



USDA Foreign Agricultural Service

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## EU-25

### Agricultural Situation

### EU Weekly Roundup and Policy Update (Issue 18)

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**Report Highlights:**

EU sugar reform proposals criticized from all sides / Update on bone material in animal feed issue / European Council votes no to lifting bans on biotech / EU set up for aggressive use of grain export subsidies in MT 05/06 / Commission and UK to try to get EU 2007-13 budget deal in the next six months, next CAP Reform in 2008 / EU launches second phase of its on-line Export Helpdesk for developing countries / EU tightens rules on recovering misspent farm cash

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Includes PSD Changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Brussels USEU [BE2]  
[E3]

**EU SUGAR REFORM PROPOSALS CRITICIZED FROM ALL SIDES** - Reaction to the Commission 's sugar reform proposals including 40% price cuts and a quota buyback scheme was unsurprisingly hostile: beet growers and sugar processors have highlighted that 40% of sugar related jobs would be lost. Sugar consumers have criticized the proposals for leaving sugar processors with the ability to control national markets and hence prices due to having country based quotas. The isoglucose lobby argues that the proposals will not enable a competitive HFCS type industry to emerge. Among the fiercest critics have been developing countries, which will see the value of their preferences (quotas with high guaranteed minimum prices) diminish as prices are cut 40%. African Caribbean and Pacific (ACP) producers complain that they stand to lose a trade benefit worth USD 500m per year to them and are upset at the much lower level of compensation they will receive compared to EU farmers. One ACP Minister is quoted as saying "too fast, too deep, too soon".

However, a Commission official is quoted as saying, given the wide variation of criticism, this suggests the Commission approach is balanced! Fisher Boel has been strongly defending the radical reforms, arguing that if they are delayed, compensation levels (to the sugar sector) will also be reduced. The proposals will be discussed by Member State Ministers at the July 18 Agriculture Council, when beet farmers also plan to hold a large and likely rather vocal demonstration in Brussels.

**UPDATE ON BONE MATERIAL IN ANIMAL FEED ISSUE**- Further to our reports in Issues 11, 12 and 15 of the EU Weekly Roundup and Policy Update (Gain reports E35089, E35097 and E35111), we have learned that earlier reports indicating that decision-making on a broader derogation would move quickly were too optimistic. An upcoming EFSA report on bone material in animal feed and an EU Parliament vote on fishmeal in feed are seen as key to the EU's ability to provide a broader derogation for adventitious presence of bone material in animal feed. The EFSA report adoption has been delayed until at least early July and the Parliament vote will not be held before September. In the meantime, the regulation establishing a derogation from the 0-tolerance policy for bone fragments in tuber and root crops only was adopted on June 23rd by the Standing Committee on the Food Chain. The regulation is expected to be published in July and will enter into force on September 1. The EU Commission also distributed a non-paper (i.e. with no legal status) providing guidance to Member States on how to address low levels of contamination. While the outcome is disappointing in that it does not address other possible feed ingredients (such as corn gluten feed), the approach in the non-paper opens the door for a more flexible approach at the member state level. In addition, discussion and possible legislative action on further loosening of the 0-tolerance policy could follow depending on the impact of the EFSA report and Parliament vote.

**EUROPEAN COUNCIL VOTES NO TO LIFTING BANS ON BIOTECH** - At the Environment Council on June 24, 2005, the Member State Environment ministers voted against lifting the bans that some of the Member States (MS) have on biotech products. Of 25 MS, 22 voted against lifting the ban, Sweden and Finland abstained and the UK was the only MS that voted in favor of all of the Commission's proposals to lift the bans. A number of the bans or so-called "safeguard clauses" include bans or restrictions on cultivation, while others include bans on imports and use in food and feed. This is the first time that the Council has found a qualified majority (QM) against a Commission proposal on biotech. In other cases, the Council could not find a QM either for or against. It is also the EU's first agreement on biotech issues since 1998, when the Union begun its de facto moratorium on approving new biotech foods and crops, which was lifted last year by a legal default. The votes may strengthen the WTO case brought by the US, Canada and Argentina against the EU's de facto moratorium. In reaction to the votes, USTR stated: "Today's decision is further evidence that the EU's legal structure for regulating biotechnology products is badly broken and driven much more by politics than by science. These problems are at the crux of what we have argued in our WTO case and we are confident that these arguments will prevail." For more information and analysis see GAIN E35126

**EU SET UP FOR AGGRESSIVE USE OF GRAIN EXPORT SUBSIDIES IN MT 05/06** - The European Commission has announced initial tenders for the export of over 5 MMT of grains for MY 05/06 which starts on July 1, as well as tenders to subsidize the shipment of over 0.5 MMT of grain from central Europe to drought hit Spain. The export tenders will be eligible for export subsidies, though it is not yet clear at what level the Commission will set the subsidies. The tenders are the result of political pressure, notably from France, where there is keen awareness that without aggressive export subsidies from the start of the MY 05/06 campaign market opportunities could be lost by failing to act quickly, particularly to the North African market where demand is reported to be strong. In the last couple of years, the Commission has delayed introducing market measures until much later in the Fall. For more details see GAIN E35123, "EU Commission launches tender for 5 MMT grain export subsidies for MY 05/06".

**COMMISSION AND UK TO TRY TO GET EU 2007-13 BUDGET DEAL IN THE NEXT SIX MONTHS, NEXT CAP REFORM IN 2008** - Both the European Commission and the UK Presidency of the Council (which starts on Friday, July 1) are investing political capital to try and get a deal agreed on the EU's budget for the period 2007-13. This is one of the key issues that lead to stalemate at the European Summit earlier this month and a very public dispute between French President Chirac and UK Prime Minister Tony Blair. Yesterday, the Agriculture Commissioner Mariann Fisher Boel addressed the French parliament to insist that the 2007-13 budget should not "be wrapped up in wider philosophical debate", meaning that the EU needs to adopt a budget for practical reasons, as well as stressing that EU farm spending would fall to 0.33% of GDP by 2013 from 0.65% in 1988. She also reminded French parliamentarians that the next CAP reform was due in 2008, two years after the last Member States have implemented the 2003 reforms.

**EU LAUNCHES SECOND PHASE OF ITS ON-LINE EXPORT HELPDESK FOR DEVELOPING COUNTRIES –** This service provides information on the specific import requirements of the EU and Member States, as well as up to date notice of internal taxes. The service helps producers in developing countries by providing information on the EU's preferential access schemes and guiding exporters through the process of exporting to the EU. The service can be accessed at <http://export-help.cec.eu.int>.

From its launch in December 2004 it received an average of nearly 1,500 hits per day. Some of the new features available on-line are:

- EU and Member States' specific requirements for each particular product.
- Internal taxes applying in each Member State for each particular product.
- General requirements for all products at EU level
- Overview of EU Import Procedures
- VAT Overview for the European Union
- Excise taxes Overview for the European Union

**EU TIGHTENS RULES ON RECOVERING MISSPENT FARM CASH –** EU agriculture ministers agreed to streamline how Europe's subsidies should be paid to farmers, tightening rules to crack down on fraud and recover misspent cash from national governments.

The revised rules on payments from the EU's CAP, will apply from January 2007. One of the most sensitive areas is how Brussels can reclaim money that has been misspent. Around three times a year, the European Commission monitors EU member state accounts to check that the EU's farm subsidies, which amount some 44 billion euros a year, are being properly spent. If not, offending countries are ordered to return money. CAP spending is nearly half that of the EU's entire budget. If a country fails to comply, the Commission may temporarily halt payment of farm subsidies.

The new rules take this further and allow it to refuse financing for two years starting from when a country has been told its payments are suspect. If the misspent subsidies have not

been recovered within eight years, then Brussels will have the right to take half of the money back- even if the matter is still entangled in national courts or being argued over by the country concerned. These measures are part of the new CAP Financing Regulation.

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#### RECENT WEBSITE UPDATES (June 23-June 30, 2005)

| Issue                 | Link to  | Website   |
|-----------------------|--|---|
| <b>Biotechnology</b>  | - Commission Decision 2005/448/EC authorizing the placing on the market of foods and food ingredients derived from genetically modified maize line NK 603 as novel foods or novel food ingredients | <a href="http://www.useu.be/agri/GMOs.html">http://www.useu.be/agri/GMOs.html</a>   |
| <b>Byrd Amendment</b> | -Update of the Byrd amendment retaliation  | <a href="http://www.useu.be/agri/byrd.html">http://www.useu.be/agri/byrd.html</a>   |
| <b>Sugar</b>          | EU Sugar Sector Reform:<br>- European Commission Infopack<br>- Commission's revised Impact Assessment  | <a href="http://www.useu.be/agri/sugar.html">http://www.useu.be/agri/sugar.html</a> |

#### Related reports from USEU Brussels, EU Member State and Candidate Country posts:

| Report Number   | Post   | Title   | Date Released |
|---|--------|---|---------------|
| E35126  | USEU   | Environment Council votes no to lifting biotech bans                        | 6/30/05       |
| E35124  | USEU   | UK Presidency Priorities: the view from Brussels                            | 6/27/05       |
| E35123  | USEU   | EU Commission launches tender for 5 MMT grain export subsidies for MY 05/06 | 6/27/05       |
| E35122  | USEU   | G8, European Commission, UN, World Bank and IUCN Discuss Illegal Logging    | 6/27/05       |
| E35121  | USEU   | Prolongation of the derogation for imports of organic products to the EU    | 6/27/05       |
| E35120  | USEU   | EU Weekly Roundup and Policy Update (Issue 17)                              | 6/23/05       |
| PL5012  | Warsaw | Tobacco and Products Annual Update  | 6/29/05       |
| SP5013  | Madrid | Agricultural Situation Voluntary (drought situation)                        | 6/27/05       |
| SP5015  | Madrid | Cotton and Products Annual  | 6/27/05       |
| GR5019  | Athens | Sugar   | 6/24/05       |
| PO5012  | Lisbon | Tomatoes and Products Annual  | 6/24/05       |
| AU5008  | Vienna | Post Unified Export Strategy Report   | 6/24/05       |
| AU5011  | Vienna | Second Confirmed Case of BSE in Austria                                     | 6/23/05       |
| FR5045  | Paris  | Test Plot Destructions Stopped, Activists change tactics                    | 6/23/05       |
| These reports can be accessed through our website <a href="http://www.useu.be/agri">www.useu.be/agri</a> or through the FAS website <a href="http://www.fas.usda.gov/scriptsw/attacherep/default.asp">http://www.fas.usda.gov/scriptsw/attacherep/default.asp</a> . |        |   |               |