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1. ECONOMIC SITUATION AND FARM INCOMES

1.1. Overview

1. The 2002 agricultural year was mainly characterised by the following developments:
 - (a) generally disappointing level of global economic recovery, with the international situation suffering from an atmosphere of uncertainty brought about by the combined effect of geopolitical tensions, negative developments in the equity markets and uncertainty about the true state of the economy and the corporate sector;
 - (b) a sharp rebound in oil prices over the course of 2002, back to around the relatively high levels of the first half of 2001;
 - (c) a deterioration in investor confidence which, combined with rising oil prices, eroded purchasing power and led to private consumption in the EU increasing only marginally in 2002;
 - (d) a noticeable recovery in the cattle sector from the recent BSE and foot and mouth disease crises, with a significant improvement in beef and veal consumption, and with prices in the sector increasing by more than 6% on average. The recovery in the beef sector resulted in prices for pig meat during 2002 being well down on the exceptionally high prices of 2001 and those for poultry meat also being well down on corresponding 2001 prices for most of the year;
 - (e) generally favourable weather conditions over the course of the agricultural year, except for the severe floods during the summer in some Member States, leading to the second largest cereals harvest ever apart from that of 2000.
2. A limited recovery in global trade growth in 2002 helped overall EU exports improve slightly on 2001 levels. However the situation was less positive for EU agricultural exports, which faced increased competition from third countries especially in the cereals sector, where non-traditional exporters in the Black Sea area had a large impact on the markets in 2002, although meat sector exports improved considerably from the previous year's levels when trade restrictions due to animal disease scares hit exports. The strengthening of the euro during 2002 also acted to restrain the level of EU agricultural exports.
3. According to initial estimates at the end of 2002, farm incomes (measured as real net value added at factor cost per annual work unit) for the European Union as a whole fell by 3.0% in real terms in 2002, in contrast to the large increases of 2000 and 2001 (when real incomes rose 4.4% and 6.1% respectively, according to the most recent figures) and against a background of a significant further decline in overall agricultural labour (down 2.9% on 2001). Despite this fall in income, the average farm income in 2002 still remains some 25% higher than that of the early 1990s. Underlying the drop in income for 2002 was a sharp fall in the prices of many crop and animal products, which more than offset the increase in the volume of production. This was especially true for animals and animal products such as pig meat, poultry and milk, which all exhibited a sharp drop in real average prices, but was also the case for cereals, oilseeds and potatoes. However, as usual, these first estimates should be treated with some degree of caution.

4. In terms of weather, the 2002 agricultural year got off to a good start with autumn 2001 field preparation and sowing of winter cereals and rapeseed occurring under conditions which were almost optimal and generally much more favourable than for the previous year, particularly so in France and the UK. While the autumn period ended with unseasonably cold weeks across Europe in December and in January 2002, raising some concern for frost damage, the subsequent conditions during the winter season were generally favourable, with mainly higher than average temperatures and a favourable spell for spring crop sowing preparations.
5. During spring 2002 the climatic conditions were as a whole satisfactory for crop growth and farming operations. The Iberian Peninsula, the South of Italy (with the exception of Sicily) and Greece received good levels of rainfall, allowing partial replenishment of water reserves and with a resulting potential impact on durum wheat production. Higher than seasonal temperatures at the end of April and May boosted crop development especially in central and northern countries, while in the Mediterranean areas a wave of peak temperatures in June boosted summer crop growth.
6. The situation generally worsened in July and August with excessive rain in many central European Member States, especially in Germany and Austria. This resulted in saturated soils and flooding, hampering straw cereals harvesting operations or causing local damage in many areas and leading to loss of harvest and grazing land. For England, France and Spain, July harvesting operations were on the whole more favourable than in 2001, and in contrast to the situation in Germany and Austria, favourable conditions for summer crop development were experienced in many parts of France, Italy and Spain. Late summer was generally favourable for summer crops, with drier and warmer conditions in northern areas and cooler, wet conditions in the Mediterranean regions, but this was followed by abundant rain and cooler than normal temperatures in October which partially affected field operations such as late potato harvesting and initial sugar beet harvesting in northern countries.
7. Domestic consumption for cereals is estimated to have risen to close to 192 million tonnes in 2002/03 (up some 2 million tonnes on 2001/02), driven by an increase in human consumption (up 1.2 million tonnes) and a rise of around 1 million tonnes in the use of cereals for animal feed, mainly due to relatively low cereals prices compared to oilseeds in 2002. For beef and veal, consumption is expected to have recovered strongly in 2002. Following the strong falls recorded at the end of 2000 and the start of 2001, beef consumption recovered gradually over the subsequent period, and current estimates put total consumption for 2002 at 7.5 million tonnes, an increase of 11.3% on the 2001 level. Pig meat consumption in 2002 remained at more-or-less the same level as in 2001 (around 16.5 million tonnes), following on from the slight increase seen last year, while poultry meat consumption, which had benefited most from the last BSE scare and increased by over 3% in 2001, is expected to have decreased slightly in 2002 (down 1.7% on last year) due to the recovery in beef consumption. Lastly, while butter consumption remained more-or-less unchanged from 2001, consumption of cheese continued its upward trend, growing by 1.4% in 2002, although this rise is slightly below the trend of recent years.
8. Concerning the general economic scene, global recovery was somewhat disappointing during 2002. At the beginning of the year vigorous global growth had been expected, following significant policy stimulus after the events of 11 September

2001 and a widespread loosening of monetary policy. However, an atmosphere of uncertainty brought about by the combined effect of geopolitical tensions especially in the Middle East, which led to higher oil prices over the course of the year, the negative developments in equity markets and uncertainty about the true state of the economy and the corporate sector undermined confidence and led to subsequent weakness in the recovery, with the result that world GDP growth is expected to be only 2.6% for 2002. Following its contraction in 2001, the first in 20 years, global trade growth is expected to have recovered to around 2% in 2002.

9. In line with global developments, recovery in the EU began in the first quarter of 2002 but failed to pick up over the rest of the year. Consequently, the overall recovery was much slower than foreseen, with the average growth rate in the euro area expected to have attained a level of only 0.8% in 2002. At the same time increases in food and oil prices eroded purchasing power, with a shortage of demand as a consequence. This, combined with a deterioration in investor confidence and an increase in the household savings rate, resulted in overall private consumption in the euro area increasing by only about 0.6% in 2002. Concerning inflation, this declined only slowly during 2002, with the inflation rate for the year expected to be 2.3% on average in the euro area (slightly down from last year's rate of 2.5%).
10. Compared to the level of recent years oil prices were fairly low at the start of 2002 (around \$20/bl for Brent oil), but generally increased over the course of the year back to around the levels of the first half of 2001. Brent oil prices initially peaked at above \$29/bl at the end of September, reflecting fears of an oil supply disruption in the event of war with Iraq, then fell to around \$23/bl by mid-November before rising again, driven by a disruption in supplies from Venezuela, to break through the \$30/bl level by late December. On the currency front, following on from last year's historically weak levels against the US dollar, the euro strengthened somewhat over the course of the year and by November had regained parity with the dollar.
11. Developments in international agricultural markets were somewhat mixed in 2002, with international prices for most cereals recovering noticeably during the year, mainly due to low output levels in some key producer countries and in light of the smallest expected global cereal crop since 1995, while on the whole international prices for meat fell. However, international prices for most cereals weakened towards the end of the year, as several countries not traditionally known as exporters took advantage of their recent good harvests and the drop in exportable supplies from traditional exporting countries to make more of their production surpluses available for export.
12. International wheat and coarse grain prices (based on US prices) increased noticeably from the middle of the year onwards to exceed the price levels of the previous year, driven by mounting evidence of lower exportable grain supplies in traditional grain exporting countries. The steepest price rises were observed for North American and Australian cereals, where drought caused noticeable declines in output in 2002. By September prices for good quality US milling wheat were up nearly 50% on prices one year earlier, and with price rises for US soft wheat not far behind. However, although remaining noticeably higher than one year earlier, wheat prices fell back over the latter part of the year due to the large surpluses available for export at relatively cheap prices in non-traditional exporting countries such as the Russian Federation, Kazakhstan and the Ukraine. Maize prices showed similar behaviour over the course of 2002, with prices rising initially mainly due to worsening crop

conditions in the United States and with September export prices for US maize up some 28% on those one year earlier. Nevertheless, in the latter part of the year lower world import demand together with large supplies of feed wheat and of maize in several non-traditional exporting countries acted to alleviate to a certain extent the upward pressure on maize prices. In contrast to the cereals markets, large supplies in the major exporting countries acted to keep prices for rice under downward pressure.

13. In the meat markets, overall international prices fell in 2002. This development in prices was mainly a result of rising levels of supply, especially in those countries previously subject to meat export restrictions in 2001, the reduced effects on markets of animal diseases and the effect of exchange rate movements in 2002 on South American meat exports. Concerning the specific meat markets, abundant supplies of poultry and pig meat led to prices for these falling noticeably from 2001 levels, while beef prices and especially sheep meat prices increased somewhat, the latter due to strong demand and reduced output in developed countries, especially Australia. International prices for dairy products fell for most of the year but recovered somewhat in the latter part of 2002 as a result of a decline in supplies in Australia and South America. By November prices of all dairy products had shown some recovery, with milk powder prices showing the greatest rise and with butter and cheese prices rising less noticeably. Nevertheless, prices of all dairy products remained well below those twelve months earlier.
14. The performance of the European Union on world agricultural markets has again been somewhat mixed in 2002. The disappointing level of global recovery in 2002, the strengthening of the euro and the continued strong competition from third countries especially in the cereals sector all had a restraining effect on EU agricultural exports. However, a very positive development was the strong recovery in meat exports from the crisis-hit levels of the year before.
15. In the first nine months of 2002 the overall value of Community agricultural exports was marginally down (by around 0.8%) on the same period in 2001. Cereal exports fell heavily in 2002, by some 16% in volume and 15% in value (in euro terms), mainly due to the continuing impact of increased competition from exports by third countries and especially the republics of the Former Soviet Union. (The latter was so pronounced that while EU cereals exports fell, EU imports of cereals almost doubled in value compared to the same period in 2001). Large falls in the value of exports were also recorded for animal feedstuffs (down 13%), sugar (down 42%) and skimmed milk powder (down 37%), although for the latter developments over the last quarter of 2002 may result in final figures for 2002 showing a much smaller reduction. In contrast, significant rises in the value of exports occurred for rice (up 42%), vegetables (up 18%), potatoes (up 37%) and olive oil (up 21%). Although less pronounced, increases were also recorded for fruit (up 7%) and wine (up 6%).
16. Concerning meat exports, the volume of exports in the first nine months of 2002 showed a marked improvement compared with the same period the previous year, when the impact of the BSE and foot and mouth disease crises virtually halted for a certain period EU exports of meat products. Over the period mentioned, exports of beef and veal rose by around 8% in both volume and value, while those for pig meat and poultry meat rose markedly in volume (by 23% and 21% respectively) although much less so in terms of value (by 4% and 7% respectively). Concerning dairy products, while skimmed milk powder exports for the first nine months fell as mentioned previously, the value of butter and cheese exports rose (up 8% and 1.4%

respectively) for the same period, reflecting the rise in export volumes for these products (of 20% for butter and 4% for cheese).

17. On the whole, intervention stocks for most of the main agricultural products covered by the intervention scheme increased in 2002. For cereals, intervention stocks increased from around 7.0 million tonnes at the start of 2002 to around 8.0 million tonnes in early January 2003. Underlying this, however, were quite wide variations in changes in the stock levels for individual cereals. While wheat stocks were further run down during 2002, down to around 0.41 million tonnes by January 2003 from a level of 0.61 million tonnes in January 2002, over the same period stocks of barley increased from 1.8 to 2.3 million tonnes, and stocks of rye continued the rise of previous years, increasing from 4.6 to 5.3 million tonnes and remain a cause for concern. However, the situation for rye is expected to improve since production fell in 2002 and is foreseen to decline further in 2003.
18. Important increases in stocks also occurred for dairy products during 2002. Intervention stocks of milk powder, which had been completely run down by October 2000 and remained so during 2001, started up again in March 2002 and increased sharply from then onwards to reach a level of just under 147 000 tonnes by the end of September. However, by January 2003 stocks had been reduced back down to around 109 000 tonnes, thanks to a surge in exports in the latter part of the year. Butter stocks also increased substantially in 2002, rising from just under 86 000 tonnes at the start of the year to reach a level of 186 000 tonnes by early January 2003. Further developments worthy of note were the increase in wine alcohol stocks from 2.2 million hectolitres in December 2001 to 3.6 million hectolitres twelve months later, and the reduction in beef intervention stocks by around 65 000 tonnes during 2002. Finally, in accordance with policy developments in the sector, public stocks of olive oil were phased out to become non-existent during 2002.

1.2. Production

1.2.1. Crop production

19. Latest estimates indicate overall cereal production in 2002 at around 210 million tonnes, more than 10 million tonnes (or about 5%) higher than last year's crop, and the second highest crop ever after that of 2000. The biggest production increases are expected in France (up some 9 million tonnes), Spain (up 4 million tonnes), and the UK (up 4 million tonnes), although production in Germany is expected to have fallen (down 6.5 million tonnes from last year's bumper crop level), so that in contrast to 2001 France once again became, as usual, the largest EU straw cereal producer. Most of the overall rise in production is due to an increase in the common wheat harvest (up about 10.9 million tonnes, or 13%, compared to last year). Durum wheat and oats productions are also expected to be up on last year, rising to 9.8 million tonnes (up around 21%) and 7.2 million tonnes (up 15%) respectively. In contrast, barley production is expected to remain more-or-less at last year's levels, while maize production declined slightly (down 2.7% on 2001) and rye production should decrease significantly (by 24%) to around 4.7 million tonnes, driven by a 1.5 million tonne decrease in production in Germany. For rice, a small decrease in production was more than compensated for by higher milling yields, so that production in milled equivalent (about 1.6 million tonnes) rose by 5% compared to the previous year.

20. The overall rise in cereals production reflects an increase in both area under cereals and in the yields for 2002. The total area under cereals increased by 2.4% (almost 1 million ha) compared to the previous year, due for the most part to the rise in area allocated to common wheat production (up around 8% to 14.1 million ha). Areas allocated to growing durum wheat and oats also rose slightly (between 4 and 6%), while, in contrast, barley, maize and rye areas all fell.
21. Latest estimates show average cereal yields up 2.9% compared to last year, at 5.6 tonnes/ha, with average yields for common wheat (up 4.3%), durum wheat (up 16.1%) and oats (up around 10%) showing the largest increases. In contrast, average yields for barley and maize were only slightly up on 2001 (up around 2% and 1% respectively), while those for rye fell markedly (by around 15%). However, the pattern of crop yield variation differs greatly from one Member State to another. For example, while soft wheat yields rose appreciably in Spain (up 32%), and to a lesser extent in France (up 12%) and the United Kingdom (up 13%), following last year's poor results, they fell significantly in Germany (by around 13%) and Ireland (by 5%) as a result of less favourable weather there than in 2001. The return to a more favourable climatic situation in Greece, Spain, France and Italy compared to the previous year largely accounts for the marked rise in average yields for durum wheat.
22. Following an overall decrease in area (down 5% on 2001) total oilseed production (rape, sunflower and soya) should be slightly down on last year (by around 2% at 12.9 million tonnes), despite a rise in yields (up 3% to 2.6 t/ha). The overall fall in production is also despite an increase in rapeseed production (up 3%), itself a result of a larger cultivated area (up 2% overall, mainly due to a 14% increase in rapeseed area in Germany) and marginally higher average yields (up 1%). In contrast, sunflower production fell by around 6%, resulting from an 11% drop in total area (driven mainly by a 12% decrease in area in both France and Spain) and despite a 6% improvement in yields compared to last year. Soya production for 2002 was heavily down on 2001 (by 26%) as a result of a sharp 27% drop in cultivated area.
23. The dramatic decline in linseed area observed over recent years continued in 2002, with total EU area falling a further 43% to around 62 000 ha, driven by significant falls in area in Germany and the United Kingdom. With yields more-or-less the same as in 2001, overall production decreased in line with the decline in area, falling from 136 000 tonnes in 2001 to 79 000 tonnes in 2002. While protein crop area remained unchanged from last year, a significant improvement in the average yield (up 6% on 2001) led to a rise in total output to 4.1 million tonnes (up 5%).
24. EU sugar production in 2002 is estimated to have increased by around 9% relative to 2001's exceptionally low level. This was mainly the result of a recovery in average yields from the poor levels of the year before, driven by large expected yield increases in France, Ireland, Italy, and the UK. The good amounts of rain received in summer, especially in southern areas, and the good climatic conditions in September boosted 2002 yield levels, although the main producing areas in Germany were later affected by excessive rain in October which disrupted harvest operations there.
25. Olive oil production is expected to be significantly higher in 2002, up some 0.5 million tonnes compared to the previous year (an increase of around 25% on 2001) and continuing the rising trend in production seen over recent years.
26. Early estimates indicate only a very marginal increase in fruit production for 2002 (up 0.6% on 2001), while production of fresh vegetables remained essentially

unchanged from the levels of the previous year. In contrast to last year's marked fall in production, which was mainly due to poor weather conditions in 2001 affecting yields, potato output is estimated to have recovered slightly in 2002, rising by 1.8% compared to 2001.

27. Preliminary estimates show wine and must production in 2002 having fallen slightly to around 158–160 million hectolitres, approximately 3% below the previous year's level, and remaining well down on the exceptional harvest of 1999 (of 186.5 million hectolitres). 2002 production in both France and Italy (down around 5% and 12% respectively on 2001) was affected by adverse weather conditions, in particular heavy rains in southern France, which destroyed some vineyards. Significant production falls are also expected in Greece and Portugal. By contrast, wine production is estimated to have risen markedly in Germany (by 19%) and Spain (by 7–10%) in 2002 following the large declines the year before.

1.2.2. Animal production

28. Beef and veal production in 2002 remained strongly influenced by the disturbances of recent years. The low prices which became a feature of the market from autumn 2000 onwards and which persisted for most of 2001, together with an atmosphere of uncertainty linked to weak and volatile demand, seems to have led to a subsequent reduction in production capacity. On top of this, the special measures decided on in June 2001 to stabilise the market are expected to have further reduced incentives for production. As a consequence, recovery in beef and veal production in 2002 is expected to have been somewhat limited, with net production in 2002 estimated to reach 7.5 million tonnes, an increase of only 2.9% on last year's level and still some 3% down on levels in 1999.
29. Following the stabilisation in production in 2001, current estimates indicate a marginal increase in pig meat production for 2002 to around 17.7 million tonnes, just 1% higher than that for 2001. The overall development of EU production has been strongly influenced by the reduction in capacity which took place over recent years in three Member States (due to the build-up of environmental pressures in Belgium and the Netherlands, and to the 2001 foot and mouth epidemic in the UK), where the size of the pig herd is now about 10% lower than in 2000, and which were unable to respond to the positive price situation observed in 2000 and part of 2001. As a result, overall production for 2002 remained down by about 1.5% on the peak levels of 1999.
30. Following the increase in poultry meat production in 2001 (up 1.9% on 2000), which mainly resulted from the switch in demand away from beef following the last BSE scare and which mostly benefited the poultry sector, production of poultry meat decreased slightly in 2002 (down 0.5% compared to 2001). The downturn in growth was partly due to increased competition in the sector from countries such as Brazil and Thailand as well as the recovery in demand for beef.
31. Production of sheep meat and goat meat in 2002 is expected to have only partially recovered from the dramatic fall seen last year (when production fell 9.4% compared to 2000), to reach around 1.03 million tonnes (up just 1% on 2001). This follows on from the severe disruptions experienced in the sector in 2001, when the outbreak of foot and mouth disease in the United Kingdom and in some other European countries led to large losses through culling as well as limitations on trade. The limited extent of the subsequent recovery in production in 2002 was mainly due

to re-stocking of the sheep herd in the UK, which led to retention of female lambs for breeding. While the situation in the sector did improve slightly in 2002, overall EU production levels remain well down on the highs of the early 1990s.

1.2.3. Milk and dairy production

32. Continuing the downward trend in dairy cow numbers, although at a much lower rate than the trend of recent years, the Community dairy herd is expected to fall to about 20.1 million head at the end of 2002, a small reduction of 0.4% from the previous year. Milk yields should increase by around 1.2%, well down on the previous year's increase of 3.3%, so that total milk production for 2002 is expected to be close to 121.6 million tonnes, more-or-less unchanged from 2001 levels and continuing the stability in production seen over recent years. Overall deliveries to dairies were also flat compared to 2001, with no major changes within Member States.
33. In contrast to the fall of the previous two years, butter production is estimated to have increased in 2002 by around 3.5% compared to 2001, driven by large production increases in Belgium, Ireland and especially Spain, and in parallel with a strong rise in exports. Cheese production continued to rise in 2002 (up by 0.8% on 2001), although at a much lower rate than in 2000 and 2001, helped by a continued increase in consumption and a slight rise in exports. Production of skimmed milk powder is expected to have recovered noticeably in 2002, rising by around 8% compared to 2001.

1.3. Producer prices and market prices

1.3.1. Producer Prices

34. According to the figures available at the end of December 2002, compared with the previous year the index of farm-gate prices is estimated to have fallen slightly in 2002, by an average of 1.4% in the EU in nominal terms. This slight decrease is mainly the result of a 5.6% drop in the price of animals and animal products, and is despite a 2.8% increase in overall crop prices. The steepest decreases in prices for animal products occurred for pig meat (down 17.7%, in sharp contrast to the large price increases of recent years), sheep meat (down 7.9%), and poultry (down 7.7%), while milk prices also decreased noticeably (down 4.5%). In contrast, beef and veal prices rose significantly (by 8.5% and 10.1% respectively), marking a partial recovery following the market disturbances of recent years and the very low prices of 2001. As regards crop prices, the steepest increases were recorded for vegetables (fresh vegetables up 8.5%, dried up 9.6%), olives and olive oil (up 8.3%) and fruit (up 7.0%). Average overall prices for cereals and rice fell 6.7%, driven by significant decreases in prices of soft wheat and barley of around 8 to 10%. Potato prices also fell heavily, down 14% on those of the previous year.
35. After accounting for inflation, the producer price index for the European Union as a whole is estimated to have fallen by around 4% on the previous year. The biggest decreases were in Austria (down 5.7%), Belgium (down 7.8%), Denmark (down 10.4%), Ireland (down 8.6%), Portugal (down 7.4%), Spain (down 5.1%) and Sweden (down 5.4%). Farm-gate prices also declined in most other Member States: in Finland (by 3.7%), Germany (by 4.3%), France (by 4.7%), Luxembourg (by 4.9%), the Netherlands (by 3.8%) and the United Kingdom (by 4.6%). Only two Member States experienced a rise in the real producer price index, namely Greece (up 3.0%) and Italy (up 0.8%).

1.3.2. *Market prices*

36. Following the decreases of recent years in application of Agenda 2000, for marketing year 2002/03 the intervention price for cereals stayed at the same level as the previous campaign 2001/02 (EUR 101.31 per tonne). Similarly, aids for cereals, which had increased in recent years, remained at EUR 63 per tonne of reference yield for 2002/03. The level of compulsory set-aside was kept at 10%, although derogation to this was allowed in September 2002 in those Member States that had been heavily affected by the August floods. Against this policy background the good prospects for an improved EU cereals harvest for marketing year 2002/03 compared to 2001/02, together with the impact of highly competitive exports from certain third countries, especially the republics of the Former Soviet Union, resulted in average EU cereal market prices generally declining over the first eight months of the year, the main exception being maize prices. However, prices for many cereals recovered somewhat over the latter part of 2002 in light of downward adjustments in initial EU harvest estimates for these crops and in anticipation of modifications to the EU cereals import regime for 2003.
37. Given the prospects for a large 2002 wheat harvest in the EU, average market prices for bread-making wheat declined over the first part of the year, falling from around EUR 141 per tonne at the start of the year to close to EUR 120 per tonne by August, before recovering to around EUR 127 per tonne from the end of September onwards, some 10% down on prices at the start of the year. Prices for durum wheat showed similar behaviour, with these peaking in March and then falling sharply through to the end of June to reach a low of EUR 153 per tonne before stabilising in July and August. Prices then recovered to around EUR 180 per tonne by December, some 7% down on prices at the start of the year. In contrast, average maize prices remained fairly stable (at between EUR 131–136 per tonne) over the first half of the year, with expected EU production for 2002 little changed from that of 2001, before rising sharply from July to mid-August, when prices rose to around EUR 154 per tonne (some 13% up on prices at the start of the year). However, maize prices fell sharply over the rest of August back to the EUR 130 per tonne level and remained close to this level for the rest of the year. Concerning barley prices, average EU market prices for brewing barley declined from EUR 141 per tonne at the start of 2002 to around EUR 110 per tonne in August, but recovered strongly over the following months so that by November prices had regained the levels of the start of the year. For rye, average bread rye prices generally fluctuated in a range from EUR 117–125 per tonne until late July, at which point prices fell sharply to around EUR 106 per tonne before gradually recovering with the start of the new marketing year to around the EUR 120 per tonne level by the end of November onwards, in response to the much reduced rye harvest in Germany.
38. Olive oil prices remained fairly stable over 2002, although generally slightly up on the prices of the year before. Figures for late November 2002 show prices for Italian extra virgin and lampante olive oil somewhat higher (by around 9% and 3% respectively) than twelve months earlier, and remaining well above the trigger level for private storage. Those for Spanish olive oil show lampante prices up by some 3.5% on the corresponding point in 2001, but with extra virgin prices more-or-less unchanged and remaining only just above the trigger level for private storage.

39. In general, wine prices improved over the course of 2002 from the low levels of the year before, although this was mainly due to a sharp rise in prices in the latter part of the year in France and Italy in expectation of the reduced 2002 harvests in those countries. By early December 2002, market rates for red wine relative to the same period in the previous year were up 24% in France, 14% in Italy and 12% in Spain. Similarly, white wine prices showed improvement on those of 2001, with early December prices up 8% in France, 27% in Italy and 8% in Spain on those twelve months earlier. However, while prices developed quite smoothly over the course of 2002 in Spain and Italy, prices in France fluctuated widely during the year.
40. The improved overall situation in the beef sector was reflected in prices for beef and veal in 2002. The strong recovery in demand over 2002 led to a substantial improvement in beef prices, especially for cow meat, which by September had improved to around EUR 190 per 100 kg compared to EUR 160 one year earlier. Although cow meat prices then trailed off over the latter part of the year, they still remained significantly above corresponding 2001 levels. Prices for young bull carcasses also generally improved during 2002, recovering to close to 1999 levels and remaining well above corresponding 2001 prices throughout the year. Only steer carcass prices fared worse in 2002 compared to 2001, with these generally falling over the course of the year and remaining below corresponding 2001 prices.
41. Following the strong decline in prices which occurred over the course of 2001 (a fall of some 20% from the record prices of February/March 2001 (of almost EUR 170 per 100 kg) to those in December 2001), which mainly resulted from the ending of the positive impact on the poultry sector of the last BSE crisis, prices for poultry meat developed in a more traditional manner over the course of 2002, closely following the pattern set by the average of the last few years. Beginning the year at around EUR 134 per 100 kg, prices followed a rising trend through to the start of October to peak at around EUR 145 per 100 kg, before dropping over the remaining months of 2002 back to around the price levels at the start of the year.
42. During 2002 average EU prices for pig meat kept broadly stable in comparison to the variability of recent years, in general remaining in a range between EUR 127 and EUR 147 per 100 kg. Prices remained throughout the year at levels well below the exceptionally high prices of 2001, reflecting the impact of the recovery in beef consumption also on pig meat prices. Starting the year at around EUR 136 per 100 kg, prices peaked at the end of March at close to EUR 147 per 100 kg and then fluctuated around a generally declining trend which saw prices fall to around EUR 127 per 100 kg by the end of November. In light of developments and in order to support the pig meat market, aid for private storage was introduced from 9 December 2002.
43. Given the very limited recovery in production in 2002 market prices for sheep meat and goat meat products generally remained at historically high levels similar to those of the previous year. Over the first half of 2002 prices generally fell from their start of year level, of around EUR 450 per 100 kg, to bottom out over the middle part of the year at around EUR 380 per 100 kg. From July onwards average prices picked up again and were back to around the EUR 430 per 100 kg level by the beginning of September, with prices generally remaining in a range between EUR 415 and EUR 435 per 100 kg for the rest of the year. While at the start of December prices were down in most Member States compared to twelve months earlier, they were significantly higher in Italy, Sweden and the United Kingdom.

44. Following the noticeable drop in prices over the second half of 2001, average EU butter prices stayed relatively depressed throughout 2002, remaining at levels close to 90–92% of the intervention price throughout the year and well below the price levels of recent years. Average EU prices for skimmed milk powder began the year at just above the intervention price. However, the fall in prices experienced at the end of 2001 continued into 2002 in view of the significant rise in production, with average prices only bottoming out at the end of May at around 2.4% below the intervention price. Prices only showed a sustained improvement from September onwards, with average prices generally moving above the intervention price over the latter part of the year as external demand for EU milk powder increased in reaction to the low, drought-affected production in Australia.

1.4. Input prices

45. In 2002, the index of purchase prices in nominal terms for goods and services currently consumed in agriculture remained more-or-less unchanged (up only by an average of 0.1%) from the previous year. The biggest rises were for maintenance and repair of materiel (up 4.4%) and buildings (up 2.1%), seeds and plants (up 2.2%) and general costs (up 2.3%), but these rises were heavily offset by decreases for fertilisers and energy (down 3.3% and 3.0% respectively), while feeding-stuffs remained more-or-less stable compared to the previous year.
46. When account is taken of inflation, the real change since 2001 in the index of purchase prices for goods and services currently consumed in agriculture was a decrease of just over 2% for the European Union as a whole, mainly due to the significant drop in prices for fertilisers and energy (both down over 5% in real terms). Above-average decreases were recorded in Austria (down 3.0%), Finland (down 2.5%), Ireland (down 3.3%), the Netherlands (down 2.9%), Portugal (down 8.3%) and Spain (down 2.7%). Real input prices were also down in Belgium (by 1.3%), France (by 1.9%), Germany (by 1.5%), Greece (by 1.6%), Italy (by 2.2%), Luxembourg (by 1.6%) and the United Kingdom (by 1.5%), and more-or-less stable in Denmark and Sweden.

1.5. Farm income

47. Eurostat's initial estimates, based on information received from Member States up until early December 2002, indicate average farm income (measured as the real net value added at factor cost per annual work unit) across the European Union as a whole 3.0% down on the previous year. Declines in income are expected in a clear majority of Member States, with only five foreseen to record any increase. The strongest falls are expected in Denmark (down 26.3%), Germany (down 18.0%), Ireland (down 11.4%), Belgium (down 7.7%) and the Netherlands (down 7.5%), with the sharp drop in pig and milk prices being the main common factor in the decline in agricultural income in most of these countries. The other Member States where income declined, although to a much lower extent, were Austria (down 2.8%), France (down 0.9%), Italy (down 1.6%), Portugal (down 2.2%) and Sweden (down 1.5%). In contrast, incomes were up in Greece (by 5.7%), Luxembourg (by 1.0%), Finland (by 7.3%), Spain (by 1.2%) and the United Kingdom (by 3.9%), with most of these countries also recording a strong decrease in agricultural labour.

48. Underlying the overall decrease in average farm income are quite wide variations according to the type of farming. According to first estimates from the Farm Accountancy Data Network, average income should decrease most significantly compared to 2001 levels in those farms specialising in pork and poultry production (down 38.7%), while decreases are also expected for mixed (crops and livestock) production (down 15.9%) and milk production (down 7.3%). While farms specialised in wine production also saw a decline in average income (down 7.5%), those specialising in the production of other permanent crops experienced a large rise in income of around 18.6%. Similarly, farms specialising in grazing livestock also experienced a rise in average income (up 10.5%), and those specialised in horticulture a rise of around 11.7%. Finally, incomes are once again expected to remain more-or-less static in farms specialising in the production of field crops.

Changes in nominal farm-gate prices in 2002 and 2001

(%)

Member State	2002/01			2001/00		
	Crop Products	Livestock products	Total	Crop Products	Livestock Products	Total
EU-15	2.8	-5.6	-1.4	5.1	5.2	5.1
Belgium	-2.8	-8.3	-6.2	-0.1	3.7	2.3
Denmark	-4.3	-12.0	-8.3	2.3	9.9	7.5
Germany	4.9	-6.7	-2.8	6.5	5.6	5.9
Greece	10.8	-1.5	7.0	5.9	7.5	6.4
Spain	4.3	-8.7	-1.7	0.3	10.0	4.6
France	-2.0	-3.6	-2.8	4.9	2.0	3.5
Ireland	-1.8	-4.7	-4.3	11.0	3.7	4.6
Italy	7.9	-4.6	3.4	5.7	3.6	5.0
Luxembourg	7.2	-5.5	-3.1	6.4	1.1	2.1
Netherlands	3.1	-3.6	-0.1	7.3	4.3	5.9
Austria	2.5	-6.7	-4.0	2.9	8.0	6.4
Portugal	-2.8	-5.7	-4.2	6.6	6.3	6.5
Finland	1.0	-3.3	-2.0	-1.9	7.9	4.7
Sweden	-4.5	-2.8	-3.4	10.1	2.9	5.2
United Kingdom	-4.7	-3.6	-3.5	10.9	5.7	7.7

Source: Eurostat

Changes in nominal purchase prices for agricultural inputs in 2002 and 2001

(%)

Member State	Intermediate Consumption		Investment		Total	
	2002/01	2001/00	2002/01	2001/00	2002/01	2001/00
EU-15	0.1	4.1	2.5	2.2	0.6	3.7
Belgium	0.3	0.9	2.1	2.6	0.5	1.1
Denmark	1.6	8.0	2.0	2.2	1.7	6.8
Germany	0.0	3.6	1.5	1.2	0.4	3.1
Greece	2.2	2.1	4.0	3.7	2.5	2.4
Spain	0.7	1.4	3.7	5.7	1.8	1.9
France	0.0	3.0	2.0	2.1	0.5	2.8
Ireland	1.3	5.2	3.0	4.3	1.7	5.0
Italy	0.3	5.3	2.7	1.9	1.2	4.0
Luxembourg	0.3	3.7	1.8	3.5	0.9	3.6
Netherlands	1.0	7.8	3.5	4.3	1.4	7.2
Austria	-1.2	2.4	1.5	1.6	-0.2	2.1
Portugal	-5.0	8.3	3.1	1.3	-3.9	7.3
Finland	-0.6	0.6	2.9	2.9	0.2	1.1
Sweden	1.8	6.5	3.2	3.0	2.1	5.8
United Kingdom	-0.3	5.1	0.9	0.3	-0.1	4.3

Source: Eurostat

Real output price indices for agricultural products
(1995=100)

	1995	1996	1997	1998	1999	2000	2001	2002
EU-15	100.0	98.9	96.3	91.5	86.4	87.6	89.6	85.8
Belgium	100.0	101.4	101.2	94.2	85.4	91.8	95.4	88.0
Denmark	100.0	101.7	99.8	86.6	81.7	87.7	92.2	82.6
Germany	100.0	98.3	97.8	92.5	86.3	89.8	93.0	89.0
Greece	100.0	99.0	96.0	91.1	89.6	90.6	92.9	95.7
Spain	100.0	98.8	93.9	89.8	85.0	85.9	87.5	83.0
France	100.0	97.7	96.7	96.0	92.3	92.2	93.7	89.3
Ireland	100.0	93.5	86.6	84.1	78.6	79.5	80.0	73.1
Italy	100.0	100.4	99.0	93.9	88.1	87.9	90.2	90.9
Luxembourg	100.0	94.3	95.2	94.2	91.2	88.7	88.4	84.1
Netherlands	100.0	101.5	105.9	98.7	91.2	96.0	96.6	92.9
Austria	100.0	99.9	101.2	93.3	87.1	91.4	95.1	89.7
Portugal	100.0	99.1	97.9	96.9	90.4	92.2	94.0	87.0
Finland	100.0	95.8	93.7	91.6	88.8	89.9	91.7	88.3
Sweden	100.0	94.7	91.3	89.2	87.3	85.1	87.2	82.5
United Kingdom	100.0	97.4	83.0	73.7	69.7	67.9	73.4	70.0

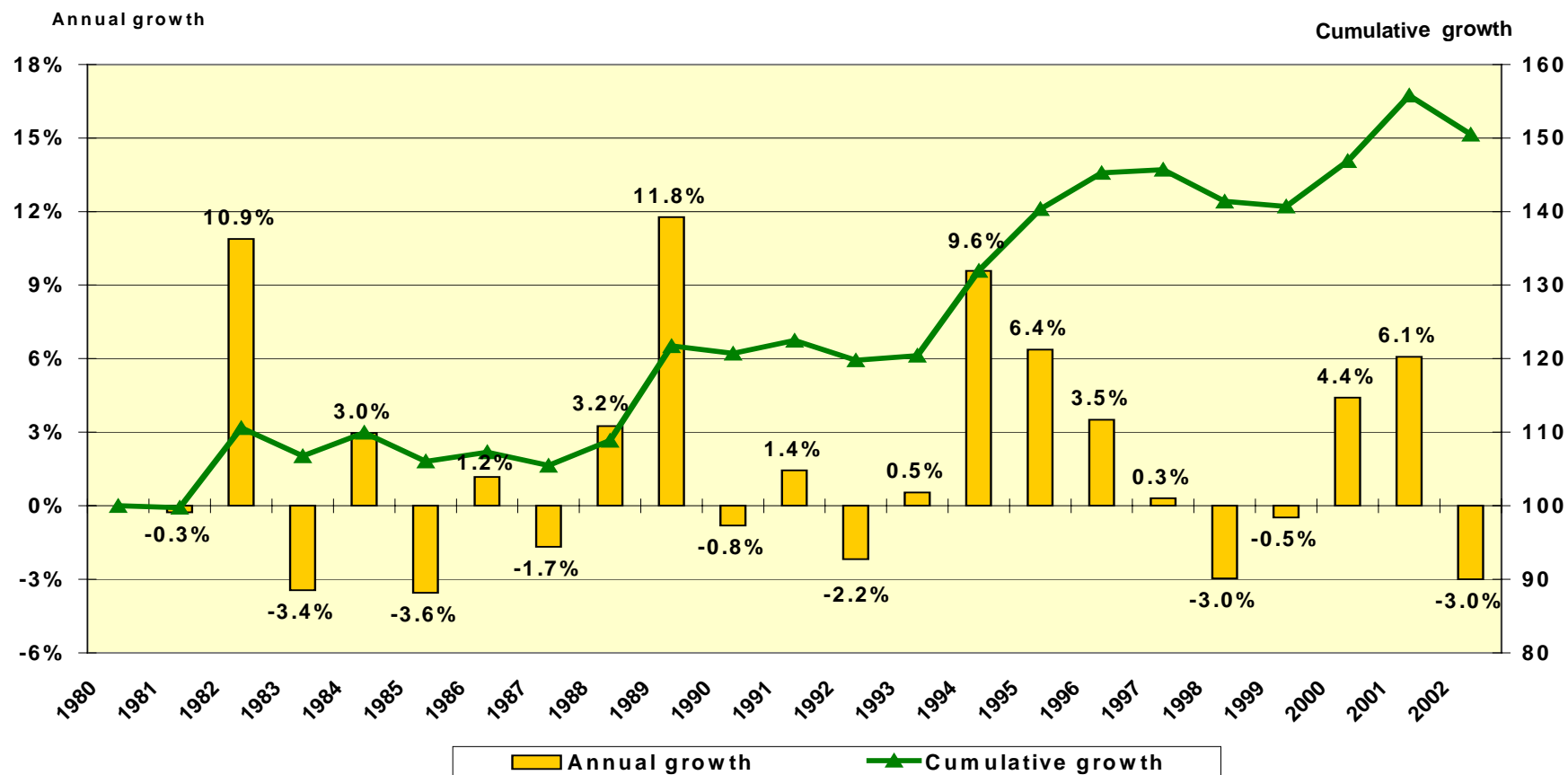
Source: Eurostat

**Indices of real purchase prices for goods and services currently consumed in agriculture
(1995=100)**

	1995	1996	1997	1998	1999	2000	2001	2002
EU-15	100.0	102.1	101.0	95.3	92.1	95.0	96.3	94.2
Belgium	100.0	102.6	103.2	97.4	95.0	100.1	100.7	99.4
Denmark	100.0	101.2	102.4	98.6	94.0	94.6	99.9	99.2
Germany	100.0	102.2	102.4	97.9	96.3	101.4	102.7	101.2
Greece	100.0	99.8	96.8	93.4	93.1	96.1	94.7	93.2
Spain	100.0	100.9	101.5	98.6	95.0	96.9	96.3	93.7
France	100.0	101.7	101.9	98.3	96.3	99.4	100.9	99.0
Ireland	100.0	101.9	98.7	94.3	93.0	94.0	95.0	91.9
Italy	100.0	106.1	105.7	94.0	85.6	87.6	90.2	88.2
Luxembourg	100.0	101.0	100.7	98.4	102.9	105.4	106.8	105.1
Netherlands	100.0	104.3	102.6	97.4	94.4	98.6	101.1	98.2
Austria	100.0	101.1	101.4	96.5	95.1	97.1	97.2	94.3
Portugal	100.0	100.2	96.4	91.0	88.9	89.5	92.9	85.2
Finland	100.0	100.7	101.4	98.1	95.8	99.4	97.5	95.1
Sweden	100.0	105.2	104.4	100.9	100.1	103.1	106.8	106.5
United Kingdom	100.0	98.7	92.2	83.9	80.9	82.8	91.7	90.3

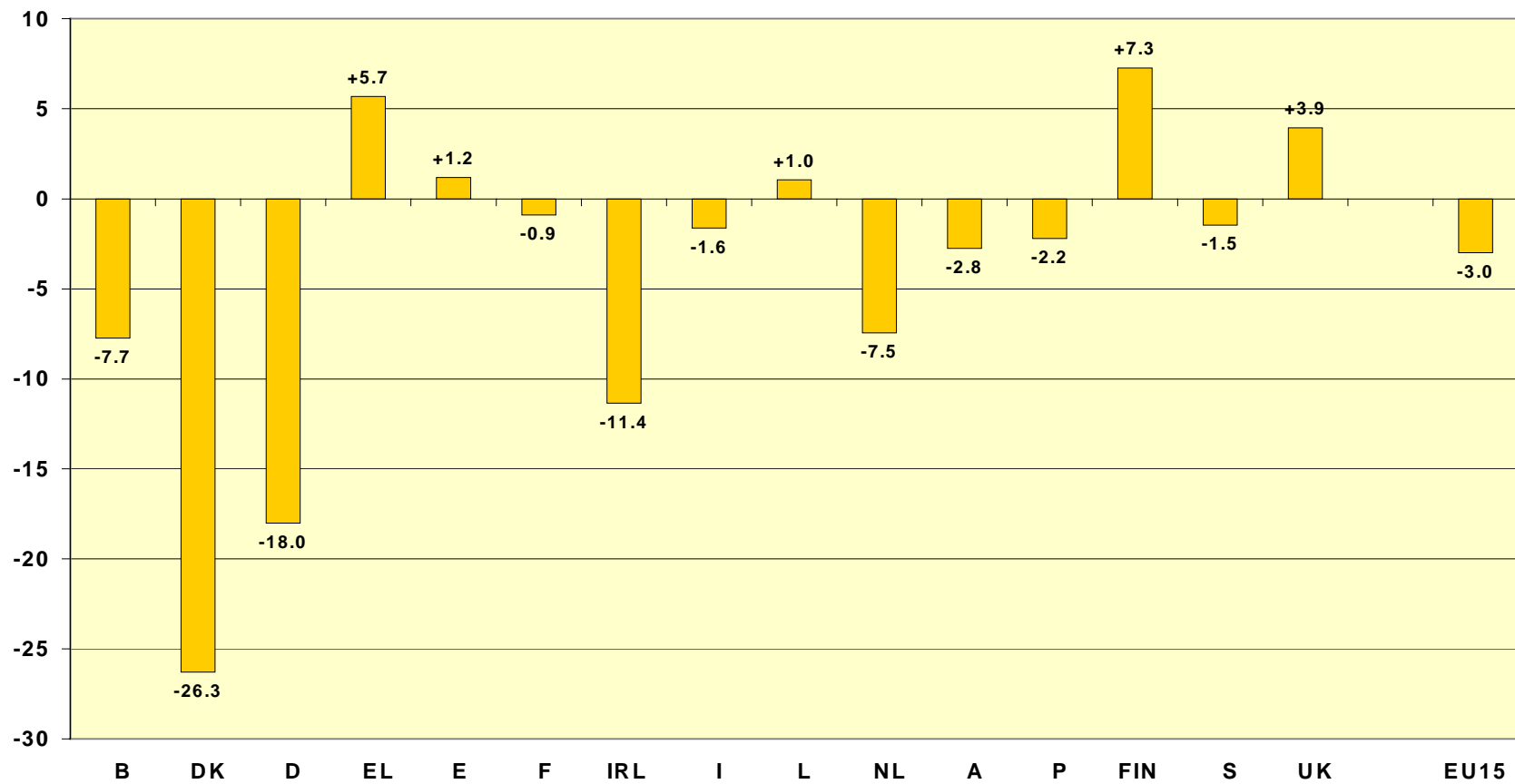
Source: Eurostat

Development of agricultural income in the EU over the 1980-2002 period, in terms of annual change (%) and cumulative growth (1980 = 100)



Source: Eurostat – DG AGRI calculation

**Development of agricultural income in the EU Member States in 2002
(% change versus 2001)**



Source: Eurostat – DG AGRI calculation

Development of agricultural income in the EU Member States over the 1990 - 2002 period

(1995 = 100)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
EU-15				85.8	94.0	100.0	103.5	103.8	100.7	100.2	104.7	111.0	107.2
Belgium	116.1	116.6	113.6	109.6	111.1	100.0	109.7	114.0	107.7	99.7	108.1	116.8	107.8
Denmark	86.0	83.8	73.4	72.8	84.0	100.0	102.3	97.9	77.3	74.8	91.2	109.9	81.1
Germany		90.0	94.4	90.5	93.6	100.0	113.1	114.4	100.9	94.6	114.0	135.2	110.9
Greece				85.4	95.9	100.0	95.2	95.6	95.0	96.5	100.3	105.8	111.8
Spain	102.1	100.6	87.3	90.0	100.4	100.0	112.3	113.5	110.9	107.8	120.1	123.6	125.1
France	87.2	76.8	83.5	83.0	94.2	100.0	100.5	104.0	108.6	106.4	106.2	109.9	108.9
Ireland	76.0	77.3	87.4	89.6	93.5	100.0	102.3	99.8	97.3	92.5	98.5	104.5	92.6
Italy	78.1	83.6	83.0	85.3	91.1	100.0	105.7	108.3	108.2	116.6	112.5	112.6	110.7
Luxembourg	99.1	91.9	92.8	91.0	88.6	100.0	103.8	95.4	104.8	94.3	95.1	90.1	91.1
Netherlands	115.8	114.3	104.8	86.4	97.3	100.0	95.9	103.5	93.0	86.4	83.7	87.8	81.2
Austria	90.4	91.7	86.3	81.8	88.1	100.0	92.1	83.9	82.0	78.1	84.1	98.0	95.3
Portugal	94.6	93.8	70.1	67.9	91.1	100.0	109.8	104.6	104.9	125.8	112.1	139.9	136.8
Finland	100.7	94.1	81.7	84.1	88.2	100.0	80.6	82.2	72.5	82.3	103.8	99.4	106.6
Sweden	106.5	89.3	79.4	83.4	84.0	100.0	98.1	104.0	106.5	94.0	105.7	116.5	114.8
United Kingdom	67.5	66.5	72.5	85.5	90.6	100.0	93.7	72.5	62.5	61.1	57.9	61.6	64.0

Source: Eurostat - Economic Accounts for Agriculture (EAA), Agricultural Income Index

1.6. Farm accountancy data network (FADN)

49. The FADN is used to calculate output, costs and incomes of commercial farms in the EU from observed data collected in a survey of harmonised farm accounts. The survey provides valuable information about how farm incomes vary according to type of farming and location, which is not apparent from the global averages in the results for the agricultural sector as a whole. This section presents some information by type of farming and by country.
50. At the time of going to press, the results for the Netherlands for 2000 were not yet available and for some countries they were still provisional.
51. The large differences in average income among Member States are inherent in the structure of their agriculture. The Member States with the highest average incomes are, generally speaking, those with a large number of large-sized farms specialising in arable crops, dairy or the less regulated sectors of production (pigs, poultry, horticulture, ...). 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.
52. Table 1 shows the wide range of economic results among Member States for each type of farming, as measured by the Farm Net Value Added (FNVA). In 1999 Sweden showed a negative FNVA for the type of farm Drystock.
53. Table 2 shows the contribution of the balance of subsidies and taxes to FNVA. For EU-15 in 1999 the proportion of subsidies net of taxes to FNVA was 35% but there were big differences among Member States and among types of farming. In that year Finland and Sweden had an average FNVA that was lower than the balance of subsidies and taxes. This means that revenue from the market was not enough to cover production costs. On the other hand the part of subsidies in FNVA was the lowest in the Netherlands followed by Italy, Belgium and Spain. Regarding types of farming there are also big differences. Net subsidies in the drystock, arable and mixed types of farm were the highest as a proportion to income. The horticulture and vineyards types of farm were the least subsidised by far. In 2000 only Finland among the available countries had an average FNVA lower than the balance of subsidies and taxes. Belgium, Denmark, Spain and Italy had the lowest part of subsidies in FNVA.
54. FADN data can also be used to analyse the degree of concentration in the agricultural sector. This is reflected in tables 3 and 4 with data for 1999. In order to avoid the problems caused by the presence of some negative values for FNVA, the variable used is total receipts from farming, i.e. receipts from the market and from subsidies.
55. Table 3 shows the share of the 20% of farms with the highest total receipts per type of farm, per country and for the EU as a whole. For the EU and for all types of farms the 20% with the highest receipts account for 67% of the total. Per country, however, the degree of concentration is lower and only Portugal, Italy, Denmark and the UK reach 60%. Luxembourg, Austria and Finland are the countries with the lowest degree of concentration. Per type of farm at the EU level the concentration is the highest for general field cropping, horticulture, vineyards and mixed cropping. The lowest concentration is found in cattle dairying, rearing and fattening combined, specialists dairying, sheep and goats and specialists olives. Per country, specialists

dairying is the least or one of the least concentrated types of farm in practically all the countries. The types of farm in which the concentration is the highest vary substantially from country to country.

56. Table 4 shows the degree of concentration according to the share of the 50% of farms with the highest total receipts. At the EU level for all the types of farm this share is 91%, while at the country level it is between 71% in Luxembourg and 87% in Italy and Portugal. Per type of farm specialists dairying, and cattle dairying, rearing and fattening combined are the least concentrated, followed by specialist olives. At the other extreme, the highest concentration is found in mixed livestock, mainly grazing.

TABLE 1 – FARM NET VALUE ADDED

(in EUR)

Member State	All farms		Arable		Horticulture		Vineyards		Other permanent crops		Dairy		Drystock		Pigs/poultry		Mixed	
	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000
B	55 577	60 703	50 731	57 351	78 039	77 367			84 715	86 588	49 686	50 598	44 573	44 294	66 835	92 621	54 259	62 122
DK	49 187	65 174	24 497	33 246	251 187	256 147			113 107	109 618	69 404	70 800	8 184	6 593	85 693	162 649	46 530	72 627
D*	47 187	49 728	59 294	57 115	84 441	87 858	44 127	39 906	78 710	73 630	36 249	38 671	29 672	31 821	43 642	70 507	48 516	56 588
EL*	10 047	10 686	9 764	10 093	16 292	14 556	11 699	11 798	8 428	9 807	17 443	16 060	14 879	14 639	13 660	13 660	13 061	13 248
E	21 156	23 698	21 486	26 735	37 198	45 852	27 334	25 505	16 720	16 796	20 248	20 195	20 908	22 540	34 936	51 311	28 157	27 541
F	47 993	46 712	46 684	45 481	72 830	86 850	105 875	83 983	67 448	65 883	32 406	34 406	28 023	28 490	26 358	51 815	42 559	45 917
IRL	16 228	18 935	38 477	54 826							31 037	34 379	8 975	10 827			34 737	48 025
I	16 451	15 869	12 271	12 446	34 534	34 260	19 150	20 058	12 768	10 776	45 046	41 768	23 331	23 769	76 271	102 274	24 441	26 776
L	46 469	54 344					72 938	76 839			47 760	52 949	37 187	47 809			33 518	46 843
NL	61 319		47 159		155 769				49 405		55 064		19 654		27 346		36 779	
A	30 003	30 518	35 631	34 758			30 193	30 062	46 214	40 493	26 424	26 541	27 091	26 104	33 798	38 023	30 309	33 741
P	5 343	5 567	4 376	5 055	7 872	7 446	9 775	8 151	3 837	3 689	10 232	12 269	6 060	5 672	12 055	16 850	4 620	5 139
FIN	25 976	27 815	20 028	21 161	55 832	45 532					27 172	29 423	24 034	27 174	24 481	37 162	28 873	22 517
S	15 938	23 522	14 456	17 065	7 872						27 416	35 559	-1 431	11 076	14 004	31 730	5 442	17 222
UK*	54 875	58 930	78 320	78 417	160 420	185 987			172 580	193 387	58 485	60 708	19 614	21 108	75 230	111 765	56 705	69 441
EU-15	24 674		21 095		57 396		39 605		14 119		35 827		19 403		41 463		30 003	

* provisional for 2000.

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

Member State	All farms		Arable		Horticulture		Vineyards		Other permanent crops		Dairy		Drystock		Pigs/poultry		Mixed	
	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000
B	21.4	15.2	20.0	19.5					0.6	1.0	16.8	13.6	38.6	40.4	32.4	2.7	27.7	17.4
DK	30.8	24.7	58.9	45.4	2.9	2.8			1.1	1.9	20.8	21.2	132.1	166.0	21.1	11.7	38.6	27.4
D*	41.3	39.1	54.3	53.4	3.7	3.7	14.6	15.7	4.9	6.1	32.3	31.1	72.5	73.9	32.9	22.2	51.3	45.5
EL*	38.8	39.7	57.9	59.9	3.8	4.7	41.0	43.5	23.6	25.0	12.2	15.9	35.4	33.1	-15.9		33.2	32.2
E	28.1	25.2	44.7	39.9		1.0	4.6	4.2	26.5	23.4	4.5	6.1	38.1	36.6	4.5	3.3	32.8	29.3
F	35.0	37.3	63.6	63.3	1.3	2.5	-0.5	-0.9	7.0	12.8	24.0	28.5	65.5	68.9	33.4	16.1	49.4	49.0
IRL	57.3	52.0	62.1	47.9							18.7	18.3	108.5	95.0			47.9	38.8
I	21.1	25.1	38.0	46.5			6.4	6.5	20.2	22.2	5.4	6.1	17.0	21.3	2.8	2.3	18.6	18.1
L	59.4	56.3					11.9	11.6			59.8	59.5	93.9	83.7			94.3	75.9
NL	7.2		12.9		2.6				7.0		6.6		34.2		12.7		10.5	
A	52.0	50.6	60.4	66.0			29.4	28.3	29.7	27.5	45.4	48.6	50.9	56.0	65.2	35.6	59.5	49.8
P	34.9	33.6	35.2	36.1	0.1	-0.7	6.3	9.2	28.5	37.1	28.8	24.4	84.8	76.0	-3.1	-3.9	51.3	39.0
FIN	111.6	118.5	139.7	139.7	42.9	47.9					93.9	102.7	144.8	161.6	166.9	123.4	127.3	186.3
S	114.5	93.1	124.8	117.4							67.7	63.7	-1269.8	226.0	80.0	38.3	346.4	138.4
UK*	57.9	55.2	66.4	64.4	0.3	0.3			0.5	0.2	17.8	20.4	164.3	161.0	5.3	3.5	66.9	59.3
EU-15	35.1		57.6		2.7		3.6		20.7		24.6		68.6		25.2		45.0	

* provisional for 2000.

**TABLE 3 – SHARE OF TOTAL RECEIPTS (OUTPUT + SUBSIDIES) IN 1999
20% OF FARMS WITH THE HIGHEST RECEIPTS**

	B	DK	D	EL	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EU-15
Specialist cereals, oilseed and protein crops	38	62	61	48	53	44	63	60	44		41	64	48	51	54	66
General field cropping	49	61	55	47	55	44	55	61		51	42	80	49	64	59	71
Specialist horticulture	51	76	44	47	58	55	28	54		55		62	54		76	70
Specialist vineyards			44	38	45	58		62	42		47	56	0			70
Specialist fruit and citrus fruit	46	60	39	38	53	56		59		48	48	60	46		75	65
Specialist olives				45	53			55				65				53
Various permanent crops combined	59	67	63	41	47	52		61			41	59			71	67
Specialist dairying	37	40	44	44	50	40	45	56	33	41	36	57	36	48	47	49
Specialist cattle-rearing and fattening	45	65	42	43	50	42	48	66	40	53	36	55	42	44	48	54
Cattle-dairying, rearing and fattening combined	38		49	44	41	41	49	57	34	53	35	75	38	57	51	48
Sheep, goats and other grazing livestock		72	36	39	49	40	50	47		52	36	61	40	47	49	52
Specialist granivores	43	49	42	65	56	50		54	55	48	36	65	43	47	56	54
Mixed cropping	50	64	67	42	53	47		57	64	59	39	54	89	63	75	70
Mixed livestock, mainly grazing livestock	47	42	47	48	49	39		54	51	60	36	55		62	74	65
Mixed livestock, mainly granivores	37	46	38		67	44	74	75	39	55	37	71	46	55	52	51
Field crops-grazing livestock combined	38	64	69	41	47	42	48	61	46	60	37	64	52	59	56	62
Various crops and livestock combined	46	51	46	44	55	44		64	31	58	41	64	49	53	48	63
All types of farming	48	61	53	47	57	49	59	64	38	54	40	65	45	54	60	67

**TABLE 4 – SHARE OF TOTAL RECEIPTS (OUTPUT + SUBSIDIES) IN 1999
50% OF FARMS WITH THE HIGHEST RECEIPTS**

	B	DK	D	EL	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EU-15
Specialist cereals, oilseed and protein crops	79	85	85	77	81	77	87	84	77		75	85	77	80	83	90
General field cropping	79	87	82	78	83	78	83	85		82	73	92	79	89	85	91
Specialist horticulture	84	95	76	78	83	83		81		84		84	83		93	91
Specialist vineyards			75	72	74	84		84	74		82	84	0			90
Specialist fruit and citrus fruit	75	89	74	71	80	85		85		83	73	82	66		92	86
Specialist olives				77	76			81				83				81
Various permanent crops combined	85	93	88	73	74	79		84			74	85			91	87
Specialist dairying	70	72	74	79	79	73	78	84	66	74	69	88	68	78	78	79
Specialist cattle-rearing and fattening	76	76	73	92	77	73	79	86	73	87	73	83	76	79	78	84
Cattle-dairying, rearing and fattening combined	69		77	75	81	73	79	84	66		68	87	74	86	81	79
Sheep, goats and other grazing livestock		90	65	72	81	71	80	78		83	72	87	83	66	79	82
Specialist granivores	77	80	73	68	84	81		80	77	81	72	91	74	80	83	83
Mixed cropping	81	86	85	74	81	79		82	64	83	72	81		87	92	89
Mixed livestock, mainly grazing livestock	75	76	76	75	78	73		81	83	60	71	81		89	87	92
Mixed livestock, mainly granivores	73	90	70		89	76	74	90	71	85	70		87	80	78	82
Field crops-grazing livestock combined	73	88	86	73	80	75	80	85	77	88	73	84	79	83	83	88
Various crops and livestock combined	83	82	77	75	82	78		87	58	85	76	84	74	83	84	91
All types of farming	78	89	80	77	82	79	86	87	71	83	73	87	76	83	85	91

2. POLICY DEVELOPMENTS AND LEGISLATIVE INITIATIVES IN 2002

2.1. Mid-Term Review of the CAP

57. In its Communication dated 10 July 2002¹, the Commission proposed a review in accordance with the objectives and general framework (Agenda 2000) established by the European Councils held in Berlin and Göteborg in 1999² and 2001 respectively. This proposal is aimed at stabilising markets and improving common market organisations (first pillar of the CAP), achieving simpler and more sustainable direct support, bringing about a better balance of support for sustainable agriculture and rural development, and consolidating and strengthening rural development (second pillar of the CAP). To this end, the Commission proposes severing the link between production and direct aid; making such aid conditional upon meeting environmental, food safety, animal welfare and occupational safety standards; substantially increasing aid through modulation of direct payments; implementing a farm auditing system; and introducing new rural development measures to improve the quality of production, food safety and animal welfare and to cover farm auditing costs. In addition, where market policy is concerned, in order to improve the competitiveness of European agriculture, the Commission proposes completing the reform process initiated in 1992³, particularly through cuts in a number of intervention prices.
58. The Commission played an active role in the major discussions which followed this Communication within the Council, the European Parliament, the European Economic and Social Committee, the Committee of the Regions and the Common Agricultural Policy Consultative Committees, as well as with civil society. These discussions were enriched by contacts in the Member States with farming and industrial circles, consumers and non-governmental organisations.

2.2. Quality policy

2.2.1. Proposal for an amendment to Council Regulation (EEC) No 2081/92 on the protection of geographical indications and designations of origin for agricultural products and foodstuffs

59. Since 1994, geographical indications have been covered by the World Trade Organisation Agreement on TRIPS (Trade-Related Aspects of Intellectual Property Rights). Council Regulation (EEC) No 2081/92 therefore requires amendment in order to make it fully compatible with this Agreement. In March 2002 the Commission adopted a proposal for a Regulation amending Council Regulation (EEC) No 2081/92, the main objective of which is, first, to grant nationals of the WTO member countries the right to object and, second, to invite third countries to participate in the Community registration system by reciprocity and under equivalence conditions.
60. This Commission proposal was discussed within the European Parliament, which endorsed it in general terms in December 2002, while proposing some largely very constructive amendments. At the same time, a Council working party met on several occasions to discuss this proposal.

¹ COM(2002) 394, 10.7.2002 and Bulletin 7/8-2002, point 1.3.100.

² 1999 General Report, points 6 and 495 to 501.

³ Twenty-sixth General Report, points 506 to 512.

2.2.2. *International context*

61. During 2002, the Commission pursued its negotiations aimed at securing the establishment of a multilateral register of geographical indications within the context of the TRIPS Agreement, as well as the extension to other products of additional geographical indication protection equivalent to that provided for wines and spirits. In addition, within the framework of the WTO Agricultural Agreement, the Community presented a proposal aimed at restoring protection for certain names covered by the exceptions to Article 24 of the TRIPS Agreement, which suffer the effects of usurpation in third countries.
62. Where bilateral relations are concerned, a decision was taken within the Joint Committee set up under the Association Agreement between the European Union and Switzerland to propose to the Council that a working group be set up to negotiate a bilateral agreement on the mutual protection of geographical indications. The possibility of protecting the name "Emmental" as a protected designation of origin (PDO) in Switzerland would be a point of discussion within this working group.
63. In addition, the Commission entered into preliminary discussions with a view to laying down the foundations for future bilateral negotiations with China on the protection of geographical indications.

2.2.3. *Registration of names under Council Regulations (EEC) Nos 2081/92 and 2082/92*

64. Interest continued to be shown in the Community registration and protection schemes for names of quality products in 2002. Twenty-seven names were registered under Council Regulations (EEC) Nos 2081/92 and 2082/92, including ten as protected designations of origin, fourteen as protected geographical indications and three as traditional speciality guaranteed indications. These registrations bring the total number of names on the Community register of protected geographical indications and protected designations of origin up to six hundred and four, and the number of names on the Community register of certificates of specific character up to thirteen.
65. Registrations were carried out under the normal procedure laid down in Article 6 of Regulation (EEC) No 2081/92, save in the case of the name "Feta". This name had in fact been submitted by Greece for registration under the simplified procedure laid down in Article 17. The registration, which took place in 1996, had been annulled by the Court of Justice of the European Communities as a result of the appeals lodged by a number of Member States. The Commission took into account the Court's arguments that the possible "generic nature" of the term had not been examined in sufficient depth. As a result, a huge survey was conducted among the Member States. The matter was eventually submitted to the Scientific Committee for Protected Designations of Origin, Geographical Indications and Certificates of Specific Character, which expressed the view that the term is not generic.
66. In the absence of an opinion by the Regulatory Committee on Geographical Indications and Designations of Origin, the Commission proposal for registration was transmitted to the Council, which took no follow-up action. The Commission finally went ahead with the registration, which was published in October 2002.

List of PDOs, PGIs and GTSs registered in 2002

Member State	Product	Type of product	Name
Austria	<i>Gailtaler Speck</i>	(meat-based product)	PGI
Germany	<i>Oberpfälzer Karpfen</i>	(fish)	PGI
Spain	<i>Kaki Ribera del Xúquer</i>	(fruit)	PDO
Spain	<i>Calçot de Valls</i>	(fruit)	PGI
Spain	<i>Queso de Murcia</i>	(cheese)	PDO
Spain	<i>Queso de Murcia al vino</i>	(cheese)	PDO
Spain	<i>Turrón de Agramunt</i>	(bread, pastry, cake)	PGI
Spain	<i>Paneletts</i>	(pastry, cake)	GTS
Spain	<i>Queso de la Palma</i>	(cheese)	PDO
Greece	<i>Patatas Kato Nevrokopiou</i>	(fruit, vegetables)	PGI
Greece	<i>Extra virgin olive oil Thrapsano</i>	(oils and fats)	PDO
Greece	<i>Milo Kastorias</i>	(fruit)	PGI
Greece	<i>Aktinidio Pierias</i>	(fruit)	PGI
Greece	<i>Feta</i>	(cheese)	PDO
France	<i>Morbier</i>	(cheese)	PDO
France	<i>Piment d'Espelette</i>	(vegetable)	PDO
France	<i>Pruneau d'Agen</i>	(fruits)	PGI
Italy	<i>Asparago bianco di Cimadolmo</i>	(vegetables)	PGI
Italy	<i>Ciliegia di Marostica</i>	(fruits)	PGI
Italy	<i>Fagiolo di Sorana</i>	(fruit, vegetables)	PGI
Italy	<i>Carciofo romanesco del Lazio</i>	(fruit, vegetables)	PGI
Portugal	<i>Carne Cachena da Penada</i>	(fresh meat)	PDO
Portugal	<i>Carne da Charneca</i>	(fresh meat)	PDO
Portugal	<i>Carne de Bovino Cruzado dos Lameiros do Barroso</i>	(fresh meat)	PGI
United Kingdom	<i>Welsh beef</i>	(fresh meat)	PGI
Finland	<i>Kalakukko</i>	(pre-cooked meal)	GTS
Finland	<i>Sahti</i>	(beverage)	GTS

2.2.4. Vertical Directives

67. In accordance with Article 5 of Council Regulation (EC) No 2991/94 of 5 December 1994 laying down standards for spreadable fats, the Commission presented the Council with a report, five years after the Regulation came into force, summing up the situation concerning the application of the specifications relating to claims implying a reduced-fat content. The general opinion is in favour of maintaining the terms, which meet manufacturers', distributors' and consumers' requirements, and no practical problems have arisen in applying the Regulation. This report was given a generally favourable reception by the Council.
68. The Commission presented to Member States its position (interpretative notes) concerning two labelling issues in relation to the implementation of Council Directive 2000/36/EC on cocoa and chocolate products. The Commission presented its position

in Council concerning the current negotiations in Codex Alimentarius for the International Standard on fruit juices.

2.3. Organic farming

69. On 15 March 2002 the Commission adopted Regulation (EC) No 473/2002⁴ updating technical Annexes I, II and VI to Regulation (EEC) No 2092/91⁵ and laying down detailed rules as regards the transmission of information on the use of copper compounds.
70. On 26 June 2002 the Commission adopted Regulation (EC) No 1113/2002⁶ amending Regulation (EC) No 1788/2001 concerning the certificate of inspection for imports from third countries. The certificate has to be presented with the products to the competent authority of the importing Member State and will enter into force on 1 November 2002.
71. On 25 October 2002 the Commission adopted Regulation (EC) No 1918/2002⁷ amending Regulation (EC) No 1788/2001 concerning the certificate of inspection for imports from third countries. The purpose of the Regulation was to give clarifications concerning the information to be included in the certificate.
72. Following the adoption of Regulation (EC) No 1804/1999⁸ bringing organic livestock production within the scope of Regulation (EEC) No 2092/91, the Commission launched a work programme aimed at clarifying certain issues relating to organic livestock production which were raised by the Council at the time of the adoption of Regulation (EC) No 1804/1999. The main issues currently covered by the programme are as follows:
- a regulation establishing labelling and inspection requirements for animal feedingstuffs was adopted by the Standing Committee for organic farming in December 2002;
 - additions to sections A and B of Annex VI as regards the non-agricultural ingredients and processing aids used in processed livestock products; a proposal will be submitted to the Standing Committee in the first half of 2003;
 - supplementing feedingstuffs with synthetic vitamins;
 - evaluation of the need for feed materials of conventional origin and feed supplements;
 - issues concerning availability of organic livestock.
73. The continuous process of updating the annexes to Regulation (EEC) No 2092/91 included discussion on:
- derogation for the use of non-organic seeds;
 - use of substrates in organic farming.

⁴ OJ L 75, 16.3.2002, p. 21.

⁵ OJ L 198, 22.7.1991, p. 1.

⁶ OJ L 168, 27.6.2002, p. 31.

⁷ OJ L 289, 26.10.2002, p. 15.

⁸ OJ L 222, 24.8.1999, p. 1.

74. The possibility of developing a European Action Plan for organically produced food and organic farming was further discussed and a Commission staff working paper⁹ has been drawn up.
75. The assessment of equivalency under Article 11(1) of Regulation (EC) No 2092/91 is ongoing for several third countries. On 28 June 2002 the Commission adopted Regulation (EC) No 1162/2002¹⁰ amending Regulation (EEC) No 94/92 laying down detailed rules for implementing the arrangements for imports from third countries provided for in Council Regulation (EEC) No 2092/91 and including New Zealand on the list of third countries. On 30 December 2002 the Commission adopted Regulation (EC) No 2382/2002¹¹ amending Regulation (EEC) No 94/92 in order to prolong the duration of inclusion of the third countries listed in the Annex to this Regulation.
76. Harmonisation of the conditions for issuing import authorisations according to Article 11(6) has started in a working group.

2.4. Promotion of agricultural products

77. In August 2002 under the new arrangements for measures to provide information on, and to promote, agricultural products on the internal market of the Community introduced by Council Regulation (EC) No 2826/2000, the Commission approved 40 of the 123 programmes submitted by professional organisations via the national authorities concerned.
78. These campaigns chiefly target consumers within the EU. The products concerned are mainly cheese and milk products, fresh and processed fruit and vegetables, flowers and green plants, and wine, as well as information on organically produced food. Community part-financing (50%) will amount to EUR 32.1 million over three years, with EUR 17.5 million in the first campaign year.
79. The specific measures in the beef sector were ongoing during 2002, as were the measures for the promotion of agricultural products in third countries, both decided in 2001. For the latter measure, a new series of campaigns will be adopted in January 2003.

2.5. Simplification of agricultural legislation

2.5.1. Introduction

80. Simplification work carried out by the Commission in the field of agricultural legislation has focused on, first, making agricultural legislation as clear, transparent and easily accessible as possible and, second, reducing the administrative workload that the common agricultural policy (CAP) imposes on farmers and administrative authorities.
81. The simplification of agricultural legislation was discussed by the experts group on simplification which was set up by the Commission following the conclusions of the Agriculture Council meeting of October 2000. The group met several times and discussed and gave its opinion on issues including the implementation of the Small

⁹ SEC(2002) 1368 of 12 December 2002.

¹⁰ OJ L 170, 29.6.2002, p. 44.

¹¹ OJ L 358, 31.12.2002, p. 120.

Farmers' Scheme, simplification of rural development policy, the CAP-ED project (a project creating an electronic dictionary of codes used within the CAP, with the intention of facilitating and simplifying the electronic exchange of information between the Commission and the Member States) and simplification of Member States' reporting obligations.

2.5.2. *Transparency and accessibility of agricultural legislation*

82. Work on the project to consolidate agricultural legislation continued this year. The project aims to consolidate agricultural legislation in all official languages of the EU and make it available on the Internet for the general public. Modifications to agricultural acts are integrated into the basic text so that a single and updated, though not legally binding, version can be consulted.
83. Moreover, the Commission has launched a horizontal project in order to codify the Community *acquis* before the end of 2005. Agricultural legislation will be included in this exercise and legally binding codified texts of agricultural acts will be adopted in the next few months.

2.5.3. *Simplification measures in different sectors*

84. The adjustments in policy measures proposed under the mid-term review promote a substantial simplification of the CAP. The Commission has proposed introducing a single decoupled income payment per farm for certain direct aids, which, by cutting the link between payments and production, will mean a major simplification in the support for EU farmers.
85. In the framework of rural development policies and in tandem with the discussions on the simplification of the Structural Funds, DG AGRI has started to reflect on how to simplify Community rural development policy. A priori the discussion is limited to the present programming period 2000–2006. The exercise is aimed, first, at identifying the legal and administrative provisions that are sources of complexities in Community rural development policy and so hinder its implementation and the achievement of its objectives and, second, at identifying possible solutions. This debate should also result in a useful exercise in view of the accession of candidate countries before the end of the programming period (2000–2006).

2.5.4. *Small Farmers' Scheme*

86. The implementing rules for the Small Farmers' Scheme were adopted at the end of last year¹². For the calendar year 2002 only Italy applied the scheme. After having adopted the necessary national measures to implement it (database, internal rules, forms etc.), Italy received requests from over 2000 farmers to participate in the SFS. According to the Italian authorities the administrative adjustments needed to implement the scheme may be the reason for the relatively low number of participants. A higher number is expected for the year 2003.

¹² Commission Regulation (EC) No 1/2002 of 28 December 2001 laying down detailed rules for the application of Council Regulation (EC) No 1259/1999 as regards the simplified scheme for payments to farmers under certain support schemes (OJ L 1, 3.1.2002, p.1).

2.6. State aid

2.6.1. *New guidelines for state aid relating to the cost of disposing of slaughterhouse waste and fallen stock, as well as for transmissible spongiform encephalopathies (TSE) tests*

87. On 27 November 2002 the Commission adopted new guidelines for state aid relating to the cost of disposing of slaughterhouse waste and fallen stock, as well as for transmissible spongiform encephalopathies (TSE) tests¹³. These new rules clarify and modify state aid policy in these sectors. This was necessary because Member States had been following different policies that created a serious risk of distortion of competition.
88. BSE legislation has significantly altered the economics of slaughterhouse waste. What was a valuable product in the past is waste now, to be disposed of at a high cost.
89. In order to allow the sector to adapt, the Commission authorised the payment of appreciable amounts of public support. However, this could lead to serious distortions of competition. Some Member States grant substantial amounts of aid, while others do not. A review of the policy was, therefore, necessary. The new rules respect the need to protect human health and the environment, which justifies the granting of aid without creating undue distortions of competition.
90. These new guidelines do not in any way affect the possibility of granting state aid or the legal obligation deriving from specific Council Regulations to compensate farmers for losses where their animals are found to be infected by BSE or comparable diseases. They rather relate to the permanent financial burden associated with the general obligation to test and separate risk material from healthy animals.
91. In future, no state aid is to be granted towards the cost of disposing of slaughterhouse waste of any kind. By way of exception, Member States may grant 50% aid for the disposal of specified risk material and meat- and bonemeal produced in 2003 which may no longer be used for commercial purposes.
92. As to TSE tests, Member States will have to respect an upper limit of EUR 40 of total public support towards the cost of testing a bovine animal (BSE tests) slaughtered for human consumption from 1 January 2003. No such upper limit exists at present. The support comprises the total cost of testing, i.e. the test kit and the taking, transportation, analysis, storage and destruction of the sample. It should be borne in mind that EUR 15 of the EUR 40 is currently paid by the Community (EUR 10.5 in the year 2003). This limit of EUR 40 was found to be sufficient to cover the price charged by the most competitive test-kit suppliers in the European Union. It will prevent undue distortions of competition and give suppliers who charge more an incentive to reduce their prices. For other TSE screening tests (e.g. on fallen cattle or sheep), the Commission has decided to continue to authorise state aid of up to 100% with no restrictions on the amount.
93. In the case of fallen stock on the farm, and only such stock, Member States may also grant public support of up to 100% of the removal costs (collection and transport) and 75% of the destruction costs (storage, processing, destruction and ultimate disposal). 100% aid for destruction may be granted in some circumstances, e.g. if it is financed

¹³ OJ C 324, 24.12.2002, p. 2.

through fees or contributions from the meat sector. In order to allow Member States to adapt existing financing systems, the Commission will authorise aid of up to 100% up to the end of 2003.

94. These guidelines will apply to new state aid, including any notifications from Member States that are pending, with effect from 1 January 2003. The Commission proposes that Member States should bring their existing aid schemes into line with these guidelines by 31 December 2003. The present guidelines will remain in force until 31 December 2013.

2.6.2. Overall workload

95. The Commission received 341 notifications of draft state aid measures in the agricultural and agri-industrial sector. The Commission also started the examination of 34 aid measures which had not been notified in advance under Article 88(3) of the EC Treaty. No review of existing aid measures pursuant to Article 88(1) of the EC Treaty was commenced or concluded. Overall, the Commission raised no objections to 250 measures, several of which were approved after the Member States concerned either amended them or undertook to amend them in order to bring them into line with Community state aid rules. The Commission launched the procedure laid down in Article 88(2) of the EC Treaty in respect of five cases where the measures concerned raised serious doubts about compatibility with the common market. The Commission closed the procedure provided for in Article 88(2) of the EC Treaty in respect of four cases, taking a final negative decision in three. In all the cases where a negative decision was taken and state aid had already been granted by the Member State concerned, the Commission requested recovery of the aid paid.
96. The overview of cases which follows includes a selection of the cases which raised the most interesting issues of state aid policy in the agricultural and agri-industrial sector in 2002. For the sake of clarity, the cases have been classified by topic.

2.6.2.1. Germany

Aid schemes aimed at compensating for the damage caused by the recent floods in Germany

97. The European Commission approved five aid schemes aimed at compensating victims in the agricultural sector for the damage caused by the recent floods in Germany.
98. The schemes were examined rapidly and it was concluded that the compensation proposed by Germany could be paid in its entirety. The measures were considered compatible with Article 87(2)(b) of the Treaty, which states that the Commission can approve aid to repair the damage caused by natural disasters. The measures approved provide for:
- Financial compensation of up to a total of 20% (30% in disadvantaged areas) will be given to farmers for lost revenue due to floods and land surface damage¹⁴.

¹⁴ Aid N 567/2002.

- On-the-spot-payments of up to a total of 50% will be handed out for damage due to floods and, in particular, the loss, destruction and damage of economic goods, such as plant, machines, land and livestock. Farmers will be compensated for circulating capital as well as evacuation costs¹⁵.
- Aid will also be given for the full or partial compensation of property investment losses in order to keep businesses in operation¹⁶.
- The special programme under the Joint Scheme (*Gemeinschaftsaufgabe*) in the agricultural sector for flood damage specifically covers aid for the restoration of villages, roads in rural areas and forests, and aqua-culture activities. Particular emphasis is placed on environmentally friendly restoration¹⁷.

99. Loans from the *Landwirtschaftliche Rentenbank* will be supported by a guarantee of 80% for loans for liquidity aid or for investments in agricultural and forestry holdings¹⁸.

Certified beef quality label in Bavaria

100. On 13 February 2002 the Commission authorised Germany (Bavaria) to pay aid worth a total of EUR 3.5 million in the year 2002 for the introduction of a new quality label. For the years 2003 and 2004, an annual budget of more than EUR 2 million has been approved. The quality label is part of an extensive quality assurance and control programme, which has been introduced in order to restore consumer confidence after a significant drop in beef sales following the BSE crisis. Access to the quality label is open to all enterprises in the European Union complying with the programme requirements.

101. The aid is to cover the cost of several individual measures, such as:

- controls and certification of companies participating in the programme,
- information measures designed to explain the label and its performance to the consumer,
- sales promotion and advertising measures.

102. The aid will be granted to groups of users of the quality label, such as marketing associations or other firms in the food production area. Users of the label must meet conditions relating to the production, processing and marketing of cattle and beef and will encounter markedly higher control standards than normal. There are also plans to extend the label to products other than beef at a later date.

103. The Commission authorised this aid on the basis of new guidelines for state aid for the advertising of agricultural products, which entered into force on 1 January 2002. These guidelines make it possible, for the first time, to combine information about product quality and product origin in the framework of such a label. The label for which the Commission has now authorised the granting of state aid allows producers from all over the Community to indicate the respective origin of their products.

¹⁵ Aid N 581/2002.

¹⁶ Aid N 595/2002.

¹⁷ Aid N 647/2002.

¹⁸ Aid N 682/2002.

2.6.2.2. Greece

Aid to compensate for losses caused by natural disasters

104. On 26 September 2002 the Commission approved a major state aid scheme aimed at compensating for the losses caused by natural disasters in Greece¹⁹. The method used to calculate the losses is based not on overall production in the reference years, which is the principal method of calculation advocated by the Community guidelines on state aid in the agricultural sector, but on regional output (the guidelines state that methods of calculation other than those given may be used provided that their appropriateness is demonstrated). The budget for this scheme is very substantial: over EUR 171 million for state aid and more than EUR 126 million for the aid still under consideration which the Greek authorities would like the European Union to part-finance.

2.6.2.3. Spain

Measures taken by Spain to support agriculture following the fuel price increase

105. On 11 December 2002 the Commission took a final, partly negative decision concerning the support measures introduced by Spain following the fuel price increase, in respect of which it had initiated the formal investigation procedure in April 2001²⁰. The Commission considered that a number of measures directly associated with this price rise do not fall within the scope of the state aid rules. On the contrary, it considered that Spain was unable to demonstrate that two measures in the package presented (subsidising loans and guarantees and certain tax benefits) were confined to compensation for the losses incurred as a result of the fuel price increase. The Commission therefore regarded this aid as operating aid which was incompatible with the competition rules.
106. The Commission decided that the following measures did not constitute aid under the Treaty:
- Amendment of Law 37/1992 on value-added tax;
 - Tax measures to support agricultural cooperatives;
 - Measures in respect of natural persons' income tax and value-added tax, including the following:
 - For 2000, the application of a corrective index to feed purchased from third parties in the case of certain livestock farming activities covered by the scheme for the objective assessment of personal income tax;
 - For 2001, a reduction in the net yield under the scheme for the objective assessment of personal income tax for arable and livestock farming activities;
 - Also for 2001, reduction in the percentage for calculating quarterly value-added tax payments under the simplified arrangements for certain agricultural activities and the tax measure consisting in raising the

¹⁹ Aid N 143/2002.

²⁰ Aid C 22/2001.

percentage of expenditure which is difficult to substantiate in the context of personal income tax.

107. Conversely, the Commission decided that state aid granted to farmers in the form of subsidies on loans and guarantees, and the measure extending for 2000 and 2001 the tax benefits applicable to personal income tax on transfer of certain agricultural land and holdings are incompatible with the common market. For these measures, Spain did not provide any information demonstrating any link between the rise in the price of oil and the losses suffered by farmers.
108. Since the aid is illegal, Spain must cancel it and recover it from the beneficiaries immediately. Spain must inform the Commission within two months of the measures which it has taken to cancel and recover the aid.

Aid for the extraction, refining and bottling of olive pomace oil

109. On 14 March the Commission decided to initiate the state aid investigation procedure with regard to a Spanish aid scheme for the extraction, refining and bottling of olive pomace oil²¹.
110. The aid granted is in the form of loans of a maximum overall amount of ESP 5 000 million (EUR 30.05 million), with a rate of interest subsidised by the Ministry of Agriculture, which will also be able to subsidise the guarantees on these loans.
111. At this stage, the Commission considers that this aid constitutes state aid which is intended to improve the financial situation of enterprises but does not in any way contribute to the development of the sector. Consequently, it could constitute operating aid incompatible with the common market. In addition, this aid is likely to be in breach of Community legislation (common market organisations).

Aid to olive oil producer organisations

112. On 19 July 2002 the Commission decided to initiate the state aid investigation procedure with regard to a regional (Extremadura) aid scheme for olive oil producer organisations. The aid, in the form of grants calculated on the basis of the number of production aid applications submitted for olive oil and table olives, is in addition to the aid provided for in Regulation No 136/66/EEC.
113. At this stage the Commission considers that a grant to olive oil producer organisations calculated on the basis of the number of production aid applications submitted for olive oil and table olives is a state aid intended to improve the financial situation of the groups but does not in any way contribute to the development of the sector. It is, therefore, to be regarded as operating aid incompatible with the common market. In addition, it is aid which is likely to interfere with the mechanisms governing the common market organisations and to be in breach of them and, therefore, Community legislation.

²¹ Aid C 21/2002 (ex NN 14/2002).

2.6.2.4. France

Aid for financing the public rendering service

114. On 10 July 2002 the Commission decided to initiate the formal investigation procedure with regard to certain aspects of the rendering scheme in France²². The Commission received several complaints claiming that the rendering levy is liable to result in distortion.
115. The purpose of the rendering levy is to finance a public service consisting in the collection and destruction of animal carcasses and material seized at slaughterhouses recognised as being unfit for human or animal consumption. The levy was introduced with effect from 1 January 1997, and is applied to the ex-VAT value of all purchases of meat and other specified products by all retailers of these products.
116. The major aspect under investigation is the application to meat imported from other Member States of the rendering levy introduced to finance the scheme, despite the fact that such meat gains no advantage from the scheme. In addition, since the public rendering service is free of charge, those benefiting from it, i.e. slaughterhouses, stockfarmers and holders of animal meal, do not have to meet the cost of eliminating the waste produced by their activities. This could constitute state aid to such businesses, which might be incompatible with the rules.
117. The Commission is also looking into the fact that the levy is imposed on businesses above a certain minimum total turnover rather than on the basis of sales of meat. In fact, a business that is exempt from the levy may in fact sell more meat than a business that pays the levy because of a higher total turnover generated by other products. Such exemption could constitute incompatible state aid to the businesses that do not pay the levy.
118. Moreover, the Court of Justice of the European Communities has been asked to give a preliminary ruling on the interpretation of Article 87(1) of the Treaty²³ in connection with the rendering levy.

2.6.2.5. Italy

Tax credits for investments in the agricultural sector

119. On 26 July 2002 the Commission approved an Italian aid scheme entitled "tax credits for agricultural investments"²⁴. The scheme provides for measures to support farm investments in the production sector and in the processing sector for the agricultural output of any farm, with the exception of investments for processing products listed in Annex I to the Treaty that are carried out in Italian regions eligible for the exemptions provided for in Article 87(3)(a) and the Abruzzi and Molise areas eligible for the exemptions provided for under Article 87(3)(c) of the Treaty, which were covered by another Decision (Aid N 324/02). The budget for the scheme amounts to EUR 155 million a year up to 2006.

²² Aid C 49/2002.

²³ Case C-126/01, Ministry of Economic Affairs, Finance and Industry v GEMO SA.

²⁴ Aid N 220/2002.

Aid scheme in favour of SMEs financed by the Union of the Chambers of Commerce

120. On 13 May 2002 the Commission approved an aid scheme²⁵ in favour of undertakings operating in the agricultural sector financed by the national Union of the Chambers of Commerce. The scheme, aimed at promoting the development of SMEs operating in the agricultural sector, has a yearly budget (for the first year) of about EUR 30 900 000. Aid is granted for investments in the production, processing and marketing sectors; for the diversification of agricultural activities, for the payment of insurance premiums, for encouraging the production and marketing of quality agricultural products, for technical assistance, for the livestock sector, for promotion and advertising, for the setting-up of risk-capital funds and for guarantees.

Italian aid to advertising

121. On 1 March 2002 the Commission approved a national aid scheme for promotion and advertising measures²⁶. This scheme amends the similar schemes already approved by the Commission under Aid No N 558/2000²⁷ and Aid N 729/A/2000²⁸ in order to bring them into line with the Community guidelines for state aid for advertising of products listed in Annex I to the EC Treaty and of certain non-Annex I products²⁹.
122. This is one of the first instances of large-scale application of the guidelines (all types of association representing agricultural producers being potential beneficiaries of the scheme). The implementation of the scheme will be checked in the annual reports to be sent by the Italian authorities.

2.6.2.6. The Netherlands

Rationalisation aid scheme for pig slaughterhouses in the Netherlands

123. On 28 December 2001, the European Commission decided to initiate a formal state aid investigation procedure concerning a notified rationalisation scheme for pig slaughterhouses in the Netherlands³⁰. In the light of the judgment of the Court of First Instance in the case *Weyl Beef Products BV and Others v Commission*³¹, it was deemed necessary to examine whether the notified measure, involving an agreement between undertakings to reduce capacity, complied with Article 81 of the EC Treaty. The Commission doubted that the measure could be exempted as a crisis cartel because there appeared to be no structural over-capacity in the sector and, furthermore, it seemed doubtful that the measure would improve production. Finally the Commission also had doubts about the compatibility of the proposed measure with the provisions of section 9 of the guidelines on state aid in the agriculture sector. By letter of 5 August 2002 the Dutch authorities withdrew the notification of the measure. Therefore no final decision will be taken in this case.

²⁵ Aid N 241/2001.

²⁶ Aid N 30/2002.

²⁷ See letter SG(2001) D/286564 dated 28.2.2001.

²⁸ See letter SG(2001) D/286847 dated 13.3.2001.

²⁹ OJ C 252, 12.9.2001, p. 5.

³⁰ Aid C 91/2001 (ex N 568/2001), OJ C 37, 9.2.2002, p. 17.

³¹ Joined cases T-197/97 and T-198/97, 31.1.2001.

2.6.2.7. Portugal

Recovery of incompatible aid granted to the pig sector: Article 88(2) of the Treaty, Case C-110/02, Commission v Council

124. On 27 February 2002 the European Commission decided to ask the Court of Justice to annul the Decision of the Council of Ministers of 21 January 2002³² authorising Portugal to grant aid of a maximum of EUR 16.3 million to pig farmers. This is the same amount of state aid as should have been repaid by 2 116 farmers under two final negative decisions of the Commission dated 25 November 1999³³ and 4 October 2000³⁴.
125. Considering that the aid under these measures was incompatible with Treaty Articles 87 and 88 on state aid, the Commission required Portugal to take action to recover the amounts illegally granted. Portugal did not appeal to the Court of Justice and so the decisions remained unchallenged.
126. The Portuguese authorities in fact launched proceedings to recover the incompatible aid but altered their opinion and in a letter dated 23 November 2001 formally asked the Council to authorise, under Article 88 of the Treaty, aid totalling EUR 16.3 million for the 2 116 farmers affected by the Commission's two negative decisions.
127. On 21 January the Council, despite the Commission's opposition, adopted a decision authorising this aid. The formal basis of that decision is Article 88(2) of the Treaty. The Commission considers that the Council has misused this provision in the case in point. The Council took this decision more than fifteen months after the Commission's second decision was adopted. It is the first time that the Council has used this exceptional procedure to approve an aid the sole purpose of which is to cancel the financial impact of two final decisions of the Commission. The latter considers the legal security of European Union decisions to be seriously threatened by the Council's decision.
128. For the Commission the Council's use of Article 88 to cancel out *de facto* and regardless of time the financial impact of the two final decisions:
- unacceptably violates the legal security of all the interested parties,
 - involves an assumption by the Council of a position of higher authority that infringes both the Commission's decision-making power and the Court's jurisdictional power,
 - raises questions of principle, on the reality of the Commission's authority in state aid policy matters and on the allocation of responsibilities between the Institutions as intended by the Treaty itself.

It has therefore referred this matter to the Court of Justice³⁵.

³² Decision 2002/114/CE of 21 January 2002 (OJ L 43, 14.2.2002, p. 18).

³³ OJ L 66, 14.3.2000, p. 20.

³⁴ OJ L 29, 31.1.01, p. 49.

³⁵ Case C-110/02, Commission v Council.

2.6.2.8. Case law

Case T- 152/99 – Hijos de Andrés Molina SA (HAMSA) v Commission

129. On 11 July 2002, the Court of First Instance of the European Communities ruled on the action for the annulment of Commission Decision 1999/484/EC of 3 February 1999³⁶ declaring as illegal and incompatible with the common market the state aid granted by the Spanish Government to the company Hijos de Andrés Molina SA (HAMSA), which was lodged by the latter and supported by Spain.
130. The beneficiary, HAMSA, had been the subject of a number of financial support measures since 1993, namely loans and guarantees from the public body IFA, capitalisation of part of its debt to IFA and the waiver of debts by several public bodies.
131. Of the eight pleas submitted by the applicant, with the support of the Spanish Government, for the annulment of the Commission Decision, the only one to be upheld by the Court related to the aid granted in the form of an annulment of debt by public bodies.
132. In its judgment, the Court recognised that the Commission had assessed the overall situation of the public creditors in relation to that of the private creditors, drawing decisive conclusions from a simple comparison between the total amount of public claims and private claims, and between the average percentage of the waiver of public claims and private claims, and finding that the public creditors, unlike most of the private creditors, had preferential claims or mortgages. The Court considers that it was for the Commission to assess, with regard to each of the public bodies in question and taking account of the above-mentioned factors, whether the waiver of debt which had been granted by it was more generous than that which would have been granted by a hypothetical private creditor had it been in a situation vis-à-vis the undertaking comparable to that of the public body and seeking to recover the sums owed to it. It is therefore the overall simplistic approach followed by the Commission that resulted in the annulment of this part of the Decision.
133. On the other hand, the Court rejected all of the applicant's other complaints, particularly that relating to non-application of the principle of regional discipline to *ad hoc* sectoral aid and that relating to the effects on trade, which was based on global data rather than specific analytical evidence.

Cases C-113/00 and C-114/00, Kingdom of Spain v Commission

134. Two applications were made to the Court for the annulment of Commission Decisions 2000/237/EC³⁷ and 2000/0240/EC³⁸, both dated 22 December 1999, declaring two aid schemes implemented by Spain to be incompatible with the Treaty. They concern aid for, first, horticultural products intended for industrial processing and, second, the financing of operating capital.

³⁶ OJ L 193, 26.7.1999, p. 1.

³⁷ OJ L 75, 24.3.2000, p. 54.

³⁸ OJ L 76, 25.3.2000, p. 16.

135. In both cases the Court confirmed that the relatively small amount of aid or the relatively small size of the undertaking which receives it does not as such exclude the possibility that intra-Community trade may be affected and that agricultural aid is exempt from the *de minimis* rule.
136. As regards the absence of a statement of reasons regarding the finding that there was an effect on intra-Community trade, the Court confirmed that the Commission is not bound to demonstrate the effect of aid. At the same time, it noted that the contested Decisions included figures on trade between the other Member States and Spain, thus indicating the overall context in which the aid schemes operate, as well as details of the general effect of aid on production costs and on the existence of a common organisation of the markets.
137. The Court also confirmed in the two judgments that:
- the use of the words "abnormally" and "serious" in Article 87(3)(a) shows that the exemption concerns only areas where the economic situation is extremely unfavourable in relation to the Community as a whole, while the exemption in Article 87(3)(c) is wider in scope inasmuch as it permits the development of certain areas in a Member State which are disadvantaged in relation to the national average. It adds that, in the case of operating aid not conceived as regional aid to investment or for the creation of jobs and not covered by another practice such as that involving subsidised short-term loans in agriculture (*crédits de gestion*), an analysis of the sectoral impact takes precedence over that of the regional impact;
 - the aid schemes in question established a financial incentive to sell and purchase raw materials from the region and accordingly constitute a restriction on the free movement of goods; in practice, they amount to a measure having equivalent effect to a quantitative restriction, which is prohibited by the Treaty. In those circumstances, they could not be declared to be compatible with the common market, the common market organisation concerned being affected.

2.7. Assistance to the needy

138. During the year, the European Union spent EUR 200 million on a food aid programme for the needy under which agricultural products in intervention storage were made available to charities. Since Germany, Austria, the Netherlands, Sweden and the United Kingdom decided not to operate the programme in 2002, the amount allocated to them was spread between the other Member States.

2.8. Outermost regions

139. On 28 June 2001 the Council adopted a series of Regulations repealing the previous Regulations based on the programmes of options specific to remoteness and insularity (POSEIDOM, POSEIMA, POSEICAN). The new Regulations are Regulations (EC) No 1452/2001, (EC) No 1453/2001 and (EC) No 1454/2001³⁹, applicable to the French overseas departments, the Azores and Madeira, and the Canary Islands

³⁹ OJ L 198, 21.7.2001, pp. 11-57. They replace, respectively Regulations (EEC) No 3763/91 (POSEIDOM) for the French overseas departments, (EEC) No 1600/92 (POSEIMA) for Madeira and the Azores and (EEC) No 1601/92 (POSEICAN) for the Canary Islands.

respectively. In addition, Regulation (EC) No 1455/2001 made the necessary adaptations to the common organisation of the market in beef and veal⁴⁰.

140. In 2002 the Commission completed the implementation of the innovations introduced by the 2001 Regulations. That involved, in particular, the adoption of Commission Regulation (EC) No 43/2003 of 23 December 2002 laying down detailed rules for applying Council Regulations (EC) No 1452/2001, (EC) No 1453/2001 and (EC) No 1454/2001 as regards aid for the local production of crop products in the outermost regions of the Union⁴¹, and Regulation (EC) No 98/2003 of 20 January 2003 establishing the supply balances and Community aid for the supply of certain essential products for human consumption, for processing and as agricultural inputs and for the supply of live animals and eggs to the outermost regions under Council Regulations (EC) No 1452/2001, (EC) No 1453/2001 and (EC) No 1454/2001⁴².
141. Through Regulation (EC) No 43/2003, the Commission groups together in a single text all the provisions currently dispersed throughout eleven different implementing Regulations relating to all production of crop products in the outermost regions of the Union for which support is granted under Regulations (EC) No 1452/2001, (EC) No 1453/2001 and (EC) No 1454/2001. As well as consolidating the above-mentioned pre-existing provisions, the new text comprises a new title relating to the management and control system for aid schemes, which will align practices in the outermost regions on those applied in the rest of the territory of the Union under Regulation (EC) No 3508/92.
142. Through Regulation (EC) No 98/2003, the Commission implements the results of the 2001 reform of the POSEI schemes by establishing, for products covered by the specific supply arrangements, aid for supplies to the outermost regions, including the flat-rate minimum aid designed to take account of the additional transport costs and, for farm inputs and products intended for processing, the remoteness and insularity to be taken into account where aid in proportion to the refunds granted for similar products exported to third countries does not cover these additional costs.

2.8.1. *Overseas countries and territories (OCT)*

143. The new Council Decision (2001/822/EC) of 27 November 2001 on the association of the overseas countries and territories with the European Community ("Overseas Association Decision") was adopted on 27 November 2001.
144. During 2002, the Commission adopted the implementing rules for rice and sugar (Regulations (EC) No 174/2002⁴³ and (EC) No 192/2002⁴⁴).

2.9. **Information measures concerning the CAP**

145. Council Regulation (EC) No 814/2000⁴⁵ provides for information measures relating to the common agricultural policy, intended for both Member States and the outside

⁴⁰ OJ L 198, 21.7.2001, p. 58. This common market organisation was last governed by Regulation (EC) No 1254/1999.

⁴¹ OJ L 7, 11.1.2003, p. 25.

⁴² OJ L 14, 21.1.2003, p. 32.

⁴³ OJ L 30, 31.1.2002, p. 33.

⁴⁴ OJ L 31, 1.2.2002, p. 55.

⁴⁵ OJ L 100, 20.4.2000, p. 7.

world. Commission Regulation (EC) No 2208/2002⁴⁶ (which replaces Commission Regulation (EC) No 1390/2000⁴⁷) lays down detailed rules for its application and introduces significant improvements to the scheme: simplification, transparency, better evaluation of the information actions proposed, better definition of the messages to communicate and means of distribution.

146. The purpose of the policy is to explain the issues surrounding the CAP, promote the European model of agriculture, keep farmers and other rural interests informed and raise public awareness of the implications and goals of the CAP.
147. Adoption of the Commission's proposal finances three types of measures:
- annual work programmes presented, in particular, by farmers' or rural development organisations, consumers' associations and environmental protection associations,
 - specific measures to be implemented in particular by the public authorities of the Member States, the media and universities, and
 - activities implemented on the Commission's own initiative.
148. Actions fall into two main categories:
- those submitted at the initiative of third party organisations for part-financing by the EAGGF which can be either programmes or specific actions,
 - those at the initiative of the Commission and financed at a rate of 100% by the EAGGF.

2.9.1. *Grants*

149. Analysis of applications received from all countries in the Community of Fifteen in 2000, 2001 and 2002 shows a steady annual increase (from 66 to 145 to 199 of which 27, 54 and 40 were applications for part-financing of programmes and 39, 91 and 159 were applications for specific measures in each of the three years).
150. The majority of programmes part-financed were from Belgium, which reflects the presence in Belgium of a number of European umbrella organisations such as COPA, CEJA and AEFPR but figures for the specific actions reveal a wider distribution with significant numbers of actions financed in France, Spain and Italy. Similar trends can be seen in the amounts of visits to Brussels requested by French, Spanish and Italian groups and in the volume of letters and e-mail questions submitted to the services of DG Agriculture.
151. Individual organisations which were successful in obtaining part-financing of their information programmes include the traditional beneficiaries of the "pre 814/2000 information policy grants" such as COPA-COGECA, AEFPR and CEJA but also national consumer organisations, national journalists' organisations, European environmental organisations and rural development groups. A number of national member organisations of the European umbrella organisations were also successful, as were some provincial/regional organisations and academic bodies.

⁴⁶ OJ L 337, 13.12.2002, p. 21.

⁴⁷ OJ L 158, 30.6.2000, p. 17.

2.9.2. *Actions at the Commission's initiative*

152. The Commission was represented at various agricultural fairs throughout the EU: *Grüne Woche* in Berlin, *Salon de l'Agriculture* in Paris, the *Salon Alimentaria* in Barcelona, AGRIBEX in Brussels as well as the fairs held in Verona (Italy) and Hameelina (Finland).
153. An innovative aspect of the stands was the voluntary cooperation of national and local farmers' and interbranch organisations to present not only our documentation but also tangible experiences of quality agricultural production from these countries. This type of joint action demonstrates clearly the complementarity of the Commission's general information actions under Council Regulation No 814/2000 and actions provided for in the context of other regulations governing information on agricultural products.
154. Another partner was the Rural *Carrefour network* that accompanied Commission staff in providing information on the stand. The presence of a Commission stand at agricultural fairs provided a base for our participation in a number of other communication activities in the context of the fairs involving press and professional organisations.
155. Conferences were organised in Brussels for Agricultural Press and Rural *Carrefours* and a conference on Mountain Agriculture was co-financed between DG AGRI and DG REGIO. Two major information events were organised for leading members of the agricultural world as well as academics, consumers, the press and other citizens from all the candidate countries, including Turkey, in Riga and Prague.
156. The regular publications programme was maintained with the cooperation of the OPOCE and a number of specific product "Fact Sheets", reports and leaflets were published on common market organisations, international and rural issues.
157. In the field of other communication actions, updated key messages were produced on Mid-Term Review and Enlargement issues. A video was made on the Mid-Term Review and updated to reflect the Commission proposals on CAP Reform of autumn 2002. Two "Eurobarometer Surveys" were carried out, one in the Member States and the other in the candidate countries.

2.10. Information and communication technology

158. Key issues for 2002 were the improvement of the electronic reception of data from the Member States and in particular those related to financial and market management.

2.10.1. *Electronic reception of data from the Member States*

159. In the context of receiving data from the Member State administrations several improvements were made in 2002 (NewIdes). In addition, a new version of the WUSI (Web Upload Secure Interface) application, which is a transfer mechanism for files coming from the Member State administrations, was implemented in 2002. The DG Agriculture portal (AWAI-Agriculture Web Applications Interface), which is used as the point of access for the information system applications that are made available to our correspondents in the Member States, has been operational since April 2002. For the CAP electronic dictionary and Organic Farming projects, developments in 2002

have led us to a situation where both systems can go on-line as planned in the first half of 2003.

2.10.2. Improvement of the Financial/CAP management information systems

160. The planned developments of the AGREX2 and eFAUDIT financial management systems have been completed and the applications are running to the satisfaction of internal and external users.
161. The existing Agriculture Markets Information Systems have been improved, particularly the reporting, or adapted in view of the evolution of the regulations. The publication of market prices on the "Europa" Internet site is also operational, covering the period from 1985 to the present day.

2.10.3. Improvement of administrative document management

162. In terms of improving effectiveness, with the help of the electronic document management system, the document scanning and archiving ADONIS Image service is working to user satisfaction. First steps towards improving the document management system, by means of a more complete electronic archiving system (historical archives and classification system), were also taken in 2002.

2.10.4. Analysis, reporting and decision support information systems

163. The study for the AGRIVIEW data warehouse concluded that a data warehouse is useful and feasible if resources and sponsorship by the high-level management of the DG are available. The development of a data set for the AGREX financial data was launched as it was foreseen in the 2002 ICT work plan.

2.11. Advisory committees and relations with bodies representing the EU socio-professional sector

164. At some eighty meetings of the advisory committees and working groups held in 2002, the Commission consulted and informed the representatives of *inter alia* agricultural producers, cooperatives, processors, traders, consumers, workers, environmental-protection, rural-development and animal-welfare interests of developments in the common agricultural policy and rural development policies.
165. In accordance with Article 4 of Commission Decision 98/235/EC of 11 March 1998 on the advisory committees dealing with matters covered by the common agricultural policy, committee members are appointed by the Commission on proposals from the socio-economic organisations established at Community level. An initial list of members was published in the Official Journal of the European Communities⁴⁸.
166. Updated versions of the list (to take account of members who resigned, retired, etc.) were published in Official Journal C 122 of 4 May 1999, C 123 of 3 May 2000, C 233 of 17 August 2001, and C 167 of 12 July 2002.

⁴⁸ OJ C 370, 30.11.1998, p. 1.

2.11.1. Coordination with the European Parliament

167. The Committee for Agriculture and Rural Development held about fifteen meetings. The Commission participated and kept the European Parliament informed and assisted individual Members of Parliament (MEPs) with various queries. In 2002, the main topic was the Commission proposal for the CAP reform published in July.
168. Other committees followed are the Committee on Budgets, the Committee on Budgetary Control and the Committee on the Environment, Public Health and Consumer Policy. The subject matter in the last-mentioned committee – food safety, animal health and welfare, plant health and the environment – is closely linked to agriculture.
169. The replies to questions (written and oral) and letters from MEPs, and petitions to the Parliament were co-ordinated. In total, there were 141 letters and 194 written questions where DG Agriculture was leader, and 448 written questions where DG Agriculture was associated. In total 98 oral questions were prepared and for 9 petitions the procedure was started.

3. MARKET DEVELOPMENTS

3.1. Crop products

3.1.1. Cereals

3.1.1.1. World market

170. World cereal production (excluding rice) in the 2001/02 marketing year was higher than in the previous three years. Central and Eastern Europe enjoyed a record harvest but production fell in the European Union, North America and Asia (notably in China). According to International Grains Council figures the 2001/02 world harvest was 1 480 million tonnes as against 1 452 million tonnes for 2000/01.
171. World wheat production fell from 582 million tonnes in 2000/01 to 579 million tonnes in 2001/02. The European Union harvested 96 million tonnes of common and durum wheat (104.4 million tonnes in 2000/01). Production in China, in the past the world's largest producer, fell from 102 million tonnes in 2000/01 to 94 million tonnes in 2001/02. Production in the New Independent States (NIS) rose from 60 million tonnes in 2000/01 to 90 million tonnes in 2001/02. The 2001 crop in the United States is estimated at 53.3 million tonnes; it was 60.8 million tonnes in 2000. In Canada production fell from 26.8 to 20.6 million tonnes owing to lower yields.
172. World wheat consumption in 2001/02 was 587 million tonnes (583 million tonnes in 2001) i.e. 8 million tonnes more than the harvest. Feed grain consumption was 915 million tonnes (893 million tonnes in 2000/01), i.e. 14 million tonnes more than production.
173. The International Grains Council's January 2003 estimates for 2001/02 indicate world coarse grain production of 901 million tonnes (870 million tonnes in 2000/01). In the United States there was a fall from 273 to 262 million tonnes but in the CIS countries a rise from 54.5 to 68.5 million tonnes. Eastern Europe saw a rise of 15 million tonnes.
174. World cereal stocks declined overall, the 2001/02 estimate being 373 million tonnes compared with 393 million tonnes in 2000/01 (193 million tonnes of wheat and 180 million tonnes of feed grains). In the EU intervention stocks on 1 July 2002 were 8.1 million tonnes (6.8 million tonnes on 1 July 2001): 5.1 million tonnes of rye, 2.5 million tonnes of barley and 500 000 tonnes of wheat.
175. The total volume of world trade in cereals in 2001/02 was 213 million tonnes (107 million tonnes of wheat and 106 million tonnes of coarse grains) compared with 209 million tonnes in 2000/01. The increase was mainly accounted for by higher imports into the European Union from Eastern Europe.
176. World cereal production in 2002 is estimated at 1 437 million tonnes (-2.5%). Wheat production fell from 579 to 563 million tonnes and feed grains from 901 to 872 million tonnes. World cereal consumption is constantly rising and is expected to reach 1 494 million tonnes. At the end of 2002/03 on the other hand world stocks are sharply down, the estimate being 314 million tonnes (-59 million tonnes). For world cereal trade a slight rise in volume can be expected (210 million tonnes, of which 104 million tonnes of wheat).

3.1.1.2. Community market

177. The 2001/02 marketing year is the second under the Agenda 2000 arrangements. Accordingly the intervention price fell from EUR 110.25 to EUR 101.31 per tonne and the aid was adjusted (EUR 63 per tonne of yield compared with EUR 58.67 per tonne in 2000/01). The compulsory set-aside rate remained at 10%. The Council decided to reduce the monthly increases from EUR 1.0 to EUR 0.93 per tonne with effect from 2001/02.
178. Community cereal production in 2001/02 was 199 million tonnes for the fifteen Member States, 14 million tonnes less than in 2000/01. This corresponds to a fall in the area sown from 37.3 million hectares in 2000/01 to 36.5 million in 2001/02.
179. Production of both common wheat (83.5 million tonnes) and durum wheat (8.4 million tonnes) was down, by 12.6% and 12.4% respectively.
180. Maize production rose from 38.8 to 39.5 million tonnes.
181. Rye production rose sharply to 6.3 million tonnes.
182. For the 2001 harvest the set-aside requirement was kept at 10%, corresponding to an area of 3.9 million hectares. Voluntary set-aside of nearly 1.9 million hectares brought the actual set-aside rate to 13.5%, with Spanish, Swedish and Finnish farmers in the forefront of participation in this scheme.
183. Cereal use was stimulated by the fall in prices under Agenda 2000 and the relatively high prices in the oilseed/protein sector given the dollar's strength against the euro. Animal feed use reached 118.5 million tonnes in the Community of 15 in 2001/02.
184. Community exports in 2001/02 (including processed products) were only 20 million tonnes as against 23.5 million tonnes in 2000/01. Commercial exports amounted to 10 million tonnes of common wheat (including flour), 6.6 million tonnes of barley (including malt), 1.8 million tonnes of maize and 700 000 tonnes of rye and rye flour.
185. Durum wheat exports in the form of grain and meal were very low: 300 000 tonnes as against 600 000 tonnes in 2000/01. Owing to lower production oat exports fell slightly from 700 000 to 600 000 tonnes.

3.1.2. *Oilseeds*

186. Oilseeds yield two products: oil, chiefly for human consumption, and cake for animal feed. Accordingly the economic position of the sector depends on price movements for seeds, oils and cake. Vegetable oils can be used without further processing or as prepared oils and fats, e.g. margarine.
187. The European Union is a net importer of oilseeds, vegetable oils and cake. Annual import volumes are largely dependent on the relative prices of seeds, cake, oils and competing feed products (cereals, corn gluten feed etc.) and on the opportunities for exporting oil and cake from the EU. Total oilseed imports were 20.8 million tonnes in 2001 and 17.3 million tonnes in 2000. Most of this (86%) is soya beans.
188. A total of 33.6 million tonnes of oilseeds were crushed in the Union (EU-15) in 2001/02, as against 32.6 million tonnes in 2000/01. The greater part this was soya beans (about 59%) followed by rapeseed (about 28%) and sunflower (about 13%).

189. Under Regulation (EC) No 1251/1999 the area payment for oilseeds is identical with that for cereals from the 2002/03 marketing year. Thus there is no longer a specific area payment for oilseeds. Market prices for them no longer have any effect on the area payment.

190. Total oilseed production in 2001/02 was 13.4 million tonnes (of which 1.9 million tonnes of non-food production) as against 14.1 million tonnes (of which 2.1 million tonnes of non-food production) in 2000/01.

3.1.3. *Peas, field beans and sweet lupins*

191. These products, which mainly go to the feed industry, compete with a wide range of other raw materials.

192. Under Regulation (EC) No 1251/1999 the area aid has from the 2000/01 marketing year been EUR 72.50 multiplied by the historical cereals yield.

193. Compensatory aid was paid on some 1.2 million hectares in 2001/02. Total production was 3.8 million tonnes.

3.1.4. *Non-fibre flax*

194. The European Union grows both fibre flax (grown primarily for the fibre but also yielding seed) and non-fibre flax (grown solely for seed). The seed (linseed) is used without further processing or crushed to give oil (for industrial use) and cake for animal feed.

195. The Union imports large quantities of linseed (about 400 000 tonnes a year). Canada is its biggest supplier.

196. In order to control production a better balance was sought between the support granted for linseed and that for the other standard crops, and from the 1993/94 marketing year non-fibre flax was added to the arable crops included in the area payment system under the CAP reform adopted in 1992.

197. Under Regulation (EC) No 1251/1999 the area payment for non-fibre (oilseed) flax was reduced for the 2001/02 marketing year to EUR 75.63/t multiplied by the cereals yield and from 2002/03 is identical with the cereals payment.

198. The area sown to non-fibre flax in 2001/02 was 102 000 hectares.

3.1.5. *Grain legumes (chickpeas, vetches and lentils)*

199. Regulation (EEC) No 762/89 introduced a specific measure for grain legumes in 1989. This was prolonged by Regulation (EC) No 1577/96. Area aid is granted, outside the arable crops scheme, for a maximum guaranteed area (MGA). Regulation (EC) No 811/2000 divided the MGA between chickpeas and lentils (used for human consumption) and vetches (used in animal feed).

200. The aid is EUR 181 per hectare and the MGA 160 000 hectares for chickpeas and lentils and 240 000 hectares for vetches. If either MGA is not fully taken up the other MGA is increased by the balance. If an MGA is exceeded the aid for the marketing year is reduced in proportion.

201. In 2001/02 the area under chickpeas and lentils was 121 977 hectares and that under vetches 284 949 hectares. The MGA overrun for vetches resulted in adjustment of the aid to EUR 176.60 per hectare while that for chickpeas and lentils remained at EUR 181 per hectare.

202. The 2002/03 marketing year areas are estimated at 138 000 hectares for chickpeas and lentils and 315 000 hectares for vetches. Given the overrun for vetches the definitive aid was set at EUR 150.52 per hectare.

3.1.6. *Non-food production*

203. With entry into force of Council Regulation (EC) No 1251/1999 of 17 May 1999 establishing a support system for producers of certain arable crops, which repeated and replaced Regulation (EEC) No 1765/92, new arrangements were introduced for set-aside under the Agenda 2000 package:

- the basic percentage for compulsory set-aside is 10% from 2000/01 to 2006/07 inclusive;
- voluntary set-aside is offered to producers up to 10%, but Member States may set higher rates up to 100% of the agricultural area;
- from 2001/02 onwards the area payment for set-aside land is EUR 63.00 per tonne multiplied by the cereal yield, i.e. is the same as for cereal crops.

204. As the new basic Regulation applied from the 2000/01 marketing year the old implementing Regulation also had to be replaced.

205. The old non-food production rules were replaced by Commission Regulation (EC) No 2461/1999. New production possibilities have been introduced (crops for production of biogas, biofuels or electricity on the holding, biennial crops for exclusively non-food purposes) and procedures simplified.

206. Regulation (EC) No 1251/1999 contains a corrective mechanism to ensure compliance with point 7 of the Memorandum of Understanding on certain oilseeds concluded in 1993 between the European Economic Community and the United States of America within the framework of GATT. This point states that: "should the by-products made available as a result of the cultivation of oilseeds on land set aside for the manufacture within the Community of products not primarily intended for human or animal consumption exceed one million metric tonnes annually, expressed in soya bean meal equivalent, the Community shall take appropriate corrective action within the framework of the CAP reform".

207. The new corrective arrangements came into force under Council Regulation (EC) No 2704/1999 amending Regulation (EC) No 1251/1999 establishing a support system for producers of certain arable crops. For the 2001/02 marketing year the quantity of by-products expressed in soya bean meal equivalent was about 800 000 tonnes.

208. New industrial uses for hemp and the use of cereals and certain oilseeds to heat agricultural holdings directly without any prior processing have also been allowed as non-food production.

209. Measures to promote renewable energy and/or non-food production are included in most of the rural development programmes presented by the Member States under

Council Regulation (EC) No 1257/1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF) and amending and repealing certain Regulations.

210. Several Eastern and Central European applicant countries have also presented measures for the non-food sector under the special accession programme for agriculture and rural development (Sapard).
211. Out of 918 000 hectares of set-aside land used for non-food production in 2000/01, about 880 000 hectares were used for oilseed production, i.e. about the same as in 1999/2000. Some 60% of the output was used to manufacture biofuels, and the remaining 40% for lubricants and chemical feedstock.

3.1.7. Rice

212. The 2001 world harvest was about 595 million tonnes of paddy rice, 3 million tonnes down on 2000 (598 million tonnes).
213. In the Community, despite a reduction of the area sown for the 2001/02 marketing year, the amount of milled rice sold on the market was 1 500 000 tonnes (2 564 000 tonnes of paddy), a rise of about 4% on 2000/01 (1 436 000 tonnes of milled rice from 2 391 000 tonnes of paddy).
214. Production of indica rice was up by some 4% to 540 000 tonnes (909 000 tonnes of paddy). This accounted for about 60% of consumption (58% in 2000/01). Japonica rice production increased by some 5% to 960 000 tonnes (1 637 000 tonnes of paddy), about 9% more than consumption (1% in 2000/01).
215. In the 2001/02 marketing year very large intervention purchases were made in Spain (76 000 tonnes, mainly indica) and France (28 000 tonnes, mainly japonica). In Italy purchases were negligible and in the other producing countries, Greece and Portugal, none were made.
216. The 2001/02 marketing year saw an additional outlet opened for intervention rice: 99 000 tonnes of paddy rice, mainly japonica, was disposed of for animal feed.
217. At the end of the marketing year intervention stocks of indica (355 000 tonnes of paddy) were slightly higher but japonica stocks were lower: the overall reduction was from 621 000 tonnes of paddy rice to 588 000 tonnes, i.e. about 5%.
218. The 2002/03 marketing year estimates are for a reduction in total sown area but a sharp increase in milled rice production owing to very high milling yields in Italy.

3.1.7.1. Legislative framework: main developments

219. In its communication to the Council and the European Parliament *Mid-term review of the common agricultural policy* (doc. COM(2002) 394 final) the Commission, given the fact that implementation of the Everything but Arms initiative would otherwise lead to an excessive level of stocks within a few years, proposed adjusting the common market organisation by cutting the intervention price by 50% from the 2004/05 marketing year and introducing a private storage scheme triggered off when the market price falls below EUR 150 per tonne. The lower price would be offset by

an income aid and a crop-specific aid for rice. The maximum guaranteed areas would be reduced to the 1999–2001 average or the current level, whichever is lower.

3.1.8. *Starch*

220. The trend for the cereal starch market is one of slow expansion of sales within the Union and of exports.
221. Production of wheat starch is expanding, that of maize starch, accounting for about half of total starch production, is levelling off, while that of potato starch is quota-restricted.
222. The production quota amounts for potato starch set for the 2001/02 marketing year were retained by the Council for 2002/03 to 2004/05⁴⁹.
223. The importance of market management instruments such as production and export refunds has greatly declined. Production refunds have almost disappeared, the sole exception being a period of almost three weeks in April/May. Export refunds on products based on maize and potatoes have fallen sharply: at the end of the year they accounted for barely 5% of product value. Refunds on wheat-based products disappeared some two years ago.

3.1.9. *Sugar*

3.1.9.1. World market

224. After six consecutive years of surplus (when production exceeded consumption) and a year of virtually equal production and consumption, the world sugar balance is again in surplus, the excess for 2001/02 being 4.3 million tonnes. End stocks in 2002 stood at 63.2 million tonnes, representing 47.2% of total consumption, the second highest level in recent years.

Marketing year Sept./Aug.	Production	Consumption	Surplus or deficit	Stock/consump tion ratio (%)
	(1)	(2)	(3) = (1) – (2)	(4)
1992/93	113.0	112.1	+ 0.9	35.9
1993/94	111.6	112.6	– 1.0	33.5
1994/95	116.1	115.0	+ 1.1	33.3
1995/96	125.7	117.8	+ 7.9	39.0
1996/97	124.3	120.9	+ 3.2	38.8
1997/98	128.5	123.2	+ 4.9	40.8
1998/99	134.7	125.4	+ 9.2	45.3
1999/2000	134.2	128.3	+ 6.0	47.8
2000/01	131.2	131.4	– 0.2	46.3
2001/02	138.2	133.9	+ 4.3	47.2

Source: F. O. Licht (19.11.2002).

225. Early production forecasts had not indicated such a development. A large deficit was initially forecast by all analysts and revised late during the course of 2001/02 into a substantial surplus. For example the International Sugar Organisation altered the 0.55 million tonne surplus forecast in May 2002 to 3.45 million tonnes in September.

⁴⁹ Regulation (EC) No 962/2002 (OJ L 149, 7.6.2002, p. 1).

In consequence surplus stocks of over 15.2 million tonnes in August 2001 increased to 16.6 million tonnes in August 2002 (surplus stocks are defined as stocks above normal pipeline needs) and so continued to have a generally depressive impact on the market and prices. The stock/consumption ratio embraces all stocks including the accumulated surplus stocks. End stocks corresponding to 47% of consumption indicate a heavily oversupplied world sugar market when compared with the figure of less than 36% prevalent ten years ago.

226. The world balance sheet data for 2001/02 (September to August) shows major production decreases in the EU (-2.0 million tonnes), the USA, Poland and Turkey and increases of more significance in Brazil (+ 4.3 million tonnes), China (+ 2.5 million tonnes), Thailand and Pakistan.
227. Brazil is again the biggest producer and exporter. It is to be noted that its marketing year comprises 8 months of crop year 2001/02 (September 2001 to April 2002) and 4 months of crop year 2002/03 (May to August 2002), both crop years with very high figures with 2002/03 forecast to be a record year at 23 million tonnes. Other major producers in 2001/02 were (in millions of tonnes) India (20.1), the EU (16.1), China (9.2), the USA (7.8), Thailand (6.5), Mexico (5.2), Australia (5.0) and Cuba (3.8). These nine countries produced about 70% of the total. The biggest exporters were Brazil, the EU, Thailand, Australia and Cuba, these five accounting for two thirds of the total exports of 46.3 million tonnes.
228. Because of the major reduction in beet sugar production in Europe, cane sugar production, located mainly in developing countries, has increased its already large share to 76% of total production. At the beginning of the 90s its share was on average 67%.
229. Owing to the persistent forecast of a larger deficit in 2001/02, prices remained firm for some months around the level of the previous marketing year. The New York raw sugar No 11 spot price started at 9.5 cts/lb in July 2001 and came down to 7.1 cts/lb in June 2002. In line with the reduced production this slow slide in prices was less pronounced for white sugar. An important factor in price development was the frequently increased estimates for the Brazilian crop starting in May 2001 and the good prospects for the following 2002 crop.
230. Despite these changing fundamentals prices consolidated in a narrow range with few downward movements after 11 September 2001 and expiry of the May 2002 No 11 contract. Many analysts expected a much stronger downward reaction. This resilience to the bearish pressure was attributed in large part to the huge buying positions on the futures markets taken by the funds.
231. The price situation during the 2001/02 marketing year (July/June) is shown in the following table along with the longer-term trend.

<i>EUR/t</i>	1999/2000	2000/01	2001/02	December 2001
White sugar (London)	18.70	28.11	27.15	22.21
Raw sugar (New York)	14.38	25.24	19.19	18.96

It should also be borne in mind that during 2001/02 quotations were significantly affected by a weak euro (with the exception of December 2002).

232. This relatively firm price behaviour continued in the first half of the 2002/03 marketing year despite the forecast of a substantial surplus given the record Brazilian crop, a recovery in EU production and another year of higher production in China.
233. The growth in consumption of around 2% in 2001/02 (corresponding to the average for the 90s) did not match the production increase. This relatively stable growth is determined mainly by price (despite many markets being unaffected by world market prices), income elasticity (declining in developed countries with high levels of consumption) and population growth (slowing down in developed countries). The rate of growth in 2001/02 was above average in Eastern Europe and the countries of the former Soviet Union, Central and South America, the Indian Subcontinent and Equatorial and Southern Africa and below average in Western and Central Europe, North America, the Far East and Oceania.

3.1.9.2. Community market

234. In the 2001/02 marketing year beet areas continued their decline, dipping below the 1.8 million hectare level. The drop on 2000/01 was 1.9%. The below average yield of 8.46 tonnes of sugar per hectare was a 7.6% fall on 2000/01. As a result total EU sugar production was only 15.8 million tonnes (white sugar equivalent) as against 17 million for 2000/01. Of this 15.5 million tonnes came from beet, 258 000 tonnes from cane and 43 000 tonnes from molasses.
235. Given this low production level non-quota C sugar production was only 1.7 million tonnes in 2001/02. C sugar has to be carried over to the next marketing year or exported without refund. The 385 000 tonne carryover was exceptionally low compared with the previous one of 1.6 million and the average of around 1 million tonnes.
236. Total exports of sugar in its natural state were 4.4 million tonnes in 2001/02: 1.8 million tonnes of C sugar exported without refund and 2.6 million tonnes with refund. For most of the latter the refund is set under a standing tendering procedure.
237. Sugar consumption within the EU rose to 12.9 million tonnes in the 2001/02 marketing year. Of this 407 000 tonnes was used by the chemical industry, an 11% increase on 2001/02.
238. The surplus, consisting of EU production under quota, preferential imports (ACP Sugar Protocol, India Agreement, Special Preferential Sugar, Balkans, MFN reduced tariff quotas) and non-preferential imports (mainly in processed products) amounting to 2.6 million tonnes once EU consumption was deducted, was either exported or carried over as blocked sugar (non-quota sugar becoming quota sugar in the next marketing year).
239. Exports fell given the lower crop but end of year stocks were 300 000 tonnes higher than at the end of 2000/01.
240. Under the common market organisation quotas akin to those for sugar apply to production of isoglucose and inulin syrup. In 2001/02 as in previous marketing years isoglucose production (300 060 tonnes) did not exceed the maximum amount under the A and B quotas. The decline in inulin syrup production accelerated: the 2001/02 figure of 169 946 tonnes was only a little more than half the quota amount. Community consumption of isoglucose and inulin syrup fell to 413 000 tonnes.

241. For the 2002/03 marketing year the increase in beet areas (+ 2%) and more favourable weather permitting a return to high yields (9 tonnes per hectare) should mean that sugar production will exceed 17.3 million tonnes, 3.8 million tonnes of this being non-quota C sugar.

3.1.9.3. Legislative framework: main developments

242. Since the 2001/02 marketing year the common market organisation for sugar has been governed by the new basic Regulation (EC) No 1260/2001 adopted by the Council on 19 June 2001. The main change was termination of storage cost reimbursement. The outstanding balance from this scheme was used to reduce the levies paid by sugar producers (Commission Regulation (EC) No 1837/2002). In the first half of 2003 the Commission will submit a report, with whatever proposals may be appropriate, based on study of the market situation, the price and quota system and the strengthening of international competition.

243. For the 2002/03 marketing year the Commission reduced the quotas, as provided for in Article 10 of the basic Regulation, in order for the Community to comply with its commitments under the GATT Agriculture Agreement on refund-aided sugar exports. The reduction of 862 475 tonnes, i.e. 5.7% of the quotas, corresponds to the excess of sugar exportable with refunds (on the basis of production, import, consumption and stock forecasts for 2002/03) over the maximum permitted under these commitments.

3.1.10. Potatoes

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

245. Potatoes are grown in all Member States of the Community. In 2001 the total area grown was 1 251 000 hectares, down from 1 320 000 hectares in 2000. Early potatoes were grown on 106 000 hectares, 19 000 hectares less than in 2000.

246. Total production in 2001 was around 44.5 million tonnes, some 4 million tonnes less than in 2000. Early potatoes in 2001 accounted for about 3.1 million tonnes as against 3.4 million tonnes in 2000.

247. In the period 1995 to 2000 human consumption of potatoes did not move from the 28 to 29 million tonnes range.

248. EU imports of potatoes for human consumption were about 485 000 tonnes in 1999 of which some 455 000 tonnes (94%) were early varieties. Imports generally occur during winter and spring when EU stocks are low. The main suppliers are Cyprus, Egypt, Morocco and Israel.

249. Production in 2002 is expected to have been slightly higher (45.6 million tonnes) than in 2001.

3.1.11. Dried fodder

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

251. The following table summarises the trend of production as reflected in aid applications.

EU production of dried fodder, based on aid applications

('000 tonnes)

Dried fodder	MGQ ⁵⁰	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02
Dehydrated	4 412.4	4 070	3 818	4 283	4 610	4 599	4 720	4 421
Sun-dried	443.5	402	253	156	151	162	203	306
Total	4 885.9	4 472	4 071	4 439	4 761	4 761	4 923	4 727

252. In 2001/02 aid was granted for 4.4 million tonnes of dehydrated fodder (100.2% of the MGQ) and 0.3 million tonnes of sun-dried fodder (69.0% of the MGQ).
253. As subsidised production of dehydrated fodder exceeded the MGQ, the co-responsibility clause was applied: in order to remain inside the budget, the aid (EUR 68.83/t) was reduced by 0.2% (to EUR 68.70/t) in every Member State.⁵¹
254. The aid was, however, paid in full for sun-dried fodder, whose subsidised production was within the MGQ.

3.1.12. Fibre flax and fibre hemp

255. Fibre flax and fibre hemp have, since 2001/02, been covered by the support system for producers of certain arable crops introduced by Council Regulation (EC) No 1251/1999. The level of aid granted to the producers concerned now compares with that of competing crops.
256. In the case of hemp special measures have been adopted to prevent illicit crops from being concealed among those qualifying for area aid and thus disrupting the market organisation. Consequently, payment is made only in respect of surface areas on which the hemp varieties used offer certain guarantees as regards the psychotropic substance content.

3.1.12.1. Fibre flax

257. According to the FAO, the total world area sown to fibre flax in 2001 was 520 000 hectares, producing around 588 000 tonnes of fibre, of which 220 000 tonnes was produced in China and 79 000 tonnes in the European Union. The EU tends to import medium- and low-quality fibres, which are brought in from eastern Europe, Egypt and China, but supplies the whole world with high- and very high-quality fibres, since these are not produced anywhere else. In 2001 it exported 84 000 tonnes, mainly to China and Brazil.
258. The reform applicable from 2001/02 had appreciable repercussions as regards the area sown for harvesting in 2001, which totalled 95 500 hectares, compared with 211 000 hectares in the case of 1999/2000.
259. In 2001/02 market prices for fibre flax fell slightly (by –2.6%) compared with the record level reached in 2000/01. Despite efforts to diversify by seeking new outlets, the market is still heavily dependent on fashions in the clothing industry.

⁵⁰ Maximum guaranteed quantity; Council Regulation (EC) No 603/95 (OJ L 63, 21.3.1995, p. 1).

⁵¹ Regulation (EC) No 1207/2002 (OJ L 176, 5.7.2002, p. 9).

3.1.12.2. Fibre hemp

260. The world area planted with fibre hemp has fallen sharply in recent years, from an average of 119 000 hectares in 1989–1991 to 54 000 hectares in 2001. China, North Korea, India and Russia are the main producers. Production in the European Union is limited. Although it has traditionally been concentrated in France and, to a lesser extent, in Spain, a few additional Member States (Germany, the United Kingdom and the Netherlands) have for some years now been among the producers of the crop. Trade with third countries is very limited.
261. Here too, the reform appears to have had an effect, in so far as sowings for the 2001 harvest amount to approximately 15 000 hectares (against 32 000 hectares for 1999/2000).

3.1.12.3. Main legislative and policy developments

262. In the context of the sector reform adopted in July 2000, the Council set the processing aid for 2001/02 at EUR 100/t for long-fibre flax and EUR 90/t for short-fibre flax and for hemp fibre. For long-fibre flax there is a maximum guaranteed quantity of 75 250 tonnes – shared out between the Member States in the form of national guaranteed quantities – above which no aid is payable. The corresponding figure for short-fibre flax and hemp fibre is 135 900 tonnes. Moreover, each Member State may transfer part of its national long-fibre flax quantity to its national short-fibre flax and hemp fibre quantity and vice-versa.
263. In February 2001 the Commission adopted Regulation (EC) No 245/2001 laying down detailed rules for the application of Council Regulation (EC) No 1673/2000 on the common organisation of the market in flax and hemp grown for fibre. The provisions concerned relate in particular to the requirements for granting aid for the processing of the straw and the control measures applicable.

3.1.13. Cotton

264. The world area under cotton in 2002/03 is estimated at around 31.6 million hectares, with production estimated at some 19.3 million tonnes, as against 34.1 million hectares and 21.4 million tonnes in 2001/02.
265. While unginning cotton is not traded internationally the European Community, whose cotton-spinning capacity by far exceeds its fibre production, imports substantial quantities of ginned cotton: more than one million tonnes from 1990 to 1995 and 785 000 tonnes in 1997 to 2001. The countries of central Asia, the United States, Syria and a number of French-speaking countries in western and central Africa are the main suppliers. Intra-Community trade is rising, but remains limited.
266. In the European Union, the scale of cotton cultivation is limited, in terms of both the area planted and the number of producers. It is, however, concentrated in certain areas of Greece and Spain, playing a major socio-economic role there. The Community area planted with cotton is slightly up: 514 000 hectares in 2001 (as against 494 000 hectares in 2000), producing 1 685 000 tonnes of unginning cotton (1 348 000 tonnes in Greece and 336 000 tonnes in Spain), as against 1 573 000 tonnes in 2000. The European Union is about 48% self-sufficient in cotton fibres, its consumption from 1997 to 2001 having been around 1.100 million tonnes.
267. The Community aid scheme provides for a guide price (EUR 106.30/100 kg) and aid equivalent to the difference between the guide price and the world price is granted to

ginners who pay a minimum price to the grower. If the production of unginned cotton exceeds a maximum guaranteed quantity (MGQ), the guide price and the minimum price are reduced proportionally. The reduction is less if the world price level allows expenditure on the aid scheme to be curbed.

268. The guide price is reduced by 50% of the rate by which the national guaranteed quantity (249 000 tonnes for Spain and 782 000 tonnes for Greece) is overshot, provided that production is less than 362 000 tonnes in Spain and 1 138 000 tonnes in Greece. Above these levels, the reduction is increased by 2% for each additional 4 830 tonnes in Spain and each additional 15 170 tonnes in Greece.

3.1.14. *Silkworms*

269. Silkworm-rearing is practised in Greece, Italy and, to a lesser extent, France and Spain. While it accounts for only a tiny part of the EU's agricultural activity and of world silk production, it represents an important activity in certain regions such as Thrace, Veneto and Marche.
270. World production of raw silk stabilised in 2001, totalling, according to the FAO, 89 600 tonnes, the average from 1995 to 1997 being 87 000 tonnes. The industry is dominated by Asian producers (88 000 tonnes), with China (62 000 tonnes) and India (15 000 tonnes) together accounting for 85% of world production.
271. There has been an upturn in silkworm-rearing in the Community: a total of 4 928 boxes were successfully produced in 2001, compared with 4 004 boxes in 2000, 3 500 in 1999 and 2 800 in 1998. They yielded 95 800 kg of cocoons in 2001, compared with 61 700 kg in 1998. As from the 2000/01 marketing year, aid is permanently set at EUR 133.26 per box.

3.1.15. *Olive oil*

272. World production of olive oil averages some 2 700 000 tonnes, of which between 70% and 80% (around 2 400 000 tonnes in 2001/02) comes from the European Union. The other main producers are Turkey (65 000 tonnes), Syria (92 000 tonnes), Tunisia (35 000 tonnes) and Morocco (60 000 tonnes). While production varies considerably from one year to another, the world market fluctuates as a direct result of the Community market situation.
273. Estimated Community production eligible for aid in 2001/02, including olive-pomace oils, was around 2 603 700 tonnes, as against 2 062 902 tonnes in 2000/01. According to information received from the Member States when the olive and olive oil yields were set for the 2001/02 marketing year, there are around 677 million productive olive trees in the European Union. Some two million holdings are engaged in olive-growing.
274. In 2000/01 Community consumption was almost 1 807 000 tonnes (83% of world consumption). The most recent forecasts point to a slight increase in consumption in 2001/02. At the beginning of the 2001/02 marketing year, carryover stocks totalled 461 500 tonnes, but were down to an estimated 440 000 tonnes at the end of the marketing year.
275. Greece and Spain are normally the main suppliers, and Italy, although itself an exporting producer, remains the Community's main purchaser. In 2000/01 imports totalled 40 721 tonnes. Exports for the same marketing year reached 323 660 tonnes, 247 547 tonnes direct and 76 113 under the inward processing arrangements. No

export refunds were paid during 2000/01. The limit imposed on exports with refunds for that period under the GATT Agreements was 115 000 tonnes.

276. In December 2000, in accordance with the transitional reform for 1998/99 to 2000/01, the Commission submitted a proposal to reform the olive oil sector, to apply from 2001/02. On the basis of that proposal, the Council adopted the new reform of the olive oil sector on 19 June 2001.

277. This reform extends the production aid scheme for a further three marketing years (from 2001/02 to 2003/04). In the meantime, the olive-oil producing Member States must set up a geographical information system (GIS). Given the importance of this tool for determining the number of olive trees and as an additional means of monitoring, the Council decided that it would be a condition for the grant of Community aid as from 1 November 2003. The Council also endorsed the Commission's report, which proposes in particular measures to improve both the quality of olive oil supplied to consumers and the transparency of labelling rules. Consequently, a new classification of oil will enter into force on 1 November 2003. The Commission has implemented the various aspects of its quality strategy as regards the adjustments needed to prepare for changing the classification and names of oil. Further, the Council adopted the requirements for the creation of operators' organisations and work programmes which are eligible for Community part-financing from 1 November 2002. These work programmes, which may be submitted by operators in the sector, will cover four types of activity: market follow-up and administrative management, improving the environmental impact of olive-growing, improving product quality, and traceability, certification and quality protection. The Commission has already implemented the detailed rules for the operation of these new operators' organisations.

3.1.16. *Fresh fruit and vegetables*

3.1.16.1. World market⁵²

278. World production of fresh fruit and vegetables is slightly up. In 2001 it totalled nearly 1 164 million tonnes, 0.5% up on 2000. Vegetables (including melons) account for around 60% of this total, as against 47.7% in the Community. With production totalling 112 million tonnes, the Community was the world's second largest producer in 2001, after China (370 million tonnes) but ahead of the United States (65 million tonnes).

279. In the case of citrus fruit, estimates for the 2001/02 marketing year point to world production of 99 million tonnes, 1.5% less than in 2000/01. With production estimated at around 10 million tonnes, the Community was, in 2001/02, in third place behind Brazil (18.5 million tonnes) and the United States (14.9 million tonnes), but ahead of China (9.6 million tonnes) and Mexico (5.9 million tonnes).

3.1.16.2. International trade

280. The volume of international trade in fresh fruit and vegetables varies from one product to another⁵³. In 2001 Community imports accounted for an average of 8.7% of world trade in oranges, 6.9% for apples, 3.1% for table grapes, 2.7% for onions,

⁵² Source: FAO (<http://www.fao.org>).

⁵³ Source: FAO (<http://www.fao.org>).

2.5% for pears and 1.9% for tomatoes and lemons. In 2001 Community exports accounted for 10.5% of international trade in oranges, 7.9% for apples, 4.5% for tomatoes and table grapes, 4% for lemons and 3.6% for peaches.

281. The European Union is a net importer of fresh fruit and vegetables:⁵⁴ the volume of exports was only 60% of that of imports in 1999 and 73% in 2000. At 4.2 million tonnes exports in 2001 represented 69% of total imports (6 million tonnes). Exports of fruit (excluding citrus fruit) represented only 41% of imports in 2001 (72.5% for citrus fruit). By contrast, while the Community was a net importer of vegetables in 1996, it recorded a surplus from 1997. In 2001 there was an appreciable increase in both imports (17% up compared with 2000) and exports (4.3% up on 2000).

3.1.16.3. Community market

282. At about 8.7 million tonnes in 2001/02, apple production in the Community was slightly down (3.9%) on the previous marketing year. The quantities withdrawn from the market varied from 3.7% of EU production in 1998/99 and 2.4% in 1999/2000 to 3.0% in 2000/01.
283. In 2001/02 the production of pears totalled around 2.4 million tonnes, 9.8% down on 2000/01. The quantities withdrawn from the market in 2000/01 amounted to 2.8% of production, compared with 3.6% in 1999/2000.
284. In 2001 the year-on-year production of peaches fell by 7.4% to a total of 3.3 million tonnes. Withdrawals remained high (7.3% of production) but were well below the average for 1990/91 to 1994/95 (19.3%).
285. After a slight drop in 2000, nectarine production was slightly up (0.9%) in 2001, at 915 000 tonnes. This is again the sector in which withdrawals are proportionally highest: 14% of production in 2000, although this is down on the 20% recorded in 1999/2000.
286. At 2.3 million tonnes in 2001, table grape production has been remarkably stable since 1996. Italy alone accounted for close on 70% of Community production. Withdrawals remained negligible at less than 1‰ of production.
287. Apricot production (470 000 tonnes) was again down in 2001 (-16%) after the sharp fall recorded in 2000. The quantities withdrawn fell to 2.6% of production in 2000, as against 4.1% in 1999.
288. Citrus fruit production was 2.1% down in 2001/02, at 9.7 million tonnes. Spain remained Europe's largest producer, with 56% of the total in 2000/01, followed by Italy (30%). Community production of oranges was fairly stable at 5.8 million tonnes (0.6% up on 2000/01). At 1.7 million tonnes in 2001/02, lemon production was 1.5% up on the preceding marketing year. By contrast, production of mandarins (318 000 tonnes), clementines (1.8 million tonnes) and satsumas (267 000 tonnes) fell appreciably, by 10.3%, 4.4% and 7.1% respectively against 2000/01.
289. Production of cauliflowers in 2001/02 totalled 2.0 million tonnes (5.1% down on 2000/01). Withdrawals were down to 2% of production, compared with 8.3% in 1999/2000, 5.2% in 1998/99 and 7.7% in 1997/98.

⁵⁴

Source: Eurostat.

290. Tomato production in 2001/02 was down 5.8% on 2000/01. There was an appreciable fall (14.9%) in production, to 6.4 million tonnes, in Italy, the latter accounting for 42.9% of the Community total. Withdrawals remained negligible, at 0.9% of production of tomatoes for the fresh market.

3.1.17. *Bananas*

3.1.17.1. Community production

291. Banana production in 2001 fell (-2%) to 767 268 tonnes, this shortfall being brought about by a low harvest in Martinique.

292. It is estimated that the harvest in 2002 will be approximately 793 000 tonnes.

293. The compensatory aid for 2001⁵⁵ was reduced to EUR 28.36 per 100 kg, with supplementary aid of EUR 8 per 100 kg for bananas produced in Portugal. The cost of the compensatory aid for 2001 totalled EUR 219 million, compared with EUR 302 million in 2000.

3.1.17.2. Imports from ACP countries

294. In 2001 ACP banana imports fell by 25 000 tonnes, to 730 234 tonnes. A small increase is expected in 2002.

3.1.17.3. Main legislative and policy developments

295. Following the settlement of the WTO dispute with the USA and Ecuador the second phase of the agreement began to be implemented on 1 January 2002.

296. In the second phase the "A" tariff quota remains 2.2 million tonnes, the additional "B" quota is increased by 100 000 tonnes to 453 000 tonnes and the autonomous "C" quota is decreased to 750 000 tonnes.

297. Imports under quotas A and B are open to imports from all countries, while the C quota is open only to imports from ACP countries.

298. Imports under the A and B quotas and imports of bananas from third countries other than ACP countries are subject to customs duty of EUR 75 per tonne. ACP bananas are subject to zero duty, as are imports under the C quota.

3.1.18. *Processed fruit and vegetables*

3.1.18.1. World and Community markets

299. Information available on processed fruit and vegetables remains patchy. As far as the Community is concerned, it relates almost exclusively to products qualifying for processing aid.

300. World production of tomatoes for processing totalled around 30 million tonnes. The leading producers were the United States (10.2 million tonnes in 2000/01, as against 11.6 million tonnes in 1999/2000), the EC (8.4 million tonnes, as against 8 million tonnes) and Turkey (1.3 million tonnes, as against 1.6 million tonnes).

⁵⁵ Commission Regulation (EC) No 932/2002 of 31 May 2002 (OJ L 144, 1.6.2002, p. 20).

301. After a sharp increase in 1999 (up 13%), Community output dropped by 8% in 2000. This reduction concerned concentrate (-11%) and peeled tomatoes (-6%). By contrast, production of "other products" (sauces, tomatoes in pieces, etc.) rose by a further 2% between 1999 and 2000. This product group now accounts for almost 21% of processed tomato production. Of the 8.4 million tonnes of tomatoes processed in the Community into products on which processing aid is payable, Community aid was actually paid on only 6.9 million tonnes. With the exception of 1997/98, the quota of 6.9 million tonnes continues to be exceeded. Production is expected to remain stable or drop slightly in 2001/02.
302. Around 471 000 tonnes of peaches were tinned in syrup and/or natural juice in the Community in 2001/02, compared with around 469 000 tonnes in the previous marketing year, which is rather low after the previous year's record level. After two years of low exports, the Community doubled its exports of peaches in syrup and/or natural juice in 2001, to 206 000 tonnes.
303. EC production of Williams and Rocha pears tinned in syrup and/or natural juice totalled 133 000 tonnes in 2001/02, i.e. significantly below the record figure of 1998/99. Italy continues to be the main EC producer (54.2% of the total), followed by Spain (27.6%) and France (12.8%).
304. Community aid for processing was set as follows for 2002/03:

Reduction in Community processing aid for 2001/02 in relation to the aid fixed by the Council (Regulations (EC) No 2201/96 and (EC) No 2202/96)						
Member State	Product					
	Grapefruit (pomelos)	Oranges	Mandarins	Clementines in juice	Tomatoes	Pears
Greece	11.46%	–	–	–	–	66.4%
Spain	59.10%	–	–	–	8.8%*	–
France	26.26%	–	–	–	–	16.1%
Italy	28.35%	1.24%	10.62%	10.62%	1.3%	6.3%
Netherlands	–	–	–	–	n.a.	2.6%
Austria	–	–	–	–	n.a.	–
Portugal	–	–	–	–	–	–
Other Member States	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

* Peeled tomatoes only

n.a.: not applicable

305. The basic aid per hectare for dried grapes was unchanged at EUR 2 785. This aid is paid only for specialised areas meeting certain yield criteria.

3.1.19. Wine

306. On 17 May 1999 the Council adopted Regulation (EC) No 1493/1999 establishing a new common organisation of the market in wine⁵⁶. Under that Regulation, in 2002 the Commission adopted:

⁵⁶ OJ L179, 14.7.1999, p. 1.

- Commission Regulation (EC) No 753/2002 of 29 April 2002 laying down certain rules for applying Council Regulation (EC) No 1493/1999 as regards the description, designation, presentation and protection of certain wine sector products⁵⁷. The entry into force of this Regulation was postponed to 1 August 2003 by Regulation (EC) No 2086/2002.⁵⁸
 - Commission Regulation (EC) No 1795/2002 of 9 October 2002 amending Regulation (EC) No 1623/2000 laying down detailed rules for implementing Council Regulation (EC) No 1493/1999 on the common organisation of the market in wine with regard to market mechanisms,⁵⁹ in particular the rules for distilling potable alcohol.
 - Commission Decision 2002/666/EC of 19 August 2002 fixing, for the 2002/03 marketing year and in respect of a certain number of hectares, an indicative allocation by Member State for the restructuring and conversion of vineyards under Council Regulation (EC) No 1493/1999.⁶⁰
307. During 2001/02 the Commission adopted a number of regulations opening crisis distillation under Article 30 of Council Regulation (EC) No 1493/1999 for a total of 8.1 million hectolitres. Contracts were finally approved for 6.929 million hectolitres of wine.
308. In 2001 the Commission presented a proposal for a Regulation on the common organisation of the market in ethyl alcohol of agricultural origin. The proposed regulation would define the products to be covered by the new market organisation, introduce a system for collecting data and statistical monitoring of the sector and introduce an import and export licensing scheme. The market organisation would be managed by the Management Committee for Wine. Work on the proposal continued in the Council and European Parliament in 2002.
309. Wine production in the Community (excluding grape must not processed into wine) was as follows:
- | | |
|----------------------------------|------------------------------|
| wine year 1998/99: | 162.562 million hectolitres, |
| wine year 1999/2000: | 178.892 million hectolitres, |
| wine year 2000/01 (provisional): | 176.006 million hectolitres, |
| wine year 2001/02 (forecast): | 158.147 million hectolitres, |
| wine year 2002/03 (estimate): | 149.500 million hectolitres. |
310. Forecast total Community production for 2001/02, initially set at 168.287 million hectolitres, was reduced to 163.933 million hectolitres. The forecast for the current wine year, 2002/03, covers total production of 158.465 million hectolitres (estimates as at 19 December 2002). To permit comparison with quantities made into wine in previous wine years it is necessary to deduct about 9 million hectolitres which were not made into wine. That gives a forecast wine production for 2002/03 of 149.5 million hectolitres.
311. Despite the storms of 8 and 9 September 2002, forecasts were only slightly below total production in the previous marketing year (–3.3%). The expected drop in total

⁵⁷ OJ L 118, 4.5.2002, p. 1.

⁵⁸ OJ L 321, 26.11.2002, p. 8.

⁵⁹ OJ L 272, 10.10.2002, p. 15.

⁶⁰ OJ L 227, 23.8.2002, p. 49.

production is –6.3% in France (51.86 million hectolitres compared to 55.339 million hectolitres), –11.4% in Italy (46 million hectolitres compared to 51.912 million hectolitres) and –19.4% in Portugal (6.2 million hectolitres compared to 7.691 million hectolitres). On a Community basis those reductions will be partly offset by an increase in production in Spain (37.7 million hectolitres or + 11.4%) and in Germany (10.8 million hectolitres or + 20.3%).

Total production (1 000 hl) Member State	wine year 1998/99	wine year 1999/2000	wine year 2000/01	wine year 2001/02	wine year 2002/03 Forecasts as at 19 December 2002
Spain	34 714	37 908	45 572	33 850	37 700
Greece	3 826	3 680	3 558	3 477	3 098
Germany	10 727	12 244	9 950	8 980	10 800
Portugal	3 750	7 859	6 694	7 691	6 210
Italy	57 913	58 955	54 088	51 912	46 000
Luxembourg	159	184	132	135	160
France	54 271	62 935	59 740	55 339	51 860
Austria	2 703	2 803	2 337	2 531	2 619
UK	11	13	14	16	16
Belgium	2	2	2	2	2
Netherlands			1	1	1
Total EU-15	168 076	186 583	182 088	163 933	158 465
wine	162 562	179 117	176 006	158 555	149 500
quality wine psr	65 486	70 858	70 114	66 193	66 028
table wine	90 257	100 522	100 646	84 132	75 799
other	6 458	15 203	11 498	13 428	16 238

312. The most recent information from the IWO⁶¹ indicates that Community wine production (158.555 million hectolitres) represents some 59.3% of world wine production (267.6 million hectolitres) for the 2001/02 marketing year. France, Italy and Spain are the top three world producers, followed by the United States (19.8 million hectolitres or 8%) and Argentina (15.835 million hectolitres).
313. The European Union is the top world exporter with 12.2 million hectolitres (2001), up from 11.518 million hectolitres in 2000 and 11.552 million hectolitres in 1999. In 2001 the main traditional buyers of Community wine⁶² were the United States with 3.253 million hectolitres, Switzerland (1.620 million hectolitres), Canada with 1.204 million hectolitres and Japan (1.188 million hectolitres).
314. At the beginning of 2003 the available foreign trade figures⁶³ only cover the first ten months of 2002 and must be interpreted with caution. Based on that period exports and imports increased in volume by between 1.2% and 1.3% over the first ten months of 2001. Where exports were concerned, it was notable that table wines showed an increase of 4.5% while quality wines psr were down by –2.1%.

⁶¹ IWO letter No 144, October 2002, p. 3.

⁶² Source: EC-COMEXT EEC SPECIAL TRADE SINCE 1988.

⁶³ Source: EC-COMEXT EEC SPECIAL TRADE SINCE 1988, 7 January 2003.

Exports January – October 2002 vs. 2001	Table wines	Quality wine psr	All wine
France	+ 8.8%	– 1.4%	+ 2.9%
Germany	+ 13.7%	– 1.3%	+ 1.8%
Italy	+ 5.7%	– 1.2%	+ 2.5%
Greece	– 26.9%	– 2.8%	– 22.8%
Spain	– 2.0%	– 5.6%	– 3.3%
Portugal	+ 27.2%	+ 0.3%	+ 15.9%
EU-15	+ 4.5%	– 2.1%	+ 1.3%

315. Extra-Community imports stabilised in the UK; there was a large increase in Denmark (+ 113 533 hectolitres).

Imports January–October 2002 vs. 2001	2001 (hl)	2002 (hl)	2002 vs. 2001 (hl)	2002 vs. 2001 (%)
United Kingdom	3 397 794	3 406 159	+ 8 365	+ 0.2%
Germany	1 581 721	1 516 664	– 65 056	– 4.1%
Netherlands	726 825	754 424	+ 27 599	+ 3.8%
France	478 996	458 810	– 20 186	– 4.2%
Denmark	325 421	438 954	+ 113 53	+ 34.9%
Sweden	230 595	248 289	+ 17 695	+ 7.7%
Ireland	178 210	200 988	+ 22 779	+ 12.8%
Belgium	144 522	152 846	+ 8 324	+ 5.8%
Finland	104 358	112 696	+ 8 338	+ 8.0%
Italy	94 534	86 058	– 8 476	– 9.0%
Austria	28 226	23 819	– 4 406	– 15.6%
EU-15	7 326 371	7 413 369	+ 86 998	+ 1.2%

316. Per capita wine consumption was 32.11 litres in the 2001/02 marketing year, while in 2000/01 it was 33.41 litres, in 1999/2000 35.26 litres, in 1998/99 34.6 litres, in 1997/98 34.05 litres and in 1996/97 34.7 litres.
317. The consumption figures are calculated from the balances communicated by the Member States. Consumption is the remainder of the balances. The 2001/02 marketing year is the second one under the new common market organisation.
318. At the end of 2001/02, 31 July 2002, stocks totalled 156.815 million hectolitres, while at the end of 2000/01, 31 July 2001, stocks were 161.887 million hectolitres. Stocks of table wine dropped by 8.673 million hectolitres.
319. That figure includes some 0.5 million hectolitres already under contract for crisis distillation but not yet delivered for distillation before the end of the marketing year.
320. During 2001/02 crisis distillation was opened three times covering a total volume of 6.929 million hectolitres of wine, 2.7 million hectolitres of them in France, 3.979 million hectolitres in Italy and 0.250 million hectolitres in Portugal.
321. Contracts for the distillation of potable alcohol under Article 29 of Regulation (EC) No 1493/1999, which replaces Article 38 of the former basic Regulation (Council Regulation (EC) No 822/87), were concluded in 2001/02 for 12 million hectolitres of

wine. During 2000/01 this preventive distillation had been opened for 12.666 million hectolitres.

322. With a view to restructuring and converting vineyards under Council Regulation (EC) No 1493/1999, and taking account of compensation paid to winegrowers for loss of income during the period when the vineyards are not yet in production, Decision 2002/666/EC⁶⁴ made the following financial allocations to the Member States, for a number of hectares for 2001/02.

323. Financial allocations to Member States for a number of hectares with a view to the restructuring and conversion of vineyards under Regulation (EC) No 1493/1999 for 2002/03:

Member State	Area (ha)	Financial allocation (in euro)
Germany	2 566	14 682 873
Greece	1 050	9 285 036
Spain	28 817	157 285 185
France	13 000	95 000 000
Italy	17 516	123 935 139
Luxembourg	11	86 842
Austria	1 532	10 565 980
Portugal	3 766	32 358 945
Total	68 258	443 200 000

324. By Decision 2002/655/EC⁶⁵ the remaining balance from 2001/02 was allocated as follows:

Member State	Area (ha)	Financial allocation (in euro)
Germany	–	–
Greece	–	–
Spain	5 993	35 589 831
France	–	–
Italy	–	–
Luxembourg	–	–
Austria	603	3 962 937
Portugal	397	2 816 997
Total	6 993	42 369 765

3.1.20. Tobacco

3.1.20.1. Market developments

325. World production of leaf tobacco was 6 482 million tonnes in 2001, down 6.3% from 2000. The 2002 forecast is 6 748 million tonnes. The People's Republic of China is still the world's leading producer of raw tobacco with production in 2001 of 2 350 million tonnes (36.2% of world production) and forecast 2002 production of 2 329 million tonnes. India is the second largest producer followed by Brazil and the

⁶⁴ OJ L 227, 23.8.2002, p. 49.

⁶⁵ OJ L 220, 15.8.2002, p. 64.

United States. With production in 2001 of 327 587 tonnes (down 2.4% from 2000) the EU is the fifth largest producer in the world.

326. Compared with 2000 prices, EU market prices in 2001 were lower for tobaccos of groups III (dark air-cured), IV (fire-cured) and V (sun-cured). The biggest reduction (11%) was in group V, the tobacco of which has the lowest market price. For the other groups, market prices increased by 7% (group II) to 37% (group VIII).
327. EU imports of raw tobacco amounted to 540 111 tonnes in 2001, 20 000 tonnes up on 2000. The main suppliers were Brazil, the USA and Zimbabwe. EU exports in 2001 (184 916 tonnes) were similar to those in 2000. The main destinations were Russia, the USA and Egypt.
328. Community leaf tobacco production is restricted by guarantee thresholds set by the Council in March 2002 for the years 2002 to 2004: 340 738 tonnes for 2002 and 334 064 tonnes for 2003 and 2004.

3.1.20.2. Main legislative and policy developments

329. In Regulation (EC) No 546/2002⁶⁶ the Council set the leaf tobacco premiums, the supplementary amounts and the thresholds for each variety group and Member State for the 2002 to 2004 harvests. The premiums did not change, except for a 10% reduction in that for sun-cured varieties. The thresholds were reduced to reflect changes in market, socio-economic and agronomic conditions.
330. In the same Regulation, the Council amended the rules for the Community Tobacco Fund, now funded by a deduction of 2% of the 2002 harvest premiums and 3% of those for 2003. The deduction may be increased to 5% depending on the findings of a report on use of the Fund that the Commission is to submit before 31 December 2003.
331. The Fund's purpose is to finance action in two areas:
 - improvement of public awareness of the harmful effects of all forms of tobacco consumption, in particular through information and education, support for collection of data in order to establish tobacco consumption patterns and investigate the epidemiology of tobacco abuse in the Community, tobacco abuse prevention study;
 - specific measures to help tobacco growers switch to other crops or other economic activities that create employment and investigation of the possibilities available.
332. A programme for buying back production quotas was introduced with the tobacco sector reform in 1998 and came into force at the 1999 harvest. Unfortunately only insignificant quantities were bought back and it proved impossible under the rules in force to achieve the production rationalisation hoped for. With the aim of boosting quota buy-back, the compensation paid was increased by the Commission under Regulation (EC) No 1983/2002.⁶⁷ Growers whose quota has been bought back in 2002 or 2003 are entitled for five years to a percentage of the premium they would have received had they continued to grow tobacco. Moreover under the Community

⁶⁶ OJ L 84, 28.3.2002, p. 4.

⁶⁷ OJ L 306, 8.11.2002, p. 8.

Tobacco Fund rules in force from December 2002 growers who have had their quota bought back can receive aid to switch to other crops or other economic activities.

333. In November 2002 the Commission sent a report to the European Parliament and the Council on the functioning of the common organisation of the market in raw tobacco (scheduled by Article 26 of Regulation (EEC) No 2075/1992⁶⁸). Moreover, an in-depth evaluation of the common market organisation also under way and due to be finalised at the end of 2002 will give a detailed appraisal of the impact of the market organisation.

3.1.21. *Seeds*

3.1.21.1. Market developments

334. In 2001 the total seed area of 369 951 hectares eligible for Community aid was again lower (down 2% on 2000). Total seed production excluding hybrid maize was 420 013 tonnes in 2001, some 16% lower than the 498 835 tonnes grown in 2000.
335. In 2001 Gramineae accounted for 186 401 hectares (up 2.5% on 2000) and Leguminosae for 134 678 hectares (down by 5% on 2000). The volume of Gramineae seed grown was 212 905 tonnes (up 15% on 2000) and that of Leguminosae seed 202 927 tonnes (down 7% on the 2000 figure of 219 137 tonnes).
336. The rice seed area fell 7% in 2001 to 17 447 hectares but production was up 1.8% to 70 017 tonnes.
337. Fibre flax seed was grown on 23 820 hectares in 2001, a 23.7% rise on the 2000 figure of 19 262 hectares but actual production at 11 455 tonnes was 17% lower than in 2000. The oilseed seed area was 5 252 hectares, only one third of the land used in 2000 (14 349 hectares). Actual production fell to 1 610 tonnes (5 888 tonnes in 2000).
338. According to the figures available, imports of seeds covered by the common market organisation in 2001 are down some 50% on the 2000 figure (62 657 tonnes). 2001 export data for these seeds is not available.

3.1.21.2. Main legislative and policy developments

339. Under the current Community legislation the Council sets aid rates for the various seed species in alternate years. Those for the 2002/03 and 2003/04 marketing years are given in Regulation (EC) No 154/2002 of 21 January 2002.⁶⁹
340. A constant increase in seed production since the 1994/95 marketing year made it necessary to introduce a mechanism to stabilise production (not covering rice seed, for which a mechanism was already in place). This was done in the above Regulation.
341. In Regulation (EC) No 800/2002⁷⁰ the Commission set the maximum quantity for which aid may be granted at 305 754 tonnes equivalent weight with effect from 1 July 2002. This quantity is allocated between Member States according to the quantities they harvested in the reference years 1996/97 to 2000/01 excluding extremes.

⁶⁸ OJ L 215, 30.7.1992, p. 70.

⁶⁹ OJ L 25, 29.1.2002, p. 18.

⁷⁰ OJ L 131, 16.5.2002, p. 3.

3.1.22. Hops

3.1.22.1. World market

342. In 2001 the total world hop area was 58 505 hectares (1% down on 2000), of which 57 934 hectares was in member countries of the IHGC (International Hop Growers' Convention) and the European Community. The five biggest growers are the EU (23 019 hectares, including Germany with 19 020 hectares), the USA (14 536 hectares), the Czech Republic (6 075 hectares), China (4 813 hectares) and Poland (2 250 hectares).
343. World production in 2001 amounted to 1 982 860 zentner, 2.5% up on 2000. The 8 748 tonnes of alpha acid (7 388 tonnes in 2000) produced was equivalent to an alpha acid yield of 8.82%. Average yield per hectare was 1.69 tonnes, 2.5% up on 2000.
344. At 1 425 million hectolitres, estimated world production of beer in 2002 was up on 2001. With the addition of 5.3 grams of alpha acid per hectolitre of beer during brewing it is predicted that 7 553 tonnes of alpha acid will have been used in 2002. The amount of alpha acid produced in 2001 was thus 1 195 tonnes more than current consumption.
345. As a consequence of higher demand for less bitter beer and improvements in technology less alpha acid is used than formerly.

3.1.22.2. Community market

346. Hops are grown in eight Member States (Belgium, Germany, Spain, France, Ireland, Austria, Portugal, United Kingdom). Total area in 2001 was 23 109 hectares, of which more than 80% was in Germany. The 2001 area was up 1% on 2000.
347. The 2001 harvest of 751 249 zentner was 5% bigger than in 2000. Average yield was also higher: 1.63 tonnes (32.6 zentner)/hectare against 1.51 tonnes (30.2 zentner)/hectare in 2000.
348. The 2001 harvest was of good quality with an average alpha acid content of 8.55% for all varieties in the Community. This was equivalent to 3 211 tonnes of alpha acid – 140 kg/hectare – for beer production in 2002.
349. The average price for hops sold on contract in 2001 was EUR 185/zentner, very similar to 2000. Hops sold on the spot market fell substantially from EUR 270/zentner in 2000 to EUR 172/zentner in 2001.
350. Under the common market organisation for hops aid is given to growers to enable them to enjoy a reasonable income. The Council has set it at EUR 480 per hectare (all varieties) for eight years running from the 1996 harvest year (Council Regulations (EC) No 1554/97 of 22 July 1997 and (EC) No 1514/2001 of 23 July 2001). The same amount is granted on areas temporarily resting or permanently grubbed up (Council Regulations (EC) No 1098/98 of 25 May 1998 and (EC) No 2151/2002). In 2001 such areas amounted to 2 406 hectares (1 748 hectares in Germany).
351. The area harvested in 2002 is estimated to have fallen by 4%.

3.1.22.3. Main legislative and policy developments

352. By Regulation (EC) No 1514/2001 of 23 July 2001⁷¹ the Council extended for three years (to 2003) the current aid of EUR 480/hectare to hop growers.
353. The Commission had proposed a two-year extension allowing decisions on aid to growers to be taken at the same time as decisions on special measures (temporary set-aside and permanent grubbing-up).
354. The Commission had wished to present a report at the end of that period that would also have covered the special measures and to make proposals geared to the impact on the sector of accession to the Union of a number of countries that are significant producers of hops.

3.1.23. *Flowers and live plants*

355. The common market organisation covers a wide range of products: bulbs and tubers, live plants (both ornamental and nursery plants), cut flowers and foliage. It also includes quality standards and customs duties but no other protective measures against imports except emergency safeguard action.
356. The 1997 to 1999 promotion measures for flowers and live plants have now ended, and these products are now covered by the general promotion measures contained in Council Regulations (EC) No 2702/1999 concerning information and sales promotion for agricultural products in third countries, and (EC) No 2826/2000 concerning information and sales promotion of agricultural products on the internal market.
357. Four programmes for flowers and live plants were selected by the Commission for funding in 2003 under the internal market promotion scheme.
358. Production of live plants and flowers in 2001 was worth EUR 16 315 million: 40% nursery plants, 60% ornamental plants and flowers including Christmas trees. The Netherlands is the largest grower with approximately 30% of the total.
359. In 2001 Community imports of flowers and plants from third countries was equivalent to nearly 8% of Community production. There were 357 000 tonnes of imports, with a value of EUR 1 237 million, an increase of 2% on 2000.
360. Cut flowers account for more than 50% of all imports in the sector, most of which are free of import duty under agreements with third countries (Generalised System of Preferences in the case of South America, Cotonou Convention for the ACP countries etc.).
361. Some cut flowers (roses and carnations) are exempt from customs duties under tariff quotas for five Mediterranean countries (Cyprus, West Bank and Gaza Strip, Israel, Jordan, Morocco) provided a minimum import price is respected.
362. Kenya is the largest supplier of cut flowers to the Community: 43 000 tonnes in 2001, value EUR 177 million. The second largest exporter to the EU is Israel with 28 000 tonnes in 2001. Israeli exports were 24% down on 2000 but Kenya's were up 7%. Among other suppliers Costa Rica and the USA are the main exporters of foliage, and Costa Rica and Poland are increasing their exports of live plants to the Community.

⁷¹ OJ L 201, 26.7.2001, p. 8.

363. In 2000 cut flower prices were up 8% on 1999 and in 2001 up 5% on 2000.
364. Exports from the Community fell by 1% in 2001 to 416 000 tonnes but their value increased to EUR 1 493 million (+ 5% on 2000). Biggest exports are of live plants, then cut flowers and bulbs and tubers. The value of live plant exports increased by 10% to EUR 510 million for an unchanged volume of 218 000 tonnes. Cut flower exports were also unchanged at 77 000 tonnes but up 2% in value to EUR 476 million.
365. Exports of bulbs and tubers and of foliage were worth EUR 337 million and EUR 62 million respectively. With the inclusion of these figures the Community showed a positive trade balance for flowers and live plants of EUR 256 million in 2001.
366. The total value of exports was EUR 1 493 million and that of imports EUR 1 237 million.

3.1.24. *Animal feed*

367. Huge quantities of agricultural products go into animal feed, which is the main outlet for EC production of cereals and oilseeds and practically the only utilisation of permanent grassland and fodder grown on arable land. Altogether, feed accounts for three quarters of the Community's UAA (utilised agricultural area). Moreover, animal feed generally represents about 65% of all pigmeat and poultrymeat production costs.
368. Overall demand⁷² in 2001/02 remained practically the same in relation to the previous marketing year, because of an increase in demand in the poultry and pig sectors and a contraction in the bovine (milk and meat) sector. Half of the total supply comes from feed that is not generally marketed (pasture, hay and silage) and is consumed mainly by ruminants. The other half, which can be consumed by all livestock, is made up of marketable feeds (cereals, substitutes, oilcake, etc.), which are the subject of very stiff competition (on price and nutritional value).
369. Total animal consumption of the key marketable products⁷³ in 2001/02 in the EC is put at 207.8 million tonnes, slightly up (+ 0.6 million tonnes or + 0.3%) on 2000/01, but with substantial shifts between products. This consumption is made up of:
- domestically-produced products, estimated at 148.7 million tonnes, down by about five million tonnes on the previous marketing year, mainly cereals and meat-and-bone meal following the ban⁷⁴ on their use in animal feed;
 - net imports estimated at 59.0 million tonnes, up by about 5.4 million tonnes on the previous marketing year, due mainly to imports of cereals from the countries of the Black Sea and imports of protein-rich products, while imports of manioc have fallen.
370. In total, animal consumption of cereals is expected to increase by about three million tonnes to 118.4 million tonnes in 2001/02.

⁷² This includes all marketable and non-marketed animal feed, estimate for EUR-15.

⁷³ Covering most marketable feed used in the Community by the compound feedingstuff industry and on farms (on-farm consumption and purchases of raw materials) and evaluated in the detailed table below: Animal consumption of key marketable products (estimate for EUR-15). Source: Directorate-General for Agriculture.

⁷⁴ Council Decision 2000/766/EC of 4 December 2000 (OJ L 306, 7.12.2000, p. 32).

371. As regards substitutes subject to import quotas, the quota utilisation rate for manioc imports fell from 64% in 2000 to 46% in 2001 for manioc from Thailand, while it fell to 1% for all other origins. The quota utilisation rate for sweet potatoes from China was again 0% in 2001.
372. Industrial production of compound feedingstuffs in the EU⁷⁵ is estimated at 125.2 million tonnes in 2001, up 0.8% on 2000, mainly as the poultry sector picked up.

EU industrial production of compound feedingstuffs by category of animal

(million tonnes)

Compound feedingstuffs for	2000	2001	Difference	% change
All bovine animals (milk and meat)	36.0	35.4	- 0.6	1.6
Pigs	43.2	43.5	0.3	0.7
Poultry	37.1	38.3	1.2	3.2
Other	7.9	8.0	0.1	0.7
TOTAL compound feedingstuffs	124.2	125.2	0.9	0.8

373. In terms of total production of compound feedingstuffs by Member State in 2001, the main increases were recorded in Italy, the United Kingdom, Spain and France, while the largest falls were recorded in Germany and Denmark.
374. Cereals incorporated into compound feedingstuffs⁷⁶ in the EC amounted to 52 million tonnes in 2001, almost 1 million tonnes more than in 2000.
375. The decisive factors determining the composition of feedingstuffs continue to be the prices for raw materials relative to one another as well as the percentage of total demand accounted for by the different animal species and the specific qualities sought. In 2002/03 the quantity of cereals consumed in animal feed will depend on livestock demand and the prices of imported products.

⁷⁵ Provisional figures for EUR-15 without Greece and Luxembourg. Source: European Federation of the manufacturers of compound feedingstuffs (FEFAC).

⁷⁶ Source: European Federation of the manufacturers of compound feedingstuffs (FEFAC).

Animal consumption of key marketable products

(estimate for EUR-15)

(million tonnes)

KEY PRODUCT	import duty rates	2000/01				2001/02e			
		ANIMAL CONSUMPTION				ANIMAL CONSUMPTION			
		UE	IMP	EXP	TOTAL	UE	IMP	EXP	TOTAL
GRAIN CEREALS									
Common wheat	T	40,8	–	–	40,8	37,3	3,9	–	41,2
Barley	T	29,9	–	–	29,9	31,0	1,0	–	32,0
Maize	T	30,4	1,2	–	31,6	30,9	1,1	–	32,0
Other	T	10,7	1,3	–	13,1	10,9	2,2	–	13,2
TOTAL CEREALS		113,0	2,5	–	115,4	110,1	8,2	–	118,4
<i>TOTAL SUBSTITUTES (ex Annex D), of which:</i>		<u>20,5</u>	<u>11,5</u>	–	<u>31,9</u>	<u>20,0</u>	<u>10,6</u>	–	<u>30,6</u>
Manioc	6 % C / T	–	3,0	–	3,0	–	2,2	–	2,2
Sweet potatoes	0 C / T	–	–	–	–	–	–	–	–
CGF (<i>corn gluten feed</i>)	0 C	1,7	4,5	–	6,2	1,7	4,3	–	6,0
Bran	T	10,8	–	–	10,8	10,5	–	–	10,5
MGC (maize germ cake)	0 C	0,2	0,1	–	0,3	0,2	0,2	–	0,4
Citrus pellets	0 C	–	1,6	–	1,6	–	1,7	–	1,7
Dried sugar beet pulp	0 C	5,4	0,5	–	5,9	5,2	0,5	–	5,7
Brewing and distilling residues	0 C	2,0	0,8	–	2,8	2,0	0,8	–	2,8
Various fruit waste	0 C	0,4	1,0	–	1,4	0,4	1,0	–	1,4
<i>TOTAL OTHER ENERGY FEEDS, of which:</i>		<u>2,0</u>	<u>3,2</u>	–	<u>5,2</u>	<u>2,0</u>	<u>3,1</u>	–	<u>5,1</u>
Molasses	T	0,6	2,6	–	3,2	0,6	2,5	–	3,1
Animal and vegetable fats (added to feed)	4–17 % C	1,4	0,6	–	2,0	1,4	0,6	–	2,0
TOTAL HIGH-ENERGY FEEDS		22,5	14,7	–	37,2	22,0	13,7	–	35,7
<i>OILCAKE and seeds (oilcake-equivalent), of which:</i>		<u>7,1</u>	<u>37,2</u>	<u>1,9</u>	<u>42,4</u>	<u>6,9</u>	<u>38,2</u>	<u>2,5</u>	<u>42,6</u>
Soya	0 C	0,9	28,5	1,5	27,9	1,0	29,7	2,0	28,7
Rape	0 C	4,5	1,5	0,3	5,7	4,4	1,5	0,3	5,6
Sunflower	0 C	1,7	2,8	–	4,5	1,5	2,5	0,1	3,9
Other	0 C	–	4,4	0,1	4,3	–	4,5	0,1	4,4
<i>TOTAL: OTHER PROTEIN FEEDS, of which:</i>		<u>11,0</u>	<u>2,0</u>	<u>0,8</u>	<u>12,2</u>	<u>9,6</u>	<u>1,9</u>	<u>0,5</u>	<u>11,0</u>
Protein plants	2–5 % C	3,3	1,1	–	4,4	3,4	1,1	–	4,5
Dried fodder, etc.	0–9 % C	4,9	0,1	0,2	4,8	4,8	0,1	0,2	4,7
Fish meal and meat meal	0–2 % C	2,3	0,8	0,6	2,5	1,0	0,7	0,3	1,4
Skimmed-milk powder	T	0,4	–	–	0,4	0,4	–	–	0,4
TOTAL: HIGH-PROTEIN FEEDS		18,1	39,2	2,7	54,6	16,6	40,1	3,0	53,7
GRAND TOTAL: KEY PRODUCTS		153,5	56,4	2,7	207,1	148,7	62,0	3,0	207,8
Key products index: 1994/95 = 100									
* consumption index					108,2				108,5
* Livestock demand index					108,2				108,5

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

3.2. Livestock products

3.2.1. Milk and milk products

3.2.1.1. Milk on the world market

376. According to initial estimates, world production of milk (including cow's milk, buffalo milk, sheep's milk and goat's milk) was set to increase by a little over eight million tonnes (+1.4%) in 2002 to a total of 593 million tonnes. The production of cow's milk was expected to account for most of the increase as a result of an increase in production in Australasia (mainly cow's milk), the United States and India.
377. Asia: the rise in production in India, where more than half the milk produced is buffalo milk, accelerated. In 2002 India was expected to produce more than 86 million tonnes and confirm its position as the world's second producer after the EU, thereby increasing its lead over the United States. The increase in production in India has been underpinned by growing domestic demand. Nevertheless, per capita annual consumption is only 85 kg (less than a quarter of what it is in western countries), with drinking milk accounting for three quarters of that quantity.
378. Pakistan, the other major producer in the region and fifth largest in the world, was expected to produce just over 26.5 million tonnes in 2002, its production having risen by 1.2% per year since 1996.
379. In Latin America production looked set to increase in most countries, from just over 60 million tonnes in 2001 to around 61 million tonnes in 2002. Brazil is both the region's biggest milk producer (the sixth largest in the world) and the foremost importer among the Mercosur countries. While its production was expected to reach 22.9 million tonnes in 2002, Brazil's domestic consumption was also set to absorb large additional quantities of milk products, in particular from Argentina and Uruguay.
380. Milk production in eastern Europe in 2002 looked set to increase very slightly, by barely two million tonnes to reach 84 million tonnes, but with some differences as between countries. The decline in production in the former Soviet Union following the break-up of the country was less marked in 2000, but the trend was reversed in 2001, moving upwards by 1.25%. There is every probability that production will now begin to pick up again. Similarly, production in 2001 in eastern European countries (Poland, Romania, the Czech Republic, etc.) was expected to revert to the upward trend recorded between 1997 and 1999. Supplies of feedingstuffs are still limited, however, with consequent further reductions in herds. The shortage of foreign currency since the rouble crisis of 1998 has led Russia to call sporadically on the world market as a major buyer of milk products. It imported products worth 786million dollars in 1995, and in 2000 worth 242 million dollars. The position of Russia as the largest purchaser of butter explains why its market remained rather depressed, with very low prices of around \$ 925–1 300 per tonne. Russian domestic demand for butter faces competition from cheaper substitutes such as vegetable oil. Consumption of traditional products, therefore, is falling as consumers in the region switch to products such as long-life milk, soft cheeses, ice cream and desserts.

381. In the United States, after a fall in 2001 of 1.4%⁷⁷, production was up again + 2.8%, rising above 77 million tonnes. In Canada the maintenance of processing quotas for milk left production practically unchanged.
382. In Australasia, weather conditions were most favourable, benefiting New Zealand in particular. Favourable world prices in comparison with other sectors are encouraging new investment in the dairy industry.
383. In Australia, weather conditions have been very favourable over recent marketing years, enabling milk production to rise above 11 million tonnes – an increase of 17.5% since 1998. There is a trend towards increased use of compound feed in dairy farming in Australia. The Australian authorities have introduced a new support scheme⁷⁸ which is to lead producers towards a non-subsidised system. The aim is to increase the size of holdings, even if this entails reducing the number of producers. Milk producers have recently been campaigning for an about-turn in policy, but without success. The scheme in question is expected to shift production to the most efficient regions, notably Victoria and Tasmania. The end of 2002 was marked by drought which seems to have affected production, but the increase in herd numbers (+ 5%) to some extent made up for this.
384. In New Zealand, between 2000 and 2002, there has been a spectacular resumption of milk production, which increased by 23% to 13.9 million tonnes. Milk production has thus returned to the trend during 1995–98, thanks to good weather for pasturing and favourable world prices. In spite of the fall in the price of milk, (NZD 5.3 to 3.7), production was still increasing as the herd grew by 6.6% in 2002 and was set to continue to grow. The fall in world prices has been offset (as in the past) by devaluations of the New Zealand dollar, a policy sometimes also followed by Australia with regard to its own currency. At the end of 2002, weather conditions delayed the arrival of New Zealand products on the world market, affording a bit of breathing space which was reflected in a rise in prices of 20% between August and December.
385. World trade, not taking into account fresh products nor casein, was expected to amount to 38 million tonnes in milk equivalent in 2002, the EU accounting for 10 million, i.e. 26%, with New Zealand's share amounting to 24% and Australia's to 16%. This situation should be compared with that obtaining in 1996 where world trade totalled 32 million tonnes, the EU accounting for 36%, i.e. 12 million tonnes, New Zealand's share being 21% and Australia's 12%.

3.2.1.2. Community market

386. The dairy herd was expected to be down by 163 000 head to just 19.9 million (a fall of 0.8%) by the end of 2002, while yields were expected to be up by 1.2% thus reaching 6 000 kg/head per year. Production was thus set to remain stable at 121.6 million (including milk deliveries, direct sales and farm use). Member States forecast that milk deliveries will remain virtually unchanged at 115 million tonnes.

⁷⁷ Despite the use of bovine somatotrophin, which had initially been expected to bring about a dramatic increase in production but was to prove disappointing.

⁷⁸ AUD 160 million financed by a levy of 11 cents/litre on drinking milk.

387. The output of drinking milk has remained fairly stable since 1998, at around 29 million tonnes. The production of cream intended for consumption, at 2.4 million tonnes, was up by 0.2%.
388. Butter production was set to increase – owing to surplus deliveries over the latter part of 2001 and the beginning of 2002 – by 64 000 tonnes to 1.9 million tonnes.
389. The Member states, particularly the United Kingdom, expect butter consumption to increase slightly (0.3%) for the third consecutive year, to reach the 1.8 million tonne level. Per capita consumption also looked set to rise, following the increase of 0.2%, to 4.77 kg per year.
390. Cheese production in 2001 increased by some 260 000 tonnes (around 3.5%), to amount to 7.2 million tonnes. The increase in 2002 is expected to be much smaller, 90 000 tonnes (up 1.3%).
391. Per capita consumption of cheese looks set to increase annually by 1% (18.18 kg/head), which is much less than the annual trend of 2.4% recorded in the past. Overall consumption is expected to increase by 1.2% to 6.9 million tonnes.
392. Production of milk powder is expected to go up by 2.2% (some 26 000 tonnes) to 1.9 million tonnes. This forecast is based on the upward trend in skimmed-milk powder output, given that semi-skimmed milk powder shows a high degree of stability (193 000 tonnes) and whole-milk powder production is falling by 67 000 tonnes. Thus, production of skimmed-milk powder (1.07 million tonnes) is expected to go up by 10% while that of whole-milk powder is expected to fall by 10.5%. Buttermilk powder production also looks set to fall slightly by 0.4%.
393. Production of casein fell by 6% or 10 000 tonnes, which means a drop of more than 400 000 tonnes of skimmed liquid milk. Manufacture of condensed milk is expected to drop substantially by 4.5%, much greater than the historical 1.4% downward trend.
394. Lastly, other figures worth noting include: the sharp reduction in the number of dairy farms, the annual decline in 1995–2002 (EU-15) being 41.6% (there were thus 553 000 farms in 2002); the average number of cows per holding is expected to rise to 36, and the average quantity of milk delivered per holding is set to exceed 207 000 kg. Average milk deliveries per holding actually cover a very wide range, from 44 300 tonnes/holding in Austria to 606 000 tonnes/holding in the United Kingdom.
395. Overall consumption of dairy products in the EU has been increasing since 1997. In 2001, it rose by 1.1% thus amounting to more than 108 million tonnes. This figure is the total for all uses made of the milk available.
396. Community stocks were at an all-time low in March 1996, when there was scarcely a single tonne of either butter or skimmed-milk powder in public storage. Since then, stocks of skimmed-milk powder have begun to rise in response to slack demand both within the EU and elsewhere. At the end of 1999 a sharp increase in demand, particularly on the world market, suddenly reversed that trend. These favourable market conditions made it possible to sell off all public stocks of skimmed-milk powder in August 2000. Unfortunately, market conditions deteriorated in 2002, giving rise to 152 814 tonnes being offered to intervention. The quantity of butter

entering intervention in 2002 amounted to 156 537 tonnes against an average of 30 000 tonnes over the ten previous years.

397. Internal prices for milk products in 2002 showed similar trends, that is to say levels were very low to start with and then began to recover slightly as from August. The average price for butter began the year at 90.6% of the intervention price, drifted down until the end of June (89.5%), whereupon it began to climb again to 92.2% until mid-October, after which it remained relatively stable. The price for skimmed-milk powder started off at 95.8% of the intervention price, fell to 93.9% in July and rose again (102.3%) over the remaining summer months, remaining stable since then.
398. There were several sharp reductions in 2001 in the export refunds for milk powder. Unfortunately, world market prices for milk products have fallen sharply since the last quarter of 2001. This has meant that refunds for milk powders and even for butter have had to be raised on several occasions since November 2001. Changes in the world market situation (with the late arrival of New Zealand products) and the GATT limit on public spending have made it possible for refunds to be reduced during the last quarter of 2002.
399. EU dairy exports fell by 19.5% in 2001, i.e. by almost three million tonnes of milk equivalent. This is consistent with the withdrawal, up to 2000, of unused export licences from previous years under the GATT Uruguay Round agreements. Exports in 2002 are expected to be slightly up by 6.9% on 2001, to 13.3 million tonnes. Imports in 2001 remained stable at the same levels (three million tonnes) as in 2000. Forecasts for 2002 point to a decline in imports, up to 2.5 million tonnes.

November 2002

WORLD MARKET EXPORTS FROM MAIN EXPORTING COUNTRIES ⁽¹⁾

Market shares in milk equivalent and percent ⁽²⁾

Country	1985		1996		2000		2001 p		2002 e	
	('000 t)	%	('000 t)	%	('000 t)	%	('000 t)	%	('000 t)	%
European Union	12 476.8	43.4%	11 764.2	36.7%	12 802.3	32.0%	9 651.5	25.5%	10 324.1	26.5%
New Zealand	3 948.5	13.7%	6 909.7	21.6%	8 061.4	20.2%	9 609.8	25.4%	9 354.2	24.0%
Australia	1 815.5	6.3%	3 820.6	11.9%	6 392.7	16.0%	6 100.0	16.1%	6 347.7	16.3%
USA	3 986.8	13.9%	724.6	2.3%	2 184.7	5.5%	1 824.0	4.8%	2 172.1	5.6%
Canada	1 222.6	4.3%	615.9	1.9%	533.6	1.3%	694.0	1.8%	730.8	1.9%
EFTA	2 507.3	8.7%	660.9	2.1%	682.3	1.7%	665.8	1.8%	682.4	1.7%
East Eur. + CIS	2 082.9	7.3%	4 446.1	13.9%	5 005.6	12.5%	4 832.2	12.8%	5 003.6	12.8%
Other countries	677.8	2.4%	3 113.3	9.7%	4 312.1	10.8%	4 430.2	11.7%	4 380.3	11.2%
TOTAL	28 718.0	100%	32 055.2	100%	39 974.8	100%	37 807.6	100%	38 995.1	100%

(1) Casein and fresh products not included

(2) Calculated using EEC fat and non-fat coefficients

p: provisional e: estimate

3.2.2. *Beef and veal*

3.2.2.1. World market

400. According to FAO and EUROSTAT data, world beef production in 2001 amounted to 59.0 million tonnes, i.e. 0.8% lower than its level in 2000. Beef production represents just over a quarter of total meat production. For 2002 world beef production is forecast to increase to 60.1 million tonnes.

401. The USA remains the main beef-producing country with a share of 20.3% of the world production. Net beef production in the EU accounted for 12.3% of the world production in 2001. Beef production decreased in the EU (–1.9%) as well as in Argentina (–1.6%) and the USA (–2.6%). This contrasts with the developments in most other beef-producing countries in the world, where production increased, as was the case in Australia (+ 2.6%), Brazil (+ 2.0%), China (+ 3.4%) and the Russian Federation (+ 1.0%).

World beef production

(million tonnes)

Country	2000	2001	% change 2001/2000
Argentina	2 683	2 640	– 1.6%
Australia	1 988	2 040	2.6%
Brazil	6 540	6 671	2.0%
China	4 991	5 162	3.4%
EU-15	7 404	7 266	– 1.9%
Russian Federation	1 897	1 916	1.0%
USA	12 298	11 980	– 2.6%

Source: FAO and Eurostat

402. In 2001 world beef exports were 4.7% below their level reached in 2000. This was particularly due to food safety concerns (bovine spongiform encephalopathy (BSE) and foot-and-mouth disease (FMD)), mainly in European and South American countries. Total beef exports in 2001 amounted to 5.5 million tonnes. The re-opening of markets affected by BSE and FMD as well as a general recovery in world beef consumption is assumed to lead to a 3% rise in beef exports in 2002.

3.2.2.2. Community market

403. The Community beef and veal market had been severely disrupted throughout 2001 due to the second major BSE crisis and foot-and-mouth disease. This led to a clear loss of consumer confidence, a sharp reduction in production, historically low beef prices and the (temporary) closure of major export markets. However, in the last part of 2001 a steady recovery of the beef market was seen with a further stabilisation in 2002.
404. The May/June 2002 survey of the bovine livestock in the EU showed a decrease of around 2.1% compared with the previous year, with a total livestock herd of just over 81 million head. The livestock herd increased only in Spain (+ 2.3%) and Italy (+ 0.7%), largely due to a higher number of bovines in the category less than one year old. Significant decreases in livestock were seen in Belgium (–4.8%), Denmark (–4.5%), Germany (–3.7%), France (–2.6%), Ireland (–1.1%), the Netherlands (–6.0%) and the United Kingdom (–1.6%). Comparisons with 2001 are likely to be biased due to the BSE and FMD crises.
405. Net beef production in 2001 amounted to 7.3 million tonnes. Production had particularly fallen at the start of the BSE crisis, with a steady recovery thereafter. For 2002, Community beef production is expected to increase by 2.4% over 2001, reflecting a return towards a normal trend.

406. Beef consumption in 2001 amounted to 6.7 million tonnes, almost 12% below its pre-crisis level. The recovery in beef consumption has been steady and it is expected to approach its pre-crisis level by 2003. Per capita consumption is at around 19.3 kg per year.
407. As regards external trade, several third countries (e.g. Egypt, Middle East countries) closed their markets for EU beef during the BSE and FMD crises. This resulted in a significant decrease in Community beef exports. Total exports amounted to 548 000 tonnes in 2001, i.e. 18% lower than in 2000. At present, EU beef exports remain affected by the reluctance of some traditional importing countries to acknowledge the substantial efforts made by the Community towards increasing food safety and raising animal health standards. The majority of exports are destined for the Russian market, and to a smaller extent Lebanon.
408. Beef imports in 2001 amounted to 378 000 tonnes, i.e. somewhat lower than in the preceding years due to FMD outbreaks in some South American countries. In the second quarter of 2002 beef imports were particularly strong. In view of the competitive strength of certain beef suppliers from South America, an increase in Community beef imports is anticipated in the coming period.
409. Several market support measures were taken during the BSE and FMD crises that have effectively contributed to restoring market balance. Around 880 000 tonnes of beef were withdrawn from the market through public intervention, the purchase for destruction and special purchase schemes, as well as various BSE and FMD culling measures.
410. Producer prices for beef in 2001 were significantly lower than the year before. This was particularly the case for the carcass prices for young bulls (-18.1%) and cows (-22.5%). The decrease occurred mainly in the first part of 2001, with a steady recovery thereafter except for cow prices. In 2002 cow prices also improved. As a result, current beef prices are largely satisfactory, with prices generally at higher levels than anticipated in Agenda 2000.
411. The overall market stabilisation is being sustained even though, apart from export refunds, none of the support measures were applicable after March 2002. On 1 July 2002 the public intervention regime was replaced by a system of private storage aid. Since then the average Community price for carcasses of male adult bovines has varied at around 120% of the basic price (EUR 222.4/100 kg). For private storage aid to be granted, the average price would have to fall below 103% of the basic price, which is unlikely to happen in the foreseeable future.
412. In view of the overall satisfactory market situation, the Commission sold around 46 000 tonnes of intervention beef in 2002. It is assumed that the market can absorb the remaining stocks within a couple of years.

3.2.2.3. Main legislative and policy developments

413. In line with the Agenda 2000 package, the implementation of the reform of the common organisation of the market in beef and veal continued in 2002 (cf. Regulation (EC) No 1254/1999⁷⁹). In particular, the last additional increase of

⁷⁹ OJ L 160, 26.6.1999, p. 21.

the beef premiums took effect in January 2002. On 1 July 2002 the public intervention regime was replaced by a system of private storage aid.

414. In view of the remaining problems on the market for cow meat, the special purchase scheme was prolonged during the first quarter of 2002 for an additional maximum quantity of 40 000 tonnes of cow meat only.

3.2.2.4. Beef labelling

415. As from 1 September 2000, the Regulation of the European Parliament and the Council (EC) No 1760/2000 established the first phase of the compulsory beef labelling system, which introduces a requirement for traceability of beef such that all labels must indicate: a traceability number ensuring the link between the meat and the animal or animals; the words "Slaughtered in" with the name of the Member State or third country and the approval number of the slaughterhouse; the words "Cutting in" with the name of the Member State or third country and the approval number of the cutting plant.

416. As from 1 January 2002, the label also has to contain an indication of the Member State or third country of birth and all the Member States or third countries where fattening of the animals has taken place. Where the beef is derived from animals born, raised and slaughtered in the same Member State or third country, the indication may be given as "Origin" with the name of Member State or third country concerned.

3.2.3. *Sheepmeat and goatmeat*

417. With production of a little more than 1 million tonnes, the European Union is the second largest producer of sheep- and goatmeat in the world after China⁸⁰ and is followed by Australia, India, New Zealand, Turkey, the Russian Federation and Saudi Arabia.

418. New Zealand is the main world exporter (counting far more than half of world exports) followed by Australia. Imports are substantial in the EU, Saudi Arabia, the United States, South Africa and Japan.

419. In terms of consumption, the EU with 1.3–1.4 million tonnes comes second in the world, after China.

420. On the European market, production was until recently rather stable although with a slight decreasing trend during the last decade. However, following the foot-and-mouth disease (FMD) crisis in 2001, the gross indigenous production (GIP) was heavily reduced (over 10%), in particular in the United Kingdom, the main EU producer. After a modest recovery (2.2%) from the FMD crisis, the estimated figure for GIP in 2002 is 1 055 000 tonnes of carcass weight equivalent.

421. Among the major EU producers, production in France has decreased year after year during the last two decades and Irish production has also gone down in recent years. France remains the most important customer in internal Community trade, taking

⁸⁰ The estimate for Chinese production in 2001 is about 2.9 million tonnes (Source FAO).

products mainly from the United Kingdom (with the exception of the FMD period) but also from Ireland.

422. The European Union imports a quantity corresponding to about a fifth of its needs. The main supplier is New Zealand, largely through the United Kingdom, although there is a development towards diversification to several other Member States.
423. Producer prices were at very good levels during most of 1996 and 1997 (EUR 363 and EUR 376/100 kg respectively), in particular due to the bovine spongiform encephalopathy (BSE) crisis. The next two years (1998 and 1999) had relatively high levels of supply during some short periods that were associated with low levels of prices (EUR 325 to EUR 330/100 kg). The year 2000 saw a major price recovery (EUR 357/100 kg), the EU average also being boosted by the strength of sterling against the euro.
424. The FMD crisis during most of 2001 led to a shortage of supply against the background of third countries being unable to significantly increase their exports to the EU. The shortage of supply was leading to high prices and rather low consumption levels. That situation did not change very much during 2002 on the supply side with production recovering only slowly while demand for lamb was reported to be firm. Consequently, the market experienced the highest levels of sheepmeat prices ever seen (close to EUR 415/100 kg).
425. Imports into the Community are carried out mainly under tariff-free or tariff-reduced WTO quotas together with additional quantities provided for in the Europe Agreements. For market management reasons, the quotas are managed on a calendar year basis. New Zealand is by far the main supplier to the EU, exporting a quantity that is close to its tariff-free quota of 226 700 tonnes. Australia is the second exporter to the EU, with just below 19 000 tonnes. Each one of the other exporters, in particular EU candidate countries from Central Europe (in particular Hungary), are all exporting quantities under 11 000 tonnes. A new set of "double profit" agreements with the candidate countries (already in force in Hungary and the Baltic States) will be removing the quantitative restrictions with regard to that group of countries. Furthermore, the Cotonou Agreement with the ACP countries provides for a small quota with tariff-free or tariff-reduced rights.
426. The EU ewe premium for the 2001 marketing year was EUR 9.1/ewe, which was calculated by computing the difference between the basic price after applying the stabiliser (EUR 468.785/100 kg) and the market price (EUR 411.677 /100 kg) and multiplying by a technical coefficient (0.1591). Under the new sheepmeat regime, the amount of premium is permanently fixed at EUR 21/ewe plus an additional payment of about EUR 1/ewe which together represents a major increase over previous years figures for sheep premia; producers in less-favoured areas (LFAs) receive a supplementary premium of EUR 7/ewe.

3.2.3.1. Main legislative and policy developments

427. The Council adopted a Commission proposal for reform of the sheepmeat regime in December 2001. The main modifications of the regime concern the ewe premium. In particular, it was decided that the deficiency payment linked to variation in market prices should be replaced by a flat-rate payment. Further to bringing the ewe premium into line with other direct payments under the CAP, the fixed amount will better allow

forward planning and simplify farm management while, at the same time, enabling producers to respond more readily to market signals.

3.2.4. *Pigmeat*

428. In 2001 world pigmeat production increased slightly, by 1.8%, reaching a total of 91.1 million tonnes (source: FAO). China remains the top world producer, producing 42.7 million tonnes or 3% more than the previous year. The European Union is still in second place with an annual production of 17.5 million tonnes, the same level as the previous year. In 2002 Community production should increase slightly, by 0.8%, to reach some 17.6 million tonnes. The United States are in third place with a production of 8.6 million tonnes, 1% up on 2000.
429. In 2001 pigmeat market prices increased again, as they had in the previous year. During the first half of 2001 outbreaks of swine fever declared in four Member States had a serious impact, provoking a major price increase. As an annual average, prices maintained their high level (EUR 166 per 100 kg on average) in 2001. Prices may drop in 2002 to an average of EUR 137 per 100 kg, 17.5% less than in 2001, which has to be regarded as an exceptional year. Given the favourable market situation, export refunds for fresh and frozen pigmeat were kept at zero.
430. Per capita pigmeat consumption was stable in 2001 at 43.6 kg per year. In 2002 consumption may drop a little as a result of the upswing in beef and veal consumption.
431. In 2001 the quantity exported by the European Union was 1.08 million tonnes carcass equivalent, 14% down on 2000. That drop was due to trade restrictions imposed by certain third countries as a result of the declaration of swine fever in four Member States in 2001. Imports rose by 7% to 52 000 tonnes in 2001. The main destination of pigmeat exports in 2001 was Russia, receiving an annual quantity of 318 700 tonnes (25% of the European Union's exports). Japan was in second place with 257 000 tonnes, followed by Hong Kong and China with 107 000 tonnes. It is estimated that the proportion of exports with refund in 2001 was some 90 000 tonnes.

3.2.5. *Poultry meat*

432. Since 1991 world poultry meat production has been increasing regularly but at a low rate: 7% per year from 1991 to 1995 and 4% per year from 1996 to 2002. Of the main producer regions, production is increasing by more than the average in China (4.5% per year from 1996 to 2002) and Brazil (10.2% per year from 1996 to 2002). After dropping in 1997, Russian production is increasing again. In the European Union production has been increasing by an average 1.4% since 1996.

Poultrymeat production

('000 tonnes)

	USA	Brazil	China	Japan	Russia	Hungary	EU	Other	Global
1996	14 522	4 144	9 630	1 249	705	365	8 358	11 456	50 429
1997	14 952	4 562	10 400	1 234	630	372	8 636	12 805	53 591
1998	15 128	4 627	10 700	1 221	640	400	8 823	12 998	54 537
1999	15 990	5 641	11 150	1 189	640	438	8 778	13 813	57 439
2000	16 362	6 117	11 960	1 196	660	366	8 806	14 175	59 638
2001	17 027	6 732	12 285	1 180	700	422	9 118	14 597	62 061
2002	17 572	7 222	12 545	1 195	750	430	9 071	15 000	63 785
Annual rate of change 2002/1996	3.2%	10.2%	4.5%	-0.7%	1.1%	2.7%	1.4%	4.5%	4.0%

2002: estimates

Sources: European Union; USDA.

433. The world market is stagnating in 2002, mainly because of lower imports from Russia and China. The United States is still in first place as exporter in 2002 thanks in particular to exports of low-value cuts; however, these dropped by 12% because of animal health problems in trade with Russia. In 2002 Brazilian exports, supported by the devaluation of the real, remain higher than European Union exports. Russia remains the largest importer country but is considering the introduction of import quotas in order to promote domestic production.
434. After the great increase in 2001 brought on by the mad cow crisis at the end of 2000 the European Union saw its production drop in 2002 (-0.5%). Community exports jumped in 2001 (up 15%), particularly to Russia. Imports of frozen "salted" meat from Brazil and Thailand greatly inflated our import volume in 2001 (+ 45%) and stayed at the same level in 2002, but at lower prices. However, a Regulation from July 2002 corrected the incorrect classification of "salted" meat which from now on should be classified according to the preservation method as frozen meat.
435. After the favourable prices in late 2000 and the first half of 2001 (crises in the beef sector and swine fever in the pig meat sector) prices dropped in the second half of 2001 and at the beginning of 2002 and then returned to their multi-year average level for the major part of 2002.
436. Poultry meat receives no support on the internal market. The measures governing trade with third countries were adjusted to comply with WTO rules, in particular the ceiling on exports with refund (286 000 tonnes per year from 2000/01). That restriction resulted in a targeting of refunds both at destination countries and at products. In 2002 therefore only 25% of Community exports benefited from refunds.
437. Import quotas at reduced customs duties totalling 190 000 tonnes continue to apply under association agreements and the "double profit" approach (Poland, Hungary, the Czech Republic, Slovakia, Romania, Bulgaria, the Baltic States and Slovenia). In addition, 15 500 tonnes of boned chicken meat and 2 500 tonnes of turkey meat can be imported each year without customs duty, to which will be added 11 900 tonnes for 2002/03 (July/June) under minimum access quotas at reduced duty and 2 400 tonnes under other bilateral agreements (Turkey, Israel).

3.2.6. Eggs

438. World production increased by 4.4% (annual rate of change) from 1991 to 1995 and continued to increase from 1996 to 2002, by 3.0%. Although the average increase was higher in the USA than in the European Union, the latter is still in second place. China has a high rate of expansion, 7.5% from 1996 to 2002, and is the world's premier egg-producing country.

Egg production

(*'000 tonnes*)

	USA	Mexico	Brazil	Japan	Russia	China	EU	Other	Global
1996	4 669	1 589	750	2 610	1 922	15 474	5 182	9 602	41 798
1997	4 738	1 718	768	2 598	1 946	17 223	5 260	7 181	41 433
1998	4 874	1 824	832	2 569	2 013	18 773	5 348	7 117	43 349
1999	5 060	1 978	901	2 560	2 013	22 283	5 396	7 127	47 318
2000	5 150	2 144	903	2 565	2 068	23 262	5 479	7 338	48 908
2001	5 235	2 198	920	2 568	2 147	23 370	5 681	7 411	49 528
2002	5 281	2 253	938	2 556	2 257	23 830	5 658	7 500	50 273
Annual rate of change 2002/1996	2.1%	6.0%	3.8%	-0.3%	2.7%	7.5%	1.4%	-4.0%	3.0%

2002: estimates

Sources: European Union; USDA.

439. World exports increased in 2000 and maintained that level in 2001. The main exporting countries remain Japan (egg products) and Hong Kong (eggs in shell). Community exports dropped by 0.5% in 2001 and should drop by 3% in 2002.
440. On the Community market, the number of laying hens fell slightly by 0.8% in 2002. Prices remained close to their average in the first half of 2002 to reach 10% above average by the end of the summer.
441. The common market organisation is similar to that for poultrymeat.
442. Where trade is concerned, refunds were capped by the WTO at 98 000 tonnes of shell egg equivalent in 2002/03. Since summer 1995 export quantities have been below the limit agreed with the WTO.
443. Agreements concluded with the candidate countries laid down for most of those countries in 2002 a reduction of 80% in customs duties for certain egg products; "double-profit" agreements apply with Hungary, Lithuania and Estonia. Under the minimum access arrangements, reduced-duty import quotas were opened for an annual volume of 157 500 tonnes applicable from 2000/01, divided between three product groups of which only the egg products were fully utilised.

3.2.7. Honey

3.2.7.1. World situation

444. In 2001 world honey production reached 1.26 million tonnes, an increase of 0.2% over the previous year (source: FAO). China remains the world's largest producer, with 256 000 tonnes. The European Union is in second place with 111 000 tonnes.

3.2.7.2. European market

445. The degree of self-supply in the European Union was 46% in the 2000/01 marketing year, a slight drop on the previous year. The causes were a reduction in production owing to unfavourable weather and increases in imports. Per capita consumption remains stable at 0.7 kg/year.
446. In application of Council Regulation (EC) No 1221/97 laying down general rules for the application of measures to improve the production and marketing of honey,⁸¹ the Commission adopted decisions approving the national programmes for the 2003 marketing year. The budget line for the honey programmes was increased by 10% in 2002 and the Commission revised the programme decisions accordingly. That budget increase has been maintained in the preliminary draft budget for next year.

⁸¹ OJ L 173, 1.7.1997, p. 1.

4. AGRIMONETARY ARRANGEMENTS

4.1. Developments in 2002

447. The agrimonetary measures adopted in 2001 were limited to the application of Council Regulation (EC) No 2799/98 establishing agrimonetary arrangements for the euro⁸², namely the fixing or, where appropriate, the adjustment of agrimonetary compensation for the reduction in national currency of certain amounts in Denmark, Sweden and the United Kingdom because of the depreciation of their currencies.
448. According to that Regulation, the fixing of agrimonetary compensation in 2002 could apply only to revaluations having occurred before 1 January 2002. In view of developments in conversion rates in 2001, there was no reason to set new rates of compensatory aid in 2002.
449. Following the depreciation of the Swedish krona and pound sterling, on the other hand, current compensatory aid in Sweden and the United Kingdom was adjusted.
450. First, as regards the Swedish krona, all current tranches of compensatory aid were cancelled. Commission Regulation (EC) No 840/2002⁸³ cancelled the amounts of the third tranches of Swedish compensatory aid linked to the beef/veal and sheep meat/goat meat sectors and structural measures resulting from the conversion rates applicable in January 2000. Under the same Regulation, the third tranche of compensatory aid relating to the appreciable revaluation of the Swedish krona in 1999 was also cancelled. In addition, the amounts of the third tranches of Swedish compensatory aid linked to arable crops, and fibre flax and hemp, resulting from the conversion rates applicable in July and August 2000, were cancelled by Commission Regulation (EC) No 1971/2002⁸⁴.
451. Second, as regards sterling, Regulation (EC) No 840/2002 reduced the two tranches of compensatory aid resulting from the conversion rates applicable in January 2001 in connection with beef/veal and structural measures (bringing the aggregate maximum amount to EUR 6.63 million instead of EUR 7.24 million) and sheep meat and goat meat (bringing the aggregate maximum amount to EUR 2.54 million instead of EUR 5.38 million). The same Regulation also reduced the second tranche of compensatory aid relating to the appreciable revaluation of sterling in 2000, the aggregate theoretical maximum amount of which was accordingly EUR 111.24 million instead of EUR 156.90 million. In addition, Regulation (EC) No 1971/2002 cancelled the amounts of the third tranches of compensatory aid resulting from the conversion rates applicable in July and August 2000 in the arable crops and flax and hemp sectors. This Regulation also cancelled the amounts of the second tranche of compensatory aid linked to arable crops resulting from the conversion rate applicable in July 2001.

⁸² OJ L 349, 24.12.1998, p. 1.

⁸³ OJ L 134, 22.5.2002, p. 9.

⁸⁴ OJ L 302, 6.11.2002, p. 28.

5. RURAL DEVELOPMENT IN 2002

452. The rural development programme (RDP) for Basilicata in Italy, which was adopted on 18 January 2002, was the last programme to be approved for the 2000–2006 period. Sixty-seven RDPs, sixty-nine Objective 1 region programmes with rural development measures (part-financed from the EAGGF Guidance Section) and twenty Objective 2 region programmes (EAGGF Guarantee Section) were previously approved by the Commission in 1999 and 2000.
453. For the first three years (2000, 2001 and 2002) the Community average budget execution of RDPs per Member State amounted to 95% of their respective annual allocations. Six Member States exceeded the revised financial allocation (UK, S, FIN, A, I and IRL), while another six spent less than the average (P, L, F, EL, DK, B). The remaining three (NL, E, D) registered rates between the Community average and 100%.
454. Forty-seven amendments to RDPs were approved by the Commission during 2002.
455. With the adoption of the last seventeen programmes in 2002 all LEADER+ programmes have been approved. Fifty-six were approved in 2001.
456. Of an estimated total of 938 LEADER+ local action groups, 692 have already been selected by the Member States (situation at 26 November 2002). The selection process started in 2001 and is still ongoing in some Member States (Belgium, Germany, Luxembourg and Italy). Eight out of fifteen national networks had been established by the end of 2002.

5.1. Belgium

5.1.1. Rural development programmes (EAGGF Guarantee Section)

457. Three rural development programmes have been operating since autumn 2000: one federal plan and one regional plan each for Flanders and Wallonia. For the three programmes combined, total public spending amounted to EUR 921.375 million and the EAGGF contribution to EUR 360.189 million.
- 5.1.1.1. Amendments to the RDPs
458. The amendment submitted in respect of the Flemish programme in 2001 was approved on 27 November 2002. Amendments requiring a Commission decision were presented for the three plans in 2002.
459. The amendment to the federal programme concerns the new distribution of responsibilities deriving from the special law of 13 July 2001 transferring various responsibilities, including some in the agricultural sphere, to the Belgian regions and Communities.
460. The amendment to the Flemish RDP essentially concerns agri-environmental measures, measures associated with the adaptation and development of rural areas, and evaluation. The amendment to the Walloon RDP relates in particular to agri-environmental measures and investment aid.

5.1.1.2. Level of payments for the period from 16 October 2001 to 15 October 2002

461. The allocation to Belgium for 2002 amounted to EUR 53 million, of which EUR 47.5 million, or 90%, was used. The situation varied according to plan: 85% of the budget was used for the federal plan, 94% for the Flemish plan and 84% for the Walloon plan.

5.1.2. *Single programming document (EAGGF Guidance Section)*

462. Belgium has only one single programming document (Structural Funds) paid for from EAGGF Guidance Section appropriations: Objective 1 phasing-out for the province of Hainaut in Wallonia. The EAGGF contribution amounts to EUR 41.57 million, or 6.4% of total Community support. EAGGF expenditure for the period from 1 January 2000 to 30 June 2002 was EUR 4.75 million.

5.1.3. *LEADER+ programmes*

463. Two LEADER+ programmes, one for Flanders and one for Wallonia, were approved in December 2001. The respective amounts of overall public expenditure and the EAGGF contribution were: for the Flemish programme EUR 8.586 and EUR 4.293 million and for the Walloon programme EUR 23.214 and EUR 11.607 million. The local action groups were selected at the end of 2002 and the programmes were therefore expected to be fully operational in 2003.

5.2. Denmark

5.2.1. *Rural development programmes (EAGGF Guarantee Section)*

464. The total public cost of the Danish rural development programme for 2000–2006 is EUR 884 million, including an EU contribution of EUR 348.8 million from the EAGGF Guarantee Section. The programme includes support for investments in holdings, setting-up of young farmers, training, less-favoured areas, agri-environment, improving processing and marketing of agricultural products, promoting the adaptation and development of rural areas, and forestry.

5.2.1.1. Amendments to the RDPs

465. The amendments to the Danish RDP for the year 2001 were approved by Decision C(2001) 4376 of 19 December 2001. The main changes concern investments in holdings and, in particular, in energy saving, ammonia evaporation, animal welfare and the working environment.

5.2.1.2. Level of payments for the period from 16 October 2001 to 15 October 2002

466. For the period in question, the EU contribution for the programme amounted to approximately EUR 50.7 million.

5.2.2. *LEADER+ Programmes*

467. The total public cost of the Danish LEADER+ Programme for 2000–2006 is EUR 34 million, including an EU contribution of EUR 17 million.

468. As a result of an invitation to tender, twelve local action groups were selected. The groups cover 11 500 sq. km, or approximately one fourth of the territory with a population of 593 000.

5.3. Germany

5.3.1. Rural development programmes (EAGGF Guarantee Section)

469. Germany has sixteen different programmes at *Länder* level.

5.3.1.1. Amendments to the RDPs

470. In 2002 Germany submitted fifteen requests for amendments to programmes. These requests were aimed mainly at bringing funding into line with requirements and introducing new measures under agri-environmental schemes, or at improving the conditions for granting the aid. The amendments were approved before the end of the financial year (EAGGF Guarantee Section). One amendment was withdrawn.

471. In 2002 the flooding in some regions in eastern Germany caused an enormous amount of damage at a cost of around EUR 9 billion. Three additional amendments were aimed at increasing part-financing rates and introducing measures to repair the damage and prevent flooding in future.

5.3.1.2. Level of payments for the period from 16 October 2001 to 15 October 2002

472. The EU contribution to the programme for this period amounted to approximately EUR 730.742 million.

5.3.2. Objective 1 programmes

473. Six German *Länder* are classified as Objective 1 regions: Berlin, Brandenburg, Mecklenburg–Western Pomerania, Saxony, Saxony-Anhalt and Thuringia.

474. Estimated total eligible expenditure for 2002 stood at EUR 898.281 million, including an EAGGF Guidance Section contribution of EUR 486.350 million. An amount of EUR 409.495 million was paid during 2002.

5.3.3. Operational programmes (EAGGF Guidance Section)

475. In 2002 the Commission approved the amendments to the OP for Saxony and Thuringia.

476. Due to the floods the Objective 1 OP for Saxony was amended a second time in 2002 without the financial allocation being changed. For Saxony-Anhalt and Thuringia financial amendments to the Objective 1 OP are to be proposed in the near future.

5.3.4. LEADER+ programmes

477. In Germany fourteen LEADER+ programmes were approved. For 2002 the total had been estimated at EUR 20.887 million but, due to the late approval of the programmes, only payments for the national observatory (EUR 0.132 million) could be executed.

5.4. Greece

5.4.1. Rural development programmes (EAGGF Guarantee Section)

478. The rural development programming document (RDPD) for Greece amounts to EUR 2 686.4 million, with a European Community contribution of EUR 993.4 million from the EAGGF Guarantee Section. It comprises the four accompanying measures. Despite a sound rate of payment, the RDPD is still encountering certain difficulties in starting up the agri-environmental schemes. In September 2002 an amendment to the RDPD involving a revision of the codes of good agricultural practice and changes to agri-environmental projects was submitted to the Commission.

5.4.1.1. Level of payments for the period from 16 October 2001 to 15 October 2002

479. Payments during the period concerned amounted to EUR 160.3.

5.4.2. Operational programmes or single programming documents (EAGGF Guidance Section)

480. The national single-fund (EAGGF Guidance Section) programme was approved by the Commission on 6 April 2001. The Community contribution towards this programme amounted to EUR 1 233.4 million, out of a total cost of EUR 3 010.2 million. The multifund regional programmes approved in the course of the first half of 2001 represent a total cost of EUR 10 914.4 million, a total Community contribution of EUR 7 041.7 million and an EAGGF Guidance Section contribution of EUR 1 026.9 million. All the programme complements were also adopted by the Monitoring Committees during June 2002. Certain activities which encountered implementing difficulties had to be reviewed with the Greek authorities.

5.4.2.1. Level of payments in 2002

481. For 2002 payments totalled EUR 83.2 million.

5.4.3. LEADER+ programmes

482. There is only one programme for the whole of Greece, which was approved on 19 November 2001. Its total cost is EUR 392.6 million, EUR 182.9 million of which will be provided by the EAGGF Guidance Section. In 2002 the managing authority selected the 40 local action groups provided for by the programme. The agreements between the local action groups and the managing authority were scheduled to be signed at the beginning of 2003. The managing authority also prepared the invitations to tender for selecting an assessor for the mid-term review and the national network organisation unit. The Monitoring Committee met twice in 2002.

483. For 2002, commitments totalled EUR 26.5 million, but no payments were made.

5.5. Spain

5.5.1. Rural development programmes (EAGGF Guarantee Section)

484. In 2000, the Commission had adopted two horizontal programmes (accompanying measures and improvement of production structures) and seven regional programmes (Aragon, Catalonia, the Basque Country, Navarre, the Balearic Islands, Rioja and Madrid).

5.5.1.1. Amendments to the RDPs

485. On 15 May 2002, the Commission approved an amendment to the Navarre programme concerning the introduction of priority criteria for agri-environmental measures, extension of the benefit of aid to the afforestation of agricultural land and calculation of compensatory allowances in less-favoured areas. On 14 May 2002, the Commission approved an amendment to the programme for Catalonia relating mainly to the type of products covered by the processing and marketing measure for agricultural products and the drawing up of certain submeasures to encourage the adaptation and development of rural areas.

5.5.1.2. Level of payments for the period from 16 October 2001 to 15 October 2002

486. After three years of implementation, the overall financial execution for the EAGGF Guarantee Section stands at 97% of the amounts allocated for 2000–02, i.e. EUR 1 388 million out of a total of EUR 1 425.5 million.

5.5.2. Operational programmes (EAGGF Guidance Section)

487. In 2000 and 2001, the Commission had approved two horizontal programmes (one single-fund to improve production structures in the Objective 1 regions and one multifund for technical assistance) and ten multifund regional programmes (Andalusia, Asturias, Cantabria, Castile-La Mancha, Castile-Leon, Extremadura, Galicia, Murcia, the Canary Islands and Valencia), as well as their corresponding programme complements.

488. Amendments to programme complements were introduced for the following Autonomous Communities: the Canary Islands (change in the rate of part-financing of measures) and Castile-Leon (modification of the financial table).

489. After three years of implementation, financial execution stands at 60% of the amounts committed since the beginning of the programming period, i.e. EUR 1 210 million out of a total of EUR 1 984 million committed in 2001 and 2002.

5.5.3. LEADER+ programmes

490. By the end of 2002, the Commission had approved eighteen LEADER+ programmes (one horizontal programme and seventeen regional programmes, i.e. one per Autonomous Community). Seventeen programmes were covered by a global grant and one (the Basque Country) by a programme complement. In all, 150 local action groups were to be set up.

491. After two years of implementation, financial execution stands at 23% of the amounts committed since the beginning of the programming period, i.e. EUR 35 million out of a total of EUR 148 committed in 2001 and 2002.

5.6. France

5.6.1. Rural development programmes (EAGGF Guarantee Section)

492. The total cost of the national rural development programme is EUR 12 849.4 million, with a Community contribution of EUR 4 994.9 million from the EAGGF Guarantee Section.

5.6.1.1. Amendments to the RDPs

493. On 10 October 2002, the French authorities requested an amendment to the national rural development programme. This amendment is being examined by the Commission, which expects to be able to conclude its work during the first quarter of 2003.

5.6.1.2. Amendments to the SPDs of Objective 2 regions in 2002

494. Certain SPD Monitoring Committees approved proposals for amending programmes with a view to improving the rate of use of the funds available. These amendments will be transmitted to the Commission in order to allow the SPDs to be formally amended.

5.6.1.3. Level of payments for the period from 16 October 2001 to 15 October 2002

495. The 2002 allocation for France amounted to EUR 803 million, comprising EUR 701 million for the national programme and EUR 102 million for the Objective 2 rural strand; 84% of this amount has been used. The rate of use of the national plan stands at 91.60% and that of Objective 2 at 36.42%.

5.6.2. Operational programmes or single programming documents (EAGGF Guidance Section)

496. Six French regions are classified as Objective 1 regions: Guadeloupe, Martinique, French Guiana, Réunion, Corsica and part of the region of Nord/Pas-de-Calais, of which the districts of Douai, Valenciennes and Avesnes-sur-Helpe are receiving transitional support.

5.6.2.1. Amendments to the OPs of Objective 1 regions

497. Following the adoption by the Council on 28 June 2001 of Regulation (EC) No 1447/2001 providing for exemptions for the outermost regions, such as an increase in the rate of public funding in smaller agricultural holdings and in the agri-food industries, the different Monitoring Committees approved the amendments to the SPD and programme complement of each of the programmes for the overseas departments.

5.6.3. *National LEADER+ programme*

498. A global grant was adopted in the context of the Community LEADER+ initiative on 8 August 2001. The *Centre national pour l'aménagement des structures des exploitations agricoles* (CNASEA) was chosen to manage the grant. Financial execution stands at 1.4% of the amounts committed since the beginning of the programming period, i.e. EUR 1 093 185 out of the total of EUR 80 million committed in 2001 and 2002.
499. Implementation will be carried out by 140 local action groups selected in 2002, whose first action programmes have been set in place following the signature of the agreements.

5.7. Ireland

5.7.1. *Rural development programmes (EAGGF Guarantee Section)*

500. The total public cost of the Irish rural development programme for 2000–2006 is EUR 3 675.1 million, including an EU contribution of EUR 2 388.9 million from the EAGGF Guarantee Section. The programme includes support for early retirement, less-favoured areas, the agri-environment and afforestation.

5.7.1.1. Amendments to the RDPs

501. The rural development programme was amended in order to adjust payment rates for mountain type grazing under the compensatory allowances scheme. The Commission Decision approving this amendment was notified to the Irish authorities on 5 June 2002 (C(2002) 1673).

5.7.1.2. Level of payments for the period from 16 October 2001 to 15 October 2002

502. During this period, EU expenditure on the programme amounted to EUR 333.03 million, representing 100% of the budget allocation.

5.7.2. *Operational programmes (EAGGF Guidance Section)*

503. The rural development programme is complemented by other measures (farm investments, forestry) implemented under the two regional (Objective 1) operational programmes forming part of the 2000–2006 Community Support Framework for Ireland. EU contributions for part-financed measures in 2000–2006 (forestry, farm investments) under the two regional (Objective 1) operational programmes amount to EUR 169.4 million.
504. Foot-and-mouth disease in 2001 hampered the implementation of part-financed measures (e.g. farm waste, dairy hygiene) under the regional OPs and a low rate of expenditure was therefore registered in that year. The December 2002 request for payment did not cover the entire budget for the year 2000.
505. The PEACE II operational programme (the Community special support programme for peace and reconciliation in Northern Ireland and the border counties of Ireland) was approved in 2001. The programme got off to a very slow start and no expenditure was recorded until October 2002.

5.7.3. *LEADER+ programmes*

506. The LEADER+ programme for Ireland was adopted on 3 July 2001 (Commission Decision C(2001) 1296). Twenty-two local action groups were selected. The programme became fully operational in 2002.

5.8. Italy

5.8.1. *Rural development programmes (EAGGF Guarantee Section)*

5.8.1.1. Adoption of new RDPs

507. During 2002, the last programme remaining to be approved, RDP Basilicata, was adopted by the Commission on 18 January 2002.

5.8.1.2. Amendments to the RDPs

508. The Commission approved amendments to the following RDPs: Abruzzi, Bolzano, Emilia-Romagna, Friuli, Lazio, Lombardy, Marche, Piemonte, Tuscany, Valle d'Aosta and Veneto. The amendments related mainly to the reprogramming of the financial plan and the adjustment of several measures in the programme to take account of actual implementation.

5.8.1.3. Level of payments for the period from 16 October 2001 to 15 October 2002

509. At 15 October 2002, aggregate expenditure during the financial year under way on the twenty-one rural development programming documents financed by the EAGGF Guarantee Section amounted to EUR 652.9 million in Community contributions and EUR 1 259.7 million in total public spending.

5.8.2. *Operational programmes or single programming documents (EAGGF Guidance Section)*

5.8.2.1. Amendments to the OPs or SPDs

510. The Commission approved an amendment to the OP for Campania concerning the adjustment of a forestry sector measure to include, in particular, the restoration of forestry production potential damaged by natural disasters and fire, and the introduction of fire prevention instruments.

5.8.2.2. Level of payments in 2002

511. The seven Objective 1 regions (Sicily, Sardinia, Calabria, Basilicata, Campania, Apulia and Molise) benefited from an amount of EUR 419 million in commitments and EUR 245 million in payments out of a total EAGGF Guidance Section contribution of EUR 2 982.6 million.

5.8.3. *LEADER+ programmes*

512. The last eight programmes were adopted in 2002: Basilicata, Calabria, Campania, Molise, Apulia, Sardinia, Sicily and the national network.

513. The approval of these programmes closed the initial examination and negotiation phase for all Italian programmes. Payment of the 7% advance for the eight programmes approved represents expenditure of EUR 11.03 million in terms of EAGGF contributions. For programmes already approved previously, expenditure amounts to EUR 22.68 million for commitments and EUR 7.10 million for payments.

5.9. Luxembourg

5.9.1. Rural development programmes (EAGGF Guarantee Section)

514. The year 2002 was the first in which the RDP could be genuinely applied in respect of all non-Article 33 measures.

5.9.1.1. Amendments to the RDPs

515. The programme amendment submitted in 2001 and approved in December 2002 mainly concerned the increase in the number of hectares eligible for the prime aid rate in the case of compensatory allowances for less-favoured areas.

5.9.1.2. Level of payments for the period from 16 October 2001 to 15 October 2002

516. Use was made of EUR 12.8 million, i.e. 95% of the allocation for 2002.

5.9.2. LEADER+ programmes

517. The LEADER+ programme was approved in December 2001. The programme complement has still to be submitted. Consequently, the initiative will actually be implemented in 2003.

5.10. Netherlands

5.10.1. Rural development programmes (EAGGF Guarantee Section)

518. The total public cost of the rural development programme for the Netherlands is EUR 1 057.39 million, including an EU contribution of EUR 417 million from the EAGGF Guarantee Section.

5.10.1.1. Amendments to the RDPs

519. The Netherlands requested amendments to the RDP in 2002. The main changes concerned the introduction of an investment measure for organic pig farming and the addition of two new packages to the subsidy Regulation on nature conservation through farming.

5.10.1.2. Level of payments for the period from 16 October 2001 to 15 October 2002

520. The EU contribution to the programme for this period amounted to approximately EUR 50.6 million. Accordingly, 87% of the budget was spent.

5.10.2. Objective 1 programme for Flevoland (EAGGF Guidance Section)

521. Flevoland is classified as a phasing-out Objective 1 region. The programme was approved in July 2000. By December 2002 the payment requests received did not cover the entire budget for 2000.

522. One amendment to the Flevoland Objective 1 programme, concerning the distribution of support among priorities, was approved by Commission Decision C(2002)4262 of 29 November 2002.

5.10.3. LEADER+ programmes

523. Four LEADER+ programmes have been approved in the Netherlands. An amount of EUR 12 million was earmarked for 2002. Since the adoption of the LEADER+ programmes, EU contributions totalling EUR 5.8 million have been paid. The selection of twenty-nine local action groups has been completed.

5.11. Austria

5.11.1. Rural development programmes (EAGGF Guarantee Section)

524. The total public cost of the Austrian rural development programme for 2000–2006 is EUR 6 570.06 million, including an EU contribution of EUR 3 208.10 million from the EAGGF Guarantee Section.

5.11.1.1. Amendments to the RDPs

525. The amendment to the Austrian RDP for the year 2001 was approved by Decision C(2002) 36 of 8 December 2002. The main changes concern investments in holdings, agri-environmental measures, establishment of young farmers, less-favoured areas, processing and marketing, and the financial plan.

5.11.1.2. Level of payments for the period from 16 October 2001 to 15 October 2002

526. The EU contribution to the plan for the period in question totalled approximately EUR 438.20 million.

5.11.2. Objective 1 programme for Burgenland (EAGGF Guidance Section)

527. The total public cost of the Austrian Objective 1 programme for 2000–2006 is EUR 365.1 million, including an EU contribution of EUR 271.0 million from the ERDF, ESF and EAGGF (EUR 41.3 million).

5.11.2.1. Amendments to the Objective 1 programme

528. Two modifications, concerning the distribution of contributions from the Funds and the national state aid regulations, were approved by Decision of 4 May 2001.

5.11.2.2. Level of payments in 2002

529. Since the adoption of the Objective 1 programme for Burgenland an amount of EUR 12.1 million has been paid.

5.11.3. LEADER+ programmes

530. The LEADER+ programme for Austria was approved by Decision C(2001) 820 of 26 March 2001 with an EU contribution of EUR 75.50 million for the period 2001–2006. Fifty-six local action groups have been selected under the programme. The groups cover 46 996 sq. km, or approximately 45% of the territory, and a population

of 2 175 079. Since the adoption of the Austrian LEADER+ programme an amount of EUR 6.9 million has been paid.

5.12. Portugal

5.12.1. Rural development programmes (EAGGF Guarantee Section)

531. Total public expenditure under the rural development programme for Portugal amounts to EUR 1 829.921 million, including a Community contribution of EUR 1 372.146 million from the EAGGF Guarantee Section. The programme applies to the whole of Portugal.

5.12.1.1. Amendments to the RDPs

532. The three regional programmes for the Azores, Madeira and Mainland Portugal were amended by the Commission.

5.12.1.2. Level of payments for the period from 16 October 2001 to 15 October 2002

533. Payments totalled EUR 170 348 769.48 at the end of this period.

5.12.2. Operational programmes or single programming documents (EAGGF Guidance Section)

5.12.2.1. Amendments to the OPs or SPDs

534. Amendments were made to the five regional OPs for Mainland Portugal: North, Centre, Alentejo, Lisboa e Vale do Tejo and Algarve. These changes related to the "diversification of small-scale farming" scheme, bringing it into line with the new legal basis deriving from Regulation (EC) No 2075/2000.

535. The national "agriculture and rural development programme was also amended in order to provide an exception to Article 37(3) of Regulation (EC) No 1275/1999 for investments in the fresh planting of vineyards.

5.12.2.2. Level of payments in 2002

536. At 31 December 2002, commitments for the eight Objective 1 operational programmes totalled EUR 329 557 000 and payments EUR 234 852 824.

5.12.3. LEADER+ programmes

537. The national single programme was adopted on 25 July 2001. The total cost is EUR 266.92 million, EUR 161.6 million of which is to be paid from the EAGGF Guidance Section.

538. Commitments since the start of the programming period amount to EUR 48 200 000 and payments to EUR 17 128 113.

5.13. Finland

5.13.1. Rural development programmes (EAGGF Guarantee Section)

539. In 2000 the Commission approved three rural development programmes, two for Mainland Finland and one for the Åland Islands, an autonomous province of Finland.

5.13.1.1. Amendments to the RDPs

540. During 2002 the Commission approved an amendment to the horizontal rural development programme aimed at extending it to certain endangered breeds and an amendment to the regional rural development programme modifying the level of public support for development projects and taking greater account of the financial distribution between different measures. The Commission also approved amendments to the rural development programme for the Åland Islands aimed at including certain endangered breeds in the programme, making the conditions and commitments applicable to the beneficiaries of agri-environmental measures more flexible and reallocating EU funds between agri-environmental support and LFA support.

5.13.1.2. Level of payments for the period from 16 October 2001 to 15 October 2002

541. After three years of implementation, financial execution for the EAGGF Guarantee Section stood at 107% of forecasts for the period 2000–02. The amount paid was EUR 979.3 million, compared with an estimate of EUR 918.9 million.

5.13.2. Single programming documents (EAGGF Guidance Section)

542. In 2000 the Commission approved two single programming documents (SPDs) for Objective 1 programmes implemented in Eastern Finland and Northern Finland.

5.13.2.1. Level of payments

543. After three years of implementation, financial execution stood at 50% and 41% of the funds committed at the beginning of the programming period for Eastern Finland and Northern Finland respectively. Of the EUR 69.0 million committed in 2000–02, an amount of EUR 32.1 million was paid.

5.13.3. LEADER+ programmes

544. In 2001 the Commission approved one LEADER+ programme for Finland, and twenty-five local action groups (LAGs) were selected and are supported by a national network.

545. After two years of implementation of the programme, EUR 5.8 million (35%) of the total of EUR 16.5 million committed in 2001–02 was paid.

5.14. Sweden

5.14.1. Rural development programmes (EAGGF Guarantee Section)

546. In 2000 the Commission approved one rural development programme (accompanying measures covering the entire country, other measures covering non-Objective 1 regions).

5.14.1.1. Amendments to the RDPs

547. The amendments relating to measures for start-up aid to young farmers, training, the agri-environment, and processing and marketing of agricultural products was approved by the Commission on 6 November 2002.

5.14.1.2. Level of payments for the period from 16 October 2001 to 15 October 2002

548. After three years of implementation, financial execution for the EAGGF Guarantee Section stood at 106% of estimated expenditure for 2000–02, i.e. a total of EUR 489.4 million, compared with an estimated amount of EUR 461.3 million.

5.14.2. Single programming documents (EAGGF Guidance Section)

549. In 2000 the Commission approved the Objective 1 programmes for Norra Norrland and Södra Skogslän.

550. After three years of implementation, for both programmes financial execution stood at 53% of the funds committed at the beginning of the programming period, i.e. EUR 25.3 million out of a total of EUR 47.8 million committed during 2000–02.

5.14.3. LEADER+ programmes

551. In 2001 the Commission approved one LEADER+ programme. A total of twelve local action groups have been selected.

552. After two years of implementation, the financial execution stood at 24% of the amount committed at the beginning of the programming period, i.e. EUR 2.8 million out of a total of EUR 12.1 million committed in 2001 and 2002.

5.15. United Kingdom

5.15.1. Rural development programmes (EAGGF Guarantee Section)

553. There are four rural development programmes (RDP) for the period 2000–2006: England, Northern Ireland, Scotland and Wales. The total cost of these programmes is EUR 3 276 million, towards which the EAGGF Guarantee Section contributes EUR 1 168 million.

5.15.1.1. Amendments to the RDPs

554. For the England and Scotland programmes, changes were made with regard to compensatory allowances in less-favoured areas, the agri-environment and forestry schemes. For the Wales programme, changes related to the rate of aid for tourism and craft measures.

5.15.1.2. Level of payments for the period from 16 October 2001 to 15 October 2002

555. The outbreak of foot-and-mouth disease was a major problem for all rural areas during 2001. However, the impact on the financial performance of the RDPs was not as great as expected and the United Kingdom spent an overall amount equivalent to 104% of its allocation for the period 2000–02.

5.15.2. *Operational programmes or single programming documents (EAGGF Guidance Section)*

556. EAGGF Guidance Section support is available only in regions eligible for Objective 1 (or regions in transition): Cornwall and the Scilly Isles, Merseyside, Northern Ireland (in transition), South Yorkshire, Highlands and Islands (in transition), and West Wales and the Valleys.

5.15.2.1. Level of payments

557. Since the beginning of the present programming period, a total amount of EUR 188 million has been committed for these programmes. By the end of 2002 the total amount paid by the EAGGF was EUR 59 million, i.e. 31% of the total amount committed. An additional amount of EUR 21 million has been claimed but has not yet been paid.

5.15.3. *LEADER+ programmes*

558. With the adoption in 2002 of the programme for Scotland, all four LEADER+ programmes have now been adopted. The total public cost of the four programmes is EUR 253 million, to which the EAGGF contributes EUR 113 million. By the end of 2002 a total of EUR 33.6 million had been committed for these programmes, with advance payments amounting to EUR 7.9 million, i.e. 23%. A total of fifty-five local action groups were selected.

6. ENVIRONMENT AND FORESTRY

6.1. Environmental measures

559. In order to monitor the progress achieved in integrating environmental concerns into agricultural policy, as requested by the Cardiff European Council in June 1998 and by successive European Councils on a number of occasions, the Commission adopted on 20 March 2001, in the wake of its January 2000 communication entitled "Indicators for the integration of environmental concerns into the common agricultural policy",⁸⁵ a new communication entitled "Statistical information needed for indicators to monitor the integration of environmental concerns into the common agricultural policy".⁸⁶ In February 2001, in response to a wish of the Council of agriculture ministers that the entire area of sustainable development be included, the Commission presented a working paper entitled "A framework for indicators for the economic and social dimensions of sustainable agriculture and rural development".⁸⁷
560. In June 2001, the European Council in Göteborg endorsed the European Union Strategy for sustainable development,⁸⁸ calling upon the Commission to pursue its efforts to improve the existing set of indicators and define the statistics required for these indicators.
561. In the above-mentioned communications, the Commission presented an analytical framework and identified a set of thirty-five agri-environmental indicators, as well as the information sources available for those thirty-five indicators, and made recommendations for future action in this area.
562. The recommendations set out in these Commission communications provide the conceptual input for the IRENA⁸⁹ project. Started in 2002, this project is aimed at developing a set of agri-environmental indicators at least equivalent to the thirty-five identified by COM(2002) 20, and the related datasets required to compile these indicators. A specified final outcome of the project is a report to be presented to the European Council in December 2004.
563. On 14 March 2002, the European Parliament adopted the "Biodiversity action plan for agriculture"⁹⁰ approved by the Council in June 2001. This action plan analyses the relationship between agriculture and biodiversity and highlights both the mutual benefits which could ensue and the adverse impact which certain kinds of agricultural activity could have on the conservation of biodiversity.
564. A number of key ideas, based mainly on experience drawn from implementing agri-environmental measures, provided guidance for the preparation of the action plan, which defines priorities in specific action areas likely to achieve the goals set

⁸⁵ COM(2000) 20 final.

⁸⁶ COM(2001) 144 final.

⁸⁷ SEC (2001) 266.

⁸⁸ COM(2001) 264 final.

⁸⁹ IRENA is the acronym for "Indicator reporting on the integration of environmental concerns into agriculture policy".

⁹⁰ COM(2001) 162 final, volume III.

by the European Community biodiversity strategy.⁹¹ The action plan also sets specific targets and establishes a timetable for carrying out priority tasks. To ensure effective monitoring of the implementation of the proposed instruments and evaluation of their results with regard to the conservation and sustainable use of genetic resources in agriculture, the communication also underlines the need to develop operational indicators in this area.

565. In February 2002 the Commission set up a Biodiversity Expert Group, in which Member States participate and which other stakeholders are invited to attend as observers, in order to promote the implementation of the Biodiversity Action Plans and enhance complementarity with equivalent biodiversity strategies and action plans adapted and being developed by the Member States.
566. Agriculture plays a determining role in other Community initiatives aimed at safeguarding the environment. One example would be the measures currently being carried out to protect surface water and groundwater. Under the Nitrates Directive, Member States must draw up action plans in designated vulnerable zones in order to reduce nitrate pollution at source. The 1979 Birds Directive is another relevant Community initiative, which obliges Member States to protect the habitats of their wild bird populations. Lastly, an ecological network known as "Natura 2000" has been set up under the 1992 Habitats Directive. Mention may also be made of the Commission communication entitled "Towards a thematic strategy on the sustainable use of pesticides",⁹² the purpose of which is to launch a broad consultation to assist in the development of a thematic strategy on the sustainable use of pesticides. This strategy is to complement the existing legislative framework, which focuses on the beginning and end of the life cycle of pesticides. It should also be noted that the Commission presented a communication entitled "Towards a thematic strategy for soil protection",⁹³ which constitutes a first step towards drawing up a genuine Community protection strategy and is both descriptive and action-orientated, thus providing a full picture of this complex issue that can serve as a basis for future work.

6.2. Forestry measures

567. In the context of the protection of forests against atmospheric pollution (Council Regulation (EC) No 3528/86⁹⁴) the Commission approved the 2002 national programmes submitted by the Member States with a total EC financial contribution of EUR 6 584 000. Of this total, an amount of EUR 1 032 000 was allocated to work on the systematic monitoring of forest condition carried out in the Member States within the network of 3 600 observation plots (level I). A further EUR 4 721 000 was allocated to the intensive surveillance of forest ecosystems conducted within the network of 514 observation plots (level II), and EUR 828 000 to experiments in the field and pilot projects contributing towards the enhancement of common monitoring methods. The results of the programmes are presented in the report "Forest Condition in Europe", published jointly by the United Nations Economic Commission for Europe and the European Commission (reference: ISSN 1020-3729).

⁹¹ COM(1998) 42 final.

⁹² COM(2002) 349 final.

⁹³ COM(2002) 179 final.

⁹⁴ OJ L 326, 21.11.1986, p. 2.

568. With a view to protecting the Community's forests against fire (Council Regulation (EC) No 2158/92⁹⁵), the Commission approved the 2002 national programmes with an EC financial contribution of EUR 10 448 000. These programmes are integrated into the Member States' forest fire protection plans, which are approved by the Commission. The plans are a necessary condition for the eligibility of a number of forest measures implemented in the rural development programmes under Council Regulation (EC) No 1257/1999⁹⁶. The Commission issued a positive opinion on sixty-two updated plans during 2002.
569. Finally, following the Commission Decision of 15 December 2001 (Written Procedure E/2001/2318) on the agreement between DG Agriculture, DG Environment and DG Enterprise concerning the two forest protection measures and the distribution of responsibilities for the EU Forestry Strategy, the Commission has established an Inter-Service Group on Forestry. This Inter-Service Group is strengthening co-ordination on forest-related activities implemented in the framework of Community policies or initiatives by meeting on a regular basis.

⁹⁵ OJ L 217, 31.7.1992, p. 3.

⁹⁶ OJ L 160, 26.6.1999, p. 80.

7. FINANCING OF THE CAP IN 2002

570. Agricultural expenditure in 2002 took account of the conclusions of the Berlin Summit of 24 and 25 March 1999 on the Agenda 2000 proposals: the Commission's proposed guideline (and within it rural development measures, veterinary measures, the Sapard pre-accession agricultural instrument and the amount available for agriculture in connection with accessions) was adhered to, but sub-guideline ceilings on expenditure were introduced in the shape of a subceiling for traditional market expenditure (1(a)) and another subceiling for expenditure on rural development (1(b)). These two subceilings have been set as follows:

Expenditure in 2000–2006 (EUR million at 1999 prices)⁹⁷

	2000	2001	2002	2003	2004	2005	2006	Total
Total future CAP	40 920	42 800	43 900	43 770	42 760	41 930	41 660	297 740
a) markets ⁹⁸ (subceiling 1a)	36 620	38 480	39 570	39 430	38 410	37 570	37 290	267 370
b) rural development ⁹⁹ (subceiling 1b)	4 300	4 320	4 330	4 340	4 350	4 360	4 370	30 370

7.1. EAGGF Guarantee Section

571. The EAGGF Guarantee Section appropriations adopted in the general budget for 2002 total EUR 44 255.08 million (including EUR 24.9 million for the agricultural budgetary reserves and provisions – Chapter B0-40).¹⁰⁰ The agricultural guideline¹⁰¹ is EUR 50 867 million (an increase of EUR 2 079 million or 4.3% on the 2001 financial year) and covers not only expenditure under Subsection B1 but also expenditure under the Sapard pre-accession instrument (EUR 555 million of commitment appropriations entered in Chapter B7-01). There is thus a margin of EUR 6 611 million between the agricultural guideline and the related appropriations. The appropriations under:

- the subheading for traditional EAGGF Guarantee Section expenditure and veterinary expenditure (subheading 1(a) covering Titles B1-1 to B1-3) amount to EUR 39 660.08 million, i.e. EUR 2 331.92 below the subceiling laid down in the Interinstitutional Agreement of 6 May 1999;¹⁰²

⁹⁷ A 2% deflator will be used for calculating amounts at current prices.

⁹⁸ Including veterinary and plant health protection measures but excluding accompanying measures.

⁹⁹ Including accompanying measures.

- To this expenditure should be added rural development measures - other than under Objective 1 - which are currently financed by the EAGGF Guidance Section.

- These amounts correspond, on average, to the proposal put forward by the Commission as part of Agenda 2000.

- All rural development measures are part-financed by the European Commission and the Member States.

¹⁰⁰ Not including EUR 250 million of appropriations entered in the monetary reserve (B1-6).

¹⁰¹ A budgetary discipline instrument setting a maximum growth threshold for agricultural spending.

¹⁰² Interinstitutional Agreement of 6 May 1999 between the European Parliament, the Council and the Commission on budgetary discipline and the improvement of the budgetary procedure (1999/C 172/01).

- the subheading for rural development and accompanying measures (*subheading 1(b)* covering Titles B1-4 and B1-5) amount to EUR 4 595 million, i.e. the same as the subceiling fixed in the Interinstitutional Agreement.

7.1.1. Budgetary procedure

7.1.1.1. Stages of the budgetary procedure

572. The 2002 Preliminary Draft Budget was adopted by the Commission at its meeting held on 8 May 2001 and proposed to the Budgetary Authority in the course of the same month. The appropriations proposed for the EAGGF Guarantee Section totalled EUR 46 221.8 million, i.e. EUR 41 626.8 million for subheading 1(a) (EUR 365.2 million below the ceiling for subheading 1(a) at EUR 41 992 million) and EUR 4 595 million for subheading 1(b) (i.e. at the same level as the ceiling).
573. The Council adopted the 2002 draft budget at first reading on 20 July 2001. The appropriations in subheading 1(a) were reduced by EUR 1 200 million (abolition of the special reserve of EUR 1 000 million and reduction of EUR 200 million across all chapters apart from those affected by the BSE epidemic). Those in subheading 1(b) were maintained by the Council at the level of the financial perspective. EAGGF Guarantee Section appropriations accordingly totalled EUR 45 021.8 million, of which EUR 40 426.80 million for subheading 1(a) and EUR 4 595 million for subheading 1(b).
574. At the end of October 2001 the Commission adopted letter of amendment No 2/2002 to the Preliminary Draft Budget in order to take account, firstly, of developments on the agricultural markets (trends on the beef and veal market and measures to eradicate BSE) and, secondly, of recent agricultural legislation.
575. While taking these factors into consideration, the amending letter to the PDB set appropriation requirements for the 2002 financial year at EUR 44 250.8 million, of which EUR 39 655.8 million was allocated to market measures (leaving a margin of EUR 2 336.2 below the ceiling) and EUR 4 595 million to rural development (equal to the ceiling).
576. In December 2001, following the consultation procedures between the three institutions, the final budget for 2002 was established as follows:
- for *subheading 1(a)*, appropriations for 2002 were fixed at EUR 39 660.08 million (EUR 2 331.9 million below the Berlin ceiling),
 - for *subheading 1(b)*, appropriations for 2002 were fixed at EUR 4 595 million.

7.1.1.2. The monetary reserve

577. The operating mechanisms for the monetary reserve are set out in the 1995 Report on the Agricultural Situation.
578. For a large proportion of export refunds for agricultural products, particularly cereals, rice and sugar, and some internal aid such as that for starch production, use of sugar by the chemicals industry and cotton, budget appropriations are established on the basis of the discrepancy between Community prices, expressed in euros, and foreseeable world prices, generally expressed in US dollars.

579. When the preliminary draft budget was drawn up in April 2001, the parity initially used for the budgetary estimates for 2002 was set at EUR 1=USD 0.92 (average parity for January, February and March 2001) in accordance with Article 8(1) of Regulation (EC) No 2040/2000. Subsequently, when the Commission adopted an amending letter to the preliminary draft budget at the end of October 2001 on agricultural expenditure, the rate was reduced to EUR 1=USD 0.89 (average for July, August and September 2001). The latter rate became the final budgetary parity used to establish budgetary estimates for 2002.
580. During the first nine months of the reference period for determining the impact of the dollar (August 2001 to April 2002), the average monthly rates did not register variations of more than 2.5% against the final parity used for establishing budgetary estimates for 2002. However, after April, the dollar depreciated considerably and the rate for July 2002 averaged EUR 1=USD 0.99, thus surpassing the budgetary parity by some 11%.
581. The estimated additional costs incurred by the EAGGF Guarantee Section as a result of the fall in the dollar against the budgetary parity thus amount to EUR 33 million for the 2002 financial year. Given that these additional costs are below the neutral margin of EUR 100 million referred to in Article 11(2) of Regulation (EC) No 2040/2000, no transfer could be made from the monetary reserve. In any case, these additional costs may still be financed from the budget appropriations in Titles 1 to 3 of the EAGGF Guarantee Section for 2002.

7.1.2. *The EAGGF Guarantee Section in the context of the general budget*

582. Of the overall commitment appropriations of EUR 97 019.3 million entered in the 2002 general budget, an amount of EUR 44 255.08 million (excluding the monetary reserve, but including the appropriations entered in Chapter B0-40 "provisions"), i.e. 45,6%, was allocated to the Guarantee Section. In 2001, EAGGF Guarantee Section commitments accounted for 46% of commitments in the general budget.

7.1.3. *The EAGGF and its financial resources*

583. The EAGGF forms an integral part of the European Union budget. Its appropriations are therefore determined in accordance with budget procedures, in the same way as other Community expenditure.
584. Agricultural policy also generates revenue in the form of sums collected under the common market organisations. This revenue, which forms part of the Union's own resources,¹⁰³ consists of:
- levies, which are variable charges on imports from non-member countries of agricultural products covered by the common market organisations; such charges are intended to compensate for the difference between prices on the world market and prices agreed within the Union. Under the Agreement on Agriculture following the Uruguay Round of multilateral trade negotiations, levies have been replaced by fixed import duties since 1995;

¹⁰³ The Union's other own resources are: the levy on VAT, customs duties collected under the common customs tariff and Member States' contributions.

- levies collected under the common organisation of the market in sugar; these are divided into production levies on sugar and isoglucose, sugar storage levies and additional elimination levies which ensure that farmers and sugar manufacturers finance the cost of disposing of sugar which is surplus to Community internal consumption.

Revenue

Charges accruing to the Union's own resources under the common agricultural policy (amounts prior to deduction of collection costs)

(EUR million)

Type of charge	1996	1997	1998	1999	2000	2001	2002 ¹⁰⁴
Agricultural levies	810.1	1 025.2	1 102.2	1 187.3	1 198.4	1 132.9	1 121.7
Sugar levies	1 213.7	1 114.0	1 070.1	1 203.6	1 196.8	840.0	770.9
Total	2 023.8	2 139.2	2 172.3	2 390.9	2 395.2	1 972.9	1 892.6

585. It should be noted that there are other sources of agricultural revenue. Under the common organisation of the market in milk and milk products, producers pay an additional levy if milk quotas are exceeded. This revenue does not, however, form part of the Union's own resources and is considered to be part of the measures to stabilise agricultural markets. It covers the additional expenditure brought about by the production overrun on the quotas and is thus deducted from this same expenditure.

7.1.4. EAGGF Guarantee Section expenditure

7.1.4.1. Expenditure

586. EAGGF Guarantee Section expenditure comprises:

- export refunds (EUR 3 400.6 million in 2001);
- public and private storage (EUR 1 059.9 million in 2001);
- withdrawals and similar operations (EUR 2 732.8 million in 2001);
- direct payments¹⁰⁵ (EUR 27 430.3 million in 2001);
- other intervention relating to the common market organisations (EUR 3 064.2 million in 2001); and
- other expenditure, principally rural development (EUR 4 363.8 million in 2001).

587. Direct payments to producers are thus currently by far the largest type of aid.

588. In connection with the CAP reform in 1992 mention should also be made of the accompanying measures to assist farmers with projects to protect the environment, maintain the landscape, develop the use of woodland resources or transfer their holdings with a view to early retirement, plus, under the 1999 reform, other rural development measures, including compensation granted in less-favoured areas, all of which make up the second pillar of the CAP.

¹⁰⁴ Estimates in the 2002 budget.

¹⁰⁵ Direct payments as defined in the Annex to Regulation (EC) No 1259/1999 of 17 May 1999 (OJ L 160, 26.6.1999, p. 113).

589. Furthermore, as a result of the reorientation and later the reform of the CAP, the EAGGF Guarantee Section has been used to finance, in whole or in part, various specific measures for the management of agricultural markets such as the distribution of agricultural products to the needy in the community, measures to combat fraud, measures to promote quality and measures designed to compensate for the geographical isolation of the French overseas departments (Poseidom), Madeira and the Azores (Poseima), the Canary Islands (Poseican) and the Aegean islands.

7.1.4.2. Public storage

590. Between 1 October 2000 and 30 September 2001, when the public storage accounts were closed, the quantities and book value of public intervention stocks developed as follows. The book value of products in storage rose from EUR 884.94 million at the end of the 2000 financial year to EUR 984.08 at the end of the 2001 financial year. The share of cereals and rice diminished, these two products now representing around 67% of the total value of the products in storage. The remaining 33% comprises olive oil (1%), milk products (4%) and, above all, beef and veal (25%) and alcohol (3%).

7.1.5. Clearance of accounts

591. The Commission adopted the following Decisions on the clearance of EAGGF Guarantee Section accounts:

- Decision of 19 February 2002 (2002/144/EC) on the clearance of the accounts of certain paying agencies in Spain,¹⁰⁶
- Decision of 12 June 2002 (2002/461/EC) in respect of the 2001 financial year¹⁰⁷.
- Decision of 28 June 2002 (2002/523/EC) pursuant to Article 5(2)(c) of Regulation (EEC) No 729/70 – ninth Decision,¹⁰⁸
- Decision of 26 June 2002 (2002/524/EC) pursuant to Article 5(2)(c) of Regulation (EEC) No 729/70 – tenth Decision,¹⁰⁹
- Decision of 14 October 2002 (2002/816/EC) in respect of the 1995 financial year,¹¹⁰
- Decision of 5 November 2002 (2002/881/EC) pursuant to Article 5(2)(c) of Regulation (EEC) No 729/70 – eleventh Decision.¹¹¹

592. The expenditure recovered from Member States in respect of these three Decisions comes to EUR 295.9 million.

593. The agricultural expenditure audit departments also performed the other tasks allocated to them:

- 168 on-the-spot inspection missions in the 15 Member States and ten Sapard countries, including checking of direct expenditure;

¹⁰⁶ OJ L 48, 20.2.2002, p. 32.

¹⁰⁷ OJ L 160, 18.6.2002, p. 28.

¹⁰⁸ OJ L 170, 29.6.2002, p. 73.

¹⁰⁹ OJ L 170, 29.6.2002, p. 77.

¹¹⁰ OJ L 280, 18.10.2002, p. 88.

¹¹¹ OJ L 306, 8.11.2002, p. 26.

- discussions with the Member States on the findings of inspection missions in respect of 1999, 2000 and 2001;
- the work of the European Parliament's Budgetary Control Committee in the context of the discharge of the 2000 budget;
- the replies to the 2001 annual report, the special reports and the Court of Auditors' Statement of Assurance for 2001;
- the decentralised management of the Sapard programme, divided between five Sapard paying agencies;
- the work of the conciliation body;
- assistance for the Commission's Legal Service in connection with cases before the Court of Justice associated with clearance of accounts decisions;
- supply of statistical aggregates on agricultural expenditure to the European Parliament and DG AGRI.

7.1.6. *Expenditure on agricultural markets in 2002*

594. The uptake of EAGGF Guarantee Section appropriations for the 2002 financial year (expenditure by the Member States from 16 October 2001 to 15 October 2002) amounted to EUR 43 114.9 million, i.e. 97.4% of the appropriations entered under Subsection B1 of the budget. The initial appropriations of EUR 44 255.08 million thus exceeded expenditure by EUR 1 140.2 million.

- Total expenditure for *subheading 1(a)* (traditional EAGGF Guarantee Section expenditure and veterinary expenditure, covering Titles B1-1 to B1-3) amounts to EUR 38 864.5 million, i.e. EUR 3 127.5 million below the subceiling laid down in the Interinstitutional Agreement of 6 May 1999.
- Total expenditure for *subheading 1(b)* (rural development, covering Title B1-4) amounts to EUR 4 250.4 million, i.e. EUR 344.6 million below the subceiling.

595. The main sectors in which there was under-utilisation in 2002 are as follows:

- fibre plant and silkworm sector: –EUR 140 million: the Commission in fact established the quantity of cotton eligible for aid for Greece at a level below that originally laid down in the 2002 budget;
- fruit and vegetable sector: –EUR 99 million: this difference is attributable mainly to the quantities of fruit and vegetables withdrawn from the market, which were lower than those provided for in the 2002 budget, and the quantities of aid for bananas, which were also established at a level below that provided for in the 2002 budget;
- beef and veal sector: –EUR 1 023 million: the under-spending is attributable to the improved conditions on the beef and veal market, which occurred sooner than anticipated at the time of the 2002 budget estimates. Recourse to intervention for beef and veal therefore fell short of initial estimates. The quantities of beef and veal exported were also lower than the estimates for the 2002 budget;
- sheep meat and goat meat sector: –EUR 120 million: savings were achieved in this sector as a result of the favourable developments in sheep meat and goat meat prices in the 2002 financial year and, consequently, the setting of sheep meat/goat meat premiums at a level below that laid down in the budget;

- veterinary and plant-health measures: –EUR 345 million: the payment claims for foot-and-mouth disease have not yet been wound up due to the fact that the clarifications required to settle them are lacking;
- other measures: –EUR 102 million: this under-utilisation is mainly attributable to the United Kingdom's decision not to pay part of the agri-monetary aid.

596. By contrast, the following sectors exceeded budget appropriations:

- arable crops sector: + EUR 674.1: on account of the bad weather during the summer, the Commission authorised Germany and Italy to bring forward to the 2002 financial year the payment of the arable crop aid provided for 2003;
- milk and milk products: + EUR 446.8 million: this over-utilisation is due to a deterioration in the milk products market during the 2002 financial year. On the internal market, recourse to public storage for milk powder and butter exceeded the forecasts in the 2002 budget. On the external market, it was necessary to raise export refunds;

7.2. EAGGF Guidance Section

597. Implementation of the reform of the Structural Funds since 1 January 1989 has gradually changed the nature of the assistance granted by the EAGGF Guidance Section. In the first programming period from 1989 to 1993, a share of Community contributions was still taken up by the annual reimbursement of national expenditure and the remainder by part-financing of operational programmes. In the second reform of the Structural Funds covering the period from 1994–1999, the entire Community contribution was programmed in the form of operational programmes.

598. In accordance with the conclusions of the Berlin European Council in 1999, a third programming period for the Structural Funds was introduced to run from 2000 to 2006. EAGGF Guidance Section involvement in this new period on the basis of Council Regulations (EC) No 1260/1999 (the general Structural Fund Regulation) and No 1257/1999 (support for rural development) only covers Objective 1 areas, the Community Initiative Leader+ programme and technical assistance.

599. For the new period from 2000 to 2006, there is no decrease in Community support for rural areas, although the EAGGF Guidance Section allocations for the new period might give such an impression. In actual fact, measures targeting agricultural structures and the diversification of rural areas (former Objectives 5a and 5b) outside Objective 1 regions and compensatory allowances, which up to 1999 were funded by the EAGGF Guidance Section, are now covered by the EAGGF Guarantee Section.

600. Thus, Community support for the four accompanying measures, consisting in compensatory allowances for less-favoured areas and areas subject to environmental constraints (funded up to 1999 by the EAGGF Guidance Section), early retirement, agri-environmental measures and woodland management, is funded out of the EAGGF Guarantee Section throughout the Community. Community support for other rural development measures in areas outside Objective 1 is also funded out of the EAGGF Guarantee Section.

7.2.1. *Funding in the new 2000–2006 programming period*

601. In the new 2000–2006 programming period the EAGGF Guidance Section contributes to Objective 1 (regions whose development is lagging behind), the Leader+ Initiative and technical assistance as indicated above. It also continues to cover payment commitments under programmes from previous periods which were wound up by 31 December 2001 and the final balance of which must in principle be paid by the end of 2003.
602. However, by way of exception, an amount of EUR 148 million was committed in 2000 to cover the outstanding part of the last tranche (1999) of the 1994–1999 programming period. This was because, as a result of the lack of budget allocations at the end of the 1999 financial year and the late adoption of the last programming adjustment decisions outside the accounting deadline, it was not possible to commit all of the 1994–1999 Structural Fund CSF programmes and Community Initiative programmes in 1999 (tables 7.2.1a and 7.2.1b).
603. The new programmes for the EAGGF Guidance part of Objective 1 and PEACE comprise seventy single programming documents and operational programmes, of which only thirty-five were adopted by a Commission decision in time to be covered by commitments/payments in the 2000 financial year on account of delays in the approval procedure in 2000. At the beginning of 2001, authorisation was granted to carry over commitment appropriations for twenty other programmes from 2000 to 2001 and, for the remaining fifteen programmes, a request was made, in accordance with the 1999 Interinstitutional Agreement, for the appropriations to be transferred from the year 2000 to the years 2002–2006.
604. As regards the Leader+ Initiative, on account of a lengthier procedure following the adoption of the guidelines, none of the seventy-three programmes provided for was adopted by the end of 2000 and, consequently, it was requested in 2001 that all the appropriations be transferred from the year 2000 to the years 2000–2006. Seventy programmes were adopted in 2001 and the remaining three will be adopted in 2002.

Table 7.2.1a – Expenditure by Objective, 2000–2006 period

(commitments, EUR million)

Objective	2000	2001	2002	2003	2004	2005	2006
<u>Community Support Frameworks</u>							
Objective 1: 2000–06 period (regions lagging behind)	1 239.3	3 237.2					
Former Objectives 1 and 6 (1994–1999 period)	76.9	*****	*****	*****	*****	*****	*****
Former Objective 5a (1994–1999 period)	29.4	*****	*****	*****	*****	*****	*****
Former Objective 5b (1994–1999 period)	1.0	*****	*****	*****	*****	*****	*****
<u>Community Initiatives</u>							
Leader+: 2000–2006 period	0.0	271.3					
Previous CIPs (1994–1999 period)	37.0	*****	*****	*****	*****	*****	*****
<u>Technical assistance</u>							
2000–2006 period: innovative measures and technical assistance	0.0	0.0					
Previous transitional measures/technical assistance (1994–1999 period)	3.7	0.3	*****	*****	*****	*****	*****
TOTAL	1 387.3	3 508.8					

Table 7.2.1b – Expenditure by Objective, 2000–2006 period*(payments, EUR million)*

Objective	2000	2001	2002	2003	2004	2005	2006
<u>Community Support Frameworks</u>							
Objective 1: 2000–06 period (regions lagging behind)	587.6	1 276.9					
Former Objectives 1 and 6 (1994–1999 period)	1 353.2	488.3			*****	*****	*****
Former Objective 5a (1994–1999 period)	803.1	69.4			*****	*****	*****
Former Objective 5b (1994–1999 period)	629.9	142.9			*****	*****	*****
<u>Community Initiatives</u>							
Leader+: 2000–2006 period	0.0	81.9					
Previous CIPs (1994–1999 period)	178.4	79.8			*****	*****	*****
<u>Technical assistance</u>							
2000–2006 period: innovative measures and technical assistance	0.0	0.0					
Previous transitional measures / technical assis- tance (1994–1999 period)	6.5	5.8			*****	*****	*****
TOTAL	3 558.7	2 145.0					

7.2.2. *Execution of 2001 budget*

605. In terms of the appropriations available in 2001, including those originally entered in the budget together with transfers and carryovers (EUR 3 567.3 million in commitment appropriations and EUR 3 312.6 million in payment appropriations), execution of the 2001 budget for the whole of the EAGGF Guidance Section was 98.4% (EUR 3 508.8 million) for commitment appropriations and 65% (EUR 2 145.0 million) for payment appropriations (table 7.2.2).
606. The year 2001 was the second in the new 2000–2006 programming period, in which the source of funding for rural development programmes depends on the type of measure and the geographical area.
607. The EAGGF Guarantee Section continued to finance, across the whole of the EU territory, the three accompanying measures introduced with the 1992 CAP reform, to which the compensation scheme for farmers in less-favoured areas was added from 2000, which up to 1999 was covered by the EAGGF Guidance Section.
608. For all other rural development measures, the source of financing is differentiated according to the geographical context:
- in regions eligible under Objective 1 (regions whose development is lagging behind), the EAGGF Guidance Section will continue to finance rural development measures which will be fully integrated as at present into development programmes, in combination with the other Structural Funds;
 - outside the Objective 1 regions, the source of finance for rural development measures will be the EAGGF Guarantee Section.
609. For Objective 1, execution in 2001 represents the second instalment (2001) committed in respect of the thirty-five programmes adopted in 2000, and the 2000 and 2001 instalments committed in respect of the twenty programmes adopted late in 2000, as well as the payment of advances still outstanding on these fifty-five programmes and reimbursements equivalent to 52% of the instalment committed in 2000.
610. For the Leader+ Initiative, commitments were made for the first instalment of the fifty-one programmes adopted in 2001 (within the accounting deadline) and payments for part of the advances under these programmes. For the nineteen programmes adopted late in 2001, it was requested that the commitment appropriations be carried over from 2001 to 2002.
611. For programmes from previous periods, the under-utilisation of appropriations is attributable to the fact that the outstanding payments constitute the final balance payable under these programmes, for which it is necessary to submit the rather complex final implementing report giving the results of the checks carried out, and the Member States were therefore late in presenting the final balances.

Table 7.2.2 – Implementation of EAGGF Guidance budget in 2001

	Total	2000–2006 programming period				Previous programming periods				
		Objective 1	PEACE (Objective 1)	Leader+	Innovative measures/ Technical assistance	Former Objectives 1 and 6	Former Objective 5a	Former Objective 5b	Former CIPs	Former transitional measures
A – Commitments										
Belgique/België	5.270	5.270		0.000	0.000					
Danmark	2.600			2.600	0.000					
Deutschland	686.386	662.245		24.141	0.000					
Elláda	369.200	341.200		28.000	0.000					
España	1 298.634	1 224.166		74.468	0.000					
France	159.863	118.458		41.100	0.000					0.305
Ireland	42.910	30.710	4.900	7.300	0.000					
Italia	403.874	387.213		16.661	0.000					
Luxembourg	0.300			0.300	0.000					
Nederland	14.200	1.500		12.700	0.000					
Österreich	17.550	5.950		11.600	0.000					
Portugal	366.982	342.182		24.800	0.000					
Suomi/Finland	32.756	24.256		8.500	0.000					
Sverige	22.005	15.805		6.200	0.000					
United Kingdom	86.336	60.871	12.500	12.965	0.000					
Other	0.000			0.000						
Total	3 508.866	3 219.826	17.400	271.335	0.000					0.305
B – Payments										
Belgique/België	7.003	0.000		0.000	0.000	0.000	2.217	3.972	0.472	0.342
Danmark	18.470			1.190	0.000	:	17.280	0.000	0.000	0.000
Deutschland	368.653	304.406		2.921	0.000	23.369	0.000	25.622	8.358	3.977
Elláda	273.919	261.116		12.803	0.000	0.000			0.000	0.000
España	619.356	603.101		0.826	0.000	0.989	0.000	0.000	14.061	0.379
France	132.669	16.417		18.767	0.000	45.686	0.000	26.775	24.510	0.514
Ireland	6.150	0.000	0.882	3.353	0.000	1.022			0.859	0.034
Italia	523.191	16.465		7.074	0.000	384.762	21.836	73.288	19.707	0.059
Luxembourg	2.466			0.000	0.000		2.110	0.356	0.000	0.000
Nederland	23.162	0.000		5.803	0.000	0.000	16.393	0.840	0.000	0.126
Österreich	7.852	1.812		5.285	0.000	0.000	0.000	0.126	0.587	0.042
Portugal	81.803	55.135		11.312	0.000	6.818			8.528	0.010
Suomi/Finland	21.749	3.922		3.878	0.000	13.756	0.000	0.000	0.000	0.193
Sverige	8.818	5.846		2.835	0.000	0.000	0.000	0.000	0.000	0.137
United Kingdom	48.599	5.531	2.256	5.912	0.000	11.922	9.556	11.876	1.546	0.000
Other	1.142			0.000					1.142	:
Total	2 145.004	1 273.751	3.138	81.959	0.000	488.326	69.392	142.855	79.770	5.812

7.3. Evaluation

612. The Directorate-General for Agriculture carries out regular evaluations of common market organisations and measures applicable to agriculture. The purpose of these evaluation studies is to contribute to policy preparation and decision-making by providing information on the effectiveness, efficiency and impacts of measures financed by the CAP. Evaluations examine in particular impacts of CAP measures on market equilibrium, on producers' incomes and on production structures, on the environment and on rural development. Evaluation reports are publicly available on the Europa website.

7.3.1. Evaluation of market-related measures

613. Evaluations concerning the market measures for the milk sector, for raw tobacco, for the olive oil sector and the promotion policy for agricultural products were finalised in 2002. The studies on the impact of the Community measures on set-aside and on Community policy for starch and starch products, finalised in the latter part of 2001, were published. Preparations for the evaluations of the common market organisations for wine, for pork and poultry and for cereals were started. Work is also under way for a series of studies covering the market measures in the fruit and vegetables sector.

7.3.2. Evaluation of structural and rural development measures

614. Most of the national level *ex post* evaluations for the 1994–1999 programming period were completed in 2002, and Community-wide synthesis evaluations of this period could be started. Study contracts were signed for carrying out evaluations of rural development measures financed under Objective 5a, Objective 5b and the Leader II Community Initiative. Reports for these studies will be available during the second half of 2003.

615. To support the cycle of evaluations during the programming period 2000–2006, guidelines were prepared, discussed in the STAR committee and published on the internet. Three guidance documents were finalised: Guidelines for the mid-term evaluation of rural development programmes supported by Sapard, Guidelines for the mid-term evaluation of rural development programmes 2000–2006 and Guidelines for the evaluation of Leader+ programmes.

8. ENLARGEMENT

8.1. Main developments

8.1.1. Agricultural accession negotiations

616. Negotiations on a chapter of the *acquis communautaire* are opened when the EU's Common Position on the chapter is transmitted to the candidate country concerned, on the occasion of a meeting of the Accession Conference. The situation as at the end of 2001 was that negotiations on the agriculture chapter were open for 10 candidate countries as follows: Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia (known collectively as the Laeken 10). During the year 2002, negotiations on the agriculture chapter were opened for Bulgaria (June) and Romania (December).
617. Concerning Turkey, at its meeting in December 2002 in Copenhagen, the European Council concluded that if, in December 2004 and on the basis of a report and a recommendation for the Commission, it decided that Turkey fulfilled the Copenhagen political criteria, then the European Union will open accession negotiations with Turkey without delay.
618. On 30 January 2002, the Commission published an issues paper entitled: "Enlargement and Agriculture: Successfully integrating the new Member States into the CAP" (SEC(2002) 95 final, 30.1.2002). This paper made proposals for consideration by the Member States regarding a number of issues in the context of the negotiations, such as direct payments to farmers, state aids, stocks, rural development, etc.
619. During the course of 2002, DGs Agriculture and Enlargement held technical meetings with the individual countries of the Laeken 10 to clarify technical points and to exchange further information. As the negotiations proceeded, so first revisions of the EU Common Positions were transmitted to the Laeken 10 in June/July 2002 and second revisions in October/November 2002.
620. On 9 October 2002, the Commission published for each of the 13 candidate countries its Regular Report. These are annual publications which review the progress of each candidate country in the light of the accession criteria. They assess progress on the basis of legislation that has been adopted by the candidates (i.e. not on the basis of draft legislation) and measures which have been implemented. As in previous years, one chapter in each Regular Report was devoted to agriculture. To assist in the preparation of the Regular Reports, DG Agriculture in liaison with the Commission's Technical Assistance and Information Exchange Office, organised a number of Peer Reviews. The objective of such reviews was to ascertain the extent to which candidate countries had prepared themselves regarding the practical implementation of specific parts of the agriculture *acquis* and to identify areas where further technical assistance was needed.

621. The 2002 Regular Reports are as follows:

- Bulgaria SEC(2002) 1400
- Cyprus SEC(2002) 1401,
- Czech Republic SEC(2002) 1402,
- Estonia SEC(2002) 1403,
- Hungary SEC(2002) 1404,
- Latvia SEC(2002) 1405,
- Lithuania SEC(2002) 1406,
- Malta SEC(2002) 1407,
- Poland SEC(2002) 1408,
- Romania SEC(2002) 1409,
- Slovakia SEC(2002) 1410,
- Slovenia SEC(2002) 1411,
- Turkey SEC(2002) 1412.

622. In November 2002, Bulgaria submitted its reply to the EU Common Position.

623. Accession negotiations for the Laeken 10, including those on the agricultural chapter, were concluded at the meeting of the European Council in Copenhagen on 12 and 13 December 2002. Agreement was reached on a number of agricultural issues including transitional arrangements and the phasing-in of direct payments applying to the new Member States, complementary direct payments, reference quantities for milk, sugar and a number of other products, base areas and reference yields for cereals, premia ceilings in the livestock sector and additional rural development measures for the new Member States. Further details are given in Accession Conference document 21000/02 of 13 December 2002.

624. The meeting stated that the comprehensive and balanced outcome of the negotiations provides a solid basis for the smooth integration of ten new Member States, while safeguarding the effective functioning of the enlarged Union.

8.1.2. *Sapard (Special Accession Programme for Agriculture and Rural Development)*

625. During the year all countries finalised their efforts to prepare the structures and the legislative and administrative framework to implement the Sapard programmes. Before the end of 2001, the Commission adopted decisions conferring the management of aid to Slovenia, Lithuania (November) and Latvia (December). This was done after an examination of the national accreditation work by the Commission services, including on-the-spot audit. Similar decisions were adopted for the Czech Republic and Slovakia in April 2002, for Poland and Romania in July and for Hungary in November. In all cases the conferral decisions concerned certain but not all measures envisaged in the programmes. Although further decisions would be necessary to allow implementation of the remaining measures all countries are now able to operate the instrument.

626. By decision of 2 October the Commission cleared the accounts of the Sapard agencies of the five countries which had secured conferral decisions in 2001 (Bulgaria, Estonia, Latvia, Lithuania and Slovenia) concerning expenditure in that year and no problems were detected.
627. Modifications of the Sapard programmes for certain candidate countries were also approved by Commission decisions during the year. The main purposes of the modifications were the adjustment of the programmes according to the finalisation of the implementing systems, the update of the financial tables, the revision of the measure on Technical Assistance following a guidance paper from the Commission, the revision of certain aspects of the accredited measures in the light of the experience in implementation and the revision/finalisation of the non-accredited measures (for example the agri-environment measure). Certain modifications of the Sapard programme were also requested by the Czech Republic in order to address the impact of the serious flooding which the country experienced in August 2002.
628. During the year, the annual financing agreements for 2001 were signed with all ten Candidate Countries with the objectives first of all to make available the Community contribution for 2001; furthermore to adjust certain provisions of the Multi-annual Financing Agreements in the light of the experience acquired; and finally to amend the Annual Financing Agreements 2000, mainly to extend the deadline by which Community funds committed in 2000 can be used for payments until the end of 2003. A total of EUR 554.5 million in commitment appropriations was assigned to the instrument for 2002.
629. In November 2001 a seminar was organised on the agri-environment pilot actions within the Sapard programmes. Following this seminar a guidance paper was issued to the Candidate Countries giving orientations for the elaboration and the implementation of agri-environmental pilot actions within Sapard. A seminar was organised in June 2002 with the participation of the 10 eligible countries on key aspects of programme management, implementation and delivery (monitoring and evaluation financial management and controls, conferral of management issues).
630. Following the August flooding in central Europe, which affected several Candidate Countries, the Commission submitted on 18 September a proposal to the other EU institutions for a modification of Regulation (EC) n°1268/1999 of 21 June 1999 in order to increase the ceiling on public aid to 75% and the Community contributions to 85% for relevant projects in areas affected by exceptional natural disasters.
631. The monitoring committees in all countries continued their work during the year with the participation of Commission representatives acting in an advisory capacity.
- 8.1.3. *Bilateral trade*
632. CEECs: As a follow-up to the "double zero" negotiations in 2000, the Commission launched new ("double profit") liberalisation talks at the beginning of 2002 aimed at continuing the gradual opening of markets in order to avoid a "big bang" on CEEC accession and preparing operators for conditions in the enlarged single market. New concessions were agreed with all ten CEECs in the course of the year: those with Estonia, Hungary, Latvia and Lithuania came into force on 1 July and the remaining agreements are to be implemented in early 2003.

633. Whilst the same proposals were put to all ten CEECs, the results of the negotiations varied according to the degree to which each partner was able to accept further trade liberalisation. However, in all cases, 70% to 90% of agricultural trade has been liberalised. It is too soon to gauge the actual trade impact of the most recent concessions. However, in the first two years of implementation of the "double zero" agreements (in most cases, July 2000 to June 2002), agricultural trade between the Community and each of the CEECs increased on both sides – in some cases quite considerably.
634. Cyprus and Malta: On 12 February 2002, the Commission received a mandate from the Council to negotiate similar agreements with Cyprus and Malta. Proposals were subsequently made to these countries on the lines of the "double zero" and "double profit" agreements with the CEECs. However, the parties' positions were such that it was not possible to make progress in the negotiations in the course of 2002.
635. Turkey: Agricultural trade relations with Turkey are governed by arrangements that came into force in 1998 under Decision 1/98 of the EC-Turkey Association Council. These arrangements involve reciprocal concessions in agricultural trade between Turkey and the Community. In July 2002, Member States gave the Commission a mandate to negotiate improvements to these preferential arrangements. Formal negotiations are to start in early 2003.

9. INTERNATIONAL RELATIONS

9.1. International organisations and agreements

9.1.1. World Trade Organisation (WTO)

9.1.1.1. WTO consultations and dispute settlement

636. On 12 September 2002, Argentina requested WTO consultations on EC regulations and other mandatory provisions on oenological practices and on trade in wines, in particular as regards the process of acidification of wines with malic acid (WT/DS263). Argentina claims that they are in violation of Articles 2 and 12 of the TBT Agreement, Articles I.1 and III.4 of the GATT 1994 and Article XVI.4 of the WTO Agreement. Consultations were held on 30 September 2002.
637. On 27 September 2002, Brazil and Australia requested WTO consultations on the EC's common market organisation for sugar and its application and implementation (WT/DS166). Brazil and Australia claim the EC provides export subsidies in excess of its WTO commitments in relation to "C sugar" and to the exclusion of 1.6 million tonnes of ACP and Indian sugar from export reduction commitments. Brazil and Australia also claim violation of the national treatment obligation in the intervention price for sugar. According to the complainants, the EC sugar regime is inconsistent with Articles 3.3, 8, 9.1, 10.1 of the Agreement on Agriculture, Articles 3.1 and 3.2 of the SCM Agreement, and Articles III:4 and XVI of GATT 1994. Australia also claims that the EC may be paying a higher per-unit subsidy on sugar as an incorporated product than on the primary product, in violation of Article 11 of the Agreement on Agriculture.
638. Consultations were held in Geneva on 21 and 22 November 2002. Fourteen ACP countries participated in the consultations as third parties (Mauritius, Fiji, Guyana, Malawi, Belize, Jamaica, Barbados, St Kitts and Nevis, Swaziland, Kenya, Côte d'Ivoire, Madagascar, Congo and Zimbabwe), as well as India, Canada and Colombia.
639. On 11 October 2002, Brazil requested WTO consultations with the EC on the customs classification of frozen boneless chicken cuts (WT/DS269) and in particular on Commission Regulation (EC) No 1223/2002 of 8 July 2002 concerning the classification of certain goods (boneless chicken cuts, frozen and impregnated with salt in all parts) in the Combined Nomenclature. Brazil claims that through this Regulation its commerce has been accorded treatment less favourable than that provided in the EC Schedules in violation of Articles II and XXVIII of the GATT 1994. Brazil claims also violation of Article XXIII:1 of the GATT 1994. Consultations were held in Geneva on 5 December 2002.
640. The EC has intervened as third party in a number of WTO dispute settlement cases concerning agricultural products, in particular:
- Panel and Appellate Body proceedings in "Chile – Price band system and safeguard measures relating to certain agricultural products" (WT/DS207), requested by Argentina. The panel report, circulated on 3 May 2002, found, *inter alia*, that Chile's price band system was similar to variable import levies and minimum import prices and was thus inconsistent with Article 4.2 of the

Agreement on Agriculture. The Appellate Body report circulated on 23 September 2002 reversed certain aspects of the panel's findings, but upheld the panel's conclusion that the price band system in question was similar to a variable import levy or minimum import price.

- Second compliance panel and Appellate Body proceedings in "*Canada – Measures affecting the importation of milk and the exportation of dairy products*" (WT/DS103/RW2), requested by the United States and New Zealand, which concern mainly the interpretation of export subsidies under Article 9.1(c) of the Agreement on Agriculture. The panel report, circulated on 26 July 2002, found that Canada's commercial export milk scheme constituted a subsidy within the meaning of Article 9.1(c) of the Agreement on Agriculture. The Appellate Body report was circulated on 20 December 2002.
- Panel on "*Japan – Measures affecting the importation of apples*", requested by the United States on 7 May 2002 (WT/DS245) concerning measures restricting the importation of apples in connection with fire blight disease. Panel proceedings are ongoing.
- On 7 November 2002, the United States requested consultations with Venezuela concerning import licensing measures on certain agricultural products (WT/DS275/1). Consultations were held in Geneva on 26 November 2002.
- On 18 October 2002, the Philippines requested consultations with Australia with respect to certain measures affecting the importation of fresh fruit and vegetables (WT/DS270) and certain measures affecting the importation of fresh pineapple (WT/DS271). Consultations in connection with Australian sanitary and phytosanitary measures were held in Geneva on 15 November 2002.

641. Consultations between the EC and US regarding the protection of trademarks and geographical indications for agricultural products and foodstuffs in the European Communities and in particular Regulation (EC) No 2081/92, requested by the US on 1 June 1999, continued throughout 2002.

9.1.2. *Organisation for Economic Cooperation and Development (OECD)*

642. EU Member States account for half of OECD membership and are the major contributors to the OECD budget, including voluntary contributions. The Commission participates actively in the work of this organisation, in particular, as far as agriculture is concerned, in the Committee for Agriculture (COAG), its working parties and at the interface with the Committees on Trade and Environment (joint working parties).

643. At the core of COAG activities is the annual preparation of a mid-term market prospect for the main OECD agricultural commodities (the "Agricultural Outlook" report) and the yearly review of the main developments in agricultural policies of member countries ("Agricultural Policies, Markets and Trade in OECD Countries", generally known as the "Monitoring report"). A similar review focuses on the main developments of major non-OECD members, whether transition economies or emerging countries. These reviews include in particular a calculation of aggregated estimates of support to farmers, the so-called Producer Support Estimate (PSE) expressed as the percentage share of public financing (budgetary payments and

economic transfers from consumers and taxpayers caused by policy measures) in the overall income of the farming sector, and to the whole agriculture and food sector, the Total Support Estimate (TSE) which indicates the degree of support in the OECD economies expressed as a percentage share of GDP.

644. Other regular COAG activities address agriculture and trade, the agri-environment, rural development, agricultural structures and statistics, the Agricultural Knowledge System (extension services, education and research) and international standards (in particular, certification of seed, forest reproductive material and tractors). Stocktaking of the past five years of OECD work on Agri-Environmental Indicators was done in 2000, while another interim report is scheduled for 2004.
645. As mandated by OECD Ministers for Agriculture in March 1998, the COAG is engaged in a substantial and broad-ranging work programme relating to the WTO negotiations on agriculture. At the end of 2000, a first series of analytical background material was published. This work covers traditional trade issues such as market access, domestic support and export competition, although in a more comprehensive manner than before, thanks to new analyses of subjects such as the use of officially supported export credits, the trade impact of state-trading enterprises, decoupling, impact of support measures through a matrix evaluation of policies (the Policy Evaluation Matrix), etc. It also covers concerns going beyond trade issues, such as multifunctionality, food security, the relationship between trade and the environment, the impact of biotechnology, food quality and designations of origin, etc.
646. In 2002, during the second part of the two-year work programme of the Committee for Agriculture, the OECD examined trade liberalisation issues in greater depth by modelling market-access improvement scenarios simulating changes in the tariff quota system, the impact of trade liberalisation on developing countries' food security, non-tariff barriers, and sanitary and phytosanitary measures, as well as an analytical framework for the role of state-trading enterprises in liberalising world trade. A horizontal programme on economic and administrative aspects of food safety was also carried out. The impact of support measures was analysed from different aspects such as income-transfer efficiency, the effects of direct payments and all policy measures related to support in the crop sector, as well as the impact of crop-insurance subsidies. A more horizontal study called "the positive reform agenda" set out to address the cohesion between commodity production and the provision of public goods and other non-commodity outputs, relating it to trade policy in the agricultural sector. Policy was analysed in the light of aspects of decoupling, transaction costs and farm household income, and methodology was further developed on the basis of the US "Farm Security and Rural Investment Act" as well as the "EU CAP reform – a long term perspective for sustainable development".
647. The interface between agriculture and the environment initiated a second, more practical phase with a new working programme on indicators and impacts. A series of workshops were held to devise methodology for state-of-the-art indicators and target further developments in the fields of biodiversity, soil carbon fixation and landscape. Sectoral studies on pig meat production revealed the environmental impact of intensive production and, therefore, the need for alternative production systems and revised sectoral policy measures.

648. The Committee for Agriculture agreed on a new working programme along the lines of the previous two years, focussing more on societal concerns and on a horizontal programme for methodology development, with a view to gaining a better understanding of price-transmission phenomena in developing countries.
649. A first horizontal workshop on developments in the organic-production and trade sectors, including the regulatory framework, provided an interesting insight into the situation in all OECD countries.
650. Horizontal issues of relevance to agriculture, such as regulatory reform, governance, e-commerce, a code for multinational companies, sustainable development and territorial development, are being addressed through other OECD bodies.
651. All these activities have produced valuable material for the EU, particularly with regard to the reform of the agricultural sector and ongoing multilateral negotiations.

9.1.3. World Summit on Sustainable Development, Johannesburg, 4 to 6 September 2002

652. The World Summit on Sustainable Development was held in Johannesburg from 4 to 6 September 2002. Agriculture was among the key topics at the Summit. The aims were to appraise the situation ten years after the 1992 Earth Summit in Rio de Janeiro and to find ways of achieving more practical progress in implementing sustainable development. The European Union acts as a driving force in this worldwide process.
653. The Summit is one of a series of recent significant international events, including the Millennium Assembly of the United Nations held in December 2000, which defined a set of "millennium development goals" to eradicate world poverty, the Ministerial Conference held in Doha in November 2001, which launched the new round of trade negotiations at the WTO, the United Nations International Conference on Financing for Development held in Monterrey in March 2002, which made it possible to adjust international development-aid commitments, and the FAO Summit held in Rome in June 2002, which reconfirmed the agricultural-development and food-security objectives adopted at the World Food Summit held in Rome in November 1996.
654. At Community level, the EU has since Rio adopted a whole series of guidelines and decisions enabling sustainable development to be integrated into European policies. The internal dimension of sustainable development was spelled out at the EU summits in Cardiff in June 1998, Lisbon in March 2000 and Göteborg in June 2001. The EU position for the Johannesburg Summit was prepared at the Seville European Council, where the external dimension of sustainable development was defined. Implementation of the EU commitments entered into in Johannesburg is to be assessed by the European Council scheduled for spring 2003.
655. The United Nations has identified agriculture as one of the five priorities for sustainable development, along with water, energy, health and biodiversity. While the Rio Summit highlighted the need to take account of the environment, Johannesburg emphasised more the need for balanced development in all countries throughout the world in order to pave the way for sustainable development, particularly by taking the developing countries' requirements into account. The action plan adopted by the Summit comprises a detailed list of recommendations and commitments. It is based on the following global objectives and themes: eradication of poverty, change in unsustainable methods of production and consumption, protection and sustainable management of natural resources, health, globalisation and

governance, as well as measures to be carried out at regional level, particularly in the case of Africa. The action plan includes a whole series of agricultural and rural development initiatives, thus demonstrating the relevance of these sectors in achieving sustainable development goals.

656. Farm subsidies and access to the developed countries' markets for agricultural products from the developing countries were among the key issues in the public debate and negotiations. The Johannesburg Summit reconfirmed the importance of the trade round launched in Doha and the commitments entered into by the members of the WTO, particularly those concerning the developing countries. The Summit also provided an opportunity to launch a series of voluntary initiatives and partnerships involving a wide variety of players and targeting practical achievements in sustainable development at local, regional and global level. The priorities set by the European Union comprise in particular water development and management initiatives aimed mainly at providing the poorest populations with access to drinking water, a renewable energy development project and the launch of a programme on sustainable methods of production and consumption.

9.1.4. *Generalised System of Preferences (GSP)*

657. The aim of the GSP is to foster the integration of developing countries into the world economy and the multilateral trading system. The GSP focuses on the needs of the poorest beneficiary countries through the so-called "Everything but Arms" initiative which is incorporated into the GSP.
658. In 2001 the EU adopted a new Generalised System of Preferences, Council Regulation (EC) No 2501/2001, which came into force on 1 January 2002. It modifies significantly the previous schemes by improving non-reciprocal trade preferences and providing strong incentives for compliance with core labour standards. Several countries have applied to benefit from the special incentive arrangements for both environmental protection and the protection of labour rights.
659. The main objective is to encourage beneficiary countries to make more and better use of the opportunities offered by the scheme, and thus to increase imports for which preferential treatment is available. This is to be achieved by improving preferential margins and by making the scheme more easily accessible.
660. The new GSP regime is based on only two product categories – sensitive (S) and non-sensitive (NS) – as opposed to four previously. While non-sensitive products continue to enjoy duty-free access to the Community market, all other products will benefit from a uniform flat-rate reduction of 3.5 percentage points for *ad valorem* duties and 30% for specific duties. However, the new regulation also contains a "standstill" clause guaranteeing that the preferential treatment provided under the previous regulation will continue to apply where it is more favourable.
661. As far as graduation is concerned, the rules have been clarified and complemented. In order to make the regime more neutral and objective, conditions for graduation will be examined on a yearly basis. Graduation will be decided only where the criteria are met during three consecutive years. Similarly, sectors that do not meet the criteria during three consecutive years will be readmitted.

662. Preferences provided under the special arrangements for least-developed countries (the so-called Everything but Arms initiative, which was adopted in February 2001), as well as under the special arrangements to combat drug production and trafficking, will continue to apply without any change.

9.1.5. *United Nations Food and Agriculture Organisation (FAO)*

663. As a member of FAO, the EU took part in the work of the various bodies belonging to the organisation, in particular the 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 setting out its approach to food security.

664. The Commission also participated and played an active role in:

- the technical consultations on the revision of the International Plant Protection Convention (IPPC), which is aimed, *inter alia*, at bringing the Convention into line with the Agreement on the Application of Sanitary and Phytosanitary Measures of the Final Act of the Uruguay Round;
- the FAO's technical contribution to developing countries in preparation for the talks in the context of the new negotiations within the WTO. The Commission also contributed to the FAO's discussions on trade-related but non-commercial issues, such as the multifunctional aspects of agriculture and its links in less-advanced countries;
- the preparation and work of the World Food Summit – five years later (WFS-fyl) held in June 2002. The first World Food Summit took place in Rome in 1996, with the objective of reducing the number of undernourished people to half their present level no later than 2015;
- the FAO Council in November 2002, where important decisions were taken, in particular:
 - the establishment of an Intergovernmental Working Group (IGWG) for the preparation of voluntary guidelines on the Right to Food. The IGWG will meet in April for the first time,
 - the adoption of a new Code on Pesticides,
 - the agreement on the accession of the EU to the Codex Alimentarius Commission.

9.1.6. *International agreements*

665. The International Agreement on Olive Oil and Table Olives was extended until 30 June 2003. Certain irregularities in the management of the secretariat, detected as the result of an audit of the organisation, are in the process of being resolved. Once this has been accomplished, a normal two-year extension will be considered.

666. The Food Aid Convention was also extended until 30 June 2003. A decision on the extension of this Convention and the Grains Convention, which expires on the same date, is to be taken by the Council during the first half of 2003.

667. The International Sugar Organisation lost Japan as a member at the end of 2002. However, Russia's joining partly compensated for this loss.

9.2. Bilateral and regional trade relations

9.2.1. ACP countries

668. EU-South Africa wines and spirits agreements entered into force provisionally on 1 January 2002. They should reciprocally facilitate and promote trade in wines and spirits between the two parties. The main points of the agreements are:

- protection of geographical indications: South Africa will refrain from using the terms "port" and "sherry" on its export markets after five years and on its domestic market after 12 years. Provision is made for the elimination of trademarks. For spirits, terms such as "grappa" and "ouzo" will be phased out over a five-year period;
- oenological practices;
- quotas: increase in the volume of the duty-free tariff quota for South African wines imported in bottles (42 million litres).

9.2.2. EFTA countries

669. The bilateral "Agreement between the European Community and the Swiss Confederation on trade in agricultural products" entered into force on 1 June 2002¹¹², following the finalisation of the package ratifying the seven agreements with the Swiss Confederation that were initiated in June 1999. This agreement notably provides for the full liberalisation of trade in cheese between the parties, to be achieved progressively over a five-year period. It also provides for the removal of technical barriers to trade in a series of domains, as laid down in the Annexes to the Agreement: plant and animal health, animal feed, seeds, wine-sector products and spirit drinks, conformity checks for fruit and vegetables, organically produced agricultural products and foodstuffs. The first meeting of the Joint Committee on Agriculture, which is created by the Agreement, took place on 12 December 2002, with a view to the establishment of its rules of procedure and of the working groups that are needed to administer the Annexes to the Agreement.

670. Within the framework of Article 19 of the Agreement on the European Economic Area, bilateral negotiations took place between the Kingdom of Norway and the European Community with a view to extending existing preferential concessions for agricultural products. Negotiators finalised the agreed minutes on 18 December 2002. This allows for an overall improvement in bilateral trade, thanks to preferential tariff quotas and an increase in duty-free access. These new concessions are scheduled to be implemented in 2003 once the formal procedures have been completed within the Council.

¹¹² Decision of the Council, and of the Commission as regards the Agreement on scientific and technological cooperation, of 4 April 2002 on the conclusion of seven agreements with the Swiss Confederation, 2002/309/EC, Euratom (OJ L 114, 30.4.2002).

9.2.3. *Asia*

9.2.3.1. Bilateral trade relations with China in 2002

671. Relations with the People's Republic of China centred on ongoing intensive discussions on questions relating to market access. In particular, a joint committee was established to tackle existing public- and animal-health issues affecting trade in products of animal origin.

9.2.3.2. Bilateral trade relations with Korea and Japan in 2002

672. Relations with Japan and South Korea centred mainly on market access and deregulation, particularly in relation to phytosanitary and sanitary issues. Progress was made in a number of areas, whereas in others discussions were ongoing.

9.2.4. *Middle East and Mediterranean Region*

673. Within the framework of the Barcelona process, new Association Agreements have now been concluded with all Middle Eastern and Mediterranean countries, except Syria. The new Agreements, which replace the Cooperation Agreements dating back to the 1970s, aim to further liberalise and thus increase agricultural trade. They provide for reciprocal trade concessions on agricultural products and regular reviews of the agricultural chapters of the Agreements.

674. Middle East: An Interim Agreement has been in force with the Palestinian Authority since 1997. The Agreement with Israel entered into force in 2000, though the reciprocal agricultural concessions were applied earlier. The Agreement with Jordan entered into force in 2002 and that with Egypt (signed in 2001) is in the process of being ratified. 2002 saw the conclusion of an Association Agreement with Lebanon; an Interim Agreement is due to enter into force in 2003. Negotiations with Syria are still ongoing. Negotiations for revised agricultural concessions are being conducted with Israel and are due to start with Jordan in 2003.

675. Mediterranean: Revisions of the agricultural concessions under the 1998 Agreement with Tunisia were agreed in 2000 and have been in force since 2001. The Agreement with Morocco entered into force in 2000, although some provisions were implemented earlier. The revision of this Agreement is still ongoing. The Agreement concluded with Algeria in 2001 was signed in April 2002 and will enter into force after ratification by all EU Member States.

9.2.5. *Western Balkans*

676. Under Regulation (EC) No 2007/2000, as amended, the Community continued to extend unilateral and autonomous trade liberalisation to the Western Balkans in the framework of the Stabilisation and Association Process (SAP) and in line with the conclusion of the March 2000 Lisbon Council. Agricultural imports from Albania, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia (FYROM) and the Federal Republic of Yugoslavia, including Kosovo, have been fully liberalised since 1 November 2000. Exceptions from these arrangements are beef – individual tariff quotas for baby-beef are granted to all the above countries except Albania – and wine, for which there is a shared duty-free quota of 545 000 hectolitres.

677. Trade with FYROM and Croatia in agricultural products (except wine) is subject to reciprocal concessions under the 2001 Stabilisation and Association Agreements. Pending ratification, the trade preferences have been applied from June 2001 and March 2002 under Interim Agreements with FYROM and Croatia respectively. Additional protocols to the Agreements to cover trade in wine, including the reciprocal recognition, protection and control of wine names and designation of spirits and aromatized drinks, have been in force since 1 January 2002. In line with Article 16 of the EU-FYROM Interim Agreement, negotiations to improve concessions granted to the EU have been started and should be concluded in 2003.

678. At the end of 2002, the Council adopted directives for the negotiation of a Stabilisation and Association Agreement with Albania. Negotiations are to start in early 2003.

9.2.6. *Latin America*

679. Mexico: A free-trade agreement between the EU and Mexico has been in force since 1 July 2000 under Decision 2/2000 of the EU-Mexico Joint Council. The trade liberalisation complies with GATT Article XXIV in that it involves substantially all trade: for agricultural products, 80% of EU imports and 42% of Mexico's imports will be liberalised by 2010 after the respective transition periods. Mexico has also undertaken to negotiate a wine agreement with the EU.

680. The EU benefits in particular from Mexican liberalisation for wines, spirits, and olive oils. The EU granted Mexico limited concessions within quotas for certain cut flowers, eggs and albumin, honey, fruit, vegetables, orange juice and pineapple juice and a transitional quota for avocados. Both parties have a waiting list (subject to future review) of sensitive products not to be liberalised at this stage – the EU's list includes bananas, sugar, beef, dairy products, rice, maize, sweet corn, starches and many fruits and vegetables. Other features of the agreement are review clauses for further liberalisation, the maintenance of CAP measures such as the entry price system and export refunds, and an origin protocol setting out requirements for products to obtain originating status.

681. Mercosur: Negotiations are in progress with a view to concluding an EU-Mercosur Association Agreement which should include provisions on agricultural trade and incorporate agreements on wines and spirits and sanitary and phytosanitary matters. At the second EU-Mercosur Summit in Madrid on 17 May 2002, it was agreed that a ministerial meeting would be held in order to give a new impetus to the negotiations. At this meeting (Rio de Janeiro, July 2002), agreement was reached on an ambitious timetable for the final stage of negotiations and on starting talks on the SPS and wine agreements.

682. Chile: Negotiations for an EU-Chile Association Agreement, which had started in April 2000, were concluded after a tenth round on 26 April 2002. The Agreement was signed in Brussels on 18 November 2002. As regards agriculture, it provides for the gradual creation of a free-trade area (including a review clause for possible improved concessions in the future) and incorporates specific agreements on wines and spirits and on sanitary and phytosanitary matters.

683. EU tariffs will be progressively eliminated for 97% of agricultural and processed agricultural imports from Chile: 33% at entry into force, 55% from 2007, 12% from 2010 and 0.2% from 2012. With other products covered by tariff quotas, only 0.9%

of EU agricultural imports from Chile will not benefit from any form of liberalisation. Chile will eliminate duties for 81.9% of its agricultural imports from the EU: 61.5% at entry into force, 16.6% from 2008 and 3.8% from 2012. Chile has also granted the EU tariff quotas for products such as olive oil and cheese.

684. The specific agreements on wines and on spirits and aromatised drinks are designed to facilitate and promote trade in this important sector. Geographical indications (e.g. Bourgogne), traditional expressions (e.g. reserva) and other protected names (e.g. grappa) benefit from reciprocal and exclusive protection. The wine agreement contains a list of reciprocally accepted oenological practices and a mechanism to allow the use of new oenological practices.

9.2.7. NIS

685. Agricultural production in former Soviet Union countries, in particular in Russia and in Ukraine, and Kazakhstan to a certain extent, showed some dramatic improvements in the recent period, notably in the grain sector. Bumper crops of wheat in the Black Sea area offered new opportunities for traders, whilst domestic feed demand still lagged behind. It coincided with unusual production and trade patterns in the rest of the world, characterised by high reference prices on the US market. This situation led to substantial imports of grain from the Black Sea area into the EU. The recovery of the agri-food sector in these countries is, nevertheless, far from over after a severe transition shock. Russia remains a major outlet for EU agri-food exports. However, Russia has recently initiated a series of actions aimed at limiting food imports, with a view to promoting the development of its own agri-food sector. More developments are expected in the years to come, notably in the animal production sector. Significant changes are taking place with the liberalisation of the land market, privatisation and regulatory reform, increased investments and the emergence of new production structures.

686. Bilateral relations in agriculture intensified, notably with Russia and Ukraine, whether within the framework of the Partnership and Cooperation Agreements or as part of the preparatory process for accession to the WTO. As for the other NIS, there are similar prospects for increasing bilateral relationships in agriculture. However, the situation still remains critical in some places, in particular in the Caucasian countries, in which EU assistance (TACIS programmes) helps alleviate food security problems. The forthcoming enlargement of the EU to the east will reinforce ties and relationships with the NIS.

9.2.8. North America

9.2.8.1. United States

687. Negotiations on a comprehensive EU/US wine agreement were pursued with the aim of facilitating trade in wines, while improving protection for European and American names used in winemaking and observance of oenological standards used by winemakers. Moderate progress was made in the talks by the end of 2002 and the parties agreed to continue discussions at least for the first quarter of 2003.

688. The US continued to apply 100% *ad valorem* tariffs on USD 116.8 million of EU exports pursuant to the WTO arbitrator's ruling of the level of impairment in the *Hormones* case. No progress was recorded in talks aimed at agreeing on an equivalent level of compensation to replace the tariffs.

689. The Commission followed closely the adoption of the Farm Security and Rural Investment Act in May 2002. While the US Administration had signalled in 2001 its intention to move away from production and trade-distorting support for farmers, the new policy marked an increase of about 80% in commodity support and implementation of new production-distorting subsidy mechanisms. The direction of US policy was widely condemned by WTO members and stood in contrast to the direction of policy reform in the EC, which was moving away from production-related measures. The Commission continued to press the US to reduce its dependency on bogus food aid as a tool for the disposal of surpluses.
690. The Commission began exploratory talks with the US on recognition of organic production standards and controls. US rules on organic production were finally implemented in October 2002 and the Commission made representations to ensure that bilateral trade was not disrupted as a result of the change in the rules.
691. The Commission made representations to the US following the adoption of the Bioterrorism Act, which will require the registration in the US of all foreign food facilities and detailed prior notice of shipments. Publication of the proposed implementing rules was planned for early 2003.
692. The Corn Gluten Feed Monitoring Group continued to meet regularly.

9.2.8.2. Canada

693. Negotiations on an agreement on trade in wine and spirits were intensively pursued. The talks focussed on protection of the use of European names, quality standards for wines and spirits on the internal market, and the operation of Canadian Provincial alcohol monopolies.
694. Canada continued to apply 100% *ad-valorem* tariffs on CAD 11.3 million of EU exports pursuant to the WTO arbitrator's ruling on the level of impairment in the *Hormones* case.