CAP Reform – an explanation of the main elements

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The Commission has today published proposals for Four basic Council regulations for the Common Agriculture Policy – i) on Direct Payments, ii) the Single Common Market Organisation (CMO), iii) Rural Development and, iv) a Horizontal Regulation for financing, managing and monitoring the CAP. In addition, there are 3 smaller regulations to address transition arrangements to the new rules. The package also contains: An Explanatory Memorandum; Citizens Summary; and Annexes linked with different aspects of the Impact Assessment.

The main elements of the proposals can be summarized as follows:

Direct Payments

The Basic Payment Scheme: In order to move away from the different systems of the Single Payments Scheme in the EU-15 (which allows for historical references, or a payment per hectare, or a "hybrid" combination of the two) and the Simplified Area Payments Scheme (SAPS) in most of the EU-12, a new "Basic Payment Scheme" will apply after 2013. (See *http://ec.europa.eu/agriculture/markets/sfp/pdf/ms_en.pdf* for current models in each Member State.) This will be subject to "cross compliance" (respecting certain environmental, animal welfare & other rules), as at present, although there are various simplifications to current requirement (see below). The aim is to reduce significantly the discrepancies between the levels of payments obtained after full implementation of the current legislation, between farmers, between regions (i.e. internally) and between Member States (i.e. externally). All Member States will be obliged to move towards a uniform payment per hectare at national or regional level by the start of 2019. In line with the Commission proposals within the Multi-Annual Financial Framework, the national envelopes for direct payments will be adjusted so that those that receive less than 90% of the EU average payment per hectare will receive more. The gap between the amounts currently foreseen and 90% of the EU-27 average is reduced by one third. For example, if a Member State currently receives an average amount per hectare which is 75% of the EU average, ie 15% below 90%, then it will gradually increase to 80%. The Commission is committed to discussing a longer-term objective of achieving "complete convergence" through the equal distribution of direct support across the European Union in the next Financial Perspectives after 2020.

Greening: In addition to the Basic Payment, each holding will receive a payment per hectare for respecting certain agricultural practices beneficial for the climate and the environment. Member States will use 30% of the national envelope in order to pay for this. This is compulsory, but will not be subject to capping.

The 3 measures foreseen are:

- maintaining permanent pasture; and
- crop diversification (a farmer must cultivate at least 3 crops on his arable land none accounting for more than 70% of the land, and the third at least 5% of the arable area); and
- maintaining an "ecological focus area" of at least 7% of farmland (excluding permanent grassland) – i.e. field margins, hedges, trees, fallow land, landscape features, biotopes, buffer strips, afforested area.

NB: Organic producers have no additional requirements as they are shown to provide a clear ecological benefit.

Areas with natural constraints: Member States (or regions) may grant an additional payment for areas with natural constraints (as defined under Rural Development rules) – of up to 5% of the national envelope. This is optional and does not affect the LFA options available under Rural Development. NB In response to criticisms by the Court of Auditors, the definition of "Less Favoured Areas" has been adjusted to reflect objective criteria.

Young Farmers: The Basic Payment to new entrant Young Farmers (those under 40) should be topped up by an additional 25% for the first 5 years of installation. This is limited to a maximum of the average farm size in that member state. For Member States where the farm size is small, the limit is 25 ha. This shall be funded by up to 2% of the national envelope.

Small farmers: Any farmer claiming support in 2014 may decide by October 15, 2014 to participate in the Small Farmers Scheme and thereby receive an annual payment fixed by the Member State of between 500 € and 1 000 €, regardless of the farm's size. (The figure will either be linked to the average payment per beneficiary, or the national average payment per hectare for 3 ha.) This will be an enormous simplification for the farmers concerned and for the national administrations. Participants will face less stringent cross-compliance requirements, and be exempt from greening. (The impact assessment shows that approximately one third of farms applying for CAP funding have an area of 3 ha or less – but this accounts for just 3% of the overall agricultural area in the EU-27.) The total cost of the Small Farmers Scheme may not be more than 10% of the national envelope, and the level of the payment will be adjusted accordingly if necessary. There will also be Rural Development funding for advice to small farmers for economic development and restructuring grants for regions with many such small farms.

"Coupled" option: In order to address the potentially adverse effects of redistributing direct payments on a national basis and take account of existing conditions, Member States will have the option of providing limited amounts of "coupled" payments, i.e. a payment linked to a specific product. This will be limited to 5% of the national envelope if the Member State currently provides 0-5% of coupled support, or up to 10% if the current level of coupled support is higher than 5%. The Commission may approve a higher rate if the Member States can show it is justified.

Transferring funds between Pillars: Member States will have the possibility of transferring up to 10% of their national envelope for Direct Payments (1st Pillar) to their Rural Development envelope; and the Member States that get less than 90% of the EU average for direct payments now may transfer up to 5% of their Rural Development funds to their 1st Pillar national envelope.

Cross compliance: The award of all payments from the Direct Payment national envelope will continue to be linked to the respect of a number of baseline requirements relating to environment, animal welfare and plant & animal health standards. However, as an exercise in simplification, the number of Statutory Management Rules (SMRs) has been reduced from 18 to 13 and rules on Good Agricultural & Environmental Condition (GAEC) reduced from 15 to 8 – for example, excluding elements that are not relevant to the farmer. It is also proposed that the Water Framework Directive & the Sustainable Use of Pesticides Directive will be incorporated into cross-compliance rules once they have been shown to have been properly applied in all Member States and obligations to farmers clearly identified.

"Capping": The amount of support that any individual farm can receive from the Basic Payment Scheme will be limited to €300 000 per year, and the payment will be reduced by 70% for the part from

€250 000-300 000; by 40% for the part from €200 000-250 000, and by 20% for the part from €150 000-200 000. However, in order to take employment into account, the holding can deduct the costs of salaries in the previous year (including taxes & social security contributions) before these reductions are applied. NB: The funds "saved" under this mechanism stay in the Member State concerned and are transferred to the Rural Development envelope, for use as innovation & investment by farmers, and European Innovation Partnership operational groups.

"Active farmers": In order to iron out a number of legal loopholes, the Commission is tightening the definition of active farmers. Aimed at excluding payments to applicants who have no real or tangible agricultural activity the proposed definition states that payments would not be granted to applicants whose CAP direct payments are less than 5% of total receipts from all non-agricultural activities, or if their agricultural areas are mainly areas naturally kept in a state suitable for grazing or cultivation and they do not carry out the minimum activity required, as defined by Member States. There is a derogation for farmers who receive less than 5000 in direct payments the previous year.

Eligible hectares – The rules foresee setting 2014 as a new reference year for land area, but there will be a link to beneficiaries of the direct payments system in 2011 in order to avoid speculation.

Market management mechanisms: The existing systems of public intervention and private storage aid are proven safety net mechanisms to help producers at times of market difficulties following for example a food crisis. However, they will be revised to be more responsive and more efficient. A new safeguard clause is introduced for all sectors to enable the Commission to take emergency measures to respond to general market disturbances – such as the measures taken during the e-coli crisis in May-July 2011.

These measures will be funded from the Crisis Reserve outlined in the Multi-Annual Financial Framework.

With milk quotas and wine planting rights already set to expire, the Commission is looking to end the last remaining quota regime – for sugar. The sugar quota system should expire on September 30, 2015. With most developing countries enjoying unlimited duty-free access to the EU market, but EU exports limited by WTO rules (as long as there are quotas), an end to quotas is the only option for providing the sector with a long-term perspective – especially in the context of the productivity improvements which are expected. For the period after quotas, white sugar will become eligible for private storage aid, and standard provisions for agreements between sugar factories and growers should be established.

The School Fruit Scheme and the School milk scheme are to be extended. The texts also reflect existing proposals from December 2010 on dairy (compulsory written contracts and strengthened bargaining power in the food chain) and on quality marketing standards – including the "place of farming" concept.

In order to improve farmers' negotiating position in the food chain, the Commission is looking for a better organisation of the sectors. Rules related to the recognition of Producer Organisations (POs) and inter-branch organisations are now expanded to cover all sectors – with further options for establishing such Producer Organisations now transferred to Rural Development funding (see below). In the interests of simplification, a number of minor schemes are abolished (aid for incorporating Milk Powder into animal feed, coupled aid for silkworms!)

Rural Development

The European Agricultural Fund for Rural Development Fund (EAFRD) will fit into the new Common Strategic Framework also applicable for the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF) and the European Maritime and Fisheries Fund (EMFF) – published on October 6 – to achieve the objectives of the Europe 2020 strategy (Sustainable Growth, SMART Growth, Inclusive Growth). As in the other funds, in order to introduce a clearer link to performance, targets will have to be set for all Rural Development programmes for the 6 priorities outlined below. Some 5% of the funds will be held back in a so-called "performance Reserve" and only made available when it can be shown that progress towards meeting these targets is being made.

The basic idea from the current, successful Rural Development concept of multi-annual schemes designed and co-funded by Member States (or regions) remains the same. However, instead of 3 axes linked to economic, environmental and social issues with minimum spending requirements for each axis, the new programming period will have the 6 priorities listed below. Member States are still required to maintain 25% of their Rural Development envelope on issues related to land management and the fight against climate change.

- Fostering knowledge transfer and innovation;
- Enhancing competitiveness;
- Promoting food chain organisation & risk management;
- Restoring, preserving & enhancing ecosystems;
- Promoting resource efficiency & transition to low carbon economy;
- Promoting social inclusion, poverty reduction and economic development in rural areas;

To meet the quantified targets set against these priorities (and taking into account their own specific needs), in their Rural Development programmes Member States / regions will design combinations of measures drawn from a streamlined menu.

In budgetary terms, there will be a small change in the distribution of Rural Development national envelopes to take account of more objective criteria – to be fixed by the Commission under its own competence at a later date. The EU co-funding rates will be 85% in less developed regions, the outermost regions and the smaller Aegean islands, and 50% in other regions for most payments, but can be higher for innovation & knowledge transfer, cooperation, establishing producer groups, young farmer installation grants and LEADER projects.

In the new period, Member States will also have the possibility to design sub-programmes with higher support rates to address the needs of young farmers, small farmers, mountain areas and short supply chains.

Some key points from the simplified menu for RD projects

- Innovation: This key theme (and more specifically the planned European Innovation Partnership for Agricultural Productivity & Sustainability) will be served by different Rural Development measures such as "knowledge transfer" and "cooperation"; It is aimed at promoting resource efficiency, productivity, the low emission, climate-friendly and resilient development of agriculture, forestry and rural areas. This should be achieved through greater cooperation between agriculture and research in order to accelerate technological transfer to agricultural practice;

- Knowledge – “a knowledge-based agriculture”: Strengthened measures for Farm Advisory Services (also linked to Climate change mitigation and adaptation, to environmental challenges and to economic development and training);

- Restructuring / Investment / Modernisation: Grants still available;

- Young farmers – A combination of measures can include business startup grants (up to €70 000), training & advisory services;

- Small farmers: Business start-up aid up to €15 000 per small farm;

- Risk Management toolkit: Insurance & mutual funds – for crop & weather insurance, animal disease [currently available under Article 68 in the 1st Pillar] – extended to include income stabilisation option (which would allow a pay out (up to 70% of losses) from a mutual fund if income drops by 30%); For every € 1.00 a farmer puts in, Rural Development funds provide an additional €0.65;

- Producer Organisations/Association of Producer Organisations: Support for setting-up organisations on the basis of a business plan and limited to groups defined as SMEs;

- Agri-environment – climate payments: greater flexibility in contracts, joint contracts, linked to adequate training/information;

- Organic Farming: new separate measure for greater visibility;

- Areas facing natural & other specific constraints: New delimitation for natural constraint areas based on 8 bio-physical criteria; Member States retain flexibility to define up to 10% of their agricultural area for specific constraints to preserve or improve the environment;

- Mountain areas: For Mountain areas and farmland above 62° N, aid amounts can be up to 300 €/ha (increased from 250 €/ha);

- Cooperation: Expanded possibilities to support technological, environmental and commercial cooperation (e.g. pilot projects, joint environmental schemes, short supply chains, development of local markets);

- Basic services and village renewal: Investments in broadband infrastructure and renewable energy can go beyond small-scale;

- LEADER: Leader start-up kit to aid setting-up Leader groups and strategies; promoting flexibility for combining with other funds in local areas, i.e. rural-urban co-operation; N.B. Leader is now used as the common approach for community-led local development by all CSF Funds (EFRE, ESF, Cohesion, EMFF, EAFRD).

Further new elements

Monitoring & Evaluation of the CAP: The Commission will present a report before the end of 2017 – and every 4 years thereafter – on the impact of the CAP on the 3 main priorities – viable food production, sustainable management of natural resources, and balanced territorial development.

Simplification of controls: Control requirements lowered in regions where previous checks shown good results, i.e. the rules are being properly respected. However, checks will need to be increased in regions where there are problems.

There will be separate proposals before the end of the year relating to the Aid for the Needy scheme (for the period after 2013), and to provide for full transparency of direct payments and other CAP subsidies, taking into account the Court ruling of October 2010 which stated that the existing rules did not respect data privacy rules for natural persons.

Documents and information on the CAP reform proposal are available at:

http://ec.europa.eu/agriculture/cap-post-2013/legal-proposals/index_en.htm