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ANNEX TO THE

COMMISSION STAFF WORKING DOCUMENT

accompanying the

Proposal for a

COUNCIL REGULATION

amending Regulations (EC) No 1290/2005 on the financing of the common agricultural policy and (EC) No 1234/2007 establishing a common organisation of agricultural markets and on specific provisions for certain agricultural products (Single CMO Regulation) as regard food distribution to the most deprived persons in the Community

Impact Assessment

ANNEXES 12 TO 14

{COM(2008) 563 final}
{SEC(2008) 2437}

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ANNEXES

This short paper aims at summarising recent forecasts and development as regards future volumes in intervention stocks.

Currently, intervention purchases[1] are possible for common wheat, durum wheat, barley, paddy rice and sorghum. Maize intervention will be possible for the last time during marketing year 2008/2009 (and limited to 700 000 t). In the limits of 600 000 t, sugar can be proposed to the intervention until 2009/2010.

Butter can be bought for public intervention, as well as SMP (in the limits of 109 000 t). Public intervention as safety net is also possible for beef, veal and pig meat, under specific arrangements.

- *Mid-term forecasts by DG AGRI services[2]*

In a report released at the beginning of May, mid-terms projections (until 2014) are available for agricultural commodities on the basis of specific assumptions regarding macro-economic conditions, the agricultural and trade policy environment, weather conditions and international markets. The report is based on the information available at the end of December 2007 and does not take into account any political or market development occurred since then (in particular, Commission's CAP Health Check proposals are not considered).

As regards **cereals**, public stocks fell from a peak of 17.4 mio t in 2004 to 14.6 mio t in 2005 and reached 2.3 mio t in 2006. The low harvest in 2007, the phasing-out of maize intervention as well as the supportive development of domestic demand and exports should leave the markets balanced with limited risks for public stocks.

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[1] Council Regulation (EC) No 1234/2007.

[2] This summary is based on data from DG AGRI G.2 publication "Prospects for agricultural markets and income in the European Union 2007-2014", March 2008:
http://ec.europa.eu/agriculture/publi/caprep/prospects2007b/index_en.htm

Graph 1: Development in cereal stocks and exports in the EU (mio t), 1995-2014
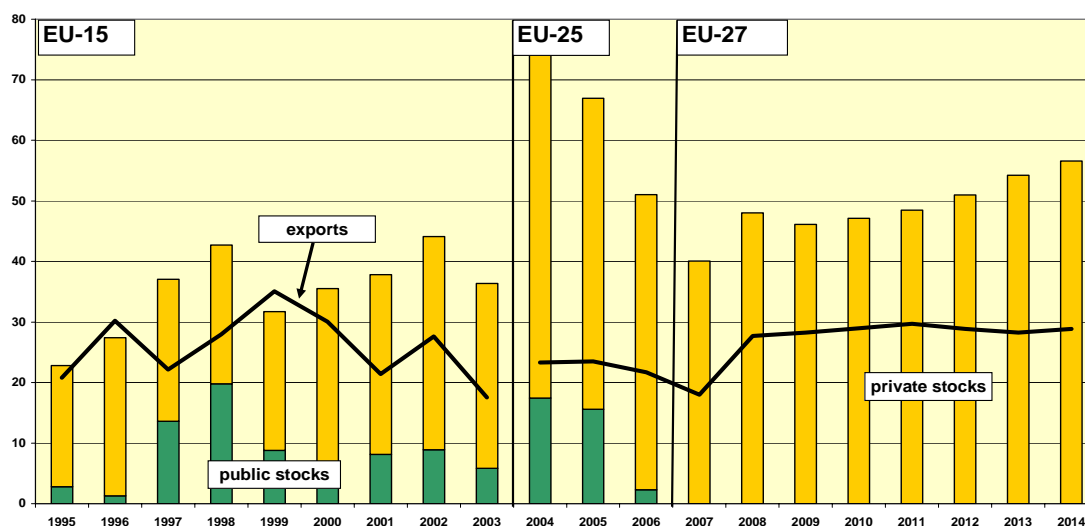

Graph 2: Composition of cereal public stocks in the EU (mio t), 1995-2014
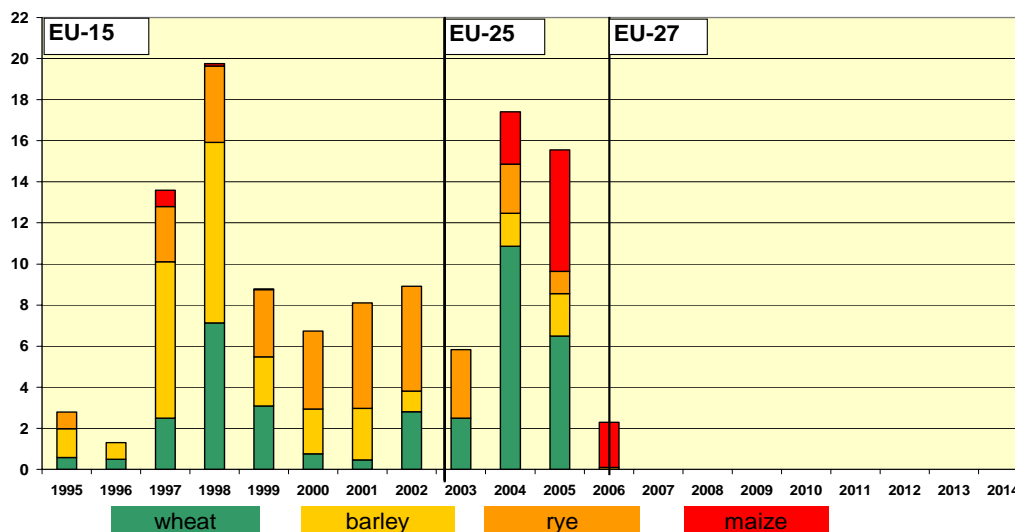
For dairy products, EU-27 **butter** production is expected to decline to 1.9 mio t in 2014 from 2.1 mio t in 2007 (-9%). Overall EU-27 butter consumption is projected to follow a declining trend. Domestic prices are projected to remain firm and well above the intervention price throughout the medium term as the decline in supply would outpace the steady fall in demand. The projected market developments throughout the forecast period mean that intervention stocks will remain empty until the end of 2014.

Graph 3: Butter market developments (mio t), 1991-2014
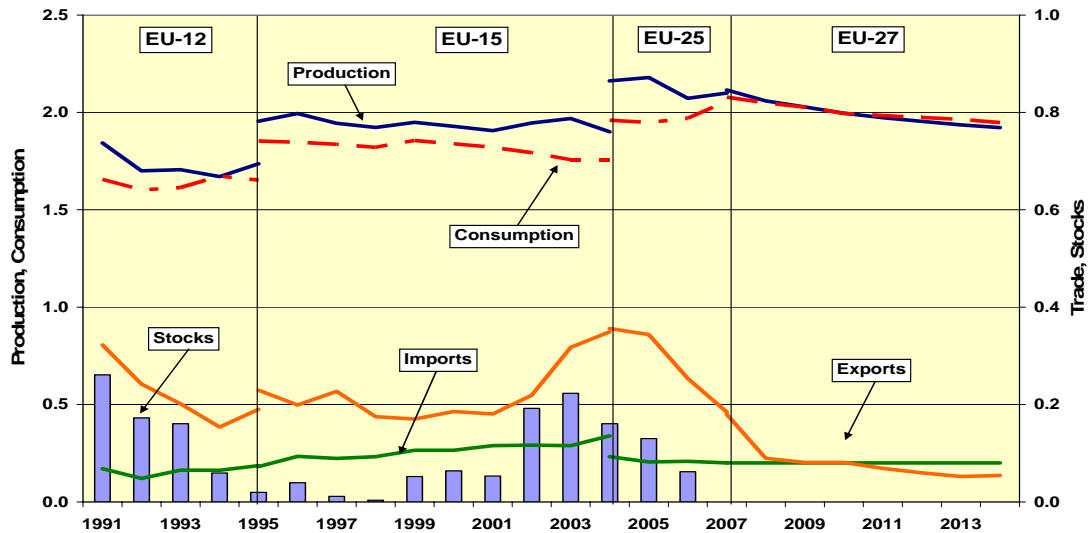
As such the market for **SMP** is expected to remain balanced throughout the projection period with no necessity for intervention buying-in. Domestic prices are projected to remain well above intervention price levels as a consequence of shrinking protein availabilities and a firm demand.

Graph 4: SMP market developments (mio t), 1991-2014
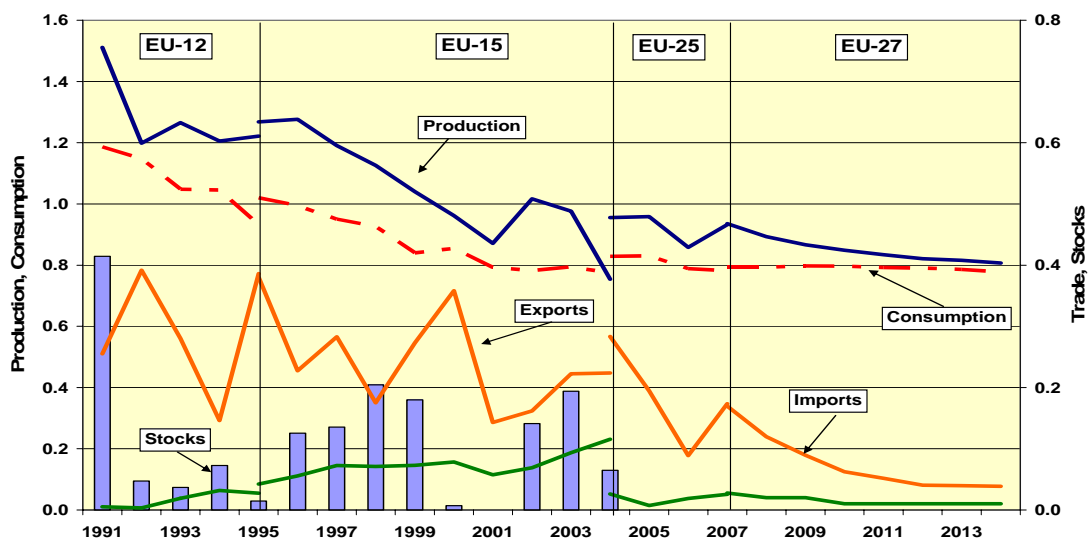
EU-27 **beef** production is projected to decrease to 7.6 mio t by 2014. A steady (albeit slightly declining) demand and this tight domestic supply are expected to result in firm prices over the projection period attracting beef imports that are expected to resume their growth. Consequently, no intervention stocks are expected during the evaluated period.

Graph 5: Beef meat market developments (mio t), 1991-2014
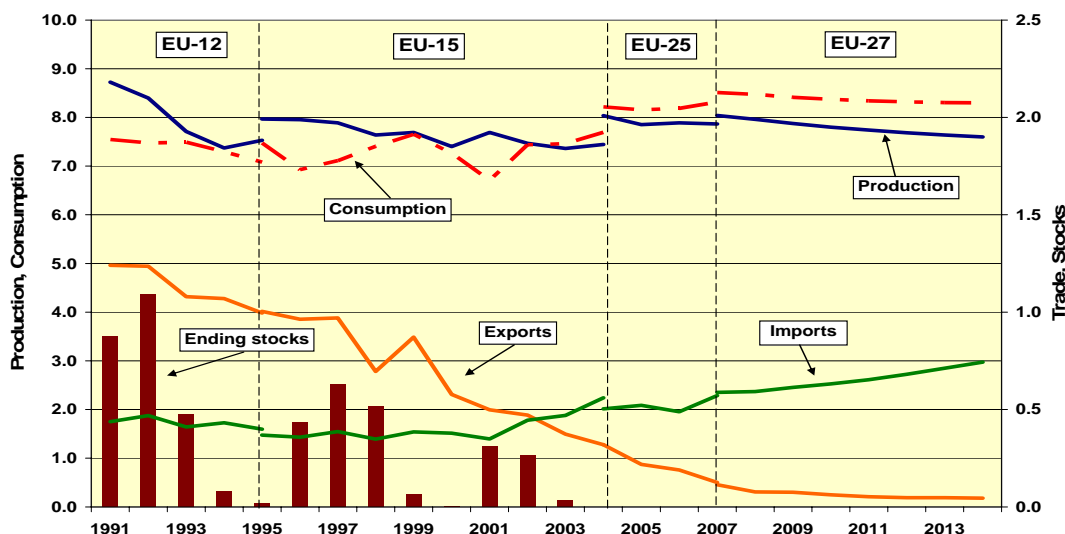
- *Commission's CAP Health Check proposals*

On 20 May 2008, the Commission has presented to the Council and the Parliament proposals for modifying the CAP[3]. Changes in the products eligible for intervention are proposed.

This Communication states that: "based on analysis, the Commission has concluded that market supply control should not serve to slow down the ability of EU farmers to respond to market signals but they should be turned into a real safety net. To do so, it is proposed to simplify and harmonise the current provisions on public intervention via the extension of a tendering system.

In the cereal sector, it is proposed to introduce tendering for bread wheat, while for feed grains, the same model as for maize (reduce quantitative ceiling at zero) will apply. For durum wheat, taking into account current and expected market conditions, it is proposed to abolish intervention. For the same reasons, for rice and pig meat it is also proposed to abolish intervention. Tendering provisions for butter and skimmed milk powder will also apply".

Thus, if these proposals are adopted without change, public intervention will remain possible for bread wheat, butter and SMP.

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[3]   COM(2008) 306 final, Proposal for a COUNCIL REGULATION on modifications to the common agricultural policy by amending Regulations (EC) No 320/2006, (EC) No 1234/2007, (EC) No 3/2008 and (EC) No […]/2008.

ANNEX 13
ECONOMIC ASPECTS OF FOOD CONSUMPTION BY LOW INCOME GROUPS

The increase in food prices in recent years at EU level has emphasised the need to increase the budget allocated for food aid to the most deprived people.

As low income groups spend relatively more on food than other groups, they are more affected than other groups by increases in food prices. On average, at EU-27 level, spending on food accounts for more than 22% of their total spending compared with 13% for the highest income households. For most of the new Member States food expenditure accounts for even more reaching, for example, in Romania approximately 59% of total expenditure of low income group compared to 34% of the budget of high income households.

The following table shows the evolution of prices in Europe in the last ten years for some categories. Since the end of 2006, following the extreme agricultural commodity price developments, food prices in the EU have increased more rapidly than overall inflation. In April 2008, the annual increase (April 2008/April 2007) in food prices in the EU was 7.1% compared with 3.6% for overall inflation.

Harmonised indices of consumer prices in the EU-27 (2005=100)

	Average 1998	2005=100	Average 2006	Average 2007	2007 April	2008 April
All-items HICP	83,03	100	102,2	104,4	104,4	108,2
Food and non-alcohol beverages	82,34	100	102,4	105,9	105,1	112,3
Food	85,34	100	102,4	106	105,2	112,7
Bread and cereals	84,32	100	101,7	106,7	104,9	116,2

Source: Eurostat

It should be pointed out that food price inflation remarkably differs among Member States. Annual increase of food prices ranged from 3.2% in Portugal to 25.4% in Bulgaria. This is the result of varied factors such as shares of agricultural raw material values in overall food production costs, the food consumption structure and the degree of processing in each Member State, the effect of enlargement (price convergence in the single market) and the competitive structure of the food supply chain in each Member State.

Even though these differences at Member State level, the total budget allocated, every year, to the most deprived people could be indexed to the increase of food prices, taking as reference the food price index recorded at EU-27 level.

The increase could be index-linked to the annual increase of food price recorded between two periods (elementary price index or unweighted index).

For example, between April 2008 and April 2007 the food price index was 7.1%. If this increase had been taken into account for the preparation of the 2008 annual plan, the total budget allocated to the most deprived people would have been to €327 million instead of 305 (with an increase of about €21.7 million).

Economic patterns of food consumption by low income groups and social benefits granted in the EU

INTRODUCTION

In connection to the world problem of rising food prices, the food consumption of the lowest income groups is highly affected. According to the FAO, eradication of world hunger deepened by the food price inflation requires additional US$30 billion a year to re-launch agriculture and avert future threats of conflicts over food.

The aim of the paper is to provide an economic reasoning of the existing food aid initiatives developed on the European and international level. In the first chapter, principles of consumer behaviour are presented, which are consequently applied to the problem of food demand concerning the poor people. The theoretical findings are supported by evidence based on data provided by the Eurostat database.

PRINCIPLES OF CONSUMER BEHAVIOUR

Every individual consumer operating within a market economy is equipped with a set of consumption alternatives from which he identifies and selects the most preferred and available in light of his personal tastes. A consumer's utility function is based on the preference relations of the possible choices taking into account that the consumer does not represent a significant force on the market and hence his purchasing decisions do not have influence on the market price.

The consumer demand problem, consisting of a utility-maximization constrained by consumer's budget restriction provides the economic explanation of the demand function. When income and all prices of other goods are held fixed, the relationship between price and quantity of the consumed good provides a derivation of the standard demand curve. In this case, we talk about *Marshallian demand functions*[4].

Analysing the situation from the other perspective, a consumer, instead of searching his or her consumption set of choices with highest utility, might be looking to reach a given level of utility at the lowest expenditures with a given set of prices. This type of demand function is called *Hicksian demand function*. The Hicksian demand is based on the fact that with any kind of price change, the consumer utility is held constant due to appropriate reduction or increase of income. With the knowledge of demand functions, the impact of a price change can be analysed. When the price of the good declines, there are at least two conceptually separate reasons why a change in quantity demanded should be observed. In a first instance, a decline of price causes the good to become relatively cheaper leading to a shift in the demand in favour of this good, a substitution effect of demand. However, due to an increase of purchasing power as a consequence of the expenditure saving, the demanded quantity is affected even for the relatively more expensive good which is the income effect.

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[4]   Jehle, G.A., Reny, P.J. *Advanced Microeconomic Theory.* Addison Wesley, USA, 2000, 543 p. ISBN 0-321-07916-7.

FOOD CONSUMPTION BEHAVIOUR RELATED LOW INCOME GROUPS

In case of food demand, preference relations of the consumers are clearly defined since the consumer in the first instance must satisfy his basic needs. Food as such is impossible to be substituted by other goods and therefore the consumer is restricted not only by his or her budget but also by the utility level he needs to reach.

In the case of the Marshallian demand, the consumer's demand function is derived on the basis of utility maximisation with the income constraint. The optimal combinations are expressed in the Chart 1. It is apparent, that the lowest income group which is represented by the most deprived people is able to reach only the lowest utility level, corresponding to the lowest indifference curve.

Chart 1: Optimal consumer choice for different income groups
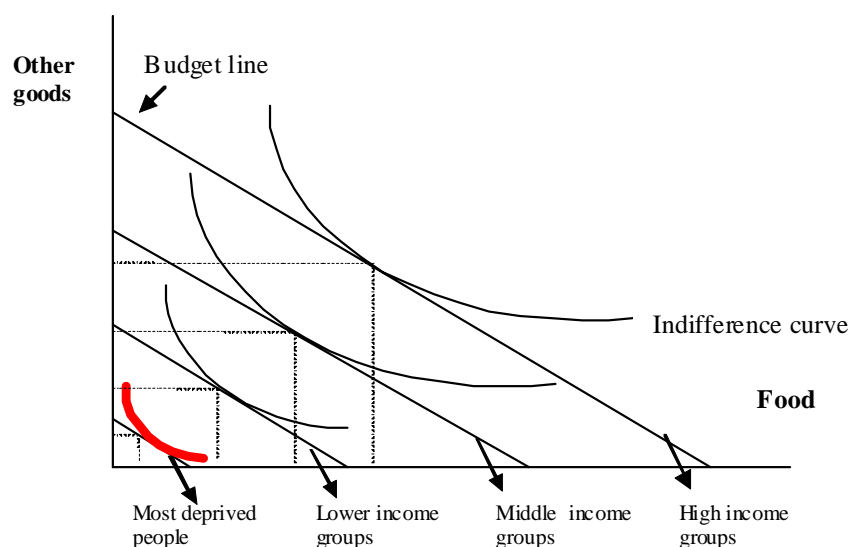
Nevertheless, the assumption that the poorest people with lowest income can theoretically afford only a limited quantity of food in combination with other goods is not completely valid. It should be considered that the food is a necessity and a certain level of utility must be reached independently on the income level. In this sense, the Hicksian type of demand is probably more suitable to describe the situation of the consumer choice. This is to say that within each category of income, the consumers will always try to satisfy their necessary utility level minimizing their expenditures. Moreover, given that the share of expenditure on food in the lowest income groups is fairly high, the effort of the poorest people to minimize their expenditure on food might be much bigger than in the case of higher income groups.

In line with this assumption the dietary behaviour can be clearly explained. According to the behavioural model developed by USDA it has been shown, that the household behaviour follows the Hicksian demand pattern: when the financial resources representing budget constraint are diminishing, the households tend to consume less expensive foods to maintain energy intakes at lower cost. A reduction in food expenditures is likely to be associated with higher energy-density diets containing increased consumption of starches, added sugars and fats. The main reason for such dietologically unfriendly behaviour is to satisfy the food needs; according to the

US Food Stamp Program participants, the most important concern for choosing foods is to ensure that "*noone could complain that they are still hungry*"[5].

This principle factor of satisfying food needs leads to the situation when the highest proportion of energetic intake is derived from sugar and fat which are the cost saving dietary elements[6]. In the developed countries, technological advances in fat chemistry have reduced energy costs of vegetable oils leading to decline of their retail prices. The study on fat and sugar (Drewnowski, 2003) mentions that the energy costs of potato chips amount 2 USD/10 MJ on contrast to carrots where it reaches about 9.5USD/10 MJ. Moreover, the energy costs are also compounded in retail prices. The Drewnowski's study adverts that while prices of vegetables and fruits in USA grew by 90% within 1982-1997, highly energetic products such as sugar and fats had an average growth of 50%.

In order to find out if the same pattern could be observed in the European Union, the evolution of food prices within selected alimentation groups is provided in the table 1. The harmonised indices of consumer prices[7] show that within 1997-2007 the highest price increases could be attributed to the dietary most favourable food categories like fish and sea food, fruits and vegetables. On the other, with the exception of meat, sugar, fats, oils and cereals belonged to the groups with lower price inflation pattern.

The relationship between retail prices and dietary composition of the food clearly shows that the balanced diet and related health conditions of lowest income groups are substantially threaten when spending efforts to minimise their food expenditure.

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[5]   A. Drewnowski: *Fat and Sugar: En Economic Analysis*, The American Society for Nutritional Sciences, J. Nutr. 133:838S-840S, March 2003.

[6]   Added sugars and fats account for more than 50% of typical American diet.

[7]   Consumer Price Indices (CPIs) are economic indicators constructed to measure the changes over time in the prices of consumer goods and services acquired, used or paid for by households. Harmonized Indices of Consumer Prices (HICPs) are designed for international comparisons of consumer price inflation. They are used in the assessment of inflation convergence as required under Article 121 of the Treaty of Amsterdam (Article 109j of the Treaty on European Union).

Table 1: Harmonised indices of consumer prices in the European Union * (2005=100)

| Food item	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	% Change
Food and non-alcoholic beverages	87.26	88.5	88.75	89.62	93.87	96.25	98.12	99.16	100	102.3	105.8	**21%**
Food	86.38	87.54	87.96	88.95	93.46	96.01	97.98	99.17	100	102.3	105.9	**23%**
Cereals	87.47	88.4	89.12	90.14	92.67	95.23	97.18	99.31	100	101.6	106.4	**22%**
Meat - Total	87.81	87.61	86.62	88.35	94.77	95.63	96.64	98.63	100	101.9	104.7	**19%**
Fish and seafood	*77.56*	*82.2*	*84.84*	*87.54*	*91.57*	*95.39*	*97.66*	*98.32*	*100*	*104.1*	*107.4*	*38%*
Milk, cheese and eggs	89.74	90.08	89.88	90.54	94.74	97.17	98.82	99.7	100	100.8	105	**17%**
Fats and oils	90.5	87.97	89.81	89.01	88.94	92.38	94.19	98.07	100	107.4	108.2	**20%**
Fruit	*81.74*	*84.73*	*84.77*	*84.87*	*91.52*	*95.97*	*99.84*	*99.87*	*100*	*101.2*	*105.1*	*29%*
Vegetables	*84.1*	*87.4*	*89.48*	*89.27*	*95.04*	*99.49*	*101.6*	*99.28*	*100*	*105.4*	*110.7*	*32%*
Sugar, jam, honey, chocolate and confectionery	87.01	88.25	89.45	90.15	91.9	93.99	97.44	99.55	100	101.3	103.1	**19%**

* (EC6-1972, EC9-1980, EC10-1985, EC12-1994, EU15-2004, EU25-2006, EU27), Source: *Eurostat*

The concept of price and income elasticity is also highly important when analysing food demand of the lowest income groups. As it has been stated, **price elasticity** gives an idea of the reaction of demand to the price changes. It is generally known, that price elasticity is low in case of the necessary goods or goods which do not have easy substitutes. Such products are typically all kinds of basic foodstuffs. The implications for the well-being of the poor people are very important. Due to low price elasticity, the quantity of consumed food remains almost unchanged when the price increases, creating a strong burden on the budget of the poor people. This notion leads to the fact that the poor people are highly vulnerable to the price changes of food.

The **income elasticity** of food products is usually in the interval of 0 to 1. This is to say that expenditures on food may increase with income but not as fast as the income increases itself, thus the proportion of expenditures on food falls as income rises. This observation is known as *Engel's law*.

The economic effects of the food aid initiatives which are designed to mitigate the impacts of rising food prices can be explained by the substitution and income effect theorems. In particular, the **income effect** is highly important in improving the utility levels of the poor people. It can be demonstrated in a situation when the food prices are rising (as shown in the table 1). The initial situation of the targeted group is demonstrated in the point A (chart 2). The point A represents combination of food and other goods demanded by the lowest income group consumers which bring them a certain level of the utility. Provided that the most deprived persons are not given any form of help, when the price of food increases, the new combination of demanded goods is settled in the point B. Due to the **substitution effect**, a decline of the quantity of food demanded is produced and the utility level falls down. However, assuming that the deprived persons are granted food aid, which makes them save the budget for food, they are now endowed with higher income to be spent on all types of goods. As shown in the point C, the food aid provides to beneficiaries higher amount of goods and helps to maintain their utility level.

Chart 2: Consumption behaviour under social aid help
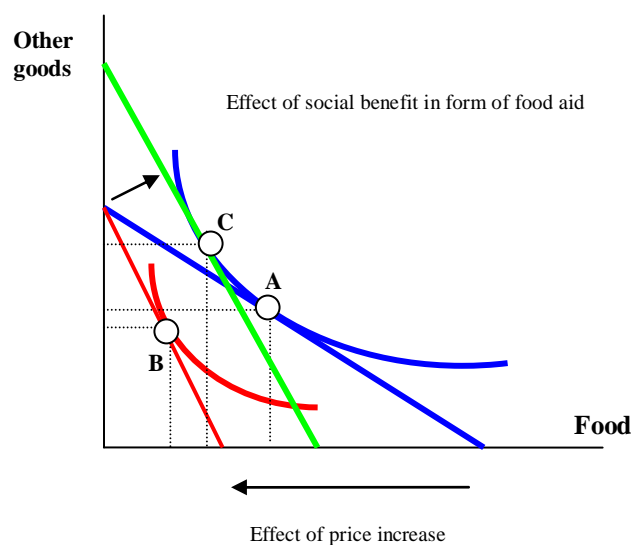
SOCIAL BENEFITS RECEIVED BY THE EU POPULATION

The previous chapter provided economic reasoning of the food aid granted to the low income groups of population. It has been demonstrated that the food aid granted in the periods of rising food prices might serve as a security instrument of maintaining basic consumption level and enabling the poor people to extend their consumption basket for other goods rather than food.

In the following chapter, the attention is shifted to the side of the national governments who are the main contributors of the social help. The main concern is to analyze the development trends of social expenditures and their importance in national economies.

Social help and combating social exclusion represents a very important concern in the European Union. Social benefits consist of transfers, in cash or in kind, by social protection schemes to households and individuals to relieve them of the burden of a defined set of risks or needs (ESSPROS)[8].

The evolution of social benefits distributed between the years 1990-2005 is provided in the figure 1. The share of total social benefits in the GDP of EU 15 countries has maintained above 20%. The peak level was reached in the year 1993 when the social benefits amounted for more than 26% of the GDP of member states. After 1993, the share of social benefits granted by the member states has been gradually declining. In this period, the concerns of the sustainability of the MS' national budgets became more important and this issue was reflected and emphasised in the requirements postulated in Maastricht Treaty. Nevertheless, after the year 2000 the social benefits recovered their growth and in the year 2005, the share in the GDP almost reached the level of the year 1993.

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[8]   Definition based on **European System of Integrated Social Protection Statistics** methodology, developed by Eurostat, Statistical Office of the European Communities, Unit F3 *Living conditions and social protection statistics.*

Fig. 1: Share of social benefits in the GDP of EU 15
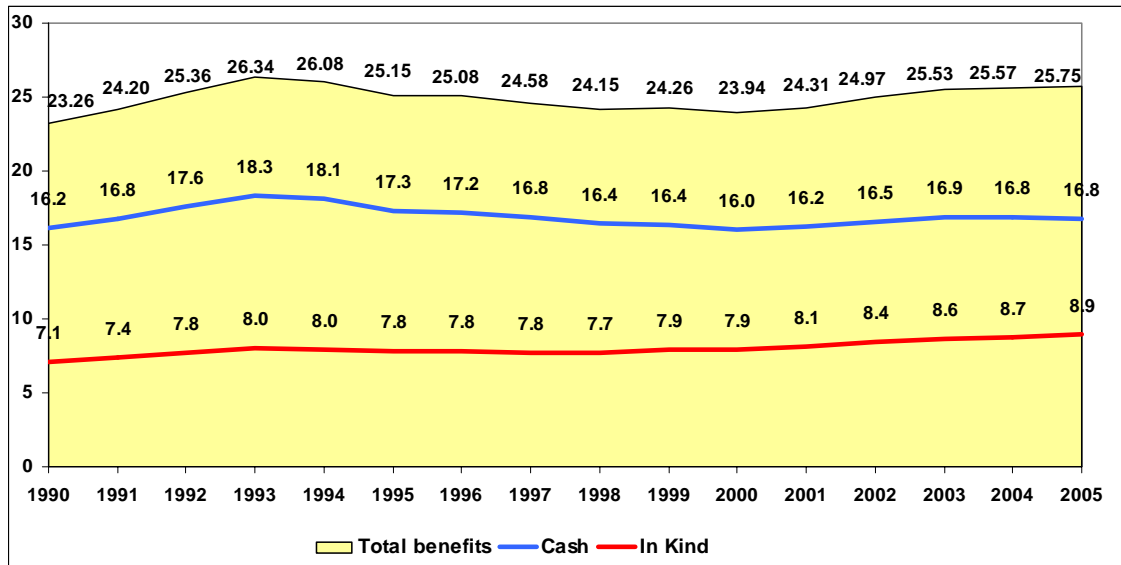
Source: Eurostat

The beneficiaries of the social help receive either cash or in kind aid (definitions of social benefit types are provided in the Appendix 1). There has been different evolution of both forms of social help. While in the 1993, the cash social benefits reached the top 18.3% of the GDP, their share has been slightly decreasing on account of in-kind benefits. In the 2005, the benefits in kind amounted for almost 9% of the GDP of the EU 15 member countries.

Table 3: Share of social benefits in GDP within 1990-2005 in EU15 Member States

Social benefits share in GDP Average of 1990-2005	Total	Rank	Cash	Rank	In kind	Rank	Diff. in rank
Average	**24.88**		**16.88**		**8.00**		
Sweden	32.76	*1*	19.54	*4*	13.21	*1*	3
Denmark	29.41	*2*	18.51	*8*	10.89	*2*	6
France	28.29	*3*	18.75	*6*	9.54	*3*	3
Finland	27.63	*4*	18.58	*7*	9.05	*5*	2
Germany (including ex-GDR from 1991)	27.48	*5*	19.19	*5*	8.31	*6*	-1
Netherlands	27.44	*6*	19.59	*3*	7.86	*7*	-4
Austria	27.34	*7*	19.79	*1*	7.56	*8*	-7
Belgium	26.41	*8*	19.79	*2*	6.59	*10*	-8
United Kingdom	25.82	*9*	16.77	*10*	9.08	*4*	6
Italy	24.10	*10*	18.14	*9*	5.96	*14*	-5
Greece	21.59	*11*	14.30	*13*	7.30	*9*	4
Luxembourg (Grand-Duché)	20.94	*12*	15.01	*11*	5.93	*15*	-4
Spain	20.51	*13*	14.39	*12*	6.11	*12*	0
Portugal	18.89	*14*	12.37	*14*	6.51	*11*	3
Ireland	14.59	*15*	8.53	*15*	6.06	*13*	2

Source: Eurostat   Note: Due to data unavailability, Portugal is excluded from the year 2005

The share of social benefits in the GDP varies in each member state. The table 3 represents a comparison of the social benefits granted by all member states in form of cash or in kind. In the longer term perspective, Sweden has had the highest share of social benefits in the GDP (33%), followed by Denmark (29%) and France (28%). On the other hand, countries with lowest "social care" have been Portugal and Ireland, where the share remained below 20%.

Concerning the two types of social aid, the highest amount of cash benefits can be attributed to Austria and Belgium (19.79%) which in turn are the countries with lower orientation to the in kind form of social benefits. In this respect, Sweden ranks on the first place with in kind donations amounting for more than 13% of the Gross Domestic Product. The differences in ranking presented in the last column show the focus of the countries on the particular kind of help. Numbers with red font indicate relative prevalence of in kind support. Based on the ranking, it is possible to depict group of countries relatively more focused on the in-kind form of aid such as Sweden, Denmark, Finland and France while group of countries such as Netherlands, Austria, Belgium, United Kingdom and Italy are more focused on the cash benefit distribution.

It has been shown that the average level of social benefits granted in the EU reaches one quarter of the EU GDP. Despite of this fact, there are considerable differences across various member states (differences might be even bigger, if all EU 27 MS were included). Therefore it is important to secure sufficient participation of all member states in the social policy by a coordinated social strategy developed in the EU level.

Appendix 1: European System of integrated Social Protection Statistics Manual

Classification of government Social Expenditures by type

The classification of social benefits by type is on two levels: firstly a concise general classification which in principle applies to all functions, and secondly a more detailed classification where the items are only relevant to one or a limited number of functions.

General classification of social benefits by type:

→ Cash benefits

      Periodic

      Lump sum

→ Benefits in kind

A **cash benefit** (ref. 11) is a benefit:

(i) paid in cash, and;

(ii) that does not require evidence of actual expenditure by the recipients.

Benefits that require evidence of actual expenditure by the beneficiaries are reimbursements that the System classifies as Benefits in kind (ref. 12).

Periodic cash benefits (ref. 111) are cash benefits paid at regular intervals, such as each week, month or quarter: types of pensions are periodic benefits.

Lump sum benefits (ref. 112) are cash benefits paid on a single occasion or in the form of a lumpsum: examples are maternity benefits, redundancy lump-sums and very small pensions that, for convenience, are paid as a single amount. Exceptionally such benefits may give rise to more than one payment; for example maternity benefits in Luxembourg are paid in three instalments.

Benefits in kind (ref. 12) are benefits granted in the form of goods and services.

They may be provided by way of reimbursement or directly. **Reimbursements** are benefits in the form of payments that reimburse the recipient in whole or in part for certified expenditure on specified goods and services. Directly provided benefits are goods and services granted without any pre-financing by the beneficiary. They may be produced by the institutional unit or units which administer the social protection scheme, or be purchased from other producers. This distinction is important for the valuation of the benefit.

Contributions made by a recipient towards the cost of directly provided goods and services (cost-sharing) are not part of the value of social benefits. These contributions are not recorded in the ESSPROS as they are considered to be consumption expenditure by households (see also paragraph 125).

THE CURRENT SITUATION

At present the MDP is 100% financed by the Community budget (EAGF). However, a certain *de facto* co-financing already exists in Member States participating in the scheme:

- Two MS specifically complement the EU programme with national funds, or help finance other independent initiatives. France funds flanking measures, corresponding to about 21% of the budget received in the framework of the EU programme. Poland spends 650 millions zloty a year (about €190 million) on food measures for deprived school children, independent from the MDP and using a different implementation framework.

- A number of MS directly subsidise charities that provide food aid to the deprived.

Funding varies greatly between MS and in some no national initiatives at all are implemented; only private initiatives exist, without state subsidies. This is particularly the case in the EU-12 Member States. For more details see Annex 4.

1. **POSSIBLE ADVANTAGES OF CO-FINANCING**

- The introduction of co-financing would have no impact on the EU budget. Assuming the Community's contribution to be constant, the introduction of co-financing would result in an immediate increase of the total budget available for food aid, thanks to the MS contributions. Some MS that do not currently participate have informally indicated that they could be interested in joining a renewed, co-financed MDP. The participation of additional MS might entail a higher demand and thus in the long run increase the Programme's budget needs.

- The increase brought to the overall budget by co-financing would enable the scale and impact of the scheme to be extended and mean that more food could be distributed and/or it could be distributed more widely and benefit more people. This is particularly important at a time when rising food prices have both a direct impact on the cost of food distribution programmes and an indirect impact on the number of persons in need of food aid.

- The MDP has now existed for more than 20 years and has brought positive results in participating MS. By further enhancing the involvement of MS authorities, compulsory co-financing could strengthen implementation, promote synergies – in particular with related national or local initiatives - and encourage the development of national or local measures. By way of analogy, this trigger effect has been extensively documented and analysed in the case of the co-funded Leader initiative in rural areas, where Local Action Groups have been able to integrate actions conducted within a single sector, or, most importantly, make links between the different economic, social, cultural, environmental actors and sectors involved in an area.

- There may currently be a tendency for Member States to calibrate their requests for financing according to the available budget, rather than to the total budgetary needs for national food aid measures. While this does not imply that MS requests are systematically over-estimated – the take-up of funds has been particularly high in recent years and charities report increasing needs, especially in the context of high food prices – co-financing could ensure a better match between needs and requests. In particular, if the budget for the programme is increased, it would guarantee that the additional funds result in additional money and not merely in a convenient source of funding for existing national measures.

- It could be argued that the cost of the scheme represents only a limited share of the overall welfare costs borne by MS. Thus, the financial involvement of MS would demonstrate that they consider the issue of food poverty a major one and that they are willing to address the question of the food supply to deprived people in the context of their welfare system.

- Over recent years, initiatives outside the "core" Pillar I measures have increasingly been co-financed by Member States, e.g. information and promotion policy, proposal for a School Fruit Scheme.

2. POSSIBLE DISADVANTAGES OF CO-FINANCING

- Particularly in the "new" MS, until very recently no or very limited food aid, either public or private, was provided to the deprived. For these MS the lack of financial resources could be a limiting factor. In this context, it is not clear whether MS wishing to participate in the Programme might be reluctant to contribute to it financially. Care should be taken that the introduction of co-financing does not reduce the participation of certain MS, in particular the EU-12. The withdrawal of some of these MS from the scheme might mean a return to the previous situation of very limited food aid to the most deprived.

- The switch from purely Community funding to co-financing could be seen as contradicting the justification for the programme. The need for action at EU level has been demonstrated, given the lack of private or public funding for food aid initiatives in many MS and the number of European citizens in a situation of poverty. The purely Community nature of the funding has been an asset for the existing programmes, which demonstrated European solidarity and the usefulness of EU action, which redistributes resources from the EU budget in function of MS needs. Introducing a co-financing would call into question this solidarity by reducing the scheme's cohesive dimension.

3. LEGAL ISSUES

Council Regulation No. 1290/2005 on the financing of the Common Agricultural Policy does not provide for the co-financing of Community measures, with the notable exception of information and promotion measures, for which the Community provides a "financial contribution".

The introduction of compulsory co-financing by participating MS would therefore necessitate the amendment of Article 3(1) of the Regulation, possibly mirroring the provision in d) of this Article for information and promotion measures.

4. CO-FINANCING RATE

It would seem appropriate to align the co-financing rate with that for other Community measures.

EU regional policy comprises several objectives (cohesion, regional competitiveness and employment, and European territorial cooperation) financed by three different funds, the co-financing rules for which vary. However, the "regular" co-financing rate is 50% or 75% (Community's contribution). The co-financing ceiling can rise to 80% when the eligible regions are located in a Member State covered by the Cohesion Fund, and even to 85% in the case of the outermost regions.

In the context of the CAP, several policies are co-financed by the MS:

- Rural Development Policy uses differentiated co-financing rates per region, according to the convergence objectives. For most measures the rate is 50%, rising to 75% in Objective 1 regions. For some measures (Leader, specific environmental measures) the Community contribution is generally 55% and 80% in the Objective 1 regions. The outermost regions benefit from an extra 5%, which allows a maximum 85% EU financing.

- The School Fruit Scheme currently under discussion proposes a Community contribution not exceeding 50% of the total costs of each MS programme, or 75% in convergence regions.

- In the framework of the promotion policy for agricultural products, the Community makes a 50% contribution to an initiative's budget, the MS contributes up to 30% and the remainder is funded by private operators.

In common with current practise for other co-financed agriculture measures, different co-financing rates would seem appropriate for the MDP. A Community contribution of 50% and 75% is the rate most often used and this could logically be applied if co-financing is introduced for the MDP.

As no indicator of poverty by region is available in Eurostat, convergence criteria could not be used to compute the differentiated co-financing rates. It would, however, be straightforward to use the same criteria as the EU Cohesion Fund, which is aimed at Member States whose GNI (Gross National Income) is lower than 90% of the EU average. All the new MS plus Greece and Portugal are concerned[9].

In order to smooth the transition to co-financing and avert the risk of MS withdrawing from the scheme due to a possible lack of resources, lower co-financing rates could initially apply. This should ensure the continued high take-up of funds during a phasing-in period. These rates could also mirror co-financing for other initiatives and be set, for example, at 75% and 85% (for Cohesion MS[10]) of the Programme's overall budget. At the end of the first programming period (3 years) an assessment could be made to evaluate the impact of the change in the scheme's

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[9]   A phasing-out system is currently granted to Member States which would have been eligible for the Cohesion Fund if the threshold had stayed at 90% of the GNI average of the EU-15 rather than EU-25. Spain is concerned by this phasing-out.

[10]   The maximum rate allowed in the framework of the Cohesion Fund is 85%.

funding and to consider whether it would be opportune to increase the co-financing rate for the following periods.

5. SIMULATION

For illustrative purposes, the following table shows the expected increase in the budget available for the Programme following the introduction of co-financing, using the current methodology for the budget breakdown and the three different methods described in Annex 9. This increase comes from MS matching funds following the introduction of co-financing with MS contributions at 50% or 25%, according to their status. The different methodologies have different consequences for the total, co-financed budget, as they each result in a different budget breakdown between the MS.

		Current Method (Theoretical allocation)	GDP based (Theoretical allocation)	GDP + rate at risk of poverty (Theoretical allocation)	The most cohesive (Theoretical allocation)
Community contribution (million €)		500	500	500	500
19 MS participating	MS contribution (million €)	367.13	352.57	349.83	322.55
	Increase in overall budget thanks to co-financing	+ 73%	+ 71%	+ 70%	+ 65%
EU-27	MS contribution (million €)	409.32	399.66	393.13	361.53
	Increase in overall budget thanks to co-financing	+ 82%	+ 80%	+ 79%	+ 72%

The simulation is made, respectively, for the 19 MS participating in the Programme in 2008 and for all 27 MS. Depending which method is used, the expected budget increase for the Programme is between 65% and 73% (19 Member States) and between 72% and 82% if all MS participate.