



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 26.7.2000  
COM(2000) 485 final

VOLUME II

# **The Agricultural situation in the European Union**

## **1999 Report**

Report in conjunction with the *General Report on the Activities of the  
European Union – 1999*

BRUSSELS AND LUXEMBOURG, 2000

## TABLE OF CONTENTS

1.	Agrimonetary system .....	5
1.1.	The agrimonetary system and the euro .....	5
1.1.1.	The new agrimonetary system.....	5
1.1.1.1.	Transition to the new scheme.....	6
1.2.	Agrimonetary aids.....	6
2.	Rural development in 1999 .....	11
2.1.	Agenda 2000 and rural development .....	11
2.1.1.	Leader+ Community Initiative .....	15
2.2.	Horizontal measures.....	16
2.2.1.	Implementation of Objective 5(a) .....	16
2.2.1.1.	Measures to improve and modernise farms .....	16
2.2.1.2.	Young farmers.....	16
2.2.1.3.	Less-favoured agricultural areas.....	16
2.2.1.4.	Processing and marketing of agricultural and forestry products.....	16
2.3.	Regional measures .....	17
2.3.1.	Implementation of Objectives 1 and 6.....	17
2.3.2.	Mid-term evaluations of Objective 5(b) programmes .....	18
2.3.2.1.	Belgium.....	19
2.3.2.2.	Denmark.....	19
2.3.2.3.	Germany.....	20
2.3.2.4.	Greece .....	21
2.3.2.5.	Spain .....	21
2.3.2.6.	France.....	22
2.3.2.7.	Ireland .....	22
2.3.2.8.	Italy.....	23
2.3.2.9.	Luxembourg .....	24
2.3.2.10.	Netherlands .....	24
2.3.2.11.	Austria.....	25
2.3.2.12.	Portugal.....	26
2.3.2.13.	Finland (Objective 6).....	27
2.3.2.14.	Sweden (Objective 6) .....	27
2.3.2.15.	United Kingdom .....	28
2.4.	Accompanying measures.....	28
2.4.1.	Agri-environmental measures .....	28
2.4.2.	Early retirement measures.....	29
2.5.	Forestry measures.....	30

2.5.1.	A forestry strategy for the European Union.....	30
2.5.2.	Forestry measures as part of rural development.....	30
2.5.2.1.	European Forestry Information and Communication System (EFICS).....	31
2.5.2.2.	Protection of forests.....	31
2.6.	Community Initiatives.....	32
2.6.1.	Leader II.....	32
2.6.1.1.	Belgium.....	32
2.6.1.2.	Denmark.....	33
2.6.1.3.	Germany.....	33
2.6.1.4.	Greece.....	34
2.6.1.5.	Spain.....	34
2.6.1.6.	France.....	35
2.6.1.7.	Ireland.....	35
2.6.1.8.	Italy.....	36
2.6.1.9.	Luxembourg.....	36
2.6.1.10.	Netherlands.....	36
2.6.1.11.	Austria.....	37
2.6.1.12.	Portugal.....	37
2.6.1.13.	Finland.....	37
2.6.1.14.	Sweden.....	38
2.6.1.15.	United Kingdom.....	39
3.	Financing of the CAP in 1999.....	40
3.1.	Berlin Summit Agreement.....	40
3.2.	EAGGF Guarantee Section.....	41
3.2.1.	Stages of the budgetary procedure.....	41
3.2.2.	Budgetary discipline.....	42
3.2.2.1.	The guideline.....	42
3.2.2.2.	The monetary reserve.....	45
3.2.3.	The EAGGF Guarantee Section in the context of the general budget.....	45
3.2.4.	The EAGGF and its financial resources.....	47
3.2.5.	EAGGF Guarantee Section expenditure.....	48
3.2.5.1.	Expenditure, by sector.....	50
3.2.6.	Clearance of accounts.....	53
3.2.7.	Expenditure on agricultural markets in 1999.....	54
3.3.	EAGGF Guidance Section.....	55
3.3.1.	Funding carried out.....	56
3.3.2.	Budget execution.....	59
3.4.	Evaluation.....	59

3.4.1.	Evaluation of market-related measures.....	59
3.4.2.	Evaluation of structural and rural development measures.....	60
4.	Preparing for enlargement.....	61
4.1.	Accession strategy.....	61
4.2.	Screening of the <i>acquis communautaire</i> .....	61
4.3.	Accession Partnerships.....	61
4.3.1.	Introduction.....	61
4.3.2.	National programmes for the adoption of the <i>acquis</i> .....	62
4.3.3.	Financing enlargement.....	62
4.4.	Institution-building and twinning arrangements.....	63
4.5.	SAPARD (Special Accession Programme for Agriculture and Rural Development) .....	63
5.	International relations.....	65
5.1.	International organisations and agreements .....	65
5.1.1.	World Trade Organisation (WTO) .....	65
5.1.1.1.	WTO consultations and dispute settlement.....	65
5.1.2.	Organisation for Economic Cooperation and Development (OECD).....	66
5.1.3.	Generalised System of Preferences (GSP).....	67
5.1.4.	United Nations Food and Agriculture Organisation (FAO).....	67
5.1.5.	International Grains Agreement (IGA).....	68
5.1.5.1.	Grains Convention.....	68
5.1.5.2.	Food Aid Convention.....	68
5.1.6.	International Sugar Organisation.....	68
5.2.	Bilateral and regional trade relations .....	69
5.2.1.	United States .....	69
5.2.2.	Canada.....	69
5.2.3.	Mexico .....	70
5.2.4.	Mercosur/Chile.....	70
5.2.5.	Republic of South Africa .....	71
5.2.6.	Japan and the Republic of Korea.....	71
5.2.7.	New Zealand .....	71

## **1. AGRIMONETARY SYSTEM**

### **1.1. The agrimonetary system and the euro**

1. On 1 January 1 the monetary world underwent a major change, with eleven national currencies and the ecu being replaced by a single currency: the euro.
2. Needless to say, the changeover to the euro had an impact on the CAP and brought about changes in the agrimonetary regime.
3. A distinction has to be made between the new agrimonetary system and the transition to that scheme.

#### *1.1.1. The new agrimonetary system<sup>1</sup>*

4. For the CAP the first consequence of the creation of the single currency is that prices and amounts are expressed in euros, one euro being equal in value to one ecu.
5. Conversion - if this term can still be used for the "ins" - into national monetary units is to take place at the exchange rate applicable from 1 January 1999. Given that this relationship vis-à-vis the euro is fixed and invariable, an agrimonetary system is no longer required for the "ins".
6. The new agrimonetary system accordingly applies only to the four "pre-in" currencies (the Danish krone, the Swedish krona, the pound sterling and the Greek drachma).
7. Agrimonetary agreements are still necessary, because of the need to specify how amounts and prices expressed in euros have to be converted into national currency. For prices and amounts covered by the CAP, it has been decided that conversion is to take place at the market exchange rate. Export taxes and amounts and prices linked to imports will be converted at the customs rate, which in principle varies monthly.
8. The new regime contains a compensation scheme for farmers in the event of an appreciable exchange rate rise. As was the case under the previous scheme, a distinction is made between, on the one hand, the monetary effects on prices and, on the other, the monetary effects on compensatory payments.
9. Agrimonetary compensation can be granted for reduction in prices if such reduction is the result of an appreciable revaluation (i.e. one which exceeds a neutral margin of 2.6%). The existence or otherwise of an appreciable revaluation will be established once a year. The average annual exchange rate will be compared to the lowest average annual exchange rate in the three preceding years and the value of the exchange rate on 1 January 1999. An appreciable revaluation is deemed to have taken place if the annual average is lower than the lowest of these four values.

---

<sup>1</sup> Regulation (EC) No 2799/98 (JO L 349, 24.12.1998, p.1).

10. Member States will then be able to decide to grant compensation co-financed by the Community. The detailed arrangements are the same as under the old system, except that the 50% co-financing by Member States has been made obligatory.
11. In the case of direct payments to producers, a reduction in the conversion rate can be compensated. Compensation - 50% of it financed by the EU - can be granted if a conversion rate applicable to these payments is lower than the one applied during the 24 preceding months. The Member State concerned pays the other 50%.
12. It also has been decided to limit the possibility to grant compensations to revaluations occurring before 1 January 2002, the date on which the euro will be definitely introduced.

#### 1.1.1.1. Transition to the new scheme<sup>2</sup>

13. As a consequence of the introduction of the euro and the new arrangements, the Council decided to dismantle all the monetary gaps existing on 1 January 1999 between the different agricultural conversion rates applicable until 31 December 1998 and the exchange rates for the "pre-ins" which were to be used from 1 January 1999. The same rules applied to all currencies and the compensation, if any, is guaranteed in the same way.
14. Although a reduction in prices expressed in national currency resulting from the introduction of the euro could be compensated if the replacement of these rates by the fixed conversion rate for the "ins" - or the exchange rate for the "pre-ins" - constituted an appreciable revaluation of more than 2.6%, the agrimonetary situation on 1 January 1999 was not such as to give rise to compensation.
15. For conversion rates applicable to direct payments, full compensation financed by the EU is granted in the first year if the new conversion rate is lower than the lowest value of the rate applicable in the last 24 months. For the second and third year, the new agrimonetary system rules apply. This means a double reduction of the compensation by one third and 50% financing by the EU.
16. Two tables are attached. The first one indicates the monetary gaps resulting from the introduction of the euro and the resulting compensation (in %). The second table gives an overview of the agrimonetary compensation granted in the first year.

## 1.2. Agrimonetary aids

17. In the case of agrimonetary aids, 1999 has been marked by the transition to the euro and the dismantling of the frozen green rates. Only one case concerned the revaluation of the Swedish krona for arable crops, that took place on 1 July 1998. The overall aid granted to this sector was EUR 2 215 million at a rate of EUR 1.4/hectare, taking account of the Swedish base rate area described above. In this connection, it should be noted that the rules on the granting of transitional agrimonetary aid diverge from past rules. Indeed, the granting of the

---

<sup>2</sup> JO L 349, 24.12.1998, p.8.

Community part of transitional agrimonetary aid is not just a possibility for the Member State as in the past, but it is an obligation. Member States retain, however, the possibility of deciding whether they wish to grant the national funding required for the second and third tranches. For the CAP measures having an operative event on 1 or 3 January or 1 July 1999, the Member States concerned are: Belgium, Denmark, France, Ireland, Italy, Luxembourg, Finland, Sweden (only for 1 July 1999) and the United Kingdom. All Member States submitted their proposals in good time. For most of the direct aids under the CAP, transitional agrimonetary aids were granted by topping up the relative market premiums. However, some practical difficulties arose in the case of the structural measures (Regulation (EC) No 950/97<sup>3</sup>) and the measures accompanying the reform of the CAP (Regulation (EEC) No 2078/92<sup>4</sup> – agro-environmental measures; Regulation (EEC) No 2079/92<sup>5</sup> – early retirement from farming; and Regulation (EEC) No 2080/92<sup>6</sup> – forestry measures). The difficulties were attributable mainly to the fact that these measures are implemented through multiannual programmes approved by the Commission; these programmes contain a significant number of measures whose implementing conditions differ appreciably. Thus far the Commission has approved four schemes in the United Kingdom (sheep premiums, beef premiums, agri-environmental and arable areas/hops premiums), two schemes in Denmark (one relating to measures whose operating event is on 1 and 3 January and one relating to measures whose operative event is on 1 July), one scheme for France and Luxembourg covering all the sectors concerned, one scheme in Belgium covering only animal products, with an operative event on 1 or 3 January 1999, one scheme for Finland and one scheme for Ireland covering only the measures with an operative event on 1 or 3 January 1999. In the case of Italy, scrutiny of the notified plan is still pending, the Commission having requested additional detailed information on how the funds available would be used.

---

<sup>3</sup> Regulation (EC) No 950/97 (JO L 142, 2.6.1997, p.1).

<sup>4</sup> Regulation (EEC) No 2078/92 (JO L 215, 30.7.1992, p.85).

<sup>5</sup> Regulation (EEC) No 2079/92 (JO L 215, 30.7.1992, p.91).

<sup>6</sup> Regulation (EEC) No 2080/92 (JO L 215, 30.7.1992, p.96).

**Agrimonetary compensatory aid under Reg. No 2808/98 (EUR million)**

Measure		Belgium	Denmark	France	Spain	Ireland	Italy	Luxemb.	Finland	Sweden	UK
Type	Regulation										
<b>OPERATIVE EVENT: 1 JANUARY 1999 - Reg. No 755/1999</b>											
Suckler cow premium	805/68: Art. 4d	0,85	0,68	10,39	0,00	12,61	1,70	0,04	0,06	0,00	35,55
Additional suckler cow premium	805/68: Art. 4d	0,14	0	0,03	0,00	0	0,16	0	0	0,00	1,10
Premiums for male bovine animals	805/68: Art. 4b	0,41	1,18	5,72	0,00	14,10	1,08	0,03	0,35	0,00	34,57
Desseasonalisation premium	805/68: Art. 4c	0	0	0	0,00	1,87	0	0	0	0,00	0,80
Extensification premium	805/68: Art. 4h	0,08	0,11	4,18	0,00	5,64	0,39	0,02	0,11	0,00	16,15
Early retirement	2079/92	0,06	0,07	1,40	0,00	3,57	0,02	0	0,16	0,00	0
Environment	2078/92	0,03	0,38	2,44	0,00	7,11	5,35	0,05	1,90	0,00	4,91
Afforestation	2080/92	0,003717	0,12	0,08	0,00	2,10	1,26	0	0,08	0,00	2,13
Improving fruit production	2200/97	0,01	0	0,42	0,00	0	0,35	0	0	0,00	0,12
Nuts	790/89	0	0	0,05	0,00	0	0	0	0	0,00	0
Grubbing-up of vines	1442/88	0	0	0,27	0,00	0	0,07	0,001239	0	0,00	0
Less-favoured areas, young farmers, etc.	950/97	0	0,08	6,51	0,00	9,96	3,48	0	0,35	0,00	3,85
<b>Total: operative event on 1 January 1999</b>		<b>2</b>	<b>3</b>	<b>32</b>	<b>0</b>	<b>57</b>	<b>14</b>	<b>0</b>	<b>3</b>	<b>0</b>	<b>99</b>
<b>OPERATIVE EVENT: 4 JANUARY 1999 - Reg. No 755/1999</b>											
Ewe and goat premium	872/84	0,01	0,05	2,57	0,00	4,96	2,26	0,001224	0,02	0,00	36,50
Lump-sum ewe premium	1323/90	0,001224	0	0,78	0,00	1,39	0,59	0	0,01	0,00	8,70
<b>Total: operative event on 4 January 1999</b>		<b>0,011016</b>	<b>0,05</b>	<b>3,35</b>	<b>0,00</b>	<b>6,35</b>	<b>2,85</b>	<b>0,00</b>	<b>0,02</b>	<b>0,00</b>	<b>45,20</b>
<b>OPERATIVE EVENT: 1 JULY 1999 - Reg. No 2200/1999</b>											
Maize: base area (small producers)	1765/92	0,31	0	0,77	0,00	0,10	7,59	0	0	0	0
Cereals, except maize base area (small producers)	1765/92	0,59	3,08	8,41	0,00	1,58	14,05	0,05	0,86	5,84	13,11
Rapeseed, sunflower seed and soya beans (small producers)	1765/92	0	0	0,06	0,00	0,01	0,25	0	0,01	0,02	0
Peas and field beans (small producers)	1765/92	0,001224	0	0,04	0,00	0,01	0,24	0	0,001386	0,04	0
Seed of non-fibre flax (small producers)	1765/92	0	0	0	0,00	0	0	0	0	0,02	0
Maize: base area (large-scale producers)	1765/92	0,05	0	3,84	0,00	0,06	14,31	0	0	0	1,34
Cereals, except maize base area (large-scale producers)	1765/92	0,71	17,08	51,42	0,00	3,29	8,66	0,05	1,60	25,76	166,43
Rapeseed, sunflower seed and soya beans (large-scale prod.)	1765/92	0,03	1,90	16,79	0,00	0,15	18,61	0,01	0,22	2,36	40,30
Peas and field beans (large-scale producers)	1765/92	0,02	1,84	6,51	0,00	0,12	0,25	0,001224	0,02	1,75	16,57
Seed of non-fibre flax (large-scale producers)	1765/92	0	0,13	0,08	0,00	0,10	0	0	0,01	0,80	10,69
Additional aid for durum wheat (large-scale producers)	1765/92	0	0	1,46	0,00	0	24,86	0	0	0	0
Set-aside in connection with per hectare aid	1765/92	0,07	2,36	7,14	0,00	0,84	2,83	0,004896	0,42	5,89	19,79
Per hectare aid: dried vegetables	1577/96	0	0	0,02	0,00	0	0,19	0	0	0	0
Per hectare aid: hops	1696/71	0,001224	0	0,01	0,00	0	0	0	0	0	0,37
<b>Total: operative event on 1 July 1999</b>		<b>1,77</b>	<b>26,38</b>	<b>96,55</b>	<b>0,00</b>	<b>6,26</b>	<b>91,85</b>	<b>0,12</b>	<b>3,14</b>	<b>42,49</b>	<b>268,60</b>
<b>OPERATIVE EVENT: 1 AUGUST 1999 - REG. No 2206/1999</b>											
Per hectare aid for fibre flax	1308/70	0,10	0	0,47	0,38	0	0	0	0,01	0,001001	2,27
Production aid for hemp	1308/70	0	0	0,03	0,03	0	0	0	0	0	0,12
<b>Total: operative event on 1 August 1999</b>		<b>0,10</b>	<b>0,00</b>	<b>0,50</b>	<b>0,41</b>	<b>0,00</b>	<b>0,00</b>	<b>0,00</b>	<b>0,01</b>	<b>0,00</b>	<b>2,39</b>
<b>OPERATIVE EVENT: 1 SEPTEMBER 1999 - REG. No 2206/1999</b>											
Buying-in of dried grapes	2201/96	0	0	0	0,03	0	0	0	0	0	0
Per hectare aid for rice	3072/95	0	0	0,09	0,25	0	2,53	0	0	0	0
<b>Total: operative event on 1 September 1999</b>		<b>0,00</b>	<b>0,00</b>	<b>0,09</b>	<b>0,28</b>	<b>0,00</b>	<b>2,53</b>	<b>0,00</b>	<b>0,00</b>	<b>0,00</b>	<b>0,00</b>
<b>Grand total</b>		<b>3,46</b>	<b>29,04</b>	<b>131,99</b>	<b>0,69</b>	<b>69,56</b>	<b>111,10</b>	<b>0,27</b>	<b>6,19</b>	<b>42,49</b>	<b>415,38</b>

Monetary gaps resulting from euro values calculated on the basis of the rates applicable on 1Jan, 1July, 1 Aug and 1 Sept. 1999

BEF		euro	ACR	Threshold rate	apprec. Y/N	+/- in % in NC	% of app.	compensation	comp. %
1) for prices and market amounts	current ACR	40,3399	40,9321	40,2904	NO	-1,468	-0,123	NO	0,000
2) for ha aid to arable crops	froz ACR if not ACR op.ev.		<b>40,8337</b>	40,8337	YES	-1,224	1,209	YES	1,224
3) for ha aid to flax....	froz ACR if not ACR op.ev.		<b>40,8337</b>	40,8337	YES	-1,224	1,209	YES	1,224
4) for ha aid to rice....	froz ACR if not ACR op.ev.		<b>40,8337</b>	40,8337	YES	-1,224	1,209	YES	1,224
5) for other art.7 paym. (beef, sheep and struct.)	froz ACR if not ACR op.ev.		<b>40,8337</b>	40,8337	YES	-1,224	1,209	YES	1,224
DKK		euro	ACR	Threshold rate	apprec. Y/N	+/- in % in NC	% of app.	compensation	comp. %
1) for prices and market amounts	current ACR	7,45010	7,56225	7,52073	YES	-1,505	0,939	NO	0,000
2) for ha aid to arable crops	froz ACR if not ACR op.ev.	7,43121	<b>7,74166</b>	7,74166	YES	-4,178	4,010	YES	4,178
3) for ha aid to flax....	froz ACR if not ACR op.ev.	7,43835	<b>7,74166</b>	7,74166	YES	-4,078	3,918	YES	4,078
4) for ha aid to rice....	froz ACR if not ACR op.ev.	7,43835	<b>7,74166</b>	7,74166	YES	-4,078	3,918	YES	4,078
5) for other art.7 paym. (beef, sheep and struct.)	froz ACR if not ACR op.ev.	7,45010	<b>7,74166</b>	7,74166	YES	-3,914	3,766	YES	3,914
DEM		euro	ACR	Threshold rate	apprec. Y/N	+/- in % in NC	% of app.	compensation	comp. %
1) for prices and market amounts	current ACR	1,95583	1,98391	1,95408	NO	-1,436	-0,089	NO	0,000
2) for ha aid to arable crops	froz ACR if not ACR op.ev.		<b>1,94962</b>	1,94962	NO	0,317	-0,318	NO	0,000
3) for ha aid to flax....	froz ACR if not ACR op.ev.		<b>1,94962</b>	1,94962	NO	0,317	-0,318	NO	0,000
4) for ha aid to rice....	froz ACR if not ACR op.ev.		<b>1,94962</b>	1,94962	NO	0,317	-0,318	NO	0,000
5) for other art.7 paym. (beef, sheep and struct.)	froz ACR if not ACR op.ev.		<b>1,94962</b>	1,94962	NO	0,317	-0,318	NO	0,000
GRD		euro	ACR	Threshold rate	apprec. Y/N	+/- in % in NC	% of app.	compensation	comp. %
1) for prices and market amounts	current ACR	327,150	338,319	312,011	NO	-3,414	-4,852	NO	0,000
2) for ha aid to arable crops	froz ACR if not ACR op.ev.	324,172	349,703	312,011	NO	-7,876	-3,898	NO	0,000
3) for ha aid to flax....	froz ACR if not ACR op.ev.	324,922	338,319	312,011	NO	-4,123	-4,138	NO	0,000
4) for ha aid to rice....	froz ACR if not ACR op.ev.	326,373	338,319	312,011	NO	-3,660	-4,603	NO	0,000
5) for other art.7 paym. (beef, sheep and struct.)	froz ACR if not ACR op.ev.	327,150	312,011	311,761	NO	4,628	-4,936	NO	0,000
PTE		euro	ACR	Threshold rate	apprec. Y/N	+/- in % in NC	% of app.	compensation	comp. %
1) for prices and market amounts	current ACR	200,482	203,183	199,862	NO	-1,347	-0,310	NO	0,000
2) for ha aid to arable crops	froz ACR if not ACR op.ev.		203,183	198,202	NO	-1,347	-1,150	NO	0,000
3) for ha aid to flax....	froz ACR if not ACR op.ev.		203,183	200,230	NO	-1,347	-0,126	NO	0,000
4) for ha aid to rice....	froz ACR if not ACR op.ev.		203,183	200,321	NO	-1,347	-0,080	NO	0,000
5) for other art.7 paym. (beef, sheep and struct.)	froz ACR if not ACR op.ev.		207,259	198,202	NO	-0,388	-1,150	NO	0,000
FRF		euro	ACR	Threshold rate	apprec. Y/N	+/- in % in NC	% of app.	compensation	comp. %
1) for prices and market amounts	current ACR	6,55957	6,68769	6,63605	YES	-1,953	1,152	NO	0,000
2) for ha aid to arable crops	froz ACR if not ACR op.ev.		6,68769	6,61023	YES	-1,953	0,766	YES	1,953
3) for ha aid to flax....	froz ACR if not ACR op.ev.		6,68769	6,68769	YES	-1,953	1,916	YES	1,953
4) for ha aid to rice....	froz ACR if not ACR op.ev.		6,68769	6,68769	YES	-1,953	1,916	YES	1,953
5) for other art.7 paym. (beef, sheep and struct.)	froz ACR if not ACR op.ev.		6,68769	6,61023	YES	-1,953	0,766	YES	1,953
FIM		euro	ACR	Threshold rate	apprec. Y/N	+/- in % in NC	% of app.	compensation	comp. %
1) for prices and market amounts	current ACR	5,94573	6,02811	5,97874	YES	-1,385	0,552	NO	0,000
2) for ha aid to arable crops	froz ACR if not ACR op.ev.		6,02811	6,02811	YES	-1,385	1,367	YES	1,385
3) for ha aid to flax....	froz ACR if not ACR op.ev.		6,02811	6,02811	YES	-1,385	1,367	YES	1,385
4) for ha aid to rice....	froz ACR if not ACR op.ev.		6,02811	6,02811	YES	-1,385	1,367	YES	1,385
5) for other art.7 paym. (beef, sheep and struct.)	froz ACR if not ACR op.ev.		6,02811	6,02811	YES	-1,385	1,367	YES	1,385
NLG		euro	ACR	Threshold rate	apprec. Y/N	+/- in % in NC	% of app.	compensation	comp. %
1) for prices and market amounts	current ACR	2,20371	2,23593	2,19596	NO	-1,462	-0,353	NO	0,000
2) for ha aid to arable crops	froz ACR if not ACR op.ev.		<b>2,19672</b>	2,19672	NO	0,317	-0,318	NO	0,000
3) for ha aid to flax....	froz ACR if not ACR op.ev.		<b>2,19672</b>	2,19672	NO	0,317	-0,318	NO	0,000
4) for ha aid to rice....	froz ACR if not ACR op.ev.		<b>2,19672</b>	2,19672	NO	0,317	-0,318	NO	0,000
5) for other art.7 paym. (beef, sheep and struct.)	froz ACR if not ACR op.ev.		<b>2,19672</b>	2,19672	NO	0,317	-0,318	NO	0,000
IEP		euro	ACR	Threshold rate	apprec. Y/N	+/- in % in NC	% of app.	compensation	comp. %
1) for prices and market amounts	current ACR	0,787564	0,796521	0,759189	NO	-1,137	-3,738	NO	0,000
2) for ha aid to arable crops	froz ACR if not ACR op.ev.		<b>0,829498</b>	0,829498	YES	-5,325	5,055	YES	5,325
3) for ha aid to flax....	froz ACR if not ACR op.ev.		<b>0,829498</b>	0,829498	YES	-5,325	5,055	YES	5,325
4) for ha aid to rice....	froz ACR if not ACR op.ev.		<b>0,829498</b>	0,829498	YES	-5,325	5,055	YES	5,325
5) for other art.7 paym. (beef, sheep and struct.)	froz ACR if not ACR op.ev.		<b>0,829498</b>	0,829498	YES	-5,325	5,055	YES	5,325
ITL		euro	ACR	Threshold rate	apprec. Y/N	+/- in % in NC	% of app.	compensation	comp. %
1) for prices and market amounts	current ACR	1936,27	1973,93	1973,93	YES	-1,945	1,908	NO	0,000
2) for ha aid to arable crops	froz ACR if not ACR op.ev.		<b>2030,40</b>	2030,40	YES	-4,861	4,636	YES	4,861
3) for ha aid to flax....	froz ACR if not ACR op.ev.		<b>2030,40</b>	2030,40	YES	-4,861	4,636	YES	4,861
4) for ha aid to rice....	froz ACR if not ACR op.ev.		<b>2030,40</b>	2030,40	YES	-4,861	4,636	YES	4,861
5) for other art.7 paym. (beef, sheep and struct.)	froz ACR if not ACR op.ev.		<b>1973,93</b>	1973,93	YES	-1,945	1,908	YES	1,945

ATS		euro	ACR	Threshold rate	apprec. Y/N	+/- in % in NC	% of app.	compensation	comp. %
1) for prices and market amounts	current ACR	13,7603	13,9576	13,7501	NO	-1,434	-0,074	NO	0,000
2) for ha aid to arable crops	froz ACR if not ACR op.ev.		<b>13,7190</b>	13,7190	NO	0,300	-0,301	NO	0,000
3) for ha aid to flax.....	froz ACR if not ACR op.ev.		<b>13,7190</b>	13,7190	NO	0,300	-0,301	NO	0,000
4) for ha aid to rice.....	froz ACR if not ACR op.ev.		<b>13,7190</b>	13,7190	NO	0,300	-0,301	NO	0,000
5) for other art.7 paym. (beef, sheep and struct.)	froz ACR if not ACR op.ev.		<b>13,7190</b>	13,7190	NO	0,300	-0,301	NO	0,000
ESP		euro	ACR	Threshold rate	apprec. Y/N	+/- in % in NC	% of app.	compensation	comp. %
1) for prices and market amounts	current ACR	166,386	168,336	166,244	NO	-1,172	-0,085	NO	0,000
2) for ha aid to arable crops	froz ACR if not ACR op.ev.		168,336	165,571	NO	-1,172	-0,492	NO	0,000
3) for ha aid to flax.....	froz ACR if not ACR op.ev.		168,336	167,111	YES	-1,172	0,434	YES	1,172
4) for ha aid to rice.....	froz ACR if not ACR op.ev.		168,336	167,153	YES	-1,172	0,459	YES	1,172
5) for other art.7 paym. (beef, sheep and struct.)	froz ACR if not ACR op.ev.		167,153	165,198	NO	-0,461	-0,719	NO	0,000
SEK		euro	ACR	Threshold rate	apprec. Y/N	+/- in % in NC	% of app.	compensation	comp. %
1) for prices and market amounts	current ACR	9,46960	9,35538	8,65261	NO	1,206	-9,442	NO	0,000
2) for ha aid to arable crops	froz ACR if not ACR op.ev.	8,83455	<b>9,80430</b>	9,80430	YES	-10,977	9,891	YES	10,977
3) for ha aid to flax.....	froz ACR if not ACR op.ev.	8,74092	<b>9,80430</b>	9,80430	YES	-12,166	10,846	YES	12,166
4) for ha aid to rice.....	froz ACR if not ACR op.ev.	8,75852	<b>9,80430</b>	9,80430	YES	-11,940	10,667	YES	11,940
5) for other art.7 paym. (beef, sheep and struct.)	froz ACR if not ACR op.ev.	9,46960	<b>9,24240</b>	9,24240	NO	2,399	-2,458	NO	0,000
GBP		euro	ACR	Threshold rate	apprec. Y/N	+/- in % in NC	% of app.	compensation	comp. %
1) for prices and market amounts	current ACR	0,7111000	0,698159	0,677353	NO	1,820	-4,982	NO	0,000
2) for ha aid to arable crops	froz ACR if not ACR op.ev.	0,650070	<b>0,755249</b>	0,755249	YES	-16,180	13,926	YES	16,180
3) for ha aid to flax.....	froz ACR if not ACR op.ev.	0,657139	<b>0,755249</b>	0,755249	YES	-14,930	12,990	YES	14,930
4) for ha aid to rice.....	froz ACR if not ACR op.ev.	0,660435	<b>0,755249</b>	0,755249	YES	-14,356	12,554	YES	14,356
5) for other art.7 paym. (beef, sheep and struct.)	froz ACR if not ACR op.ev.	0,7111000	<b>0,775745</b>	0,775745	YES	-9,091	8,333	YES	9,091

ACR = agricultural conversion rate

froz ACR if not ACR op.ev. = frozen agricultural conversion rate, otherwise agricultural conversion rate [application at the time] of the operative event

apprec. Y/N = appreciable revaluation yes or no

NC = national currency

% of app.= percentage of appreciable revaluation

comp. % = compensation in percentage

## **2. RURAL DEVELOPMENT IN 1999**

### **2.1. Agenda 2000 and rural development**

18. In keeping with the principles of Agenda 2000, rural development policy has been both strengthened and simplified in order to complement the Community's policy on agricultural markets and make it the second pillar of the common agricultural policy.
19. Rural development policy has been amended in two main respects, compared with the current period: it can now be implemented throughout the Community, and it can be funded not only from the Structural Funds of the EAGGF Guidance Section but also from the agricultural appropriations in the budget, those of the EAGGF Guarantee Section.
20. This new approach focuses in particular on environmental aspects: promoting the careful management of natural resources, the conservation of the natural and cultural heritage and more environmentally friendly farming.
21. These measures to protect the countryside (rural areas make up around 80% of the Community territory) are in keeping with the ground swell of support for such ideas in society at large. No longer regarded solely as producers of commodities, farmers are taking on a variety of other roles which demonstrate the multidimensional nature of agriculture and give them an opportunity to diversify their sources of income. This diversification takes on even greater significance in the light of the ongoing decline in the number of holdings and hence in agricultural employment.
22. Rural development features in two of the three new Structural Funds objectives. Firstly, Objective 1 aims to promote development and structural adjustment in the areas whose development is lagging behind: those with a GDP of less than 75% of the Community average, the outermost regions and the areas previously eligible under Objective 6. All told, about 70% of the appropriations (some EUR 136 billion) is allocated to this Objective, whose programmes cover every sector of economic activity, including those located in rural areas. On 1 July 1999 the Commission adopted two decisions, one fixing an indicative allocation of the commitment appropriations for each Member State,<sup>7</sup> and the other drawing up the list of regions covered by Objective 1.<sup>8</sup> The proportion of the ERDF, ESF, FIGG and EAGGF Guidance Section appropriations earmarked for rural development will not be known until the Community support frameworks and operational programmes are adopted. The exceptions to this are the three supporting measures accompanying the 1992 CAP reform and the compensatory allowances paid in less-favoured areas from the Guarantee Section.
23. Objective 2 funding is intended to support economic and social conversion of areas facing structural difficulties. It covers areas undergoing economic and social change in the industrial and service sectors, declining rural areas, urban areas in difficulty and depressed areas dependent on fisheries. This Objective

---

<sup>7</sup> OJ L 194, 27.7.1999, p.49.

<sup>8</sup> OJ L 194, 27.7.1999, p. 53.

applies to 18% of the Community population - including about 5% in rural areas - and accounts for 11.5% of the appropriations (a total of EUR 22.5 billion). On 1 July 1999 the Commission adopted two decisions, one setting the indicative allocation, by Member State, of the commitment appropriations, and the other establishing a population ceiling for each Member State.<sup>9</sup>

24. The Member States then submitted their national lists of eligible areas, based on the criteria laid down in the legislation and taking account of the population ceilings attributed to each one. On the basis of these proposals, and after considering the opinions delivered by the Structural Funds committees or consulting them directly, the Commission adopted a definitive list of eligible areas for four Member States. Funding can be granted from the ERDF and the ESF, but, in the case of the EAGGF, the appropriations will come from the Guarantee Section (budget heading 1).
25. The implementation of rural development policy will be greatly simplified thanks to the adoption of Council Regulation (EC) No 1257/1999.<sup>10</sup> This is a consolidated legal framework, which replaces nine previous Regulations, making the criteria more flexible and easing the eligibility requirements.
26. It incorporates the measures from the former Objective 5(a):
  - investment in agricultural holdings to boost farm incomes and improve living, working and production conditions in this sector;
  - start-up assistance for young farmers;
  - training to improve knowledge and skills among managers and owners in the farming and forestry sectors and, more generally, among people engaged in rural activities;
  - compensatory allowances in disadvantaged areas and areas facing environmental constraints, to compensate for permanent natural handicaps in order to ensure the continued use of the land, protect the countryside, safeguard methods of farming and ensure compliance with environmental requirements;
  - improving the processing and marketing of agricultural products, to encourage rationalisation and boost competitiveness and value added.
27. It also incorporates the three supporting measures accompanying the 1992 CAP reform:
  - agri-environmental measures to protect the environment and preserve the countryside;
  - early retirement schemes to help older farmers give up farming by providing them with a guaranteed income;
  - support for forestry measures within farming.

---

<sup>9</sup> OJ L 194, 27.7.1999, pp. 58 and 60.

<sup>10</sup> OJ L 160, 26.6.1999, p. 80.

28. Lastly, the new framework incorporates the remaining structural measures in the agriculture sector and those covering related activities, to ensure that non-agricultural activities and services are also involved in the process of fostering development in rural areas (craft-based industries, tourism, essential services for local rural economies and people, the restoration and development of villages, infrastructure in rural areas, diversified agricultural and related activities, etc.).
29. The new policy for rural development encompasses all rural regions within the Community and, at the Berlin European Council on 24-25 March 1999, it was decided that, in addition to the Structural Funds money available under Objectives 1 and 2, a portion of the funds from budget heading 1 (Agriculture) should be allocated to rural development and supporting measures. A total of EUR 30 370 million is to be made available for the seven-year period, i.e. an average of EUR 4 339 million per year. At a meeting on 8 September 1999 the Commission adopted a Decision on the allocation of the appropriations to the Member States.<sup>11</sup>

---

<sup>11</sup> OJ L 259, 6.10.1999, p. 27.

Member State	Financial allocation	
	Annual average (in EUR million at 1999 prices)	%
Belgium	50	1.2
Denmark	46	1.1
Germany	700	16.1
Greece	131	3.0
Spain	459	10.6
France	760	17.5
Ireland	315	7.3
Italy	595	13.7
Luxembourg	12	0.3
Netherlands	55	1.3
Austria	423	9.7
Portugal	200	4.6
Finland	290	6.7
Sweden	149	3.4
United Kingdom	154	3.5
<b>Total</b>	<b>4 339</b>	<b>100</b>

30. On 23 July 1999 the Commission also adopted Commission Regulation (EC) No 1750/1999, which lays down detailed rules for the application of Council Regulation (EC) No 1257/1999.<sup>12</sup> In deference to the requirements of subsidiarity, the rules were specifically limited in scope, merely setting the eligibility criteria for each rural development measure. The Regulation also clarifies the administrative and financial aspects (programming, financial provisions, monitoring and evaluation and controls). The rural development plans are described in detail in the Annex to the Regulation.
31. In the interests of a smooth transition from the current programming period to the new period of rural development programmes in 2000-06, the Commission proposed a set of transitional rules on the funding of rural development. To ensure that all future measures are fully integrated into the new programming, Commission measures - or amendments to measures under existing schemes - will no longer be approved with some exceptions. These rules lay down in particular a number of requirements aimed at underpinning the continuity of the agri-environmental measures. They also regulate certain aspects of financial transition, in particular for measures featuring multiannual funding. These transitional arrangements will also be for compensatory allowances in less-favoured areas, with a one-year extension of the system of payments on a headage basis. Lastly, the date on which expenditure under the new rural development programmes becomes eligible is defined.

---

<sup>12</sup> OJ L 214, 13.8.1999, p. 31.

### 2.1.1. *Leader+ Community Initiative*<sup>13</sup>

32. In the final analysis, four Community Initiatives (Interreg, Equal, Leader+ and Urban) will be implemented in the coming period, funded by 5.35% of the appropriations available under the Structural Funds, of which around 20% will be allocated to Leader+ projects (EUR 2 020 million).
33. The following are two major new features:
- Leader+ can now be implemented throughout the Community, instead of, as was previously the case, just in the areas covered by the regional Objectives (1, 5(b) and 6);
  - assistance will be granted from a single fund, in order to simplify financial management. All eligible schemes will be funded exclusively from the EAGGF Guidance Section. Previously, some schemes were funded from the ERDF and the ESF.
34. On 13 October 1999 the Commission approved the draft guidelines for each Community Initiative. They were then sent to the STAR Committee and Parliament for their opinions. The strong points of Leader were retained, namely:
- the involvement of local partners in exploiting the potential of their areas and devising a development strategy;
  - the bottom-up territorial approach;
  - the opportunity to include small-scale projects, as part of an integrated approach;
  - the networking aspect, which allows experience to be shared among the different projects.
35. The Leader+ Initiative will consist of three main planks:
- funding for pilot strategies that are territorial and integrated in nature and set out in the form of a development plan;
  - funding to promote cooperation between rural areas, either in the same Member State (interregional cooperation) or in several different Member States (transnational cooperation). The aim is to set up viable joint projects, rather than simply to share experience;
  - networking between projects.
36. All projects funded by Leader+ will be required to participate actively in networking activities, with Member States called upon to provide the necessary structures. The Commission, for its part, will operate an Observatory for rural areas.

---

<sup>13</sup> *Liaisons Entre Actions de Développement de l'Économie Rurale* (Developing the rural economy through integrated projects).

## 2.2. Horizontal measures

### 2.2.1. Implementation of Objective 5(a)

37. A major development in connection with Objective 5(a) in 1999 was the launch of evaluations covering two of the basic Regulations concerned. In the case of Council Regulation (EC) No 950/97 on improving the efficiency of agricultural structures,<sup>14</sup> Community guidelines for the evaluation of the application of the three main measures in 1994-98 (investment aid, aid to young farmers and compensatory allowances for less-favoured areas) were submitted to Member States, while, for Council Regulation (EC) No 951/97 on improving the processing and marketing of agricultural products,<sup>15</sup> *ex post* evaluations covering 1991-1993 and 1994-1998 have been launched. In October 1999 the Commission decided that EUR 4 million earmarked for technical assistance should be allocated to these evaluations.

#### 2.2.1.1. Measures to improve and modernise farms

38. Every year some 40 000 holdings receive investment aid. Such aid is conditional on the drawing up of individual investment plans, which must include strategies to improve competitiveness, modernise production conditions and diversify activities. Other areas that must be addressed include preserving the environment, improving livestock health, and animal welfare. Investment aid must fulfil certain requirements aimed at ensuring consistency with the market situation and a contribution to the longer-term goal of sustainable development.

#### 2.2.1.2. Young farmers

39. Aid for young farmers (Articles 10 and 11 of Regulation (EC) No 950/97) is aimed at encouraging young people to become heads of holdings. It does so by helping them meet their start-up costs, more specifically, via a start-up allowance and additional investment aid.

#### 2.2.1.3. Less-favoured agricultural areas

40. Aid for farmers in less-favoured areas accounts for most of the expenditure financed by the Guidance Section of the EAGGF under Objective 5(a) measures. These areas, which include mountain and other less-favoured farming areas, cover 78 million hectares, or around 56% of the EU's total agricultural area. These compensatory allowances, which aim to maintain farming and contribute to the slowing down of rural depopulation, help offset generally higher production costs. Compensatory allowances are granted to some 1.1 million holdings. The annual Community budget for these compensatory allowances averages EUR 614 million.

#### 2.2.1.4. Processing and marketing of agricultural and forestry products

41. Implementation of measures to improve conditions for the processing and marketing of agricultural and forestry products, as provided for in Regulations

---

<sup>14</sup> OJ L 142, 2.6.1997, p. 1.

<sup>15</sup> OJ L 142, 2.6.1997, p.22.

(EC) Nos 951/97<sup>16</sup> and 867/90,<sup>17</sup> continued as part of Structural Funds programming for the period 1994-99. In Objective 1 and Objective 6 regions, this programming was integrated under Objective 5(a) in the relevant programming documents, along with the rest of the measures.

42. By the end of 1996, the Commission had approved 49 programming documents under Regulations (EC) Nos 951/97 and 867/90. These are listed below:
- nine national single programming documents for France, Spain, the United Kingdom, the Netherlands, Denmark, Luxembourg, Austria, Finland and Sweden (not including regions eligible under Objectives 1 and 6);
  - thirteen regional single programming documents for Germany (at *Länder* level) and Belgium (at regional level);
  - one Community support framework for Italy, in the form of 15 operational programmes aimed at improving the conditions under which agricultural products are processed and marketed, together with (for Italian regions not covered by Objective 1) a multi-regional operational programme and 12 operational programmes designed to improve the conditions under which forestry products are processed and marketed.
43. In July 1998 the Commission decided on the distribution of unallocated commitment appropriations available under the agricultural strand of Objective 5(a), in areas not covered by Objectives 1 and 6. This funding was used mainly in 1999. A total of EUR 190 million was earmarked for the various measures eligible under Objective 5(a), including an additional amount of EUR 171 million for programmes under Regulation (EC) No 951/97 in Spain, Germany, France and Belgium. Other adjustments were made to programmes in the Netherlands, Germany, Finland, Sweden, Italy and Belgium. The changes consisted above all in the inclusion of new sectors, adjustments to financial plans and transfers of funds within Objective 5(a) and were based on, *inter alia*, the results of the mid-term reviews.

### **2.3. Regional measures**

#### *2.3.1. Implementation of Objectives 1 and 6*

44. By the end of 1999 a total of 57 operational programmes and 14 single programming documents (including two in respect of Objective 6) had been adopted by the Commission. This brought the total number of implementation instruments to 71.
45. The table below gives a breakdown of the programmes with, in each case, the total volume of funding and the Community contribution, by Member State and Fund.

---

<sup>16</sup> OJ L 142, 2.6.1997, p. 22

<sup>17</sup> OJ L 91, 6.4.1990, p. 7.

Objectives 1 and 6: 1994-99 SPDs and OPs

Member State	Number of SPDs or Ops	Structural Funds (MECU)	ERDF		ESF		EAGGF		FIFG		Total cost
			MECU	%	MECU	%	MECUm	%	MECU	%	
Belgium	1	730.0	515.9	70.7	166.7	22.8	47.0	6.4	0.4	0.1	2 411.7
Germany	8	13 640.0	6 820.0	50.0	4 092.0	30.0	2 644.5	19.4	83.5	0.6	58 466.8
Greece	14	13 980.0	9 489.5	67.9	2 560.5	18.3	1 800.0	12.9	130.0	0.9	25 954.6
Spain	15	26 300.0	15 944.2	60.6	6 047.0	23.0	3 313.8	12.6	995.0	3.8	47 702.8
France	6	2 190.0	1 194.9	54.6	525.5	24.0	431.4	19.7	38.2	1.7	5 005.4
Ireland	3	5 620.0	2 562.0	45.6	1 953.0	34.8	1 058.0	18.8	47.0	0.8	10 383.2
Italy	12	14 860.0	9 660.0	65.0	2 739.0	18.4	2 228.0	15.0	233.0	1.6	27 525.3
Netherlands	1	150.0	80.0	53.3	40.0	26.7	21.5	14.3	8.5	5.7	958.7
Austria *	1	165.6	107.7	65.0	33.1	20.0	24.8	15.0	0.0	0.0	831.4
Portugal	5	13 980.0	8 723.9	62.4	3 148.7	22.5	1 894.2	13.5	213.2	1.5	26 713.4
Finland * (6)	1	459.9	172.5	37.5	105.8	23.0	177.6	38.6	4.0	0.9	1 326.1
Sweden * (6)	1	252.0	122.6	48.7	63.9	25.4	61.4	24.4	4.1	1.6	635.0
United Kingdom	3	2 359.8	1 331.8	56.4	747.2	31.7	245.9	10.4	34.9	1.5	5 670.7
EU	71	94 687.3	56 725.1	59.9	22 222.4	23.5	13 948.1	14.7	1 791.8	1.9	213 585.1

\*Since 1.1.1995  
(6) Objective 6

46. The funding for the two single programming documents implementing Objective 6 was committed in full by the end of 1999.

2.3.2. *Mid-term evaluations of Objective 5(b) programmes*

47. The approach of the closing date for the 5(b) programmes generated intense activity among the national and regional authorities and in the monitoring committees during 1998 and 1999.

48. All the programmes set 31 December 1999 as their deadline for the commitment of funds. This meant that all the investment decisions for the individual projects had to be taken by the final beneficiaries before this date. The national and regional authorities had to make a considerable effort to match the Community financing for each project and complete the administrative procedures necessary for signing the contracts with the project contractors (or, in the case of State aid schemes, with the final beneficiaries).

49. In addition, national and regional administrations undertook an analysis of their programmes to ensure that the proportion of funds allocated to each of the various measures was consistent with the results of the mid-term evaluations carried out in 1998. The evaluation exercise examined programme execution over the period 1994-96 and took account of the modifications to programmes that had been made over the period. Following their analysis of the work of the evaluators, monitoring committees modified certain aspects of programmes to help ensure that programme goals were reached as effectively as possible and to commit funds to final beneficiaries before the end of 1999. This exercise also involved a certain redistribution of funding between the ERDF, the EAGGF, and the ESF. Programmes are set to be finalised by the planned deadlines.

### 2.3.2.1. Belgium

50. The programme continued in 1999, with the accent on the need to commit all the appropriations before 31 December 1999. A process of reprogramming and rescheduling took place in order to help achieve this but, as late as October 1999, some of the appropriations remained to be committed.
51. A central feature of the two Flemish programmes under way in the 1994-99 period (Meetjesland and Westhoek) is their integrated approach to rural development. One of the top priorities is increasing employment opportunities and safeguarding existing jobs. While tourism is regarded as a major vehicle for the development of these regions, the focus is also on making them more attractive to business. A number of environmental schemes and projects to promote small businesses have also been set up under the two Flemish SPDs. The two monitoring committees both met twice in 1999. They noted that very little concrete progress had thus far been made with those diversification projects that were not of a strictly agricultural nature. The slow pace of these programmes was to a large degree due to problems in raising counterpart funds. A total of three decisions adjusting the Westhoek programme were adopted in August, October and November 1999. In particular they enabled the project authorities to allocate the monies accruing from the 1999 indexation, reschedule the annual instalments, and ensure that the appropriations were fully committed by the 31 December 1999 deadline. The rate of payment of Community appropriations as at 31 December 1999 was of the order of 47% (56% in the case of the EAGGF, 44% in the case of the ERDF and 40% in the case of the ESF).
52. The pace of progress of the Objective 5(b) SPD projects in Wallonia picked up considerably in 1999. The projects that had been behind schedule due to extensive preparatory work made up the lost ground. The implementation of the projects under all three funds has been standardised, with the ESF increasingly being called to back up the funding provided by its sister funds. A decision to adjust the programme was taken by the Commission in June 1999, enabling the appropriations to be fully committed by 31 December 1999. This is a clear indication of the progress made by all the measures under the SPD, and will enable all the projects in the programme to be completed as planned. In December 1999 the average rate of Community appropriations was 41% (42% in the case of the EAGGF, 40% in the case of the ERDF and 44% in the case of the ESF).

### 2.3.2.2. Denmark

53. In Denmark, Objective 5(b) areas cover 19.6% of the territory and 7% of the population. One programme covers all Danish Objective 5(b) areas. The main objectives are to create and safeguard jobs and improve incomes in those areas, while ensuring that environmental impact is also taken into consideration.
54. Progress was somewhat slow in the first part of the programming period, but picked up thereafter. By the end of 1999, the entire Community contribution had been committed, and 78% had been paid to the final beneficiaries.
55. Adjustments in the budget allocated to different measures were decided on the basis of the recommendations contained in the interim evaluation report. By

virtue of these adjustments greater emphasis was placed on the agricultural conversion programme (particularly on the shift towards organic farming) and on improved animal welfare. Other areas of special emphasis included investment aid for SMEs, vocational training and retraining (with the focus on SME development) and tourism infrastructure.

#### 2.3.2.3. Germany

56. Overall, the programmes made highly satisfactory progress. In 1995-99, although the preliminary forecasts pointed to an ongoing downward trend in the processing and marketing of primary products, there was an increase in the utilisation of appropriations for rural development purposes.
57. This policy has created new jobs in the agriculture sector and secured existing ones, in particular by providing support for a whole range of village development projects, the net effect of which has been to improve the quality of life for local residents.
58. Generally speaking, the commitment appropriations were fully utilised, and the payment appropriations are at an advanced stage.
59. In Mecklenburg-Western Pomerania, appropriations originally earmarked for the construction of a fish processing plant could not be utilised in good time. As a result, appropriations totalling EUR 30.9 million were transferred from the FIFG to the EAGGF Guidance Section, to support the rural development programme, to the benefit of the five new Länder (excluding Berlin).
60. The main task of the eight monitoring committees responsible for the Objective 5(b) programmes was to prepare the programmes for the final phase of implementation. The Committees decided on the allocation of the additional funds accruing from indexation and on transfers of funding between measures and between the different annual instalments.
61. Generally speaking, the extra Community funding was allocated on a *pro rata* basis to each of the three Structural Funds, a major exception to this approach, however, being Baden-Württemberg, where the committee decided to transfer EUR 4.5 million from the EAGGF to the ERDF, in addition to allocating the indexation funds to the ERDF and the ESF. Financial implementation in some regions differed from the specifications in the indicative financial plans. These plans had to be adjusted accordingly in order to commit the Community funds in the full by the end of 1999.
62. All the monitoring committees decided to effect minor transfers between measures, to reflect the take-up rate of the funding.
63. According to the annual reports, about 92% of the public funds had been committed and 69 % paid to the final beneficiaries by the end of 1998. The remainder was committed by the Länder in 1999. As a result, all funds had been committed in full by year-end 1999, with certain regions then exercising their right to "overbook" in an attempt to ensure the total utilisation of the Community funds.

#### 2.3.2.4. Greece

64. National EAGGF measures: the "Agriculture" operational programme twice received EUR 125 million in extra funding in 1999, as a result of indexation and the redeployment of Community support framework appropriations. Despite these additional resources, the operational programme had used up its entire budget before the end of the first half of 1999. An estimated shortfall of EUR 270 million of EAGGF appropriations will have to be booked at the end of the programming period, due to the low initial budget allocation for this operational programme.
65. Multifund regional operational programmes: these made slower progress than the national programmes. However, even the multifund programmes that are the most behind schedule in implementing their rural development measures were able to commit all the appropriations available to them (which, barring any unforeseen problems, should be paid out in full by the planned deadline). Two multifund operational programmes (Thessaly and West Macedonia) each received extra funding to the tune of EUR 0.5 million from the EAGGF to help them to implement their territorial employment pacts.

#### 2.3.2.5. Spain

66. All the 1994-99 Objective 1 appropriations from the EAGGF Guidance Section for Spanish regions under the Community Support Framework (a total of EUR 3 457.575 million) was programmed and committed from the Community budget.
67. Slight adjustments were made to the regional operational programmes (EAGGF Guidance Section) in order to include appropriations accruing from the 1999 indexation.
68. The EAGGF Guidance Section contribution (EUR 30.86 million) to the ERDF/EAGGF Guidance/ICO<sup>18</sup> global grant has been withdrawn and reallocated to the "Food-processing industry and structural measures in agriculture" operational programme.
69. The various measures under the Community Support Framework were implemented as planned, and overall implementation in 1999 was satisfactory. Some programmes were completed in 1999 (the regional programmes for Valencia, Murcia and Asturias), whereas payments for others (the "Food-processing industry and structural measures in agriculture" and "Development and diversification of rural economies" operational programmes) will continue into 2000 and even into 2001.
70. The rural development programmes approved by the Commission at the end of 1994 were implemented with a view to being completed before the end of 1999.
71. In 1999 the seven programmes were adjusted in line with the current situation and the recommendations made in the 1997 interim evaluation reports covering the period 1994-1996.

---

<sup>18</sup> *Instituto de Crédito Oficial.*

72. Funding was transferred between measures and Funds in order to make the best use of Community resources in line with the principle of subsidiarity.

#### 2.3.2.6. France

73. In 1999 the emphasis was on the urgent need to commit the appropriations in full before 31 December. A rescheduling of the programmes (in particular those covering the three Atlantic overseas departments) had been drawn up at the end of 1998 and approved at the first meeting of the monitoring committee with a view to adoption in 1999. By the end of October the Community appropriations had all been committed except those for Corsica. A major effort will have to be made in 2000 and 2001 (in parallel to the opening of the new 2000-2006 programming period) to complete the programmes without the loss of any appropriations.

74. The efforts observed in 1998 continued throughout 1999, enabling the authorities to commit in full the Community appropriations for the 18 regional rural development programmes. There is, however, scope for tightening the rules governing the payment of the appropriations to the final beneficiaries since 29% of the Community appropriations has in effect been allocated by the French Government to the project contractors. The Commission is monitoring the situation to ensure that it does not prevent the actual expenditure from being carried out in full before 31 January 2001.

75. The problems with the two cross-regional upland area programmes having proved insurmountable, the two monitoring committees responsible for these measures concluded that the Community appropriations concerned could not be used in full. The latter were therefore transferred in part to rural development programmes covering those areas.

76. In the light of the recommendations made in the interim evaluations, and to ensure that the Funds are used effectively, the monitoring committees put forward a set of adjustments for every programme. The Commission adopted 40 amending decisions on the programmes, ranging from improving project content and transferring appropriations between measures, to larger-scale redeployments involving transfers of funding between priorities and/or the Structural Funds themselves.

77. Finally, two regional programmes (Auvergne and Midi-Pyrénées) were allocated additional Community appropriations from the industrial conversion programmes (Objective 2) for the regions concerned.

#### 2.3.2.7. Ireland

78. The funding for the operational programme for Agriculture, Rural Development and Forestry has been committed in full and, for most of the measures, has been effected or is close to being effected. All of the commitments had been made for the Food Sub-programme (part of the "Industry" operational programme), but because of decommitments by some projects, some of the funding had to be transferred away from the Measure for capital investment funded by the ERDF.

#### 2.3.2.8. Italy

79. Since the last tranche of funding under the revised financial plans was very substantial, the bulk of each programme was implemented in 1999.
80. The Objective 5(b) programmes for Italy made satisfactory progress in 1999. For almost all the programmes the appropriations were committed in full and the level of payments was satisfactory with, in several regions, the projects selected exceeding the funding available. The monitoring and evaluation systems introduced enabled the monitoring committees to assess the progress made in concrete terms and obtain initial feedback on impact. The implementation of the programmes was also checked against Community policies in terms of environmental impact, equal opportunities and the rules on competition. Project implementation also improved because the regional authorities simplified their administrative procedures in certain respects.
81. The Objective 5(b) programmes in the Marche and Umbria regions constitute a special case. Their funding had increased sharply in 1998 (almost EUR 500 million was transferred from other programmes part-financed by the Structural Funds in Italy, and from Objective 5(a) programmes) to meet the new needs imposed on rural areas in the two regions due to the damage caused by the 1997 earthquake. A number of factors held up the new reconstruction programmes and the projects aimed at improving living conditions and production structures:
- the stringent quality standards governing the reconstruction of rural villages deemed to have a high tourism potential and very characteristic architectural/town planning features;
  - the remoteness of most such villages (situated in mountain areas);
  - administrative bottlenecks caused by the large number of funding requests sent to regional authorities that do not have adequate resources to process them. This situation is exacerbated by the authorities' efforts to comply fully with the transparency and objectivity criteria in selecting the projects for funding;
  - problems in identifying rapidly which firms can be called upon to carry out the reconstruction work.
82. The regional authorities have nevertheless given assurances that they have taken all the necessary steps to enable the available resources to be committed in full before 31 December 1999.

#### Multiregional programmes

83. Several more research and innovation projects were selected for funding under the multiregional programme for agricultural extension. All told, of the 179 projects submitted since the launch of the programme, 79 have been selected for investment totalling EUR 60 million. The funding for all the projects under this programme has been committed at both Commission and national level.
84. The "Territorial employment pacts" programme was not approved until the end of 1998. However, local groups, as the final beneficiaries of this multifund

programme, made great efforts to implement the first part of the programme in 1999 and commit all the necessary funds before the year-end.

### Regional programmes

85. All the regions made an effort to make up ground after the late start caused by the delayed approval of their programmes. Most of them had, by the end of 1998, succeeded in meeting the level of funding commitment and payment (55%) set by the national monitoring committee. The one exception was Apulia, whose funding allocation for 1999 was consequently reduced by EUR 10 million. In contrast, the most successful EAGGF programmes were allocated extra funding in 1999, in particular the operational programme for Basilicata, which saw its Structural Funds budget rise by EUR 20.56 million. This was to help it cope with the thousands of applications for improvement grants made by agricultural holdings which had been processed by the authorities but for which no funds had previously been available.

#### 2.3.2.9. Luxembourg

86. The strategy for the Luxembourg programme has three funding priorities: revitalising agriculture and forestry along environmentally friendly lines; creating and safeguarding sustainable jobs, and investment geared towards developing tourism and generally enhancing the quality of rural life.
87. The two monitoring committees meetings held in 1999 concluded that the programme had made entirely satisfactory progress. A decision to adjust the programme was approved by the Commission at the end of September 1999. This entailed reallocating EAGGF funding within the same financing priority, transferring funding from the ESF to the EAGGF, applying the 1999 deflator to the three Funds, and rescheduling the annual instalments to match the level of expenditure of the three Funds.
88. This last adjustment enabled the programmes to commit the available funding in full by the 31 December 1999 deadline. This is a clear indication of the progress made by all the measures under the SPD, and will enable every project in the programme to be completed.
89. At 45%, the disbursement rate for the committed funding was relatively high (EAGGF 40%, ERDF 76%, ESF 68%).

#### 2.3.2.10. Netherlands

90. The EAGGF Guidance Section measures made very patchy progress. To improve the take-up rate for the funding, a proposal was made to transfer funding between measures for the benefit of environmental projects.
91. Generally speaking, the Objective 5(b) programmes in the Netherlands made wholly satisfactory progress. The 1994-99 Objective 5(b) appropriations were committed in full in all regions.
92. In the provinces of Friesland, Groningen/Drenthe, Overijssel and Limburg, the accent was generally on business start-ups, tourism and schemes to promote the best use of the countryside. The province of Zeeland, however, focused on diversification in the agriculture sector. Schemes to assist small businesses are

an essential part of the Objective 5(b) strategy. The province of Friesland, for example, devotes a substantial share of the appropriations to this sector: 60% of all investment under the programme is used to assist small firms viz. the large Drachten/Heerenveen industrial park project (an industrial site combined with water sports facilities).

93. Environmental issues are relatively well catered for in the Dutch programmes. In practice, the lion's share of environmental appropriations has been taken up by the province of Friesland, with its nature conservancy projects and schemes to promote environmentally friendly farming. Groningen/Drenthe spends 12% of its Structural Funds budget on projects to protect the environment, forestland and the countryside as part of schemes to improve water quality, develop a national park and relocate a number of agricultural holdings.
94. The twice-yearly meetings of the five monitoring committees passed off satisfactorily.
95. A series of decisions to adjust the programmes in all the Netherlands Objective 5(b) regions were adopted in 1999. These entailed transferring financing between priorities and individual projects, carrying over non-utilised funding, and allocating the additional resources resulting from the 1999 indexation. As well as constituting a clear indication of the progress made by all the projects under the programmes, these adjustments enabled all the appropriations to be committed by 31 December 1999 and allowed every project to be completed.

#### 2.3.2.11. Austria

96. Economic conditions in the Burgenland region highlight the need for targeted structural development in rural areas. Previously behind schedule, especially as regards diversification, the Burgenland programme made very satisfactory progress, resulting in the commitment of all the appropriations available.
97. The status of the seven Objective 5(b) programmes in Austria at the end of September 1999 was as follows (EAGGF Guidance Section):

	<i>Commitments</i>	<i>Payments</i>
Carinthia	94%	69%
Lower Austria	82%	49%
Upper Austria	79%	47%
Salzburg	101%	74%
Styria	95%	53%
Tyrol	89%	50%
Vorarlberg	74%	50%

98. The Austrian authorities are confident that they can commit all the appropriations before the end of the year. The 5(b) programmes are regarded as a success, in the light not only of the results they achieved, but also of the wider resonance they have had, particularly among farmers and local authorities. Launching and later managing these programmes was a major undertaking in terms of coordination, backed up by numerous events designed to raise awareness of the policy.

#### 2.3.2.12. Portugal

99. Adjustments were made to the five multifund programmes receiving financial support from the EAGGF Guidance Section.
100. In addition, the EAGGF Guidance Section element of the Community Support Framework was boosted by the transfer of an extra EUR 20 million from the Objective 5(a) performance reserve to the "Agriculture" subprogramme (EUR 16 million) and the multifund operational programme for the Azores (EUR 4 million), in order to help repair the damage caused by the autumn 1997 storms.
101. The "Agriculture" subprogramme, which was at a very advanced stage, was also allocated an additional EUR 22 million, partly from the application of the deflator and the adjustment of funding allocations between programmes financed by the EAGGF Guidance Section, and partly from the transfer of EUR 4 million from the FIFG to the EAGGF Guidance Section.
102. EAGGF Guidance Section decommitments of EUR 10 million and EUR 4 million, from the Pediza (integrated development in the Alqueva area) and PPDR (promoting regional development potential) programmes respectively, were assigned to the "Agriculture" subprogramme.
103. The EAGGF Guidance Section budget for the Azores multifund operational programmes was allocated an extra EUR 16.38 million from the application of the 1998 deflator - to help repair the damage caused by the July 1998 earthquake - and a further EUR 2 million from the application of the 1999 deflator.
104. An additional EUR 4.023 million generated by the 1999 deflator was allocated to the EAGGF Guidance Section funding for the Madeira multifund operational programme.

#### 2.3.2.13.Finland (Objective 6)

105. On the whole, EAGGF assistance made satisfactory progress. More specifically, the ground lost earlier with regard to improving the efficiency of agriculture and other rural development was made up.
106. Objective 5(b) areas have a population of 1.1 million, or a fifth of the total, and cover a quarter of the country's surface area. These regions are sparsely populated (averaging 11.5 inhabitants/km<sup>2</sup>) and highly dependent on agriculture. Objective 5(b) assistance is channelled through two operational programmes, one for Continental Finland and the other for the Åland Islands.
107. The programme for Continental Finland concentrates on diversification for small businesses, the establishment of rural services and improving the attractiveness of rural areas. Another major aim is to adapt rural areas to the CAP. The programme for the Åland Islands focuses mainly on tourism, small businesses and sustainable development projects.
108. Environmental protection is taken into account horizontally in all Finnish regions by involving environmental authorities in the decision-making process at regional level.
109. During the indexation exercise, the Monitoring Committee encouraged the Finnish regions to create high-profile, cross-regional projects, based on a bottom-up approach.

#### 2.3.2.14.Sweden (Objective 6)

110. EAGGF assistance made satisfactory progress, with commitments rising considerably. While payment levels are still lagging, they are on an upward trend. In 1999 EU funding was transferred from start-up aid and the food processing industry towards compensatory allowances and rural development measures. The funds for these two measures were also increased by indexation in the course of the year. Demand for investment aid is very high and EAGGF funding for the programming period is expected to be fully utilised. This is due to a combination of adjustments in programme content and changes in the way programmes are administered.
111. Objective 5(b) areas account for 12.8% of Sweden's land and 8.6% of its population. A total of five programmes were approved on 10 May 1996, all focusing on the development of businesses and, in particular, firms operating in the agriculture and forestry sectors. Priority is also given to developing tourism, human resources and the cultural heritage of rural areas. The total Community contribution to these programmes is EUR 137 million (at 1996 prices).
112. In 1999 the resources generated by indexation were distributed and several adjustments were introduced to ensure the completion of the entire programme. Due to a lower rate of take-up than expected, some of the funds earmarked for financing business start-up loans for young people were transferred to other measures.

### 2.3.2.15. United Kingdom

113. In Northern Ireland, the commitment of the funding for the sub-programme covering agriculture and rural development under the Single Programming Document was completed and expenditure will, for most measures, reach completion in 2000.
114. A total of eleven areas in the United Kingdom receive Objective 5(b) assistance. These vary considerably in size and population. The largest is Northern Uplands, covering 14 000 km<sup>2</sup>, as against the 1 000 km<sup>2</sup> of the Midlands Uplands. Population density in these areas also differs widely, from 10 inhabitants/km<sup>2</sup> in some areas to 105 in others, the average concerned being 47 inhabitants/km<sup>2</sup>.
115. Altogether, these programmes account for EUR 840 million of Community funding, about 18% of which comes from the EAGGF. The implementation rate of the programmes picked up in 1998, a development which continued in 1999, enabling them to commit their EAGGF funding in full.
116. All the programmes were adjusted in the light of the results of the interim evaluations aimed at improving effectiveness. In this respect the biggest gains were made in the area of management structures, to which was added a simplification and standardisation of procedures and close monitoring of the implementation of the projects, in both financial and material terms.

## 2.4. Accompanying measures

### 2.4.1. Agri-environmental measures

117. Regulation (EEC) No 2078/92<sup>19</sup> provides for programmes to encourage farmers to manage their land in an environmentally-friendly manner by compensating them for the costs of such activities. The agri-environment Regulation accompanied the 1992 CAP reform. Examples of the type of land management measures covered by the Regulation include:
  - returning intensively used land, such as arable land or grassland used for silage production, to biologically diverse, but unprofitable, extensive grassland;
  - reducing the amount of nutrients used (resulting in lower yields);
  - reducing or eliminating altogether pesticide usage (e.g. organic farming);
  - taking land out of production to create national parks;
  - preserving traditional environmental land management practices in areas susceptible to neglect;
  - maintaining landscape features that are no longer agriculturally viable.
118. Programmes are, subject to Commission approval, which is to be given in each case, managed by regional or national authorities on a decentralised basis. Part of the costs are financed by the EU budget — 75% in Objective 1 areas and 50% elsewhere. The EAGGF Guarantee expenditure concerned totalled EUR 1.3

---

<sup>19</sup> OJ L 215, 30.7.1992, p. 85.

billion in 1998, and the estimate for 1999 is EUR 1.8 billion, i.e. around 4% of the EAGGF Guarantee total.

119. On average, the programmes cover one in seven farms, accounting for 20% of European farmland. This figure is to some extent attributable to the high levels obtaining in the new Member States — 78% of the farms in Austria, 77% in Finland and 64% in Sweden. The proportion of participating farms higher than the EU average is two other Member States, namely Luxembourg (60%) and Portugal (30%). It is less than 7% in Belgium, Greece, Spain and Italy.
120. In the first two years after the launch of the measure, the pace of implementation for some of the programmes was slow and not all the funds available were utilised. In 1996, for the first time ever, nearly all the Member States' agri-environmental programmes were operational. In 1998 and 1999, several programmes approved in 1994 and 1995 reached the end of their first five-year cycle. By 1999, the Commission had approved a total of nearly 140 agri-environmental programmes or groups of programmes.
121. The Commission attaches great importance to monitoring and evaluating agri-environmental measures. The detailed rules for implementing Regulation (EEC) No 746/96<sup>20</sup> specify how this is to be carried out, and the Commission has, together with the Member States, begun to scrutinise the plans, methods and early findings of the monitoring and assessment work notified by the Member States under the terms of the implementing Regulation.
122. In December 1997<sup>21</sup>, the Commission presented a report to Parliament and the Council on the implementation of the Regulation, and followed it up with a series of working papers on support for organic farming, on genetic resources and on evaluation and monitoring, together with reports on implementation in the Member States. In December 1998, the Commission presented a working paper on the evaluation of Regulation (EEC) No 2078/92 both to the Committee on Agricultural Structures and Rural Development and to the competent Parliamentary committees.
123. By 1999, the Member States had produced some 160 monitoring and evaluation reports, highlighting a number of environmental benefits arising from the agri-environmental initiative. The evidence from the programmes points to substantial environmental benefits, including reductions in the use of nitrogen fertiliser, better application techniques, positive nature conservancy measures, and the conservation of landscape features.
124. Under Agenda 2000, agri-environmental measures are the only obligatory feature of the rural development programmes that Member States must submit for 2000-2006. For more information on the rural development measures in the Agenda 2000 package, see the beginning of this chapter.

#### 2.4.2. *Early retirement measures*

125. A Community framework for assistance to facilitate early retirement from farming activity has been in place since 1992. The scheme, which is covered by

---

<sup>20</sup> OJ L 102, 25.4.1996, p. 19.

<sup>21</sup> COM(97) 620 final.

Council Regulation (EC) No 1257/99, is intended to contribute to the following objectives:

- to provide an income for elderly farmers who decide to stop farming;
  - to encourage the replacement of such elderly farmers by farmers able to improve, where necessary, the economic viability of the holdings;
  - to reassign agricultural land to non-agricultural uses where it cannot be farmed under satisfactory conditions of economic viability.
126. Community funding is available for farmers taking early retirement, for the farmers who take over their land, and to farm workers.
127. The programmes under way aim to help 205 000 farmers and 7 500 farm workers to retire early, thereby releasing some four million hectares of farmland. A small part of this area would be put to uses other than farming, like forestry or setting up national parks. The rest would be made available to other farmers, especially to young people seeking to enlarge their holding or to take up farming as their main occupation.
128. While the scheme had a relatively slow uptake when it was introduced in 1993, this improved in 1998 and 1999. By 1998, annual Community expenditure on early retirement had reached EUR 208.9 million, a fourfold increase on the 1993 figure of EUR 48.6 million.

## **2.5. Forestry measures**

### *2.5.1. A forestry strategy for the European Union*

129. On 18 November 1998, the Commission adopted a Communication on a forestry strategy for the European Union<sup>22</sup>, and on 15 December 1998 the Council adopted Resolution No 1999/C 56/01 on the same subject<sup>23</sup>. The starting point of the forestry strategy are the commitments entered into by the EU and the Member States in international processes related to forests<sup>24</sup>. The strategy underlines the importance of the multifunctional role of forests and sustainable forest management that is based on the social, economic, environmental, ecological and cultural roles played by the forestry sector in the development of society and rural areas.

### *2.5.2. Forestry measures as part of rural development*

130. In line with the strategy, Council Regulation (EC) No 1257/1999 considers forestry an integral part of rural development policy. Chapter VIII of the Regulation brings together existing measures provided for in Regulations 2080/92<sup>25</sup>, 1610/89<sup>26</sup> and 867/90<sup>27</sup>, along with a new measure to maintain and

---

<sup>22</sup> COM(1998) 649 final.

<sup>23</sup> Council Resolution of 15 December 1998 on a forestry strategy for the European Union (OJ C56 of 26.2.1999, p. 1).

<sup>24</sup> In particular UNCED, UNGASS, the Convention on Biological Diversity, the Convention on Climate Change, the Convention to Combat Desertification and the Ministerial Conferences on the Protection of Forests in Europe.

<sup>25</sup> OJ L 215, 30. 7.1992, p. 96.

improve the ecological stability of forests in certain areas. Restructuring the different forest measures under the new chapter in this way will allow a more efficient and coherent approach to forestry measures at Community level.

#### 2.5.2.1. European Forestry Information and Communication System (EFICS)<sup>28</sup>

131. In order to collect comparable and objective information on the structure and operation of the forestry sector in the Community, and thus facilitate the implementation and monitoring of the Community forestry provisions in force, a European Forestry Information and Communication System (EFICS) was set up in 1989. This system is designed to collect, coordinate, standardise and process data on the forestry sector and its development.
132. In June 1999, the Commission adopted a work programme to set up this system in the period 1999-2002. This concentrates on compiling existing information in a computerised system and on improving and standardising data on forests, forestry products and trade.

#### 2.5.2.2. Protection of forests

133. In 1999, a total of EUR 16 million was granted for projects submitted by the Member States under the Community schemes for the protection of forests against atmospheric pollution and fire.
134. On 22 July 1999, the Commission adopted two proposals for European Parliament and Council Regulations amending Regulation (EEC) No 3528/86 on the protection of the Community's forests against atmospheric pollution<sup>29</sup> and Regulation (EEC) No 2158/92 on the protection of the Community's forests against fire<sup>30</sup>. The proposed regulations have the same purpose as Council Regulations No 307/97<sup>31</sup> and 308/97<sup>32</sup>, which were repealed by the judgement given by the Court of Justice of 25 February 1999, which stipulated that Article 130s of the Treaty (now Article 175) should have been used as the only legal basis. The legal basis of the new regulations is Article 175 of the Treaty.
135. On 28 July 1999 the Commission adopted Regulation (EC) No 1727/1999 laying down certain detailed rules for the application of Council Regulation (EEC) No 2158/92 on protection of the Community's forests against fire.<sup>33</sup>
136. On 21 October 1999 the Commission adopted Regulation (EC) No 2278/1999 laying down certain detailed rules for the application of Council Regulation (EEC) No 3528/86 on the protection of the Community's forests against atmospheric pollution<sup>34</sup>.

---

<sup>26</sup> OJ L 165, 15.6.1989, p. 3.

<sup>27</sup> OJ L 91, 6.4.1990, p. 7.

<sup>28</sup> Council Regulation (EEC) No 1615/89 ( OJ L 165, 15.6.1989, p. 12).

<sup>29</sup> Council Regulation (EEC) No 3528/86 (OJ L 326, 21.11.1986, p. 2).

<sup>30</sup> Council Regulation (EEC) No 2158/92 (OJ L 217, 31.7.1992, p. 3).

<sup>31</sup> OJ L 51, 21.2.1997, p. 9.

<sup>32</sup> OJ L 51, 21.2.1997, p. 11.

<sup>33</sup> OJ L 203, 3.8.1999, p. 41.

<sup>34</sup> OJ L 279, 29.10.1999, p. 3.

137. These two Regulations concern the procedures for submitting applications for Community financial assistance and for payment.

## **2.6. Community Initiatives**

### *2.6.1. Leader II*

138. The Leader II Community Initiative supports rural development projects, designed and run by local partners in rural areas, which stress innovation, demonstration of practicability and transferability.

139. Following on from Leader I, this Initiative is based on three priorities:

- support for transferable innovative projects that demonstrate new approaches to rural development;
- support for exchanges of experiences and the transfer of know-how; and
- support for transnational cooperation projects.

140. The appropriations available amount to some EUR 1.7 billion. Approval has been granted for 102 programmes and over 1 000 local action groups (LAGs) and other partnership bodies have been set up.

141. The other Community Initiatives covering the 1994-99 period are Interreg, REGIS and PEACE.

#### *2.6.1.1. Belgium*

##### *Leader II*

142. The programme for Hainaut adopted on 8 July 1997 was costed at EUR 9.26 million, of which EUR 4.09 million will be provided by the Community (with EUR 1.875 million from the EAGGF Guidance Section). In June 1998 the Monitoring Committee adopted three of the five rural innovation programmes provided for in the framework programme, enabling the authorities to proceed with their implementation. The reprogramming was adopted in October 1999, in the wake of the June meeting of the Monitoring Committee, creating the ideal conditions for the five approved local action groups to implement their rural innovation programmes.

143. The Leader II programmes for Meetjesland and Westhoek adopted on 12 December 1997 did not come into operation until 1998. The Commission adopted an amending decision in respect of each of these programmes, thus allowing the allocation of the amounts accruing from the 1999 deflator and the transfer of appropriations from the ESF and ERDF to the EAGGF.

144. The adoption of the programme for Wallonia was delayed, 1998 and 1999 having been taken up with the selection of all the local action groups after a call for projects had been issued. A total groups of 16 groups were selected and began to put their rural innovation programmes into action.

145. The Monitoring Committee, which met twice in 1999, drew up an amending decision (adopted by the Commission at the end of September) allowing the

amounts accruing from the 1999 deflator to be allocated to specific projects under Measure B, "Rural innovation programmes".

#### Interreg

146. The two programmes covering Hainaut have a small budget under the EAGGF, and did not give rise to any major problems in terms of implementation.

#### 2.6.1.2. Denmark

##### Leader II

147. The Danish Leader II programme was approved on 13 June 1996. The long-term objective is to maintain and redevelop the areas as active and viable local communities. The total Community contribution to the programme is ECU 8.1 million (at 1994 prices), rising to ECU 10.1 million after the inclusion of additional resources from the 1999 indexation of the Structural Funds allocations.
148. After a relatively slow start, projects are now being submitted in increasing numbers. According to the mid-term evaluation report, which was presented in June 1998, the expectation was that all or almost all of the programme resources will be utilised. When the programme was last amended, in December 1999, it was estimated that the amount of funding used would be EUR 8.7 million, because there was insufficient national part-financing for the total allocation of EUR 10.1 million.

#### 2.6.1.3. Germany

##### Leader II

149. After a fairly slow start, Leader II was successfully implemented in the new *Länder*. The local action groups made a highly satisfactory contribution to stimulating development in the areas covered by the programme. Not only did Leader II help to create jobs, it also strengthened the cultural identity of the rural areas in question. All the appropriations available were committed.
150. In Objective 5(b) areas generally, implementation was fairly slow in the first part of the programming period, but improved considerably thereafter. This is because Germany's 123 Leader II local action groups and 46 other collective bodies became fully operational and the administrative authorities were able to build on the experience they had gained.
151. This allowed all the available funds, including the 1995-1999 reserve and indexation, to be committed to the final beneficiaries.
152. The monitoring committees responsible for overseeing the Leader II programmes in Baden-Württemberg and Hessen decided on minor transfers between the Structural Funds. The measures and the annual instalments corresponding to each programme had to be adjusted in line with the take-up rate of the funds.

## Interreg II

153. Interreg II covers three of the new *Länder*: Mecklenburg-Western Pomerania, Brandenburg and Saxony. These regions boast a dense network of contacts with border regions in the Czech Republic and in Poland.
154. The appropriations available were used mainly to develop infrastructure, support forestry and agriculture, improve the quality of the environment and assist disadvantaged rural areas.

### 2.6.1.4. Greece

## Leader II

155. In 1999 an amendment was adopted which allocated the resources accruing from the deflator for that year and the Monitoring Committee carried out a final reallocation of funding between the different beneficiaries. The Structural Funds appropriations were committed in full and the programme was implemented at a fast pace. Some problems remained, however, with the implementation of the training programmes (under the ESF).

## Interreg II - External borders

156. Final adjustments were made to the programme in order to fine-tune the various measures and their budgets, in particular for the EAGGF projects.

## Interreg II - Water shortages

157. The "Water shortages" programme was approved in 1999. It included EUR 3 million in EAGGF funding, targeted mainly on the islands.

### 2.6.1.5. Spain

## Leader II

158. The implementation of the regional Leader II programmes in Objective 1 regions picked up markedly in 1999. The Structural Funds appropriations were all allocated to the various programmes and committed in full from the Community budget.
159. All told, six Objective 5(b) regions implemented Leader II programmes by means of a global grant administered by an intermediary body with a composite structure on which the region and the Ministry of Agriculture were represented. The said body helped the local action groups by providing eligibility assessments of project applications and other useful information.
160. Although some regions experienced delays in selecting their local action groups, the latter are all on course to commit their budget in full before the end of 1999.
161. Due to its special status as an autonomous region within Spain, the Basque Country implemented Leader II in the form of an operational programme. This programme has also made satisfactory progress.

## Regis II

162. This programme concerns the Canary Islands, one of the Community's outermost regions. The programme has made satisfactory progress and is expected to be completed in 2000.

## Interreg II

163. The Spain-Portugal Interreg II programme is progressing as expected. All the Community appropriations were committed before the end of 1999, with disbursal set to continue until 2001.

### 2.6.1.6. France

## Leader II

164. The Leader II programme for Corsica has experienced some implementation problems due to lax administrative procedures on the part of the project sponsors. The leaders of the local action groups and the authorities agree that it will not be possible to either commit or disburse all the funds available for the programme. However, every effort is being made to safeguard this worthwhile venture.
165. Throughout the period, the regional Leader II programmes suffered from administrative problems which impeded the commitment and payment, to operators on the ground, of all the commitments available. In 1999, to rectify the situation, the Commission adopted 20 decisions to adjust the programmes in line with recommendations made by the monitoring committees. The aim of the adjustments was, in particular, to provide extra funding for the rural innovation programmes run by the local action groups.

## Interreg II

166. The EAGGF-funded programmes are making stuttering progress, but there have been no payment requests from the French or Belgian Hainaut regions.

## Regis II

167. The programmes for the four overseas regions continued to be adjusted in order to commit all the available funds before the 31 December 1999 deadline (this now seems likely). As with the SPDs, the difficulty will reside in the parallel tasks of implementing the adjusted programmes and completing them in the current period.

### 2.6.1.7. Ireland

168. The Leader II programme made great strides in terms of completing commitments and accelerating expenditure, the latter being set to be completed in 2000. The Leader II groups in Ireland have accomplished sterling work.

#### 2.6.1.8. Italy

##### Leader II

169. After a slow start, due to the innovative nature of the Initiative and the complex nature of the procedures involved, the rate of funds commitment for most of the Leader II programmes for the Italian regions picked up considerably in 1999. The programmes whose local action groups were not selected until 1998 are still experiencing implementation problems
170. In terms of concrete achievements, however, progress has been less impressive, although most of the projects have been selected and the implementation rate is expected to pick up in 2000.
171. As corroborated by the reports conducted by the independent assessors, the Leader II Initiative often had the important effect of stimulating and strengthening the partnership networks between local operators, giving them the means to continue driving forward local development, even beyond the bounds of the Initiative itself.

#### 2.6.1.9. Luxembourg

##### Leader II

172. Leader II, which was approved in 1995, is a programme whose strategy is based entirely on innovation and transferable measures. It has succeeded in bringing together all the local operators in a regional partnership representing almost every socio-economic group.
173. Certain administrative and institutional problems notwithstanding, the Leader II programme has made satisfactory progress. Local operators are grouped into two local action groups (Clervaux-Vianden and Redange-Wiltz).
174. The operational programme, costed at EUR 4 888 300, will be financed with a single tranche of funding, of which some 20% (EUR 1 million) will be provided by the Community.
175. The two monitoring committees, which met in 1999, approved the need to adjust two measures - "Innovative investment in the small business sector" and "Promoting distance working in rural areas" - in order to reinforce their role as pilot measures in the context of the region and its economy, allocate the 1999 deflator and reserve in equal shares between the EAGGF and the ERDF (50%), and transfer other funds within measure B, "Rural innovation programmes" in line with the assessor's recommendations.

#### 2.6.1.10. Netherlands

##### Leader II

176. The Flevoland programme is progressing according to plan. Following the mid-term evaluation, the administration and monitoring of the programme were improved, together with the procedures employed by the local action group to select projects.

177. The progress of the three Leader II programmes in Objective 5(b) areas (Northwest Friesland, Northwest Groningen and Northeast Friesland and Drenthe) is overseen by the Objective 5(b) monitoring committees. These programmes, intended mainly to stimulate sustainable economic and agricultural activity and promote tourism, are making satisfactory progress. The Community contribution to the three Leader II programmes (except Objective 1 areas) amounts to EUR 6.34 million, nearly 80% of which (for all three Funds combined) had been disbursed by 31 December 1999. All the programmes were adjusted by means of an amending decision at the end of September 1999.
178. A single local action group, representing local organisations and authorities is, for each programme, responsible for administering the project. In the light of the recommendations made in the mid-term evaluation report, each programme's financing plan was adjusted, in particular by allocating the extra resources from the deflator and the reserve. The Commission adopted the corresponding amending decisions in the second half of 1998. Most of the additional resources were allocated to innovative projects based on cultural/rural tourism, small businesses and agricultural diversification.
179. The national Leader II network in the Netherlands, which was officially approved by the Commission on 2 April 1997, is under the supervision of the province of Friesland. It is intended to provide the necessary infrastructure for sharing experience, cooperation between projects and organising visits and studies on relevant subjects.

#### 2.6.1.11.Austria

180. The Leader II programme has delivered satisfactory results. In the Burgenland region, this Initiative is encountering problems of structural change in the local economy. In the Objective 5(b) areas, the programme has stimulated a lively response, generating a raft of development projects. The project managers and sponsors expect the programme to continue.

#### 2.6.1.12.Portugal

181. The Leader II integrated Community programme was, by way of an amending decision, reprogrammed to include the amounts accruing from the 1998 and 1999 indexation (EUR 2.28 million) and effect the final transfers between Funds and between projects, all this with a view to ensuring that the appropriations are committed in full.

#### 2.6.1.13.Finland

##### Leader II

182. A total of 12 local action groups are operating in Objective 5(b) areas in Finland. By the end of 1999, approximately 1 500 projects had been approved for funding. An estimated 1 500 new jobs will be created, more than half of them for women.
183. There are 10 local action groups operating in Objective 6 areas. By the end of 1999, some 900 projects had been approved for funding. An estimated 900 new jobs will be created with, again, more than half of them for women. The

Monitoring Committee allocated funds accruing from indexation to EAGGF activities under measure (b).

184. Due to the small average size of the Leader projects in Finland, some of the new posts are part-time jobs. Almost 150 new businesses will have been created by the end of 1999. In addition, Leader II has played a major role as primer, stimulating the participation of the local population in rural development projects. It has also increased cooperation among rural inhabitants and created new networks, both nationally and internationally. Consequently, it will be years before the full extent of its impact becomes apparent.

#### Interreg II

185. Finland participates in seven Interreg II A operational programmes. Although six of them receive financial assistance from the EAGGF, rural development does not play a central role in the programmes generally. The emphasis is on cross-border cooperation with areas in the former Soviet Union. Although this cooperation has run into some difficulties as a result of the economic problems in Russia, this has not prevented the eligible projects fulfilling the financial framework of the programmes. In 1999, a total of 39 new EAGGF-financed projects were approved under the programmes. Preparations are under way for the next period, and, the above-mentioned problems notwithstanding, special attention will be paid to cooperation with Russia and Estonia, the latter country being a candidate for EU membership.

#### 2.6.1.14.Sweden

##### Leader II

186. The expectations are that the entire budget for measures (b) "local action groups" and (c) "transnational cooperation" will be committed in 1999. Over 160 projects are being implemented. The Swedish Leader network has continued to raise awareness of the achievements of Leader II and facilitate the sharing of experience. The monitoring committee allocated the funds accruing from indexation to ESF projects under measure (b).

## Interreg II

187. There are three Objective 6 programmes: “Nordic Green Belt” (in conjunction with Norway), which is eligible for an EAGGF contribution of EUR 1 million; “Kvarken/Mittskandia” (implemented jointly with Norway and Finland, and only partly an Objective 6 area), for which there was an EAGGF contribution of EUR 0.908 million, and “North Calotte Region” (jointly with Russia, Norway and Finland), with an EAGGF contribution of EUR 1.6 million. "Nordic Green Belt" comprises 20 projects attracting a total of SEK 4 606 000 in part-financing from the EAGGF. In the "North Calotte Region" the EAGGF co-financing of 1.6 million euro is distributed between the measures as follows: measure 1.4 (rural development) 0.3 million euro, measure 2.2 (environment) 0.3 million euro and measure 4.1 (Sami livelihoods) 1.0 million euro. Part-financing for the 11 projects selected under the "Kvarken/Mittskandia" programme totals SEK 7 835 000.

### 2.6.1.15. United Kingdom

188. The three Leader programmes for Objective 5(b) areas in the United Kingdom (England, Wales and Scotland) continued to progress at a satisfactory pace. They were adjusted to take account of the recommendations made in the mid-term review and to allocate the monies accruing from indexation for the period concerned. All the appropriations were committed.

### 3. FINANCING OF THE CAP IN 1999

#### 3.1. Berlin Summit Agreement

189. The Berlin Summit of 24 and 25 March 1999 produced an agreement on the Agenda 2000 proposals. From a financial perspective its conclusions differ appreciably from the Commission's initial proposals of EAGGF Guarantee funding for market support and rural development measures, including accompanying measures, under a single heading. The total expenditure is of course expected to remain below the agricultural guideline, but the expected trend of the guideline suggests that there will be a substantial margin over and above the anticipated expenditure, a margin which could well be needed after 2002 for the expected new members.
190. The conclusions of the Berlin Summit include the Commission's proposed guideline (and within it rural development measures, veterinary measures, the SAPARD pre-accession agricultural instrument and the amount available for agriculture in connection with accessions), but introduce sub-guideline ceilings on expenditure in the shape of two annual subceilings for 2000-2006: one for traditional market expenditure (Title 1(a)) and one for expenditure on rural development (Title 1(b)). Moreover the subceilings are "airtight" - there is no provision for transferring amounts between them or from one year to another - and have been set at a level corresponding to the estimated expenditure resulting from the adoption of Agenda 2000, i.e. at the level of the expected expenditure, with no allowance made for unforeseeable events, even though events of that type often do occur. The ceilings have been set as follows:

Expenditure in 2000-2006 (in EUR million at 1999 prices)<sup>35</sup>

	2000	2001	2002	2003	2004	2005	2006	Total
Total future CAP	40 920	42 800	43 900	43 770	42 760	41 930	41 660	297 740
(a) markets <sup>36</sup>	36 620	38 480	39 570	39 430	38 410	37 570	37 290	267 370
(b) rural devel. <sup>37</sup>	4 300	4 320	4 330	4 340	4 350	4 360	4 370	30 370

191. The conclusions of the Berlin Summit were followed by the adoption, by Parliament and the Council, of a new interinstitutional agreement - on budgetary discipline, financial perspectives (the ceilings) and the budgetary procedure - which lists those conclusions and formally allows the Commission to put forward in the autumn a letter amending the Preliminary Draft Budget for the following year, thereby enabling the budgetary forecasts to reflect the most

<sup>35</sup> A 2% deflator will be used for calculating amounts at current prices.

<sup>36</sup> Including veterinary and plant health protection measures but excluding accompanying measures.

<sup>37</sup> Including accompanying measures.

- To this expenditure should be added rural development measures - other than under Objective 1 - which are currently financed by EAGGF Guidance.

- These amounts roughly correspond, on average, to the proposal put forward by the Commission as part of Agenda 2000.

- All rural development measures are co-financed by the European Commission and the Member States.

recent developments. The agreement also includes provisions on flexibility and on revision of the financial perspectives (ceilings), but responsibility for invoking those provisions rests with the budgetary authority.

192. Given that the new ceilings are much tighter than the guideline, the Commission has proposed a revision of the Decision on budgetary discipline (doc. COM(1999) 364 final of 14 July 1999) which would provide the Community with instruments and procedures that can effectively comply with those ceilings.

### **3.2. EAGGF Guarantee Section**

193. The EAGGF Guarantee appropriations adopted for 1999 total EUR 40 440 million (including EUR 205 million for the agricultural budgetary reserve - Chapter B0-40), i.e. EUR 4 748 million less than the agricultural guideline<sup>38</sup> of EUR 45 188 million.

#### *3.2.1. Stages of the budgetary procedure*

194. The 1999 budgetary procedure began with the presentation, on 30 April 1998, of the Preliminary Draft Budget (PDB), in which the estimated appropriations required were put at EUR 40 440 million. On 28 October 1998 the Commission adopted an amending letter (Amending Letter No 1) which took into account on the one hand the cyclical downturn in agriculture and, on the other, recent agricultural legislation, which provided for slightly increased expenditure.
195. The cyclical downturn in agriculture resulted in an overall increase of EUR 436 million in anticipated expenditure compared with the Preliminary Draft Budget. In essence the additional expenditure concerned two sectors: cereals (+ EUR 1 007 million) and sugar (+ EUR 236 million), in both cases because lower world prices had added to the requirements in terms of refunds and public storage.
196. Additional expenditure arising from the recent adoption of certain legislative proposals totalled EUR 77 million, including EUR 49 million in respect of the Council decision on the prices package.
197. Requirements as set out in the Amending Letter thus totalled EUR 40 953 million, EUR 513 million more than in the Preliminary Draft Budget. A sum of EUR 105 million had been entered in Chapter B0-40 "Provisional appropriations".
198. On 24 November, with a view to complying with the limit, concertation took place between the Council and Parliament on the basis of proposals drawn up by the Commission. The outcome was as follows:
- The Amending Letter was adopted, but the proposed increase of EUR 513 million was offset by an equivalent amount in targeted reductions in the cereals sector. These reductions stem from savings resulting

---

<sup>38</sup> An instrument of budgetary discipline setting a maximum growth threshold for agricultural spending.

from a significant increase in world cereal prices recorded after the Amending Letter had been drawn up.

- The overall appropriation for agri-environmental measures was increased by EUR 20 million (entered in the B0-40 reserve) by deducting that amount from the item "Depreciation of cereal stocks".
  - A total of EUR 80 million was transferred from the fruit and vegetables and milk products sectors to Chapter B0-40.
199. The total requirement for 1999 was accordingly EUR 40 440 million, with appropriations matching this amount. Altogether, EUR 205 million was entered in Chapter B0-40.
200. At the concertation meeting held on 24 November 1998 Parliament and the Council decided, in agreement with the Commission, to finance a food-aid measure for Russia using 1998 EAGGF Guarantee appropriations. Supplementary and Amending Budget No 1/98 provides for EUR 400 million (the net cost of the measure) to be entered under a new heading: B1-315. As agreed by the three institutions, the Commission presented to the Budgetary Authority a proposal to carry over EUR 400 million in appropriations from 1998.
201. It should be emphasised that estimating future expenditure on agriculture is particularly difficult. Up to twenty months can elapse between the forecast and the execution of certain expenditure, and many unforeseeable factors, both internal and external - including the value of the euro in relation to the dollar - can have a major effect on expenditure.
202. Moreover the Commission's budgetary forecasts are heavily dependent on the expenditure forecasts and on some production forecasts which Member States must produce and transmit to it in accordance with the rules applicable. The Commission has accordingly looked into possible improvements in financial management and has implemented an action programme in this respect. It has asked Member States to contribute to this effort by improving the quality and the speed of transmission of the information concerned, in line with the current rules.
- 3.2.2. *Budgetary discipline*
- 3.2.2.1. The guideline
203. Like previous budget years, 1999 is subject to the requirements of budget discipline and, in particular, compliance with the guideline adopted pursuant to the agreement reached at the Brussels European Council in February 1988 and extended to 1999 at the Edinburgh European Council in December 1992. In order to curb spending on the CAP the guideline limits the annual rate of increase of the expenditure concerned.
204. The overall pattern of EAGGF Guarantee Section expenditure since 1992 can be summarised as follows:

## EAGGF Guarantee Section

(EUR million)

	1992	1993	1994	1995	1996	1997	1998	1999
Guideline	35 039	36 657	36 465	37 944	40 828	41 805	43 263	45 188
Expenditure financed within the guideline	31 119	34 590	32 970	34 503	39 108	40 423	38 748	39 541
Margin	3 920	2 067	3 495	3 441	1 720	1 382	4 515	5 647
Total expenditure <sup>1</sup>	31 950	34 590	32 970	34 503	39 108	40 423	38 748	39 541

<sup>1</sup> All types of expenditure have been financed within the guideline from 1993 onwards.

205. The graph shows the development of the guideline and expenditure from 1988 to 1999.

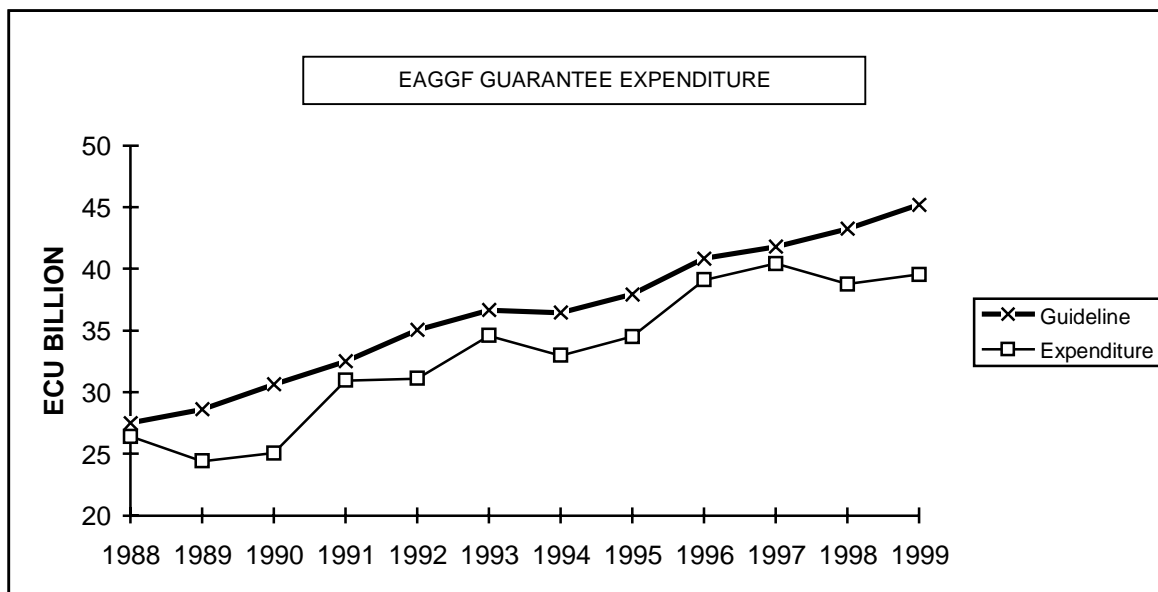


Figure 6

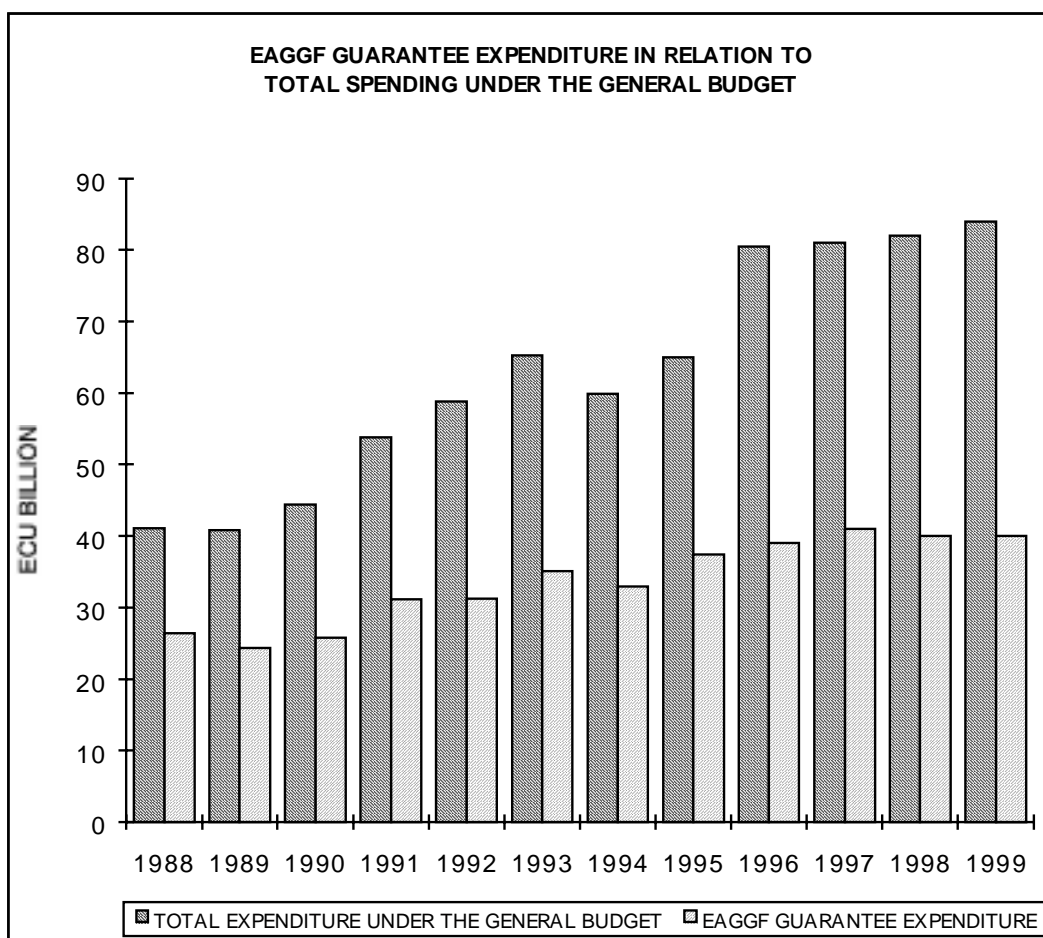
### 3.2.2.2. The monetary reserve

206. The operating mechanisms for the monetary reserve are set out on page 139 of the 1995 Report on the Agricultural Situation.
207. In accordance with the Council Decision on budgetary discipline, the euro/dollar parity used for the 1999 financial year is equal to the average dollar parity for January, February and March 1998, i.e. USD = EUR 0.92.
208. The average rate for the dollar from 1 August 1998 to 31 July 1999 was EUR 0.90, giving rise to additional budget expenditure of EUR 219 million.
209. Expenditure was also incurred as a result of changes in the dual rate coefficient. The impact of the dual rate was estimated, in terms of the appropriation requirements on which the budget was based, at EUR 511 million. As currently calculated, the impact is estimated at about EUR 630 million, i.e. an increase of EUR 119 million.

### 3.2.3. *The EAGGF Guarantee Section in the context of the general budget*

210. In a general budget of the European Union for the 1999 financial year, totalling EUR 83 978 million (in payment appropriations entered in the 1999 budget), EUR 40 440 million in payment appropriations (including the monetary reserve and the appropriations entered in Chapter B0-40 "provisions"), i.e. 48%, was allocated to the Guarantee Section. In 1998 EAGGF Guarantee Section expenditure accounted for 49% of general budget expenditure.
211. The share of the general budget accounted for by the Guarantee Section since 1988 is shown in Figure 7. It has followed a downward trend, on the whole, as a result of the growth of other common policies and a determination to curb agricultural spending.

Figure 7



\* Appropriations entered in the budget (including the monetary reserve of ECU 500 million)

### 3.2.4. The EAGGF and its financial resources

212. The EAGGF forms an integral part of the European Union's budget. Its appropriations are therefore determined in accordance with budget procedures, in the same way as other Community expenditure.
213. The CAP also generates revenue in the form of sums collected under the common market organisations. This revenue, which forms part of the Union's own resources,<sup>39</sup> consists of:
- levies, which are variable charges on imports from non-member countries of agricultural products covered by the common market organisations; such charges are intended to compensate for the difference between prices on the world market and prices agreed within the Union. Under the Agreement on Agriculture following the Uruguay Round of multilateral trade negotiations, levies have been replaced by fixed import duties since 1995;
  - levies collected under the common organisation of the market in sugar; these are divided into production levies on sugar and isoglucose, sugar storage levies and additional elimination levies which ensure that farmers and sugar manufacturers finance the cost of disposing of sugar which is surplus to Community internal consumption.

#### Revenue

#### Charges accruing to the Union's own resources under the CAP

(EUR million)

Type of charge	1993	1994	1995	1996	1997	1998	1999*
Agricultural levies	1029,1	922,5	844,3	810,1	873,4	693,2	1054,5
Sugar levies	1115,3	1382,1	1316,3	1213,7	1366,0	1163,4	1080,0
Of which:							
- production <sup>40</sup>	698,4	809,9	766,2	711,5	842,4	682,7	631,3
- storage costs	416,7	572,2	542,0	490,8	513,4	435,0	405,7
- other	0,2	0,0	7,8	11,4	10,0	45,8	43,0
Total	2144,4	2304,6	2160,6	2023,8	2239,4	1856,6	2134,5

\*As at 31 October.

214. It should be noted that there are other sources of agricultural revenue. Under the common organisation of the market in milk and milk products, producers pay an additional levy if milk quotas are exceeded. This revenue does not, however, form part of the Union's own resources but is considered to be part of the measures to stabilise agricultural markets. It covers the additional expenditure brought about by the production overrun on the quotas and is thus deducted from this same expenditure.

<sup>39</sup> The Union's other own resources are: the levy on VAT, customs duties collected under the Common Customs Tariff and Member States' contributions.

<sup>40</sup> Including the additional elimination levy.

### 3.2.5. *EAGGF Guarantee Section expenditure*

215. Essentially, the EAGGF Guarantee Section finances expenditure on the common organisations of agricultural markets, comprising:
- market support (ECU 10 563 million in 1998);
  - aid to producers (ECU 28 217 million in 1998).
216. Market support covers export refunds (ECU 4 826 million in 1998), storage (ECU 2 008 million in 1998), guidance premiums (ECU 172 million in 1998), processing and marketing aids (ECU 1 207 million in 1998), consumption aids (ECU 1 483 million in 1998), withdrawals and the like (ECU 462 million in 1998) and miscellaneous other expenditure (ECU 404 million in 1998).
217. Aid to producers is thus currently by far the largest type of assistance. It consists in particular of production aid, but also includes guidance premiums and processing aid where the payments are made direct to producers.
218. Furthermore, as a result of the reorientation and later the reform of the CAP, the EAGGF Guarantee Section has been used to finance, in whole or in part, various specific measures for the management of agricultural markets such as the distribution of agricultural products to the needy in the Community, measures to combat fraud, measures to promote quality and measures designed to compensate for the geographical isolation of the French overseas departments (Poseidom), Madeira and the Azores (Poseima), the Canary Islands (Poseican) and the Aegean islands. In connection with the CAP reform, mention should also be made of the accompanying measures to assist farmers with projects to protect the environment, maintain the landscape, develop the use of forest resources or transfer their holdings with a view to early retirement.
219. Figure 8 shows the impact of the reform on the main types of financing in 1998, as compared with the pre-reform levels. Of note are the fall in expenditure on storage following the measures to normalise markets, the lower expenditure on refunds and the increased share devoted to the new aids introduced or reinforced by the reform.

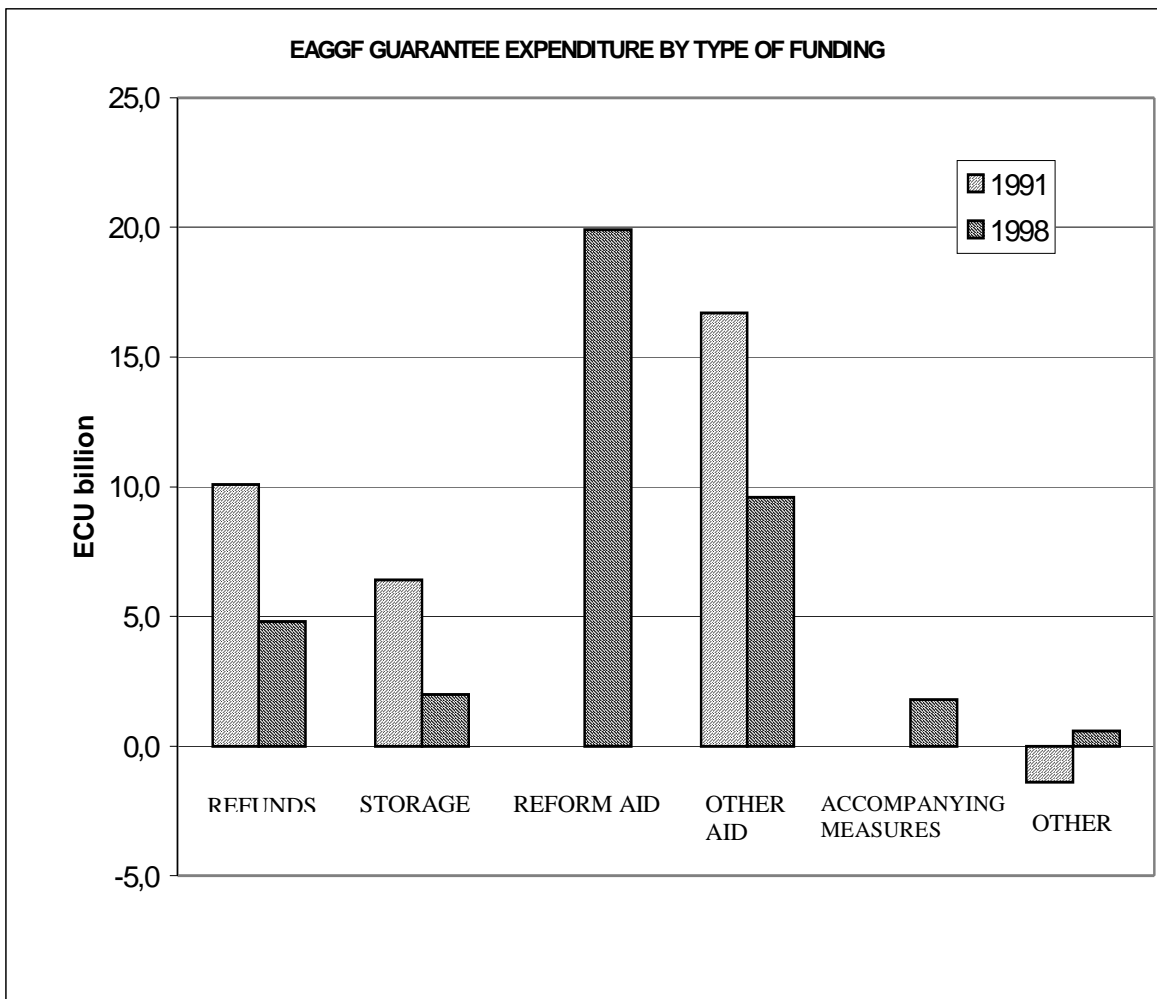


Figure 8

### 3.2.5.1. Expenditure, by sector

220. Chart 9 shows the breakdown of expenditure in 1999.

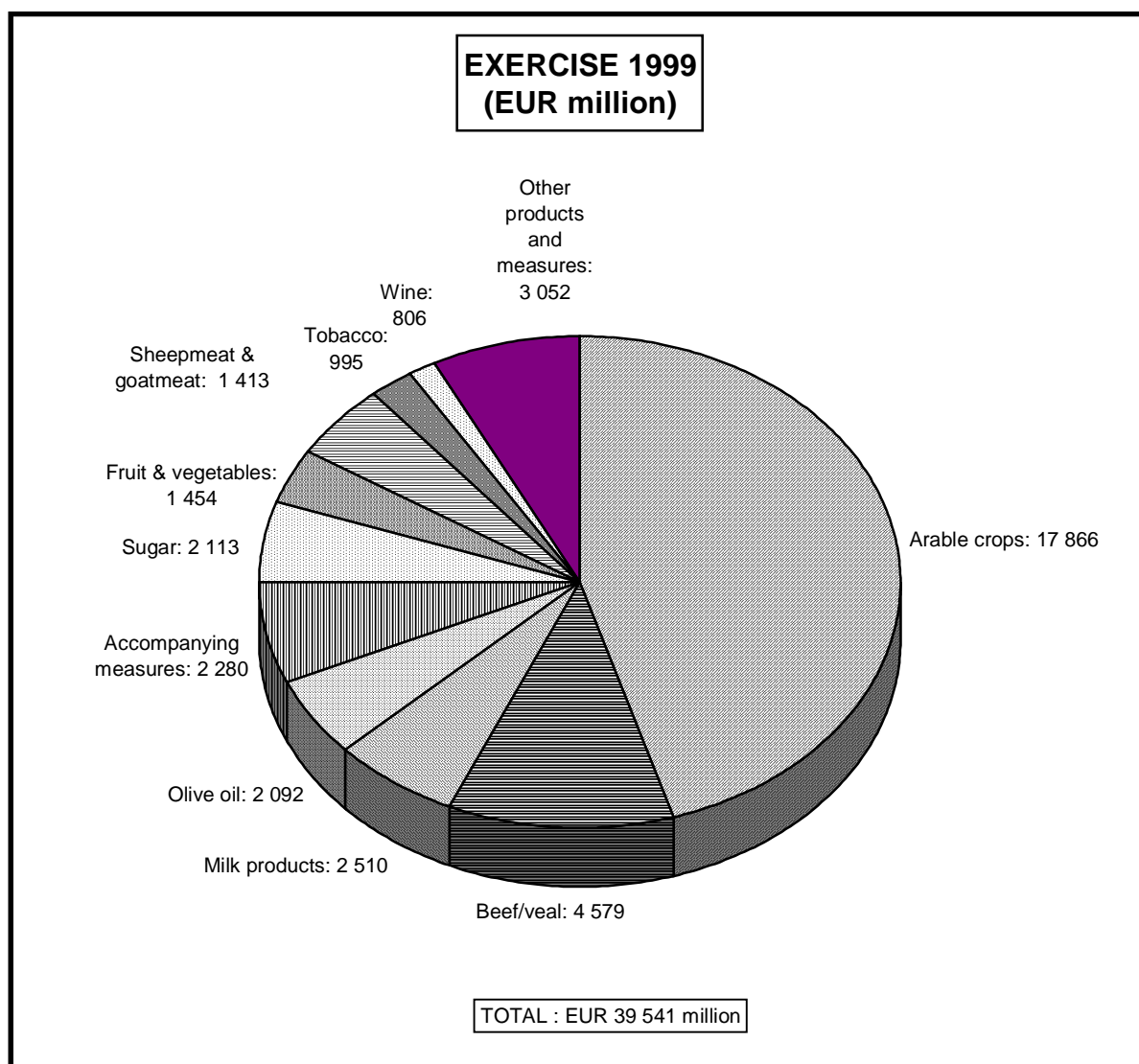


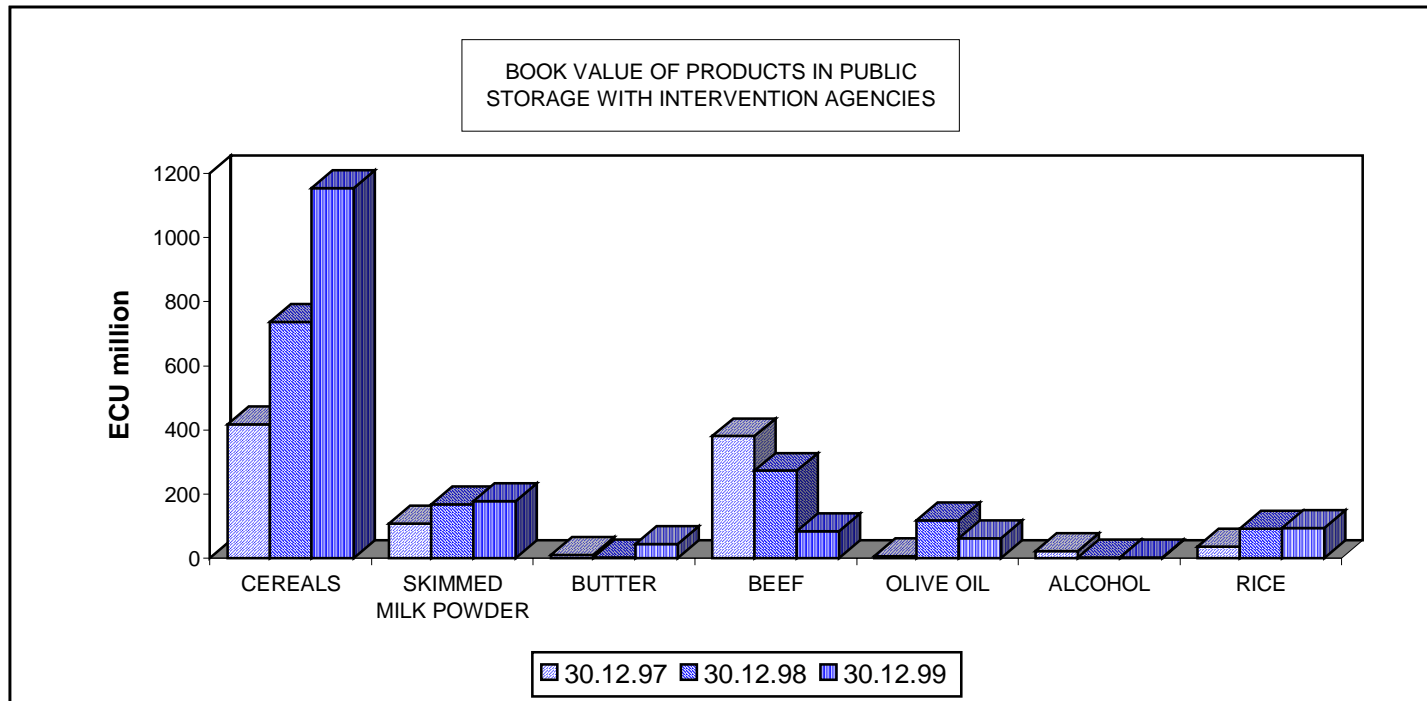
Figure 9

221. It should be noted that Chapter 10 "Arable crops" covers the appropriations for 1999 for cereals, oilseeds and protein plants. Per hectare aid (including set-aside) accounts for a major share of this expenditure (EUR 14 624 million).
222. Past movements in EAGGF expenditure by sector and Member State and a detailed breakdown of EAGGF Guarantee Section expenditure and appropriations under the 1998 budget, by sector and economic type, are shown in Tables [3.4.1], [3.4.2], [3.4.3] and [3.4.4] (see statistical part of this Report).

#### Public storage

223. As shown in Table [3.4.5] (statistical part of this Report), between 1 October 1997 and 30 September 1998, when the public storage accounts were closed, the book value of the products in storage was significantly up on 1997: from ECU 749.2 million to ECU 1 398.0 million, an increase of 54%.

224. This resulted from:
- a marked increase in stocks of cereals and rice (from 2 380 700 tonnes in September 1997 to 13 603 000 tonnes on 30 September 1998);
  - a slight reduction in beef stocks (from 622 600 to 544 000 tonnes);
  - a sharp increase in milk products, from 170 400 to 208 400 tonnes).
225. The following developments took place in 1999:
226. The book value of the products in storage again rose significantly, from ECU 1 398.0 million in 1998 to EUR 1 630.7 million in 1999. It is above all cereals which contributed to the increase (EUR 1 155 million). Butter, too, is up (from EUR 3 million to EUR 44 million), but the increase is of relative importance, given that the product accounts for only a small part of the total value of products in public storage.
227. There were, however, major reductions as regards meat (from EUR 273 million in 1998 to EUR 85 million in 1999) and olive oil (from EUR 119 million in 1998 to EUR 62 million in 1999). In the case of beef this is simply the continuation of an underlying trend, doubtless attributable to the end of the BSE crisis.
228. These developments are shown in Figure 10.



Book value of products in public storage with the intervention agencies

Figure 10

### 3.2.6. Clearance of accounts

229. In 1999 the Commission adopted six Decisions on the clearance of the accounts presented by the Member States in respect of EAGGF Guarantee Section expenditure:
- the Decision of 3 February 1999, in respect of 1995;<sup>41</sup>
  - the Decision of 28 July 1999, in respect of 1995, supplement;<sup>42</sup>
  - the Decision of 3 February 1999 pursuant to Article 5(2)(c) of Regulation (EEC) No 729/70 - first *ad hoc* Decision, applicable from 1996;<sup>43</sup>
  - the Decision of 30 April 1999, in respect of 1998 – clearance of accounts;<sup>44</sup>
  - the Decision of 4 May 1999 pursuant to Article 5(2)(c) of Regulation (EEC) No 729/70 - second *ad hoc* Decision, applicable from 1996;<sup>45</sup>
  - the Decision of 28 July 1999 pursuant to Article 5(2)(c) of Regulation (EEC) No 729/70 – third *ad hoc* Decision, applicable from 1996.<sup>46</sup>
230. The expenditure recovered from Member States in respect of these six Decisions comes to EUR 725.1 million.
231. In the case of the agricultural guarantee sector, where Member States are responsible for executing virtually all payments and for collecting all levies and recoveries, the Commission has taken firm steps to encourage Member States to reduce the rates of irregularity. Firstly, it has worked with the Member States to ensure that, throughout the Union, the paying agencies see to it that there are very strict controls on all claims before they are paid, and that the paying agencies' accounts and procedures are audited each year to internationally accepted standards. Secondly, it has actively assisted all Member States in putting into place an integrated control system which uses the most advanced techniques - viz. checking of fields by aerial and satellite photography - and in cross-checking claims in computer data bases.
232. The Commission also took part in the following in connection with the clearance of accounts:
- discussions with the Member States on the findings of the inspection missions in respect of 1997 and 1998 and drawing up of a new decision on the clearance of accounts;
  - the work of the European Parliament's Budgetary Control Committee in the context of the discharge of the 1996 and 1997 budgets;

---

<sup>41</sup> Decision 1999/187/EC, OJ L61, 10.3.1999, p. 37.

<sup>42</sup> Decision 1999/596/EC, OJ L 226, 27.8.1999, p. 26.

<sup>43</sup> Decision 1999/186/EC, OJ L61, 10.3.1999, p. 34.

<sup>44</sup> Decision 1999/327/EC, OJ L124, 18.5.1999, p. 28.

<sup>45</sup> Decision 1999/350/EC, OJ L133, 28.5.1999, p. 60.

<sup>46</sup> Decision 1999/603/EC, OJ L 234, 4.9.1999, p. 6.

- Opinion of the Court of Auditors on the clearance of the 1994 accounts and on the 1998 Statement of Assurance;
- raising awareness in applicant countries in the context of SAPARD and the pre-accession screening;
- work of the conciliation body;
- commenting on the recommendations made in the second Report of the Committee of Independent Experts.

### 3.2.7. *Expenditure on agricultural markets in 1999*

233. The uptake of EAGGF Guarantee Section appropriations for the 1999 financial year (expenditure by the Member States from 16 October 1998 to 15 October 1999) amounted to EUR 39 541 million, i.e. 97.7 % of the appropriations entered under Subsection B1 of the budget. After the transfer of appropriations to the monetary reserve, the initial appropriations of EUR 40 440 million exceeded expenditure by EUR 899 million.
234. The level of expenditure described above takes into account the Commission decisions to reduce advances to Member States. The reductions concern in particular:
- the failure by Italy and others to collect the additional levy on milk for 1997/98 and 1998/99 (advances reduced by EUR 337 million);
  - weaknesses in the application of the integrated system and in the carrying out of checks by Greece. The final reduction totals EUR 108 million;
  - weaknesses in the application of the integrated system by Portugal (reduction of EUR 5 million);
  - failure by several Member states to comply with time limits for payments laid down in the Regulations (reduction of EUR 12 million).
235. The following factors, too, could not be foreseen when the budget was drawn up, and had a major impact on its execution in 1999:
- deductions from EAGGF Guarantee expenditure following the larger financial corrections of the clearance of accounts (EUR 96 million);
  - the non-payment by Italy of the first *tranche* of agrimonetary aid for the execution of programmes adopted by the Commission in the spring of 1998 (EUR 130 million).
236. The differences between appropriations entered under budget Subsection B1 and expenditure in respect of the principal chapters of the budget are set out below.
237. The principal sectors where there was underutilisation were:
- beef/veal (- EUR 337.4 million), generally as a result of an increase in beef/veal consumption in the European Union;

- fruit and vegetables (- EUR 206.9 million), as a result of reduced expenditure on **fresh fruit and vegetables**. This stems mainly from a lower level of withdrawal operations in 1998/99 and a reduction in expenditure on compensatory aid for bananas;
- other measures (- EUR 165.8 million), underutilisation here resulting mainly from the non-payment of **agrimonetary aid** by Italy;
- olive oil (- EUR 159.2 million), the underutilisation of appropriations being in this case attributable to lower than expected expenditure in respect of **production aid**, in particular in Spain, and to a reduction in monthly advances paid to Greece. High olive oil prices resulted in some profits on sales from **public storage** which had not been anticipated in the initial budget.

238. On the other hand, expenditure under the following chapters appreciably exceeded budget appropriations:

- sugar (+ EUR 175.8 million), the overshoot being attributable to substantial payments in respect of **export refunds**. This was the result partly of low world market prices and partly of an upturn in exports at the beginning of the marketing year, and led to a higher than expected percentage of payments in 1999 in respect of 1998/99;
- sheepmeat and goatmeat (+ EUR 139.3 million), an overshoot which stemmed from higher **ewe and goat premiums**. Owing to a lower market price the level of expenditure on the balance for 1998 and the initial advance for 1999 was higher than had been forecast when the budget was drawn up.

### 3.3. EAGGF Guidance Section

239. Implementation of the reform of the Structural Funds since 1 January 1989 has gradually changed the nature of the aid granted by the EAGGF Guidance Section. An ever-increasing share of Community contributions is taken up by the part-financing of operational programmes (99.8% of the total in 1998, as compared with 52% in 1993 and 40% in 1991). The second reform of the Structural Funds, which came into force on 1 January 1994, put the finishing touches to the system of annual reimbursement of national expenditure that had not been programmed. Virtually all financing under the EAGGF Guidance Section is now provided through measures programmed on a multiannual basis in accordance with the principles of partnership and subsidiarity between the Commission and the Member States.

240. The current programming period, which covers 1994 to 1999, is marked by consolidation of the principles governing the first programming period following the reform of the Funds. It also includes some simplification of procedures, for example under Regulation (EC) No 951/97 on improving the processing and marketing conditions for agricultural products.<sup>47</sup> Furthermore, Regulation (EC) No 950/97 on improving the efficiency of agricultural structures<sup>48</sup> has been amended so that financing is based on multiannual programmes, in a manner similar to that for the other Objectives, thus harmonising the funding mechanisms. In this way the

---

<sup>47</sup> OJ L 142, 2.6.1997, p. 22.

<sup>48</sup> OJ L 142, 2.6.1997, p. 1.

Community schemes implemented by Member States, which account for a significant share of financing by the Guidance Section (farm improvement plans, compensatory allowances, etc.), give rise to reimbursements up to the limits laid down in the corresponding multiannual programmes.

241. The measures undertaken on the initiative of the Member States under the Community support frameworks are supplemented by those launched by the Commission, i.e. programmes under the Leader, Interreg, Regis II and Peace Community Initiatives, and measures financed under Article 8 of Regulation (EC) No 4256/88<sup>49</sup> and transitional measures.

3.3.1. *Funding carried out*

242. EAGGF Guidance Section expenditure by Member State during the period 1991 to 1998 is shown in the table below.

243. It is also worth noting the breakdown of expenditure by Objective. The EAGGF Guidance Section contributes to the following four Objectives:

- Objective 1 (regions whose development is lagging behind);
- Objective 5(a) (agricultural structures in all regions);
- Objective 5(b) (rural development in designated areas);
- Objective 6 (Nordic regions), following the accession of the new Member States.

244. The following table also shows expenditure from 1994 onwards under the Community Initiatives and under Article 8 of Regulation (EEC) No 4256/88 (finance for technical assistance, general studies, pilot and demonstration projects) and transitional measures (old measures which cannot be assigned to an Objective under the new rules).

---

<sup>49</sup> OJ L 374, 31.12.1988, p. 25.

## EAGGF Guidance expenditure (commitment appropriations)

(ECU million)

Member State	1991	1992	1993	1994	1995	1996	1997	1998
BELGIQUE/BELGIË	30,5	28,2	41,7	37,6	40,0	39,9	32,5	40,2
DANMARK	18,0	23,5	20,0	42,5	16,7	29,1	17,2	27,4
DEUTSCHLAND	200,2	253,7	348,7	700,2	807,9	805,1	718,6	839,4
ELLÁDA	274,2	392,2	402,9	266,3	463,8	328,3	339,1	374,5
ESPAÑA	514,2	633,6	412,9	544,7	709,5	695,-	925,2	788,2
FRANCE	425,3	554,4	633,5	619,7	347,8	526,3	633,1	600,3
IRELAND	168,5	194,5	165,7	178,3	157,3	261,1	285,2	111,1
ITALIA	326,5	375,9	625,0	263,2	454,2	428,1	580,1	753,1
LUXEMBOURG	6,7	6,3	9,0	9,8	6,0	4,3	1,1	12,2
NEDERLAND	20,5	21,9	19,5	32,1	13,1	27,3	13,6	8,3
ÖSTERREICH					97,7	122,6	84,5	127,7
PORTUGAL	313,4	289,8	313,9	510,5	282,7	379,5	309,4	444,1
SUOMI/FINLAND					109,8	102,4	129,3	98,8
SVERIGE					24,7	65,4	14,4	60,9
UNITED KINGDOM	110,2	100,8	99,5	130,5	74,1	116,-	45,7	75,2
Other (technical assistance for Leader)					3,7	4,1	3,4	5,5
TOTAL	2 408,2	2 874,8	3 093,4	3 335,4	3 609,1	3 934,5	4 132,4	4 366,9

## Expenditure by objective

(ECU million)

Objective	1991	1992	1993	1994	1995	1996	1997	1998
<b><i>Community support frameworks</i></b>								
Obj. 1 (regions lagging behind)	1 440,8	1 634,7	1 599,2	1 905,3	2 395,2	2 416,5	2 578,7	2 502,8
Obj. 5(a) (agricultural structures)	631,3	701,3	923,9	1 131,6	655,9	802,4	974,7	1 066,3
Obj. 5(b) (rural areas)	260,2	475,8	508,7	265,8	249,5	508,4	421,5	562,8
Obj. 6 (Nordic areas)					47,7	44,7	51,3	51,2
<b><i>Community Initiatives</i></b>								
LEADER		}		0,3	235,9	83,1	65,4	116,4
INTERREG		}		0,0	12,8	31,3	17,6	44,7
REGIS		}		0,0	0,0	17,0	4,6	6,3
ENVIREG		}		---	---	---	---	---
		Included under other headings						
PEACE		}		0,0	1,3	8,1	13,0	7,9
POSEI		}		---	---	---	---	---
Art. 8 of Reg.4256/88		}		5,2	0,6	15,4	5,3	1,0
Transitional measures	75,9	63,0	61,6	27,2	10,3	7,6	0,4	7,5
<b>TOTAL</b>	<b>2 408,2</b>	<b>2 874,8</b>	<b>3 093,4</b>	<b>3 335,4</b>	<b>3 609,1</b>	<b>3 934,5</b>	<b>4 132,4</b>	<b>4 366,9</b>

245. Expenditure under Objective 1, which had increased from 1991 onwards, steadied towards the end of the first programming period, only to rise again from 1994 on.
246. Expenditure under Objective 5(a) was fairly stable during the period under review, but peaked strongly in 1994 as a result of the change in the system of financing the “indirect” measures (former Regulation (EEC) No 2328/91<sup>50</sup>), which meant that reimbursements for 1993 and new financing for 1994 and 1995 were charged to that year. Expenditure under Objective 5(b) grew substantially from 1991 to 1993, reflecting the emphasis on rural development policy, but fell sharply in 1994 following delays in launching the new programming period. The delays were made up from 1996 onwards.
247. Since the transitional measures are being wound up, expenditure on them has fallen almost every year since 1991.
248. While the amounts under Objectives 1 and 5(b) for 1991 to 1993 include measures under the Community support frameworks, under the Community Initiatives and under Article 8 of Regulation (EEC) 4256/88,<sup>51</sup> from 1994 onwards the amounts corresponding to the last two are shown separately.

### 3.3.2. *Budget execution*

249. In terms of the appropriations available in 1998, including those originally entered in the budget together with transfers and carryovers (ECU 4 417 million in commitment appropriations and ECU 3 706 million in payment appropriations), execution of the 1998 budget for the whole of the EAGGF Guidance Section was 98.9% for commitment appropriations and 99.5% for payment appropriations.
250. The appropriations in the 1999 budget amounted to EUR 5 545 million for commitments and EUR 4 002 million for payments. These figures include the appropriations for Community Initiatives. As in 1998, the above figures also include that part of the payment appropriations allocated under Regulation (EC) No 3575/90<sup>52</sup> to the new German *Länder* and sums for the implementation of the programmes in the outermost regions included in the “Structural Funds” chapter. The commitment appropriations total does not include appropriations for measures in the fisheries sector, since this is separate from agriculture.

## 3.4. **Evaluation**

251. The evaluation of agricultural measures is divided into two major parts: one dealing with market-related measures and one concerned with structural and rural development measures.

### 3.4.1. *Evaluation of market-related measures*

252. In 1999 external experts were asked to carry out a total of ten evaluations. One evaluation (dealing with promotion) had to be called off when the contractor defaulted. A total of three evaluations, concerning school milk, the internal food

---

<sup>50</sup> OJ L 218, 6.8.1991 p. 1.

<sup>51</sup> OJ L 374, 31.12.1988, p. 25.

<sup>52</sup> OJ L 353, 17.12.1990, p. 19.

programmes and Poseican, were completed and contributed to proposals for amendments to the legislation concerned. Another three evaluations, on durum wheat, the Aegean islands and Poseidom, were completed at the end of 1999. A further three evaluations, on the sugar sector, the sheepmeat and goatmeat sector and Poseima, were launched in the second half of the year with a view to making the results available before the summer of 2000.

253. Concomitantly with the negotiations on the Agenda 2000 package, the Directorate-General for Agriculture has begun to carry out methodological work which will pave the way for evaluations in the arable crops, beef/veal and milk products sectors.

#### 3.4.2. *Evaluation of structural and rural development measures*

254. Appropriate conclusions have been drawn by the Directorate-General for Agriculture in the light of the 1998 scrutiny and summary of the national and regional reports on the intermediary evaluations.

255. Accordingly, in order better to prepare for the next series of evaluation reports carried out in the Member States, a number of guidelines have been drawn up for the evaluations in connection with Objective 5(a) (Regulations Nos 950/97 and 951/97), *ex post* evaluations in connection with Objective 5(b) and Leader II, and the cycle of evaluations to be undertaken in the context of the next programming period (2000-2006).

## **4. PREPARING FOR ENLARGEMENT**

### **4.1. Accession strategy**

256. The Commission injected new momentum into the enlargement process when, on 13 October 1999, it adopted an expanded accession strategy. The Commission's recommendation was that the Helsinki European Council in December 1999 should decide to open negotiations in 2000 with every candidate country that had met the political criteria for accession and had shown that it was prepared to adopt the necessary measures to meet the economic criteria. The opening of negotiations should, however, be conditional on a decision on the closure of a specified nuclear power station in the case of Bulgaria, and on confirmation of effective action regarding child-care centres in the case of Romania. The Commission also takes the view that negotiations should take place on the basis of the principle of differentiation, i.e. in accordance with each candidate's progress in preparing for membership.

### **4.2. Screening of the *acquis communautaire***

257. The application of the screening process to agriculture, which began on 21 September 1998, was the preliminary phase of the negotiations. Its purpose is to explain the *acquis* and identify possible technical adaptations with a view to its implementation. In addition, it aims to identify *acquis* acceptance problems and the capacity for implementation (i.e. the availability of administrative and control structures). In the case of the candidate countries with which negotiations had opened in March 1998 (Poland, Hungary, Estonia, Czech Republic, Slovenia and Cyprus), the screening was completed in September 1999, with the scrutiny of the new legislation introduced as part of Agenda 2000. The applicants then presented their formal negotiating positions in November/December 1999, specifying in particular their requests for transitional periods and technical adaptation of the *acquis* in agriculture.

258. In the case of the candidate countries with which negotiations had not yet begun (Bulgaria, Romania, Latvia, Lithuania et Slovakia), the screening exercise covering the *acquis communautaire* in agriculture - but not veterinary or phytosanitary legislation - started in October 1999 and was completed in December.

### **4.3. Accession Partnerships**

#### **4.3.1. Introduction**

259. As part of the Agenda 2000 initiative, the Commission proposed bringing together into a single framework all the different forms of pre-accession support provided by the EU. The Luxembourg European Council of 12-13 December 1997 endorsed this by creating Accession Partnerships with each of the candidate countries.<sup>53</sup> These partnerships are to be the key instruments in the reformed pre-accession strategy.

---

<sup>53</sup> See OJ C 202 of 29.6.1998 for full details of the Accession Partnerships.

They are designed to help prepare the candidate countries to meet the criteria for membership established in 1993.

260. Each Accession Partnership sets out priorities and intermediate objectives. Short-term priorities were selected on the basis of whether it was reasonable to expect an advanced stage of progress, or even completion, by the end of 1999. Those listed as medium-term priorities were expected to need more than a year to complete, although work could and indeed did indeed begin on them in 1999.
261. Whilst the Accession Partnerships identify particular priorities they also make it clear that the candidate countries must address all the issues identified in the Commission Opinions on the application for membership.
262. Each Accession Partnership is individually tailored to the needs and specific situation of the country concerned. Some of the common objectives for the agricultural sector cover:
- alignment with the veterinary and phytosanitary *acquis*, in particular external border controls;
  - development of the capacity to implement and enforce the CAP. This concerns in particular the fundamental management mechanisms and administrative structures for monitoring agricultural markets and implementing structural and rural development measures. The restructuring of the agri-food sector is also included.

#### 4.3.2. *National programmes for the adoption of the acquis*

263. Complementary to the Accession Partnership is each candidate country's National Programme for the Adoption of the *Acquis* (NPAA). This sets out, together with an implementation timetable, the legislative, administrative, and operational adjustments that need to be completed prior to accession. Where possible it also indicates the staff and financial resources required for implementation.

#### 4.3.3. *Financing enlargement*

264. The Accession Partnerships also indicate the main Community instruments for technical and financial assistance. The main source of financial assistance remains the PHARE programme, which provided ECU 6.7 billion to the central and eastern European countries in 1995-99. The Commission will work with the candidate countries, the European Investment Bank (EIB) and other international financing institutions, in particular the World Bank and the European Bank for Reconstruction and Development, in facilitating the co-financing of projects relating to pre-accession issues.
265. As well as making available EUR 1 560 million in aid under PHARE, the Council decided to reinforce pre-accession assistance to agriculture and rural development. This will be undertaken through a specific instrument called the Special Accession Programme for Agriculture and Rural Development (SAPARD) and will be implemented in 2000-06 with a budget of EUR 520 million per year.

266. ISPA, the pre-accession instrument for structural policies, will contribute EUR 1 040 million per year in 2000-2006. This fund, operationally similar to the Cohesion Fund, will focus on funding in the areas of transport and the environment.
267. Under the Accession Partnership, Community assistance will be conditional on respecting commitments made under the Europe Agreement, as well as on taking further steps towards satisfying the Copenhagen criteria and making progress in the implementation of the Accession Partnership priorities.
268. Monitoring of the implementation of the Accession Partnerships will take place through the Europe Agreement institutions. This process has begun and the first conclusions were included in the progress report submitted to the Council in November 1998. A second report was submitted in October 1999. Both review the progress made by the candidate countries.
269. As agreed by the Luxembourg European Council in 1997, the Commission's progress reports will serve as a basis for the decisions that may need to be taken by the Council on the conduct of the accession negotiations or on extending the negotiations to other applicants.

#### **4.4. Institution-building and twinning arrangements**

270. Another important aspect of accession is the strengthening of the institutional and administrative capacity of the candidate countries. The latter must establish modern and efficient administrations if they are to apply the *acquis communautaire* to the same standards as the current Member States.
271. To help candidate countries adopt the *acquis*, the European Commission has proposed re-focusing PHARE support on two priorities: institution-building and investment. While support for investment will help candidate countries bring their economic and social structures into line with Community standards, institution-building will help them to reinforce their institutional and administrative capacity so that they can take on the obligations of membership. Institution-building can take many forms, such as technical assistance, training programmes and exchanges of experts.
272. In the EU the *acquis* is implemented, applied and enforced by national administrations (at central, regional and local level), by agencies and by the private sector. This vast body of administrative and technical expertise will be made available to the candidate countries through the process of twinning. Twinning will focus on four key areas of the *acquis* in each of the candidate countries, namely agriculture, environment, finance, and justice and home affairs.
273. Twinning aims to deliver specific and guaranteed results in the process of implementing the priority areas of the "acquis" set out in the Accession Partnerships.

#### **4.5. SAPARD (Special Accession Programme for Agriculture and Rural Development)**

274. As part of the pre-accession strategy the Council decided to grant pre-accession aid in the agricultural and rural development sectors from the year 2000. An instrument known as SAPARD (Special Accession Programme for Agriculture and Rural Development) will contribute to the implementation of the *acquis communautaire*

under the CAP and policies related thereto. It will also help to meet challenges such as the need to find solutions to the long-term problem of adaptation of the agricultural sector and the rural areas in the candidate countries.

275. The budget of EUR 520 million/year is distributed among the central and eastern European countries on the basis of objective criteria. An indicative breakdown was adopted in July 1999. Priority will be given to the countries whose needs are greatest. The indicative breakdown (at 1999 prices) is as follows:

– Bulgaria	EUR 52.1 million
– Czech Republic	EUR 22.1 million
– Estonia	EUR 12.1 million
– Hungary	EUR 38.1 million
– Lithuania	EUR 29.8 million
– Latvia	EUR 21.8 million
– Poland	EUR 168.7 million
– Romania	EUR 150.6 million
– Slovenia	EUR 6.3 million
– Slovak Republic	EUR 18.3 million

276. After accession the candidate countries will no longer benefit from this aid, and the resources thus released will be distributed among the remaining candidate countries on the basis of the same criteria and taking into account their capacity for absorption.

277. SAPARD will take the form of multiannual programmes developed and implemented by the candidate countries. The SAPARD Regulation provides for a broad range of measures for the improvement of agricultural structures. This covers in particular: investments in agricultural holdings; improvements in the processing and marketing of agricultural and fishery products; improvements in structures designed to enhance quality, veterinary and plant-health controls and foodstuffs quality and consumer protection; agricultural production methods aimed at protecting the environment and preserving the countryside; the development and diversification of economic activities; provision for multiple activities and alternative income; the setting-up of farm relief and management services and producer groups; the renovation and development of villages and the protection and conservation of the rural heritage; land improvement and re-parcelling; the establishment and updating of land registers; improvements in vocational training; the development and improvement of rural amenities; water-resource management in agriculture; forestry, including the afforestation of agricultural areas, investment in privately owned forests and the processing and marketing of forestry products; and technical assistance in connection with the measures covered by the Regulation, including studies to assist in the preparation and monitoring of the programme, and information and publicity campaigns.

278. From the measures available candidate countries will be able to select those which address their specific needs and objectives.

279. The procedures for helping the administrative authorities in the CEECs prepare for the implementation of SAPARD are in their final stage. Preparation itself is underpinned by the SPP (Special Preparatory Programme) component of the PHARE programme and a series of seminars organised by the Directorate-General for Agriculture and TAIEX.<sup>54</sup>

## **5. INTERNATIONAL RELATIONS**

### **5.1. International organisations and agreements**

#### *5.1.1. World Trade Organisation (WTO)*

280. In 1999 the WTO Committee on Agriculture held regular meetings and several informal consultations at which progress in the implementation of commitments negotiated under the Uruguay Round was reviewed.

281. The process of analysis and exchange of information, which was launched at the Singapore Ministerial meeting in 1996 and took place in parallel with the work of the Committee on Agriculture, was aimed at preparing the new round of multilateral trade negotiations in agriculture and was completed in September 1999. It provided a very useful forum for detailed discussions on trade issues and, in the case of the multifunctional role of agriculture, non-trade issues. The European Communities contributed actively to that process.

282. In spite of the intense discussions which took place in Geneva in October and November 1999 in order to prepare the ministerial meeting, ambassadors failed to agree on a draft declaration for adoption in Seattle. The Seattle ministerial meeting held from 30 November to 3 December 1999 then failed to adopt the ministerial declaration launching the new round of WTO negotiations. Nevertheless, negotiations on agriculture were set to begin in 2000, in accordance with Article 20 of the WTO Agreement on Agriculture.

#### *5.1.1.1. WTO consultations and dispute settlement*

283. A panel was established on 16 October 1997, at the request of the EU and the United States, to examine the Republic of Korea's taxes on alcoholic beverages. According to the Panel and Appellate Body reports, Korea had applied dissimilar taxation in such a way as to afford protection to domestic production. The adoption of the reports, on 17 February 1999, was followed by arbitration between the parties to determine how Korea was to adapt its tax structure.

284. On 23 July 1998 a panel was established, at the EU's request, to examine Korea's definitive safeguard measure on imports of certain dairy products (an import quota for skimmed-milk powder preparations). The Panel Report states that Korea's actions are not consistent with the provisions of the Agreement on Safeguards, and recommends that the Dispute Settlement Body request Korea to bring its measures into conformity with its obligations under the WTO agreement. Korea then lodged an appeal, which was heard by the Appellate Body on 3 November.

---

<sup>54</sup> Technical Assistance Information Exchange Office, a "one-stop" information and advice point set up by the Commission to help candidate countries in their preparations for integration into the single market.

285. In the matter of the EC banana import regime, Ecuador had on 18 December 1998 requested that, under Article 21.5 of the WTO Dispute Settlement Understanding (DSU), a panel examine whether the measures taken by the EC to implement the recommendations of the WTO Dispute Settlement Body (DSB) were WTO-consistent. On 12 April 1999 the panel found that aspects of the EC's new import regime for bananas were not consistent with the EC's obligations under Articles I:1 and XIII:1 and 2 of GATT 1994 and Articles II and XVII of GATS.
286. On 14 January 1999 the US requested authorisation to suspend concessions for a value of USD 520 million. The matter was referred to the original panel for arbitration. On 12 April 1999 the arbitrator determined the level of nullification and impairment of benefits of the United States at USD 191.4 million.
287. On 3 June 1999, in the matter of the EC's implementation of the WTO ruling on the EC measures affecting meat and meat products (hormones), the US and Canada requested authorisation to suspend concessions for a value of USD 202 million and CAD 75 million respectively. The matter was referred to the original panel for arbitration and on 12 July 1999 the arbitrator determined the level of nullification and impairment of benefits of the United States at USD 116.8 million and of Canada at CAD 11.3 million.
288. On 3 June 1999 the EC requested the establishment of a panel concerning the imposition of definitive safeguard measures by the United States on the import of wheat gluten from the EC. A panel was established on 26 July 1999.
289. On 8 October 1999 a WTO panel found that Section 921-927 of the US Internal Revenue Code and related measures was in violation of a number of WTO obligations, including Articles 3 and 8 of the WTO Agreement on Agriculture concerning export subsidies. The United States appealed against the findings of the panel before the WTO Appellate Body.

#### 5.1.2. *Organisation for Economic Cooperation and Development (OECD)*

290. The EU participates actively in the activities of the OECD (Organisation for Economic Cooperation and Development). The areas of activity of the OECD Committee on Agriculture currently concern in particular a working programme aimed at providing background analytical material for the next WTO round of negotiations on agriculture. This programme covers, *inter alia*, the three pillars of the Uruguay Round (market access, export competition and support to farming activities) and non-trade concerns, such as multifunctionality, food security and food safety, in addition to core activities relating to commodity markets (outlook) and agricultural policies (annual monitoring report). There are also on-going activities in the field of agri-environment, rural development and international trade standards (for seeds, forestry reproductive material, fruit and vegetables). At the meeting of the G8 in June 1999 the OECD was given an important mandate in the field of biotechnology and food safety, with a report expected in 2000. Negotiations on export credits to agriculture have taken place within the OECD in the wake of the Uruguay Round, but there has been little progress thus far because of resistance from the USA.

### 5.1.3. *Generalised System of Preferences (GSP)*

291. The provisions of the Council Regulation applying the new multiannual generalised system of preferences (GSP) for agricultural products entered into force on 1 January 1997. The aim of the GSP is to foster the integration of developing countries into the world economy and the multilateral trading system. The new scheme grants preferential access to Community markets to a wide range of agricultural products from the developing countries, except where those products are the subject of a market organisation. Products are classified in one of four categories - each corresponding to a separate preferential margin - according to their sensitivity. Inclusion in a category is based on the evaluations which had led to the tariff offer presented by the European Union in the context of the Uruguay Round.

292. The four categories are:

- ***highly sensitive products***, which have a preferential margin of 15%;
- ***sensitive products***, which have a preferential margin of 30%;
- ***semi-sensitive products***, which have a preferential margin of 65%;
- ***non-sensitive products***, which have a preferential margin of 100 % and are entirely free of customs duty.

293. GSP focuses on the needs of the poorest beneficiary countries by transferring preferences gradually from the developed to the developing countries.

294. There is also provision for special arrangements for countries undertaking to abide by social and environmental standards. The GSP coverage of agricultural products was substantially widened by Council Regulation (EC) No 1256/96 of 20 June 1996,<sup>55</sup> with the addition of 527 products and the removal of 64 others. The basic principle is that the GSP should cover all products except those which are the subject of a market organisation. Additional preferences are also granted to Latin American countries which commit themselves to combating the production of drugs.

### 5.1.4. *United Nations Food and Agriculture Organisation (FAO)*

295. As a member of the United Nations Food and Agriculture Organisation, the EU took part in the work of the various bodies belonging to the organisation, in particular the meetings of the Committee on Agriculture, the Committee on World Food Security, the Committee on Commodity Problems and the Committee on Forestry, presenting its agricultural policy and approach to food security. It also participated in the technical consultations on the revision of the International Plant Protection Convention (IPPC), which is aimed, *inter alia*, at bringing the Convention into line with the Agreement on the Application of Sanitary and Phytosanitary Measures of the Final Act of the Uruguay Round. The Community also played an active part in the meetings on food security and, in particular, the implementation of the code of conduct for the granting of food aid.

---

<sup>55</sup> OJ L160, 29.6.1996, p. 1.

296. The Commission took part in the drawing up of the FAO's new strategic framework, which will lay down the policy guidelines for 2000 onwards.
297. The Commission also played an active role in the FAO's technical contribution to developing countries in preparation for the talks in the context of the new negotiations within the WTO.
298. The Commission also contributed to the FAO's discussions on trade-related but non-commercial issues, such as the multifunctional aspects of agriculture and its links in less advanced countries.

#### 5.1.5. *International Grains Agreement (IGA)*

299. This Agreement, concluded in 1995, consists of two separate legal instruments: the 1995 Grains Trade Convention and the 1995 Food Aid Convention. They were due to expire on 30 June 1998, but were initially renewed for one year (until June 1999) to enable the Food Aid Convention to be renegotiated.

##### 5.1.5.1. Grains Convention

300. The period of validity of the Grains Trade Convention was again extended, from 1 July 1999 to 30 June 2001.

##### 5.1.5.2. Food Aid Convention

301. The European Union and its Member States are signatories to the Food Aid Convention, the aim of which is to contribute to world food security and improve the international community's ability to respond to food emergencies and other food needs of developing countries.
302. Renegotiation of the 1995 Food Aid Convention began in 1998 in the context of the Marrakesh and Singapore Ministerial Decisions.
303. The text of the Food Aid Convention was adopted on 24 March 1999, at a meeting of the Convention Council working group concerned. Pending the EU Council's adoption of the text, the Community made a declaration of provisional application. The new Convention, however, entered into force on 1 July 1999.

#### 5.1.6. *International Sugar Organisation*

304. In 1999 the EU continued to play a full role in the affairs of the International Sugar Organisation, the body responsible for administering the 1992 International Sugar Agreement (ISA). In particular, it chaired the ISA Council and the Administrative Committee and hosted the 15<sup>th</sup> session of the ISA Council in Brussels on 25-27 May. In accordance with the Agreement, the Council decided that the period of validity of an unchanged ISA should be extended for a further two years, up to 31 December 2001.

## **5.2. Bilateral and regional trade relations**

### *5.2.1. United States*

305. The cumulative recovery system for rice, introduced on a trial basis in July 1997, was replaced from January 1999 by a flat-rate duty, calculated every two weeks, in the light of price movements.
306. A two-yearly tariff rate quota for a particular quality of malting barley used in brewing was established for 1999 and 2000.
307. Negotiations began on a comprehensive EU/US wine agreement, in connection with which three meetings were held. The aim was to facilitate trade in wines while improving protection for European and American names used in winemaking and the recognition of oenological practices used by the respective parties.
308. Discussions took place on US organic food standards.
309. Annual bilateral discussions took place on the EU support measures for tinned fruit.
310. The US imposed 100% *ad valorem* tariffs on USD 116.8 million of EU exports pursuant to the WTO arbitrator's ruling on the level of impairment. The retaliation list, covering a wide variety of products, focused on pigmeat, fruit juice, cheese, and fruit and vegetables. Further attempts were made to agree on an equivalent level of compensation and bring an end to the retaliation.
311. In July 1999 the Commission signed the bilateral veterinary equivalence agreement on sanitary measures affecting trade in live animals and animal products.
312. In November 1999 the Commission filed its first written submission in the WTO panel case opposing the safeguard action taken by the US in the form of a quantitative limit on imports of wheat gluten. In May 1999 what was already a restrictive quota had been reduced even further by the US following an overshoot of the first year's quota, apparently as a result of quota-management problems in the US.
313. The Corn Gluten Feed Monitoring Group continued to meet regularly.
314. Regular exchanges of views between the US and the Commission were held on the implications for trade in agricultural products of concerns about the use of genetically modified products.

### *5.2.2. Canada*

315. Talks were held with Canada on the level of export refunds for barley and oats.
316. Discussions on trade in wine and spirits took place with a view to consideration of an EU/Canada agreement. They focused on protection for names used, on the use of oenological practices, on certification requirements and on the operation of alcohol monopolies.
317. Canada imposed 100% *ad valorem* tariffs on CAD 11.3 million of EU exports pursuant to the WTO arbitrator's ruling on the level of impairment, focusing on

pigmeat and fruit and vegetables. Further attempts were made to agree on an equivalent level of compensation and bring an end to the retaliation.

318. Agreement was reached on a three-year system of phytosanitary authorisation, coupled with appropriate safeguards, for imports of Canadian seed potatoes into Italy.

319. Canada and the Commission agreed on a trial system for facilitating exports of cheese to Canada without export refunds and for preventing the fraudulent use of refunds. The procedure was to be reviewed towards the beginning of 2000.

#### 5.2.3. *Mexico*

320. A total of eight negotiating rounds have been held to date on the basis of the negotiating directives approved by the Council in June 1998 with a view to the establishment of a Free Trade Area between the European Union and Mexico. Substantial progress has been made in the case of agriculture and there were high hopes that a deal could be finalised before the end of the year, paving the way for possible implementation in July 2000. The market access package consists of each side's lists of products to be liberalised in stages or put on a "waiting list", in much the same way as the South Africa formula outlined previously. Both parties' offers are subject to a review clause which comes into effect in 2003.

321. Built into the draft Agreement are measures for the protection of numerous Protected Designations of Origin (PDOs) and Protected Geographical Indications (PGIs).

322. Much of the market access package is dependent on a solution being found to the question of the rules of origin, i.e. when is a given product genuinely entitled to originating status, thus qualifying for tariff dismantling. A satisfactory result appears to have been achieved.

#### 5.2.4. *Mercosur/Chile*

323. In July 1998 the Commission adopted draft proposals for Directives for the negotiation of an association agreement between the EU and Mercosur and Chile. The Council approved the draft on 13 September 1999.

324. In the case of trade it is proposed that the parties give confirmation of their common objective of gradual mutual liberalisation of trade in goods and services as a whole with a view to the introduction of free trade and taking into account the sensitiveness of certain products and sectors in accordance with WTO rules.

325. It was also proposed that, in the second half of 1999, the parties begin concertation on the round of multilateral negotiations in the context of the WTO and on the preparation of the forthcoming negotiations. The concertation could well cover a number of issues and include regular talks on agriculture, trade and services.

326. The parties will immediately begin negotiations on non-tariff matters.

327. The proposal is that the process of negotiation on tariff reductions and on services should begin on 1 July 2001. The negotiations will be conducted and concluded in the light of the results of the WTO round and the anticipated timetable for the Free

Trade Area of the Americas. They are expected to be concluded after the WTO round.

#### 5.2.5. *Republic of South Africa*

328. The South Africa Free Trade Agreement (FTA) was approved by the Heads of State and Government on 11 March 1999. It is the culmination of 3½ years' work and 24 negotiating rounds. A number of details still remain to be settled on the parallel Wine Agreement (see separate section on wines and spirits), however. This and parts of the general Agreement offer protection for EU intellectual property rights.
329. The final FTA package features a detailed trade offer for tariff dismantling, including a set of products to be liberalised wholly, partially or not at all. The offer is in the form of a series of lists of agricultural products, the least sensitive of which are put forward for immediate liberalisation. Some extremely sensitive Community items, most notably bananas, sugar, beef, rice, maize, sweet corn, starches and numerous fruits and vegetables are not being put forward for tariff liberalisation for the time being. Equally, South Africa also excluded many similar products, such as fresh meats, some cereals and sugar products. The EU has allowed partial liberalisation for some of the Community's other sensitive products, viz. certain citrus fruits, tinned fruit, juices, cut flowers and wines, some of which were on the original Council Mandate exclusion list. This was in the form of tariff quotas, generally limited to levels of recent imports from South Africa. In return, South Africa offered the EU some reciprocal tariff quotas in the cheese sector. Both parties' offers are to be reviewed within five years of entry into force of the Agreement.
330. As South Africa was considered a developing country from the point of view of trade, the agreement as a whole (including industry and fisheries) has a built-in asymmetry intended to aid the country's economic development. The South African offer did, however, cover a greater percentage of trade than the EU's did in the agriculture sector. Again in keeping with the spirit of asymmetry, South Africa is allowed up to 12 years for tariff dismantling.

#### 5.2.6. *Japan and the Republic of Korea*

331. Relations with Japan and the Republic of Korea continued to be centred on market access and deregulation issues, particularly in relation to the continuing removal of trade barriers in the areas of plant and animal health.

#### 5.2.7. *New Zealand*

332. New Zealand has, for more than two decades, enjoyed preferential conditions for the import of butter into the United Kingdom. These concessions became part of the European Community competence under the United Kingdom accession treaty. In the 1994 Uruguay Round negotiations New Zealand's current access rights were established on the basis of the reference years 1986 to 1988, and the previous specific quota conditions were maintained. In 1990, without first consulting the Commission, the New Zealand Dairy Board decided to export a non-traditional type of butter ("spreadable" butter), the characteristics of which were not regarded as falling within the specific quota conditions.

333. On 22 October 1999 the Council of Ministers decided on a regulation putting an end to three years of diverging interpretations of the meaning of the EU WTO commitment - as laid down in its CXL schedule - regarding the eligibility of butter from New Zealand under the reduced tariff import arrangement.
334. The decision had been preceded by court decisions on a test case in the United Kingdom and an amicable settlement under the auspices of the WTO.
335. In the matter of dairy imports under reduced tariff arrangements, further clarification of the technical parameters and control mechanisms (in particular for New Zealand butter exports requested by New Zealand) will soon allow stricter verification of compliance with the respective quota conditions. The corresponding implementing legislation is in the final stages of approval.