European Commission
Directorate-General of Agriculture

The CAP reform - A policy for the future

Fact-sheet

The CAP reform

A policy for the future

The Common Agricultural Policy has, since it was first set up, demonstrated a capacity to adapt and change in the face of new challenges. In its early years, the main focus was to reach the goal of increasing agricultural productivity, set out in Article 39 of the Treaty, as quickly as possible. This approach soon brought results. Indeed, the successes were such that it was not long before the CAP was called upon to manage production surpluses in certain sectors. The first response that was taken was to clamp down on supply by means of quantitative restrictions. More recently, the CAP has embarked on a new approach which is based on two elements: lowering institutional prices for key products and offsetting the impact of these cuts on producer incomes by means of direct payments. This approach was the basis of the 1992 reform, which has been broadly successful both in terms of market balances and in terms of stabilising farm incomes.

In 1995, with an eye to longer-term developments, the Commission presented a new Agricultural Strategy to Member States at the Madrid European Council. The strategy paper highlighted the need for further adaptation of the CAP. This process would build on the approach started in 1992 but also included the development of a comprehensive strategy towards the wider needs of Europe’s rural communities. In November 1996, the Commission presented the first Cohesion Report. The report argued for a reform of the CAP based on greater market orientation of institutional prices and an integrated, multi-sectoral approach to rural development. It recommended that the European Union should strengthen its efforts to enhance the economic potential and the environmental value of rural areas as well as increase their capacity to sustain employment.

In July 1997, in readiness for the period after 2000, the Commission presented a blueprint for the future of European Union policy - ‘Agenda 2000’ - which included proposals for the reform of the Common Agricultural Policy. The proposals[1] were founded not only on the successful results of the 1992 reform, but also took account of the new challenges and opportunities that face the European Union’s agricultural sector and rural economies across the Community at the beginning of the new millennium.

[1] COM (98) 158 FINAL

A response to new challenges

The roots underlying the Commission’s initiative for a radical reform of the agricultural policy lie both within the Community’s borders and further afield. The major external factors include growing world demand for food, further moves towards a more liberal global trading environment, and the challenge of the European Union’s eastward enlargement. On the internal front, there are four broad factors. Firstly, there is the very real risk of a return to market imbalances in some sectors. Secondly, the Treaty of Amsterdam, which came into force on May 1 1999, makes it the responsibility of Community lawmakers to integrate environmental concerns into all legislation. Next, the CAP needs to rise to the challenge of greater consumer interest in food safety, quality and animal welfare. Lastly, the CAP must adapt and respond to the need for more decentralisation, greater transparency and simpler rules.

In formulating its policy proposals, the Commission identified several key priorities:

- to ensure the competitiveness of the European Union agricultural sector both on the Community market and on growing export markets;
- to promote ways of farming that contribute to the maintenance and enhancement of the rural development and landscapes;
- to contribute to sustaining the livelihood of farmers while promoting the economic development of the wider rural economy.

The proposals were based on expert analyses and forecasts of market developments in the European Union and worldwide. They were widely discussed both within the EU institutions, as well as with representatives of socio-professional groups and other interested parties.

Maintaining the European model of agriculture

The reform package proposed by the Commission consisted of a comprehensive set of proposals that aimed to develop a more modern and sustainable European agricultural sector in the years ahead. It aims to ensure that agriculture can be maintained over the long term at the heart of a living countryside. This means that the policy is targeted not just at agricultural producers but also at the wider rural population, consumers and society as a whole.

The new policy will seek to promote:

- a competitive agricultural sector which is capable of exploiting the opportunities existing on world markets without excessive subsidy, while at the same time ensuring a fair standard of living for the agricultural community;
- production methods which are safe, capable of supplying quality products that meet consumer demand;
- diversity, reflecting the rich tradition of European food production;
- the maintenance of vibrant rural communities capable of generating employment opportunities for the rural population;
- an agricultural sector that is sustainable in environmental terms, contributes to the preservation of natural resources and the natural heritage and maintains the visual amenity of the countryside;
- a simpler, more comprehensible policy which establishes clear dividing lines between the decisions that have to be taken jointly at Community level and those which should remain in the hands of the Member States;
- an agricultural policy that establishes a clear connection between public support and the range of services which society as a whole receives from the farming community.

In short, the new policy seeks to support the maintenance of the specific model of agriculture which is a key part of Europe's heritage, one that recognises the multifunctional nature of European agriculture and the wide range of benefits it produces.

The new CAP: Competitive, sustainable and quality-oriented

The political agreement at Council level in March of this year, and the conclusions of the Berlin Summit on Agenda 2000 later the same month, resulted in the adoption of ten new Regulations[2] and the decision on the level of allocations for the reform of the agricultural sector. The agricultural budget will be restricted to an average of EUR 38 billion annually for market policy (including veterinary and plant health measures) and EUR 4.3 billion for rural development measures.

The new regulations which will come into force (with the exception of milk), from the year 2000 onwards, concern the arable crop, beef, milk and wine sectors, the new rural development framework, the horizontal rules for direct support schemes and the financing of the CAP. The amended regulations for the olive oil and tobacco sectors have to be added to this list even if they were not adopted in the context of the Agenda 2000 reform package. A transitional regime for olive oil was introduced in November 1998 with a view to undertaking wider ranging reforms in 2001, and a fundamental reform of the tobacco regime has been implemented aimed at encouraging production of higher quality tobacco varieties in the Community and strengthening environmental protection.

While in some respects the policy as finally agreed is not as far-reaching as had originally been proposed, it remains the most radical and wide-ranging reform of the CAP in its history. The reformed CAP represents a step towards supporting the broader rural economy rather than agricultural production, and ensures that farmers are rewarded not only for what they produce but also for their general contribution to society.

In more detail, the reform comprises:

1. Lower institutional prices to encourage competitiveness

Reductions in market support prices ranging between 15% for cereals and 20% for beef will be introduced. A cut of 15% will apply to the milk sector from the year 2005/2006. The cuts will be introduced gradually with the objective of bringing Europe's farmers into closer touch with world market prices, thus helping improve the competitiveness of agricultural products on domestic and world markets with positive impacts on both internal demand and exports levels. Equally important, the changes will contribute to the progressive integration of the new Member States from Central and Eastern Europe.

2. A fair standard of living for the farming community

The institutional price reductions will be partially offset by an increase in direct aid payments, thus contributing to the aim of providing farmers with a fair standard of living. The move away from price support towards direct income support for farmers means a further decoupling of aid from production.

3. Strengthening the European Union's international trade position

Greater market orientation will help to prepare the way for the integration of new Member States and reinforce the European Union's position in the coming WTO Round. As stated in the conclusions to the European Council in Berlin on Agenda 2000: 'the decisions adopted regarding the reform of the CAP within the framework of Agenda 2000 will constitute essential elements in defining the Commission's negotiating mandate for the future multilateral trade negotiations at the WTO'.

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[2] *Official Journal of the European Communities*, L 160, 26.06.99 / L 179, 14.07.99

4. Focus on quality

The reform takes full account of increased consumer concerns over food quality and safety, environmental protection and animal welfare in farming. Both in market support and in the new rural development policy, compliance with minimum standards in the field of environment, hygiene and animal welfare is a requirement.

5. An integration of environmental goals into the CAP

Member States have to undertake environmental measures they consider appropriate. In fulfilling this obligation, Member States would have three options at their disposal. In the first place, implementation of appropriate agri-environmental measures applied under rural development programmes may be sufficient. Secondly, Member States may also make direct payments under the market organisations conditional on the observance of generally applicable environmental requirements. Thirdly, they may attach specific environmental conditions to the granting of such payments. In the latter two cases, a proportionate reduction or cancellation of payments would be applied in cases of non-compliance.

6. A new rural development framework: the second pillar of the CAP

The new policy for rural development seeks to establish a coherent and sustainable framework for the future of Europe's rural areas. It will complement the reforms introduced into the market sectors by promoting a competitive, multi-functional agricultural sector in the context of a comprehensive, integrated strategy for rural development.

The guiding principles of the new policy are those of decentralisation of responsibilities - thus strengthening subsidiarity and partnership - and flexibility of programming based on a 'menu' of actions to be targeted and implemented according to Member States' specific needs. As a coherent package of measures it has three main objectives:

- To create a stronger agricultural and forestry sector, the latter recognised for the first time as an integral part of the rural development policy;
- To improve the competitiveness of rural areas;
- To maintain the environment and preserve Europe's rural heritage.

The agri-environmental measures are the only compulsory element of the new generation of rural development programmes and hence represent a decisive step towards the recognition of the role of agriculture in preserving and improving Europe's natural heritage. The agri-environmental aid scheme will encourage farmers to introduce, or continue to use, farming practices compatible with environmental protection and natural resource conservation.

7. Decentralising management

Direct payments to producers have been organised in a different way compared with 1992. Part of the direct payments for beef and dairy will take the form of a national financial envelope from the EAGGF budget which Member States can distribute, thus allowing them to target specific national or regional priorities. Each Member State will be able to allocate resources freely, subject to certain Community criteria designed to prevent distortions of competition.

8. Further simplification

The CAP reform contains important elements of simplification in various sectors. In the wine sector, for instance, there is now one regulation where previously there were twenty three. In rural development, again, there is now one regulation where before there were nine. But the Commission has aimed to contributed to simplification by decentralising, streamlining and simplifying programming procedures.

In conclusion, the new reform will help to develop a genuinely multi-functional, sustainable and competitive agriculture, which will also help to secure the future of the more fragile rural regions. It recognises that agriculture has a key role to play in preserving the countryside and natural spaces, and in the vitality of rural life. It also seeks to respond to consumer concerns on food safety, quality and animal welfare issues. Finally, the reform of the CAP aims to ensure that the rural environment is protected and improved for future generations.

This document explains in depth the different elements of the CAP reform. It covers the decisions taken in the context of Agenda 2000 but also new policy frameworks for the tobacco and olive oil sectors.

Technical annex

Arable crops

The arable crops sector covers cereals, oilseeds crops, and protein crops (COPs). It occupies a central place in the farm sector, as much in terms of human consumption as well as demand from the animal feed industry (feed for pigs and poultry). COP product accounts for 11% of the value of the EU production. It accounts about 42% of EAGGF expenditure and uses 40% of the EU Usable Agricultural Area (UAA).

Regulation

The Agricultural Council held in May 1999 adopted the Regulations relating to the reform of the Common Agricultural Policy, to be applied from the 2000/2001 marketing year onwards. For the arable crops in particular, the Council has adopted:

- Regulation (EC) No 1251/99 establishing a support system for producers of certain arable crops, replacing Regulation (EEC) No 1765/ 92;
- Regulation (EC) No 1252/99 amending Regulation (EEC) No 1868/94 establishing a quota system for the production of potato starch;
- Regulation (EC) No 1253/99 amending Regulation (EEC) No 1766/92 on the common organisation of the market of cereals and repealing the Regulation (EEC) No 2731/75 fixing standard qualities for common wheat, rye, barley, maize and durum wheat.

The main elements of the arable sector reform are as follows:

Intervention price

The intervention price for cereals is cut by 15% in two equal steps starting in the 2000/2001 campaign and it will be brought down to EUR 101.31/t from EUR 119.19/t at present. A decision upon a final reduction in the intervention price to be applied from 2002/2003 onwards will be taken in the light of market developments.

Monthly increments

The monthly increments system introducing seasonal price corrections are maintained at the current level i.e.EUR 1/t per month, paid between November and May.

Export Levy

Export levy will be applied by the Commission as a safeguard measure in cases of extreme urgency.

Direct payments

The direct payments for cereals fixed on per hectare basis (currently EUR 54/t multiplied by the historical reference yield) will be increased in two annual steps and will amount in the marketing year 2001/2002 to EUR 63/t. The increase represents 50% compensation for the overall price cut. It is expected that internal market prices will stay above the support price level and that farmers will react to the changes by adopting cost-saving measures while input costs are bound to fall. The area payments will be made from 16 November to 31 January.

Regional yields for converting these payments are increased for Spain to 2.9 t/ha and Italy to 3.9 t/ha.

A supplementary amount area aid of EUR 19/t will be paid to Finland and arctic regions of Sweden as compensation and will be introduced from 2000 for the specific drying costs of cereals and oilseed.

Base areas and regional plans

The principles of the existing system of base areas and regionalisation plans are maintained in particular for irrigation and maize.

The base area for the New German Länder is extended by 150 000 ha.

Grass silage

Member States where maize silage is not a traditional crop, will have the possibility of making grass silage eligible for the arable crops area payment and of defining specific sub-areas for grass silage (without changing the total national base area) to which the basic cereals reference yield applies.

Oilseeds and linseed

In the case of oilseeds and linseed, direct payments per hectare will be reduced in three annual steps so that they are the same as the cereals payment i.e. be EUR 63/t in 2002/2003. The reference price system for oilseeds will be abolished as from the 2000/2001 marketing year. The lifting of the Blair House areas limitation will start from 2002/2003 marketing year onwards.

The Commission will present a report before July 2002 looking at the new oilseeds arrangements with appropriate proposals if the production potential decreases seriously.

Programmes covering sunflower and spring rape can qualify under agri-environmental schemes.

Protein crops

In order to ensure the profitability of protein crops as compared to the other crops, they will receive a premium of EUR 9.5/t on top of the basic direct payment, bringing in one step total aid to EUR 72.5/t as from 2000/2001.

Set aside

- Compensation for set-aside (compulsory and voluntary) is established at the same rate as for arable crops i.e. at EUR 63/t from 2001/2002.
- Compulsory set-aside is retained until 2006/2007, at the basic rate of 10% (cut down from 17.5%) as from 2000/2001 but effective rate may be adapted according to market conditions.
- Voluntary set-aside is maintained, but the scheme will be improved, in particular to take account of environmental considerations.

Portugal

The maximum guarantee area (MGA) for durum wheat in Portugal will be increased from 59 000 ha to 118 000 ha and Portuguese irrigated base area is raised by 60 000 ha (for investments after August 1992) as long as there is no rise in the overall base area and reference yield of 2.9 t/ha.

Small producers (less than 92 tonnes)

Exemption from compulsory set-aside is maintained. From 2000, specific payments for oilseeds, protein crops, linseed and maize will be available to small producers instead of the payments based on the average 'all cereals yields'. These producers may also participate in the voluntary set aside scheme.

Potato starch

The minimum price of potato starch is cut by 15% over two years (2000/2001 and 2001/2002), with the aid rate being raised to EUR 110.54/t (equivalent to 75% of the EUR/t intervention price cut). The minimum price for potatoes intended for the manufacture of potato starch will be set at EUR 194.05/t for 2000/2001 marketing year and EUR 178.31/t for 2001/2002 marketing year onwards.

The aid rate is matched by lower production quotas so as ensure budget neutrality. Under these conditions, Member States which have a quota greater than 100 000 tonnes will see a reduction in their quotas of 2.81% in the marketing year 2000/2001 and of 5.74% in the 2001/2002 marketing year. Member States which have quota less than 100 000 tonnes will see a reduction of 1.41% and 2.87% in the respective years.

Prices and Payments for arable crops

	1999	2000	2001	2002/2006
Cereals/maize in EUR/tonne of cereal reference yield				
- Intervention price	119.19	110.25	101.31	101.31 (1)
- Compensation price	54.34	58.67	63.00	63.00 (1)
Protein crops in EUR/tonne	78.49	72.50	72.50	72.50
Oilseeds in EUR/tonne cereals/equivalent	94.24 (2)	81.74	72.37	63.00 (3)
Non-textile linseed (4) in EUR/tonne	105.10	88.26	75.63	63.00 (1)
Durum wheat (5)				
Additional payment per hectare				
- traditional areas	344.5	344.5	344.5	344.5
- other areas	138.9	138.9	138.9	138.9
Potato starch (6) per tonne of starch				
- minimum price	209.78	194.05	178.31	178.31 (1)
- compensation	86.94	98.74	110.54	110.54 (1)
Silage grass in EUR/tonne	none	58.67	63.00	63.00 (1)
Set-aside in EUR/tonne	68.83	58.67	63.00	63.00 (1)

(1) May change from the year 2002 if the intervention price is lowered, in which case aid will be increased.

(2) Subject to the reference price system.

(3) May change from 2002 in the event of a reduction of the intervention price and/or an overall revision of the sector. NB: Up to and including 2001, aid can be calculated on the basis of the oilseed yield expressed in cereal equivalent multiplied by a factor of 1.95. As from 2002, aid will be calculated on the basis of the cereal yield. The Blair House system will apply throughout the whole transitional period (aid reduced if the maximum quaranteed area (MGA) is exceeded).

(4) No changes for fibre flax.

(5) Subject to maximum guaranteed area per Member State; the MGA for Portugal was increased from 59 000 ha to 118 000 ha

(6) Subject to Member State quotas; compensation was increased to 75% to offset quota reductions.

Beef sector

With a share of around 10% at EU level, the beef and veal sector is the second biggest contributor to the total value of agricultural production (after dairy with a share of 18% in 1998). Annual net production (slaughtering) of beef and veal in the EU-15 has decreased from approximately 8.1 million tonnes in 1995 to around 7.6 million tonnes in 1998. This decrease reflects not only the current cyclical down swing in beef production, but also the impact of the different supply measures taken in 1996 to deal with the BSE crisis. The largest beef and veal producers in the EU are France, Germany, Italy and the United Kingdom, accounting for about two thirds of total EU production.

EU beef exports (mainly meat, but also a significant part in the form of live animals) have been approximately 1.1 million tonnes (in carcass weight equivalent) in recent years, but fell significantly in 1998 to around 770 000 tonnes, while imports fluctuate at around 450 000 tonnes. After the sharp drop in 1996 due to the BSE scare, beef and veal consumption recovered over the last two years and reached in 1998, 7.4 million tonnes.

Regulation

The Agricultural Council adopted on the 17th May 1999 the Regulation (EC) No 1254/ 99 on the common organisation of the market in beef and veal.

The main elements of the beef sector reform are as follows:

Market support

The new Regulation introduces a 20% reduction of the current market support price (EUR 2 780/t at present) in three equal steps. On the 1st July 2002, the intervention price will be replaced by a basic price for private storage fixed at EUR 2 224/t. A “safety net” intervention system will be set up. When the average market price for bulls or steers in a Member State (or region thereof) is less than EUR 1560 /t, buying-in tenders will be organised in the respective Member State by the Commission through the Management Committee procedure.
The Commission will follow market developments closely and implement the required regulatory measures.

Direct aid

The new regulation introduces a number of changes, which increase over a three year period the value of the existing premia (special premium for male animals and suckler cows) and introduces a slaughter premium under the condition that is paid directly to the farmer. More specifically a producer may quality for:

- **Special premium for male animals**
  The basic special premium for male animals would be increased in three steps up to EUR 210 per head for bulls and EUR 150 for steers in the year 2002 and would be continued at this level in the subsequent calendar years. It will be granted in the form of an annual premium per calendar year and per holding within the limits of regional ceilings. Payments will be one-off for bulls and twice (2 x 150) in lifetime for steers.
  The minimum ages for the payment of the two brackets of the special male premium are fixed respectively at 9 months (or 185 KGs carcass weight when paid at slaughter) and after 21 months.

Special premium for male animals	
Per eligible bull	
2000	EUR 160
2001	EUR 185
2002 (onwards)	EUR 210
Per eligible steer and age bracket	
2000	EUR 122
2001	EUR 136
2002 (onwards)	EUR 150

- **Suckler cow**
  The annual suckler cow premium will be increased up to EUR 200 in 2002 and will continue to be based on individual ceilings. The national suppement which may be added to the suckler cow premium is increased to EUR 50 per head.
  Up to 20% of suckler cow premium rights can be allocated to heifers on the same holding. In countries where 60% of suckler cow/heifers are in mountain regions this facility is extended to heifers on other holdings within a specific national ceiling and within the existing national suckler cow premium ceiling.

Suckler cow premium	
Per eligible animal	
2000	EUR 163
2001	EUR 182
2002 (onwards)	EUR 200

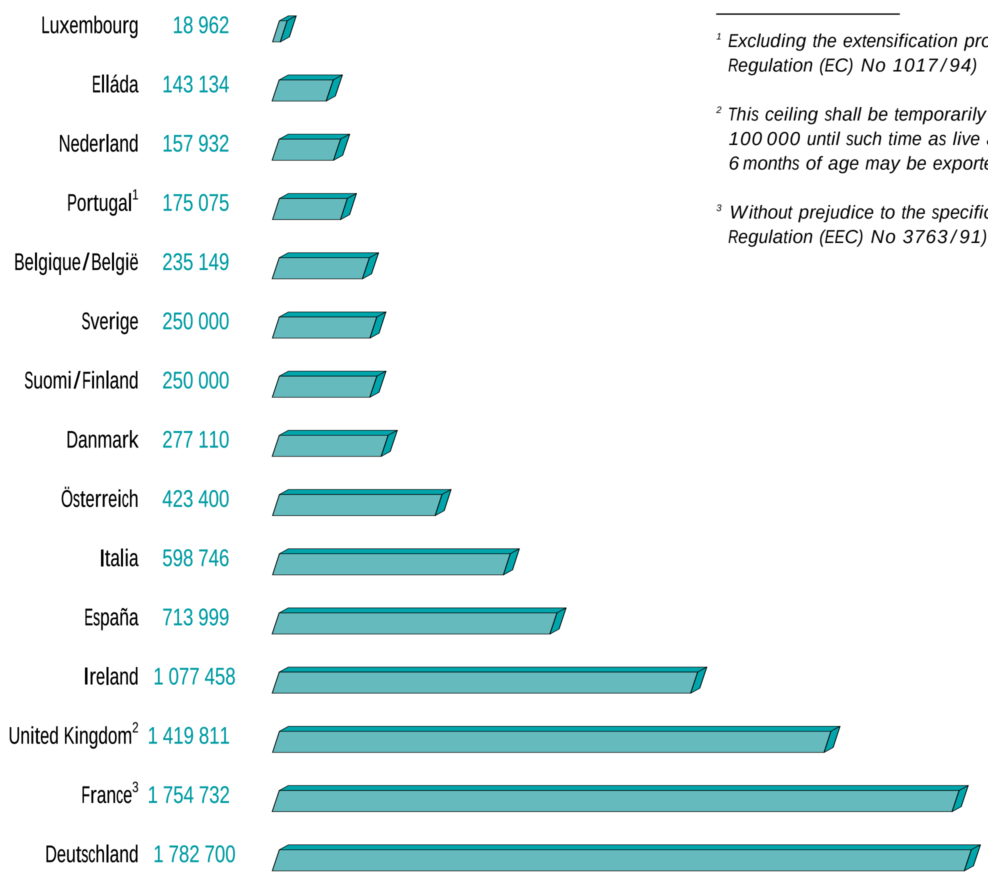
- **Slaughter premium**
  A slaughter premium will be paid directly to the farmer, under condition of a retention period. It will amount to EUR 80 for bulls, steers, dairy cows, suckler cows and heifers (from 8 months for all these categories of animals), and EUR 50 for calves (of more than 1 month and less than 7 months and less than 160 kg carcass weight).
  Two ceilings for the slaughter premium are fixed per Member State, one for adult animals (bulls, steers, cows and heifers) and one for calves, equal to the number of animals slaughtered in 1995 plus exports to third countries in 1995 on the basis of Eurostat data, or any other published official statistical information for these years accepted by the Commission.

The slaughter premium is paid in particular on proof that the animal is slaughtered (independent of the Member State in which slaughtering takes place) or on proof of export of the animals to a third country.

Slaughter premium

Bulls, steers, cows and heifers	
2000	EUR 27
2001	EUR 53
2002 (onwards)	EUR 80
Calves	
2000	EUR 17
2001	EUR 33
2002 (onwards)	EUR 50

Regional ceilings for special male premium



[1] Excluding the extensification programme set out in Regulation (EC) No 1017/94)

[2] This ceiling shall be temporarily increased by 100 000 until such time as live animals under 6 months of age may be exported.

[3] Without prejudice to the specific rules laid down in Regulation (EEC) No 3763/91)

Source: Council Regulation (EC) No 1254/99, on the common organisation of the market in beef and veal, Annex 1.

Ceilings

- **Ceilings for special male premium**
  Regional ceilings for the special male premium are fixed on the basis of the 1996 figures as in the proposal, but these figures are updated. The ceiling is calculated in conformity with the Council Statement of November 1996 (using a 5% trigger) (see graphic, page 7).

For the three new Member States, the ceilings are fixed at the level foreseen in the Accession Treaty.

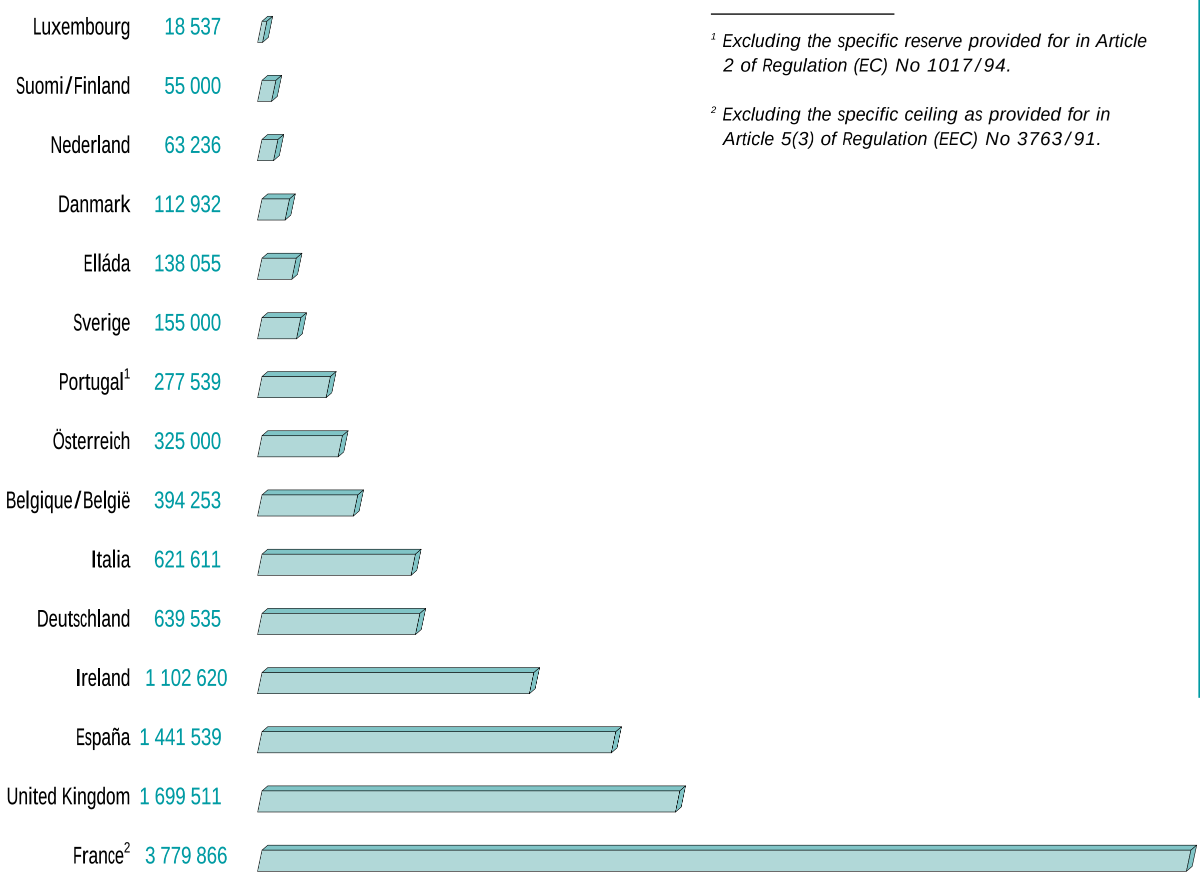
- **Ceilings for suckler cow premium**
  National ceilings to cover all suckler cow premium rights are set on the highest level of premium payments in the years 1995,1996 and 1997 plus 3% (see graphic below).

The only exceptions are Austria, Finland and Sweden for which the ceilings are fixed at the levels foreseen in the Accession Treaty.

Qualitative limits

While the total number of animals qualifying for the special premium and the suckler cow premium will continue to be limited to 2 LU/ha of forage area, Member States may fix a maximum of special premia per holding different from 90 animals. In such case, Member States may determine that any scaling back in the number of premia, due to premium applications above the regional ceiling, is not applied to small farmers who did not submit special premium applications for more than a number of animals to be fixed by the Member State. The reduction necessary to stay under the ceiling will be borne only by the other farmers.

National ceilings for suckler cow premium



[1] *Excluding the specific reserve provided for in Article 2 of Regulation (EC) No 1017/94.*

[2] *Excluding the specific ceiling as provided for in Article 5(3) of Regulation (EEC) No 3763/91.*

Source: Council Regulation (EC) No 1254/99, on the common organisation of the market in beef and veal, Annex II.

National envelopes

Member States will make additional payments on a yearly basis to producers in their territory totalling the global amounts set out in the table below. The national envelopes can be used to top up payments on male or female bovines, (except calves) including dairy cows. This will allow Member States the flexibility to compensate for regional differences in production practices and agronomic conditions.

Extensification

Producers receiving the special premium and/or the suckler cow premium may qualify for an additional payment of EUR 100 per premium granted provided that during the calendar year the stocking density on their holding is less than 1.4 LU/ha.

However, Member States may decide to grant the extensification payments as follows:

1. In respect of the calendar years 2000 and 2001 at an amount of:
   - EUR 33 for a stocking density of 1.6 LU/ha or more and less than or equal to 2.0 LU/ha
   - EUR 66 for a stocking density of less than 1.6 LU/ha
2. In respect of the calendar year 2002 and the subsequent years at an amount of:
   - EUR 40 for a stocking density of 1.4 LU/ha or more and less or equal of 1.8 LU/ha
   - EUR 80 for a stocking density of less than 1.4 LU/ha.

The criteria to qualify are made more rigorous by taking account of all the adult cattle actually present on the farm as well as sheep on which premia are claimed.

The number of hectares taken into account is limited to temporary and permanent pasture and all the other forage areas, except arable crops. The pastureland, to be defined by Member States, should represent at least 50% of the total forage area declared. This does not exclude the mixed use of this land (pasture, hay, grass silage) during the same year. In Member States where more than 50% of the milk is produced in mountainous areas, the extensification premium is also applicable in the case of dairy cows kept on holdings situated in these areas.

Additional Payments (millions of EUR)

Country	2000	2001	2002 and subsequent years
Belgique/België	13.1	26.3	39.4
Danmark	3.9	7.9	11.8
Deutschland	29.5	58.9	88.4
Elláda	1.3	2.5	3.8
España	11.0	22.1	33.1
France	31.1	62.3	93.4
Ireland	10.5	20.9	31.4
Italia	21.9	43.7	65.6
Luxembourg	1.1	2.3	3.4
Nederland	8.4	16.9	25.3
Österreich	4.0	8.0	12.0
Portugal	2.1	4.1	6.2
Suomi/Finland	2.1	4.1	6.2
Sverige	3.1	6.1	9.2
United Kingdom	21.3	42.5	63.8
TOTAL	**164.3**	**328.7**	**493.0**

Source: Council Regulation (EC) No 1254/99, on the common organisation of the market in beef and veal, Annex IV.

Dairy sector

Milk production is the most important agricultural activity in almost all EU countries and accounts, in the EU as a whole, for around 18% of the total value of agricultural production. Its importance is further highlighted if the closely-linked cattle sector, accounting for a further 10%, is also taken into account. In 1998, total cow milk production reached about 120.5 million tonnes, of which the bulk (nearly 75%) is produced in Germany, France, the United Kingdom, the Netherlands and Italy. The EU is the biggest exporter of dairy products in the world even if its market share has been declining during the last years.

On consumption, there are quite different patterns depending on the individual dairy products. For some, per capita consumption is steadily increasing (cheese, cream), while for others demand is flat (drinking milk, concentrated milk) or even in decline (skimmed milk powder, butter).

Regulation

The Agricultural Council held in May 1999 adopted Regulation (EC) No 1255/99 on the common organisation of the market in milk and milk products (replacing among others Regulation (EEC) No 804/68) and Regulation (EC) 1256/99 (amending Regulation (EEC) No 3950/92) which establishes an additional levy in the milk and milk products sector (milk quotas).

The reform of the dairy sector is delayed until 2005/2006, two years later than the one agreed by the Agricultural Council in March 1999 without prejudice to decisions concerning the specific additional dairy quotas. The future of milk regime will be reviewed in 2003 with the aim of allowing the present quota arrangements to run out after 2006.

The main elements of the dairy reform are as follows:

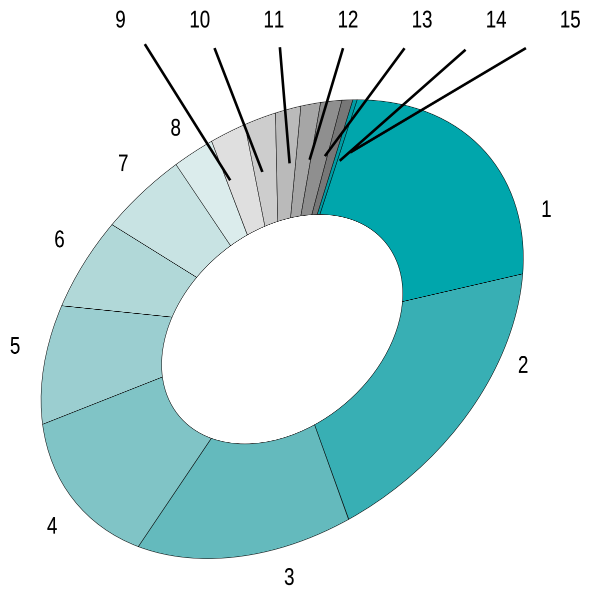
Intervention Price

Intervention prices for butter and skimmed milk powder will be reduced by 15% in three equal steps, starting from the marketing year 2005/2006.

Quotas

The milk quota regime will be extended and will stay in force until 2007/2008. In Member States (besides Italy, Greece, Spain, Ireland and Northern Ireland) quotas will be increased by 1.5% in three steps over three years in parallel with the price reductions starting in 2005. This will lead, at

Total milk quota increase (in tonnes)



1	Italia:	600 000
2	España:	550 000
3	Deutschland:	418 000
4	France:	363 500
5	United Kingdom:	238 600
6	Nederland:	166 100
7	Ireland:	150 000
8	Elláda:	70 000
9	Danmark:	66 800
10	Belgique/België:	49 700
11	Sverige:	49 600
12	Österreich:	41 200
13	Suomi/Finland:	36 000
14	Portugal:	28 100
15	Luxembourg:	4 000

the end of the implementation period (over the next eight years) to a quota increase of approximately 2.4% (see graphic page 10).

The above-mentioned five Member States will receive a specific increase in quota in two unequal steps in the years 2000/2001 and 2001/2002 (see graphic, page 12).

Austria has been allowed a transfer of 150 000 tonnes of quota, from its direct sales to its deliveries quota in order to take account of the structural changes in milk production. This will take effect from the 1999/2000 year.

Compensation

To ensure farm incomes are protected, a system of aids will be introduced increasing over three years in line with the price reduction. Producers will qualify for a diary premium which will be granted per calendar year, per holding and per tonne of individual reference quantity eligible for premium and available on the holding. The premium will be set up at:

- EUR 5.75 per tonne for 2005 calendar year
- EUR 11.49 per tonne for 2006 calendar year
- EUR 17.24 per tonne for 2007 calendar year

National envelopes

Payments through national envelopes - under which extra money is allocated as a top-up aid to each Member State - will be made from 2005 to 2007 (see table below).

Quota management

Member States may postpone the deadline for authorising temporary transfers of reference quantities from 31 December to 31March.

With the aim of ensuring that milk quotas be solely attributed to active milk producers, Member States, acting in compliance with the general principles of Community law, may take the following measures:

National envelopes relating to dairy (in millions of EUR)

Country	2005	2006	2007 and subsequent years
Belgique/België	8.6	17.1	25.7
Danmark	11.5	23.0	34.5
Deutschland	72.0	144.0	216.0
Elláda	1.6	3.3	4.9
España	14.4	28.7	43.1
France	62.6	125.3	187.9
Ireland	13.6	27.1	40.7
Italia	25.7	51.3	77.0
Luxembourg	0.7	1.4	2.1
Nederland	28.6	57.2	85.8
Österreich	7.1	14.2	21.3
Portugal	4.8	9.7	14.5
Suomi/Finland	6.2	12.4	18.6
Sverige	8.5	17.1	25.6
United Kingdom	37.7	75.4	113.1

Source: Council Regulation (EC) No 1255/99, on the common organisation of the market in milk and milk products, Annex I.

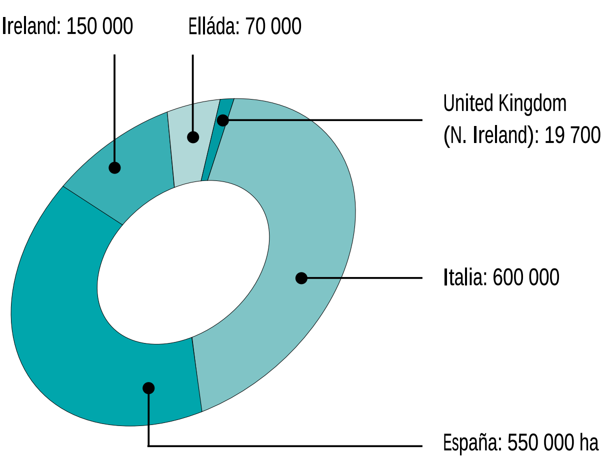
Where reference quantities have been or are transferred with or without the corresponding land by means of rural leases or by other means involving comparable legal effects, Member States may decide on the basis of objective criteria whether and under which conditions the total or part of the transferred reference quantity shall revert to the national reserve.

Member States may decide not to apply the provisions on quota transfers with the holding.

Where during at least one twelve month period a producer does not make use, either through deliveries or direct sales, of at least 70% of the individual reference quantity available to him, Member States shall decide in compliance with the general principles of Community law:

- Whether and under which conditions the total or part of the unused reference quantity shall revert to the national reserve. However, unused reference quantities shall not revert to the national reserve in case of 'force majeure' and in duly justified cases affecting the production capacity of the producers concerned and recognised by the competent authority.
- Under which conditions a reference quantity shall be re-allocated to the producers concerned.

Specific quota increase (in tonnes)[1]



[1] *64% of the additional quota will be allocated in the 2000/1 and 36% in the subsequent year.*

Rural development policy

Over the coming years, Europe's agricultural sector will face new realities in terms of market evolution, international developments, trade rules, consumer preferences in addition to the new situation arising as a result of enlargement which will affect both agricultural markets and rural economies. The European Union's new policy for rural development - as the second pillar of the CAP - seeks to establish a coherent and sustainable framework for the future of rural areas aiming at restoring and enhancing competitiveness and therefore contributing to the maintenance of employment. Structural intervention favours diversification and widening the economic fabric in rural areas. It aims to exploit the endogenous potential of these areas in order to create new jobs or develop new extra income sources thus contributing to stabilising their population. The four basic principles of the new policy are:

Multi-functionality that rewards farmers for the range of services they provide in meeting the expectations of consumers and wider society, including the preservation of the rural heritage, while emphasising the creation of alternative sources of income;

A multi-sectoral approach that seeks to develop the rural economy by creating new sources of income and employment, by developing rural services and conserving the countryside and the rural heritage;

Efficiency which will be achieved through the implementation of strategic, integrated programmes, simplification based on transparent and accessible legislation, flexibility of programming based on a 'menu' of measures to be implemented according to the needs and circumstances in the Member States and regions, subsidiarity and partnership achieved through the decentralisation of programming arrangements and consultation at regional and local level.

A major innovation of the new policy has been to bring existing rural development Regulations together in a single, coherent legal text and can be said to support at least three broad strategic objectives:

1. Supporting a viable and sustainable agriculture and forestry sector at the heart of the rural community;
2. Developing the territorial, economic and social conditions necessary for maintaining the rural population on the basis of a sustainable approach;
3. Maintaining and improving the environment, the countryside and natural heritage of rural areas.

Under the new Regulation (EC) No 1257/99 the aims of rural development policy, are as follows (Article 2):

- the improvement of structures in agricultural holdings for the processing and marketing of agricultural products;
- the conversion and reorientation of agricultural production potential, the introduction of new technologies and the improvement of product quality;
- the encouragement of non-food production;
- sustainable forest development;
- the diversification of activities with the aim of complementary or alternative activities;
- the maintenance and reinforcement of viable social fabric in rural areas;
- the development of economic activities and the maintenance and creation of employment with the aim of ensuring a better exploitation of existing inherent potential;
- the improvement of working and living conditions;
- the maintenance and promotion of low-input farming systems;
- the preservation and promotion of a high nature value and a sustainable agriculture respecting environmental requirements;
- the removal of inequalities and the promotion of equal opportunities for men and women, in particular by supporting projects initiated and implemented by women.

The main elements of the new rural development policy are as follows:

Agricultural holdings

The aim of Community investment aid is to modernise agricultural holdings and improve their viability. The support will contribute to the improvement of incomes and of living, working and production conditions. To be eligible, a farmer has to possess adequate occupational skills and competence and the investment has to demonstrate its economic viability and comply with the minimum standards regarding the environment, hygiene and animal welfare. Cross compliance will be also an important element for eligible investments.

The total amount of support, expressed as a percentage of the volume of eligible investment, will be limited to a maximum of 40% and 50% in less-favoured areas. Where investments are undertaken by young farmers the above percentages may reach a maximum of 45% and 55% in less-favoured areas.

Setting up of young farmers

The aid to facilitate the establishment of young farmers will be granted when - among other factors - the farmer (as the head of the holding) is under 40 years of age and sets up an agricultural holding for the first time. Together with the encouragement of early retirement from farming the setting up aid will continue to contribute to the inter-generational transfer of European farm holdings.

The setting-up aid for which the maximum amounts have been increased considerably may comprise:

- a single premium up to the maximum eligible amount of EUR 25 000;
- an interest subsidy on loans taken on with a view to cover the costs arising from setting up (the capitalised value of which may not exceed the value of the premium).

Training

Training measures have also been integrated into the package of measures with the emphasis on training linked to the promotion of quality and to environmentally beneficial production. The measure has extended to all involved in agricultural activities and their restructuring. Forest holders and other persons involved in forestry activities for the application of forest management practices to improve the economic, ecological and social functions are also eligible for training benefits.

Early retirement

Aid for early retirement is set at EUR 15 000 per transferor per year. The maximum annual payments may however be increased up to two fold, subject to the overall maximum (EUR 150 000) for reasons of speedy adjustments of agricultural structures. The duration of early retirement support will not exceed a total period of 15 years for the transferor and 10 years for the farm worker. Both the transferor and the worker must be over 55 years to be eligible for early retirement while the aid will not go beyond the seventy-fifth birthday of a transferor and not the normal retirement age of a worker. Where in the case of a transferor a normal retirement pension is paid by the Member State, early retirement support shall be granted as a supplement thus taking into account the amount of the national retirement pension.

Less favoured areas and areas with environmental restrictions

Compensatory allowances for farmers in less-favoured areas[3] will be granted on a hectare basis. They will be fixed between EUR 25 and EUR 200 per hectare. The differentiation inside this margin will take into consideration the situation and development objectives peculiar to a region, the severity of the permanent handicap and the type of production. Where appropriate, the particular environmental problems and the economic structure of the holding should be reflected in the amounts. To be eligible farmers have to apply usual good farming practice and to work a minimum area over a period of at least five years.

There is also the possibility of granting payments to compensate farmers for costs incurred and income foregone due to environmental restrictions on land use. For farmers in such areas with environmental restrictions support may be granted up to EUR 200 per hectare. However, the total extent of those areas together with areas affected by specific handicaps may not exceed 10% of the area of the Member State.

Agri-environmental measures

This instrument is designed to support the sustainable development of rural areas and to respond to society's increasing demand for environmental services. Payments will be given to farmers who engage themselves in farming practices compatible with the increasing need to protect and improve the environment, natural resources, soil and genetic diversity and to maintain the landscape and the countryside. The commitments to which farmers sign up must go beyond usual good farming practices. Support will be calculated on the basis of cost incurred and income foregone due to programme participation and the need to provide an incentive.

Maximum amounts per year eligible for Community support are EUR 600 per hectare for annual crops, EUR 900 per hectare for specialised perennial crops and EUR 450 per hectare for other land uses.

[3] *The LFAs will include: Mountain areas which are characterised by a considerable limitation of the possibilities for using the land and an increase in the cost of working; Less-favoured areas in danger of abandonment of land use where the conservation of the countryside is necessary; Other areas affected by specific handicaps.*

Processing and marketing

Support for investment will facilitate the improvement and rationalisation of processing and marketing of agricultural products and thereby contribute to increasing the competitiveness and added value of such products inside the EU. Investments must contribute to improving the situation of the basic agricultural production sector in question. They must guarantee the producers of such basic products an adequate share in the resulting economic benefits.

The total amount of support, expressed as a percentage of the volume of eligible investment, is limited to a maximum of 50% in Objective 1 regions and 40% in the other regions. Investment at the retail level and in the processing or marketing of products from third countries are excluded from support.

Forestry

Support for forestry will contribute to the maintenance and development of the economic, ecological and social functions of forests in rural areas. It will be granted only for forests of private owners (or by their associations) or by municipalities (or their associations) at a rate between EUR 40 and 120 per hectare and it will concern the following measures:

- afforestation of land provided that such planting is adapted to local conditions and is compatible with the environment;
- investment in forests aimed at significantly improving their economic, ecological or social value;
- investment to improve and rationalise the harvesting, processing and marketing of forestry products; investment related to the use of wood as a raw material will be limited to all working operations prior to industrial processing;
- promotion of new outlets for the use and marketing of forestry products;
- the establishment of associations of forest holders that are set up in order to help their members to improve the sustainable and efficient management of their forests;
- restoring forestry production potential damaged by natural disasters and fire and introducing appropriate prevention instruments.

Support for the afforestation of agricultural land will be granted and may include in addition to planting costs:

- an annual premium per hectare afforested to cover maintenance costs for a period of up to five years;
- an annual premium per hectare to cover loss of income resulting from afforestation for a maximum period of 20 years for farmers (or associations thereof) who worked the

land before its afforestation or for any “other private law person”. Premiums to cover losses from afforestation will be EUR 725 per hectare for farmers or associations and EUR 185 per hectare for any “other private law person”.

Support for the afforestation of agricultural land undertaken by public authorities shall cover only the cost of establishment.

Measures for adaptation and development

As far as the promotion of adaptation and development of rural areas are concerned the new Regulation will provide support for the following measures:

- land improvement;
- reparcelling;
- setting up of farm relief and farm management services;
- marketing of quality agricultural products;
- basic services for the rural economy and population;
- renovation and development of villages, protection and conservation of the rural heritage;
- diversification of agricultural activities and activities close to agriculture to provide multiple activities or alternative incomes;
- agricultural water resources management;
- development and improvement of infrastructure connected with the development of agriculture;
- encouragement for tourist and craft activities;
- protection of the environment in connection with agriculture, forestry and landscape conservation as well as with the improvement of animal welfare;
- restoring agricultural production potential damaged by natural disasters and introducing appropriate prevention instruments;
- financial engineering.

Rural Development - Table of Amounts

Measure	Payment (EUR)	Reference
Setting-up aid for young farmers (for those under 40)	25 000	
Early retirement	15 000*	Per transferor a year
	150 000	Total amount per transferor
	3 500	Per worker and year
	35 000	Total amount per worker
Compensatory allowance in less favoured areas		
- Minimum	25**	Per hectare of areas used for agriculture
- Maximum	200	Per hectare of areas used for agriculture
Support for agri-environment undertakings		
- Annual crops	600	Per hectare
- Specialised perennial crops	900	Per hectare
- Other land uses	450	Per hectare
Maximum annual premium to cover loss of income from afforestation		
- for farmers or associations thereof	725	Per hectare
- for any other private law person	185	Per hectare
Payment related to protective and ecological role of forests		
- Minimum compensatory payments	40	Per hectare
- Maximum compensatory payment	120	Per hectare

* Subject to the total maximum per transferor, the maximum annual payments may be increased up to two fold taking account of the economic structure of holdings in territories and the objective of speeding up the adjustment of agricultural structures.

** This amount may be reduced to take account of the particular geographical situation or economic structure of holdings in certain territories and in order to avoid overcompensation in accordance with Article 15 (1), second indent.

Source: Council Regulation (EC) No 1257/99, on support for rural development from the EAGGF and amending and repealing certain Regulations, Annex.

Administrative and financial provisions

Community support for early retirement, less-favoured areas and areas with environmental restrictions, agri-environmental measures and afforestation will be financed by the EAGGF Guarantee Section throughout the Community. Community support for other rural development measures will be financed by the EAGGF Guidance Section in areas covered by Objective 1 (integrated into the programmes) and Guarantee Section in areas outside Objective 1.

Guiding principles for the new rural development policy are those of the decentralisation of responsibilities and flexibility. It is for the Member States to come forward with proposals for rural development programmes targeted at an appropriate geographical level. Rural development plans will be prepared by the competent national authorities designated by the Members State and submitted to the Commission. On the basis of these plans, the Commission will formally adopt programming documents covering the period 2000-2006.

Horizontal Regulation

The Regulation (EC) No 1259/99 establishing common rules for direct support schemes under the common agricultural policy will apply to payments granted directly to farmers. (See page 17 for eligible schemes under article 1 of the Regulation).

Environmental protection requirements

With a view to better integrating the environment into the common market organisations, Member States will define appropriate environmental measures in view of the situation of the agricultural land used or the production concerned, to be applied by farmers.

These measures may include:

- Support in return for agri-environmental commitments;
- General mandatory environmental requirements;
- Specific environmental requirements constituting a condition for direct payments.

They may also decide on appropriate and proportionate penalties for environmental infringements involving where appropriate, the reduction or even the cancellation of direct payments.

Modulation

In order to stabilise the employment situation in agriculture and to take into account the overall prosperity of holdings, the Member States may decide the criteria and the rate of reducing the amounts of payments which would be granted to farmers in respect of the calendar year concerned in cases where:

- The labour force on their holdings falls short of limits (to be determined by the Member States).
- The overall prosperity of their holdings rises above limits (to be decided by Member States).
- The total amount of payments granted under support schemes exceed limits (to be decided by the Member States).

However, the reduction of support to a farmer resulting from the application of the above measures will not exceed 20% of the total amount of payments which will be granded to the farmer.

According to the common provision of the new Regulation, Member States will be able to use amounts made available from payment reductions after the application of these measures and re-channel them into agri-environmental measures, early retirement schemes, less favoured areas and areas with environmental restrictions and forestry as additional Community support for the Member State concerned.

Payments under support schemes will be made in full to the beneficiaries and will be subject to evaluation designed to appraise their impact with respect of their objectives and to analyse their effects on the relevant markets.

List of support schemes fulfilling the criteria set out in Article 1

Sector	Legal base	Notes
Arable crops	Articles 2 and 5 Regulation (EC) 1251/99	Area payments including set-aside payments and including durum wheat supplement and special aid
Potato starch	Article 8(2) Regulation (EEC) No 1766/92	Payment
Cereals	Article 3 Regulation (EEC) No 3653/90 (as read together with Regulation (EEC) No 738/93)	Transitional measures governing the common organisation of the market for cereals in Portugal
Olive oil	Article 5(1) Regulation 136/66/EEC	Production aid
Grain legumes	Article 1 Regulation (EC) No 1577/96	Area aid
Flax	Article 4 Regulation (EEC) No 1308/70	Area aid (the portion paid to farmers)
Hemp	Article 4 Regulation (EEC) No 1308/70	Area aid
Silkworms	Article 2 Regulation (EEC) No 845/72	Aid to encourage rearing
Bananas	Article 12 Regulation (EEC) No 404/93	Production aid
Dried grapes	Article 7(1) Regulation (EC) No 2201/96	Area aid
Tobacco	Article 3 Regulation (EEC) No 2075/92	Production aid
Seeds	Article 3 Regulation (EEC) No 2358/71	Production aid
Hops	Article 12 Regulation (EEC) No 1696/71 Regulation (EC) No 1098/98	Area aid Payments for temporary resting only
Rice	Article 6 Regulation (EC) No 3072/95	Area aid
Beef and veal	Articles 4, 5, 6 and 10, 11, 13 Regulation (EC) No 1254/99	Special premium, deseasonalisation premium, suckler cow premium (including when paid for heifers and including the additional national suckler cow premium when co-financed), slaughter premium, extensification payment, additional payments
Milk and dairy products	Articles 16 and 17 Regulation (EC) No 1256/99	Dairy premium and additional payments
Sheep and goats	Article 5 Regulation (EC) No 2467/98	Ewe and she-goat premium and LFA supplements
Agri-money	Articles 4 and 5 of Regulation (EC) No 2799/98 Articles 2 and 3 of Regulation (EC) No 2800/98	Payments to producers (including those under the transitional Regulation)
Poseidom	Articles 5, 13(1), 17 Regulation (EEC) No 3763/91	Sectors: beef and veal; development of fruit, vegetables, plants and flowers; sugar
Poseima	Articles 11, 14 & 24, 16 & 27, 17 & 25(1), 22 & 29, 30 Regulation (EEC) No 1600/92	Sectors: development of fruit, vegetables, plants and flowers; beef and veal and milk; potatoes and endives; sugar; wine; pineapples
Poseican	Articles 10, 13, 15, 19, 20, 24 Regulation (EEC) No 1601/92	Sectors: beef and veal; development of fruit, vegetables, plants and flowers; sheep and goats; wine; potatoes; honey
Aegean Islands	Articles 6, 7, 8, 9, 11, 12 Regulation (EEC) No 2019/93	Sectors: beef and veal; development of fruit, vegetables, plants and flowers; potatoes; wine; olives; honey

Source: Council Regulation (EC) No 1259/99, establishing common rules for direct support schemes under the common agricultural policy, Annex.

Wine

In terms of production, consumption and trade, the EU wine sector plays a significant role on a global scale. EU vineyards currently account for 45% of the world's production area and some 60% of volume, whilst EU consumers account for almost 60% of world-wide consumption. Wine makes a considerable contribution to the value of final agricultural output in the majority of the producer Member States. With production fluctuating between 152 and 165 million hectolitres between 1994 and 1998, the EU is by far the world's leading wine producer even if a significant negative trend in wine production over the last twenty years has been observed.

Wine consumption in the EU in 1996 was almost 128 million hectolitres even if since 1986 total wine consumption has been decreasing. There is evidence, however, showing that this decrease has slowed down (due in part to the increased consumption of quality wines which offsets the decrease in consumption of table wines).

In trade, the EU is both the leading world exporter and importer of wine with exports to third countries exceeding 12 million hectolitres in 1997 compared to 5.5 million hectolitres of imports.

Regulation

Regulation No 1493/99 adopted on 17 of May 1999, establishes a new common market organisation for wine and for reasons of clarity, simplification and transparency it replaces the existing twenty-three Council Regulations dealing with wine sector.
The measures adopted will have a positive impact on the competitive performance of the EU's wine sector in the context of an expanding global economy and address the new situation in the sector in the immediate and medium term.

The reform provides for transfers in competence from the Council to the Commission as well as from the Commission to Member States (which may delegate to producer organisations).

The reform has seven broad objectives:

- to improve the balance between supply and demand on the Community markets and allow producers to take advantage of expanding markets;
- to enable the sector to become more competitive in the longer term;
- to eliminate intervention, where it is considered an artificial outlet to surplus production;
- to maintain all traditional outlets for potable wine alcohol and vine-based products;
- to take regional diversity into account;
- to formalise the role of producer and sectoral organisations, and
- to simplify current wine legislation.

The main elements of the wine sector reform are as follows:

Comparative importance of wine production in the main producing Member States (averages 1993-1997)

	Value (EUR 10 000)	Volume (1 000 HL)	Areas (1 000 ha)
Germany	11 606	9 152	104
France	59 992	54 124	912
Italy	28 855	56 597	868
Spain	10 630	26 229	1 167
Portugal	5 653	6 872	253
Greece	1 343	3 678	74
Austria	2 270	2 112	49
Luxembourg	147	140	1
EU	**120 495**	**158 910**	**3 428**

Production Potential

It has been decided to retain the existing ban on new vineyard plantings until year 2010. However, to address expanding demand, Member States will be allocated newly created planting rights (in addition to planting rights for uses covered by traditional derogations such as experimentation, subject to a separate discipline) (see graphic below).

The Commission will be empowered (in the period up to 31 December 2003) via the Management Committee procedure, to allocate additional rights from the Community reserve to those regions where there is (proven) additional need which could be met by the distribution of such rights. The Commission will present a report on the development of production potential and if appropriate, propose new additional planting rights by 31.12.2003 and at three yearly intervals subsequently.

A new system of reserves of new planting and replanting rights will facilitate transfers of replanting rights to enable the development of areas with a manifest need. The system will also address the situation of irregular plantings and replantings, including sanctions where appropriate.

Abandonment premiums, targeted by Member States to areas of production with market difficulties, are maintained.

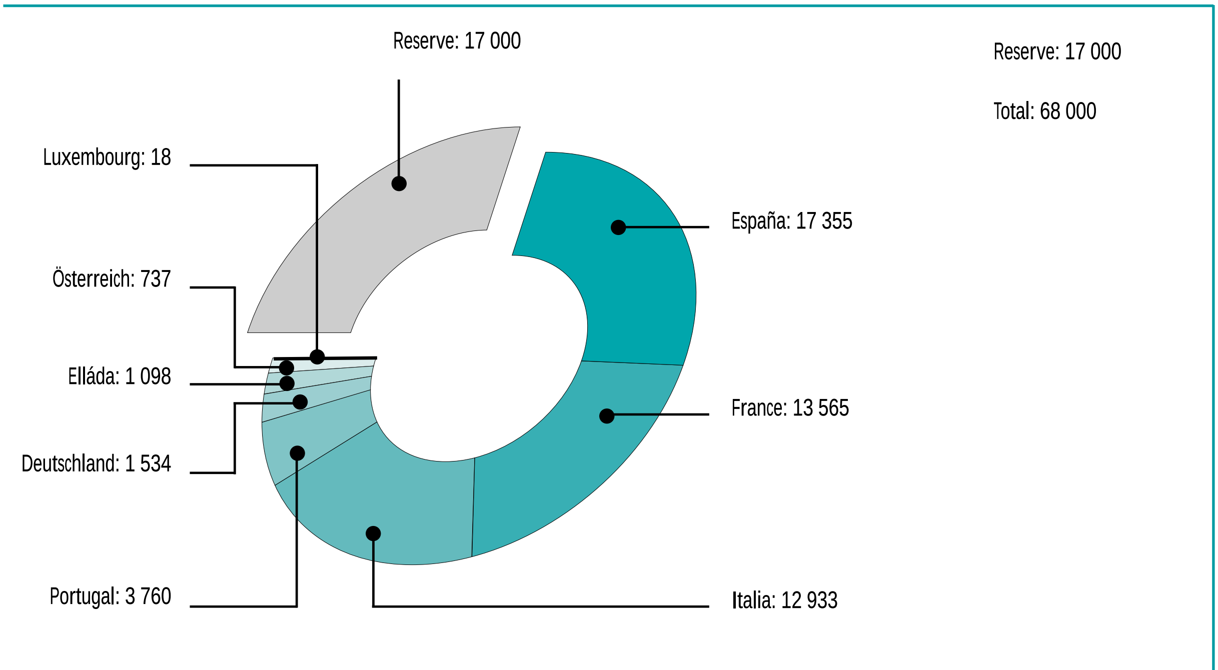
Restructuring and Conversion

Restructuring and conversion measures, such as varietal conversion, relocation of vines and adoption of new production techniques have been introduced. Member States are responsible for restructuring and conversion plans. Community support will take two forms. Firstly, compensation for loss of revenue resulting from implementation of the plans (no compensation where old and new vines coexist for a maximum of three years). Secondly, there will be a Community contribution to the actual costs of the restructuring and conversion. The Community contribution will not exceed 50% of these costs (75% in Objective 1 regions). Whilst Member States may top up the Community financial contribution up to the original allocation, co-financing to reduce the producer's contribution is not permitted.

Inventory

An accurate picture of existing production potential is essential to ensure that the sector can be managed in the most effective way. Therefore, an inventory of production potential has been introduced and will have two functions. Firstly, the inventory will be a precondition for Member States for the purpose of regularization and to gain access to the newly created planting rights. Secondly, regions of a Member State may only have access to restructuring and conversion aid, where the inventory has been completed in those regions by 2001.

New planting rights (ha)



Source: Council Regulation (EC) No 1493/99, on the common organisation of the market in wine.

Market mechanisms

The market mechanisms will refocus their aims to the current situation; i.e. maintain all traditional outlets for wine and vine-based products, allow the Commission to address exceptional cases of serious structural surplus and/or quality problems, ensure continuity of supply and ensure the quality of wine reaching the market. A number of obsolete mechanisms are removed as is the possibility of finding artificial outlets for unmarketable products

Certain existing measures are retained as they remain necessary for quality and technical reasons. Namely, the distillation of by-products of wine-making as a quality measure, the distillation of dual purpose grapes and private storage aid. In addition, aids are still available for the use of grape musts for increasing alcoholic strength ("enrichment") as well as for processing.

A specific distillation of table wines and wines suitable for yielding table wines is introduced, aimed at supporting outlets for potable wine alcohol . A "crisis" distillation measure, available on a voluntary basis, is introduced to deal with exceptional cases of market disturbance and/or problems of quality.

The successful application of restructuring and conversion measures is intended to reduce any potential need to trigger the crisis distillation measures and the Commission will target the objectives of restructuring and conversion measures flexibly, according to the sector's needs.

Producer and Sectoral Organisations

Producer Organisations

Member States may recognise organisations with certain (not exhaustive) aims. If Member States recognise such organisations, checks at regular intervals must be made and the Commission must be notified of decisions on recognition or withdrawal.

Sectoral Organisations

Member States may lay down marketing rules for these organisations, provided that such rules do not contravene Community law on free movement, competition or non-discrimination. Rules set by Member States shall be brought to the attention of operators by publication in an official publication of the Member State concerned. Consumer interests must be taken into account in organisations' activities.

Trade with Third countries

Existing provisions for export licences and refunds as well as import duties and tariff quotas are maintained. In addition, grape must from third countries may not be vinified and the blending of Community wine with imported wine is forbidden unless approved by the Council based on a Commission proposal.

Oenological Practices and Processes; description, designation, presentation and protection.

Oenological practices and processes

The Council Regulation establishes the basic principles for authorised Community oenological practices and processes and lists certain oenological practices and processes. With the exception of the limits for sorbic acid, potassium sorbate and sulphur dioxide, the Commission will be responsible for fixing and changes to the limits, in addition to application rules.

Member States may continue to impose stricter conditions in order to ensure the preservation of the essential characteristics of quality wines psr (produced in specific areas) table wines described by a geographical indication, sparkling wines and liqueur wines.

Description, designation, presentation and protection of certain products

Basic principles relating to the use of these provisions are outlined in the Regulation. Detailed rules, including the compulsory and optional use of certain particulars are included at Annexes VII (for products other than sparkling wines) and VIII (rules for sparkling wines).

A new principle will be the possibility for operators to choose to use other optional terms not specifically covered by the Council Regulation on the condition that the operators can prove their veracity.

Beyond Agenda 2000

As a continuation of the 1992 reform process, the tobacco and the olive oil regimes have both been modified - outside the context of Agenda 2000 - as a response to the need for further market orientation and improvement of quality production in the EU. The main objectives of the measures adopted for a fundamental reform of the tobacco sector were, on the one hand, to strengthen its economic position and on the other to improve product quality and take greater account of environmental concerns. For the olive oil sector, transitional arrangements were introduced in November 1998 which will last until October 2001 when a thorough examination of the sector will take place with a view to undertaking wider-ranging reforms. The overall aim has been to eliminate inefficiencies that have been disturbing the market while seeking to make the sector more competitive, simplified and quality oriented.

The main elements of measures adopted and implemented since 1998 in both sectors are described in detail in the following chapters.

Olive oil

The European Union is by far the largest olive oil producer and consumer in the world.

Olive oil production in 1997/98 stood at 2 216 000 tonnes out of a world figure of some 2 556 000 tonnes, which means that 80% of the world production is of Community origin. The producer Member States are - in decreasing order of importance - Spain, Italy, Greece, Portugal and France. The following table contains detailed information on production capacity of producer Member States, EU exports and imports as well as information on the variation of stocks during the last six years.

An amendment of the olive oil sector has been decided in order to improve quality, stabilise income, strengthen competitiveness, balancing the market, while key elements of the new arrangements were the simplification of the rules and a more effective monitoring. Under the new rules, transitional arrangements are introduced and applied from 1 November 1998 until 31 October 2001 making it possible to eliminate a number of inefficiencies that have disturbed the market, and undertake a thorough examination of the sector with a view to undertaking wider-ranging reforms in 2001. The main elements of the olive oil sector reform are the following:

Increasing the Maximum Guaranteed Quantities

The measures adopted increase the maximum guaranteed quantity (MGQ) by 31.6%, bringing it to 1 777 261 tonnes (see graphic, page 22). The amount of aid received by producers will be reduced, on the other hand, by 5%. From 1 November 2001, production aid will only be granted for oil obtained from olive groves planted before 1 May 1998, save

Olive oil in the EU (in 1000 tonnes)

	1993/4	1994/5	1995/6	1996/7	1997/8*	1998/9**
Initial Stock	400.8	317.1	240.4	122.8	294.5	545.1
Production	1 399.3	1 403.0	1 425.6	1 837.6	2 216.8	1 615.0
Total Import	152.8	179.0	73.7	145.5	117.8	150.0
Total Export	182.7	182.5	164.8	220.2	227.1	230.0
Consumption + loss	1 489.5	1 482.2	1 433.0	1 609.7	1 766.3	1 690.0
Final Stock	317.1	240.4	122.8	294.5	545.1	390.1

* The ending book inventory has been 618.3. Because of discordance of certain production data and/or consumption and losses, the final stock is estimated to approximately 545.1.

** Estimation

Source: International olive oil Council

in exceptional cases provided for under the Regulation. The rules provide in addition for:

- The MGQ to be distributed among the producer countries as national guaranteed quantities (NGQs), in order to make producers who overshoot the MGQ aware of their responsibilities;
- The option of using part of the NGQs for the table olives sector;
- The removal of the system of production aid which distinguishes between small producers (with an output of less than 500 kg) and others, as it has proved difficult to monitor;
- The discontinuance of consumption aid, whose impact at present is inconclusive;
- The improvement of private storage as a system of intervention for stabilising the market, and abolition of intervention buying-in.

Streamlining the system

As the Council has decided to increase the MGQ in order to bring Community olive oil production into line with the situation on the real market, the cost of the increase to the EU budget will be offset not only by reducing the aid but also by simplifying and streamlining certain measures which have proved to be problematical, such as the specific aid for small producers, which has been abolished together with the consumption aid and the system of intervention buying-in, which has been replaced by a private storage system.

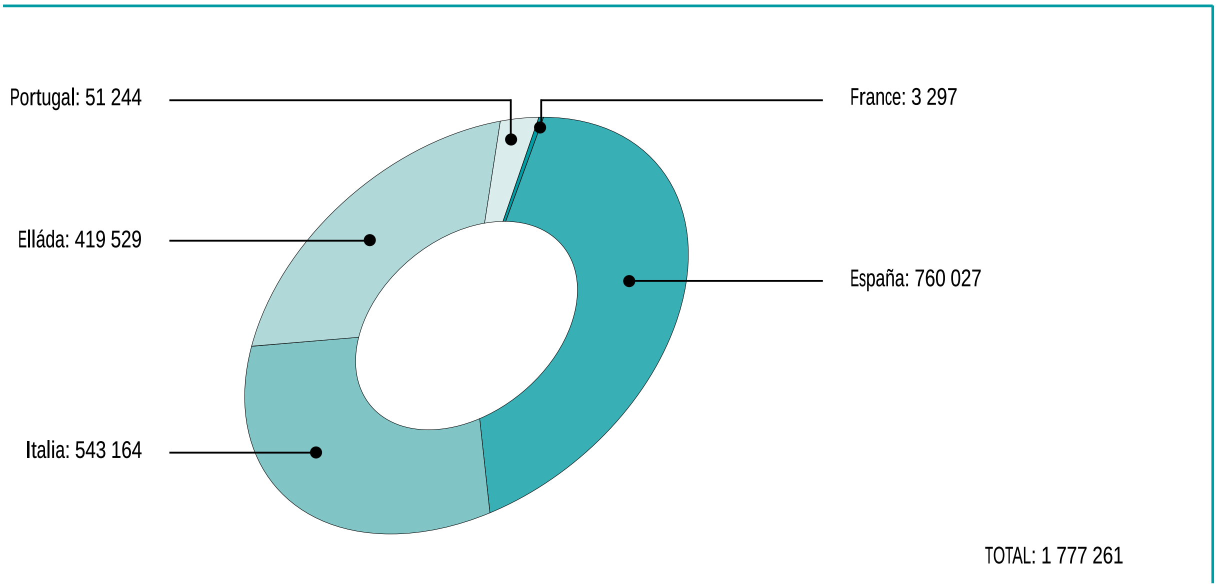
Improving the monitoring arrangements, quality and control

The Commission is going to develop the system of analysis by aerial photography which has been put in place and will use the geographical information system now being used for the arable crops, in place of the olive tree register to collect and study data on the sector.

An integrated strategy on quality - as a key factor in building up consumer loyalty and raising olive oil consumption in the European Union and elsewhere - is being developed that is better co-ordinated and focused in the broad sense, during the transitional period. The strategy will entail adjusting the references and characteristic features of the different categories of olive oil and the provisions concerning the rules of origin.

Last, but not least, according to Council Regulation (EC) No 2366/98 (laying down detailed rules for the application of the system of production aid for olive oil from 1998/1999 until 2000/2001 marketing years), approved mills should be equipped for automatic weighting of olives and recording the weights. From the marketing year 1998/1999 financial records should be kept, including information about the quantities olives entering the mill, the quantities pressed and of oil obtained as well as particulars of the destination of olive oil leaving the mill.

Maximum Guaranteed Quantities (in Tonnes)



Tobacco sector

The European Union, with 4.5% of world production, is the world's fifth ranking producer of raw tobacco and the world's biggest importer with a total of 30% of internal supply. The absence of viable alternatives combined with low technology and high labour intensive character of the sector have made it necessary to introduce community support for tobacco production. In 1970 a common market organisation was created, which was reformed last in 1998. In the table below the main figures regarding production, exports and imports of tobacco in the EU are shown in detail:

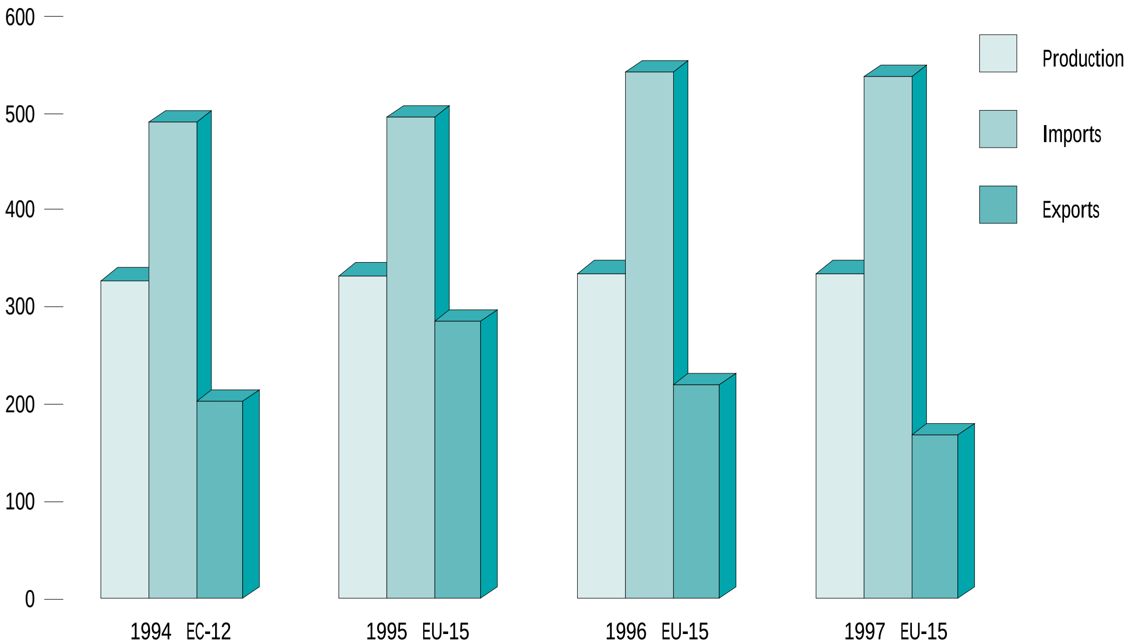
The reform of the tobacco sector has been based on two main elements: on the one hand the aim has been to continue support for the production of raw tobacco in the Community due to its economic and social significance. On the other, to improve its economic position while entailing a variation of Community aid in line with product quality, greater flexibility and simplicity in the setting of quotas, stricter control procedures and improved observance of public health and environmental protection requirements.

This resulted in the adoption of the Council Regulation (EC) No 1636/98 amending Regulation (EEC) No 2075/92 on the common organisation of the market in raw tobacco and the Commission Regulation (EC) No 2848/98 laying down detailed rules for the application of the Council Regulation and last Council Regulation No 660/99 in which the premiums and the guaranteed threshold are published. The measures taken for a fundamental reform foresee:

The encouragement of better-quality tobacco production

The premium granted to each producer will be linked to the quality of produce. Community aid will be modulated according to the purchase price of raw tobacco, which is the only objective indicator of its quality. The system of modulation adopted comprises a fixed part and a variable part. This combines the social function of Community aid, which is to provide a minimum level of income for tobacco growers, with its economic function, which is to encourage high-quality production more in line with the needs of the internal market. This system is designed to encourage growers who make an effort to improve the quality of their production by granting them a higher premium than that granted to other growers in the same group whose produce is of a lower quality. The aim is to modulate between 30% and 45% of the premium according to quality after a three-year transitional period.

Production, imports and exports of raw tobacco (in 1 000 tonnes)



Source: Preliminary draft of the general budget of the European Communities for the year 2000, section III, Working document, May 1999.

Environmental protection and research

Specific aid not exceeding 2% of the total premium shall be paid to producer groups for the purposes of improving respect for the environment, boosting production quality, strengthening management and ensuring compliance with Community rules within the groups. The proportion of the premium currently used to finance the fund for tobacco research and information has been doubled. The fund will finance action in the following areas:

- Combating tobacco-smoking, in particular informing the public of the dangers of tobacco consumption;
- Research to create or develop new varieties and cultivation methods that are less harmful to human health;
- Studies of the possibilities for producers of raw tobacco to switch to other crops or activities;
- Dissemination of results obtained in the above areas to sectors concerned.

Under the agreement reached in the reform of the CAP, Member States will be obliged to set environmental criteria (see chapter on Horizontal Regulation) in order to receive direct aid. These provisons also cover the tobacco sector.

Enabling producers to convert to other activities

The Regulation establishes the introduction of a quota buy-back system for growers no longer interested in staying in the sector. The main function of this mechanism is social, providing a safety net for producers. In addition, tobacco producers who so wish can already claim benefits under Regulation (EEC) No 2079/92 on early retirement from farming, provided they meet the conditions laid down in the national implementation rules.

The implementation of stricter controls

Although the 1992 reform considerably tightened controls in the sector, some Member States still do not have the means to impose effective penalties on processors not complying with Community law. A national approval system for processors will be set up to solve this problem. The system provides for a number of compulsory checks, for example on individual areas planted.

A more flexible quota system

The management of the quota system is to be made more flexible in order to bring Community tobacco production more closely into line with market requirements. The reform makes it easier for production quotas to be transferred between groups of varieties, provided the principle of budgetary neutrality is respected. Similarly it will be easier for producers to transfer production quotas among themselves. The reform also provides for an auction system for cultivation contracts so that contract prices better reflect market trends.

The simplification of sector's administration

By replacing the current system of issuing quotas to individual producers with a system whereby quotas are distributed to producer groups every three years, the reform will considerably reduce the administrative burden falling on the national authorities.

European Commission
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Editor: Stella ZERVOUDAKI, EC DG VI A.II.1. This publication does not necessarily express the official views of the Commission.
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Printed on recycled paper.
CH-25-99-001-EN-C