EN

COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 26/08/2008
SEC(2008) 2382

COMMISSION STAFF WORKING DOCUMENT

The agricultural situation in the European Union – 2006 Report

{COM(2008) 525}

COMMISSION STAFF WORKING DOCUMENT

The agricultural situation in the European Union – 2006 Report

TABLE OF CONTENTS

1. ECONOMIC SITUATION AND FARM INCOME

1.1. Overview

1. The 2006 agricultural year was marked by a decrease in the production of both crops and livestock products, though in conjunction with very favourable prices for livestock products and higher prices for crops. Input prices were somewhat higher in 2006 on average in the EU-25 as substantial increases in energy prices were not offset by decreases in prices for other inputs. However, price developments were highly variable across sectors and countries. The first estimates sent by Member States show a slight increase of + 0.4% in agricultural incomes in real terms as compared to 2005 in the European Union as a whole. The actual figures by country varied from – 10.2% for Ireland to + 14.3% for the Netherlands.

2. As far as the weather was concerned, **weather conditions** in the autumn of 2005 had been generally favourable for winter crop sowings. However, crops were sown later than normal in many eastern European countries as a result of rain-delayed summer harvests. A mild autumn helped to accelerate sowings and plant emergence, with seasonably cold weather returning in November. Winter and spring were characterised by relatively low seasonal temperatures for most EU regions, with particularly difficult conditions in the Black Sea region. During the summer, all of western and central Europe (from northern Spain to the Baltic countries) registered temperatures well above the normal seasonal values. Frequent and persistent heat waves accompanied by dry conditions characterised the whole month of July. At the same time, the drought moved northward across the continent, particularly affecting those areas where winter crops were still at their sensitive stage. Registered temperatures were the highest for the last thirty years. In August, the weather turned abnormally cold, especially in France, Germany, the Czech Republic and Austria. In June, recorded precipitation was above average in Spain, central and northern France, the Czech Republic, Bulgaria, Greece and Ukraine, whereas in other countries rainfall was below the normal seasonal levels. Well below normal rainfall was recorded in July throughout Europe except in northern Spain, northern and south-east France, southern Italy and Greece. During this period (June-July), the United Kingdom, Ireland, eastern France, Germany, Poland, the Baltic countries and northern Italy were particularly hit by the drought. In contrast, August saw abundant rainfall across all of Europe except in southern Spain and Portugal. By the end of September dry weather returned to central Europe, Germany and north-east France.

3. In 2006/07, demand for **cereals** within the European Union was expected to remain stable with a slight increase in industrial use (biofuels) and a moderate decrease in feed use. As regards **livestock products**, EU-25 meat consumption slightly declined as decreases in poultry and sheep and goat consumption were not fully offset by increases in beef, veal and pork consumption. Total EU-25 beef consumption saw an overall increase of 2.0% compared to the previous year, driven by increased availability and lower prices. Greater availability on the domestic market and a partial shift in consumer preferences from poultry meat to pigmeat in the course of the avian flu scare led to an increase in pigmeat consumption throughout the EU. Due to the avian influenza scare, overall EU-25 poultry meat consumption decreased considerably (– 2.6%) in 2006. The temporary drop in demand at the peak of the scare was especially high in Greece, France and Italy. Sheep meat consumption declined by

2.1% in 2006, as higher imports attracted by relatively favourable domestic prices were offset by lower net domestic production. Overall consumption of milk products continued to grow slightly. Demand for cheese and fresh dairy products increased in the EU-25, while butter consumption decreased slightly and skimmed milk powder consumption remained relatively stable in 2006 in both the new and old EU Member States.

4. As regards the global economic situation, the outlook for the world economy remained positive in 2006, with solid growth of 5.1% expected. After several years of strong growth, the US economy began to slow, as a result of a cooling residential housing market and lower consumer spending. However, growth in other regions, in particular Asia, was set to remain robust. The positive outlook was also supported by the fall in energy prices in autumn 2006, following the dramatic price hikes in summer 2006 due to geopolitical tensions in the Middle East. Despite high oil prices, GDP growth in the first half of 2006 was surprisingly strong, thanks to stronger than expected growth in the United States, Asia (excluding Japan) and the oil-exporting countries. Economic growth was accompanied by a stronger expansion in world trade, with global imports of goods and services (excluding the EU) set to grow by an average 8.8% in 2006. Movements in equity prices also supported the positive growth outlook. Following a sharp correction in equity prices in mid-May, global equity markets then resumed their long-term upward trend and some equity indices reached all-time highs. Oil prices continued to surge over the summer reaching new record levels of just below USD 80 per barrel (Brent crude futures) in early August. This increase was mainly driven by concerns about supply disruptions due to geopolitical tensions in the Middle East along with supply disruptions in Alaska. The easing of these tensions, combined with downward adjustments in demand growth projections by the International Energy Agency (IEA), a milder than usual hurricane season in the Gulf of Mexico, and higher than expected oil stocks in the OECD countries, led to a significant drop in oil prices to below USD 60 per barrel in October. The downward adjustment in oil prices was expected to prove favourable for the growth outlook in the oil-importing countries and the US economy in particular. Nevertheless, oil prices were expected to remain relatively high, in view of the continuing tight balance between supply and demand, with additional supply coming on stream only slowly.

5. In the European Union, economic activity accelerated strongly and economic growth reached +2.8% in 2006, marking the strongest expansion since 2000. Economic growth was underpinned by robust growth in domestic demand, especially investment, which rose in response to steady increases in capacity utilisation, improved corporate balance sheets, benign financial conditions and wide profit margins. Exports, in turn, continued to be supported by the strong world economy. The euro started at relatively moderate level against the dollar at the beginning of the year, standing at USD 1.21, followed then by a gradual increase from April 2006, and closed the year at USD 1.33.

6. Global meat and dairy product prices were well above 2005 levels. The year 2006 was marked by an exceptional increase in the prices of cereals, in particular wheat and maize, which, by November 2006, reached levels not seen for a decade. Poor harvests in key producing countries and fast-growing demand for biofuel production were the main drivers of grain prices. A sharp drop in world wheat production in 2006, due to lower outputs in nearly all major exporting countries, resulted in one of the tightest periods for world wheat supply and demand in more than two decades.

While international wheat prices continued upward during 2006, production prospects deteriorated, especially in several wheat-exporting countries. Concerns about the prospects for wheat crops in major producing countries in the southern hemisphere (especially drought-devastated Australia), and limited exports from Ukraine, raised prices still further. Rising world prices boosted sales from the European Union despite the strong euro and the absence of export refunds. The production shortfalls in many parts of the world during 2006 were expected to result in a large drop in world wheat inventories to their lowest levels since the early 1980s. The main reductions were expected among major exporters, namely the United States, Australia, the European Union, Canada and Ukraine. In contrast, ending stocks increased in India following large-scale imports, and in China, where wheat production reached high levels, wheat stocks were expected to stabilise. Total cereal utilisation was forecast to increase in 2006 due mainly to higher food consumption and feed use, as weaker prices in previous years encouraged greater use of low-quality wheat for animal feed.

7. The upward movements in international maize prices since September 2006 were mainly influenced by the tighter domestic situation on the United States market, which is the most critical given that the United States is the world's largest producer as well as the largest consumer and exporter of maize. In addition, the trade situation was marked by reduced exports from Argentina and China. In November 2006, the United States maize export price stood around 70% higher than in the corresponding period in 2005. Global rice prices were up since the beginning of 2006 and increased continually until the end of the year. The arrival of the new harvest eased the situation only temporarily, and firm prices were expected to continue, reflecting generally tight supplies in exporting countries.

8. World market prices for soybean strengthened at the beginning of 2006 but subsequently weakened, mainly due to a record world soybean output, with a record crop harvested in the United States and Argentina.

9. After three years of deficit, global sugar production recovered in 2006, with record production forecast in Brazil and India and a recovery to normal output levels, particularly in Thailand and the United States. In contrast, EU sugar production was expected to decline by 23% due to the sugar reform, which however was partially offset by increases elsewhere in Europe. While world sugar prices largely retreated from the highs reached in February 2006 and were approaching their long-term trend by the end of October 2006, the sugar market remained particularly prone to large demand fluctuations and price volatility.

10. Global meat markets were expected to recover gradually in the aftermath of the animal disease outbreaks that had plagued the sector over the past four years. Global meat output was set to rise by nearly 6 million tonnes to almost 276 million tonnes in 2006. However, global poultry prices plummeted by nearly 20% since mid-2005 as avian influenza outbreaks were reported in more than 40 previously unaffected countries in Europe, the Middle East and Africa. Poultry prices in the United States and Brazil, the main suppliers of the global trade, dropped significantly. Rebounding import demand, however, allowed export prices to recover by the end of the year. Low demand and prices depressed output growth to its lowest level in two decades. For the Russian Federation, the world's largest importer, poultry imports were set to decline due to uncertainty about the issuing of import licenses and a strong recovery in domestic production. However, global demand was forecast to recover soon, with

Africa and Middle East resuming traditional importing patterns, while Brazil, the United States and Europe were set to increase exports.

11. Despite tight world beef supplies, brought about by foot-and-mouth disease (FMD) outbreaks in Brazil, bovine spongiform encephalopathy (BSE) trade bans on North American beef, and Argentinean export bans, beef prices were only marginally down from 2005 levels. Supported by a recovery in North America and Asia, global beef output was forecast to increase by 2.5% in 2006. Production in developed countries was projected to increase by over 2%, reversing the decline over the past four years. Meanwhile, EU beef supplies were expected to rise with the abolition of the BSE-related 'over-thirty month' slaughter policy. The beef trade was expected to rise by 3% to 6.7 million tonnes. South American beef exports declined in 2006 on account of Argentina's export ban, after major gains over the past five years. However, this gave a boost to exports from other beef exporters such as the United States.

12. Abundant supplies in 2006 put pressure on pigmeat prices, which fell by 16% in 2006 compared with 2005. In particular, high stocks in Japan, the recipient of nearly one-quarter of the global trade in pigmeat, led to a considerable decline in Japanese import prices. Global pigmeat production was expected to expand by 5%, with a favourable outlook in China, Brazil, Mexico and Vietnam. In developed countries, output expanded only marginally, as only the United States was expected to expand output in response to steady returns. The pigmeat trade was expected to increase by 4%, supported by strong demand in Asia and the Russian Federation. This was despite lower imports by Japan. While shipments from Brazil and the United States were expected to rise, exports from Canada and the European Union were restrained by less competitive prices due to their strong currencies.

13. Sheep meat prices remained competitive relative to other meats, prompting higher growth in Asia, in particular China, India, Iran and Pakistan. Production in the main exporting region of Oceania rose, due to drought-induced slaughtering, and output also recovered in Argentina and Uruguay, reflecting government programmes aimed at reviving the sector.

14. International prices for the major traded dairy products softened over most of 2006, due to increased exports by Oceania and some emerging Latin American countries. By the end of the year, however, dairy product prices showed some signs of strengthening. Further prospects depended largely on the export situation in Australia, which experienced drought problems in 2006, and on the export position of the European Union, mainly characterised by significantly reduced intervention stocks and lower export refunds since 2005. Compared with 2005, prices for whole milk powder, cheese and butter were down by 6%, 9% and 21%, respectively. Reflecting lower supplies, skim powder prices were up slightly compared with 2005. World milk production grew by an estimated 2.2%, thanks mainly to production expansion in developing countries in Asia (China, India and Pakistan) and countries in South America. On the other hand, developed countries recorded near-zero growth in 2006, with lower production in Australia and the European Union, but increased output in New Zealand and the United States.

15. In the first nine months of 2006 the overall value of Community **agricultural exports** increased strongly by 8%, with wide divergences across agri-food products. The increase was particularly marked for sugar and sugar confectionery (+21%), coffee and tea (+17%), animal or vegetable fats and oils (+15%), tobacco (+14%),

preparations of vegetables, fruit and nuts (+ 12%), and beverages and spirits (+ 10%). Exports only fell for lacs, gums, resins and vegetable saps (– 11%). Cereal exports were forecast to remain close to the previous year's level. Given firm demand on the domestic market and the import restrictions imposed by the EU on Brazil following the outbreak of foot-and-mouth disease (FMD), EU-25 beef exports were expected to fall considerably in 2006. In 2006, EU-25 pigmeat exports were expected to rise, with relatively favourable conditions on the Russian market. In contrast, poultry meat exports were projected to decline again in 2006. The overall value of **agricultural imports** rose by 6% in the first nine months of 2006 as compared to the same period in 2005. However, the European Union remained a net exporter of agricultural products, with its agricultural trade balance improving significantly due to higher exports. The overall trade surplus in agricultural products in the first nine months of 2006 increased to EUR 6 976 million as against EUR 3 008 million in 2005.

16. Intervention stocks of cereals were expected to decrease for the second consecutive year in 2006 (– 5 million tonnes), a sign of improved market conditions on the world market and relatively stable domestic demand. Difficult climatic conditions in the southern hemisphere and higher demand on the world market led to a strong increase in cereal prices and consequently to lower public stocks. Public stocks of soft wheat and barley fell to 1.0 and 1.5 million tonnes respectively. On the other hand, maize stocks, mainly in the landlocked regions of central Europe, grew (+0.9 million tonnes) for the third consecutive year to 6.5 million tonnes. Rice stocks fell strongly due to reduced imports from third countries to the new Member States and were estimated at 430 000 tonnes at the end of the year 2006. Table wine stocks in July 2006 stood at 69 million hectolitres, of which 45 million hectolitres were at producer level. The intervention measures decided in 2006 were designed to decrease stocks by 4 million hectolitres to the average for the previous five years (41 million hectolitres). Compared to the period 2002–2004, when EU table wine stocks stood at 33–37 million hectolitres, table wine stocks remained high, especially in France. Stocks of quality wine amounted to 99 million hectolitres, of which 72 million hectolitres were at producer level. The intervention measures decided in 2006 were intended to decrease stock levels by 1.4 million hectolitres. Stocks of quality wine remained high (+4%), particularly in Italy (+20%) and Portugal (+9%) compared to the average stock levels over the previous five years. As from 2005, intervention buying-in, hardly ever used for sugar since the introduction of the common market organisation in 1968, became an important instrument for regulating the market. A total of 0.55 million tonnes was taken into intervention in 2006, but offers practically stopped from May 2006. Tenders for the resale of intervention stocks attracted higher interest than in 2005 and consequently 850 000 tonnes were sold. By the end of 2006 about 900 000 tonnes remained in intervention. Intervention stocks of beef had all been disposed of since the beginning of 2004. Intervention stocks of dairy products in EU-25 fell to their lowest levels since the autumn of 2002. No skimmed milk powder stocks remained as from the beginning of 2006 while butter stocks fell by 60 000 tonnes to 70 000 tonnes at the end of the year.

1.2. Production

17. According to the latest information, the EU-25 **cereal area** is estimated to have declined by 1.9% to about 50.5 million ha in 2006. The main reasons for this decrease were less favourable climatic conditions in some EU regions, especially in spring and summer, which had a strong impact on yields, and continuing implementation of the

2003 CAP reform (in particular ‘decoupling’). Looking at individual cereals, areas fell particularly for durum wheat (–11%), triticale (–8.8%), maize (–4.8%), and oats (–4.0%). On the other hand, the areas under common wheat (–0.4%), barley (+0.0%) and rye (–0.4%) remained relatively stable in 2006.

18. Total cereal production is estimated at 245 million tonnes for the 2006/07 marketing year, a decrease of 5% (about 13 million tonnes) compared to 2005/06. Cereal production stood at nearly 191 million tonnes in the old Member States (–3.5% in comparison to 2005/06) and 54 million tonnes in the new Member States (–9.7%). This was mainly due to the less favourable climatic conditions and to the full implementation of the CAP reform. The decline in cereal production ranged from 5% for common wheat to 13% for triticale. Significant decreases are also estimated for durum wheat (–12%), maize (–10%), oats (–7%), rye (–7%), and soft wheat (–8.9%). Only barley production increased slightly (+ 2%).

19. All cereals had lower yields in comparison to 2005. Average cereal yields were about 4.85 t/ha, 3.1% lower than in 2005. The highest yield declines are estimated for rye (–6.7%), maize (–5.4%) and common wheat (–4.5%). However, barley yields increased by an estimated 2%, leading to higher production.

20. France remained the leading cereal producer in the EU with 61 million tonnes (–4%). It was followed by Germany with 44 million tonnes (–5%) and Poland with 24 million tonnes (–8%). Due to favourable weather conditions, cereal production is estimated to have increased in Spain (+ 25%) and Portugal (+ 55%).

21. **Rice** production was slightly lower in 2006 as compared with the previous year, mainly due to due to a switch in the types of rice sown, as around 9% of the areas sown in the previous year with indica rice were sown with the lower-yield japonica variety in 2006. The first production estimate for 2006 was about 2% lower at around 1.53 million tonnes (milled equivalent). The total area under rice remained stable at around 410 000 ha.

22. The total EU-25 oilseed area increased in 2006 (+6.7% compared to 2005) with rapeseed up by 7.8% to 5.1 million ha, while the soybean area remained almost unchanged at 286 000 ha. The sunflower seed area also increased by 7% to 2.16 million ha. The rapeseed area increased due to a favourable price outlook at the time of sowing and the prospects of greater use of rapeseed for biodiesel production. The total oilseed area increased to an estimated 7.5 million ha, including 0.8 million ha for non-food set aside and 0.8 million ha for energy crops. With less favourable weather conditions, yields were lower compared to the yields recorded in 2005, by –8.3% for rapeseed, –0.5% for sunflower seed and –5.6% for soybean, although the total production of 20.1 million tonnes was 0.5% higher than in 2005/06. The 2006/07 crop was expected to comprise 15.3 million tonnes of rapeseed, 3.9 million tonnes of sunflower seed and 828 000 tonnes of soybean. Rapeseed accounted for about 95% of the 2.6 million tonnes of non-food oilseed production.

23. The EU-25 **linseed** area remained at a very low level (112 000 hectares) and 2006 production is estimated to have reached 140 000 tonnes.

24. The **protein crop** area was expected to decrease somewhat to 1.4 million hectares in 2006 (–4%). A limited increase in pea yield (2.9 t/ha) combined with yield stability

for beans and sweet lupins (2.7 t/ha) led to a slightly lower total protein crop production of 4.0 million tonnes as compared to the previous year.

25. The introduction of the sugar sector reform on 1 July 2006 had an important effect on EU-25 **sugar** production. The area sown dropped by nearly 20% from 2.2 million ha in 2005/06 to 1.77 million ha in 2006/07. This substantial reduction reflected the 1.2 million tonnes of sugar quota eliminated for the marketing year 2006/07 and the 'preventive withdrawal' of 2.5 million tonnes of sugar quota in 2006/07. This 'preventive withdrawal' was an exceptional measure to facilitate the transition from the previous sugar regime to the reformed regime. The beet area decreased in all producing Member States by about 10–15%, with some countries seeing even larger decreases such as Italy (more than –50%), Greece (–35%) and Finland (–20%). Due to closure of the only sugar factory in Ireland, no sugar beet was sown there. Therefore, sugar production is estimated to have been 16.5 million tonnes (16.2 million tonnes from beet, and 0.3 million tonnes from cane or molasses) in 2006, substantially below the 20.3 million tonnes in 2005. As in the previous year, weather conditions were fairly favourable in 2006 for most beet-growing regions of the enlarged EU, which had a positive effect on the sugar content of the beet. Sugar production fell to 3.3 million tonnes in Germany (–0.8 million tonnes) and 3.4 million tonnes in France (–0.7 million tonnes).

26. **Olive oil** production in 2006 (marketing year 2005/06) is estimated at 1.965 million tonnes (825 000 tonnes in Spain, 673 000 tonnes in Italy, 424 000 tonnes in Greece, 32 000 tonnes in Portugal, 6 000 tonnes in Cyprus, 4 500 tonnes in France and 500 tonnes in Slovenia). This represented a 15% decline compared to the harvest of 2005, mainly due to unfavourable climatic conditions. Following the cessation of the production aid scheme from the marketing year 2005/06, production figures were based on Member State estimations.

27. Initial estimates point to very different developments in **fruit** production across all sectors. A production increase was forecast for citrus (+8%), with total production to reach a record 11 million tonnes, with the highest increases in oranges (+10%) and small citrus fruit (+12%). For peaches and nectarines, figures indicate relatively stable production (+0.4%) in comparison to 2005. The production of pears was expected to have increased (+2%), whereas the production of apples declined by an estimated 6% for the second consecutive year. As regards **vegetables**, only few data were available. No consolidated figures are yet forthcoming on the total production of fresh tomatoes, but considerable production decreases were registered in the two largest producer countries: Italy (–12%) and Spain (–21%) in comparison with 2005. The production of tomatoes for industrial processing decreased for the second consecutive year by almost 25% to 8 million tonnes in 2006 compared to 2005, after record production in 2004.

28. Initial estimates show that EU **wine** production in 2006 remained almost the same as the previous year at about 173 million hectolitres. Production fell significantly in Italy (– 6%), Hungary (– 16%) and Slovenia (– 16%), but increased in Spain (+ 5%).

29. **Beef and veal** production in the EU-25 is estimated to have increased in 2006 to 8.0 million tonnes, up by 2%. This increase was due mainly to the end of the 'over-thirty months scheme' (OTMS) in the UK with more beef entering the market.

30. According to the most recent estimates, **pigmeat** production was expected to have increased slightly (+0.3%) to 21.2 million tonnes in 2006, mainly due to growing production in Spain, the Netherlands and Poland.

31. Due to the drop **in poultry meat** consumption provoked by the **avian influenza scare**, poultry meat production in the EU-25 is estimated to have declined by 2.3% to 10.7 million tonnes in 2006.

32. For the EU-25, **sheep/goat meat production** decreased by an estimated 2.5% overall in 2006, with considerable falls in the United Kingdom and Ireland following the implementation of the CAP reform.

33. The downward trend in dairy cow numbers continued in the EU-25, with an estimated 22.3 million head at the end of the year, a 2.6% fall compared to the end of 2005. The average milk yield on the other hand increased to an estimated 6 300 kilos, up 1.8%. This gives a **milk production** figure of 140 million tonnes, down 1.6% compared to 2005. Deliveries to dairies in EU-25 are estimated to have fallen by almost 1.2% to 130 million tonnes in 2006. Deliveries were projected to decrease more in the EU-15 (–1.2%) than in the new Member States (–0.8%) compared to 2005. After two consecutive years of strong increases in milk deliveries in the new Member States, the quota ceilings were reached in some countries, leading to a slowdown in milk production. Only the United Kingdom, Sweden and possibly Hungary had a production pattern structurally below their quotas over the previous few years.

34. Butter production is estimated to have decreased by 5.2% to slightly below 2.1 million tonnes in 2006. Cheese production continued to increase: an overall increase of 2.8% resulted in a production of 8.4 million tonnes. For milk powder a decrease of about 8–9% to 1.9 million tonnes in 2006 was expected, due to a reduction in skimmed milk powder production by 10% and whole milk powder by 7% in the previous year. At the milk production levels in 2006, the protein supply in the EU-25 was becoming rather tight, although EU fat needs were still sufficiently covered.

1.3. Prices

Producer prices

35. The first estimates available in December 2006 indicated different developments in agricultural producer prices across the EU in nominal terms. Producer prices were expected to have increased most in Latvia (+15.5%) and Lithuania (+12.0%), but also in Poland (+9.4%), Hungary (+8.4%), the Netherlands (+7.1%), Belgium (+6.9%), Cyprus (+5.8%), Austria (+5.7%), Slovenia (+5.4%), Sweden (+5.4%), Germany (+4.9%), Ireland (+4.5%), Luxembourg (+3.3%), Estonia (+4.0%), Denmark (+3.0%), the Czech Republic (+1.4%) and the United Kingdom (+1.2%). They remained relatively stable in Italy (+0.9%) and Slovakia (–0.6%), but declined in Finland (–9.4%), Spain (–7.5%), Greece (–7.1%), France (–2.8%), Malta (–2.3%) and Portugal (–1.3%).

36. The prices of cereals showed no uniform trend as they increased in several Member States, sometimes strongly, but continued to decrease in others. High price drops were expected in Spain (–35.7%), Finland (–34%), Portugal (–33.1%), Greece (–31.3%), but also in Cyprus (–14.1%), France (–11.6%) and Slovakia (–3.2%).

Other countries registered rising prices, with the highest increases in Belgium (+27.3%), Austria (+26.7%), the Netherlands (+26.6%), Estonia (+19.3%) and Sweden (+19.1%). In contrast, sugar beet prices were estimated to have decreased in most Member States with the exception of Slovakia (+11.4%) and Portugal (+4.9%). Wine prices increased in nominal terms in most wine-producing countries, except Italy, Portugal and Slovenia, where prices decreased, and Spain, where they remained stable. Consequently, the overall price index for crop products increased in most EU Member States, except in Spain, Finland, Greece, Malta, France and Italy, where nominal prices went down.

37. The overall price index for animal products rose in most EU Member States in 2006, but this masked wide-ranging changes by sector and by Member States. Pigmeat prices increased in most EU Member States by +5.6% on average, except for Poland (–5.5%), Slovakia (–3.5%), Malta (–2.2%), Finland (–2.2%), the Czech Republic (–1.7%) and the United Kingdom (–0.6%), where nominal prices were down. Beef and veal prices increased on average by +1.1% in most EU countries, but declined sharply in Portugal (–18.8%), Greece (–13.7%), Finland (–9.4%), the United Kingdom (–5.6%), France (–5.3%) and Slovakia (–2.7%). Poultry meat prices showed no uniform trend: they declined in most Member States, most notably in the Czech Republic (–20.1%), but increased in Spain, Italy, France, Cyprus, Latvia and Portugal and remained nearly unchanged in Malta, Hungary, Austria and Slovenia. Sheep and goat meat prices fell on average across the EU-25 (–5.0%), but this masks significant differences: they were down in Greece, Spain, France, Cyprus, Lithuania, the Netherlands, Poland, Portugal, Finland and Sweden, but increased in other Member States. Milk price changes in nominal terms compared with 2005 varied significantly between countries: while the price of milk declined in some EU Member States, it increased significantly in Cyprus (+24.0%) and Latvia (+14.8%), also rising in Lithuania (+7.8%), Austria (+5.4%), Slovakia (+5.1%), Hungary (+3.8%), Greece (+2.8%), Slovenia (+1.9%) and the Netherlands (+1.4%). Egg prices increased in most Member States but fell in Malta (–5.1%), Slovakia (–4.3%), the Czech Republic (–3.3%), Slovenia (–2.4%), Greece (–1.6%) and Austria (–1.2%), while remaining relatively stable in Ireland and Luxembourg.

Market prices

38. In general, **cereal** prices increased substantially in 2006, particularly at the end of the year. During the first three months of the year, the price for bread-making common wheat was around EUR 116 per tonne, for durum wheat EUR 158-160 per tonne, for maize EUR 120 per tonne, for feed wheat EUR 102-104 and for malting barley EUR 130-133. Cereal prices then increased slightly over the next months, registering some sharp increases starting from September-October, and were still increasing at the end of the year. In December 2006, prices reached EUR 155 per tonne for bread-making common wheat and EUR 159 per tonne for feed maize, whereas durum wheat and malting barley prices were about EUR 180 per tonne. These prices were considerably higher compared to previous years as a consequence of firm demand on the world market, slightly lower production and stable demand on the domestic market.

39. Paddy **rice** prices remained high in 2006, well above the intervention prices, and even increased after the beginning of the new marketing year in September. Indica rice

prices ranged between 13% and 66% above the intervention price, while japonica rice prices were even higher, ranging between 25% and 98% above the intervention price.

40. During 2006, rapeseed prices continued to rise: in January 2005 rapeseed was quoted at about EUR 190 per tonne (in Rouen), but in January 2006 went up to EUR 215 per tonne and in December 2006 up to EUR 275 per tonne. Sunflower seed saw considerable fluctuations: in June 2005 the price peaked at EUR 260 per tonne, then fell to EUR 200 per tonne in January 2006, but by the end of 2006 went up again to EUR 250 per tonne. The prices quoted for soybeans in Chicago were relatively stable, but in the last quarter of 2006 rose sharply to about USD 250 per tonne.

41. In view of the large quantities of sugar sold out of intervention in 2006, market prices were above the white-sugar reference price of EUR 632 per tonne in most Member States. Under the sugar reform, the reference price replaced the previous intervention price.

42. In 2006 **olive oil** prices increased strongly (+22%) compared to 2005 and reached historically record levels.

43. Prices for table wine remained relatively stable at a low level in Spain and Italy, with average producer prices between EUR 2 and 2.4 per hectolitre for white table wines and between EUR 2.5 and 2.8 per hectolitre for red table wines. At the end of 2006 a slight increase was recorded in Italy. In France the prices for table wine decreased until August but increased slightly afterwards. In December 2006 producer prices stood at EUR 3.4 per hectolitre for white table wines and EUR 2.7 per hectolitre for red table wines. These prices were about 13% lower compared to the previous marketing year.

44. In general, **bovine meat prices** were relatively high in 2006 (even above the already steep 2005 prices). For young bulls (category A R3), prices followed a comparable seasonal pattern to 2005, but were around 9% higher in absolute terms, peaking at EUR 331 per 100 kg in March 2006. The price of cows (category D O3) was about 2.5% higher than in 2005, after a continuous increase during the first half of the year. Peaking at EUR 250 per 100 kg in July 2006, the price started to decline in late summer following the seasonal pattern. Steer prices (category C R3) were considerably higher compared to 2005, reaching EUR 306 per 100 kg in late spring followed by a less pronounced seasonal decline during the summer.

45. **Pigmeat prices** continued to develop relatively favourably, achieving the exceptionally high prices of the year 2001 at EUR 164 per 100 kg in summer 2006. Due to the avian influenza scare, **poultry meat prices** were well under their (relatively high) 2005 level in the first half of 2006, reaching a low point at around EUR 130 per 100 kg in March 2006. During the second half of the year, however, prices improved progressively to reach a remarkable EUR 165 per 100 kilo in late summer 2006.

46. **Due** to lack of availability, **sheep meat prices** stayed relatively high in 2006, reaching extraordinarily high levels during the summer period. For heavy lamb, prices fluctuated above the levels of 2005, between EUR 404 and EUR 467 per kilo, following the seasonal pattern. For light lamb, prices were in general also higher than in 2005, varying between EUR 575 and EUR 688 per kilo.

47. Prices for **milk products**, which were relatively strong in 2005, remained firm in 2006. As in the previous year, the introduction of the second step in the support price cuts agreed under the 2003 CAP reform had no immediate effect on prices, except for butter, where prices were already below the intervention buying-in level before the intervention price cut. Towards the end of 2006, domestic prices for butter and skimmed milk powder increased sharply to well above the buying-in price. At the end of the year, skimmed milk prices were 30% and butter prices 10% above the intervention price level. A similar trend was observed for whole milk powder prices. Meanwhile, cheese prices remained relatively high throughout the whole year. This favourable price environment allowed substantial sales out of butter intervention. Consequently, aid levels were reduced for most refunds and internal disposal measures. Only the refund for butter was increased. All aids for skimmed milk powder were fixed at zero.

1.4. Input prices

48. In 2006 the purchase price index for standard consumption goods and services in agriculture rose in nominal terms in most EU Member States compared with 2005. Prices were particularly higher for energy and fertilisers. Total input prices increased most in Latvia (8.8%), Portugal (6.6%), the Netherlands (5.9%), Hungary (5.4%) and Slovakia (5.2%). In other countries, they rose more slowly: 4.5% in Finland, 4.2% in Ireland, 3.8% in Greece and in the United Kingdom, 3.7% in Slovenia, 3.4% in France, 3.3% in Spain, 2.5% in both Sweden and the Czech Republic, 2.3% in Luxembourg and Austria, 2.2% in Belgium and 0.8% in Denmark. Only Cyprus and Malta registered a slight fall in nominal input prices by 0.5% and 0.7%, respectively.

1.5. Farm income

49. The first estimates for farm income in 2006, provided by Eurostat on the basis of information sent by the Member States in December 2006, show an average increase of +2.6% in income from agricultural activities (measured, in real terms, as the net value added at factor cost per annual work unit) compared to 2005 for the European Union as a whole. Incomes were up in 15 Member States, with the strongest increases observed in the Netherlands (+14.6%), France (+8.6%), Austria (+4.1%), the Czech Republic (+6.4%), Latvia (+3.3%), and Poland (+1.5%). Income was down in ten Member States. It is estimated to have fallen in Lithuania (–2.0%), Ireland (– 10.2%), Finland (–6.2%), Malta (–5.5%), Estonia (–4.4%), Italy (–4.2%), Slovenia (–2.7%), Hungary (–0.6%), Luxembourg (–2.9%) and Slovakia (–0.8%).

50. The main factors behind these changes were: a sharp decrease in agricultural output quantities as compared to 2005, notably for cereals, industrial crops, potato, olive oil and wine, resulting in an overall drop in the total volume of crop production by –3.9%, whereas crop prices fell by –1.7% in real terms. In addition, animal output decreased slightly (–0.7%), while animal prices were down (–1.7%) in real terms. Crop and animal production stabilised in nominal terms thanks to strong nominal prices. However, the continued introduction of the CAP in the new Member States led to a further rise in the subsidies granted to the farm sector, to EUR 5.4 billion (including national top-ups), up from EUR 1.2 billion in 2003, EUR 3.8 billion in 2004 and EUR 4.7 billion in 2005. The strong rise in oil prices drove up prices for energy, lubricants, fertilisers, feed and services for agriculture. Total input costs increased on average in real terms (+1.7%), mainly due to a significant surge in

energy, lubricant and fertiliser prices, despite falling prices for financial intermediation services and a further reduction in quantities used.

51. Lastly, the structural decline in the agricultural labour force, the final fundamental factor affecting income movements, is estimated at −2.2% in 2006 compared to 2005 for the whole EU. This moderate reduction constitutes a marked slowdown compared to the early 2000s. The largest reduction in agricultural labour was recorded in Lithuania (−7.9%), Luxembourg (−6.6%), the Czech Republic (−5.7%), and Hungary (−4.8%). The agricultural labour force increased only in Italy (+1.1%) and remained unchanged in Malta and Ireland.

Changes in nominal farm-gate prices in 2006 and 2005 *(%)*

Member States	Crop products		Livestock products		Total	
	2006/05 (p)	2005/04	2006/05 (p)	2005/04	2006/05 (p)	2005/04
EU-25	0.5	9.9	0.6	–1.2	0.5	4.8
Belgique/België	8.0	1.5	6.1	0.9	6.9	1.1
Česká Republika	4.3	–20.7	–1.6	1.9	1.4	–6.8
Danmark	1.6	–5.2	3.7	0.2	3.0	–1.4
Deutschland	8.0	–4.2	2.2	1.3	4.9	–0.9
Eesti	9.9	–3.0	0.7	3.8	4.0	2.7
Elláda	–8.5	2.4	–3.4	5.2	–7.1	3.1
España	–13.5	4.3	3.7	1.5	–7.5	3.2
France	–1.7	–8.5	–4.3	0.3	–2.8	–4.6
Ireland	8.7	7.3	3.1	–0.7	4.5	0.5
Italia	–0.4	–4.6	3.7	–2.4	0.9	–3.8
Kypros/Kıbrıs	1.8	0.2	11.4	1.5	5.8	0.7
Latvija	21.0	8.6	10.4	15.7	15.5	13.1
Lietuva	18.0	12.8	6.7	13.5	12.0	13.1
Luxembourg	10.1	–3.8	0.1	–0.1	3.3	–0.9
Magyarország	11.0	–0.6	4.5	1.8	8.4	0.7
Malta	–4.0	–0.4	–1.1	–2.9	–2.3	–1.8
Nederland	10.6	0.7	2.9	2.5	7.1	1.4
Österreich	7.5	–2.4	4.1	3.1	5.7	1.1
Polska	8.9	–2.7	–1.9	–1.0	9.4	–1.9
Portugal	0.6	10.6	–3.8	–1.3	–1.3	5.1
Slovenija	8.6	1.3	2.5	1.3	5.4	1.3
Slovensko	0.7	–10.8	–1.9	1.4	–0.6	–2.4
Suomi/Finland	–14.2	–7.5	–5.6	–0.6	–9.4	–3.0
Sverige	8.3	–4.7	3.5	0.6	5.4	–1.4
United Kingdom	7.0	–5.7	–2.3	–1.4	1.2	–3.2

(p) provisional — Source: Eurostat

Changes in nominal purchase prices for agricultural inputs in 2006 and 2005 *(%)*

Member States	Intermediate consumption		Investment		Total	
	2006/05 (p)	2005/04	2006/05 (p)	2005/04	2006/05 (p)	2005/04
EU-25	:	–2.2	:	2.3	:	–1.6
Belgique/België	–0.1	5.3	2.9	10.0	2.2	3.7
Česká Republika	2.7	–0.1	1.3	3.2	2.5	0.4
Danmark	0.5	1.1	2.2	4.0	0.8	1.7
Deutschland	:	–0.1	:	1.6	:	0.4
Eesti	3.3	5.1	:	:	:	:
Elláda	3.9	5.6	3.6	3.8	3.8	5.1
España	3.1	1.5	3.6	4.7	3.3	1.9
France	3.4	1.5	3.4	3.0	3.4	1.8
Ireland	4.5	4.3	2.5	2.7	4.2	4.0
Italia	:	–2.2	:	3.6	:	0.1
Kypros/Kıbrıs	–0.4	8.3	–1.2	3.6	–0.5	7.9
Latvija	9.5	17.1	5.2	23.2	8.8	18.0
Lietuva	5.9	8.7	:	:	:	:
Luxembourg	2.8	3.7	1.5	0.6	2.3	2.5
Magyarország	5.3	–1.2	6.3	4.5	5.4	–0.4
Malta	–0.7	2.8	1.3	–3.6	–0.7	2.7
Nederland	6.7	0.5	2.8	2.3	5.9	1.0
Österreich	2.0	–0.2	2.7	3.8	2.3	1.3
Polska	:	2.4	:	–5.0	:	2.3
Portugal	7.4	–4.5	1.2	1.9	6.6	–3.6
Slovenija	4.9	0.0	1.2	4.3	3.7	1.3
Slovensko	6.3	0.3	1.0	2.9	5.2	0.9
Suomi/Finland	4.9	2.9	3.8	4.5	4.5	3.5
Sverige	2.3	1.0	3.1	3.9	2.5	1.6
United Kingdom	4.0	1.8	2.4	4.1	3.8	2.0

(p) provisional — Source: Eurostat

Nominal output price indices for agricultural products over the 2002–2006 (p) period (2000 = 100)

Member States	2002	2003	2004	2005	2006 (p)
EU-25	101.8	105.2	105.1	103.9	104.5
Belgique/België	94.7	97.7	99.7	100.8	107.7
Česká Republika	100.1	96.4	102.9	95.9	97.3
Danmark	96.9	92.5	94.9	93.6	96.6
Deutschland	100.0	101.3	99.7	98.8	103.7
Eesti	:	:	127.4	130.8	134.8
Elláda	113.6	123.6	121.2	125.0	117.9
España	100.3	105.8	106.8	110.2	102.7
France	99.9	103.6	101.9	97.2	94.4
Ireland	100.0	99.6	101.8	102.3	106.8
Italia	106.4	112.0	109.7	105.5	106.4
Kypros/Kıbrıs	:	:	121.0	121.9	127.7
Latvija	106.7	104.7	124.1	140.3	155.8
Lietuva	114.2	101.9	102.9	116.4	128.4
Luxembourg	99.5	100.5	103.6	102.7	106.0
Magyarország	104.3	110.5	104.5	105.2	113.6
Malta	110.3	106.1	98.8	97.0	94.7
Nederland	103.7	104.9	99.6	101.0	108.1
Österreich	101.7	102.1	101.5	102.6	108.3
Polska	94.8	96.6	105.7	103.7	113.1
Portugal	101.8	105.2	97.5	102.5	101.2
Slovenija	109.9	113.5	112.2	113.7	119.1
Slovensko	106.8	101.5	103.8	101.3	100.7
Suomi/Finland	103.7	99.0	102.0	98.9	89.5
Sverige	102.1	100.6	99.2	97.8	103.2
United Kingdom	103.3	109.9	113.2	109.6	111.8

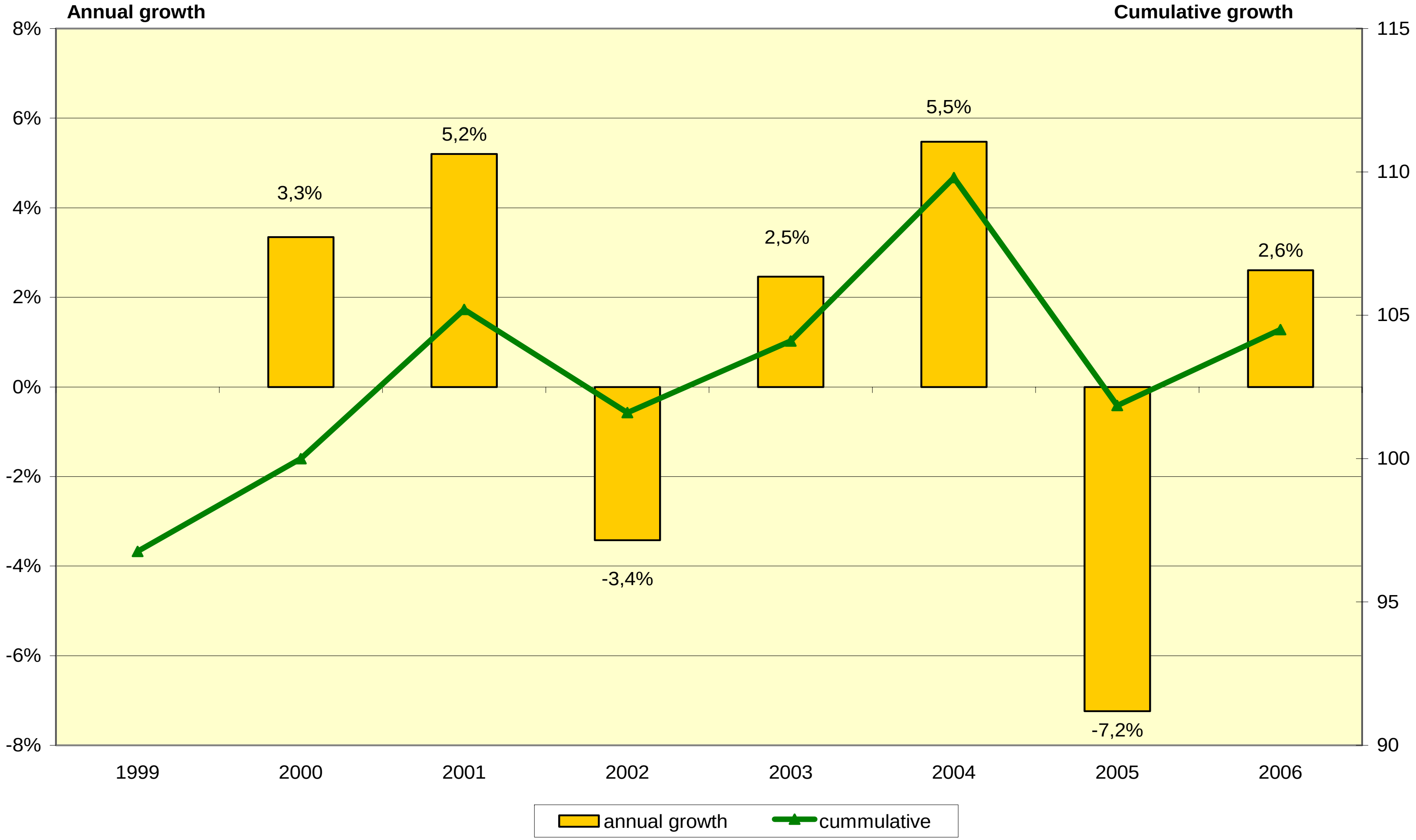
(p) provisional — Source: Eurostat

Indices of nominal purchase prices for goods and services consumed in agriculture over the 2002–2006 (p) period (2000 = 100)

Member States	2002	2003	2004	2005	2006 (p)
EU-25	105.8	107.8	113.0	112.8	116.6
Belgique/België	102.8	102.7	102.6	108.0	109.4
Česká Republika	103.4	101.3	108.8	108.7	
Danmark	107.7	105.5	108.8	110.0	110.8
Deutschland	104.1	104.2	108.6	108.5	113.5
Eesti			114.8	120.6	123.2
Elláda	103.7	108.1	117.8	124.4	129.3
España	102.9	104.1	108.3	109.9	112.8
France	103.2	104.2	107.9	109.5	112.7
Ireland	106.1	108.8	113.1	118.0	121.7
Italia	105.5	107.4	112.6	110.1	112.4
Kypros/Kıbrıs			144.7	156.7	157.7
Latvija	102.0	106.5	115.2	134.9	147.6
Lietuva	100.8	96.0	92.9	101.0	104.7
Luxembourg	104.5	105.6	105.6	109.5	111.6
Magyarország	113.1	119.8	131.0	129.4	134.7
Malta	101.8	101.5	108.0	111.0	108.3
Nederland	107.2	109.0	111.1	111.5	115.9
Österreich	100.5	102.8	106.8	106.6	110.0
Polska	109.5	113.0	121.0	123.9	130.1
Portugal	103.3	107.6	113.0	107.9	110.2
Slovenija	116.1	121.5	131.8	131.8	134.4
Slovensko			114.7	115.1	121.0
Suomi/Finland	101.5	102.5	105.1	108.2	112.6
Sverige	107.2	109.3	113.5	114.6	116.4
United Kingdom	103.7	106.5	114.0	116.0	122.0

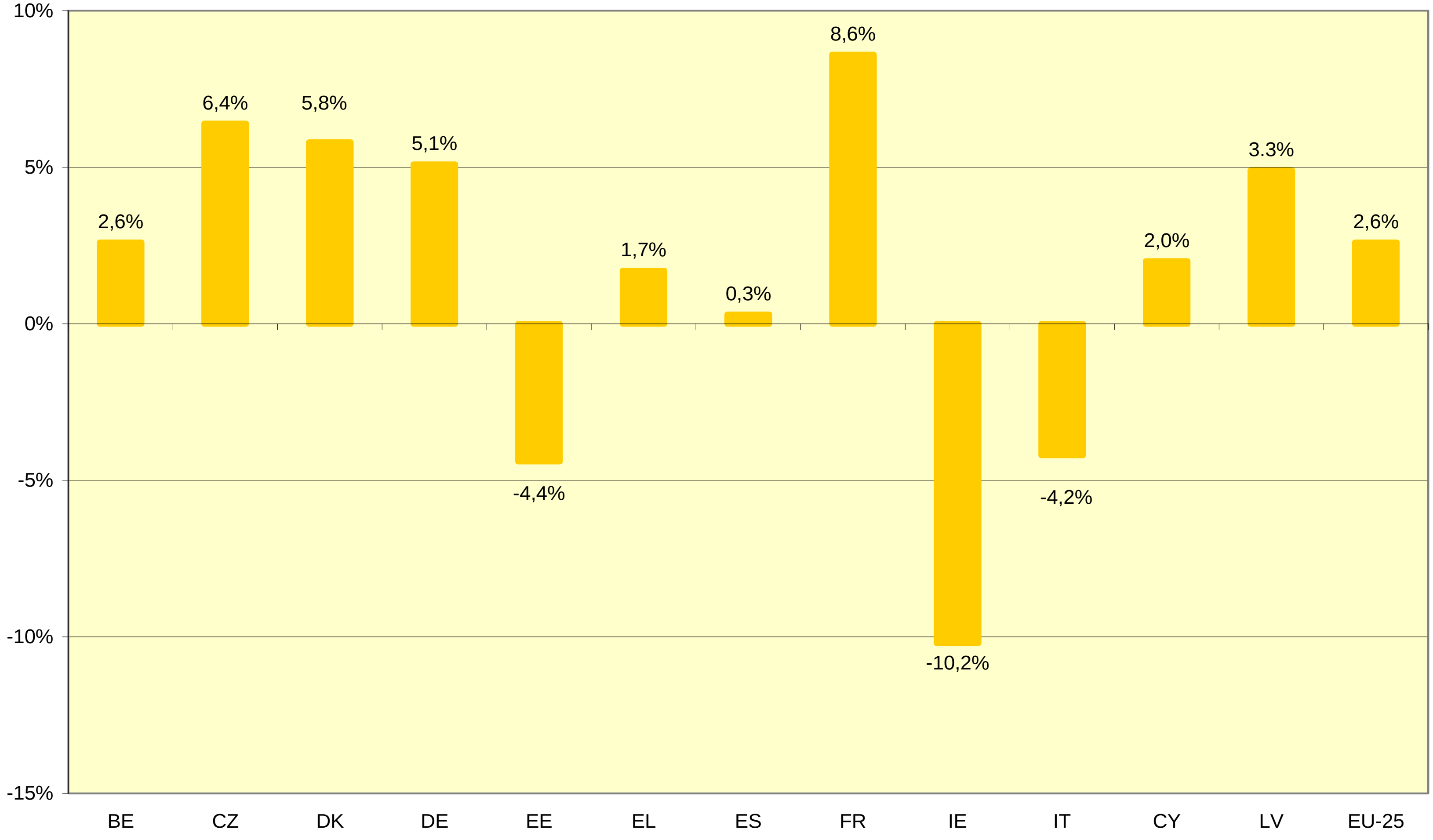
(p) provisional — Source: Eurostat

Development of agricultural income in the EU-25 over the 2000–2006(p) period — annual change (%) and cumulative growth (2000=100)



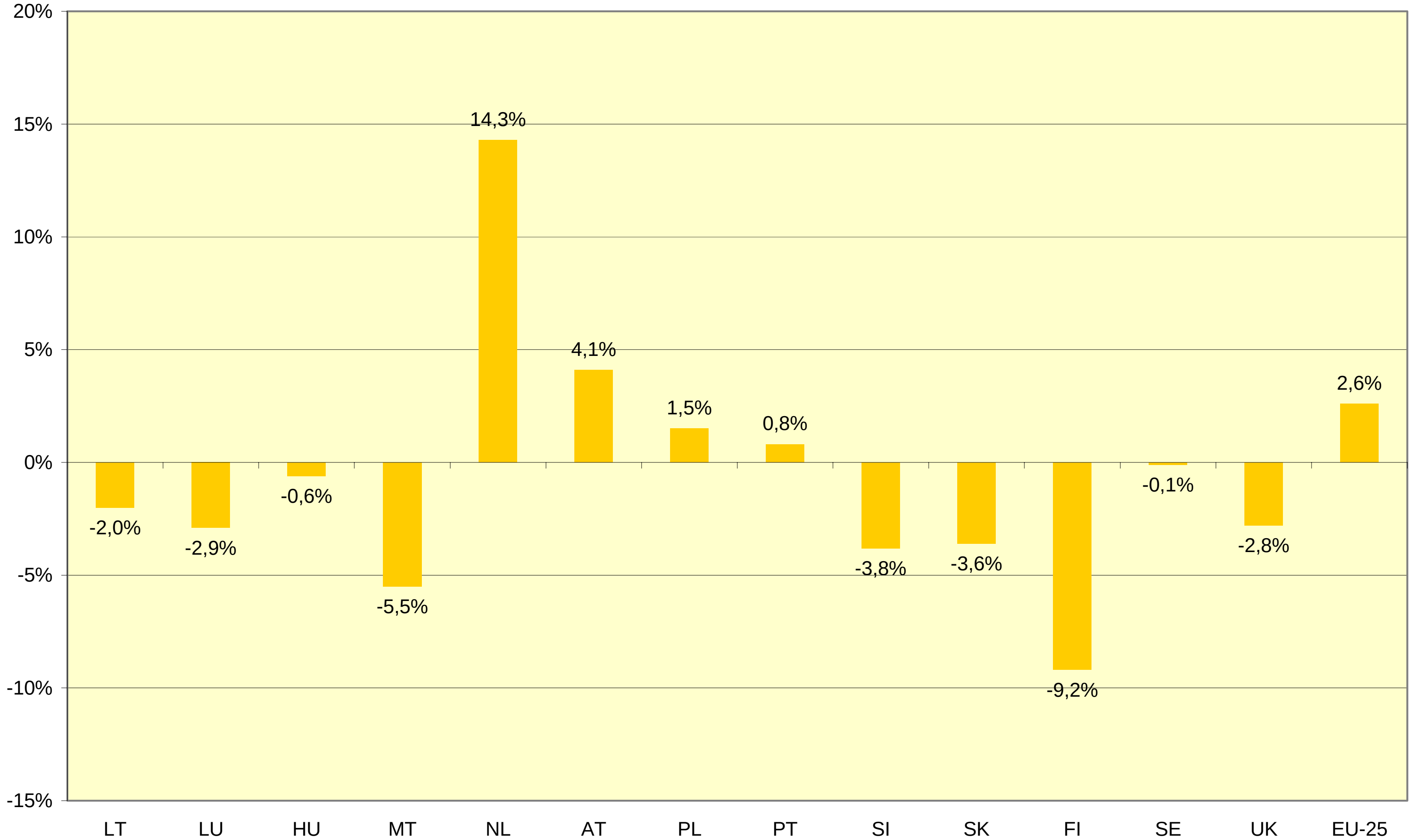
(p) provisional — Source: Eurostat

Development of agricultural income in the EU-25 Member States in 2006 (p) (% change versus 2005), part 1



(p) provisional — Source: Eurostat

Development of agricultural income in the EU-25 Member States in 2006 (p) (% change versus 2005), part 2



(p) provisional — Source: Eurostat

Development of agricultural income in the EU Member States over the 2001–2006 (p) period (average 2000 = 100)

Member States	2001	2002	2003	2004	2005	2006 (p)
EU-25	105.2	101.6	104.1	109.8	101.8	104.5
Belgique/België	96.7	86.6	89.5	89.8	88.6	90.9
Česká Republika	127.2	99.6	87.3	138.8	143.3	152.5
Danmark	115.3	81.6	79.6	91.0	95.0	100.5
Deutschland	127.0	108.9	83.0	125.2	113.8	119.7
Eesti	116.7	109.2	154.8	226.5	237.1	226.7
Elláda	103.8	100.6	93.5	85.3	81.7	83.1
España	108.0	104.8	118.3	110.6	99.4	99.6
France	100.9	97.7	95.9	93.5	87.4	94.9
Ireland	98.6	93.7	92.9	90.4	104.1	93.4
Italia	98.0	96.6	96.7	98.0	94.0	89.9
Kypros/Kıbrıs	112.1	112.3	107.5	96.9	94.9	96.8
Latvija	120.5	116.0	126.2	206.7	212.3	222.6
Lietuva	92.6	86.0	96.6	150.4	191.4	203.8
Luxembourg	100.8	101.9	93.8	91.0	86.3	89.7
Magyarország	107.9	91.4	93.4	148.6	153.9	160.8
Malta	113.5	113.8	109.2	110.7	109.1	103.3
Nederland	93.4	79.6	85.5	80.1	84.4	99.0
Österreich	113.9	107.2	107.2	107.5	107.2	114.2
Polska	115.0	103.9	102.9	199.6	163.4	170.0
Portugal	106.4	101.4	123.0	142.5	128.8	130.4
Slovenija	86.3	117.6	88.9	141.3	143.9	140.0
Slovensko	113.6	106.7	100.3	129.7	120.9	119.9
Suomi/Finland	98.6	97.5	96.9	95.3	108.5	101.7
Sverige	107.8	119.2	118.0	106.4	99.1	100.3
United Kingdom	107.0	118.1	137.6	128.1	123.5	123.8

(p) provisional, (e) estimate — Source: Eurostat

1.6. Farm accountancy data network (FADN)

52. The FADN is used to calculate the 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 on how farm incomes vary according to type of farming and location, which is not apparent from the global averages for the agricultural sector as a whole. This section presents some information by type of farming and by country.

53. When looking at following tables, it is important to take into account that FADN uses a threshold and collects information only for commercial farms. This means that it covers only farms that exceed a minimum economic size, measured in European Size Units (ESU), which differs from country to country, ranging from 1 ESU to16 ESU for the years 2004 and 2005.

54. Table 1 shows the wide range of results among Member States for each type of farming, as measured by the Farm Net Value Added (FNVA).

55. 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 in general those with a significant number of large-sized farms specialising in arable crops, dairy produce or the less regulated sectors of production (pigs, poultry, horticulture, etc.). Those Member States with a large number of small farms have average incomes usually below the EU average.

56. Table 2 shows the contribution of subsidies and taxes to FNVA. In 2004, the proportion of subsidies net of taxes in FNVA for the EUR-25 was slightly above 36%. However, the differences among Member States and among types of farming were considerable.

57. In 2004, Finland, Slovenia and Sweden had an average FNVA lower than subsidies net of taxes. This means that revenues from the market were not enough to cover production costs. On the other hand, the share of subsidies in FNVA was the lowest in the Netherlands, Italy, Spain and Belgium.

58. Regarding types of farming, the differences are also considerable. Net subsidies for drystock, mixed and arable farm types were the highest as a proportion of FNVA. The horticulture and vineyard types were by far the least subsidised.

59. In 2005, Finland had an average FNVA lower than subsidies net of taxes. In contrast, the Netherlands was the country with the lowest share of subsidies in FNVA, followed by Italy, Belgium and Spain.

60. FADN data can also be used to analyse the degree of concentration in the agricultural sector. This is shown in Tables 3 and 4 with data for 2005. 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 market sales and from subsidies.

61. Table 3 shows the top 20% of farms with the highest total receipts per type of farming, per country and for the EU as a whole.

62. For the EU and for all types of farming, the 20% of farms with the highest receipts account for 72% of total receipts. However, the degree of concentration varies across countries. Luxembourg, Austria, Belgium, France and Finland have the lowest degree of concentration with 41, 41, 48, 48 and 49 percent, respectively. Furthermore, the average receipts per farm are usually higher for these countries. In contrast, the Czech Republic, Hungary, Cyprus and Estonia have the highest degree of concentration with 87, 84, 80 and 79 percent, respectively.

63. For individual types of farming, the degree of concentration at EU level is highest for mixed livestock (mainly granivores) with 80% —, followed closely by various crops and livestock and combined and specialist horticulture. The lowest concentration of 54% can be found in specialist olives, specialist cattle rearing and fattening, and specialist dairy farming.

64. However, the types of farming with the highest degree of concentration vary considerably from country to country. Conversely, specialist cattle rearing and fattening is one of the least concentrated in practically all countries except for Italy.

65. Table 4 shows the degree of concentration for the 50% of farms with the highest total receipts.

66. At EU level, for all types of farming, this figure is 92%, ranging at country level between 73% in Luxembourg and 96% in the Czech Republic. Where individual types of farming are concerned, the combination of field crops and grazing livestock is the most concentrated with 94%, followed closely by various crop and livestock combinations and specialist granivores. On the other hand, the lowest concentration, 80%, is found in specialist olives, followed by specialist cattle rearing and fattening, specialist dairy farming, sheep/goats and other grazing livestock.

Table 1 — FARM NET VALUE ADDED (in EUR)

	All farms		Arable		Horticulture		Vineyards		Other permanent crops		Dairy		Drystock		Pigs / poultry		Mixed	
	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
B*	68 787	71 311	63 946	63 639	88 864	92 903	.	.	127 136	151 434	53 809	60 335	58 258	53 678	84 362	91 136	64 967	70 276
CYP	6 566	5 629	8 878	5 950	.	.	4 541	2 846	740	1 431	.	.	17 100	18 931	83 966	.	15 896	.
CZ	90 648	85 319	85 267	73 276	56 619	46 629	19 773	28 083	14 413	27 218	73 490	75 762	36 073	43 168	113 787	102 995	161 049	160 986
DK	66 481	74 985	36 084	50 207	301 218	270 321	.	.	83 147	98 521	107 745	113 894	.	.	164 458	181 056	83 207	77 741
D	63 290	59 046	73 755	59 682	93 756	99 871	58 113	49 889	56 108	64 057	49 723	50 718	43 039	44 614	79 962	77 877	72 738	67 746
EL	11 883	13 558	10 897	11 493	30 385	30 071	13 997	15 745	9 097	11 756	.	.	20 345	21 623	.	.	15 979	17 610
E	29 297	24 652	28 914	18 899	73 815	46 406	22 892	15 826	17 846	17 508	41 391	50 452	37 918	37 012	80 583	73 148	49 187	40 918
EE	22 217	25 992	11 327	15 116	8 802	10 907	.	.	.	.	54 617	54 238	.	20 856			18 553	22 575
F	50 835	50 756	47 788	44 622	80 667	90 064	94 407	85 351	76 518	69 712	37 460	41 256	29 189	32 264	45 542	64 349	50 542	51 709
HU	18 913	18 415	18 509	15 513	5 335	13 241	20 742	19 223	4 610	5 338	36 910	53 683	9 462	16 770	50 170	43 276	23 802	28 352
IRL	20 488	21 273	38 486	35 012	.	.	.	.	.	.	47 110	48 372	12 551	13 426	.	.	35 730	39 589
I	29 743	29 210	24 686	22 141	93 409	90 724	24 500	26 254	19 115	18 399	66 634	75 621	32 717	32 220	229 450	235 203	32 271	31 984
LT	11 131	10 623	13 661	11 637	10 024	16 902	.	.	.	4 520	10 693	11 244	7 762	.	.	.	8 941	9 270
L	53 967	52 902	12 425	.	.	.	77 419	64 261	.	.	56 646	60 383	50 748	50 676	.	.	41 632	36 709
LV	11 792	12 755	12 419	11 326	.	.	.	.	.	15 015	11 417	13 085	20 355	17 737	95 256	227 381	8 089	8 492
MT**	.	22 481	.	12 468	.	25 034	.	.	.	6 123	.	38 335	.	.	.	45 622	.	.
NL	90 825	101 452	58 484	85 030	203 948	219 699	.	.	180 288	137 454	79 771	91 720	32 561	21 297	77 586	105 003	39 189	61 214
A	31 398	33 013	37 837	35 391	.		35 113	30 901	49 028	34 374	26 733	29 829	29 493	28 947	32 804	48 082	31 557	33 554
PL	7 558	8 976	8 830	9 169	16 460	18 517	.	.	8 876	11 212	7 036	9 993	8 650	11 877	14 029	20 655	4 878	5 429
P*	8 805	8 585	6 217	5 463	9 299	10 077	10 274	8 239	5 308	8 271	20 668	20 703	11 112	9 062	32 900	71 278	7 695	5 935
FIN	29 973	29 550	16 535	14 934	74 797	76 782	.	.	.	.	40 792	39 866	27 552	31 449	53 178	68 455	27 937	28 873
S	29 744	34 345	22 586	21 452	.	116 854	.	.	.	.	42 027	51 512	25 016	30 622	35 379	80 705	24 386	32 927
SK	67 390	100 158	52 619	63 510	.	.	.	.	.	.	35 205	115 405	32 826	86 200	.	.	181 954	238 177
SI*	4 895	7 957	2 031	3 778	.	.	5 553	5 602	14 350	4 558	6 204	17 181	5 961	6 323	.	.	3 603	5 123
UK*	69 137	79 250	71 084	85 159	175 226	244 728	.	.	205 149	185 867	81 786	90 785	36 070	37 874	151 520	179 668	64 806	70 198
EUR-25	**27 802**	**27 787**	**25 583**	**23 441**	**69 364**	**66 809**	**38 519**	**34 957**	**17 164**	**17 490**	**42 688**	**46 799**	**24 222**	**25 591**	**52 515**	**62 020**	**21 178**	**21 198**

Source: FADN results 2004, 2005 (weighted: population FSS 2005, classification SGM 2002) *2005 data for B, UK, P, PL and SI are provisional. **2004 data for MT are not available

Table 2 —CURRENT SUBSIDIES NET OF TAXES AS % OF FARM NET VALUE ADDED

	All farms		Arable		Horticulture		Vineyards		Other permanent crops		Dairy		Drystock		Pigs / poultry		Mixed	
	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
B*	22.6	23.7	23.9	26.2	0.9	2.1	.	.	3.3	3.1	25.4	27.3	52.2	54.2	5.2	5.4	28.6	29.1
CYP	46.5	55.3	59.8	72.5	.	.	52.4	117.4	186.2	101.6	.	.	45.0	49.9	0.5	.	31.5	.
CZ	37.1	51.7	32.3	52.1	7.9	4.7	2.2	9.3	4.8	12.2	51.8	60.4	118.0	125.7	6.6	3.9	40.4	53.1
DK	36.2	31.6	55.3	37.9	2.1	3.3	.	.	0.7	3.6	33.8	33.2	.	.	15.0	13.4	37.3	39.2
D	46.6	47.3	55.7	59.4	2.9	3.4	14.7	16.2	10.2	7.1	44.1	46.8	87.3	81.6	26.0	23.6	53.0	54.2
EL	32.1	30.8	37.4	37.5	2.8	4.2	34.5	32.4	27.7	25.7	.	.	37.5	36.2	.	.	35.4	34.8
E	21.6	25.3	36.1	50.0	1.6	1.7	6.4	6.4	17.7	18.3	13.1	17.9	36.4	38.6	3.4	7.0	32.3	38.2
EE	53.5	51.5	80.3	60.0	14.5	19.4	.	.	.	.	39.6	44.4		90.3	.	.	54.2	56.8
F	48.7	50.1	73.7	77.1	2.5	2.6	1.4	1.2	9.5	12.7	49.4	53.4	107.6	101.2	24.8	15.1	67.3	68.9
HU	47.4	52.2	52.9	77.0	11.3	7.6	3.7	–17.5	49.9	42.5	51.8	37.7	112.4	85.3	26.4	19.2	49.0	51.3
IRL	76.2	79.8	59.6	59.7	.	.	.	.	.	.	34.0	41.2	118.1	116.8	.	.	66.8	71.2
I	18.0	19.6	27.6	30.9	1.1	1.1	8.4	8.8	13.4	12.5	14.3	22.5	34.0	35.9	7.9	9.8	29.8	31.0
LT	40.7	48.6	45.9	58.2	5.3	4.8	.	.	.	36.8	38.0	38.6	47.0	.	.	.	44.7	49.6
L	77.1	80.5	189.2	.	.	.	16.6	18.0	.		78.4	78.0	106.3	105.3	.	.	103.2	113.5
LV	62.9	62.2	68.3	83.7	.	.	.	.	.	28.5	69.8	60.5	47.3	94.6	15.8	6.3	73.8	71.5
MT**	.	39.6	.	31.6	.	16.3	.	.	.	29.3	.	61.4	.	.	.	70.5	.	.
NL	6.8	10.2	17.3	14.3	–1.5	–1.3	.	.	0.1	13.9	12.1	19.0	33.5	52.7	–0.3	–1.2	12.1	13.3
A	67.7	69.1	75.2	84.6	.	.	36.6	59.5	27.4	33.0	73.1	70.5	85.3	85.7	42.4	34.8	74.3	70.9
PL	25.2	33.7	31.9	45.6	–4.3	–2.6	.	.	6.4	9.1	28.9	31.7	26.3	33.0	17.0	17.7	33.2	49.1
P*	48.5	50.8	75.3	72.7	–0.3	0.0	10.3	16.8	31.7	40.3	32.0	35.5	92.8	102.0	–0.9	–0.6	79.8	110.7
FIN	139.7	150.8	201.4	229.4	45.2	44.8	.	.	.	.	112.0	128.7	253.2	235.4	123.6	100.8	187.2	186.2
S	100.6	91.7	113.8	107.2	.	4.8	.	.	.	.	74.6	81.1	228.7	177.9	49.1	22.6	142.0	105.7
SK	64.9	82.2	51.1	75.9	.	.	.	.	.	.	180.2	121.7	175.8	151.5	.	.	49.3	63.4
SI*	100.7	63.1	161.8	95.9	.	.	22.9	–3.6	11.0	48.6	72.5	29.6	131.5	125.6	.	.	160.4	114.3
UK*	59.1	56.4	76.2	65.8	0.8	1.1	.	.	1.2	1.7	28.5	36.6	126.5	127.2	3.8	2.9	78.5	78.5
EUR-25	**36.3**	**38.5**	**49.9**	**54.3**	**1.5**	**1.8**	**6.2**	**6.4**	**15.8**	**17.1**	**37.6**	**41.6**	**72.6**	**73.1**	**13.1**	**12.4**	**50.3**	**53.8**

Source: FADN results 2004, 2005 (weighted: population FSS 2005, classification SGM 2002)*2005 data for B, UK, P, PL and SI are provisional.**2004 data for MT are not available

TABLE 3 — SHARE OF TOTAL RECEIPTS (OUTPUT + SUBSIDIES) IN 2005

THE 20% OF FARMS WITH THE HIGHEST RECEIPTS

	B	**CYP**	**CZ**	**DK**	**D**	**EL**	**E**	**EE**	**F**	**HU**	**IRL**	**I**	**LT**	**L**	**LV**	**MT**	**NL**	**A**	**PL**	**P**	**FIN**	**S**	**SK**	**SI**	**UK**	**EU-25**
Sp. cereals, oilseed and protein crops			74	72	67	49	57	68	44	77		70	67		73			43	69	46	44	57	79		53	**69**
General field cropping	51	61	87	65	55	51	57	52	45	82		69	75		77		52	41	58	74	51	56	79		59	**72**
Specialist horticulture	57		69	74	51	54	58		58	55		75	71			72	57		63	51	54				82	**76**
Specialist vineyards					46	49	58		58			70						47		52						**72**
Specialist fruit and citrus fruit	49	51			47	44	56		52	80		58	80					47	48	60						**65**
Specialist olives						44	58					56														**54**
Various permanent crops combined					61	45	58		60	74		70								48					72	**73**
Specialist dairying	37		77	40	50		47	80	38	89	40	62	52	36	67		40	37	45	51	41	49		62	45	**54**
Sp. cattle rearing and fattening combined	42		63		46		51		39		48	70						37		58		41		41	48	**54**
Cattle dairying, rearing and fattening	41				53				37			64						38	52							**64**
Sheep, goats and other grazing livestock					42	43	49		45		49	51					62			54			73		44	**55**
Specialist granivores	43			43	42		58		49	87		76				56	46	43	73						63	**70**
Mixed cropping		69	62	63	71	49	64		51	80		66	46		63	46		37	49	53				56		**73**
Mixed livestock, mainly grazing livestock					51	44			41	86		67	37		51				50	57						**73**
Mixed livestock, mainly granivores					40		56		39			78							49							**80**
Field crops/grazing livestock combined	41		84	72	72	43	45	78	42	90	47	65	64	55	66			41	56	65	44	53	61		53	**73**
Various crops and livestock combined			88	47	45	49	50		45	84		60	74		65			40	60	59	43	54		53		**77**
All types of farming	**48**	**80**	**87**	**64**	**56**	**51**	**64**	**79**	**48**	**84**	**57**	**73**	**59**	**41**	**74**	**73**	**57**	**41**	**61**	**65**	**49**	**56**	**77**	**58**	**59**	**72**

1. Where no figures are indicated the sample size is too small for the relevant category **2.** Data for B, UK, P, PL and SI are provisional

TABLE 4 — SHARE OF TOTAL RECEIPTS (OUTPUT + SUBSIDIES) IN 2005

THE 50% OF FARMS WITH THE HIGHEST RECEIPTS

	B	**CYP**	**CZ**	**DK**	**D**	**EL**	**E**	**EE**	**F**	**HU**	**IRL**	**I**	**LT**	**L**	**LV**	**MT**	**NL**	**A**	**PL**	**P**	**FIN**	**S**	**SK**	**SI**	**UK**	**EU-25**
Sp. cereals, oilseed and protein crops			91	91	89	78	84	88	78	91		88	87		90			75	87	77	75	83	93		82	**91**
General field cropping	82	90	96	91	81	80	84	80	76	95		88	90		91		82	74	83	91	82	84	93		86	**91**
Specialist horticulture	85		88	94	81	80	83		84	83		92	76			89	87		87	82	81	93			96	**92**
Specialist vineyards			86		76	78	84		86	96		88		78				75		80				85		**91**
Specialist fruit and citrus fruit	80	81	83	85	81	76	80		81	96		84					83	80	79	86				91	86	**86**
Specialist olives		76				74	84					80								88						**80**
Various permanent crops combined		78		92	86	76	81		86	91		88					86		91	78					94	**89**
Specialist dairying	70		92	74	79		78	93	71	98	73	86	74	68	86	76	72	70	76	81	73	78	90	85	77	**84**
Sp. cattle rearing and fattening combined	73		85		75	86	81		72		78	89		70			79	70		84	73	75		73	77	**84**
Cattle dairying, rearing and fattening	72				79		76		71		83	87		67				69	81	92						**88**
Sheep, goats and other grazing livestock		87			72	76	81		75	83	79	81					89		80	82			93	77	74	**84**
Specialist granivores	78		97	76	74		86		80	97		93			99	82	79	73	91	94	76	81			87	**93**
Mixed cropping		87	98	89	87	79	89		81	93		87	70		86	76		72	77	80			92	80	95	**90**
Mixed livestock, mainly grazing livestock			82		79	75	79		73			87	65		77			68	77	83				81		**89**
Mixed livestock, mainly granivores	73				73		86		72			92					89	76	77							**92**
Field crops/grazing livestock combined	74		98	89	88	76	80	91	75	96	79	87	82	85	86			73	80	83	77	80	92	85	81	**94**
Various crops and livestock combined	83		96	80	79	78	82		77	95		85	86		83		86	73	82	83	74	87		79		**93**
All types of farming	**78**	**93**	**96**	**92**	**83**	**80**	**87**	**92**	**79**	**94**	**84**	**90**	**80**	**75**	**89**	**90**	**84**	**73**	**84**	**87**	**79**	**84**	**95**	**84**	**84**	**92**

1. Where no figures are indicated the sample size is too small for the relevant category **2.** Data for B, UK, P, PL and SI are provisional

2. POLICY DEVELOPMENTS AND LEGISLATIVE INITIATIVES IN 2006

2.1. CAP Reform

67. The year 2006 saw a number of key initiatives in both pillars of the CAP. Although the Doha Round of world trade talks encountered major obstacles in July, a number of the Commission's 5-year strategic objectives for the CAP were achieved.

CAP Reform

68. As regards CAP reform, the Commission brought two more sectors into the reform process. In June 2006, the Commission called for a comprehensive reform of the wine sector with the aim of increasing the competitiveness of EU wine producers and winning back market share, while preserving the best traditions of EU wine production and reinforcing the social and environmental fabric of rural areas.

69. This was followed in September by a proposal for reform of the banana sector, which was adopted by the Council in December. The aim of the reform was to bring the former aid scheme for banana producers into line with reforms in the other agricultural sectors, while ensuring a fair standard of living for EU banana producers and taking account of the particularities of the regions where bananas are grown.

70. The first step towards reform of the fruit and vegetables sector began in May 2006, with the launching of a consultation document on options for the reform. The Commission's approach was to seek ways of aligning the instruments for the common market organisation in fruit and vegetables closer to the approach of the reformed CAP, strengthening the coherence between the structural measures in the sector and corresponding measures in rural development policy; and re-orienting the sector's marketing standards towards promotion of quality and sustainable development.

Cereals intervention

71. In December 2006, the Commission made a proposal to abolish the system of public intervention purchases for maize from the 2007/08 marketing year. At the end of the 2005/06 marketing season, EU maize intervention stocks had spiralled to 5.6 million tonnes, or 40 percent of total intervention stocks. The current system needed to be changed in order to prevent stocks, which are bought and stored at public expense, rising even more in future (forecast to reach as much as 15.6 million tonnes by 2013). Ending intervention for maize was intended to allow the EU cereals market to find a new balance and ensure that intervention regained its original purpose as a safety net.

Preparation for the 'Health Check' of the 2003 CAP Reform

72. At the time of the adoption of the 2003 and 2004 CAP reform package, a series of review clauses, covering the period 2007 to 2009, were introduced in the final agreements, with the Council asking the Commission to report on both the decoupling instrument behind the new single payment scheme and certain agricultural markets. The preparatory analytical work for carrying out these reviews, collectively termed the 'Health Check' of the 2003 CAP Reform, began in 2006.

Simplification

73. In 2006, the Commission's Directorate-General for Agriculture and Rural Development — DG AGRI — took forward its programme for simplification of the CAP with the presentation in October of an Action Plan containing 24 proposals for legislative change, and the adoption in December of a proposal for a single common market organisation to regulate the markets for the different products covered by the hitherto 21 separate common market organisations,. The aim of these initiatives was to cut the red tape associated with the current CAP and provide professionals working with the legislation a text that was clearer and more accessible.

2.2. Quality policy

PDO-PGI regulation adopted on 20 March 2006 — TSG regulation adopted on 20 March 2006

74. On 20 March 2006, the Council adopted Council Regulation (EC) No 510/2006 on the protection of geographical indications and designations of origin for agricultural products and foodstuffs (OJ L93, 31.3.2006). The Regulation is designed to clarify and streamline the rules for the registration of protected geographical indications (PGIs) and protected designations of origin (PDOs) and to ensure full compatibility with the findings of two WTO panels (complaints WT/DS174 and WT/DS290 lodged by the United States and Australia).

75. In order to make the registration process more efficient, the new regulation simplifies procedures and clarifies the role of the Member States and the Commission in approving applications. The centrepiece of the regulation is the establishment of a well-defined 'single document' for applications, containing all the information needed for registration, publicity and inspection purposes. This document will also be published. The regulation also seeks to increase the use of the official abbreviations (such as 'PGI') and the EU logos with a view to improving consumer recognition.

76. Regulation (EC) No 510/2006 on protection of geographical indications and designations of origin will bring the scheme into conformity in the two areas criticised by the WTO: firstly, by formally deleting the requirement for 'reciprocity and equivalence' from the regulations and, secondly, by allowing third country operators to submit applications and objections directly rather than through their governments.

77. Following the adoption of the regulation, the Commission made a declaration on the future policy review of the geographical indications policy. With this declaration, the Commission undertook to carry out a review of the operation of the regulation and its future development. Some particular items for consideration are identified in the declaration: 1. Identification of PDO and PGI products as ingredients. 2. Use of alternative instruments such as trademarks (e.g. collective or certification TM) to protect geographical indications. 3. Scope of products covered by the regulation with particular attention to salt, mixed herbs, wicker products and condiments. 4. Identification of the origin of raw materials. 5. Criteria used to assess the generic status of a name. 6. Design of the Community symbols identifying geographical indications and protected designations of origin.

78. On 14 December, the Commission adopted Regulation (EC) No 1898/2006 laying down detailed rules of implementation of Council Regulation (EC) No 510/2006. Rules on the use of names and their linguistic versions are clarified. The geographical area is to be delimited without ambiguities. In order to guarantee origin, measures to ensure proof of origin should be included in the specifications. The Regulation also sets out criteria to justify packaging. Finally, it contains models for applications, objections, amendments and cancellations.

79. On 20 March, the Council also adopted Council Regulation (EC) No 509/2006 on agricultural products and foodstuffs as 'traditional specialities guaranteed', replacing Regulation (EC) No 2082/92. Although the latter was not the subject of a WTO panel ruling, the new Regulation includes similar changes regarding third countries as in the case of the PDO/PGI Regulation.

80. At the time of the adoption of the Regulation, the Commission made a declaration on a future policy review to address the scope of product designations, the use of geographical terms and the possibility of representative bodies. In addition, registration and objection procedures were to be streamlined.

81. During 2006, Commission tabled a proposal for a Regulation laying down detailed rules for the implementation of Regulation (EC) No 509/2006. The proposal was discussed in the Standing Committee on Traditional Specialities Guaranteed on several occasions.

New products names on the list

82. As provided for in Regulations (EEC) No 2081/92, (EC) No 510/2006 and (EC) No 509/2006, the Commission has added 7 names (listed in the Annex) to the list of protected designations of origin and protected geographical indications, which now currently comprises a total of 712 entries. One amendment to the specifications of a registered PGI name is also listed in the Annex.

83. The Commission has rejected one application for registration, deciding not to enter the name in the 'Register of protected designations of origin and protected geographical indications', also listed in the Annex.

84. The relative small number of names added to the list was because the period of 6 months for objections was extended for 28 applications already published under Regulations (EEC) No 2081/92 and No 2082/92, having regard to Council Regulations (EC) No 510/2006 and No 509/2006 of 20 March 2006.

International issues

Panel result and implementation time

85. The Commission presented a proposal to the Council in December 2005 for a new Council Regulation in order to take into account the findings of the WTO panel (WT/DS 174 and WT/DS 290) on Regulation (EEC) No 2081/92. The Council adopted a new Council Regulation (EC) No 510/06 on 20 March 2006, therefore within the 'reasonable period of time' due to expire on 3 April 2006. This regulation takes into account the panel's findings, in particular by allowing direct applications or objections to the Commission by operators in third countries and by repealing

provisions on the reciprocity of legislation, and at the same time simplifies and streamlines the general registration procedures.

Codex Alimentarius

86. The Commission took part in the meeting of the Codex Committee on Milk and Milk Products in Queenstown, New Zealand, on 27 March to 1 April 2006 concerning a proposal to commence work on a Parmesan cheese standard. In 2005, the Codex Alimentarius Commission (CAC) had decided that work on a new 'Parmesan' standard would not be started. The CAC's conclusions were addressed to the CCMMP. The EC thereupon agreed not to launch work under the title 'Parmesan'. The point was not discussed and no conclusions were drawn. However, statements made by the US and EC delegations were noted. No further discussions in other Codex Committee meetings took place in 2006.

EC/Switzerland

87. During 2006, the working group on PDO/PGI issues did not meet. Several meetings on legal issues relating to the form of a future agreement on reciprocal protection of geographical indications were held during 2006. At the sixth meeting of the EC/Switzerland Joint Committee on Agriculture on 8 December 2006, preparatory discussions on the protection of geographical indications were held. A draft mandate including negotiations on PGI was prepared by the Commission for the European neighbourhood countries to be transmitted for approval to the Council.

Pilot project on Food Quality Assurance and Certification Schemes managed within an Integrated Supply Chain — Phase 2

88. Following the first phase of the pilot project, which focused mainly on national reviews of quality assurance and certification schemes in 7 European countries, the second phase concentrated on an in-depth analysis of selected quality assurance schemes by way of 9 case studies. This work, undertaken by JRC-IPTS (Seville), was concluded in December 2006. It aimed to assess the costs and benefits of food quality assurance schemes to farmers, processors, retailers and consumers, with a special focus on small-scale farmers, and to analyse the contribution of these schemes to the development of rural areas. The final reports on the project found that, while data are scarce, the results showed that food quality assurance can add value at various stages in the integrated supply chain. However, existing schemes have a wide variety of objectives, rules and organisational structures, which made it difficult for the project to draw generally applicable conclusions. It was noted that some only cover very small niche markets, while others operate at the business-to-business level without any consumer interface. Most certified products command a price premium according to the project reports, but this is not always sufficient to compensate for the additional costs of complying with the specifications.

Database of Origin and Registration (DOOR)

89. The IT project DOOR (Database of Origin and Registration) was launched in 2005 to support agricultural product quality policy by providing a modern information system to manage the entire registration process for PDO/PGI and TSG. DOOR will allow on-line applications (from Member States and third countries), workflow management within DG AGRI, and dissemination of public data.

90. In 2006 a study on the project's feasibility was carried out and a system prototype was delivered. The project's global implementation plan (GIP) was endorsed by the Regulatory Committee on designations of origin and geographical indications and the Regulatory Committee on certificates of specific character.

New names entered in the Registers of Designations of Origin and Geographical Indications and of Traditional Specialities Guaranteed and amendments since the 2005 Annual Report

Member State	Product	Type of product	PDO/PGI/TSG
ES	*'Montes de Granada'*	Oils and fats	PDO
ES	*'Acete de la Rioja'*	Oils and fats	PDO
ES	*'Antequera'*	Oils and fats	PDO
FR	*'Huile d'olive de Nice'*	Oils and fats	PDO
ES	*'Pimiento Asado del Bierzo'*	Fruits, vegetables and cereals	PGI
IT	*'Fico Bianco del Cilento'*	Fruits, vegetables and cereals	PDO
IT	*'Melannurca Campana'*	Fruits, vegetables and cereals	PGI
IT	*'Nocciola di Giffoni'**	Fruits, vegetables and cereals	PGI
FR	*'Choucroute d'Alsace'* **	Vegetable preparations	PGI

* Amendments to the Register made in accordance with Article 9 of Regulation (EEC) No 2081/92.

** Commission Decision to reject an application in accordance with Article 2(2)(b) of Regulation (EEC) No 2081/92.

2.3. Organic farming

New regulations

91. In December the Council reached an agreement on a 'general approach' on the proposal for a Council Regulation on organic production and labelling (COM(2005) 671 – 2005/278 (CNS)). The new Regulation is to repeal Council Regulation (EEC) No 2092/91 and will apply as of 1 January 2009.

92. The new Regulation is a cornerstone of the Community Action Plan for Organic Food and Farming (EAP) and represents a major step forward towards ensuring the further development of the organic sector by:

– implementing the EAP for organic food and farming;

– contributing to simplification and better regulation;

– promoting the 'common concept' of organic production;

– providing for a permanent import regime.

93. The Council also adopted a transitional regulation on the import of organic products (Council Regulation (EC) No 1991/2006), ensuring the continuity of organic trade with third countries.

The following application rules were adopted by Commission Regulations:

94. Regulation (EC) No 592/2006 amending Annex II of Regulation (EEC) No 2092/91 by deleting the expiry date of the authorisation to use composted or fermented household waste in organic products.

95. Regulation (EC) No 699/2006 amending Annex I of Regulation (EEC) No 2092/91 as regards conditions of access for poultry to open-air runs.

96. Regulation (EC) No 780/2006 amending Annex VI of Regulation (EEC) No 2092/91 by introducing a harmonised list of additives and processing aids that can be used in the processing of organic livestock products.

97. Regulation (EC) No 956/2006 amending Regulation (EEC) No 94/92 by entering India in the list of third countries offering equivalent guarantees on organic products.

98. Regulation (EC) No 1851/2006 amending Annex I to Council Regulation (EEC) No 2092/91 as regards uptake of conventional feed during periods of transhumance

Further issues

99. Work on the assessment of equivalence under Article 11(1) of Regulation (EEC) No 2092/91 on organic farming continued for several third countries. Progress was made on the technical assessment of Guatemala, Tunisia, Chile, Colombia and Turkey. New requests were received from Mexico, Nicaragua, Uruguay, Bolivia, Canada, Paraguay and El Salvador.

100. The Commission contributed to the further development of the Codex Alimentarius guidelines on organic labelling

2.4. Promotional measures

101. Council Regulations (EC) No 2702/95[1] and (EC) No 2826/2000[2] provide for Community support for measures to provide information on and promote agricultural products in third countries and on the internal market. Community promotion policy covers a number of products, stressing their general characteristics and common themes such as quality, safety, labelling and particular production methods as well as respect for animal welfare and the environment in their production. It aims to add value to national and private initiatives by supporting or encouraging the Member States and private companies in their own promotion measures.

102. Programmes are proposed by professional organisations representative of the product sector concerned, and are pre-selected by the competent authorities of the Member States, who are responsible for the management and control of the approved programmes. The total annual budget for Community co-financing for approved programmes was EUR 42 million in 2006.

103. In 2006, the Commission approved co-financing for 10 new programmes outside the EU. The main target countries include China, India, Russia and the USA. The

1 OJ L 327, 21.12.1999, p. 7.

2 OJ L 328, 23.12.2000, p. 2.

products promoted include quality wines, olive oil, cheeses, meat products and fruit and vegetables. Most programmes last for three years. Total EU co-financing for these programmes amounts to EUR 9.08 million.

104. For the EU internal market, the Commission approved 32 new co-financing programmes with a total budget of EUR 30.4 million. Most programmes last for three years. The promoted products include fruit and vegetables, organic products, products with a PDO or PGI designation, flowers and plants, milk products, olive oil and a newly eligible product, poultry meat.

105. In 2006, the Commission continued with the implementation of action 1 of the European Action Plan on organic food and farming, aiming to launch a coordinated campaign to promote organic farming. The first year of this contract was 2006-07. A contractor was selected and the terms of the first annual specific contract were agreed. The campaign aims to provide various materials free of charge to actors in the EU's organic farming sector: a website, radio spots, TV spots, brochures, etc. It is to last for three years.

2.5. Simplification of agricultural legislation

106. Simplification continued to be an important objective in 2006, as 'better regulation' continues to increase in political importance within the context of the Lisbon Agenda. The first 'delivery year', following the publication of the Communication[3] on simplification of the CAP, was particularly successful. In 2006, DG AGRI developed different simplification activities: the Action Plan for the Simplification of the CAP (20 projects), the Conference 'A Simple CAP for Europe — a challenge for all', and other supporting initiatives such as the publication of the Fact Sheet on the simplification of the CAP and the Communication[4] from the Commission formally recognising that some Community legislation in the field of agriculture has become obsolete.

107. Stakeholders from the private sector and national administrations were consulted within the Simplification Experts Group, chaired by DG AGRI and composed of Member State representatives, and the CAP Advisory Group, composed of NGO representatives. In addition, DG AGRI launched a study to measure the administrative burden on farms resulting from the 2003 CAP reform.

108. Last but not least, DG AGRI contributed some important simplification proposals to the Commission's Simplification Rolling Programme to implement the commitments made in the Commission's Communications[5] on simplification of the regulatory environment.

109. As regards the 'Single CMO' outlined in a Commission Communication[6], the Commission adopted a legislative proposal on 18 December 2006 providing for one common legislative framework for all 21 existing common market organisations. This proposal complements existing policies intended to streamline and harmonise the vast existing legislation.

3 COM(2005) 509.

4 OJ C 148, 24.6.2006, p. 29.

5 COM(2005) 535 and COM(2006) 690.

6 COM(2005) 509.

2.6. State aids in the agricultural sector

Policy developments and legislative initiatives in 2006

Overall workload

110. The Commission received 319 notifications of draft state aid measures in the agricultural and agro-industrial sector. It also started the examination of 27 aid measures that had not been notified before under Article 88(3) EC Treaty. No review of existing aid measures under Article 88(1) EC Treaty was commenced or concluded. Overall, the Commission raised no objections to 268 measures. Several measures 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 started the procedure under Article 88(2) EC Treaty in respect of 3 measures that raised serious doubts as to compatibility with the common market.

111. Under Articles 3 and 19 of Regulation No 1/2004[7], certain types of state aid to small and medium-sized agricultural enterprises are exempted from the state aid rules. In 2006, Member States communicated to the Commission the summaries of 118 such measures. The Commission publishes these summaries on the internet at the following address: http://ec.europa.eu/agriculture/stateaid/exemption/index_en.htm.

State aid — type of aid measure used

112. Between 1 January and 31 December 2006, 268 decisions (on 241 new notifications and 27 non-notified aid measures) were taken. Though these notifications frequently cover more than one type of aid (for instance investment aid may be combined with aid for consultancy costs, or technical support with aid for encouraging quality products), an analysis of the amounts spent on the different types of aid provides a useful overview of the aid instruments used by the various Member States in the agriculture sector.

---

7 Commission Regulation (EC) No 1/2004 of 23 December 2003 on the application of Articles 87 and 88 of the EC Treaty to State aid to small and medium-sized enterprises active in the production, processing and marketing of agricultural products (OJ L 1, 3.1.2004, p. 1).

Table 1: Total expenditure by primary objective in the agriculture sector, EU-25, notifications 2006 (in million euros)

Type of Aid	Notified aid[1]	*Non-notified aid*[1]
Advertising	2.15	*2.50*
Animal diseases	157.26	*2.35*
Conservation of traditional landscapes	43.38	
Culture and heritage conservation	16.06	*1.26*
Early retirement	16.06	
Encouraging quality products	40.10	
Environmental protection	327.13	*7.03*
Fallen stock	0.90	*14.64*
Innovation	258.55	
Insurance premiums	289.81	
Diversification of farm activities	111.52	
Investment in agricultural holdings	293.83	*28.00*
Investment in proc. & marketing	1 147.11	
Livestock sector	37.77	
Natural disasters	755.44	
Plant diseases	10.21	
Relocation of farm buildings	16.06	
R & D	414.70	
Setting up of young farmers	17.06	
Start-up of producer groups	25.88	
Technical support for consultancy	69.37	*33.6*
Technical support for promotion etc.	25.27	*2.15*
TSE tests	77.91	*93.6*
Other	*68.23*	

[1] The amounts given here were not spent in 2006 but were notified (or registered as non-notified) in 2006 and would / could be spent in the coming years.

Table 2: Overview per Member State of the most important types of measures in 2006 (in percentages, figures in bold above the EU-25 average)

Type of aid as % of all measures / Measures per Member State	Aid for investments[1]	Aid to compensate for damage to agricultural production or means of agricultural production[2]	Aid to encourage the production and marketing of quality agricultural products	Aid for Research and Development
EU (268)	12.18	31.82	26.36	13.15
AT (11)	**39.64**	2.97	**41.73**	0
BE (4)	0	1.32	0	**98.68**
CY (3)	**62.98**	0	**32.02**	0
CZ (16)	2.08	28.44	**13.15**	**33.52**
DE (30)	9.78	**35.06**	6.09	9.79
DK (6)	2.67	0	0	0
EE (2)	0	**38.00**	0	0
EL (3)	0	31.74	**68.26**	0
ES (26)	**69.35**	16.05	3.97	0
FI (3)	0	**100.00**	0	0
FR (13)	**28.58**	0.45	6.09	9.79
HU (6)	8.54	**91.46**	0	0
IE (2)	**49.80**	0	**50.20**	0
IT (82)	2.99	26.47	1.47	**40.62**
LV (4)	0	**35.88**	0	**28.07**
LT (7)	**46.02**	13.11	0	0
LX (0)	–	–	–	–
MT (0)	–	–	–	–
NL (9)	**15.63**	6.62	0.40	1.33
PL (3)	0	**99.78**	0	0.22
PT (4)	0	**57.28**	0	0
SE (2)	0	**100.00**	0	0
SL (1)	0	**100.00**	0	0
SK (4)	0	0	**100.00**	0
UK (26)	**21.67**	**41.95**	4.73	0

[1] = Conservation of traditional landscapes, Diversification of farm activities, Investment in agricultural holdings and Relocation of farm buildings.

[2] = Animal diseases, Insurance premiums, Natural disasters, Plant diseases and Adverse weather conditions.

New Legislation

113. On 6 December 2006, the Commission adopted new rules on the granting of state aid in agriculture. These rules consist of two parts, namely an Exemption Regulation[8], under which Member States do not have to notify state aid to small and medium-sized farms provided that certain requirements are met, and State Aid Guidelines[9], which complement the Exemption Regulation and lay down the rules applicable to notified aid.

114. The two documents cover the period from 2007 to 2013 and have been designed as part of the Commission's state aid action plan to achieve less and better targeted state aid. The main changes that the new rules introduce are greater coherence with the Commission's rural development policy and a more differentiated approach towards small and medium-sized enterprises on one hand and large enterprises on the other. In line with the Lisbon agenda aim to move to more horizontal types of aid, support for companies active in processing and marketing will be largely aligned with the general rules for non-agricultural enterprises. Horizontal legal texts, such as the Exemption Regulation (EC) No 70/2001[10] or the '*de minimis*' Regulation (EC) No 1998/2006[11], are from 2007 onwards applicable to companies active in the processing and marketing of agricultural products.

115. Quicker crisis support for farmers and simplified administration of agricultural state aids — this is the objective of the new Exemption Regulation. In particular, the inclusion for the first time of compensation for animal and plant diseases and bad weather losses will greatly speed up the granting of state aid in crisis situations. At the same time, the new regulation will encourage better risk management. From 2010 onwards, bad weather aid will be reduced if the farmer has not taken out insurance against such risks and drought compensation will be conditional upon implementation of the Water Framework Directive[12], which requires an adequate contribution from the sector. The new Block Exemption Regulation applies only to primary agricultural production and no longer covers the processing and marketing of agricultural products[13].

116. The new Guidelines furthermore introduce some additional aid categories as of 2007. These new categories comprise aid for compliance with demanding national standards that go beyond Community requirements, 'Natura 2000' payments and payments linked to Directive 2000/60/EC (Water Framework Directive), aid in the form of exemption from excise duties under Directive 2003/96/EC[14] (taxation of energy products and electricity), and aid to the forestry sector.

8 Commission Regulation (EC) No 1857/2006 of 15 December 2006 on the application of Articles 87 and 88 of the Treaty to State aid to small and medium-sized enterprises active in the production of agricultural products and amending Regulation (EC) No 70/2001 (OJ L 358, 16.12.2006, p. 3).

9 Community Guidelines for State Aid in the Agriculture and Forestry Sector 2007 to 2013 (OJ C 319, 27.12.2006, p. 1).

10 Commission Regulation (EC) No 70/2001 of 12 January 2001 on the application of Articles 87 and 88 of the EC Treaty to State aid to small and medium-sized enterprises (OJ L 10, 13.1.2001, p. 33).

11 Commission Regulation (EC) No 1998/2006 of 15 December 2006 on the application of Articles 87 and 88 of the Treaty to de minimis aid, OJ L 379, 28.12.2006, p. 5.

12 Directive 2000/60/EC of the European Parliament and of the Council (Water Framework Directive), OJ L 327, 22.12.2000, p. 1.

13 With the exception of Article 9 (Aid for producer groups).

14 Council Directive 2003/96/EC of 27 October 2003 restructuring the Community framework for the taxation of energy products and electricity, OJ L 238, 31.10.2003, p. 51. Directive as last amended by Directive 2004/75/EC (OJ L 157, 30.4.2004, p. 100).

117. Following the adoption of the new State Aid Guidelines, the rules applied by the Commission in assessing the compatibility of state aid measures with the common market have changed. Since the notification form is a detailed questionnaire based on the rules now in force, some parts have had to be amended. New compulsory state aid notification forms[15] were thus likewise adopted in December 2006, modifying Regulation (EC) No 794/2004.

Outlook for 2007

118. Under Commission Regulation (EC) No 1860/2004[16], national support for farmers is considered '*de minimis*', and thus not subject to Commission approval, if it does not exceed €3 000 per farmer over any period of three years and does not breach the overall ceiling on total '*de minimis*' support for each Member State (this ceiling is fixed at around 0.3% of the overall agricultural production of each Member State).

119. This '*de minimis*' rule was introduced on 1 January 2005. The experience gained subsequently indicated that an increase in the individual amount of €3 000 per farmer over three years and/or an increase in the overall ceiling per Member State would contribute to further simplification of the '*de minimis*' rule and therefore to better regulation for the common agricultural policy., The Commission therefore decided to increase the '*de minimis*' thresholds and to modify the existing Regulation in 2007.

Overview of cases

120. The following overview of cases looks at some of those cases that raised the most interesting issues of state aid policy in the agricultural and agro-industrial sector in 2006.

France

Rescue aid to poultry companies hit by the avian flu crisis

121. On the 15 May and 1 June 2006, the Commission decided not to raise objections to three rescue aid measures aiming to provide liquidity support for 6 months to the French poultry companies Hubbard SAS (€4.5m), SA Tilly-Sabco (€3.6m), and DUC SA (€6.5m) in the form of reimbursable advances by the French state. The poultry companies were found to be in difficulty due to the avian flu crisis that broke out in October 2005 and the embargo placed on French poultry products by several of their main export markets. The Commission concluded that the aid was in line with Community legislation, in particular the Community guidelines on state aid for rescuing and restructuring firms in difficulty (2004/C 244/02), for the following reasons:

- the rescue aid was limited to the minimum necessary;
- the reimbursable advances were provided at an interest rate comparable to those for loans to healthy firms and in particular the reference rate adopted by the Commission;

15 The new notification forms can be found in the Annex to Commission Regulation (EC) No 1935/2006 of 20 December 2006 (OJ L 407, 30.12.2006, p. 1).

16 Commission Regulation (EC) No 1860/2004 of 6 December 2004 on the application of Articles 87 and 88 of the EC Treaty to de minimis aid in the agriculture and fisheries sectors (OJ L 325, 28.10.2004, p. 4).

– the companies undertook to submit a restructuring plan by the end of the six-month period.

Germany

Transfer of nature protection land

122. On 26 April 2006, the Commission authorised Germany to transfer ownership of land for free for the development of sustainable nature protection areas. The authorisation opened the way for the development of sustainable nature protection areas (mostly Natura 2000 areas) with a total size of 32 000 hectares in the *Länder* of Mecklenburg-Western Pomerania, Brandenburg, Saxony-Anhalt, Saxony, Thuringia and Lower Saxony.

123. Only land in nature protection areas, national parks, and biosphere reservations is eligible for this transfer. The new owners — the *Länder* or the environmental protection foundations and associations — must maintain and develop these areas in line with nature protection goals.

124. Only transfers to environmental protection foundations and associations were considered as state aid, as these organisations practice, at least marginally, an economic activity. Most of the land was transferred to the *Länder*. These transfers were regarded as transactions between different levels of a federal state and therefore not as state aid.

125. The transfer is for free and strict nature protection restrictions have to be respected at all times. These nature protection obligations give rise to significant costs, severely limiting the economic use of the forest areas. Support will not be given for these areas under the first and second pillars of the Common Agricultural Policy.

126. As the economic value of the land has not been established by tender or an evaluation by independent valuers, the Commission assumed a residual value to exist even where the nature protection obligations are taken into account. The aid was authorised following existing practice that considers forestry measures positively on the basis of the social benefit, the positive effects on the environment, the enhanced value of the forest, and the new products made possible. Therefore, investment aid for sustainable forestry is allowed up to 100% of the value of the land.

127. Some small areas are still used for agricultural purposes on a lease basis up to the end of the contract. Thereafter, no agricultural activity will be allowed. The lease income is within the limits of 'de minimis' aid.

Bavarian Animal Health Service

128. Following a complaint, the Commission launched a procedure under Article 88(2) EC Treaty regarding a measure under Article 14(1) of the Law on support for Bavarian agriculture (*Gesetz zur Förderung der bayerischen Landwirtschaft* — LwFöG). These measures ('general measures') are of a precautionary nature relating to the production of milk and meat and to the rearing of pigs, poultry, sheep and fish. The Commission has no evidence whatsoever that in the past only 100%, and not possibly more, of actual (and necessary) expenditure has been reimbursed in all cases. Besides farmers, a possible recipient of aid might be also the Bavarian Animal Health Service.

129. The complainant states that, through the veterinary surgeons it employs, the Bavarian Animal Health Service not only takes precautionary measures but also provides veterinary care services.

130. According to the complainant, this distorts competition because the support provided for the 'general measures' enables the Bavarian Animal Health Service to offer competitive (i.e. care) services more cheaply.

Financing of Hessische Staatsweingüter

131. By decision of 20 December 2006, the Commission opened a formal investigation procedure under Article 88(2) EC Treaty to look into the financing of Hessische Staatsweingüter (the biggest vineyard in Germany and 100% owned by the *Land* of Hessen).

132. Hessische Staatsweingüter was loss-making for a long time. Until the end of 1992 the losses were borne by the *Land* of Hessen. The Commission presumed that this loss coverage might constitute operating aid, which would be incompatible with state aid rules. The amount involved seemed to be some €2.3 million.

133. In 2003 the Hessische Staatsweingüter GmbH was created. The *Land* of Hessen injected equity capital amounting to €2.225 million into this newly created company in 2003 and 2004. The Commission assumed that the capital was provided by the *Land* of Hessen on excessively favourable terms (not asking for a minimum rate of return) and therefore contained a state aid element.

134. A new wine cellar is being built with an equity contribution from the *Land* of Hessen amounting to €7.5 million, to be provided in the form of an equity-like shareholder loan (*Partiarisches Darlehen*). The Commission is to investigate whether this measure constitutes State aid.

Netherlands

Holland Malt — negative decision

135. On 26 September 2006 the Commission gave a negative decision following its formal investigation in case C 14/2005. The planned intervention in the Dutch malt sector consisted of a subsidy amounting to some €7.4 million for an investment project of Holland Malt BV (a collaboration between Bavaria NV and Agrifirm, a cereal farmers' cooperative) for the establishment of a production plant in the north of the Netherlands. The aim of this project was to integrate the entire chain in the storage and processing of malting barley and the production and trading of malt.

136. The Commission decided that the planned assistance was not compatible with the common market as, on the basis of the information available to it, there was over-capacity on the malt market between 2003 (when the aid was granted) and 2006 (the date of the decision, at which time the factory was fully operational).

137. The claim by Holland Malt regarding the segmentation of the malt market — high-quality 'premium malt' for the production of 'premium beer' — was not accepted. The Commission saw the malt market as a single market, as the products on the market are interchangeable.

138. On 12 December 2006 Holland Malt appealed against this Decision before the Court of First Instance of the European Community.

Green Fund Midden Delfland

139. The Green Fund Midden-Delfland is an environmental fund that aims to maintain an open agricultural landscape with a high environmental and cultural value. Different municipalities in this area contribute to the fund. From the yearly return of this fund, payments are made to farmers for a total of 20 services, from which the farmers can choose. These services concern nature, biodiversity, landscape and cultural heritage. For every service performed, a farmer receives a certain number of points. For every point, an allowance of €10 is paid. The fund has a yearly budget of €400 000. The contracts with individual farmers for their environmental and landscape services last 5 to 10 years.

United Kingdom

Extension to the Farm Nutrient Management Scheme

140. On 7 December 2006, the Commission authorised the United Kingdom to grant aid of €224 million for investment in manure storage facilities in order to help ensure compliance with action programme measures to be introduced under the Nitrates Directive.

141. Due to the special situation in Northern Ireland, the long negotiations with the Commission on the Nitrate Action Programme and the difficulties in implementing previous schemes, the Commission granted a further extension up to 31 December 2008. The UK authorities agreed that only a reasonable period could be accepted as a period of grace for investment to comply with Community standards, i.e. up to 36 months from the date on which the standards become mandatory.

Cattle Compensation Scheme

142. On 7 December 2006, the Commission authorised the United Kingdom to grant aid of €147 million as compensation for the animal diseases bovine brucellosis, bovine tuberculosis, enzootic bovine leukosis and bovine spongiform encephalopathies (BSE) from 1 February 2006 to 31 January 2012.

143. As the European Court of Justice has held that clear and precise obligations arising from acts of the Community legislature are not ‘imputable to the [Member] State’[17], support for BSE under Article 13(4) of Regulation (EC) No 999/2001 was not considered to be state aid.

Court of First Instance

T 146/03

144. The Court of First Instance partially annulled Commission Decision 2003/293/CE on measures adopted in 2002 by Spain in the agricultural sector following the increase in fuel prices.

17 CFI case T-351/02, Deutsche Bahn v Commission, judgment of 5 April 2006, [2006] ECR 2006 Page II-01047, paras 101 et seq.

145. This decision was also appealed by the Kingdom of Spain regarding the measures considered to be incompatible state aids. The Court of Justice rejected the appeal and confirmed the Commission Decision (Judgment of 11/11/2004) on this point.

146. The judgment of the Court of Justice only annulled that part of the decision concerning the measure authorising cooperatives to distribute a certain type of fuel to non-member third parties, without being subject to the limit of 50% of the total amount of transactions with members and without having to set up a legal entity. The Commission took the view that this measure did not constitute state aid.

147. The reason for annulling this part of the decision was the lack of justification. The Court held that the Commission decision failed to state clearly and unequivocally the reasons why the tax arrangements applicable to agricultural cooperatives did not constitute an advantage for the purposes of state aid and did not give sufficient reasons for the assessment that the measures concerned were not state aid.

2.7. Assistance to the needy

148. The European Union continued to implement its aid programme for the needy[18]. This action consists of distributing agricultural products (processed or otherwise) from intervention stocks in the EU to associations working with deprived people on the ground in the Member States.

149. The table below shows the breakdown of this amount and the quantities that can be withdrawn from stocks in each participating Member State.

18 Council Regulation (EEC) No 3730/87 of 10 December 1987 (OJ L 352, 15.12.1987, p. 1) and Commission Decision 2004/766/EC of 5 November 2002 (OJ L 339 of 16.11.2004, p. 13).

Free distribution of agricultural products (2006)

Member States		Quantities (tonnes)				Grants for purchase on the market (EUR)
Appropriations allocated (EUR)		Cereals	Rice	Butter	Sugar	Skimmed milk powder
Belgium	3 064 940	12121	2 800	450		
Greece	7 127 822		15 000			4 538 402
Spain	53 793 470	73726	28 000	13 560	2 000	
France	48 059 949	75 851	55 000	10 564		
Ireland	355 874			120		
Italy	73 538 420	115 253	20 000	6 833	3 500	33 849 510
Latvia	2 096 236	19 706				
Lithuania	2 489 508	16 000	5 000			
Luxembourg	34 959					33 295
Hungary	6 764 115	63 587				
Malta	401 030	1 877	600			101 734
Poland	43 408 602	85 608	20 000	7 230	4 847	6 185 397
Portugal	13 306 532	17 287	14 000	2 743	1 700	
Slovenia	1 334 827	1 262	600		300	863 810
Finland	3 637 860	18 500			500	1 274 443
Total	**259 414 143**	**500 778**	**161 000**	**41 500**	**12 847**	**46 846 591**

2.8. The Outermost Regions

Reform of the POSEI arrangements (agriculture)

150. Following detailed discussions over the course of 2005, the reform of the POSEI[19] arrangements was finalised with the adoption and publication in early 2006 of a Council Regulation laying down specific measures for agriculture in the outermost regions of the Union[20]. A few weeks later the Commission adopted an implementing Regulation[21].

151. The reform changed the approach to providing assistance to the outermost regions by encouraging participation in decision-making and by allowing more flexibility in adapting the support actions to their specific needs, while ensuring a sufficient level of monitoring and control.

19 POSEI — Programme d'Options Spécifiques pour l'Éloignement et l'Insularité.

20 Council Regulation (EC) No 247/2006 of 30 January 2006 (OJ L 42, 14.2.2006, p. 1).

21 Commission Regulation (EC) No 793/2006 of 12 April 2006 (OJ L 145, 31.5.2006) laying down certain rules for applying Council Regulation (EC) No 247/2006 laying down specific measures for agriculture in the outermost regions of the Union.

152. The Regulation provided for the submission of programmes by the Member States to be approved by the Commission and implemented in the course of 2006. The three Member States concerned submitted draft POSEI programmes in April 2006. The French programme was approved in October and the Spanish programme in November 2006, while the Portuguese programme was approved a few months later (April 2007).

153. These programmes include a section on specific supply arrangements for those agricultural products that are essential in the outermost regions for human consumption, agricultural inputs or processing, and another section on support for local production.

154. The Regulation establishes annual budgetary ceilings for each of the Member States, including the maximum amount to be allocated for the specific supply arrangements, as from the financial year 2007. The Community finances the programme under the EAGGF Guarantee Section at 100% up to the annual ceiling. The amounts are calculated on the basis of the average expenditure to finance the specific supply arrangements during the reference period 2001–2003 and on the basis of expenditure ceilings on support for local production.

The inclusion of banana aid in POSEI

155. The reform of the banana sector was adopted by the Council at the end of 2006[22]. The previous common market organisation for bananas was abolished and a new scheme was created with most of the banana aid transferred to the POSEI regime, whose annual budget almost doubled from the initially allocated €338.8m to €617.6m for the financial year 2008.

156. This reform was to enter into force as from 1.1.2007 and the POSEI Member States were requested to submit to the Commission in early 2007 the draft amendments to their overall programmes in order to introduce the new banana scheme.

2.9. Information measures concerning the CAP

157. Council Regulation (EC) No 814/2000[23] provides for information measures relating to the common agricultural policy, intended for both Member States and the outside world. Commission Regulation (EC) No 2208/2002[24] (which replaced Commission Regulation (EC) No 1557/2001[25] and was modified by Commission Regulation (EC) No 1820/2004[26]) lays down detailed rules for applying Regulation (EC) No 814/2000 and introduces significant improvements to the scheme: simplification, transparency, better evaluation of the information actions proposed, and better definition of the messages to communicate and the means of distribution.

The objectives of the CAP information measures as defined by Regulation (EC) No 814/2000 are to:

---

22 Council Regulation (EC) No 2013/2006 of 19 December 2006 (OJ L 384, 29.12.2006, p. 13) amending Regulation (EEC) No 404/93, (EC) No 1782/2003 and (EC) No 247/2006 as regards the banana sector.

23 OJ L 100, 20.4.2000, p. 7.

24 OJ L 337, 13.12.2002, p. 21.

25 OJ L 205, 31.7.2001, p. 25.

26 OJ L 320, 21.10.2004, p. 14.

– help explain the CAP as well as implement and develop it,

– promote the European model of agriculture and help people understand it,

– provide information for farmers and others living in rural areas,

– raise public awareness of the issues and objectives of the CAP.

158. An evaluation of the measures under this Regulation was carried out as part of the Commission's evaluation policy for the period 2000–2005 and completed in December 2006[27]. The full text as well as the summary are to be found on the Europa website: http://ec.europa.eu/agriculture/eval/reports/cap_info/index_en.htm

Grants

159. A large number of applications for grants were again forthcoming under the 2006 exercise — for CAP information measures between 1 July 2006 and 30 June 2007. A total of 101 applications were received, 42 for annual programmes and 59 for specific measures.

160. In the budgetary year 2006, grants were awarded to 36 beneficiaries for 20 specific measures and 16 annual programmes (containing 47 actions). Co-financed measures included seminars, conferences, printed publications and audiovisual media productions. The main topics included: CAP and CAP reform; rural development; the WTO; questions relating to enlargement, quality, food safety, sustainability and the environment; and organic farming;

161. Individual organisations that were successful in obtaining co-financing for their information programmes in 2006 included NGOs at European, national and regional level, representing farming, rural development, and environmental protection interests. In addition, beneficiaries included regional public authorities and the media.

Conferences, events and fairs

162. During 2006 the Commission organised a conference on the simplification of agricultural legislation and held several smaller events on current topics such as organic farming and rural development on its stands at various agricultural fairs during the year. There were also 208 information visits where presentations were provided for visitor groups from within Europe or from the rest of the world. Topics ranged from general information on the CAP to requests for details on specific areas of its application.

163. The Commission was represented at various agricultural fairs, including Grüne Woche in Berlin, Salon de l'Agriculture in Paris, Roskilde in Denmark, Farmari in Finland, the World Ploughing Championships in Ireland, Hungexpo in Hungary and Libramont in Belgium. Support was also given to Fieragricola in Verona, Agrotika in Thessaloniki and Agrocomplex in Slovakia.

27 European Commission, DG AGRI Contract AGRI 2005/0421, Evaluation of the Information Policy on the Common Agricultural Policy, December 2006.

Publications

164. The regular publications programme was maintained with the help of the Publications Office and an external contractor. A number of specific fact sheets, reports, leaflets, bookmarks, postcards, posters, conference proceedings and newsletters on international and rural issues were published.

Access to documents

165. In 2006, the interest manifested by EU citizens in obtaining internal documents from DG AGRI continued to rise, although not as significantly as in 2005. Compared to 2005, the number of requests made by EU citizens under Regulation (EC) No 1049/2001 on access to Council, European Parliament and Commission documents in the area of agriculture and rural development rose by around 8% in 2006, to about 200.

Missions

166. Various missions were carried out during 2006, following requests from regional and/or specialised organisations (cooperatives, farmers, various intermediary bodies) to explain the new CAP regulations, the consequences of enlargement or the evolution of the WTO negotiations. In most cases, round tables were held with the national heads of these organisations, MEPs, journalists and the public. These activities were sometimes prepared or followed by visits to Brussels for further discussion and information.

2.10. Information and communication technology (ICT)

167. DG AGRI makes use of up-to-date information and communication technologies (ICT) to support its administrative and operational needs and to improve and reinforce the exchange and processing of data and information in order to enhance CAP management and facilitate the sharing of information between the Member States and the European administration.

168. Accordingly, investments were made in 2006 to maintain and further develop DG AGRI's information services and systems, to keep pace with the CAP reform and the new Commission accounting system. The analysis and development of new information systems continued (AGREX 3, ISAMM, RDIS, see below), along with further work on additional security layers (SESAD) for transmission of data between DG AGRI and its Member State partners. Other activities worth noting were the progress made on Disaster Recovery (see below) and ICT Governance.

Information Systems

169. The year 2006 saw the continued renewal of the main financial management information system (AGREX 3 for the guarantee funds and ISAMM for market mechanism management). As regards the RDIS project for the development of an information system to support the new rural development programme, the core system was delivered in 2006, with further work required into 2007 and beyond. The major priority was to align these new systems to user requirements. There was further development of AMIS QUOTA for the management of agricultural import tariff quotas, ANGE BLEU for compiling consolidated agricultural legislation, DG AGRI's

data warehouse for analysis (AGRIVIEW), and various other information system areas (CATS for clearance of accounts data, APA for the publication of periodical acts, DOOR for an origin and registration database, etc.).

Infrastructure and DRP (Disaster Recovery Plan).

170. In 2006 DG AGRI's main information system servers were further aligned with DG DIGIT's Data Centre infrastructure. On the basis of the Service Level Agreement with DIGIT concerning DG AGRI's disaster recovery procedures, a successful test was held of the DRP for DG AGRI's financial information systems.

ICT Governance in DG AGRI

171. In line with the Commission Communications on ICT Governance and Interoperability, work has continued to bring DG AGRI's ICT systems into line with DIGIT standards and internal control requirements, such as the Commission's 24 Internal Standards, in order to improve the governance of ICT-related services, investments and procedures.

2.11. Inter-institutional and NGO relations

172. DG AGRI participated actively in committee discussions on agricultural issues in the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions. In Parliament, the main political discussions on agricultural matters are held in the Committee on Agriculture and Rural Development and in the plenary sessions. Important subjects debated in 2006 were the reforms of the CMO for bananas and the CMO for wine, exceptional market support for the poultry sector following the avian flu outbreaks, PGI/PDO, organic farming, market support measures, risk management, the 2007 budget (in particular the discussions on voluntary modulation in rural development), and the ongoing WTO negotiations. As in previous years, DG AGRI was called upon to reply to a large number of written and oral questions. Furthermore, 98 letters from MEPs were answered.

YEAR	*'H' Questions AGRI-Leader*	*'H' Questions AGRI-Associated*	*'O' Questions AGRI-Leader*	*'O' Questions AGRI-Associated*	*Written Questions AGRI-Leader*	*Written Questions AGRI-Associated*
2006	33	57	4	6	244	800

173. DG AGRI was represented at all meetings of the European Parliament's Committee on Agriculture and Rural Development and at some meetings of other Parliament Committees such as Budget, Budget Control, Environment, Public Health and Food Safety, Petitions and International Trade. It also attended the plenary sessions of Parliament.

174. Following the 2005 Interinstitutional Agreement, DG AGRI continued its close collaboration with the European Economic and Social Committee and the Committee of the Regions, actively participating in their agricultural policy deliberations, in particular in their study groups, hearings, and the NAT (EESC) and DEVE (COR) Committees.

Consultations with agricultural non-governmental organisations and the socio-economic sector

175. DG AGRI has the longest-established and most comprehensive stakeholder consultation process in the Commission. A major means of consultation is the Advisory Group structure, comprising both sectoral and horizontal groups. The structure and focus of the Advisory Groups has evolved over the years to take account of CAP reforms and the broader interest shown in agricultural policy beyond its food production role.

176. In 2006, DG AGRI organised 77 meetings with CAP stakeholders, involving the participation of 2 600 experts representing a broad range of interests.

3. AGRICULTURAL MARKETS

3.1. Market developments — crop products

3.1.1. Cereals

World market

177. World cereal production (excluding rice) in the 2006/07 marketing year declined compared with the previous year. The EU-27's total cereal harvest in 2006/07 was 266 million tonnes, 17 million tonnes (or 6%) lower than the 2005/06 crop. The area under cereals decreased by 1.9 million ha and the cereal yield decreased by 0.17 t/ha, or 3%. All EU cereals apart from barley (+2.5%) saw production decline from 2005/06, ranging from a 1.5% decrease for durum wheat to 10% and 15% decreases for barley and maize, respectively. Average cereal yields compared to the previous year were slightly higher for the EU-15 (5.58 t/ha vs 5.50 t/ha) but lower for the EU-10 (3.23 t/ha vs 3.86 t/ha).

178. According to International Grains Council (ICG) figures, the 2006/07 world harvest, at the end of November 2007, was 1 567 million tonnes as against 1 602 million tonnes for the previous marketing year.

179. World wheat production according to the IGC decreased from 620 million tonnes in 2005/06 to 591 million tonnes in 2006/07. The European Union (EU-25) harvested 126 million tonnes of common and durum wheat (135 million tonnes in 2005/06). Wheat production in the CIS countries decreased from 92 million tonnes in 2005/06 to 85.5m t in 2006/07. Production in Argentina, a traditional exporter of wheat, increased from 12.6 million tonnes in 2005/06 to 14.6 million tonnes in 2006/07. The wheat crop in the United States decreased from 57.3 million tonnes in 2005 to 49.3m t in 2006. In Canada, production fell as well from 26.8 million tonnes in 2005 to 25.3m t. Due to adverse climatic conditions, Australia harvested a significant lower wheat crop of only 9.8 million tonnes (25.4 in 2005).

180. World wheat consumption in 2006/07 was 609 million tonnes (624 million tonnes in 2005/06), i.e. 18 million tonnes greater than production. Feed grain consumption was 1014 million tonnes (991 million tonnes in 2005/06), due to significant maize demand for bioethanol in the US.

181. The ICG's harvest data for 2006/07 indicate a stable world coarse grain production, at around 980 million tonnes. The United States maize harvest decreased slightly from 282 million tonnes to 268 million tonnes. Production of feed grains in all the CIS countries increased from 58.8 million tonnes in 2005/06 to 62.4 million tonnes in 2006/07.

182. World cereal stocks decreased significantly, the 2006/07 estimate being 263 million tonnes (as against 316 million tonnes in 2005/06 and 329 million tonnes in 2004/05), comprising only 119 million tonnes of wheat (137 last year) and 144 million tonnes of feed grains (182 last year). In the EU, stocks held by the intervention agencies on 1 November 2007 totalled 0.5 million tonnes, mainly maize.

183. The total volume of world trade in cereals in 2006/07 was 222 million tonnes (111 million tonnes of wheat and 111 million tonnes of coarse grains) as against 215 million tonnes the previous year.

184. World cereal production in 2007 is estimated at 1659 million tonnes (+79 million tonnes compared to 2006). Wheat production increased only slightly to 603 million tonnes in 2007, due to smaller crops in the EU and Australia. Feed grain production increased significantly from 979 million tonnes in 2006/07 to an estimated 1056 million tonnes in 2007/08, due to a record US crop. For the world cereal trade, IGC 2007/08 estimates are 104 million tonnes for wheat (111 the previous year) and 121 million tonnes for coarse grain (111).

Community market

185. The EU-27's total cereal harvest in 2006/07 is estimated (as at November 2007) at 266 million tonnes, 17 million tonnes or 6% lower than the 2005/06 crop. The cereal area decreased by 1.9 million ha to 56.8 m ha and the cereal yield decreased by 0.17 t/ha, or 3%, to 4.69 t/ha. All EU cereals apart from barley (+2.5%) saw production decline from 2005/06, ranging from a 1.5% decrease for durum wheat to 10% and 15% decreases for barley and maize, respectively. Average cereal yields compared to the previous year were slightly higher for the EU-15 (5.58 t/ha vs 5.50 t/ha) but lower for the EU-10 (3.23 t/ha vs 3.86 t/ha).

186. Utilisable cereal production in the EU-27 was 264 million t. In 2007/08 the forecast is for the EU-27 cereal area to shrink marginally by 0.4% to about 56.5 million ha.

187. This forecast, combined with today's yield estimates, would lead to a production of 256 million tonnes, 10 million tonnes (or 3.4%) lower compared to the modest 2006/07 crop. Due to adverse climatic conditions during spring and harvest, the average yield is estimated to be 4.55 t/ha, a decrease of 2.5% compared to the previous year.

3.1.2. Oilseeds

188. Oilseeds are used for producing oil, intended for human and industrial consumption, and oil cakes, intended for animal feed. The economic situation of the oilseed sector depends on seed, oil and oil cake prices. Vegetable oil can be consumed without modification or in the form of oil or artificial fats, such as margarine.

189. The total oilseed area in the EU-25 was quite stable in 2006 (+ 6% compared to 2005) with rapeseed up 15% to 5.9 million ha, sunflower seed decreasing slightly to 2.00 million ha and soybeans increasing by 1.4% to 257 000 ha. The total oilseed area is currently estimated at 7.7 million ha, including 833 000 ha under the non-food set-aside scheme and 677 500 ha under the energy crop scheme. Under good weather conditions, total production was about 20.5 million tonnes, slightly higher than in 2005/06. The 2006/07 crop was expected to comprise 15.6 million tonnes of rapeseed, 4.1 million tonnes of sunflower seed and 839 000 tonnes of soybeans.

190. The European Union is a net importer of oilseeds, vegetable oil and oil cakes. The annual imports of these products depend largely on the relationship between the prices for oilseeds, oil cakes and oil and the prices of other competing products intended for animal feed (such as cereals, foodstuffs containing maize gluten feed, etc.) and also on the market for exports of oil and oil cakes from the European Union. Total imports of oilseeds remained stable at 17.1 million tonnes in 2006, mostly soybeans (84%).

191. The total quantity of crushed oilseeds in the European Union (EU-25) came to 35 million tonnes in 2005/6, compared with 31 million tonnes in 2004/5. This mainly comprised soybeans (39%), rapeseed (42%) and sunflower seed (15%).

192. Total EU-25 imports of oil cakes came to 31.4 million tonnes in 2006, as against 31.7m t in 2005.

193. European consumption is currently characterised mainly by the growing use of oilseed oils in the non-food sector. Rapeseed oil constitutes the prime example: only 39% of the total quantity of rape oil available on the European market is used in the food sector while 61% goes to the non-food sector, in particular for the production of bio-diesel. The boom in the demand for rape oil as renewable energy and the resulting high prices will probably contribute to a slight decline in rape oil consumption within the food sector.

3.1.3. Peas, field beans and sweet lupins

194. These products, the principal outlet for which is the animal feed industry, compete with a broad range of other raw materials.

195. The area benefiting from compensatory aid in 2005/06 came to about 1.4 million hectares. Total production amounted to approximately 4.7 million tonnes.

3.1.4. Linseed

196. Flax is farmed in the European Union for fibre flax (especially for fibre but also for seeds) and linseed (only for seeds). Seeds are used directly or are crushed to obtain oil (for industrial use) and oil cake for animal feed.

197. According to Oil World, the European Union imports large quantities of linseed (500 000 tonnes in 2005/06 as against 480 000 tonnes in 2004/05), Canada being the largest supplier (85%).

198. The EU linseed area has been quite small in recent years, but in 2006 increased in comparison to the previous year to 133 000 ha. European production in 2006 is estimated at 192 000 tonnes.

3.1.5. Grain legumes (chick peas, lentils and vetches)

199. A specific measure was introduced by Council Regulation (EC) No 762/89 for grain legumes in 1989. It provides for aid per hectare within a maximum guaranteed area (MGA), in addition to arable crop support. Regulation (EC) No 811/2000 subdivided this MGA between chick peas and lentils, which are used for human consumption, and vetches, which are used for animal feed.

200. The aid per hectare is fixed at EUR 181. The MGAs were originally 160 000 hectares for chick peas and lentils and 240 000 hectares for vetches, but were raised with the accession of the new Member States to 162 529 ha and 259 473 ha, respectively. When one of these MGAs is not reached during a marketing year, the unused balance has to be reallocated to the other MGA for that marketing year before an overrun occurs.

201. The aid for grain legumes was affected by the 2003 CAP reform as well. Those Member States deciding to apply the Single Payment Scheme (SPS) after a transitional period in accordance with Article 71 of Council Regulation (EC) No 1782/2003 could continue to grant coupled aid for grain legumes up to a certain national financial ceiling. If this ceiling was breached, the aid per farmer had to be reduced proportionately for that year. This option could be used until the end of 2006.

202. Support for grain legumes was taken up by Austria, France, Greece, Italy, Spain and UK in 2004. In 2005, only 3 countries decided to make use of this aid — France, Greece and Spain. In France, there was an overshoot of the area, so a reduction coefficient (0.64) was applied. In 2006, no Member State chose to apply the scheme and to give coupled aid for grain legumes. As from 2007, due to the expiry of the transitional period under Article 71 of Council Regulation (EC) No 1782/2003, Member States can no longer apply this scheme.

3.1.6. Non-food production

203. The non-food set-aside regime has been in force since the 1992 CAP reform. The area payment for set-aside land has been EUR 63 per tonne multiplied by the cereal yield, from 2001/02 onwards. The 2003 CAP reform integrated the set-aside obligation within the single payment scheme and allowed set-aside land to be used for non-food production. The new Member States are exempted from obligatory set-aside in as far as they apply the single area payment scheme (SAPS).

204. In 2006, the compulsory set-aside area was about 3.8m ha. Around 1m hectares of this area was used for non-food production (mainly oilseeds for biodiesel).

205. Under the CAP reform, a new aid of EUR 45 per hectare is granted for areas sown with energy crops. The support was limited to a maximum guaranteed area (MGA) of 1.5m ha for the period 2004-2006. This regime was applied in 2004 for the first time, supporting an area of 0.31m ha. According to data from the Member States, this area was about 0.55m ha in 2005 and 1.23m ha in 2006.

3.1.7. *Rice*

206. During the 2005/06 marketing year, some 2 635 000 tonnes of paddy rice were harvested, which is above average. Milling yields were 59% on average, and production for sale was some 1 564 000 tonnes of milled rice. The areas sown decreased compared to the previous year, down to around 412 000 ha (– 4%).

207. EU paddy rice prices were even higher than in the previous marketing year, well above the intervention price (EUR 150/t). Indica rice prices were commonly between 16% and 74% above the intervention price, while japonica rice prices were even higher, between 20% and 92% above the intervention price.

208. Intervention stocks amounted to around 300 000 t of paddy rice at the beginning of the marketing year but were reduced to about 60 000 t at the end of August 2006, through sales on the internal market and also through aid for the most needy. No stocks were bought by the intervention agencies during the buying-in period (April to July). The intervention buying-in ceiling is fixed at 75 000 t per marketing year.

209. Based on the licences issued, imports increased compared to the previous year by 12%, to around 732 000 t in milled rice equivalent, including 656 000 t of indica rice. Broken rice imports also increased markedly (+ 52%) to around 189 000 tonnes. Conversely, exports decreased by 13%, to about 121 000 t in milled equivalent, including 95 000 t of japonica rice.

3.1.8. *Starch*

210. In 2005/06, the cereal starch market was relatively stable, for both maize-based and wheat-based products. Total EU-27 production was estimated at around 7.8 million tonnes, produced from 13.9 million tonnes of cereals.

211. EU-27 potato starch production, which is quota-restricted, was 2.6% above quota in 2005/06, due to excellent weather conditions, making use of the 5% flexibility margin. In accordance with Council Regulation (EC) No 1868/94 establishing a quota system in relation to the production of potato starch[28], a new Council Regulation was published in June 2007 to extend the current quotas to the two marketing years 2007/08 and 2008/09, so as to include the quota system for potato starch in the Health Check review[29].

212. In 2005/06, export refunds for products based on maize and potato starch (receiving the same amount as maize starch) and production refunds (differentiated between cereal and potato starch) both showed an upward trend. As in the previous marketing year, no export refunds were needed for wheat starch.

3.1.9. *Sugar*

World market

213. 2006 started with high hopes on the part of sugar producers but ended with major disappointment and concerns for the future. Early 2006 was characterised by strong

28 OJ L 197, 30.7.1994, p. 4.

29 OJ L 156, 16.6.2007, p. 1. Regulation amending Regulation (EC) No 1868/1994 (OJ L 197, 30.7.1994, p. 4).

optimism in the sugar markets, as many were expecting raw sugar prices to reach $cts 20/lb and white sugar prices to rise to $500/t, not seen for more than 20 years. Raw sugar prices finally peaked at close to $cts 19/lb in February and white sugar at $484/t. The positive sentiment was encouraged by the deficits of the preceding years, along with increasing oil prices and intense investment in commodity markets. However, all changed when the initial forecasts of a large crop in India were announced and the probability of a global surplus increased, not only for 2005/06 but also for 2006/07. In consequence, prices were highly volatile throughout 2006, and by December raw sugar prices had fallen below $cts 12/lb and white sugar prices to $350/t. In addition to the price volatility, the white sugar premium increased significantly, reflecting the — temporarily — tight white sugar supply caused by the sharp reduction in EU sugar exports. At the end of 2006, the white sugar premium (i.e. the difference between white sugar and raw sugar prices) was quite firm at around $100/t.

214. Initially, the sugar balance at global level, as in preceding years, was expected to continue to be slightly in deficit or at most in equilibrium in 2005/06 (Oct/Sept). By the summer of 2006, however, forecasts were revised and it became clear that sugar markets were heading towards surplus once again. Production reached 152.5m t (raw value), representing an increase of more than 10m t from the previous year, while consumption grew only moderately by about 1% to 146.2m t. As a result, especially in view of another major surplus expected for 2006/07, it came as no surprise that sugar prices collapsed by the end of 2006 and continued to decrease further in 2007 as well.

October/September	Production*	Consumption*	Surplus or deficit*	Stock / consumption ratio (%)
	(1)	(2)	(3)=(1)-(2)	(4)
2003/04	143 751.8	141 504.3	+ 2.25	47.2
2004/05	141 089.5	144 063.4	- 2.97	42.1
2005/06	152 587.3	146 196.2	+ 6.39	44.1
2006/07	167 274.2	150 406.0	+ 16.86	50.8

* in million tonnes, raw value; Source: F. O. Licht (24.7.2007).

The surplus/deficit excludes unrecorded consumption, which is estimated at around 2-4m t/year.

215. The main reason behind the 2005/06 surplus was increasing Indian sugar production. While the sugar output of 14.6m t and 13.7m t in 2003/04 and 2004/05, mainly due to adverse weather conditions, lagged well behind the domestic demand of 18-20m t, production jumped by 7m t in 2005/06 to 21m t. Production increased radically in 2006/07 as well, to over 30m t. In Brazil, sugar production was somewhat lower in 2005/06 (27.8m t) than in the previous year (28.7m t). However exports continued to increase and reached 19.2m t (+ 1.4m t). As for 2006/07, output is expected to exceed 30m t and exports 20m t. Brazil thus continues to dominate the global sugar trade. Russian beet sugar production saw impressive growth in 2005/06 with output reaching 2.7m t (raw value). Beet sugar output increased in 2006/07 as well to 3.7m t. These improvements are due to considerable investment in technology both at field and factory level. In consequence, raw sugar imports are decreasing, and fell by 1m t

to 3m t in 2005/06. Chinese sugar output fell below 10m t in 2005/06 to 9.8m t. However, production was expected to grow to a record 13m t (raw value) in 2006/07. Production in Australia remained roughly unchanged at 5.4m t in 2005/06 and exports reached 4.5m t. For 2006/07 output was expected to remain below 5m t, and exports below 4m t. Sugar production fell to a particularly low level in Thailand with only 5m t. Due to stable consumption, exports fell by more than one million t to only 2.3m t. The situation is likely to improve considerably in 2006/07, when production should reach 7m t, with exports exceeding 4m t.

216. The price situation in 2005–2006 (average of quarters) is shown in the following table together with the longer-term outlook.

Quarter	Raw sugar ($cts/lb) (New York No 11)	White sugar ($/t) (London No 5)
2005. Q1	8.91	262.1
2005. Q2	8.62	251.5
2005. Q3	9.97	295.8
2005. Q4	12.46	308.2
Average 2005	**9.99**	**279.3**
2006. Q1	17.06	427.0
2006. Q2	16.43	465.6
2006. Q3	13.40	417.9
2006. Q4	11.64	376.7
Average 2006	**14.63**	***421.9***
2007. Q1	10.65	336.8
2007. Q2	9.18	322.5
*2007. Q3**	*9.70*	286.4
*2007. Q4**	*8.85*	265.2
Average 2007*	***9.60***	***302.7***

* forecast; Source: LMC (Sugar& Sweeteners Quarterly: Sept. 2007)

217. The USD continued to decline, not only against the EUR but also the Brazilian real, reducing the profitability of Brazilian sugar exports.

Community market

218. In the 2005/06 marketing year, the sugar beet area remained practically unchanged compared to the previous year at 2.163m ha. Due to fairly good weather conditions, Community sugar production exceeded 20m t to reach 20.3m t, representing a moderate increase. Of this quantity, 275 000 t was produced from sugar cane (France DOM and Spain) and 40 000 t from molasses (Austria and Germany). Production exceeded 4m t in both Germany and France, while sugar output reached 2m t in Poland, 1.3m t in the UK, 1.8m t in Italy and 1.1m t in Spain. The average yield was 9.27 t per ha, slightly up on the previous year, ranging from 5.2 t/ha in Latvia to 12 t/ha in France.

219. Taking into account both the sugar carried forward from 2004/05 to 2005/06 and that carried forward from 2005/06 to 2006/07, total production reached 20.2m t,

comprising 15.45m t under quota and 4.7m t of ‘C’ sugar. All ‘C’ sugar had to be exported without refund.

220. Total exports of sugar as such reached record levels during 2005/06 due to the large quantity of ‘C’ sugar exports, as the EU started to comply with the findings of a WTO panel on the Community sugar export policy. Altogether, 8.5m t of sugar was exported during 2005/06 (July/June), comprising 2.7m t with refund and 5.8m t without refund. Furthermore, an estimated 0.9m t was exported in processed products. After careful analysis of the sugar balance for 2005/06, it was decided to reduce the guaranteed quantity under the production quota by 1.89m t in order to ensure a balanced market (see Regulation (EC) No 1609/2005).

221. Consumption in 2005/06 is estimated at 16.2m t in the EU-25, excluding the quantities used by the chemical industry.

222. In the common market organisation for sugar, the production of isoglucose and inulin syrup for marketing in the Community is also limited by production quotas. The production of isoglucose was 478 000 t, including 455 000 t under quota and 23 000 t of ‘C’ isoglucose. Inulin syrup was produced in 3 Member States with a total output of 248 400 t. (Under the sugar reform, as from the 2006/07 marketing year, all the inulin syrup quota was withdrawn, so this product is no longer produced in the EU.)

223. Offers into intervention continued in 2006. Although intervention buying-in had hardly ever been used previously for sugar, operators offered significant quantities for intervention in 2005 due to a major surplus on the Community sugar market. In addition to the 1 324 286 t bought in during 2005 a further 572 143 t was offered in 2006. In all, 1 896 429 tonnes of sugar was thus bought in by the Community. This indicated a price level below the €631.9/t intervention price. However, the monthly quantities offered into intervention started to decrease as from April 2006 and only 3 000 t was accepted into intervention during the second half of 2006.

224. Following the sugar reform, the intervention option became more restricted and less attractive. Consequently, no offers were made from October 2006. When tenders were opened for the resale of the intervention sugar on the Community market, 842 770 t were sold.

225. For the 2006/07 marketing year, Community sugar production is estimated at 16.2 million tonnes (white value), representing a major decline compared to the previous marketing year. The area sown with sugar beet dropped significantly to 1.7m ha, indicating the success of the preventive measures introduced by Regulation (EC) No 493/2006.

Legislative framework — major developments

226. The sugar CMO was substantially reformed in 2006: following the political decision in November 2005 the new provisions entered into force on 1 July 2006. Since then, the basic regulation for the sugar regime has been Council Regulation (EC) No 318/2006 of 20 February 2006 on the common organisation of the markets in the sugar sector. Under the sugar reform, the institutional prices will decrease considerably over a 3-year transitional period. The white sugar reference price, which replaces the previous intervention price, will be reduced to €404.4/t as from the 2009/10 marketing year from €631.9/t in 2006/07.

227. One aim of the sugar reform is to achieve a sustainable balance on the Community sugar market. Sugar production and consequently sugar quotas therefore have to be reduced. To this end, a temporary restructuring scheme was introduced by Council Regulation (EC) No 320/2006 of 20 February 2006 establishing a temporary scheme for the restructuring of the sugar industry in the Community and amending Regulation (EC) No 1290/2005 on the financing of the common agricultural policy.

To implement the sugar reform the following Commission Regulations were adapted:

– Regulation (EC) No 950/2006 — on preferential imports (non-LDC);

– Regulation (EC) No 951/2006 — external trade;

– Regulation (EC) No 952/2006 — management of the quota system;

– Regulation (EC) No 967/2006 — out-of-quota production;

– Regulation (EC) No 968/2006 — restructuring scheme;

– Regulation (EC) No 1100/2006 — on imports from the least developed countries (LDC) during 2006/07–2008/09.

228. In order to facilitate the transition from the old sugar regime to the reformed CMO, Commission Regulation (EC) No 493/2006 was amended to include, among other things, a provision for preventive withdrawal. This aimed to reduce sugar production under quota by 2.5 million tonnes.

229. Following the conclusions of a WTO panel on the EU's sugar export policy, it was decided that applications for export licences for 'C' sugar should no longer be accepted even before the entry into force of the reform. This was implemented by Commission Regulation (EC) No 769/2006.

230. As with the 2004 enlargement, specific provisions needed to be adapted in the sugar sector to integrate Bulgaria and Romania, but also to avoid possible speculative stockpiling. These amendments were introduced by Commission Regulation (EC) No 1832/2006 of 13 December 2006 laying down transitional measures in the sugar sector by reason of the accession of Bulgaria and Romania. Among other things, the Regulation established raw sugar tariff quotas for the acceding countries and defined their isoglucose quota for the period from 1 January to 30 September 2007.

231. Regarding the sugar trade with Western Balkan countries, discussions were finally concluded with Croatia. Commission Regulation (EC) No 2006/2006 fixed the sugar export quota for Croatia at 180 000 t as from the 2007/08 marketing year.

3.1.10. Potatoes

232. In 2006, the area under potatoes in the EU-27 totalled 2.24 million hectares, i.e. 2% less than the year before. In the EU-15, this area was 1.15 million hectares, or 1.8% less than in 2005. The entry of Romania and Bulgaria added over 300 000 ha to the EU potato area (278 000 ha in Romania and 24 000 ha in Bulgaria).

233. The feared increase in the potato area as a consequence of the sugar reform did not materialise. Overall, the pressures caused by the conversion of sugar land in some regions were offset by the reduction in potato land observed in other areas. At the

same time, exceptionally high cereal prices did not encourage new potato planting while the high price of seeds also emerged as an important factor constraining new planting.

234. The production of potatoes in the EU-27 decreased from 32.3 million tonnes in 2005 to 56.7 million tonnes in 2006 (-8.9%). Bad weather resulted in lower yields (25.3 t/ha, down by -7% compared with 2005 levels). Most Member States reported lower stocks of ware potatoes while quality problems were observed in the main producing areas. Weather was favourable in Romania and Bulgaria and the potato harvest increased in these two countries (4 million tonnes in Romania and 386 000 tonnes in Bulgaria in 2006).

235. As a consequence of the drop in production, potato prices increased significantly in 2006, although the weather did not greatly encourage potato consumption. Producer prices for ware potatoes were as much as 2-3 times higher than those recorded in 2005.

236. Interestingly, new investment in potato land in southern Europe focused particularly on processing varieties in 2006. This was due to the production fall in northern continental Europe (temporary effect), but could also represent the beginning of a structural shift towards processing varieties in southern Europe too (where the consumption of table potatoes still represents 70-80% of total potato consumption).

237. In continental Europe, the specialisation process continued steadily. Despite the fall in production, French operators strengthened their position as the main EU suppliers of potatoes for table use. Their shipments to southern Europe, especially to the Iberian peninsula, increased in 2006. On the other hand, French manufacturers were tending to use more and more Belgian potatoes for making French fries and potato chips (crisps).

238. The low production of raw potatoes in 2006 did not affect the market shares of EU potato manufacturers. There are many factors constraining imports so as to ‘protect’ the EU market from products originating in Canada or the US. The main factors are transport costs (€0.25/kg for frozen potatoes, even higher for chips) and consumer tastes.

239. A focal point for future development is eastern and central Europe. More and more, operators prefer to locate processing plants there rather than ship from western Europe. As result, the processing industry is strongly expanding, although storage capacity remains a limiting factor.

240. Big countries such as China and India are still importing frozen potatoes from the EU and North America and are likely to continue to do so for the next 5-10 years because of structural constraints. However, consumption is increasing there and production sites are destined to expand in these areas as well.

3.1.11. Dried fodder

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

242. As part of the CAP reform, the Council adopted a new aid scheme for the dried fodder sector, to apply as from the 2005/06 marketing year with part of the current aid being replaced by decoupled aid to farmers.

Partial decoupling[30]

243. The total amount to be decoupled under the single payment scheme is limited to EUR 132 million. The amount for each Member State will be allocated according to the quantities of green fodder produced during the reference period (2000/01, 2001/02 and 2002/03).

Simplification of the aid scheme[31]:

244. Single aid rate: the aid payable to processing undertakings is fixed as a single amount for the two sub-sectors (dehydrated fodder or sun-dried fodder) at EUR 33 per tonne of dried fodder.

245. Single MGQ: a single maximum guaranteed quantity (MGQ) is fixed for the two sub-sectors (dehydrated fodder and sun-dried fodder), equal to the sum of the old MGQs for each sub-sector. The new MGQ is divided into national guaranteed quantities (NGQ) for each Member State. The aid is paid in full if Community production is less than or equal to the MGQ. If there is an overrun on the MGQ the aid will be reduced in each Member State that has exceeded its NGQ so as to avoid any overrun on forecast budget expenditure.

Dried fodder	Aid (*EUR/tonne*)	MGQ (*tonnes*)
Dehydrated fodder and sun-dried fodder	33	4 960 723

246. The following table shows the eligible quantities for 2005/06.

EU-25 production of dried fodder

(*tonnes*)

EU-25	MGQ[32]	2005/06		
		Production	Stocks	% MGQ
Dried fodder	4 960 723	4 347 553	189 829	88%

247. Evaluation and report: by the end of September 2008 the Commission is to present a report on this sector, based on an evaluation of the common organisation of the market in dried fodder, looking in particular at the development of the areas of leguminous and other green fodder, the production of dried fodder and the fossil fuel savings achieved. The report is to be accompanied, if necessary, by appropriate proposals.

30 Council Regulation (EC) No 1782/2003 of 29 September 2003 establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers (OJ L 270, 21.10.2003, p. 1), Annex VII-D.

31 Council Regulation (EC) No 1786/2003 of 29 September 2003 on the common organisation of the market in dried fodder (OJ L 270, 21.10.2003, p. 114).

32 Maximum guaranteed quantity, Council Regulation (EC) No 1786/2003 of 29 September 2003.

3.1.12. Fibre flax and fibre hemp

Fibre flax

248. In 2006, the EU continued to play a central role in world flax production. Even though the EU-25 accounted for only 20% of the world flax area, its high yields (1.14 tonne/ha) meant that European production represented as much as 53% of world production. Due to modest yields, Chinese and Russian flax production is relatively small taking into account the areas cultivated. In 2006, 173 000 tonnes of both long and short fibres were produced in the European Union under contract (112 000 tonnes of long flax fibres and 31 000 tonnes of short flax fibres). In Europe, flax-growing areas were concentrated in five main producing countries: France (74%), Belgium (15%), the Netherlands (4.2%). and the Czech Republic (2.6%). According to the French General Association of Flax Producers (AGPL) the total world area sown with fibre flax in 2006 was 539 000 ha, of which 200 000 ha were cultivated in China. In the European Union, the area sown was 107 570 ha (including 102 740 ha sown under contract). The EU imports medium- and low-quality fibres from Egypt, but supplies the whole world with high-quality and very high-quality fibres, since these are not produced anywhere else. According to Eurostat/Comext, the EU exported 77 300 tonnes of flax fibre in 2004. European exports to China have grown by about 10% every year since 2001 — the lower costs of spinning in China playing a key role.

249. Market prices (in euros) for fibre flax fell by around 10% in 2006 as against 2005 and by as much as 40% over the previous 4 years. This was due partly to the rise in the euro against the US dollar and also to the increase in production after the poor production levels in the year 2001/02 due to bad weather conditions. On the other hand, sales of long-fibre flax in France and in Belgium increased compared to the previous year. At the beginning of 2007, however, prices went up again (in particular for long flax).

Fibre hemp

250. The EU has a relatively small share of world hemp production with 14 250 ha (among which 13 910 ha under contract). The world area planted with fibre hemp was around 168 000 hectares in 2006. The EU accounted for only 6% of the world hemp area, with China cultivating about 150 000 ha. Fibre production under contract in the European Union decreased in 2006 to 21 650 tonnes compared to 2005 levels (26 700 tonnes). Traditionally, it has been concentrated in France and, to a lesser extent, in the United Kingdom, Germany, the Czech Republic, Poland, Italy and Hungary. Trade with third countries is very limited.

Legislative framework: main developments

251. In 2006/07, processing aid was EUR 160 per tonne for long flax fibre and EUR 90 per tonne for short flax fibre and for hemp fibre. For long flax fibre, there was an EU maximum guaranteed quantity of 80 878 tonnes, shared out between the Member States in the form of national guaranteed quantities. The corresponding figure for short flax fibre and hemp fibre was 146 265 tonnes, also shared out between the Member States in the form of national guaranteed quantities. Each Member State may transfer part of its national short flax fibre and hemp fibre quantity to its national long flax fibre quantity and vice versa, using a coefficient of equivalence.

3.1.13. *Cotton*

252. The world area under cotton in 2005/06 was estimated at around 34.62 million hectares, with production estimated at some 25.20 million tonnes, as against 36.00 million hectares and 26.00 million tonnes, respectively, in 2004/05.

253. Unginned cotton is not traded internationally, but the European Union, whose cotton-spinning capacity by far exceeds its fibre production, imports substantial quantities of ginned cotton — around 400 000 tonnes in 2005. The countries of central Asia, the ACP countries, Egypt, Turkey and the United States are the main suppliers.

254. In the European Union, the scale of cotton cultivation is limited, both in terms of the area planted and the number of producers. However, it is concentrated in certain areas of Greece and Spain, where it plays a major socio-economic role, and is also grown on a very small scale in Portugal. The EU area planted with cotton decreased in 2005: 450 000 hectares (as against 460 000 hectares in 2004) producing 1 478 232 tonnes of unginned cotton (1 122 445 tonnes in Greece and 355 348 tonnes in Spain) as against 1 504 600 tonnes in 2004. The European Union is about 81% self-sufficient in cotton fibres, its consumption in 2005 having been around 620 000 tonnes.

255. The Community aid scheme provides for a guide price (EUR 106.30/100 kg). An 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. The reduction is lower if the world price level allows expenditure on the aid scheme to be cut.

256. The guide price is reduced by 50% for production over and above the national guaranteed quantity (249 000 tonnes for Spain and 782 000 tonnes for Greece), provided that it remains lower than 362 000 tonnes in Spain and 1 138 000 tonnes in Greece. Beyond that level, the reduction is increased by 2% for each step of 4 830 tonnes in Spain and 15 170 tonnes in Greece. In the 2005/06 marketing year, the guide price was reduced by 21.9% in Greece, 21.40% in Spain and 0% in Portugal.

3.1.14. *Silkworms*

257. Silkworm rearing is practised in Greece, Italy and, to a lesser extent, France, Spain and Bulgaria. It accounts for only a tiny part of the EU's agricultural activity and of world silk production. In certain regions such as Thrace, Veneto and Marche, however, it represents an important activity.

258. Due to an increase in Italy and Greece, Community production went up again in 2006: 5 667 boxes were produced, compared to 3 520 boxes in 2005 and 3 043 in 2004. They yielded 96 367 kilograms of cocoons in 2006 compared to 79 186 kilograms in 2005. As from the 2000/01 marketing year, aid is permanently fixed at EUR 133.26 per box.

3.1.15. *Olive oil*

259. According to the International Olive Council (I.O.C.), world production of virgin olive oil reached some 2 600 000 tonnes during the 2005/06 marketing year

(1/10/2005–30/9/2006). About 75% of this quantity was produced in the European Union, other major producer countries being Tunisia (220 000 tonnes), Turkey (115 000 tonnes), Syria (100 000 tonnes) and Morocco (75 000 tonnes). A specific feature of olive oil production is its very marked volatility, both in space and time. Yields on the same holding can vary sharply from one year to another, depending especially on weather conditions and biological variations in the olive trees. The world market therefore fluctuates as a direct result of the Community market situation.

260. Based on production declarations by the Member States under the new CMO (Regulation (EC) No 865/2004), Community production for 2005/06 (1/11/2005–30/6/2006) was 1 919 000 tonnes compared to 2 329 000 tonnes in 2004/05 (– 18%). Spain, Italy and Greece were the three major producers in the Community, with 825 000 t (43% of the total), 636 000 t (33%) and 424 000 t (22%), respectively.

261. Spain, Italy and Greece were the two major Community olive oil suppliers on the internal market: their intra-EU exports were 330 000 t, 136 000 t and 122 000 t respectively (53%, 22% and 20%, respectively, of total intra-EU trade). Italy and France remained the Community's main consumers (42% and 16% of total intra-EU trade).

262. During 2005/06, extra-EU imports totalled 164 000 tonnes while extra-EU exports for the same period reached 352 000 tonnes (119 000 tonnes under the inward processing scheme). Italy is the main exporter (52% of total extra-EU exports), while the main destination is the United States (44% of total extra-EU exports). As from 2005/06, the export refund system has been abolished.

263. For the 2005/06 marketing year, Community olive oil consumption is estimated at 1 885 000 tonnes (or 71% of total world consumption).

264. During the 2005/06 marketing year, prices remained significantly above the average price levels for previous marketing years. Depending on the categories of olive oil and the Member States, average 2005/06 prices were 50 to 70% above the average prices for the five previous marketing years.

265. Forecasts for 2006/07 point to a clear increase in production of more than 10%, mainly in Spain. As a consequence, 2006/07 may see consumption increase by 12%.

266. Council Regulation (EC) No 865/2004 of 29 April 2004 on the new common organisation of the market in olive oil and table olives applied from the 2005/06 marketing year. Following adoption of the implementing Commission Regulation (EC) No 2080/2005, laying down detailed rules for operators' organisations in the olive sector, their work programmes and the financing thereof, two programmes were approved in 2006 and started to be implemented in Italy and Greece, providing for EU support of €36 million and €11 million per year, respectively, until 2009. Another programme for France was to be approved in 2007. The measures to be financed cover five areas: market follow-up and administrative management in the olive oil and table olives sector; improvement of the production quality of olive oil and table olives; improvement of the environmental impacts of olive cultivation; traceability, certification and quality protection; and finally the dissemination of information.

3.1.16. *Fresh fruit and vegetables*

World markets and international trade[33]

267. World production of fresh fruit and vegetables[34] has steadily increased in recent years. It grew by 34% in volume over the period 1997-2006. 67% of this growth was in China, where production increased by a remarkable 83% from 296 million tonnes in 1997 to 542 million tonnes in 2006. Growth among the other large producers was more modest: 27% in India and 3% in the EU. In the USA, production fell by 7% over the same period. World production of fruit and vegetables reached 1 430 million tonnes in 2006, an increase of 1.3% compared with 2005. The share of vegetables was 63.2% (50.2% in the EU). With 122.3 million tonnes, the EU was the world's third largest producer of fruit and vegetables after China (542 million tonnes) and India (125.4 million tonnes), followed by the USA with 64.4 million tonnes.

268. Total EU imports of fresh fruit and vegetables amounted to 16.0 million tonnes in 2006, with a value of €14.5 billion. Total EU exports of fresh fruits and vegetables totalled 5.8 million tonnes, with a value of €3.7 billion. The EU runs a trade deficit in fresh fruit and vegetables: in 2006, exports were only 36.6% of imports in terms of volume. The main suppliers of fresh fruit and vegetables are Costa Rica, Ecuador and South Africa. The main destinations for EU exports are Russia, Switzerland and Egypt.

Community market

269. In the period 2003-2006, the fruit and vegetables sector in the Community represented 12.3% of total agricultural production. In the period 2003-2005, the annual production of vegetables (potatoes excluded) stood at 36.1 million tonnes, including 17.1 million tonnes of tomatoes. Fruit production stood at 26.4 million tonnes, including 10.6 million tonnes of citrus fruits.

270. Community production of apples was 9.0 million tonnes in the 2005/06 marketing year (a drop of 11.9% compared with the previous year). Withdrawn quantities have been significantly reduced in recent years. They decreased from 3% in 2000/01 to 0.39% in 2005/06.

271. Community production of pears stood at 2.3 million tonnes in 2005/06, a decrease of 17% compared with the previous marketing year. In 2005/06, the quantities withdrawn from the market accounted for 0.81% of production.

272. In 2005/06, the production of peaches was 3.1 million tonnes, a small decrease of 0.4% compared with 2004/05. Withdrawals represented 2.37% of Community production in 2005/06, as against 2.2% in the previous year.

273. The production of nectarines in 2005/06 stood at 0.7 million tonnes, a decrease of 46.1% in comparison with 2004/05. Withdrawals accounted for 3.86% of total production in 2005/06 (4.0% in 2004/05).

---

33 Source: FAO: http://www.fao.org.

34 FAO aggregates exclude potatoes but include all kinds of grapes.

274. In 2005/06, the production of table grapes in the Community stood at 2.1 million tonnes, a decrease of 10.3% in comparison with 2004/05. Products withdrawn from the market (0.001% in 2005/06) represented a negligible share of production.

275. The production of apricots was 538 000 tonnes in 2005/06, a decrease of 24.9% in comparison with the previous marketing year. Products withdrawn from the market represented 0.47% of Community production in 2005/06 (0.1% in 2004/05).

276. The Community produced 6.8 million tonnes of oranges in 2005/06, 16% more than in 2004/05. With 1.5 million tonnes in 2005/06, the production of lemons increased by 7% in comparison with 2004/05.

277. Cauliflower production was 2.3 million tonnes, a decrease of 3.5% in comparison with the previous marketing year. The quantities of cauliflower withdrawn from the market in the 2005/06 year accounted for 0.31% of Community production (1% in 2004/05).

278. Tomato production was 14.6 million tonnes in 2005/06, a decrease of 12.2% in comparison with 2004/05. Production in Italy, the main producer, was 6.4 million tonnes (43.6% of all Community production), a decrease of 11.5% from the previous marketing year. Withdrawals represented 0.46% of the total production of tomatoes for the fresh market (4.6% in 2004/05).

Main legal and policy changes

279. In 2006, apple producers in the Community found themselves in a difficult situation, due, among other things, to a significant increase in imports of apples from certain countries in the southern hemisphere. To improve the monitoring of apple imports, the Community adopted Commission Regulation (EC) No 179/2006 introducing a system of import licences for apples imported from third countries.

280. The Community also adopted Commission Regulations (EC) Nos 430/2006, 431/2006 and1790/2006 approving operations in Senegal, Kenya and Turkey to check conformity with the marketing standards applicable to fresh fruit and vegetables prior to import into the Community. As a result, imports of fresh fruit and vegetables checked at the time of export by the authorities of one of these countries will in future be checked only on the basis of a reduced number of lots when they are imported into the Community.

281. In 2006, the Community also adopted Commission Regulation (EC) No 2000/2006 amending Regulation (EC) No 1870/2005 by reason of the accession of Bulgaria and Romania to the European Union. This Regulation contains special provisions to ensure that importers in Bulgaria and Romania have access to the import tariff quotas for garlic.

3.1.17. Bananas

Community production

282. In 2006, banana production in the Community was 641 754 tonnes, a decrease of 1% in comparison with 2005.

283. The compensatory aid for 2006[35] was fixed at EUR 18.56 per 100 kg, plus a further EUR 15.42 per 100 kg for bananas produced in Guadeloupe, EUR 13.95 per 100 kg for Martinique and EUR 3.58 per 100 kg for Greece. The cost of compensatory aid for 2006 totalled EUR 156.2 million, compared with EUR 70.2 million in 2005.

Imports

284. In 2006, the overall volume of bananas imported into the EU-25 was 4 185 018 tonnes, compared to 3 727 014 in 2005, which represents an increase of 12.3% with respect to 2005. Exports by MFN countries to the EU rose by 10.7% in comparison with 2005 (from 2 963 339 to 3 279 276 tonnes), while imports from ACP countries were 18.6% higher than in 2005 (rising from 763 675 to 905 742 tonnes).

Main legislative and policy developments

285. On 29 November 2005[36], the Council adopted a regulation introducing a new import regime for bananas from 1 January 2006. The new regime consists of an autonomous MFN tariff[37] of EUR 176 per tonne and a duty-free TRQ[38] for bananas of ACP origin up to 775 000 tonnes.

286. After having published a report to the European Parliament and the Council on the operation of the common organisation of the market in bananas (CMO)[39], and having launched a wide-ranging debate on the reform of the internal aspects of the CMO (in particular the aid to European producers, supported by an independent evaluation on the operation of the banana CMO[40] published in autumn 2005), the Commission prepared an impact assessment of this reform and adopted a proposal. This proposal led to a Council Regulation[41] replacing the current aid scheme for banana producers in the outermost regions with a budget transfer of EUR 278.8 million to the POSEI scheme. For banana-growing areas outside the outermost regions, aid totalling EUR 1.2 million is now included in the single payment scheme.

3.1.18. Processed fruit and vegetables

World markets and international trade

287. The information available on processed fruit and vegetables remains incomplete. For the Community, a large part of this information concerns only products that receive processing aid.

288. World production of tomatoes for processing stood at 30.5 million tonnes in 2006, 5.3% lower than in 2005 (32.2 million tonnes). The main producers were the USA (9.6 million tonnes as against 9.2 million in 2005), the EU (8 million tonnes as

---

35 Commission Regulation (EC) No 485/2007 of 30 April 2007 (OJ L 114, 1.5.2007, p. 3).

36 Council Regulation (EC) No 1964/2005 of 29 November 2005 (OJ L 316, 2.12.2005, p. 1).

37 Commission Regulation (EC) No 2014/2005 of 9 December 2005 (OJ L 324, 10.12.2005, p. 3).

38 Commission Regulation (EC) No 2015/2005 of 9 December 2005 (OJ L 324, 10.12.2005, p. 5) and Commission Regulation (EC) No 219/2006 of 8 February 2006 (OJ L 38, 9.2.2006, p. 22).

39 COM(2005) 50 final, February 2005.

40 Evaluation of the common organisation of the market in bananas, carried out by COGEA, http://europa.eu.int/comm/agriculture/eval/reports/bananas/index_fr.htm.

41 Council Regulation (EC) No 2013/2006 of 19.12.2006 (OJ L384, 29.12.2006, p. 13).

against 10.1 in 2005), China (4.3 million tonnes as against 3.2 in 2005) and Turkey (1.4 million tonnes as against 1.6 million tonnes in 2005).

Community market

289. In 2006, Community production of tomatoes for processing decreased by 24% in comparison with 2005. The largest fall was in Spain, where production decreased by 1.2 million tonnes from 2.6 to 1.4 million tonnes.

290. In 2006, the production of peaches for processing into preserved peaches decreased in comparison to 2005 by 13.3% to 502 000 tonnes.

291. Community production of preserved Rocha and Williams pears stood at 112 000 tonnes in 2006/07, a slight increase of 1.4% from 2005/06. Italy was the main producer with 56 500 tonnes (around 50% of total Community production), followed by Spain (25%) and France (13%).

292. For 2006/07, Community thresholds for processing were exceeded for tomatoes (19.7%), pears (6.2%), oranges (24.8%) and small citrus (26.9%). Community aid was consequently cut for 2007/08 in the Member States where the national thresholds were exceeded:

Decrease in Community processing aid for 2005/06, compared with the levels fixed by Council Regulations (EC) No 2201/96 and (EC) No 2202/96				
MS	**Small citrus**	**Oranges**	**Pears**	**Tomatoes** (1)
Greece		8%	68.47%	
Spain	12%			9.29%
Italy	62.3%	55.91%	4.76%	
Portugal	80.66%	52.88%		
Cyprus	53.27%			
Netherlands			94.15%	

(1) The reduction does not apply to processing into whole peeled tomatoes.

For dried grapes, the base amount of aid is €3 569 per hectare. This aid is only granted to specialised areas that meet certain yield criteria.

Main legal and policy changes

293. In 2005, in order to amend some anomalies in counting processed raw material against the processing thresholds of Member States, notably in the case of tomatoes, the Commission adopted Regulation (EC) No 1663/2005 of 11 October 2005 amending Regulation (EC) No 1535/2003 laying down detailed rules for applying Council Regulation (EC) No 2201/96 as regards the aid scheme for products processed from fruit and vegetables. In addition, to expand the range of possible uses of the products to be sold from storage, the Commission adopted Regulation (EC) No 1051/2005 of 5 July 2005 to amend Regulation (EC) No 1622/1999 by adding direct animal feed and use in composting and biodegrading processes.

294. In 2007, the Council adopted the reform of the fruit and vegetables CMO. For processed products, the production aid schemes are replaced by the single payment

scheme with the possibility of leaving part of the aid coupled to the processing of raw material for a transitional period.

3.1.19. Wine

295. The Commission launched a public debate on future policy by holding a wine seminar with stakeholders on 16 February 2006. The Advisory Group on Wine has also discussed potential reform scenarios. In addition, many bilateral meetings have been organised with a wide range of stakeholders. Two working papers on the Wine CMO and on the wine economy in the EU[42] explain the current situation, including the difficulties and problems of the wine sector.

296. On 22 June 2006, the Commission adopted a Communication to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions entitled 'Towards a sustainable European wine sector'[43].

297. This Communication presents the Commission's current assessment of the existing wine CMO in the light of the realities of the European and international markets, aims to identify the problems and offers a number of possible ways forward. Its purpose is to formally initiate discussion with all stakeholders and European institutions with a view to making legislative proposals to address, among other issues, excessive wine stocks, overproduction, and the need for a simpler, more transparent and more market-oriented policy, and furthermore to contribute to a culture of responsible drinking and to reducing alcohol-related harm throughout the EU.

298. This Communication is in line with the principles agreed for the common agricultural policy (CAP) reform of 2003, the Göteborg European Council[44] conclusions calling for more sustainable development, and the Lisbon Strategy[45] to strengthen competitiveness and ensure simplification and better regulation.

299. It is accompanied by an impact assessment to ensure compatibility with relevant Community policies[46].

300. At 169.5m hl, Community wine production in 2006 (excluding grape must not processed into wine) was slightly above the average production level for the previous five years:

Year	Wine production	Average 5 years	Average 10 years
2002-2003	150.9m hl	164.5m hl	162.0m hl
2003-2004	154.2m hl	163.9m hl	161.4m hl
2004-2005	186.0m hl	165.2m hl	164.8m hl
2005-2006	165.7m hl	163.3m hl	166.1m hl
2006-2007	169.5m hl	165.3m hl	166.2m hl

42 Available on the internet at: ec.europa.eu/agriculture/capreform/wine/index2_en.htm.

43 COM(2006) 319 final, 22.6.2006.

44 Presidency Conclusions, 15-16 June 2001.

45 COM(2005) 24 final.

46 SEC(2006) 770, 22.6.2006.

301. As regards the Community harvest (including grape must not processed into wine) for the 2006/07 marketing year, Member States have communicated the following estimates.

Total production '000 hl Member State	2002/03	2003/04	2004/05	2005/06	2006/07 provis.	*Diff. 2006//05*
Czech Republic	495	540	605	439	432	*–2%*
Germany	9 984	8 291	10 107	9 256	8 995	*–3%*
Greece	3 098	3 804	4 295	3 997	3 938	*–1%*
Spain	39 419	48 620	50 062	40 466	43 081	*+6%*
France	51 966	47 519	58 845	52 553	53 300	*+1%*
Italy	46 200	44 087	53 135	53 062	54 535	*+3%*
Cyprus	240	400	282	197	220	*+12%*
Luxemburg	154	123	156	135	124	*–8%*
Hungary	3 500	3 800	5 272	3 567	3 271	*–8%*
Malta	62	100	70	70	65	*–7%*
Austria	2 599	2 556	2 734	2 264	2 269	*0%*
Portugal	6 677	7 283	7 481	7 254	7 532	*+4%*
Slovenia	900	671	944	886	829	*–6%*
Slovakia	340	540	410	302	320	*+6%*
Other EU-25	13	18	23	25	26	*+4%*
Total EU-15	160 111	162 300	186 838	169 012	173 800	*+3%*
Total EU-25	165 648	168 351	194 420	174 473	178 936	*+3%*

302. Contracts concluded in 2006/07 for the distillation of potable alcohol under Article 29 of Regulation (EC) No 1493/1999 came to 14.9 million hectolitres of wine, exceeding the available budget resources and the absorption capacity of the potable alcohol sector, so were reduced to 11 million hl.[47]

303. Due the excellent harvest of 2004/05, intervention was needed in the wine sector to reduce stocks of table and quality wines. Crisis distillations were again decided in order to eliminate 5.4m hl of wine, stored mainly in France (2.6m hl) and Italy (1.9m hl).

304. Sales of wine alcohol from public intervention stocks for other 'new' industrial uses were phased out in 2006. Due to increasing demand for bio-ethanol, the price of wine alcohol went up from approx. €38/hl in January to €50/hl in December 2006.

305. The European Union is the world's main exporter with 16.8 million hl valued at €5 450m. The main buyers of Community wine[48] in 2006 were the United States (4.3m hl), Russia (3.3m hl), Switzerland (1.6m hl), Canada (1.5m hl) and Japan (1.1m hl). During the same period, the European Union imported 11.5m hl with a value of €2 435m mainly from Australia (3.2m hl), Chile (2.2m hl), South Africa (2.1m hl) and the United States (2.0m hl).

47 OJ L 23, 27.1.2006, p. 10.

48 Source: EC-COMEXT EEC Special trade since 1988.

306. In 2006, EU budget expenditure on measures for the wine sector rose to €1 487 m, with restructuring measures and distillation aid accounting for 30% and 33%, respectively.

Measures	2005 (€m)	2006 (€m)	in %	*Diff.*
Restructuring of vineyards	446	441	30%	*–1%*
Grubbing-up	31	67	4.5%	*+116%*
Distillation (all)	321	486	33%	***+51%***
Public storage alcohol	185	198	13%	*+7%*
Must aid	198	185	12%	*–7%*
Private storage wine & must	70	90	6%	*+29%*
Export refunds	17	19	1.5%	*+12%*
TOTAL	1 269	1 487	100%	*+17%*

307. With a view to restructuring and converting vineyards under Council Regulation (EC) No 1493/1999, the Commission approved financial allocations to Member States for a specified number of hectares, taking account of compensation paid to winegrowers for loss of income during periods when vineyards are not in production. Decision 2006/701/EC laid down indicative financial allocations for 2006/07 as follows[49]:

Member State	**Area (ha)***	**Financial allocation (EUR)**
Czech Republic	1 214	2 869 670
Germany	1 906	12 690 042
Greece	1 118	8 725 230
Spain	19 567	159 524 473
France	12 734	110 973 729
Italy	13 056	99 825 428
Cyprus	150	2 033 953
Luxembourg	11	84 000
Hungary	1 211	9 688 862
Malta	16	107 545
Austria	1 066	6 449 988
Portugal	3 918	32 626 123
Slovenia	122	2 400 955
Slovakia	400	2 000 000
TOTAL	**56 489**	**450 000 000**

* Member States have the possibility to spread this amount over a larger area.

3.1.20. Tobacco

Market developments

308. Compared with 2005 prices, EU market prices were similar or higher for tobaccos of most groups in 2006.

49 OJ L 290, 20.10.2006, p. 41.

309. EU imports of raw tobacco amounted to about 555 000 tonnes in 2005 and 550 000 tonnes in 2006 (decrease of 5 000 tonnes). EU exports were approx. 192 000 tonnes in 2005 and 198 000 tonnes in 2006 (increase of 6 000 tonnes).

Main legislative and policy developments

310. In April 2004, the Council decided that decoupling would be carried out gradually over a four-year transition period, starting in 2006. Over these four years, at least 40% of the tobacco premiums would have to be included in the decoupled single payment for farmers. Member States may decide to retain up to 60% as a coupled payment. The coupled payment may be reserved for producers in Objective-1 regions or for farmers producing varieties of a certain quality. After the four-year transition period, from 2010, tobacco aid will be completely uncoupled from production. 50% will be transferred to the single farm payment and the remaining 50% will be used for restructuring programmes under rural development policy.

311. For 2005 the old tobacco regime, including the aids fixed for 2004, still applied. In 2006, the reform started with the transfer of all or part of the tobacco premium to entitlements for the single payment.

3.1.21. Seeds

Market developments

312. In the 2006/07 marketing year, total certified seed production covered by the CMO for seeds (excluding hybrid maize) was an estimated 559 055 tonnes. The total seed area was 421 239 hectares.

313. In 2006 the volume of *Graminae* seed grown was approximately 258 507 tonnes and the volume of *Leguminosae* seed about 193 315 tonnes. *Graminae* accounted for 247 358 hectares and *Leguminosae* for 131 627 hectares.

314. Rice seed production in 2006 went down to 76 605 tonnes as estimated by the Member States compared to 2005, and the area also shrank to 12 804 hectares.

315. Fibre flax seed was grown on 21 258 hectares in 2006, with an estimated production of 16 420 tonnes. The linseed area was 5 567 and linseed production was approximately 6 151 tonnes in 2006.

Main legislative and policy developments

316. Following the integration of seed support in the 2003 CAP reform as from the 2005/6 marketing year, detailed rules were laid down in Regulations (EC) Nos 796/2004 and 1973/2004.

3.1.22. Hops

World market

317. In 2006 the total world hop area was about 49 526 hectares (a minor decrease of 1.6% compared to 2005). The largest growers were the EU (30 000 hectares, including Germany with 17 170 hectares, the Czech Republic with 5 414 hectares and Poland

with 2 234 hectares), the USA (approx. 11 884 hectares) and China (about 3 544 hectares).

318. World production in 2006 amounted to approx. 85 570 tonnes, around 9% down from the year 2005. The 7 102 tonnes of alpha acid produced (7 903 tonnes in 2005) was equivalent to an alpha acid yield of 8.3%. The average yield per hectare was 1.73 tonnes.

Community market

319. Hops are grown in twelve Member States (Belgium, the Czech Republic, Germany, Spain, France, Hungary, Austria, Poland, Portugal, Slovenia, Slovakia and the United Kingdom). The total area in 2006 was 29 983 hectares, of which 57% was in Germany.

320. The 2006 harvest of 43 062 tonnes was 20% lower than in 2005. The average yield was also lower: 1.4 tonnes/hectare as against 1.8 tonnes /hectare in 2005.

321. The 2006 harvest had an average alpha acid content of 7.1% for all varieties in the Community. This was equivalent to 3 046 tonnes of alpha acid for beer production in 2006.

Main legislative and policy developments

322. The hop sector is affected by the CAP reform in that, from 1 January 2005, it was integrated into the single farm payment system. The complete decoupling of aid will enable producers to switch to other production while receiving a stable income.

323. Flexibility is nevertheless possible at Member State level in order to be able to respond to specific regional production characteristics: Member States can thus opt to keep part of the aid coupled (up to 25%), which may be paid directly to individual hop producers or producer groups. The latter will manage that budget in line with collective needs in terms of variety conversion, market support, research, promotion, investment in equipment, etc.

3.1.23. Flowers and live plants

World markets and international trade

324. The information on world markets in flowers and live plants in 2006 is incomplete. World production of flowers and pot plants represents only part of floricultural production. The world area devoted to flowers and pot plants in 2005 was approx. 495 000 hectares. With 49%, China held the largest share of this area. The EU accounted for around 19%, while India, USA, Japan and Mexico were other major flower-producing countries.

325. World production of flowers and pot plants in 2005 was valued at around €26 000 million. The EU's share in the world production of flowers and pot plants was approx. 38%. The United States (17%), Japan (12%) and Taiwan (9%) were also major producers.

Community market

326. In 2006, the total area for the production of flowers and live plants (including cut flowers and cut foliage, potted plants, bedding and balcony plants and nursery plants, conifers and hardy perennial plants, bulbs and corms) in the EU was an estimated 178.3 thousand hectares. Production is highly concentrated in the Netherlands, where the area devoted to the production of flowers and ornamental plants in 2006 was 41.8 thousand ha. In Germany, flowers and ornamental plants were cultivated on 28.0 thousand ha. With 26.7 thousand ha, France came in third place followed by the United Kingdom (25.8 thousand ha) and Italy (11.1 thousand ha).

327. The production value of flowers and live plants in the EU in 2006 is estimated at €1920.8 million. The Netherlands, Italy, Germany, France and the United Kingdom had the highest market values for flowers and ornamental plants within the EU. The Netherlands had the largest production value in the EU, their share in total EU production of flowers and ornamental plants being about 31%. Italy came second in the EU with 15%, while Germany (14%) and France (13%) ranked third and fourth followed by the United Kingdom (6%). In most EU Member States the production of flowers and ornamental plants in 2006 was stable in comparison with the previous year.

328. The value of total imports of flowers and ornamental plants in 2006 was almost €1365 million. Cut flowers and cut foliage represented 77% of total imports of flowers and ornamental plants in 2006. Potted plants, bedding and balcony plants and nursery plants came second with 18%, followed by bulbs and corms (4%) and conifers and hardy perennial plants (1%).

329. Cut flowers and cut foliage were imported mainly from Kenya (30% of imports from third countries), Colombia (11%), Israel (10%) and Ecuador (10%). The main countries of origin for potted plants, bedding and balcony plants and nursery plants were China (14%), Kenya (13%) and Costa Rica (13%). Conifers and hardy perennial plants were imported mainly from Egypt (16%), Israel (12%), China and Japan (11%). Chile was the country of origin for 16% of bulbs and corms imported into the EU. Bulb and corms were also imported from Israel (12%), China and Japan (11%).

330. In 2006, the value of exports of ornamental flowers and plants from the EU to third countries came to €1560.5 million. Cut flowers and cut foliage represented 32% of total exports of flowers and ornamental plants. Bulbs and corms came second with 31% followed by potted plants, bedding and balcony plants and nursery plants with 30%. Conifers and hardy perennial plants represented 7% of the total exports of flowers and ornamental plants.

331. The main EU export destination for cut flowers and cut foliage in 2006 was Russia, representing 29% of total EU exports. Other destinations were Switzerland (24%), the USA (19%) and Norway (8%). Potted plants, bedding and balcony plants and nursery plants were exported mainly to Switzerland (30%), Russia (12%), Norway (11%) and the USA (8%). Conifers and hardy perennial plants were exported mainly to Switzerland (26%), Russia (14%), Turkey (11%) and Norway (11%). The main EU export destination for bulbs and corms in 2006 was the USA (33%), followed by Japan (14%), Switzerland (7%) and Russia (7%).

Main legal and policy changes

332. There were no legal or policy changes in the flower and live plants sector in 2006.

3.1.24. Animal feed (EU-25)

333. Animal feed uses large quantities of agricultural products. It is the main outlet for the Community production of cereals and oil seeds and virtually the only use for permanent grassland and fodder from arable land.

334. About half of the total supply comes from feedstuffs generally not marketed (pasture, hay, silage), which is used mainly for ruminants. The other half, which can be used by all livestock, consists of feedstuffs such as cereals, substitutes and oil meals.

335. For 2005/06, the total consumption by animals of the key marketable products[50] in the European Union is estimated at 246 million tonnes.

336. Consumption comprised:

– domestically produced products estimated at 188.0 million tonnes, mainly from the cereal sector,

– net imports estimated at 61.1 million tonnes, mainly because of higher imports of soya.

337. Total consumption of cereals by animals in 2005/06 was expected to reach 155.5 million tonnes.

338. Industrial production of compound feedingstuffs for animals in the European Union[51] is estimated at 142.0 million tonnes in 2005 and 141.7 million tonnes in 2006.

EU-25 industrial production of compound feedingstuffs by animal category

(*million tonnes*)

Compound feedingstuffs for	2005	2006	difference	% variation
all bovine animals (dairy and beef)	37.9	38.2	+0.3	+0.8
pigs	47.2	48.1	+0.9	+1.9
poultry	45.5	44.0	–1.5	–3.3
other	11.3	11.4	+0.1	+0.9
TOTAL compound feedingstuffs	**141.9**	**141.7**	**–0.2**	**–0.1**

50 Covering most marketable feed used in the Community by the compound feedingstuffs industry and on the farm (own consumption and purchases of raw materials) and estimated in the detailed table below ‘Animal consumption of key marketable products (estimates EU-25)’ Source: DG AGRI.

51 Provisional figures for EU-25 excluding Greece and Luxembourg; source: European Feed Manufacturers’ Federation (FEFAC).

Animal consumption of key marketable products

(estimates EU-25)

(*million tonnes*)

KEY PRODUCTS	Import duty rate	2005/06 ANIMAL CONSUMPTION			
		EU	IMP	EXP	TOTAL
GRAIN CEREALS					
Common wheat	T	53.2	3.5	–	56.7
Barley	T	35.4	0.1	–	35.5
Maize	T	37.0	1.5	–	38.5
Others	T	23.9	0.9	–	24.8
TOTAL CEREALS		149.5	6.0	–	155.5
TOTAL SUBSTITUTES ex–Annex D of which:		20.3	9.1	0.0	29.4
Manioc	6% C/T	–	0.3	–	0.3
Sweet potatoes	0% C/T	–	–	–	–
CGF (corn gluten feed)	0% C	1.7	5.3	–	7.0
Brans	T	10.4	–	–	10.4
MGC (maize germ cake)	0% C	0.2	0.1	–	0.3
Citrus pellets	0% C	–	1.5	–	1.5
Dried sugar beet pulp	0% C	5.5	0.5	–	6.0
Brewing and distilling residues	0% C	2.0	0.9	–	2.9
Various fruit waste	0% C	0.5	0.5	–	1.0
TOTAL OTHER ENERGY FEEDS, of which:		2.0	3.2	0.0	5.2
Molasses	T	0.6	2.6	–	3.2
Animal and vegetable fats (added to feed)	4–17% C	1.4	0.6	–	2.0
TOTAL HIGH-ENERGY FEEDS		22.3	12.3	–	34.6
OILCAKE AND SEEDS (oilcake equivalent), of which:		6.5	40.9	2.4	45.0
Soya	0% C	0.5	32.5	2.0	31.0
Rape	0% C	4.7	1.0	0.2	5.5
Sunflower	0% C	1.3	2.4	0.1	3.6
Other	0% C	–	5.0	0.1	4.9
OTHER PROTEIN FEEDS, of which:		9.7	1.9	0.5	11.1
Protein crops	2–5% C	3.5	1.1	–	4.6
Dried fodder and related	0–9% C	4.8	0.1	0.2	4.7
Fish meal and meat meal	0–2% C	1.0	0.7	0.3	1.4
Skimmed-milk powder	T	0.4	–	–	0.4
TOTAL HIGH-PROTEIN FEEDS		16.2	42.8	2.9	56.1
GRAND TOTAL, KEY PRODUCTS		188.0	61.1	2.9	246.1
EU-25 Key products index 2002/03 = 100 [244.9m t]					
* consumption index		100.5			
* livestock demand index		100.5			

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

3.2. Market developments — Animal products

3.2.1. Milk and milk products

Milk in the world

339. Initial estimates suggest that world milk production (including cow's milk, buffalo milk, sheep's milk and goat's milk) reached 653 million tonnes in 2006, which represents an increase of 1.5% compared to 2005. Cow's milk represents 84% of total production and buffalo milk 12%. The remaining 4% comes from sheep, goats and camels.

340. Within Asia, production in India, which derives more than half its milk from buffaloes, continues to grow. In 2006, India produced 96 million tonnes, confirming its place as the world's second largest producer after the European Union. Production is expected to increase further, based on rising domestic demand. Pakistan and China are other major producers in the region. China produced 36 million tonnes and Pakistan 31 million tonnes. Pakistan is expected to increase production at the same rate as India. However, China saw an increase of only 13% in 2006, less than in the previous years when growth was more than 20%. China is now the second largest producer in the region and number four in the world. In South East Asia, demand for dairy products continues to grow due to increases in family income and a more western diet, including more dairy products.

341. Latin America had a production of 66 million tonnes in 2006, an increase of 0.6% compared to 2005. Further increases are expected, particularly in Mexico, Argentina, Brazil and Chile. These four countries account for 70% of milk output in this region. Elsewhere in the region, milk production continues to increase as well, though remaining small in absolute terms. Brazil is the largest producer of milk in the region (seventh in the world). Production in Brazil reached 25.5 million tonnes in 2006, an increase of 3% compared to the year before. So far, Brazil is not developing as a large exporter of milk products. Chile on the other hand is increasing its dairy exports.

342. The former Soviet republics saw their milk production increase in 2006 by 0.8% to 65 million tonnes, but with some variation from one country to another. In the former Soviet Union, production increased 0.6%. A further increase is expected with government support to help restructure the industry. In Russia, the fifth largest producer in the world, production was expected to reach 31.3 million tonnes in 2006. In the Ukraine, the other large producing country in the region, production decreased by 3.2% to 13.3 million tonnes.

343. In 2006, milk production in the United States grew by 2.8% to 82.4 million tonnes, the second year of growth in a row after three years of stagnation. In Canada, production remained stable at 7.8 million tonnes.

344. In Oceania, weather conditions played an important role in production levels, though with different results in New Zealand and Australia. Milk production in New Zealand increased by 3% to 15 million tonnes, while in Australia production in the 2006/07 milking season fell by 5% to 9.5 million tonnes due to drought. New Zealand, the largest dairy exporter in the world, is expected to continue its gradual growth, while Australia's production is expected to decline further.

345. World market prices fell slightly after high levels in 2005. However, the reduced production in Australia, one of the main exporting countries in the world, and reduced availability from the EU, combined with continued strong demand on the world market, resulted in increasing prices for dairy commodities at the end of 2006. From August to December, prices for WMP and SMP increased from \$2000/tonne to \$3000/tonne. For Cheddar, prices increased from \$2600/tonne to \$2800/tonne. Butter prices increased from \$1600/tonne to \$1800/tonne.

The Community market

346. The dairy herd fell by 2.8% to 22.3 million. Yields, however, increased by 1.5% to 6 225 kg per animal per year.

347. Milk production decreased by 0.8% to 141.4 million tonnes (including deliveries to industry, direct sales and use on the farm). Milk deliveries decreased to 130.7 million tonnes. In 2006, the first signs of structural under-quota production appeared. Before 2006, quotas were always more or less filled in each Member State. There was a structural decline in Sweden, UK and Hungary, but milk production fell in France as well.

348. Drinking milk production remained fairly stable at around 33.5 million tonnes in the EU-25. Production of cream for consumption increased by 1.4% to 2.5 million tonnes, while yoghurt showed a 2.4% increase.

349. Butter production decreased by 4.8%, or 107 000 tonnes, to 2.07 million tonnes.

350. Consumption of butter increased in 2006 to 1.97 million tonnes. Per capita consumption was 4.3 kg per year, although there was a wide range between the various Member States, with France accounting for 8.2 kg per year per person while the average Greek only consumed 600 grams.

351. Total cheese production increased again in 2006, by 2.2% or 180 000 tonnes. Production rose in the dairies but not on the farms.

352. In 2006, per capita consumption of cheese increased by 1.8% per year to 17.9 kg/person. This divided into 18.2 kg/person in the EU-15 and 11.9 kg/person in the 10 new Member States (NMS).

353. As regards milk powder, production decreased by 7.2% to 1.87 million tonnes. The production of skimmed milk powder decreased to 0.86 million tonnes while whole milk, semi-skimmed milk and butter milk powder together fell to 1 million tonnes.

354. Production of casein in 2006 is likely to have fallen. In 2005 5.9 million tonnes of skimmed milk were processed into 175 000 tonnes of casein.

355. At the end of 2006 the EU had 1.3 million dairy farmers, 157 000 fewer than in 2005. The number of farmers is falling gradually in all Member States, but Poland alone saw a drop of 100 000 in 2006. The average number of cows per holding rose to 16 (ranging from 2.0 in Latvia to 252 in the Czech Republic). The amount of milk delivered per holding was 90 000 kg. However the average for the EU-15 was 252 000 and for the 10 NMS only 20 000. Again, there was a very wide variation in

the average quantity delivered per farm, ranging from 7 600 tonnes in Lithuania to 1 569 600 tonnes in the Czech Republic.

356. Total consumption of milk products, defined as the total of all uses made of milk in the European Union, has risen since 2003 by 1% per year.

357. In 2006, only SMP was bought into intervention. Intervention stocks were empty halfway through 2006. This is evidence of a rather tight supply-demand situation in 2006 for the milk protein market in the EU.

358. For butter, 61 500 tonnes were bought into intervention. Despite this rather large increase, 119 000 tonnes were sold from intervention, mainly at the end of the year. Stocks were reduced by the end of the year to 62 000 tonnes. This shows that the EU-25 market for milk fat was also getting tighter.

359. On 1 July 2006 institutional prices were reduced by 7% for butter and by 5% for skimmed milk powder, to €259.50/100 kg and €174.70/100 kg, respectively. Domestic prices for milk products decreased for butter and WMP in line with the intervention price cuts. Prices for SMP resisted the intervention price cut. Prices for cheeses decreased slightly after three years of stability.

360. Exports showed a mixed picture in 2006. 252 000 tonnes of butter and butter oil were exported. This was a big decrease compared to previous years, where exports were far above 300 000 tonnes. For skimmed milk powder, exports were down by more than 55%, caused by limited availability. Exports of WMP and casein fell by 15% and 32%, respectively. Exports of whey powder developed more positively, growing by +3.4% to 320 000 tonnes, while cheese exports also increased by 5% to 586 000 tonnes. Lactose exports increased by 27% to 94 000 tonnes.

361. It should be noted that these exports were achieved with much reduced refunds. Between 2004, the start of the dairy reform, and the end of 2006, WMP refunds were reduced by 78%, butter refunds by 45% and cheese refunds by 59%. Refunds for SMP were even cut to zero in June 2006. Internal disposal aids for casein production and SMP in animal feed were reduced to zero in October 2006. Whey powder and lactose never were eligible for export refunds.

3.2.2. Beef and veal

Community market

362. Based on the November/December 2006 survey, the total EU-25 bovine herd amounted to 84.7 million head. This was a decrease of 1.1% compared with the preceding year. The bovine herd increased in Denmark (+ 0.5%), Greece (+ 2.6%) and Lithuania (+4.8%), but decreased in several Member States, particularly in Germany (– 2.5%), Italy (– 1.8%), the Netherlands (– 1.9%), Poland (– 1.9%) and the United Kingdom (– 2.6%).

363. In 2006, net beef and veal production in the EU-25 was an estimated 7.89 million tonnes, an increase of 0.4% compared with 2005. This slight increase was primarily due to more slaughtering of cows in the UK following the return of over-thirty month cattle to the normal commercial market.

364. In 2006, beef and veal consumption in the EU-25 was an estimated 8.19 million tonnes. Consumption was around 0.3% up on 2005. Average per capita consumption is estimated at 17.7 kilograms, although the level in the 10 new Member States (6.3 kilograms) remained well below that in the EU-15 (19.9 kilograms).

365. As regards external trade, the EU-25 exported around 239 000 tonnes of beef (meat and live animals in carcass weight equivalent) in 2006. This was 16.3% lower than in 2005. The majority of exports were for the Russian market (62.7%) along with Switzerland (4.4%), Croatia (4.2%) and Angola (3.4%). The general decrease in exports to third countries can be explained by several factors, including tight supply on the Community market, the strong competitive position of third country suppliers (in particular from South America) on the world market and the unfavourable euro-dollar exchange rate. Moreover, in view of prevailing market circumstances, export refund levels were reduced on various occasions.

366. EU-25 beef imports in 2006 amounted to around 510 000 tonnes, corresponding to a 3.8% decrease compared with 2005. Over 90% of imports came from Brazil (64.6% of total imports), Argentina (16.2%) and Uruguay (8.8%). This decrease contrasts with the upward trend seen in recent years. However, following the outbreak of foot-and-mouth disease in Brazil in late September 2005, the EU introduced import restrictions on three main beef-producing states in Brazil. Moreover, the Argentine government decided in spring 2006 to suspend temporarily its beef exports, in an attempt to curb inflation on the domestic market. As both countries are by far the most important third-country suppliers of beef to the EU market, this affected beef supplies in the Community.

367. From 2003, the Community became a net importer of beef. Despite the slight decrease in EU beef imports in 2006, the overall trade deficit in the beef and veal sector increased further to around 265 000 tonnes.

368. Due to tight supply on the market, reinforced by reduced supplies from Brazil and Argentina, EU beef producer prices were very firm in 2006. During the first half of 2006, the avian influenza scare in some Member States boosted demand for beef and particularly veal, which pushed prices further upwards. Overall, average EU-25 prices for the carcasses of adult bovines in 2006 were as follows:

	Average price in EUR/100 kg carcass weight	% change 2006/05
Young bulls	315.8	+ 4.2%
Steers	299.5	+ 3.9%
Cows	237.8	+ 7.9%
Heifers	314.2	+ 7.0%

Producer prices for carcasses of adult male bovines were around 4% higher than in 2005, while prices for cow and heifer carcasses were between 7 and 8% up on the preceding year.

369. Following the introduction of the UK's older-cattle disposal scheme (OCDS) on 23 January 2006, a total of 150 000 bovines born before August 1996 were disposed of[52]. This compares with the total of around 706 000 cattle disposed of during 2005, the last full year of the operation of the former over-thirty month scheme (OTMS) in the UK.

370. For OCDS disposals during 2006, the compensation paid was €360/head, of which 50% was financed by the EU and the remaining 50% by the UK authorities. The scheme will remain in place until the end of 2008.

Main legislative and policy developments

371. Regulation (EC) No 1760/2000 of the European Parliament and the Council lays down provisions for the compulsory labelling of the origin (country of birth, fattening and slaughtering) of beef animals and for voluntary labelling indicating breeds, types of production, feedingstuffs, extensive breeding, etc. Three years after the entry into force of this Regulation, the Commission published in 2004 a report on the application of the beef labelling scheme, which was discussed in the Council. Subsequently, the Commission prepared a draft regulation amending Commission Regulation (EC) No 1825/2000, with the aim of simplifying some of the compulsory labelling requirements (scrap trimmings, cut meat and meat from bovine heads). This draft was discussed with the Member States in the course of 2006. In addition, the text was presented for consultation to the European Parliament.

372. During the discussion of this report, several Member States asked the Commission to come forward with a proposal to introduce a harmonised definition of veal at EU level. In order to prepare for this work, the Commission launched an internet consultation on the subject in spring 2005 and organised a public hearing with all interested stakeholders in June 2005. Against this background, the Commission prepared its proposal for a Council regulation on the names under which meat from bovine animals up to 12 months of age should be marketed in the EU[53]. The names to be used in each of the Member States are listed in the annex to the proposed regulation. A distinction is made between sales descriptions to be used for meat obtained from bovine animals aged 8 months or less and those for meat from animals aged over 8 months but not older than 12 months.

373. Following the 2004 enlargement of the EU, the Community had to negotiate with the WTO adjustments to its import tariff regimes for an expanded EU of 25 Member States. As a result, various tariff quotas in the beef and veal sector were amended in the course of 2006 (see table below).

52 Regulation (EC) No 716/96, as amended by Regulation (EC) No 2109/2005.

53 COM(2006) 487 final of 8 September 2006.

	Import quota	Previous quantity	**Netted-out quantity**	Applies from
LIVE ANIMALS				
erga omnes	Live bovines for fattening	169000	24070	1.7.2006
erga omnes	Cows, heifers, bulls of mountain breeds	5000 5000	710 711	1.7.2006
BEEF				
erga omnes	Frozen beef for processing	50700	54703 (+ 4003)	1.7.2006
	Import quota	Previous quantity	**Additional quantity**	Applies from
New Zealand	High-quality beef	300	1000	+ 500 t from 01.01.2006 +1000 t from 01.07.2006
Australia	High-quality beef	7000	150	+75 t for 2005-2006 + 150 t from 01.07.2006
Brazil	High-quality beef	5000	adjust definition	1.1.2007

3.2.3. *Sheep meat and goat meat*

374. The overall situation on the EU sheep and goat market in 2006 was characterised by a reduced flock size and a Bluetongue outbreak further north than ever before in the Benelux countries, France and Germany. However, this had a relatively weak market impact with visible price reductions only in the Netherlands. The overall price situation was satisfactory.

375. Heavy[54] lamb prices in 2006 followed a seasonal pattern and were high throughout the Community. The average price was EUR 419/100 kg carcass weight, 5.2% higher than in 2005. However, prices were unexpectedly low in November-December (4.4% down on the previous year). The high average was driven by firm prices in the UK, France and Germany. Light[55] lamb prices developed similarly to heavy lamb, but the annual average (EUR 589/100 kg carcass weight) remained 3% lower than in 2005. A major factor in the low average price was Spain, the biggest light lamb producer, where prices were 6.4% lower than in 2005.

376. The world's main sheep meat and goat meat producer is China, accounting for a quarter (26%) of world production. In 2006, total world production was 12 016 000 tonnes with China accounting for 3 250 000 tonnes. China is followed by the EU (1 032 000 tonnes or 9%), Australia (6%) and New Zealand (5%). A large share of sheep meat is produced by African countries (17%), mainly Nigeria and Algeria, but their individual production is relatively marginal in comparison with the big producers[56].

377. Although Chinese output is by far the largest, the country still has little presence in the world market due to the fact that domestic consumption absorbs most of national

54 Heavy lambs are lambs weighing 13.1 kg (carcass weight) or more.

55 Light lambs are lambs weighing 13 kg (carcass weight) or less.

56 FAO statistics 156, 25.6.2003.

production. World trade in sheep meat is dominated by New Zealand and Australia, accounting for more than 80% of world exports (452 000 and 390 000 tonnes, respectively, in 2006).

378. Community exports remained almost non-existent. The European Union imports over one fifth of its needs, making it one of the world's leading importers next to the Asian/Pacific countries. The main suppliers of sheep and goat meat are New Zealand and Australia, which accounted for 78% and 6.9% of total Community imports in 2006, respectively. New Zealand's share increased from 72% in 2005. In contrast, Uruguay's and Argentina's shares dropped from nearly 5% to 3.1% and 2.6%, respectively. Live animals were primarily imported from Romania (3.6% of total imports) and Bulgaria (2.2%). The principal destinations of sheep meat from New Zealand were the UK, Germany and France. The share of chilled meat in imports in 2006 was 22%.

379. Imports enter the Community mainly under tariff rate quotas exempt from import duties. For market management reasons, these quotas are managed on a calendar year basis. New Zealand has the largest tariff rate quota with 227 854 tonnes in carcass weight equivalent, followed by Argentina (23 000 tonnes) and Australia (18 786 tonnes). In 2006, New Zealand, Australia and Uruguay all met 99% of the quota. Chile and Iceland were also above 50% (82% and 51% respectively), while only 35% of the quota available for Argentina was imported.

380. According to the livestock surveys, the sheep and goat population in the European Union with 25 Member States was 98 million head. Five Member States, the United Kingdom, Spain, Greece, France and Italy, accounted for about 85% of total sheep and goat numbers. The proportion of goats in the EU is about 12%, of which nearly half are found in Greece, a quarter in Spain and significant numbers in France, Italy and Portugal. In 2006, the sheep flock contracted in most Member States, the drop being dramatic in Ireland (– 10% compared to 2005) but also noteworthy in Spain and France (– 3% in both). At the same time, sheep numbers increased in Italy (+ 3.4%). These changes are related to structural adjustments in the sector, with farms concentrating into bigger and more efficient units and small farms going out of business. In Italy, prices were good in 2006, which encouraged the expansion of the sheep flock.

Main legislative and policy developments

381. In 2006, there were no major legislative or policy developments in the sheep and goat sector.

3.2.4. Pigmeat

382. In 2006, world production of pigmeat rose by 1.9% to 105.5 million tonnes (source: FAO). China remained the leading producer in the world with 52.9 million tonnes, 3.4% more than the previous year. The European Union was second with an annual production of 21.4 million tonnes. This was an increase of 1.2% compared to the previous year. In 2007, EU pigmeat production was expected to increase by 2% to 21.7 million tonnes, plus 360 000 t due to the accession of Bulgaria and Romania. The United States was the third largest producer of pigmeat with 9.6 million tonnes in 2006, 1.8% more than in 2005.

383. The average EU price for 2006 was EUR 145.3/100kg (+4.5% up on the previous year), which was relatively positive for pig producers. In 2007, the average price was expected to be lower at around EUR 135/100 kg, with feed costs increasing considerably after the summer. An aid scheme for private storage was introduced on 29 October 2007.

384. EU per capita consumption of pigmeat remained stable in 2006 at 43.0 kg per capita/year.

385. In 2006, the European Union exported 1.59 million tonnes of pigmeat (carcass weight equivalent). In the same year, imports increased to 20 000 tonnes.

386. The main destination for EU pigmeat exports in 2006 was Russia (33% of the EU's exports), followed by Japan with 12% and Hong Kong and China with 9%. In 2006, the share of exports receiving refunds was estimated at about 5% of total pigmeat exports.

3.2.5. Poultry meat

World production of poultry meat (1000 t)

	United States	Brazil	China	Japan	Russia	India	Thai-land	Argen-tina	UE-25	World
2000	16 416	6 125	12 873	1 195	754	1 081	1 194		10 235	**69 156**
2001	16 761	6 380	12 866	1 216	861	1 250	1 336		10 777	**71 643**
2002	17 268	7 239	13 262	1 229	937	1 401	1 414		10 971	**74 377**
2003	17 468	7 967	13 687	1 218	1 034	1 600	1 291	781	10 719	**75 823**
2004	18 007	8 895	14 170	1 237	1 030	1 715	0 964	906	11 140	**78 559**
2005	18 506	8 724	14 628	1 338	1 345	1 973	1 036	1 050	11 091	**84 186**
%TAV 2005/00	**12.7**	**42.4**	**13.6**	**11.9**	**78.3**	**82.5**	**–149**	**34**	**8.4**	**21.7**

Source: FAO, European Union

387. Since 2000, world production of poultry meat has increased regularly and substantially (+21%). The overall increase has been slowing down since 2001, with growth varying widely among producing countries. Among the larger producing nations, production increased faster than average in India, Brazil, Russia, and Argentina.

388. The European Union's production decreased considerably in 2003 (−6%) due to the avian influenza scare in the Netherlands and Belgium, and the production cutbacks in several Member States (France, Italy, Sweden). Production in the EU-25 started to recover in 2004 (+1.4% compared to 2000) without, however, attaining the level of 2002. In 2005, production started to decrease again due to the avian influenza crisis in the last quarter. Both the production and consumption of poultry meat dropped substantially during the first half of 2006 due to media coverage of the avian influenza situation (by up to 70% in certain Member States) and then recovered during the latter part of the year.

389. In 2006, EU imports of poultry meat decreased by 5% to 580 000 tonnes mainly due to lower demand for poultry meat in the EU. At the same time, EU exports remained

stable at 975000 tonnes thanks to high export refund rates and exceptional use of refunds for poultry cuts.

390. There is no direct support for poultry meat on the internal market. However, the poultry CMO was modified at the beginning of 2006 in order to introduce a legal basis to provide financial support to the sector, which was strongly affected by consumer concerns about avian influenza.

391. During the GATT year 2005/06, 226 500 tonnes of poultry were exported with export refunds. It should be noted that export refunds were exceptionally provided for poultry cuts between November 2005 and October 2006 in order to shift quantities from the EU market.

392. In 2006, 15 500 tonnes of de-boned poultry meat and 2 500 tonnes of turkey meat could be imported duty-free, along with a further 10 400 tonnes subject to a reduced rate of duty under minimum access quotas and 11 900 tonnes under other bilateral agreements (Turkey, Israel, Chile).

393. During the year 2005, poultry meat prices were fairly good during the 9 first months of the year, fluctuating between EUR 145 and 160/100 kg. However, prices dropped sharply between September 2005 and April 2006 (down to €130/100 kg) because of the drop in consumption caused by media coverage of avian influenza. Prices recovered only in the second half of 2006. Since then they have remained at historically high levels.

3.2.6. Eggs

World production of eggs in shells (1 000 t)

	United States	**Mexico**	**Brazil**	**Japan**	**Russia**	**India**	**China**	**EU-25**	**World**
2000	4 998	1 788	1 539	2 535	1 894	1 749	19 433	6 185	**55 405**
2001	5 164	1 892	1 606	2 514	1 960	1 870	20 229	6 302	**52 766**
2002	5 131	1 900	1 547	2 529	2 032	2 190	25 009	6 602	**59 667**
2003	5 180	2 063	1 632	2 530	2 044	2 222	26 446	6 324	**61 581**
2004	5 278	2 198	1 682	2 480	2 005	4 486	27 612	6 475	**63 358**
2005	5 329	2 276	1 749	2 482	2 080	2 539	28 645	6 279	**65 156**
% 2005/00	**6.7**	**27.2**	**13.6**	**–2**	**10**	**46**	**47**	**1.6**	**17.5**

Source: European Union, FAO

394. World production of eggs in shell increased by 17.5% between 2000 and 2005. Although the average increase in the United States was higher than in the European Union, the EU-25 still holds second place after China. China has experienced very strong growth, + 47% between 2000 and 2005, and is the world's leading producer of eggs. India also saw a sharp increase in production between 2000 and 2005 (+ 46%).

395. The principal importing countries remain the EU and Japan (egg products) and Hong Kong (eggs in shell). The volume of Community (EU-25) exports decreased in 2005 (– 5%) to 259 000 t, due to relative high prices within the EU. Imports also decreased

by 6% in 2005 (46 000 t). In 2006, imports increased by 2% s and exports increased by 8%.

396. Prices were exceptionally low during the first half of 2005, recovering only slightly in the summer. In 2006, since EU production continued to decrease (– 2%), leading to limited supply, prices increased further to recover their long-term average level.

397. The common market organisation is similar to that for poultry meat.

398. Regarding exports with refunds, 50 000 t were exported in the GATT year 2006/07, representing 44.7% of the GATT ceilings. Since December 2006, export refunds for eggs in shell have been fixed at zero.

3.2.7. Honey

World situation

399. In 2005, world honey production reached 1.41 million t, which represents an increase of 2.6% in relation to the previous year (FAO source). China remained the world's main producer with 299 000 t. The EU-25 remained in second place with 174 000 t.

Honey world production by country (1000 t)

	2001	**2002**	**2003**	**2004**	**2005**
China	254	268	295	298	299
EU 15-25	123	117	126	170	174
United States	84	78	82	83	79
Argentina	80	83	75	88	93
Turkey	60	75	70	74	82
Ukraine	60	51	54	58	71
Mexico	59	59	57	57	51
WORLD (total)	**1 264**	**1 284**	**1 338**	**1 380**	**1 417**

European market

400. Self-sufficiency in the European Union (EU-25) was 55% during the marketing year 2004/05, which represents a sharp increase in relation to the previous marketing year due to EU enlargement. Human consumption remains stable at 0.7 kg per capita per year.

401. EU imports decreased slightly in 2006 (– 0.8%) to 146 500 tonnes. Argentina remains the EU's leading supplier, accounting for 50% of total Community honey imports in 2006 (66 000 t out of 135 000 t).

Despite increasing during 2006 (8 000 t as against 6 700 t), EU exports remained very low.

402. Compared to 2005, EU import prices increased in 2006 (€1.47/kg as against €1.3/kg) but remained very low compared to export prices (€4.77/kg).

4. THE CAP REFORM IN 2006

403. The Single Payment Scheme entered its second year of implementation in 2006.

404. From 1 January 2005, all EU farmers receiving direct payments have to comply with the cross-compliance conditions. Cross-compliance links the full payment of support to compliance with certain rules relating to agricultural land and to agricultural production and activity in the areas of the environment, public, animal and plant health, animal welfare, and good agricultural and environmental condition of the land[57].

Entries in the SPS

405. Ten Member States implemented the Single Payment Scheme in the first year, while five more introduced it in 2006. France, Spain, the Netherlands and Greece have chosen the historical model, which distributes the reference amounts based on the support received by individual farmers over a reference period. Finland has opted for the regional model, which allocates at least part of the reference amount according to the area farmed in the year of implementation.

406. The table gives an overview of the implementation of the CAP in the Member States, including the recoupling options chosen, which vary significantly among Member States depending on the specific situation of the sectors involved.

Integration of the sugar sector

407. The sugar sector was decoupled in 2006[58], leading to the integration of sugar beet, cane and chicory support within the Single Payment Scheme.

408. Among the countries applying the Single Area Payment Scheme (SAPS), separate sugar payments are made to farmers by the Czech Republic, Latvia, Lithuania, Hungary, Poland and Slovakia.

57 Articles 4 and 5 of Council Regulation (EC) No 1782/2003 of 29 September 2003 establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers (OJ L 270, 21.10.2003, p. 1).

58 Commission Regulation (EC) No 658/2006 of 27 April 2006 amending Regulation (EC) No 795/2004 laying down detailed rules for the implementation of the Single Payment Scheme provided for in Council Regulation (EC) No 1782/2003 (OJ L 116, 29.4.2006, p. 14).

Overview of the implementation of direct payments under the CAP in Member States

Annual Report 2006

MS	Start SPS	Regions	Model SPS / SAPS	Decoupling of dairy payment	Which sectors remain coupled	Implementation of the second wave of the CAP reform (tobacco, cotton, olive oil and hops) and the reform of the sugar sector
Belgium	2005	North: Flanders + Brussels	SPS historical	2006	– suckler cow premium 100% – slaughter premium calves 100% – seeds (some species) 100%	– tobacco coefficient for decoupling: 1
	2005	South: Wallonia	SPS historical	2006	– suckler cow premium 100% – seeds (some species) 100%	– tobacco coefficient for decoupling: 1
Czech Republic			SAPS			– separate sugar payments
Denmark	2005	One region	SPS static hybrid	2005	– special male bovine premium 75% – sheep and goat premium 50%	–
Germany	2005	*Länder* (Berlin included in Brandenburg, Bremen in Lower Saxony and Hamburg in Schleswig-Holstein)	SPS dynamic hybrid moving to a flat-rate model	2005		– hop payments 25% coupled – tobacco coefficient for decoupling: 0.4
Estonia			SAPS			–

MS	Start SPS	Regions	Model SPS / SAPS	Decoupling of dairy payment	Which sectors remain coupled	Implementation of the second wave of the CAP reform (tobacco, cotton, olive oil and hops) and the reform of the sugar sector
Greece	2006	–	SPS historical	2007	– seeds – Article 69 application: = 10% of the ceiling for arable crops, = 10% of the ceiling for the beef sector, = 5% of the ceiling for the sheep and goat sector	– Article 69 application: 2% of the ceiling for tobacco, = 4% of the ceiling for olive oil, = 10% of the ceiling for sugar – 2% deduction in the olive oil sector for the funding of working programmes established by producer organisations (Art. 110(i) of Reg. 1782/2003 and Art. 8 of Reg. 865/2003). Annex VII, points H and I: – tobacco and olive oil coefficient for decoupling: 1
Spain	2006	–	SPS historical	2006	– seeds 100% – arable crops 25% – sheep and goat premiums 50% – suckler cow premium 100% – slaughter premium calves 100% – slaughter premium bovine adults 40% – Article 69 application: = 7% of the ceiling for the bovine sector, = 10% of the ceiling for dairy payments – outermost regions 100%	– tobacco coefficient for decoupling: 0.4 – olive oil coefficient for decoupling: 0.936 – Article 69 application: = 5% of the ceiling for the tobacco sector, = 10% of the ceiling for the cotton sector, = 10% of the ceiling for sugar
France	2006	–	SPS historical	2006	– arable crops 25% – sheep and goat premium 50% – suckler cow premium 100% – slaughter premium calves 100% – slaughter premium bovine adults 40% – seeds (some species) – outermost regions 100%	– 10% deduction in the olive oil sector for the funding of working programmes established by producer organisations (Art. 110(i) of Reg. 1782/2003 and Art. 8 of Reg. 865/2003) – hop payments 25% coupled Annex VII, points H and I: – olive oil coefficient for decoupling: 1 – tobacco coefficient for decoupling: 0.4
Ireland	2005	–	SPS historical	2005	None	–

MS	Start SPS	Regions	Model SPS / SAPS	Decoupling of dairy payment	Which sectors remain coupled	Implementation of the second wave of the CAP reform (tobacco, cotton, olive oil and hops) and the reform of the sugar sector
Italy	2005	–	SPS historical	2006	– seeds 100% – Article 69 for quality production = 8% of the ceiling for the arable sector, = 7% of the ceiling for the bovine sector, = 5% of the ceiling for the sheep and goat sector	– Article 69 application: = 8% of the ceiling for sugar – 5% deduction in the olive oil sector for the funding of working programmes established by producer organisations (Art. 110(i) of Reg. 1782/2003 and Art. 8 of Reg. 865/2003) Annex VII, points H and I: – olive oil coefficient for decoupling is increased to 1 – tobacco coefficient for decoupling: 0.4 – for the region Puglia, the decoupling coefficient for tobacco is 100%
Cyprus			SAPS			–
Latvia			SAPS			– separate sugar payments
Lithuania			SAPS			– separate sugar payments
Luxemburg	2005	one region	SPS static hybrid	2005	None	–
Hungary			SAPS			– separate sugar payments
Netherlands	2006	–	SPS historical	2007	– slaughter premium calves 100% – slaughter premium bovine adults 100% – seeds for fibre flax 100%	–
Austria	2005	–	SPS historical	2007	– suckler cow premium 100% – slaughter premium calves 100% – slaughter premium bovine adults 40%	– tobacco 100% decoupled – hop payments 25% coupled
Poland			SAPS			– separate sugar payments
Portugal	2005	–	SPS historical	2007	– suckler cow premium 100% – slaughter premium calves 100% – slaughter premium bovine adults 40% – sheep and goat premium 50% – seeds 100% – outermost regions 100% – Article 69 application: = 1% (arable crops, rice, bovine and ovine sectors)	– Article 69 application: = 10% of the ceiling for the olive oil sector, = 10% of the ceiling for sugar – tobacco coefficient for decoupling 0.5 – olive oil coefficient for decoupling: 1

MS	Start SPS	Regions	Model SPS / SAPS	Decoupling of dairy payment	Which sectors remain coupled	Implementation of the second wave of the CAP reform (tobacco, cotton, olive oil and hops) and the reform of the sugar sector
Slovakia			SAPS			– separate sugar payments
Finland	2006	three regions (based on reference yield)	SPS dynamic hybrid moving to a flat-rate model	2006	– sheep and goat premium 50% – special male bovine premium 75% – Article 69 application: = 2.1% of the ceiling for arable crops, = 10% of the ceiling for the bovine sector – seeds (timothy seed)	–
Sweden	2005	five regions (based on reference yield)	SPS static hybrid	2005	– special male bovine premium 74.55% – Article 69 application: = 0.45% of total ceiling	–
United Kingdom	2005	England normal	SPS dynamic hybrid moving to flat-rate payment	2005	None	–
	2005	England — moorland	SPS dynamic hybrid moving to flat-rate payment		None	–
	2005	England — SDA minus moorland	SPS dynamic hybrid moving to flat-rate payment		None	–
	2005	Scotland	SPS historical		– Article 69 application: = 10% of the ceiling for the bovine sector	–
	2005	Wales	SPS historical		None	–
	2005	Northern Ireland	SPS static hybrid		None	–

Abbreviations: SPS = Single Payment Scheme, SAPS = Single Area Payment Scheme

5. AGRIMONETARY ARRANGEMENTS

Developments in 2006

409. The agrimonetary arrangements apply to payments to beneficiaries by Member States that have not adopted the euro. A new Commission Regulation was adopted in 2006 and has applied from 1 January 2007.

410. The main aims of the new Regulation are:

– to simplify the procedure for establishing the exchange rates for certain measures (measures of a structural or environmental character, the apiculture programme, and certain prices and amounts in the sugar sector) by removing the need for the Commission to determine the average exchange rates. The exchange rate to be used is the rate most recently fixed by the European Central Bank prior to the 'operative event' in question. The Member States do not need to await a Commission Regulation fixing the average exchange rates;

– to establish the operative event on the first day of the month for legal acts coming into force during that month for a number of prices, in order to ensure certainty for the operators concerned and reduce the administrative burden for the paying agencies concerned;

– furthermore, to harmonise operative events and exchange rates in the relevant sector legislation in course of the codification procedure.

6. RURAL DEVELOPMENT IN 2006

411. Rural development programming for the period 2000–2006 consists of the following: 68 Rural Development Programmes — RDPs — (co-financed by EAGGF Guarantee), 69 Objective-1 region programmes — operational programmes and single programming documents — with rural development measures (EAGGF Guidance co-financed) and 20 Objective-2 region programmes with rural development measures (EAGGF Guarantee co-financed).

412. With the enlargement of the European Union on 1 May 2004, a special rural development regime was introduced for the new Member States — 'Temporary Rural Development Instrument (TRDI)'. Across the EU-10, there are two types of programming: 10 RDPs co-financed by the TRDI and 9 Objective-1 region programmes, covering most of the new Member States (co-financed by EAGGF Guidance).

413. In 2006, Community expenditure on rural development amounted to EUR 9 199.2 million (Guarantee and Guidance combined).

414. Payments for EAGGF Guarantee amounted to EUR 5 610.2 million in the 2006 financial year (from October 2005 to October 2006). The Community average execution (compared to annual appropriations) reached 98.1%, meaning that almost all the budget available for 2006 was spent. By Member State, there was overspending (Member States that spent more than their annual financial allocation) in Belgium, Greece, Spain, France, Ireland, Luxembourg, the Netherlands, Austria,

Finland and Sweden, and underspending in the remaining countries. EAGGF Guarantee spending in 2006 accounted for 99.7% of financial allocations for the 2000–2006 programming period.

415. Payments for EAGGF Guidance reached EUR 3 589 million in 2006 (calendar year): 3 562.1 million for 2000–2006 programmes (Objective 1: 3 192.9; Leader+: 361.1; PEACE: 8.1) and EUR 26.9 million for the closure of 1994–1999 programmes.

416. In 2006 (calendar year), payments for the 'Temporary Rural Development Instrument (TRDI)' amounted to EUR 2 115.7 million and for SAPARD to EUR 213.7 million (EUR 12.7 million for Romania and Bulgaria and EUR 201 million for the completion of pre-accession assistance for eight new Member States). For the three financial instruments together (Obj. 1, SAPARD and TRDI), EUR 2 943.9 million was paid to the new Member States.

417. 45 of the 1994–1999 programmes were closed in 2006 and 39 programmes remained open at the end of 2006 (out of the 402 received in March 2003). Of the 39 programmes still open, 11 of them are closed in practice but the final decommitment is awaiting the end of judicial procedures at national level or a Commission decision regarding the Article 24 procedure. For 11 other programmes, the pre-closure letter has been sent to the Member State proposing the outstanding sum to be paid. Closure of the other 17 is in hand. Outstanding commitments for these programmes at the end of 2006 amounted to EUR 347.6 million, some of them significant: Spain (EUR 138 million), Portugal (EUR 91 million) and Italy (EUR 76 million).

418. At the end of 2006, total payments for the 2000–2006 programmes financed by EAGGF Guidance accounted for 68% of the financial plan for the 2000–2006 programming period. Under the n+2 rule established in Regulation (EC) No 1260/1999, EUR 9.3 million was decommitted in 2006. These decommitments affected fifteen Leader+ programmes (EUR 7.8 million) and four Objective-1 programmes (EUR 1.5). The Member States affected are Spain (9 programmes), Greece (4 programmes), Germany (3 programmes), Italy (2 programmes) and France (1 programme).

419. In 2006, the Commission approved 32 RDP amendments, one of them through written consultation of the STAR Committee, and 6 amendments to SAPARD programmes.

420. Three legislative documents were approved: the Transition rules, the Control regulation and the Implementing rules.

421. Monitoring indicators for the execution of Leader+ in 2004 show a total of 28 052 projects over the period 2000–2004. The top five fields of assistance are:

– physical investment (assistance to SME and handicraft) — 9.4%;

– physical investment in tourism — 9.1%;

– renovation and development of villages and protection and conservation of the rural heritage — 9.0%;

– non-physical investment in tourism — 8.4%;

– encouragement of tourism activities — 7%.

422. By mid-2006, 231 transnational cooperation projects had been notified to the Leader+ European Observatory. At least 369 Local action groups are involved in transnational cooperation, on average 4 per project. The Predominant theme (34% of projects) is best use of natural and cultural resources. Another two themes chosen by a quarter of projects are quality of life and use of new know-how and new technologies.

423. Leader+ measures are applied in 6 new Member States (under Objective-1 programmes for the period 2004–2006), with 257 existing Local Action Groups and 190 Local Action Groups implementing local development strategies.

6.1. Belgium

Rural development programmes (EAGGF Guarantee)

424. Three Rural Development Programmes for the period 2000–2006 were approved for Belgium: one federal and two regional (Flanders and Wallonia) programmes. The total public cost for these three programmes amounted to EUR 842.6 million, of which the EAGGF contributed EUR 332.7 million.

Amendments to RDPs

425. In 2006, three amendments to the Belgian Rural Development Programmes were submitted and approved by the Commission. The amendments only concerned the financial plans and all related to the increase in the EAGGF allocation for Belgium, pursuant to Decision 2006/289/EC.

426. Under the notification procedure, no amendments to Belgian RDPs were received in 2006. Under the information procedure, the Commission received two amendments to the financial plan of the Flemish RDP (on 28 September and 10 October) and three amendments to the financial plan of the Walloon RDP (on 12 May, 27 September and 11 October).

Level of payments in the period from 16 October 2005 to 16 October 2006

427. The total 2006 budgetary allocation for Belgium amounted to EUR 75.9 million. The level of payments for the three programmes amounted to EUR 73.6 million, which is 96.9% of the annual allocation.

428. Global financial execution for EAGGF Guarantee since the beginning of the programming period has been 99.3% of the total budget for 2000–2006, i.e. EUR 330.4 million out of a total of EUR 332.8 million.

Objective-1 programmes (EAGGF Guidance)

Operational programmes or Single Programming Documents

429. A Single Programming Document was approved for Belgium: phasing-out of the Objective-1 SPD for the Hainaut province (Wallonia). Total public expenditure for this SPD amounted to EUR 1 357.9 million, of which the Structural Funds contributed EUR 671.2 million. The EAGGF Guidance contribution amounts to EUR 43.1 million, which is 6.4% of the total Community contribution. These amounts take account of indexation, of the performance reserve allowances and of mid-term transfers between Funds (approved in 2004), of two transfers from the IFOP

in 2004 and 2005 and one transfer back to the IFOP in 2006 (for an amount of EUR 1 million).

Level of payments in 2006

430. Global financial execution for EAGGF-Guidance since the beginning of the programming period to the end of 2006 has been 52.6% of the total budget for 2000–2006, i.e. EUR 22.6 million out of a total of EUR 43.1 million.

Leader+ programme

431. Belgium has two Leader+ programmes: one for Flanders, involving total public expenditure of EUR 8.0 million, of which EUR 4.0 million EAGGF Guidance, and one for Wallonia, involving total public expenditure of EUR 20.7 million, of which EUR 10.3 million EAGGF Guidance. These amounts include the indexations of EU contributions adopted by Decisions C(2005) 489 and C(2005) 488, respectively, and of decommitments pursuant to the N+2 rule adopted by Decisions C(2005) 3077 and C(2005) 5594, respectively.

432. In Flanders, five Local Action Groups were selected, covering 12% of the Region's territory and 6% of its population. For Wallonia, fifteen Local Action Groups were selected, covering 32% of the Region's territory and 12% of its population. The two regional Leader+ network units became fully operational in 2004, and the two Regions have agreed that the Walloon network unit would act as the national contact point where appropriate.

433. By Decision C(2006) 4832 of 6 October 2006, the Commission approved an amendment to the Flemish Leader+ programme, namely, to the financial plan and in particular a shift in funding from axes 2, 3 and 4 to axis 1.

434. At the end of 2006, after seven years of implementation, the total financial execution for the two programmes was 46% of total EAGGF Guidance expenditure for the period 2000–2006, i.e. EUR 6.6 million out of a total of EUR 14.3 million (total EU contribution after decommitments).

Rural development policy 2007–2013

National Strategy Plan

435. A first version of the NSP for Belgium was submitted on 15 November 2006. The NSP focuses objectives on improving the competitiveness of the agro-food sector, diversifying the economy in rural areas, increasing the employment rate, improving the environmental situation and preserving the rural heritage. The planned breakdown by axis of the EAFRD allocation (EUR 418.6 million) for Belgium as a whole is as follows: 48.1% for axis 1; 35.9% for axis 2; 8.7% for axis 3; 5.0% for axis 4 (Leader); and 2.3% for technical assistance.

Rural Development Programmes 2007–2013

436. For the programming period 2007–2013, Rural Development policy will be implemented in Belgium through two RDPs: one for Flanders, with an EAFRD allocation of EUR 224.5 million, and one for Wallonia, with an EAFRD allocation of

EUR 194.1 million. The first version of the Flemish RDP was officially submitted on 8 December 2006. The Walloon RDP was not submitted in 2006.

6.2. Czech Republic

Rural development programmes (EAGGF Guarantee)

437. The Czech Horizontal Rural Development Plan was approved by Decision C(2004) 3290 of 3 September 2004. The EAGGF contribution was EUR 542.8 million for the period 2004–2006, to which is added national public co-financing of EUR 135.7 million. The horizontal rural development plan aims to mitigate the differences in farm profitability in less favoured areas that result from natural conditions, to improve the unfavourable age structure of farmers, to reduce the share of arable land in total agricultural land area and to provide for farming of agricultural land in conformity with the principles of Good Farming Practice.

Amendments to the RDP

438. On 1 March 2006, DG AGRI received a proposal to amend the Horizontal Rural Development Plan of the Czech Republic for 2004–2006. The Czech authorities have so far reimbursed beneficiaries of two agri-environmental measures, integrated production of vine and fruits and organic farming, at a certain percentage of the income foregone/cost incurred. To provide more of an incentive, the Czech authorities intend to increase this percentage, without impacting on the financial table. The Commission took note of this amendment on 2 May 2006.

439. On 30 October 2006, DG AGRI received a proposal for an amendment to the Horizontal Rural Development Plan of the Czech Republic for 2004-2006, namely, to the financial table of the HRDP, without impacting on the overall EAGGF contribution and without exceeding the 20% of total eligible public expenditure threshold, as stipulated by Article 51 (2) of Commission Regulation (EC) No 817/2004. The Commission took note of this amendment on 22 December 2006.

440. On 22 December 2006, the Czech authorities notified an amendment to the Horizontal Rural Development Plan for 2004–2006. The proposal changes several conditions relating to agri-environmental measures designed to make for smoother implementation of the programme. The Commission took note of this amendment on 2 March 2007.

Level of payments in the period from 16 October 2005 to 15 October 2006 (EAGGF Guarantee)

441. Since the beginning of the programming period, payments have amounted to EUR 408 million, i.e. 75% of the total budget allocation for that period.

Objective-1 Programmes (EAGGF Guidance)

442. The Operational Programme for Rural Development and Multifunctional Agriculture was approved by Commission Decision C(2004) 2689 of 2 July 2004. The financial contribution from EAGGF amounted to EUR 173.9 million for the period 2004–2006, which is complemented by national public funding of EUR 76.7 million. As regards measures, special emphasis is laid on the replacement of outdated technologies,

increased competitiveness, consolidation of land ownership, protection of the environment and the stabilisation of existing workplaces in Czech rural areas.

Amendments to the OP

443. The Czech authorities decided to transfer allocations from FIFG to EAGGF, to transfer the allocation of technical assistance to several measures, and to perform other transfers. The proposal was received on 27 September 2006, and approved by Decision C(2006) 7276 of 27 December 2006.

Level of payments in 2006

444. Since the beginning of the programming period, payments have amounted to EUR 73 million, i.e. 43% of the total budget allocation for that period.

Annual Report

445. The 2006 Annual Report for the RDP was received on 28 June 2007 and approved by letter of 29 August 2007.

446. The 2006 Annual Report for the OP was received on 28 June 2007 and approved by letter of 14 September 2007

Rural development policy 2007–2013

National Strategy Plan

447. The draft NSP was received on 20 September 2006. The Commission sent the final assessment letter on 6 December 2006. All the main comments in the letter were taken into account when preparing the RDP 2007–2013.

Rural Development Programmes 2007–2013

448. The Czech Republic submitted the first admissible version of the RDP on 7 December 2006. The total public contribution amounts to EUR 3 615.8 million. The anticipated breakdown per axis is as follows: Axis 1 – 22%, Axis 2 – 55%, Axis 3 – 17% and Axis 4 – 5%.

6.3. Denmark

Rural development programme (EAGGF Guarantee)

449. The total public cost of the Danish Rural Development Programme for 2000–2006 was EUR 725.9 million, including an EU contribution of EUR 330.1 million from the EAGGF, Guarantee Section. The programme includes support for investments in holdings, organic farming, training, less favoured areas, agri-environment, processing and marketing of agricultural products, food quality schemes, and the adaptation and development of rural areas and forestry.

Amendments to the RDP

450. Under the notification procedure, the Danish authorities notified the Commission of one amendment in February 2006 concerning changes in support rates for a number

of measures under agri-environment. A financial communication was submitted to the Commission in October 2006.

451. In June 2006, the Commission received a request for financial amendments to the programme. This amendment was approved by Commission Decision C(2006) 4006 of 31 August 2006. By this decision, the initial financial contribution was decreased from a total public amount of EUR 829.6 million to EUR 725.9 million, and the EAGGF part from EUR 348.8 million to EUR 330.1 million.

Level of payments in the period from 16 October 2005 to 15 October 2006

452. The 2006 plan provides for total public expenditure of EUR 136.2 million, including an EU contribution of EUR 74.4 million, of which EUR 74.1 million was paid out, leading to 99.6% utilisation of the funds under the programme.

453. Over the period 2000–2006, the global financial execution was 99.9%, or EUR 329.9 million out of EUR 330.1 million in total.

Annual report

454. The annual report for 2006 was expected to be received in 2007.

Leader+ Programme

455. The total public allocation for the Danish Leader+ Programme (2000–2006) was increased in 2004 following indexation and now amounts to EUR 34.6 million, including an EU contribution of EUR 17.3 million.

456. By Commission Decision C(2006) 5035 of 19 October 2006, the programme was amended to reflect the request from the Danish authorities to change the allocation between Priorities. The programming complement was amended accordingly. Payments in 2006 amounted to EUR 1.4 million. After six years of implementation, financial execution remained at 70.4% of the amount earmarked for the programming period 2000–2006.

Rural development policy 2007–2013

National Strategy Plan

457. The Danish NSP sets four major objectives for the programme, these being:

1) more entrepreneurs and local jobs in rural areas, 2) greater competitiveness in the food and forestry sector, 3) varied landscapes, rich nature and a clean environment, and 4) attractive living conditions in rural areas. The NSP was not officially submitted in 2006.

Rural Development Programmes 2007–2013

458. Denmark will have a single rural development programme. The total public cost for the Rural Development Programme is EUR 830.3 million, including an EU contribution of EUR 444.7 million. The RDP was not officially submitted in 2006.

6.4. Germany

Rural development programmes (EAGGF Guarantee)

Amendments to the RDP

459. In 2006, Germany introduced seven amendments concerning the German Framework Regulation and five requests to amend the regional programmes. A further two amendments to the German Framework Regulation and one regional programme were also notified by Commission decision.

460. All amendments were approved before the end of the financial year.

Level of payments in the period from 16 October 2005 to 15 October 2006

461. The consolidated financial table for 2006 specifies an EU contribution of EUR 940.6 million. For the period from 16 October 2005 to 15 October 2006, the EU contribution to the plan came to EUR 938.5 million, showing underspending of EUR 2.1 million.

462. Global financial execution for EAGGF Guarantee since the beginning of the programming period has been 99.97% of the budget for 2000–2006, i.e. EUR 5 463.0 million out of a total of EUR 5 465.1 million.

Objective-1 programmes (EAGGF Guidance)

Operational programmes on Single Programming Documents

463. Six German *Länder* are classified as Objective 1 regions: Berlin, Brandenburg, Mecklenburg-Western Pomerania, Saxony, Saxony-Anhalt and Thuringia. In 2006, the four regional OPs of Berlin, Mecklenburg-Western Pomerania, Saxony and Thuringia were amended. All amendments were approved before the end of the financial year.

Level of payments in 2006

464. Measures other than accompanying measures are paid from the EAGGF Guidance Section for these regions. The total eligible costs for 2006 were EUR 635.6 million, including an EAGGF Guidance contribution of EUR 500.1 million. In 2006, EUR 509.2 million was paid, of which EUR 64.6 million on 2006 commitments. Taken over the period 2000–2006, almost 85.6% of EAGGF funds have been used.

Annual Reports

465. In 2006, the first version of one annual report was not admissible. All the other annual reports were satisfactory and matched the forecasts. All annual reports were approved before the end of the financial year.

Leader+ Programme

466. In 2006, eleven German regional programmes were amended. The rather low demand for Action 2 (Support for cooperation between rural territories) resulted in a budget

transfer to Action 1 (Integrated territorial rural development strategies of a pilot nature). Leader+ measures were rarely the subject of amendments.

Rural development policy 2007 – 2013

National Strategy Plan

467. The German Framework Regulation was not submitted in 2006.

Rural Development Programmes 2007–2013

468. Eight of the 14 German regional rural development programmes were submitted at the end of 2006.

6.5. Estonia

Rural development plan (EAGGF Guarantee)

469. The programme consists of the following measures: support for less favoured areas, agri-environmental support, support for afforestation of agricultural land, support for semi-subsistence farms undergoing restructuring, meeting standards, complements to direct payments and technical assistance. The total EAGGF (Guarantee) budget for 2004–2006 for the Estonian Rural Development Programme amounted to EUR 150.5 million. The total eligible public cost of the programme was EUR 188.2 million.

Amendments to the RDP

470. An amendment to the RDP was approved by the Commission by Decision C(2005) 5541 in December 2005. The amendment introduces a compensatory payment to farmers in areas with environmental restrictions (NATURA 2000 areas) and increases the budget for agri-environmental measures. Another amendment notification not requiring a Commission decision was received by the Commission on 19 October 2007. It concerns changes to the Financial Table according to the actual take-up of RDP measures. Unspent budget on the measures mentioned will be channelled to finance mainly applications for agri-environment support (but also support for semi-subsistence farms) for the year 2007.

Level of payments in the period from 16 October 2006 to 15 October 2006 (EAGGF Guarantee)

471. The total amount spent during the period on measures in the RDP was EUR 105.2 million. The level of payments in the period up to 15 October 2006 was 70%.

Objective-1 Programmes (EAGGF Guidance)

472. The whole of Estonia is classified as an Objective-1 region. The total EAGGF budget for 2004–2006 amounted to EUR 56.8 million and the total eligible public expenditure of EAGGF-related measures was EUR 78.8 million.

473. The Commission received a request for an amendment to the Programme Complement on 29 May 2007 concerning changes to the Financial Table. The

changes concern the use of funds from measures where take-up was lower than expected to finance the most popular measure — 3.1 Investment in agricultural holdings.

474. The Leader approach was first applied in autumn 2006 through measure 3.6 Local initiative-based development projects — Leader. Action groups to prepare local development strategies were selected, as were three action groups to implement existing strategies. The Leader information centre was established as a support structure for LAGs. By the beginning of 2007, 24 LAGs had been chosen (three of them started to implement their strategies). LAG activities cover 85% of the Estonian territory.

Level of payments in 2006

475. In 2006, payments amounted to EUR 13.6 million, i.e. 24.0% of the total Community budget for the period 2004–2006.

Rural development policy 2007–2013

National Strategy Plan

476. On 22 September 2006, the Commission acknowledged receipt of the NSP.

477. The main objective of axis 1 (40% of funds) is to improve the competitiveness of most agricultural holdings and the processing industry to such an extent that, by the end of the programming period (2013), farmers will be able to manage on reduced market support and direct payments. The objective in the forestry sector is to raise the long-term competitiveness of forestry to a level that ensures the restoration of forest potential in areas damaged by natural disasters and fires.

478. The main objective of axis 2 (39% of funds) is to ensure agricultural land use and the preservation of traditional landscapes and high nature value areas by environmentally sound farming practices and sustainable forest management.

479. The main objective of axis 3 (21% of funds) is the diversification of rural enterprise and improvement in the quality of life in rural areas.

480. The main objective of axis 4 (10% of funds) is to promote local initiative.

Rural Development Programmes 2007–2013

481. Public expenditure to implement the Estonian rural development programme is EUR 924.9 million for the whole period, the maximum contribution from the EAFRD being EUR 714.7 million.

6.6. Greece

Rural development programme (EAGGF Guarantee)

482. The Rural Development Programme (RDP) for Greece amounts to EUR 2 138.1 million, with an EU contribution of EUR 1 030.4 million from the EAGGF Guarantee Section. It is structured over six measures: early retirement,

compensation for less favoured areas, agri-environmental aid, forestry support, food quality and meeting standards.

483. In 2006, a considerable number of new contracts were signed; indeed 67% of active contracts were signed in 2006. Most of these contracts were for the protection of agricultural land from nitrate pollution, organic farming and the protection of the traditional olive grove of Amfissa in mainland Greece.

484. In 2006, payments totalled EUR 226.9 million, including payments in accordance with Article 39 of Regulation (EC) No 1290/2005. Accumulated payments since the beginning of the 2000–2006 programming period amount to EUR 1 028.8 million.

Amendments to the RDP

485. There has been one request for a Commission amending decision to take account of Commission Decision 2006/289/EC amending the allocations by Member State under the EAGGF Guarantee Fund for the period 2000–2006, including the amount from modulation. Furthermore, there have been financial amendments to the financial tables in the programme and an amendment communicated to the Commission by notification.

Level of payments in the period from 16 October 2005 to 15 October 2006

486. In 2006, payments totalled EUR 226.9 million (i.e. 99.3% of the EAGGF Guarantee budget for the period).

487. Overall financial implementation of EAGGF Guarantee since the beginning of the programming period has been 99.8% of the amount for 2000–2006, i.e. EUR 1 028.8 million out of the amount scheduled of EUR 1 030.4 million.

Objective-1 programme (EAGGF Guidance)

Operational programmes or Single Programming Documents

488. The national mono-fund EAGGF Guidance Section programme for Greece was approved by the Commission on 6 April 2001. The Community contribution to this programme is EUR 1 482.7 million. On 24 November 2004, the Commission approved a decision for a mid-term review of this programme, which included an additional amount of EUR 250 000 from the programming and performance reserves. On 15 December 2005, the Commission approved a decision for an amendment to the programme designed mainly to address the needs of the rural population more effectively, to restore the damage caused by the adverse weather conditions that have afflicted Greece since 2003 and to include provisions in Technical Assistance for the preparation of the new programming period.

489. The regional multi-fund programmes approved during the first half of 2001 and amended in 2004 in the light of the mid-term review cover a total cost of EUR 10 914.4 million, with a total Community contribution of EUR 7 041.7 million, to which the EAGGF Guidance Section contributes EUR 1 026.9 million. All the programming complements were also adopted by the monitoring committees. These committee meetings took place during November-December 2006 and some projects facing implementation difficulties had to be reconsidered with the competent authorities of the Member States as part of the mid-term review.

490. On 7 December 2006, a common amendment was approved by the Commission, amending the 25 Operational Programmes of Greece, including the national mono-fund programme for Greece and the EAGGF component of the 13 regional multi-fund programmes consisting both of financial re-profiling and of new eligibilities.

Level of payments in 2006

491. In 2006, payments totalled EUR 219.1 million. The accumulated payments of the EAGGF Guidance Section (EUR 786.6 million) since the beginning of the 2000–2006 programming period account for 53% of the scheduled budget.

Leader+ Programme

492. There is only one Leader+ programme for Greece. It was approved on 19 November 2001 with a total cost, after the 2004 indexation, of EUR 368.7 million, of which EUR 186.1 million is the EAGGF Guidance Section contribution. In 2002, the managing authority selected 40 local action groups as provided for by the programme. The programme was amended in August 2004 following the mid-term evaluation and planned indexation. The monitoring committee met twice in 2005.

493. For 2006, payments amounted to EUR 28.2 million.

494. The accumulated EAGGF Guidance Section payments (EUR 97.3 million) since the beginning of the 2000–2006 programming period account for 52.3% of the total budget of the programme.

Rural development policy 2007–2013

National Strategy Plan

495. Increasing the competitiveness of the primary sector is the main objective of the Greek National Strategy Plan. Other strategic objectives involve the protection of the environment, the sustainable development of natural resources, an improvement in the quality of life in rural areas and diversification of the rural economy. The NSP was not officially submitted in 2006.

Rural Development Programmes 2007–2013

496. The Rural Development Programme for Greece (2007–2013) describes the situation in the rural areas of the Region and puts forward a strategy to address the strengths and weaknesses found, along with the axes and measures to implement the strategy. The total public cost of the plan is EUR 5 077 million, of which the contribution of EAFRD is EUR 3 707 million. The RDP was not officially submitted in 2006.

6.7. Spain

Rural development programme (EAGGF Guarantee)

497. In 2000, the Commission approved two horizontal plans (“accompanying measures” and “improvement of structures”) and seven regional programmes (Aragon, Catalonia, Basque Country, Navarre, Balearics, Rioja, Madrid).

Amendments to the RDP

498. In 2006, the last year of the 2000–2006 programming period, the Commission approved 11 Decisions amending Spanish RDPs (nine of them making changes to the financial tables of each PDR as a result of new funds provided by Commission Decisions 2006/289/EC and 2006/332/EC). In addition, two notifications of technical changes were made in the CAP accompanying programme. Finally, in order to make up the budgetary allocations up to the end of the programming period, 15 financial Communications were approved by the Commission in September and October 2006.

Level of payments in the period from 16 October 2005 to 15 October 2006

499. The 2006 EAGGF Guarantee allocation for Spain was set at EUR 692.2 million (which includes EUR 107 million from modulation). Payments for the same period amounted to EUR 678.7 million, i.e. 98.1% of that allocation. After 7 years of implementation, the global financial expenditure amounts to EUR 3 608.4 million, which accounts for 99.6% of the EUR 3 621.8 million expenditure planned for 2000–2006.

Objective-1 programmes

Operational programmes or Single Programming Documents

500. In 2000 and 2001, the Commission approved two horizontal programmes (one mono-fund for "Improvement of Structure"' in Objective-1 areas and one multi-fund for "Technical Assistance") and ten multi-fund regional programmes (Andalucia, Asturias, Cantabria, Castile-la Mancha, Castile-Leon, Extremadura, Galicia, Murcia, Canary Islands and Valencia), supplemented by their programme complement.

501. During 2006, the majority of the Operational programmes were amended by the Commission, accompanied by adaptations to their programme complement as part of the update of the financial tables and necessary final technical changes to such programmes. It should be mentioned that no further decisions may be adopted after the end of 2006.

Level of payments in 2006

502. After seven years of implementation, global financial expenditure amounts to EUR 4 281 million, which is 82% of the EUR 5 233 million of expenditure planned for 2000–2006.

Leader+ Programme

503. By the end of 2002, the Commission had approved 18 Leader+ programmes (one horizontal programme and 17 regional programmes).

504. Seventeen programmes are currently implemented under global grants, and one (Basque Country) under a common Operational Programme with a programme complement. A total of 145 Local Action Groups have been created.

505. During 2006, the Commission adopted amending decisions for 15 Spanish programmes, nine to decommit the part of the funds committed in 2004 and not settled at the end of 2004 (N+2 Rule). At the same time, several of these programmes

have been financially reprogrammed. The other six decisions were for financial changes between axes designed to finalise the 2000–2006 programming period. Finally, financial changes between measures (not requiring a Commission decision) were made to several Leader+ programmes (Aragon, Castile-la Mancha, Castile-Leon and Basque Country).

506. After seven years of implementation, global financial expenditure amounts to EUR 276 million, which is 55% of the EUR 500 million of expenditure planned for 2000–2006 (after indexation).

Rural development policy 2007–2013

National Strategy Plan

507. The Spanish NSP was not officially submitted in 2006.

Rural Development Programmes 2007–2013

508. Due to its political structure, Spain implements its rural development policy through rural development programmes (RDPs) established at regional level by the Autonomous Communities. In this respect, 17 regional programmes and two horizontal programmes relating to the framework and the rural network are expected to be submitted.

509. The total Spanish budget for the 2007–2013 programming period is EUR 13 814.1 million (EUR 15 800.2 million taking into account national aid), of which EAFRD support amounts to EUR 7 213.9 million (Convergence regions: EUR 4 943.6 million).

6.8. France

Rural development programme (EAGGF Guarantee)

510. One national Rural Development Programme (RDP) for the period 2000–2006 was approved for France. The total public cost of this programme amounted to EUR 9 671.1 million, of which the EAGGF contributed EUR 4 821.2 million. Furthermore, a rural development axis was included in each of the 20 Objective-2 regional programmes. The total public cost for these 20 programmes amounted to EUR 1 570.2 million, of which the EAGGF contributed EUR 679.3 million.

Amendments to the RDP and rural development axis of Objective-2 programmes

511. On 25 April 2006, the Commission received a request from the French Authorities for an amendment to the RDP, which was approved on 3 November 2006. The amendments introduce new actions under the "investments in farms" measure and a new agri-environmental measure called "*Plan végétal pour l'environnement*".

512. This decision also covered the amendment of the Financial Plan to include both the national RDP and the rural development axis of the 20 Objective-2 regional programmes. Following this amendment, the maximum total public expenditure and EAGGF contribution are set at EUR 11 241.4 million and EUR 5 500.5 million, respectively.

513. In 2006, the Monitoring Committees approved draft SPD amendments for most of the regions. These amendments were forwarded to the Commission and were adopted as formal amendments to the SPDs.

Level of payments in the period from 16 October 2005 to 15 October 2006[59]

514. During this period, payments totalled EUR 1 189.1 million of the EAGGF Guarantee Section budget for 2006 (EUR 1 197 million).

515. After six years of implementation, overall financial implementation for EAGGF Guarantee is 99.9% of the allocation for 2000–2006.

Objective-1 programmes (EAGGF Guidance)

Operational programmes or Single Programming Documents

516. Six French regions are classified under Objective 1: the four overseas departments (Guadeloupe, Martinique, French Guiana, Réunion), Corsica and, in part, the region of Nord/Pas-de-Calais (the three Douai, Valenciennes and Avesnes-sur-Helpe districts). The latter two are receiving phasing-out support.

Level of payments in 2006

517. Payments for 2006 amounted to EUR 82.5 million, taking the total payments for the 2000–2006 period to EUR 450.4 million.

Leader+ Programme

518. The French National Programme of the Community Initiative Leader+ was adopted on 8 August 2001 in the form of a global grant. Accordingly, CNASEA (the National Centre for Farm Planning) was designated as the management authority. The total Community contribution amounts to EUR 263.6 million.

519. The programme is implemented by 140 Local Action Groups (LAGs), which were selected in 2002. Their action plans were set up in 2003, following the signing of bilateral agreements with CNASEA.

520. Payments totalled EUR 39.2 million in 2006, although the expenditure statements made it impossible to avoid N+2 decommitments. By Commission Decision C(2006) 2039 of 26 May 2006, the EAGGF contribution to this programme was reduced by EUR 5.5 million. Funding since 2000 has totalled EUR 137.3 million, which accounts for 52.1% of the total budget appropriations for 2000–2006.

Rural development policy 2007–2013

National Strategy Plan

521. A first version of the NSP for France was submitted on 23 November 2006. The NSP focuses objectives on improving the competitiveness of the agro-food sector, diversifying the economy in rural areas, increasing the employment rate, improving

59 Payments in accordance with Article 39 of Regulation (EC) No 1290/2005 are included for 2006.

the environmental situation and preserving the rural heritage. The planned breakdown by axis of the EAFRD allocation (EUR 6.4 billion) for France as a whole is as follows: 35% for axis 1; 55% for axis 2; 10% for axis 3; 5% for axis 4 (Leader) and 2% for technical assistance.

Rural Development Programmes 2007–2013

522. For the programming period 2007–2013, Rural Development policy will be implemented in France through six RDPs: one for mainland France, one for each overseas department (Guadeloupe, French Guiana, Martinique, Réunion) and one for the island of Corsica. The RDPs were not officially submitted in 2006.

6.9. Ireland

Rural development programme (EAGGF Guarantee)

523. The total public expenditure of the programme is EUR 3 675.1 million, including an EU contribution of EUR 2 388.9 million from the European Agricultural Guidance and Guarantee Fund, Guarantee Section. The programme covers all rural areas and includes support for early retirement, less favoured areas, agri-environment and afforestation.

Amendments to the RDP

524. In 2006, the Irish Authorities notified the Commission of amendments to their Rural Development Programme. These changes included the Early Retirement Scheme and Afforestation measures.

Level of payments in the period from 16 October 2005 to 15 October 2006 (EAGGF Guarantee)

525. For the period from 16 October 2005 to 15 October 2006, EU expenditure for the programme amounted to EUR 378.3 million, which is in line with the spending profile of the programme.

Over the period 2000–2006 all funds were completely utilised.

Objective-1 programmes (EAGGF Guidance)

Operational programmes or Single Programming Documents (EAGGF Guidance)

526. The EAGGF Guidance Section contributes to Rural Development measures under two Operational Programmes (Operational Programmes for the Border, Midlands and Western region and the Southern and Eastern region) in the Community Support Framework (2000–2006). The EAGGF Guidance Section amounts to EUR 153.6 million. In addition, EAGGF Guidance has contributed to the special programme PEACE II for the border counties of Ireland and Northern Ireland.

Level of payments in 2006

527. In 2006, payments (excluding PEACE II) totalled EUR 34.4 million. Cumulative EAGGF Guidance payments up to the end of 2006 amounted to EUR 105.3 million, or 68.5% of the amount scheduled for the 2000–2006 programming period.

528. By the end of 2006, the total amount paid out of EAGGF Guidance to Ireland for the 2000–2004 PEACE II Programme (managed jointly with Northern Ireland) was EUR 9.2 million (73% of the allocation of EUR 12.6 million).

Leader+ Programme

529. The allocation from EAGGF Guidance for 2000–2006 amounted to EUR 48.7 million, 65% of the total public expenditure for the period. By the end of 2006, a total amount of EUR 26.4 million had been paid (54% of the total EAGGF allocation for the 2000–2006 programming period).

Rural development policy 2007–2013

National Strategy Plan

530. In 2006, the Irish authorities formally submitted to the Commission their National Strategy Plan for rural development for the 2007–13 programming period. Discussions took place between the Commission and the Irish authorities throughout 2006 on the analysis, strategy and priorities identified in the NSP.

Rural Development Programmes 2007–2013

531. Discussions were held with the Irish managing authorities concerning the preliminary submission of the Rural Development Programme. Total expenditure over the period was EUR 4 298.8 million, of which the EAFRD contribution should be EUR 2 339.9 million.

6.10. Italy

Rural development programme (EAGGF Guarantee)

532. In Italy, 21 rural development programmes are co-financed by EAGGF. Total public expenditure on rural development programmes for Italy amounts to EUR 8 744.3 million, including a Community contribution of EUR 4 512.3 million[60] provided by the EAGGF Guarantee Section.

Amendments to the RDP

533. The Commission approved amendments to the following RDPs: Friuli-Venezia Giulia, Trento, Veneto. The amendments concerned primarily the adaptation of several measures of the programme to take account of effective implementation and reprogramming of the financial scheme. The amendment to the RDPs of the Regions of Friuli-Venezia Giulia and Trento refers to the introduction of a measure designed as a compensatory payment for Less Favoured Areas. The amendment to the RDP of the Region of Veneto concerned the introduction of a specific measure for consultancy services.

534. In 2006, the Commission approved the single financial table for all Italian RDPs, as presented in accordance to Article 48(1) of Regulation (CE) 817/04.

60 Data refer to the Total Allocation “Berlin”; contribution of EUR 4 624.2 million represents the Total Allocation 2006/289/EC (modulation included).

Level of payments in the period from 16 October 2005 to 15 October 2006 (EAGGF Guarantee)

535. As at 15 October 2006, expenditure in the current financial year for all 21 rural development programming documents financed by EAGGF Guarantee amounted to EUR 590.9 million of Community contribution, which accounts for 99.7% of the annual budget earmarked.

536. Overall financial implementation for EAGGF Guarantee since the beginning of the programming period has been 99.9% of the amount planned for 2000–2006, i.e. EUR 4 622.5 million against an amount earmarked of EUR 4 624.2 million[61].

Operational programmes or Single Programming Documents

Amendments to the OPs or SPD

537. The seven Objective-1 regions (Sicily, Sardinia, Calabria, Basilicata, Campania, Apulia and Molise) are covered by multi-fund operational programmes. After the distribution of the performance reserve at Community (+4%) and national level (+6%), the total EAGGF contribution (Guidance section) in the Operational Programmes amounts to EUR 3 292.3 million for the entire programming period (2000–2006).

Level of payments in 2006

538. The seven Objective-1 regions benefited from an EAGGF contribution of EUR 513.5 million in terms of payments in 2006. Since the beginning of the programming period, the paid amounts (EUR 2 140.7 million) have accounted for 65.6% of the amount of the EAGGF Guidance Section planned for the whole programming period.

Leader+ Programme

539. For the 2000–2006 programming period, Italy approved 21 Regional Programmes and one National Network Programme. In 2006, three programmes (Apulia, Liguria and Sicily) were amended by Commission decision to adapt certain measures of the programmes to take account of their effective implementation, with slight reprogramming of their financial scheme.

540. Following indexation, the total amounts of public expenditure planned for the Leader+ programmes for Italy amounts to EUR 490.3 million for the programming period, including a Community contribution of EUR 281.6 million.

541. For the 22 Leader+ programmes, the Italian regions benefited from an EAGGF contribution of EUR 64.1 million in terms of payments in 2006. Since the beginning of the programming period, the paid amounts (EUR 165.9 million) have accounted for 58.9% of the amount of the EAGGF Guidance Section planned for the whole programming period.

---

61 Total execution includes expenditure/reimbursement based on Decision C(2006) 4368 of 6.10.2006.

Rural development policy 2007–2013

National Strategy Plan

542. The NSP indicates priorities in the light of the Community strategic guidelines and ensures coherence and coordination with national and regional priorities:

– increasing the competitiveness of the agricultural and forestry sector,

– sustainable use of natural resources and landscape conservation, maintaining agricultural activities and decreasing the risk of abandonment,

– promoting the diversification of the rural economy and local development.

543. The NSP includes an overall socio-economic and environmental analysis. It covers thematic and territorial priorities and major quantified objectives, including monitoring and evaluation indicators.

544. In addition, the NSP provides a breakdown of EAFRD resources between the 21 regions, and indication to guarantee complementarity with the CAP and the Structural Funds.

Rural Development Programmes 2007–2013

545. For the period 2007–2013, the national rural development plan consists of 21 rural development programmes (EAFRD co-financing) for each of the 19 Italian regions and for the two autonomous provinces of Trento and Bolzano, and a network programme. The EAFRD contribution amounts to EUR 8 292 million.

6.11. Cyprus

Rural development plans (EAGGF Guarantee)

546. Cyprus is the only country among the new Member States to benefit from Community solidarity as defined for Objective-2 regions.

547. The Commission approved in 2004 the Rural Development Plan (2004–2006) for Cyprus, to be co-financed by the “European Agriculture Guarantee and Guidance Fund” (EAGGF) — Guarantee Section. The Rural Development Plan (2004–06) for Cyprus covers the areas of the country under effective control of the internationally recognised government of the Republic of Cyprus.

548. The Rural Development Plan (2004–06) for Cyprus accounts for 58% of the overall Community financial contribution during the current programming period. The EAGGF contributed a total amount of EUR 74.8 million during this period, which will be complemented by national public funding of EUR 69.1 million and by EUR 14.4 million of additional State aid. In addition, the private sector is expected to contribute EUR 33.9 million.

549. The programme includes a broad range of rural development measures, which give special emphasis to improving the infrastructure and the competitiveness of the rural economy of the country, consolidating and diversifying rural areas and protecting the environment. The Department of Agriculture of the Ministry of Agriculture, Natural Resources and Environment of Cyprus is the Managing Authority, and a Paying

Agency (CAPO) has been established. Most of the calls for expression of interest for the various measures of the Rural Development Plan (2004–06) of Cyprus have been published.

Amendments to the RDP

550. Two financial notifications not requiring a Commission Decision were submitted in 2006.

Level of payments in the period from 16 October 2005 to 15 October 2006

551. Over the period, payments amounted to EUR 22.9 million and accumulated payments since the beginning of the programme, including advance payments, amount to EUR 39.9 million, or 53% of the EAGGF contribution.

Rural development policy 2007–2013

National Strategy Plan

552. The National Strategy for Cyprus was officially received on 15 December 2006. The main objectives are to increase the competitiveness of the primary and secondary agricultural sector in Cyprus and revive the Cypriot countryside, while protecting the environment and supporting the indigenous developmental potential of rural regions by adopting a bottom-up approach.

Rural Development Programmes 2007–2013

553. The Cypriot Rural Development Programme for 2007–2013 was submitted on 22 December 2006. It describes the situation in the rural areas of the Region and sets out the strategy chosen to address the strengths and weaknesses found, along with the axes and measures to implement that strategy. The total public cost of the plan is EUR 325 million, of which the contribution of EAFRD is EUR 162.5 million.

6.12. Latvia

Rural development plan (EAGGF Guarantee)

554. Total public costs amount to EUR 410.1 million, including a contribution of EUR 328.1 million from EAGGF Guarantee. The programme includes support for producer groups, meeting standards, support for farmers in less favoured areas, agri-environment, early retirement and support for semi-subsistence farms.

Amendments to the RDP

555. There were two notifications and one amendment requiring a Commission decision submitted during 2006. Notifications concerned amendments to the measures “Agri-environment”, “LFA”, “Meeting standards”, “Early retirement”, and “Technical assistance”. The amendment requiring a Commission decision concerned the transfer of funds to the measures “Agri-environment” and “Support for semi-subsistence farms”, where commitments exceeded the budget that had been earmarked. Amendments to financing were made within the priority and therefore do not affect the financial table.

Level of payments from 16 October 2005 to 15 October 2006 (EAGGF Guarantee)

556. The level of payments in the period from 16 October 2005 to 15 October 2006 reached EUR 215.0 million, i.e. 65.5% of the total Community budget for the period 2004–2006.

Operational programmes or Single Programming Documents (EAGGF Guidance)

557. The Latvian Single Programming Document (SPD) for Objective 1 includes support for investments in agricultural holdings, setting-up of young farmers, training, improving processing and marketing of agricultural products, promoting the adaptation and development of rural areas and forestry and developing local actions (Leader+ measures).

558. The total public cost of the EAGGF Guidance part of the Latvian Single Programming Document for 2004–2006 was EUR 138.6 million, including an EU contribution of EUR 91.9 million.

Level of payments in 2006

559. In 2006, payments reached a level of EUR 24.8 million, i.e. 27.0% of the total Community contribution for the period 2004–2006.

Rural development policy 2007–2013

National Strategy Plan

560. The Latvian National Strategic Plan was received officially on 8 December 2006. The financial breakdown by axis is 50% for Axis 1, 30% for Axis 2, 20% for Axis 3 and 2.5% for Axis 4. The strategy defines four priorities for Latvia:

- development of capacities of rural people
- enhancement of labour-generated income in rural territories
- sustainable management of rural natural resources
- development of rural living environment.

Rural Development Programmes 2007–2013

The Latvian rural development programme was not officially submitted in 2006.

6.13. Lithuania

Rural development plans (EAGGF Guarantee)

561. Total public expenditure for the Rural Development Plan (2004–2006) was EUR 611.9 million, and the maximum contribution from the EAGGF Guarantee section EUR 489.5 million. The programme covers the whole of the country.

562. The Plan contains the following nine measures: Early retirement, LFA, Agri-environment, Afforestation of agricultural land, Support for semi-subsistence farms undergoing restructuring, Meeting standards, Technical assistance, Complementary national direct payments and the Carry-over of SAPARD overcommitments.

Amendments to the RDP

563. In 2006, Lithuania submitted three notifications of amendments to the RDP, none of which required a Commission decision. These amendments concerned inheritance of entitlement under the Early retirement measure, sanctions for the LFA measure, and provisions for replanting forest in case of natural disasters within the Afforestation measure. All the notifications have already come into force.

Level of payments in the period from 16 October 2005 to 15 October 2006 (EAGGF Guarantee)

564. EAGGF Guarantee expenditure for the period from 16 October 2005 to 15 October 2006 amounted to EUR 140.0 million, or 78.6% of the annual allocation (EUR 178.1 million for 2006).

565. Cumulative EAGGF Guarantee payments from the start of the programming period (2004) amount to EUR 248.8 million, or 50.8% of the total Community budget earmarked for the 2004–2006 programming period.

Operational programmes or Single Programming Documents

566. Within the Objective-1 programme for Lithuania, which covers the whole country, the EAGGF Guidance contribution amounted to EUR 122.9 million, which is 13.7% of the total Structural Fund allocation for the period 2004–2006.

567. The seven EAGGF-funded measures included in the SPD are: Investments in agricultural holdings, Setting-up of young farmers, Training, Improving processing and marketing of agricultural products, Forestry, Promoting the adaptation and development of rural areas and the Leader+ measure.

Level of payments in 2006

568. The total EAGGF-Guidance expenditure declared by Lithuania for 2006 was EUR 45.1 million. Cumulative EAGGF Guidance payments amounted to EUR 52.5 million, or 42.7% of the allocation earmarked for the 2004–2006 programming period.

Rural development policy 2007–2013

National Strategy Plan

569. The NSP for Lithuania was officially submitted to DG AGRI on 7 August 2006.

Rural Development Programmes 2007–2013

570. There is one Rural Development Programme for the whole of Lithuania, with total public expenditure of EUR 2.26 billion for the period 2007–2013. This includes a contribution from the EAFRD of EUR 1.74 billion for the programming period. The RDP was not formally submitted in 2006.

6.14. Luxembourg

Rural development programme (EAGGF Guarantee)

571. The total public cost for the National Rural Development Programme amounted to EUR 294.1 million, of which the EAGGF contributed EUR 92.6 million.

Amendments to the RDP

572. The STAR Committee of July 2006 endorsed an amendment to the Rural Development Plan for Luxemburg. The Commission Decision approving this amendment was issued on 30 August 2006 (reference C(2006) 3969).

Level of payments in the period from 16 October 2005 to 15 October 2006

573. The 2006 allowance of the EAGGF Guarantee Section for the Grand Duchy of Luxembourg amounted to EUR 14.5 million. EU expenditure was EUR 11.9 million, which is 81.8% of the total.

574. Global financial execution for the period 2000–2006 is now 97.2%, or EUR 90.0 million out of a total of EUR 92.6 million.

Leader+ Programme

575. The programme involves total public expenditure of EUR 9.27 million, including EUR 2.14 million for the EAGGF contribution. This amount includes the indexation approved on 30 November 2004 (C(2005) 4673). Four LAGs were selected in Luxembourg, covering 90 000 inhabitants, and a fifth is financed by national funds.

576. At the end of 2006, after six years of implementation, the total financial execution was 41.8% of the total amount of EAGGF Guidance expenditure planned for the period 2000–2006, i.e. EUR 0.9 million out of a total of EUR 2.1 million.

577. The national Leader network unit became fully operational in 2004, but had been restructured by the beginning of 2006.

Rural development policy 2007–2013

National Strategy Plan

578. The first version of the NSP for the Grand Duchy of Luxembourg was submitted on 16 October 2006. The NSP focuses objectives on improving the competitiveness of the agro-food sector, sustaining farmers’ incomes and improving the environmental situation. The planned breakdown by axis of the EAFRD allocation (EUR 90 million) for Luxembourg as a whole is as follows: 29% for axis 1; 59% for axis 2; and 12% for axis 3. The Leader approach axis accounts for 5.9% of the EAFRD contribution. Luxembourg will not use EAFRD funds for technical assistance

Rural Development Programmes 2007–2013

579. For the programming period 2007–2013, Rural Development policy will be implemented in Luxembourg with an EAFRD allocation of EUR 90 million. The RDP was not formally submitted in 2006.

6.15. Hungary

Rural development plans (EAGGF Guarantee)

580. There is one Rural Development Plan for the whole of Hungary, with total public expenditure of EUR 754.1 million for the period 2004 to 2006. This includes a contribution from the EAGGF, Guarantee Section, of EUR 602.3 million.

Amendments to the RDP

581. The plan was amended by Commission Decision C(2006) 7301 of 29 December 2006. The amendment concerned a reduction in the financial allocation for the measures "Meeting standards", "Less favoured areas" and "Semi-subsistence farms" in favour of greater funding for the measures "Complements to direct payments" and "Agri-environment" in 2006.

Level of payments in the period from 16 October 2005 to 15 October 2006 (EAGGF Guarantee)

582. In the decision approving the programme, the Commission made a Community budget commitment of EUR 219.2 million for 2006. In 2006, the Commission made interim payments of EUR 233.1 million.

583. Financial execution from the beginning of the programming period amounted to EUR 429.7 million, i.e. 71.3% of the EAGGF budget for 2004–2006.

Objective-1 programmes (EAGGF Guidance)

Operational programmes or Single Programming Documents

584. There is one Agriculture and Rural Development Operational Programme for Community structural assistance under Objective 1, covering the whole of Hungary. Total public expenditure for the operational programme was set at EUR 428.5 million for the period 2004–2006. This includes a contribution of EUR 317.2 million from the European Union: EUR 312.8 million from the EAGGF, Guidance Section, and EUR 4.4 million from the Financial Instruments for Fisheries Guidance, respectively.

Amendments to the OP

585. The operational programme was amended by Commission Decision C(2006) 2204 of 30 May 2006. The amendments involve adjustments to the Leader+ measure, for which implementing tasks have been reassigned to the regional offices of the Intermediate Body further to the reorganisation of the Ministry of Agriculture. Secondly, the beneficiaries of the Leader+ measure have been changed with the addition of the Managing Authority for Activity 1 − Acquisition of skills. The adjustment did not involve any financial amendment.

Level of payments in 2006

586. In the decision approving the programme, the Commission made a Community budget commitment of EUR 135.3 million for the EAGGF.

587. The Commission made an interim payment of EUR 146.1 million for EAGGF part-financed measures.

588. Financial execution for EAGGF part-financed measures from the beginning of the programming period amounted to EUR 220.1 million, which is 70% of the budget for 2004–2006.

Rural development policy 2007–2013

National Strategy Plan

589. The NSP sets the development priorities for agriculture and rural development in line with the Community Strategy Guidelines: 1) contributing to the competitiveness of agriculture, food production and forestry (axis 1), 2) observing the principles of sustainable development and the protection of natural values and biodiversity (axis 2), and 3) enhancing entrepreneurship and providing access to services throughout rural areas (axis 3). The document was not formally submitted in 2006.

Rural Development Programmes 2007–2013

590. There is one Rural Development Programme for the whole of Hungary, with total public expenditure of EUR 5.1 billion for the period 2007–2013. This includes a contribution from the EAFRD of EUR 3.8 billion for the programming period. The document was not formally submitted 2006.

6.16. Malta

Rural development plans (EAGGF Guarantee)

591. There is one Rural Development Programme covering all rural areas of Malta. The total cost of the programme was EUR 33.6 million. The contribution of EAGGF, Guarantee Section, amounted to EUR 26.9 million.

Amendments to the RDP

592. There have been two amendments to the Plan. The first concerned the transfer of EUR 400 000 from the “Producer Groups” to the “Less favoured areas” budget and the second involved the establishment of new aid rates and a new investment period of two years for applications to be received under the “Meeting Standards” measure in 2007.

Level of payments in 2006

593. In the decision approving the programme, the Commission made a Community budget commitment of EUR 9.8 million. The Commission made two interim payments amounting to EUR 7.9 million.

594. Financial execution since the beginning of the programming period has amounted to EUR 18.7 million, which is 69.5% of the budget earmarked for 2004–2006.

Operational programmes or Single Programming Documents (EAGGF Guidance)

595. The Single Programming Document under Objective 1 of the Structural Funds, for which Malta as a whole is eligible, contains two measures part-financed by the EAGGF Guidance Section: Investments in Agricultural Holdings and Improving the Marketing and Processing of Agricultural Products. The total public expenditure for these measures was EUR 6 million, of which an EU contribution of EUR 4.2 million.

Amendments to the OP

596. No amendments were submitted in 2006.

Level of payments in 2006

597. In the decision approving the programme, in 2006 the Commission made a Community budget commitment of EUR 1.8 million.

598. In 2006, the Commission made four interim payments amounting to EUR 0.9 million.

599. Financial execution for EAGGF part-financed measures from the beginning of the programming period amounted to EUR 1.5 million, which is 36.5% of the budget earmarked for 2004–2006.

Rural development policy 2007–2013

National Strategy Plan

600. The NSP sets the development priorities for agriculture and rural development in line with the Community Strategy Guidelines:

1) Improving the competitiveness of the agricultural sector by focusing on the priorities of knowledge transfer, modernisation of holdings, adding value to agricultural products in terms of quality and competitiveness in an effort to offer more diverse, higher quality products and services to domestic consumers and foreign tourists, thus making farming a viable and more attractive career choice for younger people.

2) Improving the environment and the countryside by encouraging the retention of agricultural activity and promoting environmentally friendly production methods in line with rural heritage.

3) Improving the quality of life in rural areas through the conservation and utilisation of the rural, natural and cultural heritage, thereby enhancing the multifunctional role of rural areas.

The document was not formally submitted in 2006.

Rural Development Programmes 2007–2013

601. There is one Rural Development Programme for the whole of Malta, with total public expenditure of EUR 100.3 million for the period 2007–2013. This includes a contribution from the EAFRD of EUR 76.7 million for the programming period. The document was not formally submitted in 2006.

6.17. The Netherlands

Rural development programme (EAGGF Guarantee)

602. The total public cost of the rural development programme for the Netherlands was EUR 1 042.6 million, including an EU contribution of EUR 435.1 million from the EAGGF Guarantee Section.

Amendments to the RDP

603. The STAR Committee of March 2006 endorsed an amendment to the Dutch Rural Development Plan. The amendment consisted of adopting good farming practice, adapting methods for the calculation of aid for agri-environmental measures, adding two new agri-environmental packages and a measure in support of voluntary participation in food quality schemes. The Commission Decision approving this amendment was issued on 15 May 2006 (reference C(2006) 2028).

604. The STAR Committee of June 2006 endorsed an amendment of the financial plan to increase the EAGGF allocation for the Netherlands, pursuant to Decision 2006/289/EC. The Commission Decision approving this amendment was issued on 1 July 2006 (reference C(2006) 3574).

605. Furthermore, six financial communications, including a revised financial table, were received in 2006.

Level of payments in the period from 16 October 2005 to 15 October 2006 (EAGGF Guarantee)

606. The 2006 budgetary allocation for the Netherlands amounted to EUR 71.1 million. The level of payments for the programme amounted to EUR 68.3 million, which is 96.1% of the allocation.

607. Global financial execution for EAGGF Guarantee since the beginning of the programming period has been 99.3% of the total budget for 2000–2006, i.e. EUR 435.1 million.

Objective-1 Programmes (EAGGF Guidance)

Operational Programmes or Single Programming Documents

608. One Single Programming Document was approved for the Netherlands: the phasing-out of the Objective-1 SPD for Flevoland. An update of the mid-term review was completed, which meant a transfer of EUR 2.1 million EAGGF from measure 2.1 (consolidating the agricultural sector) to 2.3 (enhancing rural areas). A proposal for an amendment was submitted to the Commission at the end of the year.

Level of payments in 2006

609. Global financial execution for EAGGF Guidance since the beginning of the programming period has been 69% of the total budget for 2000–2006, i.e. EUR 7.2 million out of a total of EUR 10.4 million.

Leader+ Programme

610. In the Netherlands, four Leader+ programmes were approved: one for the South region, involving total expenditure of EUR 48.4 million, of which EUR 19.6 million EAGGF Guidance; one for the Randstad region, involving total expenditure of EUR 39.5 million, of which EUR 19.6 million EAGGF Guidance; one for the East region, involving total expenditure of EUR 46.7 million, of which EUR 18.9 million EAGGF Guidance, and one for the North region, involving total expenditure of EUR 71.7 million, of which EUR 25.5 million EAGGF Guidance.

611. For the Randstad Leader+ programme, it was found that the declaration of expenditure transmitted to the Commission was incorrect and consequently a recovery note amounting to EUR 1.1 million was issued by the Commission in February 2006.

612. Since the approval of the Leader+ programmes, a total amount of EUR 48.6 million of EU contribution has been paid (58% of the total budget for the period).

Rural development policy 2007–2013

National Strategy Plan

613. The first version of the NSP for the Netherlands was submitted on 17 August 2006 and, following discussions with the Netherlands and interservice consultations, an amended version was submitted on 27 November 2006. The NSP focuses objectives on promoting innovation and structural adjustments, reducing the environmental pressure resulting from agriculture and horticulture production, diversifying the economy in rural areas, boosting micro-enterprises and providing better services for and accessibility to rural areas. The breakdown by axis of the EAFRD allocation (EUR 486.5 million) for the Netherlands is as follows: 30% for axis 1; 30% for axis 2; 30% for axis 3 and 10% for axis 4.

Rural Development Programmes 2007–2013

614. For the programming period 2007–2013, Rural Development policy will be implemented in the Netherlands through a single RDP, with an EAFRD allocation of EUR 486.5 million. The first version of the Dutch RDP was officially submitted on 27 December 2006.

6.18. Austria

Rural development programme (EAGGF Guarantee)

615. The total public cost of the Austrian Rural Development Programme (2000–2006) was EUR 6 811.0 million, including an EU contribution of EUR 3 258.6 million from the EAGGF Guarantee Section. The programme prevailingly supports investments in agricultural holdings, setting-up of young farmers, training, less favoured areas, agri-environment, improving processing and marketing of agricultural products, and promoting the adaptation and development of rural areas and forestry.

Amendments to the RDP

616. In 2006, Austria proposed three amendments to the Austrian RDP, which were approved. Two amendments concerned measures and were introduced as notifications pursuant to Article 51(5) of Regulation (EC) No 817/2004. The third amendment concerned a revision of the overall financial table and required a new Commission Decision C(2006) 4114 of 7 September 2006.

Level of payments in the period from 16 October 2005 to 15 October 2006 (EAGGF Guarantee)

617. The plan provided for total public expenditure of EUR 1 008 million in 2006, including an EU contribution of EUR 500 million. For the period from 16 October 2005 to 15 October 2006, EAGGF Guarantee payments amounted to approximately EUR 499.4 million, which is 99.9% of the annual Community contribution.

618. Global financial execution for EAGGF Guarantee since the beginning of the programming period has been 99.9% of the total budget for 2000–2006, i.e. EUR 3 257.9 million out of a total of EUR 3 258.6 million.

Annual Report

619. The monitoring tables for 2006 showed that measures had been implemented satisfactorily and in accordance with forecasts.

Objective-1 Programmes (EAGGF Guidance)

620. The total public cost of the Austrian Objective-1 operational programme (Burgenland) for the programming period 2000–2006 was EUR 389.9 million, including an EU contribution of EUR 282.9 million. Of this, the agricultural fund/total public expenditure amounted to EUR 162.7 million, including an EU contribution (EAGGF) of EUR 43.7 million.

Operational programmes or Single Programming Documents

621. In 2006, one amendment to the Austrian Objective-1 operational programme was introduced and approved in 2007 by Decision C(2007) 1409 of 23 March 2007. The amendment concerned financial and non-financial aspects.

Level of payments in 2006

622. The programme provided for public expenditure for RDP measures (EAGGF) in 2006 totalling EUR 8.9 million and an EU (EAGGF) contribution of EUR 6.7 million. Since the adoption of the Objective-1 programme for Burgenland, an amount of EUR 36.3 million (EU contribution) has been paid (around 83% of the total budget for the whole period), of which EUR 4.9 million in 2006.

Annual Report

623. The annual report includes a brief analysis and tables on priority and measure indicators. There have been no major changes in socio-economic trends or national, regional and sectoral policies.

Leader+ Programme

624. The Leader+ programme for Austria was approved by Decision C(2001) 820 of 26 March 2001. During the period 2001–2006, total expenditure under the programme amounted to EUR 164.4 million. This includes an EU contribution of EUR 76. 8 million and a contribution of EUR 59 million from the private sector (these figures already include indexation amounts).

625. The Austrian Leader+ programme covers eight regions of Austria, with the exception of the urban area of Vienna.

626. Following a public tender, 56 local actions groups have been selected under the programme. The groups cover 46 996 sq. km or approximately 45% of the territory, with a population of 2 175 079 inhabitants or about 23% of the total population.

627. The programme provided for expenditure in 2006 amounting to EUR 32.3 million. This includes an EU contribution of EUR 15.1 million and a contribution of EUR 11.6 million from the private sector.

628. Since the adoption of the Austrian Leader+ programme, an amount of EUR 50.6 million has been paid (65.8% of the EAGGF budget for the period 2000–2006), of which EUR 19.5 million in 2006. No problems were encountered regarding the n+2 rule during the current period or in 2006.

629. In 2006, one amendment was proposed. It concerned financial amendments within each Title and required a new Commission Decision (C(2006) 4830 of 6 October 2006).

Rural development policy 2007–2013

National Strategy Plan

630. The Austrian national strategy plan lays down Austria's primary aim of continuing with the previous overall strategy of ensuring sustainable agriculture, supporting farmers and foresters in extensive management of agricultural and forestry land, and of maintaining rural landscapes. Thus, emphasis is put on axis 2 measures. To ensure competitiveness for Austrian farmers and foresters, support for investment in the food sector was increased appreciably compared to the previous programming period. Support for the diversification of rural economy, especially for micro-enterprises and local tourism, will be raised considerably. Another strategic goal is the improvement of the quality of life by safeguarding the rural heritage.

Rural Development Programmes 2007–2013

631. Austria implements one Rural Development Programme 2007–2013 for its entire territory. Total public expenditure amounts to EUR 7 822.0 million and the EAFRD contribution is EUR 3 911.4 million (average EAFRD co-financing is 50% in non-convergence regions and 75% in the convergence region of Burgenland). The RDP was not officially submitted in 2006.

6.19. Poland

Rural development plans (EAGGF Guarantee)

632. The Rural Development Plan for Poland was approved on 6 September 2004. The total public expenditure earmarked for the period 2004–2006 was EUR 3 571.8 million, of which the EU-contribution amounted to EUR 2 866.4 million.

Amendments of the RDP

633. In 2006, the Polish authorities forwarded two notifications of amendments and two financial notifications.

634. The first amendment notification concerned the specification of periods when a payment claim can be submitted by beneficiaries of the agri-environment measure. To rationalise the handling of applications, the Polish authorities have decided to change this period.

635. The second amendment notification concerned two amendments: for the meeting EU standards measure the maximum time to complete projects for natural fertiliser storage was extended to 31 December 2007; the second amendment concerned the extension of the producers' group list to include red deer and fallow deer producers

636. Two small financial reallocations covering 1.55% of the total budget entered into force on 17 July and 29 December 2006.

Level of payments in the period from 16 October 2005 to 15 October 2006

637. Payments for the financial year 2006 amounted to EUR 901 million.

Objective-1 programme (EAGGF Guidance)

Operational programmes or Single Programming Documents

638. One Sectoral Operational Programme (SOP – "*Restructuring and modernisation of the food sector and rural development 2004–2006*") was approved for Poland. Total public expenditure amounted to EUR 1.8 million, of which the EAGGF Guidance contribution was EUR 1.2 million.

Level of payments in 2006

639. The total EAGGF Guidance expenditure declared by Poland and paid by the European Commission in 2006 was EUR 192.4 million (or 16% of the EAGGF allocation for 2004–2006). Cumulative EAGGF Guidance payments until the end of 2006 amounted to EUR 869.2 million (including advance payments of EUR 190.8 million).

Amendments to the operational programmes

640. One amendment was approved on 14 December 2006 by Commission Decision C(2006) 6884. It concerned the transfer of funding between the two priorities of the Programme.

Rural development policy 2007–2013

National Strategy Plan

641. After a series of working meetings, the official version of the National Strategy Plan was received on 22 August 2006. This document was subjected to interservice consultation, as a result of which the Commission sent an assessment and several recommendations for adjustments in October 2006. The document was adjusted in December 2006.

Rural Development Programmes 2007–2013

642. One national programme covers the whole of Poland. The contribution of the EAFRD budget to the programme is EUR 13.2 billion. An official admissible version of the Rural Development Programme 2007–2013 was not submitted in 2006.

6.20. Portugal

Rural development programme (EAGGF Guarantee)

643. The total public expenditure for the three Rural Development Programmes (Mainland Portugal, Azores and Madeira) was set at EUR 1 982.2 million for the period 2000–2006. This includes a contribution from the EAGGF, Guarantee Section, of EUR 1 275.6 million.

Amendments to the RDP

644. In 2006, there were three amendments to the decisions approving the RDP and three financial communications.

Level of payments in the period from 16 October 2005 to 15 October 2006 (EAGGF Guarantee)

645. The 2006 EAGGF Guarantee allocation for Portugal was set at EUR 252.1 million (which includes EUR 22.9 million from modulation). Payments for the same period amounted to EUR 232.3 million, i.e. 92.2% of that allocation.

646. Overall financial execution for EAGGF Guarantee since the beginning of the programming period in Portugal has amounted to EUR 1 256.1 million, i.e. 98.5% of the total allocation for 2000–2006.

Operational programmes or Single Programming Documents (EAGGF Guidance)

Amendments to the operational programmes

647. Reprogramming of the Community Support Framework for Portugal (2000–2006): amendments in all OPs with EAGGF allocations, except OP Algarve: (OP Agriculture and Rural Development, OP North, OP Centre, OP Lisboa e Vale do Tejo, OP Alentejo, OP Azores, OP Madeira and OP Technical Assistance). Global EAGGF decommitment due to transfers to other Structural Funds: EUR 24 659 835.

648. The OP Lisboa e Vale do Tejo has also been amended to include an increase in the EAGGF contribution of EUR 6 319 736 (SEC(2006) 173 final — Article 157 of the Financial Regulation).

Level of payments in 2006

649. As from the beginning of the programming period, payments have amounted to EUR 1.5 million, i.e. 66% of the total budget (EUR 2.3 million) for the period 2000–2006.

Leader+ Programme

650. Portugal has a single national Leader+ Programme. The total EAGGF contribution, Guidance Section, amounts to EUR 164 million.

651. Since the beginning of the programming period, payments have amounted to EUR 114 million, i.e. 69% of the total budget allocation for that period.

652. In 2006, the Leader+ Programme was amended once.

Rural development policy 2007–2013

National Strategy Plan

653. An official version of the NSP was not submitted in 2006.

Rural Development Programmes 2007–2013

654. There will be four rural development programmes for the period 2007–2013: RDP for Mainland Portugal, RDP Azores, RDP Madeira and the National Network Programme. The total EAFRD contribution for the four programmes for the whole period is set at EUR 3.93 billion. None of the four RDPs for 2007–2013 was submitted to the Commission in 2006.

6.21. Slovenia

Rural development plans (EAGGF Guarantee)

655. The Slovene Rural Development Plan was approved by Commission Decision C(2004) 3224 of 24 August 2004. The financial contribution from EAGGF amounted to EUR 281.6 million during the period 2004–2006, which will be complemented with national public funding of EUR 71.5 million. The Rural Development Plan aims to ensure the goals of rural development policy through two main priorities: sustainable development of agriculture and the countryside, and economic and social restructuring of agriculture. The first objective will be achieved through agri-environmental measures and support for less favoured areas, while measures aiming at early retirement and meeting standards will contribute to economic and social restructuring.

Amendments to the RDP

656. One amendment to the Slovene RDP was submitted in 2006. This amendment concerned the reallocation of funds from measures for less favoured areas, early

retirement, complements to direct payments and the SAPARD programme to the agri-environment measure. This amendment did not require a new Commission Decision.

Level of payments in the period from 16 October 2005 to 15 October 2006

657. The consolidated financial table for 2006 lays down an EU contribution of EUR 102.5 million, while an amount of EUR 118.9 million was paid out in the period from 16 October 2005 to 15 October 2006.

658. Global financial execution for EAGGF Guarantee since the beginning of the programming period has been approximately 84.4% of the total budget for 2004–2006, i.e. EUR 237.6 million out of a total of EUR 281.6 million.

Objective-1 programmes (EAGGF Guidance)

Operational programmes or Single Programming Documents (EAGGF Guidance)

659. The Slovene Single Programming Document was approved by Commission Decision C(2004) 2122 of 18 June 2004, which was amended in 2006 by Commission Decision C(2006) 3673 of 8 August 2006. This amendment did not concern EAGGF funds. One of the four identified priorities of this Programme is restructuring of agriculture, forestry and fisheries. Within this priority, the financial contribution from EAGGF amounted to EUR 23.6 million for the period 2004–2006, which will be complemented by national public funding of EUR 23.6 million. As regards measures supported through EAGGF, emphasis is laid on increasing economic efficiency and competitiveness and meeting demands for food safety and quality. Importance is also attached to forest management in order to improve the economic and ecological value and functions of forests. This is closely connected with support for the development of tourism and the promotion of alternative sources of income in rural areas. The whole territory of Slovenia is classified as an Objective-1 area.

Amendment to the OP or SPDs

660. No amendments were submitted in 2006.

Level of payments in 2006

661. The consolidated financial table for 2006 lays down an EU contribution of EUR 10.2 million and total public costs of EUR 20.4 million, while an EU contribution of EUR 5.2 million was paid out.

662. Global financial execution for EAGGF Guidance since the beginning of the programming period has been approximately 38.8% of the total budget for 2004–2006, i.e. EUR 9.2 million out of a total of EUR 23.6 million.

Annual Reports

663. The annual reports for 2006 showed that in general implementation of the measures of Rural Development Plan is well advanced, while implementation of the measures of the Single Programming document is satisfactory.

Rural development policy 2007–2013

National Strategy Plan

664. The National Strategy Plan sets out to strengthen the multifunctional role of agriculture and at the same time to emphasise the need for restructuring of the agriculture and food processing industry. The National Strategy Plan pays special attention to maintenance of the cultural landscape and environmental protection and to the maintenance of settlement and rural identity in the countryside. It addresses the multifunctional role of forests. Its priorities will also contribute to the economic and social enhancement of the countryside and introduce new approaches for increasing employment opportunities in rural areas.

Rural Development Programmes 2007–2013

665. Slovenia will implement one Rural Development Programme 2007–2013 for its entire territory, the whole of which is classified under the convergence objective. Total public expenditure amounts to EUR 1 159 million and the EAFRD contribution is EUR 900 million (average EAFRD co-financing: 77.7%). 33% of total public funds have been earmarked (axis 1) for the objective of improving the competitiveness of agriculture and forestry. As regards the objective of improving the environment and the countryside, 52% of total public funds are to be spent (axis 2). In addition, 11% of total public funds have been set aside to improve the quality of life in rural areas (axis 3).

6.22. Slovakia

Rural development plans (EAGGF Guarantee)

666. The Rural Development Plan of Slovakia (2004–2006) was approved in July 2004 by Commission Decision C(2004) 3238. The EAGGF contribution to the programme amounted to EUR 397.1 million, to which EUR 123.5 million of national public co-financing and EUR 41.1 million of private co-financing were added. The overall amount allocated for the rural development plan is EUR 561.8 million. The global objective is to improve efficiency in the agricultural production sector and the quality of life of rural populations — “Multifunctional agriculture and sustainable rural development”.

667. The specific objectives of the Plan are:

– to support the development of the rural economy and to guarantee improvement in the standard of living of rural populations;

– to improve the development of rural areas through access to infrastructure services, thus retaining the population of rural communities;

– to guarantee environmental protection and biodiversity of rural environments, while taking account of the sustainability of the utilisation of rural resources.

Amendments to the RDP

668. On 6 July 2006, the Slovak authorities submitted amendments, making financial reallocations, which reduce the overall minimum total eligible public expenditure

established in Decision C(2004)3238. This proposal was approved by Commission Decision C(2006) 6475 of 5 December 2006.

Level of payments in the period from 16 October 2005 to 15 October 2006 (EAGGF Guarantee)

669. Since the beginning of the programming period, payments have amounted to EUR 272 million, i.e. 69% of the total budget allocation for that period.

Objective-1 Programmes (EAGGF Guidance)

670. The Slovak Operational Programme Agriculture and Rural Development was approved by Commission Decision C(2004) 2791 of 12 July 2004. The financial contribution from EAGGF amounted to EUR 181.2 million for the period 2004–2006, to which national public funding of EUR 72.8 million is added. Major attention has been given to the maintenance and creation of competitive jobs in rural areas. The Slovak Operational Programme thus focuses on investment in the farming sector (including the diversification of farm activities), the processing and marketing sector, and the fisheries and the forestry sector.

Level of payments in 2006

671. Since the beginning of the programming period, payments have amounted to EUR 106 million, i.e. 58% of the total budget allocation for that period.

Rural development policy 2007–2013

National Strategy Plan

672. The NSP for Slovakia 2007–2013 was received on 18 December 2006.

Rural Development Programmes 2007–2013

673. Slovakia will have one Rural Development programme for the next programming period 2007–2013. The total public contribution amounts to EUR 2 562.6 million.

6.23. Finland

Rural development programme (EAGGF Guarantee)

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

Amendments to the RDP

675. Proposals to amend three Finnish Rural Development Programmes (Horizontal, Regional and Åland Islands) were approved by Commission Decisions in October 2006. The proposals for amendments concerned adjustments to the financial tables of these Rural Development Programmes.

Level of payments in the period from 16 October 2005 to 15 October 2006 (EAGGF Guarantee)

676. For 2006, the total expenditure under EAGGF Guarantee for Finland amounted to EUR 247.8 million, which is 100.0% utilisation of the funds planned for this period.

677. Global financial execution for EAGGF Guarantee since the beginning of the programming period has been 99.9% of the total budget for 2000–2006, i.e. EUR 2 229.1 million out of a total of EUR 2 230.7 million.

Operational programmes or Single Programming Documents (EAGGF Guidance)

678. In 2000, the Commission approved two Single Programming Documents (SPDs) for Objective-1 regions in Finland: Eastern Finland and Northern Finland.

Level of payments in 2006

679. After six years of implementation, an amount of EUR 138.2 million (68.5%) has been paid out of the total budget for 2000–2006.

Leader+ Programme

680. In 2001, the Commission approved one Leader+ programme for Finland; 25 Local Action Groups (LAGs) were selected and are supported by a national network.

681. After five years of implementation of the programme, an amount of EUR 37.1 million (65.9%) has been paid out of the EUR 56.4 million committed for 2001–2006.

Rural development policy 2007–2013

National Strategy Plan

682. The National Strategic Plan for Finland was submitted on 23 August 2006. Financial allocation by axis is 11% for Axis 1, 78% for Axis 2, 11% for Axis 3 and 6% for Axis 4. The strategy defines three priorities for Finland:

- Agriculture and Forestry are practised in an economically and ecologically sustainable and ethical way throughout the country.
- Rural economies should be diversified and employment improved by competitive businesses, new enterprises and networking.
- Local initiative should be encouraged to guarantee viability and quality of life in rural areas.

Rural Development Programmes 2007–2013

683. Finland is covered by two programmes: Mainland Finland and Åland Islands. The Åland Islands RDP was not officially submitted in 2006.

684. The Mainland Finland RDP was officially submitted on 23 December 2006. Total financing envisaged for the Mainland RDP accounts for EUR 6.6 billion of public

financing, of which EUR 2.1 billion is EAFRD funding. Financial allocations between axes are largely in line with the National Strategic Plan.

6.24. Sweden

Rural development programme (EAGGF Guarantee)

685. In 2000, the Commission approved one rural development programme (accompanying measures covering the entire country, other measures covering non-Objective-1 regions). The total public cost of the Swedish Rural Development Programme for 2000–2006 was EUR 2 558.7 million, including a contribution of EUR 1 129.9 million from EAGGF Guarantee. After modulation and redistribution of available surpluses, the total EAGGF allocation was increased by a further EUR 24.1 million. The programme includes support for investments in agricultural holdings, setting-up of young farmers, training, less favoured areas, agri-environment, improving processing and marketing of agricultural products, afforestation of non-agricultural land and promoting the adaptation and development of rural areas and forestry. From 2005, commitments relating to modulation started to be used.

Amendments to the RDP

686. Two notifications and one amendment requiring a Commission decision were submitted during 2006. Both the notifications and the amendment concerned adjustments to the financial table. The amendment requiring a Commission decision was due to modulation and redistribution stemming from available surpluses. The Decision was taken on 19 October 2006.

Level of payments in the period from 16 October 2005 to 15 October 2006 (EAGGF Guarantee)

687. The level of payment for the period is 100.0% (expenditure/allocation), with expenditure and allocation amounting to EUR 164.2 million.

688. Global financial execution for EAGGF Guarantee since the beginning of the programming period has been 100.0% of the total budget for 2000–2006, i.e. EUR 1 154.0 million out of a total of EUR 1 154.04 million.

Operational programmes or Single Programming Documents (EAGGF Guidance)

689. In 2000, the Commission approved the Objective-1 programmes for the Norra Norrland and Södra Skogsläns regions.

Level of payments in 2006

690. After six years of implementation, the financial execution is 72.9% of the funds committed at the beginning of the programming period for the Objective-1 Norra Norrland region. The corresponding figure for the Objective-1 Södra Skogsläns region amounts to 69.7%. This means that an amount of EUR 38.1 million has been paid out of the EUR 52.3 million available for the period 2000–2006 for the Objective-1 Norra Norrland region. The corresponding figures for the Objective-1 Södra Skogsläns region amount to EUR 44.4 million out of EUR 63.7 million.

Leader+ Programme

691. In 2001, the Commission approved one Leader+ programme. In total, 12 Local Action Groups have been selected.

692. After six years of implementation, financial execution is 57.5% of the amount available for the whole of the programming period, i.e. EUR 23.7 million paid out of the EUR 41.2 million (including indexation 2004–2006).

Rural development policy 2007–2013

National Strategy Plan

693. The National Strategy for Sweden was officially received on 22 September 2006. The NSP needed to be updated by letter on 21 December 2006. The breakdown between axes is 15% for axis 1, 70% for axis 2 and 12% for axis 3. The Leader axis is set to be 6%. The main objectives are economic growth and entrepreneurship, environment as a resource, sound development in rural areas and an integrated approach. There are five additional horizontal priorities, such as Organic farming, Renewable energy, etc.

Rural Development Programmes 2007–2013

694. The Swedish Rural Development Programme was submitted on 22 September 2006. The programme comprised EUR 3 917 million of public expenditure for the period, of which EUR 1 826 million in Community support. The programme is in line with the financial allocation and priorities set out in the NSP. In total, EUR 64.8 million of payments were made in 2007 relating to payments for the fourth quarter of 2006.

6.25. United Kingdom

Rural development programme (EAGGF Guarantee)

695. There are four Rural Development Programmes for the period 2000–2006: England, Northern Ireland, Scotland and Wales. The total cost for these programmes was EUR 3 200 million, of which the EAGGF Guarantee section contributed EUR 1 243 million.

Amendments to the RDP

696. The respective authorities of the United Kingdom notified the Commission of several amendments to their Rural Development Programmes. These changes included the measures for less favoured areas, agri-environment, animal welfare and financial issues.

697. In 2006, there were no proposals submitted to the Commission to amend the Rural Development Programmes for which a Commission decision would be required. The Northern Ireland 2005 amendment to the agri-environment and animal welfare measures was approved by Commission Decision of 30 January 2006. The England 2005 amendment to agri-environment measures was approved by Commission Decision of 14 February 2006.

Level of payments in the period from 16 October 2005 to 15 October 2006 (EAGGF Guarantee)

698. The level of payment for all UK Rural Development Programmes is 81% of the EAGGF allocation for the period. The total expenditure amounted to EUR 233.5 million compared to an allocation of EUR 288.8 million.

699. Global financial execution for EAGGF Guarantee since the beginning of the programming period has been 95.5% of the total budget for 2000–2006, i.e. EUR 1 187 million out of a total of EUR 1 243 million.

Objective-1 programmes (EAGGF Guidance)

Operational programmes or Single Programming Documents

700. EAGGF Guidance 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. In addition, EAGGF Guidance has contributed to the special programme PEACE II for Northern Ireland and the Border Counties of Ireland.

Level of payments in 2006

701. The total amount (excluding PEACE II) paid by the end of 2006 was EUR 266 million (74.7% of the total budget planned for the 2000–2006 programming period, i.e. EUR 357 million). Further claims for payment were made before the end of December 2006 and these will be paid in 2007. All the programmes, with the exception of the transitional programme for the Highlands and Islands, achieved their respective N+2 targets.

702. By the end of 2006, the total amount paid out of EAGGF Guidance to Northern Ireland for the 2000–2004 PEACE II Programme (managed jointly with Ireland) was EUR 28.4 million (91% of the allocation of EUR 31.2 million).

Leader+ Programme

703. The UK has four Leader+ programmes: England, Northern Ireland, Scotland and Wales, with 55 Local Action Groups. The total cost of the four programmes amounted to EUR 266 million, of which the EAGGF contributed EUR 115 million.

704. By the end of 2006, a total amount of EUR 72 million had been paid (63% of the total budget for the 2000–2006 programming period).

705. All the programmes achieved their respective N+2 targets.

Rural development policy 2007–2013

National Strategy Plan

706. In 2006, the UK authorities submitted informally to the Commission a first draft of the National Strategy Plan for rural development for the 2007–2013 programming period. Discussions took place between the Commission and the UK authorities throughout 2006 on the analysis, strategy and priorities identified in the NSP.

Rural Development Programmes 2007–2013

707. Discussions were held with the respective managing authorities concerning the preliminary submissions of the Rural Development Programmes for England, Northern Ireland, Scotland and Wales.

7. ENVIRONMENT AND FORESTRY

7.1. Environmental measures

708. In the wake of its January 2000 and March 2001 Communications entitled ‘Indicators for the integration of environmental concerns into the common agricultural policy’[62] and ‘Statistical information needed for indicators to monitor the integration of environmental concerns into the common agricultural policy’[63], the Commission launched the IRENA[64] operation for the development of a set of 35 agri-environmental indicators to monitor progress towards the integration of environmental concerns within the CAP. IRENA was a joint exercise between several Commission services and the European Environment Agency. It was completed at the end of 2005, resulting in fact sheets for 40 (sub-)indicators and their corresponding data sets, an Indicator Report (‘Agriculture and environment in EU-15’), an Indicator-Based Assessment Report, and an Evaluation Report. In September 2006, the Commission issued a Communication entitled ‘Development of agri-environmental indicators for monitoring the integration of environmental concerns into the CAP’ [COM(2006) 508]. The Communication reviewed the progress made with the development of agri-environmental indicators through IRENA, and identified key challenges and actions for future work. In December 2006, the Agriculture and Fisheries Council adopted conclusions welcoming the progress made with IRENA and giving a broad mandate to the Commission to continue work on the indicators along the lines proposed in COM(2006) 508, in close cooperation with the relevant institutions of the Member States. A Memorandum of Understanding is under preparation to lay down the basis for cooperation amongst the partners involved in the future work, with a view to meeting the Council’s requests.

709. Under Council Regulation (EC) No 1782/2003, Member States must implement cross compliance with statutory management requirements, including in the area of the environment, and minimum standards for good agricultural and environmental conditions. Moreover, Member States were required by 1 January 2007 to set up farm advisory systems covering at least those requirements and standards. In this context, a two-year (2005-2006) study entitled ‘Study on environmental Cross-compliance Indicators in the context of the Farm Advisory System’ (CIFAS study) was launched at the beginning of 2005. The study was carried out by the European Environment Agency (EEA) under the guidance of a steering group with representatives of different Commission services. The study’s primary aim was to help in the development of the farm advisory systems and to support the implementation of environmental cross compliance in the Member States. Special attention was given to the development of farm-level indicators. The study was completed in March 2007.

62 COM(2000) 20 final.

63 COM(2001) 144 final.

64 IRENA is the acronym for ‘Indicator Reporting on the integration of ENvironmental concerns into Agriculture policy’.

The main study outputs were: a database containing the standards and other relevant information on environmental cross-compliance requirements applicable at farm level; an inventory of the farm advisory tools and systems developed to help farmers meet these requirements; and a platform for the exchange of information and experiences between Member States. The information gathered in the project was disseminated to the Member States and to other relevant actors via an interactive website (www.ewindows.eu.org/cifas) and through seminars and workshops organised in nine Member States between November 2006 and March 2007. The full study report ('Report on recommended farm advisory tools') is available on the above website.

710. The implementation of the 'Biodiversity action plan for agriculture[65], adopted by the Council in June 2001 and by the European Parliament in March 2002, continued in 2006. The main instruments to support the conservation of farm-dependent biodiversity and habitats are integrated within the first and second pillars of the CAP. The Commission presented a Communication on 'Halting the loss of biodiversity by 2010 and beyond — sustaining ecosystem services for human well-being'[66]. This Communication includes an EU action plan up to 2010 and beyond, which contains measures considered necessary to halt the loss of biodiversity, and to restore biodiversity in the longer term.

711. Council Regulation (EC) No 870/2004 establishing a Community programme on the conservation, characterisation, collection and utilisation of genetic resources in agriculture[6] was adopted in April 2004. The Community programme includes actions to support, complement or coordinate at Community level work undertaken at local, regional, or Member State level in line with the aims of the CAP and sustainable agriculture. The measures may also cover *in situ*/on-farm genetic resource conservation activities (reproduction of genetic resources by farmers on their own farms). The actions must be trans-national, taking into account, where appropriate, bio-geographic regional aspects. Two calls for proposals for the Community programme were published, one in July 2005[7] and the other in April 2006[8]. The 72 proposals received in response to these two calls were assessed by the Commission against the eligibility criteria, and by independent experts on the basis of published award criteria. As a result, 17 actions involving 179 organisations in the EU-25 as well as in 12 non-EU countries were selected for co-funding.

712. Agriculture plays a crucial role in other Community initiatives aimed at safeguarding the environment. The current measures to protect surface water and groundwater[67] are one example of this. Under the Nitrates Directive, Member States must draw up and implement 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 (the 'Natura 2000' network) has been set up under the 1992 Habitats Directive. The lists of sites of Community importance for the Macaronesian[68], Alpine[69], Continental[70], Atlantic[71], Boreal[72] and Mediterranean[73]

---

65 COM(2001) 162 final, volume III.

66 COM(2006) 216 final.

67 COM(2003) 550 final.

68 OJ L 5, 9.1.2002, p. 16.

69 OJ L14, 21.1.2004, p. 21.

bio-geographical regions were adopted by the Commission in 2001, 2003, 2004, 2005 and 2006, respectively. In order to address the issue of appropriate Community financial support for the implementation of the Natura 2000 network, the Commission adopted a Communication on financing Natura 2000[74] in July 2004. The funding of Natura 2000 was further integrated within the Common Agricultural Policy through the adoption of a new Rural Development Regulation[75] for the period 2007–2013, which provides financing opportunities for agricultural and forestry activities that are beneficial for biodiversity protection.

713. The Sixth Environment Action Programme (6th EAP) remains the main driver of EU environment policy until 2012. In addition to providing the basis for environmental policy initiatives, this Action Programme takes into account the obligation laid down in the Treaty to integrate environmental protection requirements within the definition and implementation of other Community policies and activities. For its environmental policy instruments, the Commission thus set out to develop seven thematic strategies, most of them having strong links with agriculture. In 2006, the Commission adopted the last three of these strategies: the thematic strategy on the urban environment[76], the thematic strategy on the sustainable use of pesticides[77] and the thematic strategy for soil protection[78]. The strategy on the sustainable use of pesticides is intended to complement the existing legislative framework, which focuses on the beginning and end of the pesticide lifecycle. The thematic strategy for soil protection is both descriptive and action-oriented, thus providing a full picture of this complex issue so as to serve as a basis for future work.

714. Following the adoption in 2003 of Commission Recommendation 2003/556/EC[79] on guidelines for the development of national strategies and best practices to ensure the co-existence of genetically modified crops with conventional and organic farming, a number of Member States have notified national or regional measures to the Commission. The Commission has evaluated these notifications in accordance with the principles set out in the Recommendation. In March 2006, the Commission adopted a report to the Council and the European Parliament, based on information from Member States, on the experience gained in the Member States with the implementation of measures to address co-existence. In this report, the Commission proposed a number of future actions that could be taken in this area. The Commission then organised, jointly with the Council Presidency, a stakeholder conference on co-existence, which took place in Vienna on 4–6 April 2006. In May 2006, the Council adopted conclusions calling on the Commission to engage in a series of actions in relation to co-existence. In particular, the Council invited the Commission: to come forward, as soon as possible, with Community labelling thresholds for seeds; to develop guidelines for crop-specific co-existence measures; to intensify the use of COEX-NET for information exchange among the Member States; to explore ways of

---

70 OJ L 382, 28.12.2004, p. 1.
71 OJ L 387, 29.12.2004, p. 1.
72 OJ L 40, 11.2.2005, p. 1.
73 OJ L 259 , 21.9.2006 , p. 1.
74 COM(2004) 431 final.
75 OJ L 277, 21.10.2005, p. 1.
76 COM(2005) 718 final.
77 COM(2006) 372 and 373 final.
78 COM(2006) 231 and 232 final.
79 OJ L 189, 29.7.2003, p. 36.

minimising potential cross-border problems related to co-existence; to explore solutions for areas where farm-level co-existence is difficult to achieve; to strengthen research on co-existence and make research results available to the Member States; to study the national civil liability systems with regard to co-existence; and to explore if further steps towards common principles for co-existence should be taken.

7.2. Forestry measures

715. The Commission Communication to the Council and the European Parliament on an EU Forest Action Plan, COM(2006) 302 final, was adopted on 15 June 2006. Council Conclusions on the EU Forest Action Plan were adopted by the Agriculture and Fisheries Council on 25 October 2006.

716. Cooperation and coordination with the Member States continued through the Standing Forestry Committee. In the course of 2006, the Committee met 6 times. Two Working Groups within the Standing Forestry Committee were established for the implementation of specific actions in the EU Forest Action Plan. Similarly, 3 meetings of the advisory group on forestry and cork were held during the year.

717. The implementation of the preparatory action on the development of an internet-based European Forest Information and Communication Platform (EFICP) continued during 2006.

718. Concerning the implementation of projects and programmes for the protection of forests against atmospheric pollution and fires under Council Regulation (EC) No 3528/86[80] and Council Regulation (EC) No 2158/92[81], a total of 8 projects and programmes were closed, reducing the number of open contracts to 1 by the end of the year.

8. PROPOSAL FOR FINANCING OF THE CAP IN 2006

719. CAP expenditure is funded under the Financial Perspective decided at the Berlin Summit in 1999 and adjusted at the Copenhagen Summit at the end of 2002 to take account of the financial effects of the enlargement of the Union to include the ten new countries. Thus, new ceilings apply to the EU-25 as of the budget year 2006.

720. The Financial Perspective for the EU-15 and EU-25 for the budget years 2005-2006 was as follows:

	2000 current prices	2001 current prices	2002 current prices	2003 current prices	2004 current prices	2005 current prices	2006 current prices
Total for CAP under Agenda 2000	41 738	44 530	46 587	47 378	49 305	51 439	52 618
a) markets (sub-ceiling 1(a))	37 352	40 035	41 992	42 680	42 769	44 598	44 847
b) rural development (sub-ceiling 1(b))	4 386	4 495	4 595	4 698	6 536	6 841	7 771

80 OJ L 326, 21.11.1986, p. 2-4 (Finnish and Swedish special editions, Chapter 3, Volume 22, p. 59).

81 OJ L 217, 31.7.1992, p. 3 (Finnish and Swedish special editions, Chapter 3, Volume 44, p. 3).

8.1. EAGGF Guarantee Section

Budgetary procedure

Stages of the budgetary procedure

721. The 2006 Preliminary Draft Budget (PDB) was adopted by the Commission and proposed to the Budgetary Authority in April 2005. The appropriations proposed for the EAGGF Guarantee Section totalled EUR 51 412.3 million, i.e. EUR 43 641.3 million for subheading 1a and EUR 7 771.0 million for subheading 1b.

722. The Council adopted the 2006 Draft Budget in July 2005. The appropriations in subheading 1a were reduced by EUR 150.0 million as compared to the PDB, while the appropriations for subheading 1b remained unchanged from the PDB. EAGGF Guarantee Section appropriations accordingly totalled EUR 51 262.3 million, comprising EUR 43 491.3 million for subheading 1a and EUR 7 771.0 million for subheading 1b.

723. In November 2005, the Commission adopted Letter of Amendment No 2/2006 to the Preliminary Draft Budget in order to take account of developments on the agricultural markets and recent agricultural legislation. The Amending Letter to the PDB reduced the appropriation requirements for the 2006 financial year to EUR 51 050.7 million, of which EUR 43 279.7 million was allocated to subheading 1a and EUR 7 771.0 million to subheading 1b.

724. In December 2005, following the consultation procedure between the Council and the European Parliament, the Budget for 2006 was adopted by the European Parliament as follows:

– for subheading 1a, appropriations for 2006 were fixed at EUR 43 279.7 million, i.e. EUR 1 567.3 million below the ceiling.

– for subheading 1b, appropriations for 2006 were fixed at EUR 7 771.0 million, equal to the ceiling.

725. In December 2006, the European Parliament reduced, through AB 6/2006, the initial budget appropriations for subheading 1a by EUR 860.0 million to EUR 42 419.7 million.

The appropriations for subheading 1b were unchanged.

The EAGGF Guarantee Section in the context of the general budget

726. Of the overall initial commitment appropriations of EUR 121 190.9 million entered in the 2006 general budget, an amount of EUR 51 050.7 million, i.e. 42.1%, was allocated to the EAGGF Guarantee Section. In 2005, Guarantee Section commitments accounted for 42.6% of commitments in the general budget.

The EAGGF and its financial resources

727. 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[82], 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;

– 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 to ensure that farmers and sugar manufacturers finance the cost of disposing of any sugar that is surplus to Community internal consumption requirements.

Revenue

Charges accruing to the Union's own resources under the common agricultural policy

(EUR million)

Type of charge	2000	2001	2002	2003	2004	2005	2006
Agricultural levies	1 198.4	1 132.9	1 180.2	1 011.8	1 313.4	1 350.8	1 291.8
Sugar levies	1 196.8	840.0	864.8	383.2	401.6	695.1	151.6
Total	**2 395.2**	**1 972.9**	**2 045.0**	**1 395.0**	**1 715 .0**	**2 045.9**	**1 443.4**

728. 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 constitute part of the measures to stabilise agricultural markets. It is offset against the additional expenditure brought about by production overruns on the quotas.

EAGGF Guarantee Section expenditure

Expenditure

729. EAGGF Guarantee Section expenditure comprises:

– export refunds (EUR 3 051.9 million in 2005);

– public and private storage (EUR 851.5 million in 2005);

– direct aids (EUR 33 700.8 million in 2005);

– other intervention relating to the common market organisations (EUR 4 496.6 in 2005);

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

– other expenditure, principally rural development (EUR 6 827.3 million in 2005).

730. Direct aid payments to producers are by far the largest type of aid.

731. Furthermore, 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.

Public stocks

732. Between 1 October 2004 and 30 September 2005, when the public storage accounts were closed, the book value of products in storage increased from EUR 798.24 million to EUR 1 747.11 million. The share of cereals and rice accounted for around 73.5% of the total value of products in storage, milk products accounted for 11.0%, sugar for 10.8% and alcohol for 4.8%.

Expenditure on agricultural markets in 2006

733. The uptake of EAGGF Guarantee Section appropriations for the 2006 financial year (expenditure by the Member States from 16 October 2005 to 15 October 2006) amounted to EUR 49 865.2 million, i.e. 99.3% of the appropriations entered under Titles 05, 11 and 17 of the budget.

734. Total expenditure under subheading 1a (the CAP, covering Titles 05, 11 and 17) amounted to EUR 42 175.3 million, i.e. EUR 1 104.4 million below the initial appropriations.

735. Total expenditure for subheading 1b (Rural Development) amounted to EUR 7 689.9 million, i.e. EUR 124.5 million below the initial appropriations. (An amount of EUR 43 400 000 was carried over from budget year 2005 and was committed in budget year 2006).

Clearance of accounts

736. The Commission adopted the following decisions on the financial and conformity clearance of the EAGGF Guarantee Section accounts and for SAPARD:

- Decision 2006/322/EC of 28 April 2006 in respect of the 2005 financial year;[83]
- Decision 2006/334/EC of 28 April 2006 under Article 5(2)(c) of Regulation (EEC) No 729/70 and Article 7(4) of Regulation (EC) No 1258/1999 – 21st Decision[84];
- Decision 2006/554/EC of 27 July 2006 under Article 5(2)(c) of Regulation (EEC) No 729/70 and Article 7(4) of Regulation (EC) No 1258/1999 – 22nd Decision[85];

83 OJ L 118, 3.5.2006, p. 20.

84 OJ L 124, 11.5.2006, p. 21.

– Decision 2006/4329/EC of 29 September 2006 in respect of the 2005 financial year relating to the clearance of the accounts presented by the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia on the one hand and Bulgaria and Romania on the other, for expenditure financed under the special accession programme for agriculture and rural development (SAPARD) in 2005;

– Decision 2006/5928/EC of 7 December 2006 relating to the clearance of the final balance of the special accession programme for agriculture and rural development (SAPARD) in the Czech Republic;

– Decision 2006/932/EC of 14 December 2006 under Article 5(2)(c) of Regulation EEC No 729/70 and Article 7(4) of Regulation (EC) No 1258/1999 – 23rd Decision[86];

– Decision 2006/936/EC of 14 December 2006 in respect of the 2003 financial year as regards certain paying agencies in Germany and the United Kingdom[87].

737. The expenditure recovered from Member States under decisions 21, 22 and 23 amounted to EUR 555.5 million in the financial years 1998 to 2005.

738. In 2006, the Commission services responsible for the audit of agricultural expenditure performed 184 audits with missions to the 25 Member States and 2 SAPARD countries and held 85 bilateral meetings with the Member States on the findings of audit missions for the years 1997–1999 and 2001–2005.

8.2. EAGGF Guidance Section

739. 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. Support from the EAGGF Guidance Section during this period under Council Regulations (EC) No 1260/1999 (the general Structural Fund Regulation) and No 1257/1999 (support for rural development) only covered Objective-1 areas, the Community Initiative Leader+ programme and technical assistance. Objective-1 areas in the new Member States also began to receive EAGGF Guidance assistance in 2004.

740. For the period from 2000 to 2006, there was no decrease in Community support for rural areas, although the EAGGF Guidance Section allocations for the period might give such an impression. In fact, measures targeting agricultural structures and the diversification of rural areas (former Objectives 5(a) and 5(b)) 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. Since 2004, the EAGGF Guarantee section has also covered the support received by new Member States under the Transitional Instrument for Rural Development

741. Consequently, Community support for the four accompanying measures, i.e. compensatory allowances for less-favoured areas and areas subject to environmental constraints (funded up to 1999 by the EAGGF Guidance Section), early retirement,

---

85 OJ L 218, 9.8.2006, p. 12.

86 OJ L 355, 15.12.2006, p. 95.

87 OJ L355, 15.12.2006, p. 107.

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 from the EAGGF Guarantee Section.

Funding in the 2000–2006 programming period

742. In the 2000–2006 programming period, the EAGGF Guidance Section contributed to Objective-1 regions ('regions whose development is lagging behind'), the Leader+ Initiative and technical assistance as indicated above. It also continued to cover payment commitments under programmes from previous periods which were wound up by 31 December 2001 and where the final balance was in principle to be paid by the end of 2005.

743. 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 1994–99 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 final programming adjustment decisions after the accounting deadline, it was not possible to commit all the spending under the 1994–99 Structural Fund CSF programmes and Community Initiative programmes by the end of 1999 (Tables 7.2.1a and 7.2.1b).

744. The programmes for the EAGGF Guidance part of Objective 1 and PEACE comprise 70 single programming documents and operational programmes (EU 15), of which only 35 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. For the new Member States (EU 10), 9 other programmes were adopted.

745. As regards the Leader+ Initiative, on account of the lengthier procedure following the adoption of the guidelines, none of the 73 programmes was adopted by the end of 2000, so a request was made in 2001 to transfer all the appropriations from the year 2000 to the years 2000–06. Seventy programmes were adopted in 2001 and the remaining three were adopted in 2002.

Table 7.2.1a — Expenditure by Objective, 2000–06 period

(Commitment appropriations, EUR million)

Objective	2000	2001	2002	2003	2004	2005	2006
Community Support Frameworks							
Objective 1: 2000–06 period (regions lagging behind)	1 239.3	3 237.2	2 639.1	2 764.1	3 311.5	3586.7	
Former Objectives 1 and 6 (1994–1999 period)	76.9	******	******	*****	*****	******	******
Former Objective 5(a) (1994–1999 period)	29.4	******	******	******	******	******	******
Former Objective 5(b) (1994–1999 period)	1.0	******	******	******	******	******	******
Community Initiatives							
Leader+: 2000–2006 period	0.0	271.3	356.8	346.6	355.3	375.9	
Previous CIPs (1994–1999 period)	37.0	******	******	******	******	******	******
Technical assistance							
2000–2006 period: innovative measures and technical assistance	0.0	0.0	1.1	1.4	1.7	2.4	
Previous transitional measures/technical assistance (1994–1999 period)	3.7	0.3	******	******	******	******	******
TOTAL	**1 387.3**	**3 508.8**	**2 997.0**	**3.112.1**	**3 668.5**	**3965.0**	

Table 7.2.1b — Expenditure by Objective, 2000–06 period

(Payment appropriations, EUR million)

Objective	2000	2001	2002	2003	2004	2005	2006
Community Support Frameworks							
Objective 1: 2000–06 period (regions lagging behind)	587.6	1 276.9	1 474.7	2 166.9	2 709.0	2764.6	
Former Objectives 1 and 6 (1994–99 period)	1 353.2	488.3	5.1	176.5	235.3	221.4	
Former Objective 5(a) (1994–99 period)	803.1	69.4	79.2	89.2	67.7	190.2	
Former Objective 5(b) (1994–99 period)	629.9	142.9	26.1	66.2	53.6	17.5	
Community Initiatives							
Leader+: 2000–06 period	0.0	81.9	74.9	87.6	238.8	334.5	
Previous CIPs (1994–99 period)	178.4	79.8	10.3	17.3	106.7	58.3	
Technical assistance							
2000–06 period: innovative measures and technical assistance	0.0	0.0	0.2	1.7	1.7	2.4	
Previous transitional measures/technical assistance (1994–99 period)	6.5	5.8	1.6	7.5	0.6	0.0	
TOTAL	**3 558.7**	**2 145.0**	**1 672.1**	**2.612.9**	**3 413.4**	**3588.9**	

Execution of 2005 budget

746. In terms of the appropriations available in 2005, including those originally entered in the budget together with transfers and carryovers, the execution of the 2005 budget for the whole of the EAGGF Guidance Section was 98.5% and 99.9% for commitment (EUR 3965.0 million) and payment appropriations (EUR 3589.9 million), respectively.

747. The year 2005 was the sixth in the 2000–06 programming period. During this period, the source of funding for rural development programmes depended on the type of measure and the geographical area.

748. The source of financing for rural development measures differed according to geographical area as follows:

- in regions eligible under Objective 1 (regions whose development is lagging behind), the EAGGF Guidance Section continued to finance rural development measures integrated within development programmes, in combination with the other Structural Funds;
- outside the Objective-1 regions, the source of financing for rural development measures was the EAGGF Guarantee Section.

Community Initiatives are funded under the EAGGF Guidance section.

749. For Objective 1, payments (EUR 2753.1 million) executed in 2005 were reimbursements made for the 79 current programmes, representing 77% of the instalment committed in 2005.

750. For the Leader+ Initiative, payments (EUR 375.8) made in 2005 were reimbursements, representing 88.9% of the instalment committed in 2005.

751. For programmes from previous programming periods, payments executed in 2005 amounted to EUR 487.4 million. These payments constituted the final balance payable under these programmes, for which rather complex final implementing reports had to be submitted giving the results of the checks carried out.

Table 7.2.2 — Implementation of the EAGGF Guidance Section budget in 2004

	Total	2000–06 programming period				Previous programming periods				
		Objective 1	PEACE (Objective 1)	LEADER+	Innovative measures/ Technical assistance	Former Objectives 1 and 6	Former Objective 5(a)	Former Objective 5(b)	Former CIPs	Former transitional measures
A — Commitments										
Belgique/België	8.071	7.193	–	0.878	–	–	–	–	–	–
Ceská republika	55.634	55.634	–	–	–	–	–	–	–	–
Danmark	3.098	–	–	3.098	–	–	–	–	–	–
Deutschland	511.284	469.007	–	42.277	–	–	–	–	–	–
Eesti	18.621	18.621	–	–	–	–	–	–	–	–
Elláda	521.865	487.611	–	34.255	–	–	–	–	–	–
España	935.168	845.519	–	89.649	–	–	–	–	–	–
France	137.106	89.980	–	47.125	–	–	–	–	–	–
Ireland	20.913	11.937	–	8.976	–	–	–	–	–	–
Italia	580.402	533.158	–	47.244	–	–	–	–	–	–
Kypros/Kıbrıs	0.000	–	–	–	–	–	–	–	–	–
Latvija	33.026	33.026	–	–	–	–	–	–	–	–
Lietuva	41.786	41.786	–	–	–	–	–	–	–	–
Luxembourg	0.412	–	–	0.412	–	–	–	–	–	–
Magyarország	104.415	104.415	–	–	–	–	–	–	–	–
Malta	1.400	1.400	–	–	–	–	–	–	–	–
Nederland	17.538	2.270	–	15.268	–	–	–	–	–	–
Österreich	20.572	6.537	–	14.035	–	–	–	–	–	–
Polska	398.156	398.156	–	–	–	–	–	–	–	–
Portugal	341.428	311.196	–	30.232	–	–	–	–	–	–
Slovenija	7.868	7.868	–	–	–	–	–	–	–	–
Slovensko	60.477	60.477	–	–	–	–	–	–	–	–
Suomi/Finland	44.599	34.180	–	10.419	–	–	–	–	–	–
Sverige	24.899	17.163	–	7.736	–	–	–	–	–	–
United Kingdom	70.732	49.535	–	21.197	–	–	–	–	–	–
Other	5.424	–	–	3.056	2.369	–	–	–	–	–
Total	3964.894	3586.668	0.000	375.858	2.369	0.000	0.000	0.000	0.000	0.000

	Total	2000–06 programming period				Previous programming periods				
		Objective 1	PEACE (Objective 1)	LEADER+	Innovative measures/ Technical assistance	Former Objectives 1 and 6	Former Objective 5(a)	Former Objective 5(b)	Former CIPs	Former transitional measures
B — Payments										
Belgique/België	7.668	4.973	–	2.695	–	–	–	–	–	–
Ceská republika	16.503	16.503	–	–	–	–	–	–	–	–
Danmark	11.110	–	–	2.792	–	–	–	6.896	1.423	–
Deutschland	611.068	477.877	–	36.623	–	48.068	35.310	–	13.191	–
Eesti	20.960	20.960	–	–	–	–	–	–	–	–
Elláda	374.695	272.237	–	29.523	–	63.798	–	–	9.136	–
España	949.057	770.884	–	97.925	–	57.275	4.405	–	18.569	–
France	289.313	103.587	–	36.108	–	–	147.279	1.433	0.906	–
Ireland	40.505	22.846	11.547	6.113	–	–	–	–	–	–
Italia	544.776	437.234	–	40.065	–	44.489	2.865	6.816	13.307	–
Kypros/Kıbrıs	0.000	–	–	–	–	–	–	–	–	–
Latvija	32.351	32.351	–	–	–	–	–	–	–	–
Lietuva	7.547	7.547	–	–	–	–	–	–	–	–
Luxembourg	0.593	–	–	0.140	–	–	0.379	–	0.073	–
Magyarország	42.842	42.842	–	–	–	–	–	–	–	–
Malta	0.252	0.252	–	–	–	–	–	–	–	–
Nederland	13.615	1.269	–	9.742	–	–	–	2.323	0.281	–
Österreich	20.785	8.620	–	12.165	–	–	–	–	–	–
Polska	137.048	137.048	–	–	–	–	–	–	–	–
Portugal	251.938	229.704	–	22.234	–	–	–	–	–	–
Slovenija	1.615	1.615	–	–	–	–	–	–	–	–
Slovensko	31.152	31.152	–	–	–	–	–	–	–	–
Suomi/Finland	28.626	21.799	–	6.802	–	–	–	–	–	0.025
Sverige	22.529	13.623	–	6.558	–	2.132	–	–	0.215	–
United Kingdom	127.570	98.152	–	22.616	–	5.588	–	–	1.213	–
Other	4.752	–	–	2.383	2.369	–	–	–	–	–
Total	3588.869	2753.074	11.547	334.483	2.369	221.351	190.238	17.469	58.315	0.025

8.3. Evaluation

752. The Directorate-General for Agriculture and Rural Development carries out regular evaluations of measures applicable to agriculture. The purpose of those evaluations is to contribute to policy preparation and decision making by providing information on the effectiveness, efficiency, and relevance of measures under the CAP. In particular, the evaluations examine the impacts of CAP measures on market equilibrium, producer incomes, production structures, rural development, and the environment; they may be retrospective and/or prospective. Evaluation reports are made publicly available on the Europa website.

Evaluation of measures relating to markets and income support

753. In the field of market policies, four evaluation projects were completed during 2006: three concerned measures under the common market organisation for fruit and vegetables (citrus, processed tomatoes, peaches, nectarines and pears) and the fourth analysed CAP support measures for energy crops.

754. Contracts were signed at the end of the year for seven new evaluation projects concerning: support measures for dried fodder; market-related measures under the common market organisation for beef and veal; beef extensification premiums; crisis-management for fruits and vegetables; cross-compliance; the environmental effects of support measures for arable crops; and the environmental impact of support measures targeting beef and dairy products.

Evaluation of structural and rural development measures

755. In the field of rural development policies, two evaluation projects were completed during 2006. These concerned measures in Less Favoured Areas (LFA) and a 'synthesis' study on Leader+ evaluations carried out by Member States. At the end of 2006, a new contract was signed for an evaluation project to examine Nordic measures.

756. In the field of rural development, intensive work was carried out to build up the new Common Monitoring and Evaluation Framework (CMEF) for the programming period 2007–2013, including the preparation of an evaluation network for rural development policies.

Cross-cutting evaluation projects

757. Two cross-cutting evaluations were carried out in 2006: these were an evaluation of the impact of export support measures on food security and an evaluation of the information policy of the Directorate-General for Agriculture and Rural Development (DG AGRI).

Prospective evaluations

758. Four impact assessments were carried out in 2006 to prepare policy proposals. These concerned measures relating to bananas, fruit and vegetables, wine, and biofuels.

9. ENLARGEMENT

Bulgaria and Romania

759. For Bulgaria and Romania (the two new acceding countries), a reinforced monitoring exercise was held in 2006. DG AGRI contributed to two Commission monitoring reports (May and September 2006) on the progress made by these countries towards accession. It assessed the state of preparation for the agricultural common market organisations, in particular the establishment of paying agencies/IACS.

760. The Commission also adopted an ad-hoc regulation on the basis of the Accession Treaty to establish a ‘mechanism for appropriate measures in the field of agricultural spending in respect of Bulgaria and Romania’. This mechanism allows the Commission to reduce monthly and intermediate payments to these two Member States by 25% in the event of serious deficiencies in their IACS.

761. The Commission introduced transitional measures in order to help the new Member states prevent surplus stocks and avoid the risk of deflection of trade, and thus adverse effects on the common organisation of agricultural markets due to the accession of the new Member States.

762. DG AGRI prepared an amendment to the Act of Accession with Bulgaria and Romania in order to ensure the application of the new *acquis* in the rural development and sugar sector adopted after signature of the Accession Treaty.

Croatia and Turkey

763. Substantial contributions were made by DG AGRI to the screening exercise on Chapter 11 ‘Agriculture and Rural Development’ for Croatia and Turkey. The first part of the screening was multilateral, with Croatia and Turkey together for the presentation of the *acquis*, and took place in December 2005. The second part of the screening exercise was conducted bilaterally with the two candidate countries in January and February 2006. Croatia and Turkey presented their agricultural legislation and the gaps with the *acquis* were discussed.

764. Following the screening report, the Member States did not consider Croatia to be sufficiently prepared for negotiations on this Chapter, and established an initial benchmark for agricultural statistics: Croatia was requested to prepare a strategy paper with the aim of reinforcing the collection and processing of agricultural statistics. Together with DG ESTAT and DG ELARG, DG AGRI prepared a ‘Guidance document’ in order to help Croatia meet the benchmark.

Enlargement package 2006

765. DG AGRI contributed substantially to the 2006 enlargement package of reports on the candidate countries (Croatia, Turkey and the Former Yugoslav Republic of Macedonia) and the potential candidate countries (Albania, Bosnia and Herzegovina, and Serbia including Kosovo and Montenegro). It also contributed considerably to the comprehensive monitoring reports on the preparedness of Bulgaria and Romania for accession, which identified the areas where increased efforts were required and which would be subject to reinforced monitoring.

Pre-accession assistance

766. DG AGRI supported DG ELARG in the granting of pre-accession support — PHARE (for Bulgaria, Romania and Croatia) — and in Transition Facility programming (i.e. support for institution building) for the ten new Member States in relation to agriculture and rural development. Technical advice was also provided to TAIEX for short-term activities.

10. INTERNATIONAL RELATIONS

10.1. International organisations and agreements

European Neighbourhood Policy

767. The Commission attaches particular importance to development and implementation of the European Neighbourhood Policy (ENP). DG AGRI contributed to the communication adopted by the Commission on 9 November 2006 on proposals for trade and rural development aspects of the Action Plans agreed with various countries.

10.1.1. World Trade Organisation (WTO)

WTO dispute settlement

768. A second public hearing in the cases against the United States and Canada concerning their continued suspension of obligations in the hormones dispute (WT/DS320; WT/DS321) took place on 2 and 3 October 2006. The final report to the three parties was expected at the end of November 2007.

769. The report of the panel requested by the United States (WT/DS291), Canada (WT/DS292) and Argentina (WT/DS293) concerning certain EC measures affecting the approval and marketing of biotech products (GMOs) was adopted at the Dispute Settlement Body (DSB) meeting on 21 November 2006. The EC agreed with the three complaining parties that the reasonable period of time for the EC to implement the recommendations and rulings of the DSB should be 12 months from the date of adoption of the report, thus 21 November 2007 at the latest.

770. Following an ad hoc arbitration procedure under the terms of the Annex to the Doha waiver for the Cotonou Agreement, Honduras, Nicaragua and Panama requested on 30 November 2005 consultations on the new EC import regime for bananas applying as from 1 January 2006 under Article 21.5. Consultations were held on 19 January 2006.

771. Following the entry into force of the current import regime for bananas on 1 January 2006, the EC and several Latin American suppliers (Ecuador, Costa Rica, Colombia and Guatemala) participated in a monitoring and review process under the good offices of Norway to seek a mutually agreed solution to the banana dispute. This process was suspended upon Ecuador's decision to request WTO dispute settlement consultations on 16 November 2006. The consultations with Ecuador were held on 14 December 2006.

772. Consultations requested by Argentina on EC measures concerning garlic took place on 5 October 2006.

773. At the request of the EC, consultations with Mexico took place on 5 May 2006 on Mexico's 'definitive countervailing measures' on olive oil from the EC.

774. At the request of the EC, consultations took place with India on 20 and 21 December 2006 on Indian measures affecting the importation and sale of wines and spirits from the EC.

Doha Development Agenda

775. The first half of 2006 was a period of intense activity, following the Hong Kong Ministerial Meeting in December 2005. Key players, including the EC, pursued a large number of contacts at both technical and political levels. These contacts culminated in the 29 June–1 July ministerial meetings in Geneva, where ministers met in various formats: G6 (EC, US, India, Brazil, Japan and Australia), the 'Green Room' (about 30 countries together) and the WTO Trade Negotiations Committee (entire WTO membership).

776. The objective was to find a common platform for the triangle 'agricultural market access — domestic support — NAMA'. The EU played a constructive part in the discussions, which however ended in deadlock because of lack of progress on US domestic support and agricultural market access in developing countries. Eventually, Members formally invited the WTO Director-General Pascal Lamy to act as a facilitator and consult members intensively and widely in order to establish modalities. Following a failed meeting of the Heads of State and Government among six major participants, Pascal Lamy announced in July 2006 the indefinite suspension of negotiations. Concluding the Doha round by the end of 2006, the goal set in 2005, was now impossible.

777. In the second half of 2006, during the hiatus, the EU established several bilateral and multilateral contacts with our main trading partners with the view to resuming the negotiations in the beginning of 2007.

10.1.2. Organisation for Economic Cooperation and Development (OECD)

778. EU Member States account for 19 of the OECD's members 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 the Environment (Joint working parties).

779. CoAg's core activities include the annual preparation of a mid-term market outlook for the main OECD agricultural commodities (the 'Agricultural Outlook' report) and the yearly review of the main developments in the 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 in major non-OECD members, whether economies in transition or emerging countries. These reviews include in particular the calculation of aggregated

estimates of support for farmers, the 'Producer Support Estimate' (PSE), expressed as the percentage share of public financing (budgetary payments and economic transfers from consumers and taxpayers as a result of policy measures) in the overall income of the farming sector, and the 'Total Support Estimate' (TSE) for the whole agriculture and food sector, which indicates the degree of support in the OECD economies expressed as a percentage share of GDP.

780. The 2005-2006 working programme continued to focus on the cause-effect relationship between policies (e.g. decoupling and appropriate targeting), i.e. objectives and outcomes (economic and other effects).

781. 2006 was the second year of the two-year working programme, starting with a substantial carry-over of studies from the previous year.

782. In 2006, the Committee for Agriculture (CoAg) also discussed for the first time a multi-year programme of **outreach activities** for non-member economies together with an outreach strategy, for which two events were held in the same year in Buenos Aires, Argentina, for Latin America and in Dakar, Senegal, for Africa. While the Commission participated in the South America event, its absence in Dakar was noted. CoAg also held a fruitful joint meeting with the Development Assistance Committee Poverty Network on policy coherence, as a precursor to the Global Forum on Africa, which drew on new joint projects for Africa with IFAD and DAC, the NEPAD review and the Sahel and West Africa Club.

783. Another key area was **economic impact measuring**, involving essentially the updating of the in-depth *Screening of China's, Brazil's and South Africa's and India's agricultural policies* and a *Study on the distributional effects of trade and agricultural policy reform based on information from Brazil, Mexico, Italy, Malawi and the US*, a document that was released in the early 2006.

784. The analysis of changes in the food economy continued with a further set of three studies on: the future role and likely impacts of private and public food standards; the economic impacts of market concentration in the food chain; and corporate responsibility challenges and business practices in the agro-food sector.

785. In 2006, OECD continued with core activities such as the outlook report and the report on the monitoring and evaluation of agricultural policies in its abbreviated version called 'At a Glance'. Part of this latter report (the Commodity PSE) came under heavy criticism from the European Commission since it contained information no longer warranted by the support figures supplied — €17bn of decoupled payments could no longer be earmarked for commodity allocation. CoAg agreed to suspend the Commodity PSE and to accelerate work on the new PSE classification, which was approved in its basic outline by the APM (Working Party on Agricultural Policies and Markets) in the same year.

786. OECD carried out a number of analytical studies on: the impact of policies on land prices and mobility; the role of compensation in the reform process; information deficiencies and non-market valuation and its policy responses; and finally on the degree of 'jointness' with regard to rural development and food security, which was followed by a workshop on jointness, recognising the general existence of this phenomenon and offering new approaches to deal with it.

787. The Joint Working Party on Agriculture and Trade continued with impact studies looking into the level and distribution of trade liberalisation effects and the effect on trade and trade policy of policy responses to societal concerns.

788. Finally, the Joint Working Party on Agriculture and Environment continued with its study of the relationship between agricultural and environmental outcomes, through an analysis of linkages and policy instruments such as cross-compliance, and with the editing discussion on the fourth volume of the Agri-Environmental Indicator Series, now scheduled for the end of 2007. (A workshop held in Washington in March 2007 looked at the challenges of how to incorporate agro-environmental indicators within policy-making.)

789. With the acceptance of the Economic Policy Development Review process by the Commission, a new chapter of relations with the OECD was opened, with agricultural policy follow-up being an important part of this. (The first report of this kind on the European Union was started and published in 2007).

10.1.3. Generalised System of Preferences (GSP)

790. The aim of the GSP is to foster the integration of developing countries within the world economy and the multilateral trading system. The GSP focuses on the needs of the poorest beneficiary countries, in particular through the 'Everything But Arms' initiative, which is incorporated in the GSP.

791. A new GSP scheme was adopted on 27 June 2005, through Council Regulation (EC) No 980/2005. This regulation applies from 1 January 2006 to 31 December 2008, but the provisions concerning the special incentive scheme for sustainable development and good governance (also known as 'GSP-plus') have already applied since 1 July 2005. The special arrangements to combat drug production and trafficking under Regulation No 2501/2001 were repealed from that same date.

792. From 1 January 2006 to 31 December 2008, there are three types of arrangement for beneficiary countries under the EU's GSP in Regulation (EC) No 980/2005:

793. all beneficiary countries can benefit from the general arrangement;

794. the special incentive arrangement for sustainable development and good governance ('GSP+') provides additional benefits for countries implementing certain international standards in human and labour rights, environmental protection, the fight against drugs, and good governance (Commission Decision 2005/924/EC contains the list of **GSP+ beneficiary countries**);

795. the special arrangement for the least-developed countries (LDCs), which provides the most favourable treatment of all, with the aim of granting the LDCs 'duty-free and quota-free' access to the EU's market (with phase-in periods for sugar and rice).

10.1.4. United Nations Food and Agricultural Organisation (FAO)

796. As a member of FAO, the EC took part in the work of the various technical committees. The EC attended in particular:

– the 34th session of the European Commission on Agriculture (ECA) (Riga, Latvia, 7 June 2006);

– the International Conference on Agrarian Reform and Rural Development (ICARRD) — Puerto Alegre, Brazil, 6–10 March 2006;

– the 131st session of the FAO Council — November 2006;

– the 32nd session of the Committee on World Food Security October–November 2006.

10.1.5. Commodities and international commodity agreements

797. The Food Aid Convention (FAC), at its 96th session on 1 June 2007, was extended for one year until 30 June 2008, with the possibility of further extension subject to the 1995 Grains Trade Convention remaining in force. Due to the links between the FAC and the negotiation of food aid disciplines within the chapter on export competition at the WTO, the re-negotiation of the FAC was postponed.

798. At its 25th Session on 11 June 2007, the International Grains Council agreed that the 1995 Grains Trade Convention would be extended for a further two years until 30 June 2009.

799. The International Sugar Agreement remained in force until 31 December 2005 after being extended for two years at the end of 2003.

800. The new International Agreement on Olive Oil and Table Olives, 2005, entered into force provisionally on 1 January 2006. A new management team took office at the end of 2004. An administrative, operational and financial restructuring of the organisation is under way.

801. Concerning the management of this organisation, a round of negotiations held in 2004 led to a complete renewal of the management staff as of the end 2004, including a new Executive Director. The new Financial Delegate, who took up his post in April 2004, together with the new management team appointed in October 2004, will manage the organisation as a college on the basis of the new rules.

10.2. Bilateral and regional trade relations

10.2.1. ACP countries

802. Economic Partnership Agreement (EPA) negotiations: the Commission was involved, as planned, in negotiations with the six different regional EPA groupings, i.e. Central Africa, West Africa, Eastern and Southern Africa (ESA), the Southern Africa Development Community (SADC) region, the Pacific region and the Caribbean region.

South Africa

803. Further discussions resulted in progress on the resolution of certain outstanding agricultural issues with the EU/South Africa TDCA. Specific discussions were held on TDCA preferences that South Africa should apply to certain Community cheeses,

in particular the opening of the cheese TRQ that South Africa had committed to under the TDCA.

804. In the context of the EU/South Africa agreement on trade in wine and spirits, meetings between the parties provided an opportunity to discuss a wide range of issues of interest to both sides. In particular, following agreement by the parties in 2006 to give priority to setting up the Joint Committee envisaged in the wines and spirit agreement, work towards finalising the rules of procedure of the Joint Committee made progress.

805. [The Commission reiterated the importance of the ratification of the agreement on trade in wine and spirits by South Africa, but South Africa noted that due to the outstanding issues concerning trademarks and geographic indicators it was not in a position to submit the agreement to its parliament for ratification.]

10.2.2. EFTA countries and the EEA Agreement

EEA

806. The European Economic Area (EEA) comprises the EC, EU Member States and the following EFTA states: Norway, Iceland and Liechtenstein. The regular uptake of the *acquis* by the EFTA states as regards the internal market included, as usual, the latest EC legal acts in domains such as organic agriculture, veterinary and phytosanitary measures, food, biotechnology, etc[88]. Protocol 47 of the Agreement on the EEA[89], on the abolition of technical barriers to trade in wine, was also significantly revised in 2006[88].

Norway

807. Bilateral trade negotiations on agriculture under Article 19 of the EEA agreement finally resumed in 2006, following undertakings by the Parties in the Exchange of Letters of 20 June 2003 concerning additional trade preferences for agricultural products[90].

808. A Norwegian proposal aiming to modify the domestic regime for the outward processing of agricultural products was subject to vigorous internal debate in Norway and to intense bilateral contacts in 2006, because of its potential damaging effects on consumers, bilateral trade, industry and regional integration.

Iceland

809. Bilateral negotiations under Article 19 of the EEA agreement, with a view to further liberalising bilateral trade in agricultural products between the parties on a reciprocal and mutually beneficial basis, were finalised at the end of 2006. The Exchange of Letter was signed on 22 February 2007[91].

---

88 http://secretariat.efta.int/Web/EuropeanEconomicArea/introduction.

89 OJ L 1, 3.1.1994, p. 3.

90 OJ L 156, 25.6.2003, p. 49.

91 OJ L 61, 28.2.2007, p. 29.

Liechtenstein

810. Given the strong ties between Liechtenstein and Switzerland, notably the Customs Union between these two countries, Liechtenstein asked to be included in the Agreement between the EC and the Swiss Confederation on trade in agricultural products[92]. The EC and Switzerland were both in favour, and tripartite negotiations were finalised at the end of 2006. It also proved necessary to prepare a Decision of the EEA Joint Committee in order to clarify the triangular relationship between the EC, Switzerland and Liechtenstein in the field of agriculture, both for tariff and non-tariff issues, due to the fact that Liechtenstein is part of the EEA Agreement but Switzerland is not. Both texts are to be adopted in parallel, in 2007.

Switzerland

811. The Joint Committee on Agriculture, created by the Agreement between the EC and the Swiss Confederation on trade in agricultural products[93], met for the sixth time on 6 December 2006. It reviewed bilateral trade conditions and addressed in particular the following issues: respective developments in the field of geographical indications, with the focus on the registration of the name 'Emmentaler' on Swiss territory, import certificate requirements for cheeses and organic products, preferential trade in sausage products, adaptation of the Agreement to take into account the enlargement of the EU to 27 Members and, more generally, future developments in preferential trade. The parties further worked towards the opening in 2007 of bilateral negotiations on the mutual recognition of geographical indications and for updates and improvements to the text of the bilateral Agriculture Agreement and its Annexes. The evolution of bilateral trade in agricultural products was regarded as favourable by both parties. Also worth noting were two decisions adopted by the Joint Committee on Agriculture late in 2005: Decision 3/2005[94] on trade adaptation following EU enlargement to 25 Members and Decision 4/2005[95] on organic products, updating the Agreement to reflect the evolution of the EC *acquis* and Swiss legislation.

812. At the request of Switzerland, exploratory talks on the possibilities for ambitious bilateral trade liberalisation in the agro-food sector took place at the end of 2006. A decision by the Swiss Federal Council on such possibilities was expected in 2007.

10.2.3. Asia

ASEAN

813. In 2006, contacts were pursued with Thailand on possible future cooperation on geographical indications and on manioc. Following a mandate from the Council to start negotiations with Thailand to change the regime for importing manioc into the Community to a 'first come first served' system, preparatory consultations were held with Thailand.

---

92 OJ L 114, 30.4.2002, p. 132.

93 OJ L 114, 30.4.2002, p. 132.

94 OJ L 346, 29.12.2005, p. 33.

95 OJ L 346, 29.12.2005, p. 44.

814. The Vision Group (EU–ASEAN) agreed that there was a solid case for a bi-regional Free Trade Agreement between the EU and ASEAN and suggested that negotiations could start in 2007.

China

815. In November 2006, DG AGRI and the Chinese Ministry of Agriculture held the first meeting under the 'dialogue on agriculture' between the EU and China. The meeting covered trade in agricultural products, including market access issues, quality products, policy information and food technologies.

816. Under the EU-China arrangements on sanitary and phytosanitary (SPS) issues, discussions were held with China on overcoming non-tariff barriers to EU agriculture exports to China.

817. In the context of the EU-China Memorandum of Understanding on Geographical Indications (GIs), DG AGRI and AQSIQ exchanged views on their respective GI legislations and the procedures for registering GIs in each other's territories.

India

818. In June, India was included in Commission Regulation (EC) No 94/1992 on the equivalence of organic production methods for certain agricultural products. This was a major achievement for India, opening the door for Indian quality products on the EC market.

819. In collaboration with the authorities of India (and Pakistan) work continued on the development of the DNA protocol for basmati rice; it involved sampling missions to both countries during the harvesting period.

820. Talks and coordination took place on the establishment of a revised Working Group on Agriculture and Marine Products and arrangements were made for a meeting of this Group in early 2007.

Japan

821. At their annual meeting in Tokyo on 1 June 2006, the EC and Japan exchanged information on their respective pigmeat markets. These exchanges of information aim to avoid any disruption of trade. The Japanese authorities have recourse to safeguard measures when pigmeat imports reach a trigger level. Japan is a major market for EU pigmeat producers. These safeguard measures were not applied in 2006.

10.2.4. Middle East and Mediterranean Region

822. On the basis of a mandate for ambitious trade liberalisation with the Mediterranean partners adopted by the Council in November 2005, negotiations have started with Morocco (February 2006 in Rabat), Israel (June 2006 in Tel-Aviv) and Egypt (February 2007 in Cairo). The negotiations are progressing satisfactorily with good prospects of success in the first quarter of 2008. Tunisia undertook to open negotiations before the end of 2007. Informal talks with Algeria have been initiated

in order to establish a dialogue and cooperation on matters of common interest in agriculture. For Jordan, the new concessions entered into force in January 2006.

10.2.5. Western Balkans and Turkey

823. Negotiations on an SAA (Stabilisation and Association Agreement) were conducted with several Western Balkan countries (Albania, Bosnia and Herzegovina (BiH), Serbia and Montenegro). The provisions of the SAA on trade in agricultural products fully incorporate all the provisions in the Autonomous Trade Preferences already granted to all Western Balkans countries on a unilateral basis under Council Regulation (EC) No 2007/2000. The SAA also includes agricultural concessions given to the EU on a more gradual and asymmetric basis, along with a protocol on reciprocal preferential concessions for certain wines and the reciprocal recognition, protection and control of wine, spirit drinks and aromatised wine names.

824. The SAA negotiations with Albania were finalised in early 2006. In addition to the general provisions described above, Albania undertook to unilaterally invalidate trade marks that coincided with Community geographical indications (GIs). The Interim Agreement on the SAA, covering trade and trade-related issues, entered into force on 1 December 2006.

825. The SAA negotiations with Bosnia and Herzegovina (BiH) were launched on 25 November 2005 and were finalised at a technical level on 13-14 December 2006.

826. Negotiations for an SAA with Serbia and Montenegro were put on hold in May 2006 on account of non-cooperation with the International Criminal Tribunal for the former Yugoslavia. Following the 21 May 2006 referendum and Montenegro's independence, the General Affairs and External Relations Council (GAERC) decided on 12 June 2006 to separate SAA negotiating directives for Serbia and for Montenegro. Negotiations with Serbia remain suspended until the political criteria are met.

827. Negotiations with Montenegro were resumed in September 2006 and were finalised at a technical level on 1 December 2006.

828. Drafts of an SAA with BiH and Montenegro include the unilateral protection of geographical indications for agricultural and fishery products and for foodstuffs other than wine and spirits.

829. Ahead of the accession of Bulgaria and Romania to the EU, the Council gave the Commission a mandate to negotiate the technical adaptation of bilateral trade agreements. Preparatory work and consultations with certain countries to prepare the exercise were launched at the end of 2006.

830. DG AGRI finalised negotiations with Croatia on a quota for duty-free imports of 180 000 tonnes of sugar (with some reciprocal concessions for the EU) through an Additional Protocol to the Stabilisation and Association Agreement (SAA). This new arrangement, applicable from 1 January 2007, permits Croatia to export sugar duty-free under a TRQ and replaces the previous unlimited duty-free access under the SAA. DG AGRI also addressed the issue of the increase in imports of a mixture of

cocoa powder with a high sugar content from Croatia, in order to prevent circumvention of the sugar quota.

831. The process of adapting the bilateral trade agreement between the EU and Turkey to take into account the accession of the 10 new Member States was finally concluded. Decision 2/06 of the EC-Turkey Association Council was issued on 17 October 2006, updating the trade concessions on agricultural products.

10.2.6. Latin America

Mercosur

832. During 2006, both parties agreed to wait for further clarification in the DDA before actively resuming the negotiations on a bi-regional EU-Mercosur association agreement.

Chile

833. Exploratory talks on possible further trade liberalisation on agricultural products ('Evolution clause') of the Association Agreement were initiated. The Commission also asked to discuss issues relating to the protection of EU geographical indications.

Mexico

834. Talks on the review clause on agriculture and the standstill clause of the FTA continued in 2006.

Central America/Andean Community

835. Based on a joint assessment of the economic integration process in both regions, and following the conclusions of the May 2006 EU-LAC Summit in Vienna, the EU prepared for the start of negotiations on comprehensive EU-CAN and EU-CA Association Agreements, including political dialogue, cooperation and a trade chapter. The first negotiation rounds were expected to take place in late 2007.

10.2.9 NIS countries

Russia

836. The Memorandum of Understanding establishing the principles, objectives and structure of dialogue in the field of agriculture and rural development between the Ministry of Agriculture of the Russian Federation and the European Commission's Directorate-General of Agriculture and Rural Development was signed by the Russian Minister of Agriculture and Commissioner Fischer Boel in Moscow on 13 April 2006. This dialogue establishes the framework for future cooperation between the two sides.

837. The first meeting under the EU-Russia Agriculture Dialogue was held in Brussels on 19-20 October 2006, with the following technical structure: (i) agricultural rural development, (ii) markets for agricultural products and (iii) innovation and new technologies.

Ukraine

838. The Memorandum of Understanding establishing the principles, objectives and structure of a dialogue in the field of agriculture and rural development between the Ukrainian Ministry of Agrarian Policy and the European Commission's Directorate General of Agriculture and Rural Development was signed by the Ukrainian Minister of Agriculture and Commissioner Fischer Boel in Brussels on 19 October 2006. This dialogue establishes the framework for future cooperation between the two sides.

839. The first meeting under the EU-Ukraine Agriculture Dialogue was held in Kiev on 14 December 2006, with the following technical structure: (i) agricultural rural development, (ii) markets for agricultural products.

Georgia

840. The first exploratory talks were held with the Georgian authorities on a bilateral agreement on the protection of geographical indications for wines and spirits. This agreement is one of the topics and activities envisaged in the EU-Georgia ENP Action Plan.

10.2.7. North America: USA, Canada

United States

841. On 10 March 2006, the bilateral EU-US agreement on trade in wine entered into force. The agreement followed 20 years of negotiations and aimed to facilitate trade in wine while improving protection for European and American names used in winemaking and guaranteeing reciprocal acceptance of oenological standards used by winemakers.

842. This first-phase agreement provided that the parties were to begin negotiations within 90 days of the date of entry into force of the agreement with a view to concluding one or more further agreements to facilitate trade in wine between the parties.

843. Consequently, negotiations on the second-phase agreement were formally launched in Washington on 5 June 2006. Further progress and a common understanding were reached at the meetings on 20–21 September in Brussels and on 6–7 December 2006 in Washington, where issues concerning the implementation by both sides of the first-phase agreement and the identification of common interests for a second-phase agreement were addressed.

844. .In the 'hormones' case, the EU continues to challenge the United States' continued imposition of sanctions against EU exports because of the EU's ban on hormone beef. The EU believes these sanctions are illegal since the EU has removed the measures found to be non-compliant with WTO rules in the WTO dispute on hormone beef dating back to 1998. These 'consultations' failed to resolve the dispute, so panels (with the USA but also with Canada) were established on 17 February 2005. The first hearing took place in September 2005, but the report by the panels, expected by summer 2006, was postponed to 2007.

845. In August 2006 the Commission was informed that GM rice LL601 from Bayer, which was not intended to be commercialised and was supposed to be grown only in

field trials in the US, had entered the food and feed supply chain. After the detection of the unapproved GM LL601 rice in US bulk rice exports, the Commission adopted emergency measures requiring that all shipments of long-grain rice originating from the US be tested and accompanied by a certificate attesting that the product is free from GM rice LL601. Following positive tests on imports that were actually certified free from LL601, the emergency measures were intensified.

846. Following the emergency measures, imports of rice from the USA almost totally stopped in August 2006. This created problems in particular for the use of import licenses issued in July and August for approximately 30 000 tones of rice originating in the USA, as part of the July tranches of the import quotas agreed following WTO negotiations (Regulation (EC) n° 327/98).

847. To resolve this situation, the Commission adopted at the end of October Regulation (EC) No 1610/2006 to extend until the end of 2006 the validity of these import licenses, as well as to allow imports from all third countries under licenses for *erga omnes* (all-country) quotas even if the licenses were originally issued for rice of US origin, and to allow flexible use of the certificates regarding the type of rice to be imported, where it corresponded to the same processing stage.

848. The Corn Gluten Feed Monitoring Group continued to meet.

Canada

849. The EC-Canada Agreement on trade in wines and spirit drinks officially entered into force on 1 June 2004. It provides for an end to the generic use of EU wine and spirits names in Canada in three phases, beginning for most names with the entry into force of the Agreement and lasting up to 31 December 2013 when the last four names (Chablis, Champagne, Port and Sherry) will be no longer classed as generic. The parties also agreed on compositional standards for wines and spirit drinks. Trade disciplines applicable to Canada's Provincial Liquor Boards were strengthened by a series of amendments to a 1989 agreement following a successful WTO Panel requested by the EC. The parties also established a framework for continuing discussions on matters such as the rules on labelling wines and spirits. Canada is a key market for EC wine and spirit exports, importing products worth over EUR 500 million a year. After entry into force and during 2006, initiatives were taken to set up a Joint Committee for monitoring the agreement. The rules of procedure of this Joint Committee were adopted by a Council Decision of 12 October 2006. On 29 November 2006 the Commission decided to request WTO consultations with Canada on its new fiscal measures affecting wine and beer. The draft Canadian measures provide excise tax relief to Canadian wine and beer, while leaving the excise tax on imported EU wine and beer intact.

850. For the Commission this tax discrimination amounts to a breach of the 1989 EU-Canada agreement on trade in alcoholic beverages, as last amended by the 2003 EU-Canada agreement on trade in wine and spirits. These proposals are also inconsistent with Canada's obligations under the WTO and in particular GATT Article III.

851. Canada continued to apply 100% ad valorem tariffs to EU exports worth CAD 11.3 million on account of the 'hormones' case.

852. As part of the ongoing negotiations on a Trade and Investment Enhancement Agreement, the EU and Canada continued regular discussions on the improvement of the protection granted to geographical indications.

853. In the dairy sector, Canada established specific border controls and taxes on EU milk ingredients and, despite EU enlargement, Canada did not took account of traditional cheese exports from the ten new Member States. Regular exchanges on these issues took place during 2006, although no specific results were achieved.

10.2.8. Oceania

Australia

854. At the annual EC/Australia ATMEG meeting, views were exchanged on the market situation for major commodities, market access issues, the WTO agricultural negotiations, and recent policy developments in the EU and Australia. An in-depth discussion was held on rural development.

855. Negotiations on a new EC/Australia agreement on trade in wine continued in 2006 on the one remaining outstanding issue, i.e. a limited number of trademarks registered in one party but containing or consisting of geographical indications protected by the other party. It was hoped to conclude these negotiations at the beginning of 2007.

New Zealand

856. During the annual EC/New Zealand agri-trade talks, views were exchanged on the market situation of dairy and meat products as well as on the state of play with the agriculture negotiations in the WTO. An in-depth discussion was held on rural development.

857. Consultations were held with New Zealand on a new arrangement for the EC's current access tariff quota for New Zealand butter in order to bring the management system for this quota into line with the ruling of the European Court of Justice in the *Egenberger* case. This new arrangement entered into force at the beginning of 2007.