Brussels, 19 March 2004

BACKGROUND [1]

AGRICULTURE AND FISHERIES COUNCIL

Brussels, 22/23 March 2004

The Council will start on Monday 22 March 2004 at 15h00, with fisheries and other business items falling within the scope of competence of the Permanent Representatives Committee. The Council will continue late in the afternoon and on Tuesday with the reform of the Mediterranean products. Mr Joe WALSH, Minister for Agriculture and Food of Ireland, and Mr Dermot AHERN Minister for Communication, Marine and Natural Resource, will chair the meeting in respect of their individual responsibilities.

***Highlights**: this Agriculture and Fisheries Council will be mostly devoted to the search for a political agreement on the two proposals presented by the Commission in November 2003 on olive oil, tobacco, cotton and hops, in the follow-up of the CAP reform agreed in June 2003 regarding the "Mediterranean products" package. However under "B" items (for discussion) the Council is also expected to reach political agreement on a proposal on the incidental catches of cetaceans in fisheries.*

Under "A" items (adopted without discussion), the Council is likely to adopt a Regulation amending Regulation (EC) No 1257/1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF) and the proposal amending Regulation (EC) No. 850/98 as regards the protection of deep-water coral reefs from the effects of trawling in the area north west of Scotland ("Darwin Mounds").

It is foreseen that the Presidency will hold a press conference at the end of the meeting.

****

[1] This note has been drawn up under the sole responsibility of the Press Service.

FISHERIES

Catches of cetaceans

The Council ***is expected to reach political agreement*** on a Regulation laying down measures concerning incidental by-catches of cetaceans in fisheries. The Presidency would like to hammer out a political compromise on this issue. Bilateral talks may start on Monday evening with a view to reach a compromise.

The aim of the proposal (11838/03) is to protect cetaceans from accidental by-catches.

These measures proposed include restrictions on the use of drift-nets in the Baltic Sea (length limitation to maximum 2.5 km, and further phasing out by 1 January 2007), the mandatory use of acoustic deterrent devices in certain fisheries, and co-ordinated monitoring of cetacean by-catch through compulsory on board observers for given fisheries.

Discussions so far have centred on the following issues:

- The mandatory use of acoustic deterrent devices ("pingers") in the Baltic Sea, ICES Sub Area IV (North Sea) and Division IIIA (Skaggerak and Kattegat) and ICES Divisions VII d, e, f, g, h and j (eastern channel, western English channel, Bristol channel, South-east Ireland, Little Sole) for vessels using specific gears and from 1 July 2004.

- The geographical scope for the mandatory use of pingers. Some delegations would like to extend the scope of the mandatory use of pingers in the Baltic sea (IIId). several delegations are opposed to such an extension. Other delegations want to exclude Division VIId from the scope of the proposal and to exclude the 6 miles coastal area; One delegation has suggested the establishment of pilot projects for 2 years for the whole Area VII.

- The monitoring of by-catch including through compulsory on-board observers for given fisheries. The question of the minimum size of vessels below which the presence of on board observers would be excluded and the financial cost of such observers have been raised by delegations.

- The question of phasing out and banning of drift nets in the Baltic Sea remains an issue to be resolved. The proposal foresees a first stage with a reduction of the length of drift to 2.5 km and further phasing out by January 2007.

AGRICULTURE

CAP Reform: olive oil, cotton, tobacco and hops.

The aim of the Presidency is ***to reach political agreement*** on the "Mediterranean package" on the basis of a compromise of the Presidency, which the Commission could endorse.

The two legislative proposals concerning the reform of the olive oil, tobacco and hops Common Market Organisations (CMOs) as well as the support regime for cotton were presented in November 2003 (14991/03). The reform was envisaged in the follow up of the CAP reform agreed in June 2003. The Commission presented in September 2003 a Communication (12965/03 +add1 and 2) in which the existing situation of these sectors as well as the sugar CMO were exposed. Both the Communication, as well as the two proposals[2] were widely discussed under the Italian and Irish presidencies.

The cornerstone of the reform is to extend the decoupling principle - a SFP per holding based on a period of reference (2000-2002) and independent from production - to the four remaining products, which had not been initially included into the eligible cultures for SFP. This decoupled payment would be linked to the respect of environmental and food safety and animal welfare standards through cross-compliance. Part of the payment granted to the producers would however remain coupled - 40% as opposed to 60% coupled payment- and based on the production. Modulation and financial discipline would also apply with a view to channel part of the payments from the first pillar (direct payments) to the rural development pillar (second pillar). The reasons for handling separately these four products from the arable crops the milk, bovine and ovine payments are linked to several criteria, such as a high dependency of less-favoured areas depending on a single culture, the existence of traditional farming and the importance of preserving the rural areas.

The issues at stake at technical level regarding each of these products are:

- TOBACCO: this issue is certainly the most contentious of the four sectors as it entails health policy and employment aspects as well as market perspectives for five main producing Member States. The Commission proposes that, to avoid a disruptive effect on production, the decoupling and integration in the single payment scheme should be carried out gradually. This would be accompanied by a phasing out of the Community Tobacco Fund and the setting up, in the framework of rural development, of a financial envelope for restructuring tobacco-producing areas financed by part of the payment granted to the producers. The proposed reform would begin with the transfer of all or part of the current tobacco premium into entitlements for the single payment. The level of decoupled payment would vary according to the quantities of tobacco produced (below3.5 tonnes, between 3.5 and 10 tonnes, and above 10 tonnes).

  Most of the critics expressed by the five main producing Member States on the proposed reform of the tobacco CMO dealt with the full decoupling scheme as these Member States have requested to apply only a partial decoupling in order to maintain a link with the production especially with regard to the number of jobs concerned in the producing areas. Most producers also requested a longer transition period than the one proposed from 2005 to 2007, and the possibility to postpone introduction beyond January 2005 as well as revising the system of three steps and slices as it penalises larger farms disproportionately. Most of the Member States are equally opposed to a shift to the second pillar (rural development) of the financial envelope for restructuring the regions.

[2] The first proposal inserts the decoupled "Single Farm Payments" (SFP) in the horizontal Regulation agreed last June for olive oil, cotton, tobacco and hops, as the second proposal amends the existing CMO on olive oil as regards the date for the marketing year, the private storage scheme and the standards for olive oil.

At this stage, the reform of the sector would entail, according to the producing member States, major and sudden changes for the tobacco producers, causing losses of jobs and the end of the production in the future.

- OLIVE OIL: The proposal foresees that 60 % of the average production-linked payments during the reference period 2000-2002, should be converted into entitlements under the single payment scheme for holdings larger than 0.3 ha. Smaller holdings would have their payments completely decoupled. The surface area to be taken into consideration would be established by the Member States on the basis of the data in a Geographical Information System (GIS) for olive cultivation, incorporated in the Integrated Administration and Control System (IACS) and constantly kept up to date. To avoid creating a situation of imbalance in the market, access to the single payment scheme would have to be limited to olive-growing areas existing prior to 1 May 1998 and to new plantings provided for under the programmes approved by the Commission. The remaining 40% of the direct aid, paid to olive-growing holdings of more than 0.3 ha. during the reference period 2000-2002, would be retained by the Member States, as national envelopes for the granting to producers of an additional olive grove payment. In order to introduce a fair system and at the same time overcome technical difficulties, the aid would depend on the surface area of the olive grove expressed as number of olive GIS-ha. For simplification, the olive grove payment would not be allocated below € 50 per aid claim. In order to ensure that tree numbers were maintained in the future, it is proposed that a condition of receiving the additional payment would be the maintenance of the number of trees existing on 1st January 2005.

  Spain, the biggest world producer of olive oil has repeatedly requested to adjust its National Guaranteed Quantity (NGQ) set in 1998 in line with its actual production and to increase the rate of decoupling up to 80%. France and Portugal have requested an increase of their NGQs as a reference for the SFP in order to reflect the production from authorised new plantings since 1st May 1998, as Greece and Spain asked for a change in the reference period (5 years instead of 3). Italy would like to increase 0,3 ha threshold and the 50€ threshold.

- COTTON: The Commission proposes to transfer the part of the EAGGF expenditure for cotton that was destined for producer support during the 2000-2002 reference period into the funding of two support measures: the single payment scheme and a new production aid, granted as an area payment. The total amount destined to cover both measures would be €695.8 million of which €504.4 million is foreseen for Greece, €190.8 million for Spain and €0.565 million for Portugal. 40 % of the budget envelope for producer support would be destined for the granting to producers of an aid per hectare of cotton. The new area payment would be given for a maximum area of 425 360 ha (340 000 ha in Greece, 85 000 ha in Spain and 360 ha in Portugal).The above mentioned available amounts and the maximum areas proposed per Member State would result in a unit aid per hectare fixed at €594 in Greece, €898 in Spain and €556 in Portugal. In case the eligible area under cotton exceeded the maximum area, the aid per hectare would be reduced proportionally. As with other direct aids to producers, the aid per hectare of cotton would have to comply with horizontal obligations like cross compliance, modulation and financial discipline.
  In order to allow producers and ginners to enhance the quality of the cotton produced, the establishment of inter-branch organisations would be encouraged. These inter-branch organisations would have to be approved by Member States, be subject to controls and would have in particular the responsibility to create inter-branch scales rewarding production deliveries in quality terms. To do so, a maximum of half of the crop specific aid could be differentiated on the basis of specific criteria.
  60 % of the budget envelope (€417.3 million) would be available for direct income aid i.e. €302.4 million in Greece, €114.5 million in Spain and €0.365 million in Portugal. The direct

income aid will be calculated on the basis of €795 per hectare in Greece, €1 286 per hectare in Spain and €1 022 per hectare in Portugal.
The activities of each inter-branch organisation would be financed by its members and by an EU grant of € 10 per hectare. The total budget for this purpose would thus be €4.3 million. A grower not belonging to any inter-branch organisation would receive the unit amount of aid. The balance with the total market expenditure for cotton would be included in a rural development envelope for cotton areas. This last envelope of €103 million would be shared between Member States according to the average area eligible for aid over the reference period and would be an integral part of the second pillar of the CAP. The new arrangements would apply as from 1 September 2005.

Two delegations are still opposed at this stage to the transfer of **€** 103 Million to the rural development pillar and requested a transitional period until 2007. Greece is opposed to the reduction in surface area and Spain would favour some flexibility in the decoupling rate.

- HOPS: although a 100% decoupled payment could be implemented by 2005 (instead of the existing 480€/Ha aid), the Commission proposal foresees the possibility for Member States to maintain coupled aid, up to a maximum of 25% (i.e.75% decoupled payment), in order to take account of specific production conditions or specific circumstances in the production regions. One delegation stressed out the need to have a mechanism to ensure the current level of funding for producers' organisations.

Given that the legal basis for the reform is Article 37 of the Treaty which requires the consultation of the European Parliament (EP), its Opinion given on 10 March, is not legally binding, but may be used as a toolbox by the Council with a view to find a compromise. Among the amendments adopted, the Members of the European Parliament (MEPs) would like a 20% decoupled payment on ***cotton*** (instead of 60% proposed) and a implementation by 2007 (instead of 2005). On ***tobacco***, a rate of 30% is proposed as regards decoupled payment (instead of 100% in three steps) in order to keep a 70% coupled payment where production remains essential in certain regions for social and economic reasons: roughly 80 000 holdings produced tobacco in the EU in 2000, and the tobacco sector has a population of 232960 in the EU, apart from the processing and retailing industry. On ***olive oil***, the Parliament called for "*a minimum of 60 per cent*" and for the Member States to have the right to increase this to 100 per cent. The coupled percentage would be given directly to the Member States so they can distribute it among farmers as an area payment (either per hectare or per number of trees).

OTHER BUSINESS

Information from Commissioner Byrne on the outcome of his visit to the United States [3]

Commissioner BYRNE will brief the Council on the outcome of his visit to the United States of America (18-19 March 2004).

Plant Protection products (7214/04)

The Austrian delegation will draw the attention of the Council and the Commission to the need to

[3] For more information see also the website of the European Commission (press room): MEMO/04/62 Date: 16/03/2004

revise a Council Directive 91/414/EEC of 15 July 1991 concerning the placing of plant protection products on the market. The Austrian delegation is expected to request the possibility for a centralised authorisation procedure for plant protection products within the Community based on a regional approach, in order to meet the Internal Market full conditions for plant protection products. The existing provisions foresee the possibility of mutual recognition of authorisations, which is not considered as sufficiently efficient.

State of play of EU-Mercosur negotiations in the agricultural sector (7556/04)

The German delegation requests the Commission to inform the Council on the state of play and on further steps concerning the EU-Mercosur negotiations. In its opinion the agricultural part of these negotiations is of particular interest in view of its impact on European agriculture and in the context of the trade negotiations.