



COMMISSION OF THE EUROPEAN COMMUNITIES

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**REPORT FROM THE COMMISSION TO THE COUNCIL**

**on the application of a Council Decision authorising the United Kingdom to permit  
the Isle of Man authorities to apply a system of special import licences  
to sheepmeat, beef and veal**

Proposal for a

**COUNCIL DECISION**

**of extending the period of application of Decision 82/530/EEC authorising the United  
Kingdom to permit the Isle of Man authorities to apply a system of special import  
licences to sheepmeat and beef and veal**

(presented by the Commission)

## **REPORT FROM THE COMMISSION TO THE COUNCIL**

### **on the application of a Council Decision authorising the United Kingdom to permit the Isle of Man authorities to apply a system of special import licences to sheepmeat, beef and veal**

#### **INTRODUCTION**

This report is drawn up under Article 2 of Council Decision 82/530/EEC<sup>1</sup>. This Decision authorises the United Kingdom to permit the Isle of Man Government to apply a system of special import licences to products of the sheep meat and beef and veal sectors. This system is to be applied in such a way as to ensure equality of treatment for all products from whatever the source and for all importers and exporters of meat, while maintaining as far as possible the traditional patterns of trade, and taking the Community rules on animal health into account.

#### **BASIC LEGAL FRAMEWORK**

The Isle of Man, which is situated in the Irish Sea is not part of the United Kingdom but is an internally self-governing dependency of the British Crown. The Isle of Man is not a member of the EU but has a special relationship, which is set out in Protocol 3 to the Treaty of Accession<sup>2</sup>. Under this special relationship the Isle of Man accepts the free movement of goods but does not contribute to Community funds nor can it draw on such funds. The Island is financially autonomous and its support measures for agriculture are funded by the Isle of Man Government from local taxation.

Under Protocol 3 the Council has adopted Regulation (EEC) No 706/73 of 12 March 1973 concerning the Community arrangements applicable to the Channel Islands and the Isle of Man for trade in agricultural products<sup>3</sup>.

In accordance with Article 1(2) of Protocol 3 and with Regulation (EEC) No 706/73 the Council has stated in Decision 82/530/EEC that the Isle of Man Government shall be allowed to apply a special import system for sheepmeat and beef and veal originating in third countries and in Member States of the Community in order to protect the production and the agricultural system of the Island.

The derogation on imports into the Isle of Man provided for by the above-mentioned decision has been extended several times on a temporary basis since entering into force in 1982. The last extension is laid down in Council Decision 2000/665/EC<sup>4</sup>. The Isle of Man Government has applied for a further extension of the derogation.

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<sup>1</sup> Council Decision 82/530/EEC of 19 July 1982 authorising the United Kingdom to permit the Isle of Man authorities to apply a system of special import licences to sheepmeat and beef and veal (OJ L 234, 9.8.1982, p. 7).

<sup>2</sup> OJ L 73 of 27.3.1972, p. 1.

<sup>3</sup> OJ L 68, 15.3.1973, p. 1. Regulation as amended by Regulation (EEC) No 1174/86 (OJ L 167, 24.4.1986, p. 1).

<sup>4</sup> Council Decision 2000/665/EC of 23 October 2000 extending the period of application of Decision 82/530/EEC authorising the United Kingdom to permit the Isle of Man authorities to apply a system of special import licences to sheepmeat and beef and veal (OJ L 278, 31.10.2000, p. 25).

## AGRICULTURAL MARKET SITUATION AND ORGANISATION

About 2% of the active population on the Isle of Man works in agriculture. Approximately 80% of the total area of the Island is in agricultural use. Soils are not particularly good. The climate is mild but humid, although there are significant variations, with the northern plain tending to be drier.

Agriculture has in general been broad-based mixed farming, but in response to commercial pressures, a greater degree of specialisation has developed over the years. Agricultural practices tend to be non-intensive. There are three main types of farming in the Isle of Man: “fatstock” (beef and sheep), dairy and cereals.

The Isle of Man Government has a stated aim to provide to Isle of Man farmers, the same level of farm support supplied to EU farmers through the CAP. Support measures are not necessarily the same as those operated in the United Kingdom, but are intended to secure similar levels of benefit to producers. These measures are funded totally by the Isle of Man Government. There are currently a range of subsidy schemes developed and implemented by the Isle of Man Government (see Annex 2).

Over the past five years since the last extension of the special import derogation the situation in the Island fatstock sector has not changed significantly. The number of sheep and cattle has been stable resulting in the same tendency in the meat production. Self-sufficiency rates are very high: close to 200% for beef and 400% for sheep. During 2003-2004 exports of live animals in both sectors have doubled, however, the quantity is still modest. The producer price increased by 15% for sheep and 10.5% for beef as an average during the same period when compared to the previous three years (see Annex 1).

Farmers sell their products to officially recognised marketing associations. The organisation established under the fatstock scheme is the Isle of Man Fatstock Marketing Association (FMA) and producers are contracted to this body which has to take all stock offered to it by contracted producers. The FMA is the tenant of the Island’s meat plant which is owned by the Government.

It is foreseen by the Agricultural Bill of the Isle of Man Government that farm animals for slaughter could only be sold to the local abattoir. Therefore, the abattoir is the only supplier of meat on the Isle of Man. The establishing of additional processing facilities seems to be restricted and not encouraged.

The Isle of Man Government requests an extension of the derogation on imports mainly on the grounds to have sufficient time to improve the abattoir efficiency. Factual information suggests that processing facilities in the red meat sector have become, under the “protection” of the derogation, relatively less competitive compared to the industry in less protected circumstances.

The retail sector currently comprises five supermarkets, four of which are branches of United Kingdom-based chains and one Isle of Man-based chain. This is leading to a certain amount of over-capacity and competition between the supermarkets. There are now only 14 independent small retail butcher outlets still in existence, down from 20 at the time of the last derogation renewal application.

The implementation of the import derogation by the Isle of Man Government is as follows:

1. No imports of sheepmeat are allowed.
2. There is an import quota into the Island of 20% of the estimated internal consumption of beef and veal.

The export rules established by the Isle of Man administration restrict the exports of live animals. These obstacles include removal or decrease of direct subsidies to the farmer, high veterinary fees, administrative fees and unaffordable sea carriage fees (there is only one ferry in operation).

## **EVALUATION OF CURRENT ARRANGEMENTS**

In sectors where production is two (beef and veal) to four (sheep) times the internal consumption needs, the desire to restrict imports is understandable. However, a shortage of supply to retail and lack of consumer choice due to the imposed import restrictions have been indicated by several operators, in particular small butchers and traders.

The fact that consumer prices are relatively high, where, on the other hand producer prices are relatively low, seems to indicate inefficiencies in the processing/retail sector probably due to the lack of competition.

The high level of self-sufficiency on the Island of the products of the sheepmeat, beef and veal sectors indicates that farm activity has been maintained on the Island. However, the import derogation regime is temporary and has a number of negative elements as indicated previously.

Movement of goods between the Isle of Man and other parts of the Single Market should result in benefits in particular in terms of business opportunities and consumer satisfaction; which, however, may be reduced significantly by the current practical limitations to trade. Moreover, the current EU and international policies are moving towards a more market driven agriculture not only in order to better satisfy consumer needs but also allow farmers a free choice.

The present system risks not to create additional market opportunities for the Isle of Man farmers (exports to the EU) and the local farmers are captives of the system. The lack of competition might be an obstacle to the necessary restructuring of the sectors concerned. On the other hand, the present scheme has allowed the Isle of Man farmers to maintain the production of sheepmeat, beef and veal and to contribute to the economy of the Island.

## **CONCLUSIONS**

Agriculture in general and animal production in particular is very important for the viability and the maintenance of the rural areas of the Isle of Man.

In order to ensure the long term sustainability the Isle of Man will have to adapt to the developments that are taking place in the EU agricultural sector. Market orientation is a very important feature of recent reforms.

On the Isle of Man the present restrictions on imports of sheep and beef meat combined with monopolistic tendencies in the processing and transport sectors seem to lead to inefficiencies

resulting in relatively high consumer prices and low producer prices. This would go against EU developments and risks not to be sustainable in the longer term.

In considering carefully the different elements presented in the report it is the Commission's view that the special regime should not be extended indefinitely. The stakeholders of the sectors should make an effort to improve the competitiveness in the medium term.

Accordingly, the Commission proposes to extend the current temporary special import regime for the last time until 31 December 2010 in order to allow an orderly restructuring of the sheepmeat and beef industry.

It is expected that the extension of the derogation will help when trying to make the red meat sector of the Isle of Man more competitive as to be able to survive in the future under the EU Single Market competition without the need to further prolong the derogation.

In this context, the Commission would like to invite the Isle of Man Government to take appropriate action in order to support the sector in its restructuring process.

## ANNEX I

### SHEEPMEAT AND BEEF BALANCE – ISLE OF MAN

(Estimates of April 2005)

<u>SHEEP</u>	<u>unit</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Sheep numbers in June	'000 head	176	169	171	169	171
Gross indigenous production	tonnes	1 417	1 401	1 291	1 419	1 362
Imports "live animals"	tonnes	9	9	9	13	14
Exports "live animals"	tonnes	119	114	103	267	234
Slaughterings	tonnes	1 308	1 297	1 197	1 165	1 141
Imports "meat"	tonnes	1	1	1	1	1
Exports "meat"	tonnes	962	982	846	832	798
Consumption	tonnes	347	316	353	334	344
Per capita consumption	kg	4.6	4.2	4.6	4.4	4.5
Self-sufficiency rate	%	409	443	366	425	396
Price – per 100 kg cwe	EUR	283	286	281	334	317
<u>BEEF</u>	<u>unit</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Cattle numbers in June	'000 head	14	14	15	15	16
Gross indigenous production	tonnes	1 630	1 676	1 726	1 767	1 989
Imports "live animals"	tonnes	59	78	85	114	124
Exports "live animals"	tonnes	86	90	90	180	252
Slaughterings	tonnes	1 604	1 664	1 721	1 701	1 861
Imports "meat"	tonnes	165	204	222	238	196
Exports "meat"	tonnes	792	830	828	1 074	995
Consumption	tonnes	977	1 038	1 115	865	1 062
Per capita consumption	kg	12.9	13.7	14.7	11.4	14.0
Self-sufficiency rate	%	167	161	155	204	187
Price – per 100 kg cwe	EUR	221	225	226	241	254

*Sources: DAFF, Fatstock Marketing Association, Annual Census*

- cwe – carcass weight equivalent
- Live imports have been converted to deadweight at 45 kg per head
- Euro conversions are calculated using the fixed exchange rate of 70p/€

## **ANNEX II**

### **SUBSIDY SCHEMES IN BRIEF – ISLE OF MAN**

#### **Sheep Premium Scheme**

This pays support for eligible animals slaughtered through the Meat Plant (abattoir). Payment is varied according to carcase quality classification to encourage supply to better reflect market needs. Support consists of a fixed element paid on each eligible animal, and a variable premium which is calculated weekly as a percentage of the UK average market price.

#### **Hill Sheep Scheme**

Pays support for keeping specified number of breeding ewes under natural conditions on approved hill land. This is intended to enhance the grazing influence in managing the rare heather-rich upland environment, through careful control of grazing livestock density, which must remain below 1 ewe to 2 acres (0.8 ha).

#### **The Beef Cow Premium Scheme**

This scheme provides support for cows which produce and rear a beef calf suitable for rearing for beef production. The object of the Scheme is to encourage the production of calves suitable for rearing for beef and excludes dairy breeds. A supplement is payable for cows maintained on marginal land.

#### **Beef Headage Scheme**

Offers support for eligible finished cattle slaughtered through the Meat Plant. Payment is varied according to carcase quality classification and seasonality of supply to encourage supply to better reflect market needs.

## **EXPLANATORY MEMORANDUM**

The report from the Commission to the Council is drawn up under Article 2 of Council Decision 82/530/EEC and following a request from the Isle of Man Government to extend the special derogation on imports. The aim of the report is to assess the impact of the import derogation on the Isle of Man beef and veal and sheep sectors and propose the further regulation accordingly.

The report provides an overview of the legislative background and the agricultural market organisation and evaluates the situation. On one hand, during the import derogation, the activity in the sheep and cattle sector has been maintained and the sector has remained an important branch of the Island's economy. However, on the other hand, the efficiency of and orientation to the market of the sectors can be questioned as the meat sector experiences monopolistic tendencies leading to relatively high consumer prices and low producer prices. It is feared that this would go against the developments of the CAP and may not be sustainable in the longer term.

Therefore, it is the Commission's view that the special regime should not be extended indefinitely. Accordingly, the Commission proposes to extend the current temporary special import regime for the last time until 31 December 2010 in order to allow an orderly restructuring of the sheepmeat and beef industry on the Isle of Man.



Proposal for a

**COUNCIL DECISION**

**of extending the period of application of Decision 82/530/EEC authorising the United Kingdom to permit the Isle of Man authorities to apply a system of special import licences to sheepmeat and beef and veal**

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to Protocol 3 to the 1972 Act of Accession, and in particular Article 1 and the second subparagraph of Article 5 thereof,

Having regard to the proposal from the Commission,

Whereas:

- (1) Community rules concerning trade with third countries in agricultural products subject to a common organisation of the market apply to the Isle of Man in accordance with Article 1(2) of Protocol 3 to the Act of Accession and with Council Regulation (EEC) No 706/73 concerning the Community arrangements applicable to the Channel Islands and the Isle of Man for trade in agricultural products<sup>5</sup>.
- (2) Livestock production is a traditional activity in the Isle of Man and plays a central part in the Island's agriculture.
- (3) In the context of the trade arrangements with certain third countries pursuant to the common organisation of the market applicable to the Isle of Man, subject to the Community provisions which governed the relationship between the Island and the Community, it was desirable to permit the Island authorities to apply certain measures in order to protect its own production and the working of its own agricultural support system.
- (4) Therefore, Council Decision 82/530/EEC<sup>6</sup> authorised the United Kingdom to permit the Isle of Man Government to apply a system of special licences for imports of sheepmeat and beef and veal originating in third countries and in Member States of the Community, without prejudice to the measures concerning trade with third countries provided for by Council Regulations (EC) No 1254/1999 on the common organisation of the market in beef and veal<sup>7</sup> and Council Regulation (EC) No 2529/2001 on the

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<sup>5</sup> OJ L 68, 15.3.1973, p. 1. Regulation as amended by Regulation (EEC) No 1174/86 (OJ L 167, 24.4.1986, p. 1).

<sup>6</sup> OJ L 234, 9.8.1982, p. 7. Decision as last amended by Decision 2000/665/EC (OJ L 278, 31.10.2000, p. 25).

<sup>7</sup> OJ L 160, 26.6.1999, p. 21. Regulation as last amended by Council Regulation (EC) No 1782/2003 (OJ L 270, 21.10.2003, p. 1).

common organisation of the market in sheepmeat and goatmeat<sup>8</sup>. This authorisation was granted for a period ending on 31 December 2005.

- (5) During the application of the system, the activity in the sheep and cattle sector in the Isle of Man has been maintained. However, the Commission reported to the Council that structural problems in the sector may impede the long-term sustainability of the livestock production on the Island. Therefore, the current regime is prolonged for the last time to allow for the restructuring of the sheepmeat and beef industry on the Isle of Man.
- (6) In order to provide for continuous application of the system after 31 December 2005, the date of application of this Decision should be fixed to 1 January 2006.
- (7) Decision 82/530/EEC should therefore be amended accordingly,

HAS ADOPTED THIS DECISION:

*Article 1*

Article 2 of Decision 82/530/EEC is hereby replaced by the following:

“This Decision shall apply until 31 December 2010.”

*Article 2*

This Decision shall apply from 1 January 2006.

*Article 3*

This Decision is addressed to the United Kingdom of Great Britain and Northern Ireland.

Done at Brussels,

*For the Council*  
*The President*

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<sup>8</sup> OJ L 341, 22.12.2001, p. 3. Regulation as last amended by Council Regulation (EC) No 1782/2003 (OJ L 270, 21.10.2003, p. 1).

<b>FINANCIAL STATEMENT</b>				
1. BUDGET HEADING: Art. 05 02 14 Sheepmeat and goatmeat Ch 10 Agricultural duties			APPROPRIATIONS: pm. (PDB2006) EUR 763.5 million	
2. TITLE: Proposal for a Council Decision extending the period of application of Decision 82/530/EEC authorising the United kingdom to permit the Isle of Man authorities to apply a system of special import licences to sheep meat and beef and veal.				
3. LEGAL BASIS: Protocol 3 to the 1972 Act of Accession, and in particular Article 1 and the second subparagraph of Article 5 Council Regulation (EC) No 706/73 of 12 March 1973 concerning the Community arrangements applicable to the Channel Islands and the Isle of Man for trade in agricultural products.				
4. AIMS: This decision proposes to extend (without any changes) the authorisation for the United Kingdom to permit the special system of import licences for sheep meat, beef and veal imported into the Isle of Man from the UK or third countries. The authorisation is proposed to apply until 31 December 2010.				
5. FINANCIAL IMPLICATIONS	12 MONTH PERIOD (EUR million)	CURRENT FINANCIAL YEAR 2005 (EUR million)	FOLLOWING FINANCIAL YEAR 2006 (EUR million)	
5.0 EXPENDITURE – CHARGED TO THE EC BUDGET (REFUNDS/INTERVENTIONS) – NATIONAL AUTHORITIES – OTHER	–	–	–	
5.1 REVENUE – OWN RESOURCES OF THE EC (LEVIES/CUSTOMS DUTIES) – NATIONAL	–	–	–	
	2007	2008	2009	2010
5.0.1 ESTIMATED EXPENDITURE	–	–	–	–
5.1.1 ESTIMATED REVENUE	–	–	–	–
5.2 METHOD OF CALCULATION:				
6.0 CAN THE PROJECT BE FINANCED FROM APPROPRIATIONS ENTERED IN THE RELEVANT CHAPTER OF THE CURRENT BUDGET?			N.A.	
6.1 CAN THE PROJECT BE FINANCED BY TRANSFER BETWEEN CHAPTERS OF THE CURRENT BUDGET?			N.A.	
6.2 WILL A SUPPLEMENTARY BUDGET BE NECESSARY?			<del>YES</del> NO	
6.3 WILL APPROPRIATIONS NEED TO BE ENTERED IN FUTURE BUDGETS?			<del>YES</del> NO	
OBSERVATIONS: The measure will not have any financial influence neither on budgetary expenditures nor on budgetary income.				