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(Acts whose publication is not obligatory)

COUNCIL

COUNCIL DECISION

of 23 January 2006

on the approval of exceptional national aid by the Republic of Cyprus to Cypriot farmers for the purpose of repaying part of agricultural debts created long before accession of Cyprus to the European Union

(2006/39/EC)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 88(2), third subparagraph, thereof,

Having regard to the request made by the Republic of Cyprus on 21 November 2005,

Whereas:

- (1) On 21 November 2005, Cyprus presented to the Council a request for a decision in accordance with the third subparagraph of Article 88(2) of the Treaty declaring that the plan of Cyprus to grant national aid to Cypriot farmers for the purpose of repaying part of agricultural debts created long before the accession of Cyprus to the European Union as a result of exceptional circumstances is compatible with the common market.
- (2) Intensive efforts have been made by the Cypriot Government to put back to work the many tens of thousands of farmers and rural people who were forced to abandon their farms and households after the Turkish invasion in 1974.
- (3) In order to enable these farmers and rural people to pursue their activities in Cyprus, Government-guaranteed loans were issued for the acquisition of machinery and livestock and/or the realisation of other investments in agriculture.
- (4) In the 1990's, Cyprus was hit by an unprecedented and severe drought which lasted for seven years, with devas-

tating consequences for agricultural production and farm incomes. In the hope of a better harvest in the following year, many Cypriot farmers hit by the drought resorted to borrowing in order to buy farm inputs, thus falling into a trap of accumulated debt year after year. The extent of the losses suffered by the Cypriot farmers and the accumulation of their debts affected their ability to repay existing loans.

- (5) A political commitment to deal with the accumulated farm debt problem was given by the Government early in 1999, but through failure to reach an agreement with the unions of farmers the proposed debt repayment scheme was not implemented before accession to the Union. It was only after long discussion and the pressure of the serious challenges facing the agricultural sector of Cyprus after accession that farmers unions came to revise their positions.
- (6) After the accession of Cyprus to the Union, the agricultural sector of Cyprus entered into a period of extended crisis and farm incomes registered a decline unlike in all the other new Member States. Farm gate prices of cereals and of fruit other than citrus went down substantially. A considerable share of the grape harvest could not find normal market outlets and Cyprus requested and was granted Community aid to implement an immediate grubbing-up scheme. Anticipating the needs for adjustment, conversion and diversification, the national Rural Development Plan for the period 2004 to 2006 incorporated a number of schemes and programmes requiring considerable investment by farmers and other rural people. However, the accumulated farm debt from the period before accession proved to be a major stumbling block to the implementation of that Plan, with Banks and other financial institutions requiring repayment of previous loans before issuing new ones.

- (7) The refusal of the credit agencies to provide further borrowing constitutes a major obstacle to the efforts of modernisation and upgrading of agricultural and livestock production units. This lack of modernisation and the consequent lower productivity and reduced profitability, together with the resulting hard living and working conditions of the Cypriot farmers, entails the risk of abandonment of growing, with the consequent risk of serious economic and social repercussions for the Cypriot farmers concerned.
- (8) The aid is intended as relief to the following categories of farmers which are affected by the accumulation of debts and unable to repay the loans given:
- those who were registered as farmers with the Social Security Fund and paid social security contributions up to 31 December 1998,
 - displaced farmers who held a professional license, and whose annual income from non-agricultural employment did not exceed CYP (Cyprus pounds) 6 000 on 31 December 1998,
 - those who are today receiving a pension and were registered as farmers on 31 December 1998,
 - those who lived in the countryside and were employed in farming, but also exercised another non-agricultural profession, provided that their non-agricultural income did not exceed CYP 6 000 on 31 December 1998.
- (9) The aid to be granted from Cyprus amounts to CYP 23 000 000 (equivalent to EUR 39 330 000), corre-

sponding to loans contracted between 1974 and the 31 December 1998.

- (10) The number of beneficiaries by the proposed national aid scheme is estimated to be over 15 000 farmers.
- (11) Exceptional circumstances therefore exist, making it possible to consider as compatible with the common market the aid planned by Cyprus for Cypriot farmers for the purpose of repaying part of agricultural debts created long before accession of Cyprus to the Union,

HAS ADOPTED THIS DECISION:

Article 1

National aid granted by the Republic of Cyprus for CYP 23 000 000 (equivalent to EUR 39 330 000) to enable Cypriot farmers to repay to Banks and other financial institutions part of their agricultural debts, which were created before 31 December 1998 due to the exceptional circumstances that prevailed before and up to that date, shall be considered compatible with the common market.

Article 2

This Decision is addressed to the Republic of Cyprus.

Done at Brussels, 23 January 2006.

For the Council
The President
J. PRÖLL