



European Commission
Directorate-General for Agriculture

The Common Agricultural Policy

1999 Review

CEE: VI/8

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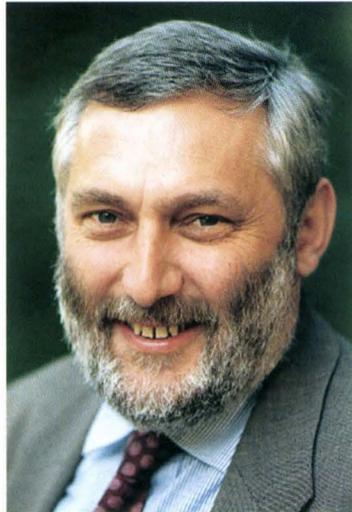
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1999 was a landmark year for the common agricultural policy (CAP). As it has evolved over the last forty years, the EU's agriculture policy has undergone considerable changes to keep pace with developments both inside and outside the Community. The Agenda 2000 package, agreed in March 1999, represents the most radical and wide-ranging reform in the history of the CAP.

Through a combination of support price cuts and targeted direct aid, the CAP from 2000 will provide the basis for future prosperity through greater competitiveness. New opportunities on world markets and changing rules in international trade require that EU agriculture moves closer to world prices. But the policy has a human face and the increases in direct aids will help to offset the effects of lower prices.

At the same time, there is much more to agriculture than producing food competitively. We must also manage our natural resources responsibly, protect the environment where it is vulnerable and enhance its value to society. Farming has traditionally been the mainstay of rural communities but today other measures are needed to ensure our rural areas are vibrant and have a sound economic future. No producer can stand apart from environmental responsibility or from the task of producing food that meets the highest quality and safety standards and takes account of concerns over animal welfare. All this in an ever stricter financial context, ensuring value for money for taxpayers and stability for farmers to invest in the future.

These diverse and challenging issues are met in the European model of agriculture which formed the basis of the agricultural element of the Agenda 2000 agreement. Rural communities need a long-term economic future which farming alone cannot necessarily sustain.

Foreword

Rural development policy - now the second pillar of the CAP - provides investment opportunities that involve local people in developing the economic potential of their area. This new, coherent framework for rural development, applicable throughout the Community, aims to provide support for the broader rural economy and to contribute to enhancing the quality of life in rural areas. The substantial strengthening of environmental measures in all aspects of the CAP will promote more environmentally friendly farming methods and help to preserve natural habitats and landscapes.

More flexibility has been incorporated into the new CAP to take account of the regional diversity which exists in the Community. The reform also provided an opportunity to simplify and consolidate legislation.

Alongside these historic changes, other important developments took place in 1999. The process of EU enlargement continued to gather momentum and in this regard decisions adopted under Agenda 2000 have been instrumental with a significant increase in the budget for the pre-accession strategy. The adoption of the SAPARD programme provides for far-reaching investment in agriculture, rural development and food processing in applicant countries.

The Agenda 2000 agriculture agreement equally constitutes the "essential elements" of the EU position for negotiations on further agricultural trade liberalisation within the context of the WTO. The Community believes that a fair and market-orientated trading system must take account of the multifunctional role of agriculture and also address the concerns of consumers about wider issues such as food safety, animal welfare and the environment.

In 1999, the Community concluded free trade agreements with South Africa and Mexico. They will serve to strengthen both political and economic links between the EU and these countries. The negotiation of an Inter-Regional Association Agreement between the EU and the Mercosur countries got under way in November.

Closer to home, the Commission has made important headway in monitoring the environmental impact of EU policies. Evaluating the success of current regional policy has also been a feature of our work during the year, ensuring flexibility in implementing programmes and the optimum use of resources.

1999 saw measures being put into place that reflect the multifunctional role of agriculture and balance the interests of farmers with those of the rest of society. These measures prepare the EU's agriculture sector to meet the opportunities and challenges that will arise over the coming years both at home and abroad.



Franz Fischler
Commissioner for Agriculture and Rural Development

1999 – The year in review

January

- German Presidency focuses attention on Agenda 2000, organic farming, farm prices and animal welfare.
- Commission adopts Communication on environmental indicators in the CAP.

February

- Agriculture Council holds marathon five-day debate on proposed agriculture reforms in Agenda 2000 package.
- Commission adopts a decision to recover 493 mio € of CAP expenditure paid out by Member States.

March

- Agriculture Council reaches political agreement on Agenda 2000 agricultural reform package.
- Heads of State agree Agenda 2000 package at the Berlin Summit.
- Heads of State approve the EU-South Africa Free Trade Agreement.

April

- Commission adopts report on the simplification of agriculture legislation.

May

- Entry into force of the Amsterdam Treaty.
- Council adopts 10 regulations implementing agreed Agenda 2000 reforms in arable crops, milk and milk products, beef and veal, rural development, wine, potato starch, financing the Common Agricultural Policy and direct support schemes.
- Organic Farming Conference held by Commission and Austrian Government in Vienna.
- Dioxin crisis erupts in Belgium. The Commission reacts by banning affected products from the EU market.

June

- Agriculture Ministers reach political agreement on 1999 price package, agreeing measures for cereals, rice, wine, sheepmeat and flax and hemp.
- Commission adopts SAPARD implementing Regulation and indicative allocation of funds.

July

- Finnish Presidency announces its intention to focus on negotiating mandate for WTO negotiations, food safety and animal health and welfare.
- Agriculture Council adopts Directive laying down minimum standards for the protection of laying hens.
- Agriculture Council agrees on amendments which broaden the scope of Regulation 2092/91 on organic production of agricultural products to include livestock production.
- Commission proposes measures on the processing of animal waste for protection against transmissible spongiform encephalopathies (TSEs).

September

- Agriculture Council agrees negotiating position in agriculture sector for WTO round supporting continued market liberalisation whilst also recognising the sustainable and multifunctional character of European agriculture.
- Commission decides indicative financial allocations for the rural development programmes for 2000-2006.
- Prodi Commission takes office. Franz Fischler stays as Commissioner for Agriculture and Rural Development, and adds Fisheries to his portfolio. Commission departments are restructured, with responsibility for animal and plant health legislation, previously in the Directorate-General for Agriculture, moving to the Directorate-General for Health and Consumer Protection.

October

- Commission approves LEADER+, the Community Initiative for Rural Development.
- Commission adopts a proposal for a Council regulation on information measures relating to the common agricultural policy.

November

- Agriculture Council approves report for Helsinki Summit on environmental integration and sustainable development in the CAP.
- Commission presents proposed amendments to the system of identification and registration of bovine animals.
- Commission presents proposals for the reform of the flax and hemp sector.
- Commission presents proposals for the reform of the common market organisation in bananas.
- Negotiations for a free trade agreement between the EU and Mexico are successfully concluded.
- Commission adopts new Guidelines for State Aid in Agriculture.

December

- Agriculture Council approves proposed amendments to legislation on the labelling of beef and beef products to extend the period of voluntary labelling before compulsory rules are agreed to enter into force on 1 September 2000. The Council also adopts a regulation on measures to promote and provide information on agricultural products in third countries.
- Commission presents proposals for the reform of the cotton regime.
- Commission adopts EU organic logo.

Agenda 2000 – A CAP for the future

At the Berlin Summit on March 25/26, EU Heads of State or Government concluded negotiations on Agenda 2000. By establishing a coherent policy framework for the period 2000-2006 in the field of EU agricultural policy, regional policy and the EU budget, the package sets out the financial arrangements and measures that will enable the Union to meet the challenges and opportunities that are emerging. In particular for agriculture, Agenda 2000 creates the right conditions for the agricultural sector and the Community's rural economies to prosper in the years ahead.

EU agriculture – A world competitor

Trade in agricultural commodities, on both internal and external markets, is important to EU farmers and for the economy as a whole, with exports of agricultural products representing some 7% of the Community's total exports.

As trade barriers come down, new markets are emerging which provide increasing opportunities for EU farmers. By bringing the price of EU agricultural products closer to world prices, competitiveness on both domestic and world markets will be enhanced.

To improve price competitiveness, Agenda 2000 has introduced reductions in market support prices of 15% for cereals, 15% for milk and milk products from 2005 and 20% for beef and veal. The price cuts will strengthen market orientation by contributing to a better balance between supply and demand.

The reduction in institutional prices will be phased in to give farmers the time they need to adapt to the new pricing environment. The lower prices will be partly offset by an increase in direct aid payments, thus contributing to ensuring a fair standard of living for farmers.

Because production systems differ across the EU, parts of the direct payments in the beef and dairy sectors will be paid to Member States in the form of national financial allocations. Member States will be able to distribute the aid according to their own priorities, subject to certain Community criteria to prevent distortions of competition.

Rural development

Whilst agriculture is an important feature of the rural economy, it cannot alone guarantee jobs and growth. Economic renewal and stabilising the rural population have a central role to play in safeguarding the vitality of rural communities.

Agenda 2000 introduces a comprehensive rural development policy which recognises the multifunctional nature of agriculture and which promotes measures to support the broader rural economy. Measures have been brought together in one regulation which aims to contribute to the regeneration of rural areas and the promotion of diversification.

Protecting and enhancing the environment

While it is hard to believe today, the CAP was set up at a time of food shortages in Europe and thus one of its aims was security of supply. Forty years on, our concerns have evolved and securing the food supply is no longer as strategically important as it was in the past. The focus today is much more on how and under what conditions food is produced and on the relationship between economic activity and the wider natural environment.

With farmers involved in the management of close to half the Community's land area, agriculture obviously has a critical role to play in minimising the impact of economic activity on the environment. Indeed, including environmental objectives in the CAP is not new. Since 1992, the Community has supported agricultural production methods which protect the environment. Agenda 2000 seeks to strengthen the environmental provisions of the CAP and to integrate them in a more systematic way into a broader policy for rural development.

This is borne out in the fact that agri-environmental measures are the only compulsory component of the Member States' rural development programmes submitted to the Commission. Member States may also make direct payments conditional on compliance with

environmental targets ("cross-compliance"). Payments may be reduced or cancelled in the case of non-compliance and Member States may then re-direct funds thus released to finance agri-environmental or rural development measures.

Environmental protection has also been the focus of changes in the Less-Favoured Area compensatory allowance scheme. These payments, previously made on a headage basis, will now be calculated according to area and may be subject to environmental criteria.

Modulation

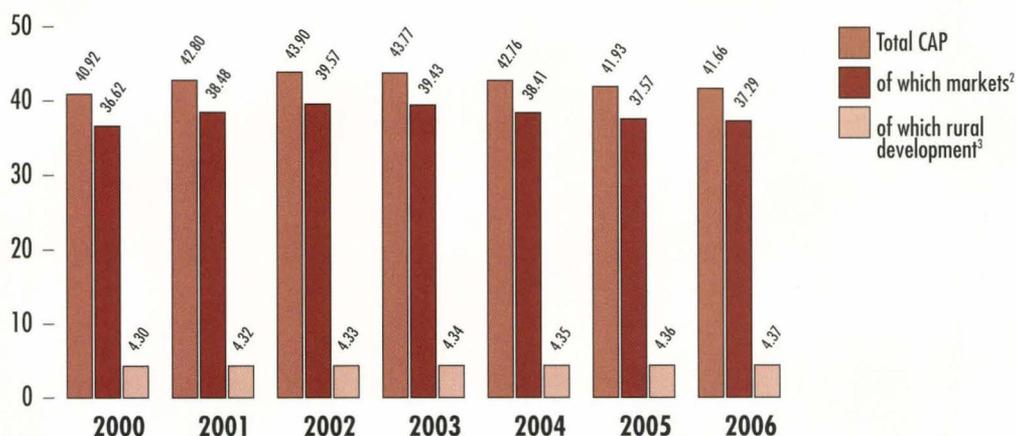
The Agenda 2000 agreement gives Member States the opportunity to modulate direct payments made to farmers under the CAP based on criteria that can include the workforce on the holding, the overall prosperity of the holding or the total amounts of payments granted under support schemes.

Financing the reforms

Central to the Agenda 2000 agreement are the financial perspectives for 2000-2006.

Under the interinstitutional agreement between the European Parliament, the Council and the European Commission of 6 May 1999, the CAP budget (excluding rural development), will average 38.1 bio € per year for the period 2000-2006. For rural development, the average annual budget available will amount to 4.3 bio €. Finally, 520 mio € is available per year for pre-accession measures in agriculture and rural development (the SAPARD programme).

CAP: expenditure 2000-2006 (bio €, 1999 prices)¹



¹ For calculating amounts at current prices, a 2% deflator is used

² Including veterinary and phytosanitary measures and excluding accompanying measures

³ Including accompanying measures and rural development initiatives outside Objective 1 programmes previously funded by the EAGGF/Guidance section
These amounts correspond as an annual average to the Commission's proposal in Agenda 2000

Source: European Commission, Directorate-General for Agriculture

Focus on the markets

Agricultural output for most commodities rose in 1999, albeit at a slower rate than in recent years. Increases were recorded for pigmeat, beef, oilseeds, fruits and vegetables, wine and certain arable crops. The growth in production of poultrymeat, which has risen sharply in recent years, slowed in 1999. This was mainly due to emergency measures taken in response to the dioxin contamination of poultry feed in Belgium. Lower cultivation and yields led to a decline in the production of cereals.

Average agricultural prices for most products reached slightly higher levels on world markets than they did in 1998 but nonetheless remained lower than in earlier years. The economic crises which hit Asia, Russia and Latin America in 1998 and the carry over of stocks from previous years continued to depress prices in certain key sectors like cereals, milk and beef.

On domestic markets, prices for wine and olive oil were higher than in 1998 but for other products, this was not the case. The index of agricultural producer prices recorded an overall fall of 3% in nominal terms for 1999.

The downward trend in agricultural incomes seen over the last two years continued in 1999, falling by an average of 3% in real terms. Relatively low prices for most agricultural commodities and a slight reduction in agricultural subsidies combined to offset the effects of a 2% fall in the price of agricultural inputs.

Despite the generally difficult international climate, export volumes in key agricultural sectors were appreciably higher than in 1998. This is particularly true for cereals, pigmeat, beef and veal and skimmed milk powder, although export volume rose more sharply than export value, reflecting low world prices. Other sectors did not perform as well in terms of export levels, with falls recorded for sugar, oilseeds, butter, cheese, fruit and vegetables, poultrymeat and wine in comparison to their 1998 levels.

► Focus on cereals

Cereals production in 1999 was down 4% on 1998. Lower production was attributable in part to the increase in compulsory set-aside (from 5% to 10%) and partly to unfavourable weather conditions in northern Europe and southern Spain at crucial stages of the production cycle.

Internal demand for cereals remained relatively stable, after rising steadily in recent years, in particular for the preparation of feedingstuffs and industrial uses.

Lower yields in other parts of the world, notably in Russia and China, led to an upturn in world prices for cereals in 1999 after having reached a five-year low at the beginning of the year. Recovery was nevertheless hampered to some extent by the carry over of stocks from previous years.

► Focus on beef

1999 saw the continued steady recovery in the beef and veal market following the difficulties in recent years resulting from the BSE crisis.

Beef and veal production was down on 1998 as a combination of emergency measures adopted to stabilise the market in 1996 and a cyclical drop in production took effect. This cyclical downturn reached its low point in the course of the year and thereafter started its upward path.

Consumption rose again in 1999 but the long-term trend in internal demand is still downwards, reflecting changes in consumer preference.

In the first half of the year beef prices began to recover from the sharp fall experienced after valuable Russian export markets were lost in 1998. By the middle of 1999 prices settled at a level just above the intervention price and remained more or less stable throughout the second half of 1999.

The volume of Community exports rose by 20%, attributable in part to the continued drop in production in parts of Eastern Europe and Russia.

Focus on sheepmeat and goatmeat

The European Union is the world's second largest producer and consumer of sheep and goatmeat after China. High prices in 1996/97 led to an increase in production but this has not been matched by demand, leading to a 24% fall in prices in the second half of 1998. Prices at the beginning of 1999 were very low. A sharp increase in production in the spring of 1999 resulted in a further drop in prices, triggering the introduction of a private storage aid scheme in September. By the end of the year prices had risen by over 30% on those recorded a year earlier. While the market in this sector remains depressed in some northern European countries, there have been positive market developments in southern Europe.

Focus on olive oil

Accounting for around 70% of world output, the olive oil sector plays an important social, economic and environmental role in regions throughout the Mediterranean basin. Although consumption has risen steadily across the EU in recent years as consumers in non-producer Member States have integrated it into their diets, production has continued to outstrip demand.

With a view to safeguarding the long-term future of this sector and to curb the recent increase in production, transitional reform arrangements came into effect in November 1998. They aim to strike a better balance between supply and demand and to simplify and streamline the common market organisation.

In 1999 olive oil production totalled around 1.6 million tonnes, a fall of 12.3% compared to 1998. Consumption in the EU remained relatively stable but recent data shows an increase in consumption in a number of third countries, offering better export prospects for EU suppliers. In December, the Commission proposed that 5.5 million € be made available for the promotion of olive oil in third countries.

The dioxin crisis

At the end of May 1999, the Commission received notification from the Belgian authorities of the dioxin contamination of animal feed. Poultrymeat, eggs, beef, milk and pigmeat were also affected. The Commission acted swiftly to ensure that all contaminated or potentially contaminated products were removed from the market and destroyed. Export restrictions were also introduced. Although a number of Member States were affected by the crisis, Belgian farmers were hardest hit, experiencing losses in turnover of up to 40%. The Commission approved a number of state aid packages in favour of Belgian producers affected by the dioxin crisis.

The 1999 price package

The substantial agricultural reforms in the Agenda 2000 agreement and those agreed for the olive oil and wine sectors in 1998 reduced the need for extensive adjustments in the 1999 price package.

Guide prices for wine, for fibre flax and hemp, for sheepmeat and for silkworms were fixed at the June Agriculture Council along with monthly price increases for the intervention price for cereals and the monthly price for paddy rice.

The Commission put forward proposals for reform in the following sectors in 1999:

Flax and hemp

Between 1994 and 1999 the area under cultivation of fibre flax in the EU rose from 70 000 hectares to 208 000 hectares, with hemp area rising from 7 000 hectares to 32 000 hectares. Over the same period the cost of market support more than doubled, increasing from 74 mio € to 158 mio €. This increase in production has not been matched by a significant increase in demand.

Recent measures taken to curb output and the development of new industrial uses have not been sufficient to balance the market. The Commission proposes to reduce planting by including flax and hemp in the general aid scheme for arable crops and introducing a subsidy linked to quality.

Cotton

In December, the Commission adopted proposals for the reform of the cotton regime, which aim to raise the level of environmental protection and keep expenditure in check. The cotton budget has risen from 740 mio € in 1996-97 to 898 mio € in 1998-99 and further increases in production are predicted.

The Commission proposes to maintain the guide price for cotton at its current level of 1063 € per tonne but under the new regime farmers will face tougher penalties if national guaranteed quantities are exceeded.

Environmental concerns about high water consumption, pesticide and fertiliser use and a trend towards monocultures in certain regions of Greece and Spain have prompted the adoption of legislative provisions which will require Member States to draw up objective environmental criteria and, where necessary, to restrict eligibility for aid to certain regions.

In line with the continued simplification of agricultural legislation, the reform will simplify the provisions relating to the fixing and granting of aid, bringing them together in a single Council regulation set to enter into force in September 2000.

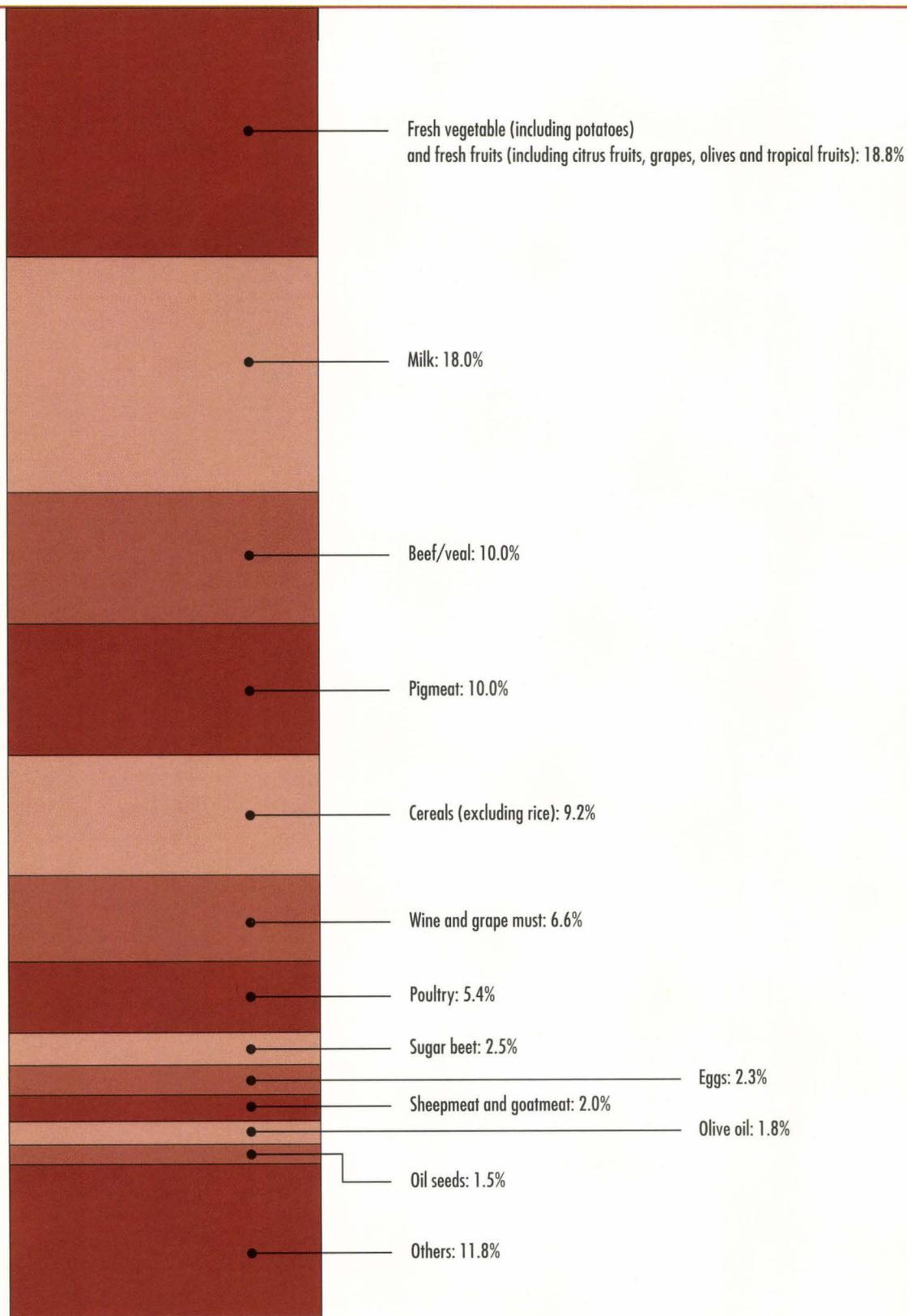
Bananas

In April 1999, the Dispute Settlement Body of the WTO found certain aspects of the revised EU banana regime which came into effect on 1 January 2000 incompatible with WTO rules. Following consultation with all parties concerned, in November the Commission adopted a proposal to modify the common market organisation in bananas. The proposed changes would be introduced in two steps.

Step one envisages a transitional tariff quota system which maintains the two existing tariff quotas, both of which would be subject to a tariff of 75 €/tonne and open to all suppliers. A third tariff quota would be opened to all suppliers and a preference of 275 €/tonne would be granted to bananas from suppliers in the ACP (African, Caribbean, and Pacific countries signatories to the Lomé Agreements).

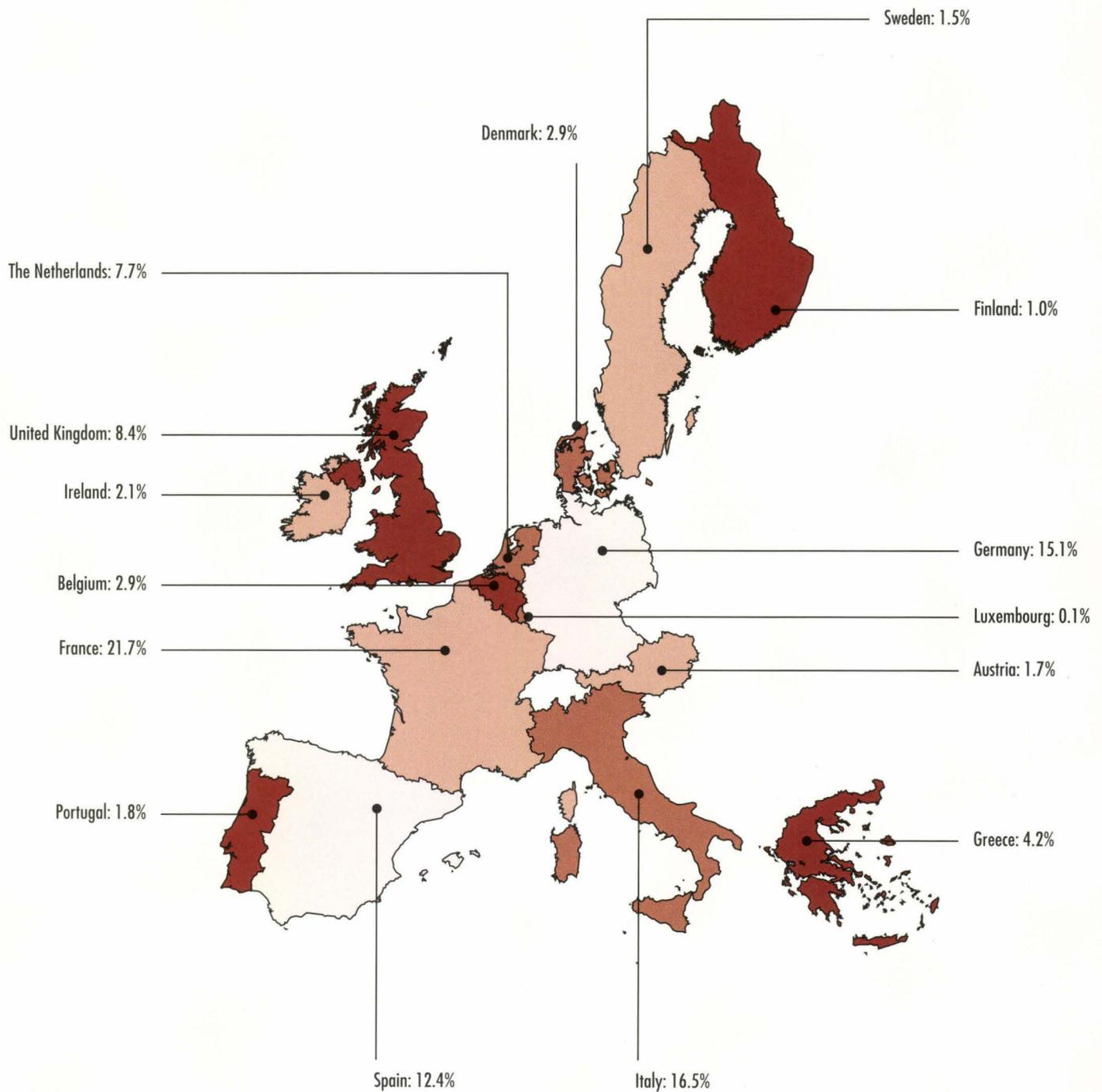
In the second phase, starting on 1 January 2006, a flat-rate, tariff-only system would apply. ACP producers would be granted an appropriate tariff preference.

**Shares of individual products
in final agriculture production in the European Union (1998)**



Source: Eurostat, EAA (Economic Accounts for Agriculture)

**Individual Member States' shares
in final agricultural production (1998)**



Source: Eurostat, EAA (Economic Accounts for Agriculture)

Rural development – 1999 and beyond

Rural areas account for over 80% of the total territory of the Community and are home to about a quarter of its population. While agricultural activity is important to a thriving rural economy, it cannot alone ensure the economic and social viability of rural communities.

A radical overhaul of the Community approach to rural development was an important part of Agenda 2000. The new rural development policy builds on the successes of existing measures and introduces a more streamlined approach to funding and policy development. For the first time rural development funding is available to all parts of the EU. Agri-environmental schemes are the only compulsory element of the rural development regulation, reflecting their importance. The result is a forward-looking policy which places rural development at the heart of the CAP and guarantees a commitment to the environment.

Evaluation - A tool for rural development

An important part of the Commission's work is to monitor and evaluate the implementation of Community policy. Programme evaluation is an ongoing process, carried out in the majority of cases by independent experts. Community actions are evaluated not only at the end of the programming period but are also subject in most cases to mid-term evaluations. This enables the Commission to meet its legal obligation to provide progress reports to the Council and European Parliament and to work with programme managers to make any adjustments necessary to meet targets.

In 1999, the Commission launched a review of the operation of two Objective 5a Regulations. Objective 5a concerns speeding up the adjustment of agricultural structures in the framework of the reform of the CAP. In addition, the Commission worked in close collaboration with the Member States to implement the results of the mid-term evaluation of 5b measures which began in 1998. Objective 5b covered development of less-favoured rural areas.

Objective 5a

For Objective 5a, Community Guidelines on the evaluation of the following three measures under Regulation 950/97 were sent to the Member States:

- 1 **Investment aid** which, each year, funds projects to modernise approximately 40 000 holdings to improve competitiveness and meet environmental and animal health and welfare standards;
- 2 **Aid to young farmers** contributing to start-up costs;
- 3 **Compensatory Allowances for Less-Favoured Areas** which assist farmers in areas where farming conditions are difficult because of natural handicaps, for example in mountainous regions. These payments are currently granted to 1.1 mio holdings and cover 78 mio hectares.

Ex-post evaluations for the 1991-93 and 1994-98 periods began in October 1999 for Council Regulation 951/97 which governs measures to improve the processing and marketing of agricultural products.

Objective 5b

The mid-term evaluation of 5b operations carried out in 1998 highlighted a number of positive developments, such as greater partnership at local and regional level and a positive impact on employment levels.

At the same time, there had clearly been start-up problems in the early years of the programming period, but by the end of 1998 commitment levels had risen to approximately 70%. The Commission continued to work with national authorities and programme managers to ensure that the targets set for the final commitment of funds to beneficiaries were met. Although all commitments of 5b funds to final beneficiaries had to be made by the 31 December 1999, implementation of projects can go on for another two years.

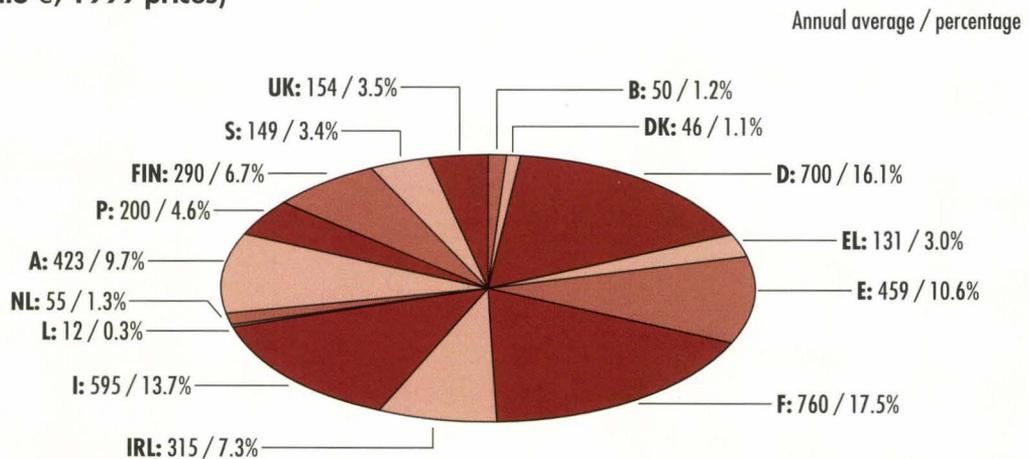
The mid-term evaluation of 5b also prompted the redistribution of funds between measures within the programme.

The new rural development regulation

In keeping with the Commission's continued commitment to simplification and efficiency, the Agenda 2000 package has streamlined rural development measures by bringing them together in one regulation.

Council Regulation 1257/99 provides a range of measures from which each Member State will draw up a rural development plan. The programming process foresees the participation of social partners at regional and local level in the design, implementation and follow-up of programmes.

EAGGF/Guarantee section: support for rural development, 2000-2006 Financial allocation to Member States¹: indicative amounts (mio €, 1999 prices)



¹ When calculating the annual allocation to Member States for the period 2000-2006, the percentages indicated above should be applied to the ceilings in the annual financial perspectives fixed in § 23 of the Conclusions of the European Council Presidency in Berlin

Source: European Commission, Directorate-General for Agriculture

The regulation includes the accompanying measures, (agri-environmental measures, the early retirement scheme for farmers and afforestation schemes) which will continue to be financed wholly by the Guarantee Section of the EAGGF. This will now also be the case for compensatory allowances in Less-Favoured Areas.

Agri-environmental measures, which provide financial support for farmers who commit themselves to specific aspects of environmental protection and improvement, are the only compulsory element of the programme.

Reform of the Structural Funds

Agenda 2000 introduced substantial changes to the Community's Structural Funds, reducing the previous six priority Objectives to three. For the period 2000-06, Objective 1 will continue to cover those areas where gross domestic product is less than 75% of the Community average. Regions formerly covered by Objective 6 will be brought into Objective 1.

Objective 2 will address the problems of areas facing restructuring, targeting rural areas in decline, areas hit by a decline in the fishing industry and urban areas with socio-economic problems.

Objective 3 is a horizontal measure which will fund education and training programmes across the EU.

In the second half of 1999, the Commission, in partnership with Member States, compiled a list of areas eligible for Objective 2 funding. By the end of the year the Commission had received draft integrated rural development plans from nearly all of the Member States. It is expected that all the plans will be approved in 2000.

To ensure the smooth transition from the current programming period to the new generation of rural development programmes, transitional support will be made available. Regions previously eligible under Objectives 1 and 5b which no longer meet the criteria for eligibility will continue to receive assistance until the end of 2005. These areas will also be eligible for support from the new horizontal rural development programme which covers those areas not covered by the Structural Funds. Transitional arrangements for compensatory allowances for Less-Favoured Areas will also be applied.

LEADER+, the new Community initiative for rural development

As part of the drive to streamline and simplify the EU's Structural Funds, the number of Community Initiatives was reduced from 13 to just 4. Given the success of the LEADER and LEADER II initiatives and the shift in emphasis of the CAP to supporting the wider rural economy, LEADER is clearly an initiative with great further potential. In October 1999, the Commission approved draft guidelines for the new Community Initiative for rural development, LEADER+.

Unlike its predecessors, LEADER+ will be available to all rural areas. With a budget of 2 020 mio € for 2000-06, LEADER+ will make an important contribution to the regeneration of rural economies by supporting innovative rural development strategies which may serve as a model for other areas. There will be a strong emphasis on the active participation of local communities and also on co-operation and networking between rural areas to exchange experiences and transfer know-how.

The Commission proposes to introduce a number of priority themes around which integrated local development plans should be focused. These include:

- the use of information technology in rural areas;
 - improving the quality of life in rural areas;
 - adding value to local products;
 - making the best use of natural and cultural resources;
 - equal opportunities for women and young people in rural areas.
-

Protecting the environment

Environmental issues are a driving force within the CAP and are a legal requirement of both market support and rural development policies. As a commercial activity, farming is principally production-driven. But farmers also have an important role to play in managing natural resources and maintaining natural habitats and landscapes. The policy framework within which they work must balance the needs of efficient farming with environmental safeguards and improvements.

The incorporation of agri-environmental measures in the CAP and the inclusion of agriculture as one of the five priority areas under the Fifth Environmental Action Programme has brought positive results. Agri-environmental measures today apply to around one fifth of agricultural land. Statistics also show a decline in the use of agricultural inputs in the last ten years. Another positive development is the reforestation of more than half a million hectares in the EU between 1993 and 1997.

Since the ratification of the Maastricht Treaty, there has been a legal obligation on the EU to take account of environmental protection requirements when drawing up and implementing Community policies. This obligation has now been consolidated following the entry into force of the Treaty of Amsterdam on 1 May 1999. Work on the development of a set of environmental indicators, which began in July 1999 following a request from the Agriculture Council, will enable the Commission to monitor the impact and efficiency of environmental measures.

Strengthening agri-environmental measures

The European Union is characterised by a rich diversity of natural resources and climates and a wide range of agricultural activities. With this in mind and in keeping with the principles of subsidiarity and partnership, Member States are responsible for developing agri-environmental programmes which take account of specific national or regional needs. Within six months of receiving the proposed plans from the Member States, the Commission will determine whether they are consistent with the new rural development regulation.

Farmers will be remunerated on a contractual basis for the provision of environmental services and the pursuit of environmentally-sound farming practices. Premia calculation is based on the costs they incur, the income they have forgone as a result of participation in the scheme and an incentive to participate in the scheme.

Funding will continue to be available for conversion to organic production and afforestation. In addition, support provided for land improvement, water resources management and landscape conservation will make a positive contribution to environmental protection in rural areas.

The compensatory allowances which assist farmers in Less-Favoured Areas (LFAs), previously based on the headage count of individual holdings, will be calculated on an area basis in the future. This improves the relative competitiveness of less intensive livestock farming.

Environmental protection - a key feature of the market regimes

Member States are required to take measures necessary for the protection of the environment. In fulfilling this obligation, Member States have three courses of action at their disposal. First, Member States use agri-environment programmes to protect or enhance the environment where this goes beyond good agricultural practice. Secondly, they apply compulsory restrictions as they exist already in manifold ways. Thirdly, Member States may apply specific environmental conditions for the granting of CAP direct payments.

A number of other sector specific measures have been introduced with beneficial effects for the environment.

New emphasis is being placed on extensive livestock farming by increasing the special extensification premium scheme that is already available to livestock farmers. To further encourage lower stocking densities more rigorous eligibility criteria will be applied to ensure that only holdings with genuinely extensive production can benefit from the scheme. For 2000-01 the premium is set at 33 € for stocking densities of between 2 and 1.6 Livestock Units (LU)/hectare and 66 € if the stocking density is less than 1.6 LU/hectare. From 2002, it will rise to 40 € for between 1.8 and 1.4 LU/ha and 80 € if the stocking density is below 1.4 LU/hectare. Producers receiving the special premium or suckler cow premium may also qualify for an additional annual payment of 100 € if the stocking density on their holding is less than 1.4 LU/ha.

Protecting the Community's forests

Forests cover 36% of the EU total land area, or some 130 mio hectares and play an important ecological, economic and social role in the Community. Responding to a request from the European Parliament, at the end of 1998 the Commission presented a Communication on a strategy for the protection and sustainable management and development of forests in the European Union. In line with the strategy, forestry forms an important part of the new multi-sectoral approach to rural development, bringing together existing and new measures to improve the ecological stability of forests and the marketing of forestry products.

In addition, amendments to two pieces of legislation, one concerning the protection of forests against fire and one on the protection of forests against atmospheric pollution, were adopted in 1999.

To maximise the success of efforts to improve the forestry sector it is important that policy is based on accurate and up-to-date information. In June 1999, the Commission adopted a work programme for 1999-2002 with a view to establishing the European Forestry Information and Communication System (EFICS). The aim of the programme is to compile existing information in a computerised system and to improve and harmonise data on forests, forestry products and trade.

Monitoring success

The Cardiff and Vienna Summits underlined the importance of integrating environmental requirements into Community policies and asked the relevant Councils to establish strategies to achieve this.

In 1999, the Agriculture Council requested the Commission to prepare a report on agri-environmental indicators to support its strategy on integrating the environment into the CAP. The Commission presented a Communication on this subject to the Council and the European Parliament at the beginning of 2000.

The Communication brings together the extensive work that has been carried out by the Commission in conjunction with the Member States and other organisations such as EUROSTAT, the European Environmental Agency (EEA) and the OECD, to improve the quality of agriculture statistics and develop accurate and meaningful agri-environmental indicators. It follows the Commission's Communication of 27 January 1999 entitled "Directions towards sustainable agriculture" which explores the functional link between agriculture and the environment.

Once established, these indicators will facilitate the monitoring of the incorporation of environmental measures into the CAP. They will also enable the Commission to strengthen the monitoring and evaluation of agri-environment programmes in the Member States.

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 incorporates 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.

The CAP – putting consumers first

The drive towards high quality produce and consumer choice is a main feature of the reformed CAP and the Commission continued to work hard in 1999 on both these fronts.

Quality assured

Support under both the market regimes and rural development policies is conditional upon meeting minimum standards in the fields of environment, hygiene and animal welfare. Also in the common market organisations, intervention schemes require agricultural produce to meet specific quality standards. Under the new CAP these standards have been reviewed and, where necessary, strengthened.

Improving traceability

The single market allows goods, including agricultural goods, to travel freely between Member States. In the wake of the BSE crisis, a cattle identification system was introduced and work began to establish a computerised database to record cattle movements throughout the EU. Rapid identification of the source of any problem enables the authorities to act quickly to eliminate potential threats to public health. At the same time, disruption of the agri-food markets can be minimised.

In 1998, the Commission presented a proposal to extend the scope of the computerised cattle database to include pigs. Progress on adopting the proposal was slowed down to some extent by the entry into force of the Amsterdam Treaty which required a change to the legal base of the proposal. However, at the end of 1999, the Council adopted a common position on the proposal, which will now be forwarded to the European Parliament for a second reading. The plan is to have a fully operational computerised database of the movement of all pigs in the Community by the end of 2002.

What goes into animal feedingstuffs has a direct bearing on both animal and human health. It is therefore important that food safety legislation also covers this aspect of the production cycle. The on-going review of food production in the Community has resulted in the strengthening of standards and controls in the feedingstuffs industry. In April 1999, the current legislation applicable in this field was codified. The subsequent crisis brought about by the dioxin contamination of feedingstuffs illustrated that further improvements are needed. In response to a request from the Council, the Commission presented a work programme in December 1999 outlining the measures needed to further adapt EU legislation on feedingstuffs. The Commission is committed to setting high standards across the food chain and to bringing greater clarity and transparency in the feedingstuffs sector. In this context, mention should also be made of the Commission's proposal to extend the current GMO labelling requirements for food for human consumption to the labelling of animal feed.

Recent concerns over the increase in human resistance to antibiotics have prompted an EU level review of their use in animal feedingstuffs. In 1998, the use of four antibiotics in feedingstuffs was banned. In 1999 the Commission continued its antimicrobial resistance surveillance programme and will take any further action which may be required in relation to the use of antibiotics in animal feed.

Beef labelling

In order to enhance consumer protection by providing more information on the origin of beef, in October the Commission proposed the establishment of a compulsory beef labelling system. Pending the adoption of such a system, it also proposed extending the optional regime then in force. In December, the Council decided that this extension should run until September 2000.

Organic farming - a dynamic sector

Organic farming is currently one of the most dynamic sectors in the EU farm sector. In 1992, measures were introduced at Community level under the agri-environmental scheme to support the conversion of holdings to organic production. This assistance helps farmers to overcome the disadvantages entailed during the three-year transition from traditional to organic production. During this conversion period, farmers normally experience a loss of income as their yields fall but their produce cannot be sold as organic, which commands a higher price. Since 1992, the area of organically farmed land in the Community has more than doubled and forecasts point to further growth. The percentage of organic produce sold in the EU now accounts for 3% of food sold, up from 1% in 1992.

The organic sector in figures

Number of holdings certified as organic or in conversion	
European Union	1998
Belgium	400
Denmark	2 272
Germany	9 209
Greece	4 231
Spain	7 782
France	6 139
Ireland	1 121
Italy	43 698
Luxembourg	28
The Netherlands	970
Austria	20 000
Portugal	510
Finland	4 975
Sweden	2 860
United Kingdom	1 462
Total	105 657

Source: Lampkin, Welsh Institute of Rural Studies, University of Wales

The development of the organic sector depends not just on increased organic production, but also on appropriate processing and marketing. Grants available to improve the processing and marketing of agricultural products and those which provide training in the agri-food sector apply also to the organic and non-organic sectors.

EU legislation on production and labelling standards for organic produce has applied to the crop sector since 1992. In 1999, the scope of Council Regulation 2092/91 was extended to include livestock products. It covers production, inspection and labelling. The aim is to provide consumers with clear and accurate information and to guarantee the integrity of the goods they buy.

In December, the Commission adopted a regulation to create a Community logo for organically produced farm produce and foodstuffs. The logo can only be used on agricultural crop products and on foodstuffs containing 95% organic ingredients. The products must have been submitted to an inspection system throughout the entire production and preparation process. Use of the logo is optional. It can be used in combination with national or private logos which are used to identify organic produce.

Animal welfare

The increasing emphasis placed on animal welfare issues by the public and the livestock industry is reflected in the high standards of welfare required by EU legislation. As production methods change and scientific research advances, legislation must be adapted to take account of these developments. The increased trade in livestock that has resulted from the consolidation of the single market led to legislation in 1997-98 on maximum journey times and vehicle specification for the transport of animals. Comprehensive enforcement mechanisms are in place.

In 1999, a new Council directive was adopted which lays down minimum standards for the protection of laying hens kept in various systems of rearing. As well as increasing the minimum area requirements for cages, the new directive lays down minimum standards for other factors affecting the hens' environment such as litter, perches and nests. The use of non-enriched cages will be phased out in the EU by 2012 and a ban on building new cages will come into effect on 1 January 2003.

In addition to its commitment to high levels of animal welfare in the EU, the Commission is keen to see wider international recognition of animal welfare rules. At the meeting of the WTO in Seattle in November 1999, the Community called for animal welfare standards and other non-trade related issues to be given wider acknowledgement in international trade agreements. Not only would this address the concerns of consumers about humane production methods, it will also create equal conditions of competition in international trade.

A white paper on food safety

EU law has always included legislation on hygiene and safety in the agri-food sector. As production and distribution methods have changed, legislation has been adapted to reflect these changes. Developments throughout the 1990s prompted a greater level of activity in this field than ever before resulting in the adoption of a considerable volume of additional provisions. In 1999, the Commission prepared a White Paper on food safety which outlines plans for a European food safety authority, improved monitoring and controls and a programme of legislative review covering all aspects of foodstuffs. The Commission adopted the White Paper in January 2000.

Consumer protection - the international dimension

The EU is both an importer and an exporter of agri-food products. The Commission is very conscious that equivalent rules on food hygiene and food safety must apply to goods imported from third countries as to food produced domestically. The Commission works on an on-going basis with the EU's trading partners and international organisations to make sure that appropriate standards are set to protect consumers against possible health risks.

In July, a veterinary agreement between the EU and the United States was signed which establishes a mechanism for the recognition and equivalence of sanitary measures. The agreement does not change EU legislation but should help facilitate trade of live animals and animal products between the two regions. Similar agreements have already been concluded with Canada, the Czech Republic and New Zealand. Negotiations are under way with Argentina, Australia, Chile and Uruguay.

In 1999, international guidelines on the production, processing, labelling and marketing of organically-produced food were approved by the UN Food and Agriculture Organisation (FAO) and the World Health Organisation's (WHO) Codex Alimentarius Commission.

Also in 1999, Community legislation establishing maximum residue limits of veterinary medicinal products in foodstuffs of animal origin was incorporated into the European Economic Area Agreement thus extending its provisions to products from Iceland, Liechtenstein, Norway and Switzerland.

Financing the CAP

In 1999, agricultural expenditure amounted to 40 940 million €, or 42% of the total EU budget.

The agriculture sector is also a major source of revenue to the Community. Import duties, which are charged on agricultural products from third countries, are part of the EU's resources, as are levies on the production and storage of sugar. The total income from the CAP in 1999 was 2 134.5 mio €.

The 2000-06 budget

At the Berlin Summit of 25/26 March, EU Heads of State or Government agreed the EU's budget for 2000-06. For the CAP, (excluding rural development), the budget averages 38.1 bio € per year for the period 2000-06. For rural development, the average annual budget available will amount to 4.3 bio €. It should be noted that the Community wholly finances market measures, while rural development is co-financed with

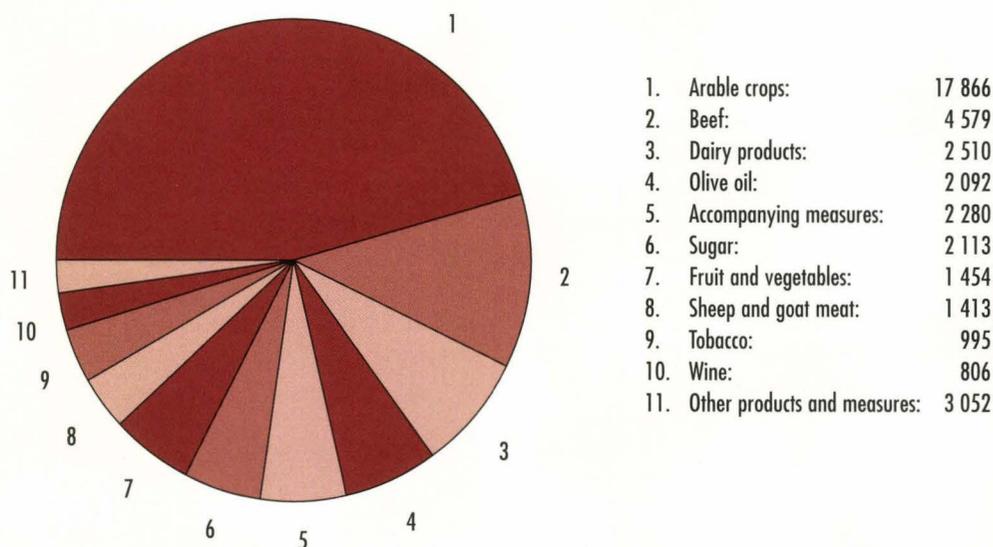
the Member States. Finally, 520 mio € is available per year for pre-accession measures in agriculture and rural development (the SAPARD programme).

A new financial regulation

A new financial regulation was adopted in 1999 which has replaced Council Regulation 729/70 on the financing of the CAP.

Council Regulation 1258/1999 adapts the current financial arrangements to take account of the reforms by amending the source of finance for rural development measures. In future, the EAGGF Guarantee section will finance most rural development programmes. There are two exceptions to this. Rural development actions (apart from agri-environment, early retirement, afforestation and aid to Less Favoured Areas) carried out in Objective 1 regions and those funded by LEADER+ will be financed by the Guidance section of the EAGGF.

Allocation of resources under the Guarantee section, 1999 (in mio €)



Source: European Commission, Directorate-General for Agriculture

Ensuring financial control

Annual spending on agricultural accounts for just under half of the EU's total budget. Whilst Member States are responsible for making virtually all payments and for collecting all levies and recoveries, the Commission takes its responsibility of ensuring that strict financial procedures and controls are followed very seriously.

Funds are clawed back from Member States which have weak controls or fail to respect Community rules relating to financial procedures.

In 1999, the Commission adopted a decision rejecting a total of 232.1 mio € of agriculture expenditure declared by the Member States. This brings the total recovered from Member States under the clearance of accounts procedure to 725.1 mio €.

Since the reform of the clearance of accounts procedure in 1995, the Commission has worked closely with Member States to make sure that paying agencies throughout the EU carry out strict controls on all claims before they are paid, and that their accounts and procedures are audited each year to internationally accepted standards.

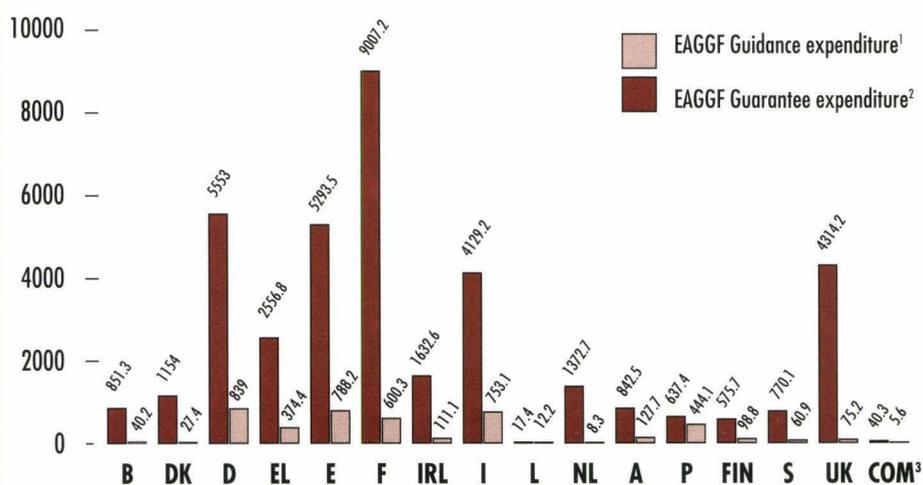
The Commission is now satisfied that for most of these cases the weaknesses in financial management during the period 1995 to 1997 have since been corrected by the Member States.

The euro and the new agri-monetary system

On 1 January 1999, the euro was introduced, replacing eleven national currencies and the ecu. During the year, agricultural payments made to recipients in the euro zone were made in € in accordance with the exchange rate fixed on 1 January 1999.

For those countries outside the euro zone (Denmark, Greece, Sweden and the UK) a new agri-monetary system applied from 1 January 1999. The new regime is more straightforward than its predecessor, with greater emphasis on market conversion rates than the "green rates" which were a key feature of the old system. The new system also has a compensation scheme for farmers in the event of an appreciable revaluation of the exchange rate.

EAGGF Guarantee and Guidance expenditure, by Member State, 1998 (in mio €)



¹ Expenditure from appropriations for commitment

² Adjusted for expenditure against carryovers and financial consequences of clearance of accounts decisions

³ Community initiative programme. Leader II programme, European Association for Information on Local Development (AEIDL) involving the 15 Member States

Source: European Commission, Directorate-General for Agriculture

The enlargement of the Union

The last decade has seen profound changes in the political and social order in central and eastern Europe, opening new opportunities for international co-operation. The EU has an important role to play in promoting stability, justice and democracy in the region. At the same time, closer co-operation and further expansion of the Union will increase its political influence on the world stage and enhance the Community's ability to manage trans-national issues such as environmental protection and the fight against organised crime.

In March 1998, accession negotiations were started with six applicant countries - Cyprus, the Czech Republic, Estonia, Hungary, Poland and Slovenia. On 13 October 1999, the Commission recommended that the EU open negotiations with Bulgaria, Latvia, Lithuania, Malta, Romania and the Slovak Republic. The conclusions of the Helsinki Summit also recognised Turkey as a candidate for EU membership.

From an economic perspective, an enlarged EU will stimulate trade and economic activity and give fresh impetus to the growth and integration of the European economy as a whole.

As far as agriculture is concerned, enlargement to the ten central and eastern European countries will double the agricultural workforce and increase the land area given over to agriculture by 50%. In comparison to the EU, agriculture in the applicant countries lags behind in some important respects and requires substantial restructuring and modernisation in preparation for enlargement.

Agenda 2000 and the pre-accession instruments

In the run up to accession, the EU has stepped up activity to support the restructuring process in the applicant countries in central and eastern Europe. For 2000-06 pre-accession aid will be delivered through three instruments: SAPARD, PHARE and ISPA.

Economic and structural adjustment in the accession states is also funded by a number of other international financial institutions. In 1998, the Commission signed a Memorandum of Understanding with the European Bank for Reconstruction and Development (EBRD) and the World Bank to reinforce their co-operation and to facilitate co-financing.

The European Investment Bank (EIB) and the International Monetary Fund (IMF) also work in close partnership with the PHARE programme and collaborate closely with the international community in the applicant states.

The screening process

The first stage of the accession negotiations began in April 1998 with a screening process of the tasks involved in adopting European Union legislation, the so-called "acquis communautaire". For Malta, the screening process began in February 1999.

The adoption of EU legislation on veterinary and phytosanitary health, free movement of animals and animal welfare, agricultural products and agri-environmental measures is a major challenge in the applicant countries. In the agriculture sector, the screening process continued throughout 1999 and will be brought to a conclusion in 2000.

SAPARD: annual indicative budget allocations (in '000 €, at constant 1999 prices)

Bulgaria	52 124
Czech Republic	22 063
Estonia	12 137
Hungary	38 054
Latvia	21 848
Lithuania	29 829
Poland	168 683
Romania	150 636
Slovakia	18 289
Slovenia	6 337
Total	520 000

PHARE

PHARE is currently the main channel for the European Union's financial and technical co-operation with the accession countries. Set up in 1989 to support economic and political transition, PHARE was reorganised in 1996 to deal specifically with pre-accession priorities.

Following Agenda 2000, the PHARE Programme will focus on two priorities in the adoption of the *acquis communautaire*: institution building and investment support. Institution building means adapting and strengthening democratic institutions, public administration and organisations that will be responsible for implementing and enforcing Community legislation.

For 2000-06 PHARE has an annual budget of 1.5 bio € of which 30% will be used for institution building and the remaining 70% will fund investment support.

SAPARD and ISPA

Agenda 2000 has created two new pre-accession instruments, SAPARD and ISPA, to help the applicant countries make the necessary structural and administrative changes before accession. The financial resources available under the pre-accession instruments will be doubled from 2000. Total aid for accession countries amount to 21 bio € for the period 2000-2006.

SAPARD, the Special Accession Programme for Agriculture and Rural Development, will fund structural and rural development projects in the accession countries. SAPARD will help to prepare the agriculture sector for entry into the CAP and the single market by providing assistance for a range of measures including updating land registries, improving rural infrastructure and the management of water resources for agriculture. Schemes aimed at improving the processing and marketing of agricultural products, veterinary and plant health controls and strengthening consumer protection will also be eligible for support. Applicant countries have prepared plans for the support of agriculture and rural development under SAPARD. Based on these plans the Commission will, during the course of 2000, approve a Programme for Agriculture and Rural Development for each country.

SAPARD will have a budget of 520 mio € per year for the period 2000-06. The SAPARD implementing regulation, which was adopted in June, provides an allocation of funds between the accession states based on farming population, agricultural area and GDP per capita in relation to purchasing power, as well as the specific territorial situation.

ISPA, the Structural Pre-Accession Instrument, will finance investment projects, for example environmental measures required to comply with EU environmental law and the improvement of transport infrastructures.

Trade – A key feature of the CAP

The EU is the world's leading importer of agriculture products as well as being the world's second biggest exporter. Trade in agricultural products accounts for approximately 7% of the EU's total exports and 7% of total imports.

The continuing development of export markets is important to the continued growth of the Community's agricultural sector and in securing prosperity for EU farmers.

The cut in institutional prices in key agricultural sectors agreed as part of the Agenda 2000 package will contribute to bringing the price of EU agricultural products closer to world market prices, thus increasing their competitiveness and improving export prospects.

World Trade Organisation

The conclusion of the Uruguay Round of the GATT in 1994 foresaw the opening of a new round of agriculture negotiations in 2000.

In October 1999, EU Agriculture Ministers agreed a common position for the World Trade Organisation (WTO) negotiations. Ministers recognised the importance of further liberalisation of trade for agriculture products, and underlined the need for a balance to be struck between trade-related and non-trade aspects of farming.

Agriculture has a number of important roles beyond producing food and fibre. These include preserving and managing the countryside, ensuring environmental protection and contributing to the viability of rural communities. Agriculture must also respond to consumer concerns about food safety, quality, and animal welfare. The Community's WTO negotiating position stressed the importance of recognising this multifunctional role.

The need for special and differentiated treatment for developing countries, in particular concerning agriculture, was also an important part of the Community's negotiating position.

135 WTO members met in Seattle from 20 November to 3 December to prepare the agenda for the next WTO round. Despite valuable discussions, differing positions on priorities for the new round of talks meant that no

agenda was agreed. Agriculture negotiations began in March 2000 in accordance with the timetable set out in the 1994 Marrakech Agreement.

Promoting EU agriculture in third countries

In 1999, the Council adopted a new 15 mio € programme to promote EU agriculture products in third countries. The scheme will support trade fairs, market research, advertising, and information campaigns in non-EU countries. The aim of the new scheme is to help Community suppliers stimulate demand on existing and emerging markets.

Bilateral and regional trade agreements

South Africa free trade agreement

On 11 March 1999, EU Heads of State approved the EU-South Africa Free Trade Agreement, bringing to a close 24 negotiating rounds spanning almost four years.

As far as agriculture is concerned, the agreement provides for the dismantling of tariffs on a wide range of agricultural products. The deal will liberalise 95% of South African agricultural exports to the EU over a 10 year period and 86% of EU exports to South Africa over a twelve year period. For products considered sensitive, partial liberalisation will be achieved through the introduction of tariff quotas, whilst products which are considered extremely sensitive are exempt from the agreement. Details relating to the alcoholic drinks sector are covered in a separate Wine and Spirits Agreement. The Agreement, which enters into force in 2000, will be reviewed within five years.

EU-15 trade, 1999 figures¹ (in mio €)

Products	EU trade with:		South Africa		Mexico	
	Imports	Exports	Imports	Exports	Imports	Exports
Live animals	6	10	1	3	0	7
Meat and edible meat offal	871	35	14	42	5	3
Dairy produce; eggs; natural honey	57	41	3	13	23	93
Other products of animal origin	92	29	2	16	0	3
Live plants floricultural products	11	10	25	5	13	6
Edible vegetables, plants, roots and tubers	82	25	12	2	50	0
Edible fruit and nuts; peel of citrus fruit or melons	525	24	698	3	60	1
Coffee, tea, maté and spices	1 132	7	30	5	59	1
Cereals	238	2	1	7	2	1
Products of the milling industry; malt; starches	1	40	0	18	0	7
Oilseeds and oleaginous fruits	1 504	16	23	6	4	30
Lac; gums, resins, other vegetable saps and extracts	15	20	1	6	1	12
Vegetable plaiting materials, other products of vegetable origin	1	0	1	0	3	0
Animal or vegetable fats and oils	183	59	3	13	4	10
Meat preparations	308	7	0	1	0	2
Sugars and sugar confectionery	24	15	4	5	10	5
Cocoa and cocoa preparations	35	17	0	5	1	9
Preparations of cereals, flour or starch	3	40	1	21	0	75
Preparations of vegetables, fruit or nuts	784	66	87	13	12	10
Miscellaneous edible preparations	31	45	3	21	5	31
Beverages, spirits and vinegar	68	258	219	123	69	85
Residues and wastes from the food industries	2 226	27	2	12	6	15
Tobacco and manufactured tobacco substitutes	368	25	2	32	18	6
Other agricultural products ³	151	89	104	42	8	30
TOTAL - AGRICULTURAL PRODUCTS	8 715	907	1 238	413	354	440

1 Source: European Commission. Directorate-General for Agriculture. Totals may vary due to rounding

2 Argentina, Brazil, Paraguay, Uruguay

3 Included in the Uruguay Round

EU - Mexico free trade agreement

Following the approval in 1998 of mandates for the Commission to negotiate a free trade agreement between the EU and Mexico, intensive negotiations took place throughout 1999. At the end of November, the parties concluded a deal which covers the trade aspects of the Economic Partnership, Political Co-ordination and Co-operation Agreement (EPPCA) signed by Mexico and the EU in 1997. Agricultural products are included in the trade agreement. In 1999, the value of agricultural exports from the EU to Mexico was 440 mio €, whilst imports amounted to 354 mio €.

Mercosur

Negotiations between the EU and the Mercosur countries (Argentina, Brazil, Paraguay and Uruguay, with Chile and Bolivia as associate members) got under way in November 1999. The aim of the talks is to establish an Inter-regional Association Agreement between the EU and Mercosur, enhancing co-operation, the flow of trade and political dialogue between the regions. Agricultural products are a significant aspect of trade between the EU and Mercosur, amounting in 1999 to 907 mio € (exports) and 8 715 mio € (imports)¹.

¹ Figures for Mercosur-4

Conclusions and outlook

Following a period of wide consultation a package of CAP reforms has been agreed which responds to consumers' expectations and promotes competitiveness on domestic and international markets through lower institutional prices. The reform package also comprises a comprehensive framework for an integrated rural development programme which will protect the rural environment and the diversity of the countryside, fostering the socio-economic development of rural communities. Decentralisation and simplification underline all aspects of Agenda 2000.

The measures which have been put in place by Agenda 2000 cover the period 2000-2006, thus providing a stable policy framework for the farming sector. Where necessary changes are to be phased in to give farmers time to adapt. The Commission will continue to evaluate and monitor the implementation of the new measures and plan to conduct a number of mid-term reviews.

The next wave of enlargement represents the biggest economic and administrative challenges to the EU to date. One of the key issues is agriculture. Agenda 2000 makes further preparation for enlargement. The inclusion of a new pre-accession instrument for the agriculture sector, SAPARD, will fund the structural adjustment in the countries of central and eastern in preparation for them to join the single market and the CAP. The screening process to assess what steps must be taken to adopt the *acquis communautaire* in the applicant countries continued in 1999 and will be a priority for the Commission next year.

Internationally the outlook for the agri-food sector is promising. By bringing the price of EU agricultural products closer to world prices, these products will be

more competitive on international markets. To underpin this and to help suppliers take advantage of the forecast growth in demand and expansion of international trade the Commission has brought forward a programme proposal to promote EU agri-food products in third countries. The international economic crisis which affected Russia, Asia and South America in 1998 hit Europe's agriculture sector hard but recovery is predicted in the medium term.

The high level of public interest that was generated by the WTO meeting in Seattle in 1999 illustrates the growing support that exists for wider recognition of non-trade related issues in international trade agreements.

The Commission is committed to promoting the European model of agriculture which is competitive, multi-functional and sustainable when the agriculture negotiations open in March 2000.

Free-Trade Agreements with South Africa and Mexico agreed in 1999 will increase EU trade with those countries and strengthen economic and political relations. Negotiations for an inter-regional agreement between the EU and Mercosur were opened in November.

The future prosperity of the EU's agriculture sector depends on its ability to meet the domestic and international opportunities and challenges which have emerged in the last decade. Wide consultation with interest groups and constructive dialogue with the Council and the European Parliament have ensured that the policies and measures which were agreed in 1999 together represent a truly European model of agriculture ready to enter the 21st century.

European Commission

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