COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 23.3.2007
SEC(2007) 365

COMMISSION STAFF WORKING DOCUMENT

Accompanying document to the

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

The agricultural situation in the European Union – 2005 Report

{COM(2007) 130 final}

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1. ECONOMIC SITUATION AND FARM INCOME

1.1. Overview

1. The 2005 agricultural year was marked by a slight decrease in crop production and production of livestock products, combined with favourable prices for livestock products and lower prices for crops. Input prices were substantially higher in 2005 in most Member States, mainly due to increased prices for energy and fertilisers. However, price developments were highly variable across sectors and countries. The first estimates sent by Member States show a sharp decline in agricultural income of –6.3% in real terms as compared to 2004 in the European Union as a whole.[1] Agricultural income dropped by –6.6% in the old Member States and by –3.8% in the new Member States. The actual range by country varied from –19.3% for Hungary to +25.9% for Lithuania.

2. As far as the weather is concerned, the autumn 2004 weather conditions had been generally favourable for sowing winter crops. However, a period of substantial rain in the autumn delayed preparation work in Ireland and Germany. Winter was characterised by relatively low seasonal temperatures in the Iberian Peninsula and South West France, with rainfall below the seasonal average. Unexpected frosts in Spain during the winter of 2005 affected vegetable production. During spring 2005 the climatic conditions were satisfactory for crop growth and farming operations but late frosts influenced winter crops in France, Spain, Hungary and Romania. The drought throughout the whole of the Iberian Peninsula produced very high seasonal temperatures. Well below normal rainfall was recorded in South and Eastern France, Greece, Estonia, West Turkey and East Ukraine. In contrast, in Hungary, Romania and Bulgaria rainfall was above or exceptionally above historical averages and disastrous for crops. Summer 2005 was marked by normal and favourable weather conditions for the development of crops in most Member States. A very extensive drought during the summer of 2005 in the Iberian Peninsula, major parts of France and Western Italy, however, influenced the harvest in these regions.

3. In 2005/06, demand for cereals within the European Union is expected to be about 1% higher than the 2004/05 marketing year thanks mainly to increased feed grain demand supported by low cereal prices and increased livestock production. As regards livestock products, meat consumption declined for beef, pork and sheep and goat meat and increased only for poultry meat. The total EU-25 beef consumption displayed an overall decline of 0.9% compared to the previous year, driven by the sharp fall in demand recorded in the new Member States linked to the lower availability and relatively high prices. As prices for pig meat are expected to stay at a relatively high level, a slight reduction in consumption (–0.5%) is expected, mainly due to a 1.3% decline in the new Member States. Increased availability of poultry meat contributed to lower prices and a slight increase in consumption (+2.2%) while sheep meat and goat meat consumption was only slightly down (–0.4%) in 2005. The overall consumption of milk products continued to show a slight upward trend. An increase in demand for cheese was registered while butter consumption remained

[1] Malta and Cyprus have not yet provided their first income estimates for 2005. As a result, figures for EU-25 and the new Member States only refer to EU-23 and 8 new Member States.

relatively stable and skimmed milk powder consumption declined in 2005 in both the new and the old EU Member States.

4. Concerning the global economic situation, the world economy is expected to continue to grow at a robust pace (+4.3%), despite the impact of higher energy prices and the negative effects of Hurricane Katrina on the US economy in the second half of 2005. Economic growth was accompanied by somewhat slower expansion of world trade. The surge in economic activity was driven by a number of factors, including supportive financial conditions such as continued low long-term interest rates and low risk premiums on corporate and emerging market debt, and particularly strong growth in emerging economies such as China (+9.3%). Oil prices rose sharply after the first quarter of 2005. They increased further over the summer and early autumn, driven by concerns about supply disruptions and shortage of refining capacities. Oil prices jumped to new record levels at the end of August and the beginning of September in the wake of Hurricane Katrina with prices at around USD 68 per barrel (Brent crude futures). Additional reserves made available to the market from the International Energy Agency (IEA) Members and downward developments on the demand side brought crude oil prices down from their record highs and reduced the pressure on petrol prices. Nevertheless, oil prices remained high. Compared to the end of 2004, the price of oil increased by around 50% in USD terms (or 60% when measured in euro). The persistence of higher oil price volatility weighed on economic growth in 2005 and is currently one of the main sources of uncertainty for the economic outlook of the years ahead.

5. In the European Union economic activity was more subdued and the growth rate 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 euro recorded some highs against the dollar at the beginning of the year (the highest values since the introduction of euro in 1999, standing at over USD 1.35), followed by a gradual reduction and more moderate levels during the rest of 2005 to close the year at USD 1.17.

6. Global meat and dairy product prices were somewhat above the 2004 levels. Whereas the 2004/05 marketing year was marked by record growth in production, low prices and high stocks for most cereals, global cereal production is expected to have declined slightly in 2005. Total cereal utilisation is forecast to have increased thanks mainly to an increase in food use. However, lower feed use led to a more moderate reduction in cereals stocks. International cereal prices (in US dollars) were generally somewhat higher as compared to the 2004 level. At the beginning of 2005 cereal prices were down, but then recovered from August on and were somewhat above the 2004 levels at the end of the year. However, low import demand and large supplies of feed wheat from the Black Sea region limited any further price increase. Prices were significantly above their previous year level in Argentina as a decline in domestic production is expected. The recent strength in the US dollar against the main currencies is expected to intensify export competition with other wheat exporters (all but Argentina) and may weigh on international wheat price developments.

7. International maize prices have benefited from reduced exportable supplies from China and Brazil and from strong demand from several Southern African countries. Prices stayed relatively stable in the US as compared to 2004. By contrast, prices for

white and yellow maize from South Africa increased, mainly supported by strong regional demand. Global rice prices were up at the beginning of 2005 and remained relatively stable despite the large harvest until the end of the year.

8. World market prices for soybean strengthened at the beginning of 2005 in the wake of sustained imports from China, but subsequently weakened, and by the end of 2005 were close to their 2004 levels.

9. For meat products, the world market situation in 2004 had been mainly determined by sanitary crises and import restrictions, leading to generally higher prices. Outbreaks of pathogenic avian influenza in Asia and other countries, which progressively moved westward (Russian Federation, Turkey), prompted the imposition of import bans on poultry products from disease-affected countries. The global market impact of these bans over the past year included a gradual shortage of poultry meat supplies, escalating world poultry prices, a sharp drop in global poultry trade (–8%) and trade diversion. The overall price impact on poultry meat was additionally exacerbated by shortages of other meats, particularly beef from North America, which traditionally supplies a quarter of the world's beef trade and was banned by many countries due to BSE concerns. Restrictions on exports from Asian countries affected by avian influenza outbreaks in 2004 and 2005 contributed to a 30% increase in international poultry prices. These upward world price movements contrasted with dramatically declining prices in disease-affected countries as exportable supplies remained on the domestic markets and domestic demand decreased owing to food safety concerns.

10. On the beef market, the discovery of BSE cases in Canada and the US has led to import restrictions for North American beef to Asia, particularly Japan, since 2004. On the other hand, strong beef demand supported production gains in many Asian countries, including China, Indonesia and Vietnam. Robust export demand pushed up slaughtering and production in the countries of South America, particularly Brazil, further increasing the developing countries' share of global beef output. The latter exceeded for the first time the share of developed countries. In the EU, previously a large competitor in international markets, policy-induced reforms led to a decline in the inventories and slaughter of beef.

11. Despite relatively strong prices and robust trade prospects, global pig meat production is expected to increase only slightly. In developed countries, output expanded only marginally as production in North America and Europe remained relatively price-unresponsive. Pig meat production increased in South America thanks to export gains while domestic demand induced higher production in Mexico, Vietnam and many other Asian countries.

12. Sheep meat prices remained competitive relative to other meats, prompting higher imports from both Australia and New Zealand. Exports from Argentina and Uruguay and from less traditional exporters, such as China and Pakistan, also increased.

13. After their heavy fall at the beginning of 2002 world milk prices have risen substantially over the last three years and remained relatively stable at a high level in 2005 (reaching a 15-year high in September 2005). Prices were about 10 –12% higher than in 2004 on average, largely as a result of stronger demand in South East Asia and North Africa, but also because of limited supplies in Oceania and reduced export support by the European Union. Enhanced by high prices, world milk production is estimated to grow by 2.4%, thanks mainly to production expansion in Asia and the

United States. Substantial price increases were particularly marked for cheese, butter, skimmed milk powder and whole milk powder as dairy markets are very sensitive to supply changes.

14. 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 increase was particularly marked for tobacco (+41%), cereals (+32%), sugar and sugar confectionery (+31%), but also significant for fruit and nuts (+14%), products of animal origin (+14%) and miscellaneous edible preparations (+13%). Exports only fell for some vegetable products (–29%), products of the milling industry (–18%) and cocoa and cocoa products (–5%). The notable increase in cereal exports was mainly due to excellent weather conditions in summer 2004 and subsequent record harvests in most EU countries, which increased availability. In 2005, EU-25 pigmeat exports are expected to decline as a consequence of the reduction in pigmeat production and lower availability in the new Member States. Poultry meat exports are also projected to decrease slightly in 2005. The overall value of imports remained relatively stable in the first nine months of 2005 as compared to the same period of 2004. As regards cereals, increased exports and markedly lower imports helped to reduce significantly the negative cereal trade balance in 2005. The European Union remained a net importer of agricultural products but its agricultural trade balance improved significantly due to much higher exports. The overall trade deficit in agricultural products in the first nine months of 2005 declined to EUR 500 million, as against EUR 3 456 million in 2004.

15. Intervention stocks in dairy sectors fell in 2005, a sign of improved market conditions. In contrast, cereals stocks are expected to decrease only slightly (–1.4 million tonnes), despite increased domestic demand, and to stay at a relatively high level (14.1 million tonnes). This situation resulted from an exceptional harvest in 2004 and low international market prices, which generated a sharp increase in cereal intervention stocks. The public stocks of soft wheat, rye and barley would decline to 7.5, 1.1 and 1.0 million tonnes respectively. On the other hand, maize stocks would increase from 2.8 to 4.5 million tonnes. Rice stocks declined slightly due to reduced imports from third countries to the new Member States and were estimated at 580 000 tonnes at the end of 2005. Compared to the previous year, total wine stocks are estimated to increase by 21 million hectolitres, and to reach very high levels for both table and quality wine. One reason for these high stocks was that a large part of the wine to be distilled under crisis distillation (8 million hectolitres) was not delivered to distillers until the opening of the current campaign and thus was still included in the stocks. Stocks increased mostly in France (6.3 million hectolitres) and Italy (4 million hectolitres). Stocks of wine alcohol in intervention are expected to remain at around 2.5 million hectolitres of pure alcohol at the end of 2005. In 2005, intervention buying-in, hardly ever used for sugar since the introduction of the CMO in 1968, has become an important instrument for regulating the market. Quantities accepted into intervention exceeded 1.2 million tonnes and, as the tenders opened for the resale of the intervention stock attracted rather limited interest, only 142 000 tonnes were sold. 10 of the 21 sugar-producing Member States accepted sugar offered into intervention, nearly half of the total originating from Italy. Intervention stocks of beef had been fully disposed of since the beginning 2004. Intervention (public) stocks of dairy products in EU-25 fell to their lowest levels since the autumn of 2002. Skimmed milk powder stocks dropped significantly over the year, from 65 000 to 5 000 tonnes, while butter stocks fell by 36 000 tonnes to 125 000 tonnes at the end of 2005.

1.2. Production

16. According to the latest information, the EU-25 cereal area is estimated to have declined by 1.6% to about 51.2 million ha in 2005. The main reasons for this decrease are the return to 10% mandatory set-aside, less favourable climatic conditions in some EU regions and the first implementation of the single farm payment. Looking at individual cereals, the area of some cereals fell particularly for sorghum (–38%), durum wheat (–16%), maize (–4.3%) and rye (–0.8%). On the other hand, the areas of barley (+7.9%), soft wheat (+4.3%) and oats (+19.4%) increased in 2005. The increase in cereal area (+1.9% or 0.3 million ha) observed in the new Member States did not compensate for the decline in cereal area in the EU-15 (–3.1% or 1.1 million ha).

17. Total cereal production is estimated to stand at 254.9 million tonnes for the 2005/06 marketing campaign, a decrease of 11% (about 32 million tonnes) compared to 2004/05. Cereal production stood at nearly 196 million tonnes in the old Member States (–12% in comparison to 2004/05) and 59 million tonnes in the new Member States (–4%). This is mainly due to the favourable, although not excellent, climatic conditions in Europe over the whole harvest season, and, to a lesser extent, to the increase in the mandatory set-aside rate. The decrease in cereal production ranges from 6% for oats to 38% for durum wheat. Significant decreases are also anticipated for rye (–18%), barley (–15%), triticale (–12%), maize (–11%) and soft wheat (–8.9%).

18. All cereals had lower yields than in 2004. Average cereal yield was about 4.98 t/ha, 10% lower than in 2004. The highest yield declines are estimated for durum wheat (–27%), barley (–16%), rye (–15%) and oats (–12%).

19. France remained the leading cereal producer in the EU, totalling 64 million tonnes (–8%), followed by Germany with 46 million tonnes (–8%) and Poland with 26 million tonnes (–3%). After a record harvest in Hungary in 2004 cereal production decreased only slightly to 15.8 million tonnes in 2005.

20. Rice production was lower in 2005 as compared with the excellent previous year, mainly due to a reduction in the areas sown (–9%), which was noticeable for indica-type rice. The first production estimate for 2005 is about 6% lower at around 1.56 million tonnes (milled equivalent).

21. The total EU-25 oilseed area increased in 2005 (+4% compared to 2004), with rapeseed up by 4.4% to 4.7 million ha, and soybean up by 4.4% to 281 000 ha. In contrast, sunflower seed was down by 7.5% to 2.0 million ha. Rapeseed areas increased due to favourable price prospects during sowing and the prospect of greater use of rapeseed for biodiesel production. The total oilseed area is estimated to be 7.2 million ha, including 870 000 ha of non-food crops (the mandatory set-aside rate was adjusted to 10%). With normal weather conditions, yields were lower than the excellent yields recorded in 2004, by –4.5% for rapeseed, –6% for sunflower seed and –3% for soybean, giving a total production level of 19.6 million tonnes (2.5% lower than in 2004/05). The 2005/06 crop would be made up of 15.2 million tonnes of rape seeds, 3.6 million tonnes of sunflower seeds and 786 000 tonnes of soybeans. Rapeseed made up over 90% of the 2.8 million tonnes of non-food oilseed production.

22. The EU-25 linseed area had settled at a very low level in recent years (114 000 hectares) and 2005 production is expected to have reached 142 000 tonnes.

23. The protein crop area increased slightly to 1.4 million hectares in 2005. A limited decrease in peas yield (2.8 t/ha) combined with yield stability for beans and sweet lupines (2.8 t/ha) led to slightly lower total protein crop production of 3.9 million tonnes than the previous year.

24. EU-25 sugar production is estimated to have reached 19.6 million tonnes (19.3 million tonnes from beet, and 0.3 million tonnes from cane or molasses) in 2005, somewhat below the 19.9 million tonnes of 2004. As in 2004, weather conditions were excellent in most beet-growing regions of the enlarged EU in 2005, which had a positive effect on the sugar content of the beet. The area sown increased slightly to 2.17 million ha (+0.7%). The beet area decreased somewhat in Poland and the Netherlands and remained almost unchanged in most Member States, with the exception of Italy (+35%) and Greece (+29%), which exhibited a strong increase in the area sown as compared to 2004. Sugar production reached 4.1 million tonnes in Germany, close to the outstanding harvest of last year (4.3 million tonnes). Due to a significant increase in beet area, both Italy and Greece managed to meet their sugar quotas, producing 1.6 and 0.3 million tonnes respectively.

25. Olive oil production in 2005 (marketing year 2004/2005) is estimated to have reached 2.3 million tonnes (980 000 tonnes in Spain, 879 000 tonnes in Italy, 435 000 tonnes in Greece, 41 000 tonnes in Portugal and 3 000 tonnes in France). This constitutes a 4% decline as compared to the record harvest of 2004. The high increases in olive oil production recorded in Italy (+28%), Greece (+42%) and Portugal have not compensated for the sharp decline in Spain (–30%).

26. Initial estimates show very different developments in fruit production across the sector. An increase in production was forecast for citrus (+4%), peaches and nectarines. The production of pears was expected to have remained stable, whereas the production of apples is due to fall by 3%. As regards vegetables, only few data were available. Lower production figures were estimated for fresh tomatoes, especially because of the frost in Spain in winter 2005. The production of tomatoes for industrial processing decreased by almost 10% and reached 10.1 million tonnes in 2005 as compared to the record production level in 2004.

27. EU wine production declined by about 12% compared to the previous year to around 173 million hectolitres in 2005; this is about 3% lower than the average production level over the last 5 campaigns. Significant decreases in production occurred in Hungary (–35%), Spain (–20%), Portugal (–11%) and Italy (–10%).

28. EU-25 beef and veal production is estimated to have decreased in 2005 to 7.9 million tonnes, down 1%. Further de-stocking of the breeding herd linked to the CAP reform and the limited impact of the end of the Over Thirty Months Scheme (OTMS) in the UK was not expected to have reversed the downward trend in production in 2005.

29. According to the last estimates, pig meat production was expected to have decreased slightly (–0.5%) to 21.1 million tonnes in 2005. While production was expected to have remained stable (+ 0.1%) at 18.0 million tonnes in EU-15 Member States, it declined in the new Member States (the production level falling by a further 3.6% to 3.1 million tonnes in 2005).

30. Poultry meat production in EU-25 increased slightly (+0.8%) in 2005, as a result of more or less stable production in the EU-15 at around 9.1 million tonnes and growing production levels in the new Member States. National experts in EU-N10 forecast production to have increased by 3.4% to 2 million tonnes, driven mainly by the high growth in Poland linked to strong domestic and export demand.

31. For EU-25, the overall decrease in sheep and goat meat net production was expected to have reached 1.6% in 2005, mainly due to a significant drop in EU-15 imports and a considerable rise in EU-N10 exports of live animals.

32. The downward trend in dairy cow numbers in EU-25 is expected to have continued and to reach 22.9 million heads at the end of the year, a 2.1% fall compared to the end of 2004. The average milk yield, on the other hand, is expected to have increased to 6 128 kg, up 2.3%. This gives a relative stable milk production figure of 142.9 million tonnes, slightly down by 0.6% compared to 2004. Deliveries to dairies in EU-25 are estimated to have increased by almost 1% and to reach 131.2 million tonnes in 2005. While deliveries were projected to have remained at a similar level in EU-15 (+0.3%) they were expected to have increased significantly in the new Member States (+4%) compared to 2004.

33. Butter production is estimated to have increased by 0.6% to slightly below 2.2 million tonnes in 2005. Cheese production continued to increase: this year's overall increase of 0.25% resulted in cheese production of 8.3 million tonnes. For milk powder an increase of about 1–2% to 1.9 million tonnes in 2005 was expected, mainly due to a rebound in skimmed milk powder production of 2.5% after a drastic decline of 19% in the previous year.

1.3. Prices

Producer prices

34. The first estimates available in December 2005 showed different developments in nominal terms in the agricultural producer price index for EU Member States. Producer prices are expected to have increased most in Latvia (+17.5%) and Lithuania (+14.8%), but also in Spain (+5.4%), Germany (+5.3%), Portugal (+4.5%), Greece (+3.9%), Estonia (+3.4%), Belgium (+2.8%), Cyprus (+2.3%), Luxembourg (+1.2%) and Austria (+1.1%), to have remained relatively stable in the Netherlands (+0.8%), Slovakia (+0.6%), Ireland (+0.3%) and Hungary (–0.3%), but to have declined in Slovenia (–11.1%), the Czech Republic (–9.3%), France (–4.7%), Italy (–4.2%), the United Kingdom (–4.0%), Finland (–3.6%), Sweden (–1.8%), Denmark (–1.5%) and Malta (–1%).

35. Prices of cereals continued to fall, following the trend already started in 2004 for most EU Member States. High price drops were expected in the Czech Republic (–32%), Italy (–24%), Cyprus (–16.6%), Lithuania (–15.9%), France (–15.7%), the United Kingdom (–15.6%), Denmark (–14.1%), Estonia (–12.6%), the Netherlands (–11.1%), Latvia (–10.6%), Luxembourg (–10.2%), Slovakia (–9.9%) and Belgium (–9.4%), as, too, in Slovenia (–6%), Finland (–5.4%), Hungary (–4.7%), Greece (–4.6%), Austria (–4.4%), Ireland (–4.3%), Sweden (–2.9%) and Spain (–0.4%). After a recovery in some EU Member States in 2004, sugar beet prices developed positively in the Czech Republic (+39.9%), Lithuania (+27.1%), Latvia (+14.7%), Sweden (+3.2%) and Italy (+1.1%). In contrast, sugar beet prices were estimated to

have decreased or remained stable in other Member States. Wine prices decreased in nominal terms in most wine producing countries, except Hungary, where prices increased, and Germany, where they remained stable. In view of these varying developments the overall price index for crop products declined in most EU Member States, except for Lithuania, Denmark, Portugal, France, Belgium, Greece, Spain, Cyprus and Malta, where nominal prices went up.

36. The overall price index for animal products rose in most EU Member States but this masked wide-ranging changes by sector and by Member State. Pig meat prices developed positively in most EU Member States, except for Cyprus (–4.2%), Ireland (–1.9%), Italy (–0.9%), Lithuania (–0.2%) and Belgium (–0.2%), where nominal prices were down. Beef and veal prices increased in most EU countries but declined slightly in Cyprus (–2.5%), the United Kingdom (–0.9%), the Netherlands (–0.3%) and Portugal (–0.1%). Poultry meat prices showed no uniform trend: they declined in most Member States, most notably in Slovenia (–42.9%), but increased again in Belgium, Estonia, the Netherlands, Spain and Cyprus. Sheep and goat meat prices developed somewhat differently across EU Member States: they were up in Greece, Spain, France, Germany, Italy, Cyprus, Luxembourg, Hungary, Austria, Slovakia, Finland and Sweden, but decreased in other Member States. Milk price changes in nominal terms over 2004 varied significantly between countries: while the price of milk declined in some EU Member States, it increased significantly in Latvia (+27.9%) and Lithuania (+18.8%), and was also up in Greece (+4.4%), Belgium (+4.2%), Estonia (+3.6%), Hungary (+1.1%), Spain (+0.8%), Cyprus (+0.6%), the Netherlands (+0.4%) and Portugal (+0.2%). Egg prices dropped significantly in some Member States such as the United Kingdom (–25.8%), Spain (–22.5%), the Czech Republic (–21.9%), Finland (–18.3%), Slovenia (–12.6%), Italy (–10.1%) and Denmark (–9.4%), as, too, in Germany, Ireland, Latvia, Hungary, Luxembourg, Austria, Slovakia and Sweden, while in other Member States the price change was positive.

Market prices

37. In general, cereal prices have remained at a relatively low level since the record crop production in 2004 resulted in large falls in all cereal prices. During the first months of 2005 the price for bread-making common wheat was around EUR 115-116 per tonne, for maize EUR 112-118 per tonne, for feed wheat EUR 100-102 and for malting barley EUR 122-127 as a result of last year’s excellent crop harvest. Prices then increased somewhat in July-September for durum wheat, feed maize and malting barley but went down again and stayed relatively stable until the end of the year for these crops. The price for quality durum wheat declined slightly during 2005 and stayed at EUR 151-152 at the end of the year.

38. Paddy rice prices were steadily high in 2005, largely above the intervention price. Indica-type rice prices ranged between 10% and 30% above the intervention price, while japonica-type rice prices were even higher, ranging between 15% and 40% above the intervention price.

39. In view of the relatively large intervention stocks and low interest observed for the resale of Community sugar, market prices were around the white sugar intervention price of EUR 631.9 per tonne in most Member States.

40. In 2005 olive oil prices increased strongly (+15%) compared to 2004, with the highest increases registered in Spain and Italy.

41. In general, wine prices were slightly down in 2005 but this masks varying movements by wine category, region and country. The prices for table wine decreased in France (–25%) and Italy (–28%) while they stayed relatively stable in Spain.

42. In general, bovine meat prices were at a relatively high level in 2005. For young bulls (category A R3) prices were quite stable until week 42, varying from EUR 283 to EUR 301 per 100 kg and were about 8% higher than in 2004. But then they dropped sharply to EUR 240. The price of cows (category D O3) was about 6% higher than in 2004 and stayed quite stable until the end of September before starting to decline following the seasonal pattern. Steer prices (category C R3) were slightly higher (on average about +2%) compared to 2004 during the first 25 weeks of 2005 but then decreased continuously before recovering again as from week 43.

43. Pig meat continued to develop at a relatively favourable level until week 37. During the first six months of 2005, poultry meat prices improved progressively from EUR 148 per 100 kg up to EUR 160 per 100 kg until week 37 when it dropped to EUR 130 per 100 kg.

44. Due to a lack of availability sheep meat prices stayed at a high and relatively stable level in 2005 for the fifth year in a row. For heavy lamb, prices fluctuated very closely to the levels of 2004, between EUR 375 and EUR 433 per 100 kg following the seasonal pattern. For light lamb, prices were in general lower than in 2004, varying between EUR 505 and EUR 640 per 100 kg.

45. The prices for milk products, which were relatively strong in 2004, remained firm in 2005. As in the previous year, the introduction of the second step of the support price cuts agreed within the 2003 CAP reform had no immediate effect on prices. Towards the end of 2005 domestic prices for butter and skimmed milk powder decreased slowly towards the new buying-in price but still remained at about 5% above that level. A similar trend was observed for whole milk powder prices. In contrast, cheese prices reached very high levels throughout the year. This favourable price environment made for substantial sales out of intervention, in particular for skimmed milk powder. Consequently, aid levels were reduced for most refunds and internal disposal measures, particularly for skimmed milk powder (–80%) and casein (–90%).

1.4. Input prices

46. In 2005, the purchase price index for standard consumption goods and services in agriculture rose in most EU Member States in nominal terms over 2004. Prices were higher for energy and fertilisers in particular. Total input prices increased most in Latvia (up 14.8%), Cyprus (up 11.6%), Lithuania (up 7.2%), Malta (up 7%), Greece (up 6.0%) and Belgium (up 5.4%). In other countries the index rose more slowly: by 4.6% in Ireland, 3.1% in Slovakia, 2.9% in Finland, 2.6% in the United Kingdom, 2.4% in France and Slovenia, 2.3% in Luxembourg, 2.1% in Spain, 1.9% in the Netherlands, 1.6% in Denmark, 1.2% in Sweden, 1.1% in Austria, 0.4% in Germany, 0.2% in the Czech Republic and 0.1% in Italy. Only Portugal and Hungary registered a fall in nominal input prices of 4.8% and 3.2% respectively.

1.5. Farm income

47. The first estimates of farm income in 2005, provided by Eurostat on the basis of information sent by the Member States in December 2005, show an average decrease of –6.3% in income from agricultural activities (measured, in real terms, as the net value added at factor cost per annual work unit) compared to 2004 for the European Union as a whole. This sharp decline was caused by a marked drop in both the old Member States (–6.6%) and the new Member States (–3.8%). Incomes were up in only nine Member States, the strongest rates observed in some of the new Member States. Agricultural income gained most in Lithuania (+25.9%), Estonia (+23.0%), and also Ireland (+12.8%), the Netherlands (+5.9%) and Latvia (+5.7%). Income was down in fourteen Member States. The largest fall in agricultural income is estimated in Hungary (–19.3%), Slovakia (–14.9%), Spain (–12.0%), Portugal (–11.0%), France (–10.1%) and Italy (–9.5%).

48. The main factors behind these changes are: a sharp decrease in agricultural output quantities as compared to 2004, notably for cereals, (citrus) fruit, wine, potatoes and olive oil, which triggered an overall drop in the total volume of crop production of –5.3%, whereas crop prices fell by –2.9% in real terms. The nominal value of animal production stabilised thanks to strong nominal prices. The continuation of the introduction of the CAP in the new Member States led to a further rise in the levels of subsidies granted to the farm sector to EUR 4.0 billion (including national top-ups), from EUR 1.2 billion in 2003 and EUR 3.8 billion in 2004. The strong rise in oil prices drove up the prices for energy, lubricants, fertilisers and services for agriculture. However, the total input costs decreased on average in real terms (–1.6%), mainly due to a significant fall in feed prices and renewed reduction in the quantity used.

49. Lastly, the structural decline in the agricultural labour force, the final fundamental factor affecting income movement, is assessed at –2.3% in 2005 compared to 2004 for the whole EU. This moderate reduction constitutes a marked slowdown compared to the early 2000s. The highest reduction in agricultural labour was recorded in the Czech Republic (–8.5%), Lithuania (–5%) and Portugal (–4.4%). Agricultural labour increased only in Luxembourg (+0.7%).

Changes in nominal farm-gate prices in 2005 and 2004 *(%)*

Member States	Crop products		Livestock products		Total	
	2005/2004 (p)	2004/2003	2005/2004 (p)	2004/2003	2005/2004 (p)	2004/2003
EU-25		–6.3	:	1.3	:	–2.6
Belgique/België	3.2	–4.1	1.4	0.7	2.8	2.0
Česká Republika	–25.0	9.2	2.1	5.0	–9.3	6.5
Danmark	13.0	0.0	0.3	3.3	–1.5	2.4
Deutschland	2.9	–7.9	6.9	2.7	5.3	–1.5
Eesti	–3.8	:	4.9	:	3.4	:
Elláda	3.3	–4.2	5.3	2.2	3.9	–2.4
España	7.2	–0.3	2.8	2.7	5.4	1.0
France	–10.7	–3.2	0.8	–0.1	–4.7	–1.7
Ireland	7.2	–11.6	–0.9	4.5	0.3	2.2
Italia	–5.3	–2.9	–2.4	–1.2	–4.2	–2.3
Kypros/Kıbrıs	2.5	:	2.3	:	2.3	:
Latvija	–1.3	25.1	23.4	25.9	17.5	24.3
Lietuva	15.8	–8.0	13.7	11.1	14.8	1.0
Luxembourg	–4.7	1.2	2.5	3.8	1.2	3.4
Magyarország	–0.3	–15.7	0.5	4.1	–0.4	–6.0
Malta	0.3	–19.7	–2.0	0.9	–1.0	–7.3
Nederland	0.0	–10.0	1.7	0.0	0.8	–5.1
Österreich	–1.6	–8.2	2.6	3.1	1.1	–0.6
Polska	:	2.0	:	21.2	:	15.7
Portugal	9.0	–12.4	–0.9	–2.1	4.5	–7.7
Slovenija	–14.8	–12.1	–9.4	3.4	–11.1	–1.3
Slovensko	–7.7	:	3.8	:	0.6	:
Suomi/Finland	–7.8	3.2	–1.4	2.1	–3.6	2.5
Sverige	–5.8	2.1	0.5	–3.4	–1.8	–1.4
United Kingdom	–6.4	4.5	–2.3	2.6	–4.0	3.4

(p) provisional – Source: Eurostat

Changes in nominal purchase prices for agricultural inputs in 2005 and 2004 *(%)*

Member States	Intermediate consumption		Investment		Total	
	2005/2004 (p)	2004/2003	2005/2004 (p)	2004/2003	2005/2004 (p)	2004/2003
EU-25		4.5		2.8		3.7
Belgique/België	9.1	–0.1	9.2	–0.1	5.4	0.3
Česká Republika	–0.3	7.5	3.4	2.1	0.2	6.6
Danmark	0.9	3.0	1.2	3.9	1.6	3.1
Deutschland	–0.1	4.4	1.6	1.8	0.4	3.6
Eesti	5.8					
Elláda	6.7	9.7	4.3	3.1	6.0	7.5
España	1.6	4.2	5.2	2.9	2.1	3.9
France	2.1	3.7	3.2	3.7	2.4	3.6
Ireland	5.1	4.3	3.0	1.6	4.6	3.5
Italia	–2.5	5.2	4.0	4.7	0.1	4.8
Kypros/Kıbrıs	12.4		3.9		11.6	
Latvija	12.0	8.7	24.6	6.9	14.8	8.1
Lietuva	7.2	–3.1			7.2	–3.2
Luxembourg	3.0	0.0	0.5	0.9	2.3	0.3
Magyarország	–4.6	12.4	5.4	5.9	–3.2	9.8
Malta	7.1	1.3	–2.9	1.1	7.0	1.3
Nederland	0.3	2.1	2.9	1.9	1.9	1.6
Österreich	–0.3	4.0	3.3	2.5	1.1	3.3
Polska		8.0		15.5		7.6
Portugal	–5.9	5.4	1.4	2.4	–4.8	4.6
Slovenija	1.3	10.3	4.8	9.8	2.4	8.9
Slovensko	2.7		4.0		3.1	
Suomi/Finland	3.4	2.6	4.9	3.4	2.9	2.8
Sverige	0.8	4.2	2.4	3.6	1.2	3.8
United Kingdom	2.3	7.6	4.4	2.9	2.6	6.6

(p) provisional – Source: Eurostat

Nominal output price indices for agricultural products over the 2001–2005 (p) period (2000 = 100)

Member States	2001	2002	2003	2004	2005 (p)
EU-25	105.2	102.0	105.4	102.8	
Belgique/België	104.5	94.7	97.7	99.7	102.5
Česká Republika	110.9	100.1	96.4	102.9	93.6
Danmark	107.4	96.9	92.5	94.9	93.4
Deutschland	107.3	100.4	101.4	99.9	105.2
Eesti				127.4	130.8
Elláda	106.1	113.6	123.6	121.2	125.1
España	103.0	100.3	105.8	106.8	112.2
France	103.5	99.9	103.6	101.9	97.2
Ireland	104.3	100.0	99.6	101.8	102.1
Italia	105.0	106.4	112.0	109.7	105.5
Kypros/Kıbrıs				121.0	123.3
Latvija	102.7	99.9	97.1	121.4	138.9
Lietuva	114.7	114.2	101.9	102.9	117.7
Luxembourg	101.8	99.5	100.5	103.9	105.1
Magyarország	106.0	104.1	110.5	104.5	104.1
Malta	109.4	110.3	106.1	98.8	97.8
Nederland	106.1	103.7	104.9	99.8	100.6
Österreich	106.7	101.7	102.1	101.5	102.6
Polska	104.2	94.6	95.9	111.6	
Portugal	106.5	101.8	105.2	97.5	102.0
Slovenija	109.0	109.9	113.5	112.2	101.1
Slovensko				103.8	104.4
Suomi/Finland	105.2	103.7	99.0	101.5	97.9
Sverige	105.1	102.1	100.6	99.2	97.4
United Kingdom	108.3	103.3	109.9	113.3	109.3

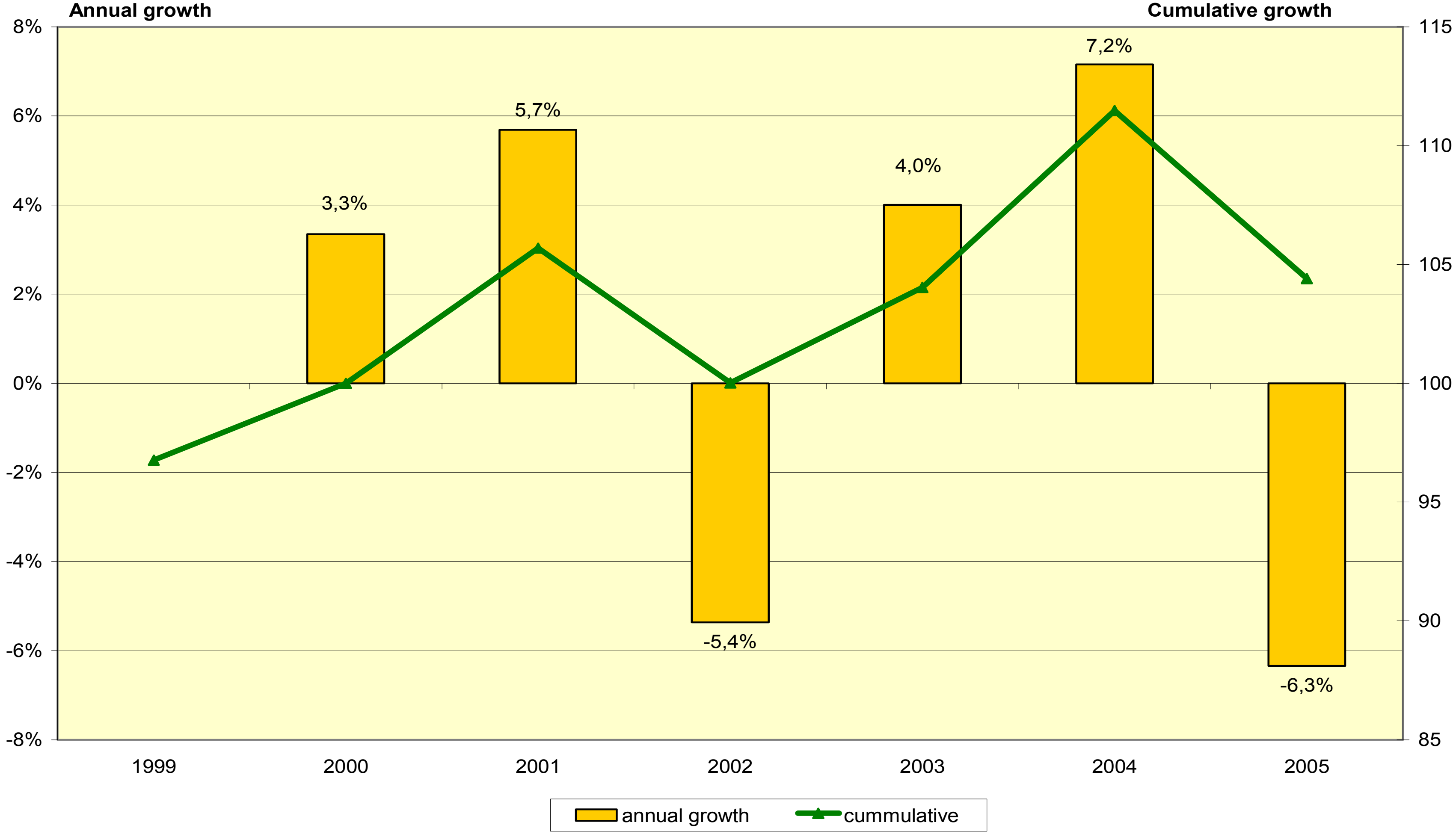
(p) provisional – Source: Eurostat

Indices of nominal purchase prices for goods and services currently consumed in agriculture over the 2001–2005 (p) period (2000 = 100)

Member States	2001	2002	2003	2004	2005 (p)
EU-25	105.0	104.9	106.4	110.9	
Belgique/België	102.6	102.8	102.7	102.6	111.7
Česká Republika	105.1	103.4	101.3	108.8	108.5
Danmark	106.6	107.7	105.5	108.5	109.4
Deutschland	105.2	104.1	104.2	108.6	108.5
Eesti				114.8	120.6
Elláda	101.5	103.7	108.1	117.8	124.5
España	102.3	102.9	104.1	108.3	109.9
France	103.4	103.2	104.2	107.9	110.0
Ireland	104.8	106.1	108.8	113.1	118.2
Italia	105.3	105.5	107.4	112.6	110.1
Kypros/Kıbrıs				144.7	157.1
Latvija	101.3	102.0	106.5	115.2	127.2
Lietuva	96.4	100.4	96.0	92.9	100.1
Luxembourg	104.0	104.5	105.6	105.6	108.6
Magyarország	112.1	112.3	119.1	131.5	126.9
Malta	100.7	101.8	101.5	102.8	109.9
Nederland	107.3	107.2	109.0	111.1	111.4
Österreich	102.0	100.5	102.8	106.8	106.5
Polska	106.7	109.5	113.0	121.0	
Portugal	108.3	103.3	107.6	113.0	107.1
Slovenija	114.2	116.1	121.5	131.8	133.1
Slovensko				114.7	117.4
Suomi/Finland	101.8	101.5	102.5	105.1	108.5
Sverige	105.6	107.2	109.3	113.5	114.3
United Kingdom	104.3	103.7	106.5	114.1	116.4

(p) provisional – Source: Eurostat

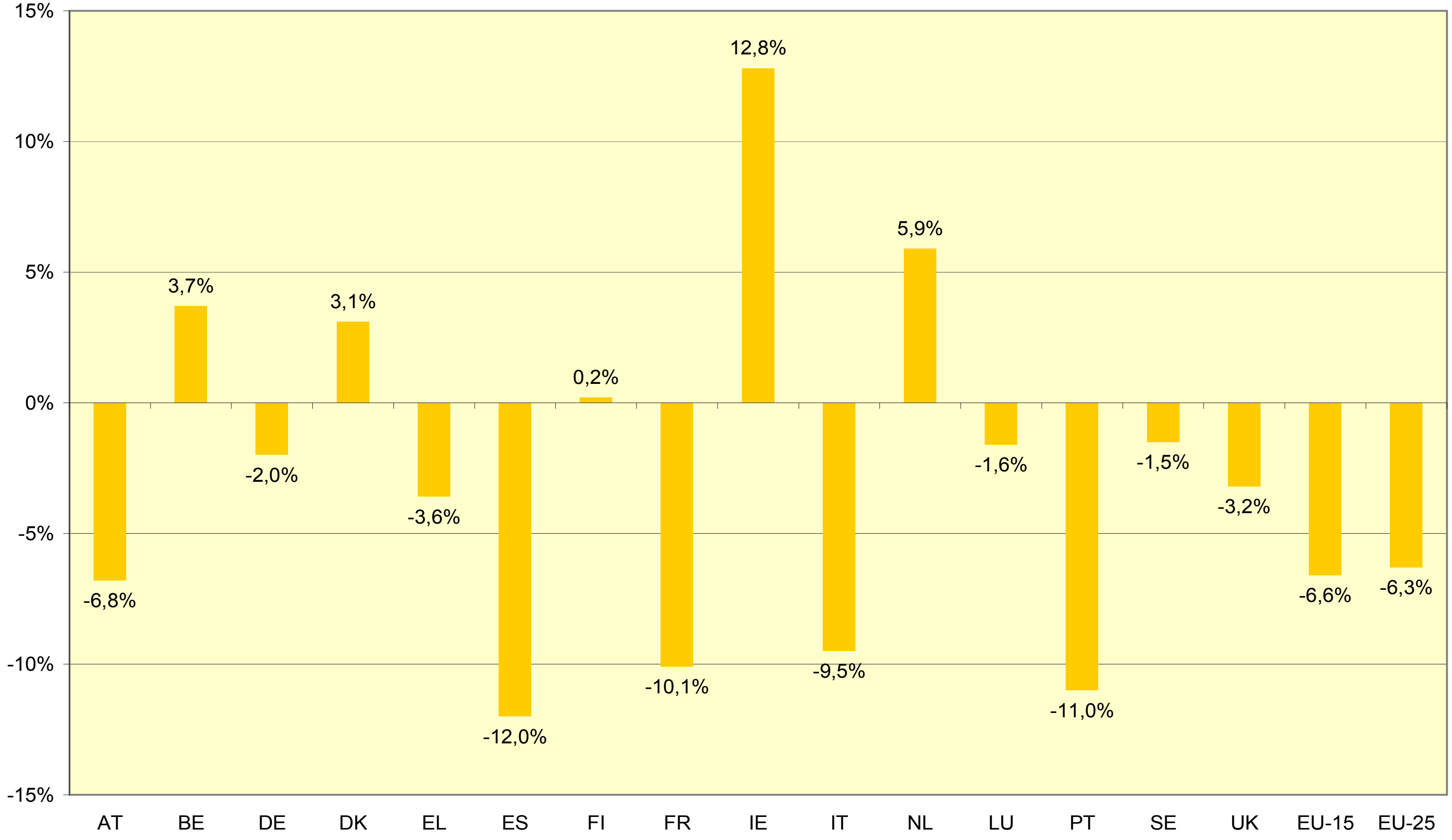
Development of agricultural income in the EU-25 over the 1999–2005(p) period, in terms of annual change (%) and cumulative growth



(2000=100) **(p**

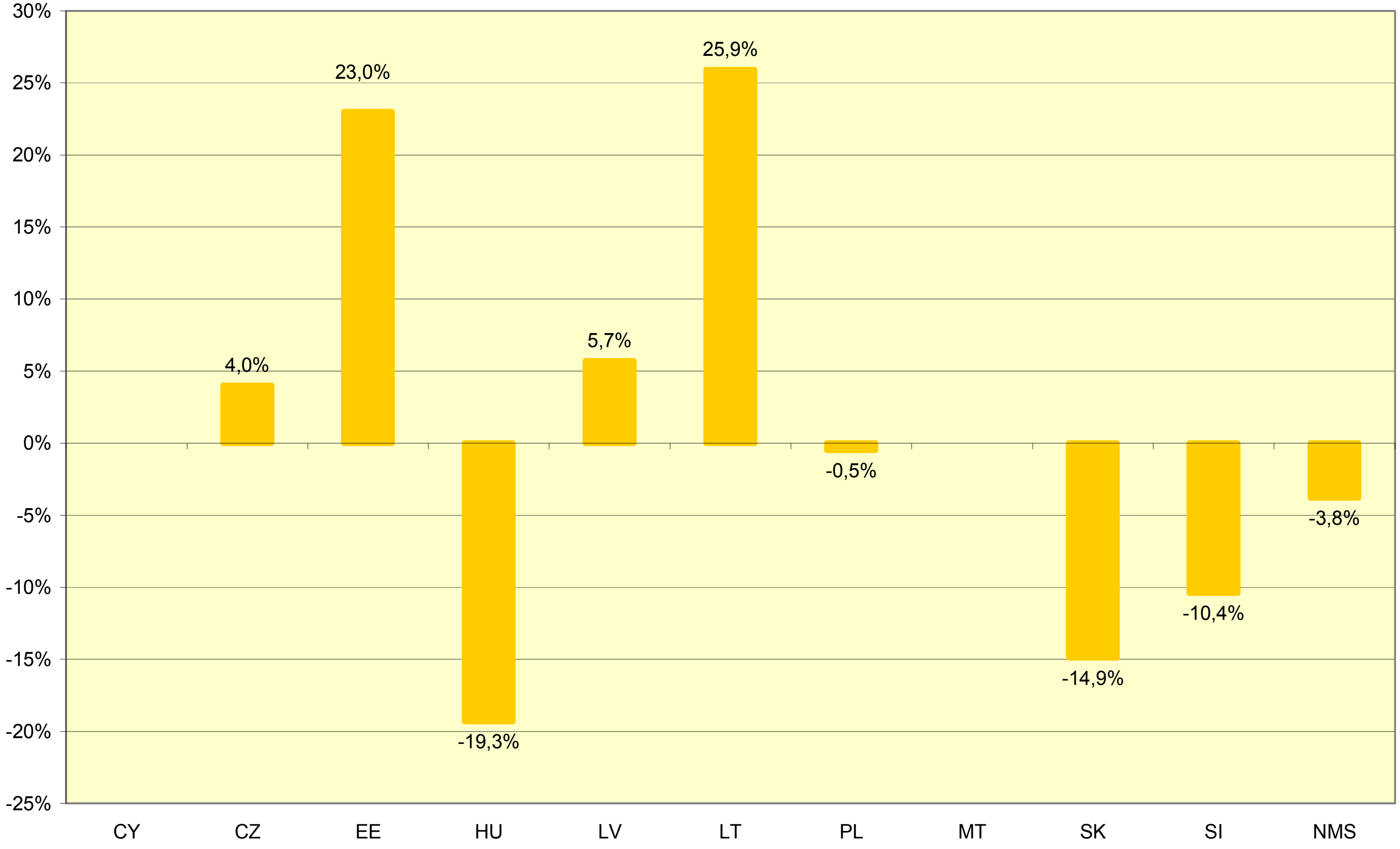
) provisional – Source: Eurostat

Development of agricultural income in the EU-15 Member States in 2005(p) (% change versus 2004)



(p) provisional – Source: Eurostat

Development of agricultural income in the new Member States in 2005 (p) (% change versus 2004)



(p) provisional – Source: Eurostat

Development of agricultural income in the EU Member States over the 2000–2005(p) period (average 1999–2001 = 100)

Member States	2000	2001	2002	2003	2004	2005 (p)
EU-25	99.2	104.8	99.2	103.2	110.6	103.8
Belgique/België	103.4	105.8	95.6	93.1	91.3	94.7
Česká Republika	121.1	123.2	68.3	66.4	106.3	110.5
Danmark	101.5	114.2	82.8	79.1	95.6	98.6
Deutschland	98.2	123.2	91.0	85.4	123.2	120.8
Eesti	104.1	126.2	126.0	179.8	279.3	343.6
Elláda	99.4	100.9	96.9	85.9	81.7	78.8
España	99.2	107.1	103.8	117.4	117.5	103.4
France	99.2	99.4	97.7	97.1	95.5	85.9
Ireland	105.3	103.7	98.3	98.1	97.5	110.0
Italia	98.7	99.1	94.9	95.8	95.0	85.9
Kypros/Kıbrıs						
Latvija	97.6	116.3	120.3	121.1	216.0	228.4
Lietuva	100.1	92.9	82.0	96.6	163.4	205.6
Luxembourg	98.7	97.7	100.4	95.0	90.4	89.0
Magyarország	93.8	100.2	85.2	86.0	133.2	107.5
Malta						
Nederland	101.1	98.9	85.0	90.7	82.1	86.6
Österreich	96.8	111.8	105.8	105.5	103.1	96.2
Polska	95.8	110.1	100.5	99.2	193.5	192.5
Portugal	89.1	106.9	100.4	106.0	107.8	95.9
Slovenija	107.5	92.9	126.1	96.2	144.8	129.7
Slovensko	94.5	108.3	102.3	88.3	126.1	107.3
Suomi/Finland	106.7	105.5	104.4	103.1	100.8	101.0
Sverige	99.9	108.1	108.2	109.0	106.0	104.3
United Kingdom	96.9	102.9	112.6	134.2	130.1	125.9

1.6. Farm accountancy data network (FADN)

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

51. It is important to take into account when studying these tables that FADN uses a threshold and collects information only for commercial farms. This means that they exceed a minimum economic size, measured in European Size Units (ESU), which

differs from country to country ranging from 1 ESU to16 ESU for the years 2003 and 2004.

52. Table 1 shows the wide range of economic results among Member States for each type of farming, as measured by the Farm Net Value Added (FNVA).

53. The large differences in average income among Member States are inherent in the structure of their agriculture. Accounting year 2004 is also the first year for which data from the NMS were collected through FADN. The Member States with the highest average incomes are in general those with a large number of large-sized farms specialising. The Member States, with a large number of small farms have average incomes usually below the EU average.

54. Table 2 shows the contribution of the balance of subsidies and taxes to FNVA. In 2003, the proportion of subsidies net of taxes to FNVA for EU-25 was slightly above 36%. However, the differences among Member States and among types of farming were very significant.

55. In 2003, Finland had an average FNVA lower than the balance of subsidies and taxes. This means that revenues from the market were not enough to cover production costs. On the other hand, the share of subsidies in FNVA was the lowest in the Netherlands, Italy, Belgium and Spain.

56. Regarding types of farming the differences are also considerable. Net subsidies in the Drystock, Arable and Mixed types of farm were the highest as a proportion to FNVA. The Horticulture and Vineyards types of farm were by far the least subsidised.

57. In 2004, Finland, Sweden and Slovenia had an average FNVA lower than the balance of subsidies and taxes. The Netherlands is the country with the lowest share of subsidies in FNVA, followed by Italy, Spain and Belgium.

58. FADN data can also be used to analyse the degree of concentration in the agricultural sector. This is reflected in tables 3 and 4 with data for 2004. In order to avoid the problems caused by the presence of some negative values for FNVA, the variable used is total receipts from farming, i.e. receipts from the market and from subsidies.

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

60. For the EU and for all types of farming the 20% with the highest receipts account for 72% of the total. Per country, however, the degree of concentration is lower. Luxembourg, Austria, Belgium, France and Finland are the countries with the lowest degree of concentration with 41, 41, 47, 47 and 48 percent respectively. Furthermore, for the above countries the average receipt per farm is usually higher. In the contrary Czech Republic, Hungary, Cyprus and Estonia have the highest degree of concentration with 88, 83, 78 and 78 percent respectively.

61. Per type of farming at the EU level the concentration is the highest for mixed livestock – mainly granivores, various crops and livestock combined and various permanent crops combined. The lowest concentration can be found in specialist cattle-rearing and fattening, sheep-goats and other grazing livestock and specialist dairying.

62. The types of farming in which the concentration is the highest vary substantially from country to country. However, the type of farming specialist cattle-rearing and fattening is one of the least concentrated in practically all the countries with an exception for Latvia, and Italy.

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

64. At the EU level for all the types of farming this share is 92%, while at the country level it ranges between 73% in Luxembourg and Austria and 96% in Czech Republic. Per type of farming field crops-grazing livestock combined and various crops and livestock combined are the most concentrated, followed closely by specialist horticulture and specialist granivores. On the other hand the lowest concentration can be found in specialist olives and sheep-goats and other grazing livestock.

Table 1 – FARM NET VALUE ADDED (in EUR)

	All farms		Arable		Horticulture		Vineyards		Other permanent crops		Dairy		Drystock		Pigs / poultry		Mixed	
	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004
B*	72559	68901	83472	64040	111065	87460			127801	122361	55467	55623	63831	59407	40409	85128	71646	68255
CYP		6793		8265				4539		950				15697		68393		17937
CZ		94434		92695		34651		20789		14996		65621		54934		86815		152999
DK	59929	64476	37481	36219	277468	268220			83190	73447	92316	91650			102296	141436	55016	70382
D*	51873	60481	60679	69479	98310	94488	51712	54450	82054	65955	41497	47324	34750	35215	38789	71334	51487	70935
EL	12368	12171	11223	11060	28651	28718	14439	13341	10367	9548	24947		17729	19255			15991	15942
E*	27207	29822	25138	29359	53146	72342	23626	21137	17693	18738	31453	33384	30705	30538	68872	84181	40278	47972
EE		20520		10384		9539						43081						15559
F	48897	49221	48904	45482	94921	78790	75926	92763	90348	74233	35282	36438	32184	28677	35433	44382	47506	48935
HU		18111		17826		4691		11483		6424		26972		3708		46743		26400
IRL	22145	22501	50330	43148							46734	47793	12733	13246			45720	50106
I	28795	30676	20651	28800	57333	48145	27042	24089	19406	21295	59422	57299	42730	33337	286249	254081	42618	39742
LT		13282		15602		15594						12555						10338
L	56331	56096	13493	19198			54927	78359			63095	57355	57673	52280			52015	50163
LV*		10247		11087								12594				8114		7333
MT																		
NL	105099	96892	98686	61787	247776	223422			188466	172645	82550	83181	26733	31765	55391	89229	52701	42134
A	29425	30908	37681	39052			50048	64386	45520	48626	24453	26177	25043	25405	29823	32245	31075	30988
PL																		
P	8333	8457	5740	6559	9041	8125	9478	10197	5963	5129	15655	18188	12001	8919	30611	29931	8167	8156
FIN	31676	29660	18388	15491	60630	74071			26681	7583	39356	39180	31527	24621	56185	51237	27651	27194
S	29580	28491	25483	23158							45574	42747	12283	10795	22132	25769	22107	24735
SK																		
SI*		4686		1279				5553				5840		5599				3839
UK	80677	69890	98924	67020	211553	191966			260880	211909	77436	82378	36762	35992	159235	164325	81961	73686
EU-25	**32926**	**27833**	**28972**	**26363**	**78946**	**64896**	**36320**	**37176**	**19037**	**18327**	**45617**	**41501**	**26696**	**22701**	**74548**	**53702**	**40640**	**19760**

Source: FADN results 2003, 2004 (weighted: population FSS 2003, classification SGM 2000) – * 2004 data for B, D, LV, SI are provisional; E without Cataluña.

Table 2 – BALANCE CURRENT SUBSIDIES AND TAXES AS % OF FARM NET VALUE ADDED

	All farms		Arable		Horticulture		Vineyards		Other permanent crops		Dairy		Drystock		Pigs / poultry		Mixed	
	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004
B*	22.2	22.6	22.3	23.5	2.0	1.0			3.1	3.2	18.7	24.2	48.1	50.9	10.7	5.3	28.4	27.6
CYP		85.1		114.9				87.5						79.3		1.4		58.7
CZ		38.0		33.0		6.3		2.8		3.9		53.1		102.6		7.3		41.0
DK	35.7	35.1	53.0	52.3	2.2	2.1			0.8	1.5	23.7	32.3			22.8	16.2	52.0	42.1
D*	50.6	46.6	61.5	55.0	3.0	2.7	16.6	15.5	12.4	10.6	42.6	44.6	102.8	97.5	44.0	26.6	69.3	55.2
EL	31.7	32.2	39.1	38.0	3.1	2.6	34.4	37.0	25.3	28.0	26.1		39.1	38.0			35.3	35.3
E*	22.9	22.0	40.5	37.6	2.1	1.7	8.9	6.7	20.6	18.5	8.2	14.5	38.8	40.2	0.0	3.2	29.1	32.9
EE		51.9		76.7		8.8						41.8						62.8
F	48.1	48.7	69.1	74.4	2.0	2.4	1.0	1.4	15.0	9.9	42.9	49.2	100.2	108.1	28.0	24.4	67.4	67.5
HU		45.8		51.7		17.6		7.8		38.9		48.4		167.3		29.2		45.2
IRL	66.3	72.6	53.9	59.2							28.7	34.1	108.9	115.6			60.5	60.7
I	19.9	19.9	34.3	30.4	2.5	2.1	9.4	8.0	14.9	13.1	14.2	17.3	30.4	36.4	8.1	2.2	28.7	27.8
LT		42.1		43.5		10.1						38.3						47.9
L	76.3	76.2	201.0	140.3			22.0	16.7			71.0	77.7	98.7	107.8			95.3	97.3
LV*		69.1		73.4								69.7				175.0		76.4
MT																		
NL	6.4	6.7	10.2	15.5	–1.3	–1.5			–0.2	0.0	5.5	12.1	37.5	40.2	29.3	–0.4	37.9	11.0
A	67.1	68.3	73.2	72.9			24.5	19.6	25.9	28.0	69.9	72.6	84.3	88.8	46.4	44.2	71.6	73.7
PL																		10.2
P	42.1	47.1	66.4	69.9	–1.3	–0.2	8.0	11.0	36.2	36.2	23.6	31.9	69.9	93.3	–2.5	2.6	68.6	70.9
FIN	128.8	138.3	180.6	209.6	45.9	44.8			23.4		104.1	111.7	210.0	255.7	123.6	132.2	195.4	188.9
S	97.6	102.6	102.6	111.2							67.1	74.5	285.3	338.0	67.3	60.6	141.4	130.8
SK																		
SI*		104.8		256.9				22.9				77.0		137.7				
UK	47.6	57.4	55.4	78.0	0.8	0.8			1.3	1.2	19.4	28.0	116.1	125.0	3.7	3.2	62.4	70.3
EU-25	36.2	36.2	51.4	49.8	2.0	1.6	6.4	5.8	17.1	16.2	31.8	37.3	73.3	78.0	15.2	11.6	55.2	48.9

Source: FADN results 2003, 2004 (weighted: population FSS 2003, classification SGM 2000) – * 2004 data for B, D, LV, SI are provisional; E without Cataluña.

Table 3 – SHARE OF TOTAL RECEIPTS (OUTPUT + SUBSIDIES) IN 2004

20% OF FARMS WITH THE HIGHEST RECEIPTS

	BE	**CY**	**CZ**	**DK**	**DE**	**EL**	**ES**	**EE**	**FR**	**HU**	**IE**	**IT**	**LT**	**LU**	**LV**	**MT**	**NL**	**AT**	**PL**	**PT**	**FI**	**SE**	**SK**	**SI**	**UK**	**EU-25**
Sp. cereals, oilseed and protein crops		65	76	69	63	51	55	64	44	76	63	72	66	47	68			40		62	42	56	74		53	**67**
General field cropping	53	60	87	64	55	51	60	58	45	88	60	74	69		80		51	42		79	53	58	76		63	**73**
Specialist horticulture	54		73	78	51	49	61	88	54	65		71	72		85		55			62	52	45			80	**74**
Specialist vineyards		42	52		45	45	49		55	77		70		44				51		60				47		**71**
Specialist fruit and citrus fruit	50	54		63	45	47	55		53	70		62			56		54	47		55					71	**66**
Specialist olives		56				49	57					58								54						**57**
Various permanent crops combined	65	60		77	55	45	57		59	81		75			98		58			53					68	**77**
Specialist dairying	37		78	38	47		51	80	38	91	41	65	46	36	65		40	37		56	40	51	55	49	45	**54**
Sp. cattle-rearing and fattening combined	42		61		51	38	52		39		48	70		41	75		52	35		55	41	43		44	46	**53**
Cattle-dairying, rearing and fattening	38				52		53		37		51	68		42	51			37		68		58			56	**66**
Sheep, goats and other grazing livestock		58			35	44	49		42	58	53	50			80		59	50		56		49	74	48	44	**53**
Specialist granivores	40	36	86	44	41		59		45	84		77			94		50	41		59	44	47			58	**69**
Mixed cropping	48	71	67	66	67	47	58	39	48	77		68	54		59		61	38		55			70	55	70	**74**
Mixed livestock, mainly grazing livestock	42		62		57	42	47		40			72	35		53			36		61				49		**75**
Mixed livestock, mainly granivores	43				38		51		45			80		37	56		53	46						66	38	**80**
Field crops-grazing livestock combined	39		83	70	72	41	51	69	43	88	50	63	56	49	62		59	42		69	43	54	61	53	53	**73**
Various crops and livestock combined	47		87	50	47	48	44		46	87		63	52		59		53	40		50	44	51		61	52	**79**
All types of farming	**47**	**78**	**88**	**63**	**55**	**52**	**62**	**78**	**47**	**83**	**57**	**73**	**63**	**41**	**71**		**58**	**41**		**67**	**48**	**56**	**77**	**52**	**58**	**72**

1. Where no figures are indicated the sample size is too small for the relevant category – **2.** Data for B, D, LV, SK, and SI are provisional – **3.** Spain without the region of Cataluña.

Table 4 – SHARE OF TOTAL RECEIPTS (OUTPUT + SUBSIDIES) IN 2004

50% OF FARMS WITH THE HIGHEST RECEIPTS

	BE	**CY**	**CZ**	**DK**	**DE**	**EL**	**ES**	**EE**	**FR**	**HU**	**IE**	**IT**	**LT**	**LU**	**LV**	**MT**	**NL**	**AT**	**PL**	**PT**	**FI**	**SE**	**SK**	**SI**	**UK**	**EU-25**
Sp. cereals, oilseed and protein crops		91	92	89	85	79	83	87	78	90	87	89	86	83	87		89	73		86	75	83	92		82	**90**
General field cropping	82	86	96	90	81	80	85	78	77	95	82	90	87	68	93		81	75		93	81	86	94	96	87	**92**
Specialist horticulture	85	79	89	95	83	79	86	95	82	97		90	88		97		86	54		87	80	68		92	95	**93**
Specialist vineyards		78	83		75	74	78		83	92		88		73				80		83				81		**91**
Specialist fruit and citrus fruit	79	84	82	89	79	77	79	91	83	88		85	88		83		83	78		86	79			90	91	**86**
Specialist olives		88				81	82					83								91						**82**
Various permanent crops combined	83	83	78	94	87	75	82		82	93		90			98		84	86		80				71	92	**91**
Specialist dairying	70	65	94	73	76	72	80	93	71	98	73	89	73	68	87		73	70		85	71	79	92	80	77	**84**
Sp. cattle-rearing and fattening combined	73		84		82	72	81	81	72		79	88		72	75		82	69		82	74	74	89	76	76	**84**
Cattle-dairying, rearing and fattening	70		95	62	80	60	75	58	72		81	86	70	72	78			69		92	78	83	82	79	83	**91**
Sheep, goats and other grazing livestock		83	90	86	67	77	80	92	73	90	80	80		90	84		91	73		81	70	82	93	76	74	**83**
Specialist granivores	73	71	99	78	74	93	85	97	78	96		93		77	97		81	73		86	75	79		90	87	**93**
Mixed cropping	80	91	99	90	86	78	84	73	79	91		87	76		82		86	72		79	83	92	99	82	87	**90**
Mixed livestock, mainly grazing livestock	76		96	85	81	73	78	94	72	95		88	68	81	77			70		80	81	91	66	73	73	**90**
Mixed livestock, mainly granivores	68		84	74	72		81		75	98	94	94	66	72	85		85	77			82	80		88	80	**92**
Field crops-grazing livestock combined	71	85	97	91	88	74	83	87	75	96	80	86	78	81	83		84	74		85	77	82	91	77	83	**94**
Various crops and livestock combined	78	88	96	82	78	80	77		76	95		85	77	61	93		79	73		79	75	82	85	75	88	**94**
All types of farming	**78**	**92**	**96**	**91**	**82**	**81**	**86**	**91**	**78**	**93**	**85**	**90**	**82**	**73**	**88**		**85**	**73**		**87**	**78**	**83**	**95**	**80**	**84**	**92**

1. Where no figures are indicated the sample size is too small for the relevant category – **2.** Data for B, D, LV, SK, and SI are provisional – **3.** Spain without the region of Cataluña.

2. POLICY DEVELOPMENTS AND LEGISLATIVE INITIATIVES IN 2005

2.1. CAP Reform

Sugar reform

65. 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[2].

66. The Commission achieved a key success with the political agreement reached by Agriculture Council on 24 November 2005, which largely reflected the Commission's original proposal.

67. In bringing a system, which has remained largely unchanged for almost 40 years, into line with the CAP reforms of 2003/04, 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.

68. The reform will be achieved by introducing a 36% cut in the 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.

Risk management

69. Ever since 1992, the CAP has been immersed in a fundamental reform process, aimed at moving away from a policy of price and production support to a more comprehensive policy of farmer income aid. However, the CAP reforms also oblige the agricultural sector to take responsibility for managing those business risks that were formerly absorbed by market and price support policies.

70. In response to a request made by the Council at the time of the adoption of the 2003 CAP Reform, on 9 March 2005, the Commission adopted a Communication on risk and crisis management in agriculture[3].

71. Three possible options were identified: (1) financial support to farmers' insurance premiums against natural disasters, (2) support for the setting-up of mutual funds, (3) providing basic coverage against income crises. The policy options were discussed by the Council, which is awaiting additional analysis by the Commission before proceeding further in the debate.

Financial Perspectives 2007–2013

72. In the political agreement on the Financial Perspectives for period 2007–2013, reached by the EU Heads of Government on 17 December 2005, which still awaits approval by the European Parliament, the CAP was identified as a key element in a

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2 COM(2005) 263 final, 22.6.2005, and its accompanying impact assessment SEC(2005) 808.

3 COM(2005) 74 final, 9.3.2005 and accompanying working document SEC(2005) 320.

wide ranging review, covering all aspects of EU spending and of resources, to take place in 2008/09.

73. Compared to originally proposal by the Commission, the agreement slightly reduced the budget assigned to Pillar I measures of the CAP (i.e. direct aids and market measures) by EUR 8 billion and for Rural Development under Pillar II, the budget allocated was some EUR 19 billion lower.

Biofuels

74. 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 bio-fuels became a complex, cross-cutting and dynamic issue.

75. On 7 December 2005 the Commission adopted a EU Biomass Action Plan[4], 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 the Communication on the EU Strategy for Biofuels, due for adoption in early 2006.

2.2. Quality policy

PDO-PGI reform proposal adopted 23 December 2005 – TSG reform proposal adopted 23 December 2005

76. The Commission adopted on 23 December 2005 a proposal for a Council Regulation on the protection of geographical indications and designations of origin for agricultural products and foodstuffs (document COM(2005)698). This proposal is designed to clarify and streamline rules for registration of protected geographical indications (PGI) and protected designations of origin (PDOs) and ensure full compatibility with the findings of two WTO panels (complaints WT/DS174 and WT/DS290 lodged by the United States and Australia).

77. In order to make the registration process more efficient, the Commission is proposing to simplify procedures and clarify the role of Member States and the Commission in approving applications. The centrepiece of these proposals is the definition of a well-defined “single document” for applications containing all the necessary information for registration, information and inspection purposes and which will be published. The proposals also seek to increase use of the official abbreviations (such as “PGI”) and the EU logos with a view to improving consumer recognition.

78. The proposal on protection of geographical indications and designations of origin will bring the scheme into conformity on the two areas that were criticised at WTO level: firstly by formally deleting the requirement for “reciprocity and equivalence” from the regulations and secondly by allowing third country operators to submit applications and objections directly rather than through their governments.

79. The Commission also adopted on 23 December 2005 a proposal for a Council Regulation on agricultural products and foodstuffs as traditional specialities

[4] COM(2005) 628 final, 7.12.2005.

guaranteed. (COM(2005) 694), with similar purposes as for protected geographical indications and protected designations of origin.

80. The Commission proposes that producers in WTO member countries can benefit from registration without conditions of equivalence or reciprocity and that citizens of those countries with a legitimate interest be allowed to object to a registration.Lastly, under the clause on national treatment, producers from WTO members should be able to use the product specifications registered as traditional specialities guaranteed in the same way as producers from Member States.

81. In order to streamline the registration and the objection procedures, the Commission proposes in particular provisions aiming at reducing the material that needs to be translated in all Community languages and the introduction of grounds on which an objection is admissible. The proposal also contains many simplifications and clarifications. Where appropriate, system improvements identical to those proposed for the system to protect geographical indications and designations of origin are proposed.

New products names on the list

82. As provided for in Regulation (EEC) No 2081/92, the Commission has added 24 names (listed in the Annex) to the list of protected designations of origin and protected geographical indications; the list currently comprises a total of 705 denominations. 4 modifications of the specifications of registered PDO/PGI are also listed in the Annex.

International issues

Panel result and implementation time

83. On 20 April 2005 the Dispute Settlement Body adopted the WTO Panel Reports in European Communities – Protection of Trademarks and Geographical Indications for agricultural products and foodstuffs (WT/DS174 and WT/DS290).

84. The main findings were that the EU's system for protecting Geographical Indications is essentially compatible with WTO rules including the requirement for inspection structures to verify that the conditions for each GI are fulfilled in order to benefit from the high level of protection against unlawful use and on the issue of the relationship between GIs and trademarks, the panel confirmed that the provision of the EU system allowing for the 'coexistence' of GIs with prior trademarks under certain circumstances is fully justified under the TRIPS Agreement. The Panel found that any inconsistencies of the Regulation with TRIPS Article 16 are justified under Article 17.

85. However the Panel report recommends that the EU should bring Regulation (EEC) No 2081/92 on the protection of geographical indications and designations of origin into conformity with the TRIPS agreement by clarifying that the equivalency and reciprocity conditions not to apply in respect of WTO members and to allow for direct applications and objections from persons and entities in third countries.

86. On 19 May 2005 the European Communities confirmed its intention to implement the recommendations and rulings and within a reasonable period of time (RPT). On 9 June 2005 the parties concerned agreed that the RPT would run until 3 April 2006.

Codex Alimentarius

87. The Commission assisted at the meeting of Codex Alimentarius Commission (CAC) in Rome on 4–9 July 2005 in relation to a proposal to commence work on a Parmesan cheese standard. The delegation of the EC, supported by many delegations, stated that it could not agree to launching work under the title of "Parmesan" as this could undermine the protected status of the geographical indication in the EC. The EC was willing to work on development of the existing standard for extra hard grating cheese (standard C35) under that or another neutral title. CAC concluded that no consensus could be reached on the proposal which therefore fell.

EC / Switzerland

88. During 2005 the working group on PDO/PGI issues did not meet. In the fifth EC/Switzerland Joint Committee on Agriculture on 25 November 2005 preparatory discussions on protection of geographical indications were held.

Pilot project on Food Quality Assurance and Certification Schemes managed within an Integrated Supply Chain – Phase 1

89. The first phase of the pilot project, undertaken by JRC-IPTS (Seville) was completed in December 2005. The results include national reviews of quality certification and assurance schemes in 7 European countries, conclusions of 5 stakeholder workshops, a policy analysis report, and a project website. These show the wide diversity, and growing number, of certification and assurance schemes in operation in the EC. The results of the project show that some retailers require adherence to schemes as a pre-requisite to acceptance of product. The pilot project was extended under a second Administrative Arrangement with the JRC, signed in October 2005, for the continuation of the work in 2006, focussing on an in-depth economic analysis of selected quality assurance schemes.

New names entered in the Registers of Designations of Origin and Geographical Indications and of Traditional Specialities Guaranteed and amendments since the 2004 Annual Report

Member State	Product	Type of product	PDO/PGI/TSG
ES	*“Queso Ibores"*	Cheese	PDO
ES	*"Pera de Jumilla"*	Fruits, vegetables and cereals	PDO
ES	*"Aceite de Terra Alta"* or *"Oli de Terra Alta*	Oils and fats	PDO
ES	*"Sierra de Cádiz"*	Oils and fats	PDO
ES	*"Mantecadas de Astorga"*	Bread, pastry, cakes, confectionery, biscuits and other baker’s wares	PGI
ES	*"Pan de Cea"*	Bread, pastry, cakes, confectionery, biscuits and other baker’s wares	PGI
ES	*"Miel de Granada"*	Other products of animal origin	PDO
ES	"*Jamón de Trevélez*"	Meat products	PGI
ES	*”Sidra de Asturias” or ”Sidra d’Asturies”*	Other Annex I products	PDO
ES	*”Siurana”**	Oils and fats	PDO
FR	*"Miel d’Alsace"*	Other products of animal origin	PGI
FR	*“Chevrotin”*	Cheese	PDO
FR	*"Olive de Nice "*	Fruits, vegetables and cereals	PDO
FR	*"Miel de Provence*	Other products of animal origin	PGI
FR	"*Asperge des Sables des Landes"*	Fruits, vegetables and cereals	PGI
FR	"*Pâtes d'Alsace*"	Pasta	PGI
FR	*« Miel de sapin des Vosges »**	Other products of animal origin	PDO
IT	*"Zafferano di San Gimignano"*	Other Annex I products	PDO
IT	*"Ricotta Romana"*	Other products of animal origin	PDO
IT	*"Valdemone"*	Oils and fats	PDO
IT	*“Tuscia”*	Oils and fats	PDO
IT	“*Basilico Genovese”*	Fruits, vegetables and cereals	PDO
IT	"*Oliva Ascolana del Piceno*"	Fruits, vegetables and cereals	PDO
IT	"*Mela Alto Adige or Südtiroler Apfel*"	Fruits, vegetables and cereals	PGI
IT	*"Zafferano dell’Aquila"*	Other Annex I products	PDO
PT	“*Azeites do Norte Alentejano”**	Oils and fats	PDO
PT	“*Mel de Barroso”**	Other products of animal origin	PDO
PT	*"Requeijão Serra da Estrela"*	Other products of animal origin	PDO

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

2.3. Organic farming

New regulations

90. On 21 December, 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).

91. The proposal represents a step forward towards ensuring the further development of the organic sector. In fact, the proposal:

- implements the EAP for organic food and farming;
- contributes to simplification and better regulation;
- promotes the “common concept" of organic production;
- provides for a permanent import regime.

92. It implements the EAP regulatory actions and simplifies the legal framework by defining objectives, principles, production rules and aligning its control system to the common Official Food and Feed Controls system (OFFC)[5]. This renders it more transparent and considerably reduces the level of detail.

93. The organic control system and its supervision by authorities will be reinforced as it is not proposed to derogate from the OFFC.

94. Promotion of the ‘common concept’ of organic production follows from several elements. Firstly, from a clearer communication on objectives and public benefits of organic production. Secondly, from reinforcing common labelling and advertising rules. Thirdly, from making ‘harmonisation at a high level’ the rule. Finally, from a reinforced control system that creates a level playing field for all actors, including control bodies and authorities. Multiple certification and logos will remain, although based on mutual recognition of the underlying standards.

95. The new import regime grants access not only on the basis of equivalency but also of full compliance. As the current import rules run out on 31 December 2006, a second proposal amends the current Regulation to assure that the new import rules apply from 1 January 2007.

96. In terms of development of support for revision of implementing rules, the following activity was carried out:

- the Council adopted Regulation (EC) No 1567/2005 on 20 September 2005. This Regulation amends Council Regulation (EEC) No 2092/91 on organic farming by extending the deadline for granting import authorisations at national level until 31 December 2006.

97. The following applicatory rules were adopted by Commission Regulations:

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5 Regulation (EC) No 882/2004 of the European Parliament and of the Council of 29 April 2004 on official controls performed to ensure the verification of compliance with feed and food law, animal health and animal welfare rules.

- Regulation (EC) No 1294/2005 amending Annex I of Regulation (EEC) No 2092/91 by laying down stricter rules on the use of conventional feed in organic production;
- Regulation (EC) No 1318/2005 amending Annex II of Regulation (EEC) No 2092/91 by extending the list of fertilisers and pesticides allowed in organic production;
- Regulation (EC) No 1336/2005 amending Annex III of Regulation (EEC) No 2092/91 to update the organic control system and to cover adequately all the categories of operators that have to be subject to the control system;
- Regulation (EC) No 1916/2005 amending Annex II of Regulation (EEC) No 2092/91 in order to allow the use of synthetic vitamins in organic production on a permanent basis;
- Decision 4/2005 of the Joint Committee on Agriculture on amending Appendix 1 to Annex 9 to the Agreement between the European Community and the Swiss Confederation on trade in agricultural products, updating the state of legislation on the Community and Switzerland.

Further issues

98. Work on the assessment of equivalency under Article 11(1) of Regulation (EEC) No 2092/91 on organic farming continued for several third countries. The assessment of India was concluded and progress was made on the technical assessment of Turkey. New requests were received from Peru and China, while Chile re-activated its request. For Australia progress was made on the assessment of its livestock production rules. The Commission contributed to the development of the *Codex Alimentarius* guidelines on organic labelling

2.4. Promotional measures

99. Council Regulations (EC) No 2702/95[6] and (EC) No 2826/2000[7] define the provisions for Community support for measures to provide information on and to promote agricultural products in third countries and on the internal market. Community promotional policy covers several products, stressing their general characteristics and common themes such as quality, safety, labelling and particular production methods as well as respect for animal welfare and the environment in their production. It aims at adding value to national and private initiatives by reinforcing or stimulating the Member States and private companies in their own promotion measures. Council Regulation (EC) No 2060/2004 introduced simplification on both the above mentioned regulations. The adoption of the Commission regulations (EC) No 1071/2005[8] and No 1346/2005[9], consequently adapt the detailed rules of this regime, including the eligible products and themes and replacing respectively Commission Regulations (EC) No 94/2002 and (EC) No 2879/2000.

100. Programmes are proposed by professional organisations representative of the product sector concerned, and pre-selected by competent authorities of the Member States,

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6 OJ L 327, 21.12.1999, p. 7.
7 OJ L 328, 23.12.2000, p. 2.
8 OJ L 179, 11.7.2005, p. 1.
9 OJ L 212, 16.8.2005, p. 16.

who are responsible for the management and control of the approved programmes. The total annual budget for Community co-financing for approved programmes was EUR 48.5 million in 2005.

101. In 2005 the Commission approved for co-financing 25 new programmes 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.

102. 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.

103. In addition to co-financing promotional programmes proposed by professional organisations in the Member States, the Commission can carry out high-level promotional missions and organise information campaigns on Community systems for geographical indications (PDO, PGI and TSG) and for organic products. In 2005 the Commission continued a three-year information campaigns in the USA, China and Japan started in 2004.

104. During 2005 the Commission started the implementation of action 1 of the European Action Plan on organic food and farming aiming at a coordinated promotion campaign of organic farming. This campaign will be operational from 2006 to 2008.

2.5. Simplification of agricultural legislation

105. 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. In the December 2004 meeting of the Agriculture Council, the Commissioner for Agriculture, Mrs Fischer Boel, undertook to present a reflection paper on the possibilities and limitations of simplification in agriculture during the autumn of 2005. 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.

106. In addition, contributions have been made to the Commission-wide simplification and better regulation activities, which resulted in the adoption of the Commission Communication on “Implementing the Community Lisbon programme: a strategy for the simplification of the regulatory environment” [COM(2005) 535 final] which was presented to the Competitiveness Council in the autumn of 2005. The Annex to this Communication now contains a programme of policy reforms which provide simplification opportunities, up to 2008.

2.6. State aids

Policy developments and legislative initiatives in 2005

Overall workload

107. 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 Article 88(3) of the EC Treaty. No review of existing aid measures pursuant to Article 88(1) of the EC Treaty was commenced or concluded. Overall the Commission raised no objections to 255 measures. Several of these measures were approved after the Member States concerned either amended them or undertook to amend them in order to bring them in line with Community state aids rules. The Commission started the procedure envisaged by Article 88(2) of the EC Treaty in respect of 11 cases, where the measures concerned raised serious doubts of incompatibility with the common market. The Commission closed the procedure envisaged by Article 88(2) of the EC Treaty in respect of 273 cases, by taking in 3 of them a final negative decision.

108. The procedure laid down in Articles 3 and 19 of Regulation (EC) No 1/2004 is granting exemption for certain types of state aid accorded to small and medium-sized agricultural enterprises[10]. In 2005 Member States have already communicated to the Commission services the summaries of 8 787different measures. The Commission has published these summaries on the Internet at the following address: http://europa.eu.int/comm/agriculture/stateaid/exemption/index_en.htm.

New yearly state aid reports

109. A new era of reporting state aid expenditure was launched on 1 March 2005. From now Member States will have to report their annual expenditure on state aids relating to the agricultural sector in a new, simplified and unified electronic format (excel) facilitating comparison between Member States, calculation of total expenditure, identification of types of expenditure, etc. The unified format will increase overall transparency significantly. In the past, reporting discipline varied greatly between Member States. Despite the launch of infringement procedures, some never or only partially submitted annual reports of very variable quality, making analysis and in particular comparison very difficult.

110. The new reports are a further example of the substantial efforts towards simplification being made in the area of state aid. The result of this is that, apart from Luxemburg and Portugal, all Member States communicated their national expenditure on state aid for 2004.

Transparency

111. The Accession Treaty obliged the Member States to communicate to the Commission an overview of all state aid existing before membership. Only such measures are

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

accepted as "existing". And even these measures have to be abolished at the end of three years following accession (or re-notified, so that they become new aid following a Commission decision).

112. The Accession Treaty obliges the Commission to publish this overview, without specifying how this should be done. The Commission has therefore put the full text of all existing state aid measures of the ten new Member States on-line. A total of 451 measures have been made accessible. This is a big step towards creating more transparency in the field of state aid. Nothing similar has been done for previous enlargements. Since existing state aid measures are not subject to a Commission decision, it would otherwise be difficult for the public to know the substance of the state aid measures that are in place in the new Member States. This transparency notably improves legal certainty for the farmers in the new Member States in the sense that they (and farmer representatives) can now easily check whether state aid they receive is covered by an existing aid regime.

113. The number of measures submitted per new Member State is:

Czech Republic	63
Lithuania	30
Latvia	33
Slovakia	32
Estonia	23
Malta	19
Hungary	108
Cyprus	70
Poland	51
Slovenia	22.

114. The Commission has published the full texts of these existing measures on the Internet at the following address: http://europa.eu.int/comm/agriculture/stateaid

State aid – type of aid measure use

115. Below is an overview of the types of aid (investment aid, crisis management etc) used by the various Member States in the agricultural sector.

116. This is a result of a search of 1 277 decisions taken between 1 June 2000 and 1 October 2005, relating to notifications made from 1 June 2000 onwards. These decisions comprise 1 717 different new aid measures introduced by EU-15 over these 5 years and 4 months. This count necessarily combines aid regimes and (rather rare) one-off support measures for individual companies. Notifications frequently cover more than one type of aid. For example, investment aid may be combined with aid for consultancy costs. Not all of these 1 717 measures are still in force. Also, Member States may still apply measures introduced before June 2000. Available data do not allow attributing expenditure in Euro to the various types of aid. However the tables would still provide an interesting overview of which measures are used.

117. Of the total of 1 717 aid measures, 523 or 30% were notified by Italy, compared against an average of 115 new aid measures per Member State. Also Germany (246), Spain (287) and France (288) were clearly above the average.

The most important types of aid measures introduced overall in EU 15 concerned:

Type of aid	Number of new aid measures in EU-15 June 2000 – Sept 2005	% of total 1 717 measures
On-farm investment	186	10,8%
Processing & market investment	125	7,28%
Producer group start up	58	3,38%
Technical support[1]	366	21,3%
Crisis management[2]	494	29%
Research & development	78	4,54%
Promotion & advertising	100	5,82%

1 Technical support consists of quality products: technical aid, quality products: control and soft aid.

2 Crisis management consists of natural disaster, adverse weather, animal diseases, TSE, BSE, plant disease, insurance premia, closing of production and rescue & restructuring.

The types of measures used can differ significantly between Member States. (Figures in bold indicate a figure above EU-15 average.)

Type of aid in % of all measures / Measures introduced per Member State	Investment (farm + non-farm)	Technical support	Crisis management	Promotion & advertising
EU – 1 717	18,1%	21,3%	29%	5,82%
AT – 52	11,5%	9,6%	57,7%	3,8%
BE – 47	10,6%	12,8%	59,6%	0
DE – 246	8,9%	18,7%	23%	3,65%
DK – 21	9,5%	19%	42,8%	9,5%
EL – 17	0	0	100%	0
ES – 287	20,9%	22,6%	24,7%	2%
FI – 14	42,8%	0	7,1%	7,1%
FR – 288	25,3%	31,9%	11,45%	6,25%
IE – 13	15,4%	23%	30,7%	7,7%
IT – 523	21,4%	16,2%	29%	7%
LU – 14	14,2%	21,4%	35,7%	7,1%
NL – 82	10,9%	23,1%	21,9%	18,3%
PT – 6	0	16,7%	83,3%	0
SE – 5	0	40%	0	0
UK – 102	11,8%	34,3%	12,7%	7,8%

Overview of cases

118. The overview of cases which follows includes a selection of some of the cases which raise the most interesting issues of state aids policy in the agricultural and agro-industrial sector in 2005.

Denmark

Tax on mineral phosphorous in feed phosphates

119. On 19 January 2005, the Commission has decided not to raise objections to Denmark's proposed new tax on phosphorous in feed, which aims at reducing the use of phosphorous in agriculture[11]. In order not to increase the overall tax level in the Danish agriculture sector, the tax on agricultural land will be lowered in return. The scheme is considered not to constitute state aid in favour of farmers. A general reduction of the land tax for agriculture is considered the administratively most efficient way of redistributing the revenue from phosphorous tax to the agricultural sector. The land tax will be decreased for all agricultural sectors, not only those using animal feed and paying the phosphorous tax, which, at least in theory, could lead to an advantage for plant producers. However, based on the environmental logic of the scheme and the fact that the relevant state aid rules expressly refer to property tax as one way to counterbalance new environmental taxes, the Commission has decided not to raise objections even if the scheme were to lead to such an advantage. The average amount of the tax reduction per farmer is also very low (approximately 700 DKK (€95) per year).

Finland

National LFA aid scheme

120. On 16 March 2005, the Commission approved new state aid[12] that would be combined with existing support for less favoured areas co-financed by the Community in the framework of the Finnish rural development program. The aid consists of a basic payment of €20 per hectare in support areas A, B and C1 and €25 per hectare in support areas C2-C4. This basic payment is granted for all areas eligible for a co-financed allowance. In addition, areas situated in animal husbandry farms receive an additional payment of €80 per hectare.

121. The Commission has ensured that the combined sum (existing co-financed support, new basic payment and new additional payment) does not exceed €250 per hectare on average. The amount of the new basic payment and additional payment will be controlled annually. If necessary, they will be reduced proportionally in the whole of the country so that the maximum average payment of 250 per hectare is not exceeded. The Commission concluded that the combined payments to less favoured areas in Finland comply with Community legislation, in particular with point 6 of the Community Guidelines for State aid in the agriculture sector and Articles 14 and 15 of Regulation (EC) No 1257/1999, for the following reasons:

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11 Case No N 343/2004.

12 Case No N 284/2004.

– the payments are distributed geographically in such a way that areas with lowest yields benefit the most;

– the sectors facing particular structural problems due to natural handicaps receive more aid;

– there is no overcompensation when the payment levels are compared with those in comparable regions in the Community.

France

Plan Rivesaltes

122. On 19 January 2005, a partially negative, partially positive decision has been adopted by the Commission concerning aid illegally granted for dealing with a sales crisis of wines like “Rivesaltes”[13]. An aid paid per hectare of wine sold as table wine instead of selling it under the “Rivesaltes” denomination is found incompatible both with the wine market organisation and with state aid rules and will have to be recovered (amount to be recovered not known). Aid towards reconverting vineyards is found compatible, except for individual payments above an intensity of 30% and/or a ceiling of €5 030,82 per hectare. Aid granted in favour of promotion of “Rivesaltes” is found compatible with state aid rules.

Plans de campagne

123. On 20 July 2005, the Commission opened a formal investigation into potentially illegal state aid granted by France between 1991 and 2002 in the fruit and vegetable sector[14]. The aid was granted by means of yearly “contingency plans” (plans de campagne). It included measures designed to counter the oversupply of French fruit and vegetables on the internal market by means of price support, support for temporary stocking, destruction of products or support for processing. Subsidies may also have been paid to favour sales of French products outside the EU at times of crisis. Support would seem to have been as high as €50 million per year.

124. The Commission doubts that such measures may be considered compatible with competition rules, as they would seem to interfere with the good functioning of the common market organisation for fruit and vegetables. The Commission is in possession of documents showing that there was awareness that the support measures violated market rules, and that the aid should be kept confidential. A final decision is expected in 2006.

Italy

Toscana – Aid for the protection of livestock against the attacks of predators

125. On 6 September 2005, the Commission has approved for the first time state aid towards the cost of insurance premiums for the damage incurred by stock breeders as a result of the attacks of the predators like wolves or bears[15]. These measures aim to protect the livestock (cattle, sheep, goats and horses), bred in proximity of natural

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[13] Case No C 06/2003.
[14] Case No NN 57/2005.
[15] Case No N 211/2005.

parks, that can be object of predation. The losses concerned are only the death of the animals and the abortions due to the attack of predators. In addition, the Commission concluded that state aid consisting in the financing of prevention and protection investments such as the construction/restructuring of the cattle sheds; the systems of photographic alert and the construction of enclosures for the animals are compatible with the guidelines for state aid in the agricultural sector. Aid was approved in order to combine the safeguarding of protected species with the reduction of risks of damages to the stock breeders.

Bad weather solidarity fund

126. On 7 June 2005, the Commission has adopted a decision not to raise objections to a new framework law for state aid of approximately €100 million per year towards the compensation of farmers for various losses due to bad weather[16]. The new law will establish a coherent legal basis for future bad weather compensation financed by the central government. A notable change in comparison with the past will be that farmers who could take out (subsidised) insurance will not get compensation any more. That way, farmers shall be encouraged to get insurance, making forward planning of public expenditure much easier. The government foresees to spend approximately €100 million a year on direct compensation, and another €100 million as a subsidy to insurance contracts.

The Netherlands & Spain

Holland Malt & Maltacarrión

127. On the 3rd of May 2005, the Commission has decided to open the formal investigation procedure in case C 14/2005[17]. The planned intervention in the Dutch malt sector consists of a subsidy for an investment project of Holland Malt BV (a collaboration between Bavaria NV and Agrifirm, a cooperation of cereal farmers) relating to the establishment of a production plant. The whole chain of storage and processing of malting barley and the production of and trade in malt would be integrated.

128. The Commission decided to open the formal investigation procedure as it doubts whether the planned assistance is compatible with the common market for the following reasons:

– on the basis of the information available to the Commission, it can not be excluded that the malt market shows overcapacity;

– Holland Malt claims to provide ‘Premium malt’ of high quality for the production of ‘Premium beer’ and that the market for this kind of malt and beer is still growing.

129. However it is not clear whether ‘Premium malt’ and ‘Premium beer are not simply marketing concepts, and do not correspond to a specific separate product market for which overcapacity could be excluded.

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16 Case No NN 54/A/2004.

17 Case No N 149/2004.

130. For the same reasons, the Commission opened a formal investigation, concerning an investment aid of ca €10.5 million for a new malt production plant, Maltacarrión in Spain[18]. Meanwhile the Spanish authorities have withdrawn this notification. The aid will therefore not be granted.

United Kingdom

Climate change levy

131. On 20 July 2005, the Commission has authorised an aid scheme to grant the agriculture sector a tax rebate of €687 million over a period of 10 years[19]. The rebate of the climate change levy of 50% for horticulture and 80% for agriculture sectors covered by Integrated Pollution Prevention and Control (IPPC) agreements allows the United Kingdom agriculture to accommodate to higher energy prices caused by the levy while helping to meet the $CO2$ reduction targets for the United Kingdom and also for Europe.

132. The climate change levy on the non-domestic use of energy was introduced by the United Kingdom in 2001 in order to meet the Kyoto targets. Energy intensive industries were offered a significant rebate of 80% for a period of 10 years in order to adapt to the new environment and improve energy efficiency and cut carbon dioxide emissions. The agricultural sectors concerned by this decision (pig and poultry, food and drink) have entered into IPPC agreements and have committed themselves to emission reduction targets and energy efficiency targets. The United Kingdom ensures strict monitoring of the commitments.

133. The loss of levy reduction for the future while the company has at the same time to catch up on the targets is an efficient mechanism for keeping companies in the agreement and for achieving the targets. The recovery mechanism, which is proportional to non-achieved targets at the end of the agreement period, is accompanied by a penalty mechanism. The agreements are reviewed on a regular basis. When assessing multi sectoral state aid in the context of energy taxes, the Commission accepted equal treatment for agriculture with other sectors subject to the Community guidelines on State aid for environmental purposes. The IPPC agreements were approved under point 51(1)(a) of the Environmental Guidelines.

134. A separate special measure of a 5-year rebate of 50% allows the horticulture sector to offset the loss of international competitiveness resulting from the introduction of the climate change levy. As legal basis point 5.5.4 of the Agriculture Guidelines was used.

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18 Case No N 561/2004 and case No C 48/2005.

19 Case No NN 12/2004.

Types of aid measures by Member State, period June 2000 – October 2005 (in detail)

	AT	BE	DE	DK	EL	ES	FI	FR	IR	IT	LU	NL	PT	SE	UK	TOTAL	%
Investment aid on farms	4	3	11			25	3	53	2	70	1	6			8	186	10.8
Traditional landscapes			4					1		2					1	8	0.5
Relocation of farm buildings			2			1				4						7	0.4
Marketing and processing	2	2	11	2		35	3	20		42	1	3			4	125	7.3
Diversification aid			2					1		9					1	13	0.8
Environmental investment aid	1		2			1				1					4	9	0.5
Agri-environment	3		12			1				12	1				4	33	1.9
Operating aid			4			2		1							1	8	0.5
Other environmental aid			2									2			1	5	0.3
Compensation in LFA's		1	2							2						5	0.3
Young farmers		2	2					2		4	1				1	12	0.7
Retirement – Cessation		1				1	1	2			1					6	0.3
Closing production		3	1			1		7		1		1			1	15	0.9
Producer groups			5			23		4		21					5	58	3.4
Natural disaster	2	4	11		6	6		8		13	1					51	3.0
Adverse weather	7	2	2		10	17		8		65	2		4			117	6.8
Animal diseases	9	8	34	6		33	1	6	2	39	1	9			11	159	9.3
Plant diseases	2	5				10				11		4			1	33	1.9
Insurance premia	2		2			3		2		11		1	1			22	1.3
Land reparcelling			4			1				8						13	0.8
Quality products: technical aid	1		10	1		13		18	1	24		2		1	7	78	4.5
Quality products: control	2	3	10			7		6	1	17	1	2			2	51	3.0
Soft aid	2	3	26	3		45		68	1	44	2	15	1	1	26	237	13.8
Herd books	2		5			4		3		6					1	21	1.2
Genetic quality testing	1		5			6		5		6						23	1.3
Reproduction centres	1		3			2		3		5					1	15	0.9
High quality males	1		3			1		1		6					1	13	0.8
Endangered species			3							1		1				5	0.3
Outermost regions						1		3								4	0.2
R&D		1	5	3		2	3	35		15		13			1	78	4.5
Promotion and advertising	2		9	2		6	1	18	1	37	1	15			8	100	5.8
Short-term loans										2						2	0.1
Rescue & Restructuring		1	7			1		2		2						13	0.8
Employment		1				6										7	0.4
Agro-monetary									1					1	7	9	0.5
TSE			3	1												4	0.2
BSE	8	5	27	2	1	17		2	2	10	1	3			2	80	4.7
OTHER MEASURES		2	17	1		16	2	9	2	33		5		2	3	92	5.4
TOTAL	52	47	246	21	17	287	14	288	13	523	14	82	6	5	102	1 717	
%	3.0	2.7	14.3	1.2	1.0	16.7	0.8	16.8	0.8	30.5	0.8	4.8	0.3	0.3	5.9		100.0

2.7. Assistance to the needy

135. The European Union has continued to implement its aid programme for the needy[20]. 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.

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

Free distribution of agricultural products (2005)

Member States	Appropriations allocated (*EUR*)	Quantities (*tonnes*)			
		cereals	rice (paddy rice)	butter	milk powder
Belgium	3 047 791	6 000	3 500	318	410
Greece	5 704 637	6 972	4 346		2 087
Spain	42 544 686	38 721	29 452	9 547	
France	48 620 337	60 905	31 412		18 143
Italy	60 294 489	98 153	22 575	14 446	
Luxembourg	68 537				33
Malta	347 642	1 383	553		55
Poland	35 504 167	17 758	26 835	6 772	3 749
Portugal	12 527 718	8 588	14 708	2 594	480
Finland	2 825 645	15 000			600
Total EU[21]	**211 485 650**	**283 480**	**133 381**	**33 677**	**25 469**

2.8. The Outermost Regions

***Reform of the POSEI arrangements (agricultural** — POSEI)*

137. 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[22] arrangements (which had first been presented in October 2004) should be put forward for adoption as an I/A-point by Coreper and Council. The new Council Regulation should therefore be adopted and published in early 2006.

138. 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

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20 Council Regulation (EEC) No 3730/87 of 10 December 1987 (OJ L 352, 15.12.1987, p. 1) and Commission Decision 2004/766/CE of 5 November 2002 (OJ L 339 of 16.11.2004 p. 13).

21 Not including EUR 4.514 million earmarked to cover Community transport costs.

22 POSEI - Programme d'options spécifiques pour l'éloignement et l'insularité.

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.

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

Aid to the meat sector in the outermost regions

140. Commission Regulation (EC) No 188/2005[23] established detailed rules for the application of the aid programmes for the traditional activities connected with beef and veal as well as sheep and goat production and measures to improve product quality in the French overseas departments, in the Azores and Madeira and in the Canary Islands, within the limits of the consumption needs of these regions other than the Azores. These programmes are provided for by Article 9(1) of Regulation (EC) No 1452/2001, Articles 13(1) and 22(2) of Regulation (EC) No 1453/2001 and Article 5(1) of Regulation (EC) No 1454/2001.

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

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

143. Programmes were presented by the Member States concerned and subsequently approved by the Commission in July (for the Canary Islands) and December (for the Azores and Madeira, and for the French overseas departments).

Aid for the local production of crop products

144. Commission Regulation (EC) No 261/2005[24] simplified the reporting requirements placed by Regulation (EC) No 43/2003[25] by establishing that Member States must submit only two reports to the Commission each year. The Regulation sets out the content of the reports and the deadlines for their submission (30 June and 30 November).

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23 OJ L 31, 4.2.2005, p. 6.

24 OJ L 46, 17.2.2005, p. 34.

25 Commission Regulation (EC) No 43/2003 laying down detailed rules for applying Council Regulations (EC) No 1452/2001, (EC) No 1453/2001 and (EC) No 1454/2001 as regards aid for the local production of crop products in the outermost regions of the European Union (OJ L 7, 11.1.2003, p. 25)

Specific supply arrangements (SSA)

145. Two regulations were adopted in 2005 to amend, as regards certain products, the supply balances set out in Commission Regulation (EC) No 14/2004[26]: these were Commission Regulations (EC) No 936/2005 of 20 June (OJ L 158, 21.6.2005, p. 6) and (EC) No 2022/2005 of 12 December (OJ L 326, 13.12.2005, p. 3).

Use of the outermost regions graphic symbol

146. A list was published on 8 June 2005 (OJ C 139, p. 30) of Canary Island producers and products which use the outermost regions graphic symbol.

2.9. Information measures concerning the CAP

147. Council Regulation (EC) No 814/2000[27] provides for information measures relating to the common agricultural policy, intended for both Member States and the outside world. Commission Regulation (EC) No 2208/2002[28] (which replaced Commission Regulation (EC) No 1557/2001[29] and was modified by Commission Regulation (EC) No 1820/2004[30] lays down detailed rules for applying Regulation (EC) No 814/2000 and introduces significant improvements to the scheme: simplification, transparency, better evaluation of the information actions proposed, better definition of the messages to communicate and means of distribution.

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

Grants

149. The number of applications for grants received from Member States under the 2005 exercise – for CAP information measures taking place between 1 July 2005 and 30 June 2006 – was again at a high level. A total of 117 applications was received, 45 of which were for annual programmes and 72 for specific measures.

150. In the budgetary year 2005, grants were awarded to 20 beneficiaries for a total of 31 specific measures, 17 of which were part of 6 annual programmes. Co-financed measures included seminars, conferences, printed publications and audiovisual media productions. Main topics were CAP and CAP reform in general; quality, food safety and consumer protection aspects of the CAP; opportunities for the competitiveness of agriculture; rural development; cross compliance and environmental questions; biological agriculture; and the WTO negotiations. A high proportion of the financed measures were organised by beneficiaries from Italy. This reflects the fact that a big proportion of the applications received were from Italy, while again there were very few demands from the Scandinavian countries. Some applications were also received

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26 Commission Regulation (EC) No 14/2004 establishing the supply balances and Community aid for the supply of certain essential products for human consumption, for processing and as agricultural inputs and for the supply of live animals and eggs to the outermost regions under Council Regulations (EC) No 1452/2001, (EC) No 1453/2001 and (EC) No 1454/2001 (OJ L 3, 7.1.2004, p. 6).

27 OJ L 100, 20.4.2000, p. 7.

28 OJ L 337, 13.12.2002, p. 21.

29 OJ L 205, 31.7.2001, p. 25.

30 OJ L 320, 21.10.2004, p. 14.

from the 10 new Member States, 2005 being the first exercise in which organisations from these countries could apply for a grant.

151. Individual organisations which in the budgetary year 2005 were successful in obtaining co-financing of their information programmes included NGOs on a European, national and regional level, representing the farming sector, or active in consumer protection, rural development, or environment protection. In addition, beneficiaries included public authorities on a regional level as well as media.

Conferences, events and fairs

152. During 2005 the Commission organised events covering a range of themes. In January there was a meeting with young farmers held jointly with the European Parliament looking at the CAP -new prospects for young farmers Europe and beyond. Support was also given to the EP for its conference on the EU Rural Development Policy, organised by the European Parliament through its Committee on Agriculture and Rural Development. In June there was a hearing on veal.

153. The Commission was represented at various agricultural fairs during the year, as for example in the Grüne Woche in Berlin, Salon de l'Agriculture in Paris, Royal Agricultural Show, in the UK. At both SIA and the Royal Show the Commission was present with the 10 new Member States which gave them the opportunity to present their countries to the visitors to the stand. In 2005 DG Agriculture was also present for the first time at a fair in a new Member State; the pancypriot agricultural fair in Nikosia, Cyprus.

Publications

154. The regular publications programme was maintained with the cooperation of OPOCE and an external contractor. A number of specific Fact Sheets, reports, leaflets, bookmarks, postcards, posters, conference proceedings and newsletters on international and rural issues were published. Special publications were produced in order to explain the 2003 CAP reform.

Access to documents

155. 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.

Missions

156. Various missions were carried out during 2004, following requests from regional and/or specialised organisations (cooperatives, farmers, various intermediary bodies) in order to explain the new regulations of the CAP, the consequences of the enlargement or the evolution of the WTO negotiations. In most cases, roundtables followed with national heads of the organisations, euroMP's, journalists and the public itself. Most areas, productions and countries are concerned by theses actions,

sometimes prepared or followed by visits to Brussels in order to complete discussion and information.

2.10. Information and communication technology (ICT)

157. The use of up-to-date information and communication technologies (ICT) in DG AGRI aims to support the DG's administrative and operational needs and to improve and reinforce the exchange and processing of data and information in order to enhance CAP management and facilitate the sharing of information between the Member States and European Administrations.

158. In this context in 2005 investments to maintain and further develop DG Agriculture's services and information systems have been made, keeping apace of the CAP reform and the new Commission accounting. The development of three major new information systems has been started (AGREX 3, ISAMM, and Ange Bleu, *see below*), as well as a study (SESAD) for possible additional security layers for transmission of data between DG AGRI and its Member State partners. Other activities which may be highlighted were the progress made concerning Disaster Recovery for DG Agriculture's major information systems and ICT Governance.

Information Systems

159. The year 2005 saw the beginning of renewal of: the main financial management information system (AGREX 3 for the guarantee funds), ISAMM for market mechanism management, and Ange Bleu for a consolidated agriculture legislation database. In addition the new rural development programme requires an information system for its management in DG AGRI – a major analysis and development contract has been signed (the RDIS project). For AGREX 3, ISAMM and RDIS the first crucial milestone is the completion of a business process analysis in order to align these new systems to user requirements in terms of their business and to the DIGIT methodology for development. Further developments have been made for the DG AGRI data warehouse for analysis (Agriview), and in various other information system areas (CATS for clearance of accounts data, APA for the publication of the periodical acts, etc.).

Infrastructure and DRP (Disaster Recovery Plan)

160. In 2005 the DG AGRI main information system servers have been aligned to the DIGIT/Data Centre infrastructure and a Service Level Agreement with DIGIT relating to our disaster recovery procedures has been signed.

ICT Governance in DG AGRI

161. Work has been carried out to ally the DG's ICT to DIGIT standards, internal control requirements such as the Commission's 24 Internal Control Standards and recommendations following audit recommendations. In line with Commission Communications on ICT Governance and Interoperability work continues in 2006 with a specific DG AGRI Information System Methodology project.

2.11. Advisory committees and relations with the other EU institutions

162. DG AGRI Services participated actively in Committee discussions on agricultural issues in Council, European Parliament, the European Economic and Social Committee and the Committee of the Regions. The main political discussions take place in the EP Committee on Agriculture and Rural Development and the Plenary. Important subjects discussed among others were the reforms of the CMO for sugar and the CMO for fruits and vegetables, rural development, WTO, risk and risks management in agriculture, the EU-USA wine agreement, exceptional market support measures in the beef sector and the forest strategy. As in previous years, DG AGRI was involved in replying to a large number of written and oral questions from Members of the European Parliament. Furthermore, 99 letters from MEP's were responded to.

YEAR	*"H" Questions AGRI-Leader*	*"H" Questions AGRI-Associated*	*"O" Questions AGRI-Leader*	*"O" Questions AGRI-Associated*	*Written Questions AGRI-Leader*	*Written Questions AGRI-Associated*
2005	61	41	1	6	239	545

163. DG AGRI was represented in the European Parliament at all meetings of the Committee on Agriculture and Rural Development and at particular meeting of other Committees such as Budget, Budget Control, Environment, Public Health and Food Safety Petitions and International Trade together with attending the Plenary Sessions of the Parliament.

164. DG AGRI services also participated in the meetings of NAT (EESC) and DEVE (COR) Committees on agriculture and rural development issues.

Consultations with Agricultural non-governmental organisations and the socio-economic sector

165. The structure and certain operational aspects of DG AGRI's stakeholder/civil society consultation process was reformed in 2004 to take account of CAP reform and enlargement. The year 2005 was the first full year of the New Member States participation in this consultation procedure.

166. Comprehensive stakeholder consultation was ensured through 77 different meetings involving the participation of about 2200 representatives of socio-economic organisations.

3. AGRICULTURAL MARKETS

3.1. Market developments – Crop products

Cereals

World market

167. 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).

168. 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.

169. World wheat production according to IGC increased fell from 555 million tonnes in 2003/2004 to 623 million tonnes in 2004/05. The European Union (25 Member States) harvested 136.1 million tonnes of common and durum wheat (106.2 million tonnes in 2003/04). Wheat production in the CIS countries increased from 61.5 million tonnes in 2003/04 to 85.2 in 2004/05. Production in Argentina, a traditional exporter of wheat, increased from 14.5 million tonnes in 2003/04 to 16.0 million tonnes in 2004/05. The 2004 all wheat crop in the United States decreased from 63.8 million tonnes in 2003 to 58.7 in 2004. In Canada production increased from 23.6 million tonnes in 2003 to 25.9 as a result of higher yields. Australia harvested a lower wheat crop of 20.4 million tonnes (25.7 in 2003).

170. World wheat consumption in 2004/2005 was higher at 613 593 million tonnes in 2003/04, i.e. only 10 million tonnes lower than production. Feed grain consumption was 972 million tonnes (943 million tonnes in 2003/04), i.e. 37 million tonnes lower than production.

171. The International Grains Council's harvest data for 2004/05 indicate a strong increase in world coarse grain production, at 1 009 million tonnes (914 million tonnes in 2003/04). The United States harvest rose sharply from 276 million tonnes to 319 million tonnes due to a higher strong maize crop, used particularly for production of bio-ethanol. Production of feed grains in all the CIS countries increased from 59 million tonnes in 2003/04 to 64.1 million tonnes in 2004/05.

172. 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 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.

173. 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.

174. World cereal production in 2005 has been estimated at 1569 million tonnes (1 615 compared to 2004). Wheat production decreased from 618 million in 2004 tonnes to 611 million tonnes in 2005, due to smaller crop in Argentina. Feed grain production decreased from 1 009 million tonnes in 2004/05 to an estimated 958 million tonnes in 2005/06. For world cereal trade, IGC 2004/05 figures indicate 109 million tonnes for wheat trade (102 last year) and 102 million tonnes for coarse grain (105).

Community market

175. The 2004/05 EU-25 total cereal harvest is estimated at February 2005 to stand at 284 million t, 54 million t or 23% higher than 2003/04's short crop. Cereal area increased by 1 million ha whereas cereal yield increased by 1 t/ha or 22%. All cereals, but oats, have a production higher than in 2003/04, ranking from a 11% increase for barley to a 42% increase for rye. Average cereal yields are record yields for EU-15 (6.02 t/ha) as well as for the new Member States (4.09 t/ha).

176. 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.

177. 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.

178. 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.

Oilseeds

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

180. 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.

181. The European Union is a net importer of oilseeds, vegetable oil and oil cakes. The annual imports of these products depend largely, on one hand, on the ratio between the prices for oilseeds, oil cakes and oil as well as the prices of other competing products intended for animal feed (such as cereals, foodstuffs containing maize gluten feed, etc.) and, on the other hand, on the marketing outlets that make it possible to export oil and oil cakes from the European Union. Total imports of oilseeds went down from 17 million tonnes in 2002/03 to 16 million tonnes in 2004/05 and the main part constituted soybeans (95%).

182. The total quantity of crushed oilseeds in the European Union (EU-25) amounted to 31 million tonnes in 2004/5, compared with 29.4 million tonnes in 2003/4. The main part is made up by soybeans (± 45%), followed by rapeseed (± 41%) sunflower (± 14%).

183. Total EU-25 imports of oil cakes represented 25.2 million tonnes in 2004/05, against 25.1 in 2003/04.

184. 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.

Peas, field beans and sweet lupins

185. These products, which principal outlet is the animal feed industry, are in competition with a broad range of other raw materials.

186. The surfaces which benefited from compensatory aid in 2004/05 were about 1.3 million hectares. Total production amounted to approximately 4.6 million tonnes.

Linseed

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

188. According to Oil World, the European Union imports large quantities of linseeds (519 000 tonnes in 2004/05 against 620 000 tonnes in 2003/04), Canada being the largest supplier (85%).

189. The EU linseed area settled at a very low level in recent years: 117 000 ha, it has however increased in comparison to the past year. The European production in 2005 is estimated to reach 140 000 tonnes.

Grain legumes (chick peas, lentils and vetches)

190. A specific measure for grain legumes was established by Council Regulation (EEC) No 762/89 in 1989. It comprises an aid per hectare, within a maximum guaranteed area (MGA), apart from the arable crops system. With Regulation (EC) No 811/2000, this MGA was subdivided between chick peas and lentils, which are used for the human consumption, and vetches, which are used for animal feed.

191. Aid per hectare has been fixed at EUR 181, the MGA which were originally set to 160 000 hectares for chick peas and lentils and to 240 000 hectares for vetches were adjusted with accession of new Member States into 259 473 ha and 162 529 ha respectively. When one of these MGAs is not reached during a marketing year, the unused balance shall be reallocated to the other MGA for that marketing year before an overrun occurs.

192. The aid for grain legumes was affected by the 2003 CAP reform, as well. If a Member State applies SPS after a transitional period in accordance with Article 71 of Council Regulation (EC) No 1782/2003, it could continue to grant coupled aid for

grain legumes up to a certain national financial ceiling. If this ceiling is overshot, the aid per farmer shall be reduced proportionately for that year.

193. The grain legumes regime was not applied in 2005 in 8 new MS using the SAPS and in the 10 MS implementing the SPS. Only Greece, France and Spain applied the scheme in 2005. In France there was an overshoot of the area, therefore a coefficient of reduction (0.64) was applied. From 2006, no MS will apply the scheme due to the application of SPS.

Non-food production

194. The non-food set-aside regime has been in force since the 1992 CAP reform. The area payment for set-aside land has been EUR 63 per ton multiplied by the cereal yield, from 2001/02 onwards. The 2003 CAP reform integrated the set-aside obligation into the single payment scheme and confirmed the possibility of using set-aside land for non-food production. The new Member States are exempted from obligatory set-aside as far as they apply the single area payment scheme (SAPS).

195. 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.

196. 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 has been applied in 2004 for the first time and in that year an area of 330 000 ha was supported under that scheme. According to the data of Member States' communications, 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.

Rice

197. During the 2004/2005 marketing year, some 2 860 000 tonnes of paddy rice were harvested, which is well above average. Milling yields were 60% on average, and the production to sale was some 1 677 000 tonnes of milled rice. Areas sown increased, compared to the previous year, up to some 428 000 ha (+ 5%).

198. EU paddy rice prices were steadily high, largely above the intervention price (established at EUR/t 150). Indica rice prices commonly ranged between 10% and 30% above the intervention price, while japonica rice prices were even higher, ranging between 15% and 40% above the intervention price.

199. Intervention stocks amounted to some 600 000 t of paddy rice at the beginning of the marketing year and were reduced to some 300 000 t at the end of August 2005, through sales into the internal market and also through quantities used for the aid to the most deprived people. No quantities were bought by the intervention agencies during the buying-in period (April to July). The intervention buying-in ceiling is fixed at 75 000 t per marketing year.

200. Following international agreements, the rice import regime was modified. Since 1 March 2005, the import duty for husked rice other than Basmati is periodically fixed by the Commission on the basis of the quantities imported during the preceding period. The applicable import duty can vary between EUR 65/t, EUR 42.5/t and EUR 30/t. Since 1 March 2005, it has been fixed at EUR 42.5/t. For milled and semi-milled rice, a similar mechanism by which the import duties can be fixed either at EUR 145/t or at EUR 175/t is applicable since 1 September 2005. It has been fixed at EUR 145/t since 1 September. For broken rice, the import duty has been fixed at EUR 65/t.

Starch

201. In 2004/05, the cereal starch market was relatively stable, as regards both maize-based and wheat-based products. Total EU-25 production was estimated at around 7.4 million tonnes produced from 13.2 million tonnes of cereals.

202. EU-25 potato starch production, which is quota-restricted, was 3% above quota in 2004/05, due to excellent weather conditions, making use of the 5% flexibility. As foreseen by Council Regulation (EC) No 1868/94 establishing a quota system in relation to the production of potato starch[31], a new Council Regulation was published in June 2005 to extend the current quotas for the two marketing years 2005/06 and 2006/07, with the expectation of measuring effects of the CAP reform and the EU enlargement[32].

203. In 2004/05, both export refunds on products based on maize and potato starch (in receipt of the same amount as maize starch) and production refunds (differentiated between cereal and potato starch) showed an upward trend. Like the marketing year before, no export refunds were needed for wheat starch.

Sugar

World market

204. Following 2003/04 global sugar production remained significantly below the huge surplus production of 2002/03 in 2004/05 as well. Although the figures still indicate a "surplus" situation, however the consumption figures used by F.O. Licht do not take into account the so called unrecorded consumption, which is the gap between exports and imports. Such unrecorded consumption is usually estimated in the range of 2-4 million tonnes. The improving situation of the global sugar balance is also indicated by the decreasing stock/consumption ratio which has reduced to 45.5%, its lowest level since 1997/98 when it reached 40.94%. Consequently, from a fundamental point of view, the sugar world market situation has finally started to improve.

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

[32] OJ L 159, 22.6.2005, p. 1. Regulation amending Regulation (EC) No 1868/1994 (OJ L 197, 30.7.1994, p. 4).

September/August	Production*	Consumption*	Surplus or deficit*	Stock / consumption ratio (%)
	(1)	(2)	(3) = (1) – (2)	(4)
2000/01	132.67	131.68	0.99	47.07
2001/02	137.98	135.46	2.52	45.64
2002/03	149.58	139.54	10.04	50.07
2003/04	144.39	142.92	1.47	47.40
2004/05	146.37	145.09	1.28	45.46

*** in million tonnes, raw value; Source: F. O. Licht (26.7.2005).**

205. Having a closer look at how production developed in the major producing regions it can be concluded that concentration of sugar supply has continued with Brazil further increasing its dominant position. Due to extremely favourable weather conditions, despite slightly lower beet surfaces European production has increased to 29.2 Mio t (+ 2.7 Mio t). Besides the EU production was higher in Russia and the Ukraine as well, where also higher investments and input use contributed to the increase. Concerning America the negative trend continued in Cuba where production halved and reached its lowest level in a century at 1.3 Mio t. On the other hand Mexico produced a record quantity of over 6 Mio t while production in the US decreased by 10% to 7.3 Mio t. Brazil has reached once again a record crop and sugar output amounted to 24.9 Mio t during the 2004/05 campaign. In India the production remained very low at 14 Mio t, leaving the country in a net importer situation similarly to the rather catastrophic year of 2003/04. Production continued to decrease in Thailand as well reaching 5.5 Mio t, thus further reducing the country's export supplies. Production also amounted to 5.5 Mio t in Australia where it represented the highest sugar output in the last fiver years. In South Africa the quantity of sugar produced remained unchanged from previous year at 2.4 Mio t.

206. Cane sugar has continued to maintain is dominant share in the global sugar production with 74% which is slightly less than in the previous year, due to higher European sugar production.

207. 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. Besides that enhanced purchases of investment funds in the sugar futures markets contributed to increasing prices. The intensifying trading of financial investors had also a side-effect of leading to higher volatility. Increasing oil prices have also provided strong support for world market sugar prices as more cane was processed into ethanol instead of sugar in Brazil and other major sugar exporters, like Colombia or Thailand launched ethanol programs that are expected to reduce sugar supplies.

208. The price situation during the 2004/05 campaign is shown in the following table together with a longer-term perspective.

Quarter of year	Raw sugar (cts/lb) (New York No 11)	White sugar (USD/t) (London No 5)
2004. Q1	6.01	199.52
2004. Q2	6.75	220.68
2004. Q3	7.98	240.74
2004. Q4	8.81	246.25
Average 2004	**7.39**	**226.85**
2005. Q1	8.91	262.12
2005. Q2	8.62	251.54
2005. Q3	9.97	295.85
2005. Q4*	*11.55*	292.77
*Average 2005**	***9.77***	***275.57***

*** forecast; Source: LMC.**

209. Concerning the USD/EUR exchange rate certain stability could be observed, with the US dollar moving mostly in the range of 1.2-1.3 against one euro.

210. Similarly to the previous year freight rates were usually high in 2005 due to the rapid economic growth in China and India. However, freight rates eased somewhat during the second trimester of the year which has particularly benefited Brazilian exports to the Black Sea region.

Community market

211. In the 2004/05 marketing year, which was the first complete marketing year after the enlargement to 25 Member States, following the long term trend, the sugar beet area has continued to decrease, although at a more moderate pace. Beet surface was reduced by 1.6% to 2 159 million ha (2 194 million ha in the previous year). It is to be seen what effect the forthcoming sugar reform will have on the beet area, although a significant decrease appears to be quite probable in the short term. Despite the decreased area sugar production improved significantly due to the extremely favourable weather conditions in most sugar producing regions of the EU. Community sugar production in white sugar equivalent has increased to 19.93 million tonnes, including 290 000 t from cane. Production has particularly increased in Germany (by 0.5 Mio t to 4.3 Mio t), in Poland (to 2.0 Mio t), Hungary (to 0.5 Mio t) and Spain (by 0.15 Mio t to 1.06 Mio t). Yields have improved significantly compensating for reduced sowing areas in most Member States, especially in Italy where production grew by 90 000 t to 1.16 Mio t despite a reduction of 16% in the beet surface. The average white sugar yield per ha reached 9.1 (+ 5%).

212. Higher sugar output has certainly affected the production of non-quota ‘C’ sugar, which either has to be exported without refund or carried forward to the following campaign. ‘C’ sugar production in 2004/05 increased by 0.5 Mio t to 3.06 Mio t which had to be exported without refund. Operators have decided to carry forward 0.73 Mio t from the 2004/05 marketing year to 2005/06.

213. 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.

214. Consumption in 2004/05 amounted to 15.2 Mio t in the EU-25, excluding the quantities used by the chemical industry (0.75 Mio t).

215. For the 2004/05 marketing year it was decided that Community quotas should not be reduced. (In 2002/03 823 000 t, in 2003/04 206 000 t was "declassified".)

216. In the common market organisation of the sugar markets, the production of isoglucose and inulin syrup with a view of their marketing in the Community, similarly to that of the sugar, is also limited by production quotas. Like in the previous marketing years the production of isoglucose was very close to the maximum of the 'A' and 'B' quotas with a total of 500 000 t produced. On the other hand the inulin syrup production reached 243 000 t and the "B" quotas remained once again unused. While most of the isoglucose is destined at Community consumption, nearlt half of the inulin syrup is exported with refund.

217. In 2005 the Community sugar market was characterised 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. The fact that offers were made in 11 Member States indicate that prices must have decreased to the level of the intervention price of €631.9/t, although prices dropped even below this level in certain regions. The tenders opened for the resale of intervention sugar stocks did not attract too much interest and only 142 710 t were sold.

218. As far as the 2005/06 marketing year is concerned Community sugar production is estimated at 19.6 million tonnes (19.3 million tonnes from beet, while 0.3 million tonnes from cane or molasses), slightly below the 19.93 produced in 2004. After excellent weather conditions in 2004 beet growers had little to complain on the weather, especially during the harvest period. Area sown by sugar beet has increased slightly to 2.17 Mio t (+0.7%) as beet growers hoped to profit from the last campaign before the reform of the sugar market organisation. Area has particularly increased in Italy (by 35% to 252 000 ha) and Greece (by 29% to 43 000 ha). Unlike in 2004/05 it was necessary to significantly reduce Community quotas in order to comply with WTO commitments.

219. 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.

Legislative framework ***— major developments***

220. The basic Regulation of the sugar regime is Council Regulation (EC) No 1260/2001 of 19 June 2001 on the common organisation of the markets in the sugar sector. This will expire on 30 June 2006 and than the reformed sugar market organisation will enter into force.

221. According to the relevant provisions of the Treaty of Accession and Commission Regulation (EC) No 60/2004 the surplus quantities of sugar, isoglucose and fructose were determined by Commission Regulation (EC) No 832/2005 in the case of the Member States that joined the EU on 1 May 2004. All together 154 943 t of surplus sugar was determined for five of the new Member States.

222. In 2005 the Commission has adopted Regulations concerning the determination of production levies, on the basis of Community balance sheets.

223. In view of the particularly difficult market situation it was decided to reduce the Community sugar, isoglucose and inulin syrup quotas by 1 891 748 tonnes for the 2005/06 marketing year (Commission Regulation (EC) No 1609/2005).

224. The unlimited access to the Community market granted for the sugar produced in the countries of the Western Balkan is now limited by import quotas. These quotas maintain the most recent trade patterns highly favourable for the countries concerned, as well as ensure an efficient control of the origin of the sugar. The quotas introduced include 180 000 t for Serbia and Montenegro, 12 000 t for Bosnia and Hercegovina, 7 000 t for the FYROM and 1 000 t for Albania. Negotiations have not been concluded yet with Croatia.

225. As a result of a WTO panel initiated by Australia, Brazil and Thailand the EU will have to modify its export regime as from 22 May 2006 in order to fully comply with the relevant WTO rules. Accordingly all EU exports (i.e. “C” sugar exports without refund, as well as the ACP quantities will have to be taken into account when the total EU sugar exports with refund are calculated).

226. At the November 2005 Council meeting an agreement was reached on the sugar reform that should enter into force on 1 July 2006. The reform is expected to enhance competitiveness in the European sugar sector and to ensure its long term viability. The reform lays down the regulatory framework of the sector until 2013/14. The reference price for white sugar, that will actually replace the intervention price, will be reduced by 36% over a four-year transitional period to reach €404.4/t in 2009/10. At the same time the minimum sugar beet price will decrease to €26.3/t. Sugar beet growers will be eligible for compensatory payments that will be integrated into the single farm payment. Sugar producers renouncing their quota before 2009/10 can benefit a one-off restructuring aid up to 2009/10.

Potatoes

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

228. Potatoes are grown in all Member States of the Community. In 2005 the total area grown was 1 956 900 hectares, down from 2 176 000 hectares in 2004.

229. Total production in 2005 was around 58 million tonnes, some 7.8 million tonnes less than in 2004.

230. Potato farming is becoming increasingly concentrated in big holdings. Generally, these holdings are not specialised in potatoes for surfaces under potatoes represent only a small portion of the holdings’ area.

231. Since the beginning of this decade, total human consumption in the EU-25 remains steady at around 35 million tonnes but the demand of table potatoes is slightly

diminishing while the consumption of processed products (such as French fries, chips, etc.) is gradually increasing.

232. EU-25 imports of potatoes for human consumption, almost only early varieties, were about 523 346 tonnes in 2005. Imports generally occur during the first semester and originate prevalently from Egypt and Israel.

233. As a consequence of the enlargement to the 10 new Member States on 1 May 2004, the EU production of potatoes has increased by 37% in comparison to EU-15 levels, while potato area has jumped by 77%. If these numbers might prefigure a supply increase at EU level, they should be interpreted with a lot of precaution as a consequence of the restructuring process that is taking place in the NMS.

234. Till 2004, the main producer in the EU-25 was Poland. In 2005, the long term decline of the Polish production continued and for the first time the German potato production has exceeded the Polish production, 11 157 thousand tons against 11 009 thousand tons. Five countries tend to concentrate the bulk of the potato business in the EU (Netherlands, Belgium, Germany, UK and France).

235. Trade data prove that fears of large volumes of potatoes for table use and processing flooding into the EU-15 from the New Member States are unfounded.

Dried fodder

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

237. 2004/2005 was the first marketing year applicable to EU25. The Act of Accession increased the EU-15 MGQ for dehydrated fodder by 104 823 tonnes for the new Member States, based on their average production in 1998/99 (0 for sun-dried fodder).

238. The following table summarises the eligible quantities for 2004/2005.

EU-25 production of dried fodder

(*'000 tonnes*)

Dried fodder EU-25	MGQ[33]	2004/05			
		Production	Stocks	Total	% MGQ
Dehydrated fodder	4 517	4 989	249	5 238	116%
Sun-dried fodder	444	166	1	167	38%

239. 2004/05 aid was granted for produced quantities as well as for certain stocks held at the end of the marketing year, in accordance with the provisions of Article 34 of Regulation (EC) No 382/2005, i.e. for 5,24 million tonnes of dehydrated fodder (116% of the MGQ) and 0.17 million tonnes of sun-dried fodder (38% of the MGQ).

[33] Maximum guaranteed quantity, Council Regulation (EC) No 603/95 (OJ L 63, 21.3.1995, p. 1).

240. As subsidised production of dehydrated fodder exceeded the MGQ, the co-responsibility clause was applied: in order to remain inside the budget, the aid (EUR 68.83/t) was reduced by 5% in Members States whose overrun of their NGQ did not exceed 5% and more in those Member States whose overrun of their NGQ exceeded 5%[34].

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

242. In the framework of the CAP reform, the Council adopted a new aid scheme for the dried fodder sector, applicable as from marketing year 2005/06 with part of the current aid being replaced by decoupled aid to farmers.

– Partial decoupling[35]: the total allocation to be decoupled under the single payment scheme for each holding is limited to EUR 132 million; the amount broken down by Member State will be allocated by holding according to the quantities of green fodder delivered during the reference period (2000/01, 2001/02 and 2002/03).

– **Simplification of the aid scheme[36]:**

  – single rate of aid: the aid payable to processing undertakings is fixed as a single amount for the two sub-sectors (dehydrated fodder or sun-dried fodder) at EUR 33 per tonne of dried fodder.

  – single MGQ: a single maximum guaranteed quantity is fixed for the two sub-sectors (dehydrated fodder and sun-dried fodder), equal to the sum of the old MGQs fixed by sub-sector. The new MGQ is divided into national guaranteed quantities (NGQ) for each Member State. The aid is paid in full if the Community production is less than or equal to the MGQ. If there is an overrun on the MGQ the aid will be reduced in each Member State which has exceeded its NGQ so as to avoid any overrun on forecast planned budget expenditure.

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

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

34 Commission Regulation (EC) No 1295/2005 (OJ L 205, 6.8.2005, p. 18).

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

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

Fibre flax and fibre hemp

Fibre flax

243. According to FAO the world production of long and short flax fibres reached 782 000 tonnes with 234 000 tonnes produced in the European Union under contracts (135 000 tonnes of long flax fibres and 99 000 tonnes of short flax fibres). In Europe flax-growing areas were concentrated in five main producing countries: France (65%), Belgium (15%), Poland (7%), the Czech Republic (4.4%) and the Netherlands (3.6%).According to the FAO, the total world area sown to fibre flax in 2004 was 510 000 ha, of which 161 000 ha cultivated in China. In the European Union, the areas sown were 150 000 ha (among which 118 000 ha were sown under contract). The EU imports medium- and low-quality fibres from Egypt, but supplies the whole world with high- and very high-quality fibres, since these are not produced anywhere else. According to Eurostat/Comext in 2004 the EU exported 77 300 tonnes of flax fibre. The European exports to China grow by about 10% every year since 2001 – the lower costs of spinning in China plays a key role.

244. Market prices for fibre flax fell by around 10% in 2004/05 against 2003/04, following the downward curve started two years ago after the record levels attained in 2002. This is due partially to the rise in the euro against the US dollar and also to the increase in quantities produced after the poor production in the year 2001/02 due to bad weather conditions. On the other hand, sales of long fibre flax in France and in Belgium increased compared to the previous year.

Fibre hemp

245. The EU takes a relatively small share of world hemp production with 15 000 ha (among which 14 500 ha under contracts). According to the FAO, the world area planted with fibre hemp was around 52 000 hectares in 2004. Outside the EU, China, North Korea, India and Russia are the main producers. Fibre production under contracts in the European Union decreased in 2004 to 21 000 tonnes compared to 2003 levels (30 000 tonnes). Traditionally it has been concentrated in France and, to a lesser extent, in Germany, the United Kingdom, Poland, Italy and Spain. Trade with third countries is very limited.

Legislative framework: main developments

246. In 2004/05 the processing aid was EUR 160 per tonne for long-fibre flax and EUR 90 per tonne for short flax fibre and for hemp fibre. For long flax fibre there was an EU maximum guaranteed quantity of 80 823 tonnes, shared out between the Member States in the form of national guaranteed quantities. The corresponding figure for short flax fibre and hemp fibre was 146 296 tonnes, also shared out between the Member States in the form of national guaranteed quantities. Each Member State may transfer part of its national short flax fibre and hemp fibre quantity to its national long flax fibre quantity and vice-versa, subject to a coefficient of equivalence.

Cotton

247. The world area under cotton in 2004/05 was estimated at around 36.0 million hectares, with production estimated at some 26.0 million tonnes, against respectively 32.0 million hectares and 20.5 million tonnes in 2003/04.

248. Unginned cotton is not traded internationally, but the European Community, whose cotton-spinning capacity by far exceeds its fibre production, imports substantial quantities of ginned cotton, around 439 000 tonnes in 2004. The countries of central Asia, the ACP countries, Egypt, Turkey and the United States are the main suppliers.

249. In the European Union, the scale of cotton cultivation is limited, both in terms of the area planted and the number of producers. However, it is concentrated in certain areas of Greece and Spain, where it plays a major socio-economic role, and is also grown on a very small scale in Portugal. The Community area planted with cotton decreased in 2004: 460 100 hectares (as against 463 000 hectares in 2003) producing 1 504 618 tonnes of unginned cotton (1 135 534 t in Greece and 368 084 t in Spain) as against 1 274 029 tonnes in 2003. The European Union is about 77% self-sufficient in cotton fibres, its consumption in 2004 having been around 671 000 tonnes.

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

251. The guide price is reduced by 50% of the rate by which the national guaranteed quantity (249 000 tonnes for Spain and 782 000 tonnes for Greece) is overshot, provided that production is lower than 362 000 tonnes in Spain and 1 138 000 tonnes in Greece. Beyond that level, the reduction is increased by 2% for each step of 4 830 tonnes in Spain and 15 170 tonnes in Greece. In the 2004/05 marketing year, the guide price was reduced by 22.7% in Greece, 25.8% in Spain and 0% in Portugal.

Silkworms

252. Silkworm rearing is practised in Greece, Italy and, to a lesser extent, France and Spain. It accounts for only a tiny part of the EU's agricultural activity and of world silk production. In certain regions such as Thrace, Veneto and Marche, however, it represents an important activity.

253. Due to an increase in Italy and Greece, the Community production went up again in 2004: 3 034 boxes were produced successfully, compared to 2 543 boxes in 2003 and 4 238 in 2002. They yielded 65 300 kilograms of cocoons in 2004 compared to 52 000 kilograms in 2002. As from the 2000/01 marketing year, aid is permanently fixed at EUR 133.26 per box.

Olive oil

254. The world production of virgin olive oil reached some 3 000 000 tonnes during the 2004/05 marketing year (1/11/2004 – 31/10/2005). About 78% of this quantity (2 354 000 tonnes) has been produced in the European Union; other major producer countries are: Syria (175 000 tonnes), Turkey (145 000 tonnes), Tunisia (130 000 tonnes) and Morocco (50 000 tonnes). A specific feature of olive oil production is its very marked volatility, both in space and time. Yields on the same holding can vary sharply from one year to another, depending especially on weather conditions and biological variations of the olive trees. Therefore, the world market fluctuates as a direct result of the Community market situation.

255. The estimated Community production eligible for a production aid in the 2004/05 marketing year attained 2 598 352 tonnes (including olive-pomace oils) compared to 2 687 292 tonnes in 2003/04.

256. For the 2004/05 marketing year, the Community olive oil consumption is being estimated at 2 066 000 tonnes (or 72% of total world consumption). Initial forecast for 2005/06 reveal a possible consumption decrease by 4%.

257. Spain and Greece are the two major Community olive oil suppliers while Italy remains the Community's main purchaser and exporter. During 2004/05, imports totalled 179 000 tonnes while exports for the same period reached 379 000 tonnes (132 000 tonnes under the inward processing scheme). Since the 1998/1999 marketing year export refunds are set at 0.

258. Following the application, as of the 2005/06 marketing year, of Council Regulation (EC) No 865/2004 of 29 April 2004 regarding the new common organisation of the market of olive oil and table olives, the implementing Commission Regulation (EC) No 2080/2005 related to the amelioration of the produced olive oil has been adopted. In fact it concerns dispositions laying down detailed rules for the operators' organisations in the olive sector, their work programmes and the financing thereof. The measures to be financed refer to five areas: market follow-up and administrative management in the olive oil and table olives sector, improvement of the production quality of olive oil and table olives, improvement of the environmental impacts of olive cultivation, traceability, certification and quality protection and finally the dissemination of information. In addition the Regulation determines the procedures for the approval of the operators' organisations, the selection criteria of the work programmes, payment procedures as well as allocation of Community financing.

Fresh fruit and vegetables

World markets and international trade[37]

259. World production of fresh fruit and vegetables[38] has steadily increased in the last years. It has grown by 41% in volume in the period 1995–2004. 56% of this growth originates from China where production has increased by an outstanding 109% (from 247 million tonnes in 1995 to 504 million tonnes in 2004). Growth in the other large producers has been more modest: 38% in India, 15% in the EU and 7% in the USA. World production of fruit and vegetables reached 1 369 million tonnes in 2004, an increase of 2.2% compared with 2003. The share of vegetables was 63.2% (50.8% in the EU). With 128.4 million tonnes the EU was the second largest world producer of fruit and vegetables after China (504 million tonnes). India with 127.6 million tonnes was on third position followed by the United States of America with 69.1 million tonnes. As regards citrus fruit, world production in 2004 was 108.5 million tonnes, an increase of 2.5% in comparison with the previous year. With a production of 11.1 million tonnes, the EU ranked fourth after Brazil (21 million tonnes), the USA (14.9 million tonnes) and China (14.7 million tonnes), but before Mexico (6.5 million tonnes).

[37] Source: FAO: http://www.fao.org

[38] FAO aggregates exclude potatoes but include all kinds of grapes.

260. Total EU imports of fresh fruit and vegetables amounted to 15.0 million tonnes in 2004, with a value of EUR 11.1 billion. Total EU exports of fresh fruits and vegetables totalled 4.4 million tonnes, with a value of EUR 2.6 billion. The EU runs a trade deficit in fresh fruit and vegetables: in 2004 the volume of exports reached only 29.2% of the volume of imports (once bananas are excluded the ratio increases to 36.7%). Exports of fruit represented 19.1% of their imports (28.5% if bananas are not taken into consideration). Exports of citrus fruit reached 0.5 million tonnes in 2004, i.e. 32.9% of the level of imports of the same products. The situation is similar in fresh vegetables where volume of exports reached only 45.5% of the volume of imports. The main supplier of fresh fruit and vegetables is the U.S., followed by Turkey and South Africa. The main destination for EU exports are Russia, Switzerland and U.S.

Community market

261. In the Community in the period 2001–2004, the sector of fruit and vegetables represented an average of 15.2% of total agricultural production. In the period 2001–2003, annual production of vegetables in the Community (potatoes excluded) stood at 57.7 million tonnes in average, of which 15.6 million tonnes of tomatoes. Fruit production stood at 35.9 million tonnes, of which 11.1 million tonnes of citrus fruits. Community production of apples reached 11.6 million tonnes in campaign 2004/2005 (in comparison with the previous campaign was increased by +0.2%). Withdrawn quantities have significantly reduced in recent campaigns. They decreased from 3% in 2000/2001 to 0.2% in 2004/2005.

262. Community production of pears stood at 2.7 million tonnes in 2004/2005, an increase of 0.7% in comparison with the previous campaign. In 2004/2005, quantities withdrawn from the market stood at 0.9% of production.

263. For peaches, the 2004/2005 campaign was very good with a production of 3.2 million tonnes, a significant increase of production of 48.2% in comparison with 2003/2004. Withdrawals consequently increased: they stood at 2.2% of community production in 2004/2005, against 1.3% in the previous campaign.

264. Production of nectarines in 2004/2005 stood at 1.1 million tonnes, an increase of 27.9% in comparison with 2003/2004. Withdrawals stood at 4.0% of total production in 2004/2005 (3.7% in 2003/2004).

265. Production of table grapes in the Community in 2004/2005 stood at 2.1 million tonnes, an increase of 6% in comparison with 2003/2004. Products withdrawn from the market in 2004/2005 represent a negligible part of production.

266. Production of apricots stood at 640 000 tonnes in 2004/2005, an increase of 31.9% in comparison with the previous campaign. Products withdrawn from the market represented 0.1% of Community production in 2004/2005 (0.2% in 2003/2004).

267. Production of citrus fruit reached 10.4 million tonnes in 2004/2005, an increase of 0.9% from the previous campaign. Spain was the largest producer with a share of 59%, followed by Italy with 31%. The Community produced 6 million tonnes of oranges in 2004/2005, 2.3% less than in 2003/2004. With 1.4 million tonnes in 2004/2005, production of lemons decreased by 21.5% in comparison with 2003/2004.

268. In 2004/2005, production of cauliflower was stable in comparison with the previous campaign at 2.5 million tonnes. The quantities of cauliflower withdrawn from the market in campaign 2004/2005 stood at 1.0% of community production (2% in 2003/2004).

269. Tomato production increased in 2004/2005 to 17.3 million tonnes, a growth of 8.7% in comparison with 2003/2004. Production in Italy, the main producer, reached 7.5 million tonnes (43.4% of all Community production), an increase of 12.8% from the previous campaign. Withdrawals represented a 4.6% share of total production of tomatoes destined to the fresh market (0.9% for campaign 2003/2004).

Main legal and policy changes

270. In 2004 the Community extended the exercise of simplification of the legislation of the fresh fruit and vegetables CMO with the adoption of Regulation (EC) 103/2004 laying down detailed rules for implementing Council Regulation (EC) No 2200/96 as regards intervention arrangements and market withdrawals in the fruit and vegetable sector. Several changes were made, in particular free distribution was facilitated and controls were reinforced. The modalities of the communication by the Member States to the Commission of production prices were updated with Regulation (EC) 877/2004 laying down detailed rules for applying Regulation (EC) No 2200/96 as regards notification of the prices recorded on the markets for certain fresh fruit and vegetables.

271. In order to extend and facilitate the access of the new Member States to the community aid, Community adopted Commission Regulation (EC) No 686/2004 laying down transitional measures concerning producer organisations in the market of fresh fruit and vegetables.

272. As regards external trade, autonomous import quotas were again opened for garlic and preserved mushrooms pending the results of the negotiations at the World Trade Organisation on the compensations related to the enlargement of the EU.

273. In addition marketing standards for apples, pears, cherries, peaches and nectarines, watermelons and cultivated mushrooms have been adopted (Regulation (EC) No 85/2004, Regulation (EC) No 86/2004, Regulation (EC) No 214/2004, Regulation (EC) No 1861/2004, Regulation (EC) No 1862/2004 and Regulation (EC) No 1863/2004).

274. Always in the framework of the simplification of the CMO, in August 2004 the Commission made public a Report from the Commission to the Council and the European Parliament (COM(2004) 549 final), followed in September by a Commission staff working document analysing the common market organisation in fruit and vegetables (SEC(2004) 1120).

275. The report describes how the Commission managed to follow, in the years 2002, 2003 and 2004, the Council requests to act on certain areas of shortcomings identified in the functioning of the fruit and vegetables CMO. It was also intended to stimulate a debate that will take place in the Council and in the other institutions on the future of the sector. Depending on the outcome of this debate, the report could be followed by legislative proposals in due course. According to the report, in recent years, the Commission undertook action to simplify existing rules, particularly in order to help

the implementation of the CMO in the New Member States, to increase the legal security for producer organisations and national administrations, as well as to increase subsidiarity and flexibility when needed. The report says that the rules for applying the CMO are significantly easier and a real benefit for stakeholders can be expected.

276. The report included a list of open strategic questions regarding the future of the Common Market Organisation, such as: How to improve organisation of supply in the new Members States? Is there a need for a reform the basics of the CMO? How to better guarantee the supply of quality products?

277. With a view to providing a solid background for the debate on the abovementioned strategic questions, the Commission services have prepared a working document presenting an analysis of the principal figures of the sector, of budgetary issues in the recent years and of the implementation of one of the CMO's pillars, the producer organisations (POs) and the related Operational Funds.

Bananas

Community production

278. In 2005 the banana Community production reached 648 467 tonnes, a decrease of 13,6% in comparison with the production of the year 2004.

279. According to Member States' estimations, in 2006 some 664 373 tonnes are expected to be harvested.

280. The compensatory aid for 2005[39] has been fixed at EUR 5.90 per 100 kg (–79%), with supplementary aid of EUR 12,12 per 100 kg for bananas produced in Guadeloupe, EUR 11,27 per 100 kg for Martinique and EUR 7,76 per 100 kg for Greece. The cost of the compensatory aid for 2005 totalled EUR 70,3 million, compared with EUR 235,1 million in 2004.

Imports

281. In 2005, ACP banana imports were at the level of 763 675 tonnes in the EU-25, while banana imports from other countries attained 2 959 274 tonnes.

282. Imports under quotas A (2 200 000) and B (453 000) are open to all countries, while the C quota (750 000 tonnes) is open only to imports from ACP countries. In addition, 460 000 tonnes of imports have been granted to the operators of the ten New Member States.

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

Main legislative and policy developments

284. In February 2005 the Commission published a report to the European Parliament and the Council on the operation of the common organisation of the market in bananas

[39] Commission Regulation (EC) No 833/2006 of 2 June 2006 (OJ L 150, 3.6.2006, p. 9).

(CMO)[40]. This launched a wide-ranging debate, on the reform of the internal aspects of the CMO, in particular of the aid to European producers, supported by an independent evaluation on the operation of the banana CMO[41] published in autumn 2005. In this framework, the Commission services have started to work on the impact assessment of this reform, in view of adopting a Commission proposal by the end of 2006.

285. With a view to ending the long-standing bananas dispute, the EU concluded Understandings with Ecuador and the United States in April 2001 for the modification of the import regime for bananas in two phases. These Understandings provide that the EC will introduce a tariff only regime no later than 1.1.2006. At the beginning of 2005, the Commission notified the WTO of its intention to replace its concessions on bananas with a bound duty of EUR 230 per tonne. Given the impossibility to find an agreement with its partners, an arbitration procedure was initiated in March and led to the fixation of a tariff rate of EUR 176 per tonne in November 2005.

286. The Council regulation introducing a new import regime for bananas from 1 January 2006 was adopted on 29.11.2005[42]. The new regime consists of an autonomously "applied" MFN tariff[43] of EUR 176 per tonne and a duty-free TRQ[44] for bananas of ACP origin of 775 000 tonnes.

Processed fruit and vegetables

World markets and international trade

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

288. World production of tomatoes for processing stood at 34.4 million tonnes in 2004, 20.7% higher than in 2003 (28.5 million tonnes). The main producers were the USA (11.1 million tonnes against 8.9 million in 2003), the EU (11.4 million tonnes against 9.2 in 2003), China (4.2 million tonnes against 2.8 in 2003) and Turkey (1.7 million tonnes against 2 million tonnes in 2003).

Community market

289. In 2004, Community production of tomato for processing increased by 24% in comparison with 2003. Growth was the highest in Italy where production increased by 1.1 million tonnes from 5.3 to 6.4 million tonnes.

290. Production of peaches for processing into preserved peaches in 2004 increased in comparison to 2003 by 70% and stood at 0.4 million tonnes.

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40 COM(2005) 50 final.

41 Evaluation of the common organisation of the market in bananas, carried out by COGEA, http://europa.eu.int/comm/agriculture/eval/reports/bananas/index_fr.htm.

42 Council Regulation (EC) No 1964/20005 of 29 November 2005 (OJ L 316, 2.12.2005, p. 1).

43 Commission Regulation (EC) No 2014/2005 of 9 December 2005 (OJ L 324, 10.12.2005, p. 3).

44 Commission Regulation (EC) No 2015/2005 of 9 December 2005 (OJ L 324, 10.12.2005, p. 5).

291. Community production of preserved Rocha and Williams pears stood at 0.1 million tonnes in 2004/2005, a fall of 10% from 2003/2004. Italy is the main producer with 53 700 tonnes (50% of total Community production), followed by Spain. (26%) and France (15%).

292. For marketing year 2004/2005, Community thresholds for processing have been exceeded for tomatoes (1.5%), pears (11.3%), oranges (229%) and small citrus (14%). As a consequence Community aid has been cut for marketing year 2005/2006 as follows in the Member States where the national threshold was exceeded:

Decrease of Community aid to processing for marketing year 2005/2006 in comparison with the aid fixed by the Council (Regulations (EC) No 2201/96 and (EC) No 2202/96)				
Member States	Products			
	small citrus	oranges	pears	tomatoes (1)
Greece			4%	
Spain			2.54%	9.29%
Italy	44.26%	21.69%	22.95%	
Portugal	44.02%	20.64%		
Cyprus	17.85%			
Netherlands			1.49%	

(1) the reduction does not apply to processing into whole peeled tomatoes.

293. For dried grapes, the base amount of aid is 3 031 euros per hectare. This aid is only granted to specialised areas which meet certain yield criteria.

Main legal and policy changes

294. In 2004, in the wake of the enlargement, Commission Regulation (EC) No 074/2004 laying down transitional measures in the processed fruit and vegetables sector for the application of Commission Regulation (EC) No 1535/2003 has been adopted. The aim was to allow producers and processors in the new Member States to benefit from the provisions of Council Regulation (EC) No 2201/96 on the common organisation of the markets in processed fruit and vegetable.

Wine

295. With Regulation (EC) No 1493/1999 of 17 May 1999[45], the Council of the European Union adopted the current common organisation of the market in wine. In this context, it is important to mention the proposal presented to the Council consisting of a set of technical amendments to Council Regulation (EC) No 1493/1999 on the CMO in wine mainly as a consequence of the last enlargement of the EU. The proposal also included an amendment authorising a number of oenological practices and processes which have been authorised on an experimental basis in some Member States and are agreed by the International Organisation of Vine and Wine (OIV) The proposal was modified in the Council to authorise the use of oak chips in the aging of wine and was adopted on 20 December 2005.

[45] OJ L 179, 14.7.1999, p. 1.

296. After more than 20 years of negotiation the EC-US agreement could finally be concluded in 2005. The agreement 2006/232/EC[46] provides acceptance of US winemaking practices as well as the exemption from the new US certification requirements in order to secure our first and most valuable export market.

297. Following the review of the Council Regulation (EEC) No 1576/89 on the definitions and the presentation of spirit drinks and its implementing rules in Commission regulation (EEC) No 1014/90, the long-awaited spirits proposal has been adopted by the Commission on 15 December. Based on the present EU legislation on spirit drinks it largely enhances applicability, readability and clearness of these provisions, all by adapting the regulations to new technical requirements. The draft includes a well defined policy for spirit drinks based on three product categories rooted in the present definitions of products. TRIPS and WTO requirements are included to safeguard the protection of EU geographical indications on the world market.

298. The wine alcohol sales policy has been reviewed and replaced by a tendering system. As result of this change and for market reasons in the fuel sector, the price has gone up from approx. €10/hl to up to €35/hl for use as bio ethanol in the Community. The sales to third countries (Caribbean) for the use in the sector of fuels, was abandoned. The sales of wine alcohol from public intervention stocks for other 'new' industrial uses will be phased out in 2006.

299. Due the important harvest of 2004 intervention in the Wine sector was needed in order to maintain the stock level of table and quality wine prs. Crisis distillations have been decided in order to eliminate 7.5 Mio hl of wine stored mainly in Spain (4 Mio hl), Italy (2 Mio hl) and France (1.1 Mio hl).

300. With 165.6 Mio hl the 2005 total wine production in the Community (excluding grape must not processed into wine) will be slightly above the 5 year average production level:

Marketing year	Wine production	Average 5 years	Average 10 years
1999/2000	179.1 Mio hl	164.3 Mio hl	166.3 Mio hl
2000/2001	176.0 Mio hl	169.0 Mio hl	165.7 Mio hl
2001/2002	159.1 Mio hl	167.0 Mio hl	166.0 Mio hl
2002/2003	150.9 Mio hl	164.5 Mio hl	162.0 Mio hl
2003/2004	153.3 Mio hl	163.7 Mio hl	161.4 Mio hl
2004/2005	183.7 Mio hl	164.6 Mio hl	164.5 Mio hl
2005/2006	**165.6 Mio hl**	162.5 Mio hl	165.7 Mio hl

301. As regards the Community harvest (grape must not processed into wine included) for the current 2005/06 marketing year, producing Member States have communicated the following estimations.

46 OJ L 87, 24.3.2006, p. 1.

Total production '000 hl Member State	2001/02	2002/03	2003/04	2004/05	2005/06 Forecast March 2006	
Czech Republic	545	495	510	545	580	+6%
Germany	8 980	9 984	8 289	10 147	9 100	–10%
Greece	3 477	3 085	3 815	4 295	4 093	–5%
Spain	33 937	39 419	47 300	49 038	41 360	–17%
France	55 339	51 966	47 519	58 845	53 300	9%
Italy	52 293	46 200	46 650	55 000	52 600	–4%
Cyprus	503	240	400	414	200	–52%
Luxembourg	135	154	123	156	135	–13%
Hungary	5 450	3 500	3 900	4 800	2 900	–45%
Malta	67	62	70	70	70	=
Austria	2 531	2 599	2 556	2 579	2 190	–20%
Portugal	7 790	6 651	7 283	7475	6 645	–11%
Slovenia	1 090	900	867	1 031	1 250	+21%
Slovakia		332	540	500	400	–2%
Other EU-25	18	12	18	20	20	–9%
Total EU-15	164 500	160 280	163 553	187 555	169 443	–10%
Total EU-25	172 155	165 599	169 644	194 390	174 843	–11%

302. Contracts for the distillation of potable alcohol under Article 29 of Regulation (EC) No 1493/1999 concluded in 2005/06 for 15.4 million hectolitres of wine exceeding the limits imposed by available budget resources and the absorption capacity of the potable alcohol sector were reduced to 13 million hl[47].

303. The European Union is the top world exporter with 13.1 million hectolitres (2005, EU-25). In 2004, the main traditional buyers of Community wine[48] were the United States with 3 705 Mio hl, Switzerland (1 533 Mio hl), Canada (1 347 Mio hl), Russia (1 254 Mio hl) and Japan (1 068 Mio hl). In value the exports of 2005 counted for up to 4 630 million euros.

304. With a view to restructuring and converting vineyards under Council Regulation (EC) No 1493/1999, the Commission established and made financial allocations to the Member States for a certain number of hectares taking account of compensation paid to winegrowers for loss of income during the period when the vineyards are not yet in production. Decision 2005/715/EC laid down the final financial allocations for 2004/05 as follows[49]:

47 OJ L 23, 27.1.2006, p. 10.
48 Source: EC-COMEXT EEC Special trade since 1988.
49 OJ L 271, 15.10.2005, p. 42.

Member State	Area (*ha*)	Financial allocation (*EUR*)
Czech Republic	84	772 352
Germany	1 975	12 695 680
Greece	988	7 047 724
Spain	19 888	149 316 032
France	13 691	108 227 509
Italy	14 633	103 757 903
Cyprus	193	2 340 941
Luxembourg	10	83 200
Hungary	1 132	9 054 545
Malta	15	154 474
Austria	1 275	7 248 006
Portugal	7 153	45 588 331
Slovenia	172	2 913 565
Slovakia	221	799 448
Total	**61 429**	**449 999 711**

(1) Decision 2005/716/EC laid down indicative financial allocations for 2005/06 as follows[50]:

Member State	Area (*ha*)	Financial allocation (*EUR*)
Czech Republic	526	1 821 677
Germany	1 998	12 468 667
Greece	1 249	8 574 504
Spain	21 131	151 508 106
France	11 380	106 286 269
Italy	13 874	99 743 891
Cyprus	206	2 378 971
Luxembourg	10	76 000
Hungary	1 331	10 645 176
Malta	23	119 973
Austria	1 077	6 574 057
Portugal	5 747	44 975 908
Slovenia	153	2 336 740
Slovakia	299	2 490 063
Total	**59 002**	**450 000 000**

Tobacco

Market developments

305. World production of leaf tobacco was 6.477 million tonnes in 2004. The 2005 forecast is 6.382 million tonnes. The People's Republic of China is still the world's leading producer of raw tobacco with production in 2004 of 2.410 million tonnes and forecast 2005 production of 2.506 million tonnes. Brazil is the second largest producer followed by India and the United States. With production in 2004 of 344 328 tonnes the EU is the fifth largest producer in the world.

50 OJ L 271, 15.10.2005, p. 45.

306. Compared with 2003 prices, EU market prices were similar or lower for tobaccos of most groups in 2004.

307. EU imports of raw tobacco amounted to 543 000 tonnes in 2004, 32 000 tonnes more than in 2003. EU exports in 2004 (199 000 tonnes) increased compared to those in 2003.

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

Main legislative and policy developments

309. The quota buyback for the 2004 harvest was a success resulting in 2 440 tonnes being bought back. As a result 237 individual reconversion projects and 27 studies are being supported by the Community Tobacco Fund.

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

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

312. Following the enlargement on 1 May 2004, 4 new producer countries joined the EU: Cyprus, Slovakia, Poland and Hungary. The production volume of these new Member States totalled 38 506 tonnes in 2004. Poland has the largest production volume of 29 061 tonnes.

Seeds

Market developments

313. In the 2004/5 marketing year the total certified seed production eligible for Community aid (excluding hybrid maize) was 456 573 tonnes. The total seed area was at a level of 401 688 hectares.

314. In 2004 the volume of *Gramineae* seed grown was 217 696 tonnes and that of *Leguminosae* seed 138 318 tonnes. *Graminae* accounted for 210 581 hectares and *Leguminosae* for 140 298 hectares.

315. The rice seed production in 2004 went up to 69 329 tonnes compared to 68 962 tonnes in 2003 and area came down to 16 632 hectares.

316. Fibre flaxseed was grown on 23 761 hectares in 2004, with an actual production in 2004 of 12 780 tonnes. The linseed area was 7 395 hectares. The actual linseed production in 2004 was 8 819 tonnes.

Main legislative and policy developments

317. Following the integration of the seed support in the 2003 CAP reform for application as from the marketing year 2005/6, detailed rules have been laid down in Regulations (EC) No 795/2004, 796/2004 and 1973/2004.

Hops

World market

318. In 2004 the total world hop area was about 51 200 hectares (a decrease of almost 6%). The largest growers are the EU (30 500 hectares, including Germany with 17 477 hectares, the Czech Republic with 5 838 hectares and Poland with 2 238 hectares), the USA (11 227 hectares) and China (approx. 4 400 hectares).

319. World production in 2004 amounted to approx. 89 350 tonnes, ± 6% up from the year 2003. The 7 575 tonnes of alpha acid (6 099 tonnes in 2003) produced was equivalent to an alpha acid yield of 8.48%. Average yield per hectare was 1.75 tonnes, 14% up from 2003.

320. At 1 545 million hectolitres, world production of beer in 2004 was up from 2003 by 4.5%. Since 5.0 grams of alpha acid per hectolitre of beer is added during brewing, 8203 tonnes of alpha acid has been used in 2004. The amount of alpha acid produced in 2004 was thus 627.5 tonnes less than consumption in the same year.

Community market

321. Hops are grown in thirteen Member States (Belgium, Germany, Spain, France, Ireland, Austria, Portugal, Czech Republic, Poland, Slovenia, Slovakia, Hungary and United Kingdom). Total area in 2004 was 30 500 hectares, of which 57% was in Germany. The 2004 area came down by 1.8% compared to 2003.

322. The 2004 harvest of 38 415 tonnes (EU-15) was 25% higher than in 2003. Average yield was also higher: 1.7 tonnes /hectare against 1.46 tonnes/hectare in 2003.

323. The 2004 harvest was of higher quality with an average alpha acid content of 8.63% for all varieties in the Community. This was equivalent to 4 349 tonnes of alpha acid — 142.6 kg/hectare — for beer production in 2004.

324. The average price for hops sold on contract in 2004 was EUR 3 774/tonne. Hops sold on the spot market in the EU-15 came down substantially from EUR 3 533/tonne in 2003 to 1 876 EUR/tonne in 2004.

Main legislative and policy developments

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

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

Flowers and live plants

World markets and international trade

327. Situation on world markets in flowers and live plants in 2004 is estimated because the available information is incomplete. The world area of flowers and live plants in 2004 stood at ca. 50.5 thousand hectares. China with 40% and India with 15% had a majority in the world acreage of flowers and live plants. Japan, Taiwan and Thailand were other major flowers producing countries in this region. The EU represented a share of ca. 12% of the world area of flowers and live plants. The area of flowers and live plants in Africa was very small with a share of 1.4%. Kenya was the largest African grower. The United States and Mexico were also among the most important world producers.

328. World production of flowers and live plants in 2004 stood at ca. EUR 23 540 million. The share of EU production in the world production of flowers and live plants is ca. 42%. The United States (19%), Japan (13%) and China (7%) are among the countries with the largest production of flowers and live plants in the world.

Community market

Ornamental flowers and plants

329. The total area of production of ornamental flowers and plants in the EU was 80.3 thousand hectares in 2004. Production is highly concentrated in the Netherlands where the area of production of ornamental flowers and plants including bulbs in 2004 was 27.4 thousand ha. Flowers and plants in the UK were cultivated on 11 thousand ha. Italy with 8.3 thousand ha was in third position followed by Poland (7.5 thousand ha) and Germany (6.7 thousand ha).

330. The production value of ornamental flowers and plants in the EU in 2004 stood at EUR 8 634 million. The Netherlands, Italy, Germany, France and the United Kingdom have the highest market values for ornamental flowers and plants within the EU. The Netherlands have the largest production value in the EU; their share in the total EU production of flowers and pot plants is about 27%. Italy with 20% has the second largest production value in the EU. Germany (18%) and France (13%) are ranking third and fourth followed by the United Kingdom (5%). In most EU Member States the production of ornamental flowers and plants in 2004 in comparison to previous year was stable.

331. The value of total imports of ornamental flowers and plants in 2004 was almost EUR 649 million. Kenya is the country of origin for 34% of ornamental flowers imported into the EU. Ornamental flowers are imported also from Israel (12%),

Colombia (11%), Ecuador (10%) and Zimbabwe (6%). Imports from other countries are negligible.

332. The value of exports of ornamental flowers and plants from the EU to third countries in 2004 reached the level of EUR 371.7 million. The main EU export destination for fresh flowers is the USA representing 24% of total EU exports. Other destinations are Russia (23%), Switzerland (23%), Norway (6%) and Japan (3%).

Nursery flowers and plants

333. The land area of nursery plants in the EU in 2004 stood at 65.5 thousand hectares. There was a little downwards in comparison to the previous year. Land area decreased in France (–18%), in the UK (–8%) and in Denmark (–7%). On the other hand an increase was reported in Italy (+82%), the Netherlands (+5%) and Germany (+3%).

334. Available information related to the production of nursery flowers and plants remains incomplete. Production of nursery flowers and plants in the EU in 2004 is estimated at EUR 6 400 million. The trend for nursery flowers and plants production in the last years could be also described as stable. Only the UK reported an 18% decrease in the production value. In Germany and Denmark the value of production increased by 2% respectively 3%.

335. Total imports into the EU of nursery flowers and plants in 2004 stood at EUR 454 million. They increased by 3% in 2004 in comparison to 2003. Nursery flowers and plants are imported mainly from the USA, Costa Rica, Israel, Guatemala and China.

336. Total exports into the EU of nursery flowers and plants in 2004 stood at EUR 814 million. They decreased by 0.8% in comparison to 2003. The most important export destinations for nursery flowers and plants are the USA, Switzerland, Japan, Norway, Russia and Canada.

Main legal and policy changes

337. There were none legal and policy changes in sector flowers and live plants in 2005.

Animal feed (EU-25)

338. Since the new Member States jointed the EU in May 2004, the figures have been updated.

339. Animal feed uses large quantities of agricultural products. It is the main outlet for Community production of cereals and oil seeds and virtually the only use for permanent grassland and fodder from arable land.

340. About half of the total supply comes from feedstuffs generally not marketed (pasture, hay, silage) used mainly for ruminants. The other half, which can be used by all livestock, consists of feedstuffs as cereals, substitutes and oil meals.

341. Total consumption by animals of the key marketable products[51] is estimated at 246 million tonnes in 2004/05 in the European Union.

342. Consumption comes from:

– domestically produced products estimated at 187.3 million tonnes, mainly from the cereal sector,

– net imports estimated at 61,5 million tonnes, mainly because of higher imports of soya.

343. Total consumption of cereals by animals in 2004/05 is expected to reach 154.5 million tonnes.

344. Industrial production of compound feedingstuffs for animals in the European Union[52] is estimated at 143.3 million tonnes in 2004 and at 141.5 million tonnes in 2005.

EU-25 industrial production of compound feedingstuffs by category of animal demand

(*million tonnes*)

compound feedingstuffs for	2004	2005	difference	% variation
all bovine animals (dairy and beef)	38.7	37.7	–1.0	2.6%
pigs	47.9	47.6	–0.3	–0.6%
poultry	46.6	46.3	–0.3	–0.6%
other	10.1	9.9	–0.2	–2.0%
TOTAL compound feedingstuffs	**143.3**	**141.5**	**–1.80**	**–1.3%**

51 Covering most marketable feed used in the Community by the compound feedingstuffs industry and on the farm (own-consumption and purchases of raw materials) and estimated in the detailed Table below "Balance of animal consumption of key marketable products (estimates EU-25)" Source: DG AGRI.

52 Provisional figures for EU-25 excluding Greece and Luxembourg; source: European Feed Manufacturers' Federation (FEFAC).

Animal consumption of key marketable products

(estimates EU-25)

(million tonnes)

KEY PRODUCTS	rate of import duties	2004/05 ANIMAL CONSUMPTION			
		EU	IMP	EXP	TOTAL
GRAIN CEREALS					
Common wheat	T	47.9	3.5	–	51.4
Barley	T	35.9	0.1	–	36.0
Maize	T	39.5	1.5	–	41.0
Others	T	25.1	0.9	–	26.0
TOTAL CEREALS		148.4	6.0	–	154.4
TOTAL SUBSTITUTES ex–Annex D of which:		*20.7*	*9.7*	*0.0*	*30.4*
Manioc	6% C/T	–	1.4	–	1.4
Sweet potatoes	0% C/T	–	–	–	–
CGF (*corn gluten feed*)	0% C	1.7	4.8	–	6.5
Brans	T	10.6	–	–	10.6
MGC (maize germ cake)	0% C	0.2	0.1	–	0.3
Citrus pellets	0% C	–	1.5	–	1.5
Dried sugar beet pulp	0% C	5.7	0.5	–	6.2
Brewing and distilling residues	0% C	2.0	0.9	–	2.9
Various fruit waste	0% C	0.5	0.5	–	1.0
TOTAL OTHER ENERGY FEEDS, of which:		*2.0*	*3.5*	*0.0*	*5.5*
Molasses	T	0.6	2.9	–	3.5
Animal and vegetable fats (added to feed)	4–17% C	1.4	0.6	–	2.0
TOTAL HIGH-ENERGY FEEDS		22.7	13.2	–	35.9
OILCAKE AND SEEDS (oilcake equivalent), of which:		*6.5*	*40.4*	*2.4*	*44.5*
Soya	0% C	0.5	32.1	2.0	30.6
Rape	0% C	4.7	1.0	0.2	5.5
Sunflower	0% C	1.3	2.3	0.1	3.5
Other	0% C	–	5.0	0.1	4.9
OTHER PROTEIN FEEDS, of which:		*9.7*	*1.9*	*0.5*	*11.1*
Protein crops	2–5% C	3.5	1.1	–	4.6
Dried fodder and related	0–9% C	4.8	0.1	0.2	4.7
Fish meal and meat meal	0–2% C	1.0	0.7	0.3	1.4
Skimmed-milk powder	T	0.4	–	–	0.4
TOTAL HIGH-PROTEIN FEEDS		16.2	42.3	2.9	55.6
GRAND TOTAL KEY PRODUCTS		187.3	61.5	2.9	245.9
EU-25 Key products index 2002/03 = 100 [244.9 Mt]					
* consumption index		100.4			
* livestock demand index		100.4			

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

3.2. Market developments – Animal products

Milk and milk products

Milk in the world

345. Initial estimates suggest that world milk production (including cows' milk, buffalo milk, sheep's milk and goats' milk) which reached 622 million tonnes in 2004 will increase in 2005 by an estimated 1.2% to 629 million tonnes. Cow's milk represents 84% of the total production and buffalo milk 12%. The remaining 4% comes from sheep, goats and camels.

346. Within Asia, production in India, which derives more than half its milk from buffaloes, continues to grow. In 2004, India produced 92 million tonnes and confirms its place as the world's second largest producer, after the European Union. Production in 2005 is expected to increase by 2% in 2005. Increased production is based on rising domestic demand in India. Pakistan and China are other major producers in the region. They produced just under30 million tonnes in 2004. Pakistan is expected to increase production with the same rate as India. China however showed an increase of 24% in 2005, reaching 28 million tonnes and is expected to continue in 2006 to reach 34 million tonnes and become the second largest producer in the region. In South East Asia, the demand for dairy products continues to grow caused by an increase of the family income and a more western diet, including more dairy products.

347. Latin America had a production of 62 million tonnes in 2004 and is expected to increase production by 1.5 million tonnes in 2005. Increases are expected in Mexico, Argentina, Brazil and Chile. These four countries correspond to 71% of milk output in this region. Elsewhere, milk production continues to increase in Peru (+ 3%), be it small in absolute terms. Brazil is the largest producer of milk in the region (seventh in the world). For dairy product, more specific whole milk powder, Brazil changed from a net-importer to a net-exporter in 2005. Production in Brazil will reach 24 million tonnes in 2005.

348. The former Soviet republics and Eastern Europe outside the EU saw a decrease of their milk production in 2004 to 75 million tonnes, but with some differences from one country to another. In the former Soviet Union production decreased 1.2%. In 2005, a further fall in production is expected, as many producers are still restructuring. The restructuring process leads to a reduction of dairy cows with a higher productivity per cow. In Russia production is expected to reach 31.2 million tonnes in 2005, the fourth largest producer in the world. In the Ukraine, the other large producing country in the region, a stable production of 13.8 million tonnes is expected.

349. In 2005 milk production in the United States grows by 3.5% to 80 million tonnes, after three years of stagnation at a level of 77 million tonnes. In Canada production remains stable at 7.8 million tonnes.

350. In Oceania, weather conditions play an important role in the production levels with different results in New Zealand and Australia. Milk production in New Zealand fell by 2.5% to 14.4 million tonnes while in Australia it remained constant at 10.5 million tonnes.

351. The weather in Australia returned to normal conditions compared to the dry weather over the previous years. Production remained stable due to continuing decreases in some areas and increases in others, particularly in Victoria, the state which produces most milk. Another element is the deregulation of the sector that is now completed. This means that the farmers that stay in business and sometimes increase production have outnumbered the ones that quit milking.

352. In New Zealand cold and wet weather caused a reduction of the production. These weather circumstances continue in the second half of 2005, which seems to cause another 2% drop for the current year. On the other hand the number of cows still increases to reach almost 4 million in 2005. Therefore, if weather conditions improve, this may lead to another production increase in the coming years.

353. The reduced production in one of the main exporting region of the world, Oceania, combined with continued strong demand on the world market resulted in high prices for all dairy commodities. Average annual prices for whole milk powder, skimmed milk powder and butter in 2005 are well above $ 2000/tonnes. For Cheddar average annual prices are even close to $ 3000/tonne. Only at the end of 2005 the market showed some weaknesses.

The Community market

354. 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 (including deliveries to industry, direct sales and use on the farm). 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.

355. Drinking milk production has remains fairly stable at around 33 million tonnes in EU-25. Production of cream for consumption is also stable at 2.6 million tonnes, while yoghurt shows a 5% increase.

356. Butter production will increase by 40 000 tonnes to 2.17 million tonnes.

357. Consumption of butter is expected to be stable in 2005 at 1.94 million tonnes. Per capita consumption should then settle at 4.3 kg per year. There is a wide range of consumption between the various Member States with France 8.2 kg per year per person while the average Greek only consumes 600 grams.

358. Again in 2005, total cheese production increased. This year by 1.2% or 100 000 tonnes. The rise in production took place in the dairies and not on the farms.

359. In 2005, per capita consumption of cheese should increase by 2% per year to 17.7 kg/person. This divided between 18.5 kg/person in the EU-15 and 13.9 kg/person in the 10 NMS.

360. As regards milk powder, an increase of 2% can be noted bringing the total to 2.0 million tonnes. The production of skimmed milk powder increases to 1 million tonnes while whole-milk, semi-skimmed-milk and butter-milk powder together remain stable at 1 million tonnes.

361. Production of casein was at the same level in 2005 compared to 2004. 5.9 million tonnes of skimmed milk were processed into 175 000 tonnes of caseins.

362. 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 237 in the Czech Republic. 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 6 600 tonnes in Lithuania to 1 318 500 tonnes in the Czech Republic.

363. 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.

364. 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.

365. On 1 July institutional prices have been reduced 7% for butter and 5% for skimmed milk powder, to EUR 282.44 and 185.00/100 kg respectively. Domestic prices for milk products decreased for butter and WMP in line with intervention price cuts. Prices for SMP resisted the intervention price cut. Prices for cheese remained stable for the third year in a row.

366. Exports showed a mixed picture in 2005. 350 000 tonnes of butter and butter oil were exported. The same quantity as the previous year and is regarded as a very high level and helped to assure market balance in the EU. Another positive development was the 11% increase of exports of whey powder. For skimmed milk powder exports were down more than 30%, caused by limited availabilities. Exports for cheeses, WMP and casein were reduced by respectively 8%, 6% and 9%.

367. It has to be noted that these exports were realised with much reduced refunds. Since the beginning of 2004 refunds were reduced by 50% for most products and 85% for SMP. Casein aid was reduced by 92%. Exports to the USA even went without refunds.

Beef and veal

Community market

368. 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 bovine livestock only increased in the Netherlands (+2.8%) mainly due to an increase of 6.1% in the number of calves for slaughter, as well as in Poland (+2.4%) mainly due to an increase in the number of female bovines of less than two years of age. In the other Member States decreases in the livestock were reported, particularly in the Czech Republic (–3.1%), Denmark (–3.0%), Germany (–1.0%), France (–0.9%) and Italy (–3.4%). 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%).

369. The net beef and veal production in the EU-15 in 2004 amounted to 7.45 million tonnes, an increase of 1.2% compared with 2003. Production was remarkably higher (+8.0%) in the last two months of 2004 as producers aimed to benefit from the last beef premiums in anticipation of the implementation of the CAP reform as of 2005 in some Member States. During the first half of 2005, the production in the EU-15 went down by 1% compared with the same period in 2004. In general, the decrease in the number of heads slaughtered was more significant than the decrease expressed in tonnes, implying that the average carcase weights tended to increase. For 2005 as a whole, the EU-15 production is estimated at 7.27 million tonnes, i.e. a decrease of around 2.3% compared with 2004. Beef production in the EU-25 is estimated at 7.84 million tonnes in 2005 or 2.5% below its 2004 level.

370. Beef and veal consumption in the EU-15 in 2004 is estimated at 7.72 million tonnes. Consumption was around 0.5% up on the level in 2003. In 2005 consumption stabilised at around 7.67 million tonnes. The average per capita consumption is estimated at 20.0 kilograms in 2005. The total beef and veal consumption in the EU-25 in 2005 is estimated at 8.14 million tonnes. Annual per capita consumption in the new Member States (6.4 kilograms) remains remarkably below the level in the EU-15.

371. As regards external trade, the EU exported in 2004 around 396,000 tonnes of beef (meat and live animals in carcase weight equivalent). This volume was 10% lower than the level exported in 2003, which illustrates the balanced supply-demand situation on the Community market. The majority of exports were destined for the Russian market (52%, mainly beef) as well as the Lebanon (14%, mainly live animals). In 2005 total beef exports amounted to around 285 000 tonnes or 28% below the level in 2004. This marked decrease is due to several factors, including the tight supplies on the Community market, the strong competitive position of third country suppliers (in particular from South America) on the world market and the unfavourable euro-dollar exchange rate. Moreover, a 20% decrease in the export refund levels was decided in June 2005, with a further cut of around 10% implemented in December 2005.

372. Beef imports in 2004 amounted to around 507,000 tonnes, a similar level as that imported in 2003. Imports originated primarily from Brazil (64% of the total imports), Argentina (21%) and Uruguay (5%). In 2005 total beef imports amounted to 528 000 tonnes. During the first nine months of 2005, there was a steady volume of beef imported from third countries. However, following the outbreak of the foot-and-mouth disease in Brazil late September 2005, there was a remarkable drop in the imports coming from that country.

373. Since 2003 the Community became a net importer of beef. Total beef imports exceeded the total Community exports by around 111 000 tonnes in 2004. Net imports of beef meat only amounted to approximately 189 000 tonnes. In 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.

374. Due to the tight supplies on the market, and despite the considerable volume of imported beef, EU beef producer prices remained very firm in 2005. Overall, the average EU-25 prices for carcases of adult bovines in 2005 were as follows:

	Average price in EUR/100 kg carcase weight	% change 2005/2004
Young bulls	291.4	+ 8.4%
Steers	284.1	+ 2.7%
Cows	228.2	+ 13.7%
Heifers	293.6	+ 5.6%

375. A considerable price increase was observed in the beginning of the year, particularly for carcases of adult male bovines. Subsequently, prices for steer carcases tended to decline during the summer period, mostly in the case of Ireland and to a lesser extent in the United Kingdom. However, in the autumn prices on these markets recovered again. Since October 2005 there was been a steady increase in the beef prices, particularly for male carcases. It is assumed that the firm prices can be explained by the tight supplies on the market, the fairly good demand for beef, the decrease in imports coming from Brazil following the foot-and-mouth outbreak at the end of September and possibly some positive repercussions of consumers' reaction to the avian influenza scare on the demand for beef.

Main legislative and policy developments

376. Apart from the cuts in the export refund levels mentioned above, it was also decided to take off the list of eligible products for refunds in the beef and veal sector categories of products with a small trade volume. Moreover, in view of the favourable situation on the EU market on the one hand and the continued controversy about animal welfare during transport on the other, the Commission decided to abolish export refunds for live bovines for slaughter as of 24 December 2005. Exports of live bovines for slaughter were destined for the Lebanon and to a smaller extent for the Egyptian market.

377. On 23 November 2005, Council Regulation (EC) No 1913/2005 was adopted which amongst others amends Article 39 of Regulation (EC) No 1254/1999 as regards the financing of exceptional market support measures. The amended article provides that in case restrictions are introduced on the free circulation, resulting from the application of measures to combat the spread of animal diseases, exceptional market support measures may be taken. The amendment provides a legal basis for a Community co-financing of these measures of 50% of the expenditures and of 60% in case of measures related for combating foot-and-mouth disease.

378. In the context of the first BSE crisis in the UK in 1996, the over-thirty month rule was introduced prohibiting bovine animals born in the UK and over thirty months of age from entering the food or feed chain. In this respect, Regulation (EC) No 716/96 provided for the over-thirty month scheme (OTMS), an exceptional market support measure, which implied that between 750 000 and 900 000 animals were removed from the British market annually, corresponding to around 200-250 000 tonnes of beef. Following an extensive review, the UK authorities decided to end the over-thirty month rule as of 7 November 2005. This decision is expected to lead to an increase of around 170-180 000 tonnes annually of essentially cow beef supplies on the British market as of 2006.

379. Subsequently, Regulation (EC) No 2109/2005 was adopted which amends Regulation (EC) No 716/96 in order to limit the purchases under the exceptional support measure to carcases coming from bovine animals born in the UK before 1 August 1996, which are permanently banned from entering the food or feed chain. This amendment will apply from 23 January 2006 onwards and provides for a flat-rate compensation per animal purchased. The compensation rate will gradually decrease from EUR 360 for purchases during 2006, to EUR 324 for purchases in 2007 and to EUR 292 for purchases in 2008. The scheme will expire on 31 December 2008. A 50% co-financing of the Community is provided for the purchases under this scheme.

380. As a result of the 2004 enlargement of the EU, the Community was obliged under WTO procedures to negotiate with other WTO members an adjustment of its import tariff regimes from the old EU-15 to an EU of 25 Member States. In this respect, the Community agreed with New Zealand to increase the quantity of high-quality beef by 1 000 tonnes. This agreement was implemented by Regulation (EC) No 2186/2005. It is anticipated that the other adjustments will be implemented by 1 July 2006 at the latest.

Beef labelling

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

382. Three years after the entry into force of the regulation, the Commission has published a report to the European Parliament and the Council on its implementation by Member States and on the possible extension of its scope to processed products containing beef and beef based products. After the discussion on the report at Council level in 2004, the Commission worked together with Member States on possible amendments of the implementing rules of regulation (EC) N° 1760/2000 in order to tackle some of the problems identified in particular as regards labelling of beef trimmings and of cut beef at 'second' cutting level and retail level. In the course of 2006 the Commission may propose a new Commission regulation to introduce some of these amendments.

383. During the discussion on the report on beef labelling several Members States requested the Commission to make proposals for the introduction of an harmonised definition of veal at EU level. In order to prepare this work, the Commission decided to launch an internet consultation on the subject in spring 2005 and organised as well as a public hearing with all interested stakeholders in June 2005. The Commission intends to continue its work on the subject and to present proposals for a definition to the Member States in 2006.

Sheep meat and goat meat

384. 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), price of heavy lamb in Spain increased by 50% as an average at the end of the year when compared to 2004. At the same, producers in the UK and Ireland were disappointed with low

prices instead. Portugal and Spain suffered from the aftermath of the bluetongue and the drought in the summer causing a shortage in supply of meat (along with increased price) and reduced flock numbers. These have traditionally been good markets for Irish sheepmeat but in 2005 New Zealand increased exports to these countries considerable causing oversupply and price fall in Ireland.

385. Heavy[53] lamb prices in 2005 follow a seasonal pattern and were at a high level throughout the Community within the range of EUR 375–433 per 100 kg carcase weight. The price variation was less significant than in 2004 (i.e. the range was narrower) but the annual average price was 1.6% lower. Light[54] lamb prices have also a seasonal pattern and were at very high levels on average, ranging from over 494 to EUR 800 per 100 kg carcase weight. The highest average in 2004 was only EUR 665 per 100 kg. Also the annual average price in 2005 was 6.8% higher than in the year before. A major price increase occurred in Spain and Portugal due to a shortage in supply resulting from drought and the bluetongue in 2004.

386. The world's largest producer of sheep and goat meat is China, where production expands year by year attaining 3 800 million tonnes in 2004[55]. The European Union comes second with more than 1 million tonnes, followed by India, Australia, Pakistan, New Zealand, Iran, Turkey and Sudan.

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

388. Community export remained almost inexistent. The European Union imports a quantity corresponding to over one fifth of its needs. The main suppliers of sheep and goat meat are New Zealand and Australia that accounted for 73% and 6.2% of total Community imports in 2005, respectively. Uruguay and Argentina both account for nearly 5%. Live animals are primarily imported from Romania. The principal destinations of sheep meat from New Zealand have been UK, Germany and France, during 2005 there was also a significant increase of New Zealand exports to the Southern European Countries.

389. Imports into the Community are carried out principally under tariff rate quotas with exempt or reduced rate import duties. For market management reasons, these quotas are managed on a calendar year basis. New Zealand possesses the largest tariff rate quota for 226 700 tonnes in carcase weight equivalent, followed by Argentina (23 000 tonnes) and Australia (18 650 tonnes). In 2005, New Zealand fulfilled 97%, Argentina only 38% (however, that is more than in 2004 – 24%) and Australia 99% of the quota. The only country to completely exhaust the sheep meat import quota was Uruguay with a quota of 5 800 tonnes.

390. According to the livestock surveys, the sheep and goat population in the European Union is over 100 million heads. Five Member States; the United Kingdom, Spain,

[53] Heavy lambs are lambs weighting 13.1 kg (carcase weight) or more.
[54] Light lambs are lambs weighting 13 kg (carcase weight) or less.
[55] Source: FAO.

Greece, France and Italy account for about 85% of total sheep and goat numbers. The 10 new Member States represent about 3% of the EU's total. The proportion of goats in the EU is about 12%, of which nearly half are found in Greece, a quarter in Spain and a significant number of them in France, Italy and Portugal.

Main legislative and policy developments

391. 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. According to the Regulation animals must be registered before 6 months of age with two eartags or one eartag and an electronic transponder (for national movements it can be replaced by a tattoo or other mean of identification that is recognised by the Commission). Animals intended for slaughter before 12 months of age may be identified by one eartag only. Identification electronically is optional for the moment but based on a Commission report foreseen for 2006 it may become compulsory from 2008.

392. With Council Decision 82/530/EEC the United Kingdom can permit the Isle of Man Government to apply a system of special import licences to products of the sheep meat and beef and veal sectors. Since 1982 the import derogation has been extended seven times (in 1984, 1988, 1991, 1992, 1995, 1996 and in 2000), last time for five years. Following a request from the Isle of Man Government to extend this special derogation the Commission presented a report to the Council, where it suggested that structural problems in the Isle of Man meat sector prevent it from the necessary market orientation and proposed to extend the derogation until 31 December 2010 to give time for adaptation to market conditions. The new derogation applied as from 1 January 2006 and will not be extended after 2010.

Pigmeat

393. In 2005, world production of pigmeat rose by 2.0% to 101.3 million tonnes (source: FAO). China remains the leading producer in the world with 49.0 million tonnes, 4.2% more than the previous year. The European Union is second with an annual production of 21.1 million tonnes. This was a decrease of –0.4% compared to the previous year. The United States is the third largest producer of pigmeat with 9.4 million tonnes in 2005, 0.9% more than in 2004.

394. The EU average market price for 2005 for pig carcases was relatively positive for the pig producers; and remained at EUR 139.1/100 kg as an annual average.

395. Per capita consumption of pigmeat in the enlarged EU decreased by –1.2% in 2005 at 42.9 kg/year.

396. In 2005, the European Union exported 1.47 million tonnes of pigmeat (carcase weight equivalent).

397. In the same year, imports fell to 20 000 tonnes.

398. The main destination for EU exports of pigmeat in 2005 was Russia, which received 483 500 tonnes (25.1% of the EU's exports). During that year, Japan was number two with 305 800 tonnes, followed by Hong Kong and China with 210 500 tonnes. In

2005, the share of exports receiving refunds was estimated at about 5% of the total pigmeat exports.

Poultry meat

World production of poultry meat (1000 t)

	United States	Brazil	China	Japan	Russia	India	Thai-land	EU-15	UE-25	World
1998	15 178	4 969	11 349	1 212	690	710	1 210	8 823		**62 400**
1999	16 039	5 647	11 951	1 213	748	820	1 180	9 148		**65 333**
2000	16 416	6125	12 873	1 195	754	1 081	1 194	8 939		**69 156**
2001	16 761	6 380	12 866	1 216	861	1 250	1 336	9 381		**71 643**
2002	17 268	7 239	13 262	1 229	937	1 401	1 414	9 383	11 109	**74 377**
2003	17 468	7 967	13 687	1 218	1 034	1 600	1 291	9 066	10 880	**75 823**
2004	18 007	8 895	14 170	1 237	1 030	1 715	0 964	9 098	11 037	**78 559**
2005 e	–	–	–	–	–	–	–	–	11 047	–
%TAV 2004/99	**12.2**	**57.5**	**18.5**	**1.9**	**37.7**	**109**	**–19**	**–0.5**	**–**	**20.2**

Source: FAO, European Union

399. Since 1999, the world production of poultry meat has increased regularly and in a substantial way (+20%). The overall increase has been slowing down since 2001, the percentage of growth is very heterogeneous according to the producing countries. Among the large producing regions, production increased at a higher rate than the average in India, Brazil, Russia, China and in the United States.

400. 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) without however coming back to the level of 2002. In 2005, production should slightly increase. 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.

401. Before consumption of poultry meat has dropped recently in the context of the Avian Influenza situation, the decrease in consumption in the EU-15 was offset by the growth in the new Member States, leading to stable poultry meat consumption of 23 kg per capita and per year.

402. In 2004, Avian Influenza in Asia led to a reduction of EU-25 imports by more than 20% reaching a total of 595 000 tons imports. In 2005, imports should slightly increase.

403. In 2004, Community exports increased by 1.5% reaching a total of 1.09 million tons; for 2005 a decrease of 8% is expected.

404. There is no direct support for poultry meat on the internal market. During the GATT year 2004/05, 205 000 tons of poultry were exported with export refunds, which represents 20% of the total Community exports.

405. 15 500 tons of de-boned poultry meat and 2 500 tons of turkey meat can be imported duty-free each year, to which 10 400 tons with reduced rate of duties within the framework of the minimum access quotas and 11 900 tons under other bilateral agreements (Turkey, Israel, Chile) should be added.

406. Poultry meat prices which reached a high level as from May 2003 following the appearance of the Avian Influenza remained at a rather high level for all 2004 and first part of 2005, oscillating between 145 and EUR 160/100 kg. However, prices dropped sharply between September 2005 and December 2005 (down to €130/100 kg) because of the drop in consumption caused by the media campaign regarding Avian Influenza.

Eggs

World production of eggs in shells (1 000 t)

	United States	Mexico	Brazil	Japan	Russia	India	China	EU-25	World
1998	4 731	1 461	1 467	2 536	1 827	1 623	17 532	4 934	**51 823**
1999	4 912	1 635	1 509	2 539	1 846	1 683	18 510	5 066	**53 833**
2000	4 998	1 788	1 539	2 535	1 894	1 749	19 433	5 289	**55 405**
2001	5 084	1 892	1 604	2 514	1 960	1 870	20 229	5 328	**52 766**
2002	5 131	1 900	1 547	2 514	2 022	2 000	21 288	5 259	**54 564**
2003	5 123	1 882	1 550	2 500	2 040	2 200	22 333	5 185	**55 828**
2004	5 288	1 906	1 560	2 471	1 993	1 890	24 326	6 573	**58 205**
2005	–	–	–	–	–	–	–	6 514	–
%>TAV 2004/98	**7.6**	**16.5**	**3.3**	**–2.5**	**8**	**12.3**	**31.4**	**5.3**	**8.1**

Source: European Union, FAO

407. The world production of eggs in shell has increased by 8.1% between 1999 and 2004. Although the average increase in the United States was higher than in the European Union, the EU-25 still maintains the second place after China. China experienced a very high expansion rate: + 31.4% between 1999 and 2004 and is the first world producing country of eggs. India which also experienced a sharp increase in its production between 1998 and 2003 (+ 35%) surprisingly decreased its production by 15% in 2004.

408. The principal importing countries remain the EU and Japan (egg products) and Hong-Kong (eggs in shell). The volume of Community (EU-25) exports sharply increased in 2004 (+38%) reaching a total of 273 000 t, due to the historically low prices within the EU. For the same reason, imports decreased by 35% (50 000 t in 2004). Exports should decrease in 2005, and imports should continue to decrease.

409. After the reduction of the flock due to the Avian Influenza in the Netherlands and Belgium in 2003, the number of laying hens increased by more than 2% in 2004, not without having an important impact on the prices which reached historically low levels (lower than 80 EUR/100kg for several months in 2004). Prices hardly went back to higher levels since summer 2005 when decreased placings had an effect (EU-25 flock decreased by 1% in 2005).

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

411. Regarding exports with refunds, it should be noted that in the GATT year 2004/2005, 71 000 t have been exported which represents 81% of the GATT ceilings. Volumes should be used in lower proportion during the marketing year 2005/2006 in view of the level of the prices and of production situation in the EU.

Honey

World situation

412. In 2004, world honey production reached 1.35 million t, which represents a slight increase (+ 0.5%) in relation to the previous year (FAO source). China remains first world producer with a production of 306 000 t. The EU-25 remains in second position with 161 000 t, while the EU-15 produces 118 000 t.

Honey world production by country (1000 t)

	2000	2001	2002	2003	2004
China	252	255	258	295	306
EU 25	150	159	156	166	161
United States	100	100	100	82	82
Argentina	98	90	85	75	80
Turkey	60	60	60	70	70
Ukraine	52	60	60	54	54
Mexico	59	59	61	56	57
WORLD (total)	**1 252**	**1 259**	**1 278**	**1 345**	**1352**

European market

413. The degree of self-sufficiency in the European Union (EU-25) was 53.9% during the marketing year 2003/04, which represents a sharp increase in relation to the previous marketing year due to the EU enlargement. Human consumption remains stable with 0.7 kg per capita and per year.

414. While honey imports remained stable in 1998–2002 and then decreased since 2003, Argentina remains the EU’s leading supplier, accounting for 35% of total Community honey imports in 2004. China exported very low quantities of honey to the EU in 2004 since the Commission took certain protective measures with regard to Chinese products from 2002 until August 2004. With China back on the world market, world prices decreased substantially.

415. Pursuant to the new Council Regulation (EC) No 797/2004[56] replacing Regulation (EC) No 1221/97, on measures improving general conditions for the production and marketing of apiculture products, the Commission has adopted the decisions approving the national programmes for the marketing years 2005–2007.Some of them have already been modified for the year 2005.

[56] OJ L 125, 28.4.2004, p. 1.

4. IMPLEMENTATION OF THE 2003 CAP REFORM

416. From 1 January 2005 all EU farmers receiving direct payments shall comply with the cross-compliance conditions. Ten Member States have started to implement the Single Payment Scheme in 2005 (see overview in the table hereafter). 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. The scope of the recoupling option chosen varies significantly among Member States according to the specific situation of their sectors.

Overview of the decisions taken by Member States affecting the implementation of the CAP reform as from 2005

Member State	Start	Regions	Model	Decoupling of dairy payment	What sectors remain coupled	Implementation of the second wave of the CAP- reform (tobacco, cotton, olive oil and hops)
Austria	2005	–	historic	2007	– suckler cows 100% – slaughter premium adults 40% – slaughter premium calves 100%	tobacco 100% decoupled hops payment 25% coupled
Belgium	2005	Zone Nord: Flanders + Brussels	historic	2006	– suckler cows 100% – slaughter premium calves 100% – seeds (some species) 100%	tobacco 100% decoupled
	2005	Zone Sud: Wallonia	historic	2006	– suckler cows 100% – seeds (some species) 100%	tobacco 100% decoupled
Cyprus			*mandatory regional model*			
Czech Republic			*mandatory regional model*			
Denmark	2005	one region	static hybrid	2005	– special male premium 75% – ewe premium 50%	–
Estonia			*mandatory regional model*			
Finland	2006	(three regions based on reference yield)	dynamic hybrid moving to a flat rate model	2006	– sheep and goats payments 50% – special male premium 75% – Article 69 application: = 2.1% of the ceiling for arable crops, = 10% of the ceiling for the bovine sector – seeds (timothy seed)	–

France	2006	–	historic	2006	– cereals 25% – suckler cows 100% – ewe premium 50% – veal slaughter premium 100% – adult slaughter premium 40% – outermost regions 100% – seeds (some species)	– 10% deduction in the olive oil sector for the funding of working programmes established by producer organisations (Article 110(i) of Reg. (EC) No 1782/2003 and Article 8 of Reg. (EC) No 865/2003) – hops payments 25% Annex VII point H and I – olive oil coefficient for decoupling: 1 – tobacco coefficient for decoupling: 0.4

Member State	Start	Regions	Model	Decoupling of dairy payment	What sectors remain coupled	Implementation of the second wave of the CAP- reform (tobacco, cotton, olive oil and hops)
Germany	2005	Bundesländer (Berlin included in Brandenburg, Bremen in Lower Saxony and Hamburg in Schleswig-Holstein)	dynamic hybrid moving to a flat rate model	2005		– hops payments 25% – tobacco coefficient for decoupling: 0.4
Greece	2006	–	historic	2007	– seeds – Article 69 application: = 10% of the ceiling for arable crops, =10% of the ceiling for the beef sector, = 5% of the ceiling for the sheep and goat sector,	– Article 69 application: =2% of the ceiling for tobacco, 4% of the ceiling for olive oil. – 2% deduction in the olive oil sector for the funding of working programmes established by producer organisations (Article 110(i) of Reg. (EC) No 1782/2003 and Article 8 of Reg. (EC) No 865/2003). Annex VII point H and I – sectors tobacco and olive oil 100% decoupled
Hungary			*mandatory regional model*			
Ireland	2005	–	historic	2005	none	

Italy	2005	–	historic	2006	– seeds 100% – Article 69 for quality production = 8% of the ceiling for the arable sector, = 7% of the ceiling for the bovine sector, = 5% of the ceiling for the sheep and goat sector	– 5% deduction in the olive oil sector for the funding of working programmes established by producer organisations (Article 110(i) of Reg. (EC) No 1782/2003 and Article 8 of Reg. (EC) No 865/2003) Annex VII point H and I – coefficient for the decoupling of olive oil is increased to 1 – coefficient for the decoupling of tobacco 0.4 – for the region Puglia the decoupling coefficient for tobacco is 100%
Latvia			*mandatory regional model*			
Lithuania			*mandatory regional model*			
Luxemburg	2005	one region	static hybrid	2005	none	–
Malta	2007		*mandatory regional model*			
Netherlands	2006	–	historic	2007	– slaughter premium calves 100% – slaughter premium adults 100% – seeds for fibre flax 100%	–
Poland			*mandatory regional model*			
Portugal	2005	–	historic	2007	– suckler cows 100% – slaughter premium calves 100% – slaughter premium adults 40% – ewe premium 50% – seeds 100% – outermost regions 100% – Article 69: 1% (arable crops, rice, bovine and ovine sectors)	Article 69: 10% of the ceiling for the olive oil sector tobacco decoupling coefficient 0,5 olive oil decoupling coefficient: 1
Slovakia			*mandatory regional model*			

Slovenia			*mandatory regional model*			
Spain	2006	–	historic	2006	– seeds 100% –arable crops 25% – sheep and goat premiums 50% – suckler cow 100% – slaughter premium calves 100% – adult slaughter premium 40% – Article 69 application: = 7% of the ceiling for the bovine sector = 10% of the ceiling for dairy payments – outermost regions 100%	tobacco decoupling coefficient: 0.4 olive oil decoupling coefficient: 0.936 Article 69:5% of the ceiling for the tobacco sector, 10% of the ceiling for the cotton sector
Sweden	2005	5 regions (based on reference yield)	static hybrid	2005	– special male premium 74.55% – Article 69 application: 0.45% of total ceiling	
United Kingdom	2005	England normal	dynamic hybrid moving to flat rate payment	2005	none	
	2005	England – moorland	dynamic hybrid moving to flat rate payment		none	
	2005	England – SDA minus moorland	dynamic hybrid moving to flat rate payment		none	
	2005	Scotland	historic		– Article 69: 10% of the ceiling for the bovine sector	
	2005	Wales	historic		none	
	2005	Northern Ireland	static hybrid		none	

5. AGRIMONETARY ARRANGEMENTS

Developments in 2005

417. For the sake of simplification a uniform operative event (1 October of the year in respect of which the aid is granted) for the exchange rates for direct support schemes was fixed[57]. This agrimonetary arrangement applies to payments to beneficiaries by Member States not having adopted the euro. It anticipates the new provisions on financing the common agricultural policy which apply as from 2007[58]. The latter foresee a uniform exchange rate for direct aids paid to beneficiaries and for the reimbursement to Member States of amounts paid to beneficiaries. For some direct payments the uniform exchange rate did not apply already in 2005. The exchange rates for the conversion into national currence of these aids as well as structural and environmental measures were determined seperately[59].

6. RURAL DEVELOPMENT IN 2005

418. For the period 2000–2006 the rural development programming consists of the following: 68 Rural Development Programmes – RDPs – (cofinanced 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).

419. With the enlargement of the European Union on the 1 May 2004, a special rural development regime has been introduced for the new Member States 'Temporary Rural Development Instrument (TRDI)'. Across the EU-10 territory there are two types of programming: 10 RDPs cofinanced by the TRDI and 9 Objective-1 region programmes, covering most of the territory of the new Member States, (cofinanced by EAGGF Guidance).

420. In 2005, Community expenditure on rural development amounted to EUR 8 501.8 million (Guarantee and Guidance combined).

421. The payments for EAGGF Guarantee amounted to EUR 4 914.8 million in the 2005 financial year (from October 2004 to October 2005). The Community average execution (compared to annual appropriations) reached 99%, meaning that almost all the budget available for 2005 was spent. By member state, there was overspending (member states that spent more than their annual financial allocation) in Belgium, Greece, Spain, France, Ireland, Luxemburg, Netherlands, Austria, Finland and Sweden) and underspending in the rest of the countries. Guarantee spending up to 2005 represents 83% of the financial allocations for 2000–2006 programming period.

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57 Commission Regulation (EC) No 1044/20005 (OJ L 172, 5.7.2005, p. 76)
58 Council Regulation (EC) No 1290/2005 (OJ L 209, 11.8.2005, p. 1)
59 Commission Regulation (EC) No 1794/2005 (OJ L 288, 29.10.2005, p. 36)

422. Payments for EAGGF-Guidance reached EUR 3 587 million in 2005 (calendar year): 3 099.1 million for 2000–2006 programmes (Objective 1: 2 753.1; Leader+: 334.5; PEACE: 11.5) and EUR 487.4 million for the closure of 1994–1999 programmes.

423. The payments for the 'Temporary Rural Development Instrument (TRDI)' amounted to EUR 1 414.6 million and for Sapard to EUR 811.9 million (254.4 in favour of Romania and Bulgaria and 557.5 for the completion of the preaccession assistance relating to eight new Member States) in 2005 (calendar year). For the three financial instruments together (Obj. 1, SAPARD and TRDI), EUR 2 262 million have been paid in favour of the new Member States.

424. In 2005, 78 of the 1994–1999 programmes have been closed. 84 programmes remained open at the end of 2005 (out of the 402 received in March 2003). For the 84 programmes still open, of which 13 have been closed partially, an estimated amount of EUR 344.3 million (out of a RAL of EUR 523 million) remains to be paid. An important RAL subsists for Spain (EUR 192 million) and Italy (EUR 115 million).

425. At the end of 2005, the total payments for the 2000–2006 programmes, financed by EAGGF-Guidance represent 52% of the financial plan for the 2000–2006 programming period. According to the n+2 rule established in Regulation (EC) No 1260/1999, EUR 37.21 million were decommitted in 2005. These decommitments affected twenty-six rural development programmes (8 Spanish, 6 German programmes, 4 Italian, 2 Irish, 2 Belgian, 1 French, 1 Portuguese, 1 Greek and 1 of the Netherlands).

426. 45 RDP modifications were approved by the Commission during 2005.

427. 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. Due to the lead time of this initiative (e.g. selection of Local Action Groups – LAGs), the first years of the programming period were characterised by a low financial execution. Although the payments up to 2005 represent only 38.5% of the amount programmed for the whole programming period, considerable progress has been made in the year 2005.

428. Of the expected 938 LAGs, 892 have been finally selected. The selection process started in 2001 and has finished with the selection of 12 local action groups in Sicily mid of 2004. The local development strategy theme "valorisation of natural and cultural resources" is the most popular (with one third of the LAGs having chosen it), followed by the subject "quality of life" (chosen by 25% of the LAGs). The monitoring reports submitted in 2005, indicate that 26.178 projects have been approved since the start of the programming period. The main domains of intervention are the following : tourism , support to SMEs, renovation and development of villages and rural heritage, basic services to the rural population and rural economy.

429. Meanwhile, transnational cooperation projects (Action 2 of the LEADER+ initiative) have slowly started with 224 approved project for the whole programming period (data for 2000 – mid 2005).

430. Year 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 on June 2005 which, after certain technical adaptations, was formally adopted in September and published as Council Regulation (EC) No 1698/2005. On the other hand, the Council 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.

6.1. Belgium

Rural development programmes (EAGGF Guarantee)

431. Three Rural Development Programmes for the period 2000–2006 were approved for Belgium: one federal and two regional (Flanders and Wallonia) programmes. The total public cost for these three programmes amounts to EUR 849 million, of which the EAGGF contributes with EUR 360.6 million.

Modifications of the RDP

432. In 2005, no amendments of the Belgian Rural Development Programmes were approved by the Commission and no proposals for amendment requiring a Commission Decision were submitted to the Commission.

433. Under the notification procedure, three amendments of the Flemish RDP were received in 2005: on 4 March in relation to increases in the EU co-financing rates for agri-environment, the processing and marketing and the training measures and to a widening of the scope of the processing and marketing measure; on 30 September in relation to the measure “hamster protection”, and on 18 October in relation to the agri-environment measure “preservation of genetic resources”. Also under the notification procedure, two amendments of the Walloon RDP were received: on 3 January in relation to the processing and marketing measure and on 22 August in relation to the measure “support for quality products”. Finally, under the information procedure, the Commission received one amendment of the financial plan of the Flemish RDP on 1 June, one amendment of the financial plan of the Walloon RDP on 22 June and one amendment of the financial plan of the federal RDP on 6 September.

Level of payments in the period from 16 October 2004 to 15 October 2005

434. The total 2005 budgetary envelope for Belgium amounts to EUR 55.2 million. The level of payments for the three programmes amounts to EUR 56.1 million, which is 101.6% of the annual envelope.

Objective 1 programmes (EAGGF Guidance)

Operational programmes or Single Programming Documents

435. One Single Programming Document was approved for Belgium: the phasing out Objective 1 SPD for the Hainaut province (Wallonia). Total public expenditure for this SPD amounts to EUR 1 360.3 million, of which the Structural Funds contribute with EUR 672.4 million. The EAGGF Guidance contribution amounts to EUR 44.1 million, which is 6.6% of the total Community contribution. These amounts take account of the indexation, of the performance reserve allowances and of mid-term transfers between Funds (approved in 2004), and of two transfers from the IFOP decided in 2004 and 2005.

Level of payments in 2005

436. From the beginning of the programming period, global financial execution for EAGGF-Guidance is 36% in relation to the total budget foreseen for 2000–2006, that is EUR 15.9 million on a total of EUR 44.1 million.

Leader+ programme

437. Belgium has two Leader+ programmes: one for Flanders, involving total public expenditure of EUR 8.7 million of which EUR 4.0 million EAGGF-Guidance contribution, and one for Wallonia involving total public expenditure of EUR 23.6 million of which EUR 11.8 million EAGGF-Guidance contribution. These amounts include the indexations of the EU contributions decided by Decisions C(2005) 489 and C(2005) 488, respectively.

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

439. By Decision C(2005)4149 of 18 October 2005, the Commission approved an amendment to the Flemish Leader+ programme, relating to an extension of the deadline for submitting cooperation projects. Moreover, pursuant to the N+2 rule, decommitments were decided by Decisions C(2005)3077 of 2 July 2005 for the Flemish programme and C(2005)5594 of 14 December 2005 for the Walloon programme. Through these decisions, the EU contributions to the two programmes were reduced by 8.6% and 12.5%, respectively.

440. At the end of 2005, after six years of implementation, the total financial execution for the two programmes is 27% in relation to the total amount of EAGGF-Guidance expenditure foreseen for the period 2000–2006, that is EUR 3.8 million on a total of EUR 14.3 million (total EU contribution after decommitments).

6.2. Czech Republic

Rural development programmes (EAGGF Guarantee)

441. The Czech Horizontal Rural Development Plan was approved by Decision C(2004) 3290 of 3 September 2004. The EAGGF-contribution is EUR 542.8 million for the period 2004–2006, to which is added national public co-financing of EUR 135.7 million. The horizontal rural development plan aims to mitigate the differences in farm profitability in less-favoured areas that result from natural conditions, to improve the unfavourable age structure of farmers, to reduce the share of arable land in the total agricultural land area and to provide for farming of agricultural land in conformity with the principles of Good Farming Practice.

Modifications of the RDP

442. The modification request received by the Commission during 2004 was approved in September 2005. The modification concerns the introduction of a new agri-environment scheme in favour of organic farming. Another modification request was received on 18 October 2005 This request concerned the integration in the rural development programming of certain projects already approved within the framework of the Czech Sapard programme and for which funding within this programme was no longer possible as a result of exhaustion of credits. This modification was approved by the Commission on 12 December 2005.

Level of payments in the period from 16 October 2004 to 15 October 2005 (EAGGF Guarantee)

443. For the year 2005 the financial table fixes the EU contribution to EUR 182 million. During 2005 an advance payment of EUR 32.57 million and an interim payment of EUR 113.39 million were made.

Objective 1 Programmes

444. The Operational Programme Rural Development and Multifunctional Agriculture was approved by Commission Decision C (2004)2689 of 2 July 2004. The financial contribution from EAGGF amounts to EUR 173.9 million during the period 2004–2006, which is complemented by national public funding of EUR 76.7 million. As regards measures, special emphasis is laid on replacement of outdated technologies, increase of competitiveness, consolidation of land ownership, protection of environment as well as to the stabilisation of existing work places in the Czech rural areas. During 2005 a payment of EUR 13.65 million was made.

6.3. Denmark

Rural development programme (EAGGF Guarantee)

445. The total public cost of the Danish Rural Development Programme 2000–2006 is EUR 829.6 million including the EU contribution of EUR 348.8 million from the EAGGF, Guarantee Section. The programme includes support for investments in holdings, organic farming, training, less favoured areas, agri-environment, improving processing and marketing of agricultural products, food quality schemes, promoting the adaptation and development of rural areas and forestry.

Modifications of the RDP

446. Under the notification procedure the Danish authorities notified five amendments in June 2005 to the Commission. The notification concerned changes in support rates in respect of investment in holdings, investment concerning processing and marketing as well as for forestry measures in respect of sustainable forestry and plantation of shelters.

447. The 2004 amendment was approved by Commission Decision C(2005)937 of 16 March 2005. Proposals for amendments to the Rural Development Programme requiring a Commission Decision were submitted in June 2005, and the amendment was approved by Commission Decision (C2005) of 7 December 2005. The modification concerned four changes in existing measures as well as seven new measures in relation to investment in holdings, food quality schemes, training, pilot projects in relation to agri-environment, village renovation and forestry.

Level of payments in the period from 16 October 2004 to 15 October 2005

448. For the year 2005 the plan foresees a total public expenditure of EUR 127.7 million, including an EU contribution of EUR 52.1 million. For the period of 16 October 2004 to 15 October 2005 the EAGGF expenditure amounted to EUR 46.2 million corresponding to 87% of the foreseen expenditures for the year.

449. From the beginning of the programming period, global financial execution for EAGGF-Guarantee is 73.3% in relation to the total budget foreseen for 2000–2006, or EUR 255.7 million on a total of EU 348.8 million.

Leader+ Programme

450. The total public allocation for the Danish Leader+ Programme 2000–2006 was increased in 2004 following indexation and now amounts to EUR 34.6 million including an EU contribution of EUR 17.3 million.

451. The programme is progressing well. The payments in 2005 amounted to EUR 2.8 million. After five years of implementation the financial execution is 32% in relation to the amount foreseen for the programming period 2000–2006.

6.4. Germany

Rural development programmes (EAGGF Guarantee)

Modifications of the RDP

452. In 2005 Germany introduced one amendment concerning the German Framework Regulation and 9 requests to amend the regional programmes. Additionally 12 amendments were notified to the Commission.

453. The amendments introduced new measures which had been adopted in the German Framework Regulation the year before: animal welfare, support of use of farm advisory services by farmers, funding of management of integrated rural development strategies by local partnerships and also support for farmers participating in food quality schemes. Some of the modifications introduced new agri-environmental

schemes or amended existing ones. In addition, the consolidated financial table covering all German programmes was modified.

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

Level of payments in the period from 16 October 2004 to 15 October 2005

455. For the year 2005 the consolidated financial table lays down an EU contribution of EUR 806.6 million. For the period of 16 October 2004 to 15 October 2005 the EU contribution for the plan came to EUR 803.8 million, showing an underspending of EUR 2.8 million. Germany has started to pay back advances by EUR 4.14 million.

456. From the beginning of the programming period, global financial execution for EAGGF Guarantee is 85% in relation to the budget foreseen for 2000–2006, that is, EUR 4 524.5 million on a total of EUR 5 308.6 million.

Objective 1 programmes (EAGGF Guidance)

Operational programmes on Single Programming Documents

457. 6 German Bundesländer are classified as Objective 1 regions: Berlin, Brandenburg, Mecklenburg–West Pomerania, Saxony, Saxony-Anhalt, Thuringia.

458. In 2005 five regional OPs were amended. The modifications followed the recommendations of the midterm evaluation and mostly resulted in financial shifts between priorities. However, funds where also shifted from EAGGF to ERDF in one region, and from FIAF to EAGGF in two other Länder.

Level of payments in 2005

459. Measures other than the accompanying measures are paid from the EAGGF Guidance section for these regions. The total eligible costs foreseen for 2005 were EUR 621.891 million, including an EAGGF Guidance contribution of EUR 468.364 million. In 2005 EUR 477.877 million were paid, thereof EUR 25.888 million on 2005 commitment.

Annual Reports

460. The annual reports for the year 2005 showed that in general the implementation of measures relating to the most important measures such as Article 33 measures and agri-environmental measures were satisfactory. The uptake of the investment aid, lagging behind the forecasts until 2005, has further improved.

Leader+ Programme

461. In 2005 seven German regional programmes were amended. A rather low demand for Action 2 (support for cooperation between rural territories) resulted in a budget shift to Action 1 (Integrated territorial rural development strategies of a pilot nature). The measures of Leader+ were rarely subject of amendments.

462. Due to the n+2 rule in four Leader+ programmes a total amount of EUR 0.147 million had to be decommitted.

6.5. Estonia

Rural development plan (EAGGF Guarantee)

463. The programme consists of the following measures: support for less-favoured areas, agri-environmental support, support for afforestation of agricultural land, support for semi-subsistence farms undergoing restructuring, meeting standards, complements to direct payments and technical assistance. The total EAGGF (Guarantee) budget 2004–2006 for the Estonian Rural Development Programme amounts to EUR 150.5 million. The total eligible public cost of the programme is EUR 188.16 million.

Modifications of the RDP

464. A modification of the RDP was approved by the monitoring committee of 11 November 2005; the modification was subsequently approved by the Commission through Decision C(2005) 5541 in December 2005. The modification introduces a compensatory payment to farmers in areas with environmental restrictions (NATURA 2000 areas) and increases the budget for agri-environmental measures.

Level of payments in the period until 15 October 2005 (EAGGF Guarantee)

465. The level of payments in the period up to 15 October 2005 is 42%. The total amount spent so far on the measures of the RDP for the period is EUR 63.25 million.

Objective 1 Programmes (EAGGF Guidance)

466. Whole Estonia is classified as Objective 1 region. The total EAGGF budget 2004–2006 amounts to EUR 56.798 million and the total eligible public expenditure of the EAGGF related measures is EUR 78.758 million.

467. Leader+ activities like acquisition of skills and support to pilot projects is supported within the framework of the Obj. 1 programme. The Leader measure has a budget of EUR 1.843 million of total public expenditure to which the EAGGF contributes EUR 1.475 million.

468. The Leader initiative and the forestry measures have not been approved operational by the national authorities. The Commission encourages the authorities to launch the measures without further delay.

Level of payments in 2005

469. In 2005, payments reached the level of EUR 26.6 million, i.e. 46.8% of the total Community budget for the period 2004–2006.

6.6. Greece

Rural development programme (EAGGF Guarantee)

470. The rural development programming document (RDP) for Greece accounts for EUR 2 440.8 million, with an EU-contribution of EUR 973.6 million from the EAGGF Guarantee Section. It is structured in six axes, where besides the initially approved schemes for early retirement, compensation for less-favoured areas, the

agri-environmental aid scheme and forestry support, following the 2005 modification, the food quality and meeting standards schemes were also added to the programme.

471. As regards the agri-environmental measures there are still some difficulties in their implementation where a number of schemes are not yet being implemented and the rate of absorption of expenditure is rather low.

472. In 2005 payments reached EUR 205.820 million. The accumulated payments since the beginning of the 2000–2006 programming period amount to EUR 663.125 million.

Modifications of the RDP

473. The RDP was modified in 2005 in order to improve the existing measures and include to the programme the newly introduced food quality and meeting standards schemes.

Level of payments in the period from 16 October 2004 to 15 October 2005

474. In 2005 payments reached to EUR 157.3 million (corresponding to 104.2% of the EAGGF Guarantee budget planned for 2005).

475. Since the beginning of the programming period, the overall financial implementation for EAGGF Guarantee has reached 80.7% of the planned amount for 2000–2006, i.e. an amount of EUR 801.9 million has been paid out of the foreseen amount of EUR 993.4 million.

Objective 1 programme (EAGGF Guidance)

Operational programmes or Single Programming Documents

476. The national mono-fund EAGGF Guidance Section programme for Greece was approved by the Commission on 6 April 2001. The Community contribution to this programme is of EUR 1 233.4 million for a total cost of EUR 3 010.2 million. On 24 November 2004, the Commission approved the decision for the mid term revision of this programme which included an additional amount of EUR 250 000 coming from the programming and performance reserves. On 15 December 2005, the Commission approved the decision for the modification of the programme aiming mainly to better address the needs of the rural population to reconstitute the damages from the adverse weather conditions that affected Greece since 2003 and in order to include within the Technical Assistance provisions for the preparation of the new programming period. The regional multi-fund programmes, approved during the first half of 2001 and amended in 2004 because of the midterm revision, represent a total cost of EUR 10 914.4 million with a total Community contribution of EUR 7 041.7 million of which the EAGGF Guidance Section contributes EUR 1 026.9 million. All the programming complements were also adopted by the monitoring committees. These committees took place during November – December 2005 and some actions facing implementation difficulties had to be reconsidered with the competent authorities of the MS in the context of the midterm revision.

Level of payments in 2005

477. In 2005 payments reached EUR 109.187 million. The accumulated payments of the EAGGF Guidance Section (EUR 481.161 million) since the beginning of the 2000–2006 programming period account for 32.4% of the foreseen budget.

Leader+ Programme

478. There is only one Leader+ programme for Greece. It was approved on 19 November 2001 with a total cost, after the 2004 indexation, of EUR 368.7 million of which EUR 186.13 million is the EAGGF Guidance Section contribution. In 2002, the managing authority selected the 40 local action groups as provided by the programme. The programme was amended in August 2004 following the midterm evaluation and planned indexation. The monitoring committee met twice in 2005.

479. For 2005, the payments amount to EUR 12.290 million.

480. The accumulated EAGGF Guidance Section payments (EUR 57.279 million) since the beginning of the 2000–2006 programming period account for 30.7% of the total budget of the programme.

6.7. Spain

Rural development programme (EAGGF Guarantee)

481. In 2000, the Commission approved 2 horizontal plans ("accompanying measures" and "improvement of structures") and 7 regional programmes (Aragon, Catalonia, Bask Country, Navarre, Balearics, La Rioja, Madrid).

Modifications of the RDP

482. On 31 January, the Spanish Authorities have presented an amendment (which do not require any new Commission decision) of the rural development programme of Aragón. It has been submitted as "notification" to STAR Committee in October 2005.

483. On 17 March, the Spanish Authorities have communicated an amendment of the financial table of the rural development programme of Aragón. It has been submitted as "communication" to STAR Committee in July 2005.

484. On 21 March, the Spanish Authorities have communicated an amendment of the financial table of the rural development programme of Catalonia. It has been submitted as "communication" to STAR Committee in July 2005.

485. On 26 April, the Spanish Authorities have communicated an amendment of the financial table of the rural development programme of Navarre. It has been submitted as "communication" to STAR Committee in September 2005.

486. On 10 June the Spanish Authorities have communicated the new financial tables according to Commission Decision C (2005) 361 for all the Spanish RDP programmes (Aragon, Catalonia, Bask Country, Navarre, Balearics, La Rioja, Madrid, "Accompanying measures" and "Improvement of structures". It has been submitted as "communication" to STAR Committee in December 2005.

487. On 8 July, the Spanish Authorities have presented an amendment (which do not require any new Commission decision) of the horizontal rural development programme of Accompanying measures. It has been submitted as “notification” to STAR Committee in October 2005.

488. On 25 July, the Spanish Authorities have presented an amendment (which do not require any new Commission decision) of the rural development programme of Catalonia. It has been submitted as “notification” to STAR Committee in October 2005.

489. On 6 September, the Spanish Authorities have presented an amendment (which do not require any new Commission decision) of the rural development programme of Aragón. It has been submitted as “notification” to STAR Committee in November 2005.

490. Finally, on 14 December the Commission has approved an amendment (by Commission decision) of the horizontal programme for Accompanying measures. This amendment concerns several aspects: it introduces a new measure providing the farm advisory services; it amends the following agro-environmental measures: agro-environment measure 3.3 “integrated production” is widen to the integrated production of cotton; measures 3.4.1 “organic production of the non irrigated cereals” and 3.4.2 “organic production of irrigated cereals” are transformed into one unique measure 3.4.1 “organic cereal production” and the amount of support is adjusted; it adapts the compensatory allowances: modifying the basic modules and increasing the maximum limit by farm of the amount of the compensatory allowances; it introduces complementary national aid of EUR 20 million for the compensatory allowances for 2005 and 2006; and finally, it adapts the financial table.

Level of payments in the period from 16 October 2004 to 15 October 2005

491. For this period, payments have reached EUR 533.9 million (100.9% of the EAGGF-Guarantee budget planned for 2005).

492. After 6 years of implementation, the global financial expenditure amounts to EUR 2 929.6 million, which represents 84.2% of the EUR 3 481 million expenditure planned for 2000–2006.

Objective 1 programmes

Operational programmes or Single Programming Documents

493. In 2000 and 2001, the Commission approved 2 horizontal programmes (one mono-fund for “Improvement of Structure”’ in objective 1 areas and one multi-fund for “Technical Assistance") and 10 multi-fund regional programmes (Andalucia, Asturias, Cantabria, Castilla la Mancha, Castilla y Leon, Extremadura, Galicia, Murcia, Canarias and Valencia), supplemented by their programme complement.

494. During 2005, the Commission made 8 amending to the operational programmes accompanied by adaptations of their programme complement in the framework of up date such programs. Finally, one additional program (technical assistance) has been amended in order to decommit the part of the funds committed in 2002 and not settled at end 2004 (N+2 Rule)

Level of payments in 2005

495. After 6 years of implementation, the global financial expenditure amounts to (EUR 3 490.2) million, which represents (66.7%) of the EUR 5 232.7 million expenditure planned for 2000–2006.

Leader+ Programme

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

497. 17 programmes are currently implemented under global grants, and one (Bask Country) under common Operational Programme form with a programme complement. 145 Local Action Groups have been created.

498. During 2005, the Commission has amended 9 programmes, 7 in order to decommit the part of the funds committed in 2001 and 2002 and not settled at end 2004 (N+2 Rule); at the same time, 2 of these programs have been financially reprogrammed. And 2 programs as to complete the indexation exercise (started in 2004) and the second one to proceed to the adaptation of the Leader + Aid Scheme.

499. After 6 years of implementation, the global financial expenditure amounts to EUR 182.97 million, which represents (36.4%) of the EUR 502.06 million expenditure planned for 2000–2006 (after indexation exercise)

6.8. France

Rural development programme (EAGGF Guarantee)

500. One national Rural Development Programme (RDP) for the period 2000–2006 was approved for France. The total public cost of this programme amounts to EUR 9 686.7 million of which the EAGGF contributes with EUR 4 751.3 million. Furthermore, a rural development axis was included in each of the 20 Objective 2 regional programmes. The total public cost for these 20 programmes amounts to EUR 1 424.7 million of which the EAGGF contributes with EUR 663.5 million.

Modifications of the RDP and rural development axis of Objective 2 programmes.

501. On 23 December 2004 the Commission received from the French authorities a second amendment request for the RDP, which was approved on 6 December 2005. It covers the main features of the support measures for investments in the farms, less-favoured areas, agri-environment, processing and marketing of agricultural products and environmental protection.

502. On 24 April 2005, French authorities submitted a draft consolidated financial table for all the French programming documents, financed under EAGGF Guarantee section, which was approved on 20 July 2005. In the framework of this decision, maximum total public expenditure and EAGGF contribution are respectively fixed at EUR 11 111.4 million and EUR 5 414.8 million.

503. In 2005, Monitoring Committees approved draft SPD amendments for most of the regions. These modifications were forwarded to the Commission and were adopted as formal amendments of the SPD’s.

Level of payments in the period from 16 October 2004 to 15 October 2005

504. During this period, payments reached EUR 879.5 million (100.4% of the EAGGF Guarantee Section's budget planned for 2005 (EUR 875.9 million).

505. After 6 years of implementation, the overall financial implementation for EAGGF Guarantee is 74.8% of the amounts planned for 2000–2006, i.e. a carried-out amount of EUR 4 313.1 million.

Objective 1 programmes (EAGGF Guidance)

Operational programmes or Single Programming Documents

506. 6 French regions are classified under Objective 1: the four overseas departments (Guadeloupe, Martinique, Guyana, Reunion), Corsica and partially the region Nord/Pas-de-Calais (the three Douai, Valenciennes and Avesnes on Helpe districts). The two latter are in phasing-out support.

Level of payments in 2005

507. The payments for 2005 amount to EUR 84.7 million, taking the total payments for the period 2000–2005 to EUR 348.9 million..

Leader+ Programme

508. The French National Programme on Community Initiative Leader+ was adopted on 8 August 2001 under the form of a global grant. Accordingly, the National Centre for Setting-up of Farming Structures (CNASEA) was designated as management authority. The total Community contribution amounts to EUR 268.1 million.

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

510. Payments reached EUR 25.0 million in 2005, although the expenditure statements carried out did not allow avoiding the N+2 de-commitment. By Commission Decision C(05)4278 of 26 October 2005 the EAGGF contribution to this programme was reduced by EUR 3.7 million. The financial implementation since 2000 has reached EUR 87.1 million, which represents 32.4% of the total budget appropriations for 2000–2006.

6.9. Ireland

Rural development programme (EAGGF Guarantee)

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

Modifications of the RDP

512. In 2005, the agri-environment measure (REPS) was amended. The amount of the premium of the agri-environmental scheme has been revised in order to take into account the implementation of the Single Farm payment since 1/1/2005.

Level of payments in the period from 16 October 2005 to 15 October 2005 (EAGGF Guarantee)

513. For the period 16 October 2004 to 15 October 2005 the EU expenditure for the programme amounted to EUR 357.48 million, which is in line with the spending profile of the programme

Operational programmes or Single Programming Documents (EAGGF Guidance)

514. EAGGF-Guidance Section contributes to Rural Development measures under the two Operational Programmes (Operational Programmes for the Border Midland and Western region and Southern and Eastern region) in the Community Support Framework 2000–2006. The revised EAGGF-Guidance section amounts to EUR 166.2 million. Progress of expenditure in the two regional Operational Programmes is still low due to difficulties encountered in implementing on-farm investment co-funded measures. Therefore a further automatic decommitment has been applied in 2005.

515. In 2005, payments reached the level of EUR 22.8 million. Cumulative EAGGF-Guidance payments until end 2005 amount to EUR 70.9 million or 45.1% foreseen for the programming period 2000–2006.

516. EAGGF Guidance would not contribute for the two year extension of the PEACE II operational programme. Therefore the EUR 12.7 million EU-contribution to the programme would not be increased

Leader+ Programme

517. The EU contribution 2000–2006 amounts to EUR 48.745 million which is the 65% of the total public expenditure for the period. After 5 years of implementation, the financial expenditure amounts to EUR 22.869 million, which represents 46.9% of the initial programme budget.

6.10. Italy

Rural development programme (EAGGF Guarantee)

518. In Italy 21 rural development programmes are cofinanced by EAGGF. The total amount of public expenditure of the rural development programmes for Italy amounts to EUR 8 744.3 million including a Community contribution of EUR 4 512.3 million provided by the EAGGF Guarantee Section.

Modifications of the RDP

519. Commission approved modifications for the following RDPs: Campania, Valle d'Aosta, Sardegna. Modifications concerned primarily the adaptation of several measures of the programme to take account of the effective implementation and the

reprogramming of the financial scheme. The modification of the RDP of the Region Sardegna concerned the introduction (for the first time in Italy) of a measure aiming at improving animal welfare.

520. During 2005, the Commission approved the single financial table for all Italian RDPs, presented in accordance to art 48.1 of Reg (CE) 817/04.

Level of payments in the period from 16 October 2004 to 15 October 2005 (EAGGF Guarantee)

521. At the date of 15.10.2005, the expenditure carried out in the current financial year for all the 21 rural development programming documents financed by EAGGF, Guarantee Section, amounted to EUR 679.8 million of Community contribution, which accounts for 99% of the annual budget envisaged.

522. Since the beginning of the programming period, the overall financial implementation for EAGGF Guarantee has been of 90% in relation to the amounts planned for 2000–2006, i.e. a carried out amount of EUR 4 032 million against an amount envisaged of EUR 4 512.3 million.

Operational programmes or Single Programming Documents

Amendments of the OPs or SPD

523. The seven Obj.1 Regions (Sicilia, Sardegna, Calabria, Basilicata, Campania, Puglia and Molise) are covered by multi-fond operational programmes. After the distribution of the performance reserve at community (+ 4%) and national level (+ 6%) the total amount of EAGGF contribution (Guidance section) in the Operational Programmes amounts to EUR 3 292.3 million for the entire programming period 2000–2006.

Level of payments in 2005

524. The 7 regions of the Objective 1 benefited from an EAGGF contribution of EUR 437.2 million in terms of payments in 2005. Since the beginning of the programming period, the paid amounts (EUR 1 435.2 million) have been accounting for 43.6% of the amount of the EAGGF Guidance Section planned for the whole programming period.

Leader+ Programme

525. For the programming period 2000–2006, Italy has approved 21 Regional Programmes and 1 National Network Programme. During 2005 eight programmes have been modified by Commission decision.

526. Four of these (Trento, Bolzano, Lombardia and Piemonte) have been modified to adapt several measures of the programmes to take account of their effective implementation, with small reprogramming of their financial scheme.

527. The other 4 Leader+ programmes (Sicilia, Puglia, Molise and Calabria) have been modified by Commission Decision in 2005 to decommit a global amount of EUR 5.9 million of EAGGF contribution in application of the “N+2” rule (amounts committed in 2002 and not declared as expenditure before the end of 2004).

528. Following the indexation, the total amounts of public expenditure planned for the Leader+ programmes for Italy amounts to EUR 490.3 million for the present programming period, including a Community contribution of EUR 289.1 million.

529. For the 22 Leader+ programmes, the total expenditure incurred up to 2005 amounts to EUR 40.1 million of EAGGF contribution, which represents less than 13.9% of the total budget for the period 2000–2006.

6.11. Cyprus

Rural development plans (EAGGF Guarantee)

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

531. The Commission approved in 2004 the Rural Development Plan (2004–2006) for Cyprus, to be co financed by the "European Agriculture Guarantee and Guidance Fund" (EAGGF) – Guarantee section. The Rural Development Plan (2004–2006) for Cyprus will cover the areas of the country under effective control of the internationally recognised government of the Republic of Cyprus.

532. The Rural Development Plan (2004–2006) for Cyprus represents 58% of the overall Community financial contribution during the current programming period and the remaining 42% regards ERDF, ESF and FIFG contributions. The EAGGF contributes with a total amount of EUR 74.8 million during this period and will be complemented by national public funding of EUR 69.08 million and by EUR 14.42 million additional State Aids. In addition it is estimated that the private sector will contribute with EUR 33.91 million. It is the most important programming document from the financial point of view, reflecting the importance of the sector in the country and the attention paid to this sector by the Cypriot authorities.

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

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

535. The Department of Agriculture of the Ministry of Agriculture, Natural Resources and Environment of Cyprus is the Managing Authority, and a Paying Agency (CAPO)

was established. The big majority of the calls for expression of interest for the various measures of the Rural Development Plan (2004–2006) of Cyprus have been published.

Modifications of the RDP

536. Two notifications not requiring a Commission Decision, were submitted in 2005. The eligibilities were extended within this context mainly in order to include advisory services to the farmers and a new rare breed of goats. In addition the Cyprus Organisation of Agricultural Payments (C.OA.P.) became the implementing body instead of the Department of Agriculture for the land based measures of the RDP, in order to better conduct crosschecking controls and to increase effectiveness.

Level of payments in the period from 16 October 2004 to 15 October 2005

537. During 2005, the EU contribution for the RDP consisted of the second part of the advance payment of EUR 4 .88 million (6% of the total amount) and a claim for payment of EUR 4.764 million was introduced and validated.

6.12. Latvia

Rural development plan (EAGGF Guarantee)

538. The total public costs amount to EUR 410.1 million, including a contribution of EUR 328.1 million from EAGGF-Guarantee. The programme includes support for producer groups, meeting standards, support for farmers in less favoured areas, agri-environment, early retirement and support for semi-subsistence farms.

Modifications of the RDP

539. A modification of the RDP was approved by the monitoring committee of 14 December 2005. The modification includes the introduction of a new agri-environmental sub-measure – “Restriction of erosion” – and of a new sub-activity to the existing agri-environmental measure “Preservation of genetic resources of farming animals”. Further modifications concern the inclusion of several new activities into the measure “Meeting Standards”. The changes do not affect the financial table.

Level of payments until 15 October 2005 (EAGGF Guarantee)

540. The level of payments in the period from 16 October 2004 to 15 October 2005 reached EUR 111.38 million, i.e. 33.9% of the total Community budget for the period 2004–2006.

Operational programmes or Single Programming Documents (EAGGF Guidance)

541. The Latvian Single Programming Document (SPD) for Objective 1 includes support for investments in agricultural holdings, setting up of young farmers, training, improving processing and marketing of agricultural products, promoting the adaptation and development of rural areas and forestry and development of Local Actions (Leader+ Type measures).

542. A proposed modification, submitted in September, concerns the transfer of funds reserved for technical assistance for the years 2005 and 2006 from the EAGGF to the EARDF in order to facilitate administration and control. The decision is still to be taken.

543. The total public cost of the EAGGF–Guidance part of the Latvian Single Programming Document 2004–2006 is EUR 140.6 million, including an EU contribution of EUR 93.33 million.

Level of payments in 2005

544. In 2005, payments reached the level of EUR 43.03 million, i.e. 46.1% of the total Community contribution for the period 2004–2006.

6.13. Lithuania

Rural development plans (EAGGF Guarantee)

545. The total public expenditure for the Rural Development Plan 2004–2006 is EUR 611.87 million and the maximum contribution from the EAGGF Guarantee section is EUR 489.50 million. The programme covers the whole territory of the country.

546. The Plan contains the following nine measures: Early retirement, LFA, Agri-environment, Afforestation of agricultural land, Support for semi-subsistence farms undergoing restructuring, Meeting standards, Technical assistance, Complementary national direct payments and the carry-over of SAPARD over-commitments.

Modifications of the RDP

547. In 2005 Lithuania submitted three notifications of amendments to the RDP, none of which required a Commission Decision. These amendments concerned the definition of beneficiaries within the Early retirement measure, the technical changes for the better consistency between Agri-environmental and LFA schemes, Meeting standards measure, eligibility of IT expenditure under the Technical assistance measure, the eligibility conditions of the Semi-subsistence farms undergoing restructuring measure, and the payments made to farmers giving up milk quota under the Early retirement measure. The first two notifications have already come into force, whilst the last is still being examined by the Commission.

Level of payments in the period from 16 October 2004 to 15 October 2005 (EAGGF Guarantee)

548. EAGGF-Guarantee expenditure for the period from 16 October 2004 to 15 October 2005 amounted to EUR 100.1 million or 61% of the annual envelope (EUR 164.1 million for 2005).

549. Cumulative EAGGF-Guarantee payments from the start of the programming period (2004) amount to EUR 178.4 million or 36.4% of the total Community budget foreseen for the 2004–2006 programming period.

Operational programmes or Single Programming Documents

550. Within the Objective 1 programme for Lithuania, which covers the whole country, the EAGGF-Guidance contribution amounts to EUR 122.898 million, which is 13.7% of the total Structural Fund envelope for the period 2004–2006.

551. The seven EAGGF-funded measures included in the SPD are: Investments in agricultural holdings, Setting up of young farmers, Training, Improving processing and marketing of agricultural products, Forestry, Promoting the adaptation and development of rural areas and the Leader+ type measure.

Level of payments

552. The total EAGGF-Guidance expenditure declared by Lithuania for 2005 was EUR 0.173 million. Cumulative EAGGF-Guidance payments amount to EUR 19.837 million (including advance payments) or 16.17% foreseen for the 2004–2006 programming period.

6.14. Luxemburg

Rural development programme (EAGGF Guarantee)

553. The total public cost for the National Rural Development Programme amounts to EUR 280.6 million of which the EAGGF contributes with EUR 89.8 million.

Modifications of the RDP

554. Under the notification procedure a financial amendment was introduced on 11 May 2005, taking into account Commission Decision of 29/04/2005 (2005/361/CE), modifying the indicative rural development allocation for the Member States under the EAGGF-Guarantee Section.

Level of payments in the period from 16 October 2004 to 15 October 2005

555. The 2005 allowance of the EAGGF Guarantee Section for the Grand Duchy of Luxembourg amounted to EUR 13.8 million. The EU expenditure reached EUR 16.0 million, or an overspending of 15%. The cumulated expenditures are now reaching EUR 78.1 million, 85.8% of total budget.

Leader+ Programme

556. The programme involves a total public expenditure of EUR 8.42 million from which, EUR 2.14 million for the EAGGF contribution. This amount includes the indexation decided on 30/11/2004 (C(2005) 4673). In Luxemburg, 4 LAGs were selected, covering 90 000 inhabitants and a 5th one is financed by national funds.

557. At the end of 2005, after six years of implementation, the total financial execution is 29% in relation to the total amount of EAGGF-Guidance expenditure foreseen for the period 2000–2006, that is EUR 0.62 million on a total of EUR 2.1 million.

558. National Leader network unit became fully operational in 2004 but shall be restructured by beginning of 2006.

6.15. Hungary

Rural development plans (EAGGF Guarantee)

559. There is one Rural Development Plan for the whole territory of Hungary, with a total public expenditure of EUR 754.14 million for the period 2004 to 2006. This includes a contribution from the EAGGF, Guarantee Section, of EUR 602.30 million.

Modifications of the RDP

560. The plan was modified by Commission decision n° C(2005)3425 of 2 September 2005. The modification concerned the introduction of a new measure, “Complements to direct payments”, pursuant to Article 33.h of Council Regulation (EC) N° 1257/1999, providing complementary support to area based direct payments under the Single Area Payment Scheme (SAPS).

Level of payments in the period 16 October 2004 to 15 October 2005

561. The Commission made a payment on account of EUR 36.13 million.

Objective 1 programmes (EAGGF Guidance)

Operational programmes or Single Programming Documents

562. There is one Agriculture and Rural Development Operational Programme for Community structural assistance under Objective 1, covering the whole territory of Hungary. The total public expenditure for the operational programme is set at EUR 428.5 million for the period 2004–2006. This includes a contribution of EUR 317.2 million from the European Union: respectively EUR 312.8 million from the EAGGF, Guidance Section, and EUR 4.4 million from the Financial Instruments for Fisheries Guidance.

Modifications of the OP

563. None. In 2005 the Managing Authority finalised the programme complement to the Operational Programme, detailing the information on programme implementation.

Level of commitments and payments in 2005

564. On the basis of the decision approving the programme, the Commission made a Community budget commitment of EUR 105.88 million (of which EUR 104.41 million for the EAGGF and EUR 1.46 million for the FIFG).

565. The Commission made a payment on account of EUR 19.02 million, of which EUR 18.76 million for the EAGGF part financed measures and EUR 0.26 million for the FIFG part financed measure, and interim payments of EUR 24.07 million for the EAGGF part financed measures.

566. Financial execution for the EAGGF part financed measures from the beginning of the programming period amounts to EUR 74.12 million, which is 23.69% of the budget foreseen for 2004–2006.

6.16. Malta

Rural development plans (EAGGF Guarantee)

567. There is one Rural Development Programme covering all rural areas of Malta. The total cost of the programme is EUR 33.6 million. The contribution of EAGGF, Guarantee Section, amounts to EUR 26.9 million.

Modifications of the RDP

568. None.

Level of payments in the period 16 October 2004 to 15 October2005

569. The Commission made a payment on account of EUR 1.6 million and two interim payments of EUR 6.29 million, for a total of EUR 7.9million.

Operational programmes or Single Programming Documents (EAGGF Guidance)

570. The Single Programming Document under Objective 1 of the Structural Funds, for which Malta as a whole is eligible, contains two measures part financed by the EAGGF Guidance Section, respectively Investments in Agricultural Holdings and Improving the Marketing and Processing of Agricultural Products. The total public expenditure associated to these measures is EUR 6 million, out of which the EU contribution is that of EUR 4.2 million. In 2005 the Managing Authority finalised the programme complement to the Single Programming Document, detailing the information on programme implementation.

Modifications of the OP

571. No modifications were submitted in 2005.

Level of commitments and payments in 2005

572. On the basis of the decision approving the programme, in 2005 the Commission made a Community budget commitment of EUR 1.39 million.

573. In 2005, the Commission made a payment on account of EUR 0.25 million. The Maltese authorities submitted an interim payment of EUR 0.13 million.

6.17. The Netherlands

Rural development programme (EAGGF Guarantee)

574. The total public cost of the rural development programme for the Netherlands is EUR 966.62 million, including an EU contribution of EUR 417 million from the European Agricultural Guidance and Guarantee Fund, Guarantee section (EAGGF-Guarantee).

Modifications of the RDP

575. In the STAR committee of April 2005 a modification of the Dutch Rural Development Plan was approved. A new measure was included to stimulate

investments on farms by young farmers. Also some financial changes have been made. The Commission Decision including this amendment was issued on 25 July 2005: C(2005) 2930.

576. A notification — following Commission Decision C(2004) 592 — that extended the Dutch less favoured areas, entered into force on 10 May 2005. Another notification with minor technical changes entered into force on 4 August 2005.

577. A financial communication including a new financial table was received on 13 October 2005 and thus entered into force on that date.

Level of payments in the period from 16 October 2004 to 15 October 2005 (EAGGF Guarantee)

578. For this period the Netherlands claimed an EU contribution for the programme of EUR 63.28 million. This means that the Netherlands spent 101.6% of their annual budget of EUR 62.29 million.

579. From the beginning of the programming period, global financial execution for EAGGF-Guarantee is 87% in relation to the total budget foreseen for 2000–2006, that is EUR 363.78 million on a total of EUR 417 million.

Objective 1 Programmes (EAGGF Guidance)

Operational Programmes or Single Programming Documents

580. One Single Programming Document was approved for the Netherlands: the phasing out Objective 1 SPD for Flevoland. An Update of the Mid Term Review has been finished. On the base of this update a shift of EUR 2.1 million EAGGF from measure 2.1 (strengthening the agricultural sector) to 2.3 (strengthening the rural area) has been made. At the end of the year a modification proposal has been submitted to the Commission.

Level of payments in 2005

581. From the beginning of the programming period, global financial execution for EAGGF-Guidance" is 46.1% in relation to the total budget foreseen for 2000–2006, that is that is EUR 4.8 million on a total of EUR 10,4 million.

Leader+ Programme

582. In the Netherlands 4 Leader+ programmes were approved: one for South, involving total expenditure of EUR 48.4 million of which EUR 19.6 million EAGGF-Guidance contribution; one for Randstad, involving total expenditure of EUR 39.5 million of which EUR 19.6 EAGGF-Guidance contribution; one for East, involving total expenditure of EUR 46.7 million of which EUR 18.9 million EAGGF-Guidance contribution and one for North, involving total expenditure of EUR 71.7 million of which EUR 25.5 million EAGGF-Guidance contribution.

583. In 2005 for three out of the four Leader+ programmes new modifications have been submitted to the Commission and approved. For Leader+ East the modification concerned an automatic decommitment of 209.987 euro (C(2005)3624). For Leader+ Randstad and Leader+ South the modification concerned a shift in budget from

Priority 2 to Priority 1 (Leader+ South: C(2005)4551; Leader+ Randstad : C(2005)5204). For Leader+ North an amendment to the programming complement was received. Since the adoption of the Leader+ programmes a total amount of EUR 35.86 million of EU contribution has been paid (42.8% of the total budget for the period).

6.18. Austria

Rural development programme (EAGGF Guarantee)

584. The total public cost of the Austrian Rural development Programme 2000–2006 is EUR 6 570.06 million, including an EU contribution of EUR 3 208.10 million from the EAGGF Guarantee Section. The programme includes support for investments in agricultural holdings, setting up of young farmers, training, less-favoured areas, agri-environment, improving processing and marketing of agricultural products, promoting the adaptation and development of rural areas and forestry.

Modifications of the RDP

585. In 2005 Austria proposed three modifications of the Austrian RDP. Two modifications concerned measures and were introduced as notifications pursuant to Article 51(5) of Regulation (EC) No 817/2004. The third modification concerned the overall financial table. All modifications were accepted.

Level of payments in the period from 16 October 2004 to 15 October 2005 (EAGGF Guarantee)

586. For the year 2005 the plan foresees a total public expenditure of EUR 1 043 million, including an EU contribution of EUR 478 million (of which the agri-environmental measures represent EUR 660 million of total public expenditures, including an EU contribution of EUR 326 million). For the period of 16 October 2004 to 15 October 2005 the payments of EAGGF-Guarantee amount to approximately EUR 479.1 million which is 100% of the annual Community contribution.

587. From the beginning of the programming period, global financial execution for EAGGF-Guarantee is 85.9% in relation to the total budget foreseen for 2000–2006, that is EUR 2 758.4 million of a total of EUR 3 208.1 million.

Annual Report

588. The monitoring tables for 2004 showed that the implementation of measures is satisfactory.

Objective 1 Programmes (EAGGF Guidance)

589. The total public cost of the Austrian Objective 1 operational programme (Burgenland) for the programming period 2000–2006 is EUR 389.5 million, including an EU contribution of EUR 282.9 million.

Operational programmes or Single Programming Documents

590. In 2005 two modifications of the Austrian Objective 1 operational programme were approved, Decision C(2005)3769 of 04 October 2005 and Decision C(2005)5841 of 20 December 2005. The modifications concerned financial and non-financial aspects.

Level of payments in 2005

591. The programme foresees public expenditures for RDP measures (EAGGF) in 2005 totalling of EUR 8.5 million and an EU (EAGGF) contribution of EUR 6.4 million. Since the adoption of the Objective 1 programme Burgenland an amount of EUR 36 million EU-contribution has been paid (around 83% of the total budget for the whole period).

Annual Report

592. The annual report includes a brief analysis and tables about the indicators on priority and measure level. There have been no major changes in the socio-economic trends, the national, regional and sectored policies.

Leader+ Programme

593. The Leader+ programme for Austria was approved by Decision C(2001)820 of 26 March 2001. During the period 2001–2006, the total expenditure under the programme is EUR 164.30 million. This includes an EU contribution of EUR 76. 80 million and a contribution of EUR 59 million from the private sector (this figures include already the index-money).

594. The Austrian Leader+ programme covers 8 regions of Austria with the exception of the urban area of Vienna.

595. Following a public tender 56 local actions groups have been selected under the programme. The groups cover 46 996 sq. km or approximately 45% of the territory with a population of 2 175 079 inhabitants.

596. The programme foresees expenditures in 2005 totalling EUR 29.1 million. This includes an EU contribution of EUR 13.6 million and a contribution of EUR 10.4 million from the private sector.

597. Since the adoption of the Austrian Leader+ programme an amount of EUR 37.1 million has been paid (48.3% of the EAGGF budget for the period 2000–2006). Concerning the n+2 rule no problem was encountered during the current period and especially the year 2005.

6.19. Poland

Rural development plans (EAGGF Guarantee)

598. The Rural Development Plan was approved for Poland on 6 September 2004. The total public expenditure foreseen for the period 2004–2006 is EUR 3 571.8 million of which the EU-contribution makes up EUR 2 866.4 million.

Modifications of the RDP

599. In 2005 the Polish authorities forwarded 2 notifications of amendments and one financial notification. First notification concerned six measures: Early retirement, Support for semi-subsistence farms undergoing restructuring, Support for LFA, Agri-environment, Afforestation and Meeting Standards. This notification entered into force in December 2005. Second notification concerns measure Producer Groups and is under processing. Financial notification with re-allocation of 12.4% of the total budget entered into force on 14 December 2005.

Level of payments in the period from 16 October 2004 to 15 October 2005

600. Payments for the financial year 2005 amounted to EUR 918 million and EUR 459 million (without advances). Total payments till end of FY 2005 amounted to EUR 918.056 million (with advances) and EUR 459.432 million (without advances).

Objective 1 programme (EAGGF Guidance)

Operational programmes or Single Programming Documents

601. One Sectoral Operational Programme "Restructuring and modernisation of the food sector and rural development 2004–2006" (SOP) was approved for Poland. The total public expenditure amounts to EUR 1.784 million, in which the EAGGF-Guidance contribution is EUR 1.192 million.

Level of payments in 2005

602. The total EAGGF-Guidance expenditure declared by Poland and paid by the European Commission for 2005 was EUR 65.5 million (or 5.5% of the EAGGF allocation for 2004–2006). Cumulative EAGGF-Guidance payments till end 2005 amount to EUR 256.3 million (including advance payments of EUR 190.8 million).

Modifications of the operational programmes

603. One modification was approved on 8 August 2005 by Commission Decision C(2005)3151. It concerns slight modifications of the conditions for aid in the measures Training, Provision of advisory services, Agricultural water management as well as Marketing and processing of agricultural products.

6.20. Portugal

Rural development programme (EAGGF Guarantee)

604. The total public expenditure for the three Rural Development Programmes (Mainland Portugal, Azores and Madeira) is set at EUR 1 982.177 million for the period 2000–2006. This includes a contribution from the EAGGF, Guarantee Section, of EUR 1 516.8 million.

Modifications of the RDP

605. Two programmes (Mainland and Azores) were modified in 2005.

Level of payments in the period from 16 October 2004 to 15 October 2005 (EAGGF Guarantee)

606. The 2005 EAGGF-Guarantee allocation for Portugal was set at EUR 226.3 million. The payments for the same period amounted to EUR 178.9 million, i.e. 79.1% of that allocation.

607. Since the beginning of the programming period, overall financial execution for the EAGGF Guarantee in Portugal amounted to EUR 1 023.5 million, which is 67.5% of the total allocation for 2000–2006.

Operational programmes or Single Programming Documents (EAGGF Guidance)

Modifications of the operational programmes

– OP Lisboa e Vale do Tejo was modified once: the modification aimed at a EAGGF 'N+2' decommitment of EUR 6 319 736

– OP Agriculture and Rural Development was modified once: the modification aimed at reprogramming between two Axes and at a modification of the EAGGF financing rate in the measure 3 "Forests".

Payments in 2005

608. In 2005, payments for the nine OPs have amounted to EUR 229.7 million. As from the beginning of the programming period, payments have amounted to EUR 1 266.4 million, i.e. 55.3% of the total budget (EUR 2 288.977 million) for the period 2000–2006, following the mid-term review.

Leader+ Programme

609. Portugal has one single national Leader+ Programme. The total costs are set at EUR 272.625 million for the period 2001–2006. This includes a contribution from the EAGGF, Guidance Section, of EUR 164.454 million.

610. Since the beginning of the programming period, payments have amounted to EUR 84.108 million, i.e. 30.8% of the total budget allocation for the same period.

611. In 2005, the Leader+ Programme was modified once : the modification aimed at reprogramming between Axis, without changing the total EAGGF-Guidance contribution for the programming period and for the years in question:

– for the year 2005: transferring the total amounts programmed for Action 3 and Action 4 to Action 1,

– for the year 2006: transferring the total amount programmed for Action 4 to Action 1.

6.21. Slovenia

Rural development plans (EAGGF Guarantee)

612. The Slovene Rural Development Plan (RDP) was approved by the Commission Decision C(2004)3224 of 24 August 2004. The financial contribution from EAGGF amounts to EUR 281.6 million during the period of 2004–2006, which will be complemented with national public funding of EUR 71.5 million. The Rural Development Plan aims to ensure the goals of the rural development policy through two main priorities: sustainable development of agriculture and countryside, and economic and social restructuring of agriculture. The first objective shall be achieved through agri-environmental measures and support to less-favoured areas while measures aiming at early retirement and meeting standards shall contribute to economic and social restructuring.

Modifications of the RDP

613. No modifications were submitted in 2005.

Level of payments in 2005 (EAGGF Guarantee)

614. For the year 2005 the consolidated financial table lays down an EU contribution of EUR 94.4 million, while an amount of EUR 69.4 million has been paid out.

615. From the beginning of the programming period, global financial execution for EAGGF Guarantee is approximately 42% in relation to the total budget foreseen for 2004–2006, that is EUR 118.7 million on a total of EUR 281.6 million.

Operational programmes or Single Programming Documents (EAGGF Guidance)

616. The Slovene Single Programming Document (SPD) – Objective 1 Programme was approved by Commission Decision C(2004)2122 of 18 June 2004. One of the four identified priorities of this Programme is restructuring of agriculture, forestry and fisheries. Within this priority, the financial contribution from EAGGF amounts to EUR 23.6 million during the period 2004–2006, which will be complemented by national public funding of EUR 23.6 million. As regards measures supported through EAGGF, emphasis is laid on increasing economic efficiency and competitiveness and meeting demands for food safety and quality. Importance is also given to forest management in order to improve their economic and ecological value and functions. This is closely connected with support to development of tourism and promotion of alternative income sources in rural areas.

Modification of the OP or SPDs

617. No modifications were submitted in 2005.

Level of payments in 2005

618. For the year 2005 the consolidated financial table lays down an EU contribution of EUR 7.9 million, while an amount of EUR 1.6 million has been paid out.

619. From the beginning of the programming period, global financial execution for EAGGF Guidance is approximately 17% in relation to the total budget foreseen for 2004–2006, that is EUR 4.0 million on a total of EUR 23.6 million.

Annual Reports

620. The annual reports for 2004 showed that the first months of the implementation of rural development measures after the accession on 1 May 2004 started satisfactorily for the Rural Development Programme and notably for agri-environmental measures. As regards the Single Programming Document, that is the uptake of investment aid, the first year of implementation was too short to result in a significant progress.

6.22. Slovakia

Rural development plans (EAGGF Guarantee)

621. The Rural development plan of Slovakia 2004–2006 was approved in July 2004, by the Commission Decision C (2004)3238. The EAGGF-contribution of the programme amounts to EUR 397.1 to which is added EUR 123.5 million of national public co-financing and EUR 41.1 million of private co-financing. The overall amount allocated for the Rural development plan is of EUR 561.8 million. The global objective is to improve efficiency in the agricultural production sector and the quality of life of rural populations – "Multifunctional agriculture and sustainable rural development".

622. The specific objectives of the Plan are:

– to support the development of rural economy and to guarantee improvement of the standard of life of rural populations;

– to improve the development of rural areas through access to infrastructure services, thus retaining population of rural communities;

– to guarantee environmental protection and biodiversity of rural environments, while taking care of sustainability of utilisation of rural resources.

Modifications of the RDP

623. No modifications were submitted by the Slovak authorities in 2005.

Level of payments in the period from 16 October 2004 to 15 October 2005 (EAGGF Guarantee)

624. For the year 2005 the financial table fixes the EU contribution to EUR 133.1 million. During 2005 an advance payment of EUR 23.83 million and an interim payment of EUR 81.24 million were made.

Objective 1 Programmes (EAGGF Guidance)

625. The Slovak Operational Programme Agriculture and Rural Development was approved by Commission Decision C (2004)2791 of 12 July 2004. The financial contribution from EAGGF amounts to EUR 181.158 million during the period 2004–2006, to which is added national public funding of EUR 72.8 million. The major attention has been given to the maintenance and creation of competitive jobs in rural

areas. Therefore, the Slovak Operational Programme is focused on investments in the farming sector (including the diversification of farm activities), as well as in the processing and marketing sector, the fisheries and the forestry sector. During 2005 a payment of EUR 10.87 million was made.

6.23. Finland

Rural development programme (EAGGF Guarantee)

626. In 2000 the Commission approved three rural development programmes, two for continental Finland and one for the Åland Islands, which is an autonomous province of Finland.

Modifications of the RDP

627. A proposal to modify the Rural Development Programme for Continental Finland was approved by Commission Decision in April 2005. The modification proposal concerned the agri-environmental measures where a new measure was introduced for farmers rearing animals organically.

Level of payments in the period from 16 October 2004 to 15 October 2005 (EAGGF Guarantee)

628. For this period Finland claimed an EU contribution for the programmes of approximately EUR 336.9 million. This means an overspending of 1% of the total annual budget of EUR 333.4 million.

629. From the beginning of the programming period, global financial execution for EAGGF-Guarantee is 90.2% in relation to the total budget foreseen for 2000–2006, that is EUR 1 982.9 million on a total of EUR 2 199.3 million.

Operational programmes or Single Programming Documents (EAGGF Guidance)

630. In 2000 the Commission approved two Single Programming Documents (SPDs) for Objective 1 implemented in Finland: Eastern Finland and Northern Finland.

Level of payments in 2005

631. After five years of implementation an amount of EUR 100.59 million (49.73%) has been paid out of the total budget 2000–2006.

Leader+ Programme

632. In 2001 the Commission approved one Leader+ programme for Finland, 25 Local Action Groups (LAGs) were selected and are supported by a national network.

633. After four years of implementation of the programme an amount of EUR 25.88 million (57.1%) has been paid out of EUR 45.36 million committed for 2001–2005.

6.24. Sweden

Rural development programme (EAGGF Guarantee)

634. In 2000 the Commission approved one rural development programme (accompanying measures covering the entire country, other measures covering non-Objective-1 regions). The total public cost of the Swedish Rural Development Programme 2000–2006 is EUR 2 558.7 million, including a contribution of EUR 1 129.9 million from EAGGF-Guarantee. The programme includes support for investments in agricultural holdings, setting up of young farmers, training, less favoured areas, agri-environment, improving processing and marketing of agricultural products, afforestation of non-agricultural land and promoting the adaptation and development of rural areas and forestry. From 2005 commitments relating to modulation have started to be realised.

Modifications of the RDP

635. A proposal to modify the Rural Development Programme for Sweden, for which a Commission decision was required, was submitted to the Commission in July 2004. The modification proposal concerned agri-environment and the promotion of the adaptation and development of rural areas. The decision was finally taken in March 2005. Three smaller amendments have been submitted and executed during 2005: force majeur for agri-environmental measures due to the storm 'Gudrun', training in forestry related to the storm and adjustment to the Nitrate Directive.

Level of payments in the period from 16 October 2004 to 15 October 2005 (EAGGF Guarantee)

636. The level of payment is 100.1% (expenditure/envelope), and the total expenditure amounts to EUR 170.7 million compared to an annual envelope of EUR 170.6 million.

637. From the beginning of the programming period, global financial execution for EAGGF-Guarantee is 87,6% in relation to the total budget foreseen for 2000–2006, that is EUR 989.8 million on a total of EUR 1 129.9 million.

Operational programmes or Single Programming Documents (EAGGF Guidance)

638. In 2000 the Commission approved the Objective 1 programmes for Norra Norrland and Södra Skogslänsregionen.

Level of payments in 2005

639. After five years of implementation the financial execution is 58.35% in relation to the funds committed in the beginning of the programming period for Objective 1 Norra Norrland. The corresponding figure for Objective 1 Södra Skogslänsregionen amounts to 56.67% This means that for Objective 1 Norra Norrland, an amount of EUR 30.54 million has been paid out of the EUR 52.34 million available for the period 2000–2006. The corresponding figures for Objective 1 Södra Skogslänsregionen amount to EUR 36.10 million out of EUR 63.7 million.

Leader+ Programme

640. In 2001 the Commission approved one Leader+ programme. In total 12 Local Action Groups have been selected.

641. After five years of implementation the financial execution is 41,43% (to be updated in January, last payment 2005 not yet included) in relation to the amount available for all the programming period, thus EUR 17.07 million paid out of the EUR 41.2 million (including indexation 2004 – 2006) available for the whole programming period.

6.25. United Kingdom

Rural development programme (EAGGF Guarantee)

642. There are four Rural Development Programmes for the period 2000–2006: England, Northern Ireland, Scotland and Wales. The total cost for these programmes is EUR 3 200 million, of which the EAGGF Guarantee section contributes with EUR 1 148 million.

Modifications of the RDP

643. The respective authorities of the United Kingdom notified the Commission of modifications to the Rural Development Programmes for England, Scotland, Northern Ireland and Wales. The changes concerned the measures for training, less favoured areas, agri-environment, forestry, the adaptation and development of rural areas and financial issues.

644. Proposals to modify the Rural Development Programmes for England, Wales and Northern Ireland for which a Commission decision is required, were submitted to the Commission in 2005. The modifications concerned the measures for agri-environment and animal welfare. The England 2004 modification to the agri-environment measure was approved by Commission Decision of 25 April 2005.

Level of payments in the period from 16 October 2004 to 15 October 2005 (EAGGF Guarantee)

645. The level of payment for all UK Rural Development Programmes is 96% of the EAGGF-envelope for the year 2005. The total expenditure amounts to EUR 156 million compared to an envelope of EUR 162 million.

646. From the beginning of the programming period, global financial execution for EAGGF-Guarantee is 83% in relation to the total budget foreseen for 2000–2006, that is EUR 956 on a total of EUR 1 148 million

Objective 1 programmes (EAGGF Guidance)

Operational programmes or Single Programming Documents

647. EAGGF Guidance support is available only in regions eligible for Objective 1 (or regions in transition): Cornwall and the Scilly Isles, Merseyside, Northern Ireland (in transition), South Yorkshire, Highlands and Islands (in transition) and West-Wales and the Valleys. In addition EAGGF Guidance contributes to the special programme PEACE II for Northern Ireland and the Border Counties of Ireland.

Level of payments in 2005

648. The total amount (excluding PEACE II) paid by the end of 2005 was EUR 187 million (53% of the total budget foreseen for the 2000–2006 programming period, i.e.

EUR 355 million). Further claims for payment were made before the end of December 2005 and these will be paid in 2006. All the programmes reached their respective N+2 targets.

649. The total amount paid out of EAGGF-Guidance for the PEACE II Programme managed jointly with Ireland was EUR 26 million (59% of the envelope of EUR 44 million for the years 2000–2004).

Leader+ Programme

650. The UK has four Leader+ programmes: England, Northern Ireland, Scotland and Wales with 55 Local Action Groups. The total cost of the four programmes amounts to EUR 266 million, of which the EAGGF contributes with EUR 115 million.

651. By the end of 2005 a total amount EUR 45 million was paid (39% of the total budget for the 2000–2006 programming period).

652. All the programmes reached their respective N+2 targets.

7. ENVIRONMENT AND FORESTRY

7.1. Other environmental measures

653. In the wake of its January 2000 and March 2001 Communications entitled “Indicators for the integration of environmental concerns into the common agricultural policy”[60] and “Statistical information needed for indicators to monitor the integration of environmental concerns into the common agricultural policy"[61], the Commission provided the conceptual input for the IRENA[62] operation and presented an analytical framework including a set of 35 agri-environmental indicators for monitoring progress towards the integration of environmental concerns into the CAP. IRENA is a joint exercise between several Commission services and the European Environment Agency and it covers the 15 Member States that formed the EU in 2002. Fact sheets and their corresponding data sets for 40 (sub-)indicators, an Indicator Report (“Agriculture and environment in EU-15”), an Indicator-based Assessment Report, and an Evaluation Report were produced in 2005. A Commission Communication (planned for the 2nd quarter 2006) will report to the Council and to the European Parliament on the progress made in the development of agri-environmental indicators and on the challenges and actions needed to improve, update and extend the indicators.

654. Based on provisions of Council Regulation (EC) No 1782/2003, Member States must implement cross-compliance in respect to statutory management requirements, including in the area of the environment, and minimum standards for good agricultural and environmental conditions. Moreover, by 1 January 2007, Member States are required to set up farm advisory systems covering at least those requirements and standards. In this context, a two-year (2005-2006) study, entitled

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60 COM(2000) 20 final.

61 COM(2001) 144 final.

62 IRENA is the acronym of “Indicator Reporting on the integration of Environmental concerns into Agriculture policy”.

"Study on environmental Cross-compliance Indicators in the context of the Farm Advisory System" (CIFAS study), was launched at the beginning of 2005. The study is carried out by the European Environment Agency (EEA) under the supervision and guidance of a steering group including representatives of different Commission services. The study aims to help the building and functioning of the above-mentioned farm advisory systems, by contributing to the development of suitable farm advisory tools, in particular "farm level indicators" related to cross-compliance requirements in the domain of the environment. The farm advisory tools are meant to help (a) identify the relevant land and farm management practices used by the farmer, (b) assess the level of achievement of the environmental cross-compliance requirements applicable to the farmer concerned, and (c) identify the practices that can help achieve compliance. The study also intends to facilitate the exchange of relevant information and experience among EU Member States, in particular with the creation of a dedicated website and the organisation of four specific seminars.

655. The implementation of the "Biodiversity action plan for agriculture"[63], adopted by the Council in June 2001 and by the European Parliament in March of the following year, continued in 2005. The main instruments to contribute to the conservation of farm-dependent biodiversity and habitats are integrated in the 1st and 2nd pillars of the CAP. The Commission presented a report on the implementation of the various sectoral Action Plans, including agriculture, at the high-level conference on biodiversity which took place in Malahide (Ireland) and which was organised jointly by the Irish Presidency and the Commission in May 2004. Council (Environment) conclusions were adopted in June 2004 requesting the Commission to define priorities and targets in all sectors concerned and to propose specific measures able to contribute to the objective of halting European biodiversity loss by 2010. In 2005, the Commission launched a public internet consultation, the results of which will be taken into account in finalising a Communication (in the 1st quarter of 2006) on the measures the EU could adopt to halt the loss of biodiversity and to restore biodiversity in the longer-term.

656. Council Regulation (EC) No 870/2004 establishing a Community programme on the conservation, characterisation, collection and utilisation of genetic resources in agriculture[64] was adopted in April 2004. The Community programme covers actions that aim to support, complement or coordinate at Community level work undertaken at local, regional, or Member State level in line with the aims of the CAP and sustainable agriculture. Smaller-scale measures may also cover *in situ*/on-farm genetic resource conservation activities (reproduction of genetic resources by farmers, on their own farm). The actions must be trans-national, taking into account, where appropriate, bio-geographic regional aspects. The first call for proposals for the Community programme was published in July 2005[65]. In response of this call, the Commission received 30 proposals. The proposals have been assessed by the Commission against the eligibility criteria, and by independent experts on the basis of published award criteria.

657. Agriculture plays a determining role in other Community initiatives aimed at safeguarding the environment. The measures currently being carried out to protect

63 COM(2001) 162 final, volume III.
64 COM(2003) 817 final.
65 OJ C 183, 26.7.2005.

surface water and groundwater[66] are one example of this. Under the Nitrates Directive, Member States must draw up and implement action plans in designated vulnerable zones in order to reduce nitrate pollution at source. The 1979 Birds Directive is another relevant Community initiative, which obliges Member States to protect the habitats of their wild bird populations. Lastly, an ecological network known as "Natura 2000" has been set up under the 1992 Habitats Directive. The lists of sites of Community importance for the Macaronesian[67], Alpine[68], Continental[69], Atlantic[70] and Boreal[71] bio-geographical regions were adopted by the Commission respectively in 2001, 2003, 2004 and 2005. In order to address the issue of appropriate Community financial support for the implementation of the Natura 2000 network, the Commission adopted in July 2004 a Communication on financing Natura 2000[72]. Funding of Natura 2000 was further integrated into the Common Agricultural Policy through the adoption of a new Rural Development Regulation[73] for the period 2007–2013 which provides financing opportunities for agricultural and forestry activities that are beneficial for biodiversity protection.

658. 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. In this context, with respect to environmental policy instruments, the Commission set out to develop 7 thematic strategies, most of them having strong links with agriculture. In 2005, the Commission adopted four of these strategies: The thematic strategy on air pollution[74], the thematic strategy on the protection and conservation of the marine environment[75], the thematic strategy on the sustainable use of natural resources[76] and the thematic strategy on the prevention and recycling of waste[77]. Preparations for the thematic strategy on the sustainable use of pesticides continued on the basis of a Communication adopted in 2003[78]. This strategy, which is foreseen for 2006, is to complement the existing legislative framework, which focuses on the beginning and end of the life cycle of pesticides. Similarly, the preparations for the thematic strategy for soil protection continued on the basis of a 2003 Commission Communication[79], which constitutes a first step towards drawing up a genuine Community protection strategy and is both descriptive and action-orientated, thus providing a full picture of this complex issue that can serve as a basis for future work.

66 COM(2003) 550 final.
67 OJ L 5, 9.1.2002, p. 16.
68 OJ L14, 21.1.2004, p. 21.
69 OJ L 382, 28.12.2004, p. 1.
70 OJ L 387, 29.12.2004, p. 1.
71 OJ L 40, 11.2.2005, p. 1.
72 COM(2004) 431 final.
73 OJ L 277, 21.10.2005, p .1.
74 COM(2005) 446 and 447 final.
75 COM(2005) 504 and 505 final.
76 COM(2005) 670 final.
77 COM(2005) 666 and 667 final.
78 COM(2003) 349 final.
79 COM(2003) 179 final.

659. Following the adoption in 2003 of Commission Recommendation 2003/556/EC[80] on guidelines for the development of national strategies and best practices to ensure the coexistence of genetically modified crops with conventional and organic farming, several Member States notified national or regional measures to the Commission during the years 2004 and 2005. The Commission evaluated these notifications according to the principles stated in the Recommendation. In July 2005 the Commission established a network group for the exchange and coordination of information concerning coexistence of genetically modified, conventional and organic crops (Commission Decision 2005/463/EC)[81]. The first meeting of the group, composed of national experts appointed by the Member States, was held in September 2005. In 2006, the Commission will report to the Council and the European Parliament, based on information from Member States, on the experience gained in the Member States concerning the implementation of measures to address coexistence, including, if appropriate, an evaluation and assessment of further steps to take.

7.2. Other forestry measures

660. 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.

661. Co-operation and co-ordination with the Member States continued through the Standing Forestry Committee. In the course of 2005, the Committee met 6 times. In addition, three Working Groups within the Standing Forestry Committee were established for the preparation of the EU Forest Action Plan, which is due to be presented by the Commission in 2006. Similarly, two meetings of the advisory group on forestry and cork were held during the year.

662. Following a call for tenders (2005/S 97–095822), the Commission awarded a service contract for the implementation of a preparatory action aimed at developing an internet-based European Forest Information and Communication Platform (EFICP).

663. Concerning the implementation of projects and programmes for the protection of forests against atmospheric pollution and fires under Council Regulation (EEC) No 3528/86[82] and Council Regulation (EEC) No 2158/92[83], a total of 20 projects and programmes were closed, reducing the number of open contracts to 9 by the end of the year.

8. PROPOSAL FOR A FINANCING OF THE CAP IN 2005

664. 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

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80 OJ L 189/36, 29.7.2003.
81 OJ L 164, 24.6.2005, p. 50.
82 OJ L 326, 21.11.1986, p. 2-4 (Finnish and Swedish special editions, Chapter 3, Volume 22, p. 59).
83 OJ L 217, 31.7.1992, p. 3 (Finnish and Swedish special editions, Chapter 3, Volume 44, p. 3).

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.

665. The Financials Perspectives for EU-15 and for EU-25 for the budget years 2005-2006 are as follows:

	2000 current prices	2001 current prices	2002 current prices	2003 current prices	2004 current prices	2005 current prices	2006[84] current prices
Total for CAP under Agenda 2000	41 738	44 530	46 587	47 378	49 305	51 439	52 618
a) markets (sub-ceiling 1(a))	37 352	40 035	41 992	42 680	42 769	44 598	45 502
b) rural development (sub-ceiling 1(b))	4 386	4 495	4 595	4 698	6 536	6 841	7 116

8.1. EAGGF Guarantee Section

Budgetary procedure

Stages of the budgetary procedure

666. The 2005 Preliminary Draft Budget was adopted by the Commission and proposed to the Budgetary Authority in April 2004. The appropriations proposed for the EAGGF Guarantee Section totalled EUR 50 675.5 million, i.e. EUR 43 834.5 million for subheading 1a and EUR 6 841.0 million for subheading 1b.

667. The Council adopted the 2005 Draft Budget in July 2004. The appropriations in subheading 1a were reduced by EUR 1.0 million as compared to the PDB while the ones for subheading 1b were maintained at the level of the PDB. EAGGF Guarantee Section appropriations accordingly totalled EUR 49 675.5 million, of which EUR 42 834.5 million for subheading 1a and EUR 6 841.0 million for subheading 1b.

668. In October 2004, the Commission adopted Letter of Amendment No 3/2004 to the Preliminary Draft Budget in order to take account of developments on the agricultural markets and recent agricultural legislation. The Amending Letter to the PDB set appropriation requirements for the 2005 financial year at EUR 50 451.5 million, of which EUR 43 610.5 million was allocated to subheading 1a and EUR 6 841.0 million to subheading 1b.

669. In December 2004 following the consultation procedures between the Council and the European Parliament, the Budget for 2005 was adopted by the European Parliament as follows:

– for subheading 1a, appropriations for 2005 were fixed at EUR 42 835.5 million, i.e. EUR 1 762.6 million below the ceiling.

– for subheading 1b, appropriations for 2005 were fixed at EUR 6 841.0 million equal to the ceiling.

[84] After modulation.

670. In December 2005, the European Parliament reduced, through AB 8/2005, the initial budget appropriations for subheading 1a by EUR 650,0 million and set it at EUR 42 185.5 million for subheading 1a.

The appropriations for subheading 1b were not changed.

The EAGGF Guarantee Section in the context of the general budget

671. Of the overall initial commitment appropriations of EUR 116 554.1 million entered in the 2005 general budget, an amount of EUR 49 676.5 million, i.e. 42.6%, was allocated to the Guarantee Section. In 2004, EAGGF Guarantee Section commitments accounted for 42% of commitments in the general budget.

The EAGGF and its financial resources

672. Agricultural policy also generates revenue in the form of sums collected under the common market organisations. This revenue, which forms part of the Union's own resources[85], consists of:

– levies, which are variable charges on imports from non-member countries of agricultural products covered by the common market organisations; such charges are intended to compensate for the difference between prices on the world market and prices agreed within the Union. Under the Agreement on Agriculture following the Uruguay Round of multilateral trade negotiations, levies have been replaced by fixed import duties since 1995;

– levies collected under the common organisation of the market in sugar; these are divided into production levies on sugar and isoglucose, sugar storage levies and additional elimination levies which ensure that farmers and sugar manufacturers finance the cost of disposing of sugar which is surplus to Community internal consumption.

Revenue

Charges accruing to the Union's own resources under the common agricultural policy (amounts prior to deduction of collection costs)

(EUR million)

Type of charge	1999	2000	2001	2002	2003	2004[86]	2005[87]
Agricultural levies	1 187.3	1 198.4	1 132.9	1 180.2	1 011.8	1 313.4	819.5
Sugar levies	1 203.6	1 196.8	840.0	864.8	383.2	401.6	793,6
Total	**2 390.9**	**2 395.2**	**1 972.9**	**2 045.1**	**1 395 .0**	**1 715.0**	**1 613.1**

673. It should be noted that there are other sources of agricultural revenue. Under the common organisation of the market in milk and milk products, producers pay an additional levy if milk quotas are exceeded. This revenue does not, however, form part of the Union's own resources and is considered to be part of the measures to

85 The Union's other own resources are: the levy on VAT, customs duties collected under the common customs tariff and Member States' contributions.

86 Execution 2004.

87 Estimates (net) in the 2005 Budget.

stabilise agricultural markets. It covers the additional expenditure brought about by the production overrun on the quotas and is thus deducted from that expenditure.

EAGGF Guarantee Section expenditure

Expenditure

674. EAGGF Guarantee Section expenditure comprises:

– export refunds (EUR 3 384.2 million in 2004);

– public and private storage (EUR 322.4 million in 2004);

– direct aids[88] (EUR 29 824.5 million in 2004);

– other intervention relating to the common market organisations (EUR 4 767.3 in 2004);

– other expenditure, principally rural development (EUR 6 462.0 million in 2004).

675. Direct aid payments to producers are by far the largest type of aid.

676. Furthermore, as a result of the reorientation and later the reform of the CAP, the EAGGF Guarantee Section has been used to finance, in whole or in part, various specific measures for the management of agricultural markets such as the distribution of agricultural products to the needy in the Community, measures to combat fraud, measures to promote quality and measures designed to compensate for the geographical isolation of the French overseas departments (Poseidom), Madeira and the Azores (Poseima), the Canary Islands (Poseican) and the Aegean islands.

Public stocks

677. Between 1 October 2003 and 30 September 2004, when the public storage accounts were closed, the quantities and book value of public intervention stocks were as follows: The book value of products in storage fell from EUR 1 266.60 million at the end of the 2003 financial year to EUR 798.24 million at the end of the 2004 financial year. The share of cereals and rice accounted for around 37.4% of the total value of products in storage, the one for milk products accounted for 56.5%, and the one for alcohol for 6.1%.

Clearance of accounts

678. The Commission adopted the following decisions on the clearance of the EAGGF Guarantee Section accounts:

– Decision 2005/127/EC of 11 February 2005 in respect of the 2001 financial year as regards certain paying agencies in Belgium, Spain and Greece[89];

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[88] Direct payments as defined in the Annex to Regulation (EC) No 1259/1999 of 17 May 1999 (OJ L 160, 26.6.1999, p. 113).

[89] OJ L 43,/24, 15.2.2005.

- Decision 2005/320/EC of 21 April 2005 in respect of the 2002 financial year as regards certain paying agencies in Germany, Spain, Greece, France, Italy, Portugal and the United Kingdom[90];
- Decision 2005/354/EC of 29 April 2005 under Article 5(2) (c) Regulation (EEC) No 729/70 and Article 7(4) of Regulation (EC) No 1258/1999 – 18th Decision[91];
- Decision 2005/385/EC of 13 May 2005 in respect of the 2004 financial year[92];
- Decision 2005/555/EC of 15 July 2005 under Article 5(2) (c) of Regulation (EEC) No 729/70 and Article 7(4) of Regulation (EC) No 1258/1999 – 19th Decision[93];
- Decision 2005/579/EC of 20 July 2005 under Article 5(2)(c) of Regulation (EEC) No 729/70 and Regulation (EC) No 1258/1999 – 20th Decision[94];
- Decision 2005/738/EC of 14 September 2005 in respect of the 2003 financial year as regards certain paying agencies in Belgium, Germany, Spain, France, Luxembourg, the Netherlands, Portugal, Sweden and the United Kingdom[95].

679. The expenditure recovered from Member States under decisions 18, 19 and 20 amounts to EUR 635.37 million and covers the financial years from 1996 till 2004 included.

680. In 2005, the Commission services responsible for the audit of agricultural expenditure performed 163 inspection missions in the 25 Member States and 2 Sapard countries and held 109 bilateral meetings with the Member States on the findings of inspection missions in respect of the years 2000, 2001, 2002, 2003 and 2004.

Expenditure on agricultural markets in 2005

681. The provisional uptake of EAGGF Guarantee Section appropriations for the 2005 financial year (expenditure by the Member States from 16 October 2004 to 15 October 2005) amounted to EUR 48 887.9 million, i.e. 98.4% of the appropriations entered under Titles 05, 11 and 17 of the budget.

682. Total expenditure for subheading 1a (the CAP, covering Titles 05, 11 and 17 amounts to EUR 42 109.6 million, i.e. – EUR 726.0 million under the corresponding budget's appropriations

683. Total expenditure for subheading 1b (Rural Development) amounts to EUR 6 778.3 million, i.e. – EUR 62.7 million under the corresponding budget's appropriations.

8.2. EAGGF Guidance Section

684. In accordance with the conclusions of the Berlin European Council in 1999, a third programming period for the Structural Funds was introduced to run from 2000 to

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90 OJ L103/39, 22.4.2005.
91 OJ L 112/14, 3.5.2005.
92 OJ L 127/22, 20.5.2005.
93 OJ L 188/36, 20.7.2005.
94 OJ L 199/84, 29.7.2005.
95 OJ L 276/58, 21.10.2005.

2006. EAGGF Guidance Section involvement in this new period on the basis of Council Regulations (EC) No 1260/1999 (the general Structural Fund Regulation) and (EC) No 1257/1999 (support for rural development) only covers Objective 1 areas, the Community Initiative Leader+ programme and technical assistance. Objective-1 areas from new Member States also benefit of EAGGF Guidance assistance since 2004.

685. For the new period from 2000 to 2006, there is no decrease in Community support for rural areas, although the EAGGF Guidance Section allocations for the new period might give such an impression. In actual fact, measures targeting agricultural structures and the diversification of rural areas (former Objectives 5(a) and 5(b)) outside Objective 1 regions and compensatory allowances, which up to 1999 were funded by the EAGGF Guidance Section, are now covered by the EAGGF Guarantee Section. Since 2004, the EAGGF Guarantee section also covers the support received by new Member States under the Transitional Instrument for Rural Development

686. Thus, Community support for the four accompanying measures, consisting of compensatory allowances for less-favoured areas and areas subject to environmental constraints (funded up to 1999 by the EAGGF Guidance Section), early retirement, agri-environmental measures and woodland management, is funded out of the EAGGF Guarantee Section throughout the Community. Community support for other rural development measures in areas outside Objective 1 is also funded out of the EAGGF Guarantee Section.

Funding in the new 2000–06 programming period

687. In the new 2000–06 programming period the EAGGF Guidance Section contributes to Objective 1 (regions whose development is lagging behind), the Leader+ Initiative and technical assistance as indicated above. It also continues to cover payment commitments under programmes from previous periods which were wound up by 31 December 2001 and the final balance of which will in principle be paid by the end of 2005.

688. However, by way of exception, an amount of EUR 148 million was committed in 2000 to cover the outstanding part of the last "tranche" (1999) of the 1994–99 programming period. This was because, as a result of the lack of budget allocations at the end of the 1999 financial year and the late adoption of the last programming adjustment decisions outside the accounting deadline, it was not possible to commit all of the 1994–99 Structural Fund CSF programmes and Community Initiative programmes in 1999 (Tables 7.2.1a and 7.2.1b).

689. The new programmes for the EAGGF Guidance part of Objective 1 and PEACE comprise 70 single programming documents and operational programmes (EU 15), of which only 35 were adopted by a Commission decision in time to be covered by commitments/payments in the 2000 financial year on account of delays in the approval procedure in 2000. In relation to the new Member States (EU 10), 9 other programmes were adopted.

690. As regards the Leader+ Initiative, on account of a lengthier procedure following the adoption of the guidelines, none of the 73 programmes provided for was adopted by the end of 2000 and, consequently, it was requested in 2001 that all the appropriations

be transferred from the year 2000 to the years 2000–06. Seventy programmes were adopted in 2001 and the remaining three were adopted in 2002.

Table 7.2.1a – Expenditure by Objective, 2000–06 period

(Commitment appropriations, EUR million)

Objective	2000	2001	2002	2003	2004	2005	2006
Community Support Frameworks							
Objective 1: 2000–06 period (regions lagging behind)	1 239.3	3 237.2	2 639.1	2 764.1	3 311.5		
Former Objectives 1 and 6 (1994–99 period)	76.9	******	******	*****	*****	******	******
Former Objective 5(a) (1994–99 period)	29.4	******	******	******	******	******	******
Former Objective 5(b) (1994–99 period)	1.0	******	******	******	******	******	******
Community Initiatives							
Leader+ : 2000–06 period	0.0	271.3	356.8	346.6	355.3		
Previous CIPs (1994–99 period)	37.0	******	******	******	******	******	******
Technical assistance							
2000–06 period: innovative measures and technical assistance	0.0	0.0	1.1	1.4	1.7		
Previous transitional measures/technical assistance (1994–99 period)	3.7	0.3	******	******	******	******	******
TOTAL	**1 387.3**	**3 508.8**	**2 997.0**	**3.112.1**	**3 668.5**		

Table 7.2.1b – Expenditure by Objective, 2000–06 period

(Payment appropriations, EUR million)

Objective	2000	2001	2002	2003	2004	2005	2006
Community Support Frameworks							
Objective 1: 2000–06 period (regions lagging behind)	587.6	1 276.9	1 474.7	2 166.9	2 709.0		
Former Objectives 1 and 6 (1994–99 period)	1 353.2	488.3	5.1	176.5	235.3		
Former Objective 5(a) (1994–99 period)	803.1	69.4	79.2	89.2	67.7		
Former Objective 5(b) (1994–99 period)	629.9	142.9	26.1	66.2	53.6		
Community Initiatives							
Leader+ : 2000–06 period	0.0	81.9	74.9	87.6	238.8		
Previous CIPs (1994–99 period)	178.4	79.8	10.3	17.3	106.7		
Technical assistance							
2000–06 period: innovative measures and technical assistance	0.0	0.0	0.2	1.7	1.7		
Previous transitional measures/technical assistance (1994–99 period)	6.5	5.8	1.6	7.5	0.6		
TOTAL	**3 558.7**	**2 145.0**	**1 672.1**	**2.612.9**	**3 413.4**		

Execution of 2004 budget

691. In terms of the appropriations available in 2004, including those originally entered in the budget together with transfers and carryovers, execution of the 2004 budget for the whole of the EAGGF Guidance Section was 100% for both commitment (EUR 3653.4 million) and payment appropriations (EUR 3412.8 million).

692. The year 2004 was the fifth in the new 2000–06 programming period, in which the source of funding for rural development programmes depends on the type of measure and the geographical area.

693. For rural development measures, the source of financing is differentiated according to the geographical context:

- in regions eligible under Objective 1 (regions whose development is lagging behind), the EAGGF Guidance Section continues to finance rural development measures which are integrated into development programmes, in combination with the other Structural Funds;
- outside the Objective 1 regions, the source of finance for rural development measures will be the EAGGF Guarantee Section.

694. Community Initiatives are funded under the EAGGF Guidance section.

695. For Objective 1, payments (EUR 2709.0 million) executed in 2004 were reimbursements made for the 79 current programmes, representing an amount equivalent to 81% of the instalment committed in 2004.

696. For the Leader+ Initiative, payments (EUR 238.8) made in 2004 were reimbursements, representing an amount equivalent to 68% of the instalment committed in 2004.

697. For programmes from previous programming periods, payments executed in 2004 were EUR 463.9 million. These payments constitute the final balance payable under these programmes, for which it is necessary to submit the rather complex final implementing report giving the results of the checks carried out

Table 7.2.2 – Implementation of EAGGF Guidance Section budget in 2004

	Total	2000–06 programming period				Previous programming periods				
		Objective 1	PEACE (Objective 1)	LEADER+	Innovative measures/ Technical assistance	Former Objectives 1 and 6	Former Objective 5(a)	Former Objective 5(b)	Former CIPs	Former transitional measures
A – Commitments										
Belgique/België	9.984	7.383	-----	2.601	-----	-----	-----	-----	-----	-----
Ceská republika	38.842	38.842	-----	-----	-----	-----	-----	-----	-----	-----
Danmark	2.843	-----	-----	2.843	-----	-----	-----	-----	-----	-----
Deutschland	512.518	472.786	-----	44.263	-----	-----	-----	-----	-----	-----
Eesti	13.062	13.062	-----	-----	-----	-----	-----	-----	-----	-----
Elláda	515.568	484.807	-----	30.761	-----	-----	-----	-----	-----	-----
España	874.184	791.107	-----	83.360	-----	-----	-----	-----	-----	-----
France	133.556	89.256	-----	44.300	-----	-----	-----	-----	-----	-----
Ireland	26.050	21.970	2.600	8.121	-----	-----	-----	-----	-----	-----
Italia	571.575	524.876	-----	47.817	-----	-----	-----	-----	-----	-----
Kypros/Kibirs	0.000	-----	-----	-----	-----	-----	-----	-----	-----	-----
Latvija	24.042	24.042	-----	-----	-----	-----	-----	-----	-----	-----
Lietuva	31.954	31.954	-----	-----	-----	-----	-----	-----	-----	-----
Luxembourg	0.405	-----	-----	0.405	-----	-----	-----	-----	-----	-----
Magyarország	73.137	73.137	-----	-----	-----	-----	-----	-----	-----	-----
Malta	0.983	0.983	-----	-----	-----	-----	-----	-----	-----	-----
Nederland	14.210	0.700	-----	14.009	-----	-----	-----	-----	-----	-----
Österreich	19.293	6.503	-----	12.790	-----	-----	-----	-----	-----	-----
Polska	278.636	278.636	-----	-----	-----	-----	-----	-----	-----	-----
Portugal	331.518	304.410	-----	27.108	-----	-----	-----	-----	-----	-----
Slovenija	5.511	5.511	-----	-----	-----	-----	-----	-----	-----	-----
Slovensko	42.345	42.345	-----	-----	-----	-----	-----	-----	-----	-----
Suomi/Finland	42.820	33.480	-----	9.340	-----	-----	-----	-----	-----	-----
Sverige	23.425	16.725	-----	6.700	-----	-----	-----	-----	-----	-----
United Kingdom	73.981	48.986	6.158	18.837	-----	-----	-----	-----	-----	-----
Autres	1.679	-----	-----	2.062	1.679	-----	-----	-----	-----	-----
Total	**3662.121**	**3311.501**	**8.759**	**355.317**	**1.679**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**

B – Payments										
Belgique/België	3.694	3.360	-----	0.005	-----	-----	0.240	-----	0.088	-----
Ceská republika	16.665	16.665	-----	-----	-----	-----	-----	-----	-----	-----
Danmark	13.261	-----	-----	1.717	-----	-----	11.544	-----	-----	-----
Deutschland	691.016	593.356	-----	37.717	-----	53.187	0.153	4.214	2.388	-----
Eesti	5.680	5.680	-----	-----	-----	-----	-----	-----	-----	-----
Elláda	296.113	231.939	-----	19.820	-----	42.224	-----	-----	2.002	0.128
España	872.388	712.038	-----	34.264	-----	54.585	-----	3.912	67.366	0.222
France	151.302	83.596	-----	32.685	-----	-----	26.749	2.111	6.145	0.013
Ireland	74.971	20.692	14.813	11.280	-----	25.630	-----	-----	2.556	-----
Italia	549.633	418.894	-----	13.292	-----	43.965	10.369	39.234	23.777	0.104
Kypros/Kibirs	0.000	-----	-----	-----	-----	-----	-----	-----	-----	-----
Latvija	10.678	10.678	-----	-----	-----	-----	-----	-----	-----	-----
Lietuva	12.290	12.290	-----	-----	-----	-----	-----	-----	-----	-----
Luxembourg	0.234	-----	-----	0.234	-----	-----	-----	-----	-----	-----
Magyarország	31.283	31.283	-----	-----	-----	-----	-----	-----	-----	-----
Malta	0.420	0.420	-----	-----	-----	-----	-----	-----	-----	-----
Nederland	18.838	2.132	-----	16.706	-----	-----	-----	-----	-----	-----
Österreich	26.377	4.193	-----	7.447	-----	1.807	12.930	-----	-----	-----
Polska	119.269	119.269	-----	-----	-----	-----	-----	-----	-----	-----
Portugal	362.185	334.910	-----	27.274	-----	-----	-----	-----	-----	-----
Slovenija	2.357	2.357	-----	-----	-----	-----	-----	-----	-----	-----
Slovensko	18.116	18.116	-----	-----	-----	-----	-----	-----	-----	-----
Suomi/Finland	57.866	28.370	-----	8.410	-----	13.921	5.669	0.008	1.487	-----
Sverige	24.551	13.068	-----	7.233	-----	-----	-----	4.111	0.111	0.028
United Kingdom	66.653	45.650	-----	20.145	-----	-----	-----	-----	0.798	0.060
Autres	1.679	-----	-----	0.558	1.679	-----	-----	-----	-----	-----
Total	**3427.517**	**2708.956**	**14.813**	**238.788**	**1.679**	**235.319**	**67.654**	**53.589**	**106.718**	**0.554**

8.3. Evaluation

698. The Directorate General for Agriculture and Rural Development carries out regular evaluations of measures applicable to agriculture. The purpose of those evaluations is to contribute to policy preparation and decision making by providing information on the effectiveness, efficiency and impacts of measures financed by the CAP. Evaluations examine, in particular, impacts of CAP measures on market equilibrium, producer incomes, production structures, rural development, and the environment. Evaluation reports are made publicly available on the Europa website.

Evaluation of market related measures

699. In the field of market policies, 5 evaluation projects were completed during 2005: These evaluations concern the CMOs for bananas, flax and hemp, cereals, and pig, poultry and eggs. Moreover, a cross-cutting evaluation of the environmental impacts of the CMOs related to permanent crops was carried out.

700. For 5 new evaluation projects, contracts were signed in the end of the year: Impact of export measures on food security, energy crops, and – within the framework contract of fruit and vegetables evaluations – citrus, processed tomatoes, peaches, nectarines and pears. Preparatory work is well advanced for 2 further evaluations (beef extensification premium, and the environmental impacts of arable crops CMOs).

Evaluation of structural and rural development measures

701. In the field of rural development policies, 4 evaluation projects were completed during 2005. These evaluations concern agri-environmental measures, synthesis reports of mid-term evaluations carried out by Member States for both Objective-1 areas and non-Objective-1 areas, and a synthesis of evaluation reports for Sapard.

702. For 2 new evaluation projects contracts were signed in the end of the year. This concerns an evaluation of measures in Less Favoured Areas (LFA) measure and a synthesis study on Leader+ evaluations carried out by Member States.

703. In the field of rural development, intensive work was done in building up the new Common Monitoring and Evaluation Framework (CMEF) for the programming period 2007–2013, including the establishment of indicators, guidelines, and the conception of an evaluation network for rural development policies.

Cross-cutting evaluation projects

704. As regards cross-cutting evaluations, 2 contracts were signed in the end of 2005. This concerns an evaluation project of the information policy pursued by the Directorate General for Agriculture and Rural Development as well as a framework contract for the evaluation of environmental effects of CAP measures.

9. ENLARGEMENT

Agricultural accession negotiations and related activities

705. 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 subject to certain safeguards. However, the Act of Accession stipulates that in case one or booth countries are unprepared to meet the requirements of membership by 1 January 2007 in a number of important areas, the Council may on the basis of a Commission recommendation postpone accession by one year to 1 January 2008. Following adoption of the new rural development regulation (see chapter 5), preparation of the necessary amendments to the treaty and to the new regulation is underway (adopted in 2006). Meanwhile, monitoring of the commitments made by Bulgaria and Romania during the negotiations continues, in particular through 'peer review' missions.

706. Substantial contributions were made to the negotiating frameworks proposed by the Commission and adopted by the Council on 3 October 2005. These texts set out the method and guiding principles for the conduct of negotiations with Croatia and Turkey. The first part of the analytical examination of the agricultural acquis ('screening'), whose purpose is to explain EU legislation to the candidate countries, was carried out in early December 2005. This was the first step in the process which will determine under what conditions agricultural negotiations may be launched with Croatia and Turkey.

707. DG Agriculture commented in detail on the former Yugoslav Republic of Macedonia's reply to the questionnaire to be completed as a prerequisite to its membership application. The largely favourable Commission opinion was based on analysis of this reply. The European Council of 15/16 December 2005 decided to grant candidate status to the former Yugoslav Republic of Macedonia but made it clear that further steps will have to be considered in the light of the debate on enlargement strategy, on the country's fulfilment of membership criteria, and that the absorption capacity of the Union will have to be taken into account.

708. DG Agriculture contributed substantially to the 2005 enlargement package of reports on the above countries, in particular to the comprehensive monitoring reports on the preparedness for accession of Bulgaria and Romania, which identify notably the areas where increased efforts are required and to which reinforced monitoring will apply; to the progress reports on Croatia and Turkey; and to the Opinion on the former Yugoslav Republic of Macedonia's application for membership.

709. DG Agriculture took part in the preparation and execution of missions organised by DG Enlargement to Croatia and the former Yugoslav Republic of Macedonia (and all other West Balkan countries) to assess the agricultural situation so as to plan future short-term assistance.

710. Input is regularly provided to DG Enlargement in the context of the granting of pre-accession support and DG Agriculture has continued to contribute to PHARE and Transition Facility programming (i.e. support for institution building) for the ten new Member States in relation to agriculture and rural development.

711. Concerning northern Cyprus, no progress has been made on approval by the Council of the direct trade and financial aid proposals. Recently it has been proposed that the

two should be de-coupled, potentially allowing the latter to go forward, and DG Agriculture has advised on priorities for financial support in this context. Furthermore, DG Agriculture was fully involved in the drafting and implementation of the derogation to the 'green line' regulation adopted on 4 October 2005[96], allowing the duty-free crossing of citrus fruit between the north and south of the island.

10. INTERNATIONAL RELATIONS

10.1. International organisations and agreements

European Neighbourhood Policy

712. The Commission attaches particular importance to development and implementation of the European Neighbourhood Policy (ENP) from 2006. DG Agriculture contributed to the communication adopted by the Commission on 9 November proposals on trade and rural development aspects of the Action Plans agreed with various countries.

World Trade Organisation (WTO)

WTO dispute settlement

713. The reasonable period of time for complying with the rulings of the panel requested by the United States (WT/DS174) and Australia (WT/DS290) concerning Regulation (EC) No 2081/92 on the protection of geographical indications and designations of origin for agricultural products and foodstuffs was determined by agreement to expire on 3 April 2006.

714. On 28 April 2005 the Appellate Body circulated its report confirming the rulings of the panel requested by Australia (WT/DS265), Brazil (WT/DS266) and Thailand (WT/DS283) that exports of C sugar and of sugar equivalent to ACP/Indian imports are subsidised. On 28 October 2005 the arbitrator determined the reasonable period of time for implementing the rulings to be 12 months and 3 days, i.e. to expire on 22 May 2006.

715. On 12 September 2005 the Appellate Body circulated its report essentially upholding the findings of the panel requested by Brazil (WT/DS269) and Thailand (WT/DS286) on the EC customs classification of frozen boneless chicken cuts.

716. The first public hearing in the cases against the United States and Canada concerning their continued suspension of obligations in the Hormones dispute (WT/DS320; WT/DS321) took place on 12–15 September 2005 and the second hearing is foreseen for 2006.

717. The panel requested by the United States (WT/DS291), Canada (WT/DS292) and Argentina (WT/DS293) concerning certain EC measures affecting the approval and marketing of biotech products (GMOs) continued its work throughout 2005.

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[96] Commission Regulation (EC) No 1624/2005 of 4 October 2005 derogating from Council Regulation (EC) No 866/2004 as regards citrus fruit crossing the line in Cyprus (OJ L 259, 5.10.2005, p. 17.

718. Following an ad hoc arbitration procedure under the terms of the Annex to the Doha waiver for the Cotonou Agreement, Honduras, Nicaragua and Panama requested on 30 November 2005 consultations on the EC new import regime applying as from 1 January 2006.

719. The EC also held consultations with Argentina in relation to the countervailing measures imposed by Argentina on imports of olive oil, wheat gluten and canned peaches originating in the EC.

720. Doha Development Agenda: the Hong Kong Ministerial Declaration

721. During the first half of the year 2005 the Ministers met at several occasions. Davos meeting of January 2005 in Switzerland on the fringes of the World Economic Forum injected further momentum into the DDA (Doha Development Agenda) process. At the Mini-Ministerial of March in Mombasa, Kenya, the EC tabled a concrete package of proposals on the Round development goals. During the May meeting in Paris the agricultural negotiators concluded difficult negotiations on how to establish ad valorem equivalents in the cases where the tariff is not expressed as a percentage. In July in Dalian, China, the Ministers agreed to use a G20 proposal as a basis for further negotiations for agricultural support reductions and expanded market access in agriculture.

722. On the second half of the year 2005 the EC tabled its offer of 28 October, whereby it offered to cut EC-trade-distorting domestic support by 70%, to cut highest tariffs by 60% and to reduce the average agricultural tariffs to 12%. The EC made this offer conditional on moves in NAMA and services by the other Members and on agreement on a register and extension for Geographical indications.

723. 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.

724. 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.

725. On Market access, the Hong Kong Ministerial Declaration adopted on 18.12.2005 provides that: "On market access, we note the progress made on ad valorem equivalents. We adopt four bands for structuring tariff cuts, recognising that we need now to agree on the relevant thresholds – including those applicable for developing country Members. We recognise the need to agree on treatment of sensitive products, taking into account all the elements involved. We also note that there have been some recent movements on the designation and treatment of Special Products and elements of the Special Safeguard Mechanism. Developing country Members will have the flexibility to self-designate an appropriate number of tariff lines as Special Products guided by indicators based on the criteria of food security, livelihood security and rural development. Developing country Members will also have the right to have recourse to a Special Safeguard Mechanism based on import quantity and price

triggers, with precise arrangements to be further defined. Special Products and the Special Safeguard Mechanism shall be an integral part of the modalities and the outcome of negotiations in agriculture".

Organisation for Economic Cooperation and Development (OECD)

726. EU Member States account for 19 of the OECD members and are the major contributors to the OECD budget, including voluntary contributions. The Commission participates actively in the work of this organisation, in particular, as far as agriculture is concerned, in the Committee for Agriculture (COAG), its working parties and at the interface with the Committees on Trade and Environment (Joint working parties).

727. Core to COAG activities is the annual preparation of a mid-term market prospect for the main OECD agricultural commodities (the 'Agricultural Outlook' report) and the yearly review of the main developments in the agricultural policies of member countries ("Agricultural Policies, Markets and Trade in OECD Countries", generally known as the "Monitoring report"). A similar review focuses on the main developments of major non-OECD members, whether economies in transition or emerging countries. These reviews include in particular a calculation of aggregated estimates of support to farmers, the "Producer Support Estimate" (PSE) expressed as the percentage share of public financing (budgetary payments and economic transfers from consumers and taxpayers caused by policy measures) in the overall income of the farming sector and the "Total Support Estimate" (TSE) for the whole agriculture and food sector, which indicates the degree of support in the OECD economies expressed in a percentage share of GDP.

728. In the working programme 2005-2006 emphasis continued on the cause-effect relationship between policies (e.g. decoupling and appropriate targeting), i.e. objectives and outcomes (economic and other effects).

729. 2005 was the first year of the biennial working programme starting with a large carry-over of studies from the previous work period. It was a year of great productiveness but also one in which the impact of divergent positions of OECD members at the Doha Development Agenda negotiations became most prominent also in this organisation. The series of studies on Decoupling was brought to an end and a synthesis paper outlining possible policy implications could finally proceed to publication after a long waiting period due to US objections. Several ambitious projects regarding the comparison of impact of export competition instruments (food aid, export credits, export subsidies as well as internal market price pooling etc.) could not advance further due to opposition to the methodology or the final documents by the US (food aid) and by those countries that did not feel empowered to involve their respective State Trading Enterprises (Canada and Australia). Finally the US decided to consider the last forward looking document on the sugar reform impact too delicate to agree to its publication. All these studies (totals of six) had been supported by the European Commission and all EU members of the OECD as well as all other OECD members except the ones mentioned above opposing the consensus decision.

730. Another essential area was the economic impact measuring activity with essentially an in-depth screening of China's, Brazil's and South Africa's agricultural policies and a study on the distributional effects of Trade and agricultural policy reform based on

information from the Brazil, Mexico, Italy, Malawi and the US a document that was released in the early 2006.

731. The analysis of the changes in the food economy was continued with an impact study of private standards on market access and the presentation and an analysis of price transmission along the food chain and an analytical framework for the analysis of the evolution of the distribution of margins along the supply chain.

732. OECD continued core activities such as the outlook report and the report on Monitoring and Evaluation of Agricultural policies in the context of which a final study on the first assessment of the CAP reform 2003 was published. It also continued refining its analytical instruments for policy monitoring and evaluation with the discussion of a new PSE classification taking up the challenges of new policy instruments, PEM impact analyses of different policies on production, trade, income and welfare etc.

733. Several events throughout the years marked high on the agenda such as the High Level Meeting on Agricultural Reform addressing the Global Dimension. For the first time OECD succeeded to achieve an open and frank exchange free of the negotiating pressure between countries in the DDA i.e. the major players on both sides of the developing as well as the developed countries. This exchange had been preceded by the official presentation of the first country studies on Brazil and China. A Global Forum dealing with policy coherence for development rounded up this activity with clear views on what would be necessary to bring DC up to speed, exemplified through the needs to achieve the millennium goals.

734. Finally through the Joint Working party on Agriculture and Environment the study of the relationship between agricultural and environmental outcomes was continued through analysis of linkages, synthesis report from the previous sector studies, of policy instruments such as cross compliance and finally with the editing discussion on the fourth volume of the Agri-environmental Indicator Series.

735. With the acceptance of the Economic Policy Development Review process by the Commission a new chapter of relations with the OECD is opened and naturally agricultural policy follow-up is a major part of it. It can only be of benefit for the analysis to be provided in this context of the Economic Directorate of the OECD that close cooperation is observed with the Directorate for Agriculture which has done a very positive and challenging work over the year 2005.

Generalised System of Preferences (GSP)

736. The aim of the GSP is to foster the integration of developing countries into the world economy and the multilateral trading system. The GSP focuses on the needs of the poorest beneficiary countries through, in particular, the so-called “Everything But Arms” initiative which is incorporated into the GSP.

737. A new GSP scheme was adopted on 27 June 2005, through Council Regulation (EC) No 980/2005. This regulation applies from 1.1.2006 to 31.12.2008, but the provisions concerning the special incentive scheme for sustainable development and good governance (also known as "GSP-plus") applied already from 1.7.2005. The special arrangements to combat drug production and trafficking provided for by Regulation (EC) No. 2501/2001 were repealed from that same date.

738. For the period 01.01.2006 – 31.12.2008, there are three types of arrangement in force for beneficiary countries, under the EU's GSP in Regulation (EC) No 980/2005:

– all beneficiary countries enjoy the benefit of the general arrangement;

– the special incentive arrangement for sustainable development and good governance (the "GSP+") provides additional benefits for countries implementing certain international standards in human and labour rights, environmental protection, the fight against drugs, and good governance (Commission Decision 2005/924/EC contains the list of GSP+ beneficiary countries);

– the special arrangement for the least-developed countries (LDCs), also known as the "Everything But Arms" (EBA) initiative, provides for the most favourable treatment of all, in the aim of granting the LDCs "duty-free and quota-free" access to the EU's market (with phase-in periods for sugar and rice).

United Nations Food and Agricultural Organisation (FAO)

739. As a member of FAO, the EC took part in the work of the various technical committees. The EC attended in particular:

– the 65th Committee on Commodity Problems (CCP) – April 2005,

– the 19th Committee on Agriculture (COAG) – April 2005,

– Committee on World Food Security (CFS) – May 2005,

– the 128th Session FAO Council – June 2005,

– the 129^{h} Session FAO FAO Council – November 2005,

– the 33rd Session of FAO Conference – November 2005.

740. The Commission also participated and played an active role in:

– the first side-event, in the margins of the CCP dealing with “CAP reform, trade and developing countries”,

– Steering Committee established by the 2005 Council to support the preparation of the International Conference on Agrarian Reform and Rural Development (ICCARD) to take place in Brazil, in March 2006.

Commodities and international commodity agreements

741. The Food Aid Convention (FAC) will expire on 30 June 2007, with the possibility of prorogation.. Due to the links between the FAC and the negotiation of food aid disciplines within the chapter on Export Competition at the WTO, the re-negotiation of the FAC was postponed.

742. The International Sugar Agreement remains in force until 31 December 2005 after its two years prorogation at the end of 2003.

743. The new International Agreement on Olive Oil and Table Olives, 2005 entered into force provisionally on 1 January 2006. A new management team took office at the end of 2004. An administrative, operational and financial restructuring of the organisation is under way.

744. Concerning the management of this organisation, a round of negotiations held in 2004 led to a complete renewal of the management staff as of the end 2004, including a new Executive Director. The new Financial Delegate, who took charge of his post in April 2004, together with the new management team appointed in October 2004 will manage the organisation as a college on the basis of the new rules.

10.2. Bilateral and regional trade relations

ACP countries

745. Economic Partnership Agreements (EPA) negotiations: the Commission has been involved, as foreseen, in negotiations with the six different regions EPA regional groupings, i.e. Central Africa, West Africa, Eastern and Southern Africa (ESA), Southern Africa development Community (SADC) region, Pacific region and Caribbean region

South Africa

746. Further discussions were held on outstanding issues of the EU/South Africa wine & spirits agreements on one hand as well as well as of the EU/South Africa TDCA on the other hand. Specific discussions were held on TDCA preferences South Africa should apply on certain Community cheeses.

EFTA countries and EEA Agreement

EEA

747. The European Economic Area (EEA) comprises the EC, EU Member States and the following EFTA states: Norway, Iceland and Liechtenstein. The regular uptake of the "acquis" by the EFTA states as regards the internal market covers, as usual, latest EC legal acts in domains such as organic agriculture, veterinary and phytosanitary measures, food, biotechnology, etc.[97]. Protocol 47 of the Agreement on the EEA[98], on the abolition of technical barriers to trade in wine, has been reviewed at expert level with a view to its update. The revised version is expected to be adopted by the EEA Joint Committee in 2006.

Norway

748. The resumption of bilateral trade negotiations in agriculture in the framework of Article 19 of the EEA agreement, initially foreseen in 2005, has been postponed following the change of government in Norway (elections in September 2005). Resumption is expected in 2006.

749. Bilateral consultations took charge of the yearly monitoring of bilateral trade conditions and addressed more specifically trade of cheese in brine and the Norwegian regime of outward processing.

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[97] http://secretariat.efta.int/Web/EuropeanEconomicArea/introduction.
[98] OJ L 1, 3.1.1994, p. 3.

Iceland

750. Bilateral negotiations on the basis of Article 19 of the EEA agreement took place in 2005, with a view to further liberalising bilateral trade in agricultural products between parties on a reciprocal and mutually beneficial basis. The signature of an exchange of letters between parties is expected in 2006, after completion of respective procedures by both parties.

Liechtenstein

751. With consideration notably to the Custom Union between Liechtenstein and Switzerland, Liechtenstein asked for being included into the Agreement between the EC and the Swiss Confederation on trade in agricultural products[99]. Switzerland would consider favourably such possibility. Tripartite negotiations are foreseen in 2006.

Switzerland

752. The Joint Committee on Agriculture, created by the Agreement between the EC and the Swiss Confederation on trade in agricultural products[100], met for the fifth time on 25 November 2005. It monitored bilateral trade conditions and addressed in particular the followings: developments in the field of geographical indications, farming by Swiss farmers in EU border zones, certificate requirements and future developments of preferential trade. The evolution of bilateral trade in agricultural products is considered favourably by both parties. It adopted several decisions updating the Agreement, with respect to the evolution of EC *acquis* and Swiss legislation[101].

753. The Joint Committee also adopted[101] the adaptation of bilateral concessions in annexes I and II of the Agreement as a result of the last EU enlargement, of 1 May 2004, which consolidates preferential trade flows pre-existing to the enlargement, covering a wide array of agricultural products. Autonomous measures[102] are repealed and EC import quotas implemented by EC legislation[103].

Asia

China

754. In July 2005 Commissioner Fischer Boel signed with China's Minister of Agriculture a Joint Declaration establishing a Dialogue on Agriculture between the EU and China.

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99 OJ L 114, 30.4.2002, p. 132.

100 OJ L 114, 30.4.2002, p. 132.

101 4 Decisions adopted by the Joint Committee on Agriculture in 2005: OJ L 131, 25.5.2005, p. 43; OJ L78, 24.3.2005, p. 50; OJ L 346, 29.12.2005, p. 33; OJ L 346, 29.12.2005, p. 44.

102 Autonomous measures: Council Regulation (EC) No 1922/2004 (OJ L 331, 5.11.2004, p. 7); Council Regulation (EC) No 1923/2004 (OJ L 331, 5.11.2004, p. 9); Commission Regulation (EC) No 2124/2004 (OJ L 368, 15.12.2004, p. 3); Council Regulation (EC) No 7/2005 (OJ L 4, 6.1.2005, p. 1).

103 Commission Regulation (EC) No 2172/2005 (OJ L 346, 29.12.2005, p. 10).

755. Within the Dialogue on Agriculture, discussions will focus on questions relating to market access for agricultural products and will cover agricultural policies including policies for quality products.

756. The EC began to evaluate China's request for inclusion in the list of third countries authorised to export organic produce to the EU according to Council Regulation (EEC) No 2092/92.

ASEAN

757. Information exchange meetings were held with a number of ASEAN countries on the Common Agricultural Policy, rural development. In particular discussions on Geographical Indications were held with Thailand and Vietnam.

India

758. The EC continued its evaluation of India's request for Community approval of a number of their accreditation agencies for exports of organically produced agricultural products to the EU according to Council Regulation (EEC) No 2092/92.

Japan, South Korea and Thailand

759. Relations with Japan, South Korea and Thailand focussed on market access and administrative cooperation. Progress was made in a number of areas and discussions are ongoing in particular for certain fruit, meat and dairy products. Information exchange meetings were held on the Common Agricultural Policy, rural development, and Geographical Indications. For the first time since several years, Japan did not apply an emergency safeguard against its imports of pigmeat

Middle East and Mediterranean Region

760. The Euro-Mediterranean Association Agreement with Algeria signed in April 2002 entered into force on 1 September 2005.

761. Negotiations with Jordan improving the reciprocal trade concessions and resulting in a wide liberalisation scheme were concluded during the first half of the year. The corresponding Additional Protocols to the Association Agreement have been adopted by the Council on 20 December 2005 and will enter into force in early January 2006.

762. 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.

Western Balkans

763. For Croatia and fYRoM, reciprocal agricultural trade concessions are set out in the 2001 Stabilisation and Association Agreements (SAA), as amended, to take account of enlargement in 2004.

764. Negotiations with Albania continued for a Stabilisation and Association Agreement on the basis of directives adopted by the Council in late 2002.

765. Following Council adoption in February 2005 of a mandate introducing tariff rate quotas for the Community's imports of sugar from the Western Balkans, as of July 2005 annual duty-free tariff quotas were introduced for those Western Balkan countries benefiting from the unilateral autonomous trade measures (Regulation (EC) No 2007/2000) – Serbia and Montenegro, Bosnia and Herzegovina and Albania . A duty-free tariff quota was negotiated with the former Yugoslav Republic of Macedonia introducing an annual quantity from January 2006. Negotiations with Croatia will continue in 2006.

766. Negotiations for a SAA with Serbia and Montenegro were opened in November 2005 on the basis of directives adopted by the Council in October. The first technical meeting on the chapter "movements of goods", including agriculture, took place in mid December.

767. Negotiations for a SAA with Bosnia and Herzegovina were opened in December on the basis of directives adopted by the Council in December.

Romania and Bulgaria

768. 2005 saw the entry into force of the Additional Protocols to the Europe Agreements with Bulgaria and Romania respectively to take account of enlargement of the Community and enhanced trading arrangements.

Latin America

769. Mercosur: During 2005 there was limited activity in the negotiations for a bi-regional Association Agreement with Mercosur and negotiations will continue in 2006. This Agreement would include a liberalisation of trade in all sectors in agriculture as well as agreements on trade in wines and spirit drinks and possibly on protection of geographical indications for other agricultural products.

770. Argentina, Brazil, Uruguay: Taking into account the OLAF reservation on High Quality Beef, informal agreements have been concluded with Argentina, Brazil and Uruguay on the updated definition (including minimum traceability standards).

771. Chile: Conclusion of outstanding matters on the protection of Community geographical indications. Parties concluded negotiations on five agreements that will modify the current text and annexes of the Wine and Spirit drinks Agreements. From 2006, Chile will allow duty free imports of wines and spirit drinks originating in the Community. The "evolution clause on agriculture" of the Association Agreement will be examined during 2006.

772. Mexico: Talks on the review clause on agriculture and the standstill clause of the FTA continued in 2005. Parties agreed to start the revision of the Spirit drinks Agreement in 2006.

Central America/Andean Community

773. Parties convened a joint assessment exercise on the evaluation of economic integration process in both regions, in line with the conclusions of Guadalajara Summit of May 2004. The conclusions to be reported at the May 2006 EU-LAC Summit in Vienna.

NIS Countries

774. Exploratory talks with Russia and Ukraine in order to implement activities for the Road map and Action Plan agreed with these countries.

775. Discussion with Armenia, Azerbaijan and Georgia of the Action Plans drawn for each of these countries under the aegis of the European Neighbourhood Policy.

North America: USA, Canada

United States

776. 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 authorisations granted to the US on wine-making practices, labelling and certification and for the exemption of all Community wine from the US certification requirements.

777. The Community and the US are engaged into bilateral negotiations with a view to mutually recognise the equivalency of the organic production systems applied by each Party. This should facilitate trade in products originating from organic production methods while ensuring the integrity of the organic production method. Since May 2004, the talks have come to a standstill and no further road map has been laid out.

778. The Corn Gluten Feed Monitoring Group continued to meet.

779. In June 2003, the Council authorised the Commission to open negotiations for the modification of the import regime for rice. An agreement with the US was reached in late February and approved by Council decision on 21 June 2005. The agreement consists of a mechanism of applied duties linked to the level of Community's overall imports of husked rice in a prior period.

780. Due to the enlargement, the EC notified on 19 January 2004 the withdrawal of its schedule as from the date of 1 May 2004 (which includes tariffs, tariff rate quotas, domestic support and export subsidies for agriculture) as well as that of the ten New Member States' schedules. A new EC 25 schedule will replace these former schedules after negotiations with third countries have been finalised. The Commission started the negotiations with the US in September 2004 and a bilateral agreement was signed on 22 March 2005. The agreement reduces some agricultural tariffs to offset tariff increases resulting from the enlargement. It also gives the US access to expanded tariff rate quotas for a range of agricultural products, mainly in poultry, pork and corn gluten. Implementation of the agreement is to go into effect 1 July 2006.

Canada

781. After two years of negotiation, the EC-Canada Agreement on trade in wines and spirit drinks was concluded and signed at Niagara-on-the-Lake on 16 September 2003. The agreement officially entered into force on 1 June 2004. It provides for an end to the generic use of EU wine and spirits names in Canada in three phases, beginning with the entry into force for most names, up to 31 December 2013 when the last four

names (Chablis, Champagne, Port and Sherry) will be no longer classed as generic. The Parties also agreed on compositional standards for wines and spirit drinks. Trade disciplines applicable to Canada's Provincial Liquor boards were strengthened by a series of amendments to a 1989 agreement that followed a successful WTO Panel brought by the EC. The Parties also set down a framework for continuing discussions on matters such as the rules on labelling wines and spirits. The Agreement, which entered force in June 2004, ended the trade tension that existed between Canada and the EC for over ten years. Canada is a key market for EC wine and spirit exports, importing products worth over EUR 500 million a year. After entry into force of the Wine agreement initiatives were taken for setting up a Joint Committee for monitoring the agreement, for the recognition of GI's on both sides, as well as for the setting up procedures certification of wineries. Nevertheless, in 2005 the bilateral contacts with Canada on the implementation of the Agreement still took place outside the official context of the Joint Committee. During 2005 agreement was reached on the Rules of Procedure for the Joint Committee, which subsequently needed Council approval. The pace on the recognition of European wine and spirit GI's in Canada accelerated in September/October 2005. In conformity with the Wine Agreement the Commission requested from the Canadian Authorities audits into the cost of service differential as applied by the "Liquor Control Board of Ontario", "Société des Alcools du Québec", the "British Columbia Liquor Distribution Branch", the "Nova Scotia liquor Commission" and the "New Brunswick Liquor Corporation". Results of these audits become available in 2006.

782. During the year 2005 two rounds of negotiations took place with Canada in the context of the "Trade and Investment Enhancement Agreement" (TIEA). As an agricultural issue Geographical Indications were discussed under the Heading "Intellectual Property Rights". The issue was in parallel discussed in the multilateral context of the Doha Development Agenda, which had its impact on the talks in the bilateral setting. In 2005 it was agreed to come, as a starting point, to an exchange of information on the technical aspects of the mutual systems for the recognition of Geographical Indications. The talks continue in 2006.

Oceania

Australia

783. In the annual EC/Australia ATMEG meeting view have been exchanged on the market situation for major commodities, market access issues, the WTO agricultural negotiations, and on recent policy developments in the EU and Australia..

784. Negotiations on a new EC/Australia Agreement on trade in wine continued in 2005.Further progress was made on issues such as oenological practices, name protection and labelling. It is hoped to conclude these negotiations in the beginning of 2006.

New Zealand

785. During the annual EC/New Zealand Agri Trade Talks, views were exchanged on the market situation of dairy and meat products, as well as on the state of play of the agriculture negotiations in the WTO.