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**Enlargement and Agriculture: Successfully integrating the new Member States into  
the CAP**

**Issues paper**

# **Enlargement and Agriculture: Successfully integrating the new Member States into the CAP**

## **Issues paper**

### **1. Point of departure and purpose of the issues paper**

In the current enlargement round, negotiations on chapter 7 (agriculture) have been opened with ten candidate countries. Negotiations with Cyprus, the Czech Republic, Estonia, Hungary, Poland and Slovenia (so-called Luxembourg group) started in June 2000. As regards the countries of the so-called Helsinki group, negotiations with Latvia, Lithuania and Slovakia have been open since June 2001 whereas the negotiations with Malta started in December of that year. Negotiations with Bulgaria and Romania are not yet open. However, Bulgaria submitted a negotiating position in July and Romania in December 2001. Against this background and without prejudice to the outcome of the negotiations, this paper assumes a scenario of 10 Candidate Countries (excluding Bulgaria and Romania) joining the European Union in 2004.

In the negotiations on the CAP aspects of chapter 7 the candidate countries' requests in the areas of direct payments, production quotas and other supply management instruments have not been discussed so far nor has rural development been extensively addressed. It was indicated in all EU Common Positions that these questions would be addressed at a later stage of the negotiations after a thorough examination of all related aspects. All other negotiating issues, however, have been thoroughly discussed, examined and, as far as possible, addressed in the EU Common Positions. Quite a number of them could be settled or have been withdrawn. Another round of technical discussions should help to further sort out so far unresolved issues. For the countries of the Luxembourg group the revised EU Common Positions approved in December 2001 show that solutions could be found or in some cases at least designed for a significant number of issues of a mainly technical nature or with limited political significance. Regarding Latvia, Lithuania and Slovakia a good number of negotiating points could be satisfactorily addressed in the EU Common positions of July 2001. Moreover, it can be expected that further progress can be made during the first half of 2002 on the basis of the assessment and discussion of additional information which the three countries have recently submitted. Further progress in the negotiations with Malta will largely require the country to specify and explain in greater detail most of its negotiating requests.

According to the road-map, which has been endorsed by European Councils and recently by the Laeken European Council, all "remaining" negotiating issues arising under chapter 7 should be "addressed" by the EU during the first half of 2002. As regards the CAP section of chapter 7 this primarily requires the EU to establish Common Positions on direct payments, production quotas and other supply management instruments and rural development. Furthermore, it will be necessary to develop EU positions on accession related rules and procedures for state aids in agriculture, the rules for taking over by the Community of

the new Member States' public stocks of agricultural products and the question of "normal and abnormal stocks" in the new Member States upon accession.

This paper has been prepared to offer the Member States a solid basis for the discussions of the issues concerned and the process of defining the EU positions. On the basis of the discussions on the paper another set of revised Draft Common Positions (DCP) should be elaborated for as many candidate countries as possible and presented to the Council. The revised DCPs will also address all other remaining negotiating issues. It should be noted that, as the negotiating process progresses, additional information and, in particular, additional statistics might become available.

## **2. General situation and outlook**

### **2.1. Overview**

Despite efforts and – in most countries successful developments - restructuring of agriculture and food industries is still far from being complete, particularly in the livestock sector. The competitiveness of agriculture and the agro-food chain in the candidate countries is generally much lower than the EU average.

- Recent projections for the main commodities show that the candidate countries would be expected to somewhat increase their surplus production of cereals, oilseeds and pigmeat until 2006 (in a status quo scenario without accession). Milk and beef production would be expected to decline with many countries becoming net importers as consumer income and demand grows.
- The main effects of the application of EU price policy in the candidate countries will be to encourage cereal production and discourage feed consumption. The effects on beef and dairy production are slightly positive, but not enough to cause a significant increase compared to current production levels. Pork production is likely to decline, at the same time as its consumption increases. The major impact of direct payments on production would be a further shift towards coarse grains and a faster development of specialised beef production, subject to the suckler cow premium ceilings.

### **2.2. Structures**

The unfavourable farm structure in the candidate countries, i.e. in particular the large number of small farms and the existence of durable semi-subsistence farming combined with the presence of an emerging commercial farming sector pose a range of administrative and economic dilemmas for the Common Agricultural Policy. This dualism of structures is likely to exacerbate political tensions during the restructuring process, when not only farm structures but up and downstream infrastructure, services, and off-farm employment opportunities will require development.

A key risk during the early years after accession is that the restructuring process and Community instruments will be associated with growing rural unemployment and poverty without being able to tackle the root problem of alternative sources of income directly. In this respect, measures that undermine semi-subsistence farming and its welfare function could be counter-productive, particularly if no other safety net is available.

### **3. Formulating EU positions - general principles**

When defining the EU's positions in the agricultural accession negotiations the following basic criteria should be taken into account:

- The EU positions should be compatible with the concept of the application of the *acquis* as it stands at the moment of accession. This does of course not exclude proposing necessary transitional arrangements provided that they are in line with the relevant criteria set out in the EU Common Positions.
- The EU positions should be designed so as to support in the best possible way the efforts undertaken by the candidate countries to restructure and modernise their agricultural economies. It should be ensured, therefore, that the results of the accession negotiations pave the way for a swift and smooth integration of the agricultural sectors of the new Member States in the single market and the Common Agricultural Policy.
- The EU positions should be in accordance with the expenditure ceilings agreed by the Berlin European Council and incorporate the necessary adjustments for the potential number of new Member States, without prejudicing future decisions on the CAP and the financing of the EU.

In general, the EU positions should make clear both within the EU and to the candidate countries that in a longer term perspective there will be no two-tier agricultural policy in the EU but one Common Agricultural Policy for all Member States.

### **4. Direct payments**

#### **4.1. State of play**

Direct payments are granted to farmers in EU-15 for a number of arable crops and cattle following the support price cuts of the 1992 and Agenda 2000 reform in these sectors. In the rice sector such payments were introduced in 1995 and they will be extended to milk from 2005 onwards, in parallel to the support price cuts programmed for that sector. Moreover, in a number of sectors other types of direct payments can be granted also supporting the farmers' agricultural income. The direct support schemes are listed in the annex to Council Regulation (EC) No 1259/1999.

Although direct payments were introduced initially to compensate for support price cuts, they have lost part of their compensatory character after 10 years of implementation and have instead become simple direct income payments. Therefore, the term "direct aid" has replaced "compensation payment". Furthermore, Agenda 2000 made direct payments subject to a range of environmental conditions notably through the cross-compliance mechanism.

The issue of whether and in which way direct payments should be granted in the new Member States after accession is of crucial importance for defining the EU position on Chapter 7. In their negotiating positions on this chapter all candidate countries have requested that direct payments be granted to their farmers after accession to the same extent as farmers in the EU. In the negotiations the EU has not yet expressed a view on the issue,

but stated that it will take a position at a later stage of the negotiations after a thorough examination of all the aspects related to the issue.

#### 4.2. Introduction of direct payments

The Agenda 2000 agreement reached by the Berlin European Council in March 1999 did not contain any explicit statement on this question. Whilst for the purpose of calculating the expenditure ceilings under the Financial Framework for enlargement direct payments were not taken into account the agreement did not exclude that direct payments might be introduced.

As direct payments are part of the CAP acquis as it currently stands the permanent exclusion of the new Member States from direct payments would not reflect the EC Treaty's concept of a single market for agricultural products that is inextricably linked with the existence of a common agricultural policy. This raises the question of how the introduction of direct payments should be managed.

Under the present circumstances the EU needs to take into account a number of considerations in defining its position on direct payments:

- If direct aids are introduced too quickly in the candidate countries, their short-term positive effects on farm income could be outweighed by their negative impact on restructuring. There is a significant risk that necessary restructuring would be slowed or even stopped, creating a durable vicious circle of low productivity, low standards and high hidden unemployment.
- The problem of restructuring in the candidate countries is directly linked to the dualism of their agricultural structures. On the one hand, the commercial sector needs to invest and restructure. On the other hand, subsistence farming continues to play a major role as a social safety net in rural areas. However, part of the subsistence sector may still develop and integrate itself in a market economy.
- Yet high levels of direct payments are likely to consolidate existing structures in a period of rapid restructuring. For semi-subsistence farms in particular, high payments would consolidate a type of production based on private consumption by ensuring its viability. There would be little incentive to invest this aid in production or alternative activities, objectives in all cases better targeted by rural development programmes.
- Excessive cash injections through direct payments in favour of specific segments of one professional group would risk creating considerable income disparities and social distortions in the rural societies of the new Member States, potentially creating imbalances both within rural areas (due to wide differences in land ownership) and between rural and urban areas.
- Finally, introducing direct payments at a low level would contribute to stabilising agricultural income without compromising the process of restructuring.

#### 4.3. The approach chosen

In the light of these arguments the requests for immediately granting direct payments at the same level as that applicable in the EU at the time of accession should not be followed. Direct payments should be gradually introduced in the new Member States during a transition period. Such a phase is necessary to ensure the smooth integration of the candidate countries into the Common Agricultural Policy, while maximising the opportunity for the restructuring of their agricultural sector. The duration of that period should reflect the need to maintain during a significant period after accession sufficient incentives for restructuring.

Against this background, it is essential to establish and maintain the momentum of the restructuring process - bringing semi-subsistence farms into the market, creating alternative jobs off-farm, and ensuring the competitiveness of the commercial sector. The positive effects of rural development, investment and structural funds programmes covering infrastructure, services and alternative rural employment require time. The effects of high direct payments would be immediate and negative

It would therefore be preferable to start direct payments at a low level combined with intensified support for restructuring, in particular through rural development actions. Since experience shows that it will be at least five years for the effects of EU programmes to be felt, and at least ten for their full impact to be seen, in the early years levels of direct payments should remain relatively modest. Ten years would appear necessary before the normal EU-level of direct payments should be reached.

To ensure that the level of direct support in the new Member States during the transition period remains at all times proportional to that in the rest of the EU it should be expressed as percentage steps. This would also avoid prejudging future decisions on the CAP and the financing of the EU.

Since the approach chosen for the direct payments resulting from the 1992 and Agenda 2000 reforms is based on reasons that equally apply for the other direct payments listed in the annex to Regulation (EC) No 1259/1999 the latter should be introduced in the same way.

In a first step, direct payments would be introduced in the new Member States equivalent to a level of 25% in 2004, 30% in 2005 and 35% in 2006 of the present system. In a second step after 2006, direct payments would be increased by percentage steps in such a way as to ensure that the new Member States reach in 2013 the support level then applicable.

#### 4.4. National direct payments

Some candidate countries are already granting CAP-like direct payments to their farmers. However, upon accession such national aids would be incompatible with the *acquis* on state aids in agriculture (see No 7 below) and could no longer be paid. Where the national aids granted prior to accession were higher than the CAP direct payments under the phasing-in approach this could lead to economic problems for the farmers concerned. Moreover, accession would be made responsible for a reduction in agricultural income support. To avoid these undesirable effects the new Member States should be given the

possibility to complement direct aid paid under a CAP scheme up to the total level applicable prior to accession provided that the total support per scheme granted in a new Member State does not exceed the level applicable under the same scheme in the existing Member States. Such national top-ups would need to be approved by the Commission according to appropriate procedures.

#### 4.5. Simplified implementation of direct payments – transitional and optional

##### 4.5.1. *The standard direct payments system*

According to the common rules regulation (Council Regulation (EC) No 1259/1999) there are almost thirty direct payments which are made to producers under the Common Agricultural Policy, with six basic types of payment alone in the Beef CMO. Against this background, in the early years after accession, a certain number of problems can be anticipated as regards the implementation of direct payments, particularly if the candidate countries face problems to fully apply the Acquis on accession:

- Even once the administrative structures necessary for IACS<sup>1</sup> are fully in place, there are likely to be difficulties in controlling cross-sectoral requirements (for example, use of arable land and stocking densities, suckler cow premia and milk production). In a number of countries, the presence of informal land letting arrangements and semi-subsistence farming will make it difficult to distinguish land and animals used for marketable and non-marketable production.
- The scope for errors and even irregularities could be relatively high since farmers would be applying for the first time, with no historical basis for comparison. This would be compounded by the shift between different types of production encouraged by direct payments (from potatoes to rye or from dairy to specialised beef production).
- There will be many difficulties in determining and then processing the eligibility of a very large number of small claims. In most countries, at least half of the farms are less than five hectares. Agricultural ministries will need to expend considerable effort to decide which beneficiaries are entitled to aids, and those which are not. These administrative problems would be accentuated by low levels of direct payments in early years. For these small payments, administrative costs could be relatively high compared to the amounts of aid concerned.

##### 4.5.2. *The EU small farmers scheme*

The small farmers' scheme established by Council Regulation (EC) No 1244/2001 would suffer from similar problems, since it would be necessary to run it in parallel with the standard schemes. Here the small farmers' scheme would add an additional burden to the calculation and control of base areas and premia ceilings in a fully operational IACS system.

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<sup>1</sup> Integrated administration and control system for certain Community aid schemes established by Council Regulation (EEC) No 3508/92 (OJ L 355, 5.12.1992, p. 1).

Moreover, the small farmers' scheme, based on the direct aids received during reference years, is likely to encounter a number of implementation difficulties linked to the determination of payments. This would be an additional task in the setting up phase. In practice, application of the small farmers' scheme in the new Member States would require establishing virtual aid references and involve farmers submitting information about their production in recent years (i.e. before accession) eligible for direct aids. This would be as administratively onerous and complex as the full scheme, at least in the early years. Furthermore, there could be difficulties in running the scheme together with the full direct payments scheme, particularly as regards control.

#### 4.5.3. *A simplified approach*

To avoid these problems the new Member States should have the option, instead of applying the standard direct payments system, to grant direct payments during a limited period in the form of a decoupled area payment applied to the whole agricultural area. The envelope for direct aids would be established in line with the percentages specified under No 4.3. above, according to relevant CMO rules for each direct aid and on the basis of the quantitative parameters specified in the relevant annexes to this paper. On the basis of its total envelope of direct aids and its utilised agricultural area, an average area payment would be calculated for each country.

- All types of agricultural land (defined as utilised agriculture area) would be eligible for the payment. There would be no obligation to produce. However, land should be maintained in a manner compatible with the protection of the environment. The minimum size of eligible area would be set at 0,3ha.
- The approach should be optional. However, candidate countries which did not choose the simplified system would be required to fully implement the standard system for direct payments on accession in accordance with the relevant EU management and control rules. There would be no transitional periods for IACS implementation or other CMO requirements concerning direct payments *à la carte*.
- The simplified scheme would be available for three years, renewable twice by one year. Controls of payments would be effected by a simple physical control of land, through, in principle, the IACS system. At the end of the transitional period for the simplified system, the new Member States would enter the regular system of direct income support in the form then applicable.

The simplified option should not lead to a relaxation in efforts to create well functioning implementation structures. To this end, if the necessary management and control structures are not fully in place or do not function properly at the end of the scheme's application period the simplified scheme would continue to apply. However, the annual increase of the direct payments rate under the above approach would be frozen until the problems are solved.

It should be stressed that this simplified system is not an alternative to IACS, but rather a limitation of IACS application in the early years to simpler arrangements for direct payments.

There are a number of advantages to this approach. Implementation would be simple, and relatively easy to verify, reducing possibilities of irregularities. This would provide time to consolidate in particular the IACS system for direct payments. At the same time it would reduce adjustment effects: changes in support levels would be more homogenous and pressures towards intensification and environmental damage would be attenuated. During the transitional period this would also reduce the shift from potatoes into rye, or from grassland into cereals production. Finally, it would facilitate the access of smaller farmers to EU funds

## **5. Production quotas and other supply management instruments**

### **5.1. Historical references**

As regards production quotas (in particular for milk and sugar) and other supply management instruments (e.g. arable crops base areas and individual and regional premium ceilings for beef) the candidate countries have used rather heterogeneous justifications for their quantitative negotiating requests. In some cases, their requests are based on remote reference periods in the past, in others more recent periods are claimed with a margin for further development of production. There are also requests, which are not based on any historical reference data simply referring to unused production potentials or reasonable production levels.

In the EU Common Positions it has been stated that the quantitative reference levels should be determined on the basis of past performance, i.e. "historical production figures during a reference period to be defined". However, the issue of which reference periods should be chosen for the various instruments concerned was left open for being addressed at a later stage of the negotiations.

On this issue it is the Commission's view that historical references far back in the past should not be accepted. This applies in particular to periods prior to the year 1990. Policies and general economic conditions in the second half of the 1980s were very different from those, which prevail today and will continue to prevail in the foreseeable future. Moreover, experience shows that the statistical data available from this period are often not complete and solid enough to be used for the sensitive purpose of quota fixing.

It does not appear to be appropriate either to use production references for the early nineties. This period was largely characterised by the particular problems arising from the economic transition to a new market oriented system, i.e. in particular a significant decline in production and cultivated areas.

It would thus be most appropriate to determine agricultural production supply management instruments in the various sectors on the basis of most recent historical reference periods for which data are available, i.e. in the present context the time span from 1995 to 1999. This approach would be in line with the request made to the candidate countries in the EU Common Positions to submit relevant production and other data for the years 1995 to 1999 (where available including 2000). There are sound arguments for using recent periods for reference. First, statistics from the candidate countries for the recent period are more reliable than those of the pre-transition period. Secondly, recent production

and consumption levels reflect the adaptation of production structures and consumer tastes to more open markets and the introduction of WTO constraints.

## 5.2. General approach

This approach does not imply that the above-mentioned five-year period would be used uniformly for all schemes concerned. It should rather serve as the time frame within which the most appropriate reference period for each scheme would normally be chosen. To this end, it would be reasonable to follow the approach taken as regards the number or combination of years concerned when the relevant scheme were established. The methods applied in previous accessions should also be considered. Where appropriate, another approach can be considered to take account of exceptional conditions such as natural disasters or significant market disturbances.

## 5.3. Statistical data

As requested the candidate countries have supplied the Accession Conference and the Commission with a considerable amount of statistical data on their historical production in the various sectors and on other relevant elements. Such statistical data is required for the determination of historical reference quantities in the framework of quotas and other supply management instruments. It should be noted, however, that in a number of cases and for different measures such as beef premiums or direct sales of milk the requested statistical information has not been submitted either in full or in part.

### *5.3.1. The Development of the Agricultural Statistics in the Candidate Countries*

The current process of harmonisation of statistics in the Candidate Countries with those in the EU is important for the improvement of the quality of agricultural statistics. The quality of official statistics has substantially increased in recent years<sup>2</sup>. However the quality of EU statistics has generally not been reached yet, especially in the area of livestock and milk statistics.

A harmonised agricultural census according to Eurostat criteria, as a central element of agricultural statistics, has been carried out in the Czech Republic, Estonia, Hungary, Latvia, Slovakia, and Slovenia. The results are already available for some countries. Cyprus, Lithuania, Malta, and Poland plan to carry out the survey in 2002 and 2003 so that results could be expected for 2003 and 2004 (see Table 1).

The implementation of harmonised methods of, e.g., definitions, sampling, and treatment of data will certainly have a positive impact on the quality of other surveys as well, especially for livestock and milk.

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<sup>2</sup> European Commission. Directorate General for Enlargement. Regular Reports on the Candidate Countries Progress towards Accession. Country Reports. (2001).

Table 1: Harmonised Agricultural Censuses in the ten Candidate Countries

	<b>data collection completed</b>	<b>planned data collection</b>	<b>(expected) full results available</b>
Cyprus		2003	2004
Czech Republic	2000	-	2002
Estonia	2001	-	2002
Hungary	2000		2001
Latvia	2001		2003
Lithuania	-	2003	2004
Malta	-	2003	2004
Poland	-	2002	2003
Slovakia	2001		2002
Slovenia	2000		2001

### 5.3.2. *Assessment of the Statistical Information*

The assessment of the data submitted by the candidate countries included (i) the check of *internal consistency*, i.e. by establishing as far as possible market balances including the relevant components of production, use, and foreign trade and (ii) the check for *external consistency*, i.e. cross-checks of the data with other data sources including EUROSTAT, DG AGRI, and FAO. In a series of bilateral meetings with the Candidate Countries statistical questions have been raised and additional information and clarification has been requested.

The continuous process of in-depth analysis of the official data provided by the Candidate Countries has clarified the statistical data and helped to achieve consistency and generally also the completeness necessary for calculating reference quantities.

The established market balances for cereals, oilseeds and protein crops as well as for sugar include area use, yields, production, domestic use and foreign trade. The submitted data and information have shown *internal consistency* as well as *external consistency* with other statistical sources.

Livestock, slaughtering, and milk statistics are generally *externally consistent*, i.e. the presented data is comparable to the data of other statistical sources. However, for a number of countries the submitted data relevant for references for beef and suckler cow premiums as well as the data to establish direct sales of milk are not always complete. In the process of establishing *internal consistency*, some estimates for the missing data on the basis of official data by Eurostat, data by DG Agriculture, and FAO have been made.

Specific statistical assessments per CMO and explanations of the estimates taken where necessary are presented in the sector sheets attached to this paper.

#### 5.4. Fixing of quotas and supply management instruments

On the basis of the criteria set out above and using, where possible, the statistical information submitted by the candidate countries the Commission has established quantified recommendations for fixing the quotas and other supply management instruments for the candidate countries. The methodology followed and the quantities concerned are set out in annexes 1 to 13 to this paper.

## 6. Rural development

### 6.1. State of Play

In the area of rural development, contrary to most other Community policies, the candidate countries already have the opportunity to gain experience in the design and implementation of a co-financed policy through the pre-accession instrument SAPARD<sup>3</sup> (Council Regulation (EC) No 1268/1999).

SAPARD offers the candidate countries<sup>4</sup> a menu of 15 measures for programming purposes compared to the 22 available under rural development (Council Regulation (EC) No 1257/1999). Of the 15 SAPARD measures 11 envisage the same objectives as the corresponding measures under Regulation (EC) No 1257/1999, while four are specific to SAPARD (see table below).

Of the SAPARD measures that the candidate countries have chosen to apply, the most important ones tend to be related to their restructuring needs such as investments in agricultural holdings and in processing and marketing, followed by rural infrastructure and diversification, although the picture can differ by candidate country.

Given the short programming period of three years (2004-2006) until the end of the current financial perspectives the new Member States will be faced with, it would seem logical to try and build to the maximum on the experience gained with and the implementing bodies set up under SAPARD. To be able to optimise the use of available Community financing for rural development purposes the objective would be to have a flexible instrument building on SAPARD and adapted to the needs of the new Member States.

It should thereby be taken into account that most of the new Member States will fall under Objective 1 and that a large part of their rural development measures, all the so called non-accompanying measures, will be integrated into their Objective 1 programming and co-financed by the EAGGF Guidance section, according to the Structural Funds financial management and control rules (Council Regulation (EC) No 1260/1999).

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<sup>3</sup> Special Accession Programme for Agriculture and Rural Development.

<sup>4</sup> The instrument is not applied in Cyprus and Malta.

The four accompanying measures (early retirement, Less Favoured Areas/ Areas with Environmental Restrictions, agri-environment and afforestation of agricultural land) will be co-financed from the EAGGF Guarantee section. With the exception of agri-environment which can be applied on a pilot scale under SAPARD, the other accompanying measures will be new to the new Member States.

## 6.2. Specific needs

### 6.2.1. *Differentiated appropriations*

The financial operation of EAGGF Guarantee through non-differentiated appropriations could pose problems in view of the very short programming period, which leaves little scope for a progressive implementation of measures. In particular the treatment of individual farmers' dossiers for early retirement when linked to farm restructuring and for agri-environment because of its contractual nature take time. There would be a serious risk that the new Member States would not be able to make full use of their rural development envelopes under EAGGF Guarantee and lose a large part of their initial annual allocations.

To remedy this situation the Commission proposes to use differentiated appropriations and to make use of the financial implementation structure established for SAPARD, such as the SAPARD agencies. Differentiated appropriations would allow more time between commitments and payments than would be possible under Guarantee rules. The same automatic decommitment rule of n+2 as that applying to the Structural Funds (including EAGGF Guidance) would be used.

### 6.2.2. *Additional measures/adaptations*

The co-financed accompanying measures only in part respond to the needs of the new Member States, although early retirement could be important for the restructuring process that the agricultural sector is undergoing in a number of the Candidate Countries. Several candidate countries face a bipolar farm structure, with many very small holdings - often of a subsistence type - on the one hand, and large (former state or co-operative) farm structures on the other.

In the category of small holdings, the semi-subsistence farms<sup>5</sup>, which produce for own consumption, but still market the larger part of their production, can potentially evolve into commercially viable units. However, the marketed part of their production will be challenged as the competitive pressures on the agricultural and food sector as a whole will increase following accession.

To help ease rural transition problems as the agricultural sector and rural economy of the new Member States are exposed to the competitive pressure of the single market the Commission proposes to complement the range of possible actions under rural development by a specific measure for semi-subsistence farms. This measure should take the form

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<sup>5</sup> For example in Poland national statistics suggest that the number of semi-subsistence farms in the size category of 3 to 15 hectares is approximately 350,000.

of a flat rate aid for semi-subsistence farms<sup>6</sup>. Payment of the aid should be conditional on submitting a business plan demonstrating the future economic viability of the enterprise. The temporary income support would serve to alleviate cash flow constraints and household income difficulties as further restructuring is undertaken to ensure the future of the holding.

In addition to the semi-subsistence measure it would be appropriate to retain under the 'Guarantee' differentiated appropriations financial instrument two of the four SAPARD specific measures<sup>7</sup>, which appear to be particularly adapted to the needs of the new Member States and which are not eligible for any structural fund. These would be the setting up of producer groups (in as far as not covered under certain common market organisations such as fruit and vegetables) and technical assistance for implementation of the 'Guarantee' cofinanced Rural Development plans, which would help smooth the transition from SAPARD to the rural development acquis. The establishment and updating of land registers would be eligible for support under the European Regional Development Fund, while public investments and strengthening of the administrative structures for quality, veterinary and plant-health controls could be continued under the transition facility for institution building<sup>8</sup>.

In view of the precise definitions and eligibility conditions set out in Regulation (EC) No 1257/1999 that apply to individual rural development measures (which have no parallel in the regulations governing the interventions supported by the Structural Funds), the Commission proposes to adapt certain of the measures under this regulation and/or its implementing rules, so as to allow support to be granted for extension and advisory services for farmers beyond the phase of their setting up, in particular, to help with the introduction of good farming practices<sup>9</sup>. Also the eligibility conditions of certain measures such as investment aids should be adapted, on an exceptional basis for the new Member States in particular to take into account the potential viability of semi-subsistence farms over the longer term. In Objective 1 regions the adapted rural development measures such as investment aids would be co-financed by EAGGF Guidance and integrated in the Structural Funds

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<sup>6</sup> Definition and size limits to be set in the context of each country opting to apply the measure. The maximum for the flat rate aid would be 750€

<sup>7</sup> These measures are:

- Improving the structures for quality, veterinary and plant-health controls, for the quality of food-stuffs and for consumer protection;
- Setting up of producer groups;
- Establishment and updating of land registers;
- Technical assistance for the measures covered by the Rural Development plan.

<sup>8</sup> Such a facility is proposed under No 3 (Internal policies) of the Commission's Information Note on *Common Financial Framework 2004-2006 for the Accession Negotiations*.

<sup>9</sup> Non respect of good farming practices, which are to be defined in the RD plans, would make farmers ineligible for the agri-environment measures and the less favoured area compensatory amounts.

programming. For an overview of the Community funding sources for the different rural development measures see attached table.

The Leader+ Community Initiative will not be applied separately for the 3 year programming period but can be integrated in the mainstream programme, in a way to allow on an appropriate scale the financing of local action groups<sup>10</sup>. The Leader+ type actions would be EAGGF Guidance co-financed and integrated in the Objective 1 programming.

The co-financing rate for the temporary financial instrument and for EAGGF Guidance should be up to 80% as currently applied for the cohesion countries. This would help alleviate the financial burden on the new Member States and facilitate the uptake of Community funding.

In the design of their three year rural development plans and of rural development measures to be integrated in Objective 1 programming, the new Member States should be encouraged to be selective in their choice of measures, to bear in mind the growing importance of agri-environment and the financing needs for areas of high nature value and to concentrate funding on main priorities and needs. Materially the whole rural development acquis will apply with some tailor made elements, taking into account the specific needs of the new Member States and the short programming period.

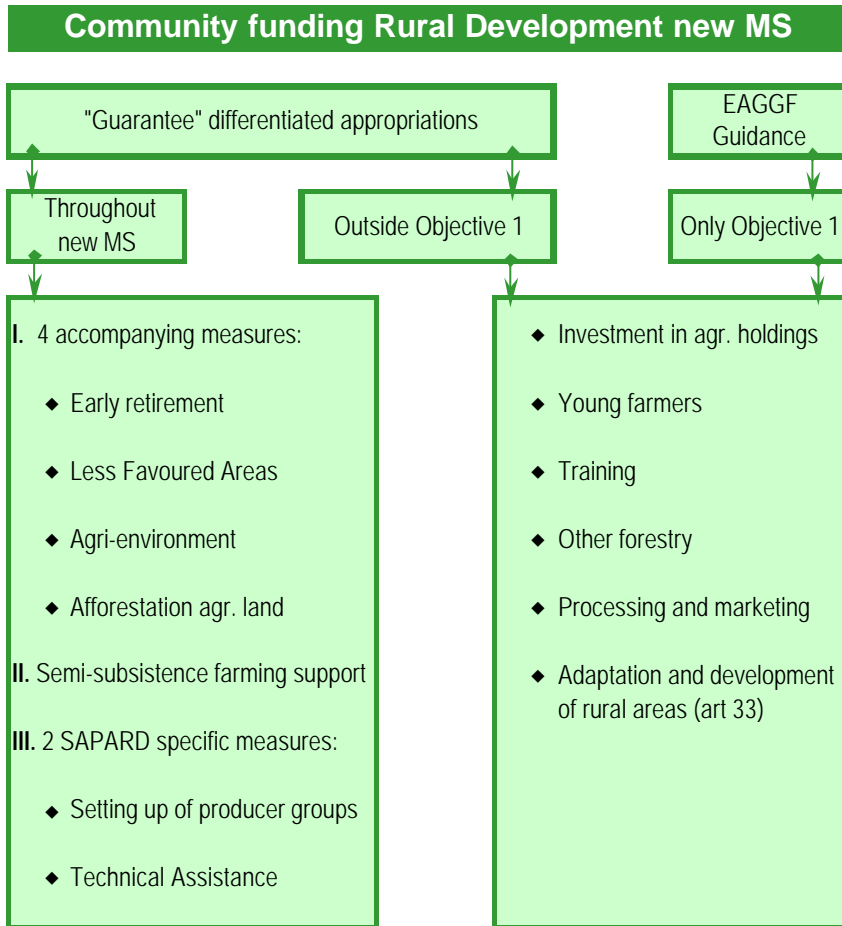
The implementing bodies for the rural development programmes co-financed from the 'Guarantee' differentiated appropriations financial instrument should be the programme management authorities in conjunction with the monitoring committees and the paying agencies set up under SAPARD.

In order to allow the Candidate Countries to prepare themselves for the programming exercise, the Commission will, in due time, be able to provide for information purposes an indicative distribution of the commitment appropriations under the 'Guarantee' financial instrument. These indications will be determined in accordance with Article 46 (2) of Council Regulation (EC) No. 1257/1999.

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<sup>10</sup> The measure would be mainly aimed at building experience with a Leader approach as the operational time for the LAGs would be quite limited.

<b>Rural Development measures</b>		
	1257/99	SAPARD
inv. agric. holdings	art 4	art 2
young farmers	art 8	
vocational training	art 9	art 2
early retirement	art 10	
LFA/AER	art 14, 16	
agri-environment	art 22	art 2
marketing and proc.	art 25	art 2
afforestation	art 31	
other forestry	art 30, 32	art 2
land improvement	art 33	
reparcelling	art 33	art 2
farm relief/management services	art 33	art 2
marketing of quality ag. products	art 33	
basic services rural economy	art 33	
renovation villages	art 33	art 2
diversification of agric. activities	art 33	art 2
ag water resources management	art 33	art 2
development agric. infrastructure	art 33	art 2
tourism/crafts	art 33	
protection of the environment	art 33	
restoring ag. prod. potential	art 33	
financial engineering	art 33	
control structures quality, veterinary		art 2
setting up producer groups		art 2
land registers		art 2
technical assistance		art 2
<i>total measures</i>	22	15



## 7. State aids in agriculture

The Candidate Countries currently apply a wide range of state aids in the agriculture sector. Against this background the EU Common Positions on Chapter 7 of June 2000 explicitly stressed that "all state aid measures in the field of agriculture have to be brought in line with the "acquis" upon accession".

### 7.1. Acquis in the field of agricultural State aids

The acquis in the field of agricultural state aids is laid down in Article 87 of the EC-Treaty. Article 87 (1) states that "Save as otherwise provided in this Treaty, any aid granted by a Member State or through Member State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the procedure of certain goods shall, in so far as it affects trade between Member States, be incompatible with the common market." Article 87 (2) and (3) set out what kind of State aids are (considered to be) compatible with the Treaty.

Under these provisions it is the Commission's responsibility to determine whether a State aid is compatible with Article 87 (2) or (3). In this context the Commission has laid down

its policy on the interpretation of these articles in various guidelines, frameworks and communications.

In this respect State aid rules in agriculture are characterised by the following specificities:

- Article 36 of the EC-Treaty provides that the Treaty rules on competition shall apply to the production of and trade in agricultural products only to the extent determined by the Council. In practice, all the regulations establishing common market organisations provide for the application of the State aid rules of Articles 87-89 of the EC-Treaty to the products concerned. Only a limited number of products is not covered by common market organisations and therefore not covered by the State aid articles (e.g.: consumption potatoes, honey, horsemeat).
- In the agriculture sector specific guidelines have been established determining whether a State aid is compatible with Article 87 (3) of the EC-Treaty.<sup>11</sup>

Furthermore, current State aid control in the agriculture sector in the Candidate Countries has a different legal basis from most of the other sectors of the economy. Via the Europe Agreements the State aid articles 87-89 EC apply already now in the Candidate Countries. However, State aids in the agriculture sector have been excluded from falling under State aid control (see for instance the Europe Agreement with Poland Art. 63(1) iii).

## 7.2. Existing aid

Council Regulation (EC) No 659/1999<sup>12</sup> lays down the rules for the application of the State aid procedures. In the context of enlargement the difference between procedures for existing aid (Article 1b), new aid (Article 1c) and unlawful aid (Article 1f) is important.

After accession, all new Member States will be required to notify State aids to the Commission before the aid is being granted (new aid). If aid is granted prior to the Commission's authorisation, this aid is considered unlawful. If the Commission considers such unlawful aid to be incompatible with the Treaty, the aid has to be recovered (see Article 14 of the above regulation).

However, the Commission cannot order the recovery of aids existing at the time of accession. If the Commission considers such aids no longer compatible with Articles 87-88 EC, appropriate measures have to be proposed in accordance with Article 18 of the above regulation.

In order to explicitly classify certain aids as existing aid and to have an overview of all State aids in the new Member States, Article 144 of the Act of Accession for Austria, Finland and Sweden provided for the possibility to list a number of existing agricultural aids in the last accession round. Article 144 stated that "In the field of the aids provided for in Articles 87 and 88 EC:

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<sup>11</sup> See amongst others: Community guidelines for State aid in the agriculture sector, OJ C 28, 1.2.2000, as amended by OJ C 232, 12.8.2000.

<sup>12</sup> OJ L 83, 27.3.1999.

- a) among the aids applied in the new Member States prior to accession only those communicated to the Commission by 30 April 1995 will be deemed to be 'existing' aids within the meaning of Article 88 (1) EC
- b) existing aids and plans intended to grant or alter aids, communicated to the Commission prior to accession, shall be deemed to have been notified on the date of accession.”

Austria, Finland and Sweden handed over detailed information of the State aid measures they wanted to maintain before 30 April 1995. These measures were accepted as existing aids.

The inclusion of Article 144 then created clarity for the beneficiaries of the aid, the new Member States concerned, and the Commission. Therefore, it could be considered to include provisions similar to Article 144 of the previous Accession Treaty in the Act of Accession under negotiation. This would oblige the new Member States to hand over, within 4 months after Accession, detailed information<sup>13</sup> concerning all the State aid measures that are to be considered existing aid.

The number of aid measures listed by up to 10 new Member States would make it significantly more difficult to examine all the measures in detail. To avoid a situation, in which State aids that have not yet been examined by the Commission would continue to exist for a longer period of time, a specific clause could be introduced in the agricultural chapter of the Act of Accession. The new provision on State aid in the Act of Accession would thus provide that in the field of the aids provided for in Articles 87 and 88 of the EC Treaty:

- (a) among the aids applied in the new Member States prior to accession only those communicated to the Commission by the end of the fourth month from the date of accession will be deemed to be 'existing' aids within the meaning of Article 88 (1) of the EC Treaty until the end of third year from the date of accession. The Commission shall publish a list of such aids. This provision shall be without prejudice to the procedures concerning existing aid provided for in Article 88 of the EC Treaty;
- (b) the new Member States shall amend any aid deemed to be existing in accordance with paragraph (a) in order to conform with the guidelines applied by the Commission by the end of the third year from the date of accession at the latest;
- (c) existing aids and plans intended to grant or alter aids, communicated to the Commission prior to accession, shall be deemed to have been communicated or notified on the date of accession.

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<sup>13</sup> Including the legal basis for the measure.

### 7.3. Specific requests from Candidate Countries

Almost all Candidate Countries have indicated certain State aid measures after accession. However, most of these measures seem to be in line or will be adjusted to the acquis in this area. There are two requests for derogations:

- Cyprus wishes to continue its subsidy policy on irrigation water. Furthermore, Cyprus wishes to maintain certain annual subsidies to wine producers.

In both cases it would not be possible to allow such derogations. There are no specific problems in Cyprus that would justify a different treatment from the treatment received by farmers in Spain, Greece or Italy.

- Hungary has requested a special provision authorising the granting of national aids in case of serious difficulties to be inserted in the Act of Accession.

Accepting the request would deprive the Commission of the possibility of ensuring that there is consistency and coherence between the Commission's policy in respect of the control of State aid and the support which is granted under the Common Agricultural and, in particular, rural development policy.

## 8. Stocks of agricultural products in the new Member States

### 8.1. Problem

In the framework of the accession negotiations Poland has raised requests in relation to the taking over by the Community of stocks existing at the date of accession and bought-in under Poland's own intervention policy (cereals, butter, milk powder and beef). Although the issue was only raised by one Candidate Country in its negotiating positions it is of general relevance and, therefore, needs to be addressed for all Candidate Countries. In the EU Common Position of 24 July 2001 it was stated, therefore, that the issue of existing stocks would be dealt with horizontally.

As in previous enlargement rounds the issue of stocks of agricultural products held in new Member States at the date of accession needs to be addressed under two different aspects:

- the taking over of *public stocks* by the Community

and

- the treatment of *stocks in free circulation*, in particular where these stocks would exceed the level of normal carry-over stocks.

The arrangements to be developed should avoid market disturbance resulting from uncontrolled release of stocks on the Community market. In particular it should be avoided that the Community has to bear storage and marketing costs for stocks artificially accumulated in the Candidate Countries prior to accession.

## 8.2. Envisaged approach

Regarding the current enlargement negotiations the issue of agricultural stocks should be addressed taking account of the experience gained from previous accessions, in particular that of Austria, Finland and Sweden and the accession of Spain and Portugal. The solutions found in the context of the German unification should also be taken into consideration.

Relevant provisions were laid down in Article 145 of the Act of Accession for Austria, Finland and Sweden and in Articles 86 and 254 of the Act of Accession for Spain and Portugal. The provisions established for German unification are Articles 6 and 7 of Council Regulation (EEC) No 3577/90.

## 8.3. Public stocks

“Public stocks” should be defined as stocks resulting from the market-support policy of a Candidate Country. Such public stocks would be taken over by the Community at a value resulting from Article 8 of Regulation (EEC) 1883/78 on the general rules for the financing of interventions by EAGGF, i.e. the foreseeable disposal price for intervention products. With a view to ensuring compatibility of the stocks to be taken over with the rules of the EU public storage schemes, the stocks of new Member States should only be eligible on condition that there is public intervention in the Community for the product concerned and that the stocks concerned meet the relevant EU intervention requirements (Community requirements or, if provided for in the accession negotiations, specific requirements agreed for intervention in the New Member State concerned). To set out the above arrangements as precisely as possible the relevant provision in the Act of Accession should be designed along the lines of Article 6 of Regulation (EEC) No 3577/90.

The Commission services are currently carrying out an inventory of the systems existing in the Candidate Countries for public storage.

## 8.4. Stocks in free circulation

Any stocks (private as well as public) in free circulation in a new Member State exceeding the level of what can be considered as normal carry-over of stock would have to be eliminated at the cost of the new Member States. This exercise, would in principle concern products for which export refunds or intervention measures apply.

The level of normal carry-over stock should be determined for each product in the light of the criteria and objectives specific to each common market organisation. This does not exclude to take account of particular effects on these stocks caused by the trade liberalisation between Candidate Countries and the EU. In this context Candidate Countries would be requested to supply balance sheets for the products concerned, indicating notably production, import, consumption and export as well as the resulting beginning and ending stocks over a series of successive years.

Moreover, the new Member States would have to carry out a survey of the stocks existing at the date of accession.

The financial consequences of the elimination of quantities of products which would be considered to exceed normal carry-over stocks could be based on a flat-rate evaluation of their disposal cost e.g. bases the average rate of export refund during a certain period, as done in the last accession exercise. The amounts thus to be charged would be set-off in the framework of the financing system of the EAGGF, Guarantee Section.

To avoid distortions on the internal market from public stocks not taken over by the EU, the placing on the market of these stocks should be dealt with by appropriate transitional measures.

The Commission should be authorised to implement and apply the arrangements outlined above.

#### 8.5. Security stocks

As in past accessions, security stocks should be disregarded for this exercise, assuming that they will be maintained during a certain period after accession. Even though these stocks could be refreshed, this would not create an additional burden for the Communities budget. Furthermore, one should note that Member States are not obliged to supply information the disclosure of which they consider contrary to the essential interests of its security (Article 296 of the EC Treaty). However, to avoid distortions on the internal market, the placing on the market of these stocks should be dealt with by appropriate transitional measures.

#### 8.6. Speculative transactions

In the current negotiations Poland, the Czech Republic and Slovakia requested an import safeguard clause in order to be able to avoid disturbance at their market due to excessive imports from the EU. In the EU Common Position for these countries it was stated that possible market disturbances due to trade deflection resulting from abusive operations exploiting differing trade conditions before and after accession should not be dealt with by safeguard measures but, in a precautionary manner, by taking appropriate measures preferably before accession based on a transition clause similar to Article 149 of the Act of Accession for Austria, Finland and Sweden. In particular, the EU accepted to address the risk of deflection of trade due to the candidate's accession, where necessary, through transitional measures to be decided before accession under the appropriate procedure.

It would be appropriate to deal with this issue by provisions similar to those of Commission Regulation (EC) No 3108/94 on transitional measures adopted on the account of the accession of Austria, Finland and Sweden in respect of trade in agricultural products (notably providing rules for import and export transactions ongoing at the moment of accession and for taxation of the holders of surplus stocks).

### 9. WTO aspects

The currently applicable WTO arrangements for agriculture and, in particular, the Agreement on Agriculture have been established in the framework of the Uruguay Round and have been in force since 1.1.1995. In the meanwhile the Ministerial Conference in Doha decided in November 2001 to launch a new WTO round and to incorporate into it the negotiations on agriculture which had already been mandated in the conclusions of the

Uruguay Round. According to the negotiating timetable adopted in Doha, WTO members are required to table their draft schedules in the course of 2003 and the negotiations should be closed by the end of 2004. This implies that there will be a period when the WTO obligations of an enlarged Community will be based upon a merging of the current obligations of the existing Community and those of the candidate countries and then subsequently our obligations will depend on the outcome of the current round of WTO negotiations.

The direct payments approach outlined in this paper could be realised under the currently applicable WTO arrangements. Since most of the CAP direct payments are covered by the blue box their gradual introduction would not affect the EU's AMS reduction commitments. The same would apply if the new Member States chose to grant direct payments through the simplified system. As regards the amber box relevant internal support granted for the new Member States, the headroom under the EU's AMS appears to be sufficient.

Both the AMS reduction commitments and the blue and green box arrangements will be subject of the agricultural negotiations in the new WTO round the outcome of which cannot be predicted in detail. It should be noted, however, that the Commission's recommendations for direct payments, quotas and other supply management measures have been designed so as to be in line with the EC comprehensive negotiating proposal which was adopted by the Agricultural Council on 20./21.11.2000, in particular, as regards the reduction of the Community's AMS and the retention of the concept of the blue and green boxes.

Following enlargement, negotiations under Article XXIV:6 of GATT 1994 should take place.

## **10. Budgetary assessment**

On the basis of the approaches outlined in this paper for implementing and applying the CAP and its instruments in the candidate countries after accession the Commission has established the following provisional estimate of the EU agricultural expenditure resulting from enlargement.

In accordance with the application period of the Berlin agreement of the European Council and the Interinstitutional Agreement of 6 May 1999 on budgetary discipline and improvement of the budgetary procedure, this provisional estimate covers the time until 2006. In contrast to the Berlin agreement, however, it is based on the assumption of up to 10 countries joining the EU in 2004, including the entire island of Cyprus.

As shown in greater detail in the Commission's Information Note on the *Common Financial Framework 2004-2006 for the Accession Negotiations*, the estimated costs related to enlargement, including agricultural expenditure, can be accommodated within the Berlin agreement:

**A: Commitments** mio € - 1999 prices

	2004	2005	2006
<b>Total direct payment</b>	p.m.	1173	1418
<b>Market expenditure</b>	516	749	734
<b>Rural development</b>	1532	1674	1781
<b>T O T A L</b>	<b>2048</b>	<b>3596</b>	<b>3933</b>

**B: Payments** mio € - 1999 prices

	2004	2005	2006
<b>Total direct payment</b>	p.m.	1173	1418
<b>Market expenditure</b>	516	749	734
<b>Rural development</b>	748	1187	1730
<b>T O T A L</b>	<b>1264</b>	<b>3109</b>	<b>3882</b>

10.1. Direct payments

The cost of direct payments includes expenditure for all the measures listed in the annex to Council Regulation (EC) 1259/1999. The estimates given here have been based on the approach outlined in this paper and, in particular, on the percentage steps foreseen for the years 2004 to 2006. Given that according to CAP rules most direct aids may be paid to farmers only after 15 October the direct payment expenditure to be borne by the 2004 budget can be assumed to be close to zero.

The dairy premium, as decided in Agenda 2000, will be introduced progressively from the 2005-marketing year, in three steps of 1/3, 2/3 and 100% of the full premium. Consequently the dairy premium will first appear in the 2006 budget. In line with the standard approach determined for all sectors, producers in the candidate countries would receive a set percentage of the aid granted in the EU15. This amount has been included in the tables above.

**Direct payments by main sectors****mio €- 1999 prices**

	<b>2004</b>	<b>2005</b>	<b>2006</b>
Arable crops		861	1014
Beef		254	299
Dairy			38
Tobacco		34	40
Other		24	27
<b>TOTAL</b>	<b>p.m.</b>	<b>1173</b>	<b>1418</b>

The arable crops sector is the most important. In budgetary terms, the arable sector accounts for nearly 75% of all direct payments in 2005 and slightly less in 2006 when the budgetary impact of the dairy payments will begin. The beef sector is the second most important accounting for more than 20% of all direct payments.

### 10.2. Market related CAP-expenditure

The market related CAP-expenditure presented in this document is based on balance sheets for the different sectors and projections made by the services of the Commission up to 2006. To make the budget estimates it has been necessary to make assumptions on world market prices, \$/€ exchange rate and market development internally as well as externally. Based on these elements the total cost has been estimated at 843 Mio € annually (current prices). Since the 2004 budget will only have to cover expenditure incurred from 1<sup>st</sup> January until 15 October of that year, rather than a full 12-month period, the 2004 budgetary cost has been estimated at roughly 65% of the full amount for a full budget year.

The Commission will keep these estimates under review.

### 10.3. Rural development

Rural development expenditure has been based on the Berlin estimates for payments appropriations shifted from 2002, 2003 and 2004 to 2004, 2005 and 2006 respectively, adjusted for the increase from 6 candidate countries to 10. In order to permit full utilisation of the rural development allocations during the period 2004 to 2006, the rural development measures will be implemented through differentiated appropriations.

On this basis, the corresponding commitment appropriations' estimates have been made on the assumption that payments as established above will result from a 3-year implementation of commitments at an annual rhythm of 35%, 45% and 20%. For the year 2004 an advance of 12.5% is also taken into consideration.

**mio € - 1999 prices**

	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>Commitments</b>	1532	1674	1781
<b>Payments</b>	748	1187	1730

## Annex to Issues Paper

### Sector sheets:

- |             |                                       |   |
|-------------|---------------------------------------|---|
| <b>1</b>    | <b>Arable crops :</b>                 | (i) establishment of base area<br>(ii) establishment of reference yield<br>(iii) establishment of eligibility of land for direct payments<br>(iv) establishment of durum wheat area |
| <b>2</b>    | <b>Rice</b>                           | (i) establishment of base area<br>(ii) area payment based on national average yield   |
| <b>3</b>    | <b>Potato Starch</b>                  | Establishment of production quota   |
| <b>4</b>    | <b>Dried fodder</b>                   | Establishment of National Guaranteed Quantities   |
| <b>5</b>    | <b>Sugar</b>                          | (i) fixing of sugar production quotas<br>(ii) fixing of isoglucose quotas   |
| <b>6</b>    | <b>Fibres</b>                         | Aid for processing of straw and hemp grown for fibre  |
| <b>7</b>    | <b>Olive oil</b>                      | Establishment of National Guaranteed Quantities   |
| <b>8</b>    | <b>Processed Fruit and Vegetables</b> | National and/or Community thresholds/guaranteed Community area for processing aid   |
| <b>9</b>    | <b>Bananas</b>                        | Establishment of maximum quantity for compensation for income loss  |
| <b>10</b>   | <b>Tobacco</b>                        | Establishment of production quota   |
| <b>11.1</b> | <b>Milk</b>                           | Milk quota scheme   |
| <b>11.2</b> | <b>Milk</b>                           | Granting of direct payments/dairy premia  |
| <b>11.3</b> | <b>Milk</b>                           | Fat content of drinking milk  |
| <b>12</b>   | <b>Beef</b>                           | (i) Additional payments<br>(ii) Slaughter premium<br>(iii) Special premium<br>(iv) Suckler cow premium  |
| <b>13</b>   | <b>Sheep meat</b>                     | (i) Ewe premium; ceiling determination<br>(ii) Additional payments, global amounts  |

<b>Sector:</b>	<b>ARABLE CROPS</b>
<b>Measure:</b>	<b>(i) Establishment of Base Area</b>
<b>Legal Basis:</b>	<b>Council Regulation (EC) No. 1251/1999, Article 2<sup>1</sup></b>

### **I. Background**

Council Regulation (EC) No 1251/1999 establishes a system of area payments for producers of arable crops. A regional base area must be established for each Member State, based on past production of the relevant crops. If the total eligible claims exceed the base area, then all claims are reduced proportionally.

The regulation introducing direct payments for arable crops, adopted in 1992, states that the time period to be used for the establishment of the base areas for Member States should be the years 1989, 1990 and 1991. In the previous enlargement, Austria, Sweden and Finland also had their national base areas set using the average of these years. At the time, this was the most recent reference period available.

### **II. Approach chosen**

In line with the approach on historical quantitative reference levels set out in paragraph 5.2 of the Issues Paper, the average of the years 1997, 1998 and 1999 (the three most recent years for which data is available) would be the most appropriate to determine the arable base area for each candidate country.

### **III. Quantified Commission Position**

The data provided have been compared with other statistical sources (Eurostat). No wide divergences have been found.

The table below shows the base area which would be fixed for each candidate country when the method described above is applied to the statistical information submitted to the Accession Conference by the Candidate Countries.

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<sup>1</sup> OJ L 160, 26.6.1999

Candidate Country	Recommendation for Base Area (ha)	Candidate's Request (ha)
Cyprus	54,098	89,183
Czech Republic	2,221,844	2,401,845
Estonia	387,233	650,000
Hungary	3,553,200	3,653,353
Latvia	484,700	753,000
Lithuania	1,336,233	1,355,000
Malta <sup>2</sup>		4,500
Poland	9,207,667	9,248,000
Slovakia	1,011,627	992,000
Slovenia	94,192	150,000
Total	18,354,258	19,296,881

For the majority of countries, the use of the years 1997-1999 gives results very close to the candidate countries' requests. The exceptions are Estonia, Latvia, Cyprus and Slovenia, where the requests received are significantly higher than the base area calculated according to the recommended method.

The first two of these countries have asked that the large area of agricultural land which is currently lying fallow should be included in their base area. This position has been rejected, since the land has not been fallowed under a statutory scheme, as foreseen by Council Regulation (EC) No 1251/1999.

Cyprus has indicated that 'the year 1997, with very low rainfall, was characterised as the worst year on record for agriculture'. Thus there may be grounds for the reference period for Cyprus to be adjusted to take account of exceptional circumstances. Cyprus has also requested that cereals grown in pure stands, or as mixtures with other crops, and used for forage (either grazed or as hay) should be included in the base area. This position has been rejected, since the products concerned do not correspond to the definition of EU legislation, and so these areas have been excluded from the calculation of the base area recommendation.

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<sup>2</sup> Malta has not yet provided the Accession Conference with any statistical data on arable crops. On the basis of EUROSTAT data for 1999, which is the only year currently available, a base area of 3,464 would result.

Slovenia has based its request not only on past production, but has also taken into account the restructuring process and the need to prevent abandonment of agricultural land in order to achieve agri-environmental and rural development objectives. These additional considerations do not however form part of the Commission's reasoning, and therefore the recommendation made for the base area for Slovenia is based solely on past production, in line with the general approach adopted for all sectors.

It should be noted, however, that in accordance with Article 9 of Council Regulation (EC) No 1251/1999, the base areas of the future Member States will be established by the Commission following the management procedure.

**Sector:** ARABLE CROPS

**Measure:** (ii) Establishment of Reference Yield

**Legal Basis:** Council Regulation (EC) No. 1251/1999, Article 3<sup>3</sup>

### **I. Background**

Council Regulation (EC) No 1251/1999 establishes a system of area payments for producers of arable crops. The standard area payment for each Member State is calculated by multiplying the fixed payment (63€/tonne<sup>4</sup>) by the cereal reference yield established for the Member State concerned.

The above regulation explicitly states that the time period to be used for the establishment of the reference yields should be the average of the median three years of the five year period 1986/7 to 1990/91. In the previous enlargement, Austria, Sweden and Finland also had their reference yields set using these years. At the time, this was the most recent reference period available.

### **II. Approach chosen**

In line with the approach set out in paragraph 5.2 of the Issues Paper, the average of the median three years of the period 1994/1995 - 1998/1999 (the five most recent years for which data is available) would be the most appropriate to determine the appropriate reference yield for each candidate country.

Reference yields calculated using a recent reference period are for the most part considerably lower than those calculated using the earlier years stated in the regulation. Candidate countries claim that these low yields do not reflect their production potential. However, this is not a valid argument for increasing the reference yield, as the current EU15 average yield is also considerably higher than the reference yield.

### **III. Quantified Commission Position**

The data provided have been compared with other statistical sources (Eurostat). No anomalies have been found.

The table below shows the reference yield which would be fixed for each candidate country when the method described above is applied to the statistical information submitted to the Accession Conference by the Candidate Countries<sup>5</sup>.

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<sup>3</sup> OJ L 160, 26.6.1999

<sup>4</sup> Agenda 2000 introduced progressive adjustments for some crops, but by the 2002/3 marketing year, the payments for all cereals, oilseeds, linseed, flax and hemp will be 63 €/tonne.

<sup>5</sup> Malta has not yet provided the Accession Conference with any statistical data on arable crops. On the basis of EUROSTAT data for 1999, which is the only year currently available, Malta would have an average yield of 3.47 t/ha.

Candidate Country	Recommendation for Reference Yield (t/ha)	Candidate's Request (t/ha)
Cyprus	1.88	2.45
Czech Republic	4.18	4.20
Estonia	1.77	3.50
Hungary	4.26	5.04
Latvia	2.03	3.59
Lithuania	2.27	3.50
Malta		Not quantified
Poland	2.96	3.61
Slovakia	4.16	4.99
Slovenia	5.31	6.12

It should be noted, however, that in accordance with Article 9 of Council Regulation (EC) No 1251/1999, the reference yields of the future Member States will be established by the Commission following the management procedure.

<b>Sector:</b>	<b>ARABLE CROPS</b>
<b>Measure:</b>	<b>(iii) Establishment of eligibility of land for direct payments</b>
<b>Legal Basis:</b>	<b>Council Regulation (EC) No. 1251/1999, Article 7<sup>6</sup></b>

## **I. Background**

The limit for arable area payments is set at regional (national) level, and individual producers have the possibility to increase the area of eligible crops they grow by using all land that is classed as eligible for this purpose. However, if the regional base area is exceeded, then all claims are proportionately reduced. The definition of eligible land is therefore more significant in determining the total production of arable crops, than is the base area. Establishing the eligibility of individual land parcels is also important in order to avoid abuse of the set-aside rules on marginal land.

## **II. Approach chosen**

Article 7 of Council Regulation (EC) 1251/1999 states that applications for payments may not be made in respect of land that on 31 December 1991 was under permanent pasture, permanent crops or trees or was used for non-agricultural purposes. If the principles of the *acquis* were to be followed exactly, a date should be chosen on which to make the same assessment of eligibility.

In line with the general approach, the recommendation is to select 31<sup>st</sup> December 2000 as the date on which to apply the current definition of eligible area.

However, uncertainty about the distribution of past land use and the unreliability of registers, does make eligibility of individual parcels on this date hard to establish in the candidate countries.

Therefore, in order to achieve a more rigorous application of the concept of eligible land, in cases where a candidate country can demonstrate that there is appropriate justification, an alternative date, which would lead to more reliable implementation and control of the arable scheme could be considered. For example, if a country has timetabled completion of a Land Parcel Identification System by June 2002, this would provide reliable data on parcel eligibility and therefore could be a more appropriate date to select.

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<sup>6</sup> OJ L 160, 26.6.1999

**Sector:** ARABLE CROPS

**Measure:** (iv) Establishment of durum wheat area

**Legal Basis:** Council Regulation (EC) No. 1251/1999, Article 5<sup>7</sup>

## **I. Background**

Council Regulation (EC) No. 1251/1999 provides for two specific aids for the production of durum wheat in order to ensure a durum wheat production level which is sufficient to supply user industries and in order to safeguard a certain level of production in those regions where the production of durum wheat is well established.

The first of these aids concerns a supplement to the area payment paid for the area down to durum wheat in traditional production zones (“traditional durum wheat aid”).<sup>8</sup> The second aid concerns a special aid per hectare for the production of durum wheat in regions where durum wheat is well established (“well established durum wheat”).<sup>9</sup>

The aid for the production of “traditional durum wheat” is limited to certain regions that are mentioned in Annex II to Council Regulation (EC) No. 1251/99. Per Member State a maximum area that may be eligible for the “traditional durum wheat aid” is fixed in Annex III of that regulation.

“Well established durum wheat” can also only be grown in certain delimited regions. Again, per Member State limits have been set that fix the maximum area that may be eligible for the “well established durum wheat aid”.

The current attribution of the maximum guaranteed areas in receipt of the “traditional durum wheat aid” and in receipt of the “well established durum wheat aid” was based on specific criteria. Generally speaking three types of criteria have been used:

- the durum wheat concerned should be produced in view to be used as the raw material for pasta/ semolina production (quality criterion);
- durum wheat should be an important cereal crop in the region concerned (importance criterion);
- durum wheat should have been produced during a certain period of time (tradition of cultivation criterion)

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<sup>7</sup> OJ L 160, 26.6.1999

<sup>8</sup> The “traditional” aid amounts to an additional 344.50 €/ha.

<sup>9</sup> The “well established” aid amounts to an additional 138.90 €/ha.

## II. Approach chosen

In line with the criteria above and with the approach set out in paragraph 5.2 of the Issues Paper, it would be appropriate to apply the following criteria to establish durum wheat areas for the Candidate Countries:

- The special aids should only concern durum wheat to be used for pasta production. Glasiness (vitreous aspect) of the grain mainly determines the suitability for pasta production. Therefore, a criterion could be introduced that the glasiness of the variety grown should be higher than 73% to be eligible for both the “traditional durum wheat aid” and the “well established durum wheat aid”.
- A period of approximately 20 years should be taken as the minimum period in which durum wheat has been grown to qualify for the “traditional durum wheat aid” and the “well established durum wheat aid.”
- The criterion concerning the importance of durum wheat should be interpreted as follows:

to be eligible for the “traditional durum wheat aid” the area under durum wheat production in the region concerned should be at least 2% of the area under all cereal production in this region.

If all conditions are met the Candidate Country concerned should be considered eligible for the “traditional durum wheat aid”. If only condition 1 and 2 are met, the Candidate Country concerned could be eligible for the “well established durum wheat aid”. In both cases the average area under durum wheat over a recent three year period could be eligible for support.

In line with the reference years used to determine the base area for arable crops, a reference period of 1997-1999 should be used.

## III. Quantified Commission Position

The data provided have been compared with other statistical sources (Eurostat). No anomalies have been found.

Only Cyprus, Hungary and Slovakia requested durum wheat aids. The proposed allocation of durum wheat aids is based on the assumption that these countries will provide the necessary information to show that the conditions as mentioned above are met. Currently the Commission does **not** possess such information. As stated above, if Cyprus, Hungary and Slovakia can demonstrate that all three conditions are met, the attribution of traditional durum wheat aid could be envisaged.

If Cyprus, Hungary or Slovakia were to be attributed a “traditional durum wheat area”, Annex II – Traditional production zones for durum wheat - and Annex III – Maximum guaranteed areas in receipt of the supplement to the area payment for durum wheat - of Council Regulation (EC) No 1251/1999 would have to be amended. If Cyprus, Hungary or Slovakia were to be attributed the “well established durum wheat aid”, Annex IV – Maximum guaranteed areas in

receipt of the special aid for durum wheat – of Council Regulation (EC) No 1251/1999 would have to be amended.

Candidate country	Traditional durum wheat aid		Well-established durum wheat aid	
	request (ha)	proposal (ha)	request (ha)	proposal (ha)
Cyprus	15,000	0	0	5,883
Hungary	15,000	0	50,000	11,015
Slovakia	5,000	0	0	4,717

<b>Sector:</b>	<b>RICE</b>
<b>Measures:</b>	<b>Establishment of (i) base area (ii) area payment based on national average yield</b>
<b>Legal basis:</b>	<b>Council Regulation (EC) No 3072/95, Article 6<sup>1</sup>.</b>

## **I. Background**

Whereas in the European Community rice is grown in five Member States (France, Greece, Italy, Portugal and Spain), out of the ten candidate countries for whom positions are being proposed rice is grown only in Hungary.

The scheme of compensatory payments in the rice sector was introduced in 1995 and has no fixed duration (Council Regulation (EC) No 1667/2000). It is based on the following two elements that have been established for all rice producing countries:

- a national base area, representing the maximum area for which payments can be made in a Member State
- an area payment, expressed in euro per hectare. The level of the area payment is differentiated between Member States to reflect differences in rice yields. National average yields therefore have to be calculated for each Member State and form a central element for calculating the level of the area payment.

The line on historical quantitative reference levels now proposed by the Commission is set out in paragraph 5.2 of the Issues Paper.

## **II. Approach chosen**

### **(i) Base area**

- Methodology in general

The line taken by the EU to date in the accession negotiations is that quantification of supply management instruments for the candidate countries should be determined on the basis of past performance during a recent reference period. For existing Member States, the base area was established on the basis of the most recent year for which statistics were available.

- Choice of actual reference period

On this basis the base area for Hungary should be equal to the area sown to rice in the most recent year for which production statistics exist, i.e. the year 2000. The

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<sup>1</sup> OJ L 329, 30.12.1995

statistical data submitted by Hungary on the area sown to rice has been checked and can be considered consistent with other sources. The Commission, therefore, does not see reasons to exclude them in determining the national base area.

## **(ii) Area payment**

- Methodology in general

For each Member State, the level of the area payment has been calculated by multiplying the payment per tonne, expressed as euro per tonne, by the national average yield, expressed as tonnes per hectare.

The payment per tonne is 52.65 euro – this being the difference between the intervention price in 1996/97 and the intervention price in 1999/2000 (and subsequent years).

The national average yields were fixed for each Member State, according to the higher of two options: either the average of three years during a recent five year period (1990/91 to 1994/95), with the exclusion of the year with the highest yield and the year with the lowest yield or the average of the three years 1992/93, 1993/94 and 1994/95.

- Choice of actual national average yields

National average yields have to be calculated for the candidate countries. Supply management instruments for the candidate countries should be determined on the basis of past performance during a recent reference period. This approach is in line with the approach the European Community had chosen in 1995 in the rice sector for fixing the national average yields for its Member States.

On this basis, national average yields should be the higher of two options: either the average of three years during a recent five year period (1996/97 to 2000/01), with the exclusion of the year with the highest yield and the year with the lowest yield or the average of the three years 1998/99, 1999/00 and 2000/01.

The statistical data on rice yields submitted by Hungary has been checked and can be considered consistent with other sources. The Commission, therefore, does not see reasons to exclude them in determining the national average yield.

## **III. Quantified Commission position**

- Base area and national average yield

The described approach would lead to setting the national base area for Hungary at 3,222 ha compared to 18,000 ha as requested and to using a national average yield for Hungary of 3.10 tonnes per hectare. (Hungary has not requested a specific national average yield).

- Level of area payment

Hungary has requested a payment of €40 per hectare. On the basis of a payment of €52.65 per tonne and a national average yield of 3.10 tonnes per hectare, the full area payment would be 163.215 euro per hectare.

The amount per hectare payable in Hungary would be fixed according to the approach described in paragraph 4.3 of the Issues Paper.

<b>Sector:</b>	<b>POTATO STARCH</b>
<b>Measure:</b>	<b>Establishment of production quota</b>
<b>Legal basis:</b>	<b>Council Regulation (EC) No 1868/94, Article 2<sup>1</sup></b>

## **I. Background**

Council Regulation (EC) No 1868/94 limits the production of potato starch, sets national quotas and an aid to undertakings producing potato starch for the quantity of potato starch up the quota limit. Council Regulation (EEC) No 1766/92 provides, under the same limit, for an aid to the producers of potatoes intended for the manufacture of potato starch.

Quotas in the current Member States are based on historical production figures. The average recent (three year)<sup>2</sup> production was taken as the basis for derivation of the national quota.

In the previous accession round quotas were derived from a single year shortly before accession since using the same reference period as used for the Member States would not be representative<sup>3</sup>.

## **II. Approach chosen**

In line with the approach on historical quantitative reference levels set out in paragraph 5.2 of the Issues Paper, the average of a recent three-year period should be taken to determine the national quota for the Candidate Countries.

Since the most recent three-year period for which data are available should be taken, a reference period of 1997-1999 should be used.

The data provided have been compared with other statistical sources (Eurostat). No anomalies were found.

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<sup>1</sup> OJ L 197, 30.07.1994

<sup>2</sup> see recitals of Council Regulation (EC) No 1868/94.

<sup>3</sup> see recitals of Council Regulation (EC) No 1863/95.

### III. Quantified Commission position

Candidate Country	Requested quota	Proposed total quota
	tonnes	tonnes
Cyprus	no request	0
Czech Republic	45,000	16,967
Estonia	10,000	250
Hungary	no request	0
Latvia	15,000	3,447
Lithuania	8,500	700
Malta	no request	0
Poland	260,000	90,546
Slovakia	no request	0
Slovenia	2,800	0

In all cases the proposed quota allocation is substantially lower than the requested quantity. The difference results from the difference of basis to determine the guaranteed quantity. The Candidate Countries refer to production before 1990, production potential, and the wish to develop activities in this subsector. Recent potato starch production levels are rather low in comparison

#### Quota application

When determining the quota for Germany, the Council took into account production resulting from investments irreversibly undertaken in the “new Länder” before 31 January 1994. In the Candidate Countries starch production is known to be supported in the Czech Republic and in Latvia. Furthermore, potato starch production is possibly supported in Estonia and Poland. Producers in these countries may have invested in capacity increases under the assumption that support for production would be given. To avoid such cases, the capacity of investments irreversibly undertaken before 1.2.2002 should be taken into account when finally attributing national quota. The countries that currently support starch production should be invited to notify all investment projects in this sector that have been irreversibly undertaken and that have an effect on total potato starch production capacity.

**Sector: DRIED FODDER<sup>1</sup>**

**Measure: Establishment of National Guaranteed Quantities**

**Legal basis: Council Regulation (EC) No 603/95, Article 4<sup>2</sup>**

### **I. Background**

Maximum Guaranteed Quantities (NGQs) for dehydrated and for sun-dried fodder have been established for the Community. These NGQs limit the amount of fodder that is eligible for support. The NGQs have been divided among the Member States.

The NGQs for the Member States were established on the basis of the average production of dried fodder in the years 92/93 and 93/94.<sup>3</sup>

In the previous enlargement the same method and reference period were used.<sup>4</sup>

The line on historical quantitative reference levels now proposed by the Commission is set out in paragraph 5.2 of the Issues Paper.

### **II. Approach chosen**

By analogy to the method by which the national guaranteed quantities for the existing Member States were established, the NGQs for Candidate Countries should be taken as the average of two recent production years.

The most recent data available on dried fodder production concern the production year 1999. Therefore the years 1998 and 1999 should be taken as the reference period.

The Commission checked the data submitted by the candidate countries with Eurostat data. No anomalies were found. In some cases candidate countries have not been able to produce statistics on the production of dried fodder. In these cases it is assumed that no production took place.

### **III. Quantified Commission position (based on a reference period 1998-99):**

Following the method explained above, the following national guaranteed quantities would be allocated.

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<sup>1</sup> The products concerned are the flour and pellets of dried lucerne, lucerne, sainfoin, clover, lupins, vetches and other similar (possibly dried) fodder products, protein concentrates obtained from lucerne and grass juices and dried products derived from them. Hay, fodder kale and products containing hay are excepted from the scope of the CMO

<sup>2</sup> OJ L 63, 21.03.1995

<sup>3</sup> See the recitals of Council Regulation (EC) No 603/95, OJ L 63, 21.03.1995.

<sup>4</sup> See the recitals of Council Regulation (EC) No 1347/95 OJ L 137, 15.06.1995.

Candidate country	Requested quota tonnes	Proposed quota (tonnes)	
		dehydrated	sundried
Cyprus	no request	0	0
Czech Rep	request not quantified	22,877	0
Estonia	30,000	0	0
Hungary	200,000	0	0
Latvia	no request	0	0
Lithuania	20,000	650	0
Malta	no request	0	0
Poland	160,000	0	0
Slovakia	request not quantified	13,100	0
Slovenia	5,000	0	0

### **Explanation of difference between request and proposed NGQ:**

**Estonia** did have a production of artificially dehydrated fodder in the early 90s. However, in the period 98-99 no production took place.

**Hungary** has provided information on the area of crops that could be used for dried fodder production (lucerne, etc). In the current Member States only a fraction of these crops is turned into dried fodder. As Hungary has not provided any data on actual dried fodder production, it is assumed that no such production took place.

**Lithuania** based its request on the production figures during the 80s. In recent times the production of dried fodder is relatively insignificant.

**Poland** has provided only data on hay production. However, hay is excluded from support by Article 1 of Council Regulation (EC) No 603/95.

**Slovakia** gave figures on artificially dried fodder and sun dried fodder. The sundried fodder was referred to as hay although it included lucerne and clover mixtures. As hay is excluded from support, this has not been taken into account.

**Slovenia** stated that no production took place but based its request on consumption.

<b>Sector:</b>	<b>SUGAR</b>
<b>Measure:</b>	<b>(i) Sugar production quotas: quota fixing</b>
<b>Legal basis:</b>	<b>Council Regulation (EC) No 1260/2001<sup>1</sup> on the Common Market Organisation for sugar, Articles 10-21<sup>2</sup></b>

## **I. Background**

Apart from intervention prices, production quotas are the key instruments in the CMO for sugar. The essential aims of the system are to bring production into line with possible market outlets and to guarantee prices to producers by way of quotas, fixed for each country. Against this background the sugar quotas for new Member states should be fixed on the basis of the following criteria:

- Global quotas: In the sugar sector there are separate quotas for sugar (expressed as white sugar) comprising sugar manufactured from beet, cane or molasses, for isoglucose and for inulin syrup. Since none of the Candidate countries requested a quota for inulin syrup separate quotas need only to be fixed for sugar and isoglucose.
- Past performance: According to the general approach set out in paragraph 5.2 of the Issues Paper, supply management instruments for the acceding countries should be determined on the basis of past performance during a recent reference period. In line with this approach, in previous enlargements, 5 years have been considered an adequate period, thus levelling out fluctuations in production, consumption, trade and other elements. It would seem appropriate to apply largely the same approach for the current enlargement round. Countries without production during the five years period concerned would not be considered for the allocation of quotas.

The line on historical quantitative reference levels now proposed by the Commission is set out in paragraph 5.2 of the Issues Paper.

## **II. Approach chosen**

- Choice of actual reference period: In line with the above approach, the average sugar production of the years 1995 to 1999 appears to be the most appropriate basis for quota fixing in the current enlargement round.
- A and B quotas: The tight control over production is put into place by the setting of A and B quotas which cover in principle the demand on the internal market and excess production exported with refunds. Export refunds are financed by a system of production levies paid in full by the sugar beet producers and the sugar industry. A and B quotas for the new Member states should be fixed in such a way that this self-

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<sup>1</sup> OJ L 178 of 30.6.2001, p.1

<sup>2</sup> Sugar quotas were introduced in 1968, first for a transitional period and then prolonged for several times with the latest prolongation for the period 2001/02-2005/06.

financing system is not endangered. To do this there first should be made a distinction between net exporting (PL, CR, HU, LIT, SLK) and net importing countries (EE, SL, LV, BU, RO). For net importers<sup>3</sup>, the A quota should equal net production. The B quota should be 10% of the A quota in line with the standing practice in the past. For net exporters, however, the A quota should be equal to that part of the net production which is consumed domestically. The B quota should be equal to the remainder (corresponding to net exports).

- These criteria should now be complemented by another aspect: If the above system were applied as it stands, the EU may find itself with surplus sugar, in particular from net exporting countries, which cannot be exported with a refund due to WTO commitments. Therefore, in order to maintain the balance on the sugar market, total A and B quotas should not exceed internal consumption plus the quantity that can be exported within the limits of the WTO commitments.

- Specific requests or problems

Estonia requests a sugar quota. It has, however, no reference production of sugar, but produces sugar beet for processing in other countries<sup>4</sup>. In the light of the methodology proposed, this position is not acceptable.

### **III. Quantification of Commission position**

- Assessment of statistical data per candidate country
  - Candidate countries have provided balance sheets for the years 1995-1999. Data have been cross-checked as described under paragraph 5.3 of the Issues Paper. In addition, production data were compared to basic data such as harvested area, sugar beet production, sugar content, etc. This comparison shows again that data are sufficiently consistent.
  - In three cases, the balance sheets were incomplete. HU and SLK did not provide data on opening and ending stocks. EE limited information to production and trade of sugar. The Polish and Czech balance sheets had to be corrected to the Community method where utilisations have to equal availabilities.
- Specific statistical problems
  - Usually quota determination is based on production attributable to marketing years (1.7.-30.6.). Quotas proposed below are based on calendar years in order to streamline the approach with the other sectors and to take into account that most Candidate Countries provided relevant data on a calendar year basis. This approach does not change substantially the quotas proposed. However, for the

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<sup>3</sup> Such an approach would also apply to balanced countries .

<sup>4</sup> On an average over the period 1995-1999, 388 tonnes of sugar were produced in Finland and Latvia out of Estonian sugar beet.

Czech Republic and Latvia calculations are based on marketing years as both provided data on the basis of marketing year.

- Statistics on trade of sugar in processed goods are not available or not complete in Candidate countries, except for CR, HU, LV, LT. But their statistics do not comply either entirely with the Community statistics and therefore needed adjustment. In order to have the complete picture of sugar trade of Candidate Countries on a common basis and to cross-check trade data provided, sugar trade data were extracted from the Phare database managed by EUROSTAT. The trade volume of processed products containing sugar was transformed in sugar equivalent on the basis of the aggregated average co-efficients for sugar in processed products of EU-15. On the basis of this analysis, balance sheets were adjusted, in particular with regard to total consumption. This adjustment lead to lower average consumption levels for most Candidate countries in comparison to their own data. Only for Hungary and Slovakia average consumption became higher whereas average consumption in Slovenia remained basically at the same level. The adjusted consumption levels were used for quota determination.
- In line with WTO rules, the outlay constraint is more restrictive than the volume constraint for all candidate countries concerned. In order to adjust the quotas proposed to WTO constraints, WTO outlay commitments on export subsidies were therefore converted into volume: 2000 commitments were converted on the basis of the average annual refunds over the period 1995-1999 and of the average €exchange rate applied in 2000.
- Proposed quota allocations compared to quota requests

In the light of the above methodological principles, the sugar quota fixing would lead to the following results:

Candidate country	Sugar quotas requested by CC in tonnes			Sugar quotas proposed in tonnes		
	Total	A	B	Total	A	B
Cyprus	No request	–	–	–	–	–
Czech Republic	505,000	–	–	445,237	441,409	3,828
Estonia	75,000	65,000	10,000	–	–	–
Hungary	480,000	400,000	80,000	380,021	378,791	1,230
Latvia	110,000	100,000	10,000	52,482	47,711	4,771
Lithuania	165,000	150,000	15,000	96,241	96,241	–
Malta	No request	–	–	–	–	–
Poland	1,866,000	1,650,000	216,000	1,665,017	1,590,533	74,484
Slovakia	235,000	190,000	45,000	208,736	189,760	18,976

Slovenia	75,000	67,500	7,500	52,977	48,161	4,816
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**Sector:** SUGAR

**Measure:** (ii) Isoglucose quotas: quota fixing

**Legal basis:** Council Regulation (EC) No 1260/2001<sup>5</sup> on the Common Market Organisation for sugar, Articles 10-21

### **I. Background**

Isoglucose quotas have been requested by three Candidate countries (HU, PL, SLK).

### **II. Approach chosen**

- The same general principles for the isoglucose quota setting should be applied as for sugar quotas, with the exception of the adjustment to WTO constraints. In the field of sugar, WTO commitments on export subsidies cover both sugar and isoglucose. As there are no specific WTO commitments on isoglucose the B-quota for isoglucose for net exporters will therefore always be zero. The A quota will equal domestic consumption.
- In a similar way to the approach for sugar quotas, isoglucose quotas should be based on the average isoglucose production performance over the years 1995-1999.
- Two of the isoglucose producers (PL<sup>6</sup> and SLK) started isoglucose production only in 1998 at a low production level. In order to fully use the capacity of existing plants, their requests are based on production potential. As for the 1986 enlargement, increase in isoglucose production immediately before accession should, however, not be taken into account.

### **III. Quantification of Commission position**

- Assessment of statistical data per Candidate country
  - Data provided by Candidate countries were not always complete. In particular, Poland provided only production data. Production data have been cross-checked as described under paragraph 5.3 of the Issues Paper. Sources used in the case of isoglucose were USDA and figures from the sugar industry.
- Specific statistical problems
  - As for sugar quotas, calculations are based on calendar years.
  - Whereas Hungary and Slovakia clearly indicate that isoglucose data are based on 42% fructose in line with the Community standard, it remains unclear how Polish

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<sup>5</sup> OJ L 178 of 30.6.2001, p.1

<sup>6</sup> It has to be noted that Poland's request is lower than the expected increase in isoglucose production.

data are expressed. For the quota proposal, it was, however, assumed that they were expressed in the right way<sup>7</sup>.

- Consumption data provided by Candidate countries were adjusted to the Community method (consumption = production - exports). Such an adjustment was not possible for Poland which provided production data only. In the Polish case, it was assumed that there were no exports of isoglucose so that production would equal consumption.

o Proposed quota allocations compared to quota requests

In the light of the above methodological principles, the isoglucose quota fixing would lead to the following results:

Candidate country	Isoglucose quotas requested in tonnes			Isoglucose quotas proposed in tonnes		
	Total	A	B	Total	A	B
Hungary	140,000	130,000	10,000	111,244	111,244	0.0
Poland	20,000	15,000	5,000	2,493	2,493	0.0
Slovakia	60,000	50,000	10,000	3,220	3,220	0.0

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<sup>7</sup> Isoglucose having a content by weight in the dry state of 42% fructose.

<b>Sector:</b>	<b>FIBRES</b>
<b>Measure:</b>	<b>Aid for the processing of straw and hemp grown for fibre</b>
<b>Legal basis:</b>	<b>Council Regulation (EC) No 1673/2000, Article 3<sup>1</sup></b>

## **I. Background**

Council Regulation (EC) No 1673/2000 provides for an aid for the processing of straw of flax and hemp grown for fibre. A distinction is made between the production of long flax fibre, with a fibre length of at least 50 cm and short flax fibre, with a fibre length shorter than 50cm. The amount of aid granted to the production of hemp fibres is equal to the amount of aid granted for the production of short flax fibre.

A maximum guaranteed quantity per marketing year has been established for the Community. This quantity limits the amount of fibres that is eligible for support. To ensure observance of the maximum guaranteed quantity, a system of national production guaranteed quantities has been introduced, both for long fibre flax and short fibre flax together with hemp fibres.

Guaranteed quantities in the Member States are based on historical production figures. The average recent production was taken as the basis for derivation of the national guaranteed quantity.

The current guaranteed quantity system was introduced after the previous accession round.

The line on historical quantitative reference levels now proposed by the Commission is set out in paragraph 5.2 of the Issues Paper.

## **II. Approach chosen**

For the current Member States the average recent production was taken as the basis for derivation of the national guaranteed quantity. The same should be done for the Candidate Countries.

Furthermore, the measure concerns aid for straw processing. Farmers growing the flax and hemp to be processed receive aid under the arable crops aid system<sup>2</sup>. Inconsistencies between aid for primary production and processing could result in the supply of too much or not enough raw material for processing. To avoid such an inconsistency, the same reference years that are used in the arable crop scheme should be used to determine the average recent production.

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<sup>1</sup> OJ L 193, 29.07.2000

<sup>2</sup> Council Regulation (EC) No 1251/1999.

In line with the reference years used to determine the base area for arable crops, a reference period of 1997-1999 should be used.

The data provided have been compared with other statistical sources (Eurostat). No anomalies were found.

### III. Quantified Commission position:

Candidate Country	Requested quantity	proposed quantity	Requested quantity	proposed quantity
	tonnes		tonnes	
	long fibre	long fibre	short fibre	short fibre
Cyprus	no request		no request	
Czech re-public	8,000	1,295	7,080	1,764
Estonia	no request		no request	
Hungary	not quantified	0	not quantified	2,061
Latvia	1,500	361	3,500	1,106
Lithuania	6,000	1,997	8500	2997
Malta	no request		no request	
Poland	no request		no request	
Slovakia	800	73	1,600	189
Slovenia	no request		no request	

In all cases the proposed quantity allocation is substantially lower than the requested quantity. The difference results from the difference of basis to determine the guaranteed quantity. The Candidate Countries refer to production before 1990, production potential, and the wish to develop activities in this subsector. Recent fibre production levels are rather low in comparison

### IV. Quota application

Article 3 (2) (b) of Council Regulation (EC) No 1673/2000 provides for the creation of a 5000 tonnes short fibre guaranteed quantity for Denmark, Greece, Ireland, Italy and Luxembourg. Production of flax and hemp fibres in these Member States is rather limited. It could be envisaged to include some Candidate Countries, for instance Slovakia, into this category of Member States that together can produce 5,000 tonnes (or an adjusted quantity) of short fibres that are eligible for support.

**Sector:** OLIVE OIL

**Measure:** Establishment of National guaranteed quantities

**Legal basis:** Council Regulation (EC) No 1638/98, Articles 1 and 4<sup>1</sup>

## **I. Background**

National Guaranteed Quantities (NGQs) were established for the current Member States on the basis of their average production during 3 of the last 5 marketing years (1991/92 to 1996/97), the lowest and the highest being eliminated.

The line on historical quantitative reference levels now proposed by the Commission is set out in paragraph 5.2 of the Issues Paper.

## **II. Approach chosen**

NGQs for the candidate countries should be calculated on the basis of olive oil production, in tonnes. Article 4 of Council Regulation (EC) No 1638/98 indicates that no aid may be paid in respect of additional olive trees or the corresponding areas planted after 1 May 1998 or those not covered by a cultivation declaration at a date to be determined

Regarding the choice of the actual reference period, the suggested approach is similar to the one used when NGQs were first fixed, i.e. to take the average production during 3 of the most recent marketing years for which data are available (which is to say 1996/97-2000/2001), the lowest and the highest being eliminated.

## **III. Quantified Commission position**

- Assessment of statistical data by candidate country: only Slovenia and Cyprus produce olive oil but production in those countries is insignificant compared to that in the EU (around 400 t for Slovenia and 3000-6000 t for Cyprus, compared to 2 millions tons for the EU).
- Specific statistical problems: for Slovenia, no anomaly was detected. For Cyprus, however, the figures are not all reliable as they underestimate olive oil production, for two main reasons. First, owners of existing mills tend to under-report quantities processed for tax reasons, but it is on these quantities that surveys are based. Second, the structure of the sector (small family plots for own consumption) hampers accurate estimation of production. Given these statistical problems, an alternative method needs to be used. The best solution – and indeed the one proposed by Cyprus itself – would be to base the calculation on consumption. Being a Mediterranean country, Cyprus is likely to have similar levels of olive oil consumption to countries such as Greece, Italy or Spain. Using this as a basis it is

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<sup>1</sup> OJ L 210, 28.07.1998

possible to estimate Cypriot production of olive oil as being at around 6.000 tons. Another means of calculating olive oil production in Cyprus could be the Geographical information system (GIS) which is currently being built by Cyprus. Once finalised, it could be used to check the accuracy of the estimate based on consumption. However, the GIS system is not yet finalised, and its introduction in the current Member States is envisaged only for 1.1.2005.

- NGQs:

	Request (tonnes)	Proposal (tonnes)
Cyprus	6,450	6,000
Slovenia	600	400

#### **IV. Specific requests**

Cyprus made a request regarding new plantations after 1998. This request has been addressed in the revised EUCP (CONF-CY 56-01) which states that:

“The EU underlines that the national guaranteed quantity for olive oil must be determined on the basis of historical production figures during a reference period to be defined. As regards new plantations programmes after accession, the EU notes that programmes of olive tree planting to replace older or abandoned trees are not subject to Commission approval as long as the number of new olive trees is equal to or less than the number of replaced olive trees. Furthermore, the EU considers that in the light of the absorption capacity of the EU market, new plantations made after the reference period to be defined cannot be taken into account”.

- Sector:** PROCESSED FRUIT AND VEGETABLES
- Measure:** National and/or Community thresholds/guaranteed Community area (GCA) for processing aid
- Legal basis:** Council Regulation (EC) No 2201/96<sup>1</sup> (as amended by Council Regulation (EC) No. 2699/2000<sup>2</sup>), Articles 5 (tomatoes, peaches and pears) and 7 (dried grapes); Council Regulation (EC) No 2202/96<sup>3</sup> (as amended by Council Regulation (EC) No. 2699/2000), Article 5 (citrus fruit)

## I. Background

Community aid is available: (i) to producer organisations that supply tomatoes, peaches and pears harvested in the Community for the production of certain processed products and (ii) to producer organisations which deliver for processing certain citrus fruits harvested in the Community. In both cases the amount of aid payable is reduced if Community and/or national thresholds are over-run. Aid is also granted, on an area basis, for the cultivation of grapes intended for the production of dried grapes of the sultana and Moscatel varieties and currants. In this case the amount of aid payable is limited by a maximum Guaranteed Community Area (GCA). With the accession to the EU of the current candidate countries, it becomes necessary to alter and/or add to the thresholds and GCA set out in the relevant regulations.

The general line on historical quantitative reference levels now chosen by the Commission is set out in paragraph 5.2 of the Issues Paper.

Determination of 'historical production' depends on the type of produce. For **tomatoes, peaches, pears** and **citrus fruit**, this should be the volumes of fresh product delivered for processing into eligible products<sup>4</sup>. For **dried grapes**, this should be the surface area of "specialised plots" as defined in Article 1, paragraph 1(a) of Commission Regulation (EC) No 1621/1999<sup>5</sup>.

When calculating thresholds, account should also be taken of adjustments included in Council Regulations (EC) Nos. 2201/96 and 2202/96 (as amended by Council Regulation (EC) No 2699/2000), which are provided in the following table.

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<sup>1</sup> OJ L 297, 21.11.1996

<sup>2</sup> OJ L 311, 12.12.2000

<sup>3</sup> OJ L 297, 21.11.1996

<sup>4</sup> For **tomatoes, peaches** and **pears** see Annex I of Council Regulation (EC) No 2201/96. See also Article 1, paragraph 2 of Commission Regulation (EC) No 449/2001. For **citrus fruit** see Article 1 of Council Regulation (EC) No 2202/96

<sup>5</sup> "...areas planted with vines of the sultana, black Corinth (korinthiaki) and muscatel varieties, the total output of fresh grapes harvested being dried for processing into products falling within CN code ex 0806 20;"

EU15 (tonnes)		tomatoes	peaches	pears	oranges	lemons	small citrus <sup>6</sup>	grapefruit
‘Historical production’ <sup>7</sup>	97/98	6,896,308	370,928	124,331	1,916, 103	686,873	398,246	4,258
	98/99	8,068,280	415,700	149,013	1,155, 490	612,804	370,117	4,559
	99/00	9,123,165	582,412	100,431	1,570,106	520,559	470,381	6,281
	average	8,029,251	456,347	124,592	1,547,233	606,745	412,915	5,033
Community processing threshold set by Council Regulation (EC) No. 2699/2000		8,251,455	539,006	104,378	1,500,236	510,600	384,000	6,000
threshold / average (%)		102.77%	118.11%	83.78%	96.96%	84.15%	93.00%	119.21%

## II. Approach chosen

For **tomatoes, peaches, pears, citrus fruit and dried grapes**, the reference period should be the most recent three marketing years, 1997-1998, 1998-1999 and 1999-2000. The justification for this reference period is that reference periods of three years are standard practice in this sector and have been used consistently for the products in question.

## III. Quantified Commission position

In addition to the data required for the calculation of thresholds/GCA alterations, candidates have been invited to provide data on ancillary variables (imports, exports, prices etc). This data has allowed the Commission to assess whether the figures for ‘historical production’ are plausible and consistent. Where insufficient data or unsuitable data has been provided, either on ‘historical production’ or on ancillary variables, no calculation has been performed.

As regards specific statistical problems, it should be noted that in some cases it is impossible to obtain figures for ‘historical production’ defined as precisely as it is above. For example, we may know how many tonnes of eligible fresh product were sold to the processing industry, but not whether all of the products produced therefrom would have qualified as “eligible products” (see footnote 4). The Commission view is that the effect of this problem on the calculations performed here is likely to be marginal.

On the basis of the methodology outlined earlier, thresholds/GCA alterations can be calculated for those countries and sectors for which data is available. These “suggested thresholds/GCA alterations” are included in the table below. Candidate countries which do not feature in the table have not made any specific requests for thresholds/GCA alterations.

<sup>6</sup> Mandarins, Clementines and Satsumas.

<sup>7</sup> For citrus fruit, the figures currently available are those on the quantities for which aid was allocated during the marketing year in question.

	Threshold/GCA alteration request (tonnes)	Average 'historical production' 1997-1999 (tonnes) <sup>8</sup>	Ratio (see previous table)	Suggested threshold/GCA alteration (tonnes)
<b>Cyprus</b>				
Tomatoes	10,000	4,641	1.0277	4,770
Peaches	500	*	1.1811	*
Pears	500	0	0.8378	0
lemons	5,000	3,548	0.8415	2,986
grapefruit	30,000	9,069	1.1921	10,812
oranges	21,000	15,438	0.9696	14,969
Mandarins, clementines and satsumas	10,000	1,007	0.9300	937
Dried grapes	(hectares) 1,000	*	not applicable	*
<b>Czech Rep.</b>				
Tomatoes	26,000	*	1.0277	*
Peaches	4,000	*	1.1811	*
Pears	500	*	0.8378	*
<b>Hungary</b>				
Tomatoes	321,442	127,265	1.0277	130,790
Peaches	1,000	11,691	1.1811	13,808
Pears	1,000	*	0.8378	*
<b>Malta</b>				
Tomatoes	50,000	*	1.0277	*
<b>Slovakia</b>				
Tomatoes	36,000	*	1.0277	*
* Insufficient/unsuitable data provided by candidate				

#### IV. Threshold/GCA Application

##### Specific application requests by candidate countries

Malta has requested a transitional period of five years with regard to Article 2(2) of the 28 October 1996 version of Council Regulation (EC) No 2201/96 on production aid for individual producers. Malta requests that during this period it be possible to pay Community aid directly to individual producers having a contract to deliver tomatoes to processors (the aid would normally be paid to producer organisations).

This request will be assessed on the basis of further information to be supplied by Malta.

<sup>8</sup> Based on the Commission's best interpretation of data submitted to the accession conference by candidates

<b>Sector:</b>	<b>BANANAS</b>
<b>Measure:</b>	<b>Establishment of maximum quantity for compensation for income loss</b>
<b>Legal Basis:</b>	<b>Council Regulation (EEC) No. 404/93, Article 12<sup>1</sup></b>

### **I. Background**

When the Common Market Organisation for bananas was created, compensation payments for Community producers were introduced, as set down in Article 12 of Council Regulation (EC) No. 404/93. The compensation is in the form of a payment per tonne of bananas marketed, and is calculated annually based on average producer incomes. For each production region, a maximum quantity of bananas marketed on which compensation may be paid was established. This maximum quantity was assessed as the best of the three most recent years' recorded production.

### **II. Approach chosen**

In line with both the approach on historical quantitative reference levels set out in paragraph 5.2 of the Issues Paper, and the specific approach adopted for the banana sector, the most appropriate period to determine the maximum quantity of bananas for which compensatory payments could be paid, would be the best of the three years 1997, 1998 and 1999. (These are the three most recent years for which data is available.)

### **III. Quantified Commission position**

Cyprus is the only one of the candidate countries which produces bananas, and therefore is the only country for which a maximum quantity for compensation for income loss must be set.

Applying the method described above to the statistical information submitted to the Accession Conference by Cyprus gives a maximum quantity for compensation for income loss of 13,500 tonnes per year (this is equivalent to total recorded production in 1999).

This represents 90% of Cyprus's request of 15,000 tonnes per year. The Cypriot request includes a margin to cover the estimated quantity of bananas marketed informally and not recorded. However, only officially recorded figures can be taken into account for the assessment of the appropriate maximum quantity.

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<sup>1</sup> OJ L 47, 25.02.1993

<b>Sector:</b>	<b>TOBACCO</b>
<b>Measure:</b>	<b>Establishment of production quota</b>
<b>Legal basis:</b>	<b>Council Regulation (EEC) No 2075/92, Article 9<sup>1</sup></b>

## **I. Background**

Council Regulation (EEC) No 2075/1992 provides a premium system for tobacco production. To limit the production of tobacco that is eligible for support, a guarantee threshold has been established for the Community. To ensure observance of the guarantee threshold, a system of national production quotas has been established for all eligible tobacco varieties.

Production quotas in the Member States are based on recent production figures. The quotas of individual producers are established in proportion to the average quantities delivered for processing during the three years preceding the year of the last harvest, broken down by group of varieties.<sup>2</sup>

The line on historical quantitative reference levels now proposed by the Commission is set out in paragraph 5.2 of the Issues Paper.

## **II. Approach chosen**

In line with the method of establishing quotas for individual producers, the national quota should be established as the average of the three consecutive production years.

The most recent data on tobacco production concern the production year 1999. Therefore the years 1997-1999 should be taken as the most reference period.

The data provided have been compared with other statistical sources (Eurostat). No major anomalies have been found (only a slight difference concerning Hungary; the figures from the negotiation position provided by Hungary have been maintained).

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<sup>1</sup> OJ L 215, 30.07.1992

<sup>2</sup> Article 9(3) of Council Regulation (EEC) No 2075/1992.

### III. Quantified Commission position:

Candidate Country	Cyprus	Hungary	Poland	Slovak Republic
Requested quota	1,000	15,000	70,000	2,600
Proposed total quota	320	12,355	37,933	1,257
Proposed quota per variety:				
	Flue cured		22,000	
	Light air cured		12,633	
	Dark air cured		1,867	
	Fire cured		1,233	
	Virginia	5,768		1,117
	Burley	6,514		140
	Kerti	73		

In most cases the proposed quota allocation is substantially lower than the requested quantity. The difference results from the difference of basis to determine the guaranteed quantity. The Candidate Countries tend to refer to production before 1990, production potential, and the wish to develop activities in this subsector. Recent tobacco production levels are rather low in comparison.

Once Cyprus has provided data on the tobacco varieties produced, the above table will be updated.

### IV. Quota application

The above mentioned quota allocation would result in low quota for Cyprus and Slovakia. It could be envisaged that these quotas would be subject to a buy back scheme in the sense of Chapter VI of Commission Regulation (EC) No 2848/98 even before application. Producers would be compensated for the renunciation of any claims on tobacco direct payments. In this way a relatively heavy administrative procedure (heavy in relation to the possible benefit) would be avoided.

**Sector:** DAIRY SECTOR

**Measure:** Milk quota scheme: quota fixing and application

**Legal basis:** Council Regulation (EEC) No 3950/92 as last amended by Council Regulation (EC) No 1256/1999

## **I. Background**

The milk quota regime is targeted at ensuring a balance between supply and demand on the dairy market. Through the regime dairy production is contained by restricting the production in each Member State to a national reference quantity that operates in combination with a dissuasive levy on milk produced in excess of quotas allocated to individual milk producers (additional levy). The national reference quantity is distributed between individual producers according to Community criteria and procedures.

## **II. Approach chosen**

### **Quota fixing:**

- According to the general approach set out in paragraph 5.2 of the Issues Paper, supply management instruments for the acceding countries should be determined on the basis of past performance during a recent reference period. This approach is in line with the approach the European Community chose for the initial milk quota setting in 1984 and in previous enlargements.
- As the national reference quantity is divided into quotas for deliveries and direct sales only these two categories of production can be taken into account for quota fixing. Production used on the farm as animal feed and for human consumption cannot be taken into consideration and therefore does not restrict production considered for quota setting. With the exception of Cyprus and Malta requesting a delivery quota only, all Candidate countries have asked for quotas both for deliveries and direct sales. For both, in previous occasions, the Commission took the production figures on milk delivered and for direct sales in a specific recent reference year as a basis for quota fixing. However, the selection of a specific reference year would be discriminatory in relation to the particular production situations in one or several Candidate countries, in particular as a result of unfavourable economic conditions. Therefore, it would be appropriate to use an average recent production of more than one year for quota setting in this case.
- In line with the approach to base quota fixing on recent reference production, it would be appropriate to use production figures on milk delivered and for direct sales for the years 1997-1999. The resulting average production data appear to reflect best the recent production situation in Candidate countries and would, in particular, even out fluctuations affecting particular countries at different times.
- As regards the determination of the reference quantity for milk with regard to WTO constraints, this aspect is covered by basing the quota on a recent reference period and not

on one which predates the introduction of WTO constraints. Thus, the WTO commitments and their effective implementation are sufficiently reflected as well as the market balance reached at the end of the Uruguay round. WTO constraints also bear only indirectly upon the level of milk production because they apply separately to butter, skimmed milk powder, cheese and a miscellany of other milk products. A link between WTO constraints and the size of the proposed milk quota is therefore difficult to establish, in particular with regard to individual quota setting.

- The specific case of SLOM quotas: In the last enlargement, special reference quantities were allocated to each Austria and Finland in order to cover milk quotas that would need to be handed out to so-called "SLOM" producers. These are producers who have participated in any public scheme, such as marketing premia, premia for slaughtering of dairy cows, for conversion to beef production, providing an incentive to farmers to cease commercial milk production and committing them not to deliver/sell milk during one or more years covering the reference period in part or in full. In case of application of such a scheme from 1995 in one of the Candidate countries it should be examined to what extent a similar special reference quantity should be set for the country concerned. The Commission has requested the Candidate Countries to provide relevant information.

### **III. Quantified Commission position**

- Assessment of statistical data per candidate country

The Candidate Countries have provided detailed information on their milk production, including data on milk deliveries to the processing industry, direct sales and on-farm consumption in their negotiation positions and in the framework of technical meetings. The data supplied was thoroughly analysed and, in particular, its consistency with other accessible sources was checked. In general, the data supplied for deliveries was found sufficiently complete for the purpose of calculating delivery quotas. Data assessment included cross-checks of production data with dairy cow numbers and average milk yield. It also covered the analysis of international trade of dairy products of the Candidate countries.

- Specific statistical problems

Data on direct sales provided by Candidate countries are in most cases incomplete (SL, LV, LIT, SLK, MT) or represent estimates (CR, HU, PL). To establish a consistent set of milk use data for all Candidate countries, estimates for on-farm consumption and direct sales were established on the basis of official data, either from EUROSTAT or other Commission sources. Estimates of human on-farm consumption are based on average per capita consumption and the number of persons working and living in agriculture in the reference period. For some Candidate countries these estimates based on the reference period 1997/99 lead to higher proposals for direct sales quota than requested by Candidate countries which based their request on a future shift from direct sales to deliveries<sup>1</sup>. The total quota proposed remains, however, in all cases lower than the total quota requested.

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<sup>1</sup> Restructuring in terms of transfer from direct sales quotas to deliveries quotas in the course of time can be taken into consideration through the normal Community procedure foreseen by article 4 of Council Regulation (EEC) No 3950/92 as amended by article 1(5) of Council Regulation 1256/1999.

- In the light of the above approach the milk quotas fixing would lead to the following results.

Candidate Country	Milk quotas requested by CC in tonnes			Milk quotas considered by COM/EU in tonnes		
	Total quota	Deliveries	Direct sale	Total quota	Deliveries	Direct sale
Cyprus	150.000	150.000	–	131.019	129.182	1.837
Czech Rep.	3.100.000	2.945.000	155.000	2.505.553	2.478.867	26.686
Estonia	900.000	810.000	90.00	562.633	484.800	77.833
Hungary	2.800.000	2.600.000	200.000	1.946.333	1.638.000	308.333
Latvia	1.200.000	900.000	300.000	489.474	405.167	84.307
Lithuania	2.250.000	1.700.000	550.000	1.459.000	1.174.333	284.667
Malta	60.000	60.000	–	45.392	45.392	0
Poland	11.217.000 t in 2003 up to 13.740.000 t in 2008	10.506.000 t in 2003 up to 13.176.000 t in 2008	711.000 t in 2003 down to 564.000 t in 2008	8.875.000	6.956.333	1.918.667
Slovakia	1.235.900	1.147.000	61.800	946.150	932.150	14.000
Slovenia	695.000	556.000	139.000	463.333	422.700	40.633

### **Quota application**

- **Specific application requests by Candidate countries or problems identified by the Commission**

Two Candidate countries request transitional arrangements with regard to the application of the milk quota management system. Poland asks for the application of a modified system. The modification would consist of not applying the additional levy in case of exceeding the national milk quota during the two first marketing years after accession. In its initial negotiating position, Slovenia requested that the distribution of milk quotas to individual producers remain inapplicable for a transitional period until 31 December 2012. The reply to the EU Common Position states, however, that Slovenia is considering to withdraw its request but will take a final position on the issue at a later stage of the negotiations. Both requests are not acceptable. They are incompatible with the basic principles of the EU milk

quota regime that individual milk producers are held responsible for excess milk production and would deprive the quota system of its key element. The allocation of quotas to individual farms and the control of their milk output are essential features of the system without which the objectives of the regime cannot be achieved.

However, in order to ease the implementation of the milk quota system it might be appropriate to extend the deadline for the allocation of individual quotas to the end of the first year after accession for those Candidate countries requesting a transitional arrangement. This would mean that the additional levy would remain inapplicable in the first marketing year after accession. Granting this transitional arrangement for a longer period would, however, be in conflict with the dairy premium scheme that will apply as from 2005. Under this scheme entitlement to dairy premium for 2005 will depend on the dairy quota available on the holding of an individual producer on 31 March 2005 (Article 16 (3) of Council Regulation (EC) No 1255/1999).

<b>Sector:</b>	<b>DAIRY SECTOR II</b>
<b>Measure:</b>	<b>Direct payments: Dairy Premia and Additional Payments</b>
<b>Legal basis:</b>	<b>Articles 16 - 25 of Council Regulation (EC) No 1255/1999 on the common organisation of the market in milk and milk products<sup>1</sup></b>

## **I. Background**

- From 2005, EU milk producers will receive **dairy premia**. The level of support afforded by these premia<sup>2</sup> is programmed to increase as market support is reduced<sup>3</sup>. Although premia will be granted to producers on the basis of their individual reference quantities, the total sum of individual reference quantities eligible for premia cannot exceed the total national reference quantity for the quota year 1999/2000.
- In order to take account of significantly different milk production conditions and producer incomes in different areas of the Community, Member states can make **additional Community payments** in accordance with certain common criteria. However, such additional payments, which can take the form of either premium supplements or area payments, cannot exceed a fixed **global amount** (commonly referred to as the national envelope). For existing Member States, national envelopes for 2005, 2006, 2007 and subsequent years were calculated by multiplying total reference quantities for milk in the quota year 1999/2000 by an average additional payment<sup>4</sup> for the year(s) concerned.

## **II. Approach chosen**

### **Level of dairy premia and fixing of global amount for additional payments.**

- Level of Dairy premia
  - Phasing in of dairy premia should start at the same level as for all other types of direct payments in 2005, i.e. at 30% of the EU level in that year.
  - Entitlement to dairy premia from 2005 on should depend on implementation of the milk quota system, in particular on the allocation, by 31 March 2005, of milk quotas to individual producers. That point notwithstanding, the total amount of milk for which dairy

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<sup>1</sup> OJ L 160, 26.06.1999

<sup>2</sup> €5.75 in 2005, €11.49 in 2006 and 17.24 in 2007 and subsequent years per tonne of individual reference quantity eligible.

<sup>3</sup> Gradual reduction of the target prices and intervention prices for butter and skimmed milk butter starting from 1 July 2005.

<sup>4</sup> The average additional payment is determined at €2.58 in 2005, €5.17 in 2006, €7.76 in 2007 and subsequent years per tonne of total national reference quantity.

premia are granted must not exceed the total national reference quantity as established for the new Member states<sup>5</sup> (Article 16(3) of Council Regulation (EC) No 1255/1999).

- Additional payments

- National envelopes of the new Member states should be calculated in the same way as for existing Member States, but adjusted according to the approach taken for the introduction of direct payments generally.
- For the granting of additional payments, the new Member states will have to respect the provisions of articles 17 to 20 of Council Regulation (EC) No 1255/1999, including the submission of detailed information on their national arrangements concerning the granting of additional payments before 1 January 2005.

For additional payments made in the form of area payments, including area payments pursuant to article 17 of Regulation (EC) No 1254/1999 (additional payments in the beef sector in the form of area payments per hectare of permanent pasture), an upper limit of € 350 per hectare applies to current Member states for the calendar year 2005 and for subsequent calendar years. For new Member states, this upper limit should also be adjusted according to the phasing-in approach taken for direct payments generally (i.e. the upper limit for 2005 would be set according to the approach described in paragraph 4.3 of the Issues Paper).

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<sup>5</sup> See "Milk quota scheme: quota fixing and application". The suggested methodology for the determination of the national reference quantity, based in principle on the reference period of 1997-1999, is described under this issue, as are statistical considerations related to it.

<b>Sector:</b>	<b>DAIRY SECTOR III</b>
<b>Measure:</b>	<b>Fat content of drinking milk</b>
<b>Legal basis:</b>	<b>Article 3(1) of Council Regulation (EC) No 2597/97<sup>1</sup></b>

## I. Background

Article 3(1) of Council Regulation (EC) No 2597/97 provides for different types of drinking milk according to the fat content contained:

- milk with natural fat content
- whole milk with a fat content of at least 3.5% (m/m<sup>2</sup>)
- semi-skimmed milk with a fat content between 1.5 and 1.8% (m/m)
- skimmed milk with at least 0.5% (m/m).

Transitional arrangements to these provisions were granted to Sweden and Finland on the basis of article 149(1) of the Act of Accession of these countries<sup>3</sup>. These derogations will expire by the end of 2003.

## II. Approach chosen

### • Negotiating Positions of Candidate countries

6 Candidate Countries have asked for derogations to the provisions on the fat content of drinking milk. These requests differ, however, in the milk type for which derogation is requested and the duration of the request.

Candidate country	Transitional arrangement requested	Duration of requested transitional arrangement
<b>Cyprus</b>	Adopt lower standards of fat content in whole milk (3.2%)	Permanent
<b>Hungary</b>	Authorise to market within Hungary as drinking milk a product with a fat content of 2.80% (m/m)	5 years after accession
<b>Lithuania</b>	Produce various assortments of milk for the domestic market (whole milk with 3.2% fat, semi-skimmed milk with a fat content of 2.5 and 1%)	5 years (until 1 January 2009)

<sup>1</sup> OJ L 351, 23.12.1997

<sup>2</sup> The fat content is the ratio by mass of parts of milk fat per hundred parts of milk in the milk concerned.

<sup>3</sup> The derogations were initially granted until 31 December 1997 but later extended twice by Council Regulations (EC) No 2596/97 and 2703/1999.

<b>Malta</b>	Maintain current minimum milk fat content of 2.5%.	Not specified (probably permanent)
<b>Poland</b>	Authorise to produce milk with butterfat content other than that defined in Regulation 2597/97 (3.2%) for the domestic market and export to third countries.	2 years after accession
<b>Slovenia</b>	Apply national provisions concerning fat content of drinking milk (3.2%). Subject to a study the request may be modified.	Until 31 December 2005

- **Commission evaluation**

The EU had requested the Candidate countries to provide the following information:

- An assessment of the situation that could be expected in their domestic market if the EU requirements were to be introduced without a transitional period;
- Plans to ensure clear identification, separation, monitoring and control of the milk subject to the proposed arrangement;
- Measures planned during the pre-accession period in order to reduce the length of the requested transitional period;
- Development of the market shares of the different types of milk (whole, semi-skimmed, skimmed and other).

In addition, the EU had underlined that the export of non-compliant milk to the other EU Member states was under all circumstances excluded.

The following statements do not take into account Malta as the EUCP was adopted only in December, and no additional information has been received since.

With the exception of Lithuania, all Candidate countries have confirmed that milk subject to transitional arrangements will not be exported to EU Member states. They are committed to set up a system for the identification, separation, monitoring and control of the milk concerned. However, in some cases [SL, PL, HU] more detailed information on the concrete plans has still to be provided. With regard to measures during the pre-accession period in order to reduce the length of the requested transitional period, only Lithuania announced to set such measures. The other countries do not envisage such measures. They argue that adaptation of consumers to Community standards would be easier upon accession with the respective products being on the market. All Candidate countries justify their request on the basis of traditional consumption patterns. Transitional arrangements should allow consumers to get used to Community standards for drinking milk and thus, avoid a reduction in milk consumption.

The information provided by Candidate countries on the share of different types of milk on the market shows, in general, that the milk types for which transitional arrangements are requested, have a considerable share on the domestic milk market.

<b>Candidate Country</b> (year concerned as far as provided)	<b>Milk type (fat %)</b>	<b>Market share in %</b>
<b>Cyprus</b> (1999)	3.2	60
<b>Hungary</b> (current consumption)	2.8	69
<b>Lithuania</b> (2000)	2.5 3.2 1.0	67.2 13.0 0.7
<b>Malta</b>	2.5	n.a.
<b>Poland</b> (2000)	3.2 2.0	31.7 64.2
<b>Slovenia</b>	3.2	70

### **III. General Common Position Proposed**

In view of the precedent created by granting a transitional arrangement for the requirements for the fat content of drinking milk laid down by Council Regulation (EC) No 2597/97 to Sweden and Finland and taking into account the justification provided by the Candidate countries concerned, notably their special situation and the extent of adjustments required, the EU should accept the requests for permitting lower fat contents of drinking milk.

Such arrangements must, however, be limited in time and cover at the maximum a period of five years after accession in dependence of the specific requests formulated. Cyprus (and Malta) should therefore - if their position is maintained - be invited again to reconsider the permanent nature of their requests.

Such arrangements may only be granted if plans for a sufficiently clear system for the identification, separation, monitoring and control of the milk subject to transitional arrangement have been submitted.

The Candidate countries should notify the Commission one year before the expiry of the derogation of the measures adopted with a view to adapting to Community rules.

It should be recalled that drinking milk covered by such a transitional arrangement may only be marketed in the country of production or exported to third countries.

**Sector:** BEEF

**Measure:** (i) Additional payments

**Legal basis:** Council Regulation (EC) No 1254/1999, Article 14<sup>1</sup>

## I. Background

Following the Agenda 2000 reform, Member States may grant additional headage and/or area payments. The headage variant of additional payments may be granted per head of male bovine animals (calves are excluded), suckler cows, dairy cows and heifers. A global amount per Member State has been fixed in the Regulation. Area payments are granted in respect of permanent pasture which does not qualify for Community aid for specific crops and which is not used for the purposes of compliance with the stocking density requirements.

For the current MS, the global amounts have been established on the basis of the reference year 1995. There is no precedent set by the last accession as additional payments did not exist at that time.

The line on historical quantitative reference levels chosen by the Commission is set out in paragraph 5.2 of the Issues Paper.

The additional payments should be calculated on the basis of 65 Euro per tons<sup>2</sup> of gross beef production (expressed as carcass weight), excluding calves and including the trade balance in live animals (exports less imports expressed as carcass weight).

## II. Approach chosen

- Choice of actual reference period
  - It would be appropriate to choose the best from the three most recent years for which figures are available (i.e. 1998-2000). Although this would not fully correspond to the approach used within the EU, it would be similar to those applied to the other ceilings in the beef sector (for suckler cow premium and special beef premium). A recent reference period is indeed necessary for some candidates, due to the lack of earlier data. Some candidate countries have only recently implemented the system for identification and registration of bovine animals<sup>3</sup>. Some candidate countries have also only recently organised an agricultural census or will do so in the near future.
- Ceiling determination
  - All candidate countries have provided figures on their bovine production, but not, in all cases, expressed as carcass weight. However, a ratio of 0.5

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<sup>1</sup> OJ L 160, 26.06.1999

<sup>2</sup> Initially, global amounts were calculated by dividing a financial envelope between Member States according to their share of the beef production in the EU. It results in 65 euros per tons.

<sup>3</sup> This gives more details on their cattle and more accuracy to their statistics

can be used to convert figures expressed as live weight into the equivalent carcass weight. What appears more difficult is deducing production of calves and the balance of exchange (for adult bovines only). Where no data have been provided by the candidate countries, Eurostat and Comex figures have been used.

- Introduction: national envelopes of the new Member States should be adjusted according to the approach taken for the introduction of direct payments generally. For additional payments made in the form of area payments, the maximum area payment per hectare which may be granted to current Member States for the year 2004 (according to Article 17(3) of Regulation (EC) No 1254/1999) should also be adjusted according to the approach taken for the introduction of direct payments generally (i.e. the upper limit for 2004 would be set at 25% of the full level of 350 €/per hectare).

### III. Quantified Commission position

<b>Additional payments (euros)</b>	<b>Request (*)</b>	<b>Proposal</b>
<b>Cyprus</b>	<b>6,909</b>	<b>172,445</b>
<b>Czech Republic</b>	<b>Not quantified</b>	<b>7,694,083</b>
<b>Estonia</b>	<b>Not quantified</b>	<b>933,982</b>
<b>Hungary</b>	<b>12,000,000</b>	<b>3,548,396</b>
<b>Latvia</b>	<b>3,500,000</b>	<b>1,330,680</b>
<b>Lithuania</b>	<b>Not quantified</b>	<b>3,686,969</b>
<b>Malta</b>		
<b>Poland</b>	<b>Not quantified</b>	<b>27,393,275</b>
<b>Slovakia</b>	<b>Not quantified</b>	<b>4,500,535</b>
<b>Slovenia</b>	<b>4,500,535</b>	<b>2,342,488</b>

(\*) expressed in tonnes for Cyprus

**Sector:** BEEF

**Measure:** (ii) Slaughter premium

**Legal basis:** Council Regulation (EC) No 1254/1999, Article 11<sup>4</sup>

## **I. Background**

Slaughter premiums have applied since 1.1.2000 and are payable on bulls, steers, cows and heifers from the age of eight months and calves from one to seven months old and of a carcass weight of less than 160 kg. They are paid upon slaughtering or export to third countries. Ceilings have been established per Member State on the basis of slaughterings and exports registered in 1995. Where the national ceiling is exceeded, the premiums are reduced proportionately.

For the current MS, the chosen reference year was 1995. There is no precedent set by the last accession as the slaughter premium did not exist in 1995.

The line on historical quantitative reference levels chosen by the Commission is set out in paragraph 5.2 of the Issues Paper.

Two ceilings need to be calculated: one on the basis of the total number of bovine animals over 8 months old (bull, steers, cows and heifers), the second on the basis of calves over one but less than eight months old (and of carcass weight of less than 160 kg). In both cases, animals exported to third countries (other than the EU Member States and the candidate countries) should be added but it is expected that this will have only a marginal effect.

## **II. Approach chosen**

- Choice of actual reference period
  - It would be appropriate to choose the best from the three most recent years for which figures are available (i.e. 1998-2000). Although this would not fully correspond to the approach used within the EU, it would be similar to that applied to the other ceilings in the beef sector (for suckler cow premium and special beef premium). A recent reference period is indeed necessary for some candidates, due to the lack of earlier data. Some candidate countries have only recently implemented the system for identification and registration of bovine animals<sup>5</sup>. Some candidate countries have also only recently organised an agricultural census or will do so in the near future.
  - Figures on slaughterings are normally available but not always to the level of detail requested. Very often, the categories recorded by the candidate countries are not in line with those used by the EU. Latvia, Slovenia and Hungary do not record separately the number of slaughtered calves. Cyprus declared no slaughterings of calves. As regards exports of live animals in third countries, trade figures communicated by the candidate

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<sup>4</sup> OJ L 160, 26.06.1999

<sup>5</sup> This gives more details on their cattle and more accuracy to their statistics

countries were often not detailed enough and statistics available under Comex were used instead.

- **Ceiling determination**

It is proposed to take total slaughterings, plus live exports to third countries (EU and candidate countries excluded). Estimates should first be made for total slaughterings, and then be divided into adults and calves, according to the information available. If no specific information on distribution between adults and calves is available, then a 70:30 split should be assumed and used.

### III. Quantified Commission Position

Slaughter premium	Cyprus	Czech Republic	Estonia	Hungary *	Latvia	Lithuania	Malta	Poland	Slovakia	Slovenia
Slaughter premium (adult)										
Request	26,500	530,000	106,600	480,000	145,000	335,000		2,021,000	260,000	163,000
Proposal	9,030	424,911	80,500	202,199	124,320	367,484		2,034,309	204,062	125,107
Slaughter premium (calves)										
Request	0	131,100	79,300	480,000	75,000	290,000		1,017,000	60,000	22,000
Proposal		179,733	73,700	104,713	53,280	244,200		1,200,625	62,841	53,617

\* Hungary made a request for an aggregated ceiling of 480,000 slaughtered animals without specifying between adults and calves

**Sector:** BEEF

**Measure:** (iii) Special beef premium

**Legal basis:** Council Regulation (EC) No 1254/1999, Article 4<sup>6</sup>

## **I. Background**

Special premiums, on application by producers of male bovine animals are subject to regional ceilings and granted in respect of an annual maximum of 90 animals per holding. The premium is paid once in the life of each bull from the age of 9 months and twice in the life of each steer (at 9 and then 21 months). Where the number of bovine animals covered by premium applications exceeds the regional ceilings, the premium per producer is reduced proportionately.

The ceiling is calculated on the basis of the total number of bulls and steers over 9 months old.

When ceilings for the special beef premium were first fixed in 1992, it was decided that each Member State could choose one from among the three most recent years for which data was available: 1990 – 1991 – 1992 (Regulation 2066/92). During the last accession, the same approach was adopted: one of the 3 years 1990-1992.

The line on historical quantitative reference levels chosen by the Commission is set out in paragraph 5.2 of the Issues Paper.

## **II. Approach chosen**

- Choice of actual reference period: The suggested approach is similar to the one used when ceilings were first fixed, i.e. a choice of one from the three most recent years (which is to say 1998-2000). A recent reference period is indeed necessary for some candidates, due to the lack of earlier data. Some candidate countries have only recently implemented the system for identification and registration of bovine animals<sup>7</sup>. Some candidate countries have also only recently organised an agricultural census or are due to do so in the near future. Only HU, CZ, SLN, LT and SK have provided figures for adult male bovine animals.

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<sup>6</sup> OJ L 160, 26.06.99

<sup>7</sup> This gives more details on their cattle and more accuracy to their statistics

- Ceiling determination: Ceilings for the current candidates should be calculated on the basis of the total number of bulls and steers over 9 months old. It is therefore suggested that official figures on the number of adult male bovine animals be used for the 5 countries which have communicated them and that a calculation based on the total number of cows be used for the other candidate countries. This calculation would consist of multiplying the total number of cows by 0.8 (generally acknowledged to be the proportion of live calves) by 0.5 (proportion of males) by the ratio of calves not slaughtered, which differs widely between candidate countries.

### III. Quantified Commission position

Special beef premium	Cyprus	Czech Republic	Estonia	Hungary	Latvia	Lithuania	Malta	Poland	Slovakia	Slovenia
Request	13,650	305,000	50,000	245,000	75,000	154,000		2,200,000	80,000	95,000
Proposal	4,520	231,595	35,580	143,000	70,200	150,000		857,700	78,348	77,921

**Sector:** BEEF

**Measure:** (iv) Suckler cow premium

**Legal basis:** Council Regulation (EC) No. 1254/1999, Article 6<sup>8</sup> and Commission Regulation (EC) No. 2342/1999, article 14<sup>9</sup>

## **I. Background**

Animals eligible for the suckler-cow premiums are cows and heifers belonging to a meat breed or born of a cross with a meat breed, and belonging to a herd intended for rearing calves for meat production. From 1 January 2000 the number of premium rights of individual producers cannot exceed the number they held at 31 December 1999 and the sum of such rights must not exceed national ceilings laid down .

When ceilings for suckler cow premia were first fixed in 1992, it was decided that each Member State could choose one from among the three most recent years for which data was available: 1990 – 1991 – 1992 (regulation 2066/92). During the last accession, the stated principle was to take the figures for suckler cows for 1993 and then to add on a margin to cover cows in herds with dairy quotas of less than 120,000kg.

The line on historical quantitative reference levels chosen by the Commission is set out in paragraph 5.2 of the Issues Paper.

For the current candidate countries the national ceilings should be calculated on the basis of the total number of cows and heifers which:

- belong to a meat breed or are born of a cross with a meat breed, and,
- belong to a herd intended for rearing calves for meat production.

It should also be taken into account in the calculation that the EU ceiling is 10 % lower than the total number of suckler cows in the EU. A similar ratio should apply to ceilings for the candidate countries. The ceiling[s] include[s] the 3 % national reserve of individual rights, which cannot be distributed among producers.

For most countries, preliminary examination of the figures available indicates that data recorded in the past does not match the EU concept of suckler cows and heifers. In fact, data often cover all cows, without a distinction being made between dairy and suckler cows. This results from the fact that in most candidate countries, there is almost no specialised beef herd or that herds are dual-purpose (although more specialised dairy herds are now emerging). In addition, some countries do not record separate figures for heifers, which further increases the difficulty of calculating suckler cow ceilings.

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<sup>8</sup> OJ L 160, 26.06.1999

<sup>9</sup> OJ L 281, 04.11.1999

At an individual level, whether cows belong to a suckler herd or to a dairy herd (i.e. whether they are eligible or not) shall be established on the basis of the beneficiary's individual reference quantity as defined in Article 16(3) of Council Regulation (EC) No 1255/1999 of 17 May 1999 on the common organization of the market in milk and milk products and the average milk yield.

## **II. Approach chosen**

- Choice of actual reference period: The suggested approach is similar to the one used when ceilings were first fixed, i.e. a choice of one from the three most recent years for which data are available (which is to say 1998-2000). A recent reference period is indeed necessary for some candidates, due to the lack of earlier data. Some candidate countries have only recently implemented the system for identification and registration of bovine animals<sup>10</sup>. Some candidate countries have also only recently organised an agricultural census or are due to do so in the near future.

Only a limited number of countries have provided figures on the number of suckler cows and heifers.

- Ceiling determination
  - Assessment of statistical data by candidate country  
For Cyprus, Estonia, the Czech Republic, Slovenia, Latvia, Lithuania and Slovakia, ceilings for suckler cows should be calculated on the basis of the candidates own figures. For Hungary, census figures for 2000 can be used. For Poland however, only Eurostat figures are available (Eurostat records the total number of cows and the number of dairy cows, but the remainder, "other cows", is not necessarily the same as 'suckler cows'). For Poland, a specific method should therefore be used.

For some countries (Estonia, Hungary, Lithuania), the statistics submitted include heifers of beef cattle breeds and cross-breeds. For others (the Czech republic, Slovenia, Slovakia), the number of heifers can be easily calculated. But for the remaining countries (Cyprus and Latvia), an additional number should be added to take account of heifers of beef cattle breeds and cross-breeds. This number could be calculated by adding 15 % to the total number of suckler cows (the rate of herd renewal).

For Poland, as no reliable data exist for suckler cows and as the Polish herd is mainly composed of dairy cattle (black and white and red-white breeds), a specific approach needs to be found. This should consist of applying to Poland the average ratio of suckler cows : total cows found in the other candidate countries. This ratio is around 14 % of the total number of cows which, for Poland, would lead to a ceiling for suckler cow premium of 500,000 (incidentally, close to the Eurostat figure for "other cows").

## **III. Quantified Common Position**

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<sup>10</sup> This gives more details on their cattle and more accuracy to their statistics

Suckler cow premium	Cyprus	Czech Republic	Estonia	Hungary	Latvia	Lithuania	Malta	Poland	Slovakia	Slovenia
Request	500	230,000	2,000	300,000	25,000	62,000		1,500,000	50,000	150,000
Calculation	100	100,126	708	148,000	2,246	11,159		503,682	44,120	54,159
Proposal: calculation - 10%	90	90,113	637	133,200	2,021	10,043	0	453,314	39,708	49,067

- Suckler cow and milk quota: Candidate country requests for milk quota and suckler cow premia are in many cases higher than is justified by the historical data. Candidate countries have clearly taken into account potential production, especially in terms of higher milk yield. The number of suckler cow premia should be inversely proportional to the national milk quota. In other words, the ceiling for suckler cow premia should not be higher than the difference between the total number of cows and the total number of dairy cows (expressed as total milk quota divided by average yield cow).

Specific request: Poland has requested the granting of the suckler cow premium in respect of cows belonging to breeds listed in Annex II of Commission Regulation (EEC) No 3886/92, provided that they have been served by a beef bull. Accepting this request would lead to an increase in beef production, and is therefore at odds with the EU position, that ceilings should be determined on the basis of historical production.

## Sector sheet 13

<b>Sector:</b>	<b>Sheep meat</b>
<b>Measure:</b>	<b>(i) Ewe premium; ceiling determination (ii) Additional payments, global amounts</b>
<b>Legal basis:</b>	<b>Council Regulation (EC) No 2529/2001, Articles 4, 5 and 11<sup>1</sup></b>

### **I. Background**

The CMO for the market in sheepmeat and goatmeat was established by Council Regulation (EC) No 2529/2001.

It provides for the granting of a flat rate ewe and goat premium within the limits of individual ceilings. The minimum number of animals in respect of which a premium application can be lodged is determined by the Member State. This minimum shall not be less than 10 or greater than 50.

The amount of the premium granted must take account of the different specialisations of production systems in the Community. It is provided that a flexible framework for additional Community payments for Member States should be determined and made within fixed global amounts and in accordance with certain common criteria in order to respond adequately to the structural and natural disparities and the needs of the sector.

Individual ceilings for EU12 were determined on the basis of the premia paid in 1991, although an adjustment was made for those countries where the figures for premia paid in 1989 or 1990 were higher than those for 1991. 3 % was then added to these ceilings to act as a national reserve. During the previous enlargement, the basic approach was to set a ceiling equivalent to the number of ewes recorded in the most recent year for which figures were available (1991 or 1992). For Sweden this method resulted in a figure of 180,000 head (the 1992 level) and for Austria a figure of 205,561 (an estimate, according to Community rules, of the 1991 level). For Finland the ceiling was set a third higher than the actual number of animals (i.e. a ceiling of 80,000 head compared to 1992 figures of 60,000 head).

Global amounts were set in 2001 on the basis of 72 million Euro divided between the Member States according to the payments made (which differ from their individual ceiling).

Goats are only eligible for premia (and counted in the global ceiling) on condition that goat rearing is mainly directed towards the production of goatmeat and that goat and sheep rearing techniques are similar in nature.

The line on historical quantitative reference levels now proposed by the Commission is set out in paragraph 5.2 of the Issues Paper.

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<sup>1</sup> OJ L 341, 22.12.2001

## II. Approach chosen for the ceiling

- Choice of actual reference period
  - A recent reference period should be used. Therefore, as for the headage premiums in the bovine sector, the best of the three most recent years available (1998-2000) should be used. This would correspond to the general approach used for setting the ceiling within the EU.
  - Specific requests or problems with regard to certain candidate countries. In Cyprus, all goats should be taken into account in determining the ceiling as they will all be eligible for premia (the criteria referred to in article 4(2) of regulation (EC) No 2529/2001 are met in Cyprus). For most candidate countries, goats should not be taken into account in determining the ceiling as their rearing does not fulfill the eligibility criteria. In fact, only Hungary and Slovakia have specifically requested that their goats be taken into account. Slovenia has also mentioned goats in relation to its global ceiling, but has not specified its request. For none of these three countries it is possible to include goats in the present calculation: for Slovakia information received so far (CONF-SK 74/01 – point 45) clearly indicates that the eligibility criteria are not fulfilled; for Slovenia, no information has been provided on whether goat-rearing is for milk or meat production; for Hungary, additional information should be requested to assess the situation of the goat sector.
  - Specific statistical issues: only ewes in flock of more than 10 ewes are eligible for premia. However, all ewes and goats should be taken into consideration in determining national ceilings, regardless of flock size.
- Quota quantification
  - The statistics provided by candidate countries seem to be consistent. Only some candidates (HU, EE, LV, LT, SK) have provided figures for the year 2000.

### III. Quantified Commission Position:

#### Proposed Ceilings

	Requests			Proposal
	Total	Ewes	Goats	Total
<b>Cyprus</b>	<b>421,000</b>	<b>184,000</b>	<b>237,000</b>	<b>436,846</b>
<b>Estonia</b>	<b>142,000</b>			<b>27,501</b>
<b>Hungary</b>	<b>1,550,000</b>	<b>1,500,000</b>	<b>50,000</b>	<b>1,026,910</b>
<b>Poland</b>	<b>720,000</b>			<b>364,000</b>
<b>Czech Republic</b>	<b>130,000</b>			<b>56,715</b>
<b>Slovenia</b>	<b>125,000</b>			<b>52,355</b>
<b>Latvia</b>	<b>50,000</b>			<b>18,437</b>
<b>Lithuania</b>	<b>12,000</b>			<b>17,304</b>
<b>Slovakia</b>	<b>400,000</b>	<b>370,000</b>	<b>30,000</b>	<b>218,360</b>

#### IV. Transitional measures

Transitional measures: Slovenia has requested a transitional period as regards the compulsory distribution of sheep and goat premia to individual producers. The EU has invited Slovenia to withdraw its request, arguing that the scheme is based on individual rights. Slovenia is considering its position.

#### V. Approach chosen for global amounts of additional payments

The approach chosen for the Member States cannot be applied to the candidate countries as there is no reference in terms of ewe premiums paid so far. Therefore, the only reference available is the ceiling which has been calculated for each candidate country. This ceiling should be used as the basis for the calculation of the global amounts and be multiplied by the ratio 72 (for the number of million of Euro available for the additional payments) / 79.164 (for the number of million of individual rights in the EU).

## VI. Quantified Commission Position for global amounts

(thousands of euro)	Proposal
<b>Cyprus</b>	397
<b>Estonia</b>	25
<b>Hungary</b>	934
<b>Poland</b>	331
<b>Czech Republic</b>	52
<b>Slovenia</b>	48
<b>Latvia</b>	17
<b>Lithuania</b>	16
<b>Slovakia</b>	199

The amount payable per country would be fixed in accordance with the approach described in paragraph 4.3 of the Issues Paper.