

Chapter 6

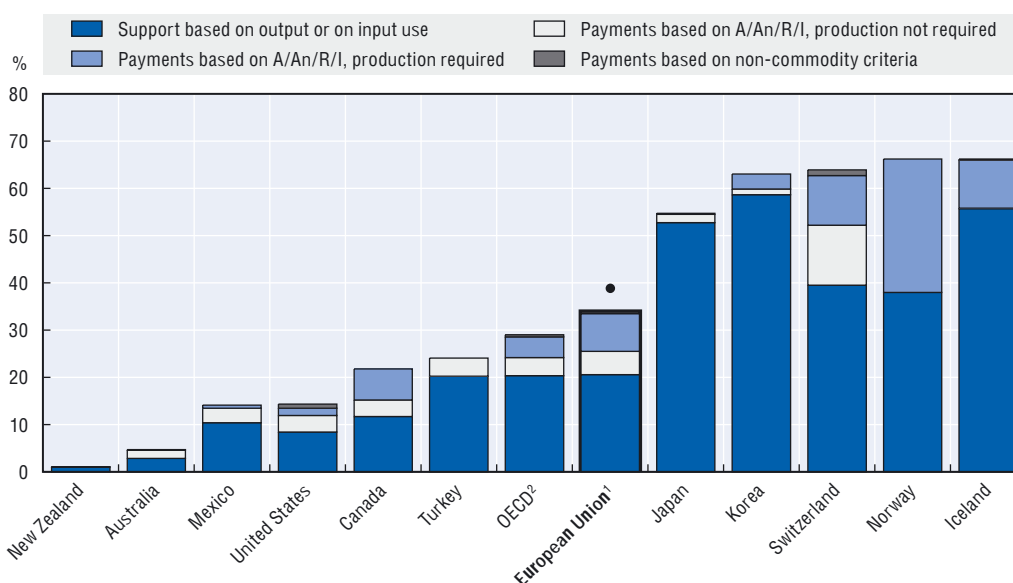
European Union

Evaluation of policy developments

- Overall, policy reforms since 1986-88 have improved the sector's market orientation. There has been a consistent move away from previously high levels of market price support and output payments and some reduction in the level of support. Market price support and output payments now account for close to half of support to producers (46% in 2006), down from more than nine-tenths in the late eighties.
- The introduction of Single Payment Schemes from 2005 is an important step towards further reducing production and trade distortions, although some commodity-linked area and headage payments remain in some EU countries.
- The sugar reform will significantly reduce one of the most distorting forms of support – price support – in a sector that had remained unreformed for a long time.
- The new Rural Development programme for 2007-13 continues to focus mostly on the agricultural sector. Nonetheless, the setting of a minimum share of expenditures for different priorities should further reinforce sustainable land management and rural diversification efforts, as well as promote co-operative, multisectoral and integrated approaches to rural development.
- Efforts to simplify the CAP, in particular the operation of two new funds under one single management and control system, should lead to lower implementation costs and improved management and control of funds.
- Future efforts need to focus on further reducing market protection and continuing progress towards better targeted and less production and trade distorting forms of support.

Figure 6.1. **European Union: Producer Support Estimate by country, 2004-06**

Per cent of value of gross farm receipts



A (area planted), An (animal numbers), R (receipts) or I (income).

1. EU25. 2. The OECD total does not include the six non-OECD EU member states.

Source: OECD, PSE/CSE database, 2007.

1 2 <http://dx.doi.org/10.1787/073765576673>

Summary of policy developments

The Single Payment Scheme, which replaces most of the previous area and headage payments by a single payment with no requirement to produce, was implemented in 2005 or 2006 depending on the country. A reform of the sugar sector began to be implemented in July 2006. It includes a reduction of support prices, partially compensated for by payments included in the single payment.

- Support to producers (%PSE) decreased from 41% in 1986-88 to 34% in 2004-06,¹ compared to an OECD average of 29%. Support decreased in 2006 to 32% (from 33% in 2005) for the EU25.
- The combined share of the most distorting types of support (commodity output and variable input based support) in the PSE fell from 92% in 1986-88 to 56% in 2004-06. During the same period the share of the less distorting types of support (payments which place no requirement to produce) reached 15% (29% in 2006).
- Prices received by farmers were 27% higher than those observed on the world market in 2004-06, compared to 79% in 1986-88. Farm receipts were 51% higher than they would have been on the world market in 2004-06, compared to 69% in 1986-88.
- The Single Commodity Transfer (SCT) was close to zero for common wheat, barley, oats, oilseeds and eggs in 2004-06. It was around 20-30% of commodity gross receipts for milk and rice, and 40% or above for sugar and all meats except pigmeat. The share of total SCT in the PSE decreased from 94% in 1986-88 to 58% in 2004-06 (49% in 2006).
- The cost imposed on consumers as measured by the %CSE fell from 37% in 1986-88 to 17% in 2004-06.
- Support for general services provided to agriculture increased from 8% of total support in 1986-88 to 9% in 2004-06. Total support to agriculture as a percentage of GDP has more than halved since 1986-88, to 1.2% in 2004-06.

1. EU12 for 1986-94 including ex-GDR from 1990; EU15 for 1995-2003; EU25 from 2004.

Figure 6.2. **European Union: PSE level and composition by support categories, 1986-2006**

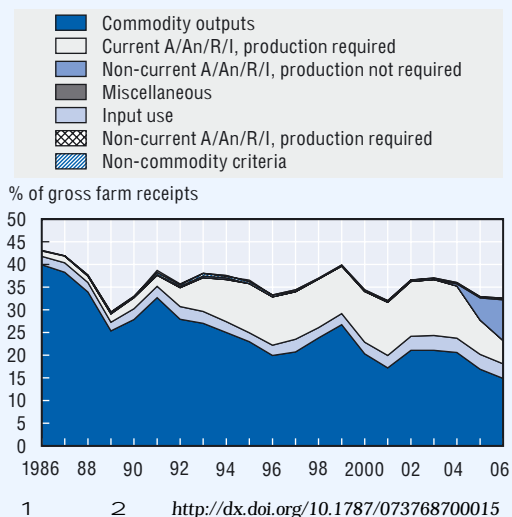
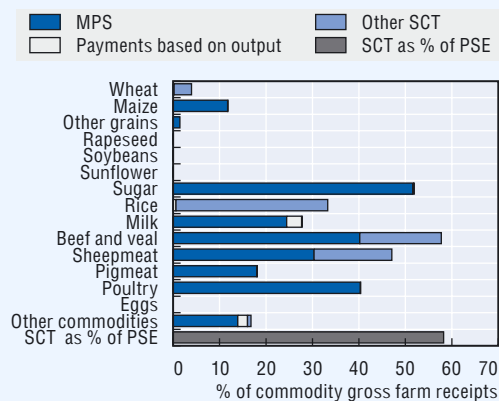


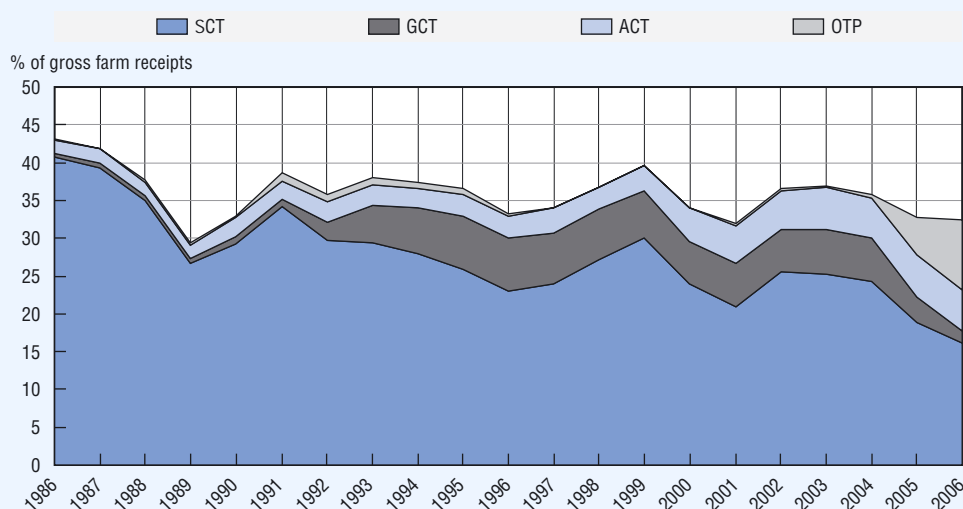
Figure 6.3. **European Union: Producer SCT by commodity, 2004-06**



Box 6.1. European Union: Commodity-Specificity of Support

Single Commodity Transfers (SCT) made up 58% of the PSE in 2004-06 (49% in 2006), a reduction from 94% in 1986-88. Group Commodity Transfers (GCT), where producers have the option to produce any one of a specified group of commodities as part of programme eligibility, made up 10% of the PSE in 2004-06 (5% in 2006), compared to 1% in 1986-88, and 20% in 1995-97. Transfers provided under the headings All Commodity Transfers (ACT) and Other Transfers to Producers (OTP) place no restriction on commodities that farmers choose to produce or do not require any commodity production at all.¹ Together these made up 31% of the PSE in 2004-06 (45% in 2006), up from 5% in 1986-88.

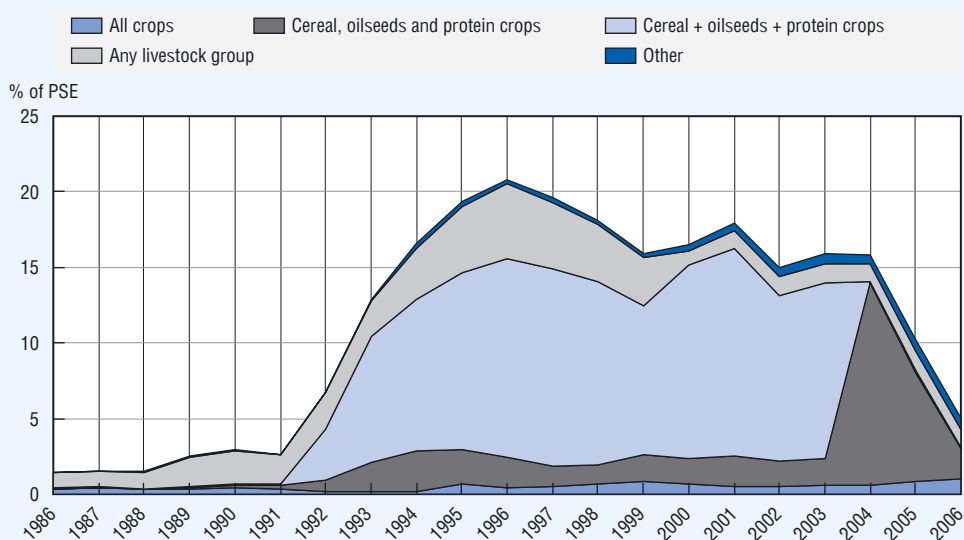
Figure 6.4. European Union: PSE level and commodity specificity



Source: OECD PSE/CSE database, 2007.

1 2 <http://dx.doi.org/10.1787/073850221556>

Figure 6.5. European Union: Components of GCT



Note: Cereals + oilseeds + protein crops is the sum of the three individual commodity groups.

Source: OECD PSE/CSE database, 2007.

Box 6.1. European Union: Commodity-Specificity of Support (cont.)

Support in the EU has become gradually less commodity specific over the period, as shown by the evolution of transfers within and outside the GCT categories. SCTs dominated the PSE and GCTs were small until 1992, when area and headage payments were introduced to partially compensate producers for the reduction in administered prices. While headage payments in the livestock sector remained commodity specific, area payments were made available to producers of any cereals, oilseeds or protein crops (COP), with the rate for cereals different from that for oilseeds or protein crops. The share of these three categories of GCTs in the PSE was between 9% and 13% over the period 1993-2003. In 2003, a common rate was applied to any cereals and oilseeds, as it had been for set-aside land from 1992. As a result, the share of GCTs for COP in the PSE rose to 13% in 2004. The share of GCTs in the PSE decreased in 2005 and further in 2006 as the single payment, which does not require any production of any commodity and is classified in OTPs, replaced part or all of these former payments.

1. The definition of the categories SCT, GCT, ACT and OTP are provided in the Chapter I.3 of this report including an annex with the list of groups used in specific countries in the period 1986-2006.

Table 6.1. European Union: Estimates of support to agriculture (EU25 from 2004)

EUR million

	1986-88	2004-06	2004	2005	2006p
Total value of production (at farm gate)	211 407	276 132	278 494	271 790	278 111
<i>Of which share of MPS commodities (%)</i>	75	72	73	72	72
Total value of consumption (at farm gate)	189 224	274 009	268 635	270 771	282 620
Producer Support Estimate (PSE)	91 530	112 787	120 002	108 102	110 258
Support based on commodity output	83 696	58 383	69 058	55 609	50 482
<i>Market Price Support</i>	78 820	54 366	63 516	50 473	49 109
<i>Payments based on output</i>	4 876	4 017	5 543	5 135	1 374
Payments based on input use	4 528	10 794	10 596	10 949	10 836
<i>Variable input use</i>	877	4 369	4 156	4 540	4 412
<i>Fixed capital formation</i>	2 574	4 195	4 025	4 193	4 366
<i>On-farm services</i>	1 077	2 230	2 415	2 217	2 059
Payments based on current A/An/R/I ¹ production required	3 041	26 870	38 440	24 767	17 402
<i>Of a single commodity</i>	2 052	7 109	11 953	5 747	3 628
<i>Of a group of commodities</i>	859	10 528	17 581	9 604	4 400
<i>Of all commodities</i>	130	9 232	8 905	9 416	9 374
Payments based on non-current A/An/R/I ¹ production required	0	0	0	0	0
Payments based on non-current A/An/R/I ¹ production not required	0	16 039	1 449	16 088	30 580
<i>Variable rates</i>	0	0	0	0	0
<i>Fixed rates</i>	0	16 039	1 449	16 088	30 580
Payments based on non-commodity criteria:	301	1 101	1 016	1 110	1 175
<i>Long-term resource retirement</i>	301	963	900	956	1 032
<i>Specific non-commodity output</i>	1	138	116	154	144
<i>Other non-commodity criteria</i>	0	0	0	0	0
Miscellaneous payments	-36	-399	-558	-421	-218
Percentage PSE	41	34	36	33	32
Producer NPC	1.79	1.27	1.33	1.26	1.22
Producer NAC	1.69	1.51	1.56	1.49	1.48
General Services Support Estimate (GSSE)	8 874	11 576	11 147	11 394	12 188
Research and development	1 067	1 878	1 821	1 872	1 940
Agricultural schools	165	889	867	883	918
Inspection services	156	648	619	741	585
Infrastructure	1 048	4 977	4 614	4 956	5 361
Marketing and promotion	1 625	2 265	2 194	2 192	2 408
Public stockholding	4 776	852	960	678	917
Miscellaneous	38	68	72	71	59
GSSE as a share of TSE (%)	8.5	9.1	8.2	9.2	9.7
Consumer Support Estimate (CSE)	-68 287	-46 871	-53 198	-43 936	-43 479
Transfers to producers from consumers	-79 261	-50 232	-57 747	-47 647	-45 303
Other transfers from consumers	-1 496	-750	-494	-848	-909
Transfers to consumers from taxpayers	4 400	3 435	4 041	3 681	2 582
Excess feed cost	8 070	677	1 002	877	151
Percentage CSE	-37	-17	-20	-16	-16
Consumer NPC	1.75	1.23	1.28	1.22	1.20
Consumer NAC	1.59	1.21	1.25	1.20	1.18
Total Support Estimate (TSE)	104 804	127 798	135 190	123 177	125 027
Transfers from consumers	80 757	50 982	58 241	48 494	46 212
Transfers from taxpayers	25 543	77 566	77 443	75 530	79 724
Budget revenues	-1 496	-750	-494	-848	-909
Percentage TSE (expressed as share of GDP)	2.75	1.18	1.30	1.14	1.10
GDP deflator 1986-88 = 100	100	160	157	160	162

p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

1. A (area planted), An (animal numbers), R (receipts) or I (income).

MPS commodities for the EU are: wheat, maize, other grains, rice, oilseeds, sugar, milk, beef and veal, sheepmeat, pigmeat, poultry, eggs, potatoes, tomatoes, plants & flowers and wine.

Market price support is net of producer levies and excess feed costs.

EU12 for 1986-94, including ex-GDR from 1990; EU15 for 1995-2003; EU25 from 2004.

Source: OECD, PSE/CSE database 2007.

Table 6.2. European Union: Estimates of support to agriculture (EU15)

EUR million

	1986-88	2004-06	2004	2005	2006p
Total value of production (at farm gate)	211 407	248 488	251 235	244 277	249 953
<i>Of which share of MPS commodities (%)</i>	75	72	73	71	72
Total value of consumption (at farm gate)	189 224	247 092	243 299	242 979	254 997
Producer Support Estimate (PSE)	91 530	99 617	106 053	96 166	96 632
Support based on commodity output	83 696	50 087	58 904	48 629	42 727
<i>Market Price Support</i>	78 820	46 178	53 601	43 536	41 397
<i>Payments based on output</i>	4 876	3 909	5 303	5 093	1 330
Payments based on input use	4 528	9 420	9 328	9 592	9 341
<i>Variable input use</i>	877	3 894	3 692	4 172	3 818
<i>Fixed capital formation</i>	2 574	3 420	3 351	3 310	3 599
<i>On-farm services</i>	1 077	2 106	2 285	2 110	1 923
Payments based on current A/An/R/I ¹ production required	3 041	25 135	37 254	23 056	15 096
<i>Of a single commodity</i>	2 052	6 878	11 729	5 551	3 355
<i>Of a group of commodities</i>	859	9 814	17 111	8 903	3 427
<i>Of all commodities</i>	130	8 443	8 414	8 601	8 313
Payments based on non-current A/An/R/I ¹ production required	0	0	0	0	0
Payments based on non-current A/An/R/I ¹ production not required	0	14 223	0	14 366	28 302
<i>Variable rates</i>	0	0	0	0	0
<i>Fixed rates</i>	0	14 223	0	14 366	28 302
Payments based on non-commodity criteria:	301	1 027	1 001	1 034	1 047
<i>Long-term resource retirement</i>	301	899	887	890	920
<i>Specific non-commodity output</i>	1	128	114	144	127
<i>Other non-commodity criteria</i>	0	0	0	0	0
Miscellaneous payments	-36	-275	-434	-511	120
Percentage PSE	41	33	35	32	32
Producer NPC	1.79	1.26	1.31	1.26	1.21
Producer NAC	1.69	1.49	1.54	1.48	1.46
General Services Support Estimate (GSSE)	8 874	9 641	9 446	9 384	10 092
Research and development	1 067	1 756	1 709	1 744	1 816
Agricultural schools	165	744	732	736	764
Inspection services	156	371	370	371	370
Infrastructure	1 048	4 026	3 759	3 986	4 332
Marketing and promotion	1 625	2 053	2 019	1 991	2 147
Public stockholding	4 776	650	800	513	637
Miscellaneous	38	42	58	43	26
GSSE as a share of TSE (%)	8.5	8.6	7.9	8.6	9.2
Consumer Support Estimate (CSE)	-68 287	-43 161	-48 517	-40 613	-40 353
Transfers to producers from consumers	-79 261	-46 252	-52 914	-44 008	-41 834
Other transfers from consumers	-1 496	-1 139	-530	-1 285	-1 601
Transfers to consumers from taxpayers	4 400	3 359	3 814	3 612	2 652
Excess feed cost	8 070	871	1 114	1 068	430
Percentage CSE	-37	-18	-20	-17	-16
Consumer NPC	1.75	1.24	1.28	1.23	1.21
Consumer NAC	1.59	1.22	1.25	1.20	1.19
Total Support Estimate (TSE)	104 804	112 617	119 313	109 162	109 376
Transfers from consumers	80 757	47 391	53 445	45 293	43 435
Transfers from taxpayers	25 543	66 365	66 399	65 154	67 542
Budget revenues	-1 496	-1 139	-530	-1 285	-1 601
Percentage TSE (expressed as share of GDP)	2.75	1.09	1.20	1.06	1.02
GDP deflator 1986-88 = 100	100	160	157	160	162

p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

1. A (area planted), An (animal numbers), R (receipts) or I (income).

MPS commodities for the EU are: wheat, maize, other grains, rice, oilseeds, sugar, milk, beef and veal, sheepmeat, pigmeat, poultry, eggs, potatoes, tomatoes, plants & flowers and wine.

Market price support is net of producer levies and excess feed costs.

EU12 for 1986-94, including ex-GDR from 1990; EU15 for 1995-2006.

Source: OECD, PSE/CSE database, 2007.

Description of policy developments¹

Main policy instruments

The Common Agricultural Policy (CAP) is composed of two pillars. The first pillar defines Common Market Organisations (CMOs), and now includes the Single Payment Scheme. The second pillar or Rural Development Regulation (RDR) of Agenda 2000 includes various measures co-financed by EU member states, drawn from a list of available measures that can be tailored to the specific conditions facing their rural areas.

A major reform of the CAP was decided in 2003 (see OECD, 2004, *Analysis of the 2003 CAP reform* for a full description of CAP changes, available at www.oecd.org/agr/policy). The reform includes adjustments to CMO parameters for crops, beef and dairy products, which were introduced from 2004. A second package of reforms was decided in 2004 for the olive oil, cotton, tobacco and hop sectors. The main feature of the 2003 reform is the introduction, as part of the Single Payment Scheme, of a single payment which does not require recipients to produce. It replaces part or all of the premia that existed under different CMOs. Implementation of the Single Payment Scheme started in 2005 or 2006 in the EU15, depending on the country, using various formulas described in Table 6.A2.1. Farmers were allotted payment entitlements based on historical reference amounts received during the period 2000-02. Depending on the country, payment entitlements were established either at the farm level or at the regional level, or a mixture of both. Some area payments to crops and headage payments to beef and sheep are maintained in some EU15 countries.

Direct payments were introduced in 2004 in new member states, starting at 25% of the EU15 level and being progressively increased to reach 100% in 2013. Specific transitional schemes apply in new member states. Eight apply the Single Area Payment Scheme (SAPS), under which each eligible hectare receives the same payment rate. It will apply until 2010. Malta and Slovenia chose to maintain former area and headage payments until 2006 and implemented the Single Payment Scheme in 2007. During the ten-year phase-in period, new EU member states may complement EU funds with Complementary National Direct payments (CNDP or top-up payments) from national funds. They are granted as commodity-specific area or headage payments. Over the period 2004-06, a maximum of 20% of the CNDP can be co-financed from RDR funds on average. Total payments cannot exceed 100% of the EU15 payment rate. Similar arrangements were made for Bulgaria and Romania when they joined the EU in January 2007.

There are intervention prices for cereals (with the exception of rye) but not for oilseeds and protein crops (peas, beans and sweet lupins). The market support regime for cereals and sugar comprises trade protection through tariffs, tariff rate quotas (TRQs) and export subsidies. Until July 2006, when a new regime came into force (Box 6.2), the sugar support regime comprised intervention prices and production quotas, while producers (growers and processors) jointly paid the cost of disposing of production in excess of the quota through producer levies.

Intervention prices and production quotas are used for milk in conjunction with import protection and export subsidies. The beef market is supported by basic prices, tariffs, TRQs and export subsidies. Support for pigmeat is provided mainly through import protection and export subsidies. For sheepmeat, the market support regime comprises tariffs and TRQs, with most country-specific TRQs subject to a zero customs duty. For

poultry and eggs, there are no intervention prices, although there are TRQs and export subsidies.

The RDR is implemented through National (or Regional) Development Plans, which define the list of measures chosen by the country and their funding. Available measures include agri-environmental measures, early retirement schemes, and payments to assist farmers in less-favoured areas (LFAs), as well as payments available to both farmers and non farmers for afforestation, tourist infrastructure and the development of non-agricultural businesses. Other measures such as farm investment, the installation of young farmers, training, investment aid for processing and marketing facilities, additional assistance for forestry, promotion and conversion of agriculture, are also either co-financed or entirely financed by EU member states. Four additional measures were introduced under the 2003 CAP reform: quality incentives for farmers, support to help farmers to meet standards, a farm advisory system and support to cover animal welfare costs. Specific measures are also available in new member states: temporary income support for semi-subsistence farms undergoing restructuring, support to producer groups, technical assistance and a temporary measure until 2006 to help farmers meet costs related to compliance with EU environmental, hygiene, welfare, food safety and occupational safety standards.

Domestic policy

In 2006, EU25 expenditures and direct aids (Heading 1.A of the guarantee section of the European Agricultural Guidance and Guarantee Fund (EAGGF) amounted to EUR 42.2 billion (USD 52.8 billion), compared to EUR 42.1 billion (USD 52.7 billion) in 2005. In the budget for 2007, expenditures on market and direct aids (from the European Agricultural Fund for Guarantee, EAFG) amount to EUR 42.9 billion (USD 53.7 billion) for the EU27. This increase is mainly explained by the phasing-in of direct payments in new member states and some market expenditures in Bulgaria and Romania. Figures for the 2007 budget reflect the implementation of the single payment which accounts for more than 80% of direct payments under this heading. This share will come close to 90% once the reforms are fully implemented.

Total expenditures on agriculture (market, direct aids and rural development) are estimated at EUR 53.8 billion (USD 67.3 billion) in 2007 for the EU27, compared to EUR 53.4 billion (USD 66.8 billion) in 2006 for the EU25.

As part of the first step of the 2003 CAP reform introduced in 2004, intervention was abolished for rye, the support price for rice was cut by 50% and the first cuts applied to the dairy sector. Intervention prices for butter and skimmed milk powder continued to be reduced, by 7.5% and 5.3% respectively in 2005/06 and by 8.1% and 5.6% respectively in 2006/07 (Table 6.3). The decline between 2004 and 2007 will reach a total of 25% for butter and 15% for skimmed milk powder. Following the sugar reform, the minimum sugar beet price decreased by 25% in 2006/07 compared to its level in previous marketing years (see Box 6.2). In mid-December 2006, the commission proposed the abolition of maize intervention as from July 2007. Other intervention prices remained unchanged during the marketing years 2004/05 to 2006/07.

For those countries that have partially retained Agenda 2000 crop payments, the rates (per hectare) were maintained at the 2004/05 levels adjusted by the coupling rate. Depending on the country, these may include payments per hectare of cereals, oilseeds

Table 6.3. European Union: Selected institutional prices

Product	2003/04		2004/05		2005/06		2006/07		Change in EUR price 2005/06 to 2006/07 %
	EUR/t	USD/t	EUR/t	USD/t	EUR/t	USD/t	EUR/t	USD/t	
Cereals ¹	101	114	101	125	101	126	101	126	0
Rice ¹	298	337	150	186	150	186	150	188	0
Sugar beet ²	48	54	48	60	44	55	33	41	-25
Milk									
Skimmed milk powder ¹	2 055	2 322	1 952	2 426	1 850	2 299	1 747	2 186	-6
Butter ^{1,3}	3 282	3 708	3 052	3 792	2 824	3 510	2 595	3 247	-8
Beef and veal ⁴	2 224	2 513	2 224	2 763	2 224	2 764	2 224	2 783	0
Pigmeat ⁵	1 509	1 705	1 509	1 875	1 509	1 875	1 509	1 888	0

Note: Marketing year July to June for cereals, rice, sugar beet and milk, April to May for beef and veal and sheepmeat, and November to October for pigmeat.

1. Intervention prices. There is no intervention for rye.

2. Minimum price.

3. Buying-in price set at 90% of the intervention price.

4. Basic price for storage. Payments for private storage can be made when the average price on the EU market falls below 103% of this basic price. There is also provision for public intervention when the average market price of young cattle or steers falls below EUR 1 560 per tonne.

5. Basic price. When the EU price, weighted to reflect the relative size of the pig herd in each member state, falls below 103% of the basic price, intervention may be authorised. Public intervention has not been used since the early eighties.

Source: European Commission.

Box 6.2. European Union: The 2006 sugar reform

The EU Council of Ministers of Agriculture reached political agreement on a reform of the sugar CMO on 24 November 2005, which was adopted on 20 February 2006. The new regime applies from 1 July 2006 to 30 September 2015. Within budgetary limits and subject to current and future international commitments, the reform includes:

- **A reduction of guaranteed prices** over four years. The “reference” price for white sugar replaces the former intervention price and will be cut by 36% from EUR 631.9 per tonne in 2005/06 to EUR 404.4 per tonne in 2009/10. The minimum price for sugar beet will be gradually cut by close to 40%, from EUR 43.6 per tonne in 2005/06 to EUR 26.3 per tonne from 2009/10.
- **The abolition of intervention** and establishment of a private storage system in case the market price falls below the reference price. Access to intervention is retained as a transitional measure until 2009/10. During the transition period, the intervention price will be set at 80% of the reference price of the following year. Intervention purchases are to be limited to 600 000 tonnes each year.
- **The introduction of a production charge** of EUR 12 per tonne of sugar quota (EUR 6 per tonne for isoglucose quota), from 2007/08.
- **The merging of the A and B sugar quotas into one single quota** (17.440 million tonnes). An additional amount of 1 million tonnes of quota will be made available to former C-sugar producing member states. No permanent quota cuts are foreseen during the phase in of the price reduction. However, freely chosen reductions in quota quantities can be sold into a voluntary restructuring scheme (see below). At the end of the restructuring period in 2010/11, a permanent quota cut will be made, as a flat rate percentage reduction, if quota renunciation under the voluntary restructuring scheme is not sufficient to balance

Box 6.2. European Union: The 2006 sugar reform (cont.)

the internal market. A levy for any surplus production will be introduced to control production above quota. Isoglucose quotas will be increased by 100 000 tonnes per year over three years. In addition, a further 103 000 tonnes of isoglucose quota will be available to Lithuania (8 000 tonnes), Sweden (35 000 tonnes) and Italy (60 000 tonnes), upon payment of a charge of EUR 730 per tonne. Inulin quota will be unchanged.

- **The introduction of a partial compensation** in a form of a payment to sugar beet growers to be integrated in the single payment. Farmers will be compensated for, on average, 64.2% of the price cut through a payment with no production requirement. For those member states with more than 50% reduction in quota production, a temporary commodity-specific aid corresponding to a further 30% of revenue loss is payable for four years. Limited national aids are permitted in Italy, Finland and for the French overseas departments. The EU has made sugar beet eligible for the energy crop aid of EUR 45 per hectare.
- **The introduction of a voluntary restructuring scheme** with funds available for factory closures, for assistance to sugar beet growers, for diversification measures in affected regions of member states and for transition measures. Funds will be provided by a levy on all sugar, isoglucose and inulin quota, in the first instance, and will be borne by sugar users in the form of higher prices.
- **Necessary modifications to preferential import systems:** Preferential imports of 1.3 million tonnes of sugar, white value, per year from the African, Caribbean and Pacific countries (ACP) as well as India under the Sugar Protocol of the Cotonou Agreement continue under the sugar reform, but at the lower reference price. The zero tariff imports foreseen under the Everything But Arms (EBA) initiative for Least Developed Countries (LDCs) from 2009/10 is also maintained. From 2009 to 2015 the EU will apply a ceiling on duty-free imports from LDCs and ACP countries together of 3.5 million tonnes, with normal tariffs applicable on any imports above this volume from ACP countries but not LDCs. After 2015, the idea is to apply an EBA safeguard clause for sugar. An initial aid package of EUR 40 million will be made available in 2006 and a total of EUR 1 244 million has been earmarked for a period of seven years to assist ACP countries adversely affected by the lowering of the price that they receive for their exports. Raw cane sugar for EU refiners will continue to be imported on the current basis of "traditional supply needs" (TSN). From 2009/10, the TSN will be fixed at the EU level for all origins. The traditional monopoly held by sugar refiners in refining preferential imports of raw sugar from cane under the TSN is set to expire after 2009/10.

Source: EU Commission, Press Release IP/05/1473, 24 November 2005; OECD (2007), "EU sugar policy reform", (AGR/CA/APM[2006]15/FINAL).

and protein crops (COP) and land set-aside, as well as payments introduced by the 2003 CAP reform for which production is required (e.g. payments for rice and dried fodder).

Similarly, for those countries that have partially retained Agenda 2000 livestock payments, the rates (per head) were maintained at the 2004/05 levels adjusted by the coupling rate – the suckler cow premium, special beef premium, deseasonalisation premium, the extensification premium, slaughter premium, ewe premium and additional ewe premium in less-favoured areas – have been partially retained by some countries. Following the cut in prices decided in the 2003 CAP reform, the dairy premium was increased to EUR 16.31 per tonne in 2005, and EUR 24.49 per tonne in 2006. This payment is

included in the single payment over the years 2005 to 2007, depending on the country. Member states have the possibility to add to the premium out of the so-called national envelopes.

In the first marketing year under the reformed sugar regime, **sugar production under quota** was subject to a one-year cut of 2.5 million tonnes (13.6%) in order to improve the balance on the sugar market. Production quotas for starch potatoes were extended, at the same level, for two years in June 2005 and again for two years in December 2006. As part of the Agenda 2000 and 2003 CAP reform, milk quotas in the EU15 were increased from 119.013 million tonnes in 2004/05 to 119.063 tonnes in 2005/06 and 119.544 tonnes in 2006/07. Quotas for new member states were unchanged in 2005/06 but were increased as of the 2006/07 marketing year as the totality of the milk quota reserves were allocated to them.

The implementation of the Single Payment Scheme started in 2005. Ten of the EU15 countries implemented it in 2005 and five in 2006. Five countries included the dairy payment in the single payment in 2005, six in 2006 and four will do so in 2007. Payments resulting from the reform of the sugar sector entered the single payment in 2006 (Box 6.2) as well as part or all of the payments for hop, cotton, tobacco and olive oil, as decided in the 2004 reform. In the case of tobacco, integration in the single payment will be carried out gradually over a four year transition period. From 2010 onwards 50% of the payment will be included in the single payment with the other half used for restructuring under rural development programmes. In the case of cotton, while the pre-reform support was based on a per tonne payment to processors, 65% of support is integrated into the single payment, another part is transferred to rural development and the remaining part is paid per hectare. The processing aid to flax and hemp, which was due to expire in 2005/06, was extended until 2007/08.

The transitional period of application of the SAPS in new member states, which was 2004-06 with two additional years if requested, was extended until 2010. After that date the Single Payment Scheme will apply. The phasing-in of direct payments in new member states proceeded as planned: they received 30% of the EU15 payment rate in 2005, 35% in 2006 and 40% in 2007. For sugar the full payment is included in the single payment without phasing-in.

In December 2006, EU ministers agreed to a reform of the CMO for bananas. It is applied since January 2007. The current aid scheme, which compensates producers for drops in prices, is replaced with a budget transfer to the POSEI scheme (*Programme d'options spécifiques à l'éloignement et l'insularité*). POSEI provides support to the outermost regions, where most EU bananas are grown, to assist local agricultural production and marketing. For producers in non-outermost-regions bananas are included in the single payment.

In January 2007, the Commission unveiled its plan for a reform of the CMO for fruits and vegetables. The main proposals are outlined in Box 6.3.

In three consecutive years 2004/05, 2005/06 and 2006/07, wine producers were allocated about EUR 450 million for the restructuring and conversion of vineyards. This support, which is granted under Regulation 1493/1999, covers measures for varietal conversion, relocation of vineyards and improvements to vineyard management techniques.

In July 2006, the EU Commission authorised farmers affected by the drought to use set-aside land to feed animals. Subsequently, it allowed member countries to grant advance

Box 6.3. European Commission: Commission proposals for fruit and vegetable reform

In January 2007, the Commission tabled the following proposals for the reform of the fruits and vegetable policy:

- **Additional support and flexibility to Producer Organisations (POs):** Producers would be free to join different POs for each product. EU co-financing would increase from 50% to 60% in areas where production marketed via POs is less than 20%, in the new member states, and in case of mergers of POs and associations of POs. 60% EU co-financing to POs operating in a transnational scheme or on an inter-branch basis would continue. Member states and POs would develop Operational Programmes based on a national strategy.
- **Crisis Management** would be organised through POs. Tools would include green harvesting/non-harvesting, withdrawals, promotion and communication tools in times of crisis, training, harvest insurance, and financing of the administrative costs of setting up mutual funds. The measures would be co-financed by the EU and producers. Withdrawals for free distribution to schools, children's holiday camps, hospitals, charitable organisations, old people's homes and penal institutions would be 100% paid by the EU up to a limit of 5% of the quantity of marketed production of each PO.
- **Inclusion of fruit and vegetables in the single payment:** Land covered by fruit and vegetables would be eligible for payment entitlements to be integrated in the single payment. All existing support for processed fruit and vegetables would also be integrated and the national budgetary ceilings for the single payment would be increased. Member states would be allowed to establish reference amounts based on a representative period. The total amount that would be transferred to the single payment is around EUR 800 million.
- **Environmental measures:** In addition to cross compliance, which is compulsory for those farmers receiving direct payments, each Operational Programme would have to spend at least 20% of its funds on environmental measures. There would be a 60% EU co-financing rate in each Operational Programme specific for organic production.
- **Promotion:** POs would be able to include promotion of fruit and vegetables consumption in their operational programmes. EU co-financing would be increased to 60% if the promotion is targeted towards school-age children and adolescents.
- **Trade with third countries:** It is proposed that export refunds be abolished.

For more background information, please see MEMO/06/245, http://ec.europa.eu/agriculture/capreform/fruitveg/index_en.htm.

Source: EU Commission press release IP/07/75.

payments of up to 50% of direct aids to farmers on the 16 October instead of the usual 1 December.

For the period 2000-06, the budget available for EU funding for the **Rural Development Regulation** (RDR), the "second pillar" of the CAP, amounted to around EUR 60 billion (USD 75 billion) for the EU25 (2004-06 for new member states). The RDR is co-financed by the EU member states, with about half coming from the EU budget. EU25 RDR expenditures for 2006 from the Guarantee section (of the EAGGF) amounted to EUR 7.6 billion (USD 9.5 billion) as compared to EUR 6.8 billion (USD 8.5 billion) in 2005. This increase mainly reflects the effect of modulation, whereby direct payments are reduced and the

corresponding amount is transferred to EU support for rural development. EU25 expenditures for 2006 from the Guidance section were stable at EUR 3.6 billion (USD 4.5 billion). The appropriations available for rural development payments from the European Agricultural Fund for Rural Development (EAFRD, the new unified fund) under the 2007 budget amount to EUR 10.9 billion (USD 13.6 billion) for the EU27.

The rural development (RD) programme for the new implementation period 2007-13 was agreed in June 2005. While during the 2000-06 period, RDR funds were under either the guarantee section or the guidance section of the EAAGF, depending on the region, they will be under a new single European Agricultural Fund for Rural Development (EAFRD) from 2007. The existing three types of programming (RD programmes, LEADER and Operational programmes in Objective 1 areas) and the two types of financial management and control systems (guarantee and guidance sections of the EAAGF) are simplified and brought under a single funding, programming, financial management and control framework. Current RDR measures are grouped under three thematic axes plus a separate axis applying the multi-sectoral approach and principles of LEADER. Axis 1, "Improving the competitiveness of the agricultural and forestry sector", includes measures to improve human and physical capital such as training, setting-up of young farmers, farm modernisation, as well as measures to improve product quality. Axis 2, "land management", encompasses less-favoured areas, agri-environmental schemes, animal welfare, afforestation and non-productive investments. Axis 3, "Diversification of the rural economy and quality of life in rural areas", concerns measures for non-agricultural sectors such as micro businesses, tourism, renovation of villages, rural services and the conservation of rural heritage. Minimum funding percentages are fixed for each of these axes, to ensure that RD programmes are balanced. The current definition of less-favoured areas will be maintained until 2010.

The financial contribution will be at least 10% for axis 1 and 3, 25% for axis 2 and 5% for the LEADER axis. EAFRD support for the EU25/27 will amount, in current EUR, to EUR 77.7/88.3 billion (USD 97/110 billion) for the period 2007-13. Member states will first submit National Strategy Plans and afterwards more detailed programmes laying out the programmed measures and corresponding funds.

In December 2005, the European Commission adopted an Action Plan designed to increase the use of **biomass** from forestry, agriculture and waste materials for energy purposes. To help meet the 2010 target – a 5.75% market share for biofuels in the overall transport fuel supply – the European Commission adopted an EU Strategy for Biofuels in February 2006, along seven policy axes: 1) Stimulating demand for biofuels; 2) Capturing environmental benefits; 3) Developing the production and distribution of biofuels; 4) Expanding feedstock supplies; 5) Enhancing trade opportunities; 6) Supporting developing countries; and 7) Supporting research and development. In September 2006, the Commission adopted a proposal aiming at reinforcing the use of the energy crop premium scheme. In addition to the extension of the scheme to the new member states (finally agreed by ministers in December 2006), the Commission also proposed to allow member states to grant national aid of up to 50% of the costs of establishing multi-annual crops on areas on which an application for the energy crop aid has been made. In March 2007, the EU Council agreed a target for biofuels of 10% for the overall fuel supply by 2020.

From January 2006, the use of the last four antibiotics still allowed as **feed additives** was banned and farmers are forbidden from using any antibiotics as growth promoters in

animal feed. In February 2006, the Commission tightened dioxin legislation by adding to the maximum limits on dioxin in food products set in 2002, new ceilings that include dioxin-like molecules.

The **European Commission** allowed the producers of organic food to choose whether or not to use the EU organic logo. Imports of organic products are allowed but cannot be marketed as organic unless they comply with EU standards or come with equivalent guarantees from the country of origin.

In spring 2006, the Commission agreed to fund 50% of the cost of measures taken to support the poultry market affected by **Avian flu**, such as the destruction of hatching eggs and chicks, the early slaughter of the breeding flock, other voluntary reductions in output and the compensation of income losses, even if the farm itself is not affected by Avian flu (April, June). The ban on British beef exports to other EU countries introduced in 1996 at the height of the BSE crisis was lifted in spring 2006.

Various efforts were made to **simplify** the implementation of the CAP. A new regulation was adopted in May 2005, which creates two new funds: the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD) that will both operate under a single management and control system. It will include the use of accredited paying agencies, accredited coordination bodies, a better system of certification of the accounts, an improved annual accounting system completed by a declaration of assurance from the director of the national paying agencies, an annual clearance of accounts exercise, and an annual conformity clearance of accounts exercise. The regulation also includes reinforced rules for budgetary discipline. The new system was implemented in January 2007. As part of the 2003 reform, each member state had also been required to set up an integrated administration and control system to facilitate the implementation of the Single Payment Scheme and other aid schemes (Chapter 4 of Council Regulation [EC No. 1782/2003]). It comprises:

- a computerised data base;
- an identification system for agricultural parcels;
- a system for the identification and registration of payments entitlements;
- aid applications;
- an integrated control system; and
- a single system to record the identity of each farmer who submits an aid application.

As part of a broad initiative to simplify the CAP (see http://europa.eu.int/comm/agriculture/simplification/index_en.htm for more details), the Commission proposed to:

- identify and eliminate unnecessary or out of date provisions through a “legal audit” of existing rules, and to improve the structure and presentation of agricultural law; and
- amalgamate the existing CMOs into a single CMO to provide a single set of harmonised rules in the areas of market policy such as intervention, private storage, tariff rate quotas, export refunds, safeguard measures, promotion of agricultural products, state aid rules, communications and reporting of data, without changing the substance of the existing instruments and mechanisms.

In October 2006, a CAP simplification action plan with concrete measures was presented and a simplification conference was held, focusing on the views and needs of stakeholders. In December 2006, the Commission tabled a proposal for a Council

Regulation establishing a common organisation of agricultural markets and on specific provisions for certain agricultural products. The plan is to replace the 21 individual CMOs with one CMO, without changing policies.

Trade policy

In 2005 and 2006, export subsidy spending was close to EUR 2.5 and 1.8 billion respectively (USD 3.1 and 2.3 billion), compared to EUR 3.2 billion (USD 4 billion) in 2004. This fall occurred as a result of the rise in world prices. According to the most recent EU notifications to the WTO on **export subsidies**, in the marketing year 2002/03, the EU remained well below its WTO ceiling for export subsidies except in the case of cheese, rice, fresh fruits and vegetables and wine where over 90% of the allowance was used, in volume.

On **market access**, 40% of the EU's individual TRQs were fully filled, while 13 of the 87 individual TRQs registered a fill rate of zero in 2002/03. The EU is in the process of compiling consolidated commitments for the enlarged EU25, but as of February 2007 they had not yet been submitted to WTO.

To provide compensatory adjustment for EU enlargement, the EU offered new TRQs. Some of them are *erga omnes* and some allocated to specific countries such as Australia, Canada, China, New Zealand, Brazil, Thailand and the United States. These TRQs compensate countries for the increase in new member states' tariffs. In addition, WTO TRQs of the new member states were merged into the WTO TRQs of the EU15 in cases where new member states in-quota rates were lower than the EU out-of-quota rates.

Following a European Court of Justice ruling, the EU introduced new import arrangements for its WTO bound tariff rate quota for butter from New Zealand applicable from 2007. Licences for quota butter imports from **New Zealand** into the **EU** will no longer be awarded exclusively to the single European importer that the New Zealand exporter historically chose to trade with. From 2007 onwards, any importer on the European approved list may apply for an import licence. 45% of import licences will be allocated to new entrants. In 2001, the EU had agreed to replace its tariff quota system for **bananas** by a single tariff to be applied on 1 January 2006. The tariff rate of EUR 230 per tonne proposed by the EU in January 2005 was rejected by WTO arbitrators. In November 2005, the EU agreed a new import tariff of EUR 176 per tonne for most favoured nation suppliers of bananas, which applied from 1 January 2006. A tariff quota for ACP (African, Caribbean, Pacific) countries of 775 000 tonnes at zero duty also applies. Ecuador made a formal request for WTO consultation over EU import arrangements for bananas in November 2006, on the alleged basis that there was a discriminatory treatment for bananas from Latin American countries. In March 2007, it then requested a panel be set up on this issue.

In October 2006, a WTO panel launched at the request of the United States in 2003, ruled that the EU moratorium on the authorisation of new genetically modified (**GM**) crops in place between 2001 and 2004 broke international trade laws because the long approval process for sales of GM crops in the EU market hampered trade. It also ruled that the banning of certain GM organisms imposed by some EU member states, was inconsistent with the EU's WTO obligations.

In January 2005, the **EU** asked the WTO to establish a new panel on the beef hormone issue stating that **Canada** and the **United States** failed to lift their sanctions against the EU despite the fact that the EU had adopted new legislation in 2003. The EU maintains that this new legislation had been based on a comprehensive risk assessment following the

conclusion of the first panel. Canada and the United States do not believe that the revised legislation can be considered an implementation of the WTO recommendations and rulings related to beef hormones. A WTO Panel is expected to issue a report on this topic before the end of 2007.

In December 2006, the EU requested a dispute settlement panel to investigate extra duties imposed on European olive oil exports by Mexico.

A WTO arbitration panel ruled in February 2006 that the EU must adjust its tariffs on frozen boneless **chicken** cuts within four months. Following that ruling, the EU decided to readjust its schedule and agreed with Brazil and Thailand on Tariff Rate Quotas (TRQ) for imports of certain meat categories from Brazil and from Thailand (not yet adopted by the Council).

The European Commission proposed new rules on **geographical name protection** in January 2006. Non-EU producers wanting to register a product as a Protected Geographical Indication (PGI), a protected Designation of Origin (PDO) or a Traditional Specialties Guaranteed (TSG) will be able to apply directly to the EU and no longer have to have their governments apply on their behalf. In addition, their governments will not have to satisfy the EU that they give similar protection to corresponding European goods in their own market, allowing coffee and other products not grown in the EU to obtain such denominations.

In September 2006, the EU modified the specification for high-quality beef imports from Argentina, Brazil and Uruguay, in agreement with these countries, specifying that the label "Hilton Beef" refers to grass-fed animals.

The EU **rice** import system was revised as it could no longer operate given its link to the intervention price for rice, which was halved following the 2003 EU reform. After similar arrangements with the United States, India and Pakistan, a new rice import deal was struck with Thailand in December 2005.

In March 2006, the EU and the United States signed a bilateral **wine** trade agreement. It includes a partial mutual recognition of names of origin, technical oenological practices and simplified certification rules. The United States has changed the legal status of 17 traditional European wine names, such as Burgundy, Champagne, Port and Sherry, in order to restrict their use in future to wine originating from the EU.

A bilateral agreement between the EU and Switzerland was signed in February 2005. As a result, export refunds and import duties between the two countries were either abolished or reduced. Russia and the EU agreed to apply trade bans at the regional rather than national level in the event of animal disease outbreaks, to improve co-operation between veterinary and customs authorities and to work towards creating a standard procedure for reporting frauds. The EU and China signed an agreement to reduce the imports of illegal food products into Europe, by improving exchange of information and speed of communication. The EU started or resumed trade talks with Mediterranean partner countries and Mercosur countries in 2005.

The EU banned poultry imports from various countries affected by **avian influenza** over the period 2005-06. As the disease spread in 2005, a ban on live birds from all countries was imposed in October and was maintained until the end of January 2006. Regional bans on poultry imports from Bulgaria and Romania were also imposed in spring 2006 to prevent the spread of Newcastle disease.

In October 2005, the EU temporarily banned beef imports from Brazil as **Foot and Mouth Disease** cases were found. It has also banned imports of de-boned and mature beef from eight Argentinean regions for the same reason in February 2006.

A new **generalised system of preferences** entered into force in January 2006. It awards trade concessions to developing countries, by focusing on smaller, more disadvantaged countries, and less on large developing economies such as China and India. The number of schemes is reduced from five to three: the normal Generalised System of Preference (GSP), the Everything But Arms (EBA) initiative and a “GSP+” category, which would reward actions against drug trafficking or that combat governmental corruption. Preferences for some products would be downgraded once countries reach a given level of competitiveness. GSP+ had entered into force from July 2005 and was extended to 15 additional countries in December 2005.

Bulgaria and Romania joined the EU on 1 January 2007. The pre-accession agreement between the EU and Croatia, which aims to create a free trade area in most agricultural goods between the two countries, entered into force in February 2005. The EU launched accession negotiations with Croatia and Turkey in October 2005.

Austria

Sector-wide policy initiatives. Environmental sustainability continued to be a major focus of Austrian farm policies. The main instrument is the Agri-Environmental Programme (ÖPUL) which has been evolving since 1989. The current ÖPUL-2000 offers 32 measures that aim at improving the environmental sustainability of farming, with a heavy emphasis on promoting organic farming practices.² Participants in the scheme sign up for a contract which specifies precisely what actions are to be taken, or what services are to be delivered in return for payments. In 2006, EUR 643 million (2005, EUR 653 million) was disbursed under this scheme, which amounted to an average of EUR 5 060 (2005, EUR 4 820) per participant. The majority of farmers participate in this scheme, that is 80% of all enterprises representing 88% of the total utilised agricultural area in Austria.

The emphasis on organic farming has resulted in a visible increase of the arable area devoted to organic farming. About 11% of the arable area is now cropped according to organic standards and about 13% of the farms are officially certified “organic” (*Biobetriebe*).

Austria followed a horizontal approach to bioenergy by introducing an obligation for the oil industry to substitute a specific percentage of fuels based on mineral oil by biofuels. It is expected that this approach will lead to meeting the EU-wide bioenergy targets in the short run.

The year 2005 was characterized by a drought in early summer and floods in July and August, leading to scarcity of feed for livestock. In order to ease the burden, the prohibition to use crops from set aside acreage was lifted on 13 July in certain areas. Additional support measures comprised a postponement of repayments of subsidised agricultural investment loans and support to farmers for the purchase of fodder. Some regions in Austria suffered drought again in 2006.

Implementation of the Single Payment Scheme. Austria introduced the Single Payment Scheme in 2005, based on historical entitlements in 2000-02. All arable crop payments were integrated into the single payment, but suckler cow and calf slaughter premiums remain fully commodity-specific. In addition, 40% of the adult cattle slaughter premiums and 25% of the payments for hops remain product specific. In 2005, 80 123 farms received livestock

premiums (suckler cow and slaughter premiums). These payments amounted to about EUR 98 million.

Milk premiums were introduced in 2004 and were increased annually up to 2006 (from 11.81 EUR/t in 2004, to 23.77 EUR/t in 2005 and to 35.44 EUR/t in 2006) as elsewhere in the EU. From 2007 onwards milk premiums will be integrated into the Single Payment Scheme based on the milk quota distribution on 31 March.

Under the Single Payment Scheme, EUR 497 million were transferred to 130 960 farms on the basis of 2.38 million payment entitlements in 2005. The payment entitlements are transferable and tradable within Austria, either with or without the accompanying acreage.³ In the latter case, parts of the entitlements (50% in 2007) must be transferred to a “national reserve.”

In Austria, as in other EU member states, the introduction of the Single Payment Scheme was a massive administrative task. The total cost for administration of the support programmes, including the switch to the new system, is estimated at 1.8% of the total support payments. The cornerstone is the INVEKOS system (*Integriertes Verwaltungs- und Kontrollsystem*) that is used to administer and monitor these programmes. The execution of the support programmes is done by a semi-independent paying agency, Agrarmarkt Austria (AMA). This agency monitored a sample of at least 1% of the payment recipients in 2005 in order to check adherence to cross-compliance criteria.

In 2005, the average direct payment per hectare transferred within INVEKOS (basically payments within the framework of the first pillar, agri-environmental payments and compensatory allowances) amounted to EUR 621. The distribution of payments across farms is skewed towards larger holdings; 3% of the holdings received payments larger than EUR 36 366. Altogether they accounted for 17% of the payments received and they farmed 15% of the agricultural area. At the lower end, 30% of the holdings received payments no larger than EUR 3 643, totalling 5% of the payments, while they accounted for 10% of the farmed acreage.

Implementation of the Rural Development Plan. Rural development has an important place in the Austrian portfolio of farm policies.⁴ The share of rural development expenditure in the budget amounts to 58% (including federal and subnational contributions), as compared to 14% in the EU agricultural budget (which excludes national co-finance). Within the framework of the second pillar of the CAP a total of EUR 995 million was paid to 141 847 holdings and a total of EUR 57 million was paid to other applicants. 133 096 enterprises with a utilized agricultural area of 2.25 million hectares (without alpine pastures) participated in the Agri-Environmental Programme (ÖPUL).

ÖPUL is subsumed under the Rural Development Agenda since 2000. All rural development expenditures are co-financed by the EU. In addition to ÖPUL the measures comprise less-favoured area payments, agricultural investment programmes, start-up subsidies, processing and marketing premiums, payments to foster the adaptation and development of rural areas, education programmes and forestry programmes. The rural development programme for the new period of implementation 2007-13 has been completed and submitted to the European Commission; the launching of the programme is planned for 2007.

Within the 2005 tax reform, the sparkling wine tax (1.08 EUR/bottle) was abolished and a refund of petroleum tax for agriculture was introduced. Amendments of the milk quantity regulation (BGBl II Nr 240/2005) contained some crucial modifications concerning

restrictions on the partial leasing of milk quota and the introduction of a tighter notification period for quota transfer. The milk quota allocation regulation (BGBl. II Nr 102/2006) described the allocation of additional quota stipulated in the Agenda 2000 and CAP reform 2003 (linear allocation in three steps). Some minor changes were made in the wine law (minimum charges for vintage inspections, changes of wine regions), fertiliser law, health law and food safety law (adoption of charges).

Change in national budget expenditures. National expenditures for Austria's agriculture and forestry amounted to EUR 99 million in 2005, an increase of 7% compared to 2004. This increase is due to budgetary technicalities resulting from the coincidence of animal premiums paid out for the last time in February 2005 and the single payments paid out for the first time in December 2005. Another reason for the increased budget was the scheduled rise of the milk premiums. For 2006, a budget increase of 3% was projected. Of the total expenditures, 59% was financed by the European Union, 20% by the federal government, and 21% by the federal states. In Austria, 42% of the funds are allocated to the first pillar of the Common Agricultural Policy (basically the single payment, area, animal and product premiums) and the remainder to the second pillar (rural development).

Changes in regulations and institutions. The adaptation of agricultural laws came into force at the beginning of 2005 and led to a number of changes in the agricultural research- and training infrastructure. The *Bundesamt und Forschungszentrum für Wald (BFW)* is now subdivided into a "Federal research and training centre for forests, natural risks and landscape" and a "Federal forest authority", which is bestowed with the status of a public institution as of January 2005. The Federal Institute for Alpine Agriculture was merged with the Alpine Agricultural College to form the Higher Research and Training Institute Raumberg-Gumpenstein. Similarly the Federal institute for agricultural technology will merge with the Agricultural College Franzisco Josephinum.

Belgium

Implementation of the Single Payment Scheme. The Single Payment Scheme was introduced in 2005 in both the Flemish and Walloon regions, based on farm level historical entitlements in 2000-02. Both regions have chosen to include all the payments for cereals, oilseeds and protein crops in the single payment, as well as most livestock payments. In both regions, dairy payments were integrated into the single payment in 2006. In the Flemish region, the suckler cow premium, the calf slaughter premium and payments for linseed and spelt remain commodity-specific. In the Walloon region, the suckler cow premium and payments for linseed and spelt remain commodity-specific.

Implementation of the Rural Development Plan. Three Rural Development Plans are implemented in Belgium: one for the Flemish region, one for the Walloon region, and a third one at the federal level. The Walloon government programme focuses on the improvement of agriculture profitability with measures in favour of young farmers and woman farmers and the creation of a fund designed to boost rural economic development. The Flemish agricultural investment fund measure (*Vlaams Landbouwinvesteringsfonds*) was modified by the Flemish government on 16 June 2006 with respect to support for agricultural investments and establishing young farmers. The modification aims to better adapt current investment to farmers needs and to seek a balance between demand for investment support and available funding.

A new planning programme for the 2007-13 period (PDPO II) was developed in Flanders from 2005 and finalised in 2006, the previous programme having ended in 2006. The new programme has three objectives:

- Developing the agricultural and forestry sectors competitiveness through support measures for the development of physical capital and to encourage innovation as well as production and commodity quality improvement.
- Enhancing the environment and rural land use planning through support measures for a sustainable use of agricultural and forested lands.
- Improving the quality of life in rural areas, and encouraging the diversification of the rural economy.

Other changes in national policies. Organic farming remains a key element of agricultural policy and, from 2006 onwards, the Flemish government has attempted to simplify the per hectare premium system, in order to make it more accessible to farmers who want to convert to organic farming. The Flemish government has approved a subsidy of around EUR 460 000 for an organic food promotion campaign by the Flemish Centre for Agricultural and Fisheries Marketing (VLAM). The three-year campaign, amounting to a total of EUR 1.5 million, aims to boost consumption of organic products in the region and therefore to promote the expansion of organic farming.

The Flemish poultry sector lost an estimated EUR 60 million at the beginning of 2006 due to avian influenza. The Flemish agriculture minister has allocated EUR 300 000 to fund a promotion campaign for poultrymeat. Poultry farms recording losses following the outbreak of avian influenza in the autumn of 2005 and the spring of 2006 will be given compensation. Payment started in February 2007.

In accordance with the sustainable development objective, the Wallon authorities have undertaken the promotion of renewable energy, particularly agricultural renewable energy: promotion of energy crops, feasibility study for the location of biofuel plants, support for investment. At the same time, the Flemish government made big efforts for the promotion of fuel crops, and premiums of 45 EUR/ha are granted for the production of fuel crops.

Change in national budget expenditures. Agricultural budgetary expenditure for 2005, excluding EU payments, was EUR 234 million, a 3% increase from 2004.

Changes in regulations and institutions. The Flemish government adopted the legislation relating to the implementation, from 1 April 2006, of the new structure for the Agriculture and Fisheries Department, which is responsible for the formulation and delivery of agricultural policy in Flanders. The Department is made up of four divisions:

- Agricultural and fisheries policy (ALVB).
- Sustainable agriculture development (ADLO).
- Monitoring and studies (AMS).
- Management support service (MOD).

The work of the Agriculture and Fisheries Department is complemented by the following institutions:

- An independent agency for agriculture and fisheries (ALV).
- An agricultural and fisheries research institute (ILVO).
- The Flemish centre for agricultural and fisheries marketing (VLAM).

Czech Republic

Implementation of the single payment. From 2004, the Czech Republic (CR) opted for a Simplified Area Payment Scheme (SAPS) with a flat rate per hectare of all agricultural land. These payments were set at 30% of payments to the EU15 in 2005 and increased to 35% in 2006. In 2005 and 2006, Complementary National Direct Payments (“top-ups”) were paid per hectare for selected arable crops (grains, oilseeds, protein crops), hops, flax and per head (livestock unit) of ruminants. In principle, the ceiling on top-up payments from the national budget has been fixed at 30%. In 2005, the “top-up” payments were paid at the level of 28.4%, and the total payment reached 58.4% of the EU15 level. In 2006, the “top-up” payments were paid close to their ceiling level, allowing direct payments to be paid nearly at the maximum 65% of the EU15 level.

Implementation of the Rural Development Plan and the Single Programming Document. Under the programmes implemented within the Horizontal Rural Development Plan (RDP) in 2004-06, agri-environmental measures represented around half of the payments and, together with payments to less-favoured areas (LFAs) (more than 40%), represent the bulk of the RDP payments. Most of the agri-environmental payments were for extensive livestock production on grassland (around 60% of AE payments) and for catch crops production on arable land (around 30%). The payments to LFAs and areas with environmental restrictions are made per hectare of grassland. Overall, more than 80% of RDP payments are linked to grassland areas. The payments within the RDP plan were financed from EU funds at a rate of 80%.

Other projects co-financed from EU funds include programmes providing investment support to farming. After accession the Special Accession Programme for Agriculture and Rural Development (SAPARD) was replaced by Special Programming Document funds (Operational Programme – OP) set for 2004-06. Both SAPARD and OP projects focus mainly on investments to agriculture, but also provide payments for the development of food processing activities and infrastructure projects in rural areas.

Other changes in national policies. National programmes that have been maintained since EU accession are mainly credit subsidies, fuel tax rebates and disaster payments. In addition to the “top-up” payments mentioned above, national funding is used to finance the maintenance of the genetic livestock and crop potential, prevention of the spread of livestock and crop diseases. National funding also provided support for the renewal of vineyards, hop-gardens and orchards.

Change in national budget expenditures. The total amount of national payments (including those co-financing the EU programmes) increased in 2005 by 13% over 2004 to reach CZK 12.4 billion (EUR 418 million) and remained around that level in 2006.

Changes in regulations and institutions. Apart from the consolidation of the institutions administering the CAP, there were no major changes in regulations and institutions in 2005 and 2006.

Denmark

Sector-wide policy initiatives. A new food policy was implemented in 2006 to promote food safety and ensure quality nutrition. This policy focuses on making such food available to the general public, ensuring transparency through sufficient labelling of foods, delineating the responsibilities of the producer, government and retailers, as well as providing a framework for food and veterinary research.

In 2006, legislation covering farms with livestock production was reformed to facilitate the localization and expansion of farms and to reduce pressure on the price of agricultural land. According to the so-called harmony-requirement, the area of a farm with livestock production shall be large enough to allow for spreading part of the manure produced by the livestock of that farm. For farms consisting of more than one holding, this requirement previously have been met on the holding where the livestock was situated. Since the reform, however, this requirement can be met with land from all holdings and the minimum share of land to be owned by the farmer to fulfil the requirement was reduced. Finally, the existing upper limit of 750 animal units for a farm is to be raised to 950 animals units, provided supplementary requirements on animal welfare are met.

Implementation of the Single Payment Scheme. The Single Payment Scheme was implemented in Denmark in 2005 and was based on a combination of both the regional and farm level models. This scheme was adjusted following the reform of the common market organisation for sugar in 2006 to compensate for the price reduction in sugar beet. For 2006 and 2007, compensation is allocated as a flat rate increase of all payment entitlements. As of 2008, part of the compensation will be reallocated as a “sugar top-up” to the entitlements of farmers growing sugar beet, the calculation of which will be based on the farmers’ delivery rights of sugar beet for production of quota sugar in 2006.

Implementation of the Rural Development Plan. The total support for rural development amounted to DKK 610 million (EUR 82 million) in 2005 and approximately DKK 1 030 million (EUR 138 million) in 2006, including the EU contribution. The rural development plan for 2000-06 covers a large number of measures, including support to encourage environmentally sustainable farming, organic farming and planting of shelter belts. The emphasis is on agri-environmental measures. The total budget for this period is approximately DKK 5.4 billion (EUR 0.7 billion). For 2006, a number of amendments were made to the plan, including support to the training of rural district advisors, extension services to farmers on cross compliance, and investment and demonstration of new farm technologies.

In 2005 and 2006, extensive planning of the Danish implementation of the new rural development programme for the period 2007-13 was undertaken. The main objectives of the draft rural development strategy is to promote entrepreneurship and new places of work in rural areas, to improve the competitiveness of agriculture and forestry, to diversify rural landscapes, nature and the environment, as well as to improve the conditions of life in rural areas. The measures needed to undertake these objectives are specified in the draft programme and the total budget that has been allocated for this period is approximately DKK 6.2 billion (EUR 0.8 billion). It is expected that for 2007-08, about 25% will be spent on the development of agriculture; about 55% on nature and environment and about 20% on quality of life in rural areas.

Change in national budget expenditures. The total agricultural support budget for 2006 (including EU payments) was around DKK 10.2 billion (EUR 1.4 billion) in 2006, which is 4% above the 2005 level. From 2004 to 2005, total support fell by 5%. EU payments accounted for 90% of the budget.

Changes in regulation and institutions. In Denmark, from 1 January 2007, a major reform of the municipal structure has taken effect. The new larger municipalities assume a number of responsibilities from the former counties including administration of regulations on nature protection, environment and physical planning. Approval in respect

of Environmental Impact Assessments, nature and water protection, and odour was combined into a single administration in the new municipalities. At the same time the regulation of livestock production was simplified and all concerns with respect to Environmental Impact Assessments (EIA), nature and water protection, odours, etc. are now dealt with by a single administration in the new municipalities. The new regulation incorporates all changes, extensions and establishment of new livestock farms with more than 75 animal units.

From 1 January 2007, a major reform of the Danish university and research sector also occurred. This reform seeks to enhance the synergies and the impact of Danish research by creating three large universities by merging existing universities and government research institutions. As part of this reform, the Institute of Agricultural Sciences and the Danish National Environmental Research Institute were merged with the University of Aarhus; the Danish Institute for Food and Veterinary Research and the Danish Institute for Fisheries Research were merged with the Technical University of Denmark; and the Royal Veterinary and Agricultural University has been merged with the University of Copenhagen. To coordinate food research, a National Food Forum has been established.

Finland

Implementation of the Single Payment Scheme. The Single Payment Scheme adopted in the context of the 2003 CAP reform was introduced in Finland in 2006. CAP support remains commodity-specific mainly for suckler cows, male bovines, ewes and starch potato, while support for arable crops was almost completely included in the single payment as of 2006. Overall, about 93% of CAP payments are granted through the single payment in Finland.

The Single Payment Scheme is implemented on the basis of a hybrid model consisting of a regional flat-rate payment and farm-specific top-ups. Farm level top-ups are based on farmers' historical entitlement to 69% of the dairy payments, 30% of the male bovine premiums, and 16% of starch potato aid. These farm-level top-ups will stay at the same level until 2010 and then gradually decrease and be incorporated into the flat rate regional payments by 2016. Gradually decreasing farm-level top-up is also paid to sugar beet growers until 2019. The value of payment entitlements were established at the end of 2006. Cross-compliance conditions attached to CAP support are being introduced gradually between 2005-07. In addition to cross compliance, Finland has decided nationally that if a farmer sets aside more than the mandatory area, this unused arable area must be under grass (perennial green fallow) to be eligible for CAP support. The funds released through the modulation of direct payments are allocated to agri-environmental support.

Implementation of the Rural Development Plan. Payments are provided under the Continental Horizontal Rural Development Programme 2000-06, Regional Rural Development Programme 2000-06 outside Objective 1 regions for Continental Finland and for the Rural Development Programme of Åland Islands 2000-06. The most important categories are compensation to less-favoured areas (LFAs) and agri-environmental support which represented 43% and 30% of RDP expenditure in 2005, respectively. The EU contribution is about 31% of LFA and 42% of the agri-environmental support and the rest is paid from national funds. In addition to the EU co-financed LFA and agri-environmental support, Finland provides national supplements (top-ups) for both LFA and agri-environmental support and these top-ups are fully financed by the national budget. Taking

into account national supplements, LFA compensation amounted to EUR 543 million and agri-environmental support EUR 348 million.

The key emphasis of the agri-environmental support is on water protection, but measures also aim to limit air pollution, reduce pesticide risks and promote conservation of biodiversity and cultural landscapes. The agri-environmental scheme consists of mandatory basic and additional measures and special measures. The basic and additional measures cover 94% of farmers and 98% of the arable area. Expenditure on the basic and additional measures totalled EUR 254 million in 2005 while expenditure on special measures amounted to EUR 40 million (of which organic production EUR 17 million). The rural development funding has been cut in the context of the new EU financial frameworks for 2007-13 and in Finland this has led to a reduction in rural development funding of about EUR 100 million/year. The new financial framework also cut the regional and structural policy support for Finland by about 25%.

Change in national budget expenditures. National support paid in Finland consists of three main parts: northern aid, national aid for southern Finland, and national supplements to LFA and agri-environmental support. The national support totalled EUR 609 million in 2005 and EUR 614 in 2006. A national supplement to LFA compensation was introduced in 2005 (total of EUR 120 million) with the constraint that the total amount of co-financed LFA and national supplement may not exceed an average of EUR 250 per hectare.

France

Sector-wide policy initiatives. A law on the development of rural areas was adopted in February 2005. In addition to economic development, employment, housing and services, the law includes measures related to land zoning in peri-urban areas, land consolidation, and the sustainable management of private forests, wetlands (through fiscal measures) and Natura 2000 sites. Specific attention is given to mountainous areas. In January 2006, it was complemented by a new agricultural Framework Law, which aims to:

- Update legislation applying to farm enterprises by modernising their legal status and facilitating transmission; improving farmers' working conditions and social protection; and facilitating the use of hired labour.
- Maintain farm income by developing biofuels and bioproducts; strengthening the economic organisation of the agri-food sector; and improving risk management.
- Better respond to societal and consumer concerns by improving food safety; promoting food quality; and encouraging environmentally friendly farming practices.
- Develop regions by protecting all types of agricultural land; ensuring the sustainability of farming in mountainous areas; and improving the performance of forestry.
- Modernise the institutional environment of agriculture.

Specific measures under this law include simplification of farm business registration, a requirement that rural leases must have been held for at least three years before they can be transferred outside the farmer's family, improvement of social security cover for spouses, provisions allowing farmers who have contributed to the general pension regime to benefit from the special provisions of farm pensions, extension of crop insurance, a tax rebate for labour replacement costs, and provisions to support the installation of young farmers and the transmission of farms between generations. These include interest

concessions on loans, and the possibility for young farmers, to spread some of the cost of farm acquisition over time.

Implementation of the Single Payment Scheme. As planned, the single payment was implemented in 2006 based on farm level historical entitlements in 2000-02. It included the dairy and sugar payments from the start. Farm entitlements were established in October 2005 and applications were made in May 2006. Due to exceptional climatic circumstances, advance payments totalling EUR 2.77 billion were made in October 2006. On 1 December 2006, farmers received, as planned, the remainder of the SFP. In total, the single payment amounted to EUR 5.28 billion. In addition, farmers received EUR 1.10 billion in area and headage payments linked to commodity production, which France had opted to maintain at the following rates: 25% of arable crop and hop payments; 50% of the sheep premium, 100% of the suckler cow premium, 100% of the calf slaughter premium and 40% of the adult cattle slaughter premium, as well as 100% of payments to all products in overseas territories.

By October 2006, there had been over 300 000 transfers of single payment entitlements, covering a total of 4.5 million hectares, to reflect changes in land holding. Mechanisms to allocate the national reserve of single payment entitlements were put in place. Priority is given to new entrants and individual imbalances resulting from the reform are then addressed. A complementary, national programme to allocate entitlements from the reserve was introduced at the end of 2006. The Minister of Agriculture decided that initially, the national reserve would be funded by a 2.2% levy. In May 2006, the Minister of Agriculture decided to reduce single payment entitlements of farmers, who did not activate their entitlements in 2006, by the amount of the unused entitlements.

Implementation of the national Rural Development Plan. The implementation of the French Rural Development Plan 2000-06 continued. In 2005, close to 30% of national expenditures were allocated to less-favoured area payments, and close to one-quarter to agri-environmental payments, among which the environmental grass premium. Assistance to investments in agricultural holdings and setting up of young farmers made up around 15% of national expenditures under the RDP. In addition, around EUR 310 million were granted to assistance to the development of rural areas through single programming documents for objective 2 areas.

In October 2006, the government announced the new national programming plan for the implementation of rural development measures covering the period 2007-13. Funds allocated to this programme will amount to EUR 13 billion, of which EUR 6.4 billion will come from the EU budget (compared to EUR 13.8 billion, of which EUR 6.7 billion from EU funds in the 2000-06 programming plan). The focus of the 2007-13 plan is on the regionalization of management (50% of funds will be managed by regions), simplification in terms of the number of measures and procedures, and consensus building.

In September 2006, a crop plan for the environment was introduced, with government funding of EUR 20 million, including 50% from the EU, which can be complemented by regional funds. It will form part of the national rural development plan being drawn up for 2007-13. As the plan for the improvement of livestock buildings does for livestock farmers, the crop plan provides investment assistance to help crop farmers adjust to environmental regulations. The main objectives of the plan are the reduction of pollution from fertilisers and chemicals, the reduction of water use, and better protection from soil erosion. Regional

priorities will be defined in consultation with all actors in the region. As of 2007, the plan will also focus on energy savings in greenhouses and plant biodiversity. Already in 2006, the government contribution to energy saving investments was raised from 22 to 35% for farmers that are members of a producer group (from 25 to 40% for young farmers).

Other changes in national policies with a direct budgetary impact. Within the framework of the reform of the Common Organization of the market for sugar, France is authorized to grant national aids in overseas departments within a maximum limit of EUR 90 million per annum. In 2006, the government set aside an extra EUR 10 million to aid consolidation and restructuring in the dairy industry. Within the strategic plan launched in 2004 to modernize the dairy sector, the government allocated EUR 25 million in 2005 to help producers who left the dairy sector and to facilitate the reallocation of milk production quota thus released to producers entering dairy production or wishing to develop their dairy activity in a sustainable way in the long term.

A number of measures were taken to respond to the crisis that is affecting the wine sector. They include interest concessions to producers and cooperatives, (EUR 49 million), assistance to investments (EUR 5 million) and promotion for enterprises (EUR 12 million), cash flow assistance to producers (EUR 15 million), and reductions in social security contributions (EUR 6 million). Various tax rebates and delays in social contribution payments were also granted to producers. The EU Commission has allowed France to distill 1.3 million hectolitres of drinkable alcohol. In addition, the EU Wine Management Committee had agreed to allow France to convert up to 1.5 million hectolitres of table wine and 1.1 million hectolitres of quality wine into bio-ethanol, as part of the crisis distillation scheme.

A plan to support fruit and vegetable producers was announced in late 2005. Funds granted in 2006 amounted to EUR 15 million for exceptional measures to support income of farmers most affected by the crisis in the sector and EUR 25 million for interest concessions to modernize orchards, manage supply, support producer groups and for marketing and promotion actions. In March 2006, a new strategic plan was announced with a further EUR 40 million in payments and EUR 25 million in interest concessions on loans to facilitate consolidation.

A crop insurance scheme was introduced in 2005 to help farmers insure either individual crops, or the whole farm. The government subsidizes 35% of premiums (40% for young farmers). Government expenditures for this scheme amounted to EUR 20 million in 2005. In summer of both 2005 and 2006, farmers in regions affected by drought were allowed to use set-aside land for livestock grazing and fodder harvesting. This measure was applied to most of the regions (departments) in 2005 and in 2006.

Avian influenza reached France at the end of 2005 and the country was cleared of the disease in June 2006. An initial aid package for the poultry sector amounted EUR 63.5 million. It includes an information campaign to promote poultrymeat, compensation of income losses registered between November 2005 and April 2006 for producers specialized in poultry production, interest concessions, reductions in social security contributions, and extra support for label producers. Of these EUR 63.5 million, EUR 30 million were allocated to slaughterers and processors to compensate them for the income losses they incurred when forced to reduce their activity during the crisis. A complementary support plan was announced in September 2006. Broiler producers will receive aid in proportion to their losses and without ceiling, with co-financing from the EU,

on top of the EUR 1 000 per farm advance payments they received under the first plan. Hatcheries and genetic selection businesses will receive additional compensation for the destruction of eggs and breeding flocks, over and above the maximum of EUR 150 000 that they have been able to claim under the first plan.

At the end of 2006, the government took or announced measures to support livestock producers experiencing the most difficulty following outbreaks of bluetongue disease, which affects ruminants. They include reductions and delays for social security contributions, partial interest concessions (EUR 1 million allocated), payments for keeping animals, that would otherwise have been killed, on farms (within a budget of EUR 1.5 million) and payments to compensate for income losses due to market disturbances, limited to EUR 3 000 per farm, with a total budget of EUR 7.5 million. In addition, costs of tests, analysis and veterinary visits were partially reimbursed.

In addition to traditional fuel tax rebates, farmers were reimbursed for part of the tax on domestic fuel and natural gas until the end of 2005. These rebates amounted to EUR 1 030 million in 2005.

A new plan for biofuel production was announced in September 2004 and reinforced in September 2005. Targets have been set by law in January 2006 as follows: biofuels should be incorporated into fuels at a rate of 5.75% by 2008, 7% in 2010 and 10% in 2015. To reach these targets, an incentive tax system based on two main instruments has been implemented. The first instrument is a fuel tax rebate which is granted to eligible production of bio-ethanol and bio-diesel. The tax rebate (calculated in EUR per litre of biofuel) should amount to around EUR 275 million in 2006 and around EUR 900 million in 2008 (if the reduction rate per litre remains the same). The second instrument is an "additional tax" (*Taxe Générale sur les Activités Polluantes* – TGAP) which is paid by the suppliers that do not comply with the national targets set by the law. This additional tax acts as a penalty for the fuel suppliers who do not incorporate enough biofuels into road fuels. Therefore, the aim is to incorporate into fuels around 0.65 million tonnes of bio-ethanol and 2.1 million tonnes of bio-diesel by 2008 and around 0.75 million tonnes of bio-ethanol and 2.8 million tonnes of bio-diesel by 2010. Diesel consumption dominates (two-thirds) total road fuel consumption in France.

In the new Agricultural Framework Law, measures to boost organic farming were announced. A tax rebate is offered to farmers who earn 40% of their income from organic farming. This will be worth up to EUR 2 000 over three years, and was expected to cost a total of EUR 15 million in 2006. Farmers are also able to discount their conversion years when calculating historic reference amounts for the single payment.

Change in national budget expenditures: National expenditures on agriculture increased by 5% in 2005 compared to 2004, and decreased by 7% in 2006, reflecting variations in fuel tax rebates. National expenditures other than these rebates decreased by 8% in 2005 and were stable in 2006.

Changes in regulations and institutions. As part of efforts towards administrative simplification, a number of measures (100 by March 2007) were taken from February 2006. They include a reduction of control time, advance payments for controlled farms, simplified application forms, pre-filled forms accessible online forms and information available on the Internet, and sharing of information between administrations.

A law for the creation of private limited dairy companies (*sociétés civiles laitières*) was introduced in November 2005. According to this law, milk quotas can be transferred,

without charge, to a company whose object is to pool the milk production activities of the partners without transferring the corresponding land. This law will allow producers to make common investments and share work constraints and risks.

The public rendering service was re-organised to clarify responsibilities, increase transparency and reduce costs. Direct contracting and auctioning were developed. Government funding for the service will remain at EUR 44 million per year, covering a quarter of total costs.

Germany

Sector-wide policy initiatives. The promotion of organic farming and focus on renewable resources for energy production and industrial purposes has received much attention in recent years. Around EUR 20 million was spent on the Federal Organic Farming Scheme in both 2005 and 2006. This scheme includes a variety of measures at all levels of the food chain, such as training, information, advisory activities, supporting research and development projects, and technology transfers. In order to promote sustainable growth in the sector, payments to producers for the introduction and maintenance of organic production were continued and use of the German eco-label on a voluntary basis has steadily increased. Support options for further ecologically sound and animal-welfare oriented methods have been continued within the framework of agri-environmental support under the Joint Task for the Improvement of Agricultural Structures and Coastal Protection (GAK).

The production of energy and raw materials derived from agriculture for industrial production has steadily become an additional source of income in the agriculture and forestry sectors. The area devoted to renewable resources from agriculture has doubled since 2003, to 1.6 million hectares in 2006 which represents about 13% of the total crop area. Measures for the promotion of research, development and demonstration projects as well as marketing measures in the area of renewable resources from agriculture accounted for EUR 52.2 million in 2006. A law was passed in October 2006 to oblige firms in the mineral oil economy to use a minimum quota of biofuels as of January 2007 onward. The firm-specific and tradable biofuel quota will be increased over time and the biofuels used under the quota can no longer benefit from tax exemptions that were granted previously.

Implementation of the Single Payment Scheme. Germany introduced the Single Payment Scheme in 2005, based on a hybrid model combining elements of the first model (when direct payments were granted according to farm specific payments in the reference period 2000-02) and a regional model (a uniform payment per hectare in a region derived from total payments to the region in the past and the share of the region in the total eligible area). In 2006, dairy payments were combined into a single payment, using the quota holding on 31 March 2005 as a reference. Germany opted for full decoupling with the exception of payments for hops (25%) and tobacco (60%) which will remain product-specific until 2009. New and stricter cross-compliance restrictions came into force in 2006. All payment entitlements will be gradually transformed so that by 2013 there will be a uniform payment rate in each region.

Payment entitlements are tradable and transferable, but with some restrictions. Entitlements can only be activated if the corresponding acreage is situated in the same region in which payment entitlement was granted. Hence, a producer cannot buy entitlements in one region and utilize them in another region. There is a national reserve

of entitlements that serves to accommodate both the need of farmers in specific situations and new entrants into the farming sector. Germany has set up a nationwide registration and monitoring system (InVeKos) that links payment entitlements to individual entrepreneurs.

In 2005, Germany granted payments to 383 690 farmers for a total of EUR 4.96 billion. In 2006, the national ceiling for Germany for the single payment was EUR 5.65 billion, compared to EUR 5.15 billion in 2005, and which was in line with Commission Regulation (EC) No. 1156/2006. This increase is due to the inclusion of sugar and tobacco in the single payment, to the last increase of the milk premium, and to the additional payment for milk (for a total premium amount of 3.55 ct/kg). In total, about EUR 950 million was paid to individual milk producers in 2006.

Implementation of the National Rural Development Plan. The GAK will continue to serve as the national framework for rural development programmes of the *Länder* for the period 2007-13. In addition to the traditional measures in Axis 1 which seek to improve the competitiveness of farmers (infrastructure, investment-aid, etc.) and the agri-environmental schemes in Axis 2, new initiatives were taken in Axis 3 to promote subregional approaches that are expected to be better suited to subregional needs. Special schemes were introduced for the setting-up of cross-sectoral regional development-strategies and their coordinated implementation steered by rural public-private partnerships. The government imposes a bottom-up participation for the development and implementation of this strategy. In so far as income-diversification-investments and investments in rural infrastructure are concerned, top-ups are foreseen if the investments can be integrated into the subregional development strategy.

Change in national budget expenditures. The 2006 agricultural budget of the federal government, excluding EU contributions and expenditures by the *Länder*, amounted to EUR 5.1 billion, the same level as in 2005. As in previous years, social policy in agriculture accounted for the largest share, almost three-quarters (about EUR 3.8 billion). In 2006, about EUR 612 million were earmarked for the GAK programme, the most important federal measure supporting structural change and development in rural areas. These federal expenditures were co-financed by the *Länder* so that the GAK spent EUR 1 billion on measures such as investment aids (about 25% of GAK expenditure), improvement of agricultural structures (34%), sustainable agriculture (less-favoured areas and agri-environmental measures, together covering 24% of GAK expenditure).

Changes in regulations and institutions. Germany is authorized by the European Commission to employ a special clause in the nitrate directive to allow on a **case-by-case** basis the application of manure up to a maximum quantity of 230kg nitrogen/ha instead of the usual maximum standard of 170 kg/ha. This possibility is limited to intensively used grassland and allows a better recycling of on farm nutrients.

In January 2007, the Animal Breeding Law was thoroughly revised with the aim to simplify cross-border trade in animal semen. The former governmental task of rating breeding results and performance monitoring in animal breeding was privatised. To conserve biological diversity a periodical monitoring of animal genetic resources was introduced.

Greece

Implementation of the Single Payment Scheme. Implementation of the Single Payment Scheme in the 2003 CAP reform began in January 2006 based on farm level historical entitlements in 2000-02. Core elements are: full decoupling of direct payments for the majority of products; the introduction of new cross-compliance measures; and mandatory retention of up to 10% of the single payment to encourage specific sectors of importance in the areas of environment, quality production and marketing. The inter-ministerial Acts which provide the national legal framework for the implementation of the CAP reform were signed in 2005.

Greece opted for full integration of support in the single payment for all products except for seeds, which remain fully specific to commodity production and cotton, where 35% of the payment remains in the form of a commodity specific area payment. For cotton, payments can be granted to a maximum area of 370 000 hectares. Both farming organisations (farmer groups and co-operatives) and individual farmers are eligible to receive this support. The first 300 000 hectares are eligible for the cotton-specific payment of EUR 594 per hectare and the remaining 70 000 hectares for EUR 343 per hectare. This is equivalent to a weighted average of EUR 546 per hectare, or a total of EUR 202.2 million. If the threshold acreage is exceeded, a payment policy is applied for acreage up to 70 000 hectares. The 65% of the support that is included in the single payment amounts to EUR 967 per hectare, with total expenditure of EUR 367.4 million. A roster of farmers qualified for support with no link to commodity production, known in Greece as the "List of Cotton Producers' Rights", has been established by the government. If the eligible area planted with cotton exceeds the maximum area limit, the per-hectare payment will be reduced proportionally. Provisional estimates for 2006 suggest that the area planted exceeds the threshold.

In conformity with Article 69 of Regulation (EC) No. 1782/2003, which allows member states to provide an additional payment for specific types of farming important for the protection or enhancement of the environment or for improving the quality and marketing of agricultural products, Greece decided on the following retention rates: 10% of support for arable crops, sugar and beef; 5% for sheep and goats; 4% for olive oil; and 2% for tobacco (to be used for investment on premium quality produce); in addition, for olive oil, 2% will be retained for the funding of working programmes established by producer organisations and 3% for pest management.

Cross-compliance conditions for receiving payments have been applied gradually over the 2005-07 period. Requirements for maintaining land in good agricultural and environmental condition and the identification of animals were introduced in 2005, while conditions for maintaining plant and animal health, notification of diseases and food safety issues were introduced in 2006.

Concerning the establishment of statutory management requirements (SMRs) (Annex III of Regulation [(EC) No. 1782/2003]), which require compliance with a number of articles from 19 pre-existing EU directives and regulations, the requirements adopted include protection of groundwater, sewage sludge, conservation of natural habitats, wild flora and fauna, protection of water from pollution caused by nitrates originating from agricultural sources, public and animal health, and identification and registration of bovine and caprine animals. To comply with the EU Nitrate Directive, action programmes relating to vulnerable zones were established with rules relating to periods when the application of

certain types of fertiliser is prohibited. The list of approved pesticides was completed and made available on the Internet.

Greece has implemented measures for virtually all of the standards concerning the minimum requirements that are aimed at avoiding the abandonment of agricultural land and ensuring that all agricultural land is maintained in good agricultural and environmental condition (GAECs) (Annex IV of Regulation [EC] No. 1782/2003). In particular, measures were established to avoid soil run-off on sloping lands, to improve post-harvest management of land, to ensure crop rotation and appropriate use of machinery, minimum livestock densities, protection of hedgerows and permanent pasture, and prevention of the encroachment of unwanted vegetation on agricultural land.

For the requirement concerning measures designed to ensure maintenance of permanent pastures at the 2003 level, Greece has established maximum and minimum grazing densities to prevent abandonment in mountainous and less-favoured areas and to protect permanent pastures in mountainous areas and islands from overgrazing and degradation. Grazing density in Greece is calculated on a livestock unit per hectare basis.

Control committees of the Prefecture Authorities monitor SMR and GAEC standards. Only those farms that have been pre-selected according to the EU's Integrated Administration and Control System (IACS) criteria for the eligibility controls (such as size of payments, number of plots and animals, size of farms and former non-compliance) are checked. The severity of penalty, imposed by the national payment agency, is based on the relevant EU regulation.

A farm advisory system has been established and came into operation on 1 January 2007, as stipulated by EU regulations. Its principle aim is to assist farmers in the implementation of cross-compliance requirements and, in addition, to increase farmers' awareness of on-farm processes relating to the environment, food safety and animal health. The system is run by private geotechnical scientists and the Geotechnical Chamber and is under the responsibility of the Ministry of Rural Development and Food. Financial support up to a maximum level of 80% of the farmers' cost, but not exceeding EUR 1 500 per year will be granted annually from the rural development programme. Funding for farmers wishing to employ an advisory service is estimated at around EUR 30 million per year, 25% of which consists of national funding. The estimated cost of setting up the system is EUR 1.5 billion.

Implementation of the Rural Development Plan. For 2006, rural development expenditures are provisionally estimated at EUR 652 million, 38% of which was financed from the national budget. About 46% of the payments financed by the national budget were allocated to less-favoured areas, and another 24% for early retirement. A proposal to include livestock producers in the early retirement scheme, estimated to cost EUR 40 million, was announced in 2006. As at the end of 2006, 57.3% (or EUR 1.2 billion) for the national funds of the horizontal rural development programme 2000-06 had been disbursed. Under Axis 3 of the programme, owners of olive groves and vineyards in two areas in central Greece will be eligible for EUR 90 per hectare payments if they comply with certain traditional farming practices. A task force has been formed for the finalisation and fine-tuning of the 2007-13 Rural Development Plan.

Other changes in national policies. In April 2005, due to major wine stock surpluses, the European Commission, at the request of the Greek government, allowed crisis distillation measures to come into effect for certain types of wine, which included financial support

for the distillation of 340 000 hectolitres of table wine and 40 000 hectolitres of quality wines produced in specific regions. Similar measures were approved by the European Commission also for 2006. Payments for processing figs almost doubled in 2005, from EUR 139 to EUR 258.6 per tonne. Farmers' pensions are to be increased by EUR 50 per month and, as of January 2007, the minimum pension is to be set at EUR 280 per month.

The EU regulation introducing specific measures in favour of certain agricultural products from the smaller Aegean islands was amended by the EU Council of Agriculture Ministers in 2006. The amendment envisages the presentation by Greece of a programme concerning the specific supply arrangements for those agricultural products essential in the smaller Aegean islands (whether for human consumption, as agricultural inputs or for processing) and support for local production. The programme, due to come into effect in January 2007, will be fully financed by the EU and is estimated to cost EUR 24 million; the amount to be allocated annually may not exceed EUR 5.5 million.

Payments for natural disasters amounted to EUR 536 million in 2004, EUR 260 million in 2005, and EUR 421 million in 2006. An amount of EUR 22 million was paid from the national budget to compensate producers from losses due to fires which occurred over the March 2003-December 2005 period. A number of measures were adopted in 2005 to assist livestock producers, including debt write-offs, increases of interest concessions to young farmers up to 100%, 25% reduction of their insurance contributions and waiving of the usual charge of a construction license.

As from 2005, farmers have been able to buy diesel fuel at subsidised prices throughout the year. In 2006, diesel fuel tax concessions were estimated at around EUR 11 million. A number of policies introduced in 2005-06 are aimed at encouraging the production and domestic consumption of bioenergy. An update of the Greek Law 343/2005 forms the basis for the production of biofuels. Measures include support of 40% of the capital costs for bio-diesel plants and tax exemptions when biofuels are produced on the basis of contracts between farmers and production units. In accordance with European Union regulations, 5.75% of fuels consumed in Greece will be biofuels by 2010.

Change in national budget expenditures. In 2006, total agricultural budgetary support to agriculture is provisionally estimated to have increased slightly, to EUR 4.5 billion, of which 40% (EUR 1.8 billion) was financed by the national budget. Up to mid-December 2006, payments of EUR 1 250 million (or 75% of the total SFP), had been made, benefiting 792 200 farmers (or 94.4% of total eligible farmers). Increasing emphasis is being given to public investment for rural development, which has increased from EUR 430 million in 2002-03, to EUR 823 million in 2004-05, and which is estimated to reach EUR 479 million in 2006.

Changes in regulations and institutions. The relevant national laws concerning organic farming have been updated to promote and facilitate the production of organic vegetable and animal food products. The 4% retention of the SFP for organic olive oil and table olives will take the form of payments up to EUR 65 per hectare. In 2006, compensation from natural disasters for organic farming increased by 4%.

Greece was among the first European countries to detect H5N1 avian flu in wild swans in February 2006, although no cases were detected in domestic poultry. The government has provided loan guarantees to poultry businesses equivalent to EUR 40.8 million. The total compensation to Greek poultry producers in 2006 is estimated at EUR 18.9 million,

50% of which will be financed by the EU. The implementation of the Emergency Action Plan for the prevention of avian flu continues.

Complementary measures regarding geographical indications and protected designation of origin olives and olive oil were adopted by the EU Council of Agriculture Ministers in mid-2006. In October 2006, within the framework of the new EU regulation regarding alcoholic drinks, the EU Council of Agriculture Ministers decided that the Greek alcoholic drinks ouzo, tsipouro, tsikoudia and the Cypriot drink zivania, are protected products within the EU.

Hungary

Implementation of the single payment. The Single Area Payment Scheme (SAPS) was implemented as of 2004. In accordance to the phasing in of the Single Payment Scheme, these payments were set at 30% of payments to the EU15 in 2005 and increased to 35% in 2006. The total amount reached HUF 87 billion (EUR 351 million) and HUF 118 billion (EUR 446 million) respectively.

Complementary National Direct Payments (“top-up”) were paid in the form of area (arable crops) and headage (suckler cows, beef cattle, sheep and goat) payments. Top-up payments were also paid per tonne of milk. The total value of the national “top-up” payments was HUF 26 billion (EUR 105 million) in 2005 and increased more than three times to reach HUF 90 billion (EUR 340 million) in 2006. The ceiling of “top-up” payments from the national budget has been fixed at 30% of the payments to the EU15. However, in 2005 and 2006 these payments remained below this ceiling due to budgetary problems.

Implementation of the Rural Development Plan and the Single Programming Document. The EU Special Accession Programme for Agriculture and Rural Development (SAPARD) ceased to exist as of May 2004. However, SAPARD funds were still used in 2005 and 2006 to finance projects established before that date. The Rural Development Plan (RDP) and Single Programming Document (SPD) programmes were set for the years 2004-06. Overall, the RDP is worth EUR 754 million and the foreseen SPD spending is EUR 417 million for the period 2004-06. The rate of national co-funding was set at 20% for the RDP and 25% for SPD.

During 2005 and 2006, about EUR 400 million (HUF 100 billion) were spent to finance the RDP programmes and EUR 273 million (HUF 70 billion) on SPD programmes (the remaining sums to be spent in 2007). Most of the RDP payments were agri-environmental in nature (Agricultural Environment Protection Programme). These payments represented 85% of RDP expenditures in 2005 and declined to 70% in 2006 as new RDP programmes were implemented, such as the establishment of producer groups and technical assistance programmes. The SPD funds financed mainly investments to agriculture and food and marketing activities in order to improve the quality of production and meet EU quality standards. From 2006, SPD payments were also used to finance investments in rural infrastructure.

Other changes in national policies. Several national support programmes were maintained following EU accession. In addition to the national top-ups to the Single Area Payment, the most important programmes in terms of payments provided include credit subsidies to loans for agriculture, support for on-farm afforestation, subsidised veterinary costs, and breeding and genetic development. There were no major changes in these policies in 2005 and 2006.

Change in national budgetary expenditures. Changes in policies linked to EU accession, together with national fiscal austerity, led to a reduction of payments from the national budget in 2004 and 2005. The total amount of national payments in 2005 (including those which co-financed the EU programmes) increased by one third compared to 2004, and remained around that level in 2006 at HUF 175 billion (EUR 661 million).

Changes in regulations and institutions. Changes in regulations and institutions in 2005 and 2006 were mostly related to entry into the EU in May 2004, the adoption of the CAP, and implementation of CAP mechanisms (market regulation, administration of payments) and regulatory measures. At the end of 2006, Hungary adopted a new law allowing for genetically modified (GM) plants to be planted, albeit subject to stringent conditions. Under the new law, a 400-metre buffer zone must be established between GM crops and adjacent fields in order to prevent cross-pollination. Written permission to plant GM crops is required from all landowners within the buffer zone.

Ireland

Sector-wide policy initiatives. The Department of Agriculture and Food produced an Action Plan in response to the report of the Agri Vision 2015 committee. The Plan sets out the actions required by all actors, both public and private, to ensure the future success of the sector. These actions are organised around five requirements:

- take full advantage of the freedom to farm exclusively for the market arising from the decoupling of farm direct payments;
- focus on the requirements of the consumer at every stage in the value chain, especially in ensuring the highest standards of food safety, quality as well as on the range and type of product;
- continue, and accelerate the process of structural change at farm and processor level to achieve the most competitive structures possible;
- ensure that the knowledge base and technical skills of the sector are developed to place it in a world-leading position; and
- match these capabilities with an entrepreneurial focus on exploiting all market opportunities to the full.

Implementation of the Single Payment Scheme. The Single Payment Scheme was introduced in 2005, based on farm level historical entitlements in 2000-02. Ireland chose to include the maximum amount of payments in the single payment, with dairy payments included from 2005. It is based on the average number of animals (hectares in the case of the Arable Aid Schemes) on which payment was made under each scheme in the reference years (2000-02) multiplied by the 2002 payment rate for that scheme (EUR 383.04 for Arable Aid Schemes).

The rate of sugar beet compensation, based on historical production contracts, to be incorporated into the Single Payment Scheme was set. The rate is EUR 9.62 per contracted tonne in 2006, rising to EUR 13.63 in 2012.

Implementation of the Rural Development Plan. Payments for agri-environmental programmes, principally the Rural Environmental Protection Scheme (REPS), and to less-favoured areas under the Disadvantaged Area Compensatory Allowance are the main focus of expenditures under the CAP Rural Development Plan 2000-06.

In 2004, a revised REPS scheme, under the reference REPS 3, was introduced. REPS obliges participants to draw up and follow a nutrient and grassland management plan, as well as undertaking other measures. REPS also provides additional support to producers wishing to convert to organic farming. Payments made through REPS totalled EUR 329 million in 2006.

The total area designated as less-favoured area (LFA) is 5.155 million hectares, comprising almost 75% of Ireland's total land area. The majority of LFAs are classified under Article 19 of Council Regulation No. 1257/00 – areas in danger of abandonment and where conservation of the countryside is essential. Area-based compensation payments under the Disadvantaged Area Compensatory Allowance totalled EUR 257 million in 2006.

Other changes in national policies. The Scheme of Investment Aid for Farm Waste Management was introduced in 2006. This scheme is designed to help farmers meet the requirements of the EU Nitrates Directive and provides for expanded eligibility and grant amounts compared with the previous regional farm waste management schemes.

The Pilot Mineral Oil Tax (MOT) Relief Scheme was introduced in 2005. This incentive scheme for biofuels has resulted in eight projects being awarded excise relief for a two year period. The eight companies can produce a certain amount of biofuels each year and do not have to pay excise to the Revenue Commissioners on a particular quantity they are producing. In 2006, excise relief of EUR 0.69 million was granted under this scheme. A further Biofuels Mineral Oil Tax Relief Scheme II was introduced in 2006. Under this scheme sixteen projects have been awarded excise relief to the period 2010. When fully operational the relief is expected to support the use and production of some 163 million litres of biofuels each year. In addition, Green Diesel Excise Relief of EUR 14.62 million was provided to producers in 2005.

Disease levies on milk and beef production were reduced by 50% effective 1 January 2007. The reduction follows improvements in the disease situation. The reduction in the amount of the levy amounts to approximately EUR 5 million per year.

The maximum capital allowance under the accelerated scheme for investment in pollution control facilities increased to EUR 50 000 from EUR 31 750. From 1 January 2005, Single Payment Scheme entitlements were recognised as qualifying assets for CAT agricultural relief and CGT retirement relief. Stamp duty relief for young trained farmers was extended to 31 December 2008.

At the end of 2005 there were just over 7 824 low-income farmers (about 6% of total farm holders) in receipt of social welfare payments through the Farm Assist Scheme.

Change in national budget expenditures. Total public expenditure on agriculture increased by 13% in 2005 to EUR 457 million. Total public expenditures increased by a further 8% in 2006 to EUR 496 million. A significant portion of the increase is due to increases in environmental payments under the REPS scheme.

Changes in regulations and institutions. A new Milk Quota Trading Scheme was established to supersede the Milk Quota Restructuring Scheme. The new system has two elements, a priority pool and a market pool, the latter in the form of an Exchange. Producers are obliged to provide 30% of milk quota offered for trade to the priority pool, where a maximum price of 12 cents per litre is in effect. The remainder is traded on the market pool at a market-determined rate.

Italy

Sector-wide policy initiatives. The Economic and Financial Planning Document for 2004-07 covers strategic directives in the areas of: i) competitiveness of farms and agri-food business, ii) agri-food traditions and specialities, iii) multipurpose values: product quality, protection of land and environmental landscape, food safety and consumer protection, and iv) reform of public administration and integration of various levels of governance. Continuing decentralization of subsidy provision reinforces the principle of assigning competence to the territorial government nearest to where citizens live.

In the context of the stated priorities, the Finance Act of 2006 (law 266/2005) contains several measures including tax concessions and related extensions, support for investments, farm businesses and agricultural supply chains for food and promotion and use of biofuels. Furthermore, legislation entitled "Urgent measures for the agriculture, agri-business and fishing sectors, as well as taxation of companies" (Law 81/2006), called for major changes in: farm welfare, support for the agri-energy supply chain, restructuring and reconversion of the sugar beet-sugar sector and stronger support for the poultry sector.

Implementation of the Single Payment Scheme. The Single Payment Scheme has been extended to include olive oil, tobacco and sugar and national rules for application were adopted during 2005 and early 2006. Moreover, Italy decided to introduce the single payment of aid to the milk and milk products sector in advance, recognizing as beneficiaries those producers who received payments based on the quotas they held as of 31 March 2006.

Italy has decided to opt for total inclusion of aid to olive oil in the single payment, giving up the opportunity to maintain up to 40% of aid as under previous support programmes, in the form of supplementary payments to farms with at least 0.3 hectares of area planted to olive trees. Sector financing of 5% was set aside for programmes worked out by recognized producer groups, to support action for quality, traceability, market, environmental improvement and protection, and diffusion of information. As regards tobacco, Italy moved toward including part of the aid in the single payment. In the first phase of reform (2006-09), 60% of aid will remain specific to commodity production, whereas the remaining part will go toward single payments (except for Puglia where the rate of inclusion in the single payment is 100%). In the second reform phase (from 2010 onwards), aid will be completely independent from commodity production, but 50% of direct payments will be channeled into restructuring programmes in traditional tobacco-growing areas, within the framework of rural development policies.

For sugar, Italy decided to use the three-year period 2000/01-2002/03 to calculate aid to be included in the Single Payment Scheme. Furthermore, as part of the reform of the relevant CMO (Common Market Organisation), Italy decided to give up 50% of its production quota. However, the reduction in quotas was accompanied by a guarantee of additional payments independent from commodity production to continuing sugar beet farmers and funds for processing industries for diversification and restructuring. The application of Article 69 of the horizontal regulation of CAP reform (EC 1782/2003) calls for withholding 8% of financial resources from the sector.

Implementation of the Rural Development Plan. During 2005, more emphasis was placed on the dual management of various programmes for rural development financed through the EAGGF Guidance and Guarantee sections. Implementation of RDPs in 2005 resulted in spending of EUR 1 400 million. That amount, together with what was spent in the preceding

five planning years, brings the total spending to approximately EUR 8 000 million, or 90% of total available RDP financing for the 2000-06 period.

Expenditures for environmental measures under the RDP accounted for 48% of total disbursements from 2000 to 2005. A large increase in spending has been recorded in the past few years in the category of investments.

Other changes in national policies. To reduce labour costs, the Financial Act (commas 361-362) provides a reduction of 1% in social security contribution payments for temporary labour to the INPS (National Institute of Social Insurance), beginning on 1 January 2006. Furthermore, legislation was passed providing for social security concessions for agricultural employers in disadvantaged areas (Law 81/2006). In particularly disadvantaged mountain areas, social security relief is raised to 75% of the employers' share (as opposed to 70% previously), whereas in disadvantaged agricultural areas, including Objective 1 areas named in Regulation EC 1260/99 and territory in the municipalities of Abruzzo, Molise and Basilicata, relief is raised to 68% (compared to 40% previously).

Urgent measures for the prevention of avian flu were put in place (Law 244/2005) allowing for the purchase of medicines and other prophylactic material and supporting the poultry market. AGEA is authorised to buy frozen meat and other products in quantities not in excess of 17 000 tonnes, and at a maximum expense of EUR 20 million. The government can grant aid to facilitate reconversion and restructuring loans to businesses affected by emergency situations in the poultry supply chain. Beginning on 1 January 2006, measures to suspend or defer certain taxes are provided for poultry raisers, poultry butchers and wholesale poultrymeat dealers.

Also in November 2005, urgent measures were put in place in agriculture to counteract low prices in the grapes and wine sector, with EUR 90 million being appropriated to take grapes off the market.

The Financial Act granting concessions for production of bio-diesel, provides that a share of production will be used for the production of biofuels, as dealt with in special planting contracts or supply chain agreements, for inclusion in the experimental "bio-ethanol" programme. The six-year programme beginning on 1 January 2005 called for exemption of bio-diesel from excise taxes within a contingent annual limit of 200 000 tonnes.

Change in national budget expenditures. National expenditures in 2005 have increased by 4% over 2004 levels, and preliminary data indicate a reduction of 9% in 2006 relative to 2005. These changes are likely to affect expenditure for infrastructural services and subsidies for crop insurance most, but will most likely have had repercussions across the board.

Changes in regulations and institutions. Provisions concerning the simplification of the procedures for enrolling in the business register and the economic and administrative archive and the securitization of welfare credits and exclusion for farm welfare credits were recently introduced. The same legislation also introduced certification of regular repayments of European Community subsidies and renewed the terms for revaluation of land and shares. Legislative Decree No. 152 of 3 April 2006 put into effect the delegation of powers for the so-called "Environment Code", which simplifies, rationalises and reorganises environmental regulations into six key sectors: waste and reclamation, water, soil protection, air pollution, environmental assessment, and environmental damage.

Luxembourg

Implementation of the Single Payment Scheme. Payment entitlements are allocated according to a “mixed-regional model”. The reference payment is composed of a regional component (the same for all regions) and an individually determined component that depends on the historical amount of premiums during a reference period (2000-02). This single payment replaces all previous commodity specific payment regimes; that is, Luxembourg applies 100% decoupling as defined by the European Union. The ceiling for total payments has been fixed at EUR 33.4 million in 2005, EUR 36.6 million in 2006, and EUR 37.1 million in 2007.

Implementation of the Rural Development Plan. The Rural Development Plan in Luxembourg aims to: support the competitiveness and income of the agriculture sector; assure the viability of agriculture in less-favoured areas; protect the natural environment; promote sustainable forestry practices; and encourage adaptation and development in rural areas. The budget foresees a total transfer of about EUR 465 million to rural areas (EUR 374 million national funding, EUR 91 million European Guidance and Guarantee Fund, Guarantee Section).

Funding is provided for five major axes. Axis 1, Improving the Structure of the Agriculture Sector, includes investments to farm holdings and young farmers, training, and aids for transformation and commercialisation of agriculture products. It accounts for 43% of national expenditures. Axis 2, Support for Agriculture in less-favoured areas, accounts for 25% of national expenditures. Axis 3, Protection of the Environment and Natural Spaces, accounts for 23% of national expenditures. Axis 4 (Forestry) and Axis 5 (Adaptation and Development of Rural Areas) account for the remaining 9% of the budget.

The Rural Development Plan for the new period of implementation 2007-13 will be based on three areas or axes of development: Axis 1, improving the competitiveness of the agriculture and forestry sector; Axis 2, improving the environment and rural spaces; and Axis 3, improving the quality of life and diversification of activities in rural areas. A fourth Axis, based on the experience of the EU's LEADER programme focuses on local strategies for rural development. The budget foresees a total transfer (for the period 2007-13) of EUR 367 million.

Other changes in national policies. In 2004, the Ministry of Agriculture, Viticulture, and Rural Development introduced a disaster insurance programme for agricultural field crops and wines. The programme covers part of the losses in revenue resulting from natural disasters. This programme was enlarged in 2006 to include horticultural crops. Plans to include the livestock sector are foreseen for 2007. The long-term goal is to eliminate the need for direct intervention by the state in case of disaster through implementation of a single insurance programme for the sector.

Change in national budget expenditures. Total national budget expenditures for agriculture are estimated to be EUR 80.3 million in 2006. This is nearly 3% higher than the EUR 78.0 million spent in 2005.

Netherlands

Sector-wide policy initiatives. In the memorandum “The Choice for Agriculture”, published in September 2005, the government sets out its vision of the Dutch agricultural sector for the future.⁵ It was discussed in parliament and subsequently with stakeholders from primary agriculture and the agro food industry over a period of several months. This

innovative policy memorandum uses medium-term scenario studies (until the year 2015) to identify the main drivers of development within and around the sector and to pinpoint the main challenges for entrepreneurs and policy makers. It defines the division of roles and responsibilities of government and entrepreneurs. The government is mainly seen as facilitating development towards a more market oriented yet sustainable agriculture against the background of changing demands from society and the market. The document points towards opportunities for the sector and expresses confidence in the future. It underscores that declining income support will generate more opportunities for economically viable commercial farming in the future. It also addresses the role of farmers in maintaining the quality of the countryside. It states that farmers in areas with a natural handicap can expect compensation for their efforts to protect the natural environment and to conserve nature.

Deregulation and the reduction of policy related transaction costs has been another key policy priority in the most recent period. A target of a 25% overall reduction of the administrative burden was set. The Ministry of Agriculture, Nature and Food Quality has already achieved this target in 2006. According to the latest calculations, the regulatory burden can be reduced by a further 12 percentage points in 2007, bringing the total reduction to 37%.

Implementation of the Single Payment Scheme. The Single Payment Scheme was introduced in the Netherlands in 2006. Payments are based on historical entitlements, i.e. based on payments received in the past, with 2000-02 as the reference period. The Netherlands opted for keeping specific support for flax seed, for slaughtering premiums for veal calves (EUR 50 per animal) and for full grown cattle (EUR 80 per animal). Dairy payments are integrated into the single payment on the basis of the milk quota holding on 31 March 2007. The historical model has led to wide variation in payments per hectare. While the average payment amounts to about EUR 400 per hectare, producers of open-field horticulture receive only EUR 76/h and producers of veal calves EUR 3500/ha. The total amount for the single payment is set at EUR 325 million, and while the average farm receives EUR 10 000, payments can reach up to EUR 20 000 for some crop and dairy farms, representing a substantial 40-50% of their net farm income.⁶

If a farmer does not meet the cross-compliance criteria, payments are reduced and infringement may lead to prosecution. Single payment entitlements are tradable in the Netherlands, but only within the farm sector. Since the single payment is linked to the farm and not to land ownership, buying and selling of entitlements is possible without farmland ownership attached to them. However, in order to receive the actual payment, the farmer has to prove that he has the required area in agricultural use, although the land may be leased, rented or owned. Entitlements can also be rented, but only in combination with farmland.

Implementation of Rural Development Plan: The Agenda for a Living Countryside. Dutch policy on securing a viable, sustainable and living countryside is laid down in the Agenda for a Living Countryside.⁷ To secure its rural development objectives, the government provides funding for nature, agriculture, recreation, landscape, soil, water, reconstruction of sandy soil areas and socio-economic vitality. The new Multi-Year Programme 2007-13 for the Agenda, presented in December 2006 under the leadership of the Ministry of Agriculture, Nature and Food Quality and involving three other ministries, brings together these national objectives and the associated government funding.

The main reason for embarking on this Second Multi-Year Programme is that the various administrative layers involved in rural areas – national government, provincial and local authorities, and water boards – are joining forces in 2007 under a new administrative model with a new funding system, the Investment Budget for Rural Areas (ILG, *Investeringsfonds Landelijk Gebied*). This model assigns control to the provincial authorities for the achievement of national policy objectives for the countryside at regional level. The Second Multi-Year Programme incorporates the realisation of national objectives for rural areas through “physical consolidation” (acquisition, consolidation and management), management and use of natural resources and “socio-economic vitality” (space for development, public participation, social infrastructure). The emphasis is on achieving national objectives through regional and local approaches. Urban areas (housing), the main road network, the railways and national waterways (safety) fall outside the scope of the Second Multi-Year Programme.

This large decentralisation operation concluded in December 2006 with the signing of management agreements for the ILG between the national government and each of the 12 provinces. In these agreements, covering a period of seven years, measurable performance targets are set for each national objective and the government will make available financial resources to help achieve the targets. The Investment Budget contains EUR 3.7 billion from national sources; together with investments from provincial and local authorities, water boards and private parties, a total of EUR 7.5 billion is available in the next seven years for the integrated development of rural areas.

Other changes in national policies. In January 2006, a new policy on manure was introduced in the Netherlands after the European Court of Justice ruled that the old minerals accounting system (MINAS) was not in conformity with the obligations of the EU nitrate directive. Under MINAS farmers were required to keep an account of minerals imported, applied and exported from their farms. The new system introduces direct technical norms for the application of nitrogen from animal manure, for total nitrogen application per ha (and specific to each crop), and for total phosphate application per ha. For some categories animal manure production rights will be maintained. Emissions in excess of maximum levels are subject to penalty payments of up to EUR 7/kg of nitrate and EUR 11/kg of phosphate, and may result in prosecution. While this system of technical norms aims at reducing emissions to maximum allowable levels it is also expected to reduce the administrative burden by some 40%. In addition, a derogation from the EU-wide maximum level of nitrate emissions of 170 kg per ha was obtained from the European Commission in 2006 for nitrate application from grazing animals. A maximum of 250 kg of nitrate per ha is allowed for grass land for manure only from grazing animals. The derogation will be in force for a period up to 2010.

Change in national budgetary expenditures. The total national budget for the Ministry of Agriculture, Nature and Food Quality was EUR 2.1 billion in 2006. This represents an increase of 8% compared to 2005.

Poland

Implementation of the Single Payment. The Single Area Payment Scheme (SAPS) was implemented in 2004. According to the schedule for the phasing in of the Single Payment Scheme, payments were set at 30% of the payments in the EU15 in 2005 and increased to 35% in 2006.

Complementary National Direct Payments (CNDP) are paid using a mechanism similar to that used for the SAPS (except for starch potato and tobacco). Payments for sector I (bovine and ovine animals, milk, arable crops, legumes, seeds and nuts), sector II (hops) and sector V (energy crops) are made in proportion to land area. Payments in sectors III (starch potato) and IV (tobacco) are related to the production quotas allocated to Poland. Overall, the CNDP increased the value of total direct payments to 65% of the EU15 level.

Implementation of the Rural Development Plan and the Single Programming Document.

The EU Special Accession Programme for Agriculture and Rural Development (SAPARD) was due to expire in 2004. However, SAPARD remained in place in 2005 and 2006 to finance projects approved before that date. By the end of January 2006, SAPARD funds had been fully used and remaining payments were covered from the Rural Development Plan (RDP) funds (Projects under Regulation 1268/1999).

The RDP, set for the years 2004-06, comprises eight categories covering a broad range of policies ranging from funding of early retirement to support for agri-environment and improvement of animal welfare. In addition, funds are also provided for partial financing of two measures implemented under other aid schemes (complementary area payments and Projects under Regulation 1268/1999). Funds allocated in the period 2004-06 amount to EUR 6 458.8 million, of which EUR 2 866.4 million are from EU and EUR 3 592.4 million from Poland's national budget.

The Polish Single Programming Document, the Sectoral Operational Programme (SOP), designed to assist adjustments in the agricultural and food sector, sustainable development of rural areas, and to provide technical assistance, was implemented during the period 2004-06, but payments may continue to be disbursed until the end of 2008. The funds are provided by the EU, the Polish budget and private sector participants.

Other changes in national policies. Several national support programmes have been maintained following EU accession. The most important programmes in place until the end of 2006 include interest rate subsidies provided for: investment and disaster loans granted up until accession; new loans granted under preferential credit lines declared as existing aid for investments in agriculture, the agri-food sector, the purchase of agricultural land, new production technologies and investments under professional programmes. The resources from national budget allocated for support of crops and livestock improvement were relatively unchanged from PLN 123.7 million in 2005 (EUR 31.7 million) to PLN 122.5 million in 2006 (EUR 31.4 million). 2006 was the second year of implementation of the 3-year National Apiculture Programme, to which the EC has allocated PLN 56.25 million (EUR 14.4 million). Fifty per cent of the programme's expenditures are financed from the national budget. In 2006, for the first time, the Agricultural Market Agency provided refunds for the processing of straw from flax and hemp into fibre. Refunds totalled PLN 0.16 million (EUR 0.04 million). In addition, Poland allocated PLN 650 million (EUR 166.6 million) in 2006 for fuel tax concessions.

Change in national budgetary expenditures. Total national expenditures on agriculture (including the co-financing of the EU programmes) increased (in PLN) in 2005 by 2.8% reaching PLN 4.1 billion (EUR 1 025 million) and then increased by another 5.7% to PLN 4.4 billion (EUR 1 019 million) in 2006. The observed increase in the national budgetary expenditures (in PLN terms) is mainly due to financing of the CNDP. The observed changes measured in EUR are significantly different from those measured in PLN due to the fall in

the exchange rate between the Polish zloty and the euro in the 2004-06 period (15.9% and 9.2% respectively).

Changes in regulations and institutions. Changes in regulations and institutions in 2005 and 2006 were mostly related to entry into the EU in May 2004, the adoption of the CAP and implementation of its mechanisms (market regulation, administration of payments), and regulatory measures.

Portugal

Sector-wide policy initiatives. Most national policy initiatives dealt with the consequences of major forest fires and drought, as well as bluetongue disease. There was an outbreak of bluetongue disease at the end of 2004 and which affected traditional trade circuits during 2005. A plan limiting animal traffic within the national territory was implemented. In addition to forestry specific plans, the National council for afforestation approved, in 2005, strategic orientations to restore burnt-out areas in 2003 and 2004. These orientations will also apply to the area devastated by fires in 2005.

Implementation of the Single Payment Scheme. As planned, the Single Payment Scheme was introduced in 2005 based on the 2000-02 farm level historical entitlements. From January 2006, the single payment included 100% of cotton and olive oil payments and 50% of tobacco payments. From mid-2006, it included the new sugar payment and, from January 2007, the milk payment originally introduced in 2004 and the banana payment. Under Article 69 of EC Regulation 1782/2003, Portugal opted to keep 10% of the single payment national envelope for complementary payments to the olive oil and sugar sectors, and 1% each for the arable crops, rice, beef and sheep sectors.

Regarding cross-compliance, new indicators were defined in order to comply with the legislation with respect to public health, animal health and phytosanitary rules.

Implementation of the Rural Development Plan 2000-06 continued and the rules and strategic options for the next planning period (2007-13) were adopted. Most expenditures under the 2000-06 plan were for investments in farm holdings and development and structural adjustment in rural areas.

Other changes in national policies. In order to alleviate the effects of the 2005 drought on farmers' income, a number of decisions were made. These include:

- to allow the possibility to use set-aside lands for animal feed over the entire country;
- early payment of milk and milk-product aid to allow producers to cope with liquidity problems;
- in the context of the VITIS programme, to extend the time limit for conversion and restructuring of vineyards until the end of May 2006;
- to temporarily exempt farmers from social security contributions in order to help them face the decrease in revenue due to the fall in production, or to help meet the need to purchase means of production essential to the pursuit of agricultural activity;
- to open a credit line to help with hydraulic work for agriculture, namely to ease the watering of livestock in the regions most affected by the drought; and
- to open another credit line in some regions to compensate for feed and pasture shortage.

To compensate livestock farmers for income losses they incurred because of the drought and the bluetongue outbreak, the following measures were approved:

- use of set-aside land to feed animals and the possibility of non compliance with the mandatory requirements to the premium rights without incurring any reduction in aids;
- increase in advance premium payments from 60% to 80% for suckler cows and male bovines in 2004-05;
- granting of advance payments for the supplementary sheep and goat premiums for 2005;
- reinforcement of the project to fight against animal disease included in PIDDAC (Investment and expenditure programme for central administration development) up to EUR 5.5 billion of national contribution; and
- non co-financed aid granted to aviary producers (without repayment) to help compensate the additional cost of feed.

Changes in national budget expenditures. National expenditures on agriculture increased in 2005 because of measures related to exceptional circumstances, such as drought, forest fires and animal disease.

Changes in regulations and institutions. A new licence for bovine farming was established and which for the first time clarified the framework for that activity. In 2005, following the European regulation, GMOs were cultivated in Portugal: 772.3 hectares of maize were planted.

In the context of the EU regulation on the prevention of water pollution by nitrates from agricultural sources, new vulnerable zones (VZ) were designated in 2005 and some existing ones were expanded. Continental Portugal now has eight VZ corresponding to 110 808 hectares. By the end of 2005, 9 of the 24 protected areas, as designated in the national legislation on biodiversity conservation, had a management plan.

Some progress was made in the preparation of the strategic programme for the management of agricultural residues; an advisory group was established. The programme Natura 2000 was analysed to identify implementation solutions, including the definition of sectoral goals, measurement of achievement and monitoring of actions taken in 2004 and perspectives for 2010. The new estimates suggest a declining trend in greenhouse gas emissions produced from 3% to 7% from the baseline in the agriculture sector.

Slovak Republic

Implementation of the Single Payment. From 2004 the Slovak Republic (SR) opted for a Single Area Payment Scheme (SAPS) with a flat rate per hectare of all agricultural land. According to the scheme for phasing them in, the Single Payments were set at 30% of the payments to the EU15 in 2005 and increased to 35% in 2006. In 2005 and 2006, Complementary National Direct Payments (“top-ups”) were paid as area payment for selected arable crops (grains, oilseeds, protein crops), hops, tobacco, and headage payments to suckler cows, sheep and goats. The ceiling of “top-up” payments from the national budget has been fixed at 30%. However, both in 2005 and 2006, these payments remained below that ceiling. In 2005, the “top-up” payments were made at the level of 24% and 19% in 2006, i.e. in both years the total payments (SAPS+“top-up”) were at 54% of EU15 level.

Implementation of the Rural Development Plan and the Single Programming Document. Under the programmes implemented within the Rural Development Plan (RDP), payments

to less-favoured areas (LFAs) and payments for agri-environmental measures represented the core of the RDP payments (90% of RDP payments in 2005 and 70% in 2006). Although in nominal terms, both payments increased in 2006, the decline of their share in the total RDP expenditure was due to the development of other programmes not financed in 2005 (investments in agriculture, food processing and marketing). Most of the agri-environmental payments were for payments provided under the basic scheme which is an area payment provided per hectare of arable land, permanent grassland, orchards and vineyards (a fixed rate is defined for each of these categories) cultivated under specific environmentally friendly conditions. The payments to LFAs are paid per hectare of agricultural land in less-favoured areas (mainly mountainous and hilly areas). The payments within the RDP plan were financed from EU funds at a rate of 80%.

After accession, the Special Accession Programme for Agriculture and Rural Development (SAPARD) was replaced by a Sectoral Operational Programme Agriculture and Rural Development (SOP) set for 2004-06 (in Objective 1 regions). Both SAPARD and SOP projects focus mainly on investments in agriculture, but also provide payments for the development of food processing activities and infrastructure projects in rural areas. Overall, the total amount of payments financing rural development (RDP, SOP and SAPARD) almost doubled in 2006 compared with 2005.

Other changes in national policies. Most of the national programmes providing payments to agriculture were terminated at the end of April 2004. Some of the national payments continued to be provided from May 2004 within the “state aid” basket. They focused on conservation of livestock and crop genetic resources, credit subsidies, water subsidies and support to irrigation infrastructure, fuel tax rebates and disaster payments. Slovakia also maintained its interest rate support of commodity loans secured by warehouse receipts up to the end of 2006.

Change in national budget expenditures. The total amount of national payments (including those co-financing the EU programmes) in 2005 declined by 6% compared to 2004, but in 2006 the national payments increased by 46% to reach SKK 5.6 billion (EUR 149 million). These developments were mainly due to the time lag between the start and completion of individual projects and related financing of projects under the RDP and SPD programmes (most of the programmes except payments to LFAs).

Changes in regulations and institutions. Other than the consolidation of the institutions administering the CAP, there were no major changes in regulations and institutions in 2005 and 2006. The Slovak government (Ministry of Agriculture and Ministry of Health) issued 11 decrees during 2006 in order to update and complete the *Codex Alimentarius* which provides food quality and food safety regulation for different group of commodities and products. Concerning institutional changes, three research institutes financed by the Ministry of Agriculture (crop production, livestock production, and wine production) were merged into a single institution, the Slovak Centre for Agricultural Research in Nitra (*Slovenské centrum poľnohospodárskeho výskumu Nitra*), as of 1 January 2006.

Spain

Implementation of Single Payment Scheme. The Single Payment Scheme was implemented in 2006. Spain applied the scheme at the national level with payments based on historical entitlements and with a common regulatory framework for all regions. Autonomous communities manage the single payments, but coordination is carried out by

the central government. A national database has been created by the Ministry of Agriculture in order to calculate reference amounts and payment entitlements. A National Reserve has been created by a linear 3% reduction of the reference amounts.

Payments will remain specific to commodity production for the following commodities: seeds (100% of the payment); arable crops (25%); sheep and goat premiums (50%); suckler cow premium (100%); slaughter premium for calves (100%); slaughter premium for adult bovines (40%). Payments in the outermost regions will also remain 100% specific to commodity production.

Implementation of the Rural Development Plan. The implementation of the Spanish Rural Development Plan 2000-06 is completed. In 2006, a Rural Development National Strategic Plan was drawn up, establishing the basic framework for the 2007-13 programmes. Agriculture is the main focus of the Spanish strategy on rural development. Measures are to be applied through seventeen regional programmes, each including at least the following horizontal measures: water management; aid for adding value to agricultural and forestry products; support for meeting standards and; prevention actions against forest fire and desertification. Proceedings have been initiated so as to develop a basic Law on Sustainable Rural Development, which will address basic economic, social and environmental problems in rural areas.

Other changes in national policies. The Combined Agricultural Insurance System is the largest agricultural programme in terms of national expenditure in Spain, with a budget of EUR 240 million in 2006, a 7% increase on 2005. The State Agricultural Insurance Agency (ENESA) draws up an annual plan each year; in 2006, it is aimed at consolidating risks and crops already covered by the scheme and to improve others. Some novelties are cattle insurance for foot and mouth disease, and poultry insurance. Various lines have been improved so as to include organic production. The cost of insurance premiums is subsidised taking different factors into account facts such as being a young farmer or contracting through producer organizations.

Irrigation water in Spain has become scarce due to unfavourable climatic conditions in recent years. The use of this resource depends on two legal texts which affect irrigation policy: the Water Framework Directive and the New Adapted Text of the Water Law. This situation has led to an in-depth review of the National Irrigation Plan (PNR) known as the Action Plan for the Modernisation of Irrigation, which is being applied in 2006 and 2007. The objective of the review is to find ways of making important efficiency gains in the consumption of water.

The Action Plan consists of an ambitious set of projects aimed at improving infrastructures implemented through a 2006 decree established between the Ministries of the Environment and of Agriculture, Fishing and Food. Farmers who are to benefit from the Plan are committed to adopting measures to reduce pollution through a rigorous programme of environmental surveillance. The Ministry of Agriculture, Fishing and Food will invest EUR 712 million in Action Plan projects in three ways: funds allocated by the Ministry as direct investment by the General Directorate for Rural Development; financing and execution of projects by the government Agrarian Infrastructures Corporation (SEIASAS); and, projects commissioned by the government.

In 2005 and 2006, temporary support was granted to compensate producers for the effects of drought. Some tax concessions were applied, particularly value added tax rebates and reductions in personal income tax, as well as in social security contributions. The

Institute for Official Credit (ICO) provided farmers with subsidised loans in order to lessen the impact of the adverse climatic conditions. In 2005 and 2006, temporary support was provided to compensate producers for the increase in costs, particularly those due to higher oil prices. The main measure is a direct payment of EUR 0.06 per litre of petrol consumed. Only professional farmers were eligible for this aid.

Change in national budgetary expenditures. The total agricultural budget of the government for 2006, (excluding transfers from the EU), is estimated to have increased by 3%, with a budget of EUR 1 267 million.

A new Action Plan on Organic Farming for 2007-10 was announced. Three measures are foreseen: promoting development of organic farms; increasing domestic consumption of organic products and; improving institutional coordination. A survey commissioned by the Ministry of Agriculture, Fishing and Food revealed that domestic consumption in Spain could be enhanced by providing consumers with more information on organic products. A two-year promotional campaign commenced in 2006.

Changes in regulations and institutions. A new decree in late 2006 set a new structure for the Spanish Agricultural Guarantee Fund (FEGA), which is the coordination body that ensures consistency in the management of European funds by the various paying agencies. The structure of FEGA has been changed so as to conform to the new procedures for implementing direct payments, including the Single Payment Scheme. FEGA is also the body responsible for coordinating both the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development from 2007.

Sweden

Sector-wide policy initiatives. A biofuels committee has been appointed to evaluate Sweden's capacity to produce biofuels from field crops and forestry. The committee is also mandated to examine the ethical aspects of producing biofuels because it is considered that there are trade-offs between using crops for food and for fuel, particularly in a context where large parts of the world's population cannot afford to buy sufficient food. Recommendations are due in April 2007.

Implementation of the Single Payment Scheme. The Single Payment Scheme, introduced in 2005, is based on a combination of both the regional and farm level models. Payments totalling about SEK 6.6 billion (EUR 711 million) consist of two components: a basic amount paid per hectare throughout the region; and an additional amount based on the average of certain payments made to individual farmers during the period 2000-02. As a transitional measure (to be reviewed in 2009), 75% of the male beef premium remains commodity-specific to minimize the risk that slaughter animal production is significantly reduced.

Implementation of the Rural Development Plan. The Rural Development Plan for Sweden (2000-06) sought to promote environmentally sustainable development by supporting farmers through agri-environmental payments and generating new opportunities for economic diversification through forestry and tourism. The total cost of the programme was EUR 2.55 billion, of which EUR 1.13 billion was provided by the European Guidance and Guarantee Fund, Guarantee Section.

Priority 1: Ecologically sustainable rural development consisted of different measures that have been defined to channel environmental payments to farmers for the services they provide for the public good. The management of pastures, meadows, and leys are considered to be important in supporting a rich biodiversity and reducing the leaching of

chemicals. Other measures included retaining traditional agricultural practices (including breeds of livestock), less-favoured area payments, and training in environmental farming techniques and investments in farms. These agri-environmental measures accounted for 85% of total expenditures.

Priority 2: Economically and socially sustainable rural development emphasizes well-targeted, cost-effective projects to increase the competitiveness of farm and rural businesses. Measures included investment in farms, setting-up aid for young farmers, business training and investments to improve processing and marketing. Rural communities were supported by measures to promote tourism, the development of villages, and conservation of rural cultural heritage.

Two regions, Norra Norrland (EUR 50.6 million) and Sodra Skoglanen (EUR 61.1 million), were covered by EAGGF/Guidance measures (Objective 1). These included: Investment in agricultural, plant and reindeer companies; setting-up aid for young farmers and reindeer businesses; marketing and processing of agricultural goods; training, rural development and development of reindeer husbandry and Sami villages; and environmental measures in connection with forestry. The strategy differentiated between the coast and inland areas.

The Rural Development Programme for the new period of implementation 2007-13 came into force in 2007. The largest share, about 75%, will be allocated to various environmental measures, including support to less-favoured areas (axis 2). The remaining 25% will go to measures aimed at furthering competitiveness, diversification, and quality of life in rural areas (axes 1 and 3). The programme will transfer about SEK 5 billion (EUR 676 million) a year to rural areas in Sweden, an increase of around SEK 1 billion (EUR 135 million) compared to the previous programme including Objective 1 and Leader+.

While the new programme increases resources to all axes, more emphasis will be placed on development and competitiveness. This is reflected in increased funding for training and education as well as measures to diversify the rural economy.

An important element of the new programme is the increased role of local and regional authorities in planning, decision making, implementation and follow-up of the various measures. The aim is a more efficient use of the funds.

Other changes in national policies. The green tax shift strategy, gradually implemented since 2001, raised taxes having an impact on the environment while at the same time reducing taxes on labour. Accordingly higher taxes on petrol and diesel have been implemented since January 2004. However, since 2005 farmers can get a refund for 77% of the carbon dioxide tax on diesel used in farm and forestry machinery, to bring rates paid by Swedish farmers in line with those paid by competitors. Carbon dioxide neutral fuels continue to be given competitive fiscal conditions. Biofuels are exempt from carbon dioxide and energy taxes from 2004 to 2008.

Change in national budget expenditures. National budget expenditures for agriculture totalled SEK 3.9 billion (EUR 388 million) in 2006. This was 7% higher than the SEK 3.6 billion (EUR 418 million) spent in 2005.

Changes in regulations and institutions. The Swedish Animal Welfare Agency will merge with the Board of Agriculture in 2007. The Agency, founded in 2004, is responsible for ensuring the welfare of domestic animals, animals used in research, wild animals in captivity and pet animals.

United Kingdom

Sector-wide policy initiatives. The government's priorities for delivering a sustainable farming and food sector were outlined in the Department for Environment, Food and Rural Affairs (Defra) July 2006 report *Sustainable Farming and Food Strategy: Forward Look for England*⁸ which builds on the 2002 *Sustainable Farming and Food Strategy* (see *Agricultural Policies in OECD Countries: Monitoring and Evaluation, 2003*). The report sets out five priority themes:

- **Succeeding in the market:** reconnecting farmers with their markets and strengthening the links between the numerous elements of the food chain. For farm businesses and the food chain collectively to move away from dependence on subsidy and towards a more professional business-focussed approach.
- **Improving the environmental performance of farming:** building on progress in integrating environmental concerns into agriculture by addressing key issues related to environmental protection, resource management and pollution control.
- **Sustainable consumption and production:** encouraging production and consumption patterns of food with lower environmental impacts.
- **Climate change and agriculture:** contributing to national climate change initiatives by exploiting opportunities to reduce emissions from agriculture and seeking opportunities to expand the production of bioenergy and other non-food crops which can help to reduce overall UK carbon emissions.
- **Animal health and welfare:** delivering high standards of animal health and welfare as a contribution to the economic, social and environmental sustainability of farming.

The administrations in Northern Ireland, Scotland and Wales have also recently published their forward looking strategies as follows:

- **Northern Ireland:** Within the context of their five year Strategic Plan (2006/11)⁹ the Department of Agriculture and Rural Development (DARD) Northern Ireland published the *Northern Ireland Animal Health and Welfare Strategy*¹⁰ during 2006. The Strategy provides a comprehensive, strategic approach to animal health and welfare in Northern Ireland and sets out a vision of a Northern Ireland where standards of animal health and welfare are amongst the highest in the world, and where all stakeholders fully understand and accept their roles and responsibilities. The Strategy reflects Northern Ireland's geographical position within the Island of Ireland and the corresponding work on seeking an agreed strategic approach to animal health and welfare across the island and also addresses DARD's commitment to produce a strategy that is consistent, in terms of its principles and outcomes, with the GB Animal Health and Welfare Strategy published in 2004. In 2006, DARD published its Rural Strategy¹¹ to provide a broad strategic framework for rural policy in Northern Ireland over the next seven years. Additionally, in 2007 it published a Renewable Energy Action Plan¹² aimed at enabling farmers, landowners and the wider rural community to capitalize on the opportunities presented by renewable energy.
- **Scotland:** The Scottish Executive published its *A Forward Strategy for Scottish Agriculture: Next Steps*¹³ in March 2006, which builds on the achievements of the *Forward Strategy for Scottish Agriculture* published in 2001 in areas such as animal health and welfare, diversification and the environment, and seeks to maintain momentum and to take account of the changing world. The Scottish Parliament debated the *Crofting Reform Bill*¹⁴

during 2006, which introduces powers to create new crofts, bring neglected croft land back into production and extend crofting tenure beyond the crofting counties. The Bill builds on the *Land Reform Act* introduced in 2003 and passed in January 2007.¹⁵

- **Wales:** The Welsh assembly government published in March 2006 the *Environment Strategy for Wales*.¹⁶ The Strategy recognises the importance of the environment and explains how the assembly government will tackle the challenges facing it over the next 20 years. It sets out the assembly government's long-term vision for the environment in Wales, which is "By 2026, we want to see our distinctive Welsh environment thriving and contributing to the economic and social well-being and health of all of the people of Wales."

As well as Defra's Forward Look report for England, the Department has also launched a number of joint reports with other government departments, including:

- **A Vision for the Common Agricultural Policy**,¹⁷ with the HM Treasury in December 2005, contributes to the debate on how to achieve a sustainable future for the EU's CAP by considering the economic, social and environmental costs of the CAP, the impact of the CAP on developing countries, and examines further scope for reform of the CAP.
- **The government's response to the Biomass Task Force**,¹⁸ with the Department of Trade and Industry in April 2006, sets out some key measures to unlock the potential for renewable energy in biomass, including: a five-year capital grant scheme for biomass boilers and Combined Heat and Power (CHP) systems; the establishment of a new Biomass Energy Centre to provide advice and guidance on all aspect of biomass energy; a second round of the Bioenergy Infrastructure Scheme; and a commitment to consider the suitability for using biomass heat and/or power in government buildings.
- **Creating Value for Renewable Materials**,¹⁹ with the Department of Trade and Industry in November 2006, reviews progress since the 2004 report *Strategy for Non-Food Crops and Uses* (see *Agricultural Policies in OECD Countries: Monitoring and Evaluation, 2005*) and identifies the priorities for the next three years, especially greater focus on bioenergy, plant based pharmaceuticals, and renewable construction materials and chemicals.

Implementation of the Single Payment Scheme. Following difficulties in implementing payments to which farmers in England were entitled under the single payment for 2005, the government in April 2006 authorised partial payments to those who had not already received a payment. By December 2006 nearly all claimants had received full or partial payments of an estimated total value of GBP 1 528 million (EUR 2 247 million). Payments made by the devolved administrations to farmers in Scotland, Wales and Northern Ireland were unaffected and paid according to schedule. The government announced in June 2006 that additional support arising from reform of the CAP sugar regime agreed in November 2005, would be incorporated into the single payment by adding to entitlements held by sugar beet producers meeting certain criteria.

Implementation of the Rural Development Plan. Each of the four devolved administrations of the United Kingdom carried out consultations on their respective Rural Development Programmes for the period 2007-13, the previous programme having ended in 2006. The first payments to farmers in England through the *Environmental Stewardship Scheme*, which was launched in March 2005 and replaced the *Environmentally Sensitive Areas*, *Countryside Stewardship* and *Organic Farming Schemes* – were made in spring 2006. The Scheme is made up of three elements; *Entry Level Stewardship (ELS)*, *Organic Entry Level Stewardship (OELS)* and *Higher Level Stewardship (HLS)*. By July 2006 over 30% of eligible

agricultural land in England was under some form of funded environmental management scheme. In Wales, the first payments to farmers through *Tir Cynnal*, a new entry-level agri-environment scheme, were made in April 2006, following approval by the EU Commission during 2005. A modification to the Northern Ireland Rural Development Programme in 2005 introduced new options and higher payment rates for some existing options available to participants in the Environmentally Sensitive Areas Scheme and the Countryside Management Scheme.

The *Land Management Contract Menu Scheme* was introduced in Scotland in 2005. The scheme is aimed at encouraging farmers to carry out activities which are beneficial for the environment, for their business and for the wider public. It is funded by the proceeds of modulation and UK matching funding. In Northern Ireland, the *Organic Farming (Conversion of Animal Housing) Scheme*, which opened in December 2003 with a budget of GBP 2 million (EUR 2.9 million), was closed to new applicants from September 2005. The scheme facilitated the development of organic livestock production and was funded through the Northern Ireland Assembly's Executive Programme Fund. The *Farm Nutrient Management Scheme* opened for applications in January 2005. The scheme, which has funding of GBP 45 million (EUR 66 million), aims to assist farmers to comply with the manure storage requirement of the EU Nitrates Directives and the Northern Ireland requirements of the *Control of Pollution (Silage, Slurry and Agricultural Fuel Oil) Regulations*. A weather aid package, which provided partial compensation of GBP 4.6 million (EUR 6.8 million) for losses to production and increased costs during bad weather in 2002, was paid to farmers in November 2005.

The government's headline indicator of wild bird populations shows that overall populations were 10% higher in 2004 compared to 1970, but for farmland birds they are under 60% of their 1970 level. However, since the mid-1990s the farmland bird indicator has remained fairly stable, although there are regional differences with northern parts of England showing a recovery in farmland birds since 1994.²⁰ For other flora and fauna (e.g. mammals, butterflies), incomplete evidence for terrestrial and aquatic species suggests that intensive farming practices continue as a major threat to species diversity and abundance.²¹

Other changes in national policies. The *National Fallen Stock Scheme* (NFSS), introduced in November 2004, was jointly set up by the government and the farming industry to help farmers meet their legal responsibilities for disposing of dead animals. Previously, many farmers disposed of fallen stock in a burial pit. This practice is now illegal and the Scheme provides a means of disposing of fallen stock in compliance with the law. By the end of November 2006 over GBP 11 million (EUR 16 million) of support was provided under the NFSS, and after an independent review of the scheme the government agreed funding for the Scheme should continue to November 2008.

Change in national budget expenditures. Agricultural budgetary expenditure for 2005 and 2006, excluding EU payments, was GBP 712 million (EUR 1 047 million) and GBP 675 million (EUR 993 million) respectively, a 10% decrease from 2004 to 2005 and 5% decrease from 2005 to 2006 (in GBP terms). Under the *Freedom of Information Act*, data was released in 2006 by the government on recipients of CAP budgetary support in England during 2004/05. The data reveals that GBP 1.4 billion (EUR 2.1 billion) was paid to nearly 90 800 farm businesses, cooperatives and private landowners, with six recipients each receiving over GBP 1 million (EUR 1.5 million). CAP payments to non-farm businesses were

more significant, with sugar and dairy processors dominant. Seven companies received in excess of GBP 10 million (EUR 15 million) in 2004/05, with Tate and Lyle, the sugar refiner, the largest recipient of CAP payments totaling almost GBP 125 million (EUR 184 million).

Total income from farming in the UK is estimated to have risen in 2006 by over 10% in current prices, or by nearly 7% in real terms, to GBP 2.72 billion (EUR 4 billion). Total income from farming per full time person equivalent is estimated to have risen by almost 13% in current prices, or by more than 9% in real terms, to GBP 13 840 (EUR 20 353). Increases in the value of output, due in particular to higher prices for cereals, potatoes and cattle, have more than offset higher input costs.²²

Changes in regulations and institutions. Farm regulation and charging strategy: Defra published (2005) a strategy, *Partners for Success – A Farm Regulation and Charging Strategy*,²³ for England. This strategy seeks a new relationship in which government and the farming industry will work together to deliver a better environment, improved animal health and welfare, safer food and working conditions and a sustainable industry over a 10-year period.

Sharing responsibility and costs of animal disease: As announced in *The Partners for Success – A Farm Regulation and Charging Strategy* the Department established the Joint Industry/Government Working Group on Sharing Responsibility and Costs of Animal Disease²⁴ to work in partnership to make recommendations that would help inform debate on how responsibilities and costs of animal disease outbreaks should be shared between government and the industry in England. The Group published its report on 12 July 2006. Government and farming industry representatives achieved a consensus around the principles of sharing costs and responsibilities in the event of an exotic disease outbreak, recommending that where costs are shared, responsibilities should also be shared.

The *Over Thirty Month Scheme*, an exceptional market support measure, which was introduced in May 1996 to remove older cattle at risk of incubating **BSE** from the food chain, was replaced in January 2006 by a rigorous BSE testing scheme for cattle over thirty months old slaughtered for human consumption and the *Older Cattle Disposal Scheme*, an exceptional market support measure providing for disposal of and compensation for cattle born before 1 August 1996, and will end on 31 December 2008. The ten-year ban on UK beef and cattle exports was lifted in May 2006, following progress in reducing cases of BSE in cattle to less than 200 cases per million cattle in 2006.

The bulk of the Animal Welfare Act 2006²⁵ came into effect in April 2007. The Act extends (while also consolidating and simplifying) animal welfare legislation, applying to both farmed and non-farmed animals. In November 2006, the government consulted on a draft animal welfare delivery strategy to pursue improvements to welfare through partnership-based, non-legislative mechanisms; the consultation closed at the end of March 2007 and it is anticipated that the final strategy will be published late summer 2007. The government (with the Scottish executive and the Welsh assembly government) established the poultry register in December 2005 to collect essential information about certain bird species to help reduce the impact of a disease outbreak, with more than 250 million birds now included under the register. The UK's first outbreak of the H5N1 strain of avian influenza occurred in January/February 2007.

Notes

1. The description of policy developments at the European Union level is followed by information on policy development at member states level. Policy developments in European Union countries that are not members of the OECD are presented in Annex 6.A1.
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7. Ministry of Agriculture, Nature and Food Quality (2006), Agenda voor een Vitaal Platteland MIP2 Meerjarenprogramma Vitaal Platteland 2007-2013, "SAMEN WERKEN", www9.minlnv.nl/pls/portal30/docs/FOLDER/MINLNV/LNV/STAF/STAF_DV/KAMERCORRESPONDENTIE/2006/02/20060221_DP_2006_216BIJLAGE_V2.PDF.
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12. www.dardni.gov.uk/content-newpage-renewable-energy-action-plan.
13. www.scotland.gov.uk/Publications/2006/03/01142456/0.
14. Crofting: System of land management based on small holdings.
15. www.scotland.gov.uk/News/Releases/2007/01/25172652.
16. <http://new.wales.gov.uk/topics/environmentcountryside/epq/Envstratforwales/?lang=en>.
17. www.hm-treasury.gov.uk./documents/international_issues/global_challenges/the_common_agricultural_policy.cfm.
18. www.defra.gov.uk/farm/crops/industrial/energy/biomass-taskforce/index.htm.
19. www.defra.gov.uk/farm/crops/industrial/pdf/nfc-progress-0611.pdf.
20. www.defra.gov.uk/environment/statistics/wildlife/index.htm.
21. www.defra.gov.uk/wildlife-countryside/resprog/findings/atlas.htm; and www.jncc.gov.uk/page-1829.
22. <http://statistics.defra.gov.uk/esg/statnot/account.pdf>.
23. www.defra.gov.uk/farm/policy/regulation/charge/index.htm.
24. www.defra.gov.uk/farm/policy/regulation/csharead/jigwg/index.htm.
25. www.defra.gov.uk/animalh/welfare/act/index.htm.

ANNEX 6.A1

Policy Developments in European Union Countries that are not Members of the OECD*

Estonia

Implementation of the single payment. The Single Area Payment Scheme (SAPS) was continued in 2005 and 2006. All national direct support schemes were changed to CAP-like schemes in 2005 and provided under the Complementary National Direct Payment (CNDP) (“top-up” payments) to producers of arable crops, milk, beef and sheepmeat. Altogether, the CNDP and SAPS support amounted to EUR 66 million in 2006, which is significantly more than the EUR 49 million spent in 2005. Actual payments for dairy cows under CNDP remained below the maximum authorised level of 95% of the EU support level for milk. For other products under CNDP, the maximum level of support was set at 65% of the EU support level, partly (EUR 5 million) financed from the Rural Development Plan 2004-06 (RDP) for arable crops and seeds. In April 2006, EU reserve quotas of milk were opened to new member states. The total milk quota for Estonia increased by 3%.

The implementation of the Single Payment Scheme will start from 2011 according to Article 143b of Council Regulation (EC) No. 1782/2003.

Implementation of the Rural Development Plan and the Single Programming Document. The Rural Development Plan (EAGGF and co-financing) and the National Development Plan 2004-06 (NDP) (structural funds and co-financing) replaced the Special Accession Programme for Agriculture and Rural Development (SAPARD). The last payments under pre-accession SAPARD were made in the third quarter of 2006. Within five years a total of EUR 62 million was paid out and investments worth EUR 147 million were made under SAPARD. The RDP included less-favoured area payments and agri-environmental measures. Around 80% was financed by the EU. In 2005, RDP was extended to support afforestation of agricultural land, support for areas with environmental restrictions and support for establishment, restoration and maintenance of stonewalls. The NDP mainly includes investment support measures to farmers and agro food of which 70% of the costs are covered by the EU.

Other changes in national policies. A new market development measure was introduced in 2005. It is provided to non-profit organisations to cover costs associated with market

* The work on non-OECD EU member countries (Cyprus, Estonia, Latvia, Lithuania, Malta and Slovenia) has been made possible by a voluntary contribution from the European Commission approved by Council on 22 May 2005 (C/M[2005]19 and Annex 1).

promotion and research; product developments; and quality improvement that increase marketing possibilities of (processed) agricultural products. Close to EUR 0.6 million was provided for market development support in 2005 and EUR 1 million was planned for the year 2006 of which 80% was spent.

The Rural Development Foundation (RDF) and the Estonian Agricultural Registers and Information Board (ARIB) implement state aid schemes that are introduced under the Rural Development and Agricultural Market Regulation Act. In 2005 and 2006, the RDF continued to grant loans and to provide collateral on loans to farmers and other entrepreneurs in rural areas for different purposes and on different terms.

In 2005, the RDF supported disaster payments for farm structures and compensation for production losses, which were paid through the Agricultural Registers and Information Board (ARIB).

2006 was the first year of implementation of the development plan, "Estonian Food 2006-08", approved by the government at the end of 2005. The development plan is financed from the state budget; total expenditure in 2006 was EUR 1.3 million, EUR 1 million is planned for 2007. Within the plan no direct support to producers will be granted. The aim of the development plan is to help identify traditional Estonian food, increase the competitiveness of local food products and to promote the food production industry of Estonia and the reputation of Estonian cuisine both at home and abroad.

In 2006, ARIB assigned EUR 0.5 million to compensate partially producers for increases in diesel fuel excise tax. Only these producers eligible for SAPS in 2005 could apply.

In 2005, vocational educational support was made conditional upon undertaking to work and live in the country once the studies have been completed. The amount of the support depends on academic achievement. This support cost EUR 0.2 million in 2005 and EUR 0.15 million in 2006.

Change in national budget expenditures. In total the support provided to agriculture and rural development was EUR 149 million in 2006, up from EUR 128 million provided in 2005. About 30% of this support was financed from national funds and the remainder was EU funded. The level of support has increased significantly as compared to the pre-accession period; in 2003, total support provided was EUR 47 million.

Changes in regulations and institutions. The Plant Reproduction and Variety Protection Law was adopted in 2005. The Organic Farming Law that was adopted in 2006 specifies the requirements for organic farming in the areas that are not covered by EU regulations.

In January 2005, the first processing factory for animal waste materials was opened. The factory is state owned and was constructed with support from the EU. Agricultural producers and the food industry must pay for the service, but the government has set prices low enough to promote the legal marketing of animal waste materials.

In 2006, the government decided that, as from July 2007, the Veterinary and Food Board (VFB) would control food safety at all stages of the food chain. At present, this responsibility is shared by three ministries: the Ministry of Agriculture, the Ministry of Social Affairs and the Ministry of Economic Affairs and Communications. Since January 2007, the VFB has taken over the functions of maintaining the authorized alcohol register.

In 2006, the authorized holder of the state security reserve of cereals was privatized.

Latvia

Implementation of the Single Payment. Complementary national direct payments were continued in 2005 and 2006 in the form of area payments for arable crops, fodder, payments per slaughtered or exported animals for adult bovines, per heads for suckler cows and ewes, and potato starch and seed for grassland and flax seeds. The number of applicants increased from 67 900 in 2004 to 80 500 in 2006. In 2006, the declared area for arable crop payments and for Single Area Payment exceeded the maximum reference area.

Implementation of the Rural Development Plan and the Single Programming Document. To date, most payments have been made to less-favoured areas. However, this share declined to 60% in 2006 (from 81% in 2004) as new programmes have been set up. Support for Restructuring of Semi-subsistence Farms and Support for Producer Groups were continued and received 11% of total expenditures and agri-environmental measures received 8%.

New programmes were implemented in 2005. The largest payments were made to meet EU standards in the fields of environmental protection, human, animal and plant protection, and animal welfare on farms (17% of total payments in 2006), while payments to compensate for restrictions related to environmental protection objectives received 2% of the payments and the early retirement programme received less than 1%.

Other changes in national policies with a direct budgetary impact. In 2005 and 2006, disaster payments were paid to cover the renovation of farm structures, the purchase of equipment and for production loss.

The Credit Programme for Purchase of Agricultural Land ceased in 2006, EUR 12.85 million were spent under this programme which granted loans for the purchase of agricultural land to farmers with a repayment term of 20 years and an annual interest rate of 4%. In 2005, a differentiated interest rate was charged under the Agricultural Long-Term Investment Credit Programme with a 4% rate applied to organic farms and cooperative companies of agricultural services, compared to 5% charged to other farmers.

In 2006, a five-year scheme to support intensification of the fruit and vegetable sector was established. Farmers who comply with the standards of this scheme are eligible to receive support.

Change in national budget expenditures. National expenditures on agriculture and rural development increased by close to 50% in 2005 and again by 29% in 2006 to reach EUR 194 million.

Lithuania

Implementation of the Single Payment Scheme. The implementation of the Single Payment Scheme will start in 2011. The Single Area Payment Scheme and Complementary National Direct Payments (CNDP) continued to be applied in 2006 with expenditures of EUR 265 million, of which EUR 33 million were paid from the national budget. CNDPs for arable crops such as grains, rapeseed, starch potatoes, protein crops, fibre flax and other crops were financed by the EAGGF-Guarantee section (EU Rural Development Fund) and the national budget. The livestock sector was supported by CNDPs for suckler cows, bulls, slaughtered adult cattle, ewes, and milk. The acreage of agricultural land qualifying for direct support increased in 2006, reaching 2.64 million hectares as compared to 2.57 in 2005 and 2.55 in 2004. Income support averaged 64% of the direct payments level in EU15, one percentage point below the maximum rate authorized by EU regulations, while this share

was up to 97% for flax fibre (maximum authorized 100%) and 63% for milk (maximum authorized 95%). The area sown with fibre flax has decreased sharply in Lithuania since 2004.

Implementation of the Rural Development Plan and the Single Programming Document.

Each measure under the Rural Development Plan is financed from the EU EAGGF-Guarantee section (80% of total funds allocated for each measure) and co-financed from the national budget (20%). The most important measures were those dealing with less-favoured areas (LFAs), with meeting EU standards, and early retirement. In 2005, LFAs received EUR 77 million, 34% of all RDP funds. Support given to farmers to meet EU standards amounted to EUR 67 million. There were 7 522 applications submitted under the early retirement measure, and these received EUR 48 million in 2006. Agri-environmental commitments were supported under RDP to the amount of EUR 22 million, almost three times what was paid in the previous two programming years.

Investment aid for rural development was distributed through the Lithuanian Single Programming Document (SPD) for 2004-06. Public funding can amount to up to 50% of the total budget of the project, of which 25% comes from the national budget. Up to EUR 192 million was allocated for rural development under SPD over this three-year period. The implementation of the SPD was slow, however, and 2006 was the first year when significant financial support was granted. In 2006, support under SPD amounted to EUR 114 million. Investment in farm holdings, development of rural areas and the establishment of young farmers were the most important measures in terms of spending. EUR 51 million was allocated to support investments in farm holdings. Applications for this measure were 50% higher than the resources available. The year 2006 was important for the promotion of rural areas: investment in water management systems, rural tourism and other alternative entrepreneurial activities in rural areas. The support for this type of measure reached EUR 23 million and accounted for 27% of total public support allocated for the three programme years. During the whole programming period only 41% of available public support was allocated.

Other changes in national policies. Support to bio-diesel production doubled over the period 2005 and 2006. Disaster payments paid to compensate for crop losses amounted to EUR 201 million in 2006.

Change in national budget expenditures. National expenditures on agriculture and rural development increased by 26% in 2005 and by 28% in 2006 to reach EUR 313 million.

Malta

Implementation of the Single Payment. Malta did not apply for the Single Area Payment Scheme (SAPS), but provides per holding payments under the *Ad Hoc* Specific Temporary Support to Full-Time Farmers. Three payment rates were defined – per hectare of irrigated land, non-irrigated land and per livestock unit. These rates are multiplied by the number of hectares and livestock units on the farm as of 1 May 2004, to establish the total annual payment per holding. Per hectare and per livestock unit payment rates are reduced each year by 20% of their level in 2004 in order to phase out this assistance within a five-year period. In 2006, these rates were: EUR 460 per hectare of irrigated land, EUR 120 per hectare of non-irrigated land, and EUR 40 per livestock unit. A total of EUR 7.4 million was budgeted for this assistance over the three years 2004-06, with 80% co-financed by the European Union. An estimated 75% of full-time farmers could be eligible for such

payments, with payments covering 25% of irrigated, 10% of non-irrigated land and 60% of livestock units.

The Single Payment Scheme will be introduced in 2007 and is based on a regional model. It will gradually incorporate less-favoured area payments and other eligible land-based payments.

Special Marketing Policy Programme for Maltese Agriculture. Upon its accession to the European Union on 1 May 2004, Malta adopted the mechanisms of the CAP, including mechanisms of market regulation and the border regime. At the time of joining the European Union, Malta was to phase out import levies applied previously to imports from the European Union and align border protection with the EU common tariff. This implied income losses in some key agricultural sectors, leading Malta to negotiate a special transition aid – Special Marketing Policy Programme for Maltese Agriculture (SMPPMA). The SMPPMA incorporates nine sector-specific aid schemes: for tomatoes, fresh fruits, fresh vegetables, potatoes, wine, pigs, dairy, poultry and egg farming. All sector schemes provide for price subsidies for the products concerned to compensate for the eliminated import levies. The subsidy is based on the differential between the EU and Malta prices in 1998-2000. It is to be progressively reduced each year from 100% of that differential to 18% for livestock products and to 15% for crop products. The implementation period is set at 7 years for the livestock sector and 11 years for the crop sector. In addition to the price subsidy, some SMPPMA sector schemes contain restructuring and marketing assistance, and per hectare aid. Thus, restructuring (investment) assistance is available for wine and all livestock sectors, marketing aid for tomatoes and potatoes, and per hectare assistance for wine grapes and potatoes.

Implementation of the Rural Development and the Single Programming Document. Malta was not included in the SAPARD programme and had limited pre-accession experience of EU-type rural development measures. The totality of Malta's territory is recognised as an Objective 1 region. After accession, the Rural Development Regulation was implemented through the Rural Development Programme (RDP) and the Single Programming Document (SPD) for 2004-06, providing respectively for 80% and 70% EU co-financing. Total EU funding under these two programmes, amounted to EUR 3.1 million in 2004 (34% of planned expenditure), EUR 8.3 million in 2005 (80% of planned expenditure), and EUR 11.6 million was budgeted for 2006.

The 2004-06 RDP contained common EU measures, such as assistance to less-favoured areas, agri-environmental measures, as well as actions foreseen specifically for the new members, such as support of producer groups, compliance with EU standards, technical assistance, and financing of the SMPPMA and the Ad Hoc Assistance to Full-Time Farmers (a derogation for Malta). The latter two take up the largest share of Malta's overall spending under its RDP (around 42%). In the first three years after accession, Malta could direct up to 20% of the national rural development allocation under the EAGGF Guarantee Fund for this purpose. Malta's 2004-06 SPD financed investments in agricultural holdings and in processing and marketing. In 2004-05, the actual SPD spending was only 16% of the budgeted amounts.

In 2006, Malta prepared the national Rural Development Strategy for 2007-13 to launch its next Rural Development Plan (RDP). About EUR 76.6 million will be allocated from the European Agricultural Fund for Rural Development (EAFRD) over its implementation period and EUR 25 million as the national contribution. Almost one half of EAFRD funds (41%) are

budgeted for enhancing competitiveness of the agricultural sector (Axis 1), reflecting Malta's most pressing adjustment need. Improving environment and the country side (Axis 2) will also be emphasised, with 25 % of RDP spending directed for this purpose, notably for preservation of rural landscapes, environmental and ecological sustainability and maintaining biodiversity. Another 27 % will be allocated for improving the quality of life in rural areas and diversification (Axis 3), with 3 % reserved for building local capacity (Axis 4), and 4% for technical assistance.

In addition to the RDR measures, a new programme co-financed by the European Union for vineyard restructuring was launched in 2006.

Other changes in national policies. The largest national measure, in terms of budgetary cost, is subsidising the marketing expenses of agricultural cooperatives (with EUR 0.6 million budgeted annually). Services to producers are the next most important item in national spending. These include testing for animal diseases (EUR 0.18 million budgeted per year) and subsidising farmers located in Gozo island for use of ferry transportation (EUR 0.075 million per year). A national programme of credit assistance provides interest rate subsidies to farmers taking loans for construction and reconstruction of farms and structural works. The programme's annual budget is about EUR 0.097 million per year. An implicit budgetary support is also provided through tax preferences; thus, small farmers in Malta are exempt from payment of the Final Settlement Tax (representing a 3% sales tax).

The Republic of Cyprus

Implementation of the Single Area Payment and Complementary National Direct Payments. As of 2004, the Republic of Cyprus (RC) opted for a Simplified Area Payment Scheme (SAPS) with a flat rate per hectare of all agricultural land. In accordance with the phasing-in rules for the Single Payment Scheme, these payments were set at 30% of the payments to the EU15 in 2005 and were increased to 35% in 2006. The RC supplemented the SAPS with Complementary National Direct Payments (CNDPs) and direct state aids to arable crops, durum wheat, broad beans, fodder crops, olives, raisins, bananas, tobacco, dairy cows, and sheep and goats.

Implementation of the Rural Development Plan. Cyprus merged all schemes available under the Temporary Rural Development Instrument (TRDI) for new member states into a single "Cyprus Rural Development Plan 2004-06 (RDP)". The main objective of the RDP is to integrate the Cypriot agri-food sector into the European agri-food sector under current conditions of competition and sustainable development so that Cypriot farmers will be prepared to face the competition they will be confronted with in the near future.

The RDP 2004-06 includes 21 measures to develop and strengthen the agricultural sector. Approximately 50% of the RDP 2004-06 was co-financed by the EU, with the exception of agri-environmental measures for which the EU contribution was 60%.

The first payments were made in 2005. At the end of December 2006, close to 33% of all RDP funds had been spent to support investments in farm holdings, less-favoured area payments received 32% of RDP funds, and agri-environmental payments accounted for 18%. Assistance to young farmers, to the processing industry, and projects designed to meet EU standards accounted each for around 5% of RDP funds.

Change in national budget expenditures. National expenditures on agriculture (excluding those covered by the EU) are estimated to have increased by 17% between 2005 and 2006.

Slovenia

Implementation of the Single Payment. Slovenia did not apply for the Single Area Payment Scheme (SAPS), but chose to implement all CMO direct payments according to the pre-reform Agenda 2000 scheme. These payments, together with the national top-ups, reached 90% of the comparable (pre-reform) level in the EU15 in 2005 and 95% in 2006. Topping-up of direct payments to 100% of the national envelope is foreseen for 2007. In addition to regular CMO measures, temporary support was provided to poultry producers in 2006 to compensate for the loss of revenue due to avian influenza.

The Single Payment Scheme will be introduced in Slovenia in 2007. The payment will consist of two components: a basic flat rate per hectare, uniform across the country (EUR 332 per hectare of arable land and about EUR 133 per hectare of permanent grassland), and a specific supplement based on historical farm entitlements. The latter will absorb 100% of sugar payments, 80% of dairy premiums, and 30% of all premiums for the beef sector. Of the current commodity-specific payments Slovenia will retain 65% of the special beef premium, 50% of the sheep and goats premiums and 25% of the hop premium. A 10% rule will be applied to support extensive systems of quality beef production, namely extensive rearing of cows and heifers for meat.

Compliance conditions for receiving payments are being introduced gradually over the 2005-07 period. In 2005, conditions for maintaining land in good agricultural and environmental condition and animal identification were adopted, and in 2006 conditions for maintaining human, plant and animal health. The remaining regulations are to be put in place in 2007.

Implementation of the Rural Development Plan and the Single Programming Document. After accession, the Rural Development Regulation (RDR) was implemented through the Rural Development Plan (RDP) for 2004-06, (with 80% EU co-financing) and the Single Programming Document (SPD) for 2004-06 (50% EU co-financing). The SAPARD programme ended upon Slovenia's entry to the European Union, but payments were disbursed up to October 2006, of which two-thirds were from EU funds. Total expenditure for rural development under these three RDR programmes, including both EU and national contributions, amounted to EUR 102 million in 2005 and approximately EUR 121 million in 2006.

Agri-environmental measures, less-favoured area payments and measures for meeting standards accounted for the highest shares of EU-financed RDR funds – 32%, 33% and 22% respectively in 2005-06. Structural measures, such as investments in farm holdings, early retirement, processing and marketing, represented 9% of EU RDR funds, while other rural development measures, such as forestry, diversification of activities on farms, rural infrastructure, and technical assistance accounted for another 4%. The national contribution varied from around 50% for investments in farm holdings, processing and marketing, forestry, and development and structural adjustment of rural areas, to around 20% for other RDR measures.

Total EU RDR funding more than doubled in 2005 and increased by 22% in 2006. This was largely due to the post-accession re-evaluation of per ha payment rates for less-

favoured areas and agri-environmental payments. Also, starting from 2005 additional measures, such as early retirement and meeting standards have been implemented. Besides the RDR measures, two specific programmes were launched in 2005. One is the restructuring of vineyards, entirely financed by the European Union (EUR 2.9 million in 2005 and EUR 2.3 million in 2006). This programme replaced a similar national one implemented previously. Another special programme concerns support for beekeepers (EUR 0.4 million in 2005 and EUR 0.5 million in 2006), with 50% co-financing from the European Union. This programme provides support to increase the economic viability of beekeeping (including vocational training, information, extension services, quality analysis of honey, and disease eradication).

The National Strategic Plan for Rural Development and the Rural Development Programme for the period 2007-13 were submitted for public discussion in 2006. These documents change, to some degree, the emphasis in rural development policy. It is now intended to increase funds for economic development of rural areas, including such measures as competitiveness, quality of life, and diversification of activities. The Rural Development Programme envisages total funding of about EUR 1 159 million over the seven-year period, of which EUR 900 million (80%) is the contribution from the European Agricultural Fund for Rural Development (EAFRD). About 33% of the total budget is destined for raising competitiveness of agriculture and forestry (Axis 1), reflecting the growing developmental and restructuring needs and a lack of competitiveness in these sectors. Another 53% is to be allocated for maintenance of cultural landscape and environmental protection (Axis 2) and for support of the multifunctional role of agriculture. Nearly 11% is budgeted for improvement of quality of life in rural areas and economic diversification (Axis 3), and the remaining 3% – for the LEADER activities (Axis 4).

Other changes in national policies. National assistance was provided to farmers for mitigating the effects of unfavourable weather conditions. In 2005, a second payment of state aid amounting to EUR 7.1 million was transferred to producers affected by a hailstorm in 2004. Another EUR 10.2 million of state aid was paid in 2006 to alleviate the consequences of various natural disasters that occurred in 2005 (storms, frost, and hailstorms), covering 28% of damage. To help minimise risks of crop production, a new programme was launched in 2006, offering producers a 30% insurance premium subsidy. EUR 1.7 million were spent for this assistance in 2006.

In addition to the beekeeping programme co-financed by the European Union, a national programme was introduced in 2005, providing support for preservation of autochthonous bees. Total expenditures under this programme amounted to EUR 0.8 million in 2005 and EUR 0.7 million in 2006. Another national measure was a transitional LFA payment of EUR 0.6 million per year in 2005-06. This payment was provided to farmers in areas covered by the LFA support under the national criteria (effective before accession), but not included in the list of eligible areas under the Rural Development Programme 2004-06.

A new Personal Income Tax Act was adopted in 2004, and subsequently amended in 2005/06. According to it, most agricultural payments and state aid received by agricultural producers will be gradually included in their personal income tax base.

Change in national budget expenditures. National agricultural budget expenditures on agriculture were reduced to EUR 136 million in 2005, or by 27% compared to 2004. This reduction reflected the shift in financing of most measures from the national budget to

EAGGF. In 2006, national spending rose to EUR 158 million (by 16%), mainly due to an increase in EAGGF funds, which had to be co-financed from the national budget. Overall budgetary spending on agriculture (national and EU) amounted to EUR 265 million in 2005 (up by 17%) and EUR 314 million in 2006 (up by 18%).

Changes in regulations and institutions. The alignment of national legislation with EU requirements continued in 2005-06, mainly in the areas of agricultural policy measures and food safety and quality (phyto-sanitary and veterinary regulations, origin protection, and other). A decree setting conditions for maintaining land in good agricultural and environmental condition was published in March 2005 and amended in December 2005.

ANNEX 6.A2

Overview of the Implementation of Direct Payments in European Union Member States

Table 6.A2.1. European Union: Overview of the implementation of direct payments under the CAP in member states

Member state	Start of SPS	Dairy paym. in SP	Regions	Model SP/SAPS	Other implementation details	Payments that remain commodity-specific	Implementation of the tobacco, cotton, olive oil and hops reform and the sugar reform
Austria	2005	2007		SP historical		<ul style="list-style-type: none"> – suckler cow premium 100% – slaughter premium calves 100% – slaughter premium bovine adults 40% 	<ul style="list-style-type: none"> – tobacco 100% in SP – hops payment 25% commodity-specific
Belgium	2005	2006	Flanders + Brussels	SP historical		<ul style="list-style-type: none"> – suckler cow premium 100% – slaughter premium calves 100% – seeds (some species) 100% 	<ul style="list-style-type: none"> – tobacco 100% in SP
Czech Rep.	2005	2006	Wallonia	SP historical		<ul style="list-style-type: none"> – suckler cow premium 100% – seeds (some species) 100% <p>CNDPs per hectare of grains, oilseeds, protein crops, hops and flax; and per livestock unit of ruminants, at a rate close to 30% of EU15 level in 2006.</p>	<ul style="list-style-type: none"> – tobacco 100% in SP – separate sugar payments
Denmark	2005	2005	One region	SP static hybrid	Flat-rate payment made to all farmers, at rate of around EUR 310/ha for arable land and EUR 67/ha for permanent grassland. On top of grassland premium, livestock farmers are paid an additional amount based on historical entitlements. Around 27% of dairy aid entitlement "recycled" into flat-rate payment, the rest paid as historical entitlement. Between 2009 and 2012, beef aid payment entitlements will be progressively incorporated into the "regionalized" fund, thus gradually bringing premium rights for permanent pasture up to the same level as for arable aid payments (EUR 310/ha).	<ul style="list-style-type: none"> – special male bovine premium 75% – sheep and goat premium 50% 	
Estonia				SAPS			CNDPs per hectare of arable crops and per head of dairy cow, beef cattle, and sheep, at a rate of 60% of EU15 level in 2006 for dairy cows and 30% for other products.

Table 6.A2.1. European Union: Overview of the implementation of direct payments under the CAP in member states (cont.)

Member state	Start of SPS	Dairy paym. in SP	Regions	Model SP/SAPS	Other implementation details	Payments that remain commodity-specific	Implementation of the tobacco, cotton, olive oil and hops reform and the sugar reform
Finland	2006	2006	Three regions* (based on reference yield)	SP dynamic hybrid moving to a flat rate model	National envelopes applied. 10% of the ceiling for the bovine sector and 2.1% of the ceiling for the arable sector. * Three regional aid rates established – to encompass about 85% of total aid entitlements. Farm-specific top-ups to flat-rate payment will be available for dairy farmers (70% of the dairy premium entitlement) and beef producers (25% of the beef special premium). Top-ups to be transferred into the main regionalized payments after a transitional period.	<ul style="list-style-type: none"> – sheep and goat premium 50% – special male bovine premium 75% – Article 69 application: <ul style="list-style-type: none"> • 2.1 % of the ceiling for arable crops, • 10% of the ceiling for the bovine sector – seeds (timothy seed) 	
France	2006	2006		SP historical	SPS entitlements may be transferred only within departments; where entitlements are transferred without land attached, 50% of the entitlement will be siphoned off to the national reserve.	<ul style="list-style-type: none"> – arable crops 25% – sheep and goat premium 50% – suckler cow premium 100% – slaughter premium calves 100% – slaughter premium bovine adults 40% – seeds (some species) – outermost regions 100% 	<ul style="list-style-type: none"> – 10% deduction in the olive oil sector for the funding of working programmes established by producer organisations (2) – hops payments 25% commodity-specific – olive oil 100% in SP – tobacco 40% in SP
Germany	2005	2006	Länder ¹	SP dynamic hybrid moving to a flat rate model	All aids cut by 1% to create national reserve. Aids paid based on hybrid model from 2005 onwards. All farmers will receive regionalized "arable land" and/or "permanent grassland" aid payments, plus, where relevant, top-ups based on historical aid entitlements, as follows: a) From 2005 to 2009, aid entitlements arising from the following historical CAP aid schemes paid as a regionalized flat-rate aid for each region: – For arable land: Arable aids, seed aids, 75% of SP element of potato starch premium, and SP element of hops premium. – For permanent grassland: Slaughter premium for adult cattle, national additional payments for cattle, 50% of extensification payments for cattle.		<ul style="list-style-type: none"> – hops payment 25% commodity-specific – tobacco 40% in SP

Table 6.A2.1. European Union: Overview of the implementation of direct payments under the CAP in member states (cont.)

Member state	Start of SPS	Dairy paym. in SP	Regions	Model SP/SAPS	Other implementation details	Payments that remain commodity-specific	Implementation of the tobacco, cotton, olive oil and hops reform and the sugar reform
Germany (cont.)					<p>b) From 2005 to 2009, aid entitlements arising from the following historical CAP aid schemes paid as "top-ups" on a per-farm basis:</p> <ul style="list-style-type: none"> - Dairy premium, suckler cow premium, special beef premium, calf slaughter premium, ewe premium, 50% of beef extensification premium, dried fodder aid and 25% of SP element of potato starch premium, as well as the SP element of the tobacco premium and the sugar payment. <p>Each Bundesland may vary the allocation of the aid rate between the permanent grassland and arable land payments by up to 15%. There is also an element of harmonisation of the rates of regional aid set by each Bundesland.</p> <p>Between 2010 and 2013, there will be a gradual transition to a fully regionalized aid system. The gap between each farmer's aid entitlement based on the hybrid model, and his new entitlement based on the new fully regionalized system, will be closed as follows:</p> <p>2010: 10% of the difference. 2011: 30% of the difference. 2012: 60% of the difference. 2013: 100% of the difference.</p>		
Greece	2006	2007		SP historical	<p>A national envelope scheme is to operate as follows:</p> <ul style="list-style-type: none"> Cereals 10% Beef and veal 10% Sheep and goats 5% Olive oil 4% Tobacco 2% 	<ul style="list-style-type: none"> - seeds - Article 69 application: <ul style="list-style-type: none"> • 10% of the ceiling for arable crops, • 10% of the ceiling for the beef sector, • 5% of the ceiling for the sheep and goat sector. 	<ul style="list-style-type: none"> - Article 69 application: <ul style="list-style-type: none"> • 2% of the ceiling for tobacco, • 4% of the ceiling for olive oil, • 10% of the ceiling for sugar - 2% deduction in the olive oil sector for the funding of working programmes established by producer organisations (2) - tobacco and olive oil 100% in SP - separate sugar payments
Hungary				SAPS			<ul style="list-style-type: none"> - CNMPs per hectare of arable crops, per tonne of milk, and per head of suckler cow, beef cattle, sheep and goats, at a rate below 30% of the EU15 level in 2006.
Ireland	2005	2005		SP historical			None

Table 6.A2.1. European Union: Overview of the implementation of direct payments under the CAP in member states (cont.)

Member state	Start of SPS	Dairy paym. in SP	Regions	Model SP/SAPS	Other implementation details	Payments that remain commodity-specific	Implementation of the tobacco, cotton, olive oil and hops reform and the sugar reform
Italy	2005	2006		SP historical	National envelope use for arable crops (7%), beef (8%) and sheep (5%)	<ul style="list-style-type: none"> – seeds 100% – Article 69 for quality production: <ul style="list-style-type: none"> • 8% of the ceiling for the arable sector, • 7% of the ceiling for the bovine sector, • 5% of the ceiling for the sheep and goat sector 	<ul style="list-style-type: none"> – Article 69 application: <ul style="list-style-type: none"> • 8% of the ceiling for sugar – 5% deduction in the olive oil sector for the funding of working programmes established by producer organisations (2) – olive oil 100% in SP – tobacco 40% in SP – for the region Puglia, tobacco 100% in SPS – separate sugar payments
Latvia				SAPS		CNDPs per hectare of arable crops and fodder, per tonne of starch potato and flax seeds; and per head of slaughtered or exported adult cattle, suckler cows and ewes.	
Lithuania				SAPS		CNDPs per hectare of arable crops such as grains, rapeseed and fibre flax; per tonne of potato starch and milk; and per head of slaughtered cattle, suckler cows and ewes, at a rate of 29% of the EU15 level in 2006.	
Luxembourg	2005	2005	One region	SP static hybrid		None	
Malta	2007		One region	SP regional model		None	
Netherlands	2006	2007		SP historical		<ul style="list-style-type: none"> – slaughter premium calves 100% – slaughter premium bovine adults 100% – seeds for fibre flax 100% 	
Poland				SAPS		CNDPs paid as SAPS except for starch potatoes and tobacco where they are paid per tonne of quota, at an overall rate of 30% of the EU15 level in 2006.	<ul style="list-style-type: none"> – separate sugar payments
Portugal	2005	2007		SP historical	National envelope at 10% for olive oil and 1% each for arable crops, rice, beef and sheep sectors.	<ul style="list-style-type: none"> – suckler cow premium 100% – slaughter premium calves 100% – slaughter premium bovine adults 40% – sheep and goat premium 50% – seeds 100 % – outermost regions 100% – Article 69 application: <ul style="list-style-type: none"> • 1% (arable crops, rice, bovine and ovine sectors) 	<ul style="list-style-type: none"> – Article 69 application: <ul style="list-style-type: none"> • 10% of the ceiling for the olive oil sector, • 10% of the ceiling for sugar – tobacco 50% in SP – olive oil 100% in SP

Table 6.A2.1. European Union: Overview of the implementation of direct payments under the CAP in member states (cont.)

Member state	Start of SPS	Dairy paym. in SP	Regions	Model SP/SAPS	Other implementation details	Payments that remain commodity-specific	Implementation of the tobacco, cotton, olive oil and hops reform and the sugar reform
Rep. of Cyprus				SAPS		CNDPs per hectare of arable crops, durum wheat, broad beans, fodder crops, olives, raisins, bananas and tobacco; and per head of dairy cow, sheep and goat. CNDPs per hectare of grains, oilseeds, protein crops, hops and tobacco; and per suckler cows, sheep and goats, at a rate of 19% of the EU15 level.	
Slovak Republic				SAPS			– separate sugar payments
Slovenia	2007		One region	SP regional model		– special male bovine premium 75% – sheep and goat premium 50% – Article 69 application: • 10% of the bovine sector	– hops payment 25% commodity-specific
Spain	2006	2006		SPS historical		– seeds 100% – arable crops 25% – sheep and goat premiums 50% – suckler cow premium 100% – slaughter premium calves 100% – slaughter premium bovine adults 40% – Article 69 application: • 7% of the ceiling for the bovine sector, • 10% of the ceiling for dairy payments – outermost regions 100%	– tobacco 40% in SP – olive oil 93.6% in SP – Article 69 application: • 5% of the ceiling for the tobacco sector, • 10% of the ceiling for the cotton sector, • 10% of the ceiling for sugar
Sweden	2005	2005	Three regions (based on reference yield)	SP static hybrid	National envelope of 0.45% used to create aid scheme for beef producers. Entitlements to 50% of suckler cow premium, 50% of beef extensification premium, 40% of beef slaughter premium and 67.5% of dairy premium (from 2007) allocated on a historical basis. All other aids paid regionally. For permanent pasture the regionalized component is EUR 125/ha throughout the country. For non-pasture land the rate varies across five regions, from EUR 125/ha in the north to EUR 255/ha in the south.	– special male bovine premium 74.55% – Article 69 application: • 0.45% of total ceiling	

Table 6.A2.1. European Union: Overview of the implementation of direct payments under the CAP in member states (cont.)

Member state	Start of SPS	Dairy paym. in SP	Regions	Model SP/SAPS	Other implementation details	Payments that remain commodity-specific	Implementation of the tobacco, cotton, olive oil and hops reform and the sugar reform				
United Kingdom	2005	2005	England normal	SP dynamic-hybrid moving to flat rate payment	<p>No national envelope</p> <p>Aid payments to farmers will have both a historical and regional component in the transitional period (2005-12). The transition from historical to regional payments will be made as follows:</p> <p>2005: 10% regional, 90% historical</p> <p>2006 15% regional, 85% historical</p> <p>2007 30% regional, 70% historical</p> <p>2008: 45% regional, 55% historical</p> <p>2009 60% regional, 40% historical</p> <p>2010 75% regional, 25% historical</p> <p>2011 90% regional, 10% historical</p> <p>2012 onwards: 100% regional</p> <p>Regional payment to be differentiated between moorland severely disadvantaged regions (estimated at £20-40/ha); other severely disadvantaged regions (approx. £110-130/ha); and all other regions (approx. £210-230/ha).</p> <p>Modulation raised to rate of 5% in 2005 and 10% from 2006 onwards.</p>	None					
					2005			England moorland	Idem	None	
					2005			England SDA less moorland	Idem	None	
					2005			Scotland	SP historical	<p>Use of 10% national envelope for quality beef.</p> <p>Modulation rate raised to 6.5% in 2005 and 8.5 in 2006 – objective is to set rate at 10% by 2007.</p>	<p>– Article 69 application:</p> <ul style="list-style-type: none"> • 10% of the ceiling for the bovine sector
					2005			Wales	SP historical	Modulation rate set at 4.5% in both 2005 and 2006.	None
					2005			Northern Ireland	SP static hybrid	<p>Basic flat-rate aid paid to all farmers, topped up by a supplementary aid linked to each farmer's individual historical entitlements; These are based on rights to special beef premium (50%), cattle slaughter (50%), sheep (35% for standard rights – 80% for LFA top-premium rights), and arable (20%).</p> <p>No national envelopes applied.</p> <p>Additional modulation deductions of 4.5% from 2006.</p>	None

SPS: Single Payment Scheme; SP: Single Payment; SAPS: Single Area Payment Scheme; SDA: Severely Disadvantaged Areas; LFA: Less-Favoured Areas.

1. Berlin included in Brandenburg, Bremen in Lower Saxony and Hamburg in Schleswig-Holstein.

2. Art. 110 (i) of 1782/2003 and Art. 8 of Reg. 865/2003.

3. Art. 69 of Reg. 1782/2003: Optional implementation for specific types of farming and quality production. Up to 10% of national ceilings can be granted to specific types of farming sectors, which are important for improving the environment or the quality of agricultural products.

Source: Commission website http://ec.europa.eu/agriculture/markets/sfp/ms_en.pdf, February 2007, CAP Monitor.