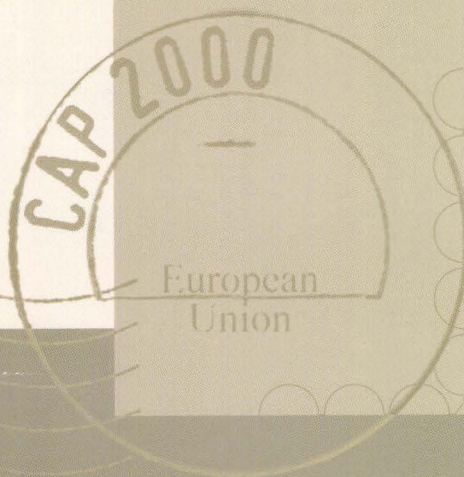




European Commission  
Directorate-General for Agriculture

# The Common Agricultural Policy

## 1998 Review



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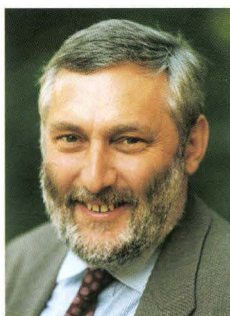
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The year of 1998 was a decisive one for the European Commission in preparing the Union for the future. Wide ranging policy proposals were produced including, notably, a comprehensive reform of the Common Agricultural Policy, a new framework for the next generation of structural policies and the basis for the enlargement of the Union in the early years of the next century. The proposals, known as Agenda 2000, were accompanied by a new financial framework for the Union, covering the 7-year period 2000-06.

Agenda 2000 included the most extensive reform of the CAP since its inception, that would help to introduce a new spirit of competition into the conduct of market policy while reinforcing the European model of agriculture by creating a 'second pillar' in the CAP in the form of a new framework for rural development and by enhancing its multifunctional role. In addition, it was the Commission's firm belief that the new policy should be simpler and easier to administer while allowing the Member States the flexibility to take account of national circumstances. As a result, the new legislation proposed a further streamlining for both market policy and rural development.

In taking the agricultural agenda forward into the early years of the next century, the Commission believes that five key principles must be upheld: first, Europe needs a competitive agriculture sector that can increasingly face up to world market pressures without the need for excessive subsidy. Secondly, production methods must be sound in terms of the environment and with regard to animal welfare and able to supply the quality products demanded by consumers. Thirdly, the contribution of

# Foreword - 1998, an agenda for change

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agriculture to maintaining the landscape of rural areas must be recognised in the context of rural development policies that promote thriving communities, capable of generating and maintaining employment. Fourthly, policy must be simpler, and more comprehensible to European citizens while establishing a clear dividing line between decisions that have to be taken jointly and those which should stay in the hands of the Member States. Finally, there must be clearer, more transparent connections between public expenditure inputs and the output of services to society.

The timing of the proposals was a critical factor. In presenting the new policy framework in March 1998, the Commission was seeking to ensure that there would be sufficient time for the Council and the Parliament to reach an agreement that would permit their implementation without delay at the beginning of the year 2000. Subsequent events have shown that this was the correct approach. Events have also confirmed that in terms of their basic principles, the Commission's proposals represented a sound basis for the future development of the Union in the challenging period that lies ahead.

The publication of the Agenda 2000 proposals and the subsequent negotiations in the Council and the Parliament inevitably dominated much of the Commission's work in 1998, along with the accession negotiations with Central and Eastern European Countries and Cyprus.

While Agenda 2000 occupied the dominant position in its activities in 1998, the Commission also made important progress in other important policy areas dur-

ing the year. Highlights include new initiatives and controls to help to guarantee food safety, following on from the lessons learned from the BSE crisis. The image dimension in the marketing of certain quality foods has been underpinned by increasing the coverage of legislation on specialist designations and geographical origins. The welfare of animals in transit should improve with new requirements regarding standards for vehicles. Further afield, the European Union has taken steps that should lead to the signing of free trade agreements with several Latin American countries, while trade talks with South Africa also progressed.

With regard to the challenges posed by the extension of Union membership to up to 11 new members of the European Union from Eastern Europe and Cyprus, important practical work has begun including the 'screening' exercise in order to examine legislative compatibility. The intention is to help to prepare new members for accession with the smoothest possible transition.

In sum, the Commission's work in 1998 encompassed a varied agenda providing the bases for important advances in policy and legislation that will have long term implications for the Union.



*Franz Fischler*  
*Commissioner for Agriculture and Rural Development*

# Agenda 2000 - Setting the scene for reform

Since its introduction, the Common Agricultural Policy has regularly been adapted to take account of the changing needs of producers and consumers, constraints on Community expenditure and developments in external trade.

The requirements of the internal market continue to evolve, with much greater emphasis on the views of consumers and the need to maintain a competitive agricultural sector. Markets must be kept in balance within strict spending limits by means of straightforward legislation which can be easily managed and controlled. Moreover, farming techniques need to be in tune with the specific environmental characteristics of rural areas, ensuring that a wide range of habitats are supported and enhanced. Beyond the European Union's borders, the start of a new round of world trade negotiations and further European Union enlargement pose new opportunities as well as major challenges to the future structure of the CAP, requiring a radical and imaginative approach to change.

The 1992 CAP reforms were a major step in adapting the market regimes to the requirements of international trade, by reducing guaranteed prices, introducing the concept of decoupled support payments and taking a new approach to environmental policy. Further steps are now needed to consolidate and develop these changes.

## Achieving the goals

When it presented its proposals in March 1998, the Commission outlined what it saw as a European model of agriculture. The main lines of this model are:

- a competitive agricultural sector able to participate on world markets without being oversubsidised;
- a continued commitment to ensuring a fair standard of living to the agricultural community, notably through stabilising farm incomes;
- production methods in tune with consumer demands, and in harmony with the environment;
- diverse methods of production, rich in tradition, which are not just output-orientated, but seek to maintain the visual amenity of our countryside, as well as vibrant and active rural communities that generate and maintain employment;

- a simpler, more understandable agricultural and rural development policy, that establishes clear dividing lines between the decisions that have to be taken jointly and those that are best left in the hands of the Member States;
- an agricultural and rural development policy which makes clear that the expenditure it involves is justified by the services which society at large expects farmers to provide.

For centuries Europe's agriculture has performed many functions in the economy and the environment and has played many roles in society and in caring for the land. That is why it is vital, as the Luxembourg European Council concluded in December 1997, that this multi-functional agriculture must develop throughout Europe, including in those regions that face particular difficulties.

In the proposals put forward in March, the Commission proposed to achieve these aims through the following means:

### • Price cuts

Provided for in the cereals, beef and dairy sectors, these would help bring Community prices closer to those on the world market and thus strengthen the competitive position of Community products on the internal market and increase prospects for non-subsidised exports to third country markets.

### • Rationalisation of intervention

On the cereals and beef sectors, there is a greater focus on intervention as a safety net. The complex intervention mechanisms in the wine sector are simplified, with "crisis" distillation available on a voluntary basis in times of need.

### • Increases in direct aid payments to farmers

Cuts in intervention prices are partially offset by increases in direct payments to farmers in the arable crops and beef sectors and by new direct payments in the dairy sector.

- **A wide range of instrument to promote environmentally-friendly farming**

The main platform for the promotion of environmentally-friendly farming is the agri-environmental programmes that are to form a compulsory part of the Member States' rural development plans. In addition, all farmers receiving direct payments under the Common Market Organisations (CMO) must agree to respect environmental rules decided nationally. Failure to stick to the rules could result in the suspension or the loss of the direct aid, funds which would then be channelled as additional Community support to certain rural development measures. Furthermore, the various CMOs provide for more targeted environmental measures, such as the encouragement of extensive beef production through greater financial incentives to farmers moving in this direction, and the strengthening of the environmental elements of voluntary set-aside in the arable crops regime.

- **Rural development policy – the second pillar of the CAP**

The trend towards greater consolidation in the farm sector makes it clear that agriculture alone will not sustain all rural areas. Rural development policy, as the second pillar of the CAP, thus aims to promote an integrated approach and provide a balanced response to the different needs of Europe's rural areas, providing both for measures that will continue the process of structural adjustment of the farm sector and promote economic diversification of rural areas, both on-farm and off-farm.

- **Decentralising management**

In line with the desire to devolve more management responsibility to the Member States, the Commission outlined proposals for "national envelopes". Under this system, for certain market organisations, Member States would be allocated national budgets from the EAGGF-Guarantee in proportions relative to their share in production, for instance, of beef. These funds could then go to fund measures that best address national or regional needs. This initiative, of course, must be made in strict conformity with the principles of the Single Market and European Union competition policy. Other examples of decentralisation are to be found in the area of rural development programming.

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## **Dialogue with the European Parliament**

Constant consultation between the Commission and the European Parliament is a fundamental part of the Commission's duties and this relationship continued to develop during 1998. The clearest example is perhaps the setting up of the Parliament's temporary committee of enquiry into BSE and the new impetus this gave to its interaction with the Commission. Through this committee, the Parliament put forward a range of recommendations, a number of which have already been implemented by the Commission, such as a new approach to risk analysis and inspection.

During the year several countries progressed towards ratification of the Amsterdam Treaty, which specifically provides the European Parliament with a greater role in European Union policy making. Increased co-operation between the Commission and the Parliament will be brought about by the greater number of issues dealt with under the co-decision procedure.

Throughout the year the European Parliament gave in-depth consideration to a wide range of proposed regulations, particularly in the area of CAP reform and the new structural instrument for pre-accession (ISPA). European Commissioner, Franz Fischler spoke on several occasions to the EP Agriculture Committee on Agenda 2000 and the progress of negotiations in the Council of Ministers.

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two years. European Union consumption remained strong, but the growth of 4.2% was insufficient to keep pace with production.

The Russian financial crisis and the loss of this important export market represented a further blow to the pigmeat sector, as this market alone has accounted for up to 36% of European Union pigmeat exports.

Pigmeat prices were thus severely hit by the combination of internal supply and world market trading conditions, ending the year around 40% lower than the equivalent periods in 1996 and 1997. This was despite market support measures being taken during the second half of the year, which included increasing the rate of export refunds. The issue of how best to control production in the sector was discussed with the Member States in the autumn. The consensus view was that the existing mechanisms were sufficient when effectively used.

### **1998 Price Package**

Major changes to legislation were not required, since the main decisions on prices and production were established as part of the 1992 reforms and provisions for the future competitiveness of the European Union agricultural sector would be dealt with under Agenda 2000. Key elements of the 1997/1998 price package therefore remained the same, although there were some exceptions. These included an increase in the level of set-aside to 10% for 1999/2000, a cut in the area aid for hemp by 7.5% and the decision to prolong the ban on new planting in the wine sector until 2000.

However, for the olive oil, tobacco and banana sectors, 1998 was an important year, as reforms were decided in these three common market organisations.

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## **Key reforms decided in 1998**

### **Olive Oil**

World market production in olive oil can vary sharply from year to year, but it is the European Union which dominates this market, accounting for around 78% of production. European Union consumption is relatively stable at around 75% of world production and the remaining quantities which are exported with subsidies have so far been well within GATT limits.

The olive oil regime was nonetheless in need of updating and in July and October 1998 the Council and Commission adopted a series of new regulations to take the sector up to 2001, when longer-term arrangements will be adopted.

The new provisions particularly concern the rules for production aid, which is now limited to plantations in existence on or before 1 May 1998. A single aid system based on olive oil production replaced the previous two-tier system and aid may now be granted to olives for consumption. In addition, from November 1998, the previous intervention arrangements have been replaced by a private storage system.

### **Tobacco**

Tobacco production had stabilised by 1997, following the introduction of production quotas under the 1992 reforms, together with measures to scrap intervention and export refunds.

The Commission's proposals go further in placing greater emphasis on product quality, encouraging producers to switch to other activities, through a quota buy-back scheme, and in promoting research into better varieties.

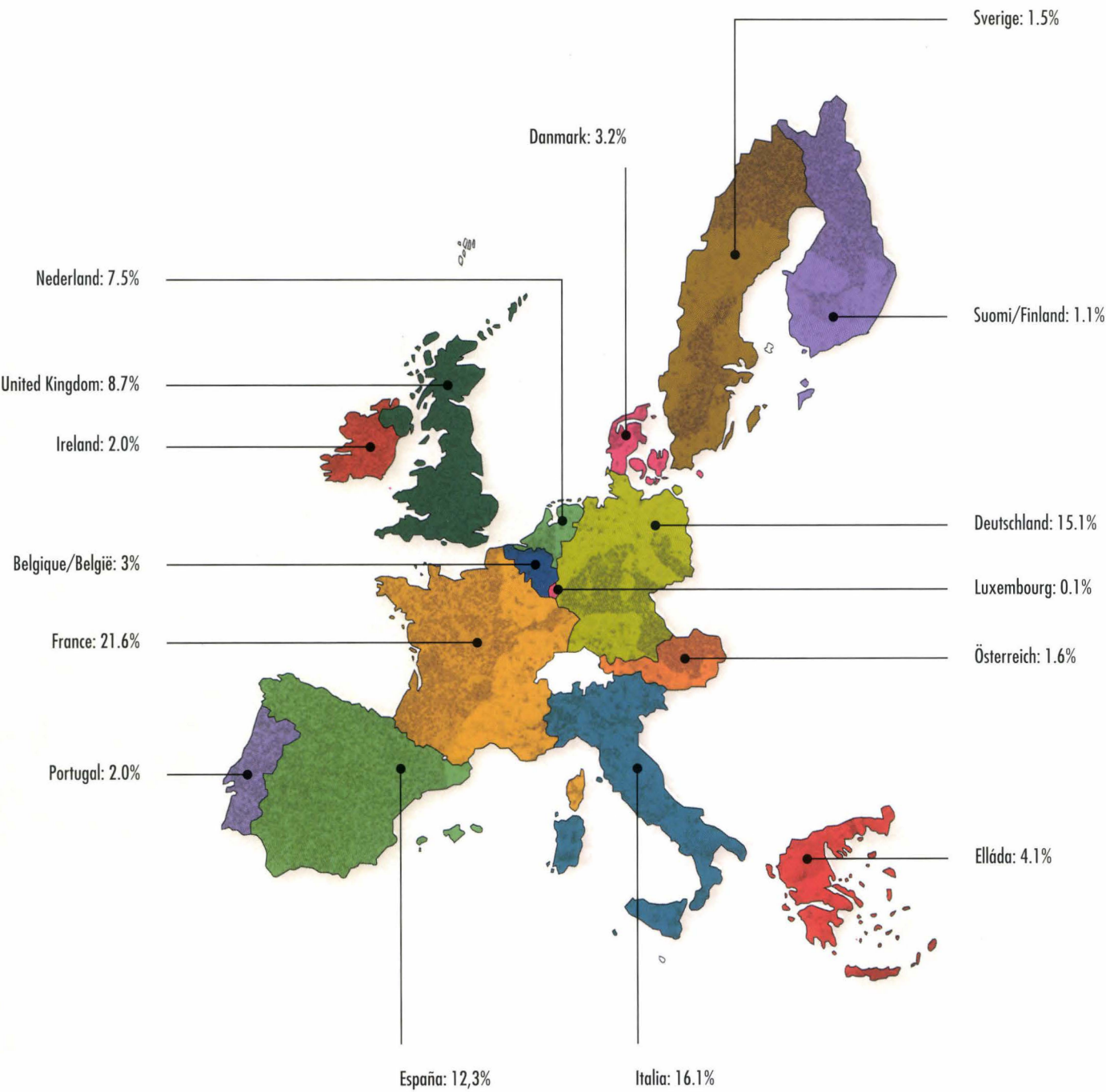
### **Bananas**

European Union banana supplies are drawn from three main areas, regions within the European Union (20.44%), traditional African, Caribbean and Pacific (ACP) regions (17.47%) and Central and South American countries (62.10%). Market data collected over the last five years shows how opening up the Community banana market has tended to bring about greater price convergence between suppliers and a better coverage of supplying areas.

A new banana regime was agreed by the Council in July 1998, following the conclusions of a WTO panel, and this entered into force on 1 January 1999. The main change is that the previous A, B and C categories of operator, which covered the use of tariff quotas between third countries and non-traditional ACP countries, have been removed.

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Individual Member States' shares in final agricultural production (1997)



Source: Eurostat, EAA (Economic Accounts for Agriculture).

# Setting the CAP on a green foundation

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Rural areas in Europe are a witness to how our landscapes and environment have been shaped by agriculture over the centuries. The development of cropping and livestock rearing have produced a wide variety of habitats and ecosystems, where the needs of the farming community interlock with the requirements of flora and fauna. A rich diversity has thus emerged, providing a vital asset for farmers and the wider community alike.

However, it also has to be recognised that some modern farming techniques have harmed this balance and that the policies of the CAP have contributed to this by encouraging increasing production at the expense of the environment. Today, debate focuses on how to maintain and restore the right balance, where farming is not so intensive that the environment is damaged but is sufficiently profitable to ensure that rural areas are not abandoned.

The aim is captured by the term “sustainable agriculture”, meaning that natural resources must be managed in a way which ensures that the benefits are also available to future generations. Since 1992, agri-environment measures have been the main focus of the Community’s environmental approach to agriculture, where specific environmental assets are preserved and enhanced in return for direct payments. The Commission’s priorities for environmental improvements focus on the areas of water quality, land use and soil quality, biodiversity and landscapes. When programmes are drawn up, particular consideration must be given to how these aspects can be developed.

## **Agri-Environment measures in 1998**

Since their introduction in 1992, over 150 agri-environment programmes or groups of programmes have been approved by the Commission, each committing participating farmers to adopt, for a minimum of five years, farming practices which preserve and enhance the environment.

The year was of particular interest to the Commission in that a number of the programmes introduced in 1993/1994 completed their first five-year period and could be properly assessed. Over 150 monitoring and evaluation reports were collected from the Member States, highlighting a wide range of positive environ-

mental factors, including reductions in soil erosion, reductions in the use of nitrogen fertilisers, projects aimed at conserving biodiversity and maintaining natural landscapes.

The Commission was encouraged by reports of positive changes in attitudes towards the environment by farmers and the wider community. There is a growing awareness of the essential role of certain farming activities in maintaining traditional landscapes and conserving biodiversity and a greater acceptance that farmers are the natural “stewards” of the countryside.

In 1998, developments were also seen in the work to establish reliable agri-environmental indicators, so that physical and monetary data can be transformed into multi-faceted information which furthers our understanding of complex issues and supports future decisions. The development of this approach will remain a Commission priority over the coming months and years.

## **Bringing a green dimension to the market organisations**

Alongside the introduction of the agri-environment measures, new provisions were included in the previous round of reforms of the market organisations to encourage farmers to adopt more environmentally sustainable production systems.

Less-intensive beef producers can receive additional aid payments under the beef extensification scheme. In the arable sector, non-rotational set-aside has been particularly suited to providing land over long periods for environmental schemes. In the fruit and vegetable market regime, producers are required to adopt environmentally-friendly production techniques.

Under Agenda 2000, the pursuit of environmental objectives is more systematic, by linking all direct aid payments to respect for environmental criteria. The enforcement of such cross-compliance reflects the Commission’s commitment to promoting less intensive farming systems. The specific conditions would be set by Member States, so that varying national circumstances can be taken into account.

## European Union Forestry Strategy

Forests play an essential protective role, preserving the natural environment through climatic stability, water and soil protection and improving air quality. They also play an important socio-economic role and a number of initiatives have been implemented since 1992, based on legislation designed to promote rural diversification and job opportunities. This has led to some 500 000 hectares of forest being established on previously cultivated land. Their success over the 1993-1997 period was the subject of a Commission report to the Council in 1998 and forestry policy is now an integral part of Agenda 2000.

A further important step was the adoption by the Commission in November 1998 of proposals for an European Union forestry strategy, which examined how best forestry can contribute to rural development and to environmental protection, particularly with regard to biodiversity and climate change. It came in response to a European Parliament resolution, but should also be seen in the context of international developments, such as the 1992 Rio de Janeiro United Nations conference and European Union ministerial conferences on the protection of forests.

## Non-Food Uses and Renewable Energy

The non-food use of agricultural raw materials has always been significant and important progress has been made since the 1992 CAP reforms which can now be more fully assessed. There has been a general upward trend in production, with around 2 million hectares devoted to non-food markets. The main outlets are for textiles, starches and biofuels (produced from colza, for instance), each of which has very different market characteristics.

While non-food set-aside has boosted the production of non-food crops, it is their competitiveness against other raw materials which will ultimately be the more critical factor. In this context, the steps outlined in Agenda 2000 for bringing European Union markets closer to world market levels will be of benefit. This is of great relevance to the starch sector, where market opportunities are on the increase.

## Nitrates Directive

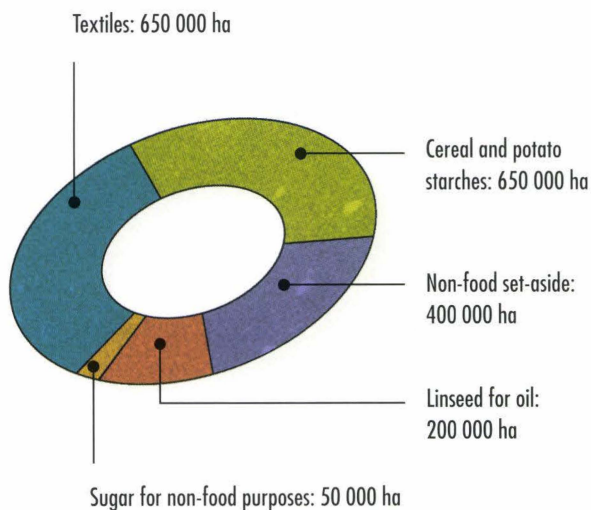
Adopted in 1991, the Nitrates Directive is a key component of European Union legislation on water quality. It represents an important step towards the integration of environmental and agricultural policy and establishes both the "polluter pays" and "prevention at source" principles.

The directive sets out a guide level value for nitrate concentrations in groundwater and a maximum admissible concentration in order to safeguard drinking water quality and prevent eutrophication. More indirectly, compliance with the directive could also contribute to solving certain structural problems, such as excessive concentrations of pig and poultry units in some areas.

## Habitats Directive & Natura 2000

This directive, adopted in 1992, is the key piece of legislation relating to biodiversity and landscapes.

Under it, a European Union-wide ecological network has been set up, called Natura 2000, which brings together habitats that have been identified as being of Community importance. Each site has the common objective of preserving biodiversity, but also takes account of the variations in scientific, economic, social, cultural and regional requirements. The overall impact is thus to create sites where nature and economic activities can coexist, making them an economic asset to local communities rather than nature sanctuaries where all human activities are excluded.



# Food safety - Putting consumers first

## Background

1998 was a year of solid progress in the field of food safety, characterised by reinforced control measures in the farming and food sectors to ensure that legislation was correctly implemented at all stages in the supply chain. The nature of the public debate became more measured, as attention focused more on how food safety is being guaranteed and how lessons can be learnt for the future. The December food safety conference held at the European Parliament in Brussels illustrated this approach and how Community institutions are working together in this area.

Discussions on other aspects of food safety were also high on the agenda, such as the use of pesticides, combating salmonella and controlling the use of antibiotics and hormones. The Commission's approach combined in-depth consideration of the relevant scientific issues, in order to draw up and oversee the implementation of sound regulations, with an emphasis on communicating to the public how food safety is being ensured.

## Action in 1998

### BSE

The Community institutions continued to work hard in 1998 to combat BSE and other Transmissible Spongiform Encephalopathies (TSEs). In response to the work programme set by the European Parliament's temporary committee on BSE, the Commission presented biannual reports in May and December 1998 showing how control measures were being implemented. More specifically, this was an opportunity to set out the new approaches in the fields of scientific advice, risk analysis and inspection.

### TSE legislation

New steps were taken to harmonise the epidemiological surveillance of TSEs as part of ongoing work to reinforce the protection of human and animal health. Also part of the action plan for the Commission was its proposal of November, on the removal of "specified risk material" from the food and the feed chain. This legislation is designed to ensure that uniform rules apply

## Agricultural research programme — FAIR Programme (1994-1998) — Projects selected and budget breakdown by field of research (1997)

FAIR, Field of research, Agriculture, forestry and rural development	Number of projects	Total budget (Euro)	EU contribution (Euro)
Reformed CAP	8	1 928 200	1 928 200
Quality policy	2	690 000	690 000
Diversification	1	400 000	400 000
Crop protection	1	181 000	181 000
Animal health	2	470 000	470 000
Animal welfare	0	0	0
Multifunctional forest management	2	506 000	506 000
Rural development	0	0	0
<b>Total</b>	<b>16</b>	<b>4 175 200</b>	<b>4 175 200</b>

Source: European Commission, Directorate-General for Agriculture (VI)

across the European Union on which parts of bovines, sheep and goats must be removed at slaughter and destroyed. In the absence of a favourable opinion of the Standing Veterinary Committee, the entry into force of such rules was postponed to 31<sup>st</sup> December 1999.

In November the Commission adopted and presented its proposal for the creation of the first legal base covering the prevention and control of all animal TSEs to the European Parliament and Council. This proposal encompasses a large range of measures addressing all human and animal health aspects of food and feed production relating to risks of exposure to all TSEs. These measures are based both on international recommendations and Community scientific opinions.

#### **Measures relating to the UK and Portugal**

Important progress was made during the year towards reintegrating the British beef industry into European Union trade. Since March 1996, the United Kingdom has implemented a series of new measures to control BSE and protect human and animal health. Following inspections by European Union authorities and a positive opinion from the Scientific Steering Committee two schemes were approved to allow beef exports to resume:

- Exports from Northern Ireland of de-boned meat and related products from herds which have been clear of BSE for at least eight years. Exports were allowed to start from 1 June 1998.
- A Date-Based Export Scheme, applying to de-boned meat from animals born after 1 August 1996 (the date on which it is considered that the meat and bone meal ban in the UK was fully effective). Eligible animals can be from any part of the UK and must be over six months and under thirty months of age. The scheme also includes rules on the slaughter and destruction of offspring from BSE infected animals, on animal identification and on the traceability of animals and meat. A date for the resumption of trade under this scheme had not been set by the end of the year.

Regrettably, the situation in Portugal deteriorated during 1998. An increase in the incidence of BSE led the Commission to take urgent measures to protect human and animal health inside and outside of Portugal. The measures include a complete embargo on live exports of cattle and certain bovine products, a nine month embargo on exports of meat and meat products and a programme for the enforcement of all Community and national rules on BSE control.

#### **Pesticides**

Further progress was made during 1998 in developing guidelines to provide a sound scientific basis for setting Maximum Residue Limits (MRLs) in the future.

In collaboration with Directorate-General responsible for consumer affairs, the results of the first Annual Co-ordinated Community Monitoring Exercise for pesticide residues in foods (1996) were collated and a report published in November. The results were encouraging, with 60% of the 41 000 samples analysed being found to be free of pesticides residues. Residue levels in the remainder were generally low and only 3% were found to exceed the MRL. Thus the conclusion was that, while there was no reason for consumer concern, there is need for ongoing and greater monitoring.

#### **Antibiotics**

Throughout the year, the Commission gave priority to collecting data on the use of antibiotics in animal feed and monitoring their use. In October, Agriculture ministers stressed that all decisions must be scientifically based and the question of bacterial resistance examined. In December they decided that four substances should be banned.

#### **Salmonella**

Among several other important decisions on guaranteeing food safety, the Council approved in March the methods to be used for microbiological tests relating to salmonella.



# Food safety - Putting consumers first



## **IDEA (Electronic identification of animals)**

In March, the Directorate-General for Agriculture, with the technical participation of the Joint Research Centre, launched a large-scale pilot project (IDEA) to evaluate techniques for electronic identification in a real livestock scenario. Techniques are assessed for their reliability and whether they provide cost-efficient systems for the rapid and safe recording of data. Devices must be able to be safely attached to or ingested by animals, perform effectively in transmitting data and reliably and safely recovered at slaughter.

This project, to run between 1998 and 2001, will help identify how the electronic identification of animals could contribute to much greater efficiency in tracing the movements of animals in the European Union and in carrying out sanitary and veterinary checks. All such information can be used to provide valuable guarantees for consumers. It would also enable further checks to be made on the correctness of payments to farmers and increase the data available for managing the meat market. The development of centralised databases are also more feasible with electronic identification techniques.

## **Consumers**

Food quality was a constant theme of Commission work during 1998 and was closely linked to new initiatives to recognise the paramount importance of consumer confidence in the food industry. In addition to the role played by consumer representatives on the advisory committees, the Commission has placed new emphasis on addressing agricultural and food policy issues from the consumers' point of view.

In December 1998, European Commissioners Franz Fischler and Emma Bonino participated in a joint European Parliament and European Commission conference on food security. Following the 1997 International Conference on Animal Meat, where the causes of BSE and their implications for consumers were the main focus, this 1998 conference looked at consumer health policy and the lessons to be learned from the BSE crisis.

In October, the "European food safety campaign" was launched, after close co-operation with consumer associations on planning and implementation. Under the slogan "Food safety is a shared responsibility; the responsible consumer is informed and active", this campaign came in response to a specific demand from consumers for more information.

# New developments in animal welfare legislation

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Community provisions on animal welfare have been in force since 1974 and developments in policy since then reveal the ever-increasing emphasis placed on welfare issues by the public and the agricultural industry. Today, there is clear recognition that legislation in this area should keep pace with advances in scientific knowledge, in order to maintain the highest possible health and welfare standards for farm animals throughout their lives.

The Commission's rationale for legislating in this area remains two-fold: firstly, that action should be taken at European level to prevent all forms of cruelty to animals and, secondly, that variations in national legislation can lead to distortions in the functioning of the single market.

In practical terms, European Union legislation in this area falls into three broad categories:

- farming practices;
- slaughter;
- transport.

## **Farming practices**

In the area of farming practices, a significant step was taken by the Council in adopting a directive enacting the provisions of the European convention on the protection of farm animals. The essence of this directive is to specify uniform rules for the treatment and housing of animals, as well as the way in which they are cared for.

Important new proposals were published by the Commission on the welfare of laying hens, with a view to improving the conditions of hens in battery cage systems. These proposals respond to the scientific information available, particularly in terms of providing a more natural environment for hens.

## **Slaughter**

As part of its work in 1998, the Scientific Committee on Animal Health and Animal Welfare adopted an opinion on the animal welfare implications of the use of certain mixtures of carbon dioxide to stun animals for slaughter.

Community legislation on the protection of animals at the time of slaughter requires the Commission to produce a report on these issues, on the basis of an opinion from the scientific veterinary committee. This work is under way and will be forwarded to the Council in the course of 1999, together with appropriate proposals.

## **Transport**

In 1998, particularly important developments were seen in the rules governing animal transport. Following the Council agreement in 1997 on rules governing journey times for cattle, pigs and hens, further details were required on the specific rules relating to vehicle specifications. This regulation, setting out the specifications for vehicles transporting animals on journeys over eight hours was adopted by the Council in February 1998.

Progress was also made on the question of pig transport, with revisions to the 1991 directive being adopted.

# Financing the CAP and rural development in 1998

## The budget

European Union agricultural expenditure is financed by a single fund, the European Agricultural Guidance and Guarantee Fund (EAGGF). The amount is set at European level, within a limit known as the 'guideline', which keeps the growth in expenditure at or below 74% of the growth in Community GDP. In 1998, this amounted to Euro 38 748 million. This means that approximately half of the total European Union budget goes towards financing the CAP.

## What the budget funds

The EAGGF is split between the Guarantee Section and the Guidance Section, representing around 88% and 12% of the total respectively. Expenditure covered by the Guarantee section is divided between the following four categories:

- Market intervention
- Export refunds
- Direct aids to farmers
- Co-financing of agri-environment measures, afforestation and early retirement schemes

The Guidance section, on the other hand, is one of the Community's Structural Funds and, in the 1994-1999 period, provides co-financing for rural development and structural adjustment programmes. These include, for example, investment aids, setting-up grants for young farmers, compensatory payments in Less Favoured Areas and finance for training programmes.

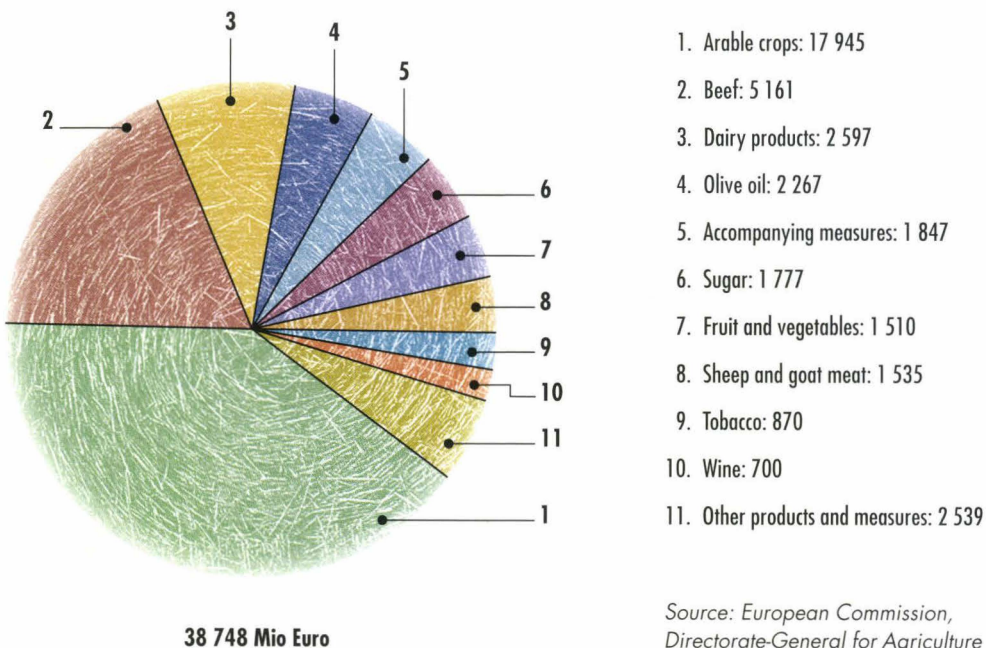
It is also important to note that the CAP generates revenue, through taxes on trade in third country agricultural products, and levies on sugar production.

## From green ECUs to the €

In December, the Council adopted a regulation in readiness for the introduction of the Euro, on January 1 1999. The Euro will benefit European Union agriculture and other sectors of the economy through greater competitiveness, price stability and simpler rules.

The changeover to the Euro spelled the end of the agri-monetary regime for the countries in the Euro-zone. Introduced originally to smooth out market fluctuations

## Allocation of resources under the Guarantee section, 1998



for agricultural products across the Community, the system played an important role in guaranteeing stability for Europe's farmers, but was also cumbersome to administer. Now the scene has changed, with fixed exchange rates for countries in the Euro zone and greater dependence in all Member States on direct income aids for farmers rather than price support.

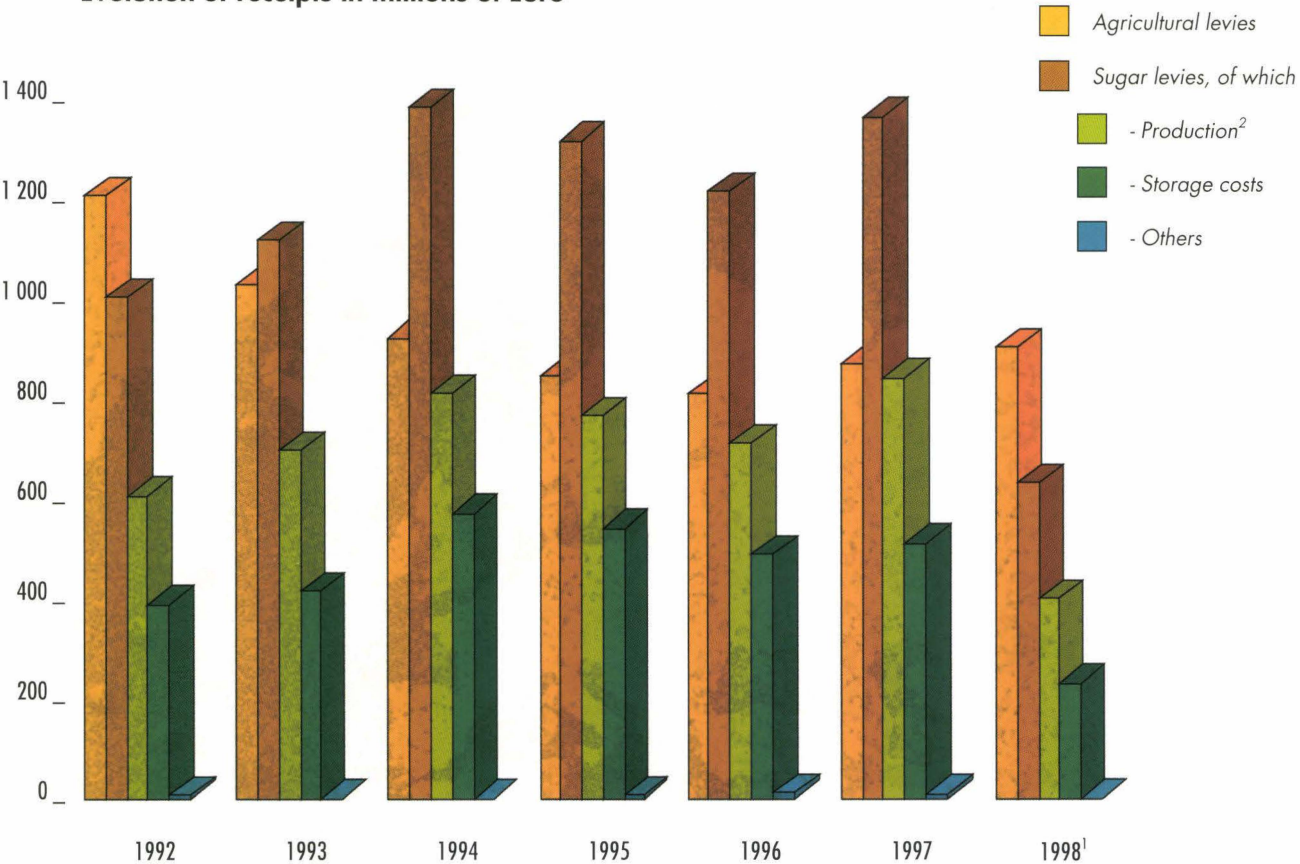
Within the Euro zone, a separate currency conversion mechanism for agriculture is no longer needed. For European Union countries outside the Euro zone, practical conversion rules must be maintained, but these have been simplified, with emphasis now placed, not on the "green" currencies of the agrimonetary regime, but on market conversion rates.

### Maintaining financial control

European taxpayers have a right to expect that all public money is spent efficiently. To ensure that this happens, the Commission checks that sufficient systems and procedures are in place at national level, that the accounts presented by the Member States are correct and complete and that expenditure complies with specific rules and regulations. Sophisticated technology is used to back up the regulations, such as aerial and satellite photography of fields and computer databases to cross-check claims for payments.

In 1998, the Commission used these control procedures to recover Euro 308 million of CAP expenditure paid out by the Member States for 1994. The European Court of Auditors in its 1997 Annual Report has reported on the advances made by the Commission and Member States in improving financial control.

Evolution of receipts in millions of Euro



Source: European Commission, Directorate-General for Agriculture (VI)

¹ Figures to 31 October 1998

² Including the additional elimination levy.

# Trade – A key element in European Union international relations

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## **WTO: Preparing for the Millennium Round**

1999 is set to see the launch of the next round of world trade negotiations, but preparations were already under-way in 1998 for this important step.

European farmers can expect more restrictions on the use of export subsidies, greater access to European Union markets for third country products, and continued emphasis on “decoupling” farm support from production decisions.

For European Union exports, more open markets mean opportunity for high-added value European produce. With the restrictions on subsidised exports, the European Union continued to reduce European Union institutional prices to further align them with those on the world market, thus providing further opportunities to expand market share. Proposals to develop a farm export promotion initiative at Community level aim to support these efforts.

As the Community prepares for the Millennium Round of trade talks, the Commission has made clear that it is committed to preserving the European model of agriculture. This model can be characterised by its multi-functionality, that is to say, that in addition to the primary economic role of providing food for markets, farmers are also engaged in the wider regeneration of rural economies and landscapes, where high quality food is produced by thriving rural communities in a diverse and sustainable environment.

## **OECD debate: Paris, March 1998**

In March 1998, for the first time in six years, agriculture ministers from OECD countries met in Paris to discuss the future direction of farm policy. Their discussions focused on the challenge of further trade liberalisation. Their conclusions provided a clear endorsement of the European Commission’s approach to agricultural reform. They agreed on the rationale for opening up agricultural markets to greater competitive pressures, but also that this must be done in a way which takes full account of the social, environmental and consumer dimensions to food production.

## **Progress on bilateral and regional trade agreements**

The European Union made progress towards reaching an agreement with the USA on veterinary equivalence. In March, the Council of Ministers adopted a Decision granting the Commission a mandate to continue these negotiations.

In December, an agreement was reached with Canada on trade in live animals and animal products.

The Council approved Commission mandates for negotiations towards establishing a Free Trade Area between the European Union and Mexico and detailed discussions on agriculture are set to start in early 1999. Trade agreements between the European Union and Mercosur (Argentina, Brazil, Uruguay, and Paraguay) and with Chile moved forward when the Council authorised the Commission to begin negotiations on association agreements. The Commission also adopted impact studies on both these issues which were discussed at the September Farm Council.

Negotiations with South Africa on a free trade agreement took place throughout the year. While good progress had been made by December, further work was needed on a separate agreement covering wines and spirits.

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## **Food aid for Russia**

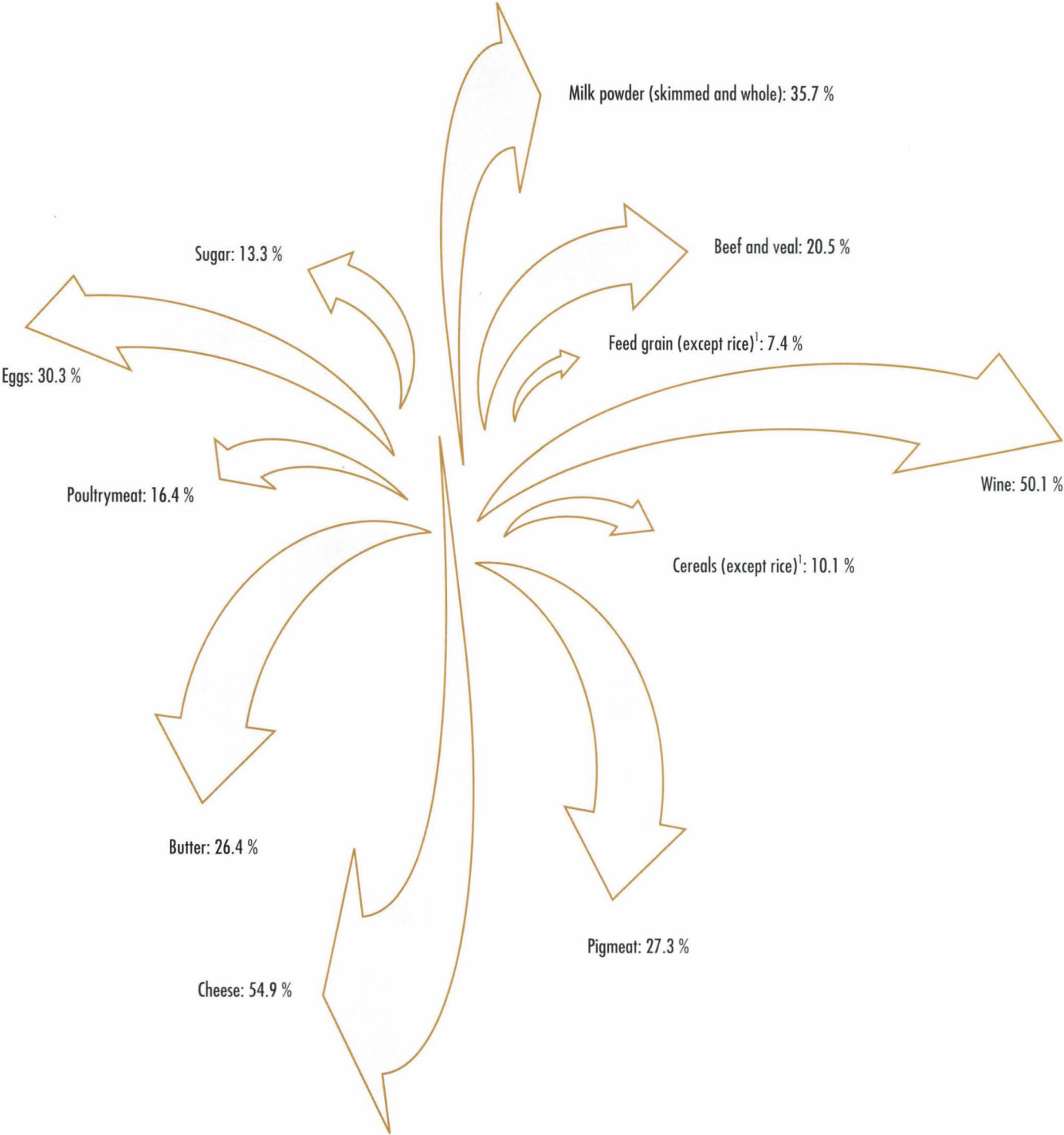
In the wake of the financial crisis in Russia and faced with impending food shortages, the European Union responded to requests from the Russian government to provide food aid.

The European Union measures provided for food valued at Euro 470 million sourced from European Union intervention stores and the pigmeat market to be transported to Russia and distributed to specific regions. The food would be sold at local prices, with the proceeds used to fund assistance for those most in need. There was also an emphasis on supplying raw materials in preference to processed products, so that any processing required would benefit the Russian economy.

Strict controls were agreed with the Russian authorities to safeguard against fraud and/or re-export. These included the shipment of the food in small lots so that deliveries could be suspended if controls were not being respected.

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The EU share of total world exports (1996)



Source: FAO (world production and world trade); Eurostat and European Commission, Directorate-General for Agriculture (VI)

<sup>1</sup> Cereals as grain; processed products excluded

## Conclusions and outlook

The Commission's work in 1998 has been a combination of steps taken to ensure the ongoing efficiency of the markets and rural development programmes, and others that seek to establish new policy frameworks for the future development of the Common Agricultural Policy itself.

The Commission's Agenda 2000 sets out a vision for the future development of the European agricultural model and confronts the key challenges arising both inside and outside the Community's borders. The Commission has identified a prior need to ensure that the EU's agricultural sector produces food which is of the highest quality, that is competitive on domestic and world markets, and that represents value for money for consumers. This must take place within a framework that guarantees a secure and positive future for farmers and for the wider rural community and that protects and enhances the rural landscape and environment. It must be a policy that can be progressively extended to new Member States from Central and Eastern Europe in the coming years.

The Commission addressed these priorities under Agenda 2000 by tabling, in March 1998, concrete legislative proposals embodying far-reaching reforms in the market organisations and in rural development policy, that at the same time ensure that environmental concerns are fully integrated into agricultural policy mechanisms.

While Agenda 2000 has been a fundamental part of the Commission's work in 1998, there have also been other important policy and legislative developments. Certain features arising in a number of agricultural markets, for example, the pigmeat market, had been a particular cause for concern, leading the Commission to intervene in some cases with additional support measures. Overall, however, farm incomes in 1998 demonstrated more resilience in the face of the market pressures compared to previous years.

In the field of rural development, vital monitoring work has been successfully carried out on environmental and rural programmes that has resulted in modifications to the actions supported, helping to improve targeting in accordance with the strategic objectives.

Meanwhile, new controls have been introduced in the area of food safety, providing important additional protection for consumers. Alongside this, the progress made in promoting food quality reflects the Commission's commitment to enhancing the image of European products and helping specialist producers to receive the recognition they deserve in the marketplace.

In all, the Commission's actions during 1998 reflect the complex reality that is European agriculture and its unique features that must be maintained and improved. This is not only a commercial matter; the needs and expectations of consumers, producers and rural communities must all be kept in balance.

European Commission

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