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REPORT FROM THE COMMISSION

The agricultural situation in the European Union

2003 Report

{SEC(2004)1589}

INTRODUCTION

1. "The agricultural situation in the European Union – 2003 report", was completed in March 2004, and is published in conjunction with the General Report on the Activities of the European Union. A separate publication has been produced in the beginning of 2004 in English, with the title "Agriculture in the European Union – Statistical and economic information 2003". The present report deals in nine chapters with the main significant subjects in the year in question.

1. ECONOMIC SITUATION AND FARM INCOMES

2. The 2003 agricultural year was marked by lower production for both crops and livestock products (except for milk and pig meat). Inflation allowed for, input prices were lower except for energy whereas agricultural prices were on the whole unchanged. Price rhythms were highly variable by sector and country but there were increases for all cereals, fruits and vegetables, wine, poultry and eggs, and falls for sugar beet, potatoes, pigmeat and milk. Under these circumstances agricultural income rose very slightly for the Union as a whole.
3. Mainly owing to a fall in oil prices, the world economy continued to show a strong growth in 2003. In the European Union, however, due to geopolitical tensions over the war in Iraq, difficulties on the labour market, poor stock market performance and uncertainty over the future of social security systems, the upswing came only in the second half of the year, and GDP growth for the entire year was very limited.
4. In the first eight months of 2003 the overall value of Community agricultural exports rose by 4 % over the same period in 2002. For most products intervention stocks fell in 2003.

2. POLICY DEVELOPMENTS AND LEGISLATIVE INITIATIVES IN 2003

2.1. The CAP reform

5. The Council of Agriculture Ministers of the European Union (EU) reached agreement in Luxembourg on 26 June 2003 on a fundamental reform of the Common Agricultural Policy (CAP), based on the Commission proposals⁽¹⁾ presented on 23 January 2003. The basic rules on the CAP reform were then set out in Council Regulation (EC) No 1782/2003 of 29 September 2003⁽²⁾ The reform, which will be introduced over the next two years, sets out to establish a more stable policy framework for European agriculture.
6. The key elements of the new CAP will be the introduction of a single payment scheme for EU farmers, independent (i.e. "decoupled") from production, the linking of the single payment to observation of a set of environmental, food safety, animal and plant health and animal welfare standards, as well as to the requirement to keep all farmland in good agricultural and environmental condition ("cross-compliance"),

¹ COM(2003) 23 final.

² OJ L 270, 21.10.2003, p. 1.

the strengthening of rural development policy via "modulation" (the transfer of funds from direct payments into rural development) and new measures to support the environment, promote quality and animal welfare and to help farmers meet new EU standards, significant reforms to the intervention mechanism in sectors which suffer from a structural imbalance as well as adjustments to support mechanisms concerning other sectors and finally, a financial discipline mechanism.

2.2. Quality policy

7. The system introduced following the entry into force of Council Regulation (EEC) No 2081/92⁽³⁾ on the protection of geographical indications (PGIs) and designations of origin (PDOs) must be improved. On 8 April 2003 Council Regulation (EC) No 692/2003⁽⁴⁾ has been adopted, with these main objectives: comply with international agreements, make the regime available to third countries to obtain, in return, a protection outside the area of the EU, a general improvement of the system. With 28 new designations added, the list of PDOs and PGIs totals 632.

2.3. Organic farming

8. The Commission prepares a European Action Plan for organic food and farming that will contain proposals for future initiatives aimed to enhance the further development of the organic farming sector.

2.4. Promotional measures

9. Since the entry into force of Regulations (EC) No 2702/1999⁽⁵⁾ and 2826/2000⁽⁶⁾ the Commission approved 124 promotional programmes, 30 involving third countries and 94 the EU. The total of the co-financing was EUR 105.7 million, of which 22.7 for third countries.

2.5. State aids

10. On 23 December 2003, the Commission Regulation on State aid to SMEs active in the production, processing and marketing of agricultural products⁽⁷⁾ was adopted and will be valid until 2006. A draft Regulation concerning rules on *De Minimis* aid for the agricultural and fish sectors was also adopted by the Commission.
11. The treatment of several cases of state aids concerning promotion and advertisement of agricultural products, contributed to development of best practices for the application of the new guidelines, for example, concerning state aids connected to EST tests⁽⁸⁾. The Commission received 268 notifications of state aid draft measures to be granted in the agricultural and agro-industrial sector.

³ OJ L 53, 24.2.1998, p. 26.

⁴ OJ L 99, 17.4.2003, p. 1.

⁵ OJ L 327, 21.12.1999, p. 7.

⁶ OJ L 328, 23.12.2000, p. 2.

⁷ OJ L 1, 3.1.2004, p. 1.

⁸ Community guidelines for State aid concerning TSE tests, fallen stock and slaughterhouse waste (OJ C 324 of 24.12.2002).

2.6. The outermost regions

12. The Commission completed the implementation of the reform of the regulations concerning support of agriculture in the outermost regions.

2.7. Information measures concerning the CAP

13. The number of applications for grants received from Member States has in 2003 remained at the same high level as in previous years. In November 2003, a major conference on rural development was organised in Salzburg, Austria.

2.8. Information and communication technology

14. The year 2003 investments to maintain and further develop DG Agriculture's information systems and services have been made. For example, the financial information systems (AGREX and *eFaudit*, ...) have been adapted to support the new Financial Regulation and Activity Based Budgeting (in use from 1 January 2004).

2.9. Advisory committees and relations with bodies representing the trade

15. Some 80 meetings of the advisory committees and working groups were held in 2003, where the Commission consulted and informed the representatives. The European Parliament had 18 plenary sessions in 2003. DG Agriculture attended whenever subjects were discussed that are of importance for the policies of our DG, such as, the adoption of the EP reports on the CAP reform in the plenary of 26 May 2003 and the ongoing WTO-Doha Round.

3. AGRICULTURAL MARKETS

3.1. Crop products

16. In the context of the CAP reform launched in June 2003, the Commission's Communication to the Council and the European Parliament with the title "Accomplishing a sustainable agricultural model for Europe through the reformed CAP"⁽⁹⁾, with effects on tobacco, olive oil, cotton and sugar sectors.
17. The Council also adopted a new aid regime for dried fodder. The old regime will still be of application during the 2004/05 marketing year. The Commission also submitted a proposal to reform the olive oil and table olives sector to apply from marketing year 2004/05. Specific regulations were adopted in September 2003 to organise cereal, rice, dried fodder and milk products markets⁽¹⁰⁾.
18. A new regime aid for energy crops for the production of biofuels, energy or heating was also approved in December 2003⁽¹¹⁾.

⁹ COM(2003) 554.

¹⁰ OJ L 270, 21.10.2003.

¹¹ Commission Regulation (EC) No 2237/2003 of 23 December 2003 laying down detailed rules for the application of certain support schemes provided for in Title IV of Council Regulation (EC) No 1782/2003 establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers.

19. Concerning the sugar sector, despite a major increase in beet sugar production in Europe, cane-sugar production has maintained its important share in global production, world sugar balance being again in a "surplus" situation. This higher level of production caused a quantity of C sugar over the quota, 4.2 million of tonnes in 2002/03.
20. A mechanism to stabilise production of seeds has been introduced in 2002, and has been applied for the first time to the production in the 2002/03 marketing year. The seed support was integrated in the 2003 CAP reform for application as from the marketing year 2005/06.
21. In 2003, the Community has started a simplification exercise of the legislation of the fresh and processed fruit and vegetables sectors:
22. In order to update the data and simplify administration of the regime of bananas, Commission Regulation (EC) No 1439/2003⁽¹²⁾ has provided for the establishment of the reference quantities of the traditional operators on the basis of the usage of import licences in 2002 and in 2003 for the imports in 2004 and 2005 respectively.
23. Commission Regulation (EC) No 753/2002⁽¹³⁾ 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 products, amended by Regulation (EC) No 2086/2002⁽¹⁴⁾, entered into force on 1 August 2003. By Regulation (EC) No 670/2003 of 8 April 2003⁽¹⁵⁾, the Council laid down specific measures concerning the market in ethyl alcohol of agricultural origin.

3.2. Animal products

24. Beef and milk and milk products production has increased in 2002 in spite of decrease in the EU bovine livestock and in dairy herd. During the BSE-crisis around 205 000 tonnes of essentially cow beef was taken off the market under the Special Purchase Scheme (SPS).
25. In the context of the new agricultural reform laid down in Council Regulation (EC) No 1782/2003⁽¹⁶⁾, a fundamental change was made as regards the system of direct payments which in the past, directly or indirectly, were linked to production. The Commission also adopted Regulation (EC) No 1215/2003⁽¹⁷⁾ allowing Member States to authorise, under certain conditions, the use of automated grading techniques for the classification of carcasses of adult bovines.
26. Poultry meat and egg production keeps on increasing at the global level. In the EU, production should decrease in 2003 due to avian influenza, Nitrofurane crisis and conjectural reductions carried out in some Member States. The number of laying hens fell slightly in 2003 (also due to avian flu) and production of consumption eggs should also fall.

¹² OJ L 204 of 13.8.2003, p. 30.

¹³ OJ L 118 of 4.5.2002, p. 1.

¹⁴ OJ L 321 of 26.11.2002, p. 8.

¹⁵ OJ L 97 of 15.4.2003, p. 6.

¹⁶ OJ L 270 of 21.10.2003, p. 1.

¹⁷ OJ L 169 of 08.07.2003, p. 32.

4. AGRIMONETARY ARRANGEMENTS

27. The agrimonetary measures adopted in 2003 were limited to the application of Council Regulation (EC) No 2799/98 establishing agrimonetary arrangements for the euro⁽¹⁸⁾. In 2003, the only compensatory aids still being dealt with concerned the UK.

5. RURAL DEVELOPMENT IN 2003

28. For the period 2000–2006 the rural development programming consists of the following: 68 Rural Development Programmes – RDPs – (cofinanced by EAGGF-Guarantee), 69 Objective 1 region programmes with rural development measures (EAGGF Guidance cofinanced) and 20 for Objective 2 regions with rural development measures (EAGGF Guarantee cofinanced).
29. In 2003, Community expenditure on rural development amounted to EUR 6 871 million: EAGGF Guarantee EUR 4 705 million (from October 2002 to October 2003), Guidance financed rural development programmes EUR 2 166 million (calendar year 2003). In 2003, 33 rural development programmes (RDPs) modifications were approved by the Commission and 73 LEADER+ programmes have been approved for the period 2000–2006. Of the expected 938 Local Action Groups (LAGs), 853 had been selected at the end of December 2003.

6. ENVIRONMENT AND FORESTS

30. In 2003, apart from the production of an interim report concerning the IRENA⁽¹⁹⁾ project, the Commission has also continued the implementation of the "Biodiversity Action Plan for Agriculture"⁽²⁰⁾ and adopted a proposal for a Council Regulation establishing a new pluri-annual Community programme on the conservation, characterisation, collection and utilisation of genetic resources in agriculture⁽²¹⁾ amongst other initiatives.
31. In the context of the protection of forests against atmospheric pollution⁽²²⁾, the Commission has continued the management of projects and national programmes 2000, 2001 and 2002. The results have been presented in the series of reports "The Condition of Forests in Europe" Concerning the protection of Community's forests against fire⁽²³⁾, the Commission has continued the management of projects and national programmes 2000, 2001, 2002. The results have been included in the report presented to the Council and the European Parliament on the activities implemented during the period 1992–2002.

¹⁸ OJ L 349 of 24.12.1998, p. 1.

¹⁹ IRENA is the acronym of "Indicators Report on the integration of Environmental concerns into Agriculture policy".

²⁰ COM(2001) 162 final, volume III.

²¹ COM(2003) 817 final.

²² Council Regulation N° 3528/86 (OJ L326 of 21.11.1986, p.2-4 Finnish and Swedish special editions Chapter 3, Volume 22, p. 59).

²³ Council Regulation (EEC) No 2158/92 (OJ L217 of 31.7.1992, p. 3; Finnish and Swedish special editions Chapter 3, Volume 44, p. 3).

7. FINANCING OF THE CAP IN 2003

32. CAP expenditure takes into account the financial perspectives decided at the Berlin Summit in 1999 as adjusted at the Copenhagen Summit end of 2002 to comply with the financial effects of Enlargement.
33. The EAGGF Guarantee Section in 2003 appropriations adopted in the general budget for 2003 total EUR 44 780.5 million (including EUR 18 million for the agricultural budgetary reserves and provisions – Chapter B0-40)⁽²⁴⁾ In application of the Council Regulation (EC) No. 2040/2000 of 26 September 2000, on budgetary discipline, the monetary reserve was abolished with effect from financial year 2003. EAGGF Guarantee Section expenditure comprises in 2002: export refunds (EUR 3 432.3 million); public and private storage (EUR 1 163.1 million); withdrawals and similar operations (EUR 831.9 million); direct payments⁽²⁵⁾ (EUR 28 800.8 million); other intervention relating to the common market organisations (EUR 3 479.4 million); and other expenditure, principally rural development (EUR 5 506.7 million).
34. EAGGF Guidance Section: In the new 2000–2006 programming period communitarian support in favour of rural regions is not reduced. In fact, actions in favour of agricultural structures and diversification of rural areas except objective-1 regions and compensatory aids are now paid by EAGGF Guarantee.
35. Evaluation: In the field of market policies, the evaluation of tobacco and olive oil CMOs were completed. For the wine, a contract was signed; a call for tenders was published for bananas, and preparatory work is well advanced for pork, eggs, & poultry, as well as the environmental effects of CMOs relating to permanent crops. In the field of rural development policies, four evaluations studies were finalised (Regulations (EC) No 950/97 and (EC) No 951/97, Objective 5b, and LEADER II).

8. ENLARGEMENT

36. Discussions proceeded with the ten accession countries on the implementation of the results of the negotiations which were finalised at the Copenhagen European Council in December 2002. The negotiation process with Bulgaria and Romania and pre-accession work concerning Turkey continued while the preparation of the Commission Opinion on Croatia's accession started.
37. During the year all countries continued the implementation of their SAPARD programmes. In April the Council adopted a modification of the SAPARD Regulation (EC) No 1268/1999 of 21 June 1999. As of end December a total amount of EUR 1.214 million (cumulative amount of Community contribution) has been committed to beneficiaries by the SAPARD Agencies.

²⁴ Not including EUR 250 million of appropriations entered in the monetary reserve (B1-6).

²⁵ Direct payments as defined in the Annex to Regulation (EC) No 1259/1999 of 17 May 1999 (OJ L 160 of 26.6.1999, p. 113).

9. INTERNATIONAL RELATIONS

9.1. International organisations and agreements

38. The EU continued to participate in the various meetings in the various organisations, as, for example:

- the World Trade Organisation (WTO), more particularly, in the Cancún Ministerial Conference, where the EC stressed the WTO multilateral negotiations priority;
- the Organisation for Economic Co-operation and Development (OECD), where questions of trade distortion through a further continuation of studies regarding "de-coupling" and the impact of risk-related support on production decisions were discussed.

39. The Food Aid Convention and the Grains Convention were extended until 30 June 2005. The International Sugar Organisation was extended until 31 December 2005. The International Agreement on Olive Oil and Table Olives was extended until 31 December 2004.

9.2. Bilateral and regional trade relations

40. In 2003, the Commission met, for example, with:

- ACP Council of Ministers in October;
- the Joint Committee on Agriculture, created end 2002 by the "Agreement between the European Community and the Swiss Confederation on trade in agricultural products", twice;
- the High-Level Conference on agricultural cooperation, held in Beijing, end 2003, in the context of the Asia-Europe Meeting (ASEM);

41. Moreover, in the framework of the Barcelona process, new Association Agreements have been signed with all Middle Eastern and Mediterranean countries and there were talks with Mexico (on Tequila norms) and Chile (Association agreement), for example.

42. Bilateral relations in agriculture intensified with Russia in the framework of the Partnership and Cooperation Agreement or within the preparatory process for accession at the WTO, but there are limited prospects for increasing of these relationships with other NIS countries.