



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 23.3.2007
COM(2007) 130 final

**REPORT FROM THE COMMISSION
TO THE COUNCIL AND THE EUROPEAN PARLIAMENT**

The agricultural situation in the European Union – 2005 Report

{SEC(2007) 365}

**REPORT FROM THE COMMISSION
TO THE COUNCIL AND THE EUROPEAN PARLIAMENT**

The agricultural situation in the European Union – 2005 Report

INTRODUCTION

1. "The agricultural situation in the European Union — 2005 report", was completed in September 2005, and is published in conjunction with the General Report on the Activities of the European Union.

1. ECONOMIC SITUATION AND FARM INCOMES

2. Over the European Union as a whole, agricultural income 2005 fell by –6.3% (–6.6% in the old Member States and –3.8% in the new Member States). The actual range varied from –19.3% for Hungary to + 25.9% for Lithuania.
3. The growth rate in the EU is projected to have reached + 1.5% in 2005. Besides the robust global environment, the main factors behind this development include accommodative macroeconomic policies, supportive financial conditions, wider profit margins and a weaker nominal effective exchange rate. The EUR recorded some highs against the dollar at the beginning of the year but fell back to close the year at USD 1.17.
4. In the first nine months of 2005 the overall value of Community agricultural exports increased strongly by 8% with wide divergences across agri-food products. The EU remained a net importer of agricultural products but its agricultural trade balance improved significantly due the higher exports.

2. POLICY DEVELOPMENTS AND LEGISLATIVE INITIATIVES IN 2005

The CAP reform – sugar

5. On 22 June 2005, the Commission adopted a package of proposals for reform of the EU sugar sector, re-casting the common organisation of the markets in the sugar sector, amending Regulation (EC) No 1782/2003 and establishing a temporary scheme for restructuring of the sugar industry in the European Community. A political agreement, largely reflecting the Commission's original proposals, was reached by the Council on 24 November 2005.
6. In bringing a system which has remained largely unchanged for almost 40 years into line with the CAP reforms of 2003/2004, the sugar reform will boost the sector's competitiveness, improve its market orientation and attain a sustainable market balance with respect to the EU's international commitments.
7. The reform will be achieved by introducing a 36% cut in guaranteed price for white sugar, compensation for farmers in the form of a decoupled payment, added to the

single farm payment, and a voluntary restructuring scheme, providing incentives for less competitive EU sugar factories to leave the sector.

Financial Perspectives 2007–2013

8. The European Council decided on 17 December 2005 to fix agricultural spending for 2007–2013, as approved by the European Parliament, at EUR 293.1 billion for direct income payments and market measures and at EUR 69.75 billion for rural development (2004 prices). In the political agreement the CAP was identified as a key element in a wide ranging review to take place 2008/2009, covering all aspects of EU spending and resources.

Biofuels

9. In the later half of 2005, with the call for a renewed political signal on EU energy policy in view of rising oil prices, high energy dependence of our economy and international climate change commitments, the possibility of increasing the production of biofuels became a complex, cross-cutting and dynamic issue.
10. On 7 December 2005 the Commission adopted an EU Biomass Action Plan with the main objective of more than doubling biomass use in the EU by 2010 and paving the way for bigger increases by 2020. This preliminary EU initiative will also serve as a basis for a Communication on the EU Strategy for Biofuels, due for adoption in early 2006.

Quality policy

11. During 2005, the Commission added 24 names to the list of protected designations of origin and protected geographical indications; the list currently comprises 705 products. Four modifications of the specifications of registered PFO/PGI are also listed in the annex.

Organic farming

12. On 21 December 2005, the Commission adopted a proposal for a new Council Regulation on organic production [COM(2005) 671 final]. The proposal is a follow-up of the Communication [COM(2004) 415] on a Community Action Plan for Organic Food and Farming (EAP).

Promotional measures

13. In 2005 the Commission approved for co-financing 25 new programmes of promotion operated outside the EU. The main target countries of these programmes include Japan, Russia, USA and non-EU European countries. The products promoted include quality wines, olive oil, cheeses, meat products and fruit and vegetables. Most programmes last for three years. Total EU co-financing for these programmes amounts to EUR 23.4 million.
14. For the EU internal market the commission approved altogether 51 new programmes for a total budget of EUR 51.6 million of Community co-financing. Most programmes last for three years. The promoted products include fruit and vegetables, organic products, products with a PDO or PGI denomination, flowers and plants, milk

products, olive oil and to a limited extent beef. In 2005, promotion programmes were also received by the new Member States and many proposals were accepted for co-financing.

Simplification of agricultural legislation

15. Simplification continued to be an important objective in 2005, as Better Regulation continues to increase in political importance within the context of the Lisbon Agenda. The Commission Communication on “Simplification and Better Regulation for the Common Agricultural Policy” (COM(2005)509 final) was published on 19 October 2005. It announces in particular the development of a simplification action plan during 2006, the elaboration of a “Single CMO” regulation combining eventually 21 Common Market Organisations into a single regulatory framework and a conference on simplification to be held during the autumn of 2006.

State aids

16. The Commission received 261 notifications of state aid draft measures to be granted in the agricultural and agro-industrial sector. The Commission also started the examination of 25 aid measures, which had not been notified before under art. 88.3 of the EC Treaty.

Assistance to the needy

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

The Outermost Regions – Reform of the POSEI arrangements

18. Following detailed discussions over the course of 2005, Member States agreed unanimously in a working party on the outermost regions on 2 December 2005 that the Commission’s proposal for a Council Regulation for a reform of the POSEI arrangements should be put forward for adoption as an I/A-point by Coreper and Council.
19. The reform will change the approach to providing assistance to the outermost regions by encouraging participation in decision making and speeding up the response to their specific needs. The Regulation provides for the submission of programmes by the Member States, which should then be approved by the Commission and implemented in the course of 2006. These programmes will include a section on the specific supply arrangements for those agricultural products which are essential in the outermost regions for human consumption, as agricultural inputs or for processing, and another section on support for local production.
20. The Regulation does not affect the sources of financing or the intensity of Community support..

Information measures concerning the CAP

21. The purpose of the information policy is to explain the issues surrounding the CAP, promote the European model of agriculture, keep farmers and other rural interests informed and raise public awareness of the implications and goals of the CAP. This was done by extending grants to a number of public and NGO beneficiaries for seminars, conferences, printed publications and audiovisual media productions. Also, the Commission itself organised events covering a range of themes at public hearings, press briefings, information visits, speeches, conferences in Brussels, missions inside and outside the EU and participation at certain international, agricultural fairs.
22. A number of specific fact sheets, reports, leaflets, bookmarks, posters, conference proceedings and newsletters on international and rural issues were published.

Access to documents

23. In 2005, the interest manifested by EU citizens in receiving internal documents from DG Agriculture and Rural Development continued to rise, although not as significantly as in 2004. Compared to 2004, the number of requests introduced by EU citizens in application of Regulation (EC) No 1049/2001 on access to Council, European Parliament and Commission documents in the area of agriculture and rural development rose by +/- 25%. This brought the number of requests in that area in 2005 to +/- 185.

3. AGRICULTURAL MARKETS

Certain crop products

24. World cereal production (excluding rice) in the 2004/05 marketing year rose against the previous year. The 2004/05 EU-25 total cereal harvest was 284 million t, 54 million t or 23% higher than 2003/04's crop. In the EU, the area increased by 1 million ha whereas cereal yield increased by 1 t/ha or 22%. All EU cereals, but oats, had a production higher than in 2003/04, ranking from a 11% increase for barley to a 42% increase for rye. Average cereal yields were record yields for EU-15 (6.02 t/ha) as well as for the new Member States (4.09 t/ha).
25. According to International Grains Council figures, at the end of November 2005, the 2004/05 world harvest was 1 632 million tonnes against 1 467 million tonnes for the previous marketing year.
26. World cereal stocks increased, the 2004/05 estimate being 312 million tonnes (against 264 million tonnes in 2003/04 and 333 million tonnes in 2002/03), comprising 137 million tonnes of wheat and, due to the huge US harvest, 167 million tonnes of feed grains (137 last year). In the EU, stocks held by the intervention agencies on 1 November 2004 were 5 million tonnes: 3.0 million tonnes of rye, 0.9 million tonnes of barley and 1.0 million tonnes of wheat and 0.2 million tonnes maize.
27. The total volume of world trade in cereals in 2004/05 was 211 million tonnes (106 million tonnes of wheat and 104 million tonnes of coarse grains) against 207 million tonnes the previous year.

28. EU-25 utilisable cereal production would reach 282 million t. In 2005/06 the forecast is that, with the return to a 10% set aside rate, there will be a decrease of EU-25 cereal area by 2.4% to about 51 million ha.
29. This area combined with trend yield estimates would lead to a harvested production of 263 million t, 20 million t lower or – 14% compared to 2004/05. Average yield is estimated to be 5.15 t/ha, a decrease of 5% compared to last year record.
30. Rye production fell from 7.2 to 5 million tonnes, following a reduction in the area sown largely due to Commission decision to abolish the intervention scheme for rye.
31. Total EU-25 oilseed area was quite stable in 2005 (+ 3% compared to 2004) with rapeseed up 7% to 4.7 million ha, sunflower seed went up modestly by 1% to 2.23 million ha and soybeans increased 2.5% to 282 000 ha. Total oilseed area is currently estimated at 7 million ha, including 870 000 ha under non-food set-aside scheme and 350 000 ha under energy crop scheme. With the excellent weather conditions, yields recovered after the low 2003 yields, giving a total production of about 20 million tonnes, at the same level as in 2004/05. A big part of 2.6 million tonnes of oilseed oil estimated as non-food was rapeseed oil. The 2005/06 crop would be made of 15.3 million tonnes of rapeseeds, 3.8 million tonnes of sunflower seeds and 805 000 tonnes of soybeans.
32. Total imports of oilseeds went down from 17 million tonnes in 2002/03 to 16 million tonnes in 2004/05 and the main part constituted soybeans (95%).
33. The current characteristic of the European consumption is a growing use of oilseed oils in the non-food sector. Rapeseed oil constitutes the prime example: 43% of the total quantity of rape oil available on the European market is used in the food sector while 57% go to the non-food sector, especially for the production of biodiesel. The boom in rape oil demand as renewable energy and the resulting high prices will probably contribute to decline slightly the rape oil consumption within the food sector.
34. The area put into obligatory set-aside in 2005/06 was about 4 Mio ha, applying a set-aside rate of 10%. In addition, 3 Mio ha were not used for production although they were eligible for decoupled income support. In particular, about 870 000 ha of obligatory set-aside land was used for non-food oilseeds, mainly for biodiesel production. Total production of non-food crops cultivated in set-aside surfaces amounted to 2.8 Mio tonnes.
35. Under the CAP reform, a new aid of EUR 45 per hectare is granted for areas sown to energy crops. The support is limited to a maximum guaranteed area (MGA) of 1.5 Mio ha. This regime was applied in 2004 for the first time and in that year an area of 330 000 ha was supported under that scheme. The area reached about 570 000 ha in 2005, which represents 38% of the MGA and around 65% of the traditional non-food set-aside oilseeds surface. A further increase in the area under energy crops is expected in 2006.
36. Following 2003/04 global sugar production remained significantly below the huge surplus production of 2002/03 in 2004/05 as well. The improving situation of the global sugar balance is indicated by the decreasing stock/consumption ratio which has reduced to 45.5%, its lowest level since 1997/98 when it reached 40.94%.

37. Prices have improved significantly in 2005 reflecting the well balanced situation between production and consumption at global level, as well as expected deficit in the 2005/06 campaign.
38. Total exports of sugar as such have increased by 0.8 Mio t to 4.92 Mio t in 2004/05, including 2.44 Mio t of 'C' sugar exported without refund.
39. In 2005 the Community sugar market was characterized by an important surplus situation which had severe effect on the prices and the market balance as well. For the first time in nearly 20 years sugar was offered into intervention. The total quantity offered into intervention by operators and accepted by Member State authorities amounted to 1 324 286 t in 2005.
40. As far as the 2005/06 marketing year is concerned Community sugar production is estimated at 19.6 million tonnes, slightly below the 19.93 produced in 2004. Unlike in 2004/05 it was necessary to significantly reduce Community quotas in order to comply with WTO commitments.
41. The measure of intervention buying-in, hardly ever used in the sugar market organisation has become a major instrument in the 2004/05 marketing year.

Certain animal products

42. Initial estimates suggest that world milk production which reached 618 million tonnes in 2004 will increase in 2005 by an estimated 3%.
43. EU dairy herds are expected to fall by 3.6% to 22.7 million heads. Yield, however, should increase by 3% to 6 170 kg per animal per year. Milk production remains stable at 142.6 million tonnes. The Member States expect milk deliveries to increase to a total volume delivered of 131.2 million tonnes, mainly caused by a 6% increase in the 10 NMS.
44. Drinking milk production has remains fairly stable at around 33 million tonnes in the EU-25. Production of cream for consumption is also stable at 2.6 million tonnes, while yoghurt shows a 5% increase.
45. Butter production will increase by 40 000 tonnes to 2.17 million tonnes.
46. At the end of 2005 the EU had 1.4 million dairy farmers, 90 000 less than in 2004. There is a gradual decline in the number of farmers in all Member States, but Poland alone account for a drop of 60 000. The average number of cows per holding rose to 39 (ranging from 4 in Poland to 282 in Latvia). The amount of milk delivered per holding is 94 000 kg. However the average for the EU-15 is 240 000 and for the 10 NMS this is only 19 000. Again there is a very wide range in the average quantity delivered per farm, ranging from 6 500 tonnes in Lithuania to 1 367 600 tonnes in the Czech Republic.
47. Total consumption of milk products, defined as the total of all uses made of milk available in the European Union, has tended to rise since 1996 by 0.3% per year.
48. In 2005, only 5 000 tonnes of SMP have been purchased in intervention. At the end of the year less than 10 000 tonnes were still in stocks. This is evidence of a balanced

supply-demand situation for the milk protein market in the EU in 2005. For butter 36 000 tonnes were bought into intervention. Stocks at the end of the year are still 125 000 tonnes. This shows that the EU-25 market for milk fat is less balanced.

49. On 1 July institutional prices have been reduced 7% for butter and 5% for skimmed milk powder, to 282.44 and 185.00 euro/100 kg respectively.
50. Provisional results of the May/June 2005 survey showed a further decrease of 1.0% in the bovine livestock in the EU compared with the preceding year. The total cow herd in the EU declined by 0.7%. The dairy herd decreased by 1.5%, while the number of suckler cows increased slightly (+ 0.8%).
51. Beef and veal production in the EU-25 is estimated at 7.84 million tonnes in 2005 or 2.5% below its 2004 level. The total beef and veal consumption in the EU-25 in 2005 is estimated at 8.14 million tonnes. In 2005 total beef imports amounted to 528 000 tonnes. Since 2003 the Community became a net importer of beef. During the period January to October 2005, the total imports exceeded by around 242 000 tonnes the exports. When considering beef meat trade only, the net import amounted to approximately 302 000 tonnes.
52. The overall situation of the EU sheep and goat market was relatively stable throughout 2005. Average price of light lamb was at a very high level in the fourth quarter of the year (approximately 25% higher than in the year before).
53. Community export remained almost inexistent. The European Union imports a quantity corresponding to over one fifth of its needs. Imports into the Community are carried out principally under tariff rate quotas with exempt or reduced rate import duties. According to the livestock surveys, the sheep and goat population in the European Union is over 100 million heads.
54. Based on Council Regulation (EC) No 21/2004 establishing a system for the identification and registration of ovine and caprine animals the individual identification of animals became obligatory as from 9 July 2005.
55. In 2005, the EU pigmeat production is expected to remain stable at around 21 million tonnes. The average price will remain at around EUR 139/100 kg. The consumption per capita of pigmeat is expected to decrease slightly to 42.9 kg/capita.
56. Since 1999, the world production of poultry meat has increased regularly and in a substantial way (+ 20%). The European Union's production has strongly decreased in 2003 (- 6.6%) due to the avian influenza in the Netherlands and in Belgium, and the reduction of production in several Member States (France, Italy, Sweden). The production of the EU-25 started to recover in 2004 (+ 1.4% compared to 1999). The present market situation is very fragile since consumption of poultry meat dropped during the last four months of 2005 due to the media coverage of the Avian Influenza situation despite the absence of an outbreak within the EU commercial poultry flock.

4. IMPLEMENTATION OF THE 2003 REFORM

57. From 1 January 2005 all EU farmers receiving direct payments shall comply with the cross-compliance conditions. Ten Member States started implementing the Single Payment Scheme in 2005. Five Member States out of ten and two regions in the United Kingdom have chosen the historical model which distributes the reference amounts only according to the individual farming in the reference period, whereas the regional model at least allocates part of the reference amount according to the farming activity in 2005.

5. RURAL DEVELOPMENT

58. For the period 2000–2006 the rural development programming consists of the following: 68 Rural Development Programmes – RDPs – (co-financed by EAGGF Guarantee), 69 Objective 1 region programmes – operational programmes and single programming documents – with rural development measures (EAGGF Guidance co-financed) and 20 for Objective 2 region with rural development measures (EAGGF Guarantee co-financed).
59. With the enlargement of the European Union on the 1st May 2004, a special rural development regime was introduced for the new Member States ‘Temporary Rural Development Instrument (TRDI)’. Across the EU-10 territory there are two types of programming: 10 RDPs co-financed by the TRDI and 9 Objective 1 region programmes, covering most of the territory of the new Member States (co-financed by EAGGF Guidance).
60. In 2005, Community expenditure on rural development amounted to EUR 8 501.8 million (Guarantee and Guidance combined).
61. 73 LEADER+ programmes have been approved for the period 2000–2006. The payments in 2005 for these programmes amounted to EUR 332 million from EAGGF Guidance.
62. 2005 was also marked by an important change of the rural development policy for the next programming period 2007–2013: On the basis of the Commission proposal [COM(2004) 490 final] the Council reached a political agreement on the new Rural Development Regulation in June 2005 which, after certain technical adaptations, was formally adopted in September and published as Council Regulation (EC) No 1698/2005. The Council also adopted the new Regulation for financing the CAP by which the new single Fund (European Agricultural Fund for Rural Development – EAFRD) was created (Council Regulation (EC) No 1290/2005). These two instruments put in place the basic rules and mechanisms for programming and financial management for rural development policy in the period 2007–2013. More particularly, the new policy will take a more strategic approach (through Community strategic Guidelines and strategic planning in the Member States) focusing on a limited number of EU priorities (axes for agricultural/forestry competitiveness, land management/environment, diversification/quality of life in the rural areas, Leader approach), taking largely on board the Lisbon and Göteborg agendas, while simplifying considerably programming, funding, financial management and control of the new programmes.

6. ENVIRONMENT AND FORESTS

63. A two-year (2005-2006) study, entitled “Study on environmental Cross-compliance Indicators in the context of the Farm Advisory System” (CIFAS study), was launched at the beginning of 2005.
64. The implementation of the “Biodiversity action plan for agriculture”, adopted by the Council in June 2001 and by the European Parliament in March 2002, continued in 2005.
65. The 6th Environment Action Programme (6th EAP) remains the main driver of EU environment policy until 2012. In addition to providing the basis for environmental policy initiatives, this Action Programme reiterates the obligation laid down in the Treaty to integrate environmental protection requirements into the definition and implementation of other Community policies and activities.

Other forestry measures

66. The Commission Communication to the Council and the European Parliament reporting on the implementation of the EU Forestry Strategy, COM(2005) 84 final, was adopted on 10 March 2005. Council Conclusions on the proposals put forward by the Commission in the Communication were adopted by the Agriculture and Fisheries Council on 30 May 2005. Co-operation and co-ordination with the Member States continued through the Standing Forestry Committee.

7. FINANCING OF THE CAP IN 2005

67. CAP expenditure is funded under the Financials Perspectives decided at the Berlin Summit in 1999 and adjusted at the Copenhagen Summit at the end of 2002 to take account of the financial effects of the enlargement of the Union to include the ten new countries. Thus, new ceilings apply for the EU-25 as of the budget year 2005.

8. ENLARGEMENT

68. The Accession Treaty with Bulgaria and Romania was signed on 25 April 2005. Under its terms Bulgaria and Romania will join the EU on 1 January 2007.

9. INTERNATIONAL RELATIONS

69. The WTO Ministerial Conference took place in Hong Kong in December 2005. Full modalities were not achieved but the meeting locked in the progress made since the 2004 Framework Agreement. It was agreed that full modalities in agriculture should be reached by the end of April 2006 and for the other issues under negotiation (NAMA, Services, trade facilitation and rules, including GIs) by the end of July 2006.
70. On export competition, the EC agreed at the Hong Kong Ministerial Meeting to eliminate export subsidies by the end of 2013 provided that other WTO Members ensure the parallel elimination of all other forms of export subsidies flowing through other export competition instruments such as State Trading Enterprises, officially supported export credits and non-genuine food aid practices.

71. Bilateral and regional trade discussions have taken place under six regions' Economic Partnership Agreements, South Africa, the EEA and bilaterally with Japan, South Korea and Thailand.
72. On 14 November 2005, the Council adopted a mandate to initiate bilateral negotiations with the Mediterranean partners for an ambitious trade liberalisation. This mandate was based on a recommendation adopted by the Euro-Mediterranean Ministers of Foreign Affairs at their meeting in Luxembourg in May 2005. Negotiations will start in early 2006.
73. After about 20 years of negotiations, a first phase agreement on trade in wine was reached between the EC and the US. This agreement provides for the continuation of the existing Community special authorizations granted to the US on wine-making practices, labelling and certification and for the exemption of all Community wine from the US certification requirements.