No. 19 › January 2000 [EN]

European Commission
Directorate-general of Agriculture

Newsletter

ISSN 1560-1862

New State aid guidelines

On 24 November 1999, the Commission adopted a package of guidelines for State aid in the agricultural sector. They codify and simplify the rules applied by the Commission in the past, and also ensure that the Community rules are consistent with the new common agricultural policy.

The new guidelines apply to State aid granted after 1 January 2000 and do not affect aid already granted to agricultural holdings under existing schemes. Member States have one year in which to adapt their aid rules. To be authorised, State aid must make a real contribution to the development of certain economic activities or of certain regions. Unilateral aid that interferes with the arrangements for the common organisation of the market in any sector is prohibited.

The main types of authorised State aid can be summarised as follows:

- aid for investment in farms. Aid can normally be permitted at up to 40% of eligible expenses, or 50% in less-favoured areas. Higher rates of aid may be allowed for investment linked to the conservation of traditional landscapes, for the relocation of farm buildings in the public interest, for the improvement of the environment, or for animal welfare/hygiene;
- aid for investment in the processing and marketing of agricultural products. Aid is generally granted at rates of up to 40%, or 50% in Objective 1 areas, provided that normal market outlets exist for the products concerned;
- aid granted in return for agri-environmental undertakings given by farmers, and other environmental aid;
- start-up assistance for new entrants to farming;
- aid for early retirement, the cessation of farming activities, or the reduction of production capacity;
- aid for setting up producer groups;
- aid to compensate for damage caused by natural disasters, adverse weather conditions or outbreaks of animal or plant disease, and aid granted to promote more widespread insurance coverage against such risks;
- aid to encourage the production of quality agricultural products, the provision of technical support for producers and the improvement of the genetic quality of livestock;
- aid providing specific support for the outermost regions of the Community and the Aegean islands.

In addition to the guidelines, other Community rules permit the granting of aid for research and development, promotion and advertising, short-term operating loans, rescue and restructuring packages for farms in difficulty and to promote employment.

Pre-accession assistance: implementing SAPARD

On 22 December 1999, the Commission adopted a Regulation – (EC) No 2759/1999 – laying down rules for implementing the special accession programme for agriculture and rural development (SAPARD) in the applicant countries of central and eastern Europe. The implementation methods broadly follow the rules laid down for the Member States under the rural development Regulation – (EC) No 1257/1999. Readers will recall that the SAPARD measures are spelt out in the basic SAPARD Regulation – (EC) No 1268/1999 – (see Newsletter No 14).

The Regulation implementing SAPARD sets out the conditions for assistance in the following areas:

- Investment in agricultural holdings. This must comply with national minimum standards on the environment, hygiene and animal welfare. Each country sets limits for total eligible investment and lays down conditions concerning project viability and standards of occupational skill and competence for farmers.
- Processing and marketing of products for which normal markets already exist. Assistance is granted to improve quality, hygiene and environmental protection in this area.
- Agri-environmental measures. These must be pilot schemes intended to provide both administrations and farms with practical experience in this area.
- Vocational training, i.e. support for training farmers.
- Producer groups (registered after 1 January 2000). This flat-rate assistance covers both start-up costs and operating costs over the first five years, and is based on the proportion of the group's total output that is marketed.
- Afforestation of agricultural land. This assistance is granted only for planting that is adapted to local conditions and which respects the environment. It may cover planting costs and an annual maintenance premium. For public land and fast-growing species cultivated on a short term basis, assistance covers only planting costs.

The Regulation also covers eligibility of expenditure, the establishment of a managing authority, monitoring indicators, and annual and final reports and evaluations. The Regulation is not directly applicable to applicant countries because they are non-Community countries. Instead, bilateral agreements will be concluded with each country.

Agricultural income in 1999: preliminary forecast

Recent preliminary forecasts by Eurostat - using the new farm accounting methods - point to a 3.7% drop in average agricultural income per working unit in the European Union in 1999. Though figures vary widely between countries, the great majority of Member States have seen domestic agricultural income fall.

This development can largely be attributed to the sharp drop in average market prices for agricultural products, in particular livestock products (down 6.1%), mainly due to surplus production in the pigmeat sector and the effects of the dioxin crisis in the poultry and egg markets. Another factor that may have contributed to the decline in agricultural income is the fall of 6% in cereal production - due both to the doubling of the compulsory set-aside rate and to adverse climatic conditions.

A steep drop (2.1%) in the price of input products does not appear to have compensated the agricultural sector for the lower sales price of its products; on the contrary, the situation seems to have been aggravated by overall cuts of around 2% in subsidies for the sector.

As noted by Eurostat, the fact that these forecasts were made using the new farm accounting methods implies that the results should be treated with a considerable degree of caution. In some cases, data supplied by the various Member States does not appear to have been sufficiently compatible with the new methods to guarantee completely reliable and comparable results. What is more, as the new system was only recently introduced, it does not contain data on a reference period of sufficient length to enable these forecasts to be evaluated from a long- or a medium-term perspective. Nor is it possible to make comparisons with the results from the previous system, which registered a rise of 14% in agricultural income between 1992 and 1998.

In addition, agricultural income must not be confused with the overall income of households employed in the agricultural sector, as it does not include any income from other sources (non-agricultural activities, salaries, welfare benefits, income from property, etc.).

* All percentages are given in real terms and are not rounded up or down.

In brief

Reform proposal for the flax and hemp sector

The reform of the flax and hemp sector, proposed by the Commission on 18 November, is designed to stamp out fraudulent requests for assistance, thus curbing the significant rise in Community expenditure that they have caused. A first Regulation proposes to incorporate this sector into the general system for arable crops, in order to align the per-hectare payments with those applied to flax seed (which themselves must be aligned with the payments for cereals by 2000/2003). Assistance is made conditional on the conclusion of a sales contract with an authorised primary processor. A second Regulation sets up a scheme of additional assistance payments for authorised processors of flax and hemp straw intended for textile production. This covers both long-fibre flax (high-quality textile fibre), in order to support this traditional production activity, and hemp and short-fibre flax (for use in paper pulp and new applications), for a period of five years only (the time required to perfect the new products and establish them in their markets). The legislation makes provision for National Guaranteed Quantities, distributed as follows (in tonnes):

	B	DK	D	GR	E	F	IRL	I	L	NL	A	P	FIN	S	UK
Flax/long-fibre	13 800	50	300	50	50	55 800	50	50	50	4 800	150	50	200	50	50
Flax/short-fibre, hemp	10 350	100	6 300	50	18 700	61 350	50	100	50	5 550	1 750	650	1 000	1 150	12 100

Proposal for a new system of assistance for cotton production

On 13 December, the Commission proposed a new scheme to support cotton production, mainly designed to curb budgetary expenditure. The guide price (€ 1063 per tonne) and the National Guaranteed Quantities (782 000 tonnes for Greece and 249 000 for Spain) have been retained, but the penalties for overproduction have been stiffened. Assistance payments will be reduced by 0.6% instead of 0.5% for every 1% by which production quotas are exceeded. The reform also makes provision for the countries covered by this scheme to set standards for environmental protection, and, under certain circumstances, for limiting access to assistance for certain regions.

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Printed on recycled paper.

KF-AA-00-001-EN-C