Overview of the 2003 CAP Reform and EU decoupled payments

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Has the CAP evolved?

Productivity  Competitiveness  Sustainability

The Early Years  The Crisis Years  The 1992 Reform  Agenda 2000  Cap Reform 2003

Food security  Over production  Reduced surpluses  Deepening the reform process  Market orientation
Improving productivity  Exploding expenditure  Environment  Competitiveness  Consumer Concerns
Market-stabilisation  International friction  Income stabilisation  Rural Development  Farm income
Income support  Structural measures  Budget stabilisation  Environment  Rural development

European Commission - Agriculture Directorate-General
The latest CAP reform process: a new step towards a long-term perspective for agriculture 1/3

- To promote a more market-oriented, sustainable agriculture
  - completing the shift from product to producer support (decoupling)
  - cross-compliance (environmental, food safety, animal health & animal welfare, maintenance of land in good agricultural and environmental conditions)

- To enhance the competitiveness of EU agriculture
  - setting intervention as a real safety net measure (reduction of price support in the dairy, rice, rye and sugar sectors and adjustment in other sectors)
  - allowing producers to respond to market signals
To provide a better balance of support and strengthen rural development:

- through modulation & broader scope of rural development measures, and
- in order to enhance the competitiveness of the agricultural and forestry sectors, the environment & countryside and the quality of life in rural areas.
Conclusions:

- The future CAP provides just a safety net for some key agricultural markets.
- It will address more intensively:
  - Territorial dimension
  - Policy issues related to food quality and food safety
  - The safeguard of the rural economy
  - The protection of environment
Principles of the Reform

- Market reforms (cereals, dairy, sugar, cotton, tobacco,…..)
  → Strengthen market orientation and competitiveness

- Financial discipline
  → keeps CAP spending within predetermined levels until 2013

- Real decline of budget until 2013
  → Despite increasing costs for CAP in new Member States (phasing-in of direct payments)
  → Despite uncertainties on price developments on internal and world markets
Single Farm Payment

- Farmers receive **payment entitlements** based on historic reference amounts.
- Payment entitlements are **transferable** with or without land.
- Establishment of a **national reserve** for dealing with **hardship cases** and **transitional problems**.
- A **payment entitlement** triggers a payments only, if **accompanied** by an **eligible hectare** (all agricultural land, except permanent crops)
- **Eligible hectares** may be used for any agricultural activity except for growing fruit, vegetables, or table potatoes.
- Entitlements not used during 3 years go to the **national reserve**.
Decoupling of Direct Income Aid

Full decoupling as the general principle from 2005 onwards, 2007 at the latest

Options for partial decoupling at national and regional level
**Decoupling of Direct Income Aid**

**Full decoupling as the general principle from 2005 onwards, 2007 at the latest**

Options for partial decoupling at national and regional level:

- Up to 25% of the COP hectare payments or
- Up to 40% of the supplementary durum wheat aid
Decoupling of Direct Income Aid

Full decoupling as the general principle from 2005 onwards, 2007 at the latest

Options for partial decoupling at national and regional level

Up to 25% of the COP payments for wheat aid

Up to 50% of the sheep and goat premia
Decoupling of Direct Income Aid

Full decoupling has been the general principle from 2005 onwards, 2007 at the latest.

Options for partial decoupling at national and regional level:

- Up to 25% of the COP payment or up to 40% of the supplementary wheat aid
- Up to 50% of the sheep and goat premia
- Up to 100% of the suckler cow premium and up to 40% of the slaughter premium
Decoupling of Direct Income Aid

Full decoupling as the general principle from 2005 onwards, 2007 at the latest

Options for partial decoupling at national and regional level

- Up to 25% of the COP hectare payments
- Up to 40% of the supplementary wheat aid
- Up to 50% of the sheep and goat premium
- Up to 100% of the suckler cow premium and up to 40% of the slaughter premium or up to 75% of the special male premium
Decoupling of Direct Income Aid

Full decoupling as the general principle from 2005 onwards, 2007 at the latest.

Options for partial decoupling at national and regional level:

- Up to 25% of the COP per hectare payments or up to 40% of the supplementary wheat aid
- Up to 50% of the sheep and goat premium
- Up to 100% of the suckler cow premium and up to 40% of the slaughter premium for calves
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Decoupling of Direct Income Aid

- Full decoupling as the general principle from 2005 onwards, 2007 at the latest
- Options for partial decoupling at national and regional level

- Up to 25% of the COP (hectare payments) or up to 40% of the supplementary wheat aid
- Up to 50% of the sheep and goat payments
- Up to 100% of the suckler cow payments and up to 40% of the slaughter premiums for calves
- Up to 150% of the slaughter premiums for males

- Exclusion of drying aid, seeds or, where applicable, direct payments in outermost regions and the Aegean Island for calves

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Decoupling of Direct Income Aid

Up to 10% of a sector’s contribution to the national ceiling targeted towards enhancing the environment or improving the quality and marketing of agricultural productions who support the sector’s contribution to the national ceiling targeted towards enhancing the environment or improving the quality and marketing of agricultural productions.
Decoupling of Direct Income Aid

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10% of a sector’s contribution to the national ceiling targeted towards enhancing the environment or improving the quality and marketing of agricultural productions.
Decoupling of Direct Income Aid

90% of all direct payments will be decoupled from 2007 onwards.
Single Farm Payment - Example

• The farm has received direct payments of annually €7,500 (reference amount).

• The farm manages 36 ha of eligible land of which 25 ha have generated direct payments (reference area).

• The reference amount of €7,500 is then divided by the reference area of 25 ha in order to create 25 payment entitlements each worth €300.

• The farmer gets payments for his 25 payment entitlements only, if he has at least 25 ha of eligible land.
Single Farm Payment - Example

• This farmer may sell up to 11 ha without affecting his single farm payment (7,500 €).

• If the farmer loses more than 11 ha, for instance another 5 ha due to the ending of his rental contract,
This farmer may sell up to 11 ha without affecting his single farm payment (7,500 €).

If the farmer loses more than 11 ha, for instance another 5 ha due to the ending of his rental contract, he will have only 20 ha of eligible land. This means that 5 payment entitlements remain unpaid.

The farmer has two options for his unused entitlements:

- He can sell unused entitlements to other farmers.
Single Farm Payment - Example

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Single Farm Payment - Example

• The farmer has two options for his unused entitlements:
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  • If the farmer loses more than 11 ha, for instance another 5 ha due to the ending of his rental contract, he will have only 20 ha of eligible land. This means that 5 payment entitlements remain unpaid.

• The farmer may sell up to 11 ha without affecting his single farm payment (7.500 €). He can sell unused entitlements to other farmers or he can rent or buy eligible land.
Single Farm Payment - Example

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• If the farmer loses more than 11 ha, for instance another 5 ha due to the ending of his rental contract, he will have only 20 ha of eligible land. This means that 5 payment entitlements remain unpaid.

• The farmer has two options for his unused entitlements:
  • He can sell his unused entitlements
  • Or he can rent or buy eligible land.
Regionalisation of the Single Farm Payment

- Establishment of payment entitlements by dividing the regional reference amount by the total number of eligible hectares.
- Allocation of the (uniform) payment entitlements to all eligible hectares under the disposal of the farms in a region concerned.

Implications:
- Redistribution of direct payments among farms.
- No scope for trading payment entitlements without land, since every eligible hectare has already a matching payment entitlement.
Regionalisation of the Single Farm Payment

Option: Combination of regional and standard approach:

- Possibility of excluding types of payments in part or totally from the regional “redistribution pot” and allocation of related reference amounts on an individual basis

- Regional and individual payment entitlements amalgate into single units of payment entitlements

- As a result, per-unit values of payment entitlements will differ among farms
Implementation and the redistribution of direct payments

- The Single Farm Payment is based on historical payments
  - Differences of payments between farms maintained.
  - Tradability of premium rights strengthens the position of active farmers compared to land owners (on average 54% of farm land is leased).

- Flat rate payments in regions
  - Extensive farms gain, intensive farms lose.
  - Direct payments remain coupled to land values.

- In-between systems.
## Implementation in Member States

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<tr>
<th>single farm payment</th>
<th>hybrid</th>
<th>flat rate</th>
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<tbody>
<tr>
<td>Austria (2005)</td>
<td>Denmark (2005) static</td>
<td>Cyprus</td>
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<td>Italy (2005)</td>
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<td>Spain (2006)</td>
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<td>Poland</td>
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<td>Sept. 2004</td>
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Additional notes:
- Static: No change in payment level over time.
- Dynamic: Change in payment level over time.
# Implementation in Member States

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Sept. 2004

53% of EU area

10% of EU area

37% of EU area

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Improved Respect of Standards

• Introduction of **Cross-Compliance** as a **sanctioning mechanism**

• **18 statutory European standards** (environment, food safety, plant and animal health, and animal welfare) subject to cross-compliance sanctions

• Application of “**Good Environmental and Agricultural Conditions**” (Horizontal Regulation, Annex IV) targeted towards:
  - combatting erosion
  - avoiding the loss of soil organic matter
  - preserving soil structure
  - ensuring a minimum level of maintenance

• Maintenance of **permanent pasture** at current levels
Implications of the new Direct Payment System

- Targeting aid towards active farmers:
  - Less shifts to land prices – **improved income transfer efficiency**
- Minimal link to production:
  - Increasing competitiveness
    - Maintaining the link between payments and land:
      - “**Cross-compliance**” can be applied
- Integration of 9 types of direct payments into one
  - **Potential for administrative simplification**
- Agricultural budget declines in real terms
  - **Reduction of payments when danger of overshoot**

Conclusion: More scope for management decisions, higher farm income, improved respect of standards