

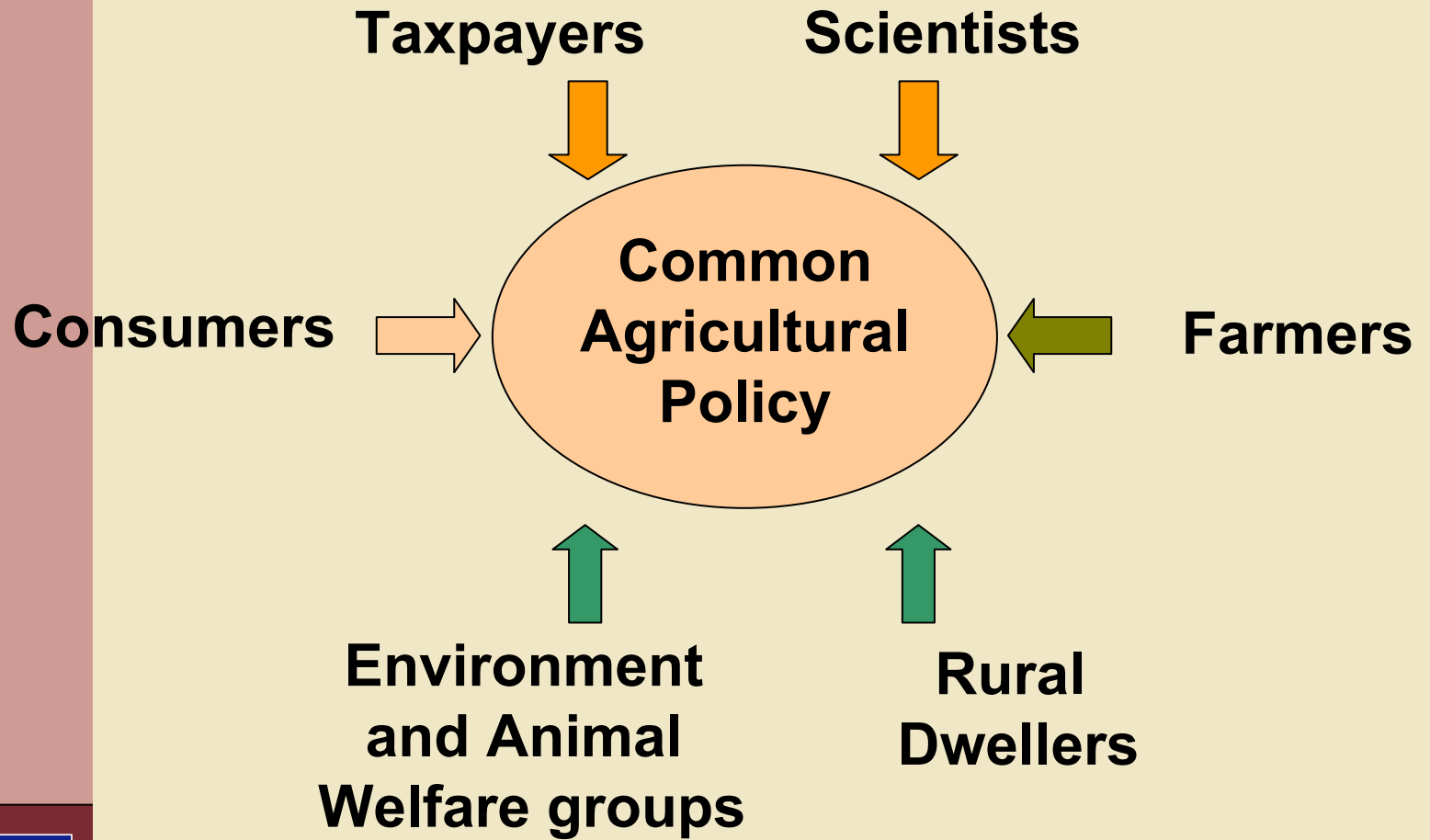
Overview of the 2003 CAP Reform and EU decoupled payments

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DG Agriculture
European Commission

Presentation at the ERS Workshop “Modelling Decoupling”, October 4-5,
2004 in Washington




Citizens and the CAP



Has the CAP evolved?

Productivity 

Competitiveness 

Sustainability 

The Early Years	The Crisis Years	The 1992 Reform	Agenda 2000	Cap Reform 2003
<p>Food security</p> <p>Improving productivity</p> <p>Market-stabilisation</p> <p>Income support</p>	<p>Over production</p> <p>Exploding expenditure</p> <p>International friction</p> <p>Structural measures</p>	<p>Reduced surpluses</p> <p>Environment</p> <p>Income stabilisation</p> <p>Budget stabilisation</p>	<p>Deepening the reform process</p> <p>Competitiveness</p> <p>Rural Development</p>	<p>Market orientation</p> <p>Consumer Concerns</p> <p>Farm income</p> <p>Rural development</p> <p>Environment</p>



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



The latest CAP reform process : a new step towards a long-term perspective for agriculture 2/3

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.



The latest CAP reform process : a new step towards a long-term perspective for agriculture 3/3

■ 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**.



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 rule from 2005

the latest

and

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 COP

2005

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Up to
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Up to 50 % of the
sheep and goat
premia

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wheat aid

and



Decoupling of Direct Income Aid

Full decoupling as the
general rule

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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

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40 %

Up to 100 % of the
slaughter
premium or up to
75 % of the special
male premium



Decoupling of Direct Income Aid

Full decoupling as the
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Up to 100 % of the
suckler cow premium
and up to 100 % of the
slaughter premium
for calves



Decoupling of Direct Income Aid

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



Up to

Full decoupling as the
general principle from
2005 onwards

n

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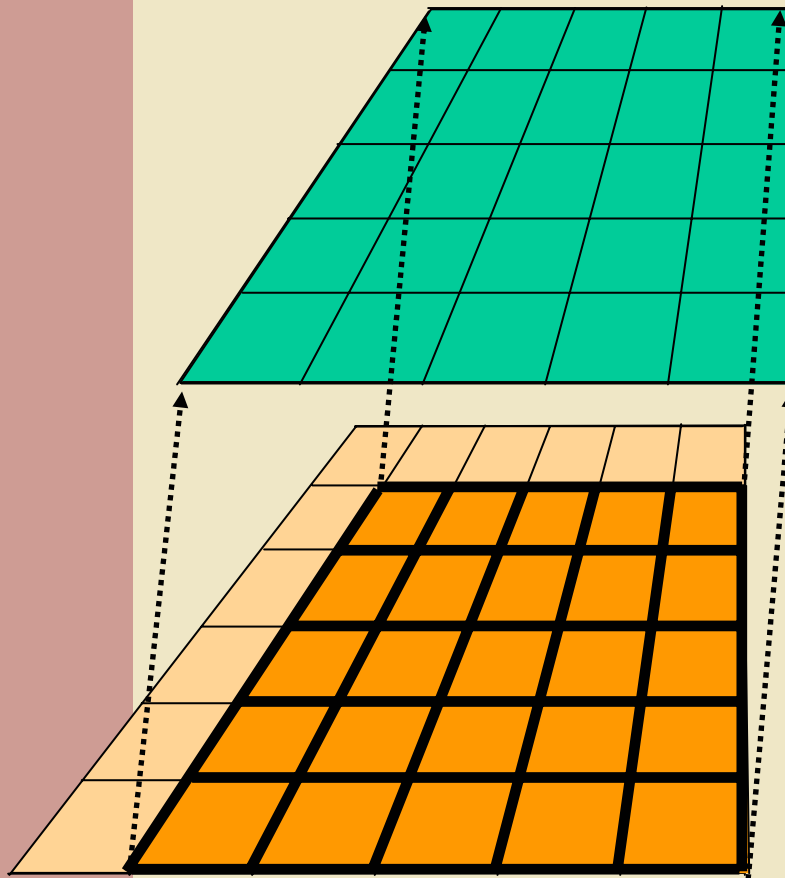
Decoupling of Direct Income Aid

Up to

90% of all direct
payments will be
decoupled from 2007
onwards



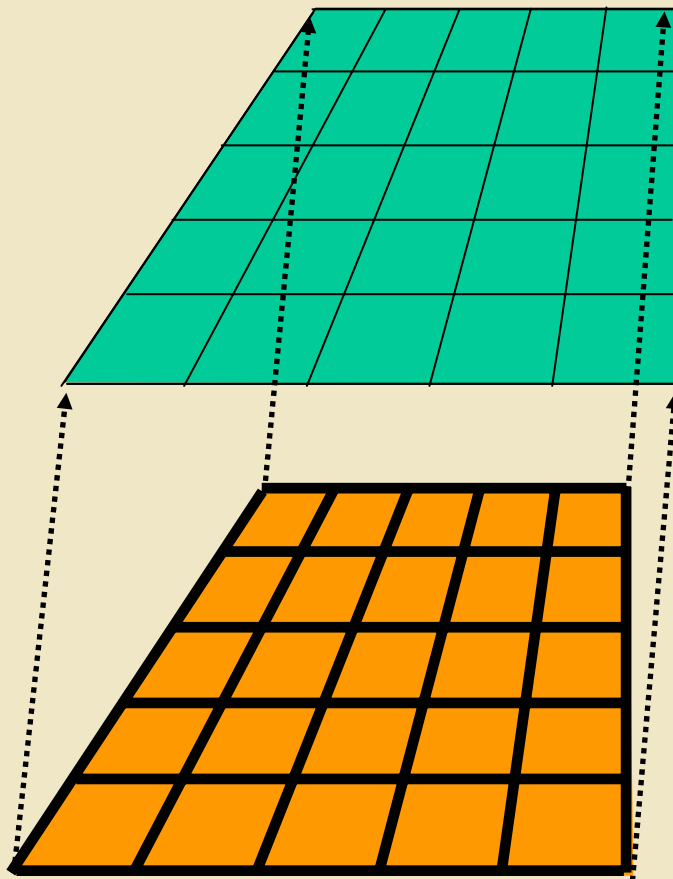
Single Farm Payment - Example



- 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.



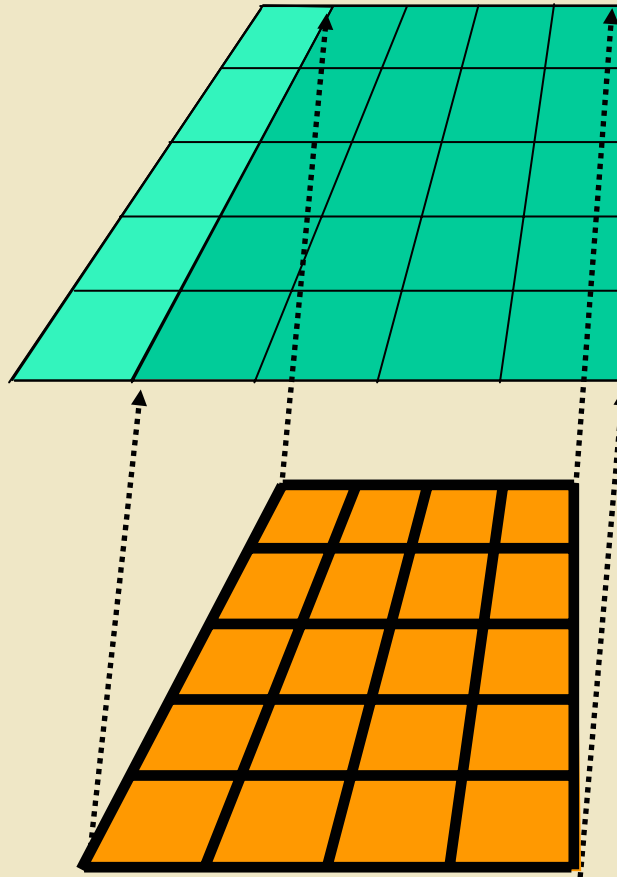
Single Farm Payment - Example



- 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,



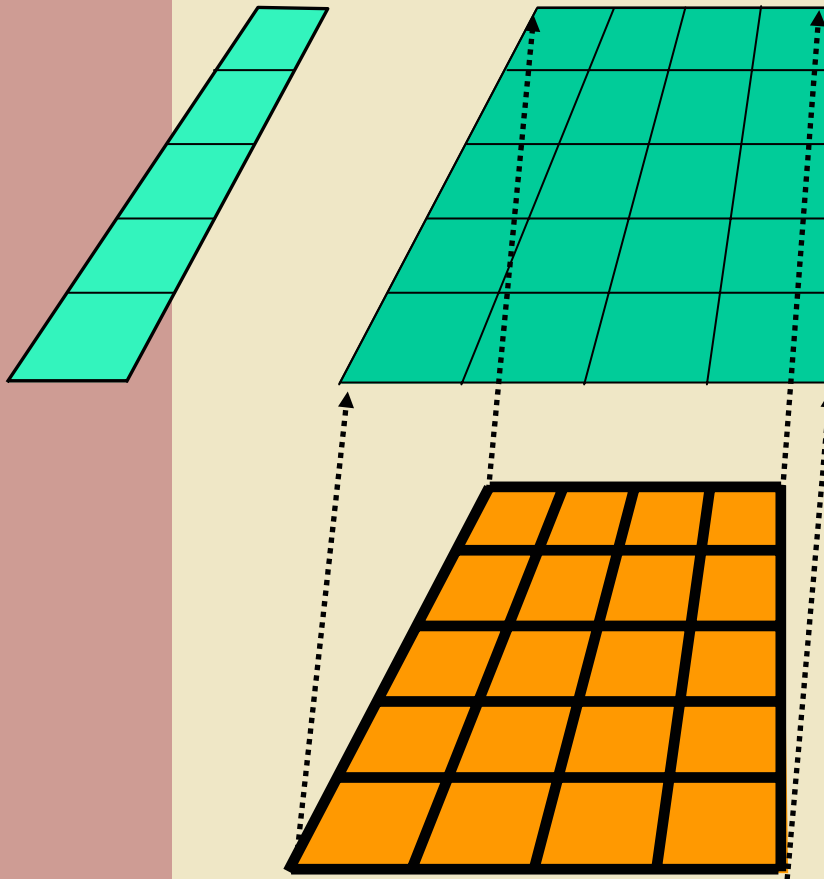
Single Farm Payment - Example



- 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, 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



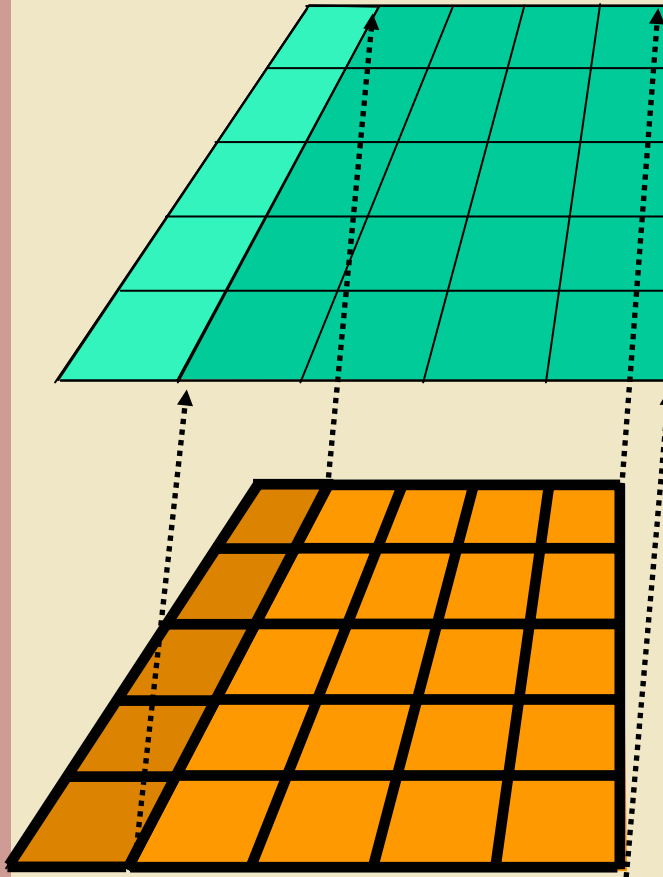
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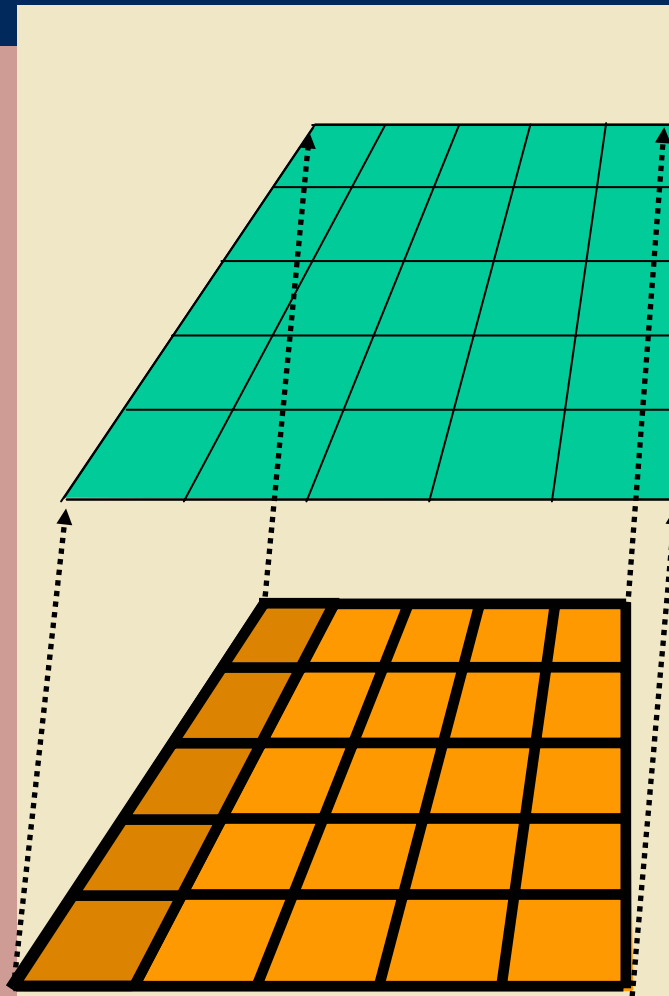
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 - He can sell unused entitlements to other farmers
 - Or he can rent or buy eligible land



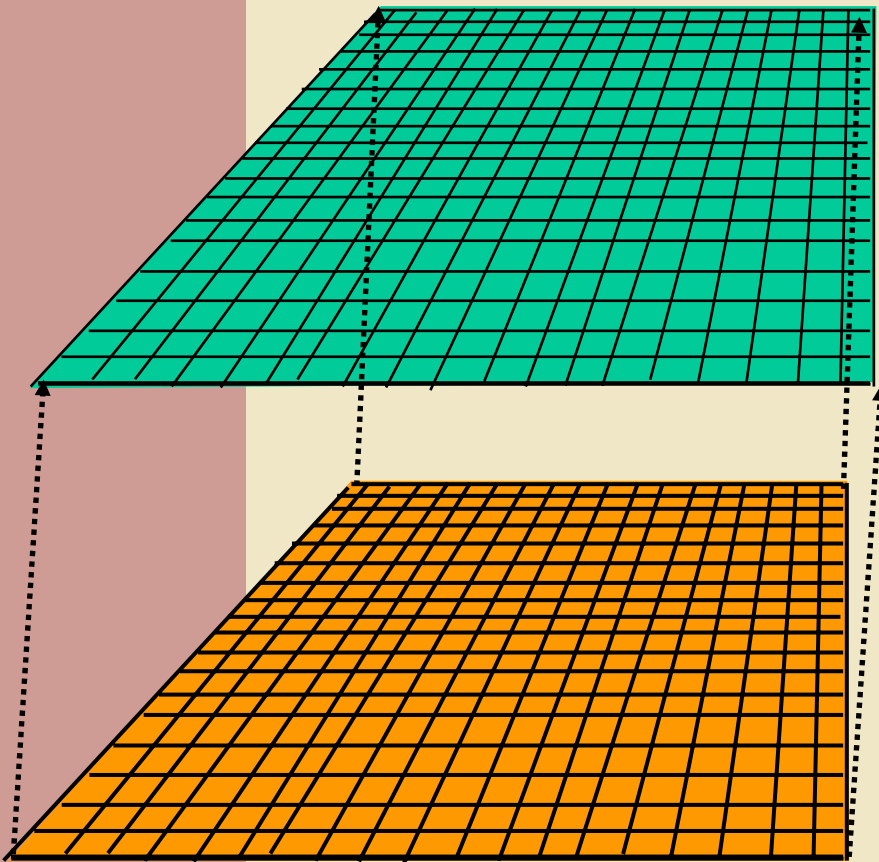
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 - He can sell his unused entitlements
 - Or he can rent or buy eligible land



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:

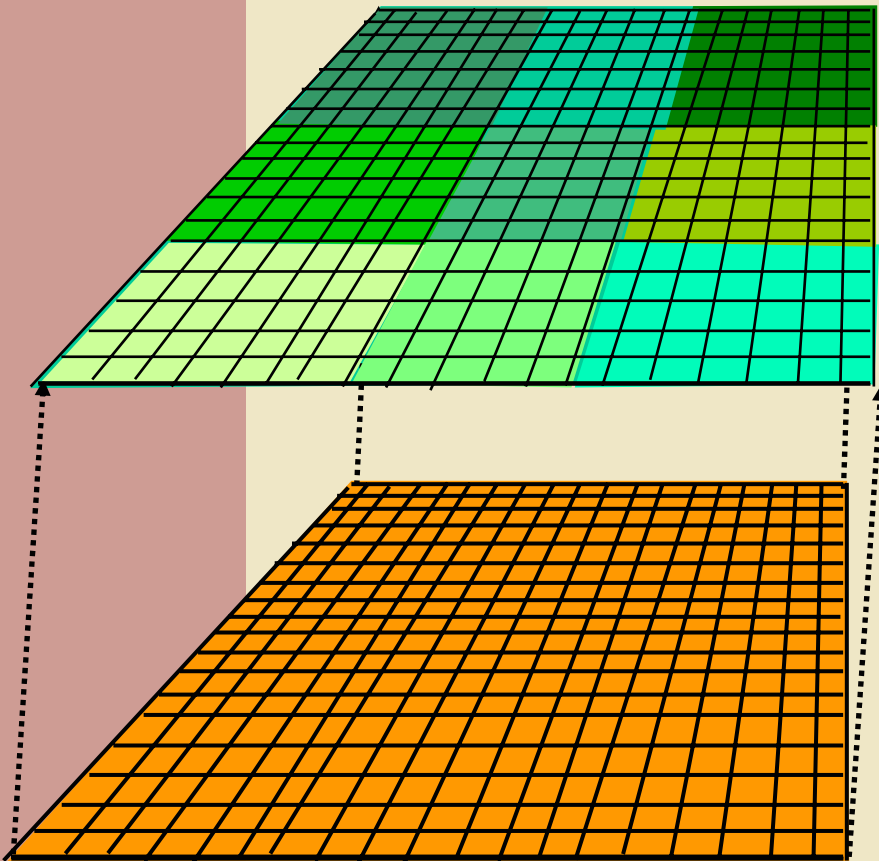
- Redistribution of direct payments among farms
- No scope for trading payment entitlements without land, since every eligible hectare has already a matching payment entitlement



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 amalgamate 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

single farm payment	hybrid	flat rate
Austria (2005) Belgium (2005) France (2007) Greece (2006) Ireland (2005) Italy (2005) Netherlands (2006) Portugal (2005) Spain (2006)	Denmark (2005) static Luxemb. (2005) static Sweden (2005) static UK partly (2005) static <i>Finland (2006) ?</i> <i>Germany (2005) dyn.</i> <i>UK partly (2005) dyn.</i>	Cyprus Czech Republic Estonia Germany (2013) Hungary Latvia Lithuania Malta (2007) Poland Slovakia Slovenia (2007) UK (2012)

Sept. 2004



Implementation in Member States

single farm payment	hybrid	flat rate
<p>Austria (2005)</p> <p>Belgium (2005)</p> <p>France (2007)</p> <p>Greece (2006)</p> <p>Ireland (2005)</p> <p>Italy (2005)</p> <p>Netherlands ()</p> <p>Portugal (2005)</p> <p>Spain (2006)</p>	<p>Denmark (2005) static</p> <p>Luxemb. (2005) static</p> <p>Sweden (2005) static</p> <p>UK partly (2005) static</p> <p>Finland (2006) ?</p> <p>Germany (2005) dyn.</p> <p>UK partly (2005) dyn.</p>	<p>Cyprus</p> <p>Czech Republic</p> <p>Estonia</p> <p>Germany (2005) dyn.</p> <p>Hungary (2005) dyn.</p> <p>Latvia (2005) dyn.</p> <p>Lithuania</p> <p>Malta (2007)</p> <p>Poland</p> <p>Slovakia</p> <p>Slovenia (2007)</p> <p>UK (2012)</p>

53% of EU area

10% of EU area

37% of EU area

Sept. 2004



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