



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 08.12.1998
COM(1998) 611 final

The Agricultural Situation in the European Union

1997 Report

(presented by the Commission)

2 + 3 + 4

Foreword

This report, which is the 23rd annual agricultural situation report, is published in conjunction with the 1997 General Report on the Activities of the European Union. It is presented in accordance with the procedure laid down in the declaration on the system for fixing Community farm prices contained in the Accession Documents of 22 January 1972. It was completed in December 1997. However, the section entitled 'New reforms' (Chapter I, points 30 to 59) deals with the proposals which the Commission adopted on 18 March 1998 as part of the Agenda 2000 package. These supersede the proposals announced in July 1997, which had undergone various amendments meanwhile.

As in previous years, the report falls into two parts. The first presents the agricultural situation and the year's out-turn. The economic situation, the trends on principal markets, issues affecting rural development, financing of the common agricultural policy and external trade relations are then discussed.

The second part of the report provides the main statistics on European Union agriculture and gives, in a form that has now become standard, updates of the tables produced in previous reports.

The statistics are based mainly on data supplied by the Statistical Office of the European Communities (Eurostat). The Directorate-General for Agriculture has updated some of the figures and has sometimes added estimates when final figures were unavailable because of the report's publication date.

As in earlier years, certain subjects covered by the report have also been dealt with in other Commission documents. The reader will thus find references to various publications available from either the Commission, the Office for Official Publications of the European Communities or Eurostat.

5

Contents

	<i>Page</i>
I – The agricultural year	7
The assessment of the reform process	8
Long-term outlook	9
Policy objectives for the CAP	11
New reforms	12
Agrimonetary measures	24
Promotional measures	25
Consumer protection and products quality	26
Assistance to the needy	27
Harmonisation of legislation	28
State aid	33
II – Economic situation and farm incomes	41
General overview	41
Production levels and price trends	43
Trends in farm incomes	47
III – Agricultural markets	57
Cereals	57
Oilseeds	60
Peas, field beans and sweet lupins	62
Linseed	63
Rice	63
Sugar	65
Olive oil	68
Dried fodder	70
Grain legumes	71
Fruit and vegetables	71
Wine	81
Cotton	84
Silkworms	85
Fibre flax and hemp	85
Tobacco	86
Hops	88
Seeds	89
Flowers and live plants	90
Animal feedingstuffs	91
Milk and milk products	95
Beef and veal	99
Sheepmeat and goatmeat	103
Pigmeat	104
Poultrymeat	105
Eggs	107
Potatoes	109
Honey	109
'Non-food' set-aside	110
Starch production	110

6 CONTENTS

IV — Rural development	113
<i>The challenges facing rural society</i>	113
Horizontal measures	116
Regional measures	118
Supporting measures	147
Agricultural research	150
V — Financing of the CAP in 1997	153
The EAGGF Guarantee Section	153
The EAGGF Guidance Section	162
Agricultural own resources	165
VI — External relations	167
Relations with the United States	167
Relations with Canada	167
Relations with Mexico	168
Relations with Mercosur and Chile	168
Relations with Japan and the Republic of Korea	169
Relations with New Zealand	169
Relations with the Republic of South Africa	169
Relations with central and eastern European countries	170
Relations with Mediterranean countries	171
Relations with EFTA countries	171
Multilateral cooperation and international organisations	172
Food aid	175

PRINCIPAL ABBREVIATIONS USED

ACP	=	African, Caribbean and Pacific countries
AWU	=	Annual work unit
CAP	=	Common agricultural policy
CEECs	=	Central and east European countries
COM	=	Common organisation of the market
EAGGF	=	European Agricultural Guidance and Guarantee Fund
EFTA	=	European Free Trade Association
EMS	=	European Monetary System
FADN	=	Farm accountancy data network
GATT	=	General Agreement on Tariffs and Trade
MCA	=	Monetary compensatory amount
MGQ	=	Maximum guaranteed quantity
NVA	=	Net value-added
UAA	=	Utilised agricultural area
USDA	=	United States Department of Agriculture
WTO	=	World Trade Organisation

4

I. The agricultural year

1. In December 1995, the Commission presented its Agricultural Strategy Paper to the Madrid European Council. This stressed the importance of improving the competitiveness of the European agricultural and agri-food sectors on internal and world markets, in the context of trade liberalisation and an expected growing world food demand. It highlighted the need for a further evolution of the CAP, by developing the approach successfully started by the 1992 reform. The Paper also outlined the need for an integrated rural policy which would accompany the reform process. Moreover, it called for a radical simplification of legislation at Union level and for a substantial decentralisation of policy implementation.

2. Later on, in November 1996, the First Cohesion Report argued in particular in favour of a more rational development of agricultural production, through a greater market orientation of prices and continuing structural adjustment. The Union should, the report said, make a parallel effort to enhance the economic potential and the environmental value of rural areas and their capacity to provide sustainable jobs.

3. On 16 July 1997, the Commission presented its communication 'Agenda 2000'. In a single framework, the Commission outlines the broad outlook for the development of the European Union and its policies beyond the turn of the century, the impact of enlargement on the Union as a whole and the future financial framework beyond 2000, taking account of the prospect of an enlarged Union. The Commission sets out its analysis and policy guidelines for agriculture as follows.¹

¹ As background information for the Agenda 2000 proposals, the Directorate-General for Agriculture published in 1997 a series of working documents under the heading *CAP 2000*:

- Long-term prospects: grains, milk and meat products;
- Situation and outlook: beef;
- Situation and outlook: dairy sector;
- Situation and outlook: cereals, oilseeds and protein crops;
- Rural developments.

Assessment of the reform process

Agricultural market policy

4. Since the 1992 reform, there has been a considerable improvement of *market balances* and a decrease of public stocks in most of the reformed sectors. In the case of cereals, set-aside has helped to keep production under control, while the increased price competitiveness has allowed significant additional quantities to be used on the domestic market, mainly for animal feed. In the beef sector, the market situation evolved favourably and intervention stocks were diminishing rapidly until the outbreak of the BSE crisis in March 1996.

5. The general evolution of *agricultural income* per capita has been positive since the reform was implemented, growing by 4.5 % yearly on average between 1992 and 1996, with a diversity of situations according to Member State and type of farming. The improvement of the market situation, the strong adaptation capacity of farmers and the agri-monetary context are among the factors which have contributed to this result. In the case of cereals the market prices improved much more than originally expected. This has led to an over-compensation of producers in the last few years. In the case of oilseeds, too, the observed market prices have most of the time been significantly higher than the reference price so that producers have benefited from the franchise in four years out of five.

6. The reform effects on the *environment* are mixed. Some positive elements can be identified: the more rational use of fertilisers and pesticides resulting from price decreases, the possible environmental benefits of set-aside (if well managed), incentives for a long-term improvement in the territorial distribution of livestock rearing. But there are also negative elements, mainly the encouragement given to irrigated crops through the regionalisation of direct payments for cereals, oilseeds and protein crops, as well as the relative advantage given to intensive livestock farming through lower feed prices and by subsidising silage.

7. The reduction of price support and the introduction of direct payments have benefited *consumers* as part of the burden of agricultural support has shifted away from them. *Budgetary expenditure* is therefore higher in the sectors concerned. It is also under better control since factors of uncertainty (world prices, dollar exchange rate, level of intervention stocks) that strongly affected its past evolution have become less determining. At the same time the shift to direct payments has made the support for farmers more transparent.

Rural development policy

8. For almost two decades, attempts have been made to integrate agricultural structural policy into the wider economic and social context of rural areas. Experience gained shows how rural

diversification can be exploited in a flexible way as a necessary complement to farming. Activities which had hitherto been marginal – the development and marketing of quality produce, rural tourism, investment projects linked with the environment or the region's culture, small and medium-sized enterprises – have been developed and have opened up new perspectives.

9. The 1992 CAP reform stressed the environmental dimension of agriculture as the largest land user. Among the accompanying measures of the reform, the agri-environmental measures are of key importance and have in general been welcomed by the public and well received by farmers. However, the scale of support still provided through prices and crop-specific payments (e.g. silage maize and flax) may discourage farmers from committing themselves to more extensive practices or dedicating land to environmental purposes.

10. On the whole, as a result of these various developments, rural policy in the Union still appears as a juxtaposition of agricultural market policy, structural policy and environmental policy, with rather complex instruments and lacking much overall coherence.

Long-term outlook

11. According to the major forecasting institutes world-wide, the *long-term outlook* for the main *agricultural markets* is favourable for exporting countries. Prospects for increased food consumption, mainly in developing countries, combined with the limited possibility of a proportionate growth in domestic production, are expected to boost world trade and sustain world prices over the next decade.

12. Two key factors influence *food demand*: population growth and rising incomes. The world population is expected to increase by more than 85 million people a year between 1995 and 2005. Moreover, growing urbanisation will influence the pattern of food consumption. The second factor determining increasing food demand is the favourable prospect for world incomes and economic growth, particularly in developing countries.

13. An increase in world *agricultural production* is expected over the next decade, but at a lower rate than in the past. In particular in many developing countries, the increase will be less than the growth in demand. This is firstly due to the limited availability of land, because of urbanisation and environmental constraints and, secondly, to a slowdown in the growth of yields. The development of genetic engineering, if well controlled, could enhance production but may raise questions of acceptability to consumers.

14. Almost all analysts expect generally *strong prices for agricultural commodities* up to 2006 and even beyond. Prices are projected to strengthen or remain strong for cereals, oilseeds, beef,

poultrymeat, cheese and milk powder, but may weaken for pigmeat. However, price variability could increase in the future, as world stocks are expected to be relatively low compared with the past.

15. Despite this favourable world context, the *agricultural commodities outlook* is not very promising at European level. Supposing that present policies continue, over the coming years a gap between Union and world prices will remain for many sectors. Taking into account current commitments under the Uruguay Round Agreement, in particular on export subsidies, non-exportable surpluses are likely to emerge after 2000, for the existing Union. A structural surplus was already projected for beef before it was made worse by the BSE crisis. Increasing problems may also appear for cereals, sugar, wine, olive oil, skimmed-milk powder and some other milk products, and the Union risks losing more and more of its share in expanding world markets.

16. *New multilateral trade negotiations* will start in 1999 as a follow-up to the Uruguay Round. It remains to be seen whether the European Union will be capable of going into the negotiations on the offensive, defending the specific characteristics of a European model of mixed and multifunctional farming well integrated into the countryside. Another, increasingly sensitive, issue is the need to introduce environmental and social standards at international level and to take into account consumer concerns.

17. *Eastward enlargement* will add over a 100 million consumers, whose average purchasing power would, however, be only roughly one third of that of the current consumers in the Union. Agricultural area would be expanded by half and the agricultural labour force would at least double. The central and eastern European countries have a serious need for structural improvement in their agriculture and up- and downstream sectors. Restructuring can be expected to reduce the labour absorption capacity of agriculture, implying a need for diversification of their rural economies. If the CAP instruments, mainly support prices and direct payments, were applied at their present level by the central and eastern European countries, particular problems would arise. Inordinate cash injections through direct payments would risk creating income disparities and social distortions in the rural areas of these countries. In addition, surpluses would increase, in particular for sugar, milk and meat, reinforcing the growing market imbalances predicted after 2000.

18. *Consumer requirements* from agriculture and the food industry are also evolving. Health, notably food safety, is the main one. Convenience (fast-food, ready-made meals and snacks) is becoming more and more important in the context of changing lifestyles. But at the same time, typical, well-identified products, linked to specific areas or cultural values (traditional production methods, animal welfare, etc.) are increasingly sought after.

19. *Rural trends* in the Union show a sharp decline in the number of people employed in agriculture and in the number of farms. In terms of regional income and employment, agriculture

(and forestry) no longer forms the mainstay of the rural economy. It represents only 5.5 % of total employment on average, and in very few regions is its share higher than 20 %. The long-term trend is a further drop in the number of farmers, at a rate of 2-3 % per year.

20. New activities and new sources of income are emerging on, around and off the farm. Among those, the production of *renewable raw materials*, for non-food purposes in niche markets or the energy sector, can represent a new opportunity for agriculture and forestry and contribute to job creation in rural areas.

21. Society is increasingly conscious of the importance of the *natural environment* and of the environmental effects – both positive and negative – of human activity. Rural areas are in a unique position to respond to these concerns by maintaining and creating environmentally attractive living, working and recreational spaces. In this context, the concept of public payment for the protection of natural resources and the enhancement of the countryside is increasingly gaining acceptance and offers agriculture and forestry, as the main land users, both new challenges and fresh opportunities.

22. While the successive reforms have improved transparency and effectiveness, a number of inconsistencies and overlaps between different policies have developed. Too many programmes and measures can apply simultaneously in the same area under different policy headings, affecting consistency. There is an urgent need for a radical *simplification* of rules and a greater *decentralisation* of policy implementation, with more discretion being left to Member States and regions. More decentralisation should not, however, lead to any renationalisation of policies.

23. The CAP absorbs around 0.6 % of the Community's GDP. Considering both the declining share of agriculture in the economy and the increasing *budgetary constraints* many Member States are facing, this public support has to be fully justified. This means that the crucial role that agriculture plays, in producing high-quality food, in maintaining a living countryside, in protecting landscapes and preserving cultural values, has to be clearly demonstrated. While the generalisation of direct payments to farmers after the 1992 CAP reform made financial support for agriculture more transparent, it also increased the need for it to be economically sound and socially acceptable.

Policy objectives for the CAP

24. In order to help European agriculture take advantage of the expected positive world market developments, further reform of the CAP must *improve the competitiveness* of Union agriculture on both domestic and external markets. Lower guaranteed prices will benefit consumers and leave more room for price differentiation in favour of high-quality speciality products. Greater market orientation will facilitate the progressive integration of new Member States and will help prepare

the Union for the next WTO Round. It will also help the Union to reinforce its position as a major world exporter.

25. Prices are, however, only one aspect of competitiveness. *Food safety and food quality* are at least as important. It is a fundamental obligation to guarantee the safety of food to consumers both within and outside the Union, and this must therefore be a top priority for the CAP. As far as possible it will continue to support quality products, which are often linked to specific geographical origins or specific production methods identifiable by consumers. Complete reliability from the point of view of food safety, and continuous efforts to improve quality, will also determine the image of European products on domestic and international markets. Of growing importance in this area too are questions of the environmental soundness of production methods, and animal welfare considerations. In all these respects, European farmers are able to offer quality products deserving to be known worldwide.

26. Ensuring a fair standard of living for the agricultural community and contributing to the stability of *farm incomes* remain key objectives of the CAP. In this context the questions of modulation, redistribution of income support among farmers and the preservation of sustainable farming are gaining importance, not least from the point of view of social cohesion.

27. *The integration of environmental goals* into the CAP and the development of the role farmers can and should play in terms of management of natural resources and landscape conservation are another increasingly important objective for the CAP.

28. The creation of complementary or alternative *income and employment opportunities* for farmers and their families, on-farm and off-farm, remains a major aim for the future, as employment possibilities in agriculture itself fall away. Rural areas are multifunctional, and farmers should be encouraged to exploit all opportunities for rural entrepreneurs.

29. Last but not least, while recognising the need of all rural areas for improving agricultural competitiveness and enhancing economic diversification, agricultural and rural policies have to contribute to *economic cohesion* within the Union.

New reforms

30. The Commission confirms the policy choice expressed in the 'Agricultural Strategy Paper' of December 1995. It proposes deepening and extending the 1992 reform through further shifts from price support to direct payments, and developing a coherent rural policy to accompany this process. Direct payments will be set at an appropriate level while avoiding any overcompensation.

31. The Commission aims to rectify a number of adverse effects damaging the image of the CAP. For that reason:

- it proposes introducing a ceiling, on a degressive basis, on the total amount of direct aid a farm may receive under the market organisations so that certain agricultural holdings cannot obtain excessive subsidies;
- the Member States will in future have the legal means to confine payment of direct aids to those farmers who can show that they are actually engaged in the activities for which the aids are designed;
- the Member States will have the option of modulating, i.e. reducing, direct aids to farms, on the basis of criteria to be defined by the Member State, in connection with the labour employed on the holding. The proceeds of this modulation will be kept by the Member State for allocation to agri-environmental measures;
- lastly, the Member States will have to take appropriate measures to tackle the environmental problems connected with agricultural production.

Crop sector: cereals, oilseeds and protein crops

32. Over the coming years, the areas devoted to the cultivation of these crops and to set-aside are expected to stabilise at about 53.5 million hectares. In the present policy framework, without an appropriate reform of the common agricultural policy and supposing that the set-aside rate returns to its reference level of 17.5 %, the areas devoted to each of the three crops would also be likely to remain relatively stable over time.

33. Cereals yields are forecast to continue their upward trend, which would mean that production would rise from 201 million tonnes in 1996 to 214 million tonnes by 2005. Total consumption of cereals is also likely to increase further, though at a slower rhythm, as a result of the development of white meat production. Up to 2000, the situation is likely to remain relatively balanced, in particular for wheat. But from 2001 onwards, the GATT commitments on subsidising exports are to become more of a constraint on both wheat and coarse grains, which would be liable to lead to a rapid increase in intervention stocks (which could total some 58 million tonnes by 2005).

34. Oilseed yields are expected to increase only very slightly and the area cultivated would be strictly limited by the Uruguay Round Agreement. Production is likely to increase slightly, from 12.2 million tonnes in 1996 to 12.8 million tonnes in 2005. Trade deficits in oilseeds and oilseed meals would remain very substantial.

35. In theory, it should be possible to react to new cereals surpluses by increasing the compulsory set-aside rate. But this could then risk gradually increasing to over 20%. Furthermore, the Union could well fail to benefit from the positive developments expected on the world market, since internal prices could be expected to remain above world prices. A more offensive strategy could simultaneously avoid the routine use of export subsidies, reinforce the competitiveness of cereals on the internal market, overcome the Uruguay Round constraints for oilseeds and, last but not least, bring a good deal of simplification.

36. The Commission therefore proposes the following measures:

- a one-off 20 % intervention price cut applicable from the marketing year 2000/01;
- partially compensating for the 20 % cut in the intervention price by increasing the direct payment for cereals (from ECU 54.34/t to ECU 66/t);
- harmonising direct payments for cereals, non-fibre flax and oilseeds (same direct payment), keeping a differentiation for protein plants. The 'oilseeds' payment would thus be non-specific and enable all the special oilseed provisions, including those in connection with the Blair House Agreement, to be abolished;
- maintaining the principle of compulsory set-aside as a means of controlling production, the rate being set at 0 % instead of 17.5 %;
- maintaining the principle of voluntary set-aside, with compensation equal to the cereals payment (ECU 66/t);
- keeping the special arrangements to assist durum wheat (higher specific payment in the traditional areas), with the rules introduced in 1997 (maximum guaranteed areas and extension of the non-traditional areas qualifying for reduced specific aids);
- keeping the list of products qualifying for arable crop aids unchanged, including silage cereals (contrary to what was proposed in the original Agenda 2000 document);
- only the special case of irrigated crops is to be taken into account for fixing a specific yield. Eligibility for this special irrigated crops aid will remain limited to the historical area, which implies the determination of a base area for irrigated land. The ceiling on irrigated areas is abolished, having become obsolete;
- setting yields for oilseeds will no longer be necessary, since direct payments will be based on cereals;
- setting the rate of compulsory set-aside at zero means that all the provisions in relation to this obligation introduced under the 1992 reform, such as transferring and taking into account set-aside for environmental purposes (Regulation (EEC) No 2078/92) or forestry purposes (Regulation (EEC) No 2080/92) can be abolished;
- where, for a given marketing year, the rate of compulsory set-aside is higher than zero, producers producing less than 92 tonnes of cereals equivalent will be exempt from the obligation (this is the only provision relating to small producers).

37. Practical experience with the implementation of the 1992 reform has shown the need for certain additional measures:

- postponement of the sowing date from 15 May to 31 May, while retaining the principle of certain exceptions on the grounds of the weather;
- postponement of the per-hectare payment period from '16 October to 31 December' to '1 January to 31 March' to take account of the difficulties encountered by the Member States in carrying out checks and to increase market fluidity, by deterring producers from holding on to their production;
- putting a single committee in charge of all arable crops (Management Committee for Cereals);
- the payments per hectare and the rates of set-aside may be adjusted in the future in the light of developments with regard to production and markets (as provided for in the current rules).

Simplification of rules and management

38. The changes set out above permit simplification of the existing support arrangements for producers of certain arable crops while retaining the basic elements of this system, in particular the base areas, the regionalisation scheme, observance of historical yields and the set-aside scheme:

- the possibility of applying an individual base area is abolished (none of the Member States have taken up this option since it was introduced);
- if a base area is exceeded, only the financial penalty will be applied (extraordinary set-aside abolished);
- the option of concentrating the penalties for exceeding the base area on those subdivisions of the base area responsible for the overrun is abolished because of its complexity;
- the possibility of making a distinction between maize and the other arable crops by fixing a specific yield is abolished, as is, consequently, the setting of a specific base area for maize.

Beef and veal

39. Over the coming years, beef production will be influenced, on the one hand, by the short-term measures adopted in 1996 (i.e. the calf processing and early marketing of veal calves schemes) and, on the other, by the elimination of adult cattle over 30 months in the UK from the food and feed chain. The first will be felt mainly in 1998 and 1999, whereas consequences of the second will continue until 2001. Beef consumption is expected to recover gradually from the 1996 shock and return to its long-term (declining) trend.

40. These factors add to a cyclical downswing of production until 2000 and should lead to a substantial reduction in stocks over the next few years, from the levels built up during 1996 and 1997. After 2001, however, if the market policy remains unchanged, production would return to its full potential, whereas consumption would continue its long-term decline. Intervention stocks would tend to accumulate again (given the GATT limited export possibilities) and could reach some 1.5 million tonnes by 2005.

41. It is not acceptable in the long run to solve the problem of over-production in this sector by slaughtering young calves a few days after birth. Nor can the surplus problem be solved efficiently by pure supply management (quotas on animal numbers or on production), as this would present major administrative complications.

42. A strategy which is more on the offensive, on the other hand, could, at one and the same time, substantially reduce refunds on exports to traditional destinations, help develop new export outlets without subsidies and rebalance internal meat consumption to the benefit of beef. Moreover, it would reduce the incentive for higher carcass weights.

43. The Commission therefore proposes:

- a 30 % cut in institutional prices in three annual stages (3 x 10 % starting on 1 July 2000) with the aim of exporting without refunds to our traditional markets or, in the case of prime cuts, to new markets such as South-East Asia. This price cut should also restore the balance in internal meat consumption in favour of beef;
- the markets should resume their principal role, i.e. regulating the balance between production and consumption. It is therefore proposed to abolish public intervention, which has proved very costly, and replace it with private storage measures;
- direct aid to beef farmers will be increased to cushion the effect of the price cut provided for in the first indent. This direct aid may not exceed the financial envelope set for the beef/veal and dairy sectors, so that the aid for arable crops, including silage maize, can continue to be financed. In this context, the premiums for bull calves have been adjusted to take account of the fact that some 35 % of silage maize has been used to fatten them. In order to maintain some flexibility in the premium schemes, it is proposed that half the increase in premiums resulting from Agenda 2000 be reserved and allocated in the form of a national envelope for each Member State. The total amount thus reserved will be allocated to the Member States according to their respective production levels. This financial envelope will be subdivided into:
 - an amount corresponding to the payment of premiums as provided for in the 1992 reform plus half of the Agenda 2000 increase and
 - the second half of the Agenda 2000 increase allocated on the basis of Member States' production. These payments may be made in the form of additional premiums for adult bovines (males and females, including heifers) or in the form of area aid payments (grazing).

The Community rules will set limits (in terms of amount and number) for these additional payments;

- the calf processing premium will be abolished.

Simplification of rules and management

44. The current dual intervention system (i.e. standard plus safety net) is abolished. In addition:

- a single general Regulation will simplify and consolidate two Council Regulations in a single basic Regulation. The new Regulation is thus far more succinct and the transitional measures will be abolished systematically;
- support prices are programmed in advance for three years, which makes the annual price fixing for the sector obsolete;
- the requisite powers are invested in the Commission for implementing the non-WTO tariff quota.

Flexibility and decentralisation

45. Other changes are introduced in connection with this reform:

- the deseasonalisation premium is confined to those Member States which really need it (to safeguard beef market stability) This means that Denmark, Germany and Sweden (which all produce relatively few cattle) are excluded and Ireland and Northern Ireland, where the traditional production system leads to an accumulation of slaughterings in the autumn, will keep the premium;
- the extensification premium, which was calculated on a notional basis (essentially the number of animals for which a premium was requested) is reformed to focus on genuine extensive production. It is proposed that account be taken of the number of animals actually present on the farm during the grazing season. The amount of the premium has been increased to ECU 100;
- the suckler cow premium is extended, subject to individual ceilings, to include heifers (which may account for up to 20 % of the total number). The quota for this premium (some 10 % of which has been unused so far) is reduced to the level of payments of the highest number in 1995 or 1996 plus 3 % (in order to constitute the national reserve). This corresponds to a cut of about 10% in the ceilings for dairy cows. The two measures together (i.e. lower ceiling and inclusion of up to 20 % heifers) should curb or even cut production potential in the EU. The possibility of granting additional amounts for the suckler cow premium, part-financed

by the EAGGF in Objective 1 regions (and also Belgium) has been abolished in view of the possibility created by the additional payment for Member States;

- the regional ceiling on the male bovine premium is set at the level adopted in the decision of November 1996, with the minor adjustment for Spain and Portugal proposed in the 1989/99 prices package. This represents a decrease of some 20 % compared with 1996.

Milk and milk products

46. If milk quotas remain unchanged over the coming years, total milk production is forecast to decline slightly from 121.6 million tonnes in 1996 to 118.1 million tonnes in 2005, due to a small increase in milk fat content and adjustment of production to the quota level. Global milk demand (in whole milk equivalent) is expected to decline from 112.2 million tonnes in 1995 to 108.7 million tonnes in 2005. This is the net result of decreasing consumption of some dairy products, notably butter, and increasing demand for other products, such as cheese and fresh products. On-farm consumption (animal feed) should also drop in line with the expected decline in cattle numbers. The net surplus is likely to vary between 9.0 and 9.5 million tonnes of milk equivalent in the 1996-2005 period, with a tendency to increase by the end of the period.

47. Turning to the different milk products, which are all covered by GATT commitments, and supposing no policy changes, it appears that:

- further export growth in the *cheese* sector would be constrained by GATT limitations on subsidised exports;
- intervention stocks of *skimmed-milk powder* will tend to increase from 1998 onwards and reach some 200 000 tonnes in the first half of the next decade, as the GATT export commitments become binding;
- for *butter*, GATT export commitments give sufficient margin for subsidised exports, so that no accumulation of intervention stocks would necessarily be expected; it is, however, questionable whether real outlets exist on world markets for a quantity as large as the expected surplus of around 300 000 tonnes.

48. After an in-depth examination of the different options, the Commission discards radical solutions, such as drastic price cuts and rapid abolition of the quota system. Expected market developments do not justify such extreme measures. The Commission sees no strong reason for introducing fresh quota cuts either, since no major deterioration of the market balance is expected. Finally, the Commission also discards a double price-double quota system, which would raise serious questions of WTO compatibility, could cause distortions, depending on how it were shaped and implemented, and would add to current administrative complexity and control problems.

49. However, dairy farmers should not be given the impression that the present system, with its intrinsic rigidities, can last for ever. The recent debate on long-term prospects has revealed factors of uncertainty; in particular, the results of the next WTO Round could also affect the dairy sector.

50. The Commission therefore recommends a cautious approach at this stage. It proposes the following measures:

- prolonging the milk quota system six times for a period of 12 months from 1 April 2000, with a 2 % increase in the guaranteed quantity (1 % for all Member States, priority being given to young farmers, and 1 % for producers in mountain areas);
- cutting the intervention prices for butter and skimmed-milk powder by 15 % in four stages between 1 July 2000 and 1 July 2003 (this corresponds to a cut in the guide price of some 17 %). This change to the proposal contained in the original Agenda has been made following analyses showing very favourable developments on the milk market. The competitiveness of Community exports of milk products will be substantially reinforced, internal consumption will be increased and some flexibility in adjusting the milk quota will be possible. This operation will also help to finance the additional cost for silage maize;
- introducing an annual aid of ECU 145 per premium unit in four stages, taking account of the level of milk quotas before the reform. In the final phase, this aid will be made up of a fixed component (ECU 100) and an additional payment payable either per head or on the basis of area (at the discretion of the Member States);
- the 'dairy cow' payment under the beef regime may vary in the same way from ECU 50 to ECU 70 (Community average).

Simplification of rules and management

51. The proposal for a new single general Regulation on the organisation of the market in milk combines six Council Regulations in one text. The new Regulation is thus far more succinct and the obsolete transitional measures are systematically abolished;

- prices are set in advance for four years, which renders annual fixing obsolete;
- the Commission is given the necessary powers to implement the non-WTO tariff quota;
- the Commission is also given the requisite powers to be able to introduce penalties for the use of hormones (particularly BST);
- steps are to be taken to ensure that only butter of Community origin is bought into intervention.

Flexibility and decentralisation

52. Additional payments can be introduced by the Member States in accordance with agreed rules (non-discrimination, national envelope, absolute limit on the combination of premiums). An additional milk quota is also set for young farmers (1 %), producers in mountain areas and in the northernmost areas of the Union (1 % according to their share of production).

Mediterranean products

53. As a continuation of the 1992 reform process, in December 1996 the Commission presented a report on the *tobacco* regime to the Council and the Parliament. This report gives a positive assessment of the 1992 tobacco reform and proposes further strengthening the market orientation of the sector, while recognising the important economic role it plays in some rural areas. In February 1997, the Commission presented a report on the *olive oil* regime. It suggests as a possible option a further shift from price support to direct payments and a radical simplification of these payments. The Commission now proposes that production aid be maintained until the 2000/01 marketing year inclusive, that the rules be greatly simplified and that the maximum guaranteed quantity be increased and allocated among the Member States.

54. For *fruit and vegetables*, a major reform was adopted by the Council in July 1996: budgetary efforts were shifted from supporting prices to strengthening producer organisations and making them more competitive, and emphasis was placed on the structural adjustment of the sector and on its environmental dimension. The Commission will closely monitor the implementation of this reform.

55. For *wine*, a reform proposal has been pending at Council level since 1994. In view of the latest developments, and in particular the new context created in this sector by the Uruguay Round Agreement, the Commission intends to review the pending proposal and to table a fresh one as soon as the 1997 situation has been fully analysed. The new proposal would take into account the guidelines which have in the meantime been defined in the 1995 'Agricultural Strategy Paper'.

Rural policy

56. Over the coming decade, agriculture will have to adapt to further changes in market evolution, market policy and trade rules. These changes will not only affect agricultural markets, but also local economies in rural areas in general. Many of them are already confronted with acute economic development problems. Moreover, rural areas have increasingly important environmental and recreational functions to fulfil, and requirements linked to these functions may well imply additional adjustments for agriculture, as the main land user. At the same time the increasing importance

of environmental and recreational needs will also offer new development opportunities from which farmers and their families should be able to benefit.

57. The Commission suggests that these developments should be encouraged and supported by a reorganisation of the existing rural policy instruments (see also points 483 to 488).

Simplification of rules

58. The proposal for a Regulation provides for a reorganisation of all the rural policy instruments currently in force:

- the new Regulation incorporates into a single text nine Council regulations, and in particular the current EAGGF Guidance Section implementing measures, the three regulations on CAP accompanying measures and the various forestry measures. This reorganisation is accompanied by a major simplification of the eligibility conditions:
- for the sake of clarity, the measures relating to producer organisations are to be transferred to market policy;
- in accordance with the guidelines laid down in Agenda 2000, the following administrative and financial measures concerning rural development are to apply:
 - Community support for rural development is to form part of the programming of the Structural Funds in Objective 1 and Objective 2 areas,
 - Community assistance will be financed by either the EAGGF Guidance or the Guarantee Section depending on the measure and the region concerned;
- there are two distinct groups of measures to assist rural development:
 - 1992 accompanying measures (agri-environment scheme, afforestation, early retirement) and compensatory allowances in less-favoured areas,
 - measures concerning modernisation and diversification (aid for farm investment, aid for investment in the processing sector, programme for young farmers, etc.).

The components of the reform

59. As far as rural areas in regions eligible under Objective 1 of the Structural Funds are concerned, the current approach of integrated development programmes is maintained with the exception of the scheme for less-favoured areas, for which the EAGGF Guarantee Section will provide assistance on the same basis as for the accompanying measures (agri-environment scheme, afforestation, early retirement). In Objective 1 areas rural development measures will be financed by the EAGGF Guidance Section.

60. In rural areas eligible under the new Objective 2 measures (former Objectives 5(a) and 5(b)) will be financed by the EAGGF Guarantee Section as accompanying measures. These measures will stand alongside those financed by the ERDF and the ESF, in the same programme, for the Objective 2 eligible region.

61. In all rural areas not covered by Objective 1 or the new Objective 2, rural development measures designed to accompany and complement the market policies will be part-financed by the EAGGF Guarantee Section. Integrated into the same legal framework as the current accompanying measures, these measures will apply horizontally and will be implemented in a decentralised manner, at the appropriate level, on the initiative of the Member States.

62. The environmental aspects of rural development policy are reinforced by the criteria on eligibility for classification as less-favoured areas. The agri-environmental measures are also oriented towards the objectives of safeguarding the countryside and maintaining natural resources.

63. The proposal for a Regulation also gives more prominence than in the original Agenda 2000 proposals to forestry measures. This is in response to Parliament's call for a European forestry strategy (resolution A4-0414/96 of 30 January 1997).

64. The reference for the rate of part-financing is the Structural Funds framework regulation.

65. Given the importance attached to environmental aspects, the Member States are asked to take the environmental measures they consider appropriate in the light of their specific situation as regards use of farmland.

66. The Member States should fix appropriate penalties for ecological damage caused by failure to comply with these measures. The penalties could include a reduction or, if necessary, cancellation of benefit from the support schemes concerned.

67. It is proposed that a ceiling per holding be fixed as follows for aid under the support system:

- full payment for aids totalling not more than ECU 100 000;
- a 20 % reduction for aids between ECU 100 000 and 200 000;
- a 25 % reduction for aids exceeding ECU 200 000.

68. The Member States may decide to modulate these amounts according to the number of annual work units (AWU) present on the holding during the calendar year.

Main institutional prices and aids applicable for the 1996/97 and 1997/98 marketing years

(ECU/ha)

	1996/97	1997/98
<i>Arable crops</i>		
Compensatory payment		
- Cereals ¹	54.34	54.34
- Rapeseed, sunflower and soya (reference amounts in ECU/ha) ²	433.50	433.50
- Peas, fieldbeans and sweet lupins ¹	78.49	78.49
- Non-fibre flax seed ¹	105.10	105.10
- Set aside ¹	68.83	68.83
Additional compensatory payment for durum wheat (ECU/ha)		
- Traditional zones	358.60	358.60
- Non-traditional zones	138.90	138.90
<i>Cereals</i>		
- Intervention price	119.19	119.19
<i>Rice</i>		
- Intervention price	351.00	333.45
- Compensatory payment	-	-
<i>Potato starch</i>		
- Minimum price	209.78	209.78
- Compensatory payment	86.94	86.94
- Industry premium	22.25	22.25
<i>Sugar</i>		
- Basic price for sugar beet	47.67	47.67
- Intervention price for white sugar (ECU/q)	63.19	63.19
<i>Olive oil</i>		
- Production target price	3 837.70	3 837.70
- Intervention price ⁴	1 805.80	1 751.60
- Representative market price	2 295.00	2 295.00
- Production aid	1 422.00	1 422.00
- Consumption aid	120.70	120.70
<i>Dried fodder</i>		
- Fixed aid ⁵	68.83	68.83
<i>Lentils, chick peas, vetches</i>		
- Fixed aid (ECU/ha) ⁶	131.69	146.51
<i>Fibre flax</i>		
- Fixed aid (ECU/ha)	865.48	815.86
<i>Hemp</i>		
- Fixed aid (ECU/ha)	774.74	716.63
<i>Silkworms</i>		
- Aid per box	133.26	133.26
<i>Cotton</i>		
- Guide price	1 063.00	1 063.00
- Minimum price	1 009.90	1 009.90

24 THE AGRICULTURAL YEAR

	1996/97	1997/98
<i>Milk products</i>		
(a) Target price for milk	309.80	309.80
(b) Intervention price		
- Butter	3 282.00	3 282.00
- Skimmed-milk powder	2 055.20	2 055.20
<i>Beef/veal</i>		
- Intervention price for adult bovine animals (carcase weight - category R3)	3 475.00	3 475.00
<i>Sheepmeat</i>		
- Basic price (slaughter weight)	5 040.70	5 040.70
<i>Pigmeat</i>		
- Basic price (slaughter weight)	1 509.39	1 509.39
<i>Table wine</i>		
- Guide price type		
RI (ECU/ %/hl)	3.828	3.828
RII (ECU/ %/hl)	3.828	3.828
RIII (ECU/hl)	62.15	62.15
AI (ECU/ %/hl)	3.828	3.828
AII (ECU/hl)	82.81	82.81
AIII (ECU/hl)	94.57	94.57
<i>Tobacco (premiums)¹</i>		
- I Flue cured	2 709.65	2 709.65
- II Light air cured	2 167.48	2 167.48
- III Dark air cured	2 167.48	2 167.48
- IV Fire cured	2 383.62	2 383.62
- V Sun cured	2 167.48	2 167.48
- VI Basmás	3 754.15	3 754.15
- VII Katerini	3 185.41	3 185.41
- VIII Kaba koulak	2 276.15	2 276.15
<i>Fruit and vegetables</i>		
Basic and buying-in prices	*	*

¹ The aid per tonne is to be multiplied by the regional yield in the production region in question.

² To be differentiated according to the regional yield for cereals/oilseeds to arrive at the regional reference amounts.

³ Amount per hectare fixed by Member State in Regulation (EC) NO 3072/95 (OJ L 329, 30.12.1995, p. 18).

⁴ After application of the adjustment following the overrun of the maximum guaranteed quantity.

⁵ Aid for sun-dried fodder is fixed at ECU 38.64/t.

⁶ After the reduction following the overrun of the maximum guaranteed area.

⁷ Supplementary amounts have been fixed for certain varieties; see OJ L 148, 30.6.1995, p. 40.

* A series of prices covering different products and periods is fixed each year.

Agrimonetary measures

69. Most of the currencies were relatively stable in 1997. The dollar continued to make up lost ground after its sharp devaluation in the first half of 1995; by about mid-May it was 15 % up on its June 1995 level. Generally speaking, the dollar trend was reflected in similar trends for

sterling and the Irish pound. On the other hand, the vast majority of the 'strong' currencies saw a slight devaluation, their market rates approaching the January 1993 level.

70. The agricultural conversion rates did not change for the French franc, the Portuguese escudo, the Danish krone or the Finnish markka. The rate for sterling underwent four revaluations and that for the Irish pound three. After several falls in the agricultural conversion rate for the Italian lira, the Council considered that the conditions for a substantial revaluation of 3.08 % had been met on 1 March.

71. The Council decided to reapply the arrangements adopted at the time of the 'sensitive' revaluations in 1995. Under these rules,¹ the agricultural conversion rates applicable for flat-rate aid per hectare or per animal, and for structural or environmental aid, are frozen until 1 January 1999, the date scheduled for the introduction of the single currency. The Council also decided to limit the difference between the frozen agricultural conversion rate and the rate which would have applied if it had not been frozen to 11.5 %. This provision gave rise to a reduction in the frozen conversion rates for the Swedish krona (0.11 %) and the pound sterling (3.61 %).

72. The Member States concerned can grant aid to offset the loss of income entailed by the fall of institutional prices in national currency. The amount of aid is subject to an upper limit set by the Council and may be granted on a degressive basis for a period of three years. The EAGGF funds up to 50 % of the ceiling set by the Council, whether or not there is a national component and irrespective of its size.

73. In 1997 Belgium, Denmark, Germany, Luxembourg, the Netherlands and Austria granted their second instalments of compensatory aid in connection with the 'sensitive' revaluations which occurred in June and July 1995. In the light of monetary developments in 1997, the third planned instalment was cancelled for these Member States. Sweden granted the first two instalments of the sensitive revaluation compensation of 11 January 1996. Ireland granted the part financed by the Community of the first instalment of compensation for the three sensitive revaluations. Italy and the United Kingdom had still not reached a decision on whether to grant such compensation.

Promotional measures

74. In 1997, as far as the programmes directly managed by the Commission are concerned, the two-year programme for fibre flax ended in July and was followed by a six-month interim programme pending the launch of a new two-year campaign. The fifth olive oil campaign is under way, running until July 1998. The evaluation of the first phase of the campaign showed very encouraging results, with consumption up in all the Member States. As regards programmes not

¹ Regulation (EC) No 724/97 (OJ L 108, 25.4.1997, p. 8).

directly managed by the Commission, promotion campaigns continued for milk and milk products, quality beef, apples, citrus fruit and grape juice. For these products as well the results reflected in the evaluation reports are encouraging.

75. Funds for the beef/veal sector were increased, enabling several campaigns to be organised in 1997. The promotion measures were extended to include quality veal. The Commission presented a proposal for a Regulation to the Council on the promotion of beef in non-EU countries and information campaigns on the new rules on the labelling of beef.

76. A first series of measures to promote flowers and live plants was launched in 14 Member States.

77. Lastly, a programme for table olives submitted by industry organisations in Italy started up in 1997.

78. The breakdown of the budget by product is as follows:

	<i>(ECU million)</i>
	<i>Amount fixed in 1997</i>
Olive oil	17.6
Fibre flax	1.0
Grape juice	5.8
Nuts	0.9
Apples/citrus fruit	7.8
Table olives	1.0
Quality beef	31.3
Milk and milk products	8.8
Quality agricultural products in the most remote regions	4.9
Flowers and live plants	14.7

Consumer interest and product quality

79. In connection with the implementation of Council Regulation (EEC) No 2081/92 on the protection of geographical indications and designations of origin,¹ the Commission made additions to the list of registered designations, which now exceeds 440. The Council Regulation was also amended to allow a more flexible transitional period where products are registered at Community level.²

¹ OJ L 208, 24.7.1992.

² OJ L 156, 13.6.1997.

80. The information campaign aimed at familiarising the public with the meaning of the terms PDO (protected designation of origin), PGI (protected geographical indications) and TSG (traditional speciality guaranteed) and the logo in use continued. At first directed at producers, then distributors, it then entered the consumer information phase with the theme 'products with a story'.

81. It was felt that the profusion of quality labels intended to highlight the particular qualities of food products was liable to create confusion as regards the nature of the labels and the requirements they reflect. The Commission is therefore having an inventory of such labels compiled, with two major objectives: to acquire detailed knowledge of, firstly, the various systems and the latest developments in them and, secondly, the expectations on all sides of the food industry regarding those systems.

82. In line with the objective of ensuring sustainable agricultural and rural development, the approach adopted takes account of the principal economic and social functions performed by agricultural producers, and is also aimed at facilitating consumer choice. Particular attention is paid to production methods.

Assistance to the needy

83. The European Union continued its food aid programme for the needy¹. This involves making agricultural produce or products processed from agricultural produce available to associations working in the field in the various Member States.

Free distribution of agricultural products (1997)

Member State	Appropriations allocated (ECU)	Quantities (tonnes) ¹				
		Cereals	Olive oil	Skimmed milk powder	Butter	Beef
Belgique/België	2 986 000	3 500			300	420
Danmark	1 518 000					420
Elláda	15 784 000		5 000			1 679
España	40 394 000	34 740			6 135	4 171
France	34 452 000	12 611		8 131		4 275
Ireland	2 031 000				60	500
Italia	49 646 000	40 000	2 000		2 000	9 388
Luxembourg	44 000			13		5
Portugal	15 216 000	5 200		2 060	2 971	

¹ Regulation (EEC) No 3730/87, 10.12.1987 (OJ L 352, 15.12.1987, p.1); Commission Decision 96/687/EC, 22.11.1996 (OJ L 317, 6.12.1996, p. 22).

28 THE AGRICULTURAL YEAR

Member State	Appropriations allocated (ECU)	Quantities (tonnes) ¹				
		Cereals	Olive oil	Skimmed milk powder	Butter	Beef
Suomi/Finland	2 039 000	10 700				200
United Kingdom	29 190 000					8 000
Total ²	193 300 000	106 751	7 000	10 204	11 466	29 058

¹ These quantities take account of an adjustment to the plan made during the marketing year because insufficient stocks of olive oil were available.

² ECU 1 million should be added to the ECU 193.3 million to cover the financing of intra-Community transport costs.

84. The table below gives a breakdown of the amount involved and of the quantities which may be withdrawn from intervention stocks in each Member State.

Harmonisation of legislation

Veterinary and zootechnical legislation

85. Some major decisions were adopted in the veterinary and zootechnical fields in 1997.

86. The Council amended and updated Directive 64/432/EEC on animal health problems affecting intra-Community trade in bovine animals and swine.¹

87. In the animal welfare sector the Council adopted Regulation (EC) No 1255/97 laying down Community criteria for staging points² to ensure optimum conditions for the transport of animals.

88. Lastly, to improve production and marketing conditions for beef and beef products, the Council adopted Regulation (EC) No 820/97³ (see point 95)

89. Under the powers allocated to it, the Commission adopted numerous implementing texts to supplement the measures laid down for the completion of the single market.

90. In the animal health field, safeguard clauses to prevent the spread of diseases in the Community were also adopted, particularly in response to the outbreak of classical swine fever in the Netherlands, Spain, Belgium and Italy.

91. To protect public health, a large number of decisions were taken to prohibit imports from various non-EU countries of fishery products liable to pose a serious threat to consumer health.

¹ Directive 97/12/EC (OJ L109, 25.4.1997, p. 1).

² OJ L 174, 2.7.1997, p. 1.

³ OJ L 117, 7.5.1997, p. 1.

92. Numerous decisions were also adopted on the Community financing of measures for eradicating animal diseases and curbing the spread of animal diseases in the Community.

Bovine spongiform encephalopathy

93. The Community institutions continued to work hard in 1997 to combat bovine spongiform encephalopathy (BSE) and the other transmissible encephalopathies. The temporary committee of inquiry set up by Parliament in 1996 reported to Parliament in February and recommended a series of measures to combat BSE. On the basis of the report, Parliament adopted a resolution on 19 February inviting the Commission in particular to implement its recommendations¹ and, on 23 April, set up a new temporary committee of inquiry to monitor action taken.² On 14 May the Commission adopted an action plan containing a series of recommendations to eliminate as much as possible the potential risks posed by BSE in the light of the growing body of scientific data and on 20 October it presented a consolidated final report to the new committee of inquiry.³ The report sets out the measures taken to eradicate BSE, protect public health and restore consumer confidence. On the basis of the committee of inquiry's report, Parliament expressed satisfaction in a resolution adopted on 19 November⁴ with the measures taken by the Commission.

94. As part of its action plan, the Commission supplemented the protection measures taken in 1996, by prohibiting the use of materials presenting a BSE risk (the brains, eyes, tonsils and spinal cord of bovine animals, sheep and goats; spleens of sheep and goats)⁵ and by strictly regulating the transport of animal waste.⁶ On 28 July, the Commission also supplemented the list of ingredients whose use is banned in compound feedingstuffs⁷ and introduced special labelling for animal feed containing protein products derived from mammalian tissues.⁸

95. To increase consumer protection by improving information on the origin of meat, the Council adopted on 21 April Regulation (EC) No 820/97⁹ which establishes a system for the identification and registration of bovine animals, involving in particular the provision of a passport for each animal and the creation of a computerised database in each Member State, and also a consistent and reliable system for labelling beef and veal and products derived from them. Contrary to the Commission proposal, the Council took Article 43 rather than Article 100a of the EC Treaty as the legal basis for the regulation. The Commission applied to the Court on 22 July 1997 for the

¹ OJ C 85, 17.3.1997.

² OJ C 150, 19.5.1997.

³ COM(97) 509.

⁴ OJ C 371, 8.12.1997.

⁵ Decision 97/534/EC (OJ L 216, 8.8.1997), this ban will enter into force on 1 January 1999.

⁶ Decision 97/734/EC (OJ L 294, 28.10.1997).

⁷ Decision 97/582/EC (OJ L 237, 28.8.1997).

⁸ Directive 97/47/EC (OJ L 211, 5.8.1997).

⁹ OJ L 117, 7.5.1997.

regulation to be cancelled on account of this choice of legal basis (Case C 269/97). The Commission had the backing of the European Parliament in this case.

Animal feed

96. The Commission adopted Directive 97/6/EC¹ amending Council Directive 70/524/EEC concerning additives in feedingstuffs² prohibiting, as a precaution, the use of avoparcin pending the results of investigations under way into the risk of transferring resistance to antibiotics used in human medicine through the use of antibiotics in feedingstuffs.

97. Following the numerous amendments to the Annexes to Council Directive 74/63/EEC on undesirable substances and products in animal nutrition and an important change in the terminology used in this Directive, the Commission deemed it appropriate, for the sake of clarity, to consolidate the various instruments amending the Annexes to the Directive in question by Directive 97/8/EEC.³

98. For practical reasons and for the sake of legal consistency, the Commission considered it appropriate, following the veterinary protection measures regarding bovine spongiform encephalopathy and the ban on the use of protein derived from mammalian tissue in ruminant feed, to adopt Decision 97/582/EC⁴ supplementing Decision 91/516/EEC⁵ establishing a list of ingredients whose use is prohibited in compound feedingstuffs.

99. In addition, to prevent users of feedingstuffs containing protein derived from certain mammalian tissues from feeding them to ruminants through ignorance of current rules, the Commission adopted Directive 97/47/EC,⁶ which introduces into Council Directives 77/101/EEC⁷ and 79/373/EEC⁸ on the marketing of straight and compound feedingstuffs provisions on appropriate labelling of such feedingstuffs calling livestock farmers' attention to the ban on their use in ruminant feed. Furthermore, so that livestock farmers are informed as to the exact nature of ingredients contained in feedingstuffs, the Commission decided in Directive 97/47/EC⁹ to withdraw the option offered to feed manufacturers under Directive 91/357/EEC of declaring all mammalian protein under the description 'land animal products'.

¹ OJ L 35, 5.2.1997, p. 11.

² OJ L 270, 14.12.1970, p. 1.

³ OJ L 48, 19.2.1997, p. 22.

⁴ OJ L 237, 28.8.1997, p. 39.

⁵ OJ L 281, 9.10.1991, p. 23.

⁶ OJ L 211, 5.8.1997, p. 45.

⁷ OJ L 32, 3.2.1977, p. 1.

⁸ OJ L 86, 6.4.1979, p. 30.

⁹ OJ L 211, 5.8.1997, p. 45.

100. The Council, for its part, adopted Directive 97/40/EC¹ on 25 June 1997 postponing for 18 months the date by which the Commission was required to decide on all the authorisation applications (1 January 1996) submitted under Directive 93/113/EEC concerning the use and marketing of enzymes, micro-organisms and their preparations in animal nutrition.

101. The Commission transmitted two proposals for Directives² to the Council on 25 and 28 July 1997, one amending Council Directive 93/74/EEC on feedingstuffs intended for particular nutritional purposes and the other amending Directive 95/69/EC laying down the conditions and arrangements for approving and registering certain establishments and intermediaries operating in the animal feed sector and amending Directives 74/63/EEC, 79/373/EEC and 82/471/EEC. The purpose of these proposals is to deal with the production, circulation and use of a new category of products: nutritional supplements for animals.

Plant health

102. In the field of plant health, the Council Directive 97/3/EC³ aimed at introducing the principle of Community financial solidarity and Member States' liability into the Community plant health regime was adopted on 20 January 1997.

103. The Commission, in its programme of work, amended Community legislation to continue to ensure that Community plant production was adequately protected in the light of newly identified risks from specific harmful organisms, in particular new protection measures for the citrus producing areas of the Community.⁴ Also Commission Directive 97/14/EC removed the import prohibition on potatoes from Algeria⁵ and Commission Decision 97/5/97⁶ recognised Hungary as free from the bacterial ring rot disease of potatoes and hence able to export potatoes to the EU. Commission Directive 97/46/EC⁷ amending Directive 95/44/EC⁸ established the conditions for the introduction or movement of potato material in the Community for research or trials purposes.

104. There was also ongoing reporting and discussion on the situation concerning potato ring rot in the Community and the action taken to eradicate occurrences of this disease in accordance with Community legislation.⁹

¹ OJ L 180, 9.7.1997, p. 21.

² COM (97) 408 and 409 final, 25.7.1997 (not published).

³ OJ L 27, 30.1.1997.

⁴ Directive 98/83/EC OJ L 15, 21.1.1998).

⁵ OJ L 87, 2.4.1997

⁶ OJ L 2, 4.1.1997

⁷ OJ L 204, 31.7.1997.

⁸ OJ L 184, 3.8.1995.

⁹ Council Directive 93/85/EEC on the control of potato ring rot (OJ L 259, 18.10.1993).

105. Several derogations from the Community plant health regime were also adopted which enabled the introduction of certain plants and plant products – potatoes, vine plants, strawberry plants – from specified origins, under strict additional phytosanitary measures.

Seeds and Propagating Material Sector

106. In July 1997 the European Parliament gave its opinion on the so-called seeds 'package' proposal (COM(93) 598 final). The most important amendments related to the environmental risk assessment for seed of genetically modified plant varieties and the labelling of packages of such seed. The Commission's revised proposal to the Council will incorporate these amendments.

107. As a follow-up to the SLIM (simpler legislation for the internal market) exercise, the Commission made a proposal to the Council to simplify Council Directive 91/682/EEC on the marketing of ornamental plant propagating material and ornamental plants.¹

108. In addition to the usual routine measures the Commission authorised the indelible printing of information on packages of seed of oil and fibre plants and extended a similar provision to all fodder plant species.²

Plant protection products

109. With regard to the re-evaluation programme for a first series of 90 existing active substances covered by Regulation (EEC) No 3600/92³, the dossiers submitted by the interested notifiers are under examination in the rapporteur Member States.

110. Forty-three evaluation reports have been submitted to the Commission for further examination with all Member States in the framework of the Standing Committee on Plant Health. Thirty-five evaluation reports including five reports on new active substances have been peer reviewed during 1997. The Commission adopted a Directive for the inclusion of a first active substance into the positive list of Directive 91/414/EEC.

111. Following annulment in 1996 by the Court of Justice of Annex VI of Directive 91/414/EEC providing for uniform principles for the authorisation of plant protection products, the Council adopted⁴ on 25 June 1997 a new Commission proposal re-establishing this Annex, essential for the proper functioning of the Community regime, in the light of the Court's judgment.

¹ OJ L 376, 31.12.1991, p. 21

² OJ L 48, 19.2.1997, p.35

³ OJ L 366, 15.12.1992, p. 10

⁴ OJ L 134, 12.7.1997, p. 33

Pesticide residues

112. On 25 June, the Council adopted a Directive (Council Directive 97/41/EC¹) amending the four basic Directives concerning pesticide residues in agricultural products (Directives 76/895/EEC, 86/362/EEC, 86/363/EEC and 90/642/EEC). The measure streamlines Community procedures for the fixing of maximum levels and resolving trade problems and also extends the scope of the legislation to processed products.

Organic farming

113. During the year the Commission adopted Regulations to improve and refine the Community regime established by Regulation (EEC) 2092/91, in particular by revising the list of products authorised in organic farming for plant protection to take account of developing practice in this field (Commission Regulation 97/314/EC² concerning imports from third countries; Commission Regulation 97/345/EC³, amending Article 3 of Regulation No 207/93, concerning the provisional authorisation of non-organic ingredients in organic foodstuffs to a maximum limit of 5 % of the total agricultural ingredients and Commission Regulation 97/1488/EC⁴, amending Annexes II and VI concerning the list of plant protection products authorised in organic farming).

State aid

114. The Commission adopted a new version of the Community guidelines for rescue and restructuring aid to agricultural undertakings. The new rules entered into force on 1 January 1998 for new aid.

115. This modification involves a substantive change of policy. Until now, the Commission has considered compatible with the common market rescue and restructuring aids fulfilling the following specific criteria: financial difficulties should result from past investment; difficulties should be caused by external factors and total aid to the investment is to be maintained under certain ceilings. Member States had, as an alternative, the possibility of using the Community guidelines applicable to all sectors.⁵

¹ OJ L 184, 12.7.1997 p. 33

² OJ L 51, 21.2.1997, p. 34

³ OJ L 58, 27.2.1997, p. 38

⁴ OJ L 202, 30.7.1997, p. 12

⁵ OJ C 368, 23.12.1994, p. 12.

116. The specific criteria for the agricultural sector are now replaced by criteria of the same nature of those used in the same guidelines, i.e., a counterpart for the aid is needed in the surplus sectors, consisting of an irreversible reduction or closure of capacity (5 % to 16 %).

117. In order to take into account the special features of the agricultural sector, for small agricultural enterprises (defined as operators having no more than 10 annual work units) the requirement of irreversibly reducing or closing capacity may be considered to be achieved at the relevant market level rather than that of the enterprise concerned.

118. In recognition of the practical problems associated with capacity reduction, the Commission will waive the capacity reduction requirement where the aid concerns only a minimum amount of output such that trade distortion is at most only of very minor incidence. This derogation can be applied when the production concerned by the aid in a given year does not exceed 3 % (if the measures are focused on certain products or producers) or 1.5 % (if the measures are general) of the total annual value of products concerned in a given Member State.

119. After publication at the beginning of 1996 of a new framework for research and development concerning all sectors, including agriculture, the Commission adopted a modification to this document which clarifies and redefines its policy on such aid in the agricultural sector. The modification followed from the fact that the framework did not make any provisions for R & D work, fulfilling the conditions of Article 92 (1) of the Treaty to be aided at above 75 %. This 75 % limitation constituted a more restrictive approach than had previously been applied in agriculture. After the entry into force of the modification on 1 February 1998 the framework will, in defined circumstances, allow aid of up to 100 % in the agricultural sector. Four conditions are imposed; that the research is of general interest to the sector concerned, that it is published, that its results are made available for exploitation by interested parties on an equal basis and that it fulfils the conditions laid down in Annex 2 of the GATT agreement on agriculture. Cases which do not satisfy these conditions are to be examined under the other rules of the framework.

120. The Commission had adopted in 1995 guidelines regarding State aid policy in the form of short term reduced interest loans in agriculture ('operating loans').¹ The main objective of these guidelines is to tighten Commission policy concerning these types of operating aid. According to these guidelines, the Commission recognises that the specificities of the agricultural sector may produce disadvantage in the form of higher interest rates on short term loans regarding other sectors of the economy. Member States are thus allowed to compensate that difference between sectors, having as a precondition to supply the calculation method they intend to apply, demonstrating that there is no overcompensation.

121. During 1997, several Member States (Italy, Portugal, Spain) submitted their proposals for calculation methods of this disadvantage. Detailed examination of their proposals revealed a number

¹ OJ C 44, 16.2.1996, p. 2.

of practical problems encountered in the application of the guidelines. Solving those problems required, firstly, the suspension of the application of the guidelines in order to allow the Commission to carry out a thorough examination of all the implications of these problems and, secondly, the adoption of a new communication clarifying the interpretation to be given to point C of the guidelines. The criteria provided for in the guidelines (to be interpreted according to the principles confirmed with the new communication) will enter into force on 30 June 1998.

122. During 1997, the Commission undertook steps to assure a better coordination between Structural Funds and competition policy in the agricultural sector. It is expected that, for the next round of Structural Funds starting after 1999, rules relating to competition aspects in structural programmes are clear and transparent both for Member States and to the Commission.

123. As in previous years, the Commission received a large number of notifications in the agricultural sector (a total of 266 compared with an annual average of 290 in the previous four years. As expected from their size and administrative structure, the majority of notifications came from Italy (28 %), Germany (20 %) and Spain (10 %). As regards the three new Member States, major contributors to notifications in previous years, their notification level has clearly decreased in 1997, probably stabilising.

124. The Commission took a final negative decision in a Portuguese case regarding aid granted in favour of the public owned cereal trading company EPAC (Aid No C 15/97). The aid concerned a State guarantee, as well as special financing conditions in the framework of a debt consolidation loan. The aids granted were not considered to be in conformity with rules regarding rescue and restructuring aid for companies in difficulty.

125. Since the aid had not been previously notified and was particularly distortive of competition, the Commission used for the first time the possibilities offered by the Boussac judgement in the agricultural sector. In fact, this decision was preceded by an interim decision requesting the Portuguese government to suspend the aid until a final decision has been reached.

126. As the Portuguese authorities have not ceased the aid, the Commission was obliged to apply to the European Court of Justice to enforce the application of Community law.

127. In what concerns its policy for publicity aid in agriculture, the Commission had noted in 1996 that assurances given by Member States may not guarantee compliance with mandatory Commission rules in this field. In fact, some public funded publicity material was found to contain breaches of EC provisions, Article 30 of the Treaty in particular.

128. To this end, the Commission adopted a final negative decision for French State aid for encouragement of sheep consumption (Aid No C 18/95). Publicity logos 'Agneau des bergers

de France' and 'Agneau français, qualité bouchère' were deemed incompatible with Article 30 of the Treaty.

129. In a related matter, the Commission considered start-up aid for a Regulatory Council for the quality mark 'Rioja calidad' (Aid No N 541/96). The public aid was not given to a private quality origin, but to a regional quality label. As this quality label was not covered by Regulation (EEC) No 2081/92 and it was in practice reserved to agricultural products of the Rioja region, the Commission considered it contrary to Community provisions.

130. In the framework of aid for publicity measures, the Commission opened the procedure provided for in Article 93 (2) of the Treaty to Italian aid for promotion and publicity of Sicilian citrus fruits (Aid No C 41/97), entirely financed by the public budget. According to the Community guidelines for this aid,¹ the maximum level of aid for these actions is 50 %, as a general rule. Although these guidelines allow this rate to be increased in particular circumstances, the Commission has never fixed a ceiling for the maximum rate acceptable. It had nevertheless accepted rates up to 75 % (and, exceptionally, 80 %). The Commission does not accept a 100 % aid rate for these actions, maintaining that the contribution from the beneficiaries shall be 'significant'.

131. After having in late 1996 adopted a final negative decision on the French biofuel case (Aid No C 51/94), the Commission adopted in 1997 two final negative decisions relating to biofuel cases, in Italy (Aid No C 43/94) and Belgium (Aid No C 5/95). Both cases were deemed incompatible with common agricultural policy rules. In contrast to the French case, they were not considered incompatible with Article 95 of the Treaty.

132. In the French biodiesel case, and in spite of its strict policy concerning the recovery of illegal aid, the Commission did not insist on recovery because the breach of Community provisions did not lead to an increase of aided production and the reestablishment of the status quo ante would result in a far worse situation for the beneficiaries. For the same reasons, the Commission did not insist on recovery of the Italian biofuel aid. The Belgian aid has never been granted.

133. In what concerns the execution of the final negative decisions, both France and Italy asked for extensions of the time period necessary to implement them. Equally, the Commission has adopted a similar negative approach towards both requests, on the grounds that these are not supported by an objective impossibility of their application.

134. At the end of 1995, the Commission opened the procedure provided for in Article 93(2) of the Treaty regarding an Italian law providing for the State to take over guarantees undertaken by cooperative members in favour of agricultural cooperatives declared insolvent. The Commission

¹ OJ L 302, 12.11.1987, p. 6.

has assessed the aid as a retroactive operating aid to cooperatives, without any possibility of restructuring, since all the cooperatives concerned were closed or about to cease operation.

135. In 1997, Italy submitted to the Council a request for approval of this aid in the framework of Article 93(2) third subparagraph of the Treaty, alleging exceptional circumstances. This request was accepted by the Council and the aid was deemed compatible with the common market by derogation from Article 92 of the Treaty.

136. The procedure before the Commission – suspended as a consequence of the Italian request to the Council – has consequently become void. Furthermore, the Commission has waived the possibility of asking the Court of Justice for the annulment of the Council's Decision.

137. While maintaining its well established policy of opposing operating aid in the agricultural sector, the Commission decided to raise no objections to three notifications relating to the Community's outermost regions: for the French overseas departments and the Azores Islands, the aid is transport aid concerning the financing of part of the shipping costs of local products; for the Canary Islands, the notification concerned a special economic and fiscal regime also applicable to agriculture including several types of operating aid.

138. The Commission considered that this aid was justified in order to compensate for the strongly negative economic impact of the combination of insularity and remoteness of these regions, without, however, having an impact on the internal market.

139. In what concerns aid linked to the BSE disease, the Commission opened the procedure pursuant to Article 93(2) of the Treaty towards Italian aid for the region Friuli Venezia Giulia for compensation of operators in the sector of processing and marketing of beef products, for compensation for loss of value and decrease in slaughterings between 18 March and 16 August 1996 (Aid No C 51/97).

140. Until now, the Commission policy had been only to accept compensation for indirect effects of the BSE crisis in the UK, this Member State being the only one for which a total ban on exports had been imposed. For other Member States, only direct compensation had been allowed. In this particular case, the proceedings have been opened because there was no sufficient evidence to demonstrate there is no overcompensation. The opening of procedure does not cover the fact that the aid is now compensating indirect effects in a Member State other than UK.

141. After having in 1995 opened the procedure provided for in Article 93(2) of the Treaty regarding a restructuring aid given by the regional authorities of Navarra to company 'Cárnicas del Sadar' (Aid No C 33/95) and following additional information supplied by the Spanish authorities, the Commission has decided to close the procedure.

142. 'Cárnicas del Sadar' is a company formed by previous workers of a bankrupt company ('Pamplonica, S.A.'). Following the bankruptcy of the latter, 'Cárnicas del Sadar' obtained from the managing judge the facilities, equipment and the marketing brand of the company, for pursuit of the same activity. The capital needed to restart production was obtained by using the unemployment allowances of the workers, as well as regional government aid. Although formally the beneficiary of the aid is a new company, the Commission considered that it remained the same business and, under this condition, the Community guidelines for rescue and restructuring of companies in difficulty could be applied.

143. In the field of agri-monetary related aids four cases have been notified in 1997. Three of these cases concerned Ireland and were based on Council Regulation (EC) No 724/97 which provides for the possibility of compensation being granted for losses of income caused by a reduction in agricultural conversion rates for certain currencies. The other case concerned Sweden and was based on Regulation (EC) No 2990/95 which covers the same subject matter for Finland and Sweden.

144. The first Irish case (Aid No N 256/97) concerned the revaluation of the Irish pound which occurred in November 1996 and January 1997, whereas the Swedish case concerned the revaluation of the Swedish krona of July 1996. The second Irish aid (Aid No N 408/97) referred to the subsequent revaluation of the Irish pound which occurred in March 1997. Within the scope of these notifications, both Member States envisaged granting the maximum aid allowed under the Regulations. Equally, all the schemes involved only Community financial support. Consequently the amounts payable in these schemes were limited to half the total possible under the Regulations.

145. The third Irish case (Aid No N 397/97) concerned the utilisation of national moneys unused in the framework of aid No N 256/97 for the implementation of a new agrimonetary scheme. Although this new scheme is different from the early approved schemes (concentrating aid to the beef sector on a restricted group of animals), the Commission considered that the aid was not distorting competition, since the aid level did not compensate the income losses suffered by these producers.

146. In a Dutch case concerning publicity aid for ornamental plants (Aid C 34/97), where the Article 93(2) procedure was initiated on the aspect of partial financing of aid through a parafiscal tax on imports from other Member States, the Commission considered that this tax differs from parafiscal taxes normally applied. The taxation of imports would only be possible if the representative partner organisation in the Member State concerned agrees to it. Furthermore, the earnings of the tax levied on imports are given back to the partner organisation in the Member State concerned. The moneys concerned have to be spent for generic promotion for ornamental plants decided in consultation between the Dutch product board for ornamental plants and the partner organisation but must always be approved by the partner organisation. This rechannelling of the tax earnings to representative organisations would, according to the Commission's view,

ensure that products of the Member States concerned could have a comparable benefit from publicity aid to Dutch products which are taxed in the Netherlands.

147. The Commission, however, opened the procedure in this case because it had not sufficient information to consider that the partner organisations with which contracts were concluded represented all producers and traders in the Member State concerned (or at least their overwhelming majority) and that the rechannelled moneys were really used in all cases in a way that producers and traders in the other Member States could have a comparable benefit from publicity aid measures.

148. Furthermore the Commission considered consultation of other Member States and third parties in the framework of this procedure as necessary because application of the taxation and rechanneling system directly concerns the interests of all other Member States and organisations and enterprises in the ornamental plants sector in these Member States and therefore their agreement to such a system needs to be verified.

149. As regards particular rules applicable to the new Member States (Austria, Sweden, Finland) by virtue of the provisions of the Act of Accession, the Commission had to establish what the contracting parties meant by the word 'flexibility' used in Declaration 31. Indeed, this provision promises the Commission would apply 'flexibility' on transitional national aid schemes designed to facilitate restructuring, as regards the processing industry in Austria and Finland. The Commission, in cases 445/B/95 and 14/96, had already decided this could mean disregarding the normal exclusions for aid (so-called 'selection criteria' according to Decision 94/173/EC). Moreover, at the end of 1996 in case 517/B/96 the Commission agreed to an aid proposal where selection criteria were disregarded and without even requiring a contribution from the beneficiary in closing down part of the production capacity.

150. The Commission opened the Article 93(2) procedure in regard to an aid proposal which would imply an increase of production capacity in an excluded sector (starch). In its Decision, the Commission specified concern that, with a view to the common interest of the Community, the term 'flexibility' as used in Declaration 31 can only go so far and that increasing production capacity might be beyond this scope.

151. A second aspect of transitory provisions applying to the new Member States is the transitional degressive product support applying to virtually all agricultural products according to Articles 138 and 140, Act of Accession. Although this type of aid already reached the phase of considerable depression in 1997, the amendment of the relevant Commission decision to take account of recurring revision of the support level before and after accession was a constant task to the competent services during the last year.

40 + 41

II – Economic situation and farm incomes

General overview

152. After the remarkable economic results in 1996 in certain production sectors, particularly arable crops, and disastrous results in others, such as beef and veal, 1997 saw a return to a much more balanced situation. The cereals market, which in 1996 had enjoyed particularly favourable conditions, both domestically and internationally, returned in 1997 to a more normal situation. The beef and veal market, which had collapsed as a result of the 'mad cow' crisis in the spring of 1996, gradually strengthened from the autumn of that year thanks to the support measures adopted by the Community and increased consumer confidence, although this was still fragile. Although the market for pigmeat was hit in spring 1997 by the outbreak in the Netherlands of one of the European Union's worst-ever swine-fever epizootics, producers in the rest of the Community generally enjoyed a good year. On balance, results were also positive for oilseeds, sugar beet and poultry.

153. Weather conditions in 1997 were certainly less spectacular than in the previous year, which saw exceptional harvests, but also less disappointing than might have been feared at certain key moments. The beginning of autumn was generally speaking favourable for the preparation of fields and sowing, except in the southern and central parts of the Community, where sowing was delayed by heavy rainfall. The second part of autumn was very cold and damp in most of the Community, and waterlogged land made the sowing of some winter crops difficult or, in certain cases, impossible. Total rainfall during the January-March period was below normal throughout Europe, except in Scotland and areas of southern Spain. Precipitation in January over the whole of the Iberian Peninsula, south-east France, several regions in the north and south of Italy and in Greece was above average.

154. February saw particularly heavy rainfall in northern Europe, while in March, the whole of Europe, with the exception of some regions in the south of Germany, experienced insufficient rainfall, with above-average temperatures, which accelerated the growth of winter crops and increased water shortages.

155. The situation was somewhat helped by rain throughout Europe from the end of April, except in the south of the Community where the rains arrived too late to benefit winter crops. Rainfall during summer 1997 was also higher than normal, adversely affecting not only yields but also the quality of winter crops at harvest. Spring cereals, on the other hand, and particularly maize, enjoyed conditions which were generally more favourable not only than those for other cereals but also, in certain cases, than those during the previous year. Overall, weather conditions in 1997 produced yields, except for summer crops, which were generally lower than the exceptional levels of the previous year, but nevertheless in line with the long-term trend.

156. On the macroeconomic level, economic growth in 1997 was slightly higher than in the previous year and the situation on the labour market remained unsatisfactory, despite a slight increase in the number of jobs created and the stabilisation or reduction in the rate of unemployment at Community level. As in 1996, economic growth was mainly the result of investments and particularly exports, domestic consumption having grown more slowly than GDP. Inflation continued to fall, reaching 2.1 % in 1997, its lowest level since the beginning of the 1960s. The public debt in the Member States also fell, to an average of 2.7 % in 1997 for the Union as a whole, against a figure of 6.4 % in 1993.

157. Overall, although still unsatisfactory in certain respects, results in 1997 show signs of an upturn which should be reinforced in 1998 and 1999, provided there is no marked deterioration in the international situation.

158. Changes during the year in agricultural conversion rates generally had little effect on farm incomes, except in the United Kingdom. Most currencies were relatively stable during 1997, except for the pound sterling and the Irish pound and although the 'green rates' for the two currencies increased by 14 % and more than 6 % respectively during the first 10 months of the year, the negative effect this revaluation would have had on farm incomes was partly offset by the Council's decision to freeze the agricultural conversion rates applicable to per-hectare and per-animal aid until 1 January 1999, under the arrangements established after the significant revaluation of certain currencies in 1995.

159. These arrangements also allowed other Member States (in particular Sweden) to protect themselves from the negative effects on farm incomes of the revaluations carried out in 1996. As regards Italy, although the conversion rates for aid were frozen in March 1997, it should be recalled that aid for the 1996/97 marketing year had been reduced by about 12 % from the levels of the previous year following revaluation of the Italian lira between April 1995 and July 1996 after a previous devaluation of around 20 %.

160. The revaluation of the pound sterling, the Irish pound and the Italian lira led to a fall in institutional prices in the national currencies and lower market prices in the Member States concerned. However, those Member States were authorised to make compensatory payments to

cover consequent losses of income, with the EAGGF covering 50 % of the payments. Ireland made such compensatory payments but, by the beginning of November, neither the United Kingdom nor Italy had done so. It must also be pointed out that, during the first 10 months of 1997, the 'green rates' for certain Member States increased slightly. The resulting increase in prices in national currency was 2.2 % in Belgium and Luxembourg, 0.7 % in Denmark, 2 % in Germany and Austria, 1.1 % in Spain, Portugal and France and 2.3 % in the Netherlands.

Production levels and price trends

161. Cereal production in 1997 is estimated at some 202 million tonnes, slightly less than the level achieved in the previous year, which had seen the European Union's largest-ever harvest. It should be noted, however, that while the 1996 record was reached with a set-aside rate of 10 %, the 1997 harvest was obtained on a larger area, following a reduction in set-aside to 5 %. This increase in area was offset by a fall in yields compared with the exceptionally high levels of the previous year.

162. The total area sown to cereals increased by 1.1 million hectares or around 2 % over the previous year, less than the total area freed by the reduction of the rate of compulsory set-aside from 10 % to 5 %, which was of the order of 1.9 million hectares. This is because, parallel to the increase in areas sown to cereals, there were increases in the areas sown to oilseeds (+0.5 million hectares) and protein plants (+0.2 million hectares) and a slight increase in voluntary set-aside (+0.1 million hectares). Increases in cereal areas principally involved barley, common wheat, maize and triticale.

163. Yields were on average 3 to 4 % below the record levels of the previous year, but, as already noted, generally followed the long-term upward trend. Maize yields in 1997, however, were even higher than in 1996 thanks to particularly favourable weather conditions for the crop during the year.

164. According to initial, provisional estimates, production of common wheat was down by around 3 % on the previous year and that of durum wheat by about 12 % owing to a substantial reduction in yields caused by water shortages in the production regions during the first few months of the year. Maize production reached almost 37 million tonnes, the highest-ever level, up nearly 7 % on the previous year. The production of rye and triticale was also up significantly (+5 % and +15 % respectively). Barley production was more or less stable, with lower yields being offset by an increase in the areas sown.

165. Market prices were generally lower than during the previous year and closer to the intervention prices, unlike in 1995/96 when there was a significant gap between the market price and the

intervention price for most cereals. The market began to slacken in July 1996 as soon as the size of the 1996 harvest became known and marketing began. This situation continued throughout most of the 1996/97 marketing year, except for the period March-April 1997 when uncertainty about the US wheat harvest, following frost in certain production regions, caused world wheat prices to shoot up and cereal prices on the Community market to increase.

166. After reaching a peak in April, prices on the internal market fell rapidly to the intervention price level, with the exception of durum-wheat prices, which increased constantly from October 1996 owing to shortages on the world market and a Community harvest which was expected to be well below that of the previous year. At the beginning of November 1997, market prices were 10 to 30 % above the intervention price for common wheat, 60 to 80 % for durum wheat and 5 to 20 % for barley and maize (although market prices were below intervention prices on certain markets for barley in Germany and for maize in Italy).

167. Oilseed production in 1997 (rape, sunflower and soya) was a record 14.7 million tonnes, of which 13.5 million tonnes were for food uses and 1.2 million tonnes for non-food uses, i.e. produced on areas set aside. This represents an increase in total production of 21 % on the previous year and a 26 % increase in production for food uses. After several years of stagnation or decline, the production of protein plants (peas and field beans) shot up by almost 20 % as a result of both increased areas and higher yields.

168. Sugar production in 1997, at more than 17 million tonnes, was at a record level, 3.4 % up on the previous year. A combination of factors was responsible: a slight increase in areas, a significant increase in sugar-beet yields and a higher sugar content. The higher yields were the result of good weather conditions, particularly at the beginning and the end of the marketing year.

169. According to initial, provisional estimates available in mid-November, wine production was down by 5.5 % on the previous year, but was still around the average for the last three wine years. Production fell particularly in France and Italy, while it was stable in Spain. Quality will be exceptional in several producer Member States because of good weather conditions in the autumn. This played a vital role in the rapid increase in market prices for red wines from the end of September. Prices for white wines, on the other hand, were very depressed throughout the year, particularly in Spain and Italy.

170. The unseasonal frosts which hit southern Europe (particularly France and Italy) and the southern parts of Germany at the beginning and end of spring had an often drastic effect on the production of several kinds of fruit. Peaches and nectarines were particularly badly affected, with production falling by 60 to 70 % in France and Italy, as were apples, Community production of which fell by 15 to 20 %. The citrus fruit harvest, on the other hand, is expected to be large, possibly exceptional, up by around 15 %. Prices were generally good, not only for fruit of which

production was significantly down, such as apples, peaches and nectarines, but also for certain vegetables, such as tomatoes and cauliflowers.

171. Estimated milk production in 1997 was very slightly down on the previous year, at around 121 million tonnes, as a result of a reduction in herds, partly offset by an increase in yields. Deliveries to dairies should remain more or less stable. Estimated butter production is down by 1.5 %, although consumption should remain at the same level as the previous year. For the first time for several years, total cheese production remained practically unchanged, or even fell slightly, as a result of a marked fall in the production of cheeses made from 'other types of milk' and stable production of cow's milk cheese. This confirms that the upward trend is at an end, as was already evident in 1996 when production increased by only 1.6 % against an average of more than 2 % in previous years. Cheese consumption, which increased by 3.9 % in 1995 and by 0.9 % in 1996, rose by only 0.3 % in 1997, more or less in line with the increase in production.

172. After falling by around 10 % in 1996, market prices for butter slowly but steadily increased during 1997, recovering during the first 10 months of the year all they had lost during the previous year. In mid-November 1997, they were on average 8 % above the intervention price. This is explained by a reduction in intervention stocks, falling production, more or less stable domestic consumption and a resumption of exports, particularly to Russia. Prices for 'other milk products' were fairly firm during 1997. It should be noted, however, that higher prices on the market for milk products were not reflected in higher producer prices.

173. For the second consecutive year, beef and veal production was fairly stable in 1997 (around 7.950 million tonnes), having reached the peak of its cycle during the 1996/97 marketing year. This cyclical production peak was, however, around 300 000 tonnes less than could have been expected without the slaughter of calves and particularly of cattle of more than 30 months old in the United Kingdom following the BSE (bovine spongiform encephalopathy) crisis. After a fall of 7.4 % in 1996, beef and veal consumption began to recover in 1997, increasing by around 3 %.

174. Elsewhere, exports of beef and veal to third countries continued at a fairly high level despite the difficulties caused by the BSE crisis. This contributed to the gradual increase in beef and veal prices during 1997, after a fall of around 15 % between April and September 1996. From May, market prices for live cattle were substantially higher than at the same time the previous year and, in mid-August even reached pre-BSE levels.

175. Market prices for the reference quality, particularly during the first half of the year, nevertheless remained below 80 % of the intervention price, the threshold for the adoption of market support measures. Between the beginning of the year and the end of September 1997, 220 000 tonnes were bought in, adding to the 430 000 tonnes already in intervention storage at

the end of 1996. From the end of August, the rate of intervention purchases gradually slowed owing to a significant improvement in the market situation.

176. The production of pigmeat in 1997 was heavily influenced by the huge number of pigs that had to be slaughtered in the Netherlands to eradicate swine fever, which hit the country in the spring. Overall, production was slightly down on the record level of the previous year, when the fall in the consumption of beef and veal caused by the BSE crisis had pushed up the consumption of white meats throughout the Community. Although pigmeat production increased in several Member States, the fall in the Netherlands was so great that the net result for the Community of 15 was a fall of 0.7% on the previous year. Consumption is also expected to fall slightly as a result of excessive price increases and the return of consumers, although still only tentative, to beef and veal. As already noted, pigmeat prices were fairly high from April 1996, reaching exceptional levels in mid-May 1997, as a result of shortages in the Netherlands, and to a lesser extent, in Germany. From then on, however, prices fell considerably, although remaining for most of the year at the very firm levels of the previous year.

177. Production of poultrymeat continued to increase at a very substantial rate in 1997 (+3.1%), driven by a sharp increase in domestic consumption and an even greater increase in exports to third countries. Thanks to this dynamism, since 1996 both the production and the domestic consumption of poultrymeat have exceeded those of beef and veal, and poultrymeat exports have rapidly approached the level of beef and veal exports. After the rise in prices following the BSE crisis, market prices for chicken stabilised during 1997 at levels generally below those of the previous year, but still higher than those obtaining before the outbreak of the crisis.

178. Production of sheepmeat and goatmeat was slightly down on the previous year (-2.4%), as a result, in particular, of a substantial fall in the United Kingdom and Ireland. After being particularly high in 1996, market prices remained firm in 1997 and, except during the spring, even exceeded their levels of the previous year.

Producer prices

179. The information available on 20 November 1997 suggests that the index of nominal producer prices for all agricultural products fell in 1997 by an average of 2.4% for the Community of 15. As compared with 1996, the index of producer prices for crop products fell in nominal terms by an average of 4.6%. In particular, cereal prices fell by an annual average of 9%, those for potatoes by 6.7%, those for wine by 5.2%, those for vegetables by almost 3% and those for olive oil by more than 23%. Prices for sugar beet and fruit, on the other hand, increased by an average of 1.3% and 1.4% respectively.

180. Trends in producer prices for livestock products were generally more satisfactory, with the index of prices remaining, on average, fairly stable (-0.3%) in nominal terms as a consequence

of increases in prices for pigs (+3.5%) and sheep and lambs (+1.3%), a slight rise in cattle prices (+0.5%, after a fall of around 13% in 1996) and a reduction in prices for poultry (-2.2%), milk (-2.3%) and eggs (-4.0%).

181. Allowing for inflation, the index of producer prices fell by an estimated average of 4.8% in real terms for the whole of the European Union, with above-average falls in Spain (-7.6%), Ireland (-8.8%), Italy (-5.8%), Portugal (-8.1%) and the United Kingdom (-15.9%) and relatively smaller ones in Belgium (-1.7%), Denmark (-1.5%), Greece (-1.5%), France (-1.8%), Finland (-2.5%) and Sweden (-4.0%). The index of real prices was relatively stable or even slightly up in the other Member States.

Input prices

182. In 1997, the index of purchase prices of staple goods and services in agriculture rose on average by some 0.9% in nominal terms. Excluding seeds and fertilisers, the nominal prices of which fell by around 3%, the prices for all staple goods and services in agriculture increased in nominal terms. Above-average increases were expected for breeding livestock (+4.5%), energy (+3.3%), repair and maintenance of equipment (+3.3%) and veterinary services.

183. The deflated index of prices of staple goods and services in agriculture fell by an estimated average of 1.3% in the European Union as a whole, but the decreases were put at 1.6% in Denmark, 2.6% in Greece and the Netherlands, 2.9% in Ireland, 3.6% in Italy, 5.9% in Portugal and 4.6% in the United Kingdom.

Trends in farm incomes

184. The final figures for trends in farm incomes will not be known until some time in 1998.¹ The only underlying factor explaining the trend in farm incomes for which preliminary estimates are already available for 1997 is the 'agricultural price spread' (the producer price index: intermediate consumption index ratio). This deteriorated in virtually all Member States, most particularly in the United Kingdom, Ireland, Sweden, Finland, France, Portugal and Italy. However, it improved somewhat in the Netherlands and Greece and, to a lesser extent, in Germany and Denmark.

185. It is worth pointing out, however, that this indicator has lost some of its economic significance since the entry into force of the CAP reform, by reason of the introduction of compensatory aid in return for the cuts in institutional prices under the reform. This aid, which

¹ However, readers can refer to the estimates published by Eurostat in its *Statistics in focus* series.

is included under 'subsidies' in the agricultural economic accounts, now constitutes a key component in the formation of agricultural incomes, at least as far as cereals and beef are concerned. In 1996, operational subsidies received by agriculture as a whole totalled over 30 % of gross value added in the Community of 15, but this figure is probably considerably higher in the cereals and beef sectors.

Changes in nominal producer prices of agricultural products in 1996 and 1997

(%)

Member State	1997/96			1996/95		
	Crop products	Livestock products	Total	Crop products	Livestock products	Total
EU-15	-4.6	-0.3	-2.4	-0.5	1.0	0.2
Belgique/België	-2.4	1.8	0.2	-1.7	2.0	0.6
Danmark	-1.5	1.9	0.7	-1.4	4.3	2.2
Deutschland	1.4	2.5	2.2	-5.5	1.3	-1.1
Ελλάδα (Elláda)	4.4	4.3	4.4	6.8	0.2	5.0
España	-10.1	2.7	-5.4	-3.1	4.6	-0.4
France	-3.6	3.4	-0.3	0.4	-0.9	-0.3
Ireland	-11.6	-6.4	-7.0	-11.9	-4.0	-5.0
Italia	-4.1	-2.1	-3.3	2.5	1.2	2.0
Luxembourg	0.8	0.1	0.2	3.4	-5.1	-3.7
Nederland	1.3	3.4	2.4	0.4	3.2	1.9
Österreich	-0.3	2.1	1.6	2.1	0.5	0.9
Portugal	-8.9	-2.1	-5.8	-0.2	3.0	1.2
Suomi/Finland	-0.4	-2.2	-1.6	-9.2	-16.1	-14.3
Sverige	-7.4	-0.6	-2.5	-7.8	-2.6	-4.1
United Kingdom	-17.4	-11.9	-13.9	-7.4	2.3	-1.5

Source: Eurostat

186. As far as developments in farm incomes in 1997 are concerned, it should be pointed out that these depend not only on the movement of producer prices and prices paid by farmers for goods and services, a summary of which is given above, but also on other important factors, including the volume of production, the growing role of direct aids as part of incomes and the development of the agricultural labour force as regards the indicators of income per work unit. If account is taken of all these factors and working on the basis of the data available at the time this chapter was drafted, economic results for European farmers as a whole in 1997 looked like being less favourable overall than in the previous three years, which saw substantial increases in incomes, but much more balanced than in the previous year. However, even if in certain sectors, such as cereals, there was a relative fall in incomes in 1997 because of the fall in producer prices, amounting on initial estimates to an average of 9% compared with 1996, it should not be forgotten that these sectors had achieved very good results over the previous two years. On the other hand, the beef and veal sector probably made a slight recovery in 1997 from the catastrophic situation which had prevailed since the beginning of the BSE crisis. As already stated, the situation for pig-breeders, poultry-breeders and sugar-beet growers in 1997 was also relatively favourable.

Deflated output price indices

(1990 = 100)

Member State	1990	1991	1992	1993	1994	1995	1996	1997	1997/96
EU-15	100.0	97.3	89.5	84.9	85.1	85.6	82.8	78.9	-4.8
Belgique/België	100.0	98.1	92.4	83.8	84.8	79.9	78.8	77.5	-1.7
Danmark	100.0	96.2	92.8	80.0	79.5	77.5	77.5	76.3	-1.5
Deutschland	100.0	95.2	91.3	80.6	79.5	78.7	76.5	76.6	0.3
Ελλάδα (Elláda)	100.0	101.9	93.3	85.2	87.3	87.7	86.5	85.2	-1.5
España	100.0	94.8	83.4	84.1	88.8	94.1	90.3	83.5	-7.6
France	100.0	97.8	89.6	83.5	82.6	81.9	78.3	77.0	-1.8
Ireland	100.0	93.4	91.9	96.6	95.8	95.5	89.3	81.4	-8.8
Italia	100.0	102.8	89.8	87.9	87.5	90.9	89.2	84.0	-5.8
Luxembourg	100.0	89.6	82.3	78.0	76.0	73.6	69.9	68.9	-1.4
Nederland	100.0	100.8	92.1	83.4	84.2	84.9	84.8	84.8	0.0
Österreich	100.0	97.1	92.4	87.3	85.5	63.2	62.7	62.3	-0.5
Portugal	100.0	86.5	73.2	70.6	72.7	72.6	71.2	65.5	-8.1
Suomi/Finland	100.0	92.6	89.7	87.7	86.5	63.9	54.4	53.0	-2.5
Sverige	100.0	91.5	86.4	79.3	81.6	79.8	76.1	73.1	-4.0
United Kingdom	100.0	93.7	91.9	94.5	93.1	98.7	94.9	79.9	-15.9

Changes in nominal agricultural input prices in 1995, 1996 and 1997

(%)

Member State	Intermediate consumption (goods and services)			Investment (goods and services)			Total		
	1997/96	1996/95	1995/94	1997/96	1996/95	1995/94	1997/96	1996/95	1995/94
EU-15	0.9	4.1	2.7	2.5	3.1	3.4	1.3	3.9	2.9
Belgique/België	2.0	4.2	0.0	0.5	0.2	3.6	1.7	3.7	0.5
Danmark	0.7	3.3	0.4	1.0	2.2	2.8	0.8	3.1	0.9
Deutschland	2.0	2.9	0.2	0.8	1.1	1.2	1.7	2.5	0.5
Ελλάδα (Elláda)	3.3	8.7	5.6	3.1	6.4	11.3	3.2	8.2	6.8
España	2.3	4.0	3.3	4.6	5.2	5.9	2.7	4.2	3.7
France	2.0	4.1	1.7	1.4	2.4	2.0	1.9	3.8	1.7
Ireland	-0.9	3.8	1.6	1.6	0.0	4.6	-0.3	2.8	2.3
Italia	-1.0	3.0	10.6	3.4	4.3	4.7	1.2	3.6	7.6
Luxembourg	1.3	3.7	1.3	-1.1	0.9	1.5	0.2	2.4	1.4
Nederland	-0.3	4.7	3.3	2.4	2.6	3.1	0.4	4.1	3.3
Österreich	3.7	5.0	-2.1	0.9	2.1	2.0	2.5	3.7	-0.3
Portugal	-3.5	0.3	3.5	4.2	4.1	7.3	-2.0	1.0	4.2
Suomi/Finland	2.9	2.3	-21.9	1.3	1.7	-14.4	2.4	2.1	-19.5
Sverige	2.1	6.9	5.7	1.0	1.2	6.0	1.8	5.4	5.8
United Kingdom	-2.4	6.1	3.3	2.7	2.3	3.6	-1.7	5.5	3.3

Deflated input price indices (intermediate consumption)

(1990 = 100)

Member State	1990	1991	1992	1993	1994	1995	1996	1997	1996/97
EU-15	100.0	97.5	95.2	93.5	91.3	90.9	92.3	91.1	- 1.3
Belgique/België	100.0	97.0	94.5	90.9	88.6	87.2	89.1	89.2	0.1
Danmark	100.0	96.7	94.1	92.7	89.1	87.6	88.6	87.0	- 1.6
Deutschland	100.0	98.3	96.0	91.9	90.0	88.5	89.8	91.1	0.1
Ελλάδα (Elláda)	100.0	104.7	103.5	101.5	98.4	95.1	95.3	91.8	- 2.6
España	100.0	96.0	92.0	91.0	89.5	88.3	88.7	88.7	- 0.1
France	100.0	97.9	96.2	94.2	92.6	92.6	94.4	94.4	0.4
Ireland	100.0	97.3	94.3	92.9	91.7	90.8	92.7	90.1	- 2.9
Italia	100.0	96.0	92.8	95.7	93.1	97.9	97.1	93.5	- 3.6
Luxembourg	100.0	98.7	96.0	91.4	89.5	89.0	91.1	90.7	- 0.4
Nederland	100.0	96.8	95.2	90.9	87.5	88.7	90.9	88.6	- 2.6
Österreich	100.0	98.8	96.2	93.7	88.9	85.2	87.7	88.9	1.6
Portugal	100.0	94.5	89.1	79.9	76.2	75.7	73.4	69.3	- 5.9
Suomi/Finland	100.0	102.8	102.4	102.0	96.6	74.7	75.9	77.4	2.0
Sverige	100.0	95.3	92.9	83.3	88.1	90.8	96.6	97.2	0.5
United Kingdom	100.0	97.9	97.2	100.1	98.0	97.9	101.3	96.8	- 4.6

Farm accountancy data network (FADN)

Farm incomes

187. Output, costs and incomes of commercial farms¹ in the EU² are calculated from observed data collected in a survey of harmonised farm accounts³ (see Chapter VII, Table 3.2.1.). The survey provides valuable information about how farm incomes vary, which is not apparent from the global averages in the results for the agricultural sector as a whole. This section presents variations according to type of production. For an explanation of the various types of production, see Chapter VII, Table 3.2.2.

188. The results set out here are all based on observations, and the variations are calculated in real terms (adjusted for inflation). At the time of going to press, some results were not yet available.⁴ Detailed results (in current ecus) for the different types of farming and different business levels economic size of farm are given in Chapter VII, Tables 3.2.3. and 3.2.4.

¹ Farms which market the bulk of their production and have a minimum level of economic activity.

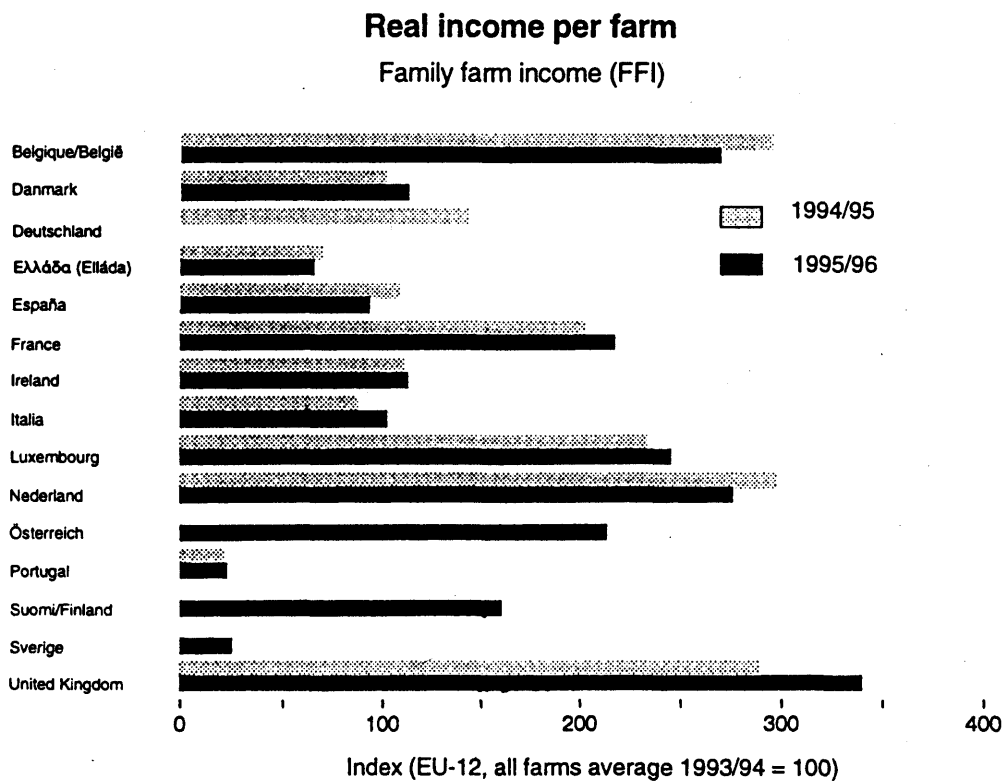
² Results refer to the 15 Member States.

³ Known as the farm accountancy data network (FADN). About 58 000 farms are surveyed in EUR 15, and they cover EU production representing over 90 % of the total value added in primary agricultural production.

⁴ Results for 1995/96 do not cover Germany or the United Kingdom (Scotland) since complete figures were not yet available for these two Member States. Averages could not therefore be worked out for EU-12 or EU-15.

Income by type of farming

189. The large differences in average income between Member States (see Figure 1) are inherent in the structure of agriculture in these countries. The Member States with the highest average incomes are generally speaking those with a large number of large-sized farms specialising in arable crops or involved in the most competitive sectors of production (pigs and/or poultry, horticulture and dairying). The southern Member States, with a large number of small farms engaged in mixed farming (crop and livestock production) or 'other permanent crops' (mixes of different cropping enterprises) have average incomes below the EU average.



Source: EU-FADN, DG VI/A3.

Figure 1

190. In the 1995/96 accounting year (the third year of implementation of the 1992 CAP reform), average farm incomes in real terms were up on 1994/95 in several Member States: Denmark, France, Ireland, Italy, Luxembourg, Portugal and the United Kingdom. For others the figures were lower than the average results recorded in 1994/95.

Family farm income by type of farming

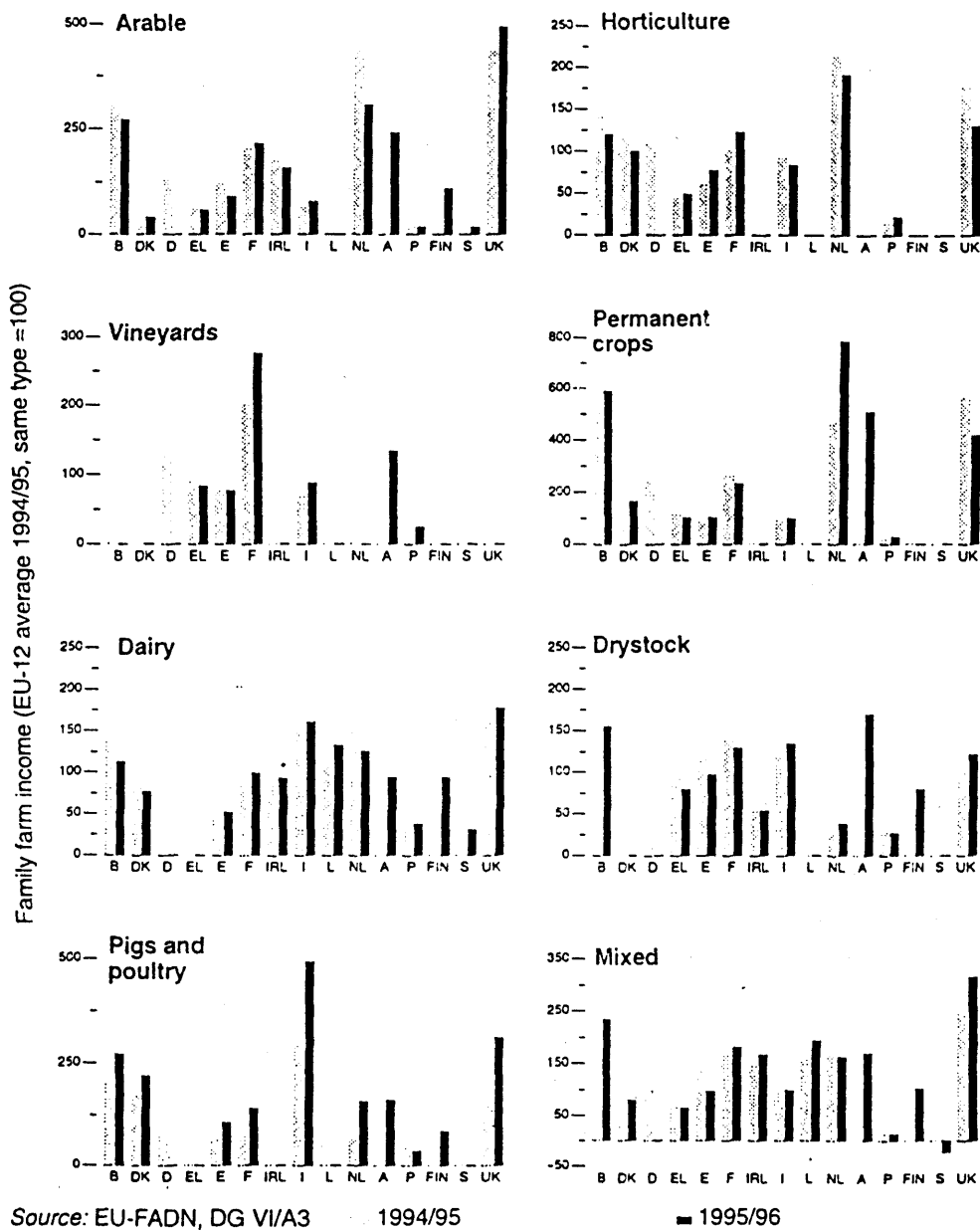


Figure 2

191. Figure 2 shows the wide range of incomes for each type of farming from one Member State to another. It also shows that the results for those types of farming most affected by the CAP 1992 reform had a major impact on the average results for all farms in some Member States. For instance, there was an increase in the average income of arable farms in Denmark, France, Italy, Portugal and the United Kingdom, whereas the trend was in the opposite direction for the same type of farming in Belgium, Greece, the Netherlands and Spain. In Italy, Portugal and the United Kingdom there was also an increase in the average income of producers specialising in beef, while their opposite numbers in Belgium and Spain experienced a drop in incomes. In France the fall in the average income of specialised beef farms was a factor in limiting the increase in the average farm income. In the Netherlands, on the other hand, the downward trend in the average farm income was moderated by the increase in the average income of holdings specialising in beef.

192. In the case of Ireland, the average income of arable farms fell slightly while that of specialist beef farms remained stable. In Ireland, as in Luxembourg, the increase in the national average income is primarily linked with upward trends in average incomes for dairying and mixed farming.

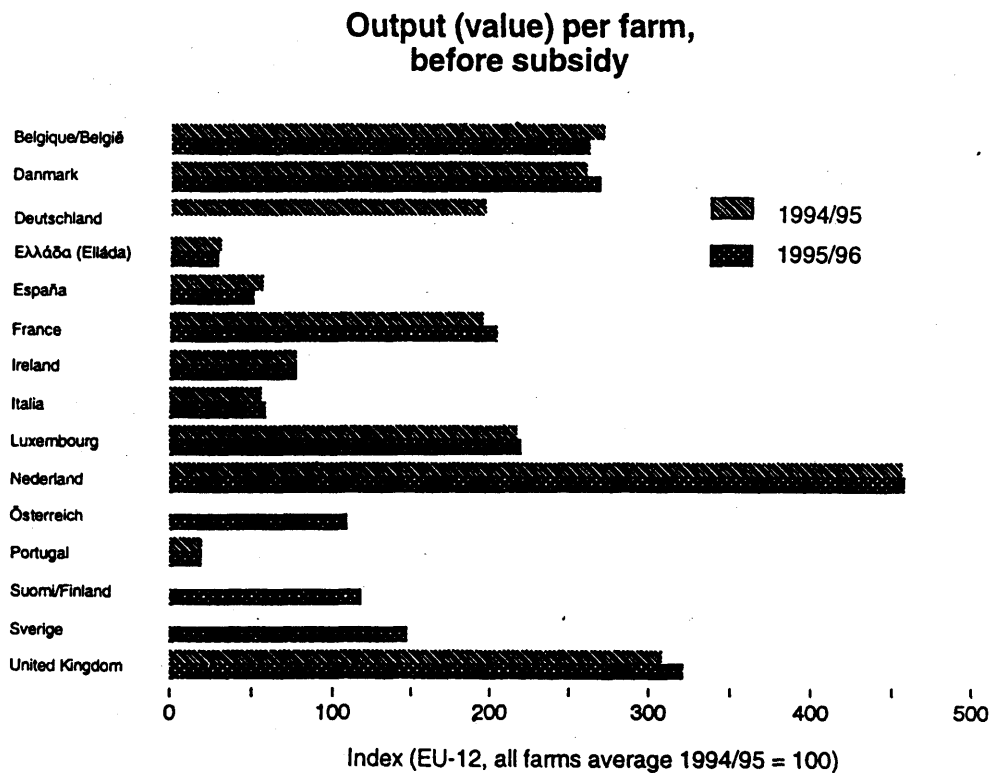
193. The average results for all farms in some Member States can also be explained by the results of farms engaged in enterprises other than those targeted most by the 1992 CAP reform. For instance, the fall in the average farm income seen in the Netherlands stems from lower average incomes of not only arable holdings but also those specialising in horticulture and dairying. Similarly, the improvement in the average farm income in Italy can be explained partly by the increase in average incomes for vineyards, holdings growing 'other permanent crops' and dairy farms.

Third year of application of the reform

194. Figure 3 shows that the value of production of the average holding (minus subsidies and inflation) rose in all the EU-12 Member States except Belgium, Greece and Spain, where decreases were seen, and in Ireland and Portugal, where the value of production of the average holding remained at virtually the same level as in the preceding year.

195. It can be seen from Figure 4 that, during the third year of application of the reform, income from direct payments continued to increase. Net public receipts (all grants and subsidies paid directly to the farm, including national aids and compensation payments, less production taxes) increased in all the Twelve except Greece and Spain (though the figures are still provisional for these two countries).

196. According to the 1995/96 figures, in all the Member States apart from Greece the percentage of total agricultural turnover (including public subsidies) and of farm incomes accounted for by public subsidies continued to rise. The percentage of the total agricultural turnover in 1995/96



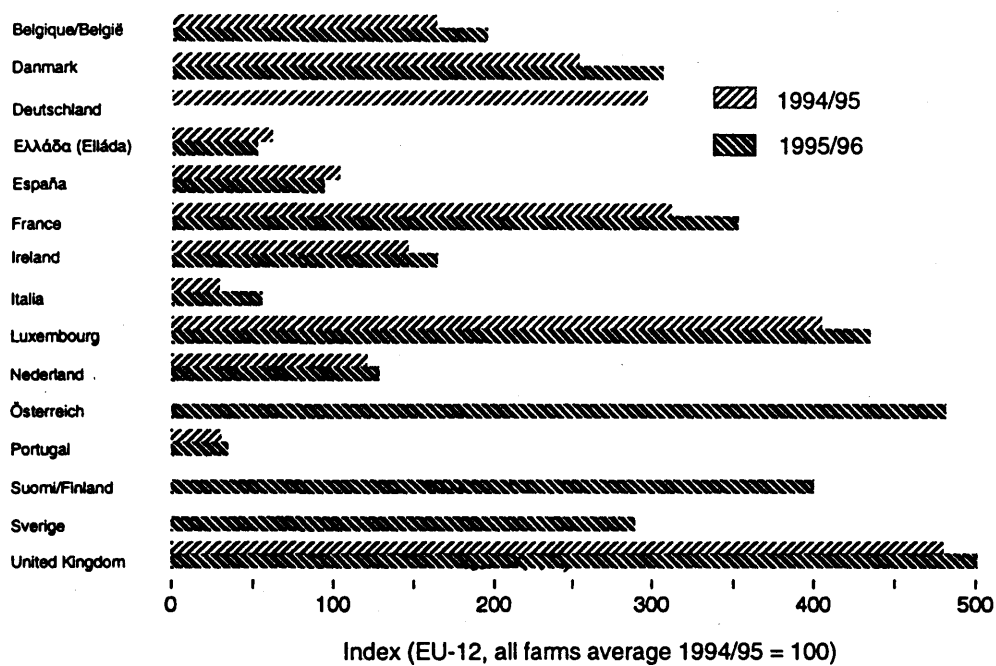
Source: EU-FADN, DG VI/A3.

Figure 3

ranged from 2.4 % for the Netherlands to 16 % for Ireland (in 1994/95, the corresponding percentages were 2.3 % and 14.4 % respectively). As regards average farm income in 1995/96, public subsidies accounted for between 14.6 % (in the Netherlands) and 85.3 % in Denmark (in 1994/95, the percentages for these two countries were 12.7 % and 79 % respectively). These percentages are averages for all farms, including the types of farming not directly targeted by the 1992 reform.

197. According to the 1995/96 figures, the value of direct public subsidies as a percentage of farm output (including subsidies) and of total agricultural turnover is even more marked in Austria, Finland and Sweden.

Net public receipts per farm



Source: EU-FADN, DG VI/A3.

Figure 4

56 + 57

III – Agricultural markets

198. This chapter reviews the world and Community markets for the main agricultural products, covering price trends and the main market management measures proposed or decided at Community level.

Cereals

World market

199. World production of cereals in 1996/97 was well up on the previous marketing year, mainly on account of feed grains. Maize production in the United States totalled 236 million tonnes, compared with 209 million tonnes during the previous year. World wheat production rose from 540 million tonnes in 1995/96 to 581 million tonnes in 1996/97 as a result of larger harvests in most of the major producer countries. In Australia, the harvest was up by a third, to 23.5 million tonnes, compared with 17 million tonnes in 1995/96. The total wheat harvest in the CIS countries as a whole was slightly larger than in the previous year. China, Canada and the United States also had more abundant harvests, while Argentina almost doubled its 1995/96 production figure (16 million tonnes as against 9.5 million tonnes).

200. As a result of very high cereal prices during the 1995/96 marketing year, the areas sown to cereals increased in 1996 in all the major producer countries, and the world harvest totalled 1 482 million tonnes in 1996/97, compared with 1 335 million tonnes in the previous marketing year. Production of feed grains rose from 799 million tonnes in 1995/96 to 901 million tonnes in 1996/97 (an increase of 12.9 %).

201. World consumption of wheat during 1996/97 is estimated at 578 million tonnes, i.e. 3 million tonnes less than the harvest, though up on the previous marketing year (554 million tonnes). Consumption of feed grains is estimated at 871 million tonnes, well up on the previous marketing year (828 million tonnes), but falling short of production. World cereal stocks recovered slightly from the low level reached at the end of the 1995/96 marketing year (184 million tonnes) to a

total of 218 million tonnes, just a little less than the 1994/95 figure (229 million tonnes). This total was made up of 99 million tonnes of wheat and 119 million tonnes of feed grains.

202. The volume of world trade in cereals totalled 183 million tonnes, including 92 million tonnes of wheat, as compared with 182 million tonnes (90 million tonnes of wheat) in the previous marketing year. Most of the importing countries bought roughly the same quantity as in the previous year, the exceptions being Iran, which imported far more, and China, whose imports fell sharply.

203. Harvest forecasts for the 1997/98 marketing year indicate a decrease in world production (1 461 million tonnes as against 1 482 million tonnes for the previous year), resulting in particular from a substantial decrease in the Chinese harvest of feed grains, particularly maize (down 23 million tonnes), while production in most of the other producer countries is expected to remain at about the same level. With an expected increase in consumption in excess of production (1 474 million tonnes compared with 1 449 million tonnes in 1996/97), world stocks look set to fall by some 10 million tonnes to 205 million tonnes. As far as world trade in cereals is concerned, a slight increase in volume can be expected (186 million tonnes, including 94 million tonnes of wheat).

Community market

204. Community production in 1996/97 is estimated at 206 million tonnes for the 15 Member States, 29 million tonnes more than in 1995/96, when the south of the European Union was hit by drought.

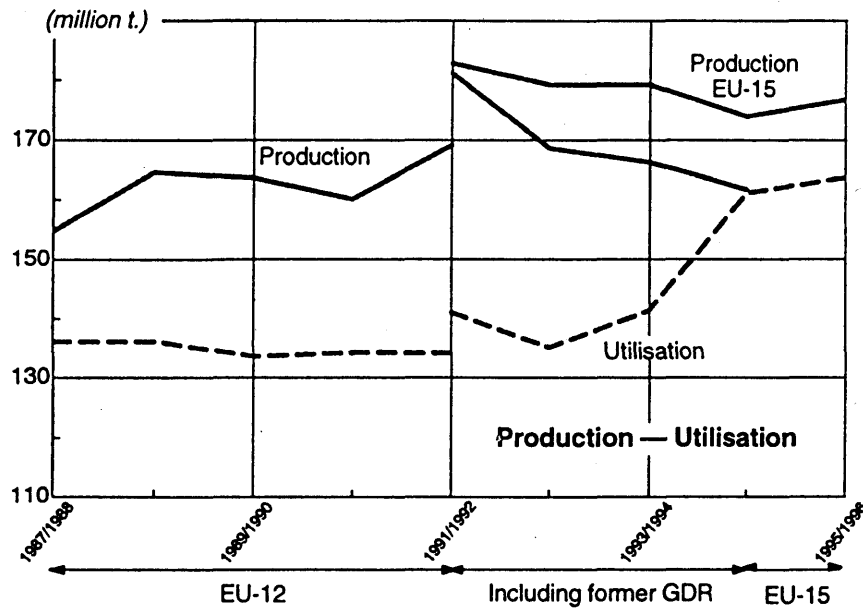
205. The increase in production reflects an increase in the area sown to cereals (36.9 million hectares compared with 35.6 million in 1995/96, i.e. + 3.7 %) and record yields of 5.58 t/ha, as against 4.99 t/ha the previous year.

206. This increase covered all types of grain. The record yields brought production of common wheat up to 91.3 million tonnes (+10.7 million tonnes), barley to 52.5 million tonnes (+9.0 million tonnes) and maize to 35.3 million tonnes (+5.5 million tonnes).

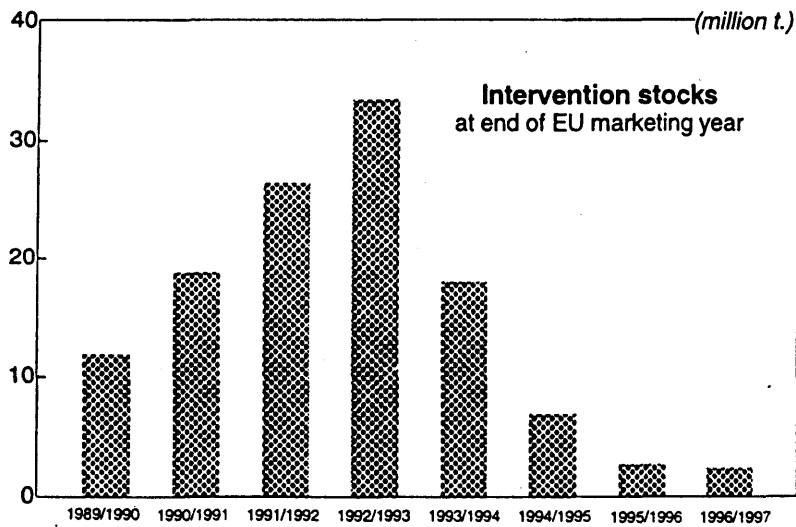
207. Production in the Iberian Peninsula returned to normal after four years of drought, and the Nordic regions of the Community experienced particularly good weather conditions.

208. With the cut in the set-aside requirement to a single rate of 10 %, the area of land taken out of production under the arable support scheme fell from 6.4 to 5.6 million hectares. In addition, some 400 000 hectares remained uncultivated under the five-year set-aside scheme. Voluntary set-aside of nearly 2 million hectares brought the actual total rate of set-aside to 14.4 %, with Spanish, German, Swedish and Finnish farmers in the forefront.

Cereals (1)



(1) Except rice.



Source: European Commission, DG for Agriculture.

Figure 5

209. The cut in cereal prices under the reform and the particularly high prices for oilseeds and protein crops boosted the use of cereals for livestock feed, which rose to 106 million tonnes for the Fifteen in 1996/97, 18 million more than during the period preceding the reform.

210. Parallel to this, trade between Member States continued to develop.

211. Community exports during the 1996/97 marketing year (including processed products and food aid) are estimated at 29 million tonnes, compared with 19.5 million tonnes during the previous marketing year. Commercial exports totalled 16.1 million tonnes of common wheat (including flour), 8.9 million tonnes of barley (including malt) and 0.8 million tonnes of rye and rye flour. Exports of durum wheat remained below average, while exports of processed products regained their market shares.

212. The continuing large volume of exports during the 1996/97 marketing year and the marked increase in internal consumption led, despite the record harvest, to a further fall in intervention stocks, from 2.7 million tonnes at the start of the marketing year to only 2.3 million tonnes by the end, consisting of 0.5 million tonnes of common wheat, 0.8 million tonnes of barley and 1.0 million tonnes of rye.

213. This situation led the Council to set the single set-aside rate for the 1997 harvest at 5 % instead of 17.5 %.

214. For the 1997/98 marketing year the Council decided to cut the monthly increases applicable to the intervention price by ECU 1.1 to ECU 1.0 per tonne per month in line with the reduction in storage costs.

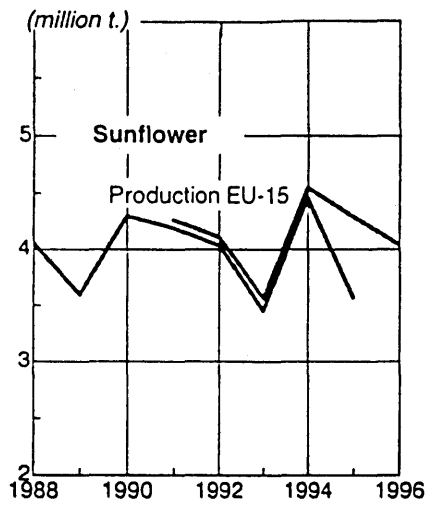
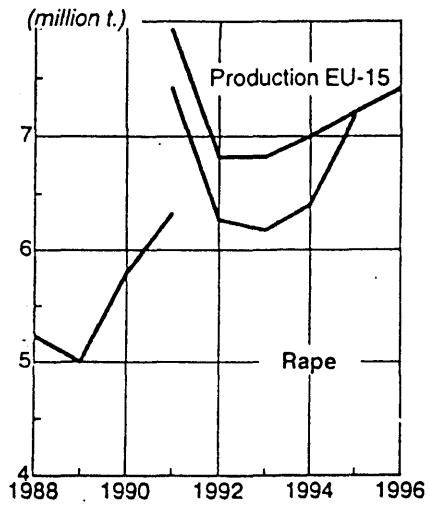
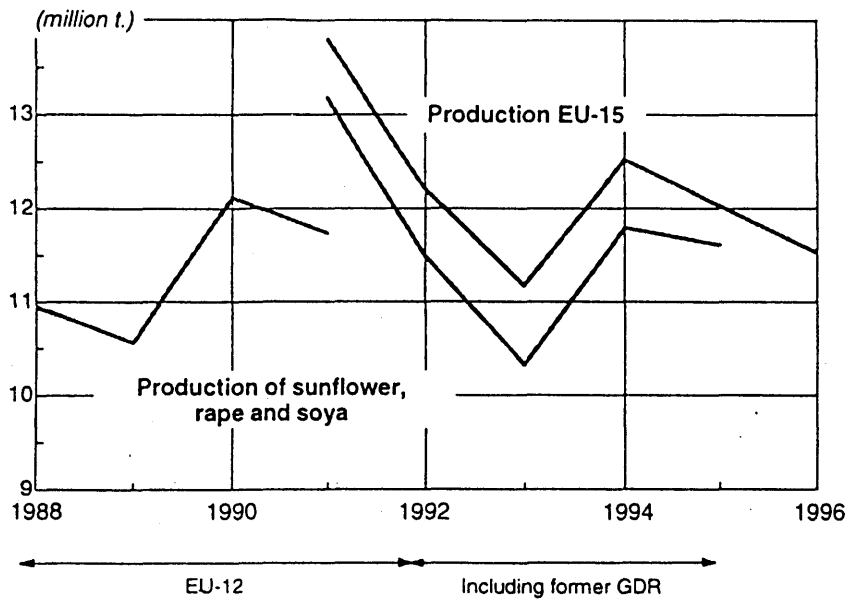
215. The Community harvest for the 1997/98 marketing year is estimated at some 200 million tonnes for the 15 Member States. The impact of the cut in set-aside in terms of an increase in production is expected to be moderated by a fall in cereal production in Spain and Portugal resulting from yields slightly down on the record levels for the previous marketing year.

216. The Council decided to keep the compulsory set-aside rate at 5 % for the 1998 harvest and to suspend for a further marketing year the obligation of unremunerated set-aside where the historic base area is exceeded.

Oilseeds

217. Oilseeds yield oil and cake for animal feed. This means that the economic position of the sector depends on price trends for seed, oils and cake. The oils may be consumed without further processing or as prepared oils and fats such as margarine.

Oilseeds



Source: European Commission, DG for Agriculture.

Figure 6

218. The European Union is a major net importer of oilseeds, vegetable oils and cake, annual import volumes being largely dependent on the relative prices of seeds, cake, oils and competing animal feed products (cereals, corn gluten feed, etc.) and on the opportunities for exporting oils and cake from the EU. Total imports of oilseeds amounted to 18.5 million tonnes in 1995/96 and 16 million tonnes in 1996/97. Soya accounts for most of this quantity (80 %).

219. Altogether, 30 million tonnes of oilseeds were crushed in the European Union (EU-15) in 1996/97, as against 28.4 millions tonnes in 1995/96. Most of these were soya beans (around 50 %), followed by rapeseed (around 25 % and sunflower (around 22 %).

220. From 1993/94, the support arrangements for oilseed growers (rapeseed, sunflower and soya) have been part of the support scheme for producers of certain arable crops (cereals, oilseeds, protein plants and linseed) requiring producers taking part in the general scheme to set aside land. Under these arrangements, a payment of ECU 433.50/ha is made. The amount actually paid to growers varies regionally according to historic yields of cereals or oilseeds and is adjusted where necessary in line with world price fluctuations beyond a certain margin.

221. For 1996/97, a specific compensatory payment was granted for some 4 691 803 ha, an area well within the maximum guaranteed area (MGA) of 4 933 800 ha. The compensatory payment was therefore not reduced for an overrun of the MGA. However, the observed reference price for the 1996/97 marketing year was fixed at ECU 223.551/tonne, 13.593 % above the projected reference price (ECU 196.8/tonne); taking account of the 8 % margin, this observed price resulted in a 5 % reduction in compensatory payments.

222. Total oilseed production in 1996/97 was almost 15 million tonnes (1.2 million tonnes of which was non-food production), as against 12 million tonnes in 1995/96 (2.1 million tonnes non-food).

Peas, field beans and sweet lupins

223. These products, which go chiefly to the animal-feed industry, compete with a wide range of other raw materials.

224. From 1993/94, aid to processors and minimum prices were replaced by the aid scheme for certain arable crops (cereals, oilseeds, protein plants and linseed) requiring producers taking part in the general scheme to set aside land. The regionally differentiated aid is ECU 78.49 multiplied by the historic cereals yield.

225. Compensatory aid was paid for around 1.086 million hectares in 1996/97. Total production amounted to 4.4 million tonnes.

Linseed

226. The European Union produces both fibre flax, which is grown primarily for use in the textile industry but which also gives a high seed yield, and seed flax, which is grown exclusively for linseed. Linseed is either used without further processing or is crushed to obtain oil (for industrial applications) and cake used for animal feed.

227. The European Union imports large quantities of linseed (around 500 000 tonnes a year). Canada is its major supplier.

228. In order to control production, a better balance between support granted for linseed production and other current crops was sought. From 1993/94, linseed was added to the list of arable crops benefiting from per-hectare aid under the reform adopted in 1992. A compensatory payment of ECU 105.1 per tonne multiplied by the cereal yield is granted.

229. The area sown to linseed in 1996 totalled 171 000 ha, while the corresponding figure for 1997 is put at 200 000 ha. The increase is mainly due to expansion of the area sown in Germany (an increase of 14 000 ha) and in the United Kingdom (78 000 ha in 1997, as against 48 000 ha in 1996).

Rice

230. The world harvest in 1996 was well up on 1995 (563.2 compared with 550 million tonnes of paddy rice) as a result of excellent harvests in countries in Asia (China, Indonesia, Bangladesh) and Africa.

231. During 1996, the volume of international trade decreased by about 2.1 million tonnes compared with 1995 (from 21 to 18.9 million tonnes), mainly because of good harvests in the countries which are the main net importers of rice.

232. World market prices fell in 1996 as world demand was below the previous year's level.

233. Community production sold on the world market in 1996 totalled 2.5 million tonnes of paddy rice, as against 2.1 million tonnes in 1995, thanks to the end of the drought in Spain and

the increase in production of indica rice. The total rose from 438 000 tonnes of paddy rice in 1995 to 632 000 tonnes in 1996. Japonica rice production was also 15 % up on the 1.65 million tonnes of paddy rice of the previous year.

234. Throughout the 1996/97 marketing year, Community prices were below the intervention price for all varieties of rice. They were particularly low in Spain and Greece because the indica rice produced in these two Member States faced stiff competition from rice imported from outside the European Union.

235. For the first time in several years 162 000 tonnes of paddy rice were accepted for intervention in 1996/97, nearly 130 000 tonnes of which consisted of indica rice. The good harvest and the large volume of imports were the reasons behind this situation.

236. In 1996/97, the volume of imports (principally indica rice) was about the same as in the previous year, at around 522 000 tonnes milled rice equivalent, while exports increased by about 86 % (from 146 000 tonnes in 1995/96 to 261 000 tonnes, including food aid, in 1996/97).

237. Imports of semi-milled rice from the overseas countries and territories (OCT) at zero duty totalled 160 000 tonnes of wholly milled rice equivalent in 1996/97, compared with 212 000 tonnes in 1995/96. The reason for this decrease was two safeguard measures applied by the Commission and the Council in January and May 1997 following disturbances caused in the Community market by these imports.

238. Imports of rice from the African, Caribbean and Pacific (ACP) countries increased substantially, from 7 000 to 27 000 tonnes of husked equivalent as a result of the safeguard measures for OCT rice and the expectations of a change in the import arrangements for ACP rice.

239. In order to implement an agreement with the United States in the form of an exchange of letters under GATT Article XXIV.6, the Commission adopted Regulation (EC) No 703/97, which introduced a cumulative recovery system (CRS) for husked rice to adjust for over- or undercharged customs duties, for a one-year trial period starting on 1 July 1997.

240. The reform of the common organisation of the market in rice was applied for the first time in the 1996/97 marketing year, the main features being the reduction of the intervention period to four months (April-July), the establishment of base areas and new rules on the quality offered for intervention. The cut in the intervention price and the system of compensatory payments will be operational from the 1997/98 marketing year.

241. Forecasts indicate an area sown of around 417 000 hectares in 1997/98, including 95 000 hectares of indica rice. The quality of the harvest is expected to be good. Given the restrictions

on exports laid down in the Uruguay Round Agreement (151 200 tonnes of milled rice equivalent), large quantities are expected to be presented for intervention.

Sugar

World market

242. In 1996/97, for the third consecutive marketing year, world sugar production exceeded consumption. This surplus is currently estimated at 2.7 million tonnes, despite the marked increase (3.2 million tonnes) in consumption during the same period. The final level of stocks for the marketing year is put at 48.4 million tonnes or 40.2 % of consumption, well above the 30 % seen at the end of the 1980s.

World market trends

(million tonnes of raw sugar)

Marketing year	Production	Consumption	Surplus or deficit	Stock as % of consumption
	(1)	(2)	(3) = (1) - (2)	(4)
1987/88	104.7	107.2	- 2.5	31.2
1988/89	104.6	107.0	- 2.4	29.0
1989/90	109.1	109.6	- 0.5	27.9
1990/91	115.7	110.4	+ 5.8	31.7
1991/92	116.9	111.1	+ 5.9	36.0
1992/93	112.7	111.9	+ 0.8	35.6
1993/94	111.4	112.2	- 1.2	33.6
1994/95	116.1	114.0	+ 2.1	34.1
1995/96	125.9	117.3	+ 8.6	39.8
Est. 1996/97	123.2	120.5	+ 2.7	40.2

Source: F.O. Licht.

243. Despite the 1.7 million tonne increase in world stocks at the end of the marketing year, the trend in world prices did not fully reflect the downward pressure expected. In the past, ratios of stocks to consumption like that seen in 1996/97 have caused prices to fall below ECU 20/100 kg for white sugar and ECU 12/100kg for raw sugar, yet raw sugar prices remained more or less stable (10-12 cents per pound) throughout the marketing year, only white sugar prices yielded to the downward pressure, and then only slightly compared with forecasts at the start of the marketing year.

<i>Average spot price:</i>	
- Paris Exchange (white sugar)	= ECU 30.69/100 kg 1995/96 ECU 26.99/100 kg 1996/97 (- 12.1 %)
- New York Exchange (raw sugar)	= ECU 21.58/100 kg 1995/96 ECU 21.18/100 kg 1996/97 (- 1.9 %)

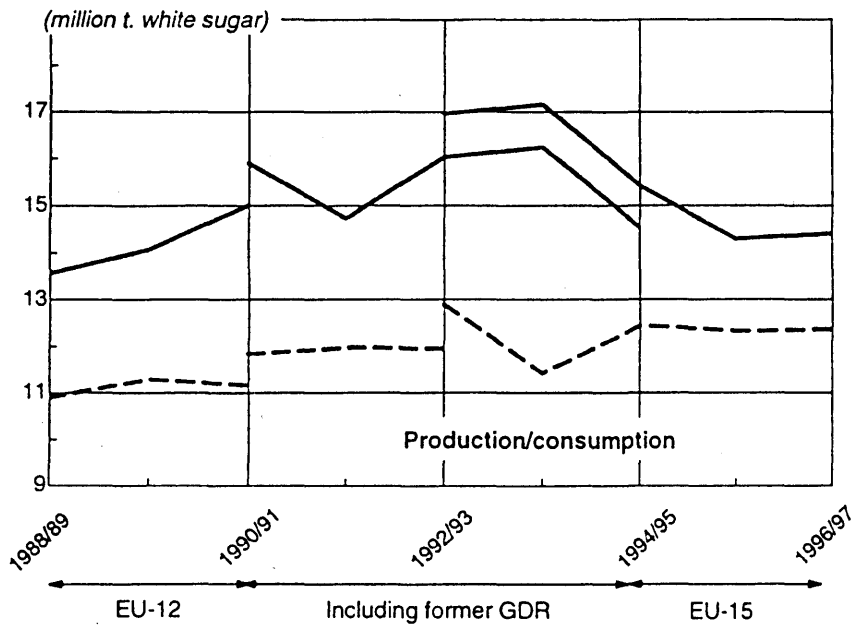
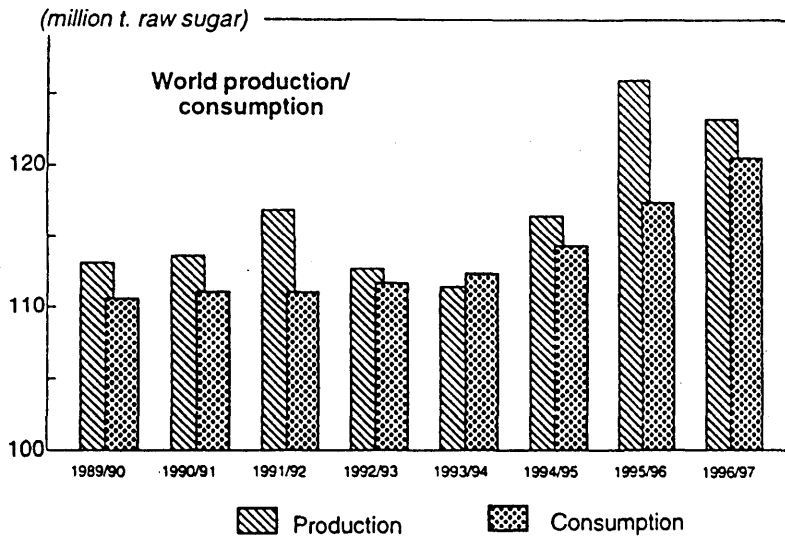
244. The fact that world prices were less volatile may be attributed first and foremost to structural changes in the supply and demand situation in recent years: the trend towards self-sufficiency in developing countries; the use of substitute sweeteners in industrialised countries, the break-up of the Soviet Union and also to the storage policy operated by some countries. Whereas during the previous marketing year India held a major part of the surplus stocks, this year it was the industrialised countries that ended up with larger stocks (some 3.0 million tonnes), producing a buffer effect on prices throughout the marketing year.

245. Import demand is currently estimated at 36.0 million tonnes, some 1.8 million tonnes down on the previous marketing year. The main reason for this is that sugar was removed from stocks in the importing countries (some 2.4 million tonnes) because in fact world consumption over the same period increased. Imports of raw sugar remained at roughly the same level as in the previous marketing year (around 19.0 million tonnes), while those of white sugar decreased. Since the refineries set up in the Middle East were not yet fully operational, the use of stocks in some importing countries was the reason behind this decline.

246. The preliminary estimates for the 1997/98 harvest point, for the first time in three marketing years, to a world production deficit compared with consumption. With production expected to remain steady, the forecast increase in consumption could bring the deficit to around 2.0 million tonnes. The level of stocks accumulated during the last three marketing years is sufficient to cover such a deficit, so sugar prices should therefore remain stable during the marketing year, becoming firmer at the beginning of 1998 on account of localised supply-demand tension. In the European Union (EU-15) the area under sugar beet in 1996 (2 020 000 ha) was slightly down on the previous year. The average sugar yield amounted to 8.2 tonnes a hectare, which was 9.3 % up on 1995 on account of improved growing conditions. These yields led to a production figure in terms of white sugar equivalent of 16.837 million tonnes: 16.515 million tonnes from beet, 0.275 million tonnes from cane and 0.047 million tonnes from molasses.

247. From this production, exports of unrefined Community sugar qualifying for refunds, as in the previous year, totalled around 2.75 million tonnes, including some 1.6 million tonnes equivalent to preferential imports. Given the upturn in global production, exports of C sugar (non-quota sugar production) increased by around 0.8 million tonnes to around 2.4 million tonnes. The amount of C sugar carried over also increased to 0.917 million tonnes. On the basis of these factors, the Community's level of final stocks rose by some 250 000 t, which had a stabilising effect on world prices.

Sugar



Source: European Commission, DG for Agriculture.

Figure 7

248. Community consumption of sugar seems to have stabilised at around 12 600 000 tonnes, reflecting a slight upward trend despite the development of insulin syrup production, which continued in 1996/97, reaching a total of 0.177 million tonnes (0.128 million tonnes in 1995/96). Isoglucose production, on the other hand, remains stable at around 0.302 million tonnes, in line with quotas.

249. The Council froze institutional prices during the 1996/97 marketing year and cut the amount of reimbursement for storage costs by 6.7 % to take account of interest level trends.

250. The Commission, for its part, reduced the storage levy from ECU 3.62/100 kg for the period 1995/96 to ECU 2.0/100 kg in 1997/98, presupposing a fall in actual guaranteed prices of 2.4 %, to the consumer's advantage.

251. As for levies, the Commission set the B levy at 36.5 % of the intervention price for 1997/98.

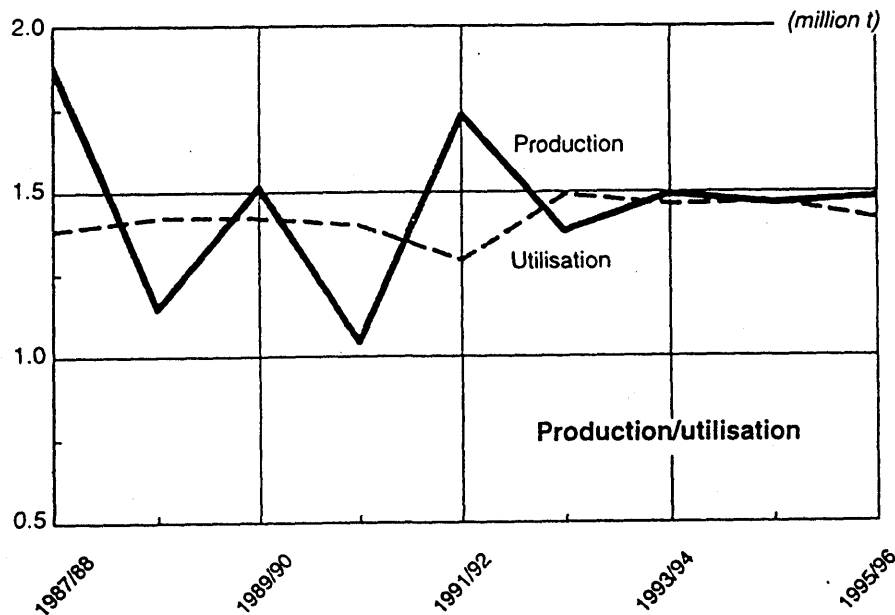
Olive oil

252. World production averages some 2 000 000 tonnes, of which 78 % comes from the European Union (around 1 550 000 tonnes). The other main producers are Tunisia (155 000 tonnes), Turkey (90 000 tonnes), Syria (75 000 tonnes) and Morocco (45 000 tonnes). Production varies considerably from one year to another, and the world market fluctuates as a direct result of the Community market situation.

253. Estimated Community production eligible for aid in 1996/97 was around 1 859 400 tonnes, as against 1 481 000 tonnes in 1995/96. According to information received from the Member States when the yields of olives and olive oil were laid down for the 1996/97 marketing year, there are around 500 million productive olive trees in the European Union. Some 2 million farms are engaged in olive growing.

254. In 1995/96 Community consumption was around 1 390 000 tonnes (75 % of world consumption). The most recent forecasts indicate that consumption in 1996/97 should be up on previous years, mainly because of the sharp fall in prices. Olive oil packaged in quantities of less than 5 kg accounts for the bulk of consumption (more than 90 % of the total), particularly because of the influence of the consumption aid scheme introduced in 1979. At the beginning of the 1996/97 marketing year, intervention stocks totalled 12 000 tonnes, falling to around 8 000 tonnes at the end of the year.

Olive oil



Source: European Commission, DG for Agriculture.

Figure 8

255. Greece and Spain are normally the main suppliers, and Italy, although itself an exporting producer, remains the main purchaser. During 1996/97 imports totalled 46 000 tonnes. Exports for the same marketing year reached around 140 000 tonnes, far exceeding the 135 000 tonnes in 1995/96 and nearing the limit imposed under the GATT agreements.

256. The Community support scheme has, since 1987/88, included a budget stabiliser with a maximum guaranteed quantity (MGQ) of 1.35 million tonnes. When production exceeds that quantity plus, where applicable, the carryover from the previous year, production aid (paid to olive growers) is reduced proportionally. The MGQ was exceeded in 1995/96, leading to a cut in aid. Forecasts suggest that the MGQ will probably also be exceeded for the 1996/97 marketing year.

257. The Commission has for some time been studying various ideas for reforming the support scheme for olive growing.

Olive oil eligible for production aid in the European Union

(1 000 tonnes)

Member State	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97 (estimate)
Ελλάδα (Elláda)	319.2	316.4	170.9	430.1	314.4	323.2	389.9	445.0	409.0
España	408.0	573.0	700.0	610.0	636.0	588.0	583.0	375.0	964.0
France	1.2	2.8	2.3	3.4	1.8	2.4	2.4	2.5	2.4
Italia	390.0	585.0	148.0	650.0	410.0	550.0	458.7	625.0	445.0
Portugal	24.6	35.1	20.0	35.0	17.1	27.5	29.2	34.0	39.0
Total	1 143.0	1 512.3	1 041.2	1 728.5	1 379.3	1 491.1	1 463.2	1 481.5	1 859.4

Dried fodder

258. Dried fodder is made up of products rich in proteins (minimum 15 %) derived from the artificial drying (dehydration) or natural drying (sun drying) of lucerne, other leguminous crops and certain grasses.

259. The table below gives a summary of production trends on the basis of aid applications.

260. In the early 1990s the increase in production of dried fodder was accompanied by an increase in the budget cost, which led the Commission to propose to the Council a reform of the sector commencing in the 1995/96 marketing year.

Production of dried fodder (EU-15) (1)

(1 000 tonnes)

Fodder	1992/93	1993/94	1994/95	1995/96	1996/97
Dehydrated fodder	4 236	4 576	4 468	4 070	3 818
Sun-dried fodder	446	420	455	402	253
Total	4 682	4 996	4 923	4 473	4 071

1. EU-12 up to 1994/95

261. The reform adopted by the Council (Regulation (EC) No 603/95 of 2 February 1995) may be summarised as follows:

- (1) replacing the variable aid paid out hitherto by a fixed aid per tonne of ECU 68.83 per tonne for dehydrated fodder and ECU 38.64 for sun-dried fodder;
- (2) introducing maximum guaranteed quantities (MGQs):
 - (a) 4.394 million tonnes for dehydrated fodder (4.412 million tonnes after the accession of Sweden, Finland and Austria),

(b) 443 500 tonnes for sun-dried fodder;

these maximum guaranteed quantities are broken down into national guaranteed quantities (NGQs), allocated to the Member States on the basis of their average production subsidised in the reference marketing years 1992/93 and 1993/94; where the MGQs are exceeded, the aid is reduced in order to avoid any overrunning of the planned budget package; when assessing overruns, the first 5% is applied to all Member States without distinction; beyond that point responsibility becomes national;

- (3) stepping up integrated control system checks on aid for arable crops and livestock farming in order to allow identification of all parcels on which fodder for drying is being grown and thus prevent the cumulation of aid.

262. In the 1996/97 marketing year, the second one of the new market organisation, aid was granted for 3 817 894 tonnes of dehydrated fodder (87% of the MGQ) and for 252 823 tonnes of sun-dried fodder (57% of the MGQ).

Grain legumes (chick peas, vetches and lentils)

263. Council Regulation (EEC) No 762/89 introduced a specific measure for grain legumes in 1989. It comprises aid per hectare for a maximum guaranteed area (MGA). The measure was renewed on several occasions and it is now included in Regulation (EC) No 1577/96.

264. The aid per hectare is set at ECU 181, and the MGA is 400 000 hectares. Should the MGA be exceeded, the aid is reduced in proportion during the marketing year in question.

265. In 1996/97 the area under grain legumes totalled 550 000 hectares; overrun of the MGA led to adjustment of the aid, which was set at ECU 131.69; the area for the 1997/98 marketing year is estimated at 500 000 hectares.

Fruit and vegetables

Fresh fruit and vegetables

World situation

266. World production of fresh fruit and vegetables is steadily increasing. In 1995 it totalled nearly 890 million tonnes, 1.0% up on 1994 and 8.9% above the average for the period 1989

to 1991.¹ Vegetables (including melons) account for around 55 % of this total. With some 102 million tonnes, the European Union was the world's third largest producer in 1995, after China (169 million tonnes) and India (104 million tonnes) and ahead of the United States (64 million tonnes), Brazil (39 million tonnes) and Turkey (32 million tonnes). Among the major lines of production in the world it is worth noting the role played by tomatoes (78 million tonnes in 1995), oranges (58 million tonnes), apples (50 million tonnes) and onions (32 million tonnes).

267. As far as citrus fruits are concerned, the first estimates relating to the 1996/97 marketing year² point to world production of totalling some 85 million tonnes, 1.3 % more than in 1995/96, 10 % up on the figure for 1993/94 and 87 % above the average for the marketing years 1971/72 to 1975/76. With production estimated at around 8 million tonnes, the European Union, for the 1996/97 marketing year, ranked third in the world, alongside China (7.9 million tonnes), behind Brazil (17.7 million tonnes) and the United States (17.5 million tonnes) and ahead of Mexico (4 million tonnes) and Egypt (2.5 million tonnes). In terms of percentage of world production and of the average for the marketing years 1971/72 to 1975/76, there was a marked increase for China (from 1.6 to 9.3 %) and for Brazil (from 13 to 21 %) and a decrease for the European Union (from 14 to 9.4 %), the United States (from 27 to 21 %) and Japan (from 8.5 to 1.9 %).

International trade

268. The volume of international trade in fresh fruit and vegetables varies from one product to another. For the period 1993 to 1995 and on the basis of imports, trade accounted for an average of 13 % of world production for lemons, 11 % for oranges and small citrus fruits, 11 % for pears, 9.6 % for onions, 9.4 % for apples, 8.3 % for peaches and 3.8 % for tomatoes. For 1995, the EU's exports accounted for the following percentages of international trade: lemons 15 %, oranges and small citrus fruits 11 %, apples 8.8 %, tomatoes 7.8 % and pears 6.3 %.

269. The European Union has a deficit of fresh fruit and vegetables. In 1996 exports were equivalent to 86 % of imports of vegetables, 53 % of those of citrus fruit and 44 % of those of other fruit. This gap widened from 1995 (-2.5 million tonnes) to 1996 (-2.6 million tonnes), the differences in export levels (+9.1 % for vegetables, -2.9 % for citrus fruit and +21 % for other fruit) not offsetting the increase in imports (+1.3 % for vegetables, +11 % for citrus fruit and +7.0 % for other fruit).

¹ Source : FAO Production Yearbook Vol. 49 - 1995.

² Source : FAO 1997 annual statistics on fresh and processed citrus fruit.

Community market

270. At nearly 9 million tonnes, production of *apples* in the European Union for the 1996/97 marketing year was up by 6.2% on 1995/96, but the situation varied considerably from one Member State to another. In some the increase was marked: +45% in Germany, +33% in Luxembourg, while in others there was a substantial decrease: -42% in Belgium and -22% in the Netherlands, with a range of -11 to +14% in the other Member States. This trend in production was reflected, at least partially, in the trend in producer prices of pilot products, those for which the Council fixes basic and buying-in prices. For the 1996/97 marketing year as compared with 1995/96, these prices rose in France (+16% after a bad year in 1995/96), Belgium (+3.7%) and the Netherlands and fell sharply in Greece (-22%) and Germany (-16%). The EU average showed a fall of 12%. The trend in production and prices was reflected in an increase in the quantities withdrawn from the market, from 2.4% of EU production in 1995/96 to 3.9% in 1996/97.

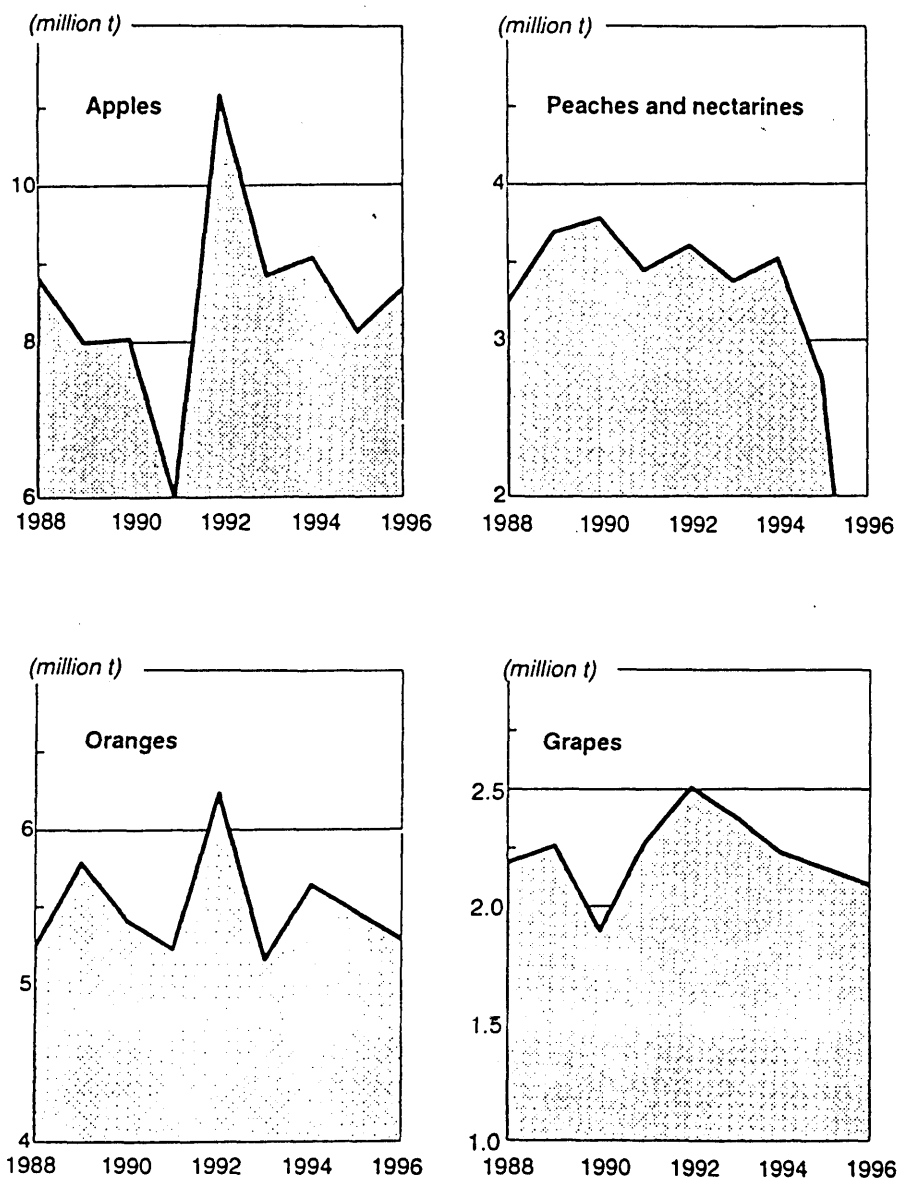
271. Production of *pears* for the 1996/97 marketing year exceeded 2.9 million tonnes, 6.6% more than in 1995/96 and 6.8% above the average for the marketing years 1991/92 to 1995/96. The increase was accounted for mainly by Spain (26% up on 1995/96), France (+10%) and Italy (+9.4%). For the 1996/97 marketing year, the Community average for producer prices was 3.5% down on 1995/96, with marked differences between Member States (ranging from +26% in Denmark to -34% in Spain). The quantities withdrawn from the market amounted to 6.1% of production, compared with 1.8% for 1995/96.

272. The 1996 marketing year for *peaches* was marked by an average level of production (19% up on 1995 but only 1.8% above the average for the marketing years 1991 to 1995). The average producer price remained more or less unchanged overall (0.2% down on 1995, though it fell by 26% in Italy and rose by 29% in Portugal). There were again substantial withdrawals (16% of production).

273. According to the figures available, production of *table grapes* for the 1996 marketing year was about 14% up on 1995, mainly thanks to Italy, which alone accounted for 64% of EU production. Producer prices continued on an upward trend for the sixth consecutive marketing year (+5.7% for the EU compared with 1995, but -14% in Italy). The quantities withdrawn remained minimal (0.5% of production).

274. Production of *apricots* improved in the 1996 marketing year (+36% compared with the low figure for 1995). This was accompanied by a 17% fall in the Community producer price, which reflected a decrease of 35% in France and an increase of 116% in Portugal. The total quantities withdrawn increased but still did not exceed 3.6% of production.

Fruit
Harvested crop of



Source: European Commission, DG for Agriculture.

Figure 9

275. In the *citrus fruit* sector, no global figures are yet available for 1995/96 or 1996/97, but there are signs of a stabilisation of EU production of *oranges* at 5.3 million tonnes, as compared with 5.6 million tonnes for the 1994/95 marketing year. At 1.3 million tonnes for 1996/97, production of *lemons* rose after two years of low figures; it was nonetheless below the average for the period 1991/92 to 1995/96 (1.4 million tonnes). On the other hand, production of *mandarins* and *clementines* fell by 6.1 % and 12 % respectively compared with 1995/96. From 1995/96 to 1996/97, the average Community producer price fell for oranges (-13 %) and mandarins (-6.6 %), remained stable for clementines (+0.7 %) and rose for lemons (+3.1 %). The quantities withdrawn for the 1996/97 marketing year were down on 1995/96, equivalent to 2.0 % of EU production for oranges, 0.9 % for mandarins, 0.6 % for clementines and 0.3 % for lemons.

276. No overall figures have been produced for several marketing years concerning the production of *cauliflowers*. For the 1996/97 marketing year as compared with 1995/96, the situation was stable in Italy (-1.0 %) and production fell sharply in France (-12 %). For the same marketing year, producer prices were well down in all the Member States (ranging from -14 % in Spain to -34 % in Portugal) apart from Denmark (+1.4 %), and the quantities withdrawn were well up (+47 %) on the 1995/96 figure.

277. The sketchy information available on *tomatoes* indicates that for the 1996/97 marketing year as compared with 1995/96, production rose in Greece (+11 %), Spain (+34 %) and Italy (+26 %) and fell in Belgium (-17 %), and that the average Community producer price rose by 17 % and withdrawals, although remaining negligible (under 1 % of production) increased by 83 %.

The main developments in legislation and policy

278. The 1997/98 marketing year is the first one to which the common organisation of the market adopted by the Council in 1996 applies. The new market organisation entered into force on 1 January 1997 and the detailed rules for its application were gradually established in the course of the year.

279. The Commission first of all adopted the conditions for the recognition and preliminary recognition of producer organisations and the detailed rules for granting aid for forming these organisations. It then adopted detailed rules for the application of operational programmes and operational funds and also intervention arrangements. Lastly, it decided on the rules for the application of the processing aid scheme for citrus fruit.

280. The Commission, also under the reform, adopted detailed rules for the application of the special measures for processed asparagus and of the flat-rate aid for hazelnuts harvested during the 1997/98, 1998/99 and 1999/2000 marketing years.

281. Under the agreement reached in 1996 when the reform of the market organisation was adopted, the Council adopted a programme for grubbing up apple, pear, peach and nectarine trees.

This programme covers a maximum area of 20 000 hectares, shared equally between, on the one hand, apple and pear trees and, on the other, peach and nectarine trees. There is provision for the initial breakdown of these areas by Member State to be adjusted subsequently to take account of applications actually submitted.

282. To avoid any risk of budget difficulties arising from an excessive volume of withdrawals, the Commission set intervention thresholds for the 1997/98 marketing year for the following products: tomatoes 360 000 tonnes, cauliflowers 111 300 tonnes, apples 387 300 tonnes, peaches 272 400 tonnes, nectarines 89 800 tonnes, melons 176 600 tonnes, parsnips 197 400 tonnes, table grapes 162 200 tonnes, lemons 93 500 tonnes, oranges 408 500 tonnes, satsumas 23 300 tonnes, mandarins 36 000 tonnes and clementines 133 400 tonnes.

283. Under the special safeguard clause laid down by the agreements resulting from the Uruguay Round multilateral negotiations (GATT agreements) the Commission set the trigger levels for the 1997/98 marketing year for tomatoes, cherries, cucumbers, oranges, mandarins, lemons and table grapes.

284. At the request of the Portuguese authorities, the Council extended the programme of measures for improving the application of Community standards for fruit and vegetables and providing for stricter compliance checks in Portugal.

285. The Commission extended the mechanism for controlling imports of garlic originating in China for one year.

286. The Community tariff quota for hazelnuts imported from Turkey was increased autonomously for 1997, from 25 000 to 34 060 tonnes, to take account of the trade arrangements for this product that existed between the new Member States and Turkey.

287. A specific entry price, subject to a quota, was set for oranges imported from Cyprus.

288. The export refund scheme was amended to bring the level of refunds into line with market requirements.

Processed fruit and vegetables

World market and EU market

289. The information available about products processed from fruit and vegetables remains very incomplete. As far as the European Union is concerned, it relates almost exclusively to products qualifying for processing aid.

290. World production of *tomatoes for processing* totalled around 25.8 million tonnes for the 1996/97 marketing year, 1.0 million tonnes more than in 1995/96. Different trends were noted for the world's three leading producers: stability in the United States (10.3 million tonnes in 1996/97 as against 10.2 in 1995/96), an increase in the EU (7.9 million tonnes compared with 6.8) and a fall of some 8 % in Turkey (1.7 million tonnes).

291. The increase in EU production was due to the increase in the production of tomato concentrate (+0.7 million tonnes, or +16.5 %) and the category 'other products' (+0.3 million tonnes, or +37 %), but of the 7.9 million tonnes of tomatoes processed in the European Union into products which might have qualified for processing aid, only 6.3 million tonnes, or 80 %, actually did so (6.2 million tonnes for 1995/96). About two thirds of these quantities were used in the manufacture of concentrate. Among the products receiving aid there has been a steady decline in percentage terms for peeled tomatoes.

292. The main features of the world market situation in 1996/97 were a fall of some 25 % in the price of concentrate and peeled tomatoes, the disposal of Turkish stocks, primarily to Russia, and the existence of large stocks of concentrate in the United States and of peeled tomatoes in Italy.

293. For the 1997/98 marketing year, production is expected to decrease not only in the EU but also in the rest of the world.

294. Nearly 494 000 tonnes of *peaches were tinned in syrup and/or natural juice* in the European Union during the 1996/97 marketing year, compared with around 470 000 tonnes in the previous marketing year. Greece remained the main producer in the EU (60 % of the total), followed by Spain (26 %) and Italy (11 %). The EU continued to export this product (about 150 000 tonnes).

295. EU production of *Williams and Rocha pears in syrup and/or natural juice* totalled over 126 000 tonnes for the 1996/97 marketing year compared with 125 000 tonnes for the previous year. Italy remained the main EU producer (47 % of the total), followed by Spain (30 %) and France (17 %). The EU had a deficit of this product in 1996: exports totalled 9 300 tonnes of finished product and imports 33 000 tonnes.

The main developments in legislation and policy

296. The common organisation of the market which governs this sector covers, in principle, all products processed from fruit and vegetables. However, Community support is concentrated on a few products: peaches, pears, tomatoes, prunes, dried figs and pineapples (processing aid

subject to compliance with a minimum producer price), dried grapes and dried figs (intervention and storage aid at the end of the marketing year, accompanied by per-hectare aid for dried grapes) and mushrooms (duty-free quotas). In addition, a minimum import price scheme is in force for dried grapes and certain products processed from cherries and for imports of soft fruit from certain central and eastern European countries, including the Baltic States. Lastly, raspberries for processing and dried grapes benefit from specific measures to improve product quality and marketing.

297. The reform of the market organisation agreed in 1996 entered into force on 1 January 1997. This involved adjustments to the rules for the application of the processing aid scheme and the system of quotas for tomato-based processed products.

298. Under the price package agreement the Council amended the breakdown between products of the quota granted to France in connection with the aid scheme for tomato-based products.

299. For the 1997/98 marketing year, the minimum producer price was kept at the same level as in the previous year except in the case of tomatoes (-2.0%) and peaches (-2.0%). Processing aid was cut by 9.6% for tomatoes, 6.2% for peaches in syrup and/or natural juice, 14% for Williams and Rocha pears in syrup and/or natural juice, 7.8% for tinned pineapples and 2.7% for prunes. This trend reflects that for the ecu prices for the raw materials in non-EU countries. The cut in aid for pears was greater because the guarantee threshold had been exceeded.

300. For dried grapes, the basic amount of aid per hectare was kept at ECU 2 785. This aid is paid only for specialised areas meeting certain yield criteria.

301. The EU and Turkey agreed to amend the import arrangements for Turkish tomato concentrate. The new arrangements came into force on 1 September 1997. There are two six-monthly tariff quotas a year of 15 000 tonnes each, exempt from customs duty. There were special provisions applicable during the period 1 September to 31 December 1997.

302. The Community brought into force early, on 1 July 1997, the new system of minimum import prices for certain soft fruits originating in Bulgaria, Hungary, Poland, Romania, Slovakia and the Czech Republic agreed at the time of the negotiations on additional protocols to the Europe Agreements. The new arrangements lay down that the minimum import prices are applicable on a permanent basis, no longer on the basis of an ad hoc Commission decision. The old rules, on the other hand, were maintained for imports from the Baltic States.

303. The export refund rates were adjusted in line with changes in the dollar exchange rate.

Bananas

304. The main effects of removing barriers between markets during the first four years of the market organisation for bananas¹ have been:

- a trend towards price convergence;
- a better mix of origins;

Common organisation of the market in bananas: main mechanisms for managing market supply

Origin	Instrument	Customs duty (for 3 and 4)	Maximum quantity (in tonnes net)
(1) EU	Compensatory aid		854 000
Canary Islands			420 000
Guadeloupe			150 000
Martinique			219 000
Madeira and others			50 000
Crete, Lakonia			15 000
(2) Traditional ACP	quantities per country	exemption	857 700
(3) All origins other than 1 and 2 of which:	tariff quota	ECU 75/tonne	2 200 000¹
(3) (a) non-traditional ACP	under quota allocated by country	exemption	90 000
(3) (b) framework agreement	under quota in %:	ECU 75/tonne	
Colombia	21		
Costa Rica	23.40		
Venezuela	3		
Nicaragua	2		
(3) (c) Other		ECU 75/tonne	
(4) All origins for quantities in addition to the tariff quota	Non-quota	ECU 850/tonne, 20 % reduction in six years	no limit
(4) (a) ACP in addition to 2 and 3 (a)		ECU 100 less than full duty	
(4) (b) other		Until July 1997: ECU 793/tonne	

¹ Tariff quota increased, for 1995, 1996 and 1997, to 2.553 million tonnes, following enlargement.

305. Bananas are supplied by three main groups (see table):

- the Community production regions (market share: 17 %);
- the ACP countries (20 %);
- the countries of Central and South America (63 %).

¹ Regulation (EEC) No 404/93, 13.2.1993, OJ L 47, 25.2.1993, p. 1.

306. Under the market organisation the European Union has different obligations to these three groups of suppliers (see table, p. 79)

- Community produce: compensation for up to 854 000 tonnes and aid from the Structural Funds;
- ACP bananas: imports at zero duty for up to 857 700 tonnes, broken down by traditional ACP supplier country;
- bananas from non-member countries other than traditional ACP bananas: a tariff quota of 2.553 million tonnes (EU-15), at a duty of ECU 75 per tonne; within this quota, 90 000 tonnes are reserved for imports of non-traditional ACP bananas at zero duty.

307. The convergence of prices on the merged market has meant a reduction in the price for Community bananas. To mitigate this effect of the market organisation, producer groups receive aid to offset the gap between the average flat-rate reference income fixed in 1991 for the four production areas and the average income in a given year. Compensation worth ECU 29/100 kilograms with a supplement of ECU 3.8/100 kg and ECU 5.9/100 kg for Portuguese and Guadeloupe bananas¹ was paid for the 684 605 tonnes of bananas marketed.

308. Given, on the one hand, the relatively low level of prices in 1996 and, on the other hand, the expansion of volumes traded (up 4 % from 1995 to 1996), expenditure on compensatory aid increased in 1996 to ECU 203 millions, compared with ECU 180 millions in 1995.

309. Community production is expected to be up in 1997. According to preliminary estimates, some 790 000 tonnes will be marketed, compared with 685 000 tonnes in 1996.

310. Imports of traditional ACP bananas in 1996 amounted to 733 000 tonnes on account of the 'tropical storm' licences. They are likely to be of the order of 700 000 tonnes in 1997.

311. The tariff quota opened for imports of third-country and non-traditional ACP bananas was set for 1997 at 2 553 000 tonnes, an increase of 353 000 tonnes to take account of the accession of Austria, Finland and Sweden. It should be noted that, as in 1996, the Commission had to adopt the increase in the tariff quota itself, since the Council had failed to reach a decision on the proposal² presented to it in April 1995. The Member States were still unable to agree, particularly about the adjustments to be made following enlargement, so the Council did not reach a decision on the various proposals for amendments to the market organisation.³

312. The market organisation for bananas was the subject of a complaint to the World Trade Organisation lodged at the end of 1995 by a group of four countries: the United States, Guatemala,

¹ Regulation (EC) No 898/97, 20.5.1997, OJ L 128, 21.5.1997, p. 12.

² COM(95) 115; (OJ C 136, 3.6.1995)

³ COM(95) 114, amended by COM(96) 37 (OJ C 92, 23.3.96) and supplemented by COM (96) 82 (OJ C 121, 25.4.1996).

Honduras and Mexico, subsequently joined by Ecuador, which became a member of the WTO in 1996. The panel's report ruled that a number of aspects of the market organisation were not in conformity with WTO provisions. The Appellate Body upheld this ruling in September 1997.

Wine

313. The area under vines in the EU fell steadily during the period 1993/94 to 1995/96, from 3.4 to 3.3 million ha, a loss of some 4 % of the initial area. The most significant changes were seen in Greece (-18 %), Spain (-6 %) and Italy (-4 %). This was primarily the outcome of the Commission's grubbing policy since 1988. It is estimated that during the period 1988 to 1996 the total area grubbed amounted to some 490 000 ha (provisional figure). The scheme was extended until the 1997/98 marketing year.

314. As far as yields are concerned, in the same period figures varied within individual Member States, while at Community level the average fell from 46.3 hl/ha in the 1993/94 marketing year to 45.7 hl/ha in 1994/95. Although the precise figure is not available, there was a further fall in 1995/96. A modest reduction in areas translates into a substantial fall in production.

315. The European Union is the world's leading wine economy with, on average, 60 % of world production and 55 % of world consumption. In 1995, these percentages were 62 % and 60 % respectively. The other main producers are, in descending order: Argentina, the United States, eastern Europe as a whole (Bulgaria, Hungary, Romania, ex-Yugoslavia and the Czech and Slovak Republics), the former Soviet Union (with 11 wine-growing republics) and South Africa.

316. With world production totalling around 250 million hectolitres (average for the period 1993 to 1995), annual consumption amounts to some 217 million hectolitres (average for the period 1993 to 1995). Most of the world surplus of around 30 million hectolitres is distilled. Not counting intra-Community trade, which represents about 30 million hectolitres, (12 % of world production), international trade in wine involves some 24 million hectolitres, which represents about 10 % of world production.

317. In 1996 there were slightly more commercial transactions between the EU and other countries: 10 418 754 hectolitres were exported, compared with 9 793 000 hectolitres in 1995. France (3 409 942 hl), Italy (3 022 968 hl), and Spain (2 358 864 hl) are the main exporters and the principal trading partners are the United States (25 %), Canada (8 %) and Japan (7 %). In the past relatively large quantities were exported to Russia, but have dwindled to only 3 %.

318. Imports of wine into the European Union increased substantially in 1996 (by 57% compared with 1995) on account of low availability of EU-produced wine. The main importers are the United Kingdom (36%), Germany (21%) and Spain (16%). Some 45% of the United Kingdom's imports (917 374 000 hl) are supplied by Australia and South Africa. The EU's main suppliers are the east European countries (32%), followed by Argentina (18%), Australia (14%), South Africa (10%) and the United States (9%). Spain imported an exceptionally large quantity of wine from Argentina (0.938 million hl) because its home production had been hit by the drought in some of its producer regions.

319. EU production for the 1996/97 wine year is estimated provisionally at 165 millions hectolitres for all categories of wine (table wine, quality wine produced in specified regions and other wine). The reason for what appears to be a substantial increase in production was that the 1995/96 harvest was the smallest in recent decades (151 millions hl). Guide prices for table wine of types AI, RI and RII were kept unchanged from 1995/96 at ECU 3.828 /% vol/hl. Table wine prices varied very widely according to production region: from 56% to 127% of guide prices.

320. Direct human consumption of wine, although showing a long-term downward trend, should be little changed from previous marketing years (128 million hl), as should industrial use for vermouth and vinegar production (3.8 million hl).

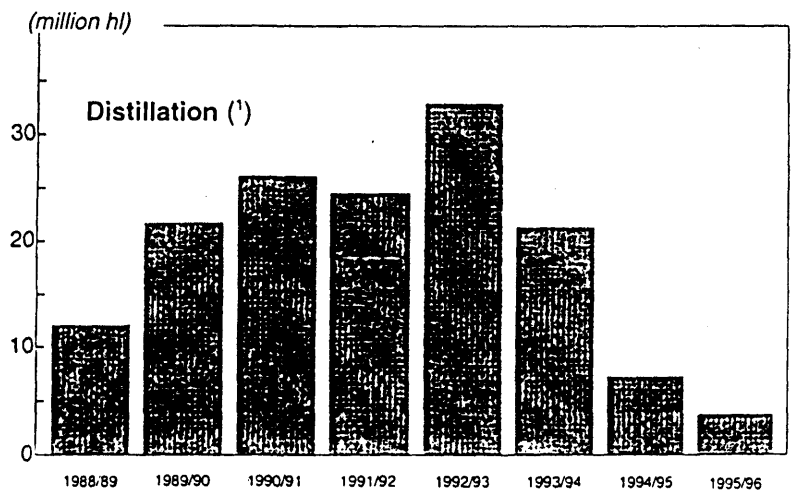
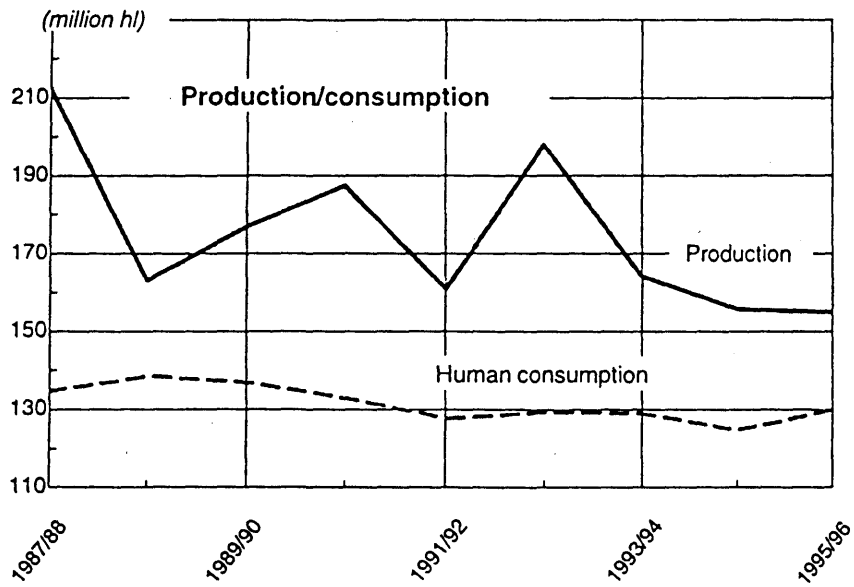
321. Producers' and traders' stocks were 114 million hl at the beginning of the marketing year and by its end are estimated at around 119 million hl.

322. Despite increased production (165 million hl) and the stocks of 114 million hl at the start of the marketing year, it was nonetheless possible to avoid recourse to compulsory distillation in 1996/97. It was decided to apply a preventive distillation scheme and a support distillation scheme to cope with the situation. A total of some 11 million hl were distilled (preventive distillation accounting for 10.7 and support distillation for 0.3 million hl).

323. Between 16 December 1996 and 15 February 1997, long-term storage contracts (nine months) were concluded for 10 320 000 hectolitres (table wine: 6 832 000; must: 2 837 000; concentrated must and rectified concentrated must: 651 000). The 1995/96 total was 6 500 000 hectolitres.

324. Wine production in 1997/98 was estimated at the beginning of the wine year at 161 million hl (compared with 165 for the previous year), slightly above the average for the last three wine years. It should, however, be borne in mind that this period includes one marketing year (1995/96) when production was among the lowest figures for several decades.

Wine



(¹) Compulsory and optional distillation (Portugal excluded 1979-91).
1992 figures include Portugal.

Source: European Commission, DG for Agriculture.

Figure 10

Cotton

325. According to the United States Department of Agriculture, around 33.8 millions hectares were planted with cotton in 1997/98 in the world as a whole, producing a forecast 19 million tonnes (87.3 million bales)¹, as against 33.7 million ha and 19.3 million tonnes in 1996/97.

326. Unginned cotton is not traded internationally, but the European Union, which has a cotton spinning capacity which is much larger than its fibre production, imports substantial quantities: more than 1 million tonnes from 1986 to 1990, 895 000 tonnes in 1995.

327. The United States, the former Soviet Union, Syria, Argentina and Australia, during certain periods, are the main suppliers. Intra-Community trade, however, remains limited, though it is increasing.

328. In the European Union, the scale of cotton production is limited, in terms of both surface area planted and number of producers. However, it is concentrated in certain areas of Greece and Spain where it plays a very important socioeconomic role. The area planted with cotton in the EU rose from 501 000 hectares in 1996 to 510 000 hectares in 1997 (423 000 hectares in Greece and 113 500 hectares in Spain) and Community unginned cotton production for the latter year is estimated at 1 475 000 tonnes (1 100 000 tonnes in Greece and 375 000 tonnes in Spain) compared with 1 500 000 tonnes in 1996. It should be pointed out that bad weather in Andalusia at the end of 1996 seriously damaged some winter crops (cereals, sugarbeet and potatoes in particular). To limit the resulting loss of income, Spanish farmers sowed a substantial part of the areas thus vacated with cotton, bringing the total crop area to 113 500 ha, well up on the preceding marketing year (79 000 ha). The European Union is 25 to 30 % self-sufficient in cotton fibres, its consumption being around 1 250 000 tonnes.

329. The Community aid scheme provides for a guide price (ECU 106.30/100 kg from 1995/96 onwards) and aid, equivalent to the difference between that price and the world price, granted to ginnerers who pay a minimum price to the producer. If the production of unginned cotton exceeds a maximum guaranteed quantity (MGQ), the guide price and the amount of aid are reduced proportionally.

330. After the first year of application of the reformed aid scheme, the Council decided, in the light of the difficulties encountered, to terminate the advance fixing mechanism and to make changes to the system of advances.

331. The reduction of aid in each Member State is proportional to the amount by which it exceeds its MGQ, set at 782 000 tonnes for Greece and 249 000 tonnes for Spain. There is no limit on

¹ 1 bale = approximately 217.7 kg.

this reduction, but it is cut if the level of the world price allows expenditure on the aid scheme to be limited. For 1997/98 the provisional reduction is estimated at 31 % of the guide price for Greece and 37 % for Spain.

Silkworms

332. Silkworm rearing is practised in Greece, Italy, and to a lesser extent, France. It accounts for 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 and know-how which deserves to be preserved.

333. World production of raw silk has risen markedly in the last few years. According to the FAO, it amounted to 114 000 tonnes in 1994 (68 000 tonnes on average from 1979 to 1981). The industry is dominated by Asian producers (112 000 tonnes). China (84 000 tonnes), India (17 000 tonnes), Korea (5 000 tonnes) and Japan (4 000 tonnes) together account for over 90 % of world production.

334. Community rearing is finding it difficult to sustain its level of activity. The increase in production costs is not always offset by a growth in market prices. Production is declining, especially in Greece.

335. In 1996, 1 943 boxes were produced successfully, compared with 1 736 in 1995, totalling 41 831 kilograms of cocoons. The aid was set at ECU 133.26 per box for 1997/98.

Fibre flax and hemp

Fibre flax

336. The total world area sown with fibre flax is around 750 000 hectares, producing around 600 000 tonnes of fibre. However, it should be noted that, firstly, political developments in eastern Europe have disrupted flax production and, secondly, no precise information is available about production in China, another major producer. There is no significant trade in raw flax between the European Union and third countries. On the other hand, fibre imports sometimes reach levels capable of disrupting the Community market. The Union has a deficit in medium- and low-quality fibres, which it imports from eastern Europe, Egypt and China. On the other hand, it supplies the whole world with high- and very high-quality fibres, since these are not produced elsewhere. In 1995, the Union exported 69 500 tonnes, of which 43 500 were long fibres and 26 000 short fibres.

337. The Community area planted with fibre flax increased substantially between 1992 (44 000 ha) and 1996 (132 000 ha). The increase in area was too much for the processing capacity available in the EU, so the Council introduced a system of compulsory contracts between producers and approved primary processors from 1997/98. This measure has had the effect of stabilising the crop area (133 000 ha sown in 1997) and developing the primary processing industry, especially in Spain and, to a lesser extent, in the United Kingdom. France, Belgium and the Netherlands have traditionally been the principal producer Member States, but production of this crop took off again some years ago in Germany and more so in the United Kingdom and Spain. While these two countries accounted for only 4 % and 0.4 % respectively of the Community area given over to this crop in 1993, they accounted for 14 % and 37 % respectively in 1997. Raw flax is processed into fibres by about 150 retting and scutching companies in the north-west of France (30), Belgium (100), the Netherlands, Germany and Denmark. There are also outlets for the product in non-textile sectors (paper-making in particular).

338. The market in flax fibre, depressed for some years, picked up towards the end of the 1992/93 marketing year following a distinct fall in the Community harvest for three years in a row on the one hand, and an upturn in flax consumption on the other. This balance on the market continued through the 1994/95 and 1995/96 marketing years. However, during the two following marketing years it became harder to dispose of scutched flax. The market depends very heavily on the fashion in clothing.

339. Aid for fibre flax in 1997-99 was set at ECU 815.86 a hectare. It is graduated by production area and harvesting method according to the traditional seed yield per hectare.

Hemp

340. The world area planted with hemp has fallen sharply in recent years: 100 000 to 150 000 hectares have been sown as opposed to an average of 480 000 hectares for 1979-81. China, North Korea, India and Russia are the main producers. In the European Union production is very limited and traditionally concentrated in France, with a very small amount in Spain, although some other Member States (the United Kingdom, the Netherlands and Austria) have been trying to get production of this crop off the ground again in recent years. They were joined in 1996 by Germany. The 1997 EU harvest amounted to about 22 000 hectares. Trade with third countries is very limited. Aid for hemp was set at ECU 716.63 a hectare.

Tobacco

341. In 1996 world production of tobacco increased significantly (by 10.2 %) compared with the 1995 harvest, to 7.2 million tonnes. With 41.7 % of world production (and a 17 % increase

over its 1995 harvest), China remained by far the world's biggest producer, followed by the United States, India and Brazil. The European Union, with 5.1 % of world production, remained in fifth place: in 1996 its production of leaf tobacco totalled 337 000 tonnes, i.e. slightly more (+ 1.2 %) than in 1995, thus maintaining its percentage of world production.

342. Prices rose on the markets of Malawi and Zimbabwe, considered to be indicative of world price trends (particularly for flue-cured and light air-cured varieties). Prices on the European market also increased, particularly for oriental varieties.

343. Growth in world leaf tobacco consumption was slower (+ 1.5 %) between 1995 and 1996.

344. The EU's tobacco exports to the rest of the world amounted to 219 300 tonnes (283 900 tonnes in 1995), the main exports being of the oriental varieties, sought after for their aromatic qualities. The significant decrease in EU exports of tobacco resulted from a substantial fall in exports of flue-cured tobacco in 1996. The European industry used about 707 000 tonnes of baled tobacco, of which 543 000 tonnes (76.8 %) were imported.

345. Community production stabilised. This was the result of the application of the reform of the common organisation of the market in raw tobacco. This reform established a quota scheme by Member State and group of varieties (there are now eight groups of varieties, instead of the 34 groups under the old system), and put an end to intervention and export refunds.

346. The total quota was set at 350 323 tonnes for the 1996 harvest, and Community production fell short of this figure by 3.8 %.

347. The Commission presented a report to the Council and Parliament on the operation of the market organisation for tobacco (COM (96) 554 final of 18 December 1996). It is planning a thorough overhaul of the present system, introducing from the 1999 harvest onwards a graduation of the premium according to the buying-in price, with the aim of improving the quality of Community production.

348. The planned reform also takes more account of public health and environmental considerations and aims to step up controls and improve the management of the production quota system.

Hops

World market

349. The world area planted to hops is around 82 408 hectares, of which almost 69 000 ha are situated in member countries of the International Hop Growers Convention (IHGC) and producer Member States of the European Union. There is also considerable production in China, for which there are no exact figures, only rough estimates.

350. The areas under hops in the IHGC and the EU fell on average by 3.41 % in 1996, with the sharpest falls in Ukraine (-28 %), Bulgaria (-19 %) and Russia (-13 %). The main countries in which the crop area increased were Poland (4 %) and the United States (2 %).

351. The world harvest in 1996, at some 2 549 306 Ztr (1 Ztr (Zentner) = 50 kg), was much the same (-0.16 %) as in 1995. Product quality was higher, with an alpha acid content of 7.37 % and total alpha acid production of 9 395 tonnes (8 584 tonnes in 1995).

352. Although it did not reach the record levels of 1993, the 1996 harvest was nevertheless 8 % above the average of the 20 preceding years in terms of yield.

353. World beer production is estimated at 1 250 millions hectolitres for 1997. Since 8 000 tonnes of alpha acid would normally be used to produce this quantity of beer at a hopping rate of 5.8 g grams of alpha acid per hectolitre, the quantity of hops produced would exceed that required to cover needs (by 1 395 tonnes). It may be noted that hopping at 5.8 g/hl of beer requires around 6.4 grams per hectolitre to be available in breweries; the difference is accounted for by losses in storage and hop processing.

354. Breweries seem still to have sufficient stocks to cover production for several months. It should be added that less alpha acid is needed than previously because of a trend towards manufacturing less bitter beers, on the one hand, and the results of constant technological progress, on the other.

Community market

355. Hops are grown in eight Member States (Austria, Belgium, France, Germany, Ireland, Portugal, Spain and the United Kingdom), with Germany accounting for 80 % of the Community area devoted to hop growing, which totals 27 325 hectares. This is 173 hectares or 0.63 % less than the area harvested in 1995.

356. The quantity of hops harvested in 1996 was much bigger (12.61 %) than in 1995. The total harvest was 946 060 Ztr, and the average yield per hectare was 1.48 t/ha or 34.62 Ztr.

357. Product quality was good, with an alpha acid content for the Community as a whole of 7.68 % for all three categories of varieties, representing 3 631 tonnes of alpha acid – 113 kg per hectare – for 1997 beer production.

358. Overall, the average price of hops sold under contract was ECU 194 /Ztr, i.e. ECU 3/Ztr less than for the 1995 harvest.

359. The average price of hops sold on the free market fell sharply (from ECU 140 /Ztr in 1995 to ECU 98 /Ztr in 1996).

360. Under the common organisation of the market in hops, the Community has two types of financial commitments. Firstly, aid is granted to growers to enable them to attain a reasonable income level. For the 1996 harvest, the Council set this at ECU 480 per hectare for all varieties. Secondly, special aid is granted to hop producers converting part of their land under bitter varieties to other varieties more suited to market requirements. By 31 December 1996, when the programme ended, the Commission had approved conversion plans for 3 241 hectares.

361. Estimates indicate a smaller harvest for 1997 than for the previous year.

362. A reform of the common organisation of the market in hops was adopted by the Council on 22 July 1997 (Regulation (EC) No 1554/97, OJ L 208, 2.8.1997, p. 1). The main changes are as follows:

- a flat-rate annual aid per hectare based on historic averages, with a distinction made between the different groups of varieties, is to be granted and this aid paid soon after harvest;
- varietal conversion may be undertaken on a permanent basis, i.e. with no restriction on area or time scale, aid being included in the above-mentioned flat-rate aid per hectare.

Seeds

363. The common market organisation for seeds provides for production aid for basic seed and certified seed belonging to some 40 different species of agricultural plant, including various types of fodder seed, rice and flax.

364. In 1996 the total area in the Community sown to seeds qualifying for Community aid was 324 925 hectares. For the Member States taken together this represents an increase of about 8 % on the previous year.

365. The areas cultivated for the production of seed for grass and legume crops for feed use totalled 153 453 hectares and 114 900 hectares respectively, representing an overall increase on 1995 of around 6.8 % and 7.4 % respectively.

366. The total area producing rice seed was 18 594 hectares, some 1.6 % up on 1995. There was actually a slight reduction in the area under indica rice (3 134 hectares, 9.7 % less than in 1995) and an increase in the case of japonica (15 460 hectares, 23.2 % more than in 1995).

367. The areas used for growing seed for the production of fibre flax seed and linseed were 22 521 hectares and 13 672 hectares respectively, i.e. 0.2 % and 22.4 % more respectively than in 1995 for the Member States taken together.

368. The area sown for hybrid maize seed production was 55 192 hectares. This represents an increase of around 0.8 % on 1995 for the Member States as a whole.

369. As regards seed eligible for Community aid in the 1995/96 marketing year, total imports into the Union (35 523 tonnes) continued to exceed exports to third countries (13 496 tonnes), thus confirming the trend recorded over the last decade. Imports of hybrid maize seed totalled 35 565 tonnes, of which 28 006 (around 78.7 %) were simple hybrids.

Flowers and live plants

370. This sector covers a wide range of products: bulbs, live plants (ornamentals and nursery products), cut flowers and foliage. The market organisation includes quality standards and customs duties, with no specific protective measures against imports other than any safeguard measures which might prove necessary.

371. Over the last few years production and trade have increased in the European Union and in other countries as well.

372. Around 115 000 ha are used for ornamental horticulture, of which about 22 000 ha for bulb production, principally in the Netherlands.

373. Community imports from third countries totalled 286 000 tonnes in 1996, with a value of ECU 875 millions, which represents an increase of about 113 % on the figures for 1988. About

half of this quantity was fresh cut flowers, the EU being the biggest market in the world for this product. The majority of these flowers (approximately 80 %) are exempted from customs duties under agreements such as the generalised preference system for Colombia and other Central and South American countries and the agreements concluded with the ACP States under the Lomé Convention.

374. Five Mediterranean countries (Cyprus, Israel, Jordan, Morocco, and the West Bank and Gaza Strip) are granted tariff exemptions within set quotas, provided that the import prices for certain cut flowers (roses and carnations) are not below a certain percentage of the corresponding Community price.

375. Israel is still the Union's largest supplier of fresh cut flowers (37 000 tonnes), followed by Kenya (29 000 tonnes) and Colombia (20 000 tonnes).

376. Community exports to third countries totalled around 263 000 tonnes in 1996, worth some ECU 868 million, the principal exports, in order of importance, being live plants and nursery products, bulbs, fresh cut flowers and foliage.

377. The external trade balance for the entire sector was negative (ECU 6 million) for 1996, whereas in 1995 it still showed a surplus (ECU 107 million). This situation arises from the fact that for two lines of production – fresh cut flowers and foliage – the import surplus amounted to ECU 204 million and ECU 184 million respectively.

Animal feedingstuffs

378. Large quantities of agricultural products are used for animal feed, including most of the Community's output of cereals and oilseeds and virtually all of its permanent grassland and fodder production from arable land. Three quarters of all the European Union's UAA (utilised agricultural area) is used for this purpose. Furthermore, feeding costs account for around 70 % of the total production costs of pigmeat and poultrymeat.

379. *Overall demand*¹ has increased slightly since 1993, mainly due to the increase in demand in the pig and poultry sectors. Approximately half (200 million tonnes FU) of the aggregate supply² is composed of feedingstuffs which are not generally marketed (grass, hay and silage), mainly used for ruminants. The other half, which can be used for all animals, consists of feedingstuffs which are marketed (cereals, substitutes, oilcakes, etc.) where competition (prices, nutritional

¹ This includes all marketable and non-marketable animal feed. Estimate for EU-15.

² Estimate based on the feed balance expressed as FU (feed units) equivalent to the energy provided by 1 kg of average barley. Source: Eurostat.

value) is most intense. Since the introduction of the CAP reform in 1993, and unlike previous years, the quantities of cereals used in animal feed have increased to the detriment of substitutes, most of which are imported.

380. *Total animal consumption* of the key marketable products¹ in the European Union is estimated at roughly 194 million tonnes in 1996/97 (2 million tonnes more than in 1995/96). This consumption is made up of, on the one hand, indigenous products, estimated at 144 million tonnes (over 6 million tonnes more than in the previous marketing year, mainly due to greater use of indigenous cereals) and, on the other hand, products imported from non-member countries, estimated at around 52 million tonnes, i.e. over 4 million tonnes less than the previous marketing year (mainly because of a reduction in imports of oilcakes). Exports are estimated to have remained stable, at around 2 million tonnes.

381. As regards *substitutes* subject to import quotas, the quota utilisation rates in 1996 for manioc imports remained at about 56 % for manioc from Thailand and increased from 14 % in 1995 to around 40 % in 1996 for manioc from Indonesia; the rate for manioc from other GATT countries fell to 23 % in 1996, while the rate for non-GATT members, including China, was again 0 % in 1996. Utilisation of the Chinese sweet potato quota fell from 6 % in 1995 to 0 % in 1996.

Industrial manufacture of compound feedingstuffs in the EU by category of animal

<i>(million tonnes)</i>			
Compound feed for:	1996	Change since 1995	% change
- pigs	41.5	1.2	3.1
- poultry	34.0	0.6	1.9
- other	8.2	0	-
- cattle (beef and dairy)	36.5	1.0	-2.8
Total	120.1	0.8	0.7

382. Total manufacture of compound feedingstuffs in the European Union² in 1996 is estimated at 120.1 million tonnes, 0.8 million tonnes more than in 1995. The rise is mainly due to an increase in the production of feedingstuffs for pigs (+1.2 million tonnes) and poultry (+0.6 million tonnes), while production of bovine feed was down by about 1 million tonnes, largely on account of the beef crisis.

¹ Covering most of the marketable feedingstuffs used in the EU by the compound feed industry and by farmers (farm consumption and purchases of raw materials) and set out in the table 'Animal consumption of key marketable products (estimates EU-15)' and the following figure. Source: DG VI.

² Provisional figures for EU-15 not including Greece or Luxembourg, see Table 4.13.7.3, Part 2. Source: European Feed Manufacturers' Association (FEFAC).

Weighted average price of key marketable products ¹
EU average (estimate)

	(ECU/t)					
	1992/93	1993/94	1994/95	1995/96	1996/97	% change between 1995/96 and 1996/97
I - Cereals	182.9	157.6	149.3	151.7	138.7	- 9
II - Substitutes	124.6	120.4	115.9	121.4	115.3	- 5
III - Proteins	154.0	171.9	136.6	169.0	213.0	26
IV - Total (weighted average price)	163.3	153.6	140.2	150.6	150.7	0

¹ Indicator of the trend in average prices in the EU of the key marketable products and their principal constituents, weighted by the share of each in total consumption. For each cereal, an average EU price is calculated by weighting the arithmetical average price in each Member State by animal consumption in each. For oilcakes and substitutes, which are for the most part imported, the average cif Rotterdam price has been used. Source: DG VI.

383. In terms of total production of compound feedingstuffs by Member State in 1996, the largest increases were recorded in France, Germany, the United Kingdom and Austria, while the main falls were in Italy, the Netherlands and Ireland.

384. As regards the incorporation of raw materials into compound feedingstuffs by EU feed manufacturers in 1996, the quantity of cereals¹ used again showed an increase, from 40.9 million tonnes in 1995 to 43.3 million tonnes in 1996; the reason for this is to be found in the fact that prices for raw materials were favourable to cereals, particularly given the high prices of soya oilcake and proteins, the decreasing use of cereal substitutes and the growth of demand in the pigmeat and poultrymeat sectors. An increase in the use of cereals over the reference period was seen in all the Member States apart from the Netherlands (no change).

385. The factor determining choice of the composition of feedingstuffs remained raw material prices relative to one another and the percentage of total demand accounted for by the different animal species.

386. The average weighted price of the key marketable products in the European Union remained at the same level in 1996/97 as in 1995/96, but with major differences from one group of key products to another: marked increase in the average price for proteins (+ 26 %) and fall in the internal average price for cereals (- 9 %) and substitutes (- 5 %).

387. For 1997/98, livestock consumption of cereals will depend on developments in livestock demand, import prices and currency parities.

¹ Table 4.13.7.5, Part 2. Source : European Feed Manufacturers' Association (FEFAC).

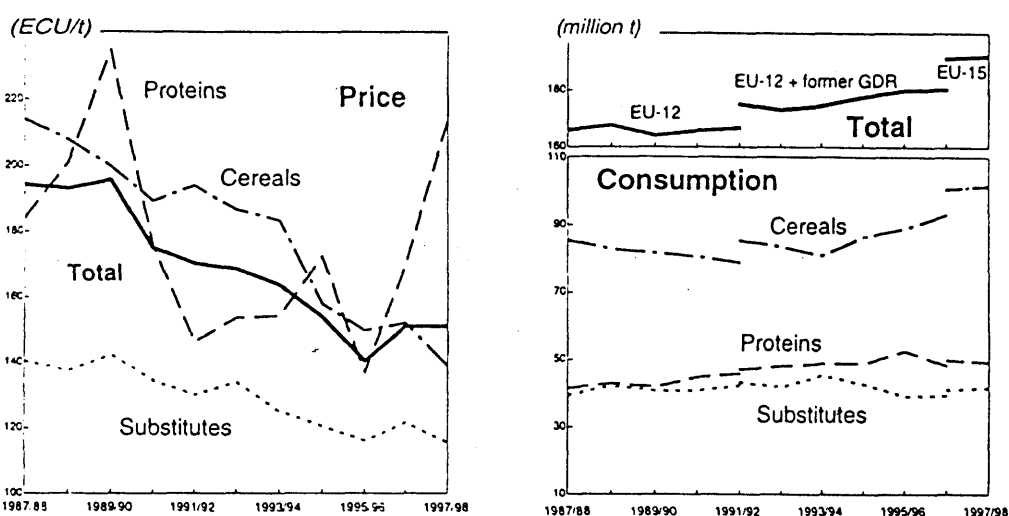
Animal consumption of key marketable products (estimate EU-15)

(million tonnes)

	Rate of import duties	1994/95				1995/96				1996/97			
		Animal consumption				Animal consumption				Animal consumption			
		EC	Imports	Exports	Total	EC	Imports	Exports	Total	EC	Imports	Exports	Total
Cereals													
- Common wheat	T	32.0	-	-	32.0	34.5	-	-	34.5	36.6	-	-	36.6
- Barley	T	29.4	-	-	29.4	31.0	-	-	31.0	32.0	-	-	32.0
- Maize	T	22.5	1.6	-	24.0	21.3	1.7	-	23.0	23.6	0.9	-	24.5
- Other	T	10.1	0.7	-	10.9	11.7	1.2	-	12.9	12.5	0.6	-	13.1
Total cereals		94.0	2.3	-	96.3	98.5	2.9	-	101.4	104.7	1.5	-	106.2
Substitutes ex-Annex D total, of which		19.7	15.3	-	35.0	20.1	14.0	-	34.1	20.2	13.4	-	33.6
- Manioc	6 % B/T	-	3.7	-	3.7	-	2.9	-	2.9	-	2.9	-	2.9
- Sweet potatoes	0 B/T	-	0.5	-	0.5	-	0.0	-	0.0	-	-	-	-
- CGF (corn gluten feed)	0 B	1.4	5.9	-	7.3	1.5	5.9	-	7.4	1.5	5.5	-	7.0
- Bran	T	10.8	0.1	-	10.9	10.8	0.1	-	10.9	10.8	0.0	-	10.8
- MGC (maize germ cake)	0 B	0.2	0.8	-	1.0	0.2	0.7	-	0.9	0.2	0.7	-	0.9
- Citrus pellets	0 B	-	2.0	-	2.0	-	2.0	-	2.0	-	2.0	-	2.0
- Dried sugarbeet pulp	0 B	5.0	0.7	-	5.7	5.3	0.8	-	6.1	5.4	0.8	-	6.2
- Brewing and distilling residues	0 B	1.9	0.8	-	2.7	1.9	0.8	-	2.7	1.9	0.6	-	2.5
- Various fruit waste	0 B	0.4	0.8	-	1.2	0.4	0.9	-	1.3	0.4	0.9	-	1.3
Other energy-rich feeds of which:		0.9	4.1	0.1	4.9	1.3	4.1	-	5.4	1.3	4.1	-	5.4
- Molasses	T	0.3	3.7	0.1	3.9	0.7	3.7	-	4.4	0.7	3.7	-	4.4
- Animal and vegetable fats (added to feed)	4-17 % B	0.6	0.4	-	1.0	0.6	0.4	-	1.0	0.6	0.4	-	1.0
Total energy-rich feeds		20.6	19.5	0.1	39.9	21.3	18.2	-	39.5	21.5	17.5	-	39.0
Oilcake and seeds (oilcake equivalent), of		6.5	33.0	1.2	38.4	5.8	32.8	0.9	37.8	6.4	30.4	0.9	35.9
- Soya	0 B	0.7	24.9	0.9	24.7	0.7	23.8	0.7	23.8	0.8	22.1	0.7	22.2
- Rape	0 B	3.5	1.4	0.2	4.7	3.9	1.2	0.1	5.0	3.5	1.3	0.1	4.7
- Sunflower	0 B	2.3	2.3	0.0	4.5	1.2	3.2	0.0	4.4	2.1	2.5	-	4.6
- Other	0 B	-	4.5	0.1	4.4	-	4.6	0.1	4.6	-	4.5	0.1	4.4
Other proteins of which:		13.0	2.4	1.1	14.4	11.6	2.4	1.0	13.0	11.3	2.3	0.9	12.7
- Protein crops	2.5 % B	4.7	1.3	0.1	5.9	3.8	1.3	0.0	5.1	3.9	1.2	-	5.1
- Dried fodder, etc.	0.9 % B	4.9	0.2	0.2	4.9	4.5	0.3	0.1	4.6	4.1	0.3	0.1	4.3
- Fish meal and meat meal	0.2 % B	2.8	1.0	0.8	3.0	2.7	0.8	0.8	2.7	2.7	0.8	0.8	2.7
- Skimmed-milk powder	T	0.6	-	-	0.6	0.6	-	-	0.6	0.6	-	-	0.6
Total protein-rich feeds		19.5	35.5	2.3	52.7	17.4	35.2	1.8	50.7	17.7	32.7	1.8	48.6
Total key products		134.1	57.2	2.4	189.0	137.2	56.3	1.8	191.7	143.9	51.7	1.8	193.8
Key products index 100=1994/1995				189.0	189.0			191.7	191.7			193.8	193.8
- Consumption index				100.0	100.0			0.0	101.4			0.0	102.6
- Livestock demand index				189.0	100.0			191.7	101.4			193.8	102.6

Remarks: (e) = estimate; T = Tariff since 1/7/95; B = bound under GATT; 0 = exempt; % = import duty at 1/7/95.

Weighted average price and animal consumption of key marketable products



NB: 1996/97 = estimate.
 Source: DG VI, supply balance for key products.

Figure 11

Milk and milk products

World market

388. According to FAO estimates, world production of milk (including cows' milk, buffalo milk, sheep's milk and goats' milk) in 1997 is likely to be just about 0.4 %, or 2 million tonnes up on 1996, at 539 million tonnes. The increase is expected in India for buffalo milk, while cows' milk production on the other hand is expected to fall, as it did in 1996. The decrease in production in eastern Europe and the former Soviet Union is at the root of this trend, since in the rest of the world milk production is increasing.

389. In Asia, the growth of milk production in India (the largest producer among developing countries and third in the world after the European Union and the United States) during the year 1995 was slowed by a shortage of fodder in certain regions. In 1996 it increased by 4 %, reaching

67 million tonnes and is expected to total 70 million in 1997. Pakistan is expected to pass the 20 million tonne mark, which will put it in fifth place in the world.

390. In Latin America, most countries increased production in 1996, and this trend was expected to continue in 1997. Brazil, the region's largest producer, is likely to show substantially increased production following the development of milk production outside traditional areas as a result of improvements in dairy farmers' incomes. In 1997 production is expected to exceed 20 million tonnes. Production in Argentina, Chile and Uruguay should also increase. In Mexico, the abolition of government price controls increased production in 1996, as was the case in other countries in the region during the 1980s.

391. In most countries of eastern Europe, the fall in production continued as a result of the reduction in herds and hot, dry weather. Supplies of animal feedingstuffs continued to be limited, with consequent further reductions in herds. Despite falls in production, price increases in a number of these countries discouraged consumption, leading to a surplus of supply over demand. In addition, there was the move towards cheaper substitute products such as vegetable oils. Although consumption of traditional milk products fell, long-life milk, soft cheeses, ice-creams and desserts were in great demand.

392. In the United States production fell slightly in 1996, contrary to all the forecasts of growth due to the bovine somatotropin (BST) programme. There was little change expected for 1997. In Canada, the maintenance of processing quotas for milk in 1997 will leave production unchanged.

393. In Australasia, the very favourable weather conditions in 1996 gave way to a drought affecting much of Australia. This meant higher feed costs as forage was in short supply and grain prices were higher, so milk production will be below the 9 million tonne total for 1996. In New Zealand, milk production increased markedly (by over 9 %) as weather conditions were good for grazing. For 1997 a 1 % increase is expected in view of the less favourable weather and the lower prices obtained by producers during the year.

Community market

394. In the European Union the total dairy herd at the end of 1997 is expected to show a return to the downward trend (- 2.3 %) which had been moderated in 1996 by the BSE crisis. The figure is put at 21.6 million head at the end of 1997, representing a decrease of 500 000 head.

395. The reduction in the number of cows was compensated for by the increase in yields, from 5 435 in 1996 to 5 534 kg/cow in 1997, i.e. an increase of 1.8 %, which is slightly less than the annual average (+ 2 %).

396. Production of milk has remained very stable at around 120 million tonnes since 1992. Similarly, and for the third year running, deliveries remained stable at around 113 million tonnes. In 1995, both production and deliveries increased by a million tonnes and since then production has remained stable. The fat content of milk, on the other hand, has continued to rise, meaning increasingly large adjustments to the quota rules.

397. Butter production, which on present trends is showing an annual average drop of 2.9 %, totalled 1.87 million tonnes in 1995 and 1996, which marked an increase on 1994 and consequently a reversal of the trend. Production is expected to be down by 3.1 % in 1997.

398. Production of cheese increased by 1.6 % in 1996, to a total of 6.48 million tonnes; in 1997, production should remain more or less stable at 6.46 million tonnes, the 0.4 % drop resulting from lower production of cheese made from other types of milk and no change in that of cheese made from cows' milk. This confirms the signs of an end to the rise seen in 1996, when the increase was already well below the annual average (+2.4 %) seen since the introduction of quotas.

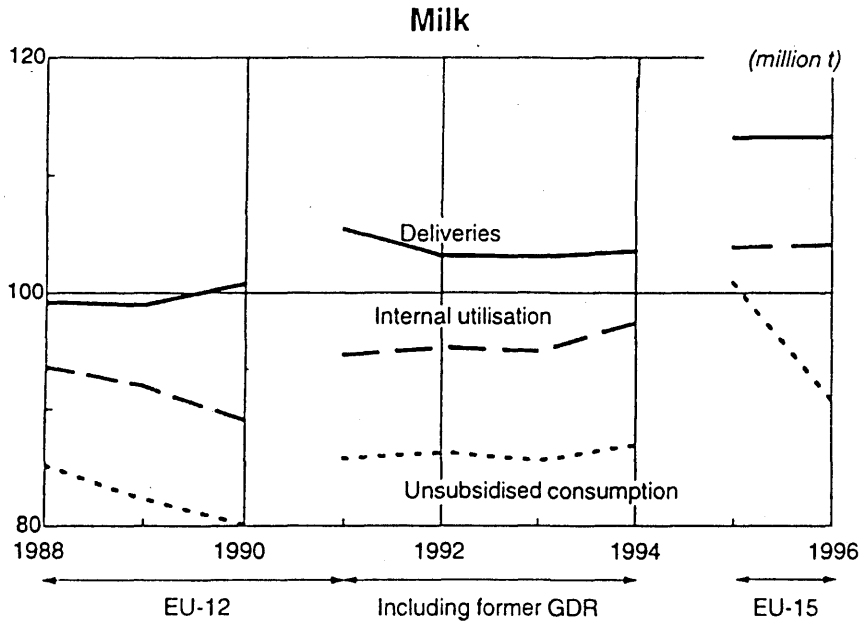
399. Production of all forms of milk powder continued to fall very slowly in 1995 and 1996, with totals of 2.24 million tonnes and 2.15 million tonnes respectively. There was little change in 1997 (2.16 million tonnes), but the trend varied from one type of powder to another: production of skimmed-milk powder was distinctly down (-3.5 %) in 1997, while the production of other types of powder fell in 1996 and rose in 1997.

400. After being reversed in 1995 by an increase of 4.4 %, the downward trend (-1.7 %) in the production of condensed and evaporated milk has since continued. In 1996 there was a 0.7 % fall, and in 1997 production is expected to be up by 1.9 % to 1.37 million tonnes. Casein production in 1996 was 133 000 tonnes, 6 % down on 1995. Production in 1997 is expected to remain at the same level.

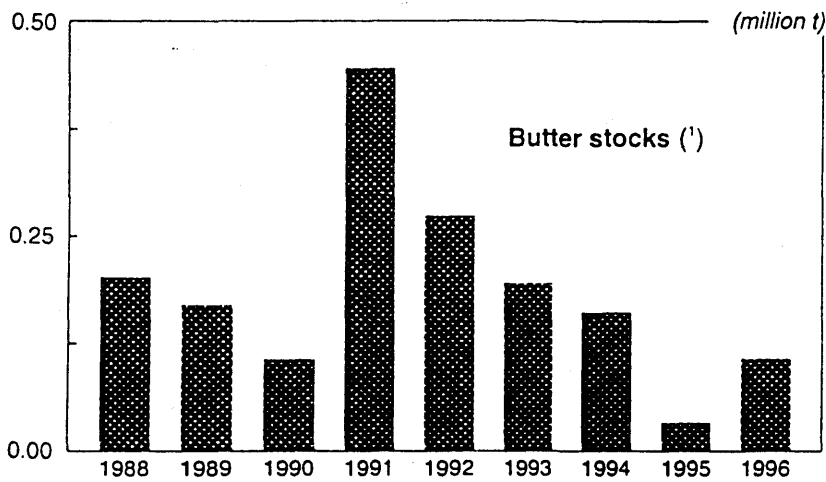
401. Overall consumption of milk products in the European Union, after having increased by 3 % in 1994, fell by 2 % in 1995 and increased slightly in 1996. Another slight increase is expected for 1997, taking it to over 105 million tonnes.

402. Total drinking milk consumption remained more or less stable between 1995 and 1997. The 1997 figure is put at just under 29 tonnes, 0.8 % more than in the previous year. Whole milk now accounts for only 47 % of consumption, whereas in 1986 it was two thirds, i.e. double that of reduced-fat milk. Only the consumption of semi-skimmed milk is clearly on the rise, that of whole milk remaining stable, whilst consumption of skimmed milk has been falling by 1 % a year since 1992.

403. Cheese consumption in 1996 was equivalent to 93 % of production, at 5.98 million tonnes, an increase of 1 %. It is expected to grow by 0.3 % in 1997.



NB: Consumption calculated on basis of total milk equivalent (milkfat content) figures.
 1988 consumption includes 3.245 million t for animal feed.



(¹) Public and private stocks covered by Article 6 of Regulation (EEC) No 804/68. Position on 31 December.

Source: European Commission, DG for Agriculture.

Figure 12

404. Demand for butter has fallen steadily since 1988, except in 1994 when it rose by 2.9 %, a result of the reduction in the intervention price by 2 % in 1993 and 3 % in 1994. Since 1995 it has remained around 1.75 million tonnes.

405. Community public stocks in 1996 were at an all-time low. In March 1996, public stocks of butter and skimmed-milk powder were almost zero. Only in Australasia were there sufficient supplies. In the United States, stocks were insufficient to meet internal demand, almost tripling internal butter prices. Availabilities were no better in 1997.

406. Internal prices for milk products started to rise at the beginning of 1997, far exceeding intervention prices in early summer. The reason for this was that production of intervention products had stabilised or even fallen (e.g. skimmed-milk powder), together with high demand for butter exports to Russia.

407. Export refunds were amended on several occasions in order to comply with the limits resulting from the undertakings made during the Uruguay Round. Since 1 January 1997, refunds have been reduced by 5 % for butter, butteroil, skimmed-milk powder, whole-milk powder and condensed milk, 53 % for drinking milk, 9 % for processed cheeses and between 5 and 24 % for other types of cheese.

408. Exports of milk products from the European Union fell in 1996 by 2.2 million tonnes milk equivalent. The previous year had been an exceptionally good one, the best since 1989. Such a situation is unlikely to be repeated in the foreseeable future. In 1996, the European Union accounted for 41 % of world trade, which amounted to 29.5 million tonnes, nearly 2 million less than in 1995. Imports totalled 1.3 million tonnes. The volume of world trade reflects the expansion or contraction of Community exports because European trade accounts for such a large percentage of the total, as can be seen from the tables in the Annex. The second largest supplier – New Zealand – accounts for only 21 %.

Beef and veal

409. World beef and veal production, estimated at 56.5 million tonnes for 1996, showed an increase of over 1 %, as it had done in 1995, still accounting for just over one quarter of total meat production.

410. Production of beef and veal in the European Union, totalling some 7 950 million tonnes, now accounts for only about 14 % of world production.

411. The supply of beef and veal grew in North America and the producing countries of South America, some of which are now officially recognised as free of foot-and-mouth disease.

412. Beef production in Australia fell on account of the drought, and market conditions meant that exports from Australia and New Zealand were reduced to below their share of the tariff quota for exports to their traditional North American export market.

413. In eastern Europe, and especially in Russia, production continued to decrease as herd sizes and productivity per head also fell.

414. On a world market experiencing dynamic economic growth and a strong propensity to consume meat in developing countries, beef consumption was limited by consumer fears about BSE (bovine spongiform encephalopathy).

415. World trade in beef and veal amounted in 1996 to around 4.86 million tonnes, or 8.6 % of production, some 2 % up on 1995.

416. The upturn in world trade was influenced by the growing import needs of South-east Asia, which now accounts for one quarter of trade, and will continue in 1997 on account, among other things, of the export ban on Taiwanese pigmeat exports in the wake of foot-and-mouth disease.

417. The two South American exporting countries, Argentina and Uruguay, now officially recognised as being free of foot-and-mouth disease, will now also increase their exports of fresh/chilled beef to the most remunerative North American markets.

418. More favourable access conditions on some import markets mean that a reversal in trends on the international markets can be expected in 1997 and thus some improvement in world beef prices.

419. At the beginning of 1997 there was a downward trend in cattle numbers in many countries, including the USA, where the decrease was put at some 2 %.

420. World production is therefore expected to remain unchanged for 1997, whereas the medium-term trend is an increase of the order of 0.7 % a year.

421. The Community market in beef and veal was at the peak of the production cycle in the 1996/97 marketing year, even though this production peak was somewhat truncated by emergency slaughterings on account of BSE, both calves and adult cattle being slaughtered, particularly in the United Kingdom.

422. Plans to eradicate BSE were implemented in several Member States, including the United Kingdom; these plans provide for veterinary health checks on identified herds and feedingstuffs and the elimination from the food chain of meat from animals liable to be affected by BSE. Up to the beginning of September 1997, over 1.730 million cattle had been slaughtered, in particular cull dairy cows.

Beef and veal production

(1 000 tonnes carcass weight)

	1994	1995	1996	1997	% change	
					1996/95	1997/96
USA	11 194	11 585	11 749	11 617	+ 1.4	- 1.1
Japan	602	601	555	550	- 7.7	- 0.9
Argentina	2 486	2 466	2 485	2 500	+ 0.8	+ 0.6
Brazil	4 639	4 783	4 691	4 715	- 1.9	+ 0.5
Australia	1 825	1 803	1 702	1 700	- 0.6	- 0.1
India	2 496	2 550	2 600	2 650	+ 2.0	+ 1.9
China	2 455	3 010	3 220	3 350	+ 7.0	+ 4.0
Russia	3 240	2 733	2 543	2 400	- 7.0	- 5.6
Ukraine	1 427	1 158	1 037	960	- 10.4	- 7.4
EU	7 831	7 964	7 950	7 900	- 0.2	- 0.6
World	55 300	55 900	56 500	56 450	+ 1.1	- 0.1

423. Other measures to improve the veal market hit by the BSE crisis, the premium for the early marketing of calves and the calf processing premium, involved 1.020 million head and 1.130 million head respectively up to the beginning of September 1997.

424. The decrease in cattle numbers observed in June 1997 points to the cyclical downturn in production in the coming years, particularly as regards male bovines.

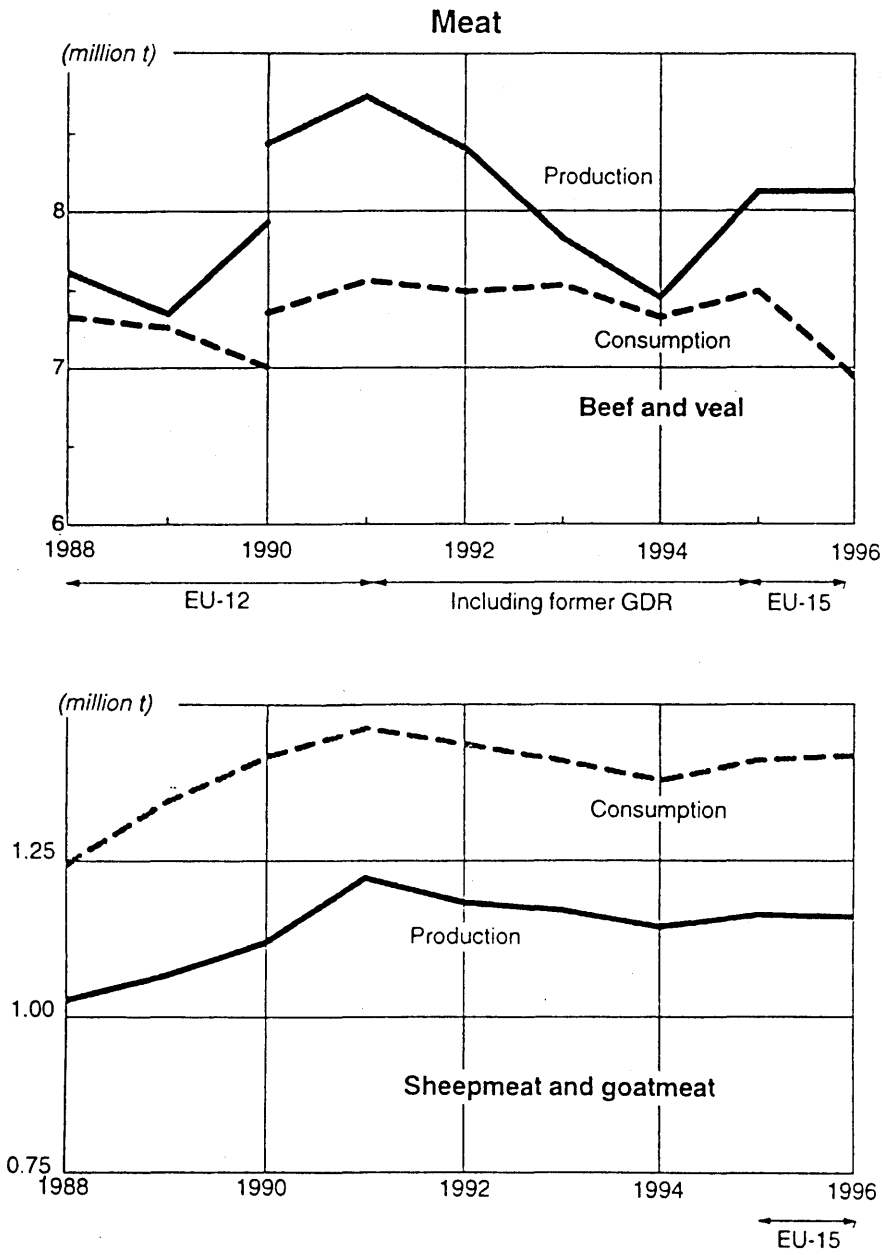
425. The market price for the reference quality (adult males of class R3) remained below 80 % of the intervention price, the threshold triggering support measures, consisting of:

- the direct buying-in on the market of 225 million tonnes up to the end of September 1997;
- compensation for loss of income paid in the form of increased premiums.

426. Consumption of beef and veal, although up on 1996, remained below average.

427. The low level of imports - 395 million tonnes in 1996 compared with 422 million tonnes in 1995 - reflects exacting consumer requirements as to the origin of meat offered for direct sale.

428. Exports of beef and veal to non-EU countries, which totalled 1.1 million tonnes in 1996, maintained a relatively high level despite the difficulties caused by the BSE crisis.



Source: European Commission, DG for Agriculture.

Figure 13

429. The halt to vaccination against foot-and-mouth disease should enable beef and veal to be exported to new markets in the future and thus compensate for the planned cut in exports qualifying for refunds.

430. After the sharp fall in market prices in 1996, in particular for cow meat (about 15 % from one year to the next), for a few months beef prices have been picking up, particularly for the reference quality, to close to 80 % of the intervention price.

431. In the past few years market prices have fallen by an average of about 15 % as a result of the BSE crisis and the 15 % cut in three stages in the support price, while feed prices have fallen by only 10 %.

Sheepmeat and goatmeat

432. World sheepmeat and goatmeat production, currently estimated at approximately 10 million tonnes annually, appears to be in decline on account of a number of factors, such as the falling price of wool, cuts in livestock numbers and lower profitability compared with other enterprises. The world has a total of 1700 millions head of sheep and goats, over 60 % of which are to be found in Asia and Africa.

433. World trade is dominated by New Zealand, which exports up to 400 000 tonnes a year and by Australia, whose annual exports, often in the form of live animals, exceed 300 000 tonnes. The European Union is the world's third largest producer after China and the ex-Soviet Union countries and is also the largest importer and biggest consumer. EU exports remain negligible.

434. On the Community market, production is expected to fall by 2.4 % to 1.145 million tonnes in 1997, owing, in particular, to a significant fall in UK and Irish production. Despite a significant fall in consumption in the United Kingdom, Community consumption remained stable in 1997, mainly thanks to the positive image of sheepmeat in the eyes of the consumer.

435. Intra-Community trade continued to develop: in 1996 trade exceeded 286 000 tonnes, France remaining the principal country of destination and the United Kingdom the main supplier.

436. During the first quarter of 1997, after sustaining a good level in 1996, the Community market price remained very high until early spring. From June onwards, the price again exceeded the 1996 level, influenced by the revaluation of sterling against the green rate. The average lamb price on the Community market in 1997 was ECU 376 per 100 kg, i.e. almost 4 % up on 1996.

437. Imports into the Community are carried out principally under reduced-tariff or tariff-free WTO quotas, together with additional quantities provided for in the Europe Agreements with

central and east European countries. The total reduced-tariff or tariff-free import possibility was 317 000 tonnes in 1997, slightly more than in 1996, on account of the Europe Agreements.

438. It is estimated that imports into the European Union in 1997 will total 265 000 tonnes, slightly less than in 1996, mainly on account of the fall in exports from the CEECs, due primarily to the reduction in livestock headage in this region in recent years.

439. The level of the Community ewe premium in 1996 was ECU 16.869 and the rural world premium supplement ECU 6.641 per ewe. Private storage stocks at the end of 1996 totalled only 85 tonnes, in Finland.

440. In 1997 two advances on the ewe premium were fixed, for a total of ECU 9.196. Private storage aid was used for only 300 tonnes in Finland in 1997.

441. The outlook for 1998 is for stability in Community production and consumption, the decreases expected in the United Kingdom being offset by a slight increase in the other Member States. As importers may attempt to take advantage of the good market conditions, prices could fall compared with their very high level in 1997. Intra-Community trade is likely to continue to expand. A similar trend may be forecast for the medium term.

Pigmeat

442. World production of pigmeat went on growing in 1996. A total of 86 million tonnes was produced, representing an increase of around 2 million on the preceding year. China is still the world's leading producer, estimated to account for over 40 million tonnes, followed by the European Union, which produced 16.3 million, up 2.3 % from 1995 tonnes in 1996. In the United States, the world's third largest producer, production went down, totalling 7.8 million tonnes in 1996.

443. The greatest parts of the years 1996 and 1997 were very favourable to the interests of the vast majority of pig producers in the Union. Prices were rather high throughout most of that period so that profitability was good as well, despite the relatively high cost of animal feed. It should be stressed that the effect of bovine spongiform encephalopathy helped to support prices for pigmeat, thanks to an increase in its consumption from the second quarter of 1996, and when, in the spring of 1997, the effect of that factor was becoming less marked, it was followed by new dramatic events with quite significant positive effects on the price level for pigmeat in the European Union.

444. The Netherlands was hit by the most serious outbreaks of classical swine fever so far experienced in the European Union. In the summer of 1997 the number of pigs killed in the effort to fight this disease accounted for half of the total Dutch pig herd.

445. From the spring of 1997 competition on the Japanese market was substantially reduced after a ban on exports of pigmeat from Taiwan following numerous outbreaks of foot-and-mouth disease. Taiwanese exports of pigmeat are expected to remain blocked for quite some time.

446. In 1996 exports remained at a fairly high level, despite the GATT agreement which imposed limits on subsidised exports. Some 820 000 tonnes left the Union and around 60% of this quantity was exported without refunds. Overall, exports went up by 5 % against the level of 1995. As to imports, the bulk of pigmeat-derived products entered the Union under association agreements or GATT agreements with preferential rates of duty. The Union's main supplier continues to be Hungary, which accounted for 36 000 of a total of 42 000 tonnes of imports in 1996.

447. Even though production of pigmeat is on the increase in a number of EU Member States, in 1997 the drop in Dutch production will be so substantial that the net result for the entire European Union will be a reduction in the total EU production of pigmeat of an uncertain magnitude.

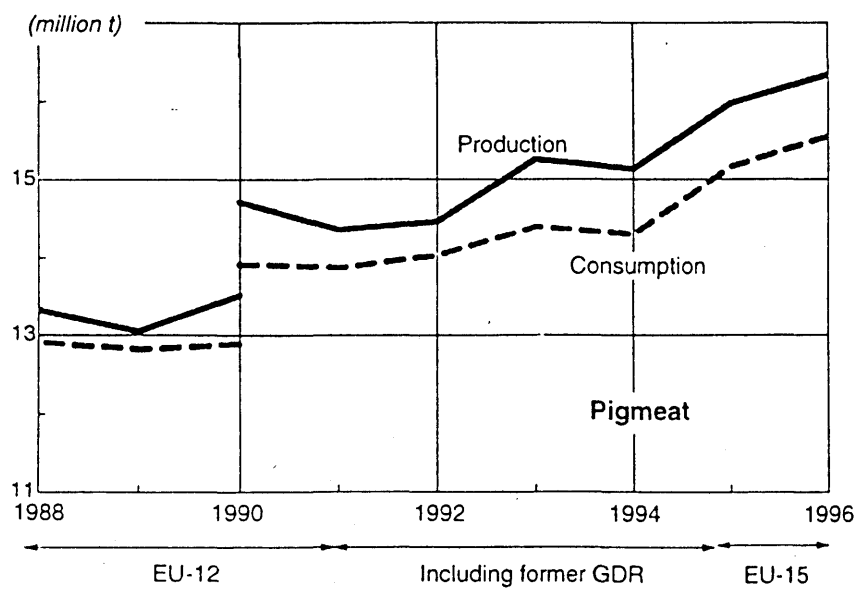
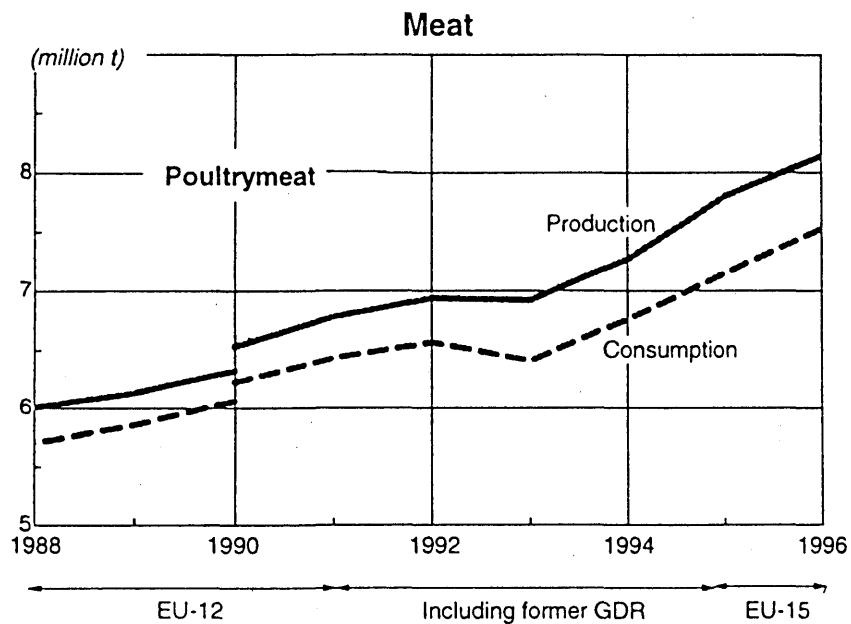
Poultrymeat

448. Since 1991 world production of poultrymeat has increased steadily, by over 6 % a year. Among the main producer regions, the rate of increase was even higher in China (24 % a year from 1991 to 1995), but production fell in Russia and Japan. In eastern Europe production started to increase again from 1994/95 onwards.

449. The world market continued to expand slightly in 1996, thanks in particular to growing demand in Russia, China and Japan. Saudi Arabia's imports were expected to decrease in 1996 and 1997 as a result of the development of domestic production. The United States retained first place in the league of exporting countries in 1996 (increase of 18 %) and was expected to do so again in 1997 thanks in particular to exports of cheap cuts and various promotional programmes. Community exports increased by less than 1 % in 1996. The stronger dollar boosted EU exports in the early months of 1997.

450. Total poultrymeat production on the EU market (EU-15) looked set to rise by a further 3.1 % in 1997. Economic conditions remained very healthy for the first eight months of 1997.

451. Poultrymeat qualifies for no support on the internal market. The measures governing trade with third countries have been adapted to comply with WTO rules: exports with refunds are being cut by some 30 000 tonnes a year (375 000 t for 1997/98). This restriction has led to a targeting of refunds as regards both countries of destination and products.



Source: European Commission, DG for Agriculture.

Figure 14

Poultrymeat production

(1 000 tonnes)

	Brazil	China	Hungary	Japan	USA	USSR/ Russia	EU-12	Others	World production
1986	1 680	1 879	445	1 421	8 262	2 998	5 443	7 165	29 283
Market share (%)	5.7	6.4	1.5	4.9	28.2	10.2	18.6	24.5	100.0
1987	1 865	2 040	470	1 465	9 105	3 126	5 784	7 416	31 271
1988	1 997	2 744	465	1 471	9 272	3 107	5 997	7 640	32 693
1989	2 139	2 820	420	1 423	9 931	3 233	6 108	6 279	32 353
1990	2 416	3 229	426	1 391	10 645	3 169	6 336	6 182	33 794
1991	2 691	3 950	320	1 357	11 204	1 751	6 766	7 661	35 700
1992	2 932	4 540	320	1 367	11 885	1 428	6 933	8 168	37 573
1993	3 211	5 736	307	1 368	12 396	1 277	6 915	8 413	39 623
1994	3 491	7 550	320	1 258	13 206	1 142	7 259	8 803	43 029
1995	4 140	9 347	368	1 282	13 786	893	7 555	9 471	46 532
% annual change ARC 95/91	11.4	24.0	3.6	- 1.4	5.3	- 15.5	2.8	5.4	6.8
							EU-15		
1995	4 140	9 347	368	1 282	13 786	859	7 781	9 471	47 034
1996	4 160	11 000	365	1 241	14 516	765	8 128	9 730	49 905
Market share (%)	8.3	22.0	0.7	2.5	29.1	1.5	16.3	19.5	100.0
1997	4 330	12 500	370	1 240	15 285	719	8 354	10 088	52 886
% change 1997/95	2.3	15.6	0.3	- 1.7	5.3	- 8.5	3.6	3.2	6.0

1996: estimates; 1997: forecasts. The Community figures include the new German *Länder* from 1991 onwards. Until 1990, USSR; after 1991, Russia
Sources: Community August 1997 and USDA March 1998

452. Import quotas at reduced customs duties continue to apply under the association agreements (with Poland, Hungary, Czech Republic, Slovakia, Romania, Bulgaria and the Baltic States). In addition, 15 500 tonnes of boned chicken and 2 500 tonnes of turkey meat can be imported each year free of customs duty, to which has been added 4 800 tonnes at reduced duty for 1997/98 (July/June) under the minimum access arrangements.

Eggs

453. World production increased by 4.4 % a year on average from 1991 to 1995, and this rate of increase is expected to continue from 1995 to 1997. The increase was moderate in the United States and in the European Union but in China there was a rapid rate of expansion: 12 % from 1991 to 1995 and 7 % from then on, with production equivalent to four times that of the EU.

Egg production

(billion)

	China	USA	Eastern Europe	Japan	Mexico	USSR/Russia	EU-12	Others	World production
1987	118	70	34	37		82	81	90	512
Market share (%)	23.0	13.7	6.6	7.2		16.0	15.9	17.5	100.0
1988	139	69	34	40		85	82	89	538
1989	141	67	20	40	18	85	79	47	496
1990	159	68	15	40	18	82	79	38	500
1991	184	70	13	42	20	47	83	69	528
1992	204	71	12	43	20	43	82	67	541
1993	236	72	11	43	20	40	80	65	568
1994	260	74	11	43	22	39	82	64	595
1995	290	75	11	42	22	38	83	66	628
% change 1995/91	12.0	2.0	-3.9	0.5	2.3	-5.2	0.0	-1.1	4.4
							EU-15		
1995	335	75	10	42	26	34	88	65	674
1996	360	76	11	43	26	32	87	66	702
Market share 1996	51.3	10.9	1.6	6.1	3.7	4.6	12.4	9.5	100.0
1997	385	79	12	43	27	32	88	69	734
% change 1997/95	7.1	3.0	8.3	1.2	1.4	-3.3	0.3	2.9	4.3

1996: estimates; 1997: forecasts. The Community figures include the new German *Länder* from 1991 onwards. Until 1990, USSR; after 1991, Russia. Sources: EU August 1997; USDA March 1998.

454. World trade has been fairly stable since 1992. The main importer countries are still Japan (egg products) and Hong Kong (eggs in shell). The volume of Community exports fell by 17% in 1996 and the preliminary estimates for 1997 indicate little change.

455. The number of laying hens in the EU increased by an estimated 3.6% in 1997. The economic conditions for producers were very good during the first six months of 1997 compared with the corresponding period of the previous year.

456. The common organisation of the market is similar to that for poultrymeat.

457. As far as trade is concerned, refunds are subject to a ceiling of 115 200 tonnes (eggs in shell equivalent in 1997/98). Since summer 1996, the quantities exported have remained below that ceiling.

458. The association agreements with Poland, Hungary, the Czech Republic, Slovakia and Bulgaria involve an 80% reduction in customs duties for certain egg products. Import quotas at a reduced duty under minimum access arrangements were opened for an annual volume of 113 479 tonnes in 1997/98, shared between three groups of products, of which only that for egg products is used 100%.

Potatoes

459. The increase in areas planted seen in 1995 continued in 1996. This was accompanied by an increase in yields and in production.

460. Potatoes are one of the products for which no market organisation has been established. With a view to the completion of the single market, the Commission presented a proposal four years ago for a common organisation of the market in potatoes. The Council has still not taken a final decision on the matter.

461. The total area under cultivation is nearly 1 500 000 hectares, making potatoes a major crop in the EU. They are grown in all the Member States, although, because of climatic and soil conditions, they are more widely grown in northern regions.

462. The Union is self-sufficient in potatoes with the exception of early varieties. These are imported in winter and early spring from Mediterranean countries when no, or only limited, Community production is available. The main suppliers are Cyprus, Egypt and Morocco. During the past few years an annual average of some 400 000 tonnes of early potatoes have been imported from non-member countries.

Honey

463. World production of honey amounted to about 1.1 million tonnes in 1996, which represents a decrease of 8 % on the previous year. This fall marks a break with the stability of world production seen over the previous five years around a level of 1.2 million tonnes.

464. Self-sufficiency within the European Union was at 50.4 % in 1995/96, reflecting a return to the level for 1993/94 after the fall during the previous marketing year. A larger increase in production as compared with imports was the reason for this.

465. Human consumption also increased to 0.8 kg per person per year, 200 grams more than in the previous year.

466. The Council adopted Regulation (EC) No 1221/97 laying down general rules for the application of measures to improve the production and marketing of honey.¹ The Commission planned to adopt the detailed rules for the application of the Regulation for the fourth quarter.

¹ OJ L 173, 1.7.1997, p. 1.

The Member States were required to forward the national programmes provided for in the Council Regulation by 15 December 1997.

Non-food set-aside

467. The Commission Regulation which sets out the detailed implementing rules for 'non-food' set-aside was amended and consolidated by Commission Regulation (EC) No 1586/97. Commission Regulation (EEC) No 334/93 is therefore repealed but will continue to apply in respect of non-food contracts concluded before the entry into force of Regulation 1586/97. The amendments which have been introduced envisage a simplification of the scheme as well as a harmonisation and clarification of the rules with regard to the delivery of the raw material and the application of the system of securities.

468. Provisional data suggest that total non-food set-aside in EU 15 in 1996/97 amounted to 725 000 hectares, as compared with 1 050 000 hectares in 1995/96. The total non-food area for 1997/98 is estimated at 440 000 hectares. The lower uptake of non-food set-aside as compared with 1995/96 is due to a lower obligatory set-aside rate.

469. The 725 000 hectares in 1996/97 included some 660 000 hectares of oilseeds, 60% of which was used for the production of biodiesel. The remaining 40% was used for technical oils and in the chemical industry. Other non-food crops grown on set-aside land were cereals, medicinal plants, fibre plants and raw materials for direct combustion.

470. Clause 7 of the Memorandum of Understanding on certain oilseeds between the EC and the USA within the GATT framework limits the quantity of by-products made available as a result of the cultivation of rape seed, sunflower seed and soya beans on set-aside land which may go to the food or feed market to 1 million tonnes a year in terms of soya bean meal equivalent. As regards the 1996/97 marketing year, the 660 000 hectares of oilseeds represented around 600 000 tonnes of by-products in terms of soya bean meal equivalent.

Starch production

471. Production of cereal and non-cereal starch in the European Union in 1996 amounted to some 7.1 million tonnes. Of this total, maize starch accounted for 49%, (3.5 million tonnes), wheat starch for 25% (1.77 million tonnes) and potato starch for 26% (1.9 million tonnes).

472. The quantity of raw materials used was about 18.6 million tonnes, 51% of this being farina potatoes, 30% maize and 19% wheat.

473. The year 1996, particularly the first half, was characterised by stable market prices for maize and wheat, following the world market trend. The potato industry, for its part, experienced a very good harvest in terms of both quantity (yield per hectare) and quality (starch content of the potatoes), thanks to good weather. Production just exceeded the quota overall (the quota was actually exceeded in Denmark, Germany, Finland and the Netherlands).

474. The greater availability of starch led to lower prices and an increase in the quantities exported.

475. Expenditure on starch products fell substantially as a result of the reduction in the unit amount of export refunds in connection with world market stability: the average export refund was ECU 40/t of maize as against the ECU 61/t seen in the previous marketing year.

476. The production refund arrangements, intended to supply cereal and potato starch at world market prices to producers of certain products not protected from imports, was applied for only part of 1996 on account of the alignment of world and EU prices. Expenditure on production refunds was down 50 % on that seen in the two previous years. The unit rate of refunds went down from ECU 22/t of starch at the start of the year for the general maize-based refund to zero between April and October 1996 as a result of steady world prices.

112 + 113

IV – Rural development

The challenges facing rural society

477. Rural areas account for over 80 % of the territory of the European Union and are home to more than one quarter of its population. Today, rural society is increasingly subject to pressures which threaten to undermine its already fragile equilibrium. That is why Article 130a of the Treaty establishing the European Community states that the Union is to aim to reduce disparities between the levels of development of the various regions and the backwardness of the least favoured regions, including rural areas.

478. The weakening of the economic fabric, mainly because of the decline in agricultural activity, demographic imbalance and the threat of depopulation because of the out-migration of young people and an increase in the average age of the population and a reduction in the services which are essential to quality of life, or, indeed, their complete abolition are just some of the main problems facing rural areas. Over the last decade agriculture has undergone huge changes as regards its role in the economy and the number of people employed in agriculture. These changes have not been without impact on the economy and social structures of the different Member States and regions.

479. In 1987 the percentage of the working population engaged in agriculture, forestry, hunting and fishing stood at around 8 % (EU-12). In 1995 this percentage had fallen to 5.3 % (EU-12 and 15). Similarly, during the same period the share of agriculture in the gross domestic product fell from 3.5 % (EU-12) to 1.8 % (EU-12) and 1.7 % (EU-15). These percentages, which represent averages, are made up of a wide range of figures for individual Member States: in 1995 the percentage of the working population engaged in agriculture ranged from 20.4 % in Greece and 11.5 % in Portugal at one end of the scale to 2.1 % in the United Kingdom and 2.7 % in Belgium at the other. As regards the share of agriculture in the GDP the figures range from 7.3 % in Greece and 4.8 % in Ireland on the one hand to 0.4 % in Sweden and 0.9 % in Luxembourg. The number of farms fell from 8 644 000 in 1987 (EU-12) to 7 264 000 (EU-12) in 1993. At the same time the average size of farms increased, the utilised agricultural area (UAA) per holding rising from 12.5 ha (EU-12) in 1985 to 16.4 ha (EU-12 and 15) in 1993, but there are large differences from one country to another. The average UAA per holding was 4.3 ha in Greece, 5.9 in Italy and 8.1

in Portugal, whereas in the United Kingdom it was 67.1, in Luxembourg 42.3 and in Denmark 37 ha.

480. The total number of people working on farms fell between 1987 and 1993 from 17.7 million to 15 million in EU-12, a decrease of around 17%.

481. While these trends may be observed in all Member States, they vary in intensity from one to another, reflecting the diversity of agriculture and rural society in Europe and the varying severity of the socioeconomic problems in the different countries.

- Agriculture is undergoing profound changes which are having a direct impact on economic and social cohesion in rural areas. These changes, which are the result of a process of modernising agriculture and making it more competitive, have not yet come to an end.
- Changes in the economy and agricultural policy combined with the current situation with regard to agricultural structures give clues to the short- and medium-term outlook for the developments already under way. Around 30% of the 7.3 million heads of holdings in the Union of 12 were aged over 55 in 1993. This figure rose to almost 42% in Greece and 50% in Portugal. The decline in agricultural activity suggests that economic adjustment will be required in those countries, and this will call for appropriate measures to foster economic and social cohesion.
- In addition to their task of producing a vast variety of raw materials, for both food and other purposes, farmers have an increasingly important role to play with regard to the structure and use of the land and the preservation and promotion of cultural and environmental assets against a background of growing integration between agricultural markets policy and rural development policy.
- In the current context of the second period of reform of the Structural Funds (1994 to 1999) the Community programmes under the various Objectives 1, 5(a), 5(b) and 6 are playing their part in developing viable rural communities. These programmes will remain in force until the end of 1999.

482. In July the Commission presented the broad guidelines for Community policies for the start of the new millennium, including rural development policy.

Agenda 2000

483. The Commission adopted its proposals for the period 2000 to 2006 on 15 July 1997, then on 18 March 1998 (see points 56 to 64) covering the financial outlook and the planned development of the main policies of the European Union in the context of future enlargement. The proposals call for continuation of the reform of the common agricultural policy to prepare European agriculture for the challenges of the coming years (enlargement of the EU, negotiations within the WTO framework) and for the maintenance of economic and social cohesion through the action

of the Structural Funds. Rural development policy, the Commission says, should in future be incorporated with these two policies, since the need for a fully-fledged rural development policy covering the entire area of the Community and forming a whole together with the markets policy has increasingly been making itself felt. The Commission stresses that it is important to reconcile the objective of competitiveness with keeping the fabric of rural society in good order in accordance with the European society model, while at the same time taking more account of environmental aspects.

484. The Commission states that, as is currently the case, the measures relating to agricultural structures and rural development will continue to be financed under Objective 1, the approach of integrated development programmes being maintained. The three Funds, including the EAGGF Guidance Section, will contribute to the financing of measures depending on their nature; two thirds of the appropriations will be allocated to Objective 1, the geographical coverage of which will be reduced by the strict application of the criterion of 75 % of the average GDP for the European Union. One significant change is proposed: the compensatory allowances in less-favoured areas will in future be financed by the EAGGF Guarantee Section as is already the case for the three accompanying measures approved in 1992.

485. A new Objective 2 is proposed for regions with restructuring requirements. It will apply to areas undergoing economic change: industrial areas, rural areas, areas dependent on fisheries and urban areas facing difficulties. The Commission stresses that all areas with high unemployment levels and depopulation face conversion problems. The appropriate adjustments need to be encouraged and economic diversification fostered. As far as rural areas are concerned, better links need to be established between town and country. In rural areas measures eligible under Objective 2 (formerly Objective 5(a) and 5(b) measures) will be financed by the EAGGF Guarantee Section together with the accompanying measures; the ERDF, the ESF and where appropriate the FIGF will also contribute.

486. In all rural areas outside Objectives 1 and 2, rural development measures designed to accompany and complement market policies will be part-financed by the EAGGF Guarantee Section. Rural policy, in this context, will embrace all the measures at present part-financed by the EAGGF Guidance Section and will be implemented in a decentralised way, at the initiative of the Member States.

487. Given the greater emphasis on environmental issues in agriculture, the accompanying measure on agri-environmental matters remain compulsory in line with the overriding concern of society to protect the environment and safeguard the countryside. Measures such as organic farming, the preservation of semi-natural habitats, the maintenance of traditional orchards and hedgerows, the keeping of Alpine cattle and the upkeep of wetlands need to be encouraged.

488. As far as Community initiatives are concerned, the Commission proposes that their number be reduced from 13 to three, including one on rural development.

European Leader symposium

489. From 9 to 11 November a symposium was held in Brussels, bringing together nearly 1000 participants representing Leader II beneficiary groups, the managers of the 102 programmes, representatives of the national administrations, the Community institutions, international organisations, east European countries and Cyprus. The purpose of the conference was to hold talks with those involved on the ground with a view to envisaging the future Community initiative on rural development on the basis of experience gained in the context of Leader II.

Horizontal measures

Improvement and modernisation

490. Every year, some 41 000 holdings receive investment aid which requires the preparation of individual investment plans for improving competitiveness, modernising the conditions of production and diversifying activities, preserving the environment, improving health conditions for stock and animal welfare. Over time, these aids have had restrictions imposed on them to bring structural measures into line with market situations and to ensure the sustainable development of the different sectors of production over the longer term.

Young farmers

491. Aid to young farmers, comprising an installation premium and extra investment aid under Articles 10 and 11 of Regulation (EEC) No 950/97, is intended to encourage young people able to adjust to the new realities of agriculture to become heads of holdings by providing them with the resources from which to meet the initial expenditure involved.

492. On 4 September 1996, the Commission adopted a report on young farmers and the problem of taking over holdings in European agriculture, for presentation to the Council, Parliament, the Economic and Social Committee and the Committee of the Regions.

493. This report, which is the Commission's contribution to the debate on the installation of young people in agriculture, looks at the economic and social problems experienced by new farmers and at problems relating to legal and tax matters. It then considers the existing Community instruments to encourage and help young people to establish themselves in the countryside, describes how they are applied and assesses the results in the various Member States. The report also sets out a number of guidelines and recommendations on measures which could be taken at Community and national level to encourage greater consistency and more effective action to help young farmers throughout the Union.

Less-favoured agricultural areas

494. Specific aid to farmers in the less-favoured agricultural areas accounts for the majority of commitments under the EAGGF Guidance Section for Objective 5(a) measures for farmers.

495. Mountain and other less-favoured agricultural areas have continued to receive compensatory allowances to assist the maintenance of agricultural activity and the retention of population. This aid, which is intended to offset the usually higher production costs, is applied over a wide area. Over 1.2 million holdings receive allowances to assist farming in mountain and less-favoured areas. Overall, less-favoured agricultural areas account for 56 % of the agricultural area of the 15 Member States.

496. A number of Member States have sent the Commission their ideas on improving Community policy on mountain areas. The Commission is continuing discussion with the Member States on adapting the measures in question to meet the specific needs of the various mountain areas.

Measures concerning the processing and marketing of agricultural and forestry products

497. Implementation of measures to improve conditions for the processing and marketing of agricultural and forestry products as provided for by Regulations (EC) No 951/97¹ and (EEC) No 867/90² continued as part of the programming of the Structural Funds for the period 1994 to 1999. In the regions eligible under Objectives 1 and 6, that programming, like the measures under Objective 5(a), was included in the relevant programming documents.

498. By the end of 1996, the Commission had approved 47 programming documents under Regulations (EC) No 951/97 and (EEC) No 867/90:

- nine national single programming documents, for France, Spain, the United Kingdom, the Netherlands, Denmark, Luxembourg, Austria, Finland and Sweden (excluding regions eligible under Objectives 1 and 6);
- thirteen regional single programming documents, for Germany (at the level of the *Länder*) and Belgium (at regional level);
- one Community support framework for Italy, comprising 13 regional operational programmes for improving the conditions under which agricultural products are processed and marketed and a multi-regional operational programme and 12 operational programmes for improving

¹ OJ L 142, 2.6.1997, p. 22.

² OJ L 91, 6.4.1990, p. 7.

the conditions under which forestry products are processed and marketed, for the regions of Italy not covered by Objective 1.

499. In 1997, amendments were made to some programming documents, particularly those relating to Spain, the Netherlands, some German regions and also to the Community support framework for Italy. The changes relate to the inclusion of new sectors, adjustments to financing plans and transfers of funds within Objective 5(a). The improvement of monitoring and evaluation procedures continued within the partnership framework. All the programming documents will be in force until the end of 1999.

500. A report on the implementation of Regulation (EC) No 952/97 on producer groups and associations thereof geared to concentrating supply and adjusting production to market requirements is being prepared for presentation to the Council by the Commission.

Regional measures

Objective 1

501. The bulk of the Objective 1 regions of the Community is situated in essentially rural areas where agriculture and forestry constitute the main land use and play a major part in income generation and employment. In most of the Objective 1 areas, other sectors of the economy are underdeveloped and agriculture constitutes an important source of private sector employment in rural areas (about 15 % of employment in agriculture).

502. Measures for the development of these regions are deployed through Community support frameworks or single programming documents with funding being provided for a range of instruments by the three Structural Funds and the FIG through integrated development programmes. Amongst other development measures, the instruments for rural development and agriculture mainly take the form of multi-fund integrated packages. They aim to diversify agriculture and extend the range of economic activities, which at present is over-dependent on agriculture.

503. Since 1994 Objective 5(a) measures have been integrated into these programmes, providing close coordination and synergy with other measures. In some Member States compensatory allowances paid in less-favoured areas play a major role in the Community support framework or single programming document, limiting the possibilities for funding other measures of a more developmental type.

.....

Objectives 1 and 6 – 1994 to 1999
Single programming document (SDP) or operation programme (OP)
 (as at 1 September 1997)

Member State	Number of SPDs or OPs	Structural Funds ECU m	ERDF		ESF		EAGGF		FIFG		Total cost ECU m
			ECU m	%	ECU m	%	ECU m	%	ECU m	%	
Belgique/België	1	730.0	515.9	70.7	166.7	22.8	47.0	6.4	0.4	0.1	2 411.7
Deutschland	6	13 640.0	6 820.0	50.0	4 092.0	30.0	2 644.5	19.4	83.5	0.6	58 466.8
Ελλάδα (Elláda)	14	13 980.0	9 489.5	67.9	2 560.5	18.3	1 800.0	12.9	130.0	0.9	25 954.6
España	14	26 300.0	15 944.2	60.6	6 047.0	23.0	3 313.8	12.6	995.0	3.8	47 702.8
France	6	2 190.0	1 194.9	54.6	525.5	24.0	431.4	19.7	38.2	1.7	5 005.4
Ireland	3	5 620.0	2 562.0	45.6	1 953.0	34.8	1 058.0	18.8	47.0	0.8	10 383.2
Italia	10	14 860.0	9 660.0	65.0	2 739.0	18.4	2 228.0	15.0	233.0	1.6	27 525.3
Nederland	1	150.0	80.0	53.3	40.0	26.7	21.5	14.3	8.5	5.7	958.7
Österreich ¹	1	165.6	107.7	65.0	33.1	20.0	24.8	15.0	0.0	0.0	831.4
Portugal	5	13 980.0	8 723.9	62.4	3 148.7	22.5	1 894.2	13.5	213.2	1.5	26 713.4
Suomi/Finland ^{1 2}	1	459.9	172.5	37.5	105.8	23.0	177.6	38.6	4.0	0.9	1 326.1
Sverige ^{1 2}	1	252.0	122.6	48.7	63.9	25.4	61.4	24.4	4.1	1.6	635.0
United Kingdom	3	2 359.8	1 331.8	56.4	747.2	31.7	245.9	10.4	34.9	1.5	5 670.7
Total EU	66	94 687.6	56 725.1	59.9	22 222.4	23.5	13 948.1	14.7	1 791.8	1.9	213 585.1

¹ Since 1 January 1995.

² Objective 6.

504. Appropriations for Objective 1 account for almost 70 % of all appropriations under the Structural Funds. Measures to improve rural areas are financed in full by the EAGGF Guidance Section and partially and to a limited extent by the other two Funds.

505. The rural development policy makes a remarkable contribution to improving economic and social cohesion in non-urbanised areas which are of particular importance in the regions qualifying under this Objective.

506. The good results achieved from the implementation of operational programmes in rural areas and in particular from the inclusion of Objective 5(a) in a single programming and management procedure illustrate the need for a stronger rural development policy in Objective 1 areas.

507. Following the natural disasters in the Azores, more specific problems were identified. A shortfall of appropriations became apparent in countries like Greece where the implementation effort was particularly rapid.

508. The conversion of agriculture in the new German *Länder* has already shown good results. These areas are now among those with the most productive levels of agriculture in the Union while at the same time protecting the environment and conserving the countryside. Considering the historical context and the need for social revitalisation, village development policy has proved the central instrument.

509. The table on page 119 gives the breakdown of the Union's contribution, by Member State and by Fund, and the total costs.

Belgium

510. The EAGGF contribution, which accounts for only a small part of the total amount allocated under Objective 1 to Hainaut, continued without major difficulties. Most of the expenditure was under the two horizontal Regulations (Regulations (EC) Nos 950/97 and 951/97) on socio-structural measures and aid for the agri-foodstuffs sector. The more specific rural development measures are more complicated to implement and are designed to support farmers in their activities or help them diversify. The prudent management of this programme is designed to avoid disturbances which could arise from the Objective 1 rate of aid in this region as compared with neighbouring areas.

Germany

511. The main objective of the policy to promote agriculture and the countryside in the Objective 1 regions of Germany is to create sustainable employment; it is also designed to stabilise the rural economy and improve the environment. The programmes have seen a very satisfactory rate of utilisation of appropriations and the interim regional evaluation reports confirmed that the integrated approach formulated in the operational programmes was appropriate.

Greece

512. The national programme for agriculture, which qualified for the CSF deflator in 1995 and 1996, continued to make rapid progress, enabling the 1998 tranche to be committed before the end of 1997. A new amendment, with an increase in the EAGGF amounts, came into effect on 30 December 1997.

513. The rural development aspect of the regional MOPs saw very variable rates of progress, but overall a slight improvement was noted in the rate of implementation of measures.

514. The measures financed under Regulation (EEC) No 2019/93 (specific measures for the smaller Aegean islands) have been fully operational since 1995. In 1996 the Commission prepared its first progress report, in accordance with the Regulation, on the first two years of implementation, giving details on the implementation of the various measures and some requests by Greece for the adaptation of certain schemes to make them more relevant. The report was considered by the Council and transmitted to Parliament. The progress report on the third year of implementation

is being prepared. An evaluation report will also be produced in 1998; in the light of the conclusions reached, changes may be proposed if appropriate.

Spain

515. The assistance financed by the EAGGF Guidance Section in the Spanish Objective 1 regions is intended to promote rural development and the modernisation of agriculture.

516. The Commission adopted the following in the course of 1996: 'Development and economic diversification of rural areas', in June, for which the EAGGF contribution amounts to ECU 170 million, and the MOP for technical assistance for the updating of statistics, allocated ECU 15 million from the EAGGF, in October.

517. Progress on the various operational programmes can be described as satisfactory overall, although the general delay in national part-financing could make it difficult to finalise them in 1999.

France

518. Implementation of the various SPDs seems to be catching up after the delays. In 1996 amending decisions were adopted to take account of the delays and relaunch the utilisation of appropriations. Implementation of the programmes should be swifter in 1997 as changes are made in the light of the mid-term reviews.

519. The part of the Nord department eligible under Objective 1 (Hainaut) is experiencing difficulties as regards the utilisation of appropriations, to the point where a transfer of unusable appropriations to measures financed by other Funds is under consideration.

Ireland

520. The operational programme has been in operation since 1994, and the mid-term review was completed in 1997.

521. Additional funding of ECU 18 million was provided for the control of farmyard pollution and dairy hygiene measures.

522. The food sub-programme, which is part of the industry operational programme, was also examined as part of the mid-term review of that OP, and funding for the programme was reduced by ECU 28 million as a result of the review.

523. The operational programme for local urban and rural development, which contains a measure for village renewal, was also the subject of a mid-term review, but there were no major changes recommended for this measure.

Italy

524. Programmes for eight regions of the Mezzogiorno were adopted in 1994 and 1995. For these first two years expenditure went mainly on transitional measures put in place to facilitate the switch from the old to the new system integrating Objective 5(a) into Objective 1 programming. These measures enabled the delay which had built up in, for instance, payments of the subsidies under Regulations (EEC) Nos 2328/91 (first and foremost the compensatory allowance for farmers in less-favoured areas) and 1204/82 (citrus fruit plan) to be caught up. The other support measures provided for in the programmes actually started up in 1996 and 1997 after a widespread information campaign which was followed by the submission of a large number of projects.

525. As far as the multiregional programme on support activities for services involved in agricultural development is concerned, the Ministry responsible continued the regular financing of the activities of extension officers and in June 1997 initiated the procedures for implementation of the research measure.

526. The second multiregional programme for the development of southern lines of production was adopted by the Commission at the end of 1996. The bodies which are to implement the programme were selected in July 1997.

Netherlands

527. A serious delay was noted in the implementation of some measures relating to the promotion of new agricultural activities, village renewal, farm tourism and ecological structures.

528. The amendments proposed in connection with the mid-term review should help to speed up the implementation of the agricultural and rural development aspects of the programmes.

Austria

529. EAGGF assistance under the structural policy for Burgenland has had very positive effects on the rural economy. According to the mid-term review, the operational programme is well adapted to the region's needs. The integrated approach for improving the economic and environmental situation has highlighted not only an increase in productivity but also better market orientation of production.

530. Utilisation of appropriations is satisfactory.

Portugal

531. The implementation of the four multi-fund programmes adopted in 1994 involving the EAGGF Guidance Section has on the whole gone according to plan.

532. More particularly the development programme for the autonomous region of the Azores (Pedraa) is ahead of schedule: the 1998 annual instalment was committed in 1997. According to the mid-term review, the role of the EAGGF Guidance Section needs to be reinforced.

533. The agricultural sub-programme of the MOP for the modernisation of the economic fabric has been implemented satisfactorily. Some development priorities may be redefined in the mid-term review.

534. A fifth multi-fund programme was adopted on 28 July 1997 concerning the integrated development of the area of Alqueva (Pediza) with Community assistance of ECU 203.133 million allocated to it, of which ECU 70 million is to come from the EAGGF Guidance Section.

United Kingdom

NORTHERN IRELAND

535. All measures are in full application, with the exception of aid for the food processing industry, for which the UK Government has reduced its national co-funding. The sub-programme was subject to a mid-term review, and several recommendations were made to change aspects of the programme. Particular attention was paid to the problem of funding of aid to the food industry.

HIGHLANDS AND ISLANDS

536. In 1997, a mid-term review was undertaken of the agriculture and rural development measures, but no major changes were recommended.

MERSEYSIDE

537. During the year it was decided to reduce EAGGF funding to ECU 1.1 million following the decision of the United Kingdom Government not to provide further funding for the application of Regulation (EC) No 951/97 (formerly 866/90).

Most remote regions

538. These regions suffer from economic and social backwardness compounded by permanent structural factors (remoteness, island status, limited local markets). In 1991 and 1992, in accordance with the declaration on the outermost regions of the Community annexed to the Treaty on European Union, the Community set up three programmes: **Poseidom** (for the French overseas departments: Martinique, Guadeloupe, French Guiana and Réunion), **Poseima** (for the Portuguese archipelagos of Madeira and the Azores) and **Poseican** (for the Canary Islands). These programmes are tailored to the specific characteristics of each region and cover a variety of sectors. They include a substantial agricultural section comprising aids to supplement the CAP and specific aid for a wide range of products. These measures are financed by the EAGGF Guarantee Section and fall into two categories (paragraphs 539 and 540).

539. *Special supply arrangements*: each year or marketing year, under the management committee procedure, the Commission adopts a forecast supply balance for the main agricultural products for human consumption and local processing. Within the quantities laid down in the supply balance, products can be imported duty-free from non-member countries. An aid equivalent to the advantage of exemption from import duties is granted for imports from the European Union. An interdepartmental working party on the remote regions is exploring ways of improving the effectiveness of these arrangements, adjusting, where necessary, the technical details of how the aid is calculated.

540. *Supplementary production, marketing and processing aid* is granted for agricultural products from these regions.

541. The basic Regulation governing the agricultural section of the Poseidom programme (Regulation (EEC) No 3763/91) was amended in November 1995 (by Regulation (EC) No 2598/95) following the Commission's report on the implementation of the measures and at the request of the French authorities. In 1997 the Commission adopted further implementing regulations.

542. Preparatory work is under way on the revision of the basic Regulations governing Poseican and Poseima (Regulations (EEC) Nos 1601/92 and 1600/92).

Objective 6

543. The new structural policy objective was created in connection with the latest enlargement of the Union at the beginning of 1995. As regards the system of granting assistance from the Structural Funds, Objective 6 corresponds to the existing Objective 1 approach, though with slightly lower aid intensity per capita. Some 50 % of the total surface area of Sweden and 60 % of that of Finland are designated as Objective 6 areas.

544. Despite substantial efforts being made to develop private and tertiary sector activity, these regions are dependent in the long term on public support on account of the very harsh climate and the extremely low population density. The principal objective of Community structural policy in these areas is to prevent depopulation and improve rural living standards. In addition, emphasis is put on increasing the value added to raw materials obtained from the region by processing them within the region and on measures to make better use of local potential.

545. In Objective 6 areas, with their harsh climatic conditions, payments for less-favoured areas form a key element. This is understandable as agriculture and forestry are core activities. The goals to increase on-the-spot processing and make better use of indigenous potential are advancing, even though the pace could be faster.

Finland

546. The bulk of EAGGF funding is devoted to compensatory allowances, although the part-financing rate for this scheme is relatively low. In addition there are measures for improving the efficiency of agriculture and the food processing industry. Despite the delayed start of the specific rural package, more than 300 development plans funded by the EAGGF and creating some 350 new jobs have already been accepted under this scheme. This is crucial for the area, since the overall programme has neither succeeded in preventing the rapid fall in the number of farms nor has it managed to create enough jobs outside agriculture. Limited funding allocations for rural development have been partially offset by a nationally funded compensation package.

Sweden

547. With the help of EAGGF-funded development projects launched during 1996, some 300 jobs will be either created or safeguarded.

National aid

548. Under Article 142 of the Act of Accession, Finland and Sweden may, with authorisation from the Commission, continue to grant the long-term national aids for agriculture in their northernmost areas which applied before accession to the European Union. However, this authorisation is subject to the condition that the volume of production and the intensity of the aid do not increase. By its decisions of 4 May 1995 in the case of Finland and 28 February 1996 in the case of Sweden, the Commission approved these aid schemes, which apply from 1 January 1995 in the areas concerned (normally north of the 62nd parallel). These areas cover 55.5 % of the utilised agricultural area of Finland and 14 % of that of Sweden. In response to duly justified requests from the two Member States, the Commission amended the relevant decisions on 4 April and 17 July 1997 for Finland and Sweden respectively.

549. The Commission has produced the 1995 report on the implementation of this aid in Finland and presented it to the Council for consideration. The report on the situation in Sweden is being prepared.

Objective 5(b)

550. The activity of the monitoring committees, which were already in operation in 1995 and 1996, intensified in 1997.

551. The monitoring committees are responsible for overseeing measures part-financed under Community programmes. Each committee is chaired by a representative of the Member State concerned and made up of representatives of the authorities involved in part-financing and sometimes representatives of economic and social circles. Where appropriate, the monitoring committees propose major amendments to programmes.

552. In 1997, the main activity of the monitoring committees involved preparing and carrying out mid-term reviews. This provides the committees with a vital tool for assessing the possible effects of measures under way and as far as possible ensuring the maximum impact, particularly with regard to creating and safeguarding jobs. It is aimed above all, in accordance with Article 130a of the Treaty, to narrow the gaps between rural areas and the rest of the territory in terms of the level of development (income and employment) or at the very least not to widen them.

553. The various committees selected assessors and approved the specifications for the reports to be drawn up. In all cases the committees selected external assessors via a tendering procedure designed to enhance the credibility of the reports to be discussed and approved by the committees. Contracts have been concluded for 83 evaluation reports, often accompanied by additional specific and sectoral studies. On the basis of these reports, a large number of committees have already

proposed amendments to programmes. A total of 61 amendment decisions were discussed and approved in 1997.

554. The mid-term review exercise proved not only important but also difficult. Some Member States which had previously not introduced this practice had to overcome additional problems, leading to delays. The results nonetheless confirmed how useful the method was in enabling the monitoring committees to consider the best way of improving the results achieved by the end of programmes.

Summary table showing the funding of Community Objective 5(b) SPDs for 1994-99

(ECU million)¹

Member State	SPD	Total Structural Funds	EAGGF	ERDF	ESF	Total public expenditure ²	Total cost ³
België/Belgique	3	78.1	23.8	41.1	13.2	183.1	266.2
Danmark	1	54.0	21.6	21.6	10.8	112.2	202.3
Deutschland	8	1 240.8	527.8	479.5	233.5	5 072.1	7 588.4
España	7	676.2	423.4	163.1	89.7	1 336.0	1 838.5
France	21	2 250.9	1 010.9	945.9	294.1	4 952.0	7 948.7
Italia	13	904.3	411.1	370.6	122.6	2 247.5	4 700.6
Luxembourg	1	6.0	2.2	3.1	0.8	20.5	25.5
Nederland	5	150.0	50.6	81.8	17.6	510.6	595.4
Österreich	7	411.0	164.2	175.0	71.8	1 089.5	2 679.9
Suomi/Finland	2	194.0	66.7	94.5	32.8	457.1	624.0
Sverige	5	141.0	40.2	70.6	30.3	447.7	727.1
United Kingdom	11	820.5	151.2	535.0	134.3	1 763.4	1 972.1
Total EU	84	6 926.7	2 893.6	2 981.6	1 051.5	18 191.6	29 168.7

¹ Current prices.

² Including Member States' financial contributions.

³ Including funds from private sources.

555. As far as the purely financial execution is concerned, all the competent authorities for each Structural Fund had already undertaken payment substantiation procedures in the first year of application of each programme (as a reminder, a large number of the programmes (30) had been approved during the second half of 1995 (1996 in the case of Sweden)).

556. Whereas 1996 was the first year of full implementation for all the programmes, 1997 was the year of checks on execution for many of the regions covered by Objective 5(b). The economic and financial situation sometimes led to tighter budget discipline and made difficulties for the authorities responsible for the national or regional part-financing accompanying the Community contributions. This situation was one of the factors causing additional delays (in the case of the United Kingdom) or creating delays where none had existed before (some regions of Spain). The Community method of payment requires that for each annual instalment the Member State provide the Commission with evidence of payments made to the final beneficiaries of the programmes

in order to obtain advances for each following annual instalment. It goes without saying that in the case of the programmes started late the commitments for 1997 were delayed.

557. Overall, however, expenditure on the programmes got going, and the Community commitments actually increased more than proportionally compared with the early years of the programmes, which had been difficult on account of delays in the approval of the SPDs. Many regions proved that it was possible, even in programmes relating to economically vulnerable areas, to maintain a satisfactory rate of expenditure. Several regions managed to advance as regards commitment of the budget tranche for 1998. Some of the initial delays were made up in this way, for instance in some regions of Spain and in Germany; in other cases there were still delays but the rate appeared satisfactory (e.g. in France).

558. A continued effort needs to be made for the rest of the period. It is an important issue to be tackled with the Member States, particularly in view of the possible difficulties in some Member States of ensuring part-financing of the measures provided for in each SPD.

559. Finally, some Member States seem to have specific difficulties which the Commission is looking into within the partnership framework.

Belgium

FLANDERS

560. The two Flemish programmes for the period 1994 to 1999 (Meetjesland and Westhoek) have the general aim of increasing and maintaining agricultural employment, improving living conditions in villages and diversifying agriculture and horticulture.

561. These programmes lay particular emphasis on the integrated approach to rural development, based on the idea that land use must be seen from a global perspective highlighting the comparative advantages of individual areas. Tourism is regarded as a key to the development of these regions, while at the same time efforts are being made to attract businesses.

562. Some environmental measures are being undertaken under the two Flemish SPDs. These relate primarily to the establishment of an environmental coordination and support centre for businesses and an environmental evaluation of the businesses in the region.

563. The monitoring committees both met twice in 1997. They noted that progress was rather slow outside the strictly agricultural projects. The main reason for the delay was that there were problems with part-financing from the Flemish Government. Only the 1994 budget tranche had been committed for the three Funds. Payments of the Community contributions were limited to the first 1994 tranche (second 1994 tranche for the EAGGF).

564. A series of proposals for amendments to the programmes was put forward. The Commission is considering how the SPDs need to be amended on the basis of the mid-term reviews, so any changes to the Flemish SPDs should come about in the second half of 1998.

WALLONIA

565. Implementation of the Objective 5(b) SPD for Wallonia, which had been rather slow in 1996, made significant progress in 1997: nearly 47% of the Community appropriations have been committed since the beginning of the 1994-99 programming period. Programming can thus be said to be good on the whole, but efforts need to be made to speed up progress on the ground once the administrative side has been completed.

566. A priority target is the forestry industry – given the potential it represents for the region – for which Structural Fund assistance has been granted for projects ranging from increasing awareness among the public and owners to primary processing and including aid for good silvicultural management of large wooded areas. The main aim is to reconcile the main functions of the forest, i.e. wood production, tourism and its ecological and environmental role. More active support needs to be given to the sub-measure concerning the planting and upkeep of hedgerows, which has had some teething troubles.

567. As far as agriculture is concerned, the main thrust is diversification, together with encouragement of traditional lines of production, with the emphasis on improving quality.

568. The Objective 5(b) monitoring committee for the region of Wallonia met twice in 1997. It noted a favourable budget situation for the EAGGF and the ESF (commitment of the first three tranches for the EAGGF and the first four for the ESF) but some delay in the case of the ERDF (only the first tranche had been committed).

569. The monitoring committee, in the light of the outcome of the evaluation exercise, is making changes to the programme, mainly to enable the delays with regard to the ERDF to be dealt with.

Denmark

570. The Danish Objective 5(b) areas cover 19.6% of the total territory and 7% of the population. The programme has a total budget for the period 1994-99 of 202 ECU million (1994 prices). The main objectives are the creation and safeguarding of permanent employment opportunities and

the improvement of income levels in the areas concerned, while at the same time paying full attention to the protection and improvement of the environment. There are three major development priorities: diversification and protection of the environment in agriculture and forestry, development of small and medium-sized enterprises and development of tourism.

571. The programme monitoring committee met on 12 June 1997. The main point on the agenda was the mid-term review. According to the report, progress was satisfactory given the delayed start of implementation. However, in order to achieve the objectives, it would be necessary to promote some of the slower measures more actively. As an example of successful active promotion of measures, the evaluation report mentioned the results which had been obtained in the county of Sønderjylland in the field of conversion of traditional agricultural production to organic production. The efforts had resulted in a large number of projects which contributed to the main programme objectives of ensuring economic viability for the population in the area and protecting and improving the environment. The evaluator saw no need for modifications of the programme structure at the present stage, but recommended that the situation be reviewed in 1998. Despite a strong demand for extra resources for some of the measures, the Committee decided to follow the evaluator's recommendations. It was also decided to postpone a decision on the allocation of the indexation resources until 1998.

Germany

572. Under Objective 5(b) eight different regional programmes in Germany, with total investments of ECU 5 200 million, are being part-financed by the Commission, including ECU 523 million from the EAGGF, ECU 475 million from the ERDF and ECU 231 million in ESF funds. The programmes cover 17 % of the total area of Germany and 9.7 % of its population.

573. At various meetings of the monitoring committees, modification decisions were taken in the partnership framework in order to ensure smooth implementation of the programmes. They included reallocations of yearly tranches within sub-programmes and reinforcement of successful measures. The results of the mid-term evaluations underline the fact that rural development in Germany is playing a dominant role in German regional policies and that the 5(b) programmes contribute best to promoting these policies and the development of rural areas.

574. Overall, progress is very satisfactory, especially in those *Länder* where rural areas predominate. Schleswig-Holstein, Bavaria, Baden-Württemberg and Lower Saxony have readjusted their initial rhythm, and spending has accelerated. They have applied for the commitment of the 1998 tranche in order to keep up with implementation progress. Thanks to the experience gained during the period 1989 to 1993 the programmes also succeeded in better integrating human resources policies in rural development efforts.

Spain

575. The Spanish Objective 5(b) programmes continued to make satisfactory progress in 1997, both from the financial point of view and as regards actual execution; at the end of the year, the seven Objective 5(b) regions had committed the 1997 tranche for the three Funds and in some cases (Navarre, Aragon) brought forward the 1998 commitment; several regions are already starting to use up the appropriations allocated to certain measures; in the case of the Navarre European pilot programme, all the appropriations will have been spent by the beginning of 1999.

576. The monitoring committees for the seven regions reviewed progress made during the period 1994 to 1996 in the light of the results of the mid-term review. The reports studied paint a generally positive picture of the impact of these programmes, while at the same time suggesting possible improvements in coordination between the bodies managing the various measures and in the dissemination of information to those participating in rural measures. The evaluators called for a greater effort in the implementation of the ESF section, particularly with regard to the integration of measures to make better use of human resources with the other schemes under the programme.

577. In the light of progress between 1994 and 1996 and the mid-term reviews, several regions proposed a shift in the balance between the measures and development priorities initially approved in 1994 to improve the chances of achieving the objectives of the programmes. After study and approval by the monitoring committees, these changes, together with the use of the deflator, were endorsed by Commission decision.

France

578. In the course of 1997, the Objective 5(b) monitoring committees concentrated mainly on studying the interim assessment reports which reviewed the implementation and impact of the programmes. There were as yet no impact indicators available; several SPDs were adjusted, however, in the light of the assessment exercise.

579. Despite the delay in the approval and launch of the programmes, the rate of progress was satisfactory overall, generally in line with the annual schedule.

580. In some areas not previously classified (in particular Upper Normandy and four of the five departments of Pays de la Loire), the operational implementation of the programme and its administrative and financial management encountered difficulties because of the lack of previous experience on the part of managers, project leaders and awarding authorities, leading to inevitable delays. These problems affecting those responsible for the programmes inevitably delayed the implementation of the programme. The setting-up of the national technical assistance programme in 1997 should go some way towards rectifying the imbalance between regions, improving

harmonisation in the management of programmes and facilitating the task of those responsible, by means of training schemes, exchanges and transfers of information and experience, and by the selection of a high-performance computer system making for compatibility between regions.

581. Schemes relating to the quality of agricultural products feature in virtually all the programmes: for instance in the SPD for Provence-Alpes-Côte d'Azur, with collective measures upstream and downstream of all the agricultural industries with a view to quality certification of products, in Burgundy with the development in 1996 of a programme of contract production of quality beef to encourage breeders to become fatteners or in some cases to return to fattening or there again in Lower Normandy where efforts are being made to enhance the Norman credentials of herds.

582. There are often difficulties in setting up economic operations, particularly in the agri-foodstuffs industry, on account of the small number of project leaders in the countryside. Some regions, e.g. Burgundy, Franche-Comté and Limousin, on the other hand, have successfully set up projects for the use of wood as fuel or wood processing to enhance the value of local forest resources.

583. In the field of tourism, the majority of the numerous operations tend to be rather scattered and face coordination problems in bringing together the necessary equipment, village development and operational structures. The situation is similar with regard to the development and renewal of villages, repairs to individual public buildings often taking precedence over global development projects which for small communes are complex to design and implement. There are nonetheless some large-scale projects involving an overall theme such as the Celtic civilisation itinerary in Burgundy.

584. The protection and enhancement of the natural heritage constitute another fundamental objective for some programmes, including that in Midi-Pyrénées, with the financing of coordinated action on vulnerable ecosystems, e.g. in Lower Normandy, with strong emphasis on action for the protection of water resources and river development, and in Brittany, with the development of major natural heritage sites. The schemes planned are sometimes reinforced or adjusted in the light of local issues, e.g. action to tackle pollution from agriculture and restore water quality in Brittany, the inclusion of new types of scheme for the treatment of agricultural waste in Centre and the utilisation of the deflator appropriations to meet major waste management policy needs in Limousin.

585. Some programmes have successfully put into practice an approach based on involving and giving responsibility to local participants. This is the case in particular in Rhône-Alpes, Midi-Pyrénées and Burgundy, whose Objective 5(b) area is subdivided into seven mini-regions; its SPD thus has an unusual three-tier implementation structure (region – department – coordinated

regional development programme for each mini-region) depending on the field concerned. This method has encouraged integration and offers the prospect of development at local level while enabling a broadly-based project to emerge.

Italy

586. Generally speaking, the implementation of the programmes has confirmed the validity of the strategies decided on when the programme was adopted. The collective approach, whether with a territorial or sectoral slant, has been followed in farm investments, which has amplified the territorial impact of the schemes. In Veneto, for instance, coordinated investments have absorbed between 60 and 80 % of the resources allocated for improving and diversifying agricultural production.

587. Increasing attention has been paid to measures to support employment. The Tuscany regional programme incorporated new employment aid schemes (aid for taking on labour, setting up businesses, etc.). The protection and improvement of the environment have been given particular prominence in the province of Bolzano, where 37 Alpine refuges and several hundred livestock farms have received aid for various types of investment for environmental purposes.

588. The monitoring committees for the 13 regions involved met regularly during the year and the interim assessment is nearing completion. There is still a delay in the financing of the programmes, mainly as a result of the complexity of the implementing procedures, which affects payments above all. The acceleration expected in 1997 was seen principally in those regions which qualified under Objective 5(b) in the previous programming period (1989 to 1993), while the regions benefiting for the first time continue to show the greatest delays.

Luxembourg

589. The programme has three priorities: to stimulate agriculture and forestry paying due attention to the environment, creating and maintaining permanent jobs and investment in tourism and quality of life.

590. After a considerable delay in implementing the programme, there were indications at the second meeting of the monitoring committee in the middle of 1997, of a will to get the monitoring exercise properly under way.

591. The rate of utilisation per Fund, based on payments, improved 46.3 % for the EAGGF and 30.2 % for the ESF and a rather low 22.5 % for the ERDF. Some EAGGF measures relating to the development of the Our nature reserve, protection of the environment, maintenance of the

countryside and the creation of tourist accommodation on farms have yet to be taken up by project leaders.

592. The monitoring committee agreed that there would have to be a shift of emphasis for some measures in 1998, on the basis of the interim report, due to be approved early in 1998.

593. The monitoring committee decided to alter the financing plan, and the Commission approved the carry-over of unused appropriations to the 1997, 1998 and 1999 tranches.

Netherlands

594. The main priorities of the Objective 5(b) programmes in the Netherlands are to support economic activities and improve the environment, to ensure sustainable development of the region by means of improving the quality of the economic structure in order to maintain or if possible improve the level of employment and income and the quality of the natural environment.

595. The provinces of Friesland, Groningen/Drenthe, Overijssel and Limburg are concentrating in general on the creation of new businesses, tourism and the development of the landscape, while Zeeland places particular emphasis on the diversification of agriculture.

596. The meetings of the five monitoring committees, which are held twice a year, were satisfactory.

597. The interim assessment of each programme was presented and approved during the first half of 1997. The vast majority of project leaders said that their projects could not have gone ahead without the Community contribution and that the aid had speeded up implementation and enabled a wider-scale approach to be taken. The results of the evaluation reports made it possible to pinpoint what adjustments needed to be made.

598. The implementation of these programmes is progressing satisfactorily. Some 41.5 % of the appropriations allocated for the entire programming period, 1994 to 1999, for all the Objective 5(b) regions in the Netherlands have been committed and 28.9 % of the payments made. The breakdown of commitments by Fund is roughly 52.2 % for the EAGGF, 40.3 % for the ERDF and 16.5 % for the ESF, and payments represent 40.7 % for the EAGGF, 26.7 % for the ERDF and 10.1 % for the ESF.

599. Monitoring of the physical and financial execution of projects can be said to be good on the whole for all the 5(b) regions in the Netherlands.

600. The environment component is quite strongly represented in the Dutch programmes. The largest share of appropriations for environmental schemes is accounted for by the province of Friesland, for nature protection schemes and measures to encourage farmers to use environment-friendly farming methods. The province of Groningen/Drenthe is devoting 12 % of funds to the protection of the environment, forests and the countryside under projects for improving water quality, the development of a nature reserve and the relocation of certain farms.

601. As regards information and publicity, Objective 5(b) programmes in the Netherlands need to be more transparent. An information and publicity campaign is to be implemented, targeted at private beneficiaries, and there are also plans to extend membership of the management committee to representatives of organisations other than public bodies.

Austria

602. The seven Austrian 5(b) regions cover about 60 % of the total area of the country and 29 % of its total population. Total investment amounts to ECU 2 700 million, of which ECU 411 million are contributed by the Commission. During the early years programmes mainly concentrated on the creation of implementation structures. The authorities had to make considerable efforts to adapt to Community structural funding. Consequently, the financial progress of the programmes has still not made up the delay of the first programming year (Commission decision: December 1995), although ESF appropriations have already been allocated for 1997 to Upper Austria, Salzburg and Styria.

603. In order to speed up implementation, the monitoring committees decided that some amendments needed to be made to programmes, including reallocation of ESF funds and adjustment of State aid schemes which form an integral part of the programmes. Considerable effort was concentrated on the mid-term evaluations, preliminary results of which will be available in March 1998.

Finland

604. Finland's Objective 5(b) area covers a population of 1.1 million, a fifth of the country's total, and one quarter of the total surface area. The Objective 5(b) area comprises 14 regions situated in Central and Southern Finland and the Åland Islands. The area is very sparsely populated, having a population density of 11.5 persons per square kilometre. The primary sector still plays a major role, accounting for an average of over 20 %, the figure varying significantly between regions, up to as much as 30 % in some. Structural changes in the primary sector thus have a major impact in such regions. The total cost of the Objective 5(b) programmes for the period 1995 to 1999 is ECU 624 million, of which the EU contribution is ECU 194 million.

605. The programme is managed at regional level. In 1995 a regional management committee was established in each region, consisting of representatives of different administrative sectors, local authorities and rural development experts. The Regional Councils are coordinating the programming work and looking after coordination with regional strategies. In order to simplify regional administration, the district offices of the Ministry of Agriculture, the Ministry of Trade and Industry and the Ministry of Labour were brought together within a single regional body. This new administrative structure was launched in September 1997. This simplification is expected to improve the implementation of the Structural Fund policies and the regional partnership in future.

606. The aims of the Finnish programmes are to diversify and strengthen small and medium-sized enterprises, to develop services in the countryside and to make rural areas more attractive. An important objective is also to help the adaptation of rural areas to the common agricultural policy and to diversify on-farm and off-farm activities. The structure of the primary sector is to be improved by developing new quality products and strengthening the cooperation between farmers and other rural entrepreneurs.

607. In 1997 the work of the monitoring committee was focused on finding means of speeding up the implementation of the programme and improving the monitoring system. To improve implementation, the Finnish authorities employed additional project leaders, improved information and publicity campaigns and established nationally funded local initiative groups to activate projects.

608. The evaluation report was submitted in the autumn, indicating improvement in partnership and in project activities. The report also indicates the need to improve the administrative structures of the programme as well as clarifying the role of the regions.

609. One finding of the study is that the regional disparities seem to be increasing in Finland, i.e. the rural regions are losing their status in terms of population compared with the other Finnish regions.

610. The Commission has made it clear to the Finnish authorities that it is concerned about insufficient monitoring and spending capacity. Despite this, there have been positive experiences in Finland. Several local development projects aiming at diversifying the economic structure, creating new jobs, developing local services and remedying environmental defects have been launched (Southern Ostrobothnia). In other cases efforts have been made to promote the processing of primary products (wild berries, mechanical wood processing) and to develop cultural events based on Karelian and Orthodox culture (Savo region). Many Finnish regions are implementing projects targeted at networking rural enterprises and thus increasing their competitiveness and reducing the negative effects of remoteness.

Sweden

611. The implementation of the SPDs in the five Swedish 5(b) regions (approved by the Commission on 8 May 1996) started in reality in autumn 1996. For this new Member State the introduction of the Structural Fund system meant the creation of new administrative structures which took some time to handle. This explains the slow start in the implementation of the programmes. However, a remarkable speed-up in implementation developed during the first half of 1997 in most regions, and the forecasts indicate continued progress. Initial problems of an administrative nature also characterised the payment situation, but delays are expected to be caught up as commitments have been speeded up and procedures improved.

612. The mid-term review exercise for the five programmes was completed in autumn 1997. As a whole, the programmes remain valid, and no major amendments are expected. However, it was noted that the cuts in public budgets may make the national part-financing of projects more difficult in the future. The general development of the employment situation may make it difficult in some regions to reach the employment targets of the programmes. The initial administrative problems were also noted, and the need to take action to speed up the implementation of measures on which progress has been slow.

United Kingdom

613. The 11 programmes have taken an integrated approach to the development of their rural areas. Agriculture and environmental development actions are linked wherever possible to the development of other sectors in the local economy.

614. The interim evaluation exercise for all 11 programmes is almost complete. The results suggest that the initial strategies and financial allocations between the different priorities in each of the programmes remain valid and in only a few cases are amendments proposed to the financial plans. The studies have pointed out that a greater degree of rigour is required in the monitoring and assessment of results, and the recommendations have been incorporated in the programme management systems.

615. The apparent lack of national part-financing for agricultural diversification and farm tourism is a particular problem for the EAGGF in rural Wales, where it is possible that around one third of the allocation could remain unused.

616. Despite certain reservations in the evaluations over the reporting of some of the forecast results, it is likely that the job creation targets in the programmes will be exceeded.

617. Financial progress continues to be slow under all of the Funds. This masks a much greater degree of progress in terms of allocations to projects which for the EAGGF is up to 70 % of programme resources in some regions; these projects have to be completed and final payments made. Good progress is being made in Scotland and Wales, where great emphasis has been placed on promoting EAGGF-assisted environmental investments.

Community Initiatives (CI) and Innovative Measures

Leader II

618. The Leader Community Initiative supports rural development projects – designed and managed by local partners in a rural environment – that put the emphasis on innovation, demonstration and transferability.

619. Leader II, which, as its name implies, follows on from Leader I, is based on three priorities:

- support for transferable innovative projects that demonstrate new approaches to rural development;
- support for exchanges of experiences and the transfer of know-how;
- support for cross-border cooperation projects.

620. By the end of 1995 the Commission had approved 67 Leader II programmes, a further 31 programmes being approved by 31 December 1996. The final four programmes were approved in 1997. The appropriations available total about ECU 1.7 billion.

621. The situation in each Member State is as follows:

Belgium

622. The Leader II programmes introduced on 24 October 1994 for Meetjesland and Westhoek were discussed and revised at length. The Commission's concern was to ensure that the programmes featured the essential components of the CI, in particular a definition of the recipients of the Community aid (local action and collective groups) and complied with the principle of concentration, the aim being to guarantee the impact of the programmes. The latter were approved on 12 December 1997.

623. The Leader II programme for Hainaut province was adopted on 8 July 1997. The contribution from the Community is ECU 4.1 million (ECU 1.9 million from the EAGGF and ECU 2.2 million from the ERDF) out of a total, both public and private, of ECU 9.3 million.

624. On 19 June 1997 the Commission adopted a Leader II 5(b) programme for Wallonia featuring a Community allocation of close to ECU 3.3 million. The emphasis of the programme is on support for the creation of local action groups that can put forward and implement innovative local development programmes. The time taken by the Commission to adopt a decision is attributable to the novel nature of the measure and the fact that the latter covers all sectors of the economy and puts official development support structures at the service of local groups.

Denmark

625. The Danish Leader II programme has a total budget for the period 1994-99 of ECU 26 million (at 1994 prices). The long-term objective is to maintain and redevelop the areas concerned as active and viable local communities. To date, 11 local action groups have been selected, development officers have been appointed, a number of projects under Priority A ('Acquiring Skills') have been launched and promotion activities have been carried out. Progress is expected to speed up as the results of the measures filter through.

Germany

626. The 50 Leader II local action or collective groups for Objective 1 of are using every possible means to improve the economic situation of villages, in particular as regards mobile services and activities.

627. The upkeep and conservation of the cultural landscape feature prominently in rural development.

628. The take-up of appropriations is proceeding as planned. Mid-term evaluators have been chosen and will present their findings in April 1998.

629. Altogether, EAGGF Guidance appropriations for 1994-99 total ECU 50 million.

630. Thus far, in the context of Objective 5(b), 119 Leader groups have begun developing projects in the various fields of activity. For three of the seven programmes, this has already brought about the allocation of additional reserve and indexation funds, while for the others progress in terms of payments is still unsatisfactory. The Monitoring Committee has designated mid-term evaluators with a view to analysing implementation-related problems and assessing the socioeconomic effects.

631. A national Leader network has been set up, with co-financing from the Commission, in order to promote network efforts.

Greece

632. The field launch of Leader II took place in 1997 with the signing of the agreements between the local action groups and the intermediary bodies and the action undertaken jointly by the local action groups and the project leaders.

Spain

633. In the case of Leader II regional programmes for Objective 1, which began with the acquisition of skills, most of the local action groups have presented innovative projects, and these are now in their launch phase.

634. With regard to Objective 5(b), 1997 saw the completion of the process of selecting the local action groups, as a result of which implementation in the field reached what could be described as its cruising speed. Financial implementation is still at a fairly low level but is expected to rise sharply. The limited public funding originally earmarked for Leader II programmes was difficult to reconcile with the high standards assisted projects were expected to meet in terms of innovation and quality. With a view to underpinning the qualitative impact of the programmes and in accordance with the proposals put forward by the monitoring committees, the Commission amended the Leader II decisions, allocating the appropriations arising from the strengthening of the Community Initiatives and the deflator for 1994-97 to bolstering the Community rate of co-financing.

France

635. After allocation of the reserve and the deflator, the total appropriation for the 18 Leader II Objective 5(b) programmes was ECU 223.090 million. The process of selecting the local action groups was concluded by the regions, some of which reserved the possibility of issuing a second call for projects. The pace at which plans are being drawn up is still fairly slow, however, this being attributed by a number of local players to an insufficiently flexible approach to the management of the Community Initiative on the part of the authorities.

636. Delays in implementing Leader II are, it seems, shortening in the case of Objective 1.

Ireland

637. The progress achieved to date was reviewed by the Monitoring Committee on the basis of a mid-term evaluation carried out by an independent assessor. A number of amendments to

the programme have been agreed and the additional funding from the Community Initiatives reserve has been allocated to the groups.

Italy

638. In 1995-96 approval was given to the Leader II programmes for Italy's eight Objective 1 regions. By the beginning of 1997 the decision-making bodies in Abruzzi, Campania, Calabria and Sardinia had selected 41 local action plans presented by local action or collective groups. In the other regions this work was completed in the second half of 1997. The programmes tend to be located in areas that are less favoured in terms of economic activity and employment. The measures occasionally supplement those introduced under operational programmes, but are more often than not intended to preserve or give fresh impetus to traditional local farming and craft trade activities.

639. The second phase of the Leader II initiative in Italy's 13 Objective 5(b) regions has elicited a great deal of interest among potential recipients, thus encouraging local players to become involved in the creation of numerous local partnerships.

640. A total of 52 local action groups have so far been selected; the selection process is still under way in Lazio and Piedmont. Selecting local action groups at regional level proved particularly complex: conducted as it is on the basis of quantified qualitative criteria, it is aimed in particular at guaranteeing satisfactory territorial concentration.

Luxembourg

641. Approved in 1995, the Leader II programme has opted for a strategy based entirely on innovation and transferability. It concerns concrete local development projects covering all economic and cultural sectors.

642. The initiative has succeeded in bringing together local players within a regional partnership that covers nearly every socioeconomic sector.

643. A few institutional and administrative problems notwithstanding, the Leader II programme is proceeding satisfactorily.

644. The local players have formed two local action groups: Clervaux-Vianden and Redange-Wiltz.

645. The single-tranche operational programme provides for a total cost of ECU 4 883 300. The Community contribution is ECU 1 million (i.e. about 20 % of the total cost), 40 % of which has already been paid.

646. The programme's mid-term evaluation is scheduled for the first half of 1998. The Monitoring Committee, which met in 1997, confirmed the need to restructure two measures (innovative investment (SMEs) and incentives to distance working in a rural environment) in order to encourage greater awareness of their status as pilot measures within the region and its businesses.

Netherlands

647. The Commission officially endorsed the Netherlands national Leader II network on 2 April 1997. The network, which operates under the aegis of the province of Friesland, has as its objective the exchange of experiences, mutual cooperation and the organisation of theme-based visits and studies.

648. The three Leader II programmes (North-west Friesland, North-west Groningen and North-east Drenthe) are monitored by the Objective 5(b) monitoring committees, whereas the three local action groups concerned see to the smooth implementation of the projects. The programmes, which are aimed mainly at encouraging sustainable economic and farming activities and tourism, are proceeding satisfactorily. The Community contribution for the three Leader II Objective 5(b) programmes is ECU 6.34 million, nearly 30 % of which has already been paid.

649. The execution of the Flevoland Leader II programme is proceeding as planned.

Austria

650. Thanks to the Leader II programme in Burgenland, amenities and services have been augmented and interconnected with a view to increasing their effectiveness and more closely matching them to requirements. There has been an increase in the population's motivation and skills.

651. EAGGF Guidance appropriations for 1995-99 total ECU 1.1 million.

652. In the case of Objective 5(b) the main focus of activities during the first full year of Leader was on the creation of Leader action groups, 40 of which have begun to implement measures. Progress on the financial front is still moderate, however. Programme implementation is expected to rise sharply next year, given the large number of projects that are now ready to be executed.

653. In order to improve communication between the different groups, a national Leader network was set up in 1997, with the Commission co-financing 50 % of the total cost (ECU 250 000).

Portugal

654. In 1997 the implementation of Leader II was back on schedule, no longer experiencing the delays that had been a feature of the preceding year. A decision on reprogramming which took into account the actual implementation of the programme, the deflators and the CI reserve was adopted in May 1997. The total Community contribution is ECU 130.9 million, including ECU 71.7 million chargeable to EAGGF Guidance.

Finland

655. The strategy of the Leader II programme consists of encouraging the rural population and local communities to establish new local action groups (LAGs) in order to implement an innovative development process and, thereby, adapt to the fresh challenges brought about by accession, the decline of farming and the weakness of employment generally. The two programmes, for Objective 5(b) and Objective 6 areas respectively, were adopted in 1996. Altogether, 22 LAGs have been identified: 10 in Objective 6 areas and 12 in Objective 5(b) areas. After initiating phase A with some fact-finding and the finalisation of their business plans, the LAGs went on to implement phase B late in the spring of 1997. The objective of the rural areas is to enhance and diversify business activities and utilise local and regional resources.

656. In July the Commission adopted the national Leader II network, co-financing 50 % of the total cost. The purpose of the national network is to provide an information link both between local action groups at national level and between national groups at European level and to make technical assistance available to all Leader groups within the EU.

Sweden

657. The aims of the Leader II programme are to promote rural areas as a future resource and to increase their attractiveness, thus encouraging not only the existing population but also an influx of people from the outside. The three LAGs identified in Objective 6 areas in 1996 immediately went over to phase B, the implementation of their business plans.

658. The work of the nine local action groups in the Objective 5(b) areas began at the end of 1996. The administrative and information problems which had led to a slow start were also noted

in the interim evaluation report presented in the autumn of 1997. The evaluators later concluded, however, that the administrative problems had largely been resolved and that implementation appeared to be proceeding satisfactorily. The evaluators underlined the importance of increasing the representation of local businesses within the partnership.

659. An EU co-financed national network has been established which will help LAGs implement their plans and encourage them to take part in international contacts, this being an area in which activity has thus far been limited.

United Kingdom

NORTHERN IRELAND

660. Implementation of the Leader II programme is proceeding satisfactorily in Northern Ireland and additional money has been allocated from the Leader II reserve. A mid-term evaluation and review was conducted but did not recommend any major changes to the programme.

HIGHLANDS AND ISLANDS

661. The programme underwent a mid-term evaluation and review. The addition of Leader II reserve funding and deflator money led to a modification of the original Commission Decision.

Objective 5(b)

662. Progress will clearly accelerate as the 31 local action groups formed under Leader II mature. There is concern, however, that the acceleration will not be sufficient to ensure that all the resources are absorbed. A major difficulty for some of the groups has been to secure local public co-financing that matches Leader II resources from the Structural Funds, and this has undoubtedly resulted in slower progress.

663. A number of groups have started to develop transnational contacts with a view to developing joint projects. This is encouraging, as such operations have in the past proved to be the most difficult to implement.

664. In the United Kingdom the lack of a national network co-financed by the EU is giving rise to some problems. The fact that there is no unanimous agreement on the source of national co-financing is jeopardising an initiative regarded by local action groups as necessary.

Other initiatives

665. The other Community Initiatives to which the EAGGF contributes are principally Regis II and Interreg II.

Belgium

666. The Interreg II programme was adopted on 15 July 1996. The EAGGF's share is small: ECU 0.7 million out of a total Community contribution of ECU 27.9 million.

Greece

667. The part corresponding to the EAGGF was incorporated in the 'External Borders' chapter of the Interreg II Community Initiative on 30 July 1996. The EAGGF's share for 1996-99 is ECU 33.5 million, compared with a total Community contribution of ECU 314 million.

France

668. The Regis II programmes for Réunion, Martinique, Guadeloupe and French Guiana have all been adopted. The EAGGF contribution for the four French Overseas Departments is ECU 68 million. The programmes contain measures corresponding to the various Community Initiatives, in particular Leader II.

669. The Interreg II programme for Hainaut was adopted on 15 July 1996. The EAGGF contribution is small: ECU 1.47 million out of a total of ECU 29.4 million.

670. The Corsica-Tuscany and Corsica-Sardinia Interreg II programmes were adopted on 26 and 27 September 1996 respectively and attract only a very small EAGGF contribution: ECU 0.27 million and ECU 0.5 million.

Ireland and the United Kingdom

671. Special support programme for peace and reconciliation: the EAGGF part of this programme increased its level of commitment and spending throughout the year. The Rural Community Network and the Rural Development Council allocated all their money and the Department of Agriculture established a farm and countryside enhancement scheme, which was well received

by farmers. A mid-term evaluation and review were completed, the main recommendation of which was that money for the remaining two years of the programme should be allocated on the basis of performance in the first three years of the programme. The EAGGF continued to support village renewal and water quality management projects in Ireland under this programme in 1997.

672. Interreg: a mid-term evaluation and review was completed which recommended closer cooperation and more efficient administration of the programme. A major animal husbandry project linking two remote rural areas was launched during the year.

Portugal

673. The Regis II programme for the Azores and Madeira was modified in June 1997 to adjust programming to financial execution in 1994 and 1995, take the deflator into account and launch a new EAGGF Guidance-funded measure on Madeira: biological control of the Mediterranean fruit fly. The total Community contribution is ECU 126.5 million, of which ECU 8.2 million is chargeable to EAGGF Guidance.

Finland

674. The North Calotte (Finland/Sweden/Norway) Interreg II programme includes measures to aid cooperation in small-scale rural business activities, improve environmental and living conditions in rural areas and underpin traditional forms of Sami livelihood.

675. EAGGF funding for the two Finnish/Russian Interreg II programmes (Karelia and South-east Finland) is targeted on supporting change and development in agriculture and rural life.

676. All three programmes, adopted on 30 July 1996, have together attracted only a very small EAGGF contribution: ECU 3.5 million.

Sweden

677. The EAGGF is funding local development, especially cooperation between different research and training units and village groups, under the Nordic Green Belt (Sweden/Norway) Interreg II programme. The programme was adopted on 23 July 1996 and receives a contribution of ECU 5.5 million, including ECU 1 million chargeable to the EAGGF.

678. The North Calotte (Finland/Sweden/Norway) Interreg II programme includes measures to aid cooperation in the context of small-scale rural activities, the improvement of environmental

and living conditions in rural areas and the strengthening of traditional forms of Sami livelihood. The programme was adopted on 30 July 1996 and receives a contribution of ECU 12.2 million, including ECU 1.6 million chargeable to the EAGGF.

Evaluation of rural development programmes

679. In accordance with the existing rules and looking forward to promoting sound and efficient management, as sought by the SEM 2000 exercise, the Commission has received nearly all the mid-term evaluations of the rural development programmes for Objective 1 and Objective 5(b) regions. In the case of Objective 5(b), summaries of the evaluations are produced which draw the main conclusions regarding what has been achieved at the financial level and in practice (on the basis of a list of quantified indicators), the socioeconomic impact of the measures, detailed arrangements for implementing the programmes, and management problems. Those conclusions were presented to the monitoring committees concerned and have been used by the latter to make mid-term corrections to their respective programmes. The reports also enable the Commission to make improvements to the rural development policy in preparation for the next stage.

680. The interim report on the *ex post* assessment of Leader I (1989/94) has been presented to the Commission. It covers the then 12 Member States, analyses the ascending approach to the initiative and its participative nature and includes a typology of the 217 local action groups on the basis of their territory, measures and degree of success. A more detailed survey covering some of the groups is being conducted in order to determine the actual impact of the measures.

681. In line with the Council Resolution of 2 December 1996 on the mainstreaming of equal opportunities for men and women into the European Structural Funds (OJ 20.12.96/C 386/1), the evaluations now take that aspect into consideration.

Supporting measures

The environment

682. Regulation (EEC) No 2078/92 marks the continuation and a considerable broadening of the measures set out in Article 19 of Regulation (EEC) No 2328/91 prior to the reform of the CAP. The programmes lay down that farmers are to adopt environmental methods of production or implement measures to safeguard the environment and preserve the countryside. The agreements concerned are to cover a minimum of five years (20 years in the case of the long-term set-aside of agricultural land for reasons connected with the environment). The aid is set in relation to the surface area and the type of production specified in the agreement.

683. In the first two years after the launch of the measure the implementation of some programmes was slow and the funds available were underutilised. This was due to a variety of reasons, in particular the fact that the measures called for a change of approach on the part of farmers and for adjustments at administrative level. In 1996, for the first time ever, nearly all the agri-environmental programmes of the Member States were operational. It was also the first full year of implementation of the programmes of the new Member States. In 1997 several programmes approved in 1993 completed their first five-year cycle.

684. The Commission has approved a total of 130 agri-environmental programmes or groups of agri-environmental programmes presented, pursuant to Regulation (EEC) No 2078/92, by Member States or regions, among them Finland, Sweden and Austria. Moreover the Commission has, for 50 of the programmes, approved amendments requested by Member States in the light of the experience gained in the early stages of their implementation.

685. In April 1996 the Commission adopted detailed rules for the application of Regulation (EEC) No 2078/92,¹ the purpose of which was to add detail to the framework provided by the Regulation, ensure consistency between agri-environmental measures and other measures under the various Community policies, define the conditions for the granting of aid, guarantee a measure of flexibility as regards the commitments needed to ensure the success of the Regulation, and introduce administrative and other provisions covering financial monitoring, administrative scrutiny, checks and sanctions. The introduction of a specific expenditure-monitoring system has, for most programmes, made it possible to monitor spending on agri-environmental measures and thereby optimise programme effectiveness.

686. The Commission attaches a great deal of importance to the monitoring and evaluation of agri-environmental measures. The detailed rules for the implementation of Regulation (EEC) No 746/96 specify how the monitoring and evaluation are to take place and the Commission has, together with the other Member States, begun to scrutinise the plans, methods and early findings of the monitoring and assessment work notified by the Member States in the context of the implementing Regulation. The Commission sees to it that the respective supporting measures are implemented evenly and effectively in the Member States. A report to Parliament and the Council on the implementation of the Regulation has been drawn up and will be supplemented by a series of working papers on support for organic farming, on genetic resources and on evaluation and monitoring in the Member States.

Community schemes to assist early retirement

687. The Community scheme to assist early retirement, which was introduced under Regulation (EEC) No 2079/92, is aimed at encouraging the replacement of older farmers by younger people and thereby improving the profitability of the remaining holdings.

¹ Regulation (EC) No 746/96, OJ L 102, 25.4.1996, p. 19.

688. The scheme is currently being operated, in the form of national or regional multiannual programmes, by a total of 10 Member States. It is not being operated in the United Kingdom, the Netherlands or Luxembourg, and Finland is the only new Member State implementing it.

689. Altogether, the programmes are aimed at encouraging about 205 000 farmers and 7 500 farm workers to abandon farming. This would free close to four million hectares, part of which would be put to uses other than farming, e.g. forestry and the creation of ecological reserves. The rest of the area would be made available to other farmers, above all to young people seeking to enlarge their holding or take up farming as their main occupation.

Forestry measures in agriculture

690. The Commission has adopted a number of technical and financial amendments to the programmes introduced under Regulation (EEC) No 2080/92 instituting a Community aid scheme for forestry measures in agriculture, the aim being to make the implementation of those programmes in the Member States more effective and adjust the financial resources available.

691. In accordance with the Regulation, a report was presented to Parliament and the Council at the end of 1997, describing how the measures were applied in 1993-96 and assessing their impact on Community policies (agricultural, environment and forestry).

692. Moreover the Council extended for a five-year period (1997-2001) a number of Community schemes relating to the protection of forests against atmospheric pollution (Regulation (EC) No 307/97 extending the period of validity of Regulation (EEC) No 3528/86) and against fire (Regulation (EC) No 308/97 extending the period of validity of Regulation (EEC) No 2158/92).

693. The Commission contributed a total of ECU 18.7 million to projects presented by Member States in connection with those two measures in 1997.

694. Under Council Regulation (EEC) No 1615/89 establishing a European Forestry Information and Communications System, as extended by Council Regulation (EC) No 400/94, work proceeded on the harmonisation and qualitative improvement of forestry statistics at European level. Consultation with international organisations such as UN/ECE and FAO has been strengthened.

Article 8

695. The measures referred to in Article 8 of Regulation (EEC) No 4256/88,¹ as amended by Regulation (EEC) No 2085/93,² provide for:

¹ OJ L 374, 31.12.1988, p. 24.

² OJ L 193, 31.7.1993, p. 44.

- pilot or demonstration projects;
- technical assistance;
- evaluation studies;
- the dissemination of the findings.

696. The purpose of the above-mentioned measures is to:

- explore innovative possibilities of development that will act as catalysts in the development of rural areas;
- evaluate and assess the effectiveness of other Community measures;
- disseminate on a Community scale the knowledge, experience and results of activities acquired as a result of activities in the field of rural development and the improvement of agricultural structures.

697. A call for proposals for pilot or demonstration projects for women in a rural context was published in the Official Journal of the European Communities in September 1996.¹ The proposals received – more than 400 by the end of February 1997 – were scrutinised in the course of the year. The Commission's decision on the projects selected will be made early in 1998.

Agricultural research

698. In 1997 agricultural research was funded from the Community research and technological development (RTD) budget under two specific programmes:

- (1) AIR: agriculture and agro-industry, including fisheries, 1990-94;²
- (2) FAIR: agriculture and fisheries, including agro-industry, food technologies, forestry, aquaculture and rural development, 1994-98.³

699. Also in 1997 final reports were received and final payments made in respect of nine projects under the now concluding AIR programme.

700. A significant part (ECU 260 million) of the ECU 650 million budget of the ongoing FAIR programme is for agriculture, forestry and rural development.

¹ OJ C 284, 27.9.1996, p. 21.

² OJ L 265, 21.9.1991.

³ OJ L 334, 22.12.1994.

701. The figures and publications available indicate that the 43 projects selected from the first wave¹ of 520 FAIR submissions in 1995, for which ECU 43 million was available, are on target towards finding solutions to some of the problems faced by the common agricultural policy and rural development policy.

702. The 77 projects resulting from the 518 submissions concerning agriculture, forestry and rural development that were received in 1996 as part of the second wave of FAIR² attracted funding totalling ECU 62 million and are now under way.

703. By the closing date of the third wave of FAIR in 1997³ a total of 338 submissions had arrived and were competing for funding totalling ECU 46 million. Altogether, 63 projects concerning scientific research in agriculture, forestry and rural development were selected. A further eight projects were placed in reserve and may be financed if savings are made in the funding of the main group of projects.

Research into transmissible spongiform encephalopathies (TSEs)

704. As a first major step in the 'research into transmissible spongiform encephalopathies action plan' adopted by the Commission on 13 November 1996 in the light of the conclusions of a group of scientists led by Professor Weissmann, a specific call for proposals was issued from 17 December 1996 to 14 February 1997,⁴ in the field of 'Agriculture, forestry and rural development'. This took place in the context of the FAIR programme, with a total appropriation of ECU 8.8 million. Altogether, 24 proposals were received, eight of which were selected for funding. Major efforts are being deployed, in particular as regards the development of diagnostic tests on live animals and carcasses, the analysis of genetic factors affecting differences in the sensitivity to BSE and scrapie, and studies aimed at evaluating the transmission of TSEs to various species.

705. The specific call for proposals in respect of FAIR was followed by a joint call for proposals involving the Biomed, Biotech and FAIR specific programmes. This was issued on 29 April 1997 and was closed on 15 July 1997.⁵ The Commission's proposal that a total financial appropriation of ECU 35 million be allocated to this chapter was endorsed by the Council and Parliament in connection with some supplementary funding for the current Community framework research programme. A total of 66 proposals was received, 23 of which were placed on priority lists as

¹ OJ C 357, 15.12.1994.

² OJ C 337, 15.12.1995.

³ OJ C 381, 17.12.1996.

⁴ OJ C 381, 17.12.1996.

⁵ OJ C 134, 29.4.1997.

proposals whose scientific worth made them suitable for consideration as possible recipients of Community funding.

Genetic resources in agriculture

706. Regulation (EC) No 1467/94 on the conservation, characterisation, collection and utilisation of genetic resources in agriculture concerns a five-year programme with a budget of ECU 20 million.¹ The objectives are to help ensure and improve the conservation, characterisation, documentation, evaluation and utilisation of plant and animal genetic resources useful to agriculture in the EU.

707. The number of proposals selected as part of the first and second calls for proposals for EC funding in 1995 and 1996 was ten and five respectively. In view of the reduced budget available in 1997 (ECU 0.2 million), action focused on accompanying measures, with the organisation of meetings and workshops on the conservation of genetic resources. A third call for proposals (attracting EC funding in 1997) took place in the second half of 1996.

¹ OJ L 159, 28.6.1994, p. 1.

153

V – Financing of the CAP in 1997

The EAGGF Guarantee Section

708. The 1997 financial year has to be seen against the general background of budget austerity in the Member States. The budgetary authority made an across-the-board cut in EAGGF Guarantee Section appropriations of the order of ECU 1 billion, while keeping the allocation for the beef sector unchanged, thus maintaining the total appropriations at ECU 40 805 million, i.e. in line with the initial 1996 budget of ECU 40 828 million. Expenditure nonetheless remained within the overall budget limit. This result was achieved thanks, among other things, to an under-utilisation of appropriations for the beef sector of the order of ECU 800 million (on account of less intervention buying-in and little 'early' slaughtering of calves) and for sheepmeat and goatmeat of nearly ECU 600 million (market prices remained high, so the level of premiums payable was lower). There was also underutilisation of appropriations for sugar (amounting to ECU 200 million, less sugar being exported under the quota system) and for cereals (here again totalling ECU 200 million, as a result of less intervention buying-in), and also the additional quota for exceeding the milk quota was charged, amounting to around ECU 460 million. A sufficient margin thus resulted to finance the 50 % advance on the aid for oilseed crops for 1997 (ECU 1 300 million), payment of which was not allowed for when the budget was drawn up, and to cover market expenditure of the order of ECU 470 million under the 1997 budget under the heading of special measures to eradicate classical swine fever, which broke out at the beginning of 1997 and spread widely, particularly in the Netherlands, as the year went on.

709. It should be emphasised that any estimate of future expenditure in agriculture is particularly difficult, since up to 20 months may elapse between the forecast and the execution of certain items, and many unforeseeable factors, both internal and external, such as the ecu/dollar exchange rate, may have a major influence on expenditure.

710. Furthermore, budget forecasts by the Commission depend heavily on forecasts of expenditure, as well as some production forecasts, to be drawn up and submitted to the Commission by the Member States in accordance with Community legislation. The Commission is looking at possible ways of improving the conditions of financial administration and is implementing a programme to this end; the Commission is asking Member States to play their part in this effort by complying

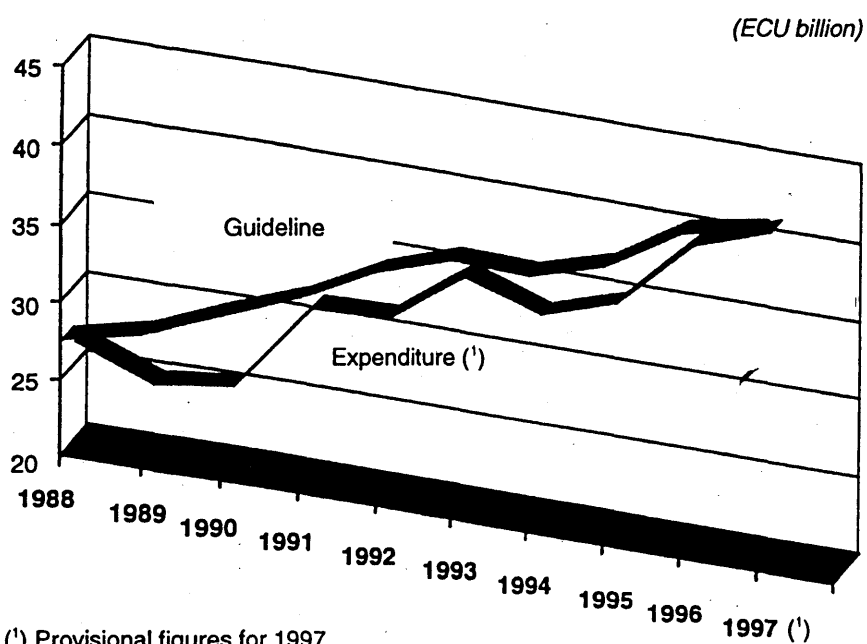
with the relevant rules, i.e. by improving the quality of information provided and supplying it more promptly.

Budgetary discipline

The guideline

711. Like previous years, 1997 is subject to the requirements of budgetary discipline, and in particular to compliance with the guideline resulting from the agreement reached at the Brussels European Council meeting in February 1988 and extended to 1999 on the same basis at the Edinburgh European Council in December 1992. In order to curb CAP expenditure, the guideline limits its annual rate of increase.

Trend of EAGGF Guarantee Section — Expenditure



(¹) Provisional figures for 1997.

Sources: DG VI, EAGGF.

Figure 15

712. The general trend in EAGGF Guarantee Section expenditure since 1991 can be summarised as follows:

EAGGF Guarantee Section

(ECU million)

	1991	1992	1993	1994	1995	1996	1997
Guideline	32 511	35 039	36 657	36 465	37 944	40 828	41 805
Expenditure financed within the guideline	30 961	31 119	34 590	32 970	34 503	39 108	40 805 ²
Margin	1 550	3 920	2 067	3 495	3 441	1 720	1 000 ²
Total expenditure ¹	31 784	31 950	34 590	32 970	34 503	39 108	40 805 ²

¹ All types of expenditure have been financed within the guideline as from 1993.

² Provisional.

713. The guideline for 1997 was set at ECU 41 805 million (not including the appropriations entered in the monetary reserve (ECU 500 million). The estimated requirement on which the preliminary draft budget was based was within the guideline. However, the budgetary authority applied a reduction across the board of ECU 1 billion and adopted a budget of ECU 40 805 million, roughly equal to the 1996 initial budget of ECU 40 828 million.

714. Figure 15 shows the trend of the guideline from 1988 to 1997 and of expenditure from 1988 to 1997, together with the appropriations entered in the 1997 budget.

The monetary reserve

715. The operating mechanisms for this reserve are set out on page 139 of the 1995 Report on the Agricultural Situation.

716. In accordance with the Council decision on budgetary discipline, the ecu/dollar parity used for the 1997 financial year is equal to the average dollar parity for January, February and March 1996, USD 1 = ECU 0.78. The average quotation for the dollar from 1 August 1996 to 31 July 1997 was ECU 0.84, giving rise to savings of ECU 244 million. The part of the savings in excess of the ECU 200 million threshold will be the subject of a proposal for a transfer to the monetary reserve.

The EAGGF in the general budget

717. In the general budget of the European Union for the 1997 financial year, totalling ECU 80 880 million (in payment appropriations entered in the 1997 budget), ECU 41 305 million in payment appropriations (including the monetary reserve and the appropriations entered in Chapter

B0-40 'provisions'), i.e. 51 %, was allocated to the EAGGF Guarantee Section. In 1996, EAGGF Guarantee Section expenditure accounted for 48 % of general budget expenditure.

718. The trend of the share of EAGGF Guarantee Section budget in the general budget since 1988 is shown in Figure 16, which shows an overall reduction of that share as a result of the development of other common policies and a determination to curb agricultural spending.

Expenditure

719. Essentially, the EAGGF Guarantee Section finances expenditure on the common organisation of the agricultural markets, comprising:

- market support (ECU 11 668.7 million in 1996);
- direct aids (ECU 27 807.4 million in 1996).

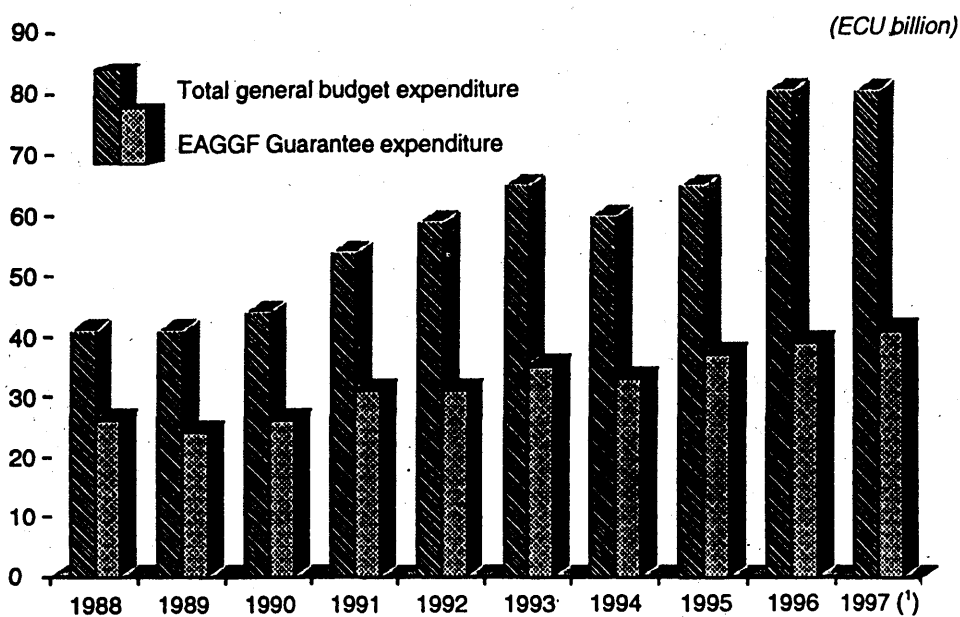
720. Market support covers export refunds (ECU 5 699.8 million in 1996), storage (ECU 1 391.6 million in 1996), guidance premiums (ECU 886.6 million in 1996), processing and marketing aids (ECU 1 433.5 million in 1996), consumption aids (ECU 1 636.6 million in 1996), withdrawals and similar operations (ECU 111.9 million in 1996) and other expenditure (ECU 508.7 million in 1996).

721. Direct aid – price compensation – is thus currently by far the largest item of expenditure; it consists of, in particular, direct aid for producers under the reform (arable crops: ECU 15 838.1 million in 1996, beef/veal: ECU 3 809.2 million in 1996)

722. Furthermore, as a result of the reorientation and then the reform of the CAP, the EAGGF Guarantee Section has been used to finance, in whole or in part, certain specific measures for the management of the agricultural markets, such as the distribution of agricultural products to the needy in the European Union, 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. In connection with the CAP reform, mention should also be made of the accompanying measures to assist producers in their efforts to protect the environment, maintain the countryside, develop the use of forest resources or transfer their holdings with a view to early retirement.

723. Figure 17 shows the major changes that have followed the reform, indicating the level of the main types of financing in 1996 as compared with the pre-reform situation; this demonstrates the fall in storage expenditure following the measures to improve the situation of the markets, the lower expenditure on refunds and the greater proportion devoted to new forms of aid introduced or developed by the reform.

Trend of EAGGF Guarantee Section expenditure against total expenditure under general budget



(¹) Budget appropriations.

Sources: DG VI, EAGGF.

Figure 16

Breakdown of appropriations by sector

724. Figure 18 shows the breakdown of appropriations entered in the 1997 budget.

725. It should be noted that Chapter 10 of the 1997 budget (arable crops) covers appropriations for cereals, oilseeds and protein plants; aid per hectare (including set-aside) makes up a very significant proportion of this expenditure (ECU 15 046 million).

726. The increase in appropriations allocated to Chapter B1-21 (beef and veal) to provide for the expenditure needed for the eradication of bovine spongiform encephalopathy (BSE) and income support for cattle farmers meant that the share of this sector in the total of EAGGF Guarantee Section expenditure rose sharply. Supplementary expenditure for 1997 is put at around ECU 1.2

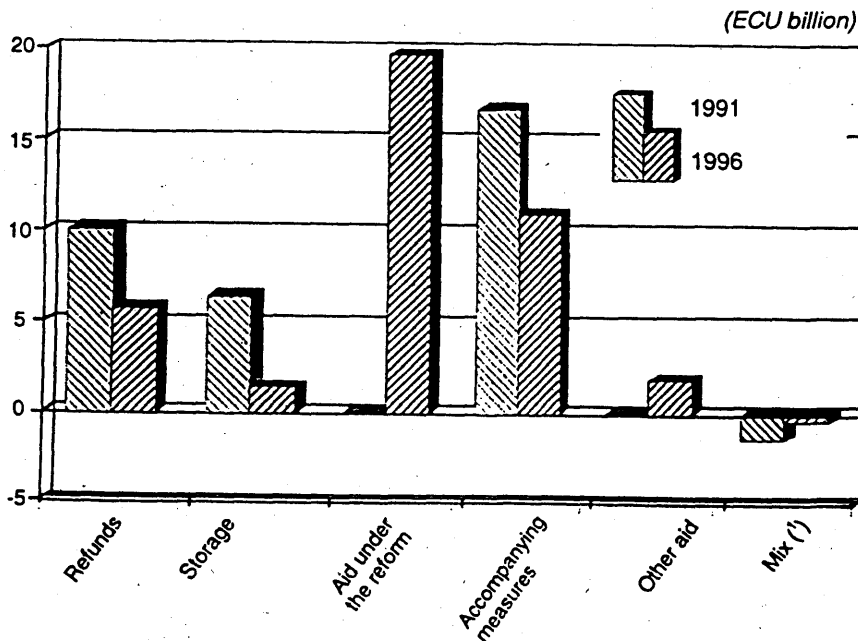
billion. This figure does not include expenditure on refunds and public storage since it is difficult to isolate the part accounted for by the BSE crisis in such expenditure.

727. Trends in EAGGF expenditure by sector and Member State, the detailed breakdown of EAGGF Guarantee Section expenditure and appropriations under the 1997 budget by product group and type are shown in Tables 3.4.1, 3.4.2, 3.4.3 and 3.4.4 (statistical annex to the Report).

Public storage

728. As indicated in Table 3.4.5 (statistical annex to the Report), between 31 December 1995 and 31 December 1996 the book value of products in storage showed a slight increase on 1995 after falling from ECU 1 133.4 million in 1994 to ECU 501.6 million in 1995, a decrease of 56%. At the end of 1996 the total stood at ECU 552.5 million, reflecting a slight increase of 10%.

EAGGF Guarantee Section Expenditure by type



(*) 'Negative' expenditure, comprising amounts recovered in accounts clearances, milk levy.

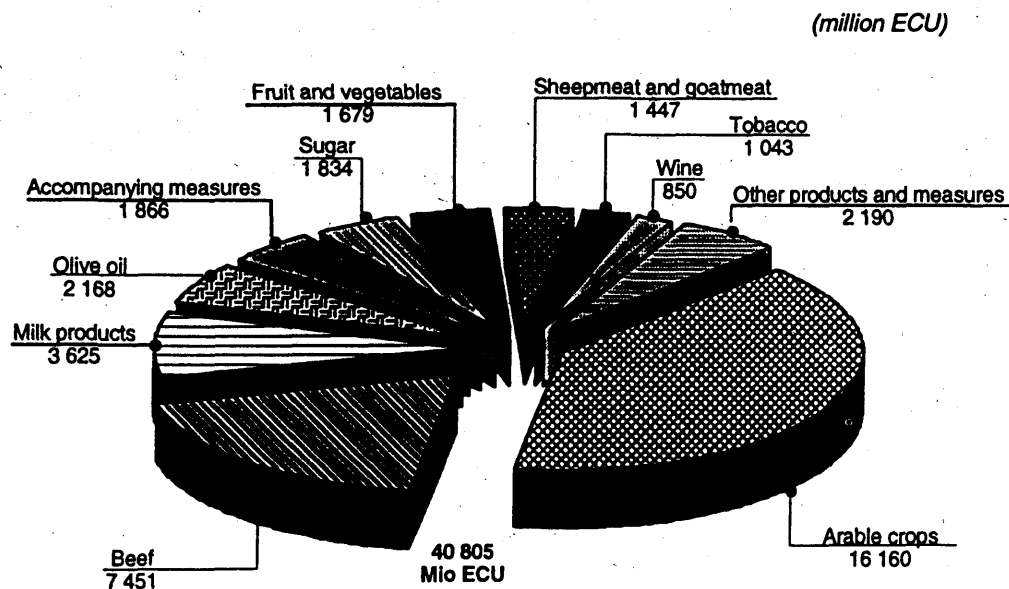
Sources: DG VI, EAGGF.

Figure 17

729. This development results from:

- a marked reduction (79 %) in all cereal stocks; stocks of sorghum and non-bread common wheat were entirely eliminated;
- a 62 % decrease in olive oil stocks and the abolition of intervention for tobacco;
- a major increase (80 %) in stocks of milk products;
- a very substantial increase (96 %) in beef stocks following buying-in to support the beef and veal market (see below).

Sectoral breakdown of EAGGF Guarantee Section appropriations 1997 expenditure



Sources: DG VI, EAGGF.

Figure 18

730. During the first half of 1997 the trend was as follows:

- the impact of intervention buying-in of beef continued to make itself felt; the value of stocks rose from ECU 294.7 million on 31 December 1996 to ECU 467.7 million on 30 June 1997;

– stocks of skimmed-milk powder and butter increased.

731. It should be noted that the possibility of buying in tobacco was terminated in 1995; the last stocks were eliminated in 1996.

732. These trends are shown in Figure 19.

Clearance of accounts

733. The clearance of the EAGGF Guarantee Section accounts represents the definitive recognition of expenditure incurred by Member States under the common agricultural policy following verification of the annual statements, on-the-spot checks on various files and a significant number of administrative and physical checks carried out by the competent authorities of the Member States.

734. The Commission adopted decisions on 23 April and 30 July 1997 on the clearance of Member States' accounts for expenditure financed by the EAGGF Guarantee Section for the 1993 financial year.

735. Under the new clearance procedure, the Commission adopted decisions on the clearance of Member States' accounts (actual accounting aspect) for expenditure financed by the EAGGF Guarantee Section for the 1996 financial year on 5 May and 30 July 1997.

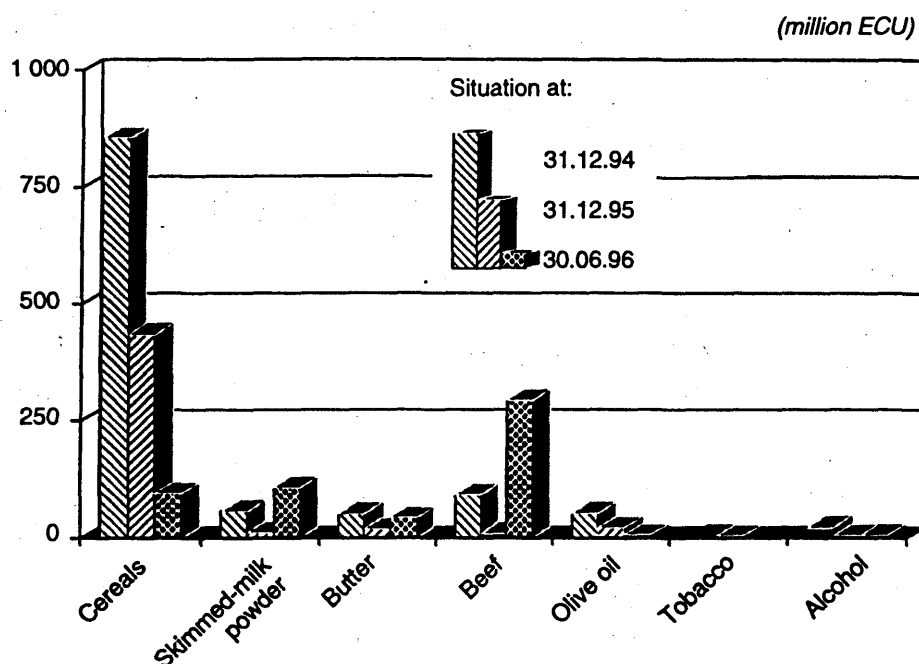
736. The finalisation of the clearance of accounts for 1994 is under way, and dialogues have taken place with the Member States concerning clearance of the 1995 accounts.

737. The Commission also carried out checks on expenditure of ECU 39 billion declared for the 1996 budget year at the paying agencies and at the bodies responsible for verifying the compliance of claims with Community rules.

738. During 1997, the Commission staff gave their views on the first year of application of Regulations (EC) Nos 1287/95 and 1663/95 on the new clearance of accounts procedure. Most of the Member States had complied by 15 October 1996 with all the criteria laid down in Community legislation concerning the approval of their paying agencies and, in particular, the establishment of a central coordination body, the certification of their accounts, the establishment of internal auditing bodies at paying agencies, and the systematisation of their administration, control and payment procedures. Some Member States still have work to do in connection with this.

739. Details of the clearance procedure are published by the Commission every year in the financial report on the EAGGF Guarantee Section. The 1996 report¹ describes the activities of the conciliation body set up by the reform of the accounts clearance procedure.

Book value of products held by intervention agencies



Sources: DG VI, EAGGF.

Figure 19

Expenditure on agricultural markets in 1997

740. The uptake of appropriations for the 1997 financial year² totalled ECU 40 423 million, i.e. 99.1% of the budget appropriations. At the end of the financial year, appropriations of ECU 310.0 million remained unused. This balance is reduced by ECU 286.0 million on the basis

¹ Twenty-sixth Financial Report 1996 (COM (97) 589 final).

² The EAGGF Guarantee Section's financial year begins on 16 October and ends on 15 October of the following year.

of a transfer of ECU 20 million from Chapter B0-40 to subsection B1 and a transfer of ECU 44 million to the monetary reserve.

741. Underutilisation was mainly in the chapters covering beef and veal (– ECU 870.6 million), sheepmeat and goatmeat (– ECU 553.9 million) and milk and milk products (– ECU 523.6 million). The underutilisation in the case of beef and veal can be explained by the fact that consumption picked up despite the BSE crisis, so there was less intervention buying-in than expected (350 000 tonnes instead of 530 000 tonnes). In the case of sheepmeat and goatmeat the main reason was that higher market prices reduced the need for appropriations for the basic ewe premium. As for milk and milk products, the main reasons for underutilisation were the revenue from additional levies and the very low level of export refunds for cheese.

742. Two chapters (arable crops and pigmeat) show substantial overutilisation. In the case of arable crops this stems from the Council's failure to reach a decision to postpone payment of aid per hectare for oilseeds for the 1997/98 marketing year to the 1998 financial year, which led to additional expenditure of ECU 1 313 million in 1997. As for pigmeat, the Commission faced substantial expenditure, totalling some ECU 400 million, on compensation for producers in connection with the measures taken to deal with the outbreak of classical swine fever, which was particularly virulent in the Netherlands. Developments in the ecu/dollar parity resulted in savings of ECU 244 million as the parity on which the budget was calculated was USD 1 = ECU 0.78, whereas the actual average rate was USD 1 = ECU 0.84.

The EAGGF Guidance Section

743. Implementation of the reform of the Structural Funds since 1 January 1989 has gradually changed the nature of the aid granted by the EAGGF Guidance Section. An ever-increasing share of Community contributions is taken up by the part-financing of operational programmes (99.4 % of the total in 1996, as compared with 52 % in 1993 and 40 % in 1991). The second reform of the Structural Funds, which came into force on 1 January 1994, put the finishing touches to the system of assistance. Virtually all financing under the EAGGF Guidance Section is now provided through measures programmed on a multiannual basis and in accordance with the principles of partnership and subsidiarity between the Commission and the Member States.

744. The current programming period, which covers 1994 to 1999, is marked by consolidation of the principles which governed the first period following reform of the Funds. It also includes some simplification of procedures, for example Regulation (EC) No 951/97¹ (on improving the processing and marketing conditions for agricultural products). Regulation (EC) No 950/97² on

¹ OJ L 142, 2.6.1997, p. 22 (former Regulation (EEC) No 866/90).

² OJ L 142, 2.6.1997, p. 1 (former Regulation (EEC) No 2328/91).

improving the efficiency of agricultural structures amended the relevant rules so that financing is based on a multiannual programme as for the other objectives, thus harmonising the financial mechanisms. In this way the Community schemes implemented by the Member States, which account for a significant part of financing by the Guidance Section (farm improvement plans, compensatory allowances, etc.) give rise to reimbursements subject to the limits laid down in the corresponding multiannual programmes.

745. The measures undertaken on the initiative of the Member States under the Community support frameworks are supplemented by those launched by the Commission, i.e. programmes under the Community initiatives such as Leader II, Regis II, Interreg II and Peace and measures financed under Article 8 of Regulation (EEC) No 4256/88 and transitional measures.

Financing

746. EAGGF Guidance Section expenditure by Member State during the period 1991 to 1996 is shown in the table below.

EAGGF Guidance Section expenditure (commitment appropriations)

(ECU million)

Member State	1991	1992	1993	1994	1995	1996
Belgique/België	30.488	28.178	41.702	37.598	40.0	39.9
Danmark	18.038	23.518	19.986	42.491	16.7	29.1
Deutschland	200.192	253.758	348.724	700.181	807.9	805.1
Ελλάδα (Elláda)	274.205	392.200	402.853	266.288	463.8	328.3
España	514.155	633.600	412.906	544.770	709.5	695.0
France	425.262	554.359	633.502	619.763	347.8	526.3
Ireland	168.501	194.510	165.709	178.317	157.3	261.1
Italia	326.511	375.874	624.978	263.187	454.2	428.1
Luxembourg	6.666	6.362	9.014	9.802	6.0	4.3
Nederland	20.496	21.899	19.526	32.068	13.1	27.3
Österreich	—	—	—	0.000	97.7	122.6
Portugal	313.402	289.775	313.946	510.490	282.7	379.5
Suomi/Finland	—	—	—	0.000	109.8	102.4
Sverige	—	—	—	0.000	24.7	65.4
United Kingdom	110.243	100.781	99.495	130.470	74.1	116.0
Others	—	—	—	—	3.7	4.1
Total	2 408.159	2 874.814	3 093.397¹	3 335.425	3 609.1	3 934.5

¹ Including ECU 975 000 of multi-country funding.

747. It is also interesting to note the breakdown of the Structural Funds by Objective. The EAGGF Guidance Section contributes to the following four Objectives:

- Objective 1 (regions whose development is lagging behind);

- Objective 5(a) (agricultural structures in all regions);
- Objective 5(b) (rural development in certain limited areas);
- Objective 6 (Nordic regions), following the accession of the new Member States.

748. The following table also shows, for 1994, 1995 and 1996, expenditure under the Community initiatives and under Article 8 of Regulation (EEC) No 4256/88 (finance for technical assistance, general studies, pilot and demonstration projects) and transitional measures (old measures which cannot be assigned to an Objective under the new rules).

749. Expenditure under Objective 1, which had increased since 1991, stabilised at the end of the first period and then rose again in 1994, 1995 and 1996.

Expenditure trend by objective

Objective	(ECU million)					
	1991	1992	1993	1994	1995	1996
<i>Community support framework</i>						
Obj. 1 (regions lagging behind)	1 440.827	1 634.683	1 599.218	1 904.274	2 395.2	2 416.5
Obj. 5a (agricultural structures)	631.252	701.333	923.884	1 131.599	655.9	802.4
Obj. 5b (rural areas)	260.152	475.798	508.644	271.836	249.5	508.4
Obj. 6 (Nordic areas)					47.7	44.7
<i>Community initiatives</i>						
Leader				2.667	235.9	83.1
Interreg	Included under other headings			4.249	12.8	31.3
Regis				0.005	4.1	17.0
Envireg				5.849	0.0	0.0
Peace					1.3	8.1
Posei				0.000	0.0	0.0
Art. 8 of Reg. 4256/88				5.184	0.6	15.4
Transitional measures	75.928	63.000	61.655 ¹	9.762	10.3	7.6
Total	2 408.159	2 874.814	3 093.397 ¹	3 335.425	3 609.1	3 934.5

¹ Including ECU 975 000 of multi-country funding.

750. Expenditure under Objective 5(a) was fairly stable during this period, peaking in 1994 as a result of a change in the system of financing the 'indirect' measures (former Regulation 2328/91) which meant that reimbursements for 1993 and new financing for 1994 were charged to that year. Expenditure under Objective 5(b) grew substantially from 1990 to 1993, reflecting the emphasis on rural development policy, but fell sharply in 1994 following delays in launching the new programming period, then caught up again in 1996.

751. Since transitional measures are being wound up, expenditure on them has fallen since 1991.

752. While the amounts under Objectives 1 and 5(b) for 1991 to 1993 include measures under the Community support frameworks and also those taken under the Community initiatives and Article 8 of Regulation (EEC) No 4256/88, from 1994 onwards amounts for the latter are shown separately.

Implementation of the budget

753. In terms of the appropriations available, including those originally entered in the budget, the amending budget following enlargement, transfers and carryovers (ECU 3 987.2 million in commitment appropriations and ECU 4 093.1 million in payment appropriations), implementation of the 1996 budget for the whole of the EAGGF Guidance Section was 98.7 % for commitment appropriations and 86.3 % for payment appropriations.

754. The appropriations in the 1997 budget amount to ECU 4 253.1 million for commitments and ECU 3 761.8 million for payments. These figures include the appropriations for Community initiatives. As in 1996, the above figures also include that part of the payment appropriations allocated under Regulation (EEC) No 3575/90 to the new German *Länder* and sums for implementation of the programmes in the most remote areas included in the 'Structural Funds' chapter. The total of commitment appropriations does not include those for measures in the fisheries sector, since this is separate from agriculture.

Agricultural own resources

755. The EAGGF forms an integral part of the European Union's budget; its appropriations are therefore decided in accordance with the budgetary procedures in the same way as other Community expenditure.

Trend in revenue
Charges accruing to the European Union's own resources from the common agricultural policy

Type of charge	(ECU million)					
	1992	1993	1994	1995	1996	1997
Levies	1 206.8	1 029.1	922.5	844.3	810.1	873.4
Sugar levies, of which	1 002.4	1 115.3	1 382.1	1 316.3	1 213.7	1 366.0
– production ¹	606.8	698.4	809.9	766.2	711.5	842.4
– storage costs	388.6	416.7	572.2	542.0	490.8	513.4
– other	7.0	0.2	0.0	7.8	11.4	10.0
Total	2 209.2	2 144.4	2 304.6	2 160.6	2 023.8	2 239.4

¹ Including the additional elimination levy.

756. The agricultural policy also generates revenue in the form of sums collected under the common organisation of markets. This revenue, which forms part of the Union's own resources, consists of:

- levies, which are variable charges on imports of agricultural products covered by the common organisation of the markets and coming from third countries; such charges are intended to compensate for the difference between prices on the world market and those agreed within the Community. Following the Agreement on Agriculture under the Uruguay Round of multilateral trade negotiations, levies were replaced by fixed import duties as from 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; they ensure that farmers and sugar manufacturers finance the cost of disposing of the Community sugar which is surplus to domestic consumption.

757. It should be noted that there are other sources of agricultural income: under the common organisation of the market for milk and milk products, producers pay an additional levy if milk production quotas are exceeded. This revenue does not, however, form part of the Community's own resources, but is considered to be part of the measures to stabilise the agricultural markets. It is deducted directly from agricultural expenditure in the sectors concerned for the financial year in question.

167

VI – External relations

United States

758. In accordance with the 1996 exchange of letters between the EU and the US on a settlement for cereals and rice, a cumulative recovery system for rice was introduced in July 1997, on a trial basis, and a tariff rate quota for malting barley was established for 1996.

759. Discussions are continuing for a comprehensive EU/US wine agreement, which would give improved protection for EU designations of origin and would authorise imports of US wines made using certain oenological practices not approved in the EU.

760. Bilateral consultations took place on the EU support measures for canned fruit.

761. Negotiations were concluded on a bilateral veterinary equivalence agreement covering sanitary measures affecting trade in live animals and animal products and the Commission forwarded a proposal for a Council Decision on the conclusion of the agreement.

762. Discussions continued between the Commission and the US authorities in an effort to address US concerns on the trade implications of the EU decision on specified risk materials.

763. Bilateral consultations took place on EU exports of wheat gluten to the US. The Corn Gluten Feed Monitoring Group continued to meet regularly.

Canada

764. In December 1996 the EU and Canada signed a political declaration and action plan, designed, *inter alia*, to strengthen and expand EU-Canada economic and trade relations. Under the terms of the plan, both sides agreed to exchange inventories of barriers to trade by October 1997 in an effort to facilitate trade in goods and services and to further reduce or eliminate tariff and non-tariff barriers.

765. Discussions continued between the Commission and the Canadian authorities in an effort to resolve problems in the interpretation and application of the Community WTO commitments on cereal tariffs.

766. In March 1997 the EU and Canada reached an agreement in principle on a draft text for a new equivalence agreement concerning veterinary measures relating to trade. The adoption procedure was delayed due to the EU's concern over Canada's new import restrictions on bovine products introduced in the wake of the BSE crisis.

Mexico

767. The first round of negotiations towards the conclusion of a new political, economic and trade agreement between the EU and the United Mexican States took place in Brussels in June 1997. The talks resulted in a draft Agreement on Economic Partnership, Political Coordination and Cooperation and a draft Interim Agreement on Trade and Trade-related Aspects. Discussions will begin in the latter part of 1997 on the detailed aspects of the agreements following the full ratification of the Agreements by the Council.

768. On 27 May 1997, the European Union and the Government of the United Mexican States signed an agreement on the mutual recognition and protection of designations for spirit drinks. The purpose of the agreement is the mutual protection of designations of spirituous beverages produced on the territory of the two parties. This agreement is the first of its kind to have been signed with a Latin American country.

Mercosur and Chile

769. At the meeting of the EU/Mercosur Joint Committee set up by the Interregional Framework Agreement between the European Community and Mercosur signed in December 1995, it was stressed that the Framework Agreement was to be applied on a provisional basis pending ratification. In this context details of the commercial objectives laid down in the Agreement were worked out, and the organs established since the Agreement was signed were confirmed, particularly the Joint Subcommittee on Trade.

770. This Subcommittee was instructed to look at trade issues with the assistance of the three working groups. The agricultural sector was to be studied by the working group on commodities, which was due to complete its analysis of the trade situation by the end of 1997.

771. The same procedure is also under way with regard to trade between the EU and Chile.

Japan and the Republic of Korea

772. Work with Japan and the Republic of Korea continued to be centred on market access and deregulation issues, particularly in relation to continuing to remove trade barriers in the areas of plant and animal health. In March 1997 Commissioner Fischler undertook a six-day visit to Japan, accompanied by 20 senior European business executives, to promote European agricultural and food exports to Japan and to strengthen contacts with the Japanese Government. The visit was judged to have been very successful. Serious difficulties arose as a consequence of Korea's decision to impose a restrictive quota, in March 1997, for imports of milk-powder blends (for which the EU is the dominant supplier) under the WTO safeguards procedures. The EU does not accept the validity of these measures, and consultations with Korea are continuing.

New Zealand

773. On 17 December 1996 the Council adopted a decision on the conclusion of an Agreement between the European Union and New Zealand on sanitary measures applicable to trade in live animals and animal products. This agreement is the first of its kind between the Community and a third country and is designed to reduce existing regulatory barriers still further. It puts into practice the provisions of the WTO Agreement on the Application of Sanitary and Phytosanitary Measures and will facilitate trade between the European Community and New Zealand in live animals and animal products through progressive recognition of the equivalence of sanitary measures, acceptance of the regionalisation principle and the improvement of communication and cooperation.

774. Discussions also took place on the definition of butter eligible for reduced duty within a WTO tariff quota.

Republic of South Africa

775. South Africa became a full beneficiary of the generalised system of preferences in 1997.

776. Based on Council negotiating directives, the process towards a free trade agreement with South Africa continued at technical and ministerial levels. The South African Minister for Agriculture, Derek Hanekom, met Commissioner Fischler on 27 June 1997 to consolidate progress on the negotiations and to address bilateral trade issues. Both sides expressed an interest in

accelerating progress leading to a comprehensive bilateral agreement establishing a free trade area between the EU and South Africa. This would cover trade, development and a series of other aspects of cooperation based on three principles: full WTO compatibility, respect for sensitive interests and products, and benefits for the southern African region.

777. A separate exercise aimed at establishing an agreement on wines and spirits between the EU and South Africa has been started.

Central and eastern European countries (CEECs)

778. In the first part of the year, negotiations were concluded for the adaptation of the trade concessions contained in the Europe Agreements (Association Agreements) with the Visegrad countries (Hungary, Poland, the Czech Republic and Slovakia), Bulgaria, Romania, and with the Baltic States (Estonia, Latvia and Lithuania). This adaptation was to take account of EU enlargement and the results of the GATT Uruguay Round.

779. For the Visegrad countries, Bulgaria and Romania, existing autonomous measures providing for the maintenance of concessions to these countries were extended from 1 January 1997, and were then superseded from 1 July 1997 by new autonomous measures introducing in full the results of the negotiations. For the Baltic States, autonomous measures introduced from 1 July 1996 continued to apply. Both sets of measures will remain in force until the Additional Protocols to the Europe Agreements have been finally adopted.

780. The new Europe Agreement with Slovenia, which included reciprocal agricultural concessions, entered into force on 1 January 1997. A Cooperation Agreement with the Former Yugoslav Republic of Macedonia (FYROM), involving Community tariff concessions, was signed on 29 April 1997, with a view to its entry into force at the end of the year.

781. Negotiations for wine and spirits agreements with the Czech Republic, Slovakia and Slovenia continued, as well as the renegotiation of the current agreements with Bulgaria and Romania.

782. Negotiations for veterinary, phytosanitary and animal welfare equivalence agreements with the Visegrad countries, Bulgaria and Romania continued, and those with the Czech Republic were completed.

783. The Commission published its opinions on the applications of 10 CEECs for EU membership and made certain proposals (in the framework of its Agenda 2000 documents) with regard to pre-accession financial assistance (including for agriculture) for the CEECs.

Mediterranean countries

784. Under the Euro-Mediterranean partnership agreed with the EU's Mediterranean partners in November 1995 in Barcelona, new Association Agreements are to be negotiated, which will replace the Cooperation Agreements of the 1970s. Negotiations with Tunisia, Israel and Morocco were concluded in 1995. In 1997, an agreement was concluded with the Palestinian Authority. Negotiations are being held with Algeria, Jordan, Egypt and Lebanon. The agreement with Jordan should be signed by the end of 1997. Exploratory talks with Syria were held in 1997, and negotiations may start in 1998. The new agreements with Israel, Morocco, Tunisia and the Palestinians will enter into force after ratification by national parliaments, probably in 1998. These agreements will serve to enhance trade and provide for reciprocal trade concessions on agricultural products.

785. The reciprocal concessions on agriculture in the new agreements with Israel and with the Palestinian Authority came into force on an interim basis in 1996 and 1997 respectively. Specific decisions on certain products were also taken to anticipate certain provisions of the new agreements with Morocco and Tunisia in order to maintain traditional flows of agricultural goods.

786. Negotiations with Turkey on adjustments to the preferential arrangements on agriculture were completed in 1997. These adjustments extend the preferential regime for Turkish goods imported into the EU; they also provide for reciprocal Turkish concessions for EU agricultural goods exported to Turkey. The adjustments also address the problems between the EU and Turkey linked to the implementation of the GATT Uruguay Round and to EU enlargement. The package should enter into force in 1998, with some elements being applied from September 1997.

787. Conclusions were reached in 1996 in negotiations with Cyprus to take account of the consequences of Uruguay Round implementation, with a view to being adopted in 1997 and applied from 1 January 1998.

EFTA countries

788. The European Union continued in 1997 its negotiations with Switzerland on the conclusion of a new bilateral agricultural agreement. These negotiations are being conducted on the basis of a general negotiating mandate in six other sectors. The negotiations on agriculture centre on mutual tariff concessions and the reduction of the technical barriers to trade (in particular in the veterinary, plant health, wine and spirits sectors).

789. Conclusion of the agreement will depend on the progress of negotiations in the other sectors, in accordance with the Council directives, which provide for the interlinking of the various fields.

790. In 1997, the EU held negotiations with Norway on the conclusion of a new bilateral agreement in the agricultural sector. These negotiations, based on the principle of reciprocity, are aimed at extending the concessions provided for in the existing agreements and promoting greater liberalisation of trade in the sector.

Multilateral cooperation and international organisations

World Trade Organisation (WTO)

791. The first biennial WTO Ministerial Meeting took place in Singapore from 9 to 13 December 1996, to assess the implementation of the members' commitments under the WTO. The Conference noted that progress had been made in advancing the reform programme in agriculture, including the implementation of agreed market access concessions and domestic support and export subsidy commitments. The Ministers approved the report of the Committee on Agriculture which states that :

792. "The negotiations to continue the reform process referred to in Article 20 of the Agreement on Agriculture will be conducted in conformity with the timetable and all other provisions contained in that Article. Useful experience will be gained by the Committee on Agriculture to further pursue in 1997 and thereafter:

- the assessment of the compliance with these commitments, taking into account the need for full and timely compliance; and
- a process of analysis and information exchange, in accordance with all relevant provisions of the Agreement on Agriculture.

793. This will allow WTO Members to better understand the issues involved and to identify their interests in respect of them before undertaking the mandated negotiations laid down in Article 20."

794. In 1997 the WTO Committee on Agriculture held regular meetings and several informal consultations at which progress in the implementation of commitments negotiated under the Uruguay Round was reviewed.

795. The WTO Committee on Sanitary and Phytosanitary Measures is monitoring the implementation of the commitments of WTO members, working on guidelines on consistency, and developing a monitoring system on the process of international harmonisation. The European Commission participated actively in the work of both committees.

Accession to World Trade Organisation

796. The Commission negotiated with acceding countries regarding the agricultural aspects of accession to the WTO, with the main focus on China, Taiwan, Russia, the Baltic States, the newly independent States of the former USSR and Saudi Arabia.

WTO consultations and dispute settlement

797. The panel established at the request of Ecuador, Guatemala, Honduras, Mexico and the United States to examine the EU banana regime issued its report on 22 May 1997. The EC appealed against the report to the Appellate Body, which issued its report on 9 September 1997. The Appellate Body found that certain aspects of the EC banana regime were not in conformity with WTO provisions.

798. A panel established at the request of the United States, and subsequently also of Canada, to examine EU measures prohibiting the use in livestock farming of growth-promoting hormones issued its report on 18 August 1997. The EU subsequently appealed against the report to the Appellate Body.

799. At the request of Brazil, a panel was established concerning the import of poultry into the EU.

800. The EU participated as a third party in consultations requested by the United States with the Philippines on the latter's management of pigmeat and poultry tariff quotas.

801. The EU held two rounds of consultations with Japan under Article XXII of GATT concerning administration of the import arrangements for pigmeat.

802. The EU held consultations with Korea in September 1997 under Article XXII of GATT on the restrictive quotas imposed on imports of milk-powder blends under the WTO Agreement on Safeguards. Australia participated as a third party.

The generalised system of preferences (GSP)

803. The provisions of the Council Regulation applying the new multiannual generalised system of preferences (GSP) for agricultural products entered into force on 1 January 1997. The aim of the GSP is to foster the integration of developing countries into the world economy and the multilateral trading system. The new scheme grants preferential access to Community markets for a wide range of agricultural products from the developing countries. It focuses on the needs

of the poorest of the beneficiary countries by transferring preferences gradually from the more advanced to the least developed countries (LDCs), which benefit from zero duty on exports to EU markets for all products included in the GSP.

FAO

804. As a member of the United Nations Food and Agriculture Organisation, the Union participated fully in the work of the various bodies within the organisation, including meetings of the Committee on Agriculture, the Committee on World Food Security, the Committee on Commodity Problems and the Committee on Forestry, presenting its agricultural policy and approach to food security. It took part in the technical consultations on the revision on the International Plant Protection Convention (IPPC) (Rome, 13-17 January), aimed, among other things, at bringing it into line with the Agreement on the Application of Sanitary and Phytosanitary Measures of the Final Act of the Uruguay Round. It also played an active part in the seventh session of the Commission on Plant Genetic Resources for Food and Agriculture (Rome, 15-23 May). At this conference the Commission acknowledged the progress made towards revision of the international undertaking in this field. It also took account of the importance for agriculture and world food security of conservation and the sustainable use of plant genetic resources and also stressed the need for high-level participation by governments in further work.

Organisation for Economic Cooperation and Development (OECD)

805. The EU continued to play an active part in the Organisation for Economic Cooperation and Development (OECD), particularly in the Committee for Agriculture and several working parties such as those on agricultural policies and markets, East/West economic relations in agriculture, agriculture and trade, agriculture and the environment, export credit, seed certification, standards for fruit and vegetables, etc. It also played a prominent role in the Council Group on Rural Development, based on a multisectoral approach in this area. The Union also contributed to compiling reports reviewing the agricultural situation and outlook in the OECD countries and the report reviewing countries whose economies are undergoing transition (central and eastern Europe, the former Soviet Union, China and Mongolia).

International Sugar Organisation (ISO)

806. At its Council meeting on 29 May 1997, the International Sugar Organisation adopted a medium-term strategy, giving practical guidelines for the implementation of the 1992 International Sugar Agreement, which was also extended unchanged for a further two years to 31 December 1999.

International Grains Agreement (IGA)

807. The International Grains Agreement, 1995, consists of two separate legal instruments: the Grains Trade Convention, 1995, and the Food Aid Convention, 1995. Both conventions will remain in force until 30 June 1998.

808. Negotiations on their extension or replacement by a new convention started in autumn 1997.

Food aid

809. The European Union continued to implement its aid programme for developing countries and aid organisations.

810. Under the 1995 Food Aid Convention, of which the European Community and its Member States are signatories, the minimum annual contribution in wheat equivalent is 1 755 000 tonnes. The quantities to be supplied in 1996 remained virtually unchanged.

811. In Regulation (EC) No 1292/96 of 27 June 1996, the Council established a new framework for food aid policy and administration and a list of countries and organisations eligible for Community aid.

ISSN 0254-1475

COM(98) 611 final

DOCUMENTS

EN

03 15 14 17

Catalogue number : CB-CO-98-601-EN-C

Office for Official Publications of the European Communities

L-2985 Luxembourg

176