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Commission tables farm reform to give farmers a long-term perspective for sustainable agriculture

Today, the European Commission adopted a package of proposals to reform the Common Agricultural Policy (CAP). The Commission proposal will provide EU farmers with a clear policy perspective to go with the financial framework until 2013 for agricultural expenditure, as decided by the Heads of State and Government in Brussels in October 2002[1]. It will also make European agriculture more competitive and market oriented, promote a substantial simplification in the CAP, facilitate the enlargement process and help to better defend the CAP in the WTO. The proposed adjustments allow maximum flexibility in production decisions of farmers while guaranteeing them income stability. The implementation of the Commission reform would remove environmentally negative incentives in the current policy and provide further encouragement for more sustainable farming practices. These adjustments are necessary to ensure that the EU is able to provide a sustainable and predictable policy framework for the European Model of Agriculture over the coming years. Such changes are made even more urgent by the new budgetary framework. These changes will enable the EU to ensure a transparent and more equitable distribution of income support for farmers, and to better respond to what our consumers and taxpayers want. Today's proposals are the follow-up to the Commissions midterm review proposals from July 2002.

Commenting on the proposals, EU Farm Commissioner Franz Fischler said "This reform has one objective: Making sense of farm subsidies – for our farmers, consumers and taxpayers. We need reforms, and we need to decide now. Our plans will give farmers a clear perspective to plan ahead. Furthermore, they will no longer be forced to produce at a loss in order to receive support. They will have the opportunity to maximise their income on the market. Studies show that farm incomes would improve with the reforms. A wait and see approach would be damaging for farmers’ interests. It would widen the gap between the farm policy and society's expectations. Society is ready to support farming provided farmers give people what they want: safe food, animal welfare and a healthy environment. Farmers can count on new EU support to help them to adapt to demanding EU environment, food safety and animal welfare standards and to promote quality food and traditional products. As a consequence of the decisions of the Heads of State and Government at the Brussels Summit we will need to save money by reducing direct payments for bigger farms".

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[1] This agreement set a ceiling for market and direct aids expenditure in an enlarged EU, which will rise more slowly than the rate of inflation. It also recalled the importance of less-favoured regions and the multifunctional nature of agriculture, confirming the importance of the Second Pillar.

"As a consequence, we can shift less money to strengthen rural development. It is a first step. I trust that Member States live up to their commitment in the Brussels Summit to further beef up support for rural development in the next financing period. The new single farm payment will not distort international trade and hence not harm developing countries. This will maximise the negotiating capital of the EU in the WTO and help defend the European model of agriculture."

The key elements of the reform in a nutshell:

- a single farm payment, independent from production ("decoupling")
- linking those payments to the respect of environmental, food safety, animal welfare, health and occupational safety standards, as well as the requirement to keep all farmland in good condition, ("cross-compliance"),
- a stronger rural development policy with more money, new measures to promote quality, animal welfare and to help farmers to meet EU production standards,
- a reduction in direct payments ("degression") for bigger farms to generate additional money for rural development and the savings to finance further reforms
- revisions to the market policy of the CAP,
    - including the final 5% intervention price cut for cereals and partially compensated by an increase in direct payments for arable crop producers
    - a wider ranging and accelerated milk reform with differentiated price cuts for butter and skimmed milk powder and the maintaining of the milk quotas until 2014/15
    - reforms in the rice, durum wheat, nut, starch potatoes, dried fodder sector

Further information on the Commission's reform proposal are available on the internet at:

http://europa.eu.int/comm/agriculture/mtr/index_en.htm

Annex : The proposals in detail

A single farm payment to promote a more market oriented, sustainable agriculture

A single farm payment will replace most of the premia under different Common Market Organisations. In order to maximise the benefits, particularly in administrative terms, the single farm payment will cover the widest possible range of sectors. Farmers will receive a single farm payment based on a reference amount covering payments for arable crops, beef and veal (including POSEI and Aegean Islands), milk and dairy, sheep and goats, starch potatoes, grain legumes, rice, seeds, dried fodder in a reference period of 2000 to 2002.

This single farm payment will be broken down into payment entitlements in order to facilitate their transfer. Each entitlement will be calculated by dividing the reference amount by the number of hectares, which gave rise to this amount (including forage area) in the reference years. Entitlements may be transferred, with or without land, between farmers within the same Member State. A Member State may define regions within which transfers are limited. Moreover, it will be open to Member States to adjust entitlements with respect to regional averages.

In order to avoid land abandonment as a result of decoupling, the Commission has clarified that farmers will have to meet stringent land management obligations as part of the new cross-compliance requirements. By providing greater farming flexibility, decoupling will improve the income situation of many farmers in marginal areas.

Reinforcement of environmental, food safety, animal health and welfare and occupational safety standards

As a necessary complement to decoupling in order to avoid land abandonment and subsequent environmental problems, beneficiaries of direct payments will also be obliged to maintain all agricultural land in good agricultural condition.

Compulsory cross-compliance will apply to statutory EU standards in the field of environment, food safety, animal health and welfare and occupational safety related to the farm level. Farmers who for example use forbidden growth promoters or pollute the soil, will be subject to sanctions. The penalty will take the form of a 10% to 100% reduction of the aid (depending on the severity of the case).

Strengthening rural development

The Commission proposes to increase financing (see below) and to widen the scope of EU rural development support by introducing new measures. These additions will be made to the ‘menu’ of measures already available without changing the basic framework under which rural development support is implemented, which the Commission considers would be counter-productive at this mid-way stage in the current 2000-2006 programming period. They are all targeted primarily at farmer beneficiaries. It will be for Member States and regions to decide if they wish to take up these measures within their rural development programmes. The new measures will comprise:

New quality incentives for farmers

1. Incentive payments for farmers who participate in schemes designed to **improve the quality of agricultural products** and the production process used, and give assurances to consumers on these issues. Such support will be payable annually for a maximum 5 year period, and up to a maximum of € 1 500 per holding in a given year.
2. Support for producer groups for activities intended to **inform consumers** about and promote the products produced under quality schemes supported under the above measure. Public support will be permitted up to a maximum of 70% of eligible project costs.

New support to help farmers to meet standards

1. Temporary and degressive support **to help farmers to adapt to the introduction of demanding standards** based on EU legislation concerning the environment, public, animal and plant health, animal welfare and occupational safety. Aid will be payable on a flat-rate basis, and degressive for a maximum period of 5 years. Aid will be subject to a ceiling of maximum € 10 000 per holding in a given year. In no case will aid be payable where the non-application of standards is due to the non-respect by an individual farmer of standards already included in national legislation.
2. Support for farmers to **help them with the costs of using farm advisory services**. Farmers may benefit from public support of up to a maximum of 95% of the cost of such services the first time they are used, subject to a ceiling of € 1 500.

Covering the farmers' costs for animal welfare

Support for farmers who enter into commitments for at least 5 years to **improve the welfare of their farm animals** and which go beyond usual good animal husbandry practice. Support will be payable annually on the basis of the additional costs and income foregone arising from such commitments, with annual payment levels of maximum € 500 per livestock unit.

A reduction of direct payments for bigger farms from 2007 onwards

The fixing of a ceiling for agricultural market expenditure in the Brussels Summit implies that the mechanism for shifting between budget headings cannot be implemented before the start of the next financial perspective in 2007. The Commission therefore proposes introducing a system of compulsory modulation from the start of the next financial perspective to cover the shift to the "Second Pillar" (Rural Development) as well as new financing needs arising from new market reforms. The majority of EU farmers, who receive up to € 5 000 in EU support, will be exempted. This will also correct the current imbalance that 80% of CAP currently goes to only 20% of the farms. Until 2007 Member States are free to shift money from direct payments to rural development via voluntary modulation.

The proposed system introduces the principle of progressive contributions according to the overall amount of direct payments received in order to ensure that reductions in direct payments are balanced and simple to apply. The payments granted to a farmer in a budgetary year will be reduced progressively in the following manner:

Budget year	2007	2008	2009	2010	2011	2012	2013
€ 1 to € 5 000	0%	0%	0%	0%	0%	0%	0%
€ 5 001 to € 50 000	1%	3%	7.5%	9%	10.5%	12%	12.5%
Above € 50 000	1%	4%	12%	14%	16%	18%	19%

Within this "degression", 1% in 2007, rising by a further 1% per year to 6% in 2012, will be made available to the Member States as additional EU support for measures to be included in the their rural development programming. **This will result in additional rural development funds of € 228 million in 2007, increasing over the years to € 1.48 billion in 2012.** These amounts will be allocated between member states according to

- criteria of agricultural area,
- agricultural employment
- GDP per capita in purchasing power

The remaining amounts will be made available for additional financing needs for new market reforms. Proposals for reforms of the sugar, olive oil, cotton and tobacco – and possibly fruit and vegetables, and wine sectors will follow in the course of 2003.

Degression and modulation would not apply in the new Member States until the phasing-in of direct payements reaches the normal EU level.

A new "Farm Advisory System"

The farm advisory system will be mandatory as a part of cross-compliance requirements. Its introduction, in the first instance, will be limited to producers receiving more than € 15 000 per year in direct payments or with a turnover of more than € 100 000 per year. Other farmers will be able to enter the system on a voluntary basis. This service will provide advice through feedback to farmers on how standards and good practices are applied in the production process. Farm audits will involve structured and regular stocktaking and accounting of material flows and processes at enterprise level defined as relevant for a certain target issue (environment, food safety, and animal welfare). Support for farm audits will be available under rural development.

Long-term environmental set-aside

Producers currently subject to the set-aside obligation will be obliged to continue set-aside on an area equivalent to 10% of their current COP area as a condition for receipt of the single farm payment. Organic farming will not be subject to this obligation for the area concerned. Set-aside will be non-rotational and should not be used for agricultural purposes nor produce crops for commercial purposes. However, member states will be able to allow rotational set-aside where this was necessary for environmental reasons. Land which is transferred will continue to be set-aside.

Support for energy crops – a carbon credit

The Commission proposes an aid of € 45/ha for energy crops. This will apply for an maximum area of 1 500 000 ha. The aid will only be granted in respect of areas whose production is covered by a contract between the farmer and the processing industry except where the processing is undertaken by the farmer on the holding. Within five years of the application of the energy crops scheme, the Commission will submit a report to the Council on its implementation, with proposals if appropriate.

Stabilising markets and improving common market organisations

Arable sector

Cereals

A final 5% reduction is proposed to bring the cereals intervention price down to € 95.35/t from 2004/5 to ensure that intervention is a real safety net. To avoid a further accumulation of intervention stocks, rye shall be excluded from the intervention system.

With the diminishing role of intervention, a seasonal correction for intervention price will no longer be justified. It is therefore proposed to abolish the monthly increment system. Production refunds for starches and certain derived products will no longer be applied.

As a consequence of the cut in cereal intervention price, area payments for cereals and other relevant arable crops will be increased from € 63 to € 66/t. These will be included in the single farm payment.

Protein crops

The current supplement for protein crops (€ 9.5/t) will be maintained and converted into a crop specific area payment of € 55.57/ha. It will be paid within the limits of a new Maximum Guaranteed Area set at 1.4 million ha.

Durum wheat

The supplement for durum wheat in traditional production zones will be brought from € 344.5/ha to EUR 250/ha and included in the single farm payment. The specific aid for other regions where durum wheat is supported, currently set at € 139.5/ha, will be phased out. The cuts will be implemented over three years, starting in 2004.

A new premium will be introduced to improve the quality of durum wheat with regard to uses for semolina and pasta production. The premium will be paid in traditional production zones to farmers who are using a certain quantity of certified seeds of selected varieties. Varieties will be selected to meet quality requirements for semolina and pasta production. The premium amounts to EUR 40/ha and is paid within the limits of Maximum Guaranteed Areas that are currently applying in traditional production zones.

Starch potatoes

The current policy provides for a direct payment for producers of starch potatoes. Its amount was fixed at € 110.54 per tonne of starch in the framework of Agenda 2000. 50% of this payment will be included into the single farm payment, on the basis of the historical deliveries to the industry. The remainder will be maintained as crop specific payment for starch potatoes. The minimum price is abolished.

Dried fodder

Support in the dried fodder sector will be redistributed between growers and the processing industry. Direct support to growers will be integrated into the single farm payment, based on their historical deliveries to the industry. National ceilings will apply to take into account current National Guaranteed Quantities.

During a transitional period of 4 years, a simplified single support scheme for the dehydrated and sun-dried fodder industry will apply with a degressive aid, starting from € 33/t in 2004/05. The respective National Guaranteed Quantities will be merged.

Seeds

Regulation (EC) 2358/71 established an aid for the production of selected seed species. The aid, currently paid per tonne of produced seeds, will be integrated into the single farm payment. It will be calculated by multiplying the number of aided tons by the amount established in application of Article 3 of the above-mentioned Regulation.

Rice

In order to stabilise market balances due notably to the impact of the Everything but Arms (EBA) initiative, the Commission proposes a one step reduction of the intervention price by 50% to an effective support price of € 150/t in line with world prices. To stabilise producers' revenues, the current direct aid will be increased from € 52/t to EUR 177/t, a rate equivalent to the total cereals compensation over the 1992 and Agenda 2000 reforms. Of this, € 102/t will become part of the single farm payment and paid on the basis of historical rights limited by the current maximum guaranteed area (MGA). The remaining € 75/t multiplied by the 1995 reform yield will be paid as a crop specific aid. The MGA will be set at the 1999-2001 average or the current MGA, whichever is lower. A private storage scheme will be introduced to be triggered when the market price falls below the effective support price. In addition, special measures will be triggered when market prices fall below € 120/t.

Nuts

The current system will be replaced by an annual flat rate payment of € 100/ha granted for a maximum guaranteed area of 800 000 ha divided into national guaranteed areas. This can be topped up by an annual maximum amount of € 109 per hectare by Member States.

Dairy

In order to provide a stable perspective for dairy farmers, the Commission proposes the prolongation of a reformed dairy quota system until the 2014/15 campaign.

In Berlin in March 1999 the European Council decided to delay the entry into force of reform in the dairy sector due to budgetary considerations. Since unanticipated budgetary resources have become available in the current financial perspective, the Commission strongly believes the dairy reform agreed in Berlin should be advanced by one year in order to achieve the objectives and benefits of the reform at the earliest possible date. Furthermore, it is necessary to further reduce the support price for milk with a corresponding quota increase of 1% per year in 2007 and 2008 based on reference quantities after the full implementation of Agenda 2000. The foreseen uniform reduction of 5% per year reduction should be replaced by asymmetric intervention price cuts of –3.5%/year for skimmed milk powder (SMP) and –7% per year for butter over the five year period. On the whole this 35% reduction in butter prices and a 17.5% reduction in skimmed milk powder prices correspond to a global reduction of 28% for EU milk target prices over five years. Intervention purchases of butter will be suspended above a limit of 30.000 tonnes per year. Above that limit, it is proposed that purchases may be carried out under a tender procedure.

Additional compensation in 2007 and 2008 through direct payments will be made, using the same method of calculation as in Agenda 2000. All dairy payments will be integrated into the single farm payment.