



European Commission
Directorate-General for Agriculture

The common agricultural policy

2002 review

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Contents

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Foreword	4
Review of 2002 — Developments, policy and legislative initiatives	6
The year on the markets	8
Promoting quality, preserving competition and protecting consumers	13
Rural development — Second pillar of the CAP	15
Integrating environmental concerns into agriculture and forestry	17
Financing the CAP	18
Enlarging the Union: getting the candidates ready and the terms right	20
EU agriculture and the world	23

CEE = VI/8

Foreword



In 2002, the European Union (EU) examined the future of its agricultural policy, launching several initiatives that will have profound importance for agriculture and rural development.

On the common agricultural policy (CAP) front, the European Commission took decisive steps to ensure that agricultural and related policies are updated in line with farmers' needs, society's requirements and the EU's global commitments. In July, following a period of consultation with Member States and stakeholders, the Commission published a communication to the Council and the European Parliament entitled 'Mid-term review of the common agricultural policy'. This outlined ideas for the future of the CAP, in line with the mandate of the European Council of Berlin in March 1999. A separate options paper for the future of the dairy support system was also released in July.

The main objectives of the Commission's CAP reform ideas are: a competitive agricultural sector; production methods that support environment-friendly production, the quality products the public wants, and a fair standard of living and income stability for the agricultural community; diversity; sup-

port for rural communities; and greater simplicity. A financial framework for the future CAP was established by the Brussels summit of EU leaders in October. The summit agreed that the budget available for CAP market measures and direct aids in the enlarged EU, for 2007–13, should be frozen at 2006 levels in real terms. After consultation with the Council, the Parliament and other interested parties, the Commission aims to bring forward legislative proposals for CAP reform in early 2003.

In December 2002, the EU concluded accession negotiations allowing 10 new countries to join the EU in May 2004. A number of agricultural issues, including transitional arrangements, the application of direct payments in the new Member States and rural development measures, were covered. Negotiations on agriculture were opened for Bulgaria and Romania.

In the wider international arena, the EU made significant progress in preparing its position on agriculture for the WTO Doha Development Round. In December, the Commission presented an ambitious proposal on the agricultural 'modalities', calling for improved market opening and reduction of trade-distorting support. The proposal also contained specific actions to give developing countries a better deal. A major plank of the Commission's approach is that the achievement of societal goals such as the protection of the environment, traditional landscapes and biodiversity, rural development, better protec-

tion of geographical indications and animal welfare should be catered for within the WTO multilateral system.

Aside from these headline-grabbing issues, 2002 saw moves to update the EU's agricultural trade relationship with ACP countries. There were proposals to refine feed legislation (including in relation to genetically modified organisms). A new EU generalised system of (trade) preferences came into force and the EU negotiated new trade arrangements with several countries (for example with Chile, and with Canada and the USA for cereals). The Commission also launched an online public consultation on animal protection in transport.

The global economic situation of course had an impact on agriculture. Markets experienced mixed fortunes, though the cattle sector recovered strongly from recent disease-related problems. Away from Brussels, though weather conditions overall were favourable, farmers in many Member States faced enormous practical problems with localised flooding — the EU gave financial assistance to those affected.



Franz Fischler
Commissioner for Agriculture,
Rural Development and Fisheries

Review of 2002 — Developments, policy

January

- New beef labelling rules come into force on 1 January, including mandatory indication of country of origin and other traceability provisions.
- EU and South Africa agree wines and spirits trade deal. Association agreement enters into force on 1 January.
- Commission adopts 'draft common position' on agricultural, structural aid and budgetary aspects of the EU enlargement talks.

February

- New directive on vine propagating material agreed.
- New EU food law enters into force, introducing 'rapid alert system' for feed, and other measures to avert or contain animal disease outbreaks.

March

- Study on impact of adoption of the CAP by the candidate countries for EU enlargement published by the Commission's Agriculture DG.
- Commission publishes proposals on international aspects of EU registrations of geographical indications and designations of origin.
- Council agrees extensions to nuts and tobacco support regimes, with alterations.
- Commission issues proposals to overhaul EU rules on feed additives.

April

- Commission publishes communication on trade relations with ACP countries.
- Eurostat publishes figures showing 3.3% increase in net EU farm incomes in 2001.
- Informal Agriculture Council in La Manga, Spain, debates EU rural development policy.

May

- Commission publishes report on implications of the co-existence of traditional, organic and genetically modified agricultural production systems within the EU.
- Agriculture Council extends support system for potato starch.
- Commission-sponsored study on impact of arable set-aside measures published.

June

- Agriculture DG releases 'Prospects for agricultural markets 2002–09' report.

J F M A M J

Legislative initiatives

July

- Consultation process regarding 'thematic strategy' on sustainable pesticide use launched.
- Commission presents CAP reform package 'Towards a more sustainable common agricultural policy'. Agriculture Council holds first debate on this concept.
- Commission produces options paper for the future of the dairy support system.

August

- Commission issues Sapard annual report for 2001 and 'country reports' for 12 candidate countries.
- Commission clears derogations from set-aside rules for Member States hit by wet weather and floods.

September

- Informal Agriculture Council in Nyborg, Denmark, discusses innovation in agriculture.
- Commission cuts EU sugar, isoglucose and inulin syrup production quotas for 2002/03 by 5.7% to avoid exceeding WTO limits on value of subsidised exports.

October

- Brussels summit of EU leaders agrees that the EU budget available for CAP market measures and direct aids in the EU-25, for 2007–13, should be frozen at 2006 levels (in nominal terms, adjusted for a 1% rate of inflation).

November

- EU agrees tariff rate quotas for imports of barley and wheat from Canada and the USA.
- Agriculture Council agrees regulation on genetically modified food and feed.

December

- Copenhagen summit reaches agreement, on 12 and 13 December, on enlargement of EU to include 10 new Member States from 1 May 2004, including adoption of CAP.
- Commission outlines proposed 'modalities' in the WTO agriculture negotiations.
- Regulation agreed on additives used in animal nutrition, involving tighter controls on all additives used in animal feed.

J A S O N D

The year on the markets

The market situation in 2002 was characterised by five main factors: a generally disappointing level of global economic recovery; a sharp rebound in oil prices; a deterioration in investor confidence leading to only a slight increase in consumption; a noticeable recovery in the cattle sector from the recent BSE and foot-and-mouth disease (FMD) crises; and generally favourable weather conditions, except for localised flooding.

Overall improvement in demand

EU cereals consumption rose by just over 1% on the previous year. Following the sharp falls recorded at the end of 2000 and the start of 2001, beef consumption recovered gradually and estimates suggest an increase in 2002 of 11.3% on the 2001 level. Pigmeat consumption in 2002 remained roughly the same as in 2001, while poultry consumption, which had benefited most from the BSE scare, decreased by 1.7% due to the recovery in beef consumption. The increase in cheese consumption continued, growing by 1.4% in 2002, while butter consumption remained stable.

Falls in producer prices

Data available at the end of the year indicated a 1.4% decrease in EU producer prices in 2002 (– 4.0% after inflation). Underlying this fall is a 5.6% drop in the price of animal products, but a 2.8% increase in overall crop prices. The steepest decreases were for pigmeat (– 17.7%), potatoes (– 14.0%), soft wheat and barley (down 8–10%), sheepmeat (– 7.9%), poultry (– 7.7%) and milk (– 4.5%). In contrast, prices rose for beef and veal by 8.5% and 10.1% respectively, for vegetables by 8.5% (fresh) and 9.6% (dried), for olive oil by 8.3% and for fruit by 7.0%. Average farm input prices in 2002 were more-or-less unchanged from the previous year.

World market prices: a mixed trend

Developments in international agricultural markets were somewhat mixed in 2002. International wheat

and coarse grain prices increased noticeably from the middle of the year to exceed the price levels of the previous year, driven by lower exportable supplies in traditional grain-exporting countries. Maize prices followed the same trend. In the meat markets, international prices fell overall in 2002. Pig and poultrymeat prices fell due to increased supply, while beef and sheepmeat prices increased due to strengthened demand and reduced output in some countries. World prices for milk powder, butter and cheese recovered towards the end of 2002, but prices for all dairy products remained well below those of 12 months earlier.

Exports disappointing with some exceptions

The EU's export performance in 2002 was once again mixed. The disappointing level of global recovery in 2002, the strengthening of the euro and continued strong competition from third countries, especially in the cereals sector, all had a restraining effect on EU agricultural exports. However, a very positive development was the strong recovery in meat exports from the crisis-hit levels of the year before. In the year to October, exports fell 0.8% in value overall on the same period in 2001. The value of cereals exports fell heavily (– 15%). There were also decreases in the value of exports of sugar (– 42%), skimmed milk powder (SMP) (– 37%) and animal feed (– 13%). By contrast, there were value increases for rice (+ 42%), potatoes (+ 37%), olive oil (+ 21%), vegetables (+ 18%), beef and veal (+ 8%), butter (+ 8%), fruit (+ 7%), poultry (+ 7%), wine (+ 6%), pigmeat (+ 4%) and cheese (+ 1.4%).

Public stocks rise

Stock levels in 2002 increased for products with recourse to public intervention. Cereals stocks rose from 7.0 million tonnes at the beginning of 2002 to 8.0 million tonnes by the end of the year. Wheat stocks were reduced but barley stocks increased by 500 000 tonnes to 2.3 million tonnes and rye stocks by 700 000 tonnes to

5.3 million tonnes. Butter stocks increased by 100 000 tonnes to 186 000 tonnes. SMP stocks, which had been completely run down throughout 2001, rose to 147 000 tonnes between March and September 2002, but fell in the latter part of the year. Beef stocks declined by 65 000 tonnes, wine alcohol stocks increased by over 50 % but public stocks of olive oil were phased out in accordance with policy developments.

Strong performance from cereals

Cereal production rose to 210 million tonnes in 2002 (5 % up on the previous year's crop) as a result of increases in cultivated area and yield. Total cultivated area was extended by 2.4 % and yields were up by 2.9 %. Prices declined over the first eight months of the year, but recovered towards the end of 2002 in the light of downward adjustments in initial EU harvest estimates and in anticipation of modifications to the EU cereals import regime for 2003.

Following an overall reduction in area (down 5 % on 2001), total oilseed production (rape, sunflower and soya) was slightly down on 2001 (by around 2 %), despite a rise in yields. Soya and sunflower production fell (down 26 % and 6 %, respectively) due to a reduction in the cultivated area, while rapeseed production was up 3 %.

Production of protein crops increased by 6 % due to improved yields, while the dramatic decline in linseed production continued (- 43 % on 2001) for the third year in succession.

Sugar production in 2002 increased by 9 % on the previous year due to a recovery in yields.

Beef production flat but prices stronger

Beef and veal production in 2002 reflected the disturbances of recent years. The low prices of 2001, together with uncertainty linked to weak and

volatile demand, led to a subsequent reduction in production capacity. On top of this, the special measures decided on in June 2001 to stabilise the market further reduced incentives for production. As a consequence, recovery in beef and veal production in 2002 was somewhat limited, with net production in 2002 estimated at 7.5 million tonnes, an increase of only 2.9 % on 2001.

Nevertheless, the improved overall situation in the beef sector was reflected in prices for beef and veal in 2002. The strong recovery in demand over 2002 led to a substantial improvement in beef prices, especially for cow meat. Prices for young bull carcasses also improved during 2002. Only steer carcass prices fared worse than the previous year.

Milk yields up, production stable

Milk production for 2002 was close to 121.6 million tonnes, more-or-less unchanged from 2001 levels and continuing the stability seen over recent years. Numbers of dairy cows continued to decline, offset by an improvement in yields. Production of the major dairy products increased in 2002. Butter production was up by 3.5 %, SMP by 8 % and cheese by 0.8 %.

EU butter prices stayed relatively depressed throughout 2002, remaining at levels close to 90–92 % of the intervention price, well below the price levels of recent years. Average EU prices for SMP began 2002 at just above the intervention price but fell in subsequent months in view of the significant rise in production, with average prices at the end of May at around 2.4 % below the intervention price.

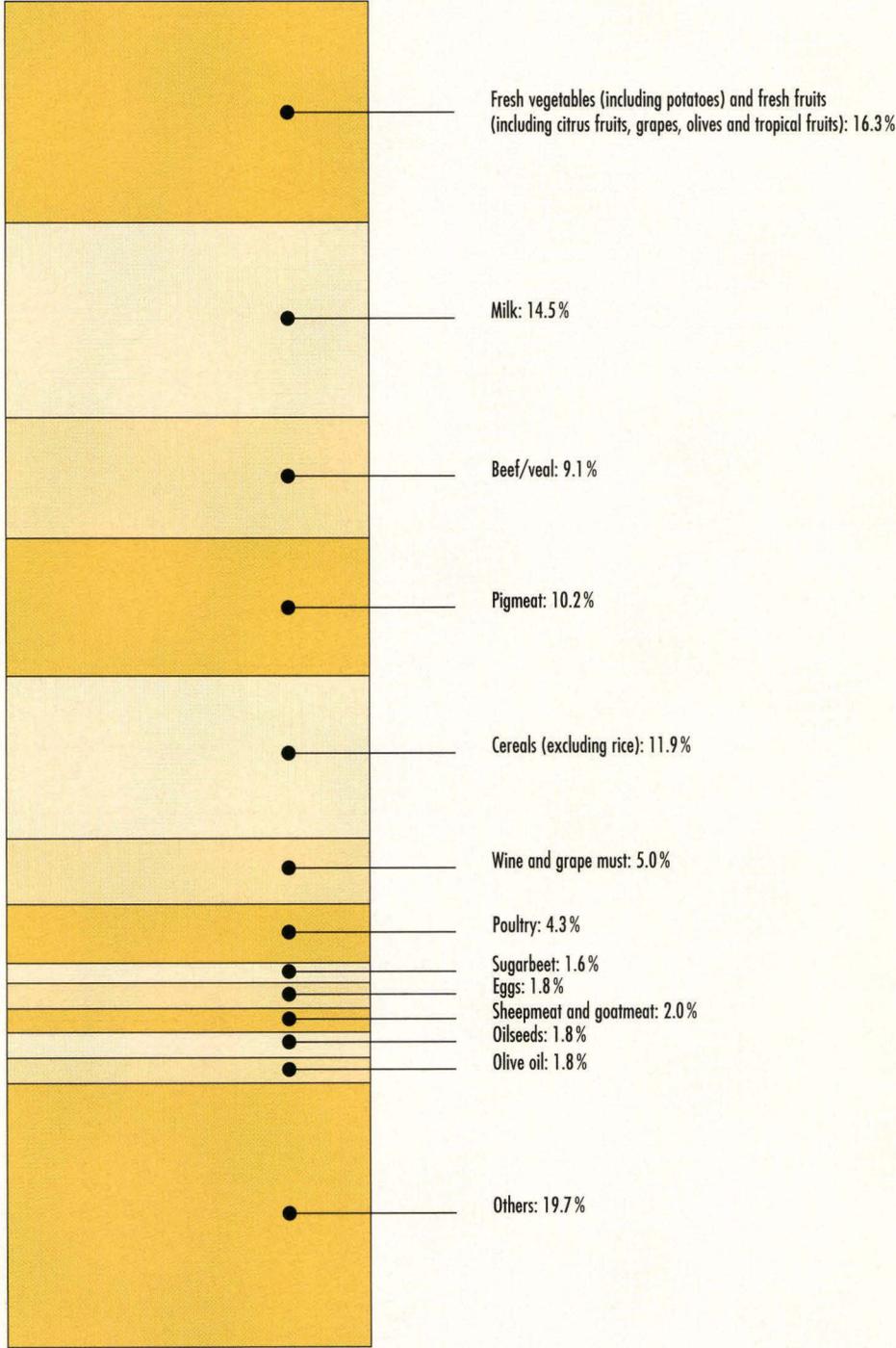
CAP reform — an ongoing process

In addition to the Commission's announcement of its intention to produce proposals for further CAP reform, 2002 saw a continuation of the application of earlier reform measures: sugar quotas were reduced by 5.7 % in line with EU legislation;

work continued on a new regulation for the wine sector; modifications were made in the tobacco sector; and the final elements of the Agenda

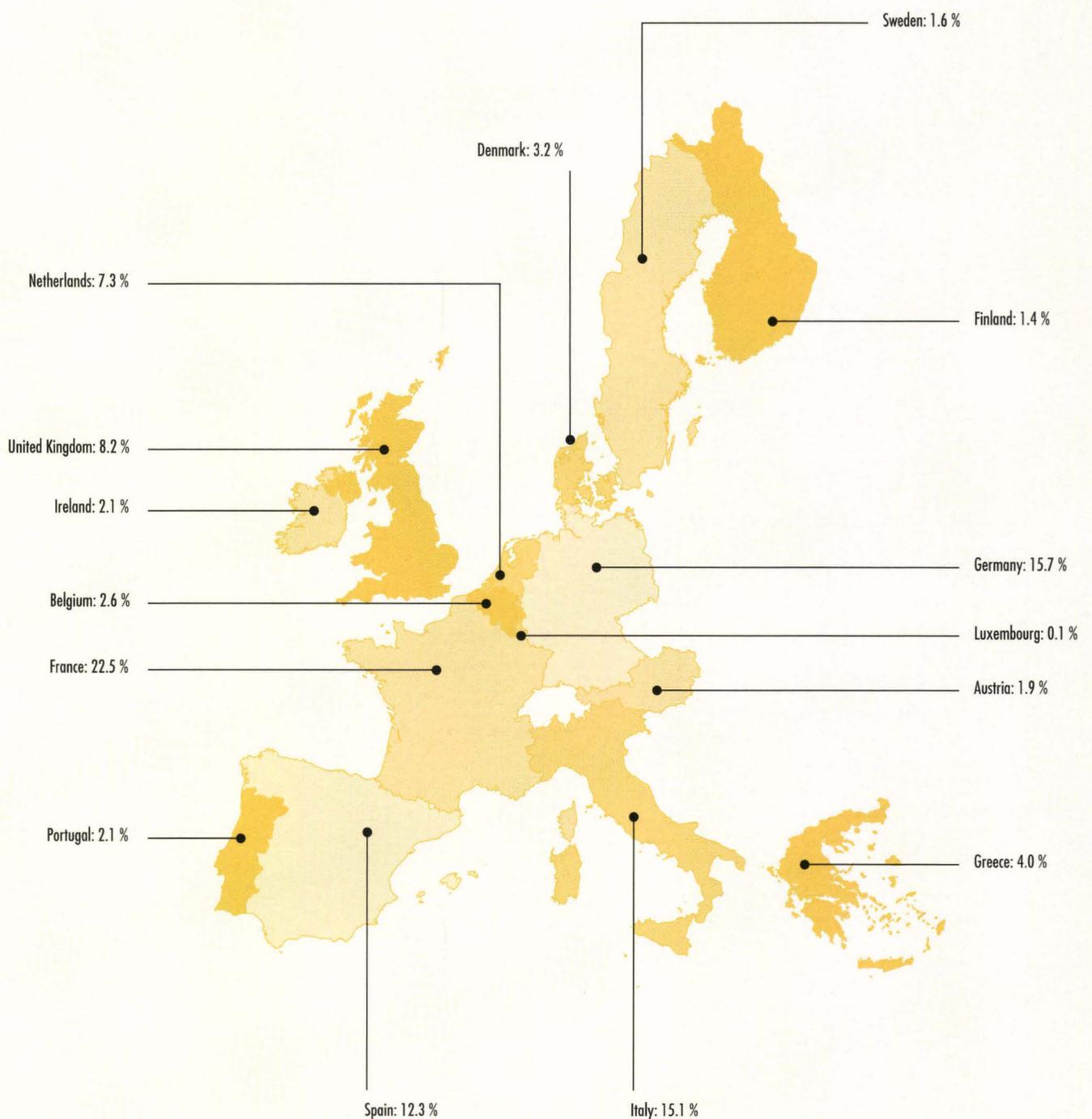
2000 agreement were applied in the beef sector, where labelling requirements were also tightened.

Shares of individual products in final agriculture production in the European Union (2001)



Source: Eurostat.

Individual Member States' shares in final agricultural production in the European Union (2001)



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

Promoting quality, preserving competition and protecting consumers

The EU's efforts to encourage the production and marketing of high-quality agricultural and food products continued in 2002. This was a theme of the Commission's CAP reform initiative of 10 July, but it is also reflected in other measures taken to preserve quality and food safety, to look after EU consumers' interests and to maintain the single market.

Geographical indications

During the year, action was taken to enhance the quality framework provided by the systems of protected designation of origin (PDO), protected geographical indication (PGI) and traditional special guarantee (TSG). The EU recognises that products named and labelled with reference to a geographical origin and/or produced by traditional methods can generate higher levels of consumer confidence.

In March 2002, the Commission made a proposal to modify the regulation on the protection of geographical indications and designations of origin for agricultural products and foodstuffs, in order that third countries may participate in the EU system of registration.

The Commission also negotiated in the international arena to achieve better recognition of the EU quality-product systems, notably within the WTO's TRIPs (trade-related aspects of intellectual property rights) agreement where the EU wants a multilateral register of geographical indications created (as well as an extension of the protection provided for wines and spirits to cover other products). The Commission also proposed that certain product designations exempted from TRIPs be re-established within the agreement in order to protect them from usurpation, to the detriment of consumers.

In the meantime several product names were added to the register in 2002 (10 PDOs, 14 PGIs and three TSGs), taking the total number of names registered under the three systems to 617.

List of PDOs, PGIs and TSGs registered in 2002

Member State	Product	Name
Austria	<i>Gailtaler Speck</i> (meat-based products)	PGI
Germany	<i>Oberpfälzer Karpfen</i> (fish)	PGI
Spain	<i>Kaki Ribera del Xúquer</i> (fruit)	PDO
	<i>Calçot de Valls</i> (fruit)	PGI
	<i>Queso de Murcia</i> (cheese)	PDO
	<i>Queso de Murcia al vino</i> (cheese)	PDO
	<i>Turrón de Agramunt</i> (bread, pastry, cakes)	PGI
	<i>Panellets</i> (pastry, cakes)	GTS
	<i>Queso de la Palma</i> (cheese)	PDO
Greece	<i>Patatas Kato Nevrokopiu</i> (fruit, vegetables)	PGI
	<i>Huile d'olive extra vierge Thrapsano</i> (oils and fats)	PDO
	<i>Milo Kastorias</i> (fruit)	PGI
	<i>Aktinidio Pierias</i> (fruit)	PGI
	<i>Feta</i> (cheese)	PDO
France	<i>Morbier</i> (cheese)	PDO
	<i>Piment d'Espelette</i> (vegetables)	PDO
	<i>Pruneau d'Agen</i> (fruit)	PGI
Italy	<i>Asparago bianco di Cimadolmo</i> (vegetables)	PGI
	<i>Ciliegia di Marostica</i> (fruit)	PGI
	<i>Fagiolo di Sorana</i> (fruit, vegetables)	PGI
	<i>Carciofo romanesco del Lazio</i> (fruit, vegetables)	PGI
Portugal	<i>Carne cachena da Penada</i> (fresh meat)	PDO
	<i>Carne da Charneca</i> (fresh meat)	PDO
	<i>Carne de bovino cruzado dos lameiros do Barroso</i> (fresh meat)	PGI
United Kingdom	<i>Welsh beef</i> (fresh meat)	PGI
Finland	<i>Kalakukko</i> (pre-cooked meal)	GTS
	<i>Sahti</i> (beverages)	GTS

Organic agriculture

The EU's regulatory framework for the encouragement of organic farming, which also ensures that consumers have better guarantees of the authenticity of organic products, was strengthened in 2002.

Measures were introduced to cover such concerns as the inspection and certification of imported foodstuffs, the use of copper compounds, and feedstuff supplements and labelling.

Promotion of agricultural products

In August 2002, the Commission approved 40 of the 123 programmes submitted by professional organisations (via the national authorities concerned) to provide information on, and to promote, agricultural products on the internal market. These campaigns chiefly target consumers inside the EU. The products concerned were mainly cheese and milk products, fresh and processed fruit and vegetables, flowers and green plants, and wine as well as information on organically produced food. The EU will support these promotional activities to an amount of EUR 32.1 million over three years, with Member States and the food industry also contributing in a joint effort.

State aids

Another feature of the EU single market is the rules system put in place to ensure that State aids do not give rise to unfair competition. In November 2002, the Commission issued new guidelines on State aids in the area of abattoir waste and fallen stock disposal (largely associated with transmissible spongiform encephalopathies). Certain types of State aid are admissible if EU criteria are satisfied.

Overall, the Commission received 341 notifications of State aid draft measures to be granted in the agricultural and agro-industrial sector. The Commission also started the examination of 34 aid measures which had not been notified before. Among the measures examined were: aid schemes aimed at compensating for the damage caused by floods and

other natural calamities; certified beef quality labelling; support measures in response to fuel cost rises; aids in various parts of the olive oil sector; and an aid scheme for the rationalisation of pig slaughterhouses.

Information and communication

It is increasingly important that information on the development and value to society of EU agricultural policy is communicated widely within the rural world and beyond, including in non-EU countries. EU finance is made available, *inter alia*, for grants to help fund the work programmes of farmer or rural-development organisations, consumer associations and environmental protection associations. The purpose is to explain the issues surrounding the CAP, promote the European model of agriculture, keep farmers and other rural interests informed and raise public awareness of the implications and goals of the CAP. The EU was also present at public events such as *Grüne Woche* in Berlin, the *Salon de l'agriculture* in Paris, the *Salon Alimentaria* in Barcelona, and *Agribex* in Brussels, as well as fairs held in Verona (Italy) and *Hameenlinna* (Finland). A regular publications programme was maintained.

Of particular interest in 2002 were updated key messages produced on the CAP mid-term review and enlargement issues. A video was made on the mid-term review. Two 'Eurobarometer' surveys were carried out, one in the Member States and the other in the candidate countries.

Rural development — Second pillar of the CAP

Rural areas cover 80% of the EU's territory and are home to approximately 25% of its population. Farmers are encouraged, via rural development measures, to adjust their businesses, land-management methods and agricultural practices to society's demands. Rural development policy also targets non-farming individuals and groups who are active in these areas, in order to promote their integrated and sustainable development.

The adoption of the rural development programme (RDP) for Basilicata, Italy, in January 2002 completed the series of RDPs approved for the period 2000–06. The Commission had previously approved 67 RDPs, 69 Objective 1 region programmes with rural development measures, and 20 for Objective 2 regions. In addition, 47 amendments to RDPs were approved by the Commission in 2002.

'Menu' of rural development measures

- Investment in farm businesses
- Human resources: assistance to young farmers to set up in business; early retirement schemes; training programmes
- Assistance to less-favoured areas and areas under environmental restrictions
- Agri-environment schemes
- Improving the processing and marketing of agricultural products
- Forestry actions
- Promoting the adaptation and development of rural areas

Member States have chosen from a 'menu' of rural development measures available under the rural

development regulation ⁽¹⁾ the blend that suits their agricultural and financial circumstances. Measures are cofinanced by the EU and the Member States.

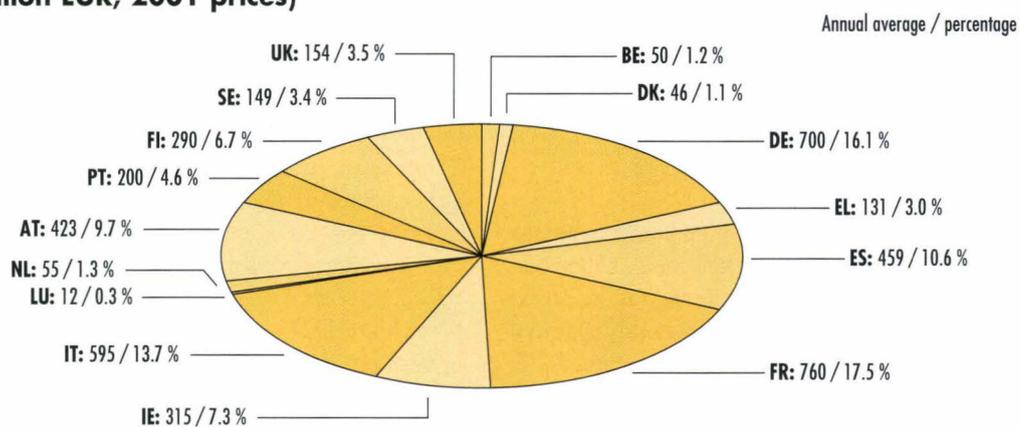
In addition to choosing the most suitable measures, Member States are also entitled to use finance allocated by the EU for rural development measures. Those financial allocations are shown in the pie chart overleaf. For the first three years (2000, 2001 and 2002) uptake of the EU's annual budget allocation averaged 95% across the EU.

Some Member States operate national rural development programmes (e.g. Denmark and Greece), others implement on a regional basis (e.g. Germany and the United Kingdom), while some have both national and regional programmes (e.g. Belgium and Spain), depending on agricultural/rural, economic and political circumstances. New developments in 2002 saw the inclusion of, for example, measures relating to energy saving, farm wastes, forest damage, animal welfare, flood-prevention measures, tourism and the working environment in some rural development programmes.

The Leader+ initiative, which builds on the earlier Leader concept, is being offered in all Member States. Leader+ is a means by which local initiatives to solve local problems in rural areas can be encouraged by the EU and Member States. With the adoption of the last 17 programmes in 2002, all Leader+ programmes have been approved. Selection of local action groups and establishment of 15 national networks continued in 2002.

(1) Council Regulation (EC) No 1257/1999 of 17 May 1999 (OJ L 160, 26.6.1999).

EAGGF/Guarantee section: support for rural development, 2000–06
Financial allocation to Member States (*): indicative amounts
(million EUR, 2001 prices)



(*) When calculating the annual allocation to Member States for the period 2000–06, the percentages indicated above should be applied to the ceilings in the annual financial perspectives fixed in Section 23 of the Conclusions of the European Council Presidency in Berlin.

Source: European Commission, Directorate-General for Agriculture.

Integrating environmental concerns into agriculture and forestry

Environmental measures

The integration of environmental concerns into the common agricultural policy is part of the European Union's strategy for sustainable development. As part of the implementation process for this strategy, the Commission has developed 35 agri-environmental indicators to allow an assessment of the progress of integration. The IRENA project, started in 2002, is aimed at developing those indicators further.

In March 2002, the European Parliament adopted the 'Biodiversity action plan for agriculture'. This action plan is aimed at exploring the relationship between different types of agricultural practice and the conservation of biodiversity. The plan defines priorities in specific action areas that are likely to achieve the goals of the EU's biodiversity strategy. The plan sets goals and a timetable to achieve them.

Agriculture also plays a determining role in other EU initiatives aimed at safeguarding the environment. For example, the nitrates directive involves measures to control the level of nitrates occurring in surface and groundwater in vulnerable zones. The agriculture sector is also heavily involved in application of EU directives to protect birds and habitats.

The year 2002 saw the adoption of the Commission communication 'Towards a thematic strategy on the sustainable use of pesticides', which is an initial phase in the development of such a strategy — the current legislative framework concentrates on pesticides at the beginning and end of their life cycle. Also in 2002, the Commission presented a com-

munication entitled 'Towards a thematic strategy for soil protection', a first step in the development of a soil strategy.

Forestry

As part of the EU's actions to protect forests against atmospheric pollution, the Commission approved EU contributions worth EUR 6.58 million for year 2002 national programmes submitted by Member States. Over EUR 1 million of this amount was allocated to systematic monitoring of forest condition within the network of 3 600 observation plots. A further EUR 4.7 million was allocated to the intensive surveillance of forest ecosystems (within 514 observation plots), and EUR 828 000 to field experiments and pilot projects. The results of the programmes are presented in the report 'Forest condition in Europe' (?).

In relation to the protection of the EU's forests against fire, the Commission approved year 2002 national programmes with an EU financial contribution of EUR 10.48 million. These programmes are integrated into Member States' forest fire protection plans, which are a necessary condition for the eligibility of several forestry measures implemented in rural development programmes. The Commission must approve plans before they can be introduced — the Commission gave a positive opinion on 62 updated plans in 2002.

The Commission established an Inter-Service Group on Forestry in 2002, to strengthen coordination within the Commission on forestry initiatives and policies.

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Financing the CAP

Agricultural expenditure in 2002 continued to be executed in accordance with the 'Agenda 2000' agreement made at the Berlin summit of 24 and 25 March 1999. This set out the limits on expenditure for the seven-year period 2000–06 under the two main titles.

the EU (meaning less beef had to be taken off the market with EU subsidy). Only in the arable and dairy sectors did a significant overspend occur. Weather and market conditions contributed to this. The pillar 2 budget was underspent by EUR 345 million.

2000–06 expenditure ⁽³⁾ (million EUR, 1999 prices)

	2000	2001	2002	2003	2004	2005	2006	Total
Total future CAP	40 920	42 800	43 900	43 770	42 760	41 930	41 660	297 740
Markets ⁽⁴⁾ (sub-ceiling 1a, or 'pillar 1')	36 620	38 480	39 570	39 430	38 410	37 570	37 290	267 370
Rural development ⁽⁵⁾ (sub-ceiling 1b, or 'pillar 2')	4 300	4 320	4 330	4 340	4 350	4 360	4 370	30 370

Overall spending is split between market-related measures, known as 'pillar 1', and rural development spending — 'pillar 2'. Rural areas and farming also benefit from spending under the Guidance Section of the EAGGF, via rural development measures in Objective 1 regions and the Leader+ initiative aiding rural development.

The 2002 agricultural budget was set at EUR 44 255 million, 46% of the total EU budget. The budget for spending under pillar 1 of the CAP was set at EUR 39 660 million, more than EUR 2 332 million below the ceiling on expenditure set by the interinstitutional agreement of 6 May 1999 ⁽⁶⁾. The budget for pillar 2 was set at its ceiling of EUR 4 595 million.

Spending in 2002 under pillar 1 was nearly EUR 800 million less than the budget figure. Sectors where the full budget was not used included textile plants and silk, fruit and vegetables, sheep and goat meat, and beef. The latter is explained by the better than hoped for recovery in beef consumption across

Following the 1992 and 1999 (Agenda 2000) CAP reforms, EU expenditure on agriculture has changed in character. A breakdown of agricultural expenditure in 2001 (see opposite) shows how direct aids to farmers have become by far the largest item.

Pillar 1 and pillar 2 explained

Pillar 1 expenditure covers, *inter alia*:

- spending on market-related measures (e.g. direct aids to farmers, public intervention, export refunds);
- measures to promote product quality.

Pillar 2 helps to finance:

- rural development measures;
- agri-environment and early retirement schemes, afforestation of agricultural land and compensatory allowances in the less-favoured areas of the EU.

Pillar 1 measures are 100% financed from the EU budget while other measures have an element of co-financing by Member States. The rate of co-financing varies depending on the measures and regions in question.

⁽³⁾ To calculate the amounts in actual prices, a 2% deflator should be used.

⁽⁴⁾ Including veterinary and phytosanitary measures but excluding accompanying measures.

⁽⁵⁾ Including accompanying measures.

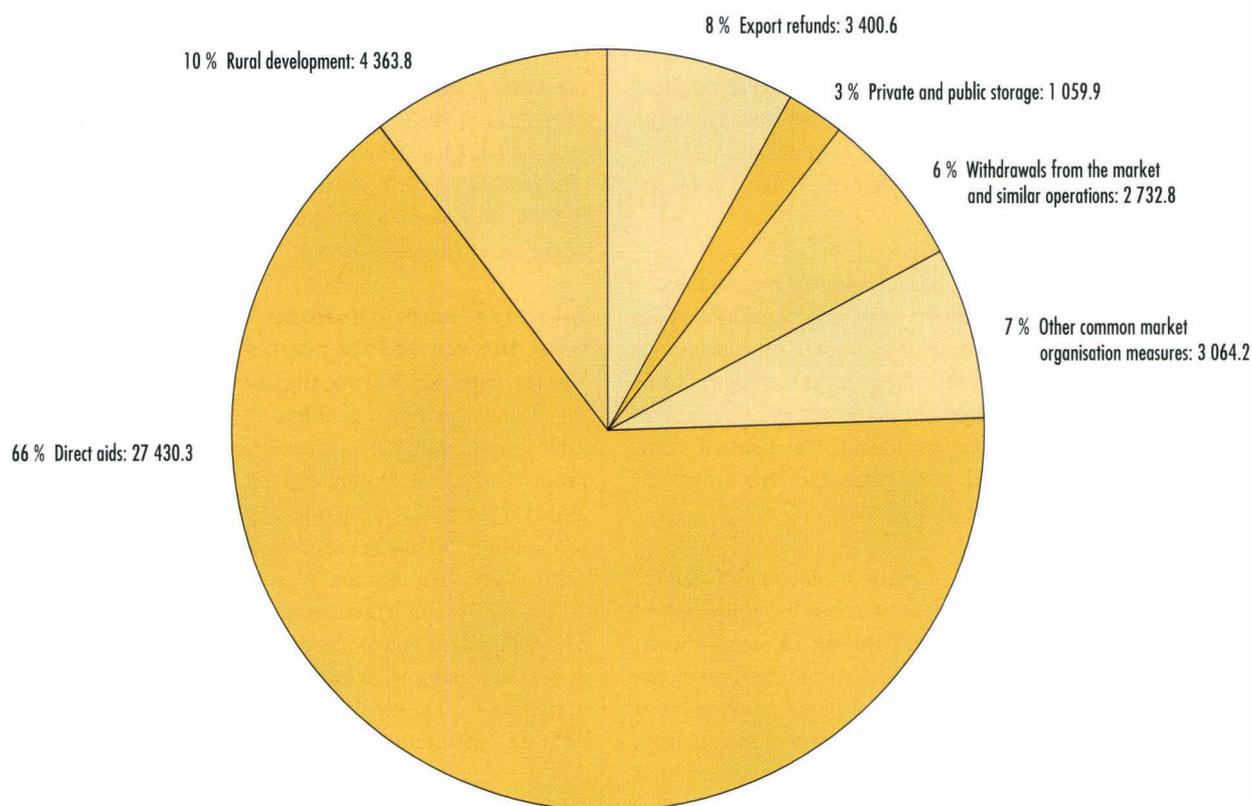
⁽⁶⁾ Interinstitutional agreement of 6 May 1999 between the European Parliament, the Council and the Commission on budgetary discipline.

The Directorate-General for Agriculture carries out regular evaluations of common market organisations and measures applicable to agriculture. Their purpose is to contribute to policy preparation and decision-making by providing information on the effectiveness, efficiency and impact of measures financed by the CAP. Evaluations examine, in particular, impacts of CAP measures on market equi-

librium, on producers' incomes and on production structures, on the environment and on rural development.

In 2002, evaluations were concluded on the milk, olive oil and raw tobacco sectors. Other evaluations were prepared. Evaluation reports are publicly available on the Europa website.

Breakdown of agricultural expenditure in 2001 (EAGGF Guarantee — Pillars 1 and 2) (million EUR)



Source: European Commission, Directorate-General for Agriculture.

Enlarging the Union: getting the candidates ready and the terms right

Considerable progress was made on three fronts in relations with the candidate countries: accession negotiations, bilateral trade relations, and the Sapard pre-accession rural development programme.

Negotiations

By the end of 2001, negotiations on the agriculture chapter of enlargement were open for 10 candidate countries: the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia (known collectively as the 'Laeken 10'). On 30 January 2002, the Commission published an issues paper entitled 'Enlargement and agriculture: Successfully integrating the new Member States into the CAP' (SEC(2002) 95 final, 30.1.2002). This paper included proposals to the Council on a number of issues in the negotiations, such as direct payments to farmers, State aids, stocks, and rural development.

During 2002, the Commission services held technical meetings with the individual countries of the Laeken 10 to clarify technical points and to exchange further information. As the negotiations proceeded, the first revisions of the EU common positions were transmitted to the Laeken 10 in June/July 2002 and second revisions in October/November 2002.

On 9 October 2002, the Commission published for each of the 13 candidate countries its regular report (a review of progress in fulfilling the accession criteria, on the basis of legislation adopted and measures implemented). To assist in the preparation of the agricultural input, the Agriculture DG, in liaison with the Commission's Technical Assistance and Information Exchange Office, organised a number of peer reviews. The objective of these was to ascertain the extent to which candidate countries had prepared themselves in terms of the practical implementation of specific parts of the agriculture *acquis* and to identify areas where further technical assistance was needed.

Accession negotiations for the Laeken 10 were concluded at the European Council meeting in Copenhagen on 12 and 13 December 2002. Agreement was reached on a number of agricultural issues, including transitional arrangements and the phasing-in of direct payments applying to the new Member States, complementary direct payments, reference quantities for milk, sugar and a number of other products, base areas and reference yields for cereals, premium ceilings for livestock, and rural development measures for the new Member States.

During 2002, negotiations on the agriculture chapter were opened for Bulgaria (June) and Romania (December). Accession negotiations were not opened for Turkey. At its meeting in December 2002 in Copenhagen, the European Council concluded that it would take a decision in December 2004 on whether Turkey fulfilled the Copenhagen political criteria. If the decision were positive then accession negotiations would be opened without delay.

Bilateral trade relations with the candidate countries

Central and east European countries (CEECs):

As a follow-up to the 'double-zero' negotiations in 2000, the Commission launched new ('double-profit') liberalisation talks at the beginning of 2002 aimed at continuing the gradual opening of markets to facilitate the market aspects of CEECs' accession. New concessions were agreed with all 10 CEECs for implementation in 2002/early 2003. The detailed arrangements varied according to the degree to which each CEEC was able to accept further trade liberalisation. However, in all cases, 70 to 90% of agricultural trade has been liberalised.

Cyprus and Malta: On 12 February 2002, the Commission received a mandate from the Council to negotiate similar agreements with Cyprus and Malta. Proposals were subsequently made to these countries on the lines of the 'double-zero' and 'double-profit' agreements with the CEECs. However, the parties' positions were such that it was not pos-

sible to make progress in the negotiations in the course of 2002.

Turkey: Agricultural trade relations with Turkey are governed by arrangements that came into force in 1998 under Decision 1/98 of the EC–Turkey Association Council. These arrangements involve reciprocal concessions in agricultural trade

between Turkey and the EU. In July 2002, Member States gave the Commission a mandate to negotiate improvements to these preferential arrangements. Formal negotiations are to start in early 2003.

Sapard

The Sapard programme is used mainly to prepare the agricultural sector and rural areas in candidate countries for EU membership. It aims to contribute to the implementation of EU legislation and to help candidate countries solve specific problems related to the sustainable development of the agricultural sector and rural areas. It also helps administrations gain practical experience in the management of structural policies. Sapard assistance forms part of a wide-ranging package of EU programmes for the pre-accession period.

By the end of 2002, all countries had finalised their efforts to prepare the structures and the legislative and administrative framework to implement the Sapard programmes.

During 2002, the annual financing agreements for 2001 were signed with all 10 candidate countries, with the following objectives: the release of the Community contribution for 2001; the adjustment of certain provisions of the multiannual financing agreements; and an amendment to the year 2000 annual financing agreements, mainly to extend the deadline by which EU funds committed in 2000 can be used for payments until the end of 2003. A total of EUR 554.5 million in commitment appropriations was assigned to the instrument for 2002.

Following an agri-environment seminar in November 2001, a guidance paper was issued to the candidate countries, giving orientations for the elaboration and the implementation of agri-environmental pilot actions within Sapard. A seminar was organised in June 2002 with the participation of the 10 eligible countries on key aspects of programme management, implementation and delivery (monitoring and

EU/CEEC trade flows, 2001 figures (*) (million EUR)

Products	Imports	Exports
Live animals	327	66
Meat and edible meat offal	673	437
Dairy produce; eggs; natural honey	324	174
Other products of animal origin	81	71
Live plants and floricultural products	52	242
Edible vegetables, plants, roots and tubers	429	317
Edible fruit and nuts; peel of citrus fruit or melons	397	675
Coffee, tea, maté and spices	21	155
Cereals	132	240
Products of the milling industry; malt; starches	10	90
Oilseeds and oleaginous fruits	379	143
Lac; gums, resins, other vegetable saps and extracts	3	45
Vegetable plaiting materials, other products of vegetable origin	16	3
Animal or vegetable fats and oils	19	363
Meat preparations	114	44
Sugars and sugar confectionery	113	236
Cocoa and cocoa preparations	98	280
Preparations of cereals, flour or starch	64	329
Preparations of vegetables, fruit or nuts	379	230
Miscellaneous edible preparations	55	566
Beverages, spirits and vinegar	286	429
Residues and waste from the food industries	269	656
Tobacco and manufactured tobacco substitutes	24	333
Other agricultural products included in the Uruguay Round	262	705
Total — Agricultural products	4 527	6 830

NB: Totals may vary due to rounding.
Sources: Eurostat and European Commission, Directorate-General for Agriculture.

(*) Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia, Slovakia, Bulgaria, Romania.

evaluation of financial management and controls, conferral of management issues).

In September 2000, following flooding in central Europe, the Commission submitted a proposal to

the other EU institutions for a modification of the programme to increase the ceiling on public aid to 75% and the Community contributions to 85% for relevant projects in areas affected by exceptional natural disasters.

EU agriculture and the world

The EU is the world's leading importer of agricultural products and the second largest exporter after the United States, with an import and export trade exceeding EUR 120 000 million per year, or close to 7% of total trade flows. Continued development of export markets is important for maintaining the growth of the EU agriculture sector.

Major activities in 2002 focused on disputes in the World Trade Organisation (WTO), WTO agricultural trade talks, EU participation in other international forums and on bilateral trade deals.

WTO consultations and dispute settlements

In 2002, the EU was directly involved in discussions concerning dispute settlements in agriculture with Argentina (wine), Brazil (sugar, frozen chicken) and Australia (sugar). The EU also intervened as a third party in consultations involving Chile, Canada, Japan, Venezuela and Australia. Consultations with the USA on trademarks and geographical indications, opened in 1999, continued through 2002.

Towards a new round of trade negotiations

The year 2002 saw considerable activity in the Commission on preparing its position for WTO multilateral trade negotiations. In December, the Commission presented an ambitious proposal on the agricultural 'modalities', calling for improved market opening and reduction of trade-distorting support. The proposal also contained specific actions to give developing countries a better deal. A major element of the Commission's approach is that the achievement of societal goals such as the protection of the environment, traditional landscapes and biodiversity, rural development, better protection of geographical indications and animal welfare should be catered for within the WTO multilateral system.

Organisation for Economic Cooperation and Development (OECD)

EU Member States account for half of OECD membership and are the major contributors to the organisation's budget. The Commission participates actively in the OECD's work on agriculture in the Committee for Agriculture (COAG), its working parties and in the joint working parties with the Committee on Trade and Environment.

In the second part of a two-year work programme, the COAG deepened its analysis of trade liberalisation in 2001 through modelling scenario studies for improving market access, simulating changes in the tariff quota system and simulating the impact of trade liberalisation on the food security of developing countries. It also dealt with non-tariff barriers, sanitary and phytosanitary measures, and with an analytical framework for the role of State trading enterprises in liberalising world trade. A horizontal programme on the economic and administrative aspects of food safety was also carried out. The impact of support measures was analysed, focusing on income-transfer efficiency, the effects of direct payments and all policy measures in the crop sector, and the impact of crop-insurance subsidies. A more horizontal study, 'The positive reform agenda', addressed the cohesion between commodity production and the provision of public goods and other non-commodity outputs. Policy analysis was undertaken on decoupling, transaction costs and farm household income. Methodology was further developed on the basis of the US Farm Security and Rural Investment Act and the EU's 'CAP reform — A long-term perspective for sustainable development'.

World Summit on Sustainable Development

The World Summit on Sustainable Development took place in Johannesburg in September 2002. It began with a stock-taking of the 10 years following the Rio Earth Summit of 1992 and a discussion on

concrete future measures to advance sustainable-development objectives.

Since Rio, the EU had agreed a number of guidelines and decisions for the integration of sustainable development in European policies. In particular, the internal dimension of sustainable development had been the focus of EU summits in 2000 and 2001 and the implementation of EU commitments agreed in Johannesburg would be followed up in future EU summits.

Agricultural subsidies and agricultural market access for developing countries figured among the key points of the public debate. In this respect, the summit underlined the importance of progress in the WTO negotiations.

Generalised system of preferences (GSP)

The aim of the GSP is to foster the integration of developing countries into the world economy and the multilateral trading system. The GSP focuses on the needs of the poorest beneficiary countries through the so-called 'Everything but arms' initiative.

On 1 January 2002, a new EU generalised system of preferences ⁽⁷⁾ entered into force. It modifies significantly the previous schemes by improving non-reciprocal trade preferences and by providing strong incentives for compliance with core labour standards.

United Nations Food and Agriculture Organisation (FAO)

As a member of the FAO, the EU took part in a variety of the organisation's bodies, in partic-

ular in the meetings of the Committee on Agriculture, the Committee on World Food Security, the Committee on Commodity Problems and the Committee on Forestry. It also participated in technical consultations on the revision of the International Plant Protection Convention (IPPC), on developing countries, the WTO negotiations and 'multifunctionality', on preparations for the World Food Summit and on decisions taken at the FAO Council in November 2002, on the 'Right to food', on pesticides and on Codex Alimentarius.

International product agreements

In 2002, agreement was reached to extend international agreements for olive oil, table olives and food aid. The International Sugar Agreement lost the support of Japan, but this was partially offset by Russia's subscription to the agreement.

Bilateral and regional trade relations

EU/ACP countries: The EU/South Africa wine and spirit agreement entered into force provisionally on 1 January 2002. It should reciprocally facilitate and promote trade in wines and spirits between the two parties.

EU/EFTA countries: A bilateral agreement between the EU and Switzerland on trade in agricultural products entered into force on 1 June 2002 ⁽⁸⁾. The main points of the agreement are the full liberalisation of trade in cheese within five years and the removal of technical barriers to trade.

In the framework of the European Economic Area, bilateral negotiations took place between the EU and Norway with a view to furthering existing preferential concessions in agricultural products.

⁽⁷⁾ Council Regulation (EC) No 2501/2001 of 10 December 2001 applying a scheme of generalised tariff preferences for the period from 1 January 2002 to 31 December 2004 (OJ L 346, 31.12.2001).

⁽⁸⁾ 2002/309/EC, Euratom: Decision of the Council and of the Commission as regards the Agreement on Scientific and Technological Cooperation, of 4 April 2002, and on the conclusion of seven agreements with the Swiss Confederation (OJ L 114, 30.4.2002).

EU/Asia: Discussions continued in 2002 with China, Japan and South Korea on market access and sanitary and phytosanitary issues.

EU/Middle East and Mediterranean region:

The year 2002 saw the conclusion of new association agreements under the Euro-Mediterranean Partnership established with the EU's Mediterranean partners at the Barcelona conference in 1995.

EU/western Balkans: Stabilisation and association agreements (SAAs) have been in place with a number of States in the western Balkans since 2001. In 2002, the Council adopted directives for the negotiation of an SAA with Albania.

EU/Mercosur: Negotiations on an EU–Mercosur association agreement continued in 2002. At the EU–Mercosur ministerial meeting in Rio in July 2002, agreement was reached on an ambitious timetable for the final stage of negotiations and on starting talks on the SPS and wine agreements.

EU/Chile: Negotiations for an EU–Chile association agreement, which had started in April 2000, were concluded and the agreement was signed in November 2002. The agreement provides for the gradual creation of a free-trade area and incorporates specific agreements on wines and spirits and on sanitary and phytosanitary matters.

EU/NIS countries: Bilateral relations in agriculture intensified in 2002, notably with Russia and the Ukraine, in the frameworks of the partnership and cooperation agreements and the preparatory process for WTO accession. There are similar prospects for increasing bilateral trade in agriculture in other NIS countries.

EU/USA: The year 2002 saw moderate progress in negotiations on a comprehensive EU/US wine agreement which would aim at facilitating trade in wines while improving protection for European

and American names used in winemaking, and assuring oenological standards used by wine-makers.

EU trade flows, 2001 figures

(million EUR)

Products	Imports	Exports
Live animals	955	856
Meat and edible meat offal	3 550	3 829
Dairy produce; eggs; natural honey	1 317	5 063
Other products of animal origin	831	347
Live plants and floricultural products	1 258	1 505
Edible vegetables, plants, roots and tubers	2 883	1 459
Edible fruit and nuts; peel of citrus fruit or melons	8 750	1 923
Coffee, tea, maté and spices	4 288	841
Cereals	1 921	2 278
Products of the milling industry; malt; starches	77	1 742
Oilseeds and oleaginous fruits	6 266	864
Lac; gums, resins, other vegetable saps and extracts	465	597
Vegetable plaiting materials, other products of vegetable origin	152	16
Animal or vegetable fats and oils	2 376	2 469
Meat preparations	744	520
Sugars and sugar confectionery	1 560	2 622
Cocoa and cocoa preparations	2 233	1 825
Preparations of cereals, flour or starch	608	3 700
Preparations of vegetables, fruit or nuts	3 180	2 276
Miscellaneous edible preparations	1 242	3 549
Beverages, spirits and vinegar	3 714	12 678
Residues and waste from the food industries	5 781	1 791
Tobacco and manufactured tobacco substitutes	2 572	2 641
Other agricultural products included in the Uruguay Round	5 419	4 758
Total — Agricultural products	62 140	60 149

Sources: Eurostat and European Commission, Directorate-General for Agriculture.

The USA continued to apply 100% *ad valorem* tariffs on USD 116.8 million of EU exports pursuant to the WTO arbitrator's ruling of the level of impairment in the hormones case. No progress was made.

The Commission followed closely the adoption of the Farm Security and Rural Investment Act in May 2002. The direction of US policy was widely condemned by WTO members and stood in contrast to the direction of policy reform in the EU away from production-related support measures. The EU continued to press the USA to reduce its dependency on food aid as a tool of surplus disposal.

The Commission began exploratory talks with the USA on recognition of organic production standards and controls. US rules on organic production were finally implemented in October 2002 and the Commission made representations to ensure that bilateral trade was not disrupted as a result.

The Commission made representations to the USA on its Bioterrorism Act, which will require the registration in the USA of all foreign food facilities and detailed prior notice of shipments.

EU/Canada: Discussions on an agreement on trade in wine and spirits intensified in 2002. The talks focused on the protection of the use of European names, quality standards for wines and spirits on the internal market and the operation of Canadian provincial alcohol monopolies.

Canada continued to apply 100% *ad valorem* tariffs on CAD 11.3 million of EU exports, pursuant to the WTO arbitrator's ruling on the level of impairment in the hormones case.

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