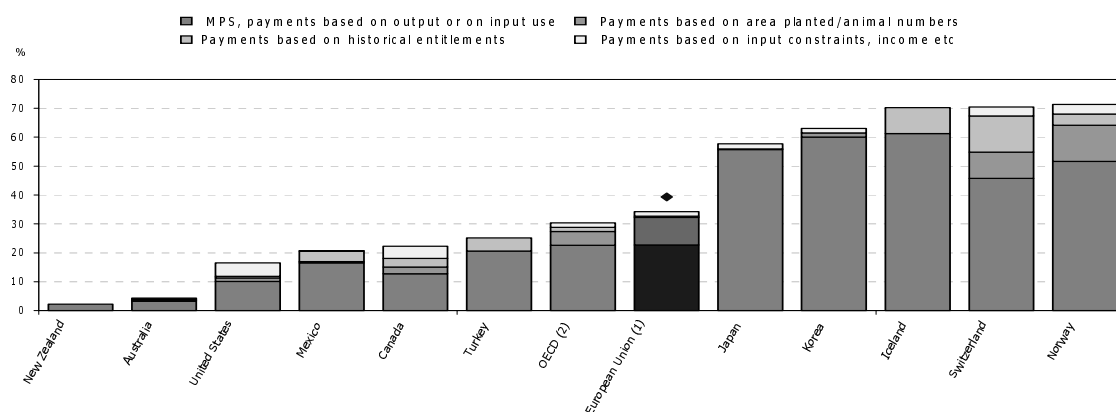


EUROPEAN UNION

Evaluation of policy developments

- Overall, progress in policy reform since 1986-88, with a reduction in the level of support, has improved market orientation. Despite a move away from market price support and output payments they still account for the majority of support.
- The gradual introduction of single payment schemes from 2005 will further reduce production and trade distortions, although the decision about what commodity-linked payments to include in the schemes differed widely between EU countries.
- The transfer of funds from the first pillar to the second pillar of the CAP through modulation opens up the possibility of moving towards more targeted measures, including for the environment, but so far the transfers involved are very modest.
- The expansion of cross-compliance associated with payments may prove effective in limiting environmental stress, but the stress would be lower if production-linked support was reduced.
- The regulation establishing an EU system to trace, label and market GM products should facilitate the approval of specific GM products for production and marketing by EU countries.
- Efforts are being made to simplify the administration of the CAP, but monitoring compliance and maintaining the dual system of payments established by the recent reforms will increase administration costs.
- Future efforts should focus on improving multilateral market access, continuing the shift to better targeted and less production and trade distorting forms of support, and including in key sectors such as milk and sugar.

Producer Support Estimate by country, 2002-04
(Percent of gross farm receipts)



Notes:

1. EU15 for 2002-03; EU25 for 2004.

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

Source: OECD, PSE/CSE database, 2005.

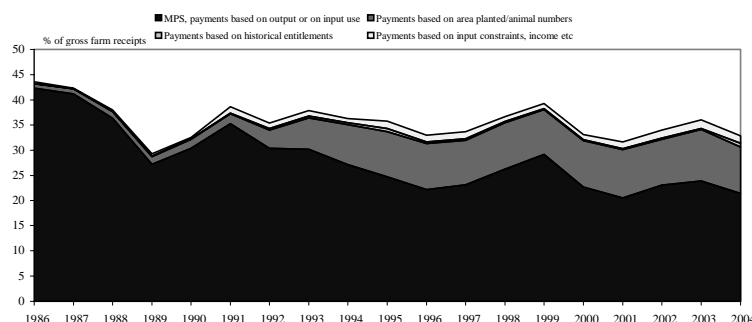
Summary of policy developments

The Common Agricultural Policy (CAP) started to apply in new member states at the date of accession in May 2004. The implementation of the 2003 CAP reform began in 2004, and the single payment scheme will replace most of the previous area and headage payments as of 2005 to 2007, depending on the country. The hop, tobacco and olive oil sectors were reformed in 2004, all along the same line of incorporating payments into the single payment.

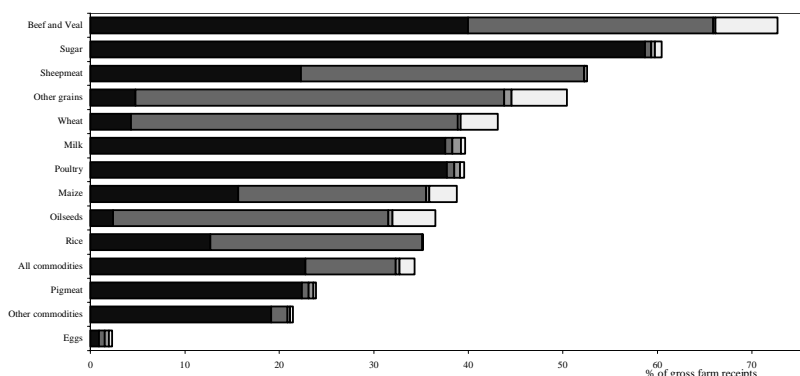
- Support to producers (%PSE) has decreased from 41% in 1986-88 to 34% in 2002-04¹, compared to an OECD average of 30%. Support decreased in 2004 to 33% for the EU25 (34% for the EU15), mainly due to higher border prices. The spread in the level of support between commodities has changed little over the period, and ranges between 2 and 73%.
- The combined share of market price support, output and input payments in the PSE has fallen from 98% in 1986-88 to 67% in 2002-04. Prices received by farmers were 32% higher than those on the world market in 2002-04, compared to 80% in 1986-88.
- Since 1986-88, there has been a significant move from market price support to payments based on area planted and animal numbers, which accounted for 28% of the PSE in 2002-04.
- The cost imposed on consumers as measured by the %CSE has fallen from 38% in 1986-88 to 21% in 2002-04.
- Support for general services provided to agriculture has decreased from 9% of total support in 1986-88 to 8% in 2002-04. Total support to agriculture as a percentage of GDP has been halved since 1986-88, to 1.3% in 2002-04.

Producer Support Estimate (PSE)

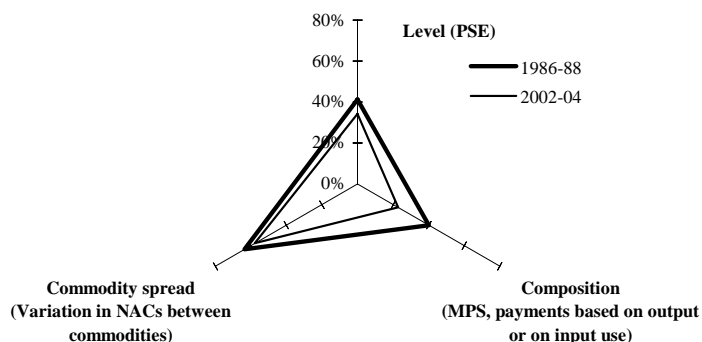
Level and composition over time...



... by commodity, 2002-04 average



... and reform progress



Agriculture accounts for 2% of GDP and 3.8% of total employment in the EU15. The share of agricultural and agri-food products in total trade is around 7%, down from its 1986-88 level. The EU agricultural sector presents a great diversity of production and structures, and that diversity increased with the addition of 10 new member states in 2004.

Table 2.3. European Union: Estimates of support to agriculture (EU25 for 2004)

(EUR million)	1986-88	2002-04	2002	2003	2004p
Total value of production (at farm gate)	211 407	254 056	242 506	242 428	277 235
<i>of which share of MPS commodities (%)</i>	75	72	73	72	73
Total value of consumption (at farm gate)	188 931	251 806	238 004	240 557	276 857
Producer Support Estimate (PSE)	92 308	103 050	96 989	104 474	107 686
Market Price Support (MPS)	80 175	56 230	54 478	57 088	57 125
<i>of which MPS commodities</i>	59 903	40 764	39 633	40 991	41 669
Payments based on output	4 524	3 630	3 592	3 562	3 737
Payments based on area planted/animal numbers	2 415	28 715	26 170	29 636	30 339
Payments based on historical entitlements	0	1 188	598	621	2 344
Payments based on input use	4 525	8 457	7 519	8 586	9 267
Payments based on input constraints	643	4 961	4 501	5 084	5 297
Payments based on overall farming income	0	10	0	0	29
Miscellaneous payments	26	-142	130	-104	-452
Percentage PSE	41	34	34	36	33
Producer NPC	1.80	1.32	1.31	1.34	1.29
Producer NAC	1.71	1.52	1.52	1.56	1.49
General Services Support Estimate (GSSE)	9 677	9 493	9 338	8 849	10 292
Research and development	1 063	1 604	1 536	1 545	1 732
Agricultural schools	93	952	843	904	1 108
Inspection services	156	460	442	402	537
Infrastructure	1 122	2 212	1 888	2 048	2 701
Marketing and promotion	2 430	3 068	3 056	3 017	3 129
Public stockholding	4 776	907	1 424	816	482
Miscellaneous	38	289	149	115	603
GSSE as a share of TSE (%)	9.1	8.2	8.5	7.5	8.5
Consumer Support Estimate (CSE)	-69 690	-51 480	-50 033	-52 624	-51 782
Transfers to producers from consumers	-80 625	-55 366	-53 296	-56 164	-56 639
Other transfers from consumers	-1 517	-1 011	-388	-1 386	-1 259
Transfers to consumers from taxpayers	4 387	3 708	3 645	3 900	3 579
Excess feed cost	8 066	1 190	6	1 026	2 537
Percentage CSE	-38	-21	-21	-22	-19
Consumer NPC	1.78	1.29	1.29	1.31	1.26
Consumer NAC	1.61	1.26	1.27	1.29	1.23
Total Support Estimate (TSE)	106 372	116 251	109 972	117 223	121 557
Transfers from consumers	82 142	56 377	53 684	57 550	57 898
Transfers from taxpayers	25 747	60 884	56 676	61 059	64 919
Budget revenues	-1 517	-1 011	-388	-1 386	-1 259
Percentage TSE (expressed as share of GDP)	2.82	1.24	1.20	1.26	1.20
GDP deflator 1986-88 = 100	100	156	153	156	159

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

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

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

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

Source: OECD, PSE/CSE database 2005.

Table 2.4. European Union: Estimates of support to agriculture (EU15 for 2004)

(EUR million)	1986-88	2002-04	2002	2003	2004p
Total value of production (at farm gate)	211 407	245 289	242 506	242 428	250 933
<i>of which share of MPS commodities (%)</i>	75	72	73	72	72
Total value of consumption (at farm gate)	188 931	242 630	238 004	240 557	249 329
Producer Support Estimate (PSE)	92 308	100 576	96 989	104 474	100 264
Market Price Support (MPS)	80 175	55 166	54 478	57 088	53 932
<i>of which MPS commodities</i>	59 903	39 890	39 633	40 991	39 045
Payments based on output	4 524	3 565	3 592	3 562	3 540
Payments based on area planted/animal numbers	2 415	28 380	26 170	29 636	29 332
Payments based on historical entitlements	0	609	598	621	608
Payments based on input use	4 525	8 069	7 519	8 586	8 102
Payments based on input constraints	643	4 938	4 501	5 084	5 230
Payments based on overall farming income	0	0	0	0	0
Miscellaneous payments	26	-151	130	-104	-480
Percentage PSE	41	35	34	36	34
Producer NPC	1.80	1.32	1.31	1.34	1.31
Producer NAC	1.71	1.53	1.52	1.56	1.51
General Services Support Estimate (GSSE)	9 677	9 117	9 338	8 849	9 164
Research and development	1 063	1 569	1 536	1 545	1 624
Agricultural schools	93	924	843	904	1 026
Inspection services	156	422	442	402	423
Infrastructure	1 122	2 105	1 888	2 048	2 379
Marketing and promotion	2 430	3 048	3 056	3 017	3 071
Public stockholding	4 776	907	1 424	816	482
Miscellaneous	38	141	149	115	159
GSSE as a share of TSE (%)	9.1	8.0	8.5	7.5	8.1
Consumer Support Estimate (CSE)	-69 690	-50 553	-50 033	-52 624	-49 003
Transfers to producers from consumers	-80 625	-54 440	-53 296	-56 164	-53 860
Other transfers from consumers	-1 517	-903	-388	-1 386	-935
Transfers to consumers from taxpayers	4 387	3 708	3 645	3 900	3 579
Excess feed cost	8 066	1 082	6	1 026	2 214
Percentage CSE	-38	-21	-21	-22	-20
Consumer NPC	1.78	1.30	1.29	1.31	1.28
Consumer NAC	1.61	1.27	1.27	1.29	1.25
Total Support Estimate (TSE)	106 372	113 401	109 972	117 223	113 007
Transfers from consumers	82 142	55 343	53 684	57 550	54 795
Transfers from taxpayers	25 747	58 960	56 676	61 059	59 146
Budget revenues	-1 517	-903	-388	-1 386	-935
Percentage TSE (expressed as share of GDP)	2.82	1.20	1.20	1.26	1.16
GDP deflator 1986-88 = 100	100	156	153	156	159

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

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

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

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

Source: OECD, PSE/CSE database 2005.