EUROPEAN
COMMISSION

Brussels, 15.12.2016
COM(2016) 797 final

REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on the implementation of the scheme of specific measures for agriculture in favour of the outermost regions of the Union (POSEI)

1. INTRODUCTION

Due to their geographical situation (remoteness, insularity, smaller size, difficult topography and climate), the outermost regions (OR) are faced with specific socio-economic problems related to the supply of food and agricultural products essential for consumption or agricultural production.

The situation of the OR is acknowledged in Article 349 of the Treaty on the Functioning of the European Union. Several specific measures were established in various policies to mitigate the existing handicaps, to support economic and social development, and to facilitate access to the benefits of the Single Market. In this context, specific measures *for agriculture* have been implemented through the scheme called POSEI (Programme of options specific to the remote and insular nature of the outermost regions).

2. POSEI: ORIGIN, EVOLUTION AND CURRENT SITUATION

The POSEI scheme was created for the French overseas departments (Guadeloupe, Martinique, French Guiana, Reunion and since 2014, Mayotte) in 1989, and introduced in 1991 for the Canary Islands, the Azores and Madeira.

In 2006 Council Regulation (EC) No 247/2006 adopted on 30.1.2006[1] deeply modified the scheme in order to optimize the food supply and the local agricultural products by a programming approach. Subsequently Member States (MS) concerned submitted comprehensive programmes to the Commission for approval in 2006.

This regulation was modified several times to take into account the 2006 sugar and banana CMO review[2], the Health Check Reform in 2009 as well as other transfers of direct aids in 2007 and 2008[3].

Some provisions of the POSEI scheme were revised in 2013 within the alignment with the Lisbon Treaty. Regulation (EU) No 228/2013 of the European Parliament and the Council was adopted on 13.3.2013, and both Delegated and Implementing Acts, Commission Regulations (EU) No 179/2014 and 180/2014, respectively, on 6.11.2013 and 20.2.2014[4].

POSEI Scheme is financed by the European Agricultural Guarantee Fund (EAGF). The regulation (EU) No 228/2013 sets an annual ceiling for each MS: French OD: €278.41 million, Canary Islands: €268.42 million and Azores and Madeira: €106.21million. A one-off additional amount for the banana sector of €40 million was exceptionally granted for 2013.

In the OR, the POSEI programme replaces the measures of the first pillar of the CAP, except those included in the Common Market Organisation (CMO) for fruit and vegetables, wine and beekeeping.

Figure 1 in the Annex shows the financial allocations 2006-2014 by MS.

[1] OJ L 49 of 21.2.2006

[2] which transferred financial allocations from sugar and banana CMO to Regulation (EU) No 247/2006

[3] - Council Regulation (EC) No 318/2006 - OJ L 58, 28.2.2006, p. 1–31 (sugar reform)
- Council Regulation (EC) No 2013/2006 - OJ L 384, 29.12.2006, p. 13–19 (banana reform)
- Commission Regulation (EC) No 1276/2007 - OJ L 284, 30.10.2007, p. 11–13 (budgetary ceilings for 2007)
- Commission Regulation (EC) No 674/2008 - OJ L 189, 17.7.2008, p. 5–13 (budgetary ceilings for 2008)
- Council Regulation (EC) No 73/2009 - OJ L 30, 31.1.2009, p. 16–99 (Health Check)

[4] OJ L 78 of 20.3.2013; delegated and implementing acts: OJ L 63 of 4.3.2014

3. LEGAL BASIS OF THE REPORT

Article 32(3) of Regulation (EU) No 228/2013 provides for the Commission to submit to the European Parliament and to the Council a report showing the impact of the actions taken under that scheme by 30 June 2015. In application of Article 35[5], the Commission launched a public consultation in 2013, after which it was decided to launch *an external evaluation* of the 2006-2014 POSEI scheme under the REFIT programme, in order to contribute to the implementation report required in Article 32(2) and to determine whether a possible modification of the scheme might be needed.

The work of the external evaluator (ADE: Analysis for Economic Decision) was carried out from June 2015 to August 2016. The adoption of the present Commission implementation report takes into account the results of this evaluation exercise carried out under REFIT, which will be formally completed with the preparation of a Staff Working Document by the Commission services.

The present implementation report concerns the application of the scheme during the 2006-2014 period.

4. OBJECTIVES, SCHEME AND PROGRAMMING

The POSEI scheme aims to contribute to meeting the following objectives, as specified in Article 2 of Regulation (EU) No 228/2013:

- *guaranteed supply* to the OR of essential agricultural products,
- *securing* the development of the so-called 'livestock' and 'crop-diversification' sectors and
- *maintaining* the development and strengthening the competitiveness of traditional agricultural activities.

Two categories of measures have been implemented within the programmes namely Specific Supply Arrangement (SSA) and Support to the Local Production (SLP).

The measures have to comply with EU law and be consistent with the Common Agricultural Policy (CAP) and other EU policies.

4.1. Specific Supply Arrangements

Two types of support are foreseen in order to guarantee the supply of essential agricultural products for human consumption, for processing, and as agricultural inputs, by mitigating the additional costs incurred due to their specific handicaps:

- *Imports from third countries*: direct import of selected agricultural products can be exempted from the applicable import duties.
- *Supply of Union products*: aid can be granted to supply OR with Union products.

The Regulation (EU) No 228/2013 established ceilings for SSA: €72.7 million for Canary Islands, €26.9 million for French OD and €21.2 million for Azores and Madeira. The volume of products to be supported by SSA is set every year on the

[5] which asks for a review of its arrangements in view of their overall effectiveness and of the new CAP policy framework

basis of forecasts established by the MS concerned. The SSA may not harm local production and the growth thereof.

4.2. Support to Local Production

SLP supports local production, processing and marketing of local agricultural products.

Two types of SLP are included in the POSEI programme:

- Measures in favour of *traditional production* which represent the historical export sectors (such as bananas in the West Indies and the Canary Islands).

- Measures in favour of the so-called "*diversification products"*, in general for local consumption (fruit and vegetables and animal production).

Cross-compliance applies to payments granted to farmers under the CAP and makes a link between these payments and the respect by the farmer of a set of EU statutory rules for the environment and public, animal and plant health.

4.3. Programming by Member States

In the POSEI scheme, the measures in both SSA and SLP are defined in detail in the individual programmes. Therefore, each national programme is quite specific, following the priorities decided by the national authorities for their agricultural sector, in close cooperation with stakeholders. These priorities can be adapted annually following the needs expressed, by modifications of the programme (Article 40 of Regulation (EU) No 180/2014).

Each year, by 30 September, MS submit an annual report on the implementation of their programme for the previous year (Article 39(1)).

4.3.1. POSEI programme for France

SSA is mainly oriented towards agricultural commodities for the local animal feed processing industries and for the agro-food processing industries (€26.9 million in 2014, 10% of the EAGF POSEI allocation). Reunion is the foremost beneficiary of SSA, followed by Guadeloupe and Martinique.

SLP includes a group of measures supporting the various parts of the value chain: support to (i) banana (€129.1 million allocated in 2014), (ii) sugar/cane/rum (€74.86 million), (iii) crop diversification products (€14 million), (iv) livestock production (€31.55 million) and (v) technical assistance (€2 million). 81,2% of the EAGF POSEI SPL budget has been allocated to traditional production (51,3% for bananas and 30% for cane/sugar/rum).

Since 2009, France grants an additional national financing (€40 million) for SLP diversification measures only.

4.3.2. POSEI programme for Spain

SSA focuses on agricultural products for processing, and for direct human consumption (€66.9 million allocated for 2014, 25% of the EAGF POSEI allocation, the highest proportion SSA/SLP in the OR). In terms of objectives and of management the SSA is rather disconnected from the SLP measures.

SLP includes 3 groups of measures: support to (i) fruit and vegetables (€35.7 million), (ii) banana (€141.1 million) and (iii) animal production (€24.7 million).

72% of the EAGF POSEI budget for SLP has been allocated to traditional production (71% for bananas and 1% for export tomatoes).

Spain grants an additional national financing (for SPL), which dropped from €46.5 million in 2009 to €17.3 million in 2014[6].

4.3.3. POSEI programme for Portugal

The Portuguese programme includes two quite distinct sub-programmes, one for the Azores (€76.7 million in 2014), the other for Madeira (€29.5 million)[7].

In the Azores, **SSA** focuses on cereals and other by-products for its animal feed industry and livestock sector; **SSA** in Madeira also focuses on products for animal input but to a lesser extent, and includes products for human consumption. The SSA global allocation for 2014 amounts to €16.32 million (15.5% of the EAGF POSEI allocation).

SLP Azores includes five measures: support to (i) animal production (€57.04 million), (ii) local crop (€10.71 million), (iii) processing (€1.18 million), (iv) marketing (€1.35 million) and (v) technical assistance (€0.5 million). 81.1% of the EAGF POSEI budget for SLP has been allocated to traditional production (milk and meat).

SLP Madeira is structured around three measures: (i) basic support for farmers (€6.5 million), support to (ii) agricultural and livestock production value chains (€11 million), and (iii) marketing of local products (€1.6 million). 57% of the total EAGF POSEI budget for SLP has been allocated to traditional production (bananas and wine).

4.3.4. Synthesis of the programmes

The strategic choices of the MS for the SSA/SLP share are quite different, as underlined in the Annex in Figure 2 for SSA and in Figure 3 for both SSA and SLP.

For **SSA,** the Azores and French OR focus on cereals and on other by-products for the animal feed sector. The Canary Islands, which give the highest importance to SSA (25% of the POSEI allocation), and Madeira also focus on products for direct human consumption and on support to processing.

In all OR, **SLP** support is mostly provided for the traditional export sectors, representing 75% of the aggregated budget dedicated to SLP measures over the period 2006-2014. The high share of the allocation for these sectors in the whole period confirms the priority given by the MS to their maintenance. Most traditional production maintains its allocation over the period, except milk in the Azores where the allocation has increased by 10%. The global budget for the "diversification" products has increased by 34% from 2014 for the majority of the OR but remained stable for the Canary Islands and decreased in Madeira.

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[6] It seems that some sectors with a high percentage of national aid in the POSEI support have been affected by this decrease (export tomatoes, livestock production).

[7] The distribution of the amount of €106.21 million between the 2 sub-programmes has been done by national authorities

5. Financial execution

The total execution is high as seen from the annual implementation reports provided by Member States: for Spain it rose from 72% in 2006 to 99% in 2014, for France from 86 % to 98% and for Portugal from 96% in 2007 to 98% in 2014.

The detailed spending of the financial allocation for 2006-2014 is presented in Table 1 in Annex.

6. Assessment of the scheme

6.1. Guarantee of supply for agricultural products

POSEI programmes guaranteed supply of the specifically-selected products by OR within the SSA budget constraints and mitigated additional costs. Over the period under review, the SSA forecast supply balances established by the MS were almost entirely used for the supply of products from the Union and not from third countries, except in the Canary Islands and to a lesser extent Madeira. A case study for cereals and milk powder shows that SSA support decreases the additional costs due to "ultraperiphericity" at rates between 45% and 80%.

6.2. Coherence between SSA and SLP

Overall SSA and SLP instruments have been implemented in a coherent manner. In most cases, the SSA supported products are different from the SLP-supported products. There is thus no competition between them. In a few situations where potential competition exists, such as for meat in the Canary Islands, the local products supported by SLP are favoured with higher support than product supported by SSA.

6.3. Maintenance of agricultural activities

POSEI support has facilitated the maintenance of agricultural production activities in terms of volumes, areas and to a lesser extent, the number of farmers in most sectors and ensured the employment of approximately 140 000 persons and 123 000 AWU[8] in the entire value chain in all ORs. It also strongly supported income.

Programmes were effective in covering most (if not all) specific needs during the whole period, even if such responses are better adapted to some regions than others, based both on the type of need and the budgetary weight of production activities. The distribution of the POSEI support varied considerably among beneficiaries and may be explained by the long-standing traditional agricultural structures.

POSEI support seems to have limited impact on the improvement of competitiveness because the support mainly intervenes on limiting operating costs. However other support instruments especially the European Agricultural Fund for Rural Development (EAFRD) support actions aiming at reinforcing the competitiveness of agricultural sectors concerned.

6.3.1. Traditional production

In the **banana sector**, POSEI has contributed to the maintenance of production in the four OR. The areas remained stable in Martinique and Madeira, and increased by 3.2 % per year in Guadeloupe. The volume of production remained stable in the Canary Islands and Madeira and increased in Martinique (4.3%/year) and Guadeloupe

[8] Annual Work Unit

(8.6%). Efforts have been focused on reducing production costs and promoting quality standards, marketing strategies and use of labels (i.e. "Plátano de Canarias", "banane française"). Furthermore, efforts have been made to reduce the use of pesticides, such as in the "Plan for Sustainable Bananas" in the West Indies. The sector is concerned about the current and future negotiations with third countries, mainly with Latin America, concerning access at preferential tariff to the Union market for bananas produced in regions where the workforce is less expensive.

In the **sugar sector**, POSEI support has contributed to maintaining production and cultivated areas. The number of producers has decreased over the period with, in parallel, a growth of the average size of farms. POSEI mainly supports the prices of sugar cane paid to producers, while RDP and research activities address issues linked to competitiveness (e.g. replanting, developing new varieties, and farming practices). The sector emphasizes the critical importance of maintaining sugar cane even with the development of additional agricultural activities on these farms, taking into account the socioeconomic impact of this production, particularly in Guadeloupe and Reunion. The sector is concerned about the end of sugar quotas in 2017, and about the current negotiations with third countries for access to the Union market for special sugars also produced in the OR.

The surface area for production of **export tomatoes** strongly decreased in the Canary Islands from 2,478 ha in 2006 to 787 ha in 2014, despite a restructuring plan launched in 2009. The sector has lost its main comparative advantage built on the concentration of exports to the European markets during the winter months, because of competition from Morocco, the Spanish mainland and new Northern and Central European production. There is a clear drop in market share. A new plan was recently launched in 2016 in order to maintain the current area and production.

POSEI has contributed to maintaining **milk production** in the Azores. If the overall number of farm holdings specialized in milk production is declining (– 3%/year), the decrease is lower than in the EU (-5%). Despite this decline in dairy farms, production has increased, mainly due to an increase in the average number of cows per farm. The valorisation of local fresh milk is rather poor, and could be improved by taking advantage of the quality of the milk or of the region's image. The sector is particularly concerned about the impact of the end of milk quotas in 2015.

POSEI has also contributed to maintaining the **meat sector** in the Azores which is traditionally closely linked to milk production; production has increased over the latter years of the period. The areas allocated to beef production have more than doubled since 1999, the number of animals in the beef sector having also increased.

Wine in Madeira has been almost maintained over the period, both in volumes produced and areas cultivated (-1.1%).

6.3.2. Diversification productions

Supported livestock and crop diversification production levels have stabilised over the period (by volumes) with some exceptions (poultry in Guadeloupe, Fruit &Vegetables (F&V) in Martinique, pork and beef in Madeira, and the wine sector).

The local diversification production covered 20 to 40% (maximum) of the needs for meat and dairy products (but 70-100% if one only considers fresh products), and around 40% for F&V (but nearly 80% in Reunion and over 90% in Guiana). Overall, the local diversification production has been maintained for most products over the period.

The whole value chain was addressed through different support measures, especially processing and marketing. In the French OR and Madeira, the share of measures supporting processing and local marketing is much larger than support for production. The support was more oriented towards production in the Canary Islands and the Azores. Some local production seemed under pressure from low-priced imports, especially livestock production with frozen meat imports or F&V production in Martinique, Guadeloupe and the Canary Islands. In all OR, the challenge was to have viable Producer Organisations and processing tools, and to be able to ensure an outlet for local production on the local market in an environment of strong competition from cheaper imported products.

6.4. Contribution to CAP objectives

POSEI programmes contributed to the overall CAP objectives. POSEI support has facilitated maintenance of production levels in most sectors, thereby considerably supporting farmers' income in a stable manner, and therefore a viable food production. In some OR sustainable management is mainly addressed through cross-compliance requirements, which resulted in sustainable farming practices. POSEI programmes notably support production activities located in more remote areas, contributing to ensuring a balanced territorial development.

There is a strong coherence between POSEI programmes and Rural Development Programmes (RDP). This is crucial to achieving the CAP objectives, given the strong inter-dependence between the two types of support. Numerous synergies between POSEI and RDP have been identified (training, setting-up of young farmers and investments supported by RDP, and production supported by POSEI). The coherence with national support, other CAP measures (wine, fruit and vegetables) and European Regional Development Fund (ERDF) programmes is also strong. However, complementarity with the actions included in the CMO for F&V could be improved.

6.5. Relevance of the POSEI scheme

Analysis have been conducted in order to determine the capacity of the current CAP measures (basic payment scheme introduced by the 2013 CAP reform) to cover the specific needs of the OR. The analysis shows that those needs of the ORs would not be fully covered by the current CAP measures. Without the specific POSEI scheme, the risk of abandonment of production could negatively affect the coverage of some specific needs such as employment, environmental issues or the territorial dimension of the OR.

6.6. EU added value

As already seen in item 6.5. the current instruments of CAP are not fully adapted to OR; the POSEI scheme is well suited to face the challenges defined in Article 349 of the Treaty, particularly by the principle of programming which allows for quick answers by adapting the aids to specific situations.

At policy level, EU added value is mainly positively assessed in terms of the recognition at EU level that the OR face a number of severe common obstacles that require specific measures as laid down in Article 349 of the Treaty. POSEI also proved valuable in terms of the implementation of quality and environmental requirements. At the level of the design and implementation of programmes, it also proved positive in terms of the flexibility left to the MS to define their programmes, based on their specific needs while responding to the common overall goals, generating coherence between the various programmes. It has also favoured a more results-based management culture.

6.7. Administration and management of the programme

Administration and management of POSEI programmes have improved over time, notably thanks to the simplifications introduced by the Regulation (EU) No 180/2014 for the amendments of the measures. The Annual implementation reports (AIR) that report *interalia* on indicators linked to the regulatory objectives have also improved, especially in recent years, even if differences remain according to the OR concerned (in terms of format, time series, groups of products, etc.). The development of an electronic management system reduced the administrative burden, especially for SSA.

However, the strategy for each production sector and for the specific agricultural situation of each OR should be more detailed in the programme, including by further development of specific indicators to be reported in the AIR. The content of AIR as defined in Article 39(1) of this Regulation should be clarified and simplified to facilitate the reporting process.

6.8. Overall performance

All the challenges of the outermost regions defined in Article 349 of the Treaty are directly addressed by POSEI programmes through a substantial contribution to farmers' incomes.

Remoteness and insularity implying higher transport costs are directly addressed through SSA support. In addition, there are remote areas or islands inside the outermost regions, for which SLP support is essential to maintain agricultural activities and the viability of the whole sector.

The **complex topography** limits agricultural land, implying a smaller size of agricultural holdings, also leading to higher production costs and impeding economy of scale. The **small size** of the territories means that arable land is scarce. Some OR are frequently subject to **adverse climatic events** affecting agricultural production. POSEI is particularly adapted to face the three latter challenges in particular by allowing coupled support to local producers and also reinforce the whole value chain in these difficult situations. The programme can also be quickly amended in case of strong adverse event.

The effects of these programmes are strengthened by synergies and complementarities in particular with RDP and national support.

7. RECOMMENDATIONS

7.1. Proposed amendments to the EU Regulation

Taking into account the assessment of the scheme described in item 6, a modification of basic Regulation (EU) No 228/2013 is not deemed necessary.

As already indicated in point 6.7., the implementing Regulation (EU) No 180/2014 should be amended to clarify and simplify the list of elements described in Article 39(1) and to be included in the annual report, in order to improve the reporting process.

7.2. Recommendations to the Member States

MS should define a clearer strategy in their programme, highlighting general objectives, and quantifying the specific objectives by adequate indicators. This strategy should (i) underline the specificity of agriculture and of farm structures in each OR, (ii) define the contribution to the CAP objectives, in particular, in terms of sustainable production and (iii) explain the complementarity between SSA and SLP, between POSEI, RDP, national aid and the CMO, especially for F&V.

Further reinforcing coherence with the RDPs should also promote competitiveness.

MS should pay special attention to the distribution of support between different types of farms or sectors in some OR, in order to mitigate differences in income between beneficiaries and sectors, and to reinforce the coverage of specific needs.

MS should further develop sustainable farming practices, including by reinforcing non-price competitiveness[9]; this includes a broad range of elements, such as product quality (organic production or other labels and certification), application of relevant technological advances, environmental requirements, etc. Product differentiation through non-price competitiveness could be further developed (brown sugar, sustainable bananas, fresh milk, PDO wine, etc.) compared to conventional commodities for which the OR have no comparative advantage. Exchange of good practices with other OR could also be enhanced.

Reporting should be improved, particularly to better assess compliance with the objectives, including for SSA, and to better describe the situation of the agricultural sector and its development including price monitoring and the competitive position of local production with regard to imports. Performance indicators should be better reported.

MS should report more on national support adopted in compliance with Article 23 of Regulation (EU) No 228/2013. They should also ensure the actual payment of complementary national support (Article 23(2)), especially if this support constitutes a high percentage of the total allocation.

8. CONCLUSIONS

The overall performance of POSEI programmes over the 2006-2014 period appears to be rather positive especially as regards their ability to address the particular agricultural challenges, linked to the specific geographical location of the OR, as defined in Article 349 of the TFEU: SSA reduced the difference in price of the supported products in the OR compared to the mainland, and SLP facilitated the maintenance of agricultural production activities. POSEI appears critical to maintaining the traditional and so-called "diversification productions" in these regions, and to ensure a sufficient supply in agricultural products.

POSEI is **consistent with the new CAP objectives** but should not be replaced by the new 2013 CAP rules (direct payments). Otherwise the risk of abandonment of production could negatively affect employment, environmental issues and/or the territorial dimension of the OR.

[9] Non-price or structural competitiveness is the capacity to distinguish products and/or services through competitive advantages other than price. Building these types of competitive advantages is based on customers' perceptions of the supply.

It is therefore recommended to maintain the current basic regulation. Amendment of the implementing Regulation should be made, in order to clarify and simplify the reporting of the programmes. Member States should also take into account the results and the recommendations of this report, in order to adapt their programmes so as to further improve the effectiveness of the application of the measures, the design of the programmes, and to reinforce the complementarity with other CAP support, in particular to increase the competitiveness of local production.

Annex: distribution of financial allocation and SSA distribution by type of final use