



European Commission
Directorate-General for Agriculture

The common agricultural policy

2001 review

ISSN 1681-7206

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Luxembourg: Office for Official Publications of the European Communities, 2003

ISBN 92-894-5804-6

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Printed in Belgium

PRINTED ON WHITE CHLORINE-FREE PAPER

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Foreword



The year 2001 brought more than its fair share of difficult, unforeseeable challenges to farmers and policy-makers in the European Union (EU). Bovine spongiform encephalopathy (BSE), foot and mouth disease (FMD) and classical swine fever (CSF) created enormous problems for producers and serious anxieties among consumers. Economic develop-

ments were generally unhelpful and the likely impacts of current and potential international trade developments on the common agricultural policy (CAP) had to be built into assessments of future requirements.

The global economic downturn reduced demand for food, and thus EU agricultural exports, even though the weakness of the euro against the US dollar helped maintain the competitiveness of EU products. Relatively high oil prices led to high costs for energy and fertilisers through to the autumn. Unfavourable weather conditions affected most Member States and notably reduced the cereals' harvest. Some sectors were hit hard; others fared better.

The most dramatic events occurred in the livestock sector. The BSE crisis which erupted late in 2000 led to a large drop in both internal beef consumption and prices at the start of 2001 (though there was a steady recovery during the year). Then a difficult situation was made worse early in the year by the outbreak of FMD, primarily in the United Kingdom though other Member States were affected. EU meat exports were virtually halted and intervention stocks rose. CSF also occurred in Spain and Germany.

Responding to these crises, the EU rallied to the support of producers and Member States by making significant funds available.

Serious though they were, the animal health crises did not prevent the steady implementation of the Agenda 2000 CAP reforms. The intervention price for cereals, for example, was reduced by 7.5% linked to an increase in aids to producers, while beef support prices were cut by 7%. At the same time, additional reforms were agreed in sectors not included in the Agenda 2000 package and the process of evaluating the impact of the reforms was also begun. In June the Council brought in a simplified scheme for aid payments to small farmers. If successful this should reduce the paper burden for the majority of EU farmers.

In the international arena, the Doha round of WTO talks was launched in November with the adoption of a tough timetable for achieving an agricultural agreement. The EU played a leading role at Doha and is committed to achieving a balanced deal that takes fully into account its priorities for its agriculture and rural areas. There were important developments in other trade relationships, most notably the 'Everything but arms' initiative to assist the least developed countries.

The enlargement talks with candidate countries for EU membership moved forward in the agriculture sector while the EU and the candidate countries also improved interim bilateral trade arrangements. These have played an important part in helping these countries prepare their agriculture for eventual EU membership, together with the Sapard pre-accession programme which contributes to broader aspects of rural development.



Franz Fischler
Commissioner for Agriculture
and Rural Development

2001 — The year in review: developments,

January

- Franz Fischler, European Commissioner for Agriculture, Rural Development and Fisheries, addresses the *Grüne Woche* Agricultural Fair in Berlin about environmentally friendly and animal welfare friendly farming and other priorities.
- EU adjusts its trade and market supply arrangements for bananas.

February

- FMD outbreak among livestock in the United Kingdom.
- EU adopts new system of trade preferences for least developed countries: the so-called ‘Everything but arms’ initiative.
- Franz Fischler outlines seven-point plan to tackle beef market crisis.
- Council approves supplementary amending budget for agriculture worth over EUR 700 million, partly in response to meat market crisis.

March

- Special purchase scheme for buying up beef from cattle over 30 months old agreed.
- Commission adopts communication on a biodiversity action plan for agriculture.

April

- Agriculture Council consensus to extend meat and bonemeal ban in feed into 2002.
- Informal Agriculture Council in Östersund, Sweden, debates ‘safe, sustainable food chain’ issues.

May

- Political agreement in Council to extend sugar regime until 2005/06 marketing year.
- Open debate on ethics of animal husbandry broadcast live in the Council press room.

June

- Göteborg Summit underlines that agricultural policy should contribute to achieving sustainable development.
- Agriculture Council adopts simplified scheme for aid payments to small farmers.
- Reforms to the olive oil and cotton common market organisations also adopted.
- Commission makes proposal to introduce a new generalised system of tariff preferences.
- Commission brings in new guidelines for State aids in agriculture.

J F M A M J

policy and legislative initiatives

July

- Commission publishes *Prospects for agricultural markets 2001–08* report.
- EU offers EUR 2.2 billion worth of concessions on farm imports from Mercosur.

August

- Special measures to support the beef and veal market introduced.

September

- Informal Agriculture Council in Alden Biezen, Belgium, discusses new technologies, including genetically modified organisms.
- Commission launches public consultation on the future of biotechnology.

October

- Council and European Parliament agree new rules on labelling of feed ingredients.

November

- Fourth WTO ministerial conference agrees Doha Development Agenda, launching new round of agricultural trade negotiations and setting timetable for agreement.
- WTO also grants waiver (for six years) on EU's preferential tariff treatment for products originating in ACP States.
- Commission publishes reports on progress of candidate countries towards meeting EU membership criteria.
- Commission outlines biofuel strategy.

December

- Major conference in Brussels on FMD.
- Agriculture negotiations now under way with 10 candidate countries in enlargement process.
- Agriculture Council adopts regulation reforming the sheep and goat regime.

J A S O N D

The year in the agricultural marketplace

The year 2001 was characterised by five main factors: a general downturn in the international economic situation; high oil prices (although down on the previous year); a sudden increase in EU food prices in the first half of the year; turmoil in the beef sector with the continuing BSE crisis; and the outbreak of FMD and generally unfavourable weather conditions throughout the EU.

Developments in demand

EU cereals consumption rose by less than 1 % on the previous year. The year-on-year slump in beef and veal consumption continued but a recovery in the second half of the year saw the average fall level out at 5.7 %. Sheep and goatmeat consumption dropped by 5.8 % because of FMD, while consumption of poultry and pigmeat benefited from the problems in other sectors, increasing per capita by 6.5 % and 2 % respectively. The increase in cheese consumption continued but, at 0.5 %, was slower than in previous years.

Healthy increase in producer prices

Data available in December 2001 indicate a 5 % increase in nominal EU producer prices in 2001 (+ 2.6 % after inflation). This was fuelled by a 5.8 % increase in animal products and a 4.1 % increase in crop prices (in spite of the cereal price cuts agreed under Agenda 2000). The steepest increases were for potatoes (+ 27.1 %), pigmeat (+ 20 %), oilseeds (+ 15 %), durum wheat (+ 14.7 %), fruit (+ 11.5 %), mutton and lamb (+ 10.6 %), milk (+ 7.8 %) and poultry (+ 6.4 %). In contrast, prices for beef and veal fell by 11.3 % and 7.7 % respectively, for olive oil by 4 % and for eggs by 2.1 %. There were also price decreases for wine. Average farm input prices in 2001 were up 4.5 % on the previous year.

World markets depressed

International agricultural markets were relatively depressed for much of 2001 because of a general downturn in the global economy. Wheat prices remained high due to reduced production in exporting countries, but sinking demand and an unexpected appearance of surpluses in countries that are not tra-

ditional exporters pushed them down below 2000 levels towards the end of the year. Maize prices fell heavily early in the year but recovered somewhat in the third quarter. In the meat markets, international prices strengthened in the first part of 2001, mainly driven by a strong increase in poultry prices. Beef prices fell, however, due to new animal disease concerns. World prices for most dairy products fell because of reduced demand in the main importing nations.

Mixed EU export performance

The EU's export performance in 2001 was mixed. While the weak euro aided export competitiveness, volumes and prices were restrained by the downturn in the global economy, crises in the meat sector and a low cereals harvest coupled with third country competition in cereals. In the year to October, exports rose 2.3 % in value on the same period in 2000. There were increases in the value of exports of sugar (+ 36 %), fruit (+ 16 %), vegetables (+ 17 %), cheese (+ 8 %) and concentrated milk (+ 35 %). These were offset, however, by a fall in cereals exports of 30 % in volume and 15 % in value, and a drop in the value of exports of skimmed-milk powder (SMP) (– 50 %), beef and veal (– 20 %), animal feed (– 19 %), pigmeat (– 13 %) and olive oil (– 9.5 %).

Public stocks rise

Stock levels increased for products where common market organisations (CMOs) allow for public intervention. Cereals stocks rose from 6.6 million tonnes at the beginning of 2001 to 7.0 million tonnes by the end of the year. Wheat stocks were reduced but barley stocks increased by 500 000 tonnes to 1.7 million tonnes and rye stocks by over 1 million tonnes to 4.7 million tonnes. Butter and SMP stocks remained low but beef stocks increased from almost nothing to 250 000 tonnes.

Focus on cereals

Cereals production fell to 201 million tonnes in 2001 (6 % down on the previous year's record crop) as a result of bad weather conditions which affected most of the EU. The total cultivated area was reduced by

2.8 % and yields were down by 3 %. Prices remained stable throughout the year. In July, the second phase of the Agenda 2000 price cuts took effect with a cut of 8.1 % in intervention prices. This reduction was partially offset by an increase in direct payments (to EUR 63 per tonne from EUR 58.76 per tonne).

Oilseeds (rapeseed, sunflower and soya) production was largely unchanged on the previous year and significantly below the record harvest of 1999. Soya production increased (+ 6 %) due to an increase in the cultivated area, while sunflower and rapeseed production was marginally down due to slightly lower average yields.

Production of protein crops fell 3 % due to lower yields, while linseed production collapsed (– 42.3 %) for the second year in succession, reflecting modifications to the CMO.

Beef under the microscope

Prices for beef in 2001 remained substantially below those prevailing for much of the previous year. Carcass prices fell further in the second half of the year due to a backlog of animals that had been held on farms because of export restrictions prompted by BSE and FMD. Overall beef production remained unchanged from the previous year. Beef intervention prices were reduced by a further 7.1 % as required by the Agenda 2000 agreement. Market prices were lower for young bulls by 18.5 %, for heifers by 15 % and for cows by 30 % in 2001 compared with 2000 (before the BSE crisis broke).

The special purchase scheme and other measures taken in late 2000 played an important role in supporting the market in 2001 and, together with a recov-

ery in beef consumption, helped to sustain a gradual recovery of the beef market in the EU. By early December, carcass prices for young bulls and for steers had recovered to 86.2 % and 83.6 % of the intervention price respectively. More flexibility was introduced to various intervention and premium schemes throughout the year to ensure the recovery was maintained.

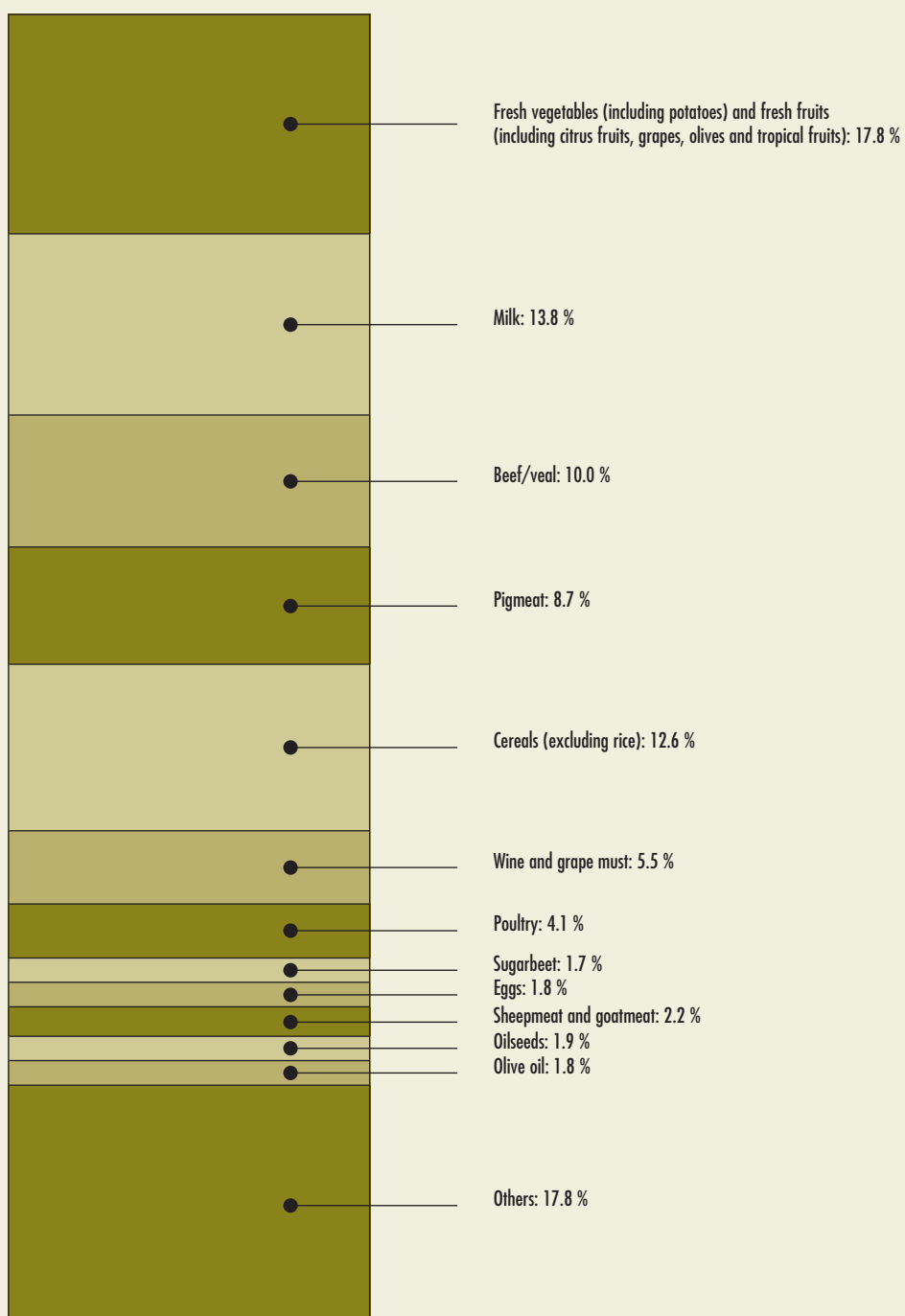
Spotlight on milk

The milk market remained broadly in balance throughout 2001. Public stocks for butter and SMP were at or near zero. Milk production was little changed from the previous year. Cheese production increased by 4 %, while production of butter declined by 1.8 % and SMP by 6.4 %. Despite brief periods of recovery, butter prices fell throughout the year from 97.5 % to 91 % of the intervention price. The same was true for SMP, whose price dropped from 131 % to 95 %. The average price paid to dairy farmers was up 6.5 % in 2001.

CAP reform: an ongoing process

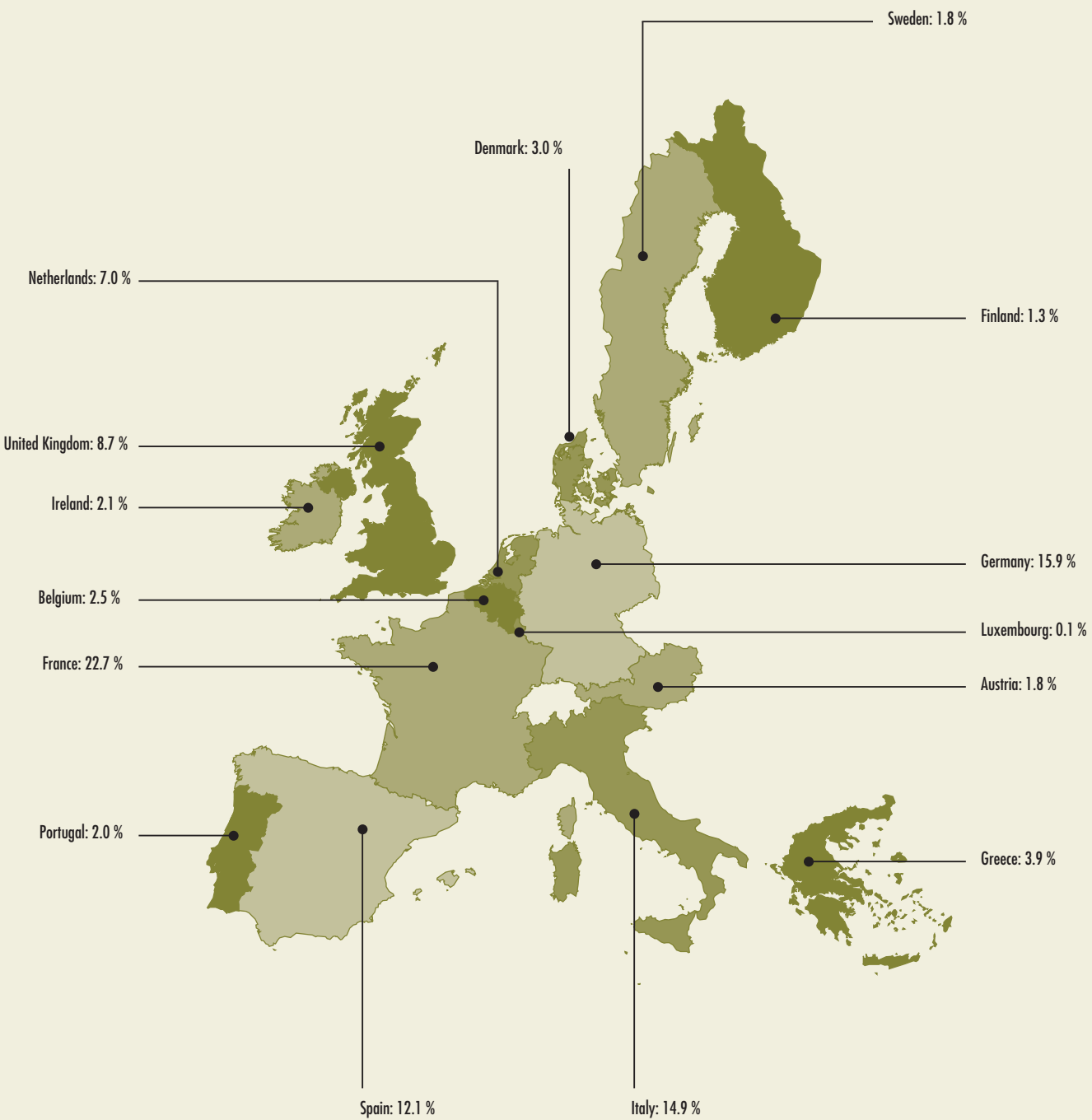
Change and reform remained a constant feature of the CAP in 2001: various measures were introduced, including a simplified scheme for direct payments; the Council adopted a regulation reforming the sheep and goat regime, the main change being the replacement of the deficiency payment by a fixed premium; the sugar quota regime was extended until 2005/06 and intervention prices fixed; production aids for cotton were modified to ensure budget neutrality and introduce eco-conditions; quality criteria were reinforced for rice intervention; production aids for olive oil were extended until 2003/04 with new eligibility criteria introduced; and trade arrangements were modified for bananas.

Shares of individual products in final agriculture production in the European Union (2000)



Source: Eurostat (Economic Accounts for Agriculture).

**Individual Member States' shares
in final agricultural production in the European Union (2000)**



Source: Eurostat, EAA (Economic Accounts for Agriculture).

Preserving quality products and protecting consumers

At the heart of the challenge facing the CAP in the coming years is the need to convince farmers that their key priority must be to improve the quality and marketing of their products.

Several measures have now been put in place to help farmers achieve this objective. These include initiatives to protect the brand reputation of specific high quality products, to assist the growing organic farming sector, and to promote EU produce outside the Union.

Protected designation of origin (PDO)/Protected geographical indication (PGI)/Traditional special guarantee (TSG)

The EU recognises that products named and labelled by reference to a geographical origin and/or produced by traditional methods can generate higher levels of consumer confidence.

Consequently, two regulations ⁽¹⁾ were adopted as part of the 1992 CAP reform package establishing systems to enhance the value and protection of specific food products. The specificity of such products may be dependent on their geographical origins (PDOs and PGIs) or on traditional methods of production (TSGs). The protection is justified by the fact that a product with a good reputation may suffer from misuse and imitation of its name.

The EU has initiated a debate at global level over how to harmonise approaches to the issue of PDOs/PGIs in forums such as the WTO (where the TRIPS Agreement on trade-related aspects of intellectual property rights covers such concepts).

The growing interest of consumers in food quality is reflected in the number of new product registrations as PDOs and PGIs in 2001.

List of PDOs, PGIs and TSGs registered in 2001

Member State	Product	Name
Belgium	<i>Pâté Gaumais</i> (meat-based products)	PGI
Spain	<i>Lacón Gallego</i> (meat-based products)	PGI
	<i>Azafrán de La Mancha</i> (saffron)	PDO
	<i>Pimentón de Murcia</i> (pimento)	PDO
	<i>Aceite del Bajo Aragón</i> (olive oil)	PDO
	<i>Sierra de Cazorla</i> (olive oil)	PDO
	<i>Alcachofa de Tudela</i> (fruits, vegetables)	PGI
	<i>Botillo del Bierzo</i> (meat-based products)	PGI
	<i>Arroz de Valencia o Arrós de València</i> (rice)	PDO
	<i>Manzana Reineta del Bierzo</i> (fruits)	PDO
	<i>Salchichón de Vic-Llonganissa de Vic</i> (meat-based products)	PGI
France	<i>Bleu du Vercors-Sassenage</i> (cheese)	PDO
	<i>Taureau de Camargue</i> (meat)	PDO
	<i>Jambon sec et noix de jambon sec des Ardennes</i> (meat-based products)	PGI
	<i>Boudin blanc de Reithel</i> (meat-based products)	PGI
	<i>Huile d'olive d'Aix en Provence</i> (oil)	PDO
	<i>Huile d'olive de Haute Provence</i> (olive oil)	PDO
	<i>Pélardon</i> (cheese)	PDO
Italy	<i>Val di Mazara</i> (oil)	PDO
	<i>Agnello di Sardegna</i> (meat)	PGI
	<i>Bergamotto di Reggio Calabria — olio essenziale</i> (essential oils)	PDO
	<i>Limone Costa d'Amalfi</i> (fruits)	PGI
	<i>Veneto Valpolicella, Veneto Euganei e Berici, Veneto del Grappa</i> (oils)	PGI
	<i>Coppia Ferrarese</i> (pastry)	PGI
Sweden	<i>Falukorv</i> (meat-based products)	TSG

⁽¹⁾ Council Regulation (EC) No 2081/92 of 14 July 1992 on the protection of geographical indications and designations of origin for agricultural products and foodstuffs (OJ L 208, 24.7.1992).

Council Regulation (EC) No 2082/92 of 14 July 1992 on certificates of specific character for agricultural products and foodstuffs (OJ L 208, 24.7.1992).

Organic farming

During 2001 the Commission updated its regulatory framework for organic farming several times to cover fertilisers and soil conditioners, third country imports and inspection procedures. The Commission is also trying to make the rules on organic livestock rearing clearer by establishing, for example, rules on feeding stuffs, ingredients and processing aids.

Promotion of agricultural products

Under the new framework for supporting promotional actions for agricultural products ⁽²⁾, the Commission approved in December 2001 18 programmes submitted by professional organisations in the Member States. These aim principally at boosting sales of

dairy products, fresh and processed fruit and vegetables, wine and pigmeat in markets such as the Far East, the United States, Brazil and east European countries. The EU will support these promotional activities to the sum of EUR 19.5 million over three years, with Member States and the food industry also contributing in a joint effort.

The Commission approved specific measures ⁽³⁾ to help restore the EU beef market, badly damaged by the BSE crisis, via consumer information campaigns. The EU contributed EUR 8.3 million towards 13 industry-led programmes aimed at communicating information about the nutritional value of beef, traceability issues and labelling.

⁽²⁾ Council Regulation (EC) No 2702/99 of 14 December 1999 on measures to provide information on, and to promote, agricultural products in third countries (OJ L 327, 21.12.1999).

⁽³⁾ Commission Regulation (EC) 1358/2001 of 4 July 2001 on specific communication measures in the beef and veal sector (OJ L 182, 5.7.2001).

Rural development in 2001

Overall about 80 % of the EU's land area is rural and agriculture is still a major element in rural economies. Nevertheless, it is now recognised that maintaining and improving the economic and social health of rural areas requires other sources of wealth. Rural development plans that were part of the Agenda 2000 CAP reforms came into operation during 2001. Intended to help revitalise rural economies, a total of 70 seven-year plans are co-financed by the EU budget and Member States. Most of these were submitted during 2000, but the last batch was adopted by the Commission in 2001, including programmes submitted under the Leader+ Community initiative.

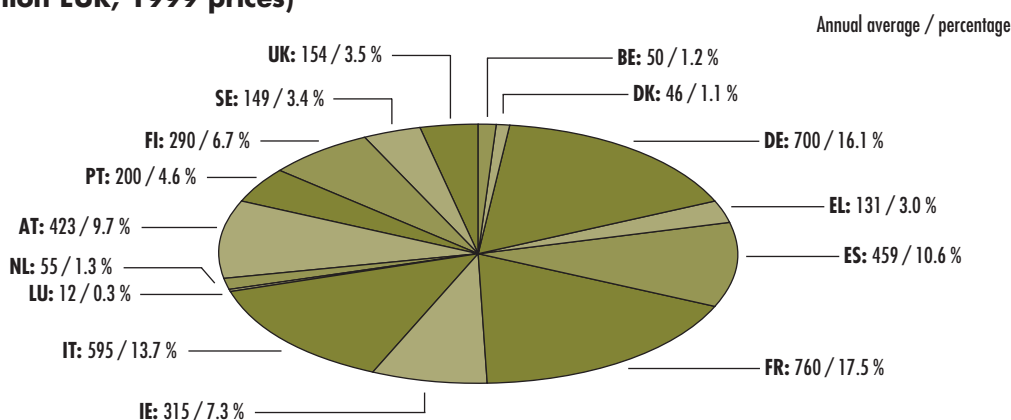
Some plans are purely national in scope (for example, in Denmark, France and Greece), while others are regional (for example, in Belgium, Germany and Spain), reflecting the political and constitutional arrangements in different Member States, as well as the pattern of their rural economies.

Member States have been able to select from a 'menu' of eligible measures aimed at assisting the development of non-farming as well as farming activities throughout the EU. Member States are obliged to include agri-environmental schemes in their plans.

Rural development measures

- Promoting the adaptation and development of rural areas
- Agri-environment schemes
- Improving the processing and marketing of agricultural products
- Assistance to less favoured areas (LFAs) and areas under environmental restrictions
- Early retirement schemes
- Assistance to young farmers to set up in business
- Investment in agricultural holdings
- Forestry actions
- Training programmes

EAGGF/Guarantee section: support for rural development, 2000-06 Financial allocation to Member States ⁽¹⁾: indicative amounts (million EUR, 1999 prices)



⁽¹⁾ When calculating the annual allocation to Member States for the period 2000-06, the percentages indicated above should be applied to the ceilings in the annual financial perspectives fixed in Section 23 of the Conclusions of the European Council Presidency in Berlin.

Source: European Commission, Directorate-General for Agriculture.

Among the wide range of measures for which Member States have been seeking support are installation aids for young farmers, investment aids for treatment of wastes and by-products and for switching to organic production systems, protection of rare animal breeds and aids to small farmers to improve animal welfare.

These encouraging signs of innovative schemes to assist rural areas should not hide the fact that in some Member States rural development plans have not been thoroughly updated. As a result, assistance is sometimes limited to old instruments such as LFA compensatory payments and early retirement schemes. Newer actions such as agri-environment schemes have occasionally been slow to develop.

The Leader+ initiative, which builds on the earlier Leader concept, is being offered in all Member States. Leader+ is a means by which local initiatives to solve local problems in rural areas can be encouraged by the EU and Member States. Particular target groups are women and young people. In one Member State, for example, the emphasis is on strengthening interaction between rural and urban areas and encouraging migration to the countryside. Promoting the use of new technology is another popular theme.

Leader+ objectives

- Quality projects
- Sustainable impacts
- Strategies developed around a unifying theme, that complement the mainstream and are transferable
- Actions that encourage job creation

Leader+ priorities

- Rural development strategies (area-based, integrated, pilot, transferable and complementary)
- Interterritorial and transnational cooperation
- Networking

Leader+ beneficiaries

- Public and private partnerships
- Socioeconomic partners and associations (at least 50 % of the composition of the partnership)

While the Agenda 2000 reforms have made it possible for all areas of the EU to benefit from rural development measures, some earlier schemes targeted at designated regions are still funded by the EAGGF Guidance Fund, notably in Objective 1 regions. The Member States concerned still attach great importance to assisting some of the least developed rural areas via these funds. For example, they helped certain regions of Italy recover from the effects of earthquakes in 1997.

Protecting the environment and forests

A European Commission priority in 2001 was to advance its work on establishing environmental indicators. These are essential for the realisation of the European Council's decision (made in Cardiff in June 1998 and reiterated subsequently) that environmental concerns should be further integrated in agricultural policy.

In February 2001 the Commission presented a working document, 'A framework for indicators for the economic and social dimensions of sustainable agriculture and rural development' ⁽⁴⁾. This was followed, on 20 March 2001, by the adoption of a Commission communication on 'Statistical information needed for indicators to monitor the integration of environmental concerns into the common agricultural policy' ⁽⁵⁾. These and other studies undertaken for the Commission are aimed at thoroughly analysing and measuring the impact of agricultural activity on the environment and biodiversity.

The Commission has drawn some key conclusions from the operation of agri-environment schemes, allowing it to draft a 'Biodiversity action plan for agriculture' ⁽⁶⁾. This sets targets and a calendar for the

achievement of priority tasks. Environmental indicators will be used to evaluate developments in conservation and the sustainable use of genetic resources.

During the first half of 2001, the Commission worked intensively to put in place the agricultural elements of the European climate change programme.

National plans to protect and conserve the EU's forests (for example from fire) are closely linked to the rural development support measures part-funded by the EAGGF Guarantee Fund. The Commission ensured during 2001 that Member States were keeping these plans up to date. In addition, Member States and the Commission introduced an information system to monitor the vulnerability of the EU's forests to fire hazards with a database of over 500 000 forest fire incidents.

The Commission monitors the health of the EU's forests in order to assess the impact of atmospheric pollution on forest ecosystems. The results of this and other monitoring schemes are presented in the report *The state of Europe's forests*, published jointly by the Commission and the United Nations ⁽⁷⁾.

⁽⁴⁾ SEC(2001) 266.

⁽⁵⁾ COM(2001) 144.

⁽⁶⁾ COM(2001) 162 final, Volume III.

⁽⁷⁾ ISSN 1020-587X.

Financing the CAP

The agricultural budget (EAGGF Guarantee) for the period 2000–06 was agreed by the European Council in Berlin in 1999. This fixes the maximum expenditure from the EU budget over those seven years.

The 2001 agricultural budget was set at EUR 43.3 billion, 47 % of the total EU budget.

More attention than ever is being paid to controlling expenditure, to ensuring that EU funds are spent effectively and to protecting against fraud. The Commission has responsibility for ensuring that Member States (who make the actual payments to beneficiaries) have proper financial management systems in place. In 2001 a review of internal audit

2000–06 expenditure (in million EUR, 1999 prices) ⁽⁸⁾

	2000	2001	2002	2003	2004	2005	2006	Total
Total future CAP	40 920	42 800	43 900	43 770	42 760	41 930	41 660	297 740
Markets ⁽⁹⁾ (sub-ceiling 1a, or 'Pillar 1')	36 620	38 480	39 570	39 430	38 410	37 570	37 290	267 370
Rural development ⁽¹⁰⁾ (sub-ceiling 1b, or 'Pillar 2')	4 300	4 320	4 330	4 340	4 350	4 360	4 370	30 370

Overall spending is split between market-related measures, known as 'Pillar 1', and rural development spending, 'Pillar 2'. Rural areas and farming also benefit from spending under the Guidance Section of the EAGGF, via rural development measures in Objective 1 regions and the Leader+ initiative aiding rural development.

The BSE crisis that broke in November 2000 caused problems on the EU beef market in 2001 as well as triggering higher veterinary costs than budgeted. While the 2001 budget had anticipated some of the BSE-related costs, additional credits were still thought necessary. In February 2001, the Council approved a supplementary amending budget worth over EUR 700 million, mainly to cover these possible costs.

Agricultural expenditure in 2001 eventually came well within the budget, thanks to favourable market conditions for arable crops, fruit and vegetables, and milk and milk products. Expenditure in the beef sector was also less than anticipated, partly due to lower export refund costs following the closure of some overseas markets.

systems was undertaken and 184 control missions were carried out in Member States. The Commission can recover money from Member States if it establishes that there was inadequate control. In 2001 EUR 542.8 million were recovered.

Pillar 1 and Pillar 2 explained

Pillar 1 expenditure covers, *inter alia*:

- spending on market-related measures (for example, direct aids to farmers, public intervention, export refunds);
- measures to promote product quality.

Pillar 2 helps to finance:

- rural development measures;
- agri-environment and early retirement schemes, afforestation of agricultural land and compensatory allowances in the less-favoured areas of the EU.

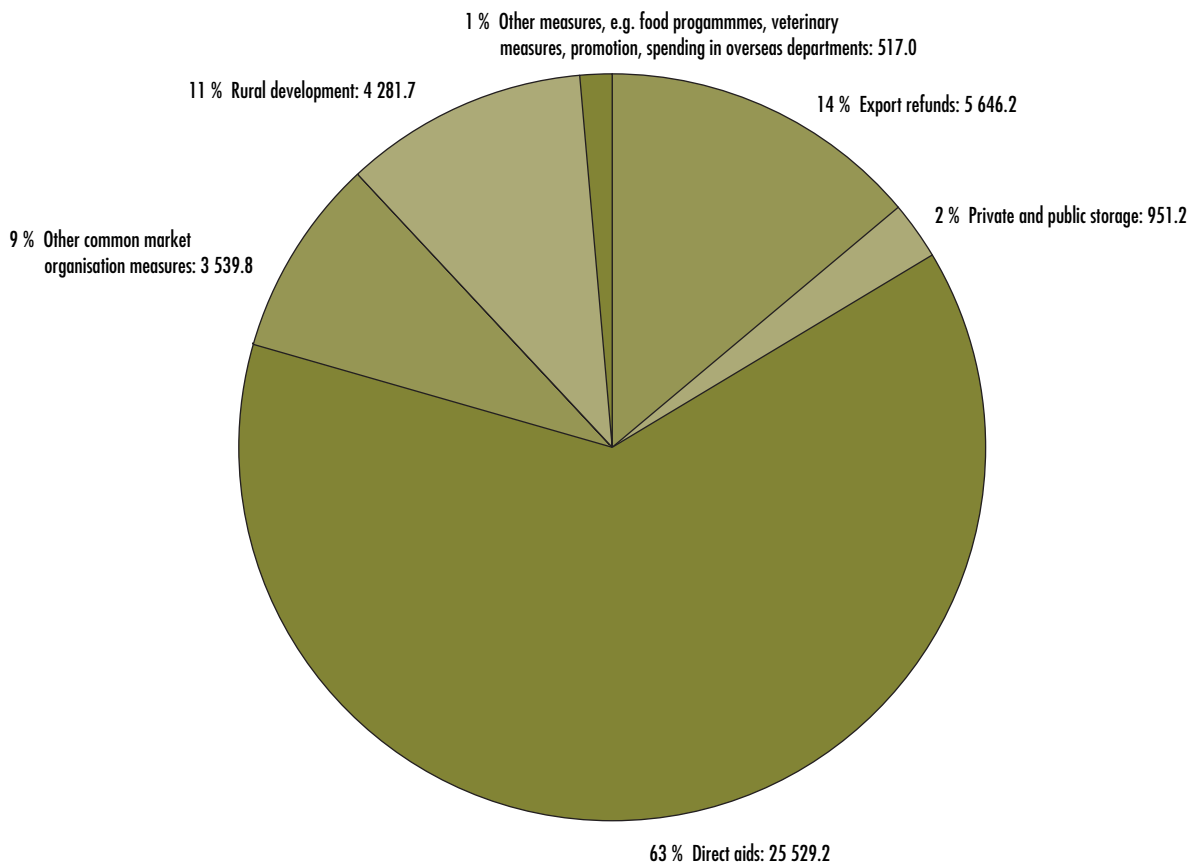
Pillar 1 measures are 100 % financed from the EU budget while other measures have an element of co-financing by Member States. The rate of co-financing varies depending on the measures and regions in question.

⁽⁸⁾ To calculate the amounts in actual prices, a 2 % deflator should be used.

⁽⁹⁾ Including veterinary and phytosanitary measures but excluding accompanying measures.

⁽¹⁰⁾ Including accompanying measures.

Breakdown of agricultural expenditure in 2000 (EAGGF Guarantee — Pillars 1 & 2) (in million EUR)



Source: European Commission, Directorate-General for Agriculture

Preparing for enlargement of the European Union

During 2001, progress was made in negotiations with the candidate countries as well as in developing bilateral trade relations and implementing the Sapard pre-accession rural development programme.

What are the different stages in the accession process?

1. Screening.
2. Candidate country sends negotiation position.
3. Commission adopts common position for the negotiation and forwards to Council.
4. Member States adopt the common position by unanimity.
5. Commission and candidate country hold negotiating sessions.
6. Agreement is followed by drafting of the accession treaty.
7. Draft treaty sent to Council for approval and to European Parliament for assent.
8. Current EU Member States and candidate country ratify treaty.
9. Treaty enters into force, candidate joins EU.

Source: Adaptation of Enlargement DG brochure.

Negotiations

Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia had all submitted their negotiating positions on agriculture by the beginning of 2001. Negotiations on agriculture began with these nine countries, plus Malta, before the end of the year. Negotiations with Bulgaria, Romania and Turkey remained unopened.

In November 2001, the Commission published for each of the 13 candidate countries its regular annual report assessing the progress of each candidate country in the light of the accession criteria. The report reviews legislation that has actually been adopted by the candidates (not draft legislation) and measures which have actually been implemented. As in previous years, one chapter in each regular report was devoted to agriculture.

Bilateral trade relations with the central and east European candidate countries (CEECs)

Negotiations continued on modifications to agreements in the field of agricultural trade. The main features of the agreements are set out below.

- List 1: An immediate and full liberalisation of trade has been agreed for unlimited quantities of least-sensitive products (CEEC products currently facing EU import duty of less than 10 % and products imported from the EU and not cultivated in the CEECs). The list covers more than 400 products and includes, in particular, citrus fruits, olive oil and horsemeat.
- List 2: The so-called 'double zero' approach provides for the reciprocal elimination of export refunds and the elimination of import tariffs within the framework of tariff quotas. The initial level of the tariff quota has been set, as far as possible, at the level corresponding to the current trade pattern (based on the average of the past three years). A substantial yearly increase of the tariff quotas has been agreed bilaterally, taking into account the sensitivity of the products and the potential trade development.
- List 3: This involves a limited exchange of ad hoc concessions decided on the basis of specific requests made and agreed on a case-by-case basis. The list also aims at balancing the overall agreement.

New progressive trade liberalisation agreements have been concluded and implemented with the 10 CEECs. Trade in agricultural products between the two regions amounted to EUR 9.5 billion in 2000, or 8 % of total external EU agricultural trade.

Sapard

The Sapard programme is used mainly to prepare the agricultural sector and rural areas in candidate countries for EU membership. It aims to contribute to the implementation of EU legislation and to help candidate countries solve specific problems related to the

**EU/CEEC trade flows,
2000 figures ⁽¹⁾ (in million EUR)**

Products	Imports	Exports
Live animals	277	60
Meat and edible meat offal	537	321
Dairy produce; eggs; natural honey	198	156
Other products of animal origin	96	84
Live plants and floricultural products	47	199
Edible vegetables, plants, roots and tubers	280	269
Edible fruit and nuts; peel of citrus fruit or melons	391	609
Coffee, tea, maté and spices	19	140
Cereals	110	245
Products of the milling industry; malt; starches	7	73
Oilseeds and oleaginous fruits	346	116
Lac, gums, resins, other vegetable saps and extracts	3	35
Vegetable plaiting materials, other products of vegetable origin	15	3
Animal or vegetable fats and oils	25	280
Meat preparations	125	30
Sugars and sugar confectionery	79	159
Cocoa and cocoa preparations	83	221
Preparations of cereals, flour or starch	37	249
Preparations of vegetables, fruit or nuts	316	186
Miscellaneous edible preparations	29	463
Beverages, spirits and vinegar	271	338
Residues and waste from the food industries	208	566
Tobacco and manufactured tobacco substitutes	24	300
Other agricultural products included in the Uruguay Round	227	618
Total — Agricultural products	3 751	5 721

Sources: European Commission: Eurostat and Directorate-General for Agriculture.
Totals may vary due to rounding.

⁽¹⁾ Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

sustainable development of the agricultural sector and rural areas. It will also help administrations gain practical experience in the management of structural policies. Sapard assistance forms part of a wide-rang-

ing package of EU programmes for the pre-accession period. The others are Phare (investments related to institution-building and economic and social development) and the ISPA programme (pre-accession support for transport and environment infrastructure projects).

Bilateral financing agreements have been negotiated with the candidate countries in order to establish a legal framework for the implementation of Sapard. A multiannual financing agreement sets out the rules covering all aspects relevant to the proper use, control and accountability of Sapard funds for the life of the programme from 2000–06. An annual financing agreement sets out the financial commitment of the EU for each candidate country eligible for assistance under Sapard and has to be drawn up and concluded for each year of the programme. Between December 2000 and March 2001 all 10 candidate countries signed both agreements, with the Commission acting on behalf of the EU.

An important part of the implementation of the Sapard programme concerns the setting up of an effective and transparent monitoring system, including a monitoring committee similar to that in Member States for Structural Funds. In February 2001, the Commission held a seminar on monitoring with the participation of the 10 candidate countries. It examined in detail issues concerning the monitoring arrangements, requirements and procedures, and included presentations on the responsibilities and functions of the managing authority and the monitoring committee as well as on the use of monitoring indicators. Monitoring committees have been established in all the countries. During their first meetings they discussed and approved key items such as the internal rules of procedure, the monitoring indicators and an opinion on the selection criteria for the Sapard measures.

EU agriculture and the world

The EU is the world's leading importer of agricultural products and the second largest exporter after the United States, with an import and export trade exceeding EUR 100 billion per year, or close to 7% of total trade flows. Continued development of export markets is important for maintaining the growth of the EU agriculture sector.

Major activities in 2001 focused on disputes in the World Trade Organisation (WTO), WTO agricultural trade talks, EU participation in other international forums, and on bilateral trade deals.

WTO consultations and dispute settlements

The EU was involved in discussions concerning dispute settlements in agriculture with the United States, Canada and China.

Towards a new round of trade negotiations

On 14 November 2001 in Doha (Qatar) the 142 members of the WTO concluded the fourth WTO ministerial conference. The far-reaching result of the meeting was a decision to launch a new negotiating round — the Doha Development Agenda — with the aims of further trade liberalisation and new rule-making, underpinned by commitments to give more help to developing countries to develop their capacities to negotiate and implement global trade agreements.

The Doha outcome on agriculture was highly successful and fully compatible with the mandate adopted by the EU Council in 1999 and the negotiating proposal subsequently adopted in December 2000. The wording agreed at Doha makes it clear that the commitment to negotiate on market access, domestic support and on all forms of export subsidies is without prejudice to the final result.

The EU position that non-trade concerns must be part of the negotiations is reflected in the Doha declaration, and in particular there is explicit recognition of the need to examine the proposals in this area submitted by WTO members. The EU has submitted proposals covering environmental protection, rural development, food safety and animal welfare.

Organisation for Economic Cooperation and Development (OECD)

EU Member States account for half of the OECD membership and are the major contributors to the organisation's budget. The Commission participates actively in the OECD's work on agriculture in the Committee for Agriculture (COAG), its working parties and in the joint working parties with the Committees on Trade and Environment.

In the second part of a two-year work programme, the COAG deepened its analysis of trade liberalisation in 2001 through modelling scenario studies for improving market access, simulating changes in the tariff quota system and simulating the impact of trade liberalisation on the food security of developing countries. It also dealt with non-tariff barriers, sanitary and phytosanitary measures, and with an analytical framework for the role of State trading enterprises in liberalising world trade. Highlights in the area of non-trade concerns were a first workshop on empirical studies regarding multifunctionality and a proposal for a work programme on food safety.

Generalised system of preferences (GSP)

The aim of the GSP is to foster the integration of developing countries into the world economy and the multilateral trading system. The GSP focuses on the needs of the poorest beneficiary countries through the so-called 'Everything but arms' initiative.

In 2001 the EU adopted a new generalised system of preferences ⁽¹⁾, due to enter into force on 1 January 2002. It modifies significantly the previous schemes by improving non-reciprocal trade preferences and providing strong incentives for compliance with core labour standards.

United Nations Food and Agriculture Organisation (FAO)

As a member of FAO, the EU presented its agricultural policy and its approach to food security in a variety of the organisation's bodies, in particular in the meetings of the Committee on Agriculture, the Committee on World Food Security, the Committee on Commodity Problems and the Committee on Forestry. It also participated in technical consultations on the revision of the International Plant Protection Convention (IPPC), which is aimed, *inter alia*, at bringing the Convention into line with the Agreement on the Application of Sanitary and Phytosanitary Measures of the Final Act of the Uruguay Round.

International product agreements

In 2001, agreement was reached to extend international agreements in the cereals and sugar sectors.

Bilateral and regional trade relations

EU/United States: Negotiations on a comprehensive EU/US wine agreement were continued with the aim of facilitating trade in wines while improving protection for European and American names used in winemaking, and assuring oenological standards used by winemakers.

The United States continued to apply 100 % *ad valorem* tariffs on USD 116.8 million of EU exports pursuant to the WTO arbitrator's ruling of the level of impairment in the hormones case. The retaliation list covered diverse products, focusing on pigmeat, fruit juice,

cheese, and fruit and vegetables. Talks aimed at agreeing an equivalent level of compensation to bring an end to the retaliation were intensively pursued in 2001.

Agreement was reached in the bananas dispute with the United States, leading to an end of the USD 191 million worth of sanctions applied to EU produce.

EU/Canada: Discussions continued in the first half of the year with the aim of an agreement on trade in wine and spirits. In August, the Council agreed a mandate for the negotiations, focused on protection of the use of European names, quality standards for wines and spirits on the internal market and the operation of Canadian Provincial alcohol monopolies.

Canada continued to apply 100 % *ad valorem* tariffs on CAD 11.3 million of EU exports pursuant to the WTO arbitrator's ruling on the level of impairment in the hormones case, concentrated on pigmeat and fruit and vegetables.

EU/Mercosur: In July 1998 the Commission adopted draft proposals for negotiating an association agreement with the South American trade grouping. The draft was approved by the Council on 13 September 1999. Negotiations on the details of the agreement continued in 2001.

EU/Chile: The EU's negotiating mandate for Chile foresees a comprehensive trade agreement covering not only trade in goods but also services, government procurement, investment, intellectual property rights, competition, and dispute settlement. Also subject to negotiations are a wine and spirits agreement and a sanitary and phytosanitary agreement. Seven rounds of negotiations have taken place to date. In July 2001, both parties exchanged tariff offers.

⁽¹⁾ Council Regulation (EC) No 2501/2001 of 10 December 2001 applying a scheme of generalised tariff preferences for the period from 1 January 2002 to 31 December 2004 (OJ L 346, 31.12.2001).

EU/South Africa: Difficult negotiations were continued in 2001 on the conclusion of a wine and spirits agreements.

EU/South Korea and Japan: Negotiations continued to focus mainly on questions of deregulation, resolving in particular phytosanitary, animal health and other SPS issues in order to allow trade in various kinds of products.

EU/Mediterranean States: New association agreements are being negotiated under the Euro-Mediterranean Partnership established with the EU's Mediterranean partners at the Barcelona Conference in 1995. Discussions with Algeria, Lebanon and Syria continued in 2001.

EU/Balkan States: Stabilisation and association agreements (SAAs) with the Former Yugoslav Republic of Macedonia (FYROM) and Croatia were signed on 9 April and 29 October 2001 respectively. In agriculture, reciprocal trade concessions were agreed with the exception of wine. Following its recommendation of June 2001 to proceed with SAA negotiations with Albania, the Commission transmitted to the Council, in early December 2001, a draft negotiating mandate for the conduct of these negotiations.

EU trade flows, 2000 figures (in million EUR)

Products	Imports	Exports
Live animals	873	973
Meat and edible meat offal	2 987	3 961
Dairy produce; eggs; natural honey	1 136	5 069
Other products of animal origin	884	414
Live plants and floricultural products	1 168	1 376
Edible vegetables, plants, roots and tubers	2 696	1 298
Edible fruit and nuts; peel of citrus fruit or melons	8 095	1 710
Coffee, tea, maté and spices	5 278	811
Cereals	1 645	3 042
Products of the milling industry; malt; starches	76	1 571
Oilseeds and oleaginous fruits	5 525	943
Lac, gums, resins, other vegetable saps and extracts	467	456
Vegetable plaiting materials, other products of vegetable origin	137	18
Animal or vegetable fats and oils	2 360	2 687
Meat preparations	670	565
Sugars and sugar confectionery	1 395	2 375
Cocoa and cocoa preparations	1 899	1 607
Preparations of cereals, flour or starch	556	3 219
Preparations of vegetables, fruit or nuts	3 276	2 103
Miscellaneous edible preparations	1 156	3 180
Beverages, spirits and vinegar	3 101	11 993
Residues and waste from the food industries	5 032	1 750
Tobacco and manufactured tobacco substitutes	2 549	2 709
Other agricultural products included in the Uruguay Round	5 382	4 364
Total — Agricultural products	58 344	58 194

Sources: European Commission: Eurostat and Directorate-General for Agriculture.

Conclusions and outlook

The year 2001 can be considered a transitional period of consolidation between the major CAP reforms agreed and implemented in 1999 and 2000 and the review of their impact and of future needs due in 2002. However, the special circumstances resulting from the animal disease and weather problems that beset the EU ensured that agriculture was never far from the headlines. And the CAP was thoroughly tested in many ways.

Looking forward to 2002 it is clear that the questions raised about the CAP, for example in the public's mind by the FMD crisis, needed to be analysed. The Agenda 2000 deal agreed in 1999 established the CAP's objectives, instruments and finances for a seven-year period, and also requested a review of several of the reforms midway through the period. Work on a 'mid-term review' (MTR) of the Agenda 2000 reforms will, therefore, begin in earnest in 2002.

The CAP's objectives are to encourage a competitive farming sector that respects the environment, provides consumers with safe, high-quality food products and guarantees farmers a fair income and a reasonable level of prosperity in rural areas. Achieving these aims will be a complex task. The MTR will assess how far the Agenda 2000 reforms go in that direction and, therefore, whether further impetus is necessary.

The cost to the taxpayer of the CAP will be among the many factors to be considered. Giving value for money will be crucial for all concerned in the future of the CAP. A growing proportion of the budget is being devoted to rural development and also non-food uses of agricultural products, demonstrating how far the CAP has already changed. How much further the CAP goes in that direction is one of the many issues for debate.

The aims and instruments of the CAP are important for the EU's trade relations. This will have to be kept in mind in forthcoming bilateral and multilateral trade negotiations.

The commitments made in the WTO Doha declaration of November 2001 included a tight timetable for the agricultural negotiations. WTO members should agree on a 'modalities' paper outlining an agricultural deal by the end of March 2003. This means that substantial progress in identifying where an acceptable compromise lies should be made during 2002. The EU will have to make a big effort to garner support for its overall approach and for the multifunctionality of agriculture concept.

However, the EU is determined that an agricultural agreement in the WTO should not undermine the development of the CAP as set out in Agenda 2000. At the same time the EU is committed to assisting less-developed countries through improved trade arrangements. That commitment will be demonstrated through the continued development of bilateral trading arrangements with various countries and trading groups.

There are other important deadlines for the CAP in 2002, not least the probable climax of the enlargement negotiations. The agriculture chapters of the negotiation look likely to be among the last to be agreed. But a sustained effort will be required if full and final agreement on all aspects is to be reached with the 10 candidate countries by the end of the year. Before their accession, the EU will reinforce its measures to prepare candidate countries for membership, and their agricultural industries for the challenges ahead. This can be achieved, *inter alia*, by financial assistance through Sapard and preferential trade arrangements.

It is hoped that negotiations on the agriculture chapters can also be opened for Bulgaria and Romania, and for Turkey once the political criteria have been met sufficiently.

While public attention may be focused on enlargement, the EU will continue to address the ever-present questions of how to improve product quality, traceability and labelling, promote animal health

and welfare and show that agriculture can make a positive contribution to rural life and the environment.

In all of these activities it is important that the EU is able to explain and justify its policies. There is a

need for more intensive information activities to help both the farming and non-farming communities to understand why changes are needed, over what timescale and how they will help create a more sustainable agriculture and prosperous rural society in the future.

European Commission

The common agricultural policy — 2001 review

Luxembourg: Office for Official Publications of the European Communities

2003 — 26 pp. — 21 x 29.7 cm

ISBN 92-894-5804-6



European Commission
Directorate-General for Agriculture