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

**The agricultural situation in the European Union – 2006 Report**

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**INTRODUCTION**

1. "The agricultural situation in the European Union — 2006 report", was completed in 2007 and is published in conjunction with the General Report on the Activities of the European Union.

**1. ECONOMIC SITUATION AND FARM INCOMES**

2. Output from farms in 2006 was less than in 2005. In the crop sector output fell by 4% while in the animal sector it fell by 1%.
3. In both crop and animal sectors, farmers received lower prices for their products. On average prices decreased by 2% in real terms.
4. The number of farmers continued to decline (2% less in 2006 compared to 2005).
5. On average incomes of farmers increased by 3%, although there was considerable variation between Member States, with incomes rising substantially in some and falling significantly in other.
6. In 2006, the EU remained an overall net exporter of agricultural products.

**2. POLICY DEVELOPMENTS AND LEGISLATIVE INITIATIVES IN 2006**

**The CAP reform**

7. The reform of the CAP continued in 2006. In May, the Commission published a consultation document on the reform of the fruit and vegetable sector. In June it called for a comprehensive reform of the wine sector. In September the Commission submitted a proposal for reform of the banana sector (which was adopted by the Council in December.)
8. Preparatory work began in relation to a number of review clauses contained within the 2003 and 2004 reforms, grouped together under the term "Health Check".
9. In 2006, the Commission took forward its programme for the simplification of the CAP with the presentation of an Action Plan (containing 24 proposals for legislative changes) and the adoption of a proposal for a single common market organisation.

## **Quality policy**

10. In March, the Council adopted a regulation on the protection of geographical indications and designations of origin for agricultural products and foodstuffs. It also adopted a regulation on agricultural products and foodstuffs as traditional specialities guaranteed.

## **Organic farming**

11. In December, the Council reached agreement on a "general approach" on the proposal for a Council Regulation on organic production and labelling. The new Regulation is a corner stone of the Community Action Plan for Organic Food and Farming and constitutes a major step towards the further development of organic farming in the EU.

## **State aids**

12. The Commission received 319 notifications of state aid draft measures to be granted in the agricultural and agro-industrial sector. It started the examination of 27 state aid measures, which had not been notified previously under Article 88(3) EC Treaty.

## **Assistance to the needy**

13. In 2006, the European Union continued to distribute food products from intervention stocks to the needy.

## **The Outermost Regions – Reform of the POSEI arrangements**

14. Early in the year, a reform of the POSEI arrangements was finalised with the adoption of a Council Regulation laying down specific measures for agriculture in the outermost regions of the Union.

## **3. AGRICULTURAL MARKETS**

### **Crop products**

15. World cereal production in the 2006/07 marketing year was less than the year before – 1 567 million tonnes – compared to the previous year's harvest of 1 602 million tonnes.
16. The harvest in the EU was also lower – by 6%. This was because farmers planted a smaller area of cereals and yields were lower.

### **Animal products**

17. Concerning milk, EU farmers produced less in 2006 compared to the previous year (a decrease of 1%). This was because there were less dairy farmers. The remaining dairy farmers increased their average herd size and the yield per cow, but these increases were not enough to offset the reduction in the number of dairy farmers. For the very first time, some Member States produced less milk than allowed under the regime of production quotas.

18. As for beef and veal, there was a slight increase in production of 0.4%. This was primarily due to an increase in the number of cows slaughtered in the UK following the return of over-thirty month cattle to the commercial market.
19. In 2006, farmers produced 7.9 million tonnes of beef and veal while EU citizens consumed 8.2 million tonnes.
20. As regards external trade, the EU exported around 239 000 tonnes of beef mainly to Russia, Switzerland, Croatia and Angola. On the other hand, the EU imported around 510 000 tonnes of beef. Over 90% of the imports came from Brazil, Argentina and Uruguay.
21. The overall situation of the EU sheep and goat market in 2006 was characterised by a reduced flock size. There was an outbreak of bluetongue disease – in a location further to the north than had ever previously occurred within the area of France, Germany and the Benelux countries.
22. Concerning pigmeat, in 2006 prices were relatively positive but after the summer there was a considerable increase in the cost of feedingstuffs.
23. Regarding poultrymeat, both production and consumption fell during the first half of 2006 due to media coverage of an outbreak of avian influenza. However, in the latter part of the year, production and consumption recovered.

#### **4. IMPLEMENTATION OF THE 2003 REFORM**

24. In 2005, ten Member States had started to implement the Single Payment Scheme of direct payments. In 2006, they were joined by five more.
25. France, Spain, the Netherlands and Greece chose the historical model while Finland opted for the regional model.

#### **5. RURAL DEVELOPMENT**

26. Regarding the period 2000–2006, there were 68 rural development programmes, 69 Objective 1 regional programmes and 20 Objective 2 regional programmes. The Objective 1 and Objective 2 programmes incorporated a number of rural development measures.
27. During the same period, there was a very considerable number of Leader + projects (around 28 000). Many local action groups participated in transnational cooperation.
28. In 2006, expenditure on rural development amounted to EUR 9 199.2 million. Of this, the EAGGF Guarantee provided EUR 5 610.2 million (for the rural development programmes and Objective 2 programmes). The EAGGF Guidance provided EUR 3 589 million (for the Objective 1 programmes).
29. Concerning the period 1994–1999, 45 programmes were closed. At the end of 2006, 39 programmes remained open (out of 402 as of March 2003).

## **6. ENVIRONMENT AND FORESTS**

30. In September, the Commission issued a Communication entitled "Development of agri-environmental indicators for monitoring the integration of environmental concerns into the CAP". This Communication reviewed the progress made concerning the development of agri-environmental indicators and actions for the future.
31. The implementation of the "Biodiversity Action Plan for Agriculture" continued. The Commission presented a Communication on "Halting the loss of biodiversity by 2010 and beyond – sustaining ecosystem services for human well-being".
32. Regarding genetically modified crops, in March the Commission adopted a report to the Council and the European Parliament on experience gained in the Member States concerning the implementation of measures to address co-existence.

The Commission's Communication to the Council and the European Parliament on a Forest Action Plan was adopted in June. The Council's conclusions on this plan were adopted by the Agriculture and Fisheries Council in October.

## **7. FINANCING OF THE CAP IN 2006**

33. CAP expenditure is funded under the Financial Perspectives decided at the Berlin Summit in 1999 and adjusted at the Copenhagen Summit at the end of 2002 to take account of the financial effects of the enlargement of the Union. Thus, during the budget year 2006 new ceilings applied for the EU-25.

## **8. ENLARGEMENT**

34. Regarding Bulgaria and Romania, a reinforced monitoring exercise was undertaken. Bilateral screening of agricultural legislation took place with Turkey and Croatia.

## **9. INTERNATIONAL RELATIONS**

35. In the field of international agricultural relations, the first half of the year was a period of intense activity. The Commission participated very actively in negotiations, conducted under the aegis of the World Trade Organisation, to further liberalise global trade, including agricultural trade. However, the negotiations (known as the Doha Development Agenda) did not achieve a high level of success.
36. In the second half of the year, the EU started to pursue contacts with its main trading partners with a view to a resumption of negotiations at the beginning of 2007.