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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

First report on the impact of the POSEI reform of 2006

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1. INTRODUCTION

Article 349 of the Treaty on the Functioning of the European Union (TFEU) acknowledges the structural, social and economic situation of the outermost regions (ORs). This is compounded by their remoteness, insularity, small size, difficult topography and climate, and economic dependence on a few products, the permanence and combination of which severely restrain their development.

Presently, nine regions belonging to three Member States (MS) are listed under Article 349 of the TFEU:

- for France: Guadeloupe, French Guyana, Martinique, Reunion, Saint-Barthélemy and Saint-Martin;
- the Portuguese archipelagos of the Azores and Madeira; and
- Spain's Canary Islands.

Taking into account the special characteristics and constraints of these regions, specific measures are to be adopted. These aim, in particular, to lay down the conditions of application of the Treaties to those regions, including common policies.

As concerns the Common Agricultural Policy (CAP), the ORs benefit from a specific regime to support local production and the supply of essential products: the POSEI scheme (*Programmes d'Options Spécifiques à l'Eloignement et l'Insularité).*

2. HISTORY AND MAIN ELEMENTS OF THE SCHEME

The first reference to the creation of specific programmes for the ORs was a resolution of the European Parliament in 1987 concerning the French DOM[1]. This indicated that "the serious situation which exists in these territories justifies, and makes it imperative to pursue, economic and social development in various sectors".

Specific measures for agriculture in the OR were introduced in 1991 for the French DOM (POSEIDOM)[2] and in 1992 for the Canaries (POSEICAN)[3], the Azores and Madeira (POSEIMA)[4].

[1] Resolution of the EP of 11 May 1987
[2] Council Reg. (EEC) No 3763/91 - *OJ L 356, 24.12.1991, p. 1.*
[3] Council Reg. (EEC) No 1601/92 - *OJ L 173, 27.6.1992, p. 13.*
[4] Council Reg. (EEC) No 1600/92 - *OJ L 173, 27.6.1992, p. 1.*

For this purpose the main instruments of the POSEI scheme were established:

(a) The Specific Supply Arrangements (SSA), aiming to mitigate the costs for the supply of products used as inputs for the everyday consumption or manufacture of certain essential foodstuff, by providing for the exemption of duties on products imported directly from third countries or aid for products originating in the rest of the Community within the limits of the local needs;

(b) Measures to Support Local Production (SLP), aiming to maintain or develop certain products by supporting the production, processing and/or marketing of these products or the structuring of the sectors involved;

(c) Accompanying measures:

- Special provisions adapting the CAP to the specificities of the OR;
- Derogations applicable to structural measures;
- A graphic symbol to develop awareness of products from the OR;
- Veterinary and plant health measures.

In 2001, the POSEI scheme was reformed[5]. This reform amended the SSA by establishing "forecast supply balances" - lists of products benefiting from SSA - and changing the way SSA aid was calculated based on "additional costs" related to ORs' remoteness, insularity and small size instead of export refunds. They also introduced new SLP measures and modified existing ones and adapted the scheme to the new Rural Development Regulation[6].

In 2006, POSEI was reformed again, mainly due to the following elements:

(1) The publication of Commission Communication COM(2004)343[7], adopting a strategy for the ORs aimed at a better articulation of EU Funds in favour of the ORs and the creation of ad-hoc instruments;

(2) The 2003 CAP reform (Council Regulation (EC) No 1782/2003[8] on direct support schemes for farmers) which marked a reorientation of the CAP and opened the way to reform the Common Market Organisations (CMO), to which the POSEI referred.

(3) The acknowledgement of the rigidity in the management of the programs [COM (2004)687] which did not allow a rapid adaptation of the supply balances and of the SLP measures to the needs of the territory and hampered any participative approach.

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5 Council Reg. (EC) No 1452/2001 (POSEIDOM), 1453/2001 (POSEIMA) and 1454/2001 (POSEICAN) of 28 June 2001 - *OJ L 198, 21.7.2001, p. 11.*

6 Council Reg. (EC) No 1257/1999 - *OJ L 160, 26.6.1999, p. 80.*

7 Revised and reinforced by Commission Communication COM(2008)642.

8 *OJ L 270, 21.10.2003, p. 1.*

The previous three regulations where thus replaced by a single text: Council Regulation (EC) No 247/2006[9] laying down specific measures for agriculture in the outermost regions of the Union.

The 2006 reform did not modify the main objectives and instruments of the scheme. Its main novelty is the adoption of a programming approach and the transfer to the MS of the responsibility to design and modify programs adapted to the local needs, to manage and monitor them. The objective of this innovation was to introduce a higher level of flexibility in the management of the SSA and SLP and to simplify the procedures for their modification.

Following its adoption, Council Regulation (EC) No 247/2006 was modified several times to take into account the 2006 sugar and banana reforms, the Health Check (transferring to POSEI the budget corresponding to direct support measures previously managed under Council Regulation (EC) No 1782/2003) as well as other transfers of direct aids in 2007 and 2008[10].

These amendments implied progressive increases of the POSEI allocations as shown in the following table (Article 23 of Council Regulation (EC) No 247/2006):

MS	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011 & ff.**
FR	126,6	262,6	269,4	273,0	278,41
PT	77,9	86,98	87,08	87,18	106,21
ES	127,3	268,4	268,4	268,4	268,42
TOTAL	**331,8**	**617,98**	**624,88**	**628,58**	**653,04**

Today, the POSEI programmes are the equivalent of the first pillar of the CAP for the OR.

3. LEGAL BASIS OF THE REPORT

Article 28(3) of Council Regulation (EC) No 247/2006 provides that *"Not later than 31 December 2009, and thereafter every five years, the Commission shall submit a general report to the European Parliament and the Council showing the impact of the action taken under this Regulation, accompanied if applicable by appropriate proposals"*.

As the POSEI reform was implemented later than initially foreseen (between end of 2006 and mid-2007), the first report referred to above is being submitted in the course of 2010 to allow the gathering of more elements for the evaluation of the initial impact of this reform.

In particular, the present report takes into account the financial execution of the programmes until the financial year 2009, data on the relevant markets up to 2009 and the study carried out by the consultants Oréade–Brèche for the Commission on

9 *OJ L 42, 14.2.2006, p. 1.*

10 - Council Reg. (EC) No 318/2006 - *OJ L 58, 28.2.2006, p. 1 (*sugar reform)
- Council Reg. (EC) No 2013/2006 - *OJ L 384, 29.12.2006, p. 13* (banana reform)
- Comm. Reg. (EC) No 1276/2007 - *OJ L 284, 30.10.2007, p. 11* (budgetary ceilings for 2007)
- Comm. Reg. (EC) No 674/2008 - *OJ L 189, 17.7.2008, p. 5* (budgetary ceilings for 2008)
- Council Reg. (EC) No 73/2009 - *OJ L 30, 31.1.2009, p. 16* (Health Check)

the evaluation of the measures implemented under POSEI since 2001 (hereinafter "the evaluation study"), published in February 2010 under: http://ec.europa.eu/agriculture/eval/reports/posei/index_fr.htm

4. IMPACT OF THE 2006 REFORM

4.1. Programming and partnership approach

The increased responsibilities and competencies for the national and regional authorities for defining their programme and the participation of stakeholders in designing the measures have been welcomed both by the MS and the operators.

In particular, the increased flexibility towards the gradual adaptation of the programmes to the actual local needs by means of annual modifications is judged very positively. In fact, in a context of fragility due to market and climatic risks specific to these regions, it allows to adapt rapidly the support measures to the actual requirements of each territory.

The evaluation study shows that the reform has improved the administrative efficiency (the increased budget has induced an effect of economy of scale).

However, the increased level of partnership has not allowed alleviating the administrative burden: the programming approach results heavy both for the national/regional authorities and for the Commission's services.

4.2. Specific Supply Arrangements

4.2.1. Guarantee of supply of essential products

The evaluation study shows that the SSA covers well the needs for the products selected by the MS/OR, for which it has an essential role to:

(a) Guarantee regular supplies through the establishment of stocks.

(b) Create competition with similar imported products, which has an impact on the stability of prices.

(c) Maintain the local production structures by:

- Supporting the profitability of the local livestock breeding.
- Ensuring the viability of the local agro-food industry.

4.2.2. Compensation of additional costs

Each MS has chosen different approaches as concerns the determination of additional costs. The evaluation study concluded that the SSA allows compensating them for the supply of all selected products.

Due in particular to the volatility of transport costs, the SSA budget, which has been limited to fixed annual ceilings, cannot cover the same proportion of additional costs every year.

4.2.3. Repercussion of the benefit to the end-user

The evaluation study revealed that only in certain cases the advantage has been properly transmitted. In others this is more difficult to determine. Generally, it is difficult to check the proper transmission of the SSA advantage to the end-user, particularly with respect to products that have been introduced in a processing chain. These controls are competence of the concerned MS, which are implementing monitoring systems.

4.2.4. Re-dispatching of processed products and trade distortions

As stated under recital no 4 of Council Regulation (EC) No 247/2006, the quantities covered by the SSA are limited to the supply requirements of the OR, in order not to impair the proper functioning of the internal market or to provoke diversions of trade in the products concerned. Dispatching or exporting those products from the OR is therefore prohibited. However, dispatch or exportation of those products is authorised where the advantage resulting from the SSA is reimbursed or, in the case of processed products, to permit regional trade or traditional trade flows as provided for by Article 4 of the above Regulation.

These traditional quantities have been determined on the basis of the average trade flows between 1989 and 1991, i.e. before the start of the POSEI scheme. The Commission considers that there is no need to revise traditional quantities. Such a revision would be contrary to the scheme's objective of limiting the supplies to the local needs and might determine trade distortions. Nevertheless, trade in SSA processed products shall be encouraged among the OR.

4.2.5. Maintenance and development of agricultural activities

The SSA has an essential role for the preservation of local production structures by:

- Supporting the profitability of the local livestock breeding.
- Ensuring the viability of the local agro-food industry.

As a consequence, the SSA creates additional local employment in agriculture and in the agro-food industry.

On the other hand, the level of aid determined for the supply of some products in certain OR (e.g. meat and milk products in the Canary Islands and Madeira) creates competition with the local production of the same products that can thus hardly develop. It is the responsibility of the MS to improve the distribution of funds in order to privilege local productions.

4.3. Support to the Local Production

4.3.1. Maintenance and development of the local agricultural production

The POSEI scheme, adapted as it is to the specificities of the OR, is essential at least to reduce the regression of the agricultural activities. As illustrated in the evaluation study, it contributes to maintain most productions and even to develop some of them.

The profitability and the competitiveness of a number of sectors supported by POSEI have increased also thanks to the complementary Rural Development measures.

Since the POSEI reform, the revenue of virtually all producers has increased.

Globally, the POSEI measures have been very effective for the export sectors of banana in the biggest producing regions (Canaries, Guadeloupe and Martinique), and sugar (Guadeloupe, Martinique and Reunion), which benefit of an important level of support but give also good results in terms of maintenance of the level of production and of revenue, as highlighted in the evaluation study.

More production of meat and milk has been registered in the livestock sector in Reunion and in the Azores. However, the meat and milk sectors do not have the same positive results in all OR. In fact, they have not proven particularly effective in Madeira and the Canaries.

Difficulties have been noted also in the fruit and vegetables sector in the French Departments, where the aids have a limited penetration due to the obligation for producers to associate in order to receive aid (particularly in Guyana); other products in the sector, intended for export, that also undergo difficulties are the pineapples in the Azores and the tomatoes in the Canaries.

Concerning the banana sector, important progress has been registered in terms of increased profitability, effects on the productivity, the quality and the environmental production conditions.

Regarding the sugar sector, in the French Departments, the support allows to counterbalance the effects of the 2006 sugar reform to maintain an acceptable level of price for the producers, the viability of the sugar processing industries and thus fair conditions of competition on the EU market. However, the sugar sector is facing difficulties in the Azores in spite of the support granted under POSEI. In order to mitigate these difficulties, the legislators have adopted in May 2010 a legislative proposal.

4.3.2. Quality production

POSEI, in complement with the Rural Development Programs (RDPs), is a very useful tool to support quality local production that can compete with import products, which are no longer the only choice on the local markets.

The logo that local export producers may use upon authorisation by the national competent authorities contributes to the quality labelling of the production of the OR in the EU.

5. FINANCIAL EXECUTION

Data on the financial execution of the POSEI programmes from 2006 to 2008 (financial years 2007-2009) is reported in Annex I. This data shows an increasing utilisation of POSEI funds over that period.

In particular, some measures have exhausted the allocated financial resources in the last years. This is particularly evident for the diversification measures in the livestock and vegetable sectors of the French DOM, which have known an unexpected development in the last years. The insufficiency of funds led the French authorities to apply "stabilizers" (pro-rata reductions of the aid depending on the budgetary deficit). This was overcome by the authorisation of additional national financing as from 2010.

It is also evident that the annual SSA budget is nearly fully executed in almost all OR. The SSA annual allocations were established in 2005/2006 for each MS on the basis of the historical execution in 2001-2003 and are fixed. Within each programme, the situation may be improved by redistributing the available budget among the measures where margins exist. Moreover, Article 16 of Council Regulation (EC) No 247/2006 allows MS to grant additional financing for the SLP measures.

However, concerning the SSA, the ceilings fixed by Article 23(3) of Council Regulation (EC) No 247/2006 cause certain rigidity. It is thus proposed to allow a more flexible redistribution of funds between SLP and SSA within the allocated budget (see § 8.1).

6. AUDIT ON THE IMPLEMENTATION OF THE POSEI SCHEME AFTER 2006

The Commission's audit services have undertaken clearance of accounts enquiries in the Azores, Madeira and Reunion in 2008, in the Canaries in 2008 and 2009, in Martinique and Guadeloupe in 2009.

In general, the situations established during these audits show a marked improvement over those noted for earlier years, although some deficiencies, still to be fully investigated in the clearance of accounts context, are being notified with regard to measurement of banana plantations under the POSEI programme for the Canaries.

7. RELEVANT TRADE-RELATED DEVELOPMENTS AFTER THE 2006 REFORM

7.1. Economic Partnership Agreements (EPAs)

Since 1.1.2008, EPAs have allowed duty- and quota-free access to the EU market for a number of African, Caribbean and Pacific (ACP) countries. A number of ACP countries produce export commodities which also form a large part of ORs' exports, such as bananas, sugar, rice, meat, and other fruit and vegetables. The most relevant commodities concerning the ORs are sugar and bananas.

For **bananas**, the Commission conducted an impact assessment before the banana CMO reform in 2006. This assessment took into account the likely consequences of EPAs, and led to the transfer of a higher budget from the banana CMO to the POSEI scheme. EU imports of ACP bananas grew year-on-year by almost 10% in 2008 and again by 4% in 2009. After a considerable fall in production in Martinique and Guadeloupe due to Hurricane Dean of August 2007 (see Annex III), ORs' production rose again, by 2.7% in 2008 and 7.4% in 2009.

For **sugar**, EPAs introduced duty- and quota-free imports from 1.10.2009, subject to a transitional safeguard until 2015 for ACP countries which are not also Least Developed Countries (LDCs). This may result in higher imports from ACP countries – LDCs and non-LDCs alike. However, in the short run such imports are unlikely to reach the level of 3.5m tons forecast in the 2006 sugar reform. As such the EPAs have so far had no direct impact on the sugar sector in the ORs.

7.2. WTO and bilateral trade agreements

The EU has recently concluded multilateral and bilateral agreements which alter import tariff preferences for certain commodities. These changes may affect the OR producers' ability to compete on the EU market. Products affected are likely to include rum, certain fruits and vegetables, cane sugar and processed products containing high levels of wholly-obtained cane sugar.

Concerning **bananas**, the EU initialled an agreement on 15 December 2009 with Latin American producers, also known as Most Favoured Nation (MFN) producers. The agreement entails a gradual reduction in the EU's import tariff from €176/tonne to €114 over seven to nine years. The EU also agreed further cuts in its banana duties to €75/tonne by 2020 in two bilateral agreements which it concluded in the first half of 2010, one with Columbia and Peru, the other with Central American countries. Another major banana-exporting country, Ecuador, has expressed an interest in joining the EU's agreement with Colombia and Peru.

Following the end of the Special Framework of Assistance (SFA) for traditional ACP suppliers of bananas that operated from 1999 to 2008 with a budget of €375m in favour of traditional ACP banana-exporting countries, the Commission proposed to mobilise up to €200m over the period 2010-2013 in favour of the ten main ACP banana-exporting countries (Banana Accompanying Measures – BAM) in order to assist them in their necessary adjustment process.

For OR producers, the reform of the banana CMO in 2006 has already taken into account the effects of the new trading environment to a large extent. The impact assessment carried out before the reform examined the likely consequences of cuts in tariffs comparable to those agreed recently. Based on the fact that POSEI ensures that banana producers receive the full amount for which they are eligible, even if they do not quite reach the corresponding level of production, the assessment showed that changes in the EU's import tariffs, if kept within certain thresholds, would have a limited impact on EU production (see Annex IV)

To accompany the banana reform, the amount transferred to POSEI was calculated on the most favourable average of aid paid to banana producers for 2000-02, increased by a margin of 8.4% to reflect a certain variability of the banana market in a scenario of further liberalisation. In reality, the banana budget rose by an even greater rate - some 47% - when based on the average support paid between 2002 and 2006. Nevertheless given the recent market developments, the Commission is closely monitoring the impact of multilateral trade agreements, and will take appropriate action to mitigate should it be necessary.

For **sugar**, the possible reduction of import duties and/or introduction of new Tariff Rate Quotas as part of ongoing multilateral talks in the Doha Round could lead to over-supply and possibly influence internal EU sugar prices. Council Regulation (EC) No 1234/2007 requires the Commission to preserve the structural balance of the market at a price close to the reference price. Several market measures are available to cope with such a situation, such as withdrawal or private storage. These measures affect the production of quota sugar. However, the ORs produce less sugar than their allocated quotas, so the impact of these measures should be limited.

8. IMPROVEMENT PROPOSALS

8.1. Proposed amendments to EU legislation

Considering the development of the scheme in the last years and the recent entry into force of the Lisbon Treaty, it is proposed to recast Council Regulation (EC) No 247/2006 to update and simplify some provisions and to align it to the new requirements of the TFEU.

In particular, it is proposed to amend Article 4(2) to include the possibility of free trade in SSA processed products among the French DOM (see § 4.2.4).

It is also proposed to amend Article 23(3) to **increase the maximum annual SSA ceilings** for France and Portugal - within the existing financial allocations - so as to release pressure on the part of the envelopes reserved to SSA and to allow additional products to be introduced in the forecast supply balances of the OR in need without increasing the overall budget (see § 5).

Finally, in order to reduce the **administrative burden** and to allow MS more time to determine the actual needs and finalise a strategic approach for the subsequent year (see § 4.1) the Commission intends to amend Article 49 of Commission Regulation (EC) No 793/2006. The amendment shall consist in postponing the deadline for the submission to the Commission of the annual programme modifications for the following year from 1 August to 30 September. Such modifications shall be examined by the Commission services and approved by letter of DG AGRI unless they imply major amendments, such as the introduction of a new measure (chapter) into the programme. In this case, modifications shall be submitted by 1 August and approved by Commission Decision.

8.2. Recommendations to the Member States

The MS are in the process of establishing appropriate **control systems** to verify the proper **transmission of the SSA advantage to the end-user** (§ 4.2.3). They are invited to put them quickly in place and to report to the Commission.

The MS are recommended to adjust the level of the **SSA aid** for those **products that are also produced locally** in such a way as to give priority to the development of the local production (§ 4.2.5).

The MS are recommended to examine in depth the reasons for the limited success of the measures that do not attain their objectives (§ 4.3.1) and **propose an improved strategy of support** in their programmes. The flexibility granted to the MS with the reform to manage their programme can be very effective to deal with particular situations. In order to assist sectors in difficulty, MS can reallocate the POSEI envelope within the programme and even grant additional aid, thanks also to the more flexible provisions concerning State Aid foreseen for the OR (§ 5).

In the context of these strategic choices, MS should **privilege** measures favouring the maintenance and creation of **local employment.**

MS are also invited to regularly report on the basis of the **key indicators** that the Commission services are establishing in order to allow an overall evaluation of the progress of the POSEI scheme over the years.

Finally, it is to be underlined that the initial definition of the POSEI programmes required the **participative approach** of all stakeholders: this should be the case also for the annual modifications of these programmes. The envisaged amendment of Article 49 of Commission Regulation (EC) No 793/2006 postponing the deadline for their submission (§ 8.1) will allow more time for consulting the concerned operators.

9. CONCLUSIONS

In the first implementation years, the POSEI scheme has proven successful in terms of programming approach (undoubtedly more flexible and closer to the local needs), of guaranteeing the supply of essential products by mitigating the additional costs for their delivery, of supporting the revenue of farmers in the OR and of developing certain agricultural sectors.

Based on the current analysis and situation, the Commission considers that the financial envelope allocated to POSEI has enabled the broad objectives of the scheme to be met.

The role of MS in the implementation of the POSEI scheme is crucial. MS should reflect on a more targeted reallocation of available resources to support emerging sectors and productions that have shown more difficulties than others.

Both the Commission and the MS must continue their efforts towards the best possible implementation of the scheme and in particular to pursuit the objectives food self-sufficiency and diversification from the traditional export production sectors, in order to ensure the viability of the agricultural activity also in case of targeted market crises.

Employment in agriculture, which should be maintained and increased where possible, quality of the production and preservation of the environment are also essential objectives to be aimed at.