Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 2/5/2002

GAIN Report #E22014

European Union

Agricultural Situation

EU Commission CAP Enlargement Proposal

2002

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Report Highlights:

On January 30th the European Commission presented its proposal for extending the Common Agricultural Policy to ten Eastern and Central European countries which are candidates for EU accession. The proposal, which includes specific budgetary allotments per candidate, will now be discussed by the Member States.

Includes PSD changes: No

Includes Trade Matrix: No

Unscheduled Report

Brussels USEU [BE2], E2

Executive Summary

On January 30, 2002, the European Commission published its proposal for extending the Common Agricultural Policy to EU accession candidates. The candidates include the ten central and eastern European countries expected to join the EU in 2004: Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia. Key points in the Commission's proposal include a ten-year transition period for direct payments, combined with a substantial amount of funding for rural development measures. New member countries which are already providing direct aids to farmers will be able to top-up EU payments with national funds. The Commission's sector- and candidate-specific proposals on quotas, base areas and other supply management mechanisms are listed in the annexes to this report.

The Commission's proposal and full annexes can be found at the following website:
http://europa.eu.int/comm/enlargement/docs/financialpackage/sec2002-95_en.pdf

The Proposal will now be discussed by the Member States in the Council, which is expected to decide on a common position by June. Once the Council has a common position, negotiations can begin with accession candidates.

Direct Payments

The Commission notes that, after ten years, "compensatory payments" have become "direct payments" which should be available to farmers in accession countries. The payments were originally introduced in existing EU member states for some arable crops and cattle following the support price cuts of the 1992 and Agenda 2002 reforms. They were introduced in the rice sector in 1995 and will be extended to milk from 2005 onwards as a result of planned price cuts in that sector.

For the new member countries, the payments would be phased in over ten years, starting at 25 percent of the EU level in the first year, 2004/2005. The payment level would then increase five percent per year for the next three years. Then the payment level would increase gradually for the remaining six years until it reaches 100 percent of the EU level in 2013. The Commission argues that it is preferable to start direct payments at a low level, combined with intensified support for restructuring through rural development actions, to encourage continued and intensive restructuring in the new member states. The Commission is also concerned that 100% application of direct payments in candidate countries would likely lead to a shift from potato to rye production and to intensified livestock production, both of which are at odds with the need to discourage rye production and encourage extensification of livestock production in the current EU-15. New member countries which were already providing direct aids before accession could "top-up" the EU aid with national funds, up to the level obtained by farmers prior to accession, but not higher than 100 percent of the EU level.

In order to minimize the administrative burden during the first three years, new member countries would also have the option of making payments to farmers under a simplified scheme based on average area payments. On the basis of the total direct aid calculated for a particular country and its utilized agricultural area, a de-coupled average area payment would be calculated. All types of agricultural land would be eligible for the payment and there would be no obligation to produce. After the first three years, new member states could request extensions for an additional two years.

Production quotas and supply management

The Commission proposes to use data from 1995-1999 to establish supply management instruments such as production quotas, arable crop base areas and beef premium ceilings. The most appropriate reference period for each type of scheme would be chosen within this framework. While the Commission proposal includes specific quota amounts, and other instruments per accession candidate (see annexes), the final negotiated amounts are expected to be highly controversial and political and are not likely to be decided until the end of the negotiations in December 2002.

Rural Development

In order to ease the administrative burden for the new member countries to manage EU funds, the Commission proposes building upon the current SAPARD (Special Accession Programme for Agriculture and Rural Development) program and allowing unused funds to carry over for two years. Most new member countries will qualify as "objective one" which gives them access to structural funds. In addition, the Commission proposes complementing existing measures with a flat rate aid for "semi-subsistence farms." The farms would have to develop a plan for future economic viability. The Commission also proposes funding technical assistance programs to help the new members implement Rural Development plans. The co-financing rate for the structural funds and the SAPARD follow-on program would be up to 80 percent EU-funding.

Intervention Stocks

The Commission's proposal also addresses the issue of the EU's taking over of new members' public stocks as well as how to handle stocks in free circulation (when they are higher than the normal level of carry-over stocks). The proposed approach is intended to prevent the uncontrolled release of stocks onto the Community market when accession takes place. The Commission proposes taking over new members' public stocks at a value equal to their "foreseeable disposal price." The stocks would only be eligible if they meet EU intervention quality criteria. The new member states would be responsible for the costs of eliminating any excess stocks in free circulation.

WTO Implications

The Commission's proposal states that the direct payments approach would be compatible with currently applicable WTO obligations. This is based upon the assumption that the CAP direct payments are covered by the "blue box" and therefore would not affect the EU's Aggregate Measurement of Support reduction commitments. The Commission notes that its proposals on direct payments, quotas and other supply management measures have been designed to be compatible with the EU's comprehensive negotiating proposal for the new round of WTO negotiations. In addition, the Commission states that following enlargement, negotiations under Article XXIV:6 of GATT 1994 should take place.

Budgetary Impact

Based on the measures proposed, the Commission estimates that the costs for the period 2004 - 2006 will fall within the budgetary discipline imposed by the Berlin agreement on Agenda 2000. The Commission estimates for the CAP costs related to enlargement are as follows:

Budgetary Commitments

	2004	2005	2006
Total direct payments	n/a	1173	1418
Market expenditure	516	749	734
Rural development	1532	1674	1781
Total	2048	3596	3933

According to CAP rules, direct payments can only be paid to farmers after October 15th, so direct expenditure under the 2004 budget is expected to be zero. Post-2006 budget perspectives have not yet been set by the EU.

These figures fit into an overall budgetary impact of enlargement of € 5.7 billion in 2004, € 10.5 billion in 2005 and € 11.8 billion in 2006. At the same time, the new member states will be expected to start contributing to the EU budget immediately upon accession. The total share for the new member states is estimated at approximately € 5.5 billion per year. In order to avoid a situation in which some new members could face a negative net budget balance vis-a-vis the EU in the first few years, the financial framework also foresees budgetary compensatory payments of approximately € 800 million per year from 2004 - 2006.

Next steps

The Commission's proposal will be debated in the Council, which is expected to decide on a Common Position by June 2002. Only at this time can negotiations with the candidate countries begin. Due to the highly political nature of the budgetary questions, the negotiations on agriculture are expected to last into December. Once negotiations are complete, the European Parliament has the right to assent or dissent to the accession treaty as a whole (they may not propose amendments) and member states as well as accession candidates must also ratify the treaty according to their procedures. If negotiations are completed by the end of 2002, accession could likely take place by 2004 as currently anticipated.

In addition, negotiations are underway between the Commission and the candidate countries on expanding the current "double-zero" pre-accession trade deals. The additional concessions are being called "double-profit" and are expected to include sensitive products (such as cereals) that were largely left out of the double-zero deals. These negotiations are expected to be finalized in March 2002.

General Note to Annexes

Information regarding the specific CAP programs for each commodity sector can be found in FAS USEU Brussels GAINS commodity reports.

Annex I - Arable Crops

Proposed Arable Crops Base Area (to be used as the basis for direct payments)

	Candidate Request	Commission Proposal
Cyprus	89,183	54,098
Czech Republic	2,401,845	2,221,844
Estonia	650,000	387,233
Hungary	3,653,353	3,553,200
Latvia	753,000	484,700
Lithuania	1,355,000	1,336,233
Malta	4,500	-
Poland	9,248,000	9,207,667
Slovakia	992,000	1,011,627
Slovenia	150,000	94,192
Total	19,296,881	18,354,258

Proposed Reference Yield (to be used as basis for direct payments)

	Request (ha)	Proposal (ha
Cyprus	2.45	1.88
Czech Republic	4.20	4.18
Estonia	3.50	1.77
Hungary	5.04	4.26
Latvia	3.59	2.03
Lithuania	3.50	2.27
Poland	3.61	2.96
Slovakia	4.99	4.16
Slovenia	6.12	5.31

Proposed Durum Wheat Area (for durum wheat specific aids)

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

Note: Only Cyprus, Hungary and Slovakia requested durum wheat aids. If these countries can provide necessary information to demonstrate that they meet the conditions for traditional durum aid, the Commission may revise its proposal.

Rice Area Payments (Note: Of the ten acceding countries, only Hungary produces rice)

	Hungarian request	Commission proposal
National base area (ha)	18,000	3,222
National average yield (t/ha)	n/a	310
Est. Area payment (i /ha)	340	163,215

Annex II - Sugar

Candidate Country	Sugar quotas requested (t)			Sugar quotas proposed (t)		
	Total	A	B	Total	A	B
Cyprus	none	-	-	-	-	-
Czech Republic	505,000	-	-	445,237	441,409	3,828
Estonia	75,000	65,000	10,000	-	-	-
Hungary	480,000	400,000	80,000	380,021	378,791	1,230
Latvia	110,000	100,000	10,000	52,482	47,711	4,771
Lithuania	165,000	150,000	15,000	96,241	96,241	-
Malta	none	-	-	-	-	-
Poland	1,866,000	1,650,000	216,000	1,665,017	1,590,533	74,484
Slovakia	235,000	190,000	45,000	208,736	189,760	18,976
Slovenia	75,000	67,500	7,500	52,977	48,161	4,816

Isoglucose quotas

Candidate Country	Isoglucose quotas requested			Isoglucose quotas proposed		
	Total	A	B	Total	A	B
Hungary	140,000	130,000	10,000	111,244	111,244	0
Poland	20,000	15,000	5,000	2,493	2,493	0
Slovakia	60,000	50,000	10,000	3,220	3,220	0

Annex III - Processed Fruits and Vegetables

Note: The Commission proposal suggests increasing current Community thresholds for aid for processing to account for the new member states.

Current Community thresholds for the products in question are as follows (in tons):

	Tomatoes	Peaches	Pears	Oranges	Lemons	Sm. Citrus	Grapefruit
Threshold	8,251,455	539,006	104,378	1,500,236	510,600	384,000	6,000

Proposed increase for Community thresholds (** means insufficient/unsuitable data provided)

Country/product	Requested increase	Average Historical Production ‘97-‘99	Proposed increase
Cyprus			
-Tomatoes	10,000	4,641	4,770
-Peaches	500	**	**
-Pears	500	0	0
-Lemons	5,000	3,548	2,986
-Grapefruit	30,000	9,069	10,812
-Oranges	21,000	15,438	14,969
-Small citrus	10,000	1,007	937
Czech Republic			
-Tomatoes	26,000	**	**
-Peaches	4,000	**	**
-Pears	500	**	**
Hungary			
-Tomatoes	321,442	127,265	130,790
-Peaches	1,000	11,692	13,808
-Pears	1,000	**	**
Malta			
-Tomatoes	50,000	**	**
Slovakia			

-Tomatoes	36,000	**	**

Annex IV - Dairy

Milk quotas

Candidate Country	Requested quotas (in tons)			Proposed quotas (in tons)		
	Total	Deliveries	Direct sale	Total	Deliveries	Direct Sale
Cyprus	150,000	150,000	-	131,019	129,182	1,837
Czech Republic	3,100,000	2,945,000	155,000	2,505,553	2,478,867	26,686
Estonia	900,000	810,000	90,000	562,633	484,800	77,833
Hungary	2,800,000	2,600,000	200,000	1,946,333	1,638,000	308,333
Latvia	1,200,000	900,000	300,000	489,474	405,167	84,307
Lithuania	2,250,000	1,700,000	550,000	1,459,000	1,174,333	284,667
Malta	60,000	60,000	-	45,392	45,392	0
Poland*	13,740,000	13,176,000	564,000	8,875,000	6,956,333	1,918,667
Slovakia	1,235,900	1,147,000	61,800	946,150	932,150	14,000
Slovenia	695,000	556,000	139,000	463,333	422,700	40,633

*Poland's request was put forward in two stages: a 2003 level, increasing/decreasing to a 2008 level. The table shows the amount requested as the final 2008 level. The 2003 request was for 11,217,000 tons total quota, broken down into 10,506,000 in deliveries and 711,000 in direct sales.

Annex V - Beef

Additional Payments Ceiling (member state-funded headage and/or area payments)

	Request (i)	Proposal (i)
Cyprus*	6,909	172,445
Czech Republic	**	7,694,083
Estonia	**	933,982
Hungary	12,000,000	3,548,396
Latvia	3,500,000	1,330,680
Lithuania	**	3,686,969
Malta	-	-
Poland	**	27,393,275
Slovakia	**	4,500,535
Slovenia	4,500,535	2,342,488

*Cyprus request expressed in tons
**not quantified

Slaughter Premium Ceilings (in numbers of animals)

	Cypr.	Czech Repub.	Estonia	Hungary	Latvia	Lith.	Poland	Slovak.	Sloven.
Premium (adult)									
-request	26,500	530,000	106,600	480,000	145,000	335,000	2,021,000	260,000	163,000
-proposal	9,030	424,911	80,500	202,199	124,320	367,484	2,034,309	204,062	125,107
Premium (calves)									
-request	0	131,100	79,300	480,000	75,000	290,000	1.017,000	60,000	22,000
-proposal	-	179,733	73,700	104,713	53,280	244,200	1,200,625	62,841	53,617

Special Beef Premium Ceiling (in numbers of animals)

	Cypr.	Czech Rep.	Estonia	Hungary	Latvia	Lith.	Poland	Slovak.	Sloven.
Request	13,650	305,000	50,000	245,000	75,000	154,000	2,200,000	80,000	95,000
Proposal	4,520	231,595	35,580	143,000	70,200	150,000	857,700	78,348	77,921

Suckler Cow Premium Ceiling (in numbers of animals)

	Cypr.	Czech Rep.	Estonia	Hungary	Latvia	Lith.	Poland	Slovak.	Sloven.
Request	500	230,000	2,000	300,000	25,000	62,000	1,500,000	50,000	150,000
Proposal	90	90,113	637	133,200	2,021	10,043	453,314	39,708	49,067