EN 2023 09

Special report

# Securing agricultural product supply chains during COVID-19

## EU response was rapid, but insufficiently targeted by member states

CURIA RATIONUM
EUROPEAN COURT OF AUDITORS

# Contents

# Executive summary

**I** The COVID-19 pandemic impacted agricultural product supply chains from farm to fork and affected several agricultural markets. The EU adopted a series of exceptional support measures in response.

**II** The objective of this audit was to assess whether the EU response to the threat posed to agricultural product supply chains by the pandemic was appropriate. We assessed whether the EU reacted quickly to the disruption to the agri-food sector caused by the pandemic and examined whether EU support targeted both sectors and beneficiaries most in need. The Commission measures were adopted in 2020 and we covered their implementation up to the end of 2021. We expect our audit to help improve the design of measures in any future crises affecting agricultural product supply chains.

**III** We concluded that the Commission's response to the threat posed to agricultural product supply chains by the COVID-19 pandemic was appropriate in most respects but insufficiently targeted.

**IV** We found that the Commission reacted rapidly to the pandemic. It issued useful guidelines on the movement of goods and critical workers that mitigated disruption to the agri-food sector. Direct support, with a budget of €712 million, was implemented quickly through reallocation of unused European Agricultural Fund for Rural Development (EAFRD) funds. We found that this measure was mostly taken up by member states with significant unused EAFRD budget at the end of 2019.

**V** The main fiscal response to the pandemic came from national budgets and the Commission put in place procedures to facilitate state aid. We identified a risk of distortion of competition between member states, as well as the risk of overcompensation when state aid supported a sector that also received EU funds.

**VI** Direct support was insufficiently targeted by the member states. Five of the 14 member states that used this measure made the EU funding available to all farmers that suffered losses, whereas the other nine targeted selected sectors and supported beneficiaries irrespective of whether they had suffered losses.

**VII** The EU also adopted measures in the form of private storage and crisis distillation of wine, in order to stabilise the market by reducing excess supply. The take-up of private storage was low, particularly in the meat sector. Crisis distillation,

with a budget of €293 million, was implemented with significant differences across the member states we audited. The rules for the amount of support retained by distillers were unclear.

**VIII** Based on these findings, we recommend that the Commission share good practice to improve targeting of CAP measures, and, in the event of future crises, propose clear rules.

# Introduction

## The COVID-19 pandemic and agricultural product supply chains

**01** The EU's common agricultural policy (CAP) aims to ensure a stable supply of affordable food and enable its farmers to make a reasonable living[1]. The COVID-19 pandemic impacted agricultural product supply chains from farm to fork, causing disruption and economic damage to harvests, logistics, processing and procurement.

**02** At the beginning of the pandemic, a number of member states unilaterally closed their borders on public health grounds, despite the Commission's recommendation[2] for a coordinated approach to any restrictions in the free movement of people and goods. Product transportation, particularly across borders, was challenging for the same reasons. Many food processing plants closed due to emergency measures or staff shortages. The hospitality sector was shut down, while supermarkets were understaffed and faced supply issues[3].

## EU actions to support the agri-food sector during the COVID-19 pandemic

**03** The responsibility for measures related to the agri-food sector lies primarily with the member states. The Commission issues guidelines and proposes financial measures to support the sector[4]. The Commission and member states share management of these measures. Member states select beneficiaries and implement the measures proposed by the Commission. The Commission is also responsible for approving state aid schemes that member states may want to implement. ***Figure 1*** presents the timeline of the measures adopted by the EU.

---

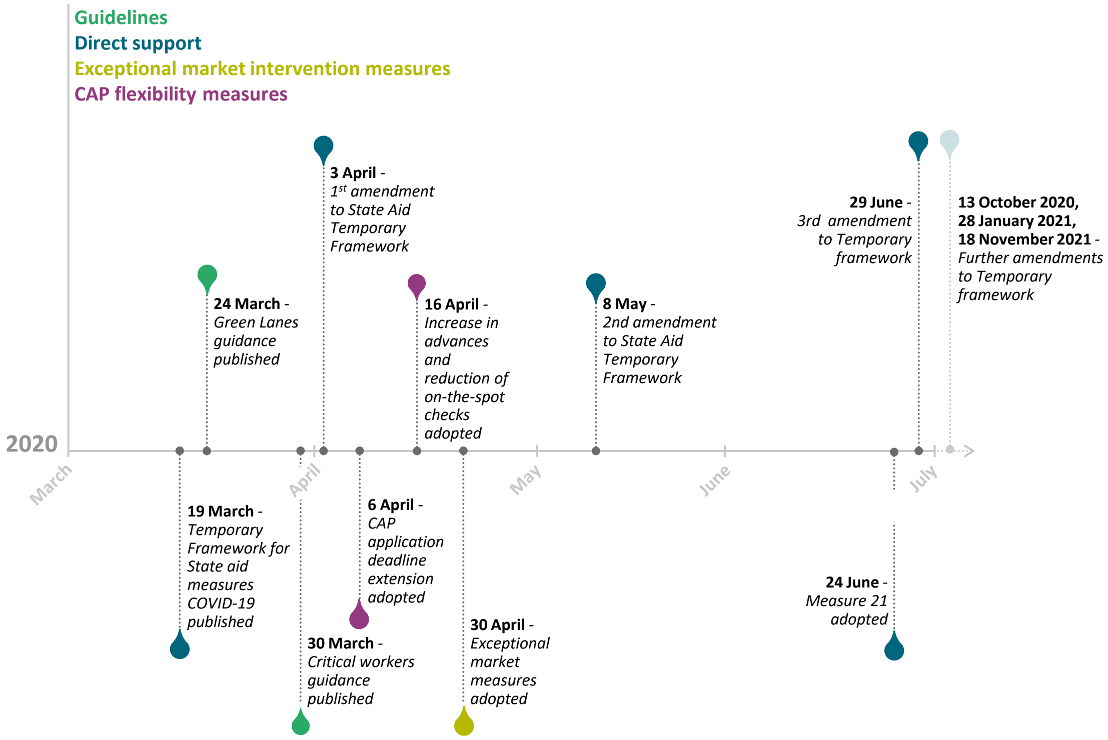
[1] The common agricultural policy at a glance.

[2] C(2020) 499 final: Proposal for a Council recommendation on a coordinated approach to the restriction of free movement in response to the COVID-19 pandemic.

[3] Preliminary impacts of the COVID-19 pandemic on European agriculture: a sector-based analysis of food systems and market resilience, p.31-35.

[4] Supporting the agriculture and food sectors amid Coronavirus, European Commission.

## Figure 1 – EU measures in response to the COVID-19 pandemic




*Source:* ECA, based on publicly available data[5].

**04** In particular, the EU introduced the following measures (see ***Table 1*** and ***Annex I*** for more details):

- Commission guidelines aiming to ensure an efficient food supply chain in the EU, qualifying seasonal workers as "critical" to support the food sector;
- direct support for farmers and SMEs in the form of lump sum payments (rural development 'measure 21'), loans and guarantees, increased advances and higher state aid under the temporary framework for farmers and food processing companies;
- exceptional market measures in the form of private storage aid, wine crisis distillation and flexibility in the implementation of market support programmes;
- CAP flexibility measures, extending deadlines for CAP payment applications and temporarily replacing on-the-spot farm checks with alternative sources of evidence such as satellite imagery or geo-tagged photos, to minimise physical contact between farmers and inspectors.

[5] Ibid

### Table 1 – EU measures in response to the pandemic

<table>
<tr><th colspan="4">Direct support measures</th></tr>
<tr><td>Loans or guarantees up to €200 000 with favourable terms (very low interest rates or favourable payment schedules)</td><td>Lump-sum payments (Measure 21) up to €7 000 per farmer and €50 000 per SMEs</td><td>Higher advances on direct EU payments payments (from 50 % to 70 %) and certain rural development payments (from 75 % to 85 %)</td><td>State aid under the Temporary Framework: €290 000 per farm and up to €2.3 million for food processing companies, as amended by C/2021/8442</td></tr>
<tr><th colspan="4">Exceptional market measures</th></tr>
<tr><td>Private storage</td><td>Flexibility for market support programmes</td><td colspan="2">Temporary derogation from EU competition rules</td></tr>
<tr><th colspan="4">Guidelines for free movement of goods and agricultural workers</th></tr>
<tr><td colspan="2">Green Lanes to keep food flowing across Europe</td><td colspan="2">Seasonal workers qualified as “critical workers” to support the food sector</td></tr>
<tr><th colspan="4">CAP flexibility measures</th></tr>
<tr><td colspan="2">Extension of deadline for CAP payment applications</td><td colspan="2">Reduction of physical on-the-spot checks and leeway for timing requirements</td></tr>
</table>

*Source:* Supporting the agriculture and food sectors amid Coronavirus, European Commission.

**05** The COVID-19 pandemic is not the only external event that impacted the EU agri-food sector. The Russian invasion of Ukraine on 24 February 2022 has significantly impacted security in Europe, including food supply security. These two unrelated events have been tackled through similar measures. For information, ***Annex II*** presents the food security measures introduced as a result of the war in Ukraine alongside those introduced as a result of the COVID-19 crisis.

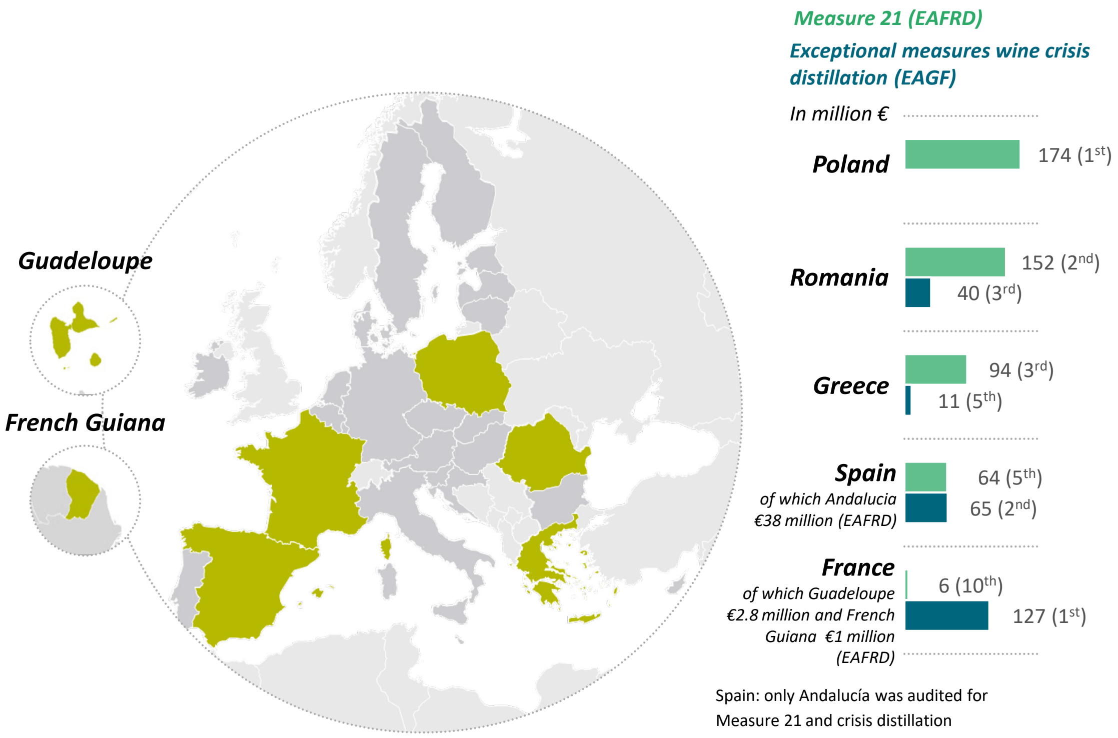
# Audit scope and approach

**06** This audit examined whether the EU response to the threat posed to agricultural product supply chains by the COVID-19 pandemic was appropriate. We examined this topic given the unprecedented challenges to agri-food supply chains across the EU and the disrupted agricultural product markets. The European Parliament expressed interest in our assessment on the functioning of the market measures in relation to food supply chains following the COVID-19 pandemic.

**07** To reply to our main audit question, we assessed whether the EU response towards preventing the disruption of agricultural product supply chains was prompt, and whether EU support was well targeted and addressed farmers' needs. As part of our assessment we examined EU guidelines, exceptional support, market measures and state aid.

**08** We checked the implementation of the EU measures in five member states (Greece, Spain, France, Poland and Romania), which accounted for 69 % and 87 % of the amounts allocated as exceptional aid under measure 21 and crisis distillation respectively (see ***Figure 2***).

## Figure 2 – Selection of member states and materiality of audited measures




*Source:* ECA, based on Commission figures (measure 21) and national authorities' figures (crisis distillation).

**09** Our audit covered 2020 and 2021 during which the majority of measures introduced were implemented. We collected audit evidence through:

- a review of national/regional legislation and statistics;
- a questionnaire completed by national authorities in the five selected member states on their use of EU support measures launched during the COVID-19 pandemic;
- follow-up with national or regional authorities in the five selected member states;
- interviews with Commission officials and review of Commission documentation.

Our audit does not cover the Commission's actions in response to the war in Ukraine.

**10** We expect our work to help the Commission improve the design and targeting of future crisis response measures intended to support the agri-food sector and secure agricultural product supply chains.

# Observations

## The EU response to the pandemic was rapid

**11** We assessed:

(a) whether the Commission and member states promptly secured the flow of goods across the EU. We assessed the Commission's role in drawing up the Green Lane guidelines and how it monitored the application of the guidelines.

(b) whether the Commission quickly set-up direct support to farmers within the first months of the onset of the pandemic;

(c) whether the Commission and member states quickly introduced state aid measures to support farmers and had taken steps to ensure that these did not lead to distortion of competition and overcompensation.

### The Commission's guidelines on border management measures mitigated disruption to the agri-food sector

**12** The Commission issued the Green Lane guidelines on the movement of goods[6] and on seasonal workers[7] at the start of the pandemic. On 23 March 2020, it created the 'Green Lanes'[8] system and invited member states to put in place the necessary operational and organisational measures to ensure the functioning of the single market for all goods, including agri-food products.

**13** The aim of the Green Lane guidelines was to ensure the continuous flow of goods within the EU and the free movement of transport workers. Green Lanes were designated key border-crossing points where checks should not exceed 15 minutes.

---

[6] 2020/C 86 I/01, Guidelines for border management measures to protect health and ensure the availability of goods.

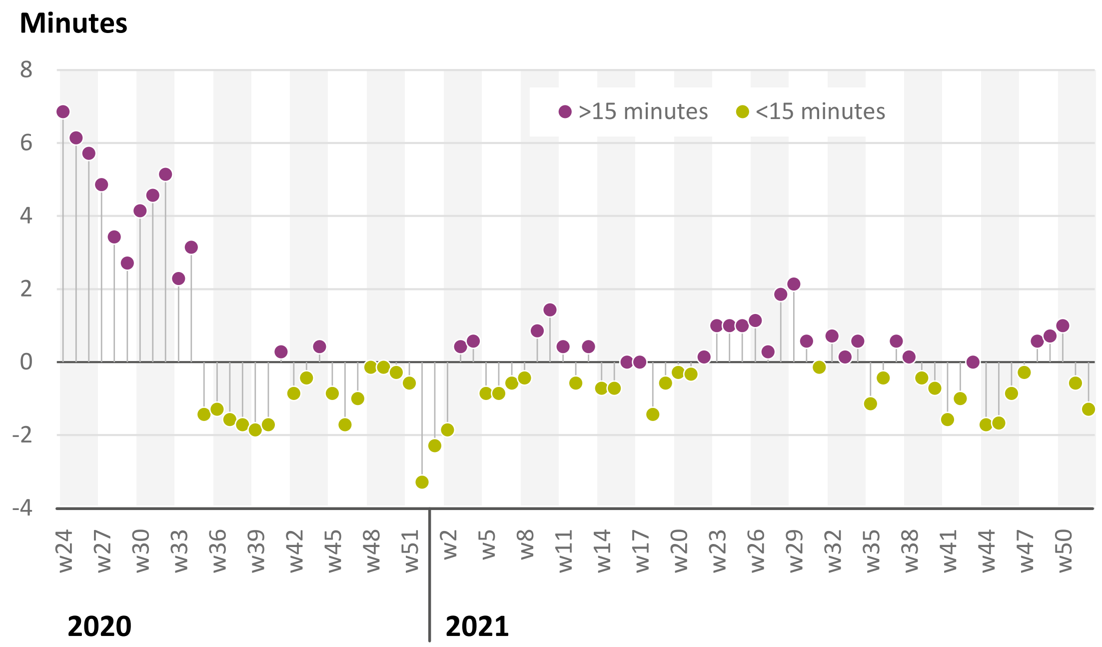
[7] 2020/C 235 I/01, Guidelines on seasonal workers in the EU in the context of the COVID-19 outbreak.

[8] C(2020) 1897 final: Communication from the Commission on the implementation of the Green Lanes under the Guidelines for border management measures to protect health and ensure the availability of goods and essential services.

**14** The Commission worked with the EU Agency for the Space Programme to develop a mobile application. The "Galileo Green Lane" app provides data on compliance with the Commission's Communication on the implementation of the Green Lanes. Border control staff and freight transport users of the app record crossing times at 178 Trans-European Transport Network (TEN-T) border crossings. This helps app users to better plan their journeys. As at November 2022, the app remains operational and is used to facilitate transportation in the ongoing crisis following Russia's invasion of Ukraine.

**15** Data from the Commission confirmed that the mean time for crossing borders at checkpoints was less than one minute[9] over the 15-minute maximum between 3 June 2020 and 31 December 2021. No structured data is available for the period preceding June 2020. ***Figure 3*** shows the mean weekly crossing time. The Green Lane threshold was mainly exceeded between June and August 2020, and between May and August 2021. These periods coincided with travel restrictions in member states during the various waves of COVID-19.

### Figure 3 – Green Lanes: compliance with 15-minute ceiling




*Source:* ECA, based on data provided by the Commission. Graph compiled using data from the Galileo Green Lane app.

**16** From the onset of the pandemic, the Commission established a National Transport Contact Points Network (NTCPN), providing an informal platform for

[9] Dataset provided by DG MOVE, based on Galileo app.

member states to highlight and discuss transportation issues, identify common solutions and share best practices. The member states we consulted during our audit were of the opinion that these meetings helped streamline EU cooperation in freight transport.

**17** The Commission's role also involved closely monitoring border crossing times and using NTCPN meetings to resolve issues causing delays in collaboration with the relevant member states. As at November 2022, the NTCPN continues to be a forum for information-sharing between member states and the Commission.

**18** The authorities in all five audited member states commented positively on the guidelines on transportation, which they considered an effective guide to managing border crossings during COVID-19. For example, the Romanian authorities emphasised that the Green Lanes contributed to maintaining the flow of medicines and other essential goods, such as agricultural products.

## The direct support framework was rapidly set up

**19** On 22 April 2020, just a month after the pandemic was declared[10], the Commission proposed a regulation[11] with specific measures to grant exceptional temporary EAFRD support under the new measure 21 in response to the COVID-19 outbreak. The regulation[12] was adopted on 24 June 2020. This support consisted of a one-off lump-sum payment of up to €5 000 per farmer (in June 2020 the co-legislators decided to amend the Commission proposal by increasing the maximum support amount for farmers to €7 000) and €50 000 per SME. Member states were required to show that the support targeted those most affected, based on objective and non-discriminatory criteria[13].

**20** Measure 21, with a budget of €712 million, was not financed by an increase in the EU budget for agriculture. Member states reallocated unspent funds from other EAFRD measures. The EAFRD contribution to the measure could not exceed 2 % of the total EAFRD contribution to the rural development programme for the years 2014-2020.

---

[10] WHO - Coronavirus disease (COVID-19) pandemic.

[11] Commission announces exceptional measures to support the agri-food sector.

[12] Regulation (EU) 2020/872.

[13] Ibid, recital 3.

**21** Measure 21 was mostly used by member states with large unspent EAFRD budgets at the end of 2019. Poland, for example, had committed 57 % of its EAFRD budget at that point (the lowest of all the EU-27) and had the highest measure 21 budget. Thirteen of the 14 member states that opted for measure 21 had committed less than 90 % of their EAFRD budget by the end of 2019.

## The EU quickly introduced state aid measures, but these led to a risk of distortion of competition and overcompensation

**22** The Commission adopted the State Aid Temporary Framework[14] promptly on 19 March 2020 which enabled member states to use the flexibility provided under state aid rules to support the economy during the COVID-19 pandemic.

**23** Germany, Spain, Austria and Slovakia approved umbrella schemes that included aid but did not disclose the amount for agriculture separately. For the remaining member states, the budgeted state aid for the forestry, aquaculture and agriculture sectors amounted to over €9 billion. State aid could take the form of grants, repayable advances, tax advantages, loans or subsidised guarantees. State aid support provided by member states to selected sectors was far more significant in monetary terms than EU direct support (see paragraph ***20***).

**24** As of May 2022, state aid actually granted to agriculture amounted to at least €1.5 billion. According to the Commission, 10 member states did not specifically report figures for the agricultural sector, so it does not have an overview of state aid for agriculture.

**25** The Commission is required to ensure that the EU internal market is not fragmented by state aid and that the level playing field stays intact[15]. Article 107 TFEU[16] does not require the Commission to compare the budget for the state aid measure with that of other member states. Granting aid to a given sector in one member state when another member state does not grant the same type of aid, or when the subsidy is far higher in one member state, could distort competition.

---

[14] C(2020)1863 Communication.

[15] C(2020)1863 Communication, p. 3.

[16] TFEU, article 107.

**26** According to the Commission, the checks they carried out on state aid schemes and the overall ceilings for support provide some level of assurance that no harmful subsidy races occur between member states[17] as the Temporary Framework follows the model of TFEU state aid rules. Nevertheless, the lack of coordination across member states risks distorting competition[18].

**27** The horticultural sector was particularly affected during lockdown as plant and flower shops were closed and demand fell by 80 %[19]. ***Table 2*** below illustrates the state aid for this sector for the two biggest producers of plants and flowers by value (the Netherlands and Spain). While state aid in the Netherlands reached almost 9 % of production value for this sector, it was far lower in Spain. This difference in support to a sector has the potential to create unfair competition.

### Table 2 – State aid to the flower and plant sector in Spain and the Netherlands

| | Production value in € million - 2019 | Share of the EU production value | State aid € million | % of state aid of the production value |
|---|---|---|---|---|
| **EU-27** | 21 686 | | | |
| **Netherlands** | 6 880 | 32 % | 600 | 8.72 % |
| **Spain** | 3 120 | 14 % | 10 | 0.32 % |

*Source:* Eurostat – Economic accounts for agriculture – values at current prices [aact_eaa01], SA57217 (NL); Real Decreto 883/2020 (under SA56851).

**28** In Spain, the Andalusian Rural Development Programme estimated the losses of the sheep and goat sector at €8.6 million. Measure 21 provided this sector with €8.7 million in support. In addition, the sector received €10 million in national aid[20]. There is consequently a risk of overcompensation for some beneficiaries, as demonstrated by this example, where state aid and EU support via measure 21 overlapped.

---

17 (2020/C 91 I/01): paragraph 10.

18 Preliminary impacts of the COVID-19 pandemic on European agriculture: a sector-based analysis of food systems and market resilience, p. 83.

19 Ibid, p. 27.

20 Real Decreto 508/2020.

**29** *Box 1* illustrates additional cases of potential overcompensation in respect of crisis distillation.

**Box 1**

**Examples of potential overcompensation between state aid and EU support for crisis distillation**

**France** supported companies affected by the COVID-19 crisis via general state aid based on lost turnover. Wine producers received €119 million in EU support, yet were also eligible for state aid. The national authorities did not cross-check the beneficiaries of the national scheme against beneficiaries of crisis distillation aid.

**Romania** approved state aid to support grape producers. Wine producers that also produced their own grapes could potentially receive dual compensation, for their estimated losses per hectare of vineyard and for selling their wine to distilleries. State aid totalled €12.4 million, while wine producers received €34 million in EU support.

In both member states, due to lack of coordination, wine producers may have been compensated under both schemes, and there is a risk that compensation exceeded lost turnover.

*Source:* SA.56985 (2020/N)- France - SA.59520 (2020/N) – Romania.

## Member states did not sufficiently target beneficiaries in need when providing EU direct support in response to the pandemic

**30** Economic disruption to the agricultural sector and rural communities led to liquidity and cash-flow problems for farmers and SMEs processing agricultural products, which, according to the Commission, were in urgent need of support.

**31** In response to the threat posed by the COVID-19 pandemic to agricultural product supply chains, the Commission and member states introduced direct support, private storage and other measures to help farmers withstand the economic impact. We assessed whether:

- measure 21 targeted both sectors and beneficiaries in greatest need of support, therefore not supporting farmers unaffected by the crisis;
- the exceptional market measures proposed by the Commission were appropriate for market needs; and

- support for the wine sector was implemented consistently.

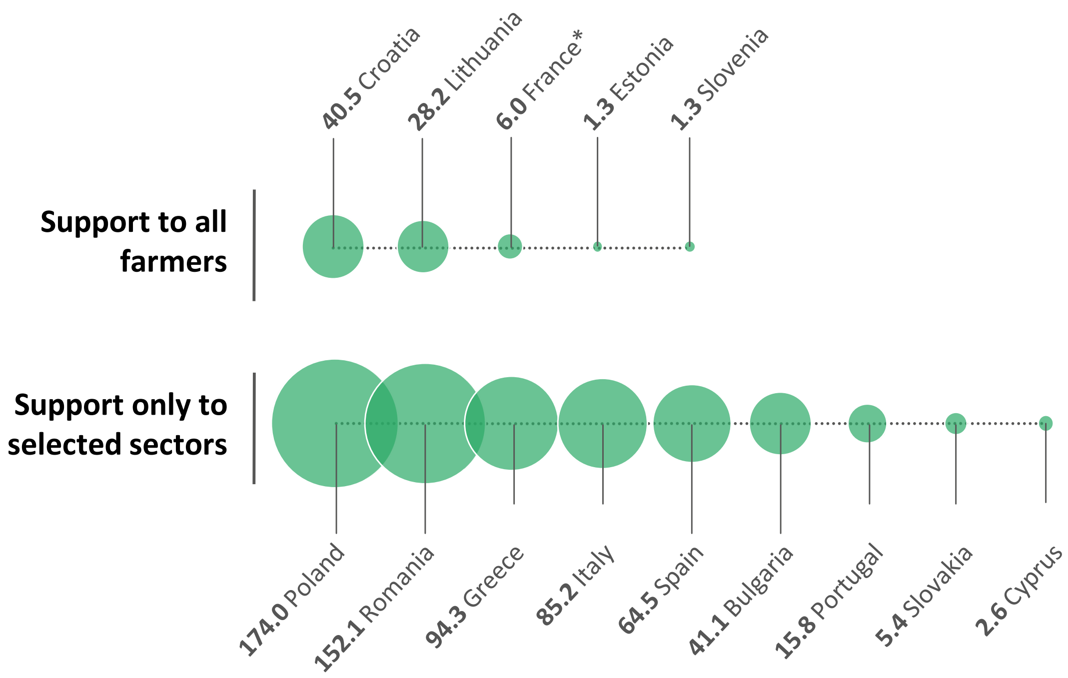
### Measure 21: member states insufficiently targeted the support on the sectors and beneficiaries most affected by the crisis

**32** In line with the legal framework and respective responsibilities (see paragraph ***03***), the Commission relied on the member states to target support to those sectors or beneficiaries most affected by the COVID-19 crisis, by determining eligibility conditions and selection criteria[21]. All measures were approved by the Commission through revisions of the RDPs. In total, 14 member states opted to include measure 21 in their RDP, with a total budget of €712 million.

**33** Five of these member states, Estonia, France (in Guadeloupe, French Guiana and Mayotte), Croatia, Lithuania and Slovenia, made support available to all farmers, adopting different rates of support up to the maximum limit. These five member states had specific clauses that linked the support to financial losses compared to the year before the pandemic. The other nine member states supported specific agricultural sectors, but did not link the support to financial losses (see ***Figure 4***). However, the legal framework did not require the level of support to be linked to financial losses assessed at individual beneficiary level.

[21] Regulation (EU) 2020/872, article 39b.

**Figure 4 – Member states' budgeted measure 21 expenditure (€ million)**




**The data for France covers Guadeloupe, French Guiana and Mayotte*

*Source:* ECA, based on Commission data.

**34** We reviewed the implementation of measure 21 in five member states: Greece, Spain (Andalusia), France (Guadeloupe and French Guiana), Poland and Romania. Guadeloupe and French Guiana provided support to all sectors, targeting those in need. The other four audited member states provided support to selected affected sectors but did not provide support based on an individual assessment of farmers' losses.

**35** Within an affected agricultural sector, it may be the case that not all farmers struggle financially. Providing support to an affected sector as a whole without targeting beneficiaries in most need was allowed by the legal framework. However, this risks supporting farmers who had not been impacted by the crisis.

**36** Andalusia decided to support its grape and wine producers under measure 21. Andalusia calculated the losses incurred by grape producers based on a flat rate of either €336/ha (Protected Designation of Origin or PDO vineyards) or €198/ha (non-

PDO vineyards) for producers with up to 10 hectares of vineyards[22]. Producers with more than 10 hectares, however, received a fixed amount of €7 000. This may have led to overcompensation of losses for producers with between 11 and 20 hectares of vineyards (see *Table 3*).

### Table 3 – Estimated losses compared to compensation received for grape producers in Andalusia

<table>
<tr><th rowspan="2">Number of hectares</th><th colspan="3">PDO vineyard</th><th colspan="3">Other vineyards</th></tr>
<tr><th>Losses estimated in €</th><th>Compensation in €</th><th>% of compensation</th><th>Losses estimated in €</th><th>Compensation in €</th><th>% of compensation</th></tr>
<tr><td>1</td><td>336</td><td>208</td><td>62 %</td><td>198</td><td>123</td><td>62 %</td></tr>
<tr><td>10</td><td>3 360</td><td>2 775</td><td>83 %</td><td>1 980</td><td>1 018</td><td>51 %</td></tr>
<tr><td>11</td><td>3 696</td><td rowspan="4">7 000</td><td>189 %</td><td>2 178</td><td rowspan="4">7 000</td><td>321 %</td></tr>
<tr><td>20</td><td>6 720</td><td>104 %</td><td>3 960</td><td>177 %</td></tr>
<tr><td>21</td><td>7 056</td><td>99 %</td><td>4 158</td><td>168 %</td></tr>
<tr><td>35</td><td>11 760</td><td>60 %</td><td>6 930</td><td>101 %</td></tr>
</table>

*Source:* ECA calculation, based on figures from the Andalusian Rural Development Programme (RDP), point 8.2.14.3.3.4., Methodology for calculating amount or support rate and point 8.2.14.3.2., Amounts and support rates.

## The Commission allocated funds for private storage but uptake was low

**37** The Commission and member states identified those market sectors most affected by the COVID-19 crisis and the need for private storage, for which they provided aid. The Commission anticipated that the meat and dairy markets would be most impacted and introduced a measure to support private storage in those markets. This measure allowed the temporary withdrawal of products from the market for between two and six months.

**38** The aid for private storage in the dairy, beef, sheep and goat sectors was less than €10 million (almost half of it for butter). The schemes for the private storage of butter and cheese were taken up by 16 and 15 member states respectively, whereas less than half of the member states applied for the schemes for meat and skimmed milk powder (see *Table 4*).

[22] Andalusia Rural Development Programme, version 11.1.

### Table 4 – Private storage

| Private storage | 2020-2021 EU support made available to member states thousand € | Member states which used the private storage |
|---|---|---|
| Skimmed Milk Powder | 461 | **9** (BE, CZ, DE, ES, LT, NL, PL, PT, RO) |
| Butter | 4 606 | **16** (BE, CZ, DE, IE, ES, FR, HR, IT, LT, NL, AT, PL, PT, RO, FI, UK) |
| Cheese | 2 848 | **15** (BE, DE, IE, ES, FR, IT, LT, NL, AT, PL, PT, RO, FI,SE,UK) |
| Beef | 1 966 | **8** (DE,ES,FR,IT,LV,NL,AT,PL) |
| Sheep and goat | 122 | **1** (ES) |

*Source:* DG AGRI-EAGF expenditure, 2020-2021.

**39** Only Spain used the private storage scheme for the sheep and goat sector (140 tonnes). This support was not deemed attractive by producers as the aid could not be applied retroactively for meat already in storage. The need for storage in this sector pre-dated the publication of the Commission Regulation[23]. Conversely, for cheese, the French authorities stated that the implementation of the private storage measure was limited to products already in storage[24], so they only used 37 % of the allocation. These examples indicate possible flaws in the design of the measures, for example because of a lack of needs assessment ahead of introducing the measures.

## Significant differences in member state' implementation of support to the wine sector led to inconsistent treatment of wine producers

**40** The Commission assessed that the COVID-19 pandemic caused considerable disturbance to the wine market[25]. Lockdowns, especially the suspension of activities in the hospitality sector, restricted the distribution and sale of wine. The wine sector was also affected by additional import tariffs imposed by the United States, the EU's main wine export market, and high EU wine stocks, which in 2019 were at their highest level since 2009[26].

[23] Commission Implementing Regulation (EU) 2020/595.

[24] Commission Implementing Regulation (EU) 2020/591, recital 11 and article 3 (2).

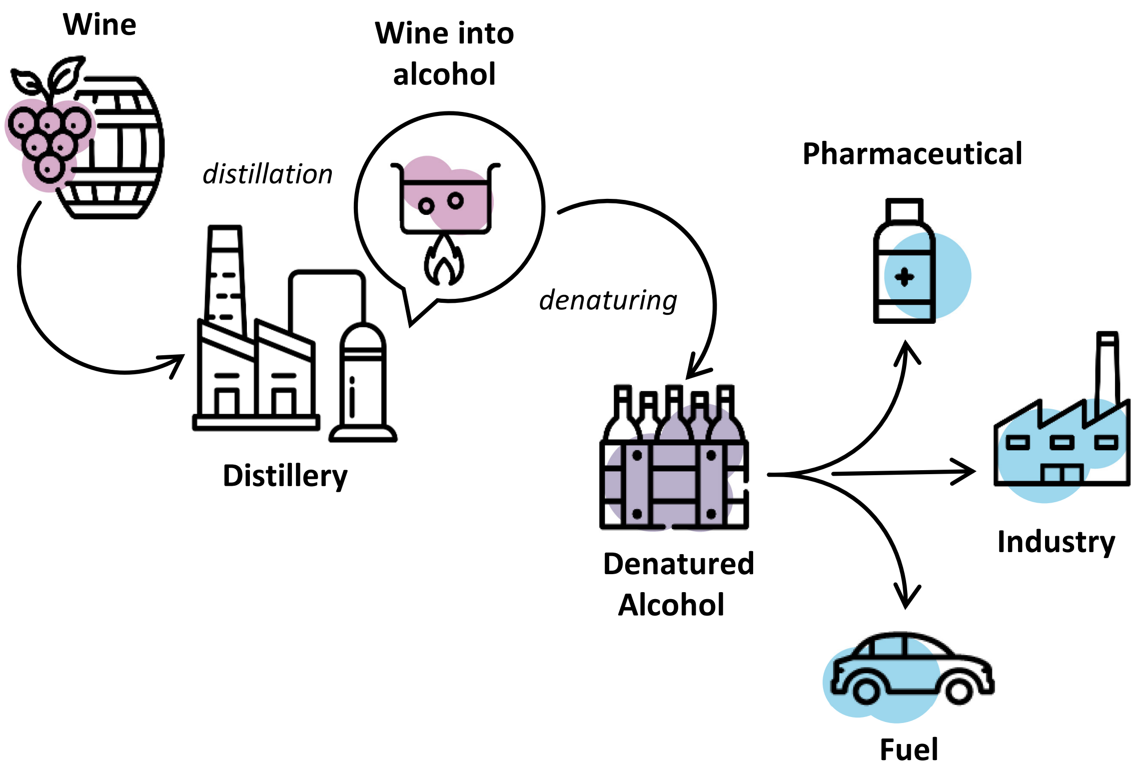
[25] Commission Delegated Regulation (EU) 2020/592, recital 1.

[26] Ibid, Recitals 5-6.

**41** The Commission decided to launch measures to withdraw wine from the market definitively (crisis distillation) or temporarily (crisis storage) in order to address the disruption. It introduced these under the national wine sector support programmes.

**42** Wine distillation is the processing of wine into denatured alcohol for uses other than human consumption, withdrawing the wine definitively from the market (see ***Figure 5***).

### Figure 5 – Crisis distillation and uses for denatured alcohol




*Source:* ECA.

**43** The Commission provided support for the withdrawal of wine from the market for crisis distillation in 10 member states. EU expenditure for this measure reached €293 million. ***Table 5*** shows the EU and national funds spent on this measure, together with the volume of wine distilled in four of the member states we audited, which accounted for almost 90 % of the total EU expenditure. EU funding for these member states ranged from €33 to €92 per hectolitre of wine distilled.

### Table 5 – Crisis distillation in France, Spain, Romania and Greece in 2020 and 2021

| Member state | Wine distilled (million hl) (a) | Share of total wine production | EU funds (million €) (b) | National funds (million €) (c) | Support /hectolitre of distilled wine (b) + (c) (a) |
|---|---|---|---|---|---|
| France | 2.58 | 6.1 % | 127 | 80.8 | 81 |
| Spain | 1.99 | 5.3 % | 65.2 | | 33 |
| Romania* | 0.43 | 11.1 % | First phase: 17<br>Second phase: 22.9 | | 92 |
| Greece* | 0.56 | 23.2 % | First phase: 6.1<br>Second phase: 5.4 | 14.2<br>6.6 | 58 |

*Source:* National authorities.

*Romania and Greece declared expenditure for both financial years, 2020 and 2021 (starting from October year n).

**Unclear rules on the amount of support distillers could retain led to cases of disproportionate compensation**

**44** The aim of the crisis distillation measure was to help improve the economic situation of wine producers[27]. Both wine producers and distillers could benefit from EU support under the measure. Eligible expenditure included the cost of the wine supplied to distillers, transportation costs and distillation costs. According to the rules, member states were to set the amount of support to beneficiaries on the basis of objective and non-discriminatory criteria.

**45** France, Romania and Spain selected distilleries as beneficiaries. However, making distillers beneficiaries hampered the national authorities' ability to focus on wine producers in greatest difficulty as authorities had no control over which of the producers received the funds. Greece chose to make wine producers the beneficiaries of this support (see *Box 2*).

[27] Commission Delegated Regulation 2020/592.

## Box 2

### Greece: wine producers were designated beneficiaries

In Greece, wine producers were the beneficiaries of crisis distillation. The selection criteria concerned wine production, stock levels, and the percentage of wine for withdrawal from their stocks.

The wine producers received the entire amount of EU support for crisis distillation.

Support was based on the type of wine delivered to the distillery, and was distributed at the same rate per hectolitre among producers.

*Source:* Greek national law gazette, No 2764 and 3275.

**46** When distilleries are the beneficiaries, they are obliged to establish supply contracts with wine producers. They pay the wine producers for the wine to be distilled and receive compensation according to the quantity of wine distilled. Depending on the national rules, distilleries may have some discretion regarding the amount of support retained for their processing costs and the purchase price of the wine.

**47** ***Annex III*** sets out how the support was allocated between the distilleries and the wine producers. The highest percentage of EU support retained by distilleries was in Romania, amounting to an average of 15 % of EU support. ***Table 6*** shows that the EU provided French, Romanian and Spanish distilleries with combined financial support of up to €22 million for their distillation processing costs and, in some cases, the costs of transporting the wine.

### Table 6 – Crisis distillation: EU support for distilleries

| Member state | % of EU support retained by distilleries | EU support for distilleries (million €) |
|---|---|---|
| France | 6.2 % | 7.9 |
| Spain | between 7.7 and 15.4 % | between 5 and 10 |
| Romania | 14.8 % | 5.9 |
| Greece | 0 % | 0 |

*Source:* Based on information received from France and Romania, plus ECA estimate for Spain.

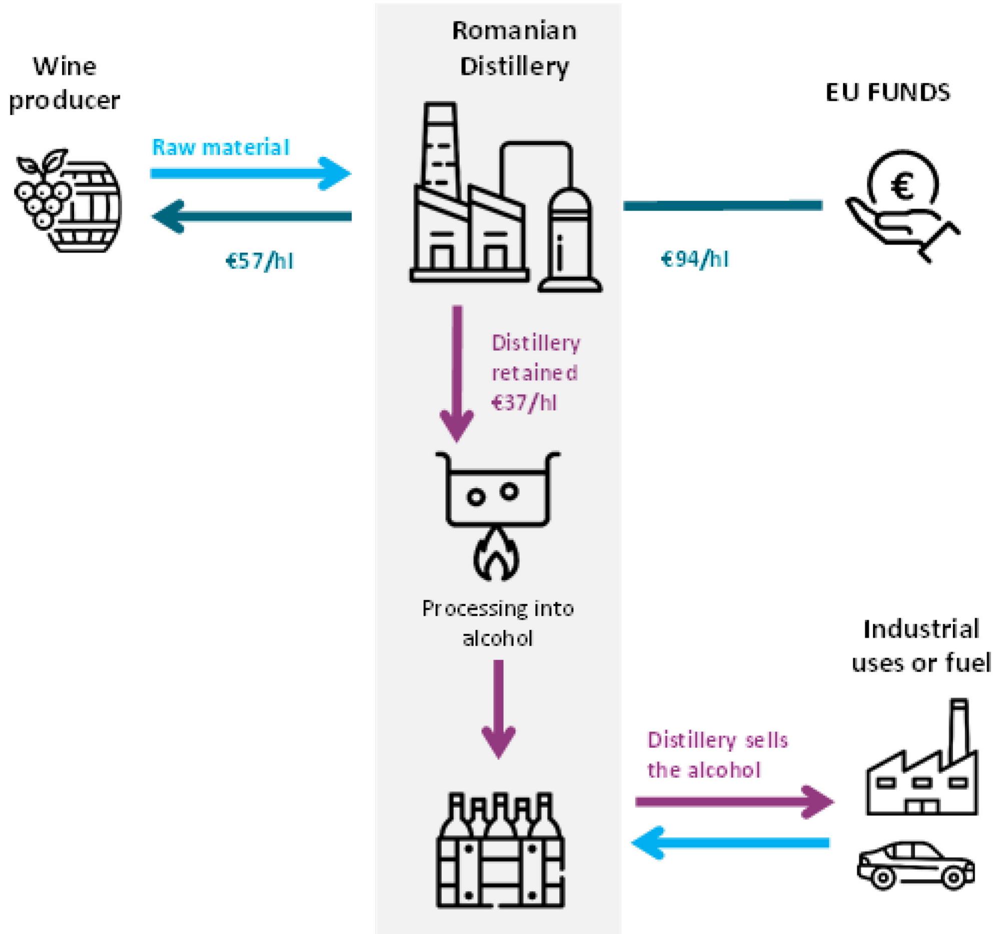
**48** Under the crisis distillation measure, distilleries in France, Spain and Romania:

- paid for the raw material (wine) and were 100 % reimbursed by EU funds;

- received further support for processing the wine into alcohol and compensation for transport costs incurred;
- received the proceeds from the sales of the resulting alcohol for industrial use.

**49** *Figure 6* shows how one distillery in Romania benefited disproportionately under the crisis distillation measure. In 2020, this distillery retained €37/hl for processing and transport costs. In comparison, French and Spanish distilleries could retain a maximum of €5/hl for such costs.

### Figure 6 – Crisis distillation funding: a Romanian distillery (financial year 2020)




*Source:* ECA, based on information provided by the Romanian authorities.

**50** French and Greek wine producers received a price set by national rules according to the type of wine withdrawn from the market for distillation. French legislation set both the wine price to be paid to the wine producers via the distilleries and the compensation to be paid to the distilleries for processing and transport costs. Wine producers in Spain and Romania (2020 only) received an amount contracted with the distilleries. In these two member states, we found cases where distilleries agreed different prices with wine producers for the same type of wine to be distilled.

**51** For example in Romania, according to the data provided by the national authorities, one distillery paid one wine producer 11 % less than another for delivering the same type of wine for distillation. As a result, not all wine producers were treated equally as regards the support they received when withdrawing their wine from the market. This constitutes discrimination between wine producers within a member state and non-compliance with the rules[28], which state that member states must set the amount of support for beneficiaries on the basis of objective and non-discriminatory criteria.

**52** Romania provided support for crisis distillation through two calls (first phase in 2020 and second in 2021). It rectified the issue for the second distillation phase, and in 2021 wine producers were treated equally.

**Wine prices for distillation did not reflect the crisis situation in all cases**

**53** ***Table 7*** compares the prices in the member states we audited for the purchase of wine for crisis distillation, paid either to distilleries or to wine producers. For PDO (protected denomination of origin) and PGI (protected geographical indication) wines and other wines, Romania offered the highest price of the member states audited (for "other wines", this was only the case during the first phase).

**54** The Romanian authorities set the wine price for distillation based on Eurostat's five-year weighted average (2015-2019), i.e. €93/hl for PDO and PGI wines and €73/hl for other wines during the first phase of crisis distillation measures. These prices represent respectively 92 % and 93 % of the five-year weighted average. France, for non PDO/PGI wines, set a price of €68/hl, which represents 98 % of the wine price based on Eurostat's five-year weighted average (2015-2019). These prices did not reflect the crisis situation, in which prices are normally lower than in an undisrupted market. The Romanian and French prices were the highest among the member states we reviewed. The wine purchase prices from the other audited member states (***Table 7***) were well below the weighted average of sale prices (Eurostat data[29]).

[28] Commission Delegated Regulation (EU) 2020/592, article 3.

[29] Eurostat statistics-wine.

### Table 7 – Eurostat data on wine selling prices

<table>
<tr><th>Member states</th><th>Eurostat quality wine selling price weighted average 2015-2019</th><th>PDO/PGI wine price €/HL</th><th>% of ESTAT price</th><th>Eurostat other table wine selling price weighted average 201-2019</th><th>Other wine price €/HL</th><th>% of ESTAT price</th></tr>
<tr><td rowspan="2">Romania</td><td rowspan="2">101.6</td><td>Phase 1: 93.6</td><td>92 %</td><td rowspan="2">79.3</td><td>73.8</td><td>93 %</td></tr>
<tr><td>Phase 2: 91.4</td><td>90 %</td><td>53.8</td><td>68 %</td></tr>
<tr><td>France</td><td>346</td><td>83</td><td>24 %</td><td>64.1</td><td>63.0</td><td>98 %</td></tr>
<tr><td rowspan="2">Greece</td><td rowspan="2">N/A</td><td>PDO wine: 75</td><td rowspan="2">N/A</td><td rowspan="2">83.1</td><td rowspan="2">Between 40 and 54.6</td><td>48 %</td></tr>
<tr><td>PGI wine: between 57 and 59</td><td>66 %</td></tr>
<tr><td>Spain</td><td>63.1</td><td>40</td><td>63 %</td><td>39.8</td><td>30</td><td>75 %</td></tr>
</table>

*Source:* ECA calculations based on Eurostat and National Authorities data.

**55** A distillery in Romania was also a wine producer. Its winery "delivered" wine to its own distillery (75 % by value of wine it distilled in 2020) at a price of up to €101 per hectolitre. This exceeded the price of €94 per hectolitre set by the Romanian authorities.

**Crisis storage could have been more efficient than crisis distillation**

**56** Crisis distillation was a temporary measure, which allowed wine to be definitively withdrawn from the market and helped rebalance the wine market. Unlike other agricultural products, wine could have been stored, which would have mitigated the effects of the subsequent poor harvest in 2021. The crisis distillation measure was much more costly than private storage where storage infrastructure was already in place.

**57** For example, according to the French authorities, crisis distillation cost €208 million (of which €127 million EU funding) for 2.6 million hectolitres distilled, while private storage cost €52 million (of which €13 million EU funding) for 5.5 million hectolitres.

# Conclusions and recommendations

**58** We concluded that the Commission's response to the threat posed to agricultural supply chains by the COVID-19 pandemic was generally appropriate. We found that the Commission reacted quickly and its measures helped limit the disruption to the supply of agricultural products. However, the EU direct support was insufficiently targeted.

**59** The authorities in all five audited member states considered that the guidelines proposed by the Commission to ensure a continuous flow of goods within the EU were an effective guide to managing border crossing during the COVID-19 pandemic (paragraph ***12*** to ***18***). Measure 21 was a quick way to re-allocate unused EAFRD funds to grant exceptional temporary support to the agri-food sector. Fourteen member states used the measure and we found that these correlated to the member states with the highest amount of uncommitted funds at the end of 2019 (paragraph ***19*** to ***21***).

**60** State aid support provided by member states to selected sectors was far more significant in monetary terms than EU financing. The levels of state aid differed widely between member states, which could distort competition. In some cases we found examples of overlap between EU support and state aid which could lead to overcompensation (paragraph ***22*** to ***29***).

**61** Measure 21 did not focus on both sectors and beneficiaries in greatest need of support. Out of the 14 member states that used measure 21, five had specific clauses that linked the support to financial losses compared to the year before the pandemic. The other nine member states supported specific agricultural sectors, but did not link the support to financial losses. This was not required by the legal framework. Providing support to an affected sector as a whole, without targeting beneficiaries in most need, risks supporting farmers who had not been impacted by the crisis (paragraph ***32*** to ***36***). The Commission also made available aid for private storage but the uptake was low (paragraph ***37*** to ***39***).

**62** Wine crisis distillation led to the permanent withdrawal of quantities of wine from the market and helped restore balance in the wine market. However, we found significant differences in member states' support to the wine sector, including unclear rules on the amount of support distillers could retain and prices for distillation that did not reflect the crisis situation (paragraph ***40*** to ***57***).

## Recommendation – Propose clear rules and share good practice to improve targeting of CAP measures

The Commission should:

(a) include in legislative proposals regarding future crises measures clear rules to provide support on the basis of objective and non-discriminatory criteria; and

(b) to be prepared for future crises, share lessons learned and good practice with member states, with the aim of targeting sectors and beneficiaries most in need.

**Target implementation date:**

(a) in the event of future crises

(b) 2024

This Report was adopted by Chamber I, headed by Mrs Joëlle Elvinger, Member of the Court of Auditors, in Luxembourg at its meeting of 1 March 2023.

*For the Court of Auditors*

Tony Murphy
*President*

# Annexes

## Annex I – List of measures adopted

### Direct support measures

| Type of aid | 1) Loans or guarantees | 2) Lump-sum payments (measure 21) | 3) Higher advances on EU payments | 4) Increased state aid thresholds |
|---|---|---|---|---|
| **Content** | Up to €200 000 with favourable terms (very low interest rates or favourable payment schedules) | Up to €7 000 per farmer and €50 000 per SME | Increase in advances on direct payments (from 50 % to 70 %) and certain rural development payments (from 75 % to 85 %) | State aid thresholds under the Temporary Framework: €290 000 per farm and up to €2.3 million for food processing companies, as amended by C/2021/8442 |
| **Beneficiaries** | Up to member states to define and select beneficiaries | Member states to target support to beneficiaries most affected by the COVID-19 crisis | Farmers receiving direct payments and certain rural development measures | Farmers and food processing companies |
| **Timing** | Up to member states, until the end of 2014-2020 programme period | Beneficiaries claimed this aid until 30/6/2021, with payment claims by member states to DG AGRI by 31/12/2021 | Claim year 2020 | Amended deadline 31/12/2021 for all state aid measures (grants, tax advantages, loans, guarantees) |
| **Total budget** | Commission is not able to quantify | €712 million (re-allocation of 2014-2020 EAFRD budget) | No additional EU budget: only advances on payments due | €64 billion in state aid schemes targeting only agri-food sector<br>+ €252 billion in state aid schemes targeting agri-food and other sectors |
| **Legal basis** | Regulation (EU) 2013/1303 EAFRD[30], consolidated on 29 December 2020 | Regulation (EU) 2020/872[31] of 24 June 2020 | Regulation (EU) 2020/531 of 16 April 2020[32] | C/2020/1863 |

[30] Regulation (EU) No 1303/2013, article 25a(11) article 37(4).

[31] Regulation (EU) 2020/872.

[32] Regulation (EU) 2020/531.

**Exceptional market support measures**

| Measure | Description |
|---|---|
| Private storage | For dairy and meat, up to €76 million estimated |
| Flexibility for market support programmes | Wine: Introduction of two new extensively-used measures: crisis distillation (€250m EU expenditure) and aid to crisis storage (€24m EU expenditure);<br><br>Fruit and vegetables: Possibility of using more than one third of expenditure under the operational programme for crisis prevention and management measures to address market disruption |
| Temporary derogation from EU competition rules | The Commission authorised the derogation from certain EU competition rules, available under article 222 of the common markets organisation regulation, for the milk, flower and potato sectors. Operators were allowed to self-organise and implement market measures for a maximum period of six months |

**Guidelines for free movement of goods and agricultural workers**

- Green Lanes to keep food flowing across Europe
- Seasonal workers qualified as "critical workers" to support the food sector

**CAP flexibility measures**

- Extension of deadline for CAP payment applications
- Reduction of physical on-the-spot checks and leeway for timing requirements

# Annex II – Food security measures in response to COVID-19 and the war in Ukraine

| | Food security measures in response to COVID-19 | Food security measures in response to the war in Ukraine |
|---|---|---|
| **Lump-sum payments** | €712 million paid out in the form of one- off lump-sums to farmers, up to €7 000 per farmer and €50 000 per small and medium sized enterprises (SME) (Measure 21) | €500 million emergency reserve activated to support farmers, with up to €1.4 billion in further support, comprising one-off lump-sum payments between €15 000 and €100 000 (Measure 22) |
| **Market measures** | Private storage aid for dairy and meat products Temporary derogation from EU competition rules in the milk, flower, wine and potato sectors and exceptional market intervention measures in wine and fruit and vegetables | Market safety measures to support the pig-meat market in light of the particularly difficult situation facing the sector |
| **State aid** | Temporary Framework provides for national support to farmers/agricultural businesses up to the level of €290 000 for undertakings active in primary production and €2.3 million for undertakings active in processing and marketing | Temporary Crisis Framework to support the economy enables member states to set up schemes to grant up to €250 000 to companies active in agriculture |
| **CAP derogations** | Extension of deadlines, on-the-spot visits replaced with remote sensing | Exceptional and temporary derogation to allow the production of crops on land set aside within the EU, while maintaining full greening payments for farmers |

*Source:* ECA, based on data provided by the Commission.

## Annex III – Distribution of EU support for crisis distillation (2020)

| Member state | EU support paid to wine producers (€/hl) | EU support paid to distilleries (€/hl) based on national rules | Price paid by distilleries to wine producers (€/hl) | Amount retained by distilleries (€/hl) |
|---|---|---|---|---|
| **France** | | PDO/PGI wine: 83<br>Other wine: 63 | PDO/PGI wine: 78<br>Other wine: 58 | 5 |
| **Romania** | | First phase - PDO/PGI wine: 93.6; Other wine: 73.8<br>Second phase - PDO/PGI wine: 91.4; Other wine: 53.8 | First phase - between 44.5 and 101<br>Second phase - PDO/PGI wine: 78.5; Other wine: 40.9 | First phase - Between 1 and 37<br>Second phase - 12.91 |
| **Spain** | | PDO wine: 40<br>Other wine: 30<br>Transport costs: 0.5 (between 150 and 300 km<br>1 ( >300 km) | PDO wine: between 35 and 37.5<br>Other wine: between 25 and 37.5<br>Transport costs | Between 2.5 and 5 |
| **Greece** | PDO wine: 75<br>PGI wine: between 57 and 59<br>Other wine: between 40 and 54.6<br>Transport costs: between 2 and 6 | | | |

*Source*: ECA, based on the national authorities' information.

# Acronyms and abbreviations

**CAP:** common agricultural policy

**DG AGRI:** Directorate-General for Agriculture and Rural Development

**DG MOVE:** Directorate-General for Mobility and Transport

**EAFRD:** European Agricultural Fund for Rural Development

**EAGF:** European Agricultural Guarantee Fund

**NTCPN:** national transport contact points network

**PDO:** protected designation of origin

**PGI:** protected geographical indication

**RDP:** rural development programme

**SME:** small and medium-sized enterprises

# Replies of the Commission

https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=63733

# Timeline

https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=63733

# ECA team

This ECA's Special Report on securing agricultural product supply chains during COVID-19 was adopted by Chamber I Sustainable use of natural resources, headed by ECA Member Joëlle Elvinger. The task was led by ECA Member Joëlle Elvinger, supported by Ildiko Preiss, Head of Cabinet and Paolo Pesce, Private Office Attaché; Paul Stafford, Principal Manager; Aris Konstantinidis, Head of Task; Celine Ollier, Senior Auditor, Lorenzo Pirelli, Senior Auditor, Lenka Hill, Auditor, Xavier Ignasi Farrero González, Auditor, Marika Meisenzahl, Auditor and Pedro Ferrao Batarda Marinheiro, Intern. Judita Frangež provided secretarial support.

*From left to right:* Joëlle Elvinger, Paul Stafford, Celine Ollier, Paolo Pesce, Aris Konstantinidis, Xavier Ignasi Farrero González, Lenka Hill, Ildiko Preiss and Judita Frangež.

| | | | | |
|---|---|---|---|---|
| PDF | ISBN 978-92-847-9747-9 | ISSN 1977-5679 | doi:10.2865/86166 | QJ-AB-23-010-EN-N |
| HTML | ISBN 978-92-847-9766-0 | ISSN 1977-5679 | doi:10.2865/721 | QJ-AB-23-010-EN-Q |

The COVID-19 pandemic impacted agricultural product supply chains from farm to fork. In this audit we assessed whether the EU response was appropriate. We found that the Commission reacted rapidly by issuing useful guidelines, direct support, and market measures such as crisis distillation. However, member states did not sufficiently target the use of direct support, and the crisis distillation rules were not clear. State aid payments were more significant in monetary terms, but we found that they could lead to distortion of competition and overcompensation. We recommend that the Commission share good practice to improve the targeting of CAP measures, and that it propose clear rules in the event of future crises.

ECA special report pursuant to Article 287(4), second subparagraph, TFEU.

EUROPEAN COURT OF AUDITORS

Publications Office of the European Union

EUROPEAN COURT OF AUDITORS
12, rue Alcide De Gasperi
1615 Luxembourg
LUXEMBOURG

Tel. +352 4398-1

Enquiries: eca.europa.eu/en/Pages/ContactForm.aspx
Website: eca.europa.eu
Twitter: @EUAuditors