an additional amount of EUR 715 200 was allocated to the programme as a result of indexation for 2004–06.

5.25. United Kingdom

5.25.1. Rural development programme (EAGGF Guarantee Section)

670. There are four rural development programmes for the period 2000–06: England, Northern Ireland, Scotland and Wales. The total cost for these programmes is EUR 3 200 million, of which the EAGGF Guarantee Section contributes with EUR 1 168 million.

5.25.1.1. Modifications of the RDP

671. The respective authorities of the United Kingdom notified the Commission of modifications to the rural development programmes for England, Scotland, Northern Ireland and Wales. The changes concerned the measures for training, less-favoured areas, agri-environment, forestry and the adaptation and development of rural areas.

672. Proposals to modify the rural development programmes for England, Scotland, Wales and Northern Ireland for which a Commission decision is required were submitted to the Commission in 2004. The modifications concern the measures for support to less-favoured areas, for agri-environment and animal welfare. In the case of the Scotland modification, it was proposed to introduce the measures for training, the adaptation and development of rural areas and participation in food quality schemes. The Northern Ireland 2003 modification to the LFA measure was approved by Commission decision of 29 November 2004.

5.25.1.2. Level of payments in the period from 16 October 2003 to 15 October 2004 (EAGGF Guarantee Section)

673. The level of payment for all UK rural development programmes is 91 % of the EAGGF envelope for 2004. The total expenditure amounts to EUR 155 million compared with an envelope of EUR 171 million.

674. From the beginning of the programming period, global financial execution for the EAGGF Guarantee Section is 68 % in relation to the total budget foreseen for 2000–06, i.e. EUR 789 million on a total of EUR 1 168 million.

5.25.2. Operational programmes or single programming documents

675. EAGGF Guidance Section support is available only in regions eligible for Objective 1 (or regions in transition): Cornwall and the Scilly Isles, Merseyside, Northern Ireland (in transition), South Yorkshire, Highlands and Islands (in transition) and West Wales and the Valleys. In addition, the EAGGF Guidance Section contributes to the special programme Peace II for Northern Ireland and the border counties of Ireland.

676. Merseyside, Highlands and Islands and West Wales received in 2004 supplementary money from the performance reserve.

5.25.2.1. Level of payments in 2004

677. The total amount paid by the end of 2004 was EUR 114 million (32 % of the total budget foreseen for the 2000–06 programming period, i.e. EUR 354 million). Further claims for payment were made before the end of December 2004 and these will be paid in 2005. All the programmes reached their respective n + 2 targets.

678. The total amount paid out of the EAGGF Guidance Section for the Peace II programme managed jointly with Ireland was EUR 18 million (41 % of the envelope of EUR 44 million for the years 2000–04).

5.25.3. Leader+ programme

679. The UK has four Leader+ programmes: England, Northern Ireland, Scotland and Wales with 55 local action groups. The total cost of the four programmes amounts to EUR 266 million, of which the EAGGF contributes with EUR 113 million.

680. By the end of 2004, a total amount EUR 31 million was paid (27 % of the total budget for the 2000–06 programming period).

681. All the programmes reached their respective n + 2 targets.

6. Environment and forestry

6.1. Other environmental measures

682. In the wake of its January 2000 and March 2001 communications entitled 'Indicators for the integration of environmental concerns into the common agricultural policy' ([76]) and 'statistical information needed for indicators to monitor the integration of environmental concerns into the common agricultural policy' ([77]), the Commission provided the conceptual input for the IRENA ([78]) project and presented an analytical framework including the identification of a set of 35 agri-environmental indicators as well as the available sources of information for compiling that set of indicators. IRENA follows a memorandum of understanding for cooperation on agri-environmental indicators between several Commission services and the European Environment Agency. Fact sheets for the 35 indicators, an indicator report and an indicator-based assessment report were produced in 2004. A Commission communication (in the fourth quarter 2005) will report to the Council and to the European Parliament on the development of agri-environmental indicators and on potential data needs to improve, update and extend the indicators.

683. Implementation of the biodiversity action plan (BAP) for agriculture ([79]), adopted by the Council in June 2001 and by the European Parliament in March of the following year, also continued in 2004. The action plan sets specific targets and priority tasks. It also indicates the main instruments to be used to contribute to the conservation of biodiversity in agriculture. The Commission presented a report on the implementation of the various sectoral action plans, including agriculture, at the high-level conference on biodiversity which took place in Malahide (Ireland) and which was organised jointly by the Irish Presidency and the Commission in May 2004. A specific ad hoc working group was established in 2003 and met several times at the end of 2003 and the beginning of 2004 to take stock of the main achievements related to the relevant policy measures of the BAP for agriculture as implemented at Community and national levels. Its contribution was included in the Commission report presented at Malahide. The outcome of the Malahide Conference was discussed in the Council (Environment) in June

([76]) COM(2000) 20 final.
([77]) COM(2001) 144 final.
([78]) IRENA is the acronym of 'Indicators report on the integration of environmental concerns into agriculture policy'.
([79]) COM(2001) 162 final, Volume III.

2004. Council conclusions were adopted, requesting the Commission to define priorities and targets in all sectors concerned and to propose in 2005 specific measures able to contribute to the objective of halting European biodiversity loss by 2010.

684. Council Regulation (EC) No 870/2004 establishing a Community programme on the conservation, characterisation, collection and utilisation of genetic resources in agriculture ([80]) was adopted in May 2004. This new Community programme covers actions that aim to support, complement or coordinate at Community level work undertaken at local, regional, or Member State level in line with the aims of the CAP towards sustainable agriculture. Smaller-scale measures may also cover *in situ*/on-farm genetic resources conservation activities (reproduction of genetic resources by farmers, on their own farm). The actions will be transnational, taking into account, where appropriate, bio-geographic regional aspects. The work programme for the implementation of the Community programme is foreseen to be adopted by the Commission in December 2004.

685. Agriculture plays a determining role in other Community initiatives aimed at safeguarding the environment. The measures currently being carried out to protect surface water and groundwater ([81]) are one example of this. Under the nitrates directive, Member States must draw up action plans in designated vulnerable zones in order to reduce nitrate pollution at source. The 1979 birds directive is another relevant Community initiative, which obliges Member States to protect the habitats of their wild bird populations. Lastly, an ecological network known as 'Natura 2000' has been set up under the 1992 habitats directive. The lists of sites of Community importance for the Macaronesian ([82]) and Alpine ([83]) biogeographical regions were adopted by the Commission respectively in 2001 and 2003. In order to address the issue of appropriate Community financial support for the implementation of the Natura 2000 network, the Commission adopted in July 2004 a communication on financing Natura 2000 ([84]). It proposed to integrate the funding of Natura 2000 into other relevant Community policies, such as the rural, regional and environmental policies. One of the instruments that could contribute to the financing of Natura 2000 is the financial instrument for the environment, LIFE+. A proposal ([85]) for a regulation of the European Parliament and of the Council concerning the said instrument was adopted by the Commission in September 2004.

686. Other recent initiatives include the Commission communication entitled 'Towards a thematic strategy on the sustainable use of pesticides' ([86]), the purpose of which is to launch a broad consultation to assist in the development of a thematic strategy on the sustainable

([80]) COM(2003) 817 final.
([81]) COM(2003) 550 final.
([82]) OJ L 5, 9.1.2002, p. 16.
([83]) OJ L 14, 21.1.2004, p. 21.
([84]) COM(2004) 431 final.
([85]) COM(2004) 621 final.
([86]) COM(2003) 349 final.

use of pesticides. This strategy is to complement the existing legislative framework, which focuses on the beginning and end of the life cycle of pesticides. The Commission also presented a communication entitled 'Towards a thematic strategy for soil protection' ([87]), which constitutes a first step towards drawing up a genuine Community protection strategy and is both descriptive and action-orientated, thus providing a full picture of this complex issue that can serve as a basis for future work. The Commission communication 'Towards a thematic strategy on the sustainable use of natural resources' ([88]) also seeks to stimulate debate on a framework for exploiting and managing resources in line with the objectives of the European Union's rural development strategy. A further example is Directive 3004/35/EC on environmental liability with regard to the prevention and remedying of environmental damage ([89]), adopted by the European Parliament and the Council in April 2004. This directive aims at setting up a system of environmental liability under the 'polluter pays' principle to prevent or repair environmental damage affecting biodiversity, water and soil.

In January 2004, the Commission published its communication 'Stimulating technologies for sustainable development: An environmental technologies action plan for the European Union' ([90]).

687. Following the adoption in 2003 of Commission Recommendation 2003/556/EC ([91]) on guidelines for the development of national strategies and best practices to ensure the coexistence of genetically modified crops with conventional and organic farming, several Member States notified national or regional measures to the Commission during 2004. The Commission evaluated these notifications according to the principles stated in the recommendation. In 2005, the Commission will report to the Council and the European Parliament, based on information from Member States, on the experience gained in the Member States concerning the implementation of measures to address coexistence, including, if appropriate, an evaluation and assessment of all possible and necessary steps to take.

6.2. Other forestry measures

688. In the context of the protection of forests against atmospheric pollution (Council Regulation (EEC) No 3528/86) ([92]) and fires (Council Regulation (EEC) No 2158/92) ([93]), the Commission continued the management of projects and national programmes 2000, 2001 and 2002.

([87]) COM(2003) 179 final.
([88]) COM(2003) 572 final.
([89]) OJ L 143, 30.4.2004, p. 56.
([90]) COM(2004) 38 final.
([91]) OJ L 189/36, 29.7.2003.
([92]) OJ L 326, 21.11.1986, pp. 2–4 (Finnish and Swedish special editions, Chapter 3, Volume 22, p. 59).
([93]) OJ L 217, 31.7.1992, p. 3 (Finnish and Swedish special editions, Chapter 3, Volume 44, p. 3).

689. The Commission has launched the EFICP (European forestry information and communication platform) preparatory action. The purpose of the preparatory action is to develop a forest information and communication platform, which will be the basis for an Internet-based information and communication system in the forestry sector at EU level. The main objective is to facilitate the access to and use of forest-related information sources and databases in the EU.

690. Implementation report of the EU forestry strategy. The Council resolution of 15 December 1998 on a forestry strategy ([94]) for the EU stipulates that the Commission should present an implementation report of the forestry strategy in five years. The Commission is currently preparing this implementation report in close cooperation with the Member States and in open consultation and dialogue with relevant interest groups. Between 13 August and 22 September 2004, the Commission carried out an Internet-based consultation in order to obtain the opinion of relevant stakeholders on a draft version of the Commission staff working document on the implementation of the EU forestry strategy.

691. Within the context of the Ministerial Conferences on the Protection of Forests in Europe (MCPFE), the Commission took part in the MCPFE expert level meeting held in Warsaw on 14–15 October 2004. The meeting focused on the review of progress in the implementation of the work programme adopted after the Fourth Ministerial Conference on the Protection of Forests in Europe (Vienna, 2003). The MCPFE process involves more than 40 European countries, including all EU-25 Member States, and the European Community.

([94]) OJ C 56, 26.2.1999.

7. Financing of the CAP in 2004

692. CAP expenditure is funded under the financial perspectives decided at the Berlin Summit in 1999 and adjusted at the Copenhagen Summit at the end of 2002 to take account of the financial effects of the enlargement of the Union to include the 10 new countries. Thus, new ceilings apply for the EU-25 as of the budget year 2004.

693. The financial perspectives for the EU-15 and EU-25 for the budget years 2004–06 are as follows:

(million EUR)

	2000 current prices	2001 current prices	2002 current prices	2003 current prices	2004 current prices	2005 current prices	2006 current prices
Total for CAP under Agenda 2000	41 738	44 530	46 587	47 378	49 305	51 440	52 618
(a) markets (subheading 1a)	37 352	40 035	41 992	42 680	42 769	44 599	45 502
(b) rural development (subheading 1b)	4 386	4 495	4 595	4 698	6 536	6 841	7 116

7.1. EAGGF Guarantee Section

7.1.1. Budgetary procedure

7.1.1.1. Stages of the budgetary procedure

694. The 2004 preliminary draft budget (PDB) (containing estimates for the EU-10) was adopted by the Commission and proposed to the budgetary authority in May 2003. The appropriations proposed for the EAGGF Guarantee Section totalled EUR 47 873.9 million, i.e. EUR 41 337.9 million for subheading 1a and EUR 6 536.0 million for subheading 1b.

695. The Council adopted the 2004 draft budget (containing estimates for the EU-10) in July 2003. The appropriations in subheading 1a were reduced by EUR 160.0 million as compared with the PDB while the ones for subheading 1b were maintained at the level of the PDB. EAGGF Guarantee Section appropriations accordingly totalled EUR 47 713.9 million, of which EUR 41 177.9 million for subheading 1a and EUR 6 536.0 million for subheading 1b.

696. At the end of October 2003, the Commission adopted Letter of Amendment No 2/2004 to the preliminary draft budget (containing estimates for the EU-10) in order to take account of developments on the agricultural markets and recent agricultural legislation. The amending letter to the PDB set appropriation requirements for the 2004 financial year at EUR 46 781.4 million, of which EUR 40 245.3 million was allocated to market measures and EUR 6 536.0 million to rural development.

697. In December 2003 following the consultation procedures between the three institutions, the budget for 2004 (for the EU-15) was adopted as follows:
- for subheading 1a, appropriations for 2004 were fixed at EUR 39 958.4 million, i.e. EUR 2 810.6 million below the ceiling;
- for subheading 1b, appropriations for 2004 were fixed at EUR 4 803.0 million, i.e. EUR 1 733.0 million below the ceiling.

698. In April 2004, the budgetary authority adjusted, through BRS 1/2004, the 2004 budget for the EU-25 as follows:
- for subheading 1a, appropriations for 2004 were fixed at EUR 40 245.3 million, i.e. EUR 2 523.7 million below the ceiling;
- for subheading 1b, appropriations for 2004 were fixed at EUR 6 536.0 million, i.e. at the level of the ceiling.

699. In December 2004, the budgetary authority reduced, through BRS 10/2004, the 2004 budget's appropriations as follows:
- for subheading 1a, appropriations for 2004 were reduced to EUR 38 544.4 million, i.e. EUR 4 224.6 million below the ceiling;
- for subheading 1b, appropriations for 2004 were left at EUR 6 536.0 million, i.e. at the level of the ceiling.

7.1.2. The EAGGF Guarantee Section in the context of the general budget

700. Of the overall commitment appropriations of EUR 111 300.3 million entered in the 2004 general budget ([95]), an amount of EUR 46 781.4 million, i.e. 42.0 %, was allocated to the Guarantee Section. In 2003, EAGGF Guarantee Section commitments accounted for 44.9 % of commitments in the general budget.

7.1.3. The EAGGF and its financial resources

701. Agricultural policy also generates revenue in the form of sums collected under the common market organisations. This revenue, which forms part of the Union's own resources ([96]), consists of:

([95]) Figures by financial perspective heading. Commitment appropriations — 2004 budget.

([96]) The Union's other own resources are: the levy on VAT, customs duties collected under the common customs tariff and Member States' contributions.

- levies, which are variable charges on imports from non-member countries of agricultural products covered by the common market organisations; such charges are intended to compensate for the difference between prices on the world market and prices agreed within the Union. Under the Agreement on Agriculture following the Uruguay Round of multilateral trade negotiations, levies have been replaced by fixed import duties since 1995;
- levies collected under the common organisation of the market in sugar; these are divided into production levies on sugar and isoglucose, sugar storage levies and additional elimination levies which ensure that farmers and sugar manufacturers finance the cost of disposing of sugar which is surplus to Community internal consumption.

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

(million EUR)

Type of charge	1998	1999	2000	2001	2002	2003 (*)	2004 (**)
Agricultural levies	1 102.2	1 187.3	1 198.4	1 132.9	1 180.2	1 011.8	859.0
Sugar levies	1 070.1	1 203.6	1 196.8	840.0	864.8	383.2	359.9
Total	**2 172.3**	**2 390.9**	**2 395.2**	**1 972.9**	**2 045.1**	**1 395.0**	**1 218.9**

(*) Execution 2003.
(**) Estimates (net) in the 2004 budget.

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

7.1.4. EAGGF Guarantee Section expenditure

7.1.4.1. Expenditure

703. EAGGF Guarantee Section expenditure comprises:

- export refunds (EUR 3 729.6 million in 2003);
- public and private storage (EUR 928.1 million in 2003);

- direct aids ([97]) (EUR 29 692.4 million in 2003);
- other intervention relating to the common market organisations (EUR 5 405.1 in 2003)
- other expenditure, principally rural development (EUR 4 706 million in 2003).

704. Direct payments to producers are thus currently by far the largest type of aid.

705. The EAGGF Guarantee Section also finances the accompanying measures introduced under the CAP reform in 1992 to assist farmers with projects to protect the environment, maintain the landscape, develop the use of woodland resources or transfer their holdings with a view to early retirement, plus, under the 1999 reform, other rural development measures, including compensation granted in less-favoured areas under the second pillar of the CAP.

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

7.1.4.2. Public stocks

707. Between 1 October 2002 and 30 September 2003, when the public storage accounts were closed, the quantities and book value of public intervention stocks developed as follows. The book value of products in storage fell from EUR 1 419.94 million at the end of the 2002 financial year to EUR 1 266.60 million at the end of the 2003 financial year. The share of cereals and rice slightly diminished, these two products now accounting for around 51 % of the total value of products in storage. The remaining 49 % comprises milk products (43.5 %), beef and veal (2 %) and alcohol (3.5 %).

7.1.5. Clearance of accounts

708. The Commission adopted the following decisions on the clearance of EAGGF Guarantee Section accounts:

- decision of 10 April 2003 (2003/273/EC) in respect of the 2000 financial year as regards the paying agency in Greece ([98]);

([97]) Direct payments as defined in the annex to Regulation (EC) No 1259/1999 of 17 May 1999 (OJ L 160, 26.6.1999, p. 113).

([98]) OJ L 99, 17.4.2003, p. 52.

- decision of 7 May 2003 (2003/313/EC) in respect of the 2002 financial year ([99]);
- decision of 14 February 2003 (2003/102/EC) under Article 5(2)(c) of Regulation (EEC) No 729/70 — 12th decision ([100]);
- decision of 15 May 2003 (2003/364/EC) under Article 5(2)(c) of Regulation (EEC) No 729/70 — 13th decision ([101]);
- decision of 27 June 2003 (2003/481/EC) on the financial treatment to be applied in certain cases of irregularity by operators (OLAF) ([102]);
- decision of 22 July 2003 (2003/536/EC) under Article 5(2)(c) of Regulation (EEC) No 729/70 — 14th decision ([103]).

709. The expenditure recovered from Member States comes to EUR 382.49 million (including EUR 5.28 million for OLAF).

710. The agricultural expenditure audit departments also performed the other tasks allocated to them:

- 195 on-the-spot inspection missions in the 15 Member States and 10 Sapard countries, including checking of direct expenditure;
- 51 discussions with the Member States on the findings of inspection missions in respect of 1999, 2000, 2001 and 2002;
- the work of the European Parliament's Budgetary Control Committee in the context of the discharge of the 2001 budget;
- the replies to the Court of Auditors' 2002 annual report, special reports and statement of assurance for 2002;
- the decentralised management of the Sapard programme for new measures at nine Sapard paying agencies;
- active participation in the work of the conciliation body and the control evaluation advisory committee (CEEC — Comité consultatif d'évaluation des contrôles);
- assistance for the Commission's Legal Service in connection with cases before the Court of Justice associated with clearance of accounts and direct expenditure decisions;

([99]) OJ L 114, 8.5.2003, p. 55.
([100]) OJ L 42, 15.2.2003, p. 47.
([101]) OJ L 124, 20.5.2003, p. 45.
([102]) OJ L 160, 28.6.2003, p. 83.
([103]) OJ L 184, 23.7.2003, p. 42.

- the reply to the IAS reports on its enquiries into clearance of accounts work;
- active participation in enquiries conducted by the Task Force Recovery as regards OLAF cases;
- close monitoring of pending cases relating to Greece;
- organisation of seminars and on-the-spot missions in the 10 accession countries as regards the setting-up of paying agencies, the IACS and other agricultural measures.

7.1.6. Expenditure on agricultural markets in 2004

711. The provisional uptake of EAGGF Guarantee Section appropriations for the 2004 financial year (expenditure by the Member States from 16 October 2003 to 15 October 2004) amounted to EUR 44 714.3 million, i.e. 99.2 % of the appropriations entered under Titles 05, 11 and 17 of the budget.

Total expenditure for subheading 1a (the CAP, covering Titles 05, 11 and 17) amounts to EUR 38 293.5 million, i.e. – EUR 251.4 million under the corresponding budget's appropriations.

Total expenditure for subheading 1b (rural development) amounts to EUR 6 420.8 million, i.e. – EUR 115.2 million under the corresponding budget's appropriations.

7.2. EAGGF Guidance Section

712. Implementation of the reform of the Structural Funds since 1 January 1989 has gradually changed the nature of the assistance granted by the EAGGF Guidance Section. In the first programming period from 1989 to 1993, a share of Community contributions was still taken up by the annual reimbursement of national expenditure and the remainder by part-financing of operational programmes. In the second reform of the Structural Funds covering the period 1994–99, the entire Community contribution was programmed in the form of operational programmes.

713. In accordance with the conclusions of the Berlin European Council in 1999, a third programming period for the Structural Funds was introduced to run from 2000 to 2006. EAGGF Guidance Section involvement in this new period on the basis of Council Regulations (EC) Nos 1260/1999 (the general Structural Fund regulation) and 1257/1999 (support for rural development) only covers Objective 1 areas, the Community initiative Leader+ programme and technical assistance.

714. For the new period from 2000 to 2006, there is no decrease in Community support for rural areas, although the EAGGF Guidance Section allocations for the new period might give such an impression. In actual fact, measures targeting agricultural structures and the diversification of rural areas (former Objectives 5(a) and 5(b)) outside Objective 1 regions and compensatory allowances, which up to 1999 were funded by the EAGGF Guidance Section, are now covered by the EAGGF Guarantee Section.

715. Thus, Community support for the four accompanying measures, consisting of compensatory allowances for less-favoured areas and areas subject to environmental constraints (funded up to 1999 by the EAGGF Guidance Section), early retirement, agri-environmental measures and woodland management, is funded out of the EAGGF Guarantee Section throughout the Community. Community support for other rural development measures in areas outside Objective 1 is also funded out of the EAGGF Guarantee Section.

7.2.1. Funding in the new 2000–06 programming period

716. In the new 2000–06 programming period, the EAGGF Guidance Section contributes to Objective 1 (regions whose development is lagging behind), the Leader+ initiative and technical assistance as indicated above. It also continues to cover payment commitments under programmes from previous periods which were wound up by 31 December 2001 and the final balance of which will in principle be paid by the end of 2005.

717. However, by way of exception, an amount of EUR 148 million was committed in 2000 to cover the outstanding part of the last tranche (1999) of the 1994–99 programming period. This was because, as a result of the lack of budget allocations at the end of the 1999 financial year and the late adoption of the last programming adjustment decisions outside the accounting deadline, it was not possible to commit all of the 1994–99 Structural Fund CSF programmes and Community initiative programmes in 1999 (Tables 7.2.1a and 7.2.1b).

718. The new programmes for the EAGGF Guidance Section part of Objective 1 and Peace programme comprise 70 single programming documents and operational programmes, of which only 35 were adopted by a Commission decision in time to be covered by commitments/payments in the 2000 financial year on account of delays in the approval procedure in 2000. At the beginning of 2001, authorisation was granted to carry over commitment appropriations for 20 other programmes from 2000 to 2001 and, for the remaining 15 programmes, a request was made, in accordance with the 1999 interinstitutional agreement, for the appropriations to be transferred from 2000 to 2002–06. As a result, in 2001 all the 70 OPs/SPDs had been adopted.

719. As regards the Leader+ initiative, on account of a lengthier procedure following the adoption of the guidelines, none of the 73 programmes provided for was adopted by the end of 2000 and, consequently, it was requested in 2001 that all the appropriations be transferred from 2000 to 2000–06. Seventy programmes were adopted in 2001 and the remaining three were adopted in 2002.

Table 7.2.1a — Expenditure by objective, 2000–06 period

(commitment appropriations, million EUR)

Objective	2000	2001	2002	2003	2004	2005	2006
Community support frameworks							
Objective 1: 2000–06 period (regions lagging behind)	1 239.3	3 237.2	2 639.1	2.764.1			
Former Objectives 1 and 6 (1994–99 period)	76.9	******	******	*****	*****	******	******
Former Objective 5(a) (1994–99 period)	29.4	******	******	******	******	******	******
Former Objective 5(b) (1994–99 period)	1.0	******	******	******	******	******	******
Community initiatives							
Leader+: 2000–06 period	0.0	271.3	356.8	346.6			
Previous CIPs (1994–99 period)	37.0	******	******	******	******	******	******
Technical assistance							
2000–06 period: innovative measures and technical assistance	0.0	0.0	1.1	1.4			
Previous transitional measures/technical assistance (1994–99 period)	3.7	0.3	******	******	******	******	******
Total	**1 387.3**	**3 508.8**	**2 997.0**	**3 112.1**			

Table 7.2.1b — Expenditure by objective, 2000–06 period

(payment appropriations, million EUR)

Objective	2000	2001	2002	2003	2004	2005	2006
Community support frameworks							
Objective 1: 2000–06 period (regions lagging behind)	587.6	1 276.9	1 474.7	2.166.9			
Former Objectives 1 and 6 (1994–99 period)	1 353.2	488.3	5.1	176.5			
Former Objective 5(a) (1994–99 period)	803.1	69.4	79.2	89.2			
Former Objective 5(b) (1994–99 period)	629.9	142.9	26.1	66.2			
Community initiatives							
Leader+: 2000–06 period	0.0	81.9	74.9	87.6			
Previous CIPs (1994–99 period)	178.4	79.8	10.3	17.3			
Technical assistance							
2000–06 period: innovative measures and technical assistance	0.0	0.0	0.2	1.7			
Previous transitional measures/technical assistance (1994–99 period)	6.5	5.8	1.6	7.5			
Total	**3 558.7**	**2 145.0**	**1 672.1**	**2 612.9**			

7.2.2. Execution of 2003 budget

720. In terms of the appropriations available in 2003, including those originally entered in the budget together with transfers and carryovers (EUR 3 119.1 million in commitment appropriations and EUR 3 052.9 million in payment appropriations), execution of the 2003 budget for the whole of the EAGGF Guidance Section was 99.8 % (EUR 3 112.1 million) for commitment appropriations and 85.6 % (EUR 2 612.9 million) for payment appropriations (Table 7.2.2).

721. The year 2003 was the fourth in the new 2000–06 programming period, in which the source of funding for rural development programmes depends on the type of measure and the geographical area.

722. The EAGGF Guarantee Section continued to finance, across the whole of the EU territory, the three accompanying measures introduced with the 1992 CAP reform, to which the compensation scheme for farmers in less-favoured areas was added from 2000 (which up to 1999 was covered by the EAGGF Guidance Section).

723. For all other rural development measures, the source of financing is differentiated according to the geographical context:

- in regions eligible under Objective 1 (regions whose development is lagging behind), the EAGGF Guidance Section will continue to finance rural development measures which will be fully integrated as at present into development programmes, in combination with the other Structural Funds;
- outside the Objective 1 regions, the source of finance for rural development measures will be the EAGGF Guarantee Section.

724. For Objective 1, execution in 2002 represents the fourth instalment committed in respect of the 55 programmes adopted in 2000, and the third instalment committed in respect of the 15 programmes adopted in 2001, which were rebudgeted. All payments (EUR 2 166.9 million) executed in 2003 were reimbursements made for the 70 current programmes, representing an amount equivalent to 79 % of the instalment committed in 2003.

725. For the Leader+ initiative, the commitments made in 2003 were for the third instalment of the 51 programmes adopted in 2001 and the second and third instalments of the 22 remaining programmes adopted late in 2001. All (EUR 87.5 million) payments made in 2003 were reimbursements, representing an amount equivalent to 25 % of the instalment committed in 2003.

726. For programmes from previous programming periods, payments executed in 2003 were EUR 356.7 million, representing an amount equivalent to 49 % of the payment appropriations in 2003. This level of utilisation of payment appropriations is attributable to the

Table 7.2.2 — Implementation of EAGGF Guidance Section budget in 2003

	Total	2000–06 programming period			
		Objective 1	Peace (Objective 1)	Leader+	Innovative measures/ technical assistance
A — Commitments					
Belgique/België	9.724	6.965		2.500	0.260
Danmark	2.8			2.800	
Deutschland	553.434	509.864		43.570	
Elláda	412.394	382.294		30.100	
España	864.084	782.387		81.698	
France	147.768	103.668		44.100	
Ireland	35.291	24.790	2.601	7.900	
Italia	563.533	516.834		46.699	
Luxembourg	0.300			0.300	
Nederland	14.300	0.700		13.600	
Österreich	19.309	6.103		12.400	0.807
Portugal	348.384	321.784		26.600	
Suomi/Finland	40.166	31.066		9.100	
Sverige	23.342	16.742		6.600	
United Kingdom	77.256	52.270	6.073	18.600	0.313
Others					
Total	**3 112.085**	**2 755.466**	**8.674**	**346.566**	**1.380**
B — Payments					
Belgique/België	16.047			0.026	0.654
Danmark	1.043			1.043	
Deutschland	545.407	477.813		4.688	
Elláda	136.282	129.292		6.990	
España	810.060	792.439		16.003	
France	102.360	91.305		10.555	
Ireland	16.610	4.182	0.000	2.124	
Italia	577.802	334.502		3.594	
Luxembourg	0.100			0.100	
Nederland	4.198	0.586		3.612	
Österreich	25.934	6.498		4.519	0.687
Portugal	294.151	263.659		22.524	
Suomi/Finland	23.435	18.312		4.861	
Sverige	22.243	14.653		3.969	
United Kingdom	37.002	33.658	0.000	2.949	0.348
Others					
Total	**2 612.843**	**2 166.898**	**0.000**	**87.558**	**1.689**

Previous programming periods				
Former Objectives 1 and 6	Former Objective 5(a)	Former Objective 5(b)	Former CIPs	Former transitional measures
14.000	1.147			0.219
	51.424	5.757		5.726
0.358		0.565	0.664	0.031
				0.500
10.270				0.034
150.496	26.816	54.604	7.663	0.127
	7.002	5.316	1.835	0.077
1.341			6.537	0.091
			0.051	0.210
	2.852		0.356	0.412
				0.048
			0.170	
176.465	**89.241**	**66.241**	**17.276**	**7.475**

fact that the outstanding payments constitute the final balance payable under these programmes, for which it is necessary to submit the rather complex final implementing report giving the results of the checks carried out. The Member States were therefore late in presenting the requests for final balances, which were submitted to the Commission by 31 March 2003. The final balance of these programmes from previous periods must in principle be paid by the end of 2005.

7.3. Evaluation

727. The Directorate-General for Agriculture and Rural Development carries out regular evaluations of common market organisations and measures applicable to agriculture. The purpose of these evaluations is to contribute to policy preparation and decision-making by providing information on the effectiveness, efficiency and impact of measures financed by the CAP. Evaluations examine in particular the impact of CAP measures on market equilibrium, producers' incomes and production structures, the environment and rural development. Evaluation reports are publicly available on the Europa website.

7.3.1. Evaluation of market-related measures

728. In the field of market policies, evaluations of the tobacco and olive oil CMOs were completed. A contract was signed for wine; a call for tenders was published for bananas and preparatory work is well advanced on pork, eggs and poultry, as well as the environmental effects of CMOs relating to permanent crops.

7.3.2. Evaluation of structural and rural development measures

729. In the field of rural development policies, a study on mainstreaming Leader innovations launched in 2003 was finalised en 2004.

8. Enlargement

8.1. Main developments

8.1.1. Agricultural accession negotiations and related activities

730. The Accession Treaty for the 10 acceding countries entered into force on 1 May 2004. The regulation ([104]) adapting the texts of the CAP reform to take account of enlargement and the decision ([105]) adapting the Act of Accession to take account of the CAP reform were adopted on 22 March 2004. Reinforced monitoring of the acceding countries was carried out up to the end of the pre-accession period.

731. The Agriculture and Rural Development DG contributed to Phare and transition facility programming (i.e. support for institution building) for the 10 in relation to agriculture and rural development.

732. Negotiations with Bulgaria and Romania on all chapters were completed in December 2004. The European Council of 16–17 December approved the timetable set out in the Commission's strategy paper on the enlargement process (COM(2004) 657 final), whereby Bulgaria and Romania join the EU from January 2007 subject to certain safeguards. Meanwhile, monitoring of the commitments made by Bulgaria and Romania during the negotiations continued, in particular through 'peer review' missions carried out in the summer. Preparation of the Accession Treaty began mid-2004; signature is programmed for April 2005.

733. The Agriculture and Rural Development DG worked closely with the Enlargement DG on preparing the Commission's impact study on Turkish accession, drafting the chapter on agriculture and contributing to the chapters on economic and budgetary matters. The Commission recommendation of 6 October (COM(2004) 656 final) proposed opening negotiations with Turkey, to start with the organisation of screening (comprehensive process of examination) of the *acquis*. The European Council of 16–17 December decided that negotiations should be opened with Turkey on 3 October, subject to various conditions. To this

([104]) Council Regulation (EC) No 583/2004 (OJ L 91, 30.3.2004, p. 1).
([105]) Council Decision 2004/281/EC (OJ L 93, 30.3.2004, p. 1).

end, the European Council invited the Commission to prepare a negotiating framework for the Council. The Agriculture and Rural Development DG is contributing to the production of this framework.

734. Substantial contributions were made to the Commission opinion on Croatia's application for accession, adopted on 20 April. The abovementioned strategy paper on the enlargement process set out a proposed pre-accession strategy and recommended financing for Croatia's inclusion in the existing Phare, ISPA and Sapard instruments. The European Council of 16–17 December invited the Commission to prepare a negotiating framework for the Council with a view to opening accession negotiations with Croatia on 17 March 2005, provided that there is full cooperation with the ICTY. Negotiations will start with organisation of screening of the *acquis*. In the meantime, work continues in the context of the stabilisation and association agreement, as requested by the Council in June 2004.

735. The Agriculture and Rural Development DG contributed substantially to the questionnaire handed over to the government of former Yugoslav Republic of Macedonia on 1 October, to be completed as a prerequisite for consideration of its membership application.

736. The result of the referendum on the reunification of Cyprus having proved negative, the Council adopted on 29 April the 'Green line' regulation ([106]) setting out the terms under which the relevant provisions of EU law apply to the frontier between the north and south of the island. The Agriculture and Rural Development DG has been fully involved in the drafting and implementation of this regulation, and in the Commission's subsequent proposals on direct trade and financial aid. The DG also contributed to the most recent Commission proposal in this area, which concerns amendments to the 'Green line' regulation to facilitate future liberalisation of trade in agricultural products, in particular citrus fruit. All three proposals (direct trade, financial aid and 'Green line' amendment) are currently blocked in the Council by Cyprus.

8.1.2. Sapard

737. Eight out of 10 Sapard beneficiary countries became Member States on 1 May 2004. The Commission adopted various provisions to facilitate the transition from Sapard to rural development programming instruments available to new Member States, in particular, rules defining the point at which the countries had to stop contracting under Sapard. The rules also covered the ways to manage projects already contracted under Sapard but for which no funding was available. These rules were adopted in March 2004.

738. In 2004, all Sapard beneficiary countries continued the implementation of their Sapard programmes on the basis of the Commission decisions regarding conferral of manage-

([106]) Council Regulation (EC) No 866/2004 (OJ L 161, 30.4.2004, p. 128).

ment adopted in 2001, 2002 and 2003. For the following countries, further conferral decisions were adopted in 2004, which permitted them to start the implementation of additional measures envisaged in their programmes: in February for Estonia, and in April for Slovenia and Hungary.

739. As at the end of 2004, EUR 2 215 million (cumulative amount of Community contribution) has been committed to final beneficiaries by the 10 Sapard agencies, corresponding to 102 % of the available Community funds for the years 2000–03 and relating to 37 444 approved projects. The situation regarding the countries which joined the Union in May and the other two which are due to join at a later stage is as follows.

- All new Member States have continued contracting projects under Sapard up until the moment when they were able to start contracting under the new rural development instrument in accordance with the provisions of Commission Regulation (EC) No 1419/2004. A total of 34 541 projects, corresponding to EU 1 496 million of EU contribution has been committed by the national Sapard agencies to the final beneficiaries. This amount represents 112 % of the EU contribution available under Sapard. According to Regulation (EC) No 1418/2000 this level of ‘over commitment’ can be, if needed, co-financed by their relevant rural development programmes.

- The Bulgarian and Romanian Sapard agencies in total contracted 2 903 projects involving EUR 719 million of EU contribution. This amount represents 84 % of the amount available for 2000–03 and around 45 % of the amount available for their entire programming period (2000–06).

740. In relation to 2003 expenditure, the Commission by its decision of 28 September 2004 cleared the accounts of the Sapard agencies in seven countries. The decisions clearing the accounts of the three remaining countries will be taken at a later stage.

741. The mid-term evaluation reports of the Sapard programmes were analysed by the Commission in 2004. Relevant conclusions and recommendations of the reports were taken into account for the purpose of modifying the programmes for Bulgaria and Romania. This information was considered for post-accession instruments for the new Member States.

742. Modifications of the Sapard programmes for six countries were approved by seven Commission decisions during 2004. The main purposes of the modifications were the following: (i) adjustment of the programmes in preparation for accreditation; (ii) update of the financial tables, and (iii) revision of certain aspects of the accredited measures in the light of the experience in implementation and/or of the results of the mid-term evaluation (sectors covered, eligibility conditions, rate of public aid, ranking criteria, etc.).

743. Furthermore, all 10 counties submitted their annual reports on the progress achieved in relation to the implementation of the Sapard programmes to the Commission.

744. An amendment to the financing agreements 2003 was signed with Bulgaria and Romania allocating unused credits for assistance under Article 7(4) of the Sapard regulation. For the countries which became Member States in 2004, such unused credits were allocated by Commission Regulation (EC) No 1419/2004 of 4 August 2004. This regulation sets out the rules regarding the continuation of the application of the annual and multiannual financing agreements in the new Member States until the closure of the Sapard programmes, including certain necessary adaptations of these agreements to take into account the new status of these countries.

745. On 16 November, the Council adopted a modification of the Sapard Regulation (EC) No 1268/1999 of 21 June 1999. The modification was made in order to allow Bulgaria and Romania to benefit from similar conditions as those granted to the new Member States, namely a Leader-type measure and the improved aid limits.

746. Additionally, the Council adopted on 20 December 2004 Regulation (EC) No 2257/2004 modifying the three pre-accession instruments, Phare, ISPA and Sapard, to take into account Croatia's candidate status

747. Furthermore, a draft annual financing agreement 2004 was adopted by the Commission allowing to start negotiations with Bulgaria and Romania. A total amount of EUR 225.2 million in commitment appropriations was assigned to the instrument for 2004.

748. One of the constraints identified by the Commission in respect of the implementation of Sapard concerned the difficulties faced by farmers and rural businesses in gaining access to suitable credit facilities for co-financing their projects. The Commission has therefore adopted a decision to expand the scope of the Phare SME financial facility to include a 'rural sub-window'. The facility is being implemented by the Council of Europe Development Bank in cooperation with Kreditanslalt für Wiederaufbau (CEB/KfW) and by the EBRD. Contribution agreements with both IFIs were signed in 2004. The first project began in Bulgaria in 2004.

749. During 2004, the monitoring committees in all beneficiary countries continued their work with the participation of Commission representatives acting in an advisory capacity.

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

750. On 28 June 2004, the panel requested by Brazil (WT/DS269) and Thailand (WT/DS286) on the EC customs classification of frozen boneless chicken cuts and in particular on Commission Regulation (EC) No 1223/2002 of 8 July 2002 concerning the classification of certain goods (boneless chicken cuts, frozen and impregnated with salt in all parts) in the Combined Nomenclature was composed. Brazil and Thailand claim that through this regulation their commerce has been accorded treatment less favourable than that provided in the EC schedules in violation of Article II of the GATT 1994. The complainants also claim violation of Article XXIII of the GATT 1994. The issuance of the final reports by the panel is expected in the course of 2005.

751. On 21 December 2004, the panel established upon request by the United States (WT/DS174) and Australia (WT/DS290) concerning Regulation (EEC) No 2081/92 on the protection of geographical indications and designations of origin for agricultural products and foodstuffs issued its final reports to the parties. Overall, the reports largely vindicate the EC's view that its system of geographical indication (GI) protection is compatible with WTO rules. Two main issues were at stake. First, the USA and Australia argued that the EC GI regime discriminates contrary to WTO rules, because it allows registration of GIs relating to areas outside the EU only under certain conditions (notably the conditions of reciprocity and equivalence) which do not apply to registration of GIs relating to areas inside the EC. The EC has made clear that Regulation (EEC) No 2081/92 does not require the condition of reciprocity and equivalence for the protection of geographical indications originating in WTO members. Second, the complainants had challenged the EC discipline on the relationship between GI rights and prior trademark rights. The EC has always considered that the coexistence of GIs with prior trademarks as provided for by the regulation is in conformity with WTO rules.

752. On 15 October 2004, the panel requested by Australia (WT/DS265), Brazil (WT/DS266) and Thailand (WT/DS283) on the EC's common market organisation for sugar and its application and implementation circulated its final reports to WTO members. The panel found that the EC provides export subsidies in excess of its WTO commitments in relation to 'C sugar' and to the exclusion of 1.6 million tonnes of ACP and Indian sugar from export reduction commitments. The EC will appeal the panel's findings in January 2005.

753. On 4 March 2004, the panel requested by the United States (WT/DS291), Canada (WT/DS292) and Argentina (WT/DS293) concerning certain EC measures affecting the approval and marketing of biotech products (GMOs) was composed. The complainants claim violations of a number of WTO provisions, notably in the SPS agreement, in relation to the alleged standstill in the EU GMO/GM food approval procedures, the alleged failure of the EC to consider or approve, without undue delay, applications for the approval of certain products and certain safeguard measures adopted by a number of EC Member States. The issuance of the final reports of the panel is expected in the course of 2005.

754. On 8 November 2004, the EC requested consultations with the United States and Canada regarding the continued suspension of obligations by the United States and Canada in the *EC-Hormones* dispute (WT/DS320; WT/DS321). The EC considers to have fully implemented the recommendations and rulings of the DSB in the *EC-Hormones* dispute and that, as a consequence, the United States' and Canada's suspension of concessions vis-à-vis the European Communities is no longer justified. Consultations were held on 16 December 2004.

755. The EC has intervened as third party in a number of WTO dispute settlement cases concerning agricultural products, in particular:

- panel and appellate body proceedings on *United States — Subsidies on upland cotton* (WT/DS267), concerning claims by Brazil that US subsidies to cotton are not protected by the 'peace clause' of the Agreement on Agriculture and violate a number of provisions of the Subsidies Agreement;
- panel and appellate body proceedings on *Canada — Measures relating to exports of wheat and treatment of imported grain* (WT/DS276), concerning claims by the United States that the Canadian Wheat Board violates Article XVII of the GATT on state trading enterprises and the national treatment principle in the Canadian grain handling and rail transportation system.

9.1.1.2. Doha Development Agenda: the 'agreed framework'

756. In March 2000 (one year before the end of the implementation period of the Uruguay Round commitments) the negotiations on agriculture began based on Article 20 of the WTO Agreement on Agriculture. Article 20 commits WTO members to continue the reform process in agriculture taking into account past experience, the effects of past commitments on trade and non-trade concerns. In November 2001, the fourth WTO Ministerial Conference was held in Doha, Qatar. The declaration issued on 14 November launched new negotiations (the Doha Development Agenda — DDA) on a range of subjects, and included the negotiations already under way in agriculture and services. No agreement was reached at the September 2003 Ministerial Conference in Cancun but work resumed in spring 2004 and led to a very successful outcome of the trade talks which took place in Geneva the last two weeks of July with the conclusion of a framework agreement (the 'agreed framework') on 1 August 2004.

757. The agreed framework sets out the key parameters for negotiations in five key areas: agriculture, industrial tariffs, trade facilitation, development issues and services. The results include a balanced deal on agriculture. The framework locks in the recent reforms of the EU's common agricultural policy (CAP). Overall levels of the most trade distorting domestic support will have to be substantially reduced and a down payment of 20 % of this reduction is foreseen in the first year of the implementation of the agreement. The Blue Box and the Green Box have been preserved.

758. On export competition, the EC has used its conditional offer to eliminate export subsidies in order to ensure the parallel elimination of all other trade distorting elements used by our trading partners to subsidise their own exports, such as export credits, surplus disposal in the guise of food aid and state trading enterprises.

759. On market access, the EC has managed to meet its defensive concerns, notably on sensitive products for EU farmers and by securing the instruments of the common agricultural policy. But at the same time, the overall balance for developing countries is good. They will be able to count on the elimination of export subsidies, on lower domestic support from the EU but more importantly from the USA in a manner which will avoid the backsliding seen in the past. In addition, they will have the continued possibility to protect sensitive and so-called 'special products'.

760. The next WTO Ministerial Conference will take place in Hong Kong in December 2005. The EC is hopeful that it will be possible at that point to agree on a full modalities text, not only on agriculture but also on the other issues under negotiation (NAMA, services, trade facilitation and rules, including GIs). This would then leave the submission of country schedules and their verification for the following phase leading to the conclusion of the negotiations. In the meantime, technical work is being pursued at the WTO in the special session of the Committee of Agriculture. This technical process should lead to a more political one starting in spring 2005, leading then to the December Ministerial Conference.

9.1.2. Organisation for Economic Cooperation and Development (OECD)

761. EU Member States account for 19 of the OECD members and are the major contributors to the OECD budget, including voluntary contributions. The Commission participates actively in the work of this organisation, in particular, as far as agriculture is concerned, in the Committee for Agriculture (COAG), its working parties and at the interface with the Committees on Trade and Environment (joint working parties).

762. Core to COAG activities is the annual preparation of a mid-term market prospect for the main OECD agricultural commodities (the 'Agricultural outlook' report) and the yearly review of the main developments in the agricultural policies of member countries ('Agricultural policies, markets and trade in OECD countries', generally known as the 'Monitoring report'). A similar review focuses on the main developments of major non-OECD members, whether economies in transition or emerging countries. These reviews include in particular a calculation of aggregated estimates of support to farmers, the 'producer support estimate' (PSE) expressed as the percentage share of public financing (budgetary payments and economic transfers from consumers and taxpayers caused by policy measures) in the overall income of the farming sector and the 'total support estimate' (TSE) for the whole agriculture and food sector, which indicates the degree of support in the OECD economies expressed in a percentage share of GDP.

763. Other regular COAG activities address agriculture and trade, agri-environment, rural development, agricultural structures and statistics, the agricultural knowledge system (extension, education and research) and international standards (in particular, certification of seeds, forestry reproductive material and tractors). OECD work on agri-environmental indicators was continued in 2004; the Volume 4 report will sum up both the expert work defining more precisely the selected indicators and the availability and quality of data. It is scheduled for mid-2005.

764. In the working programme 2003/04, more emphasis was laid on the cause–effect relationship between policies (e.g. decoupling and appropriate targeting), i.e. objectives and outcomes (economic and other effects), a trend to be continued in the working programme 2005/06.

765. In 2004, the second year of the two-year work programme of the Committee for Agriculture, the OECD went deeper into issues of trade distortion by continuing studies on 'decoupling' and the impact of risk-related support on production decisions. Policy analysis continues on aspects of decoupling, transaction costs and farm household income, and the methodology is being further developed on the basis of the US Farm Security and Rural Investment Act and the 'EU CAP reform — A long-term perspective for sustainable development', the trade impact of both policies has been analysed. The CAP reform analysis has been refined and was published in 2004. A further evolution and adaptation of the measurement of support (PSE) has been launched and a number of new challenging analyses have been initiated, such as 'The trade impact of food aid' and the further analysis of agreements on preferential access and regional free trade. Furthermore, a proposed activity regarding a comparative analysis of export competition instruments initiated in 2004 found widespread support. The data analysis is expected in 2005. The series of documents on multi-functionality continued in its new phase of practical policy design with a paper on non-governmental provision of public goods exemplified through case studies. Expert meetings on biomass and support measurement allowed valuable scientific feedback for the further development of sector studies.

766. The interface between agriculture and environment continued the working programme on indicators and agricultural impact measurement on the environment. The last event in a series of workshops was held to produce a methodology indicator on farm management. A sector study on the impact of arable cultures on the environment followed the one on dairy production and on pig meat production.

767. Horizontal issues of importance to agriculture are being addressed through other OECD bodies such as regulatory reform, governance, e-commerce, a code for multinational companies, sustainable development and territorial development.

All these activities have produced valuable material for the EU, particularly as regards the process to reform the agricultural sector and ongoing multilateral negotiations. However, the credibility of the organisation could further be improved if a major factor of incoherence between the OECD Economics and Agriculture Directorates were removed. This is due to the lack of communication between these services resulting in contradictory statements in macroeconomic and structural evaluation of agricultural policies by the ECO Directorate untainted by the good analytic work carried out in the Directorate for Agriculture.

9.1.3. Generalised system of preferences (GSP)

768. The aim of the GSP is to foster the integration of developing countries into the world economy and the multilateral trading system. The GSP focuses on the needs of the poorest beneficiary countries through, in particular, the so-called ‘Everything but arms’ initiative which is incorporated into the GSP.

769. In 2003, the EU extended and adapted the generalised system of preferences in force, Council Regulation (EC) No 2501/2001, for the period from 1 January 2005 to 31 December 2005. This latter date will see the expiry of both the originally 10-year guidelines for the period 1995 to 2004, as extended for 2005, and of the last implementing regulation for the years 2004 to 2005. The new guidelines and their first implementing regulation should normally enter into force on 1 January 2006. A proposal for a new Council regulation is under discussion at the EU Council during the last trimester of 2004.

770. The Commission proposal, based on acquired experience, continues the main objective of encouraging the poorest beneficiary countries to make more and better use of the opportunities offered by the scheme, and thus to increase imports for which preferential treatment is available.

771. Preferences provided under the special arrangements for least developed countries (the so-called 'Everything but arms' initiative, which was adopted in February 2001) as well as under most other special arrangements will continue to apply with slight changes. An exception, however, is the so called 'drugs regime'.

9.1.4. United Nations Food and Agricultural Organisation (FAO)

772. As a member of FAO, the EC took part in the work of the various technical committees. The EC attended in particular:

- the 18th session of the Committee on Agriculture (COAG) (Rome, 9–10 February),
- the 30th session of the Committee on World Food Security (Rome, 20–23 September 2004),
- donors' meeting on the SARD project (sustainable agricultural and rural development) (30 April 2004),
- the 24th FAO Regional Conference for Europe (Montpellier, France, 5–7 May 2004),
- the 20th session of the Intergovernmental Group on Meat and Dairy Products (Winnipeg, Canada, 17–20 June 2004),
- the 30th session of the Committee on World Food Security (20–23 September 2004),
- the 127th session of the FAO Council (Rome, 22–27 September 2004).

The EC presented its agricultural, fisheries and forestry policies and set out its approach to food security.

773. The Commission also participated and played an active role in:

- the follow-up to the World Food Summit plan of action;
- the Intergovernmental Working Group (IGWG) for the elaboration of a set of voluntary guidelines to support the progressive realisation of the right to adequate food in the context of national food security established following a decision by the World Food Summit five years later;
- the FAO's technical contribution to developing countries in the context of the new trade negotiations within the WTO. The Commission also contributed to the FAO's discussions on trade-related but non-commercial issues, such as the multifunctional aspects of agriculture and its links in less advanced countries.

774. A memorandum of understanding between the European Commission and the FAO was signed on 11 September, in order 'to improve the impact and efficiency of assistance provided by the Commission as well as by the FAO, in benefit of developing countries, in particular the poorest'.

9.1.5. Commodities and international commodity agreements

775. The Food Aid Convention (FAC) and the Grains Trade Convention (GTC) will expire on 30 June 2005. A new prorogation of both conventions will have to take place before that date. The last extension of the FAC was conditioned to the revision during the period of prorogation of the provisions of that convention. However, due to the links between the FAC and the negotiation of food aid disciplines within the chapter on export competition at the WTO, the re-negotiation of the FAC will have to be postponed until some conclusions of the WTO negotiation become available.

776. The International Sugar Agreement remains in force until 31 December 2005 after its two-year extension at the end of 2003.

777. The International Olive Oil and Table Olives Agreement will be replaced by a new agreement after the conclusion of negotiations held during 2004 with this purpose. The agreed text will be submitted to a World Conference at Unctad during the first quarter of 2005 and will be ratified by IOOC members afterwards. Until its entry into force, an extension of the current agreement will become necessary at the end of 2004.

778. Concerning the management of this organisation, a round of negotiations held in 2004 led to a complete renewal of the management staff as of end 2004, including a new Executive Director. The new Financial Delegate, who took charge of his post in April 2004, together with the new management team appointed in October 2004, will manage the organisation as a college on the basis of the new rules.

9.1.5.1. Commodity dependent developing countries

779. Internationally traded agricultural commodities, such as coffee, cocoa and cotton are, directly or indirectly, major sources of employment and income for millions of people in developing countries. Through taxation and redistribution, they make major contributions to the provision of basic services such as health and education in these countries. But many countries' economies, export earnings and national budgets are highly dependent on a very limited number of agricultural commodities. In Burundi, for example, export revenues depend for almost 80 % on coffee. In more than 50 countries, three or fewer primary commodity exports constitute at least 20 % of export revenue. Price characteristics of the agricultural markets caught many countries in a vicious circle of declining income, persistent poverty and dependence.

780. The Council adopted on 27 April 2004 an EU action plan, on the basis of two proposals from the Commission ([107]), aiming at helping developing countries fight excessive dependency on agricultural commodities, both by enhancing their export performance and reducing their vulnerability to price fluctuations. The initiatives involve a comprehensive EU action plan addressing commodity dependency and, in the specific case of cotton, a wide-ranging strategy for support to the cotton sector in Africa. African cotton producing countries and the EU agreed, in Paris on 6 July 2004, to establish a cotton partnership and to implement a joint cotton action plan ([108]).

9.1.5.2. The International Cotton Advisory Committee (ICAC)

781. At the 63rd plenary meeting of the ICAC, in Mumbai on 29 November to 3 December 2004, the Commission declared its intention to become a member of the ICAC.

9.2. Bilateral and regional trade relations

9.2.1. ACP countries

- Economic partnership agreements (EPA) negotiations: the Commission has been involved, as foreseen, in the elaboration of the roadmaps for the six different regions: central Africa, west Africa, eastern and southern Africa and Indian Ocean, Southern Africa Development Community (SADC), Pacific region, and Caribbean region.
- Seminar, 28 April 2004, on EU CAP reform.
- ACP–EC Joint Working Party (JWP) on Rice, ACP House, 20 July 2004; the Commission presented the results of the Article XXVIII negotiations on rice and the consequent changes to the MFN (‘most favoured nation’) and to the ACP preferential tariffs coming into force on 1 September 2004.
- ‘EPA EU sustainability impact assessment’, launched by the Commission, now in phase II.
- Seminar, 28 September 2004, on the EU, regional integration and trade for the Southern African Development Community.

9.2.1.1. South Africa

782. Further discussions were held on outstanding issues of the EU–South Africa wine and spirit agreements, on the one hand, and the EU–South Africa TDCA (trade, development and cooperation agreement) on the other hand. Specific discussions were held on the TDCA preferences that South Africa should apply on certain Community cheeses.

([107]) COM(2004) 87 and 89 final, 12.2.2004.
([108]) www.cotton-forum.org

9.2.2. EFTA countries and EEA Agreement

9.2.2.1. EEA

783. The Agreement on the European Economic Area (EEA) ([109]) has been modified to take into account the enlargement of the EU, after a ratification procedure in all EEA States including new EU Member States. In this context, the preferential tariff concessions in agricultural products granted by Norway to the EU have been extended, as from 1 May 2004 ([110]), on the basis of pre-existing preferential trade flows between acceding countries and Norway. These additional concessions consist in a duty free quota of 1 400 tonnes of frozen strawberries, 950 tonnes of frozen raspberries, blackberries and other berries, 100 tonnes of rye grass seed, 1 300 tonnes of apple juice and 1 000 tonnes of cat food.

9.2.2.2. Iceland

784. In line with the conclusions of the 2003 EEA Council, the Council gave in October 2004 a mandate to the Commission to negotiate further bilateral trade negotiations with Iceland in agriculture, on the basis of Article 19 of the EEA Agreement. Negotiations will start in 2005.

9.2.2.3. Norway

785. Bilateral trade with Norway expanded inter alia thanks to increased preferential concessions following the 2003 conclusions of trade negotiations in agriculture ([111]). The new agreement provides, in particular, for enlarged cheese quotas on both sides and the elimination of duties in a number of custom tariff lines, especially plants, fruits and vegetables. Parties also agreed to resume bilateral trade negotiations in agriculture in 2005, so as to continue their efforts of progressive liberalisation of agriculture in the framework of the EEA Agreement.

9.2.2.4. Switzerland

786. Intensive bilateral activities took place in 2004 in relation to EU enlargement and to the completion of the so-called 'bilateral II' negotiation package. The latter extends significantly the set of bilateral agreements and channels of bilateral cooperation. Most of these new agreements need to be ratified first. The package includes notably a new agreement on agricultural processed products replacing the existing one in the 1972 EC–CH Free Trade Agreement ([112]).

([109]) OJ L 1, 3.1.1994, p. 3.
([110]) Council Decision 368/2004/EC of 30 March 2004 (OJ L 130, 29.4.2004, p. 1).
([111]) Council Decision 465/2004/EC of 16 June2003 (OJ L 156, 25.6.2004, p. 48).
([112]) OJ L 300, 31.12.1972, p. 189.

787. Bilateral activities relating to agricultural commodities have been increasing since the entry into force in June 2002 of the agreement between the EC and the Swiss Confederation on trade in agricultural products ([113]), in the framework of the Joint Committee on Agriculture created by this agreement. The Joint Committee on Agriculture monitors and manages the agreement thanks notably to 10 working groups of the Joint Committee: phytosanitary, animal feed, seeds, wines, spirit drinks, organic products, fruits and vegetables, dairy, geographical indications, enlargement. This aims at implementing, complementing and updating all annexes of the agreement, with respect to the evolution of the EC *acquis* and Swiss legislation ([114]).

788. At the EU–Switzerland Summit on 19 May 2004, the parties agreed to adapt retroactively as from 1 May 2004 bilateral tariff concessions by taking into account pre-existing preferential trade flows between acceding countries and Switzerland. Non-preferential trade flows subject to Article XXIV.6 GATT have also been taken into account in this bilateral arrangement. Autonomous measures ([115]) were adopted in 2004 pending the consolidation of the adaptation of Annexes I and II of the agreement in 2005 after completion of respective procedures by the parties.

789. Bilateral concessions in the meat sector, initially foreseen by the agreement but not enforced in 2002 on the basis of the joint declaration on meat products attached to the agreement, are entering into force on 1 January 2005 ([116]), following the modification about BSE control and monitoring in Annex 11 ([117]) and the end in 2004 of the import ban on beef and beef products from Switzerland by some EU Member States. Preferential rules of origin are applicable from 1 January 2005 onwards to preferential trade in dried bovine meat.

780. The Joint Committee on Agriculture also made progress in the implementation of the declarations attached to the agreement. Expert work started with a view to the equivalency of Swiss legislation relating to spirit drinks and to the labelling of poultry relating to the type of farming. The PDO/PGI Working Group did an extensive technical work preparatory to mutual protection of geographical indications and designations of origin of agricultural products and foodstuffs, as foreseen by the corresponding joint declaration attached to the agreement. Parties need now to agree to a negotiation process for achieving such mutual

([113]) OJ L 114, 30.4.2002, p. 132.

([114]) Six decisions adopted by the Joint Committee on Agriculture: OJ L 303, 21.11.2003, pp. 24 and 27; OJ L 87, 25.3.2004, p. 31; OJ L 123, 27.4.2004, p. 113; OJ L 151, 30.4.2004, p. 125; OJ L 301, 28.9.2004, p. 50.

([115]) Three autonomous measures: Council Regulation (EC) No 1922/2004 (OJ L 331, 5.11.2004, p. 7); Council Regulation (EC) No 1923/2004 (OJ L 331, 5.11.2004, p. 9); Commission Regulation (EC) No 2124/2004 (OJ L 368, 15.12.2004, p. 3); Council Regulation (EC) No 7/2005 (OJ L 4, 6.1.2005, p. 1).

([116]) Commission Regulation (EC) No 1214/2004 (OJ L 232, 1.7.2004, p. 19); Commission Regulation (EC) No 2092/2004 (OJ L 362, 9.12.2004, p. 4).

([117]) Decision No 2/2003/EC of the EC–CH Joint Veterinary Committee (OJ L 23, 28.1.2004, p. 27). Decision amended by Decision No 2/2004/EC (OJ L 17, 20.1.2005, p. 1) protection. In this respect, the rejection by Swiss authorities on 10 September 2004 of all oppositions to the registration of the denomination 'Emmentaler', as a protected denomination of origin on the Swiss territory, attracted a lot of attention, because of the importance of the generic use of the denomination 'Emmental' in EU cheese production. Some EU dairy companies have lodged an appeal in Switzerland. Registration is suspended pending completion of this legal case.

9.2.3. Asia

9.2.3.1. China

791. Relations with China centred on ongoing discussions on questions relating to market access.

792. Commissioner Fischer Boel led in March 2004 a mission to China to promote EU agriculture exports.

9.2.3.2. Japan, South Korea and Thailand

793. Relations with Japan, South Korea and Thailand focused on market access and administrative cooperation. Progress was made in a number of areas and discussions are ongoing in particular for certain fruit, meat and dairy products. Information exchange meetings were held on the common agricultural policy, rural development, and geographical indications.

9.2.3.3. Pakistan

794. The EC and Pakistan concluded Article XXVIII GATT negotiations on the Community preferential rice import regime and other agricultural and SPS-related issues.

795. The Community decided to include a more accurate definition of basmati varieties and adequate control mechanisms in the Community's preferential import regime for this product in order to ensure that relevant preferential imports in the EU from Pakistan are in line with this definition.

9.2.3.4. India

796. In the EC–India Working Group on Agricultural and Marine Products, discussions were held on the conclusion with India of the Article XXVIII GATT negotiations on Community preferential rice import regime and other agricultural and SPS-related issues.

797. The Community decided to include a more accurate definition of basmati varieties and adequate control mechanisms in the Community's preferential import regime for this product in order to ensure that relevant preferential imports in the EU from that country are in line with this definition.

798. In the context of the Indian request for Community approval of a number of their accreditation agencies for exports of organically produced agricultural products to the EU, the EC evaluated Indian relevant information and sent an FVO inspection team to that country.

9.2.4. Middle East and Mediterranean region

799. The European Union and Syria concluded negotiations on a Euro-Mediterranean association agreement in October 2004, which should be ratified and enter into force in 2005. In the framework of the Barcelona process, association agreements have now been concluded with all Mediterranean countries. The interim agreement with the Palestinian Authority since 1997 was reviewed during 2004 as regards agriculture. The agreements from 2000 with Israel and Morocco were reviewed during 2003 and the revised arrangements entered into force in January 2004. Negotiations on the revision of the agreement with Jordan, which entered into force in 2002, were initiated in 2004. The agreement with Egypt signed in 2001 entered into force on 1 June 2004.

800. The discussions on the adaptation protocols following enlargement were finalised with all Mediterranean partners. New concessions as regards import of agricultural products originating in Egypt, Israel, Morocco and Tunisia, and as regards export of agricultural products to Israel, were agreed. Their formal adoption is expected to be achieved during the first quarter of 2005, while application of the new concessions will be retroactive to 1 May 2004.

801. Negotiations on the agricultural part of the future free trade agreement (FTA) with the Gulf Cooperation Council were provisionally concluded, pending agreement being reached in other sectors covered by the FTA.

9.2.5. Western Balkans

802. For Croatia and the former Yugoslav Republic of Macedonia, all reciprocal agricultural trade concessions are set out in the 2001 stabilisation and association agreements (SAAs). As from January 2004, further concessions were granted to the EU by the former Yugoslav Republic of Macedonia under the review clause. During 2004, negotiations were held and concluded on the adaptation of the agricultural trade concessions to take account of enlargement and the outcome was duly implemented.

803. In October 2004, the Commission adopted a proposal to introduce tariff rate quotas for the Community's imports of sugar from the western Balkans.

804. Negotiations with Albania continued for a stabilisation and association agreement on the basis of directives adopted by the Council in late 2002.

9.2.6. Romania and Bulgaria

805. During 2004 negotiations in the framework of the respective Europe agreements were concluded with Romania and Bulgaria to take account of enlargement and to provide for further trade concessions in the agricultural field. Implementation of the new arrangements is expected in early 2005. In addition, work began on the adaptation of the wine agreements with these countries to update recognition, protection and control of wine, spirit drinks and aromatised wine names.

9.2.7. Latin America

806. Mercosur: Intense negotiations were held with Mercosur with a view to concluding an EU–Mercosur bi-regional association agreement by the agreed October 2004 deadline. The deadline was not met, however, and negotiations will continue in 2005. This agreement would include a liberalisation of trade in all sectors in agriculture as well as agreements on trade in wines and spirit drinks and on protection of geographical indications for other agricultural products.

807. The EU agreements with Mexico and Chile underwent technical adaptations during 2004 to take account of enlargement. Under the review clause of the agreement, a further renegotiation on agriculture concessions, already launched in 2004, will continue in 2005 for both countries. Similarly, technical adaptations of the wine and spirit agreements was undertaken and progress achieved on the protection of Community geographical indications, in particular on the use of EU generics in Chile.

808. Central America and Andean Community: At the EU–LAC Summit in Guadalajara in May 2004, the parties agreed to open a joint assessment evaluation of the economic integration process with Central America and the Andean Community respectively. This work will be undertaken in 2005.

9.2.8. New independent States (NIS)

809. Relations with Russia have been fruitful as regards the achievement of an agreement in April on the Russian market access proposal for the accession to the WTO. In this field, it has to be noted the positive implementation by Russia of its tariff rate quota for meat where the EU obtained a significant share part and a reasonable level of import duties for its exports of main agricultural products (i.e. cheese, malt, olive oil) into Russia. However, the situation was tense during the first quarter of the year, due to the forthcoming enlargement of the EU in May and the Russian claims of trade losses, in particular of agricultural products. Thus, exports of EU products of animal origin were halted for a week in early June on the grounds of insufficient sanitary guarantees and tight deadlines were imposed for the adoption of a single veterinary certificate.

810. The extension of the existing partnership and cooperation agreements (PCAs) between the EU-15 and each of the NIS countries, in order to incorporate under these PCAs the new 10 Member States, has dominated relations with these partners. The most problematic issue was the request by Russia of trade compensations, in particular import quotas for steel and wheat, and the transit towards and from Kaliningrad.

811. Cooperation with Russia was streamlined by the adoption of the 'four common spaces'. Agriculture is particularly targeted under the so-called economic common space where some activities point to develop regulatory convergence. As regards Ukraine, Moldova and the Caucasian republics (Georgia, Armenia and Azerbaijan), similar activities are foreseen in the action plans drawn for each country under the European neighbourhood policy.

9.2.9. North America: USA, Canada

9.2.9.1. United States

812. Intensive negotiations on a comprehensive EU–US wine agreement continued throughout 2004 with a view to facilitating the trade in wine while improving protection for the European and American names used in winemaking and guaranteeing oenological standards used by winemakers. This agreement, which would be a first phase agreement, would also cover the issue of labelling of optional particulars. A great deal of progress has been made in the last quarter of 2004 and only a few outstanding issues remain to be solved before reaching an agreement.

813. In the *Hormones* case, despite the Council's adoption of legislation bringing EC provisions into compliance with the WTO ruling in 2003, the USA continued to apply 100 % *ad valorem* tariffs on USD 116.8 million of EU exports. On 8 November 2004, the EC requested formal WTO 'consultations' on the US continued suspension of certain of its concessions and related obligations. The EU challenges the United States' continued imposition of sanctions against EU exports because of the EU's ban on hormone beef. The EU believes these sanctions are illegal since the EU has removed the measures found to be WTO-inconsistent in the WTO dispute on hormone beef dating from 1998.

814. The Community and the USA are engaged in bilateral negotiations with a view to mutually recognising the equivalency of the organic production systems applied by each party. This should facilitate trade in products originating from organic production methods while ensuring the integrity of the organic production method. While substantial progress had been made in the negotiations over the last two years, since May 2004, the talks have come to a standstill and no further roadmap has been laid out.

815. The Commission continued to make representations to the USA following the adoption in 2002 of rules implementing the US Bioterrorism Act. The act is now fully enforced even though the final rules on recordkeeping have not yet been published. There is the possibility for a significant impact, including in particular for small operators (farms are exempt, but farms that also pack or bottle are included), but so far the reactions from the EU industry have been mitigated. The Commission will continue to follow this issue closely with a view to having a clear picture of actual impact on EU trade.

816. The Corn Gluten Feed Monitoring Group continued to meet.

817. Due to the enlargement, the EC notified on 19 January 2004 the withdrawal of its schedule as from the date of 1 May 2004 (which includes tariffs, tariff rate quotas, domestic support and export subsidies for agriculture) as well as that of the 10 new Member States' schedules. A new EU-25 schedule will replace these former schedules after having conducted negotiations under the framework of Article XXIV with third countries. The schedule of the EU-15 will prevail until the Article XXIV negotiations have been concluded and a new schedule of the EU-25 is adopted. As regards tariffs and tariff rate quotas, Article XXIV.6 aims to compensate third countries for possible increases of tariff rates resulting from enlargement. The Commission started the negotiations with the USA in September 2004. Several rounds of negotiations took place in 2004 and the negotiations should be concluded by the first quarter of 2005. The expected outcome of the negotiations is mainly on poultry.

9.2.9.2. Canada

818. After two years of negotiation, the EC–Canada agreement on trade in wines and spirit drinks was concluded and signed at Niagara-on-the-Lake on 16 September 2003. The agreement officially entered into force on 1 June 2004. It provides for an end to the generic use of EU wine and spirit names in Canada in three phases, beginning with the entry into force for most names, up to 31 December 2013 when the last four names (Chablis, Champagne, Port and Sherry) will be no longer classed as generic. The parties also agreed on compositional standards for wines and spirit drinks. Trade disciplines applicable to Canada's provincial liquor boards were strengthened by a series of amendments to a 1989 agreement that followed a successful WTO panel brought by the EC. The parties also set down a framework for continuing discussions on matters such as the rules on labelling wines and spirits. The agreement, which is expected to enter into force in June 2004, ends the trade tension that existed between Canada and the EC for over 10 years. Canada is a key market for EC wine and spirit exports, importing products worth over EUR 500 million a year. After entry into force, initiatives were taken for setting up a joint committee for monitoring the agreement, recognition of GIs on both sides, as well as setting up procedures for the certification of wineries.

819. Canada continued to apply 100 % *ad valorem* tariffs on CAD 11.3 million of EU exports pursuant to the *Hormones* case.

9.2.10. Oceania

9.2.10.1. Australia

820. In the annual EC–Australia ATMEG meeting, views were exchanged on the market situation for major commodities, market access issues, the WTO agricultural negotiations, and on recent policy developments in the EU and Australia.

821. Negotiations on outstanding issues of the 1994 EU–Australia wine agreement have been intensified and important progress was made on issues like oenological practices, name protection and labelling. It is hoped to conclude these negotiations at the beginning of 2005.

9.2.10.2. New Zealand

822. Intensive consultations were concluded prior to the Commission's decision to switch the management of the Community WTO TRQ for sheep meat from a licensing-based system to a 'first come first served' system.

823. Discussions continued on a side letter and an undertaking letter which are considered by Commission services and the New Zealand government as an integral part of the outcome of the discussions which led to the adoption of Regulation (EC) No 970/2000 on the detailed rules for the application of the import arrangements and opening tariff quotas for milk and milk products.

824. During the annual EC–New Zealand agri-trade talks, views were exchanged on the market situation of dairy and meat products, as well as on the state of play of the agriculture negotiations in the WTO.

European Commission

The agricultural situation in the European Union – 2004 report

Luxembourg: Office for Official Publications of the European Communities

2006 — 182 pp. — 16.2 x 22.9 cm

ISBN 92-79-01679-2

Price (excluding VAT) in Luxembourg: EUR 25