

COMMON AGRICULTURAL POLICY (CAP) “HEALTH CHECK”:

Current debate and outcome

1. A short history of CAP¹

The CAP has always had, and continues to have, clear reasons to exist. It has constantly evolved to reflect the changing needs of both agriculture and society as a whole. The CAP has its roots in 1950s Western Europe, whose societies had been damaged by years of war, and where agriculture had been crippled and food supplies could not be guaranteed. The emphasis of the early CAP was on: encouraging better agricultural productivity so that consumers had a stable supply of affordable food; and ensuring that Europe had a viable agricultural sector.

The CAP offered subsidies and systems that guaranteed high prices to farmers, providing incentives for them to produce more. Financial assistance was provided for the restructuring of farming, for example by subsidized farm investment in favour of farm growth and management of technology skills so that they were adapted to their economic and social conditions. Certain measures were introduced in the form of help for early retirement, for professional training and in favour of less favoured regions.

The CAP was successful in meeting its objective of moving Europe towards self-sufficiency from the 1980s onwards. However, the EU had to contend with almost permanent surpluses of the major farm commodities, some of which were exported (with the help of subsidies), others of which had to be stored or disposed of within the EU. These measures had a high budgetary cost, distorted some world markets, and did not always serve the best interests of farmers, to the extent that they quickly became unpopular with consumers and taxpayers.

At the same time, society became increasingly concerned about the environmental sustainability of agriculture, with the Rio Earth Summit (in 1992) being a notable landmark in the early 1990s.

The CAP had to change, and it did.

2. Reforms of CAP

Many important changes to the CAP were made in the 1980s but, above all, at the beginning of the 1990s. Production limits helped reduce surpluses: (e.g. milk quotas were introduced in 1983). A new emphasis was then placed on environmentally sound farming. Farmers had to look more to the market place, while receiving direct income aid, and respond to the public's changing priorities (MacSharry reform of 1992).

This shift of emphasis, which was effected in 1999 in the “Agenda 2000” reforms and promoted the competitiveness of European agriculture, also included a major new element – a rural development policy. This encouraged many rural initiatives while also helping farmers to re-structure their farms, diversify and improve their product marketing. A ceiling was put on the budget to reassure taxpayers that CAP costs would not run out of control.

¹ Key terms related to CAP are given in the **Glossary** at the end of this paper.

A 2002 Mid-Term Review of the CAP was foreseen at the Berlin Summit of 1999. The EU's planned enlargement, WTO objections to the current CAP, several food crisis and the sustainable development strategy defined during the Gothenburg Summit raised the necessity to undertake a major review of the EU's farm policy.

The EC presented its original ideas for the mid-term review of the CAP in a Communication in July 2002. The main elements of the proposed review were to: decouple direct payments to farmers from production; make direct payments conditional on compliance with environmental, food safety, animal welfare and occupational safety standards; increase the support for rural development by modulating direct payments for all except small farmers; and introduce a new farm audit system and new rural development measures to improve production quality, food safety and animal welfare.

As a result of the Brussels Summit decision held in October 2002 to freeze the CAP budget until 2006, the Commission had to adjust its original ideas.

Finally, in 2003, a further reform was agreed. On 26 June 2003, the EU agriculture ministers adopted a fundamental reform of CAP. The reform completely changed the way that the EU supports its farm sector. It was decided that the vast majority of subsidies will be paid independently from the volume and type of production.

The first pillar of CAP is the common market organizations (CMOs). They are the fundamental market regulation tool governing the production of, and trade in, agricultural products in all the Member States of the EU by:

- eliminating obstacles to intra-Community trade in agricultural products; and
- maintaining a common customs barrier with respect to third countries.

Since the reform of the CAP in 2003, most CMOs have been subject to the new system of a single farm payment and decoupling. The member States which joined the EU on May 2004 participated directly in the new system. Changes have also been made to crisis management arrangements and environmental classification of farms.

As part of the fundamental reform of the CAP, which started in 2003, rural development policy has also been reviewed. The Commission conducted a thorough analysis of rural development policy, including an Extended Impact Assessment of future rural development policy, and made a proposal in July 2004. In September 2005, the Council adopted a reformed rural development policy for the period 2007-13, which is characterized by 'continuity and change'.

It continues to provide a menu of measures from which the Member States can choose, and for which they receive Community financial support in the context of integrated Rural Development programmes. It changes the way these programmes are developed by fostering the strategic content and the sustainable development of rural areas. For that purpose, the future Rural Development (RD) policy focuses on three commonly agreed core policy areas (axes):

- Improving the competitiveness of agriculture and forestry;
 - Supporting land management and improving environment; and
 - Improving the quality of life and encouraging diversification of economic activities.
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The objective of the 2003 CAP reform provides a direct payment system that allows farmers to be market oriented, is as simple as possible from an administrative point of view, and is compatible with WTO requirements for Green Box payments. This was achieved with the introduction of the Single Payment Scheme (SPS), which rendered decoupled farm support the central element of 2003 CAP reform.

Farmers are no longer paid just to produce food, because the intention was to have a market-driven CAP. Farmers can now become true entrepreneurs, produce what the market and consumers want, look for profitable new markets and exploit new niches. Consumers' and taxpayers' concerns were taken fully into account, while giving EU farmers the freedom to produce what the market needs.

The difference was obvious because, in the past, the more farmers produced the more they were subsidized. From now on, the vast majority of aid to farmers is paid independently of how much they produce. Under the new system, farmers still receive direct income payments to maintain income stability, but the link to production has been severed. Severing the link between subsidies and production (usually termed 'decoupling') will enable EU farmers to be more market-orientated. They will be free to produce according to what is most profitable for them while still enjoying stability of income.

However, in order to avoid abandonment of production, Member States may choose to maintain a limited link between subsidy and production, but under well defined conditions and within clear limits.

This series of reforms has now painted a clearer future for the CAP, making more apparent its value to all of society.

3. Pre-accession instruments

During 2000-6, financial assistance from the European Community to candidate countries was provided through three instruments: PHARE Programme (Council Regulation EC No 3906/89), ISPA (Council Regulation EC No 1267/99) and SAPARD (Council Regulation EC No 1268/99). Details of these instruments are summarised in **Annex 1**.

4. Key elements of the reformed CAP

Key elements of the reformed CAP were:

- A single farm payment for EU farmers, independent from production; limited coupled elements may be maintained to avoid abandonment of production;
 - This payment linked to the respect of environmental, food safety, animal and plant health and animal welfare standards, as well as the requirement to keep all farmland in good agricultural and environmental condition ('cross-compliance');
 - A strengthened rural development policy with more EU money, new measures to promote the environment, quality and animal welfare, and help farmers to meet EU production standards starting in 2005;
 - A reduction in direct payments ('modulation') for bigger farms to finance the new rural development policy;
 - A mechanism for financial discipline to ensure that the farm budget fixed until 2013 is not overshot;
 - Revisions to the market policy of CAP;
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- Asymmetric price cuts in the milk sector; The intervention price for the butter reduced by 25% over four years, which is an additional price cut of 10% compared to Agenda 2000, for skimmed milk powder a 15% reduction over three years, as agreed in Agenda 2000, is retained;
- Reduction of the monthly increments in the cereal sector by half, the current intervention price maintained;
- Reforms in the rice, durum wheat, nuts, starch potatoes and dried fodder sectors.

The legal texts were formally adopted at the Agriculture Council of September 2003.

5. Implementation of the reform

With regard to implementation of the reform, the Commission has chosen to do this by way of three Commission Regulations.

- **Regulation 1** - Covers the provisions concerning cross-compliance, controls and modulation. The provisions with regard to cross-compliance are one of the new key elements in CAP reform, which make the Single Farm Payment dependant on the farmers respecting public health, animal health, environmental and animal welfare, EU norms and good agricultural practice.
- **Regulation 2** - Embodies the key element in the reform of introducing a Single Farm Payment, where the payment will no longer be linked to production (decoupling), allowing the farmers to have their incomes ensured and steering their production towards the needs of the markets and the demands of the consumers. Payments will, however, only be paid in full if cross-compliance provisions are respected. At the same time, decoupled payments will mean that a major share of EU support to agriculture is moved from the trade distorting classification under WTO rules (Amber box) towards the minimal or non-trade distorting category (Green box).
- **Regulation 3** - Covers those areas of support which in the future are still product specific, or where the Member States have the option to retain a certain element of support coupled in the future. Such possibilities have in particular been foreseen in the area of animal premia (beef and sheep), where the concern with regard to the effect on production and decoupling has been most pronounced.

6. The role of CAP

The EU's role in agriculture has always been to help in:

- Ensuring a stable supply of affordable and safe food for its population;
- Providing a reasonable standard of living for EU farmers, while allowing the agriculture industry to modernize and develop; and
- Ensuring that farming could be undertaken in all regions of the EU.

As the CAP has developed in line with the requirements of EU citizens, the following factors have taken on a greater importance:

- Improving the quality of Europe's food;
 - Guaranteeing food safety;
 - Looking after the well-being of rural society;
 - Ensuring that the environment is protected for future generations;
 - Providing better animal health and welfare conditions; and
 - Achieving all this at minimal cost to the EU budget (which is funded mainly by taxpayers).
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The CAP is one of the most important EU policies (agriculture expenditure accounts for some 45 % of the Community budget), and one of the building blocks on which the EU was built. Policy is decided by qualified majority voting in the Council and consultation of the European Parliament.

The main objective of CAP from its creation was to achieve food self-sufficiency in the Community. This has been achieved. Subsidizing production on a large scale and buying up agricultural surpluses in the interests of food security are now largely a thing of the past. Nevertheless, major changes to policy soon proved necessary, in order to correct imbalances and over-production resulting from the CAP. Its objectives have thus changed over time, and the instruments used have evolved as a result of successive reforms (principally the 1992 McSharry reform and Agenda 2000).

CAP is an area in which competence is shared between the European Union and the Member States. Under article 33 of the Treaty establishing the European Community, CAP aims are to ensure reasonable prices for Europe's consumers and fair incomes for farmers, in particular through the common organization of agricultural markets, and by ensuring compliance with the principles adopted at the Stresa Conference in 1958, namely single prices, financial solidarity and Community preference.

7. Common Market Organization (CMO)

A common market organization (CMO) is a set of measures that enables the EU to manage to a greater or lesser degree markets for agricultural products, and support the incomes of farmers.

Markets are managed by altering the supply and demand for agricultural products from the situation that would exist if markets were entirely "free". The purpose of market management is to stabilize markets (in terms of quantity offered and purchased, and the price at which transactions take place), and thus to ensure that farmers have a reasonable income and consumers have a secure supply of food at reasonable prices.

There were 21 common market organizations which together covered around 90% of the output of farms. However, in a bid to make things simpler, the EU amalgamated them into a single market organization.

Measures may influence the demand for and/or the supply of farm products in the following way:

- Measures influencing the demand for farm products: intervention in the EU market (e.g. buying agricultural products directly from the market when prices are low, storing them and then releasing them at a later date when prices are higher, or exporting the products to third markets);
 - Measures influencing the supply of farm products: protecting EU farmers from cheaper imports, supporting the price at which farmers can sell their products within the EU, restricting the amount of products that a farmer may place on the market (e.g. milk quotas);
 - To support the incomes of farmers, the EU makes a number of types of payment to farmers. The main payments are known as direct payments. They were originally introduced to compensate farmers for income loss in some sectors resulting from cuts in support prices. Prior to the June 2003 reform, these payments were usually paid per head of livestock or per hectare of cultivated
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crop. They are now generally decoupled from production and incorporated into the Single Payment Scheme.

8. “Health Check” of the Common Agricultural Policy

In November 2007, the Commission adopted the Communication “Preparing the Health Check of the CAP reform”. Its main objectives were to: assess the implementation of the 2003 CAP reform; introduce those adjustments to the reform process deemed necessary to simplify further the policy; allow it to grasp new market opportunities; and prepare it to face new challenges such as climate change, water management and bio-energy.

One of the above objectives, that of grasping market opportunities, has taken a new dimension with the sharp rise of many agricultural commodities to exceptional levels. Their steady increase had already led to the conclusions that any remaining supply controls of the CAP (namely, dairy quotas and set-aside) would have to be removed. The Communication concluded the need for assessment of the most recent reforms of the CAP.

These reforms marked a new phase of this process by decoupling the majority of direct payments via the Single Payment Scheme (SPS) in 2003 for the sectors of arable crops, beef, sheep and dairy, and in 2004 olive oil, cotton and tobacco. As part of 2003 reform, Rural Development policy was strengthened with additional funds and with the reform of its policy instruments in 2005. Finally, the process continued with reforms on sugar (2006), and fruit, vegetables and wine (2007).

The idea behind the Health Check is not to re-invent or re-reform the CAP, but to assess if it is working as well as it could in a larger EU of 27 countries, and in a shifting international context. The Health Check is not a major reform but an effort to streamline and to modernize the CAP.

Having gained experience in implementing the CAP 2003 reform, now is a good time to assess whether the reformed CAP is working as effectively, efficiently and simply as it can and should. So, the Health Check currently being debated in the Council is not about fundamental reform, but streamlining and improving the policy in the light of experience, freeing farmers to respond to increasing demand and meeting new challenges.

Following a public consultation in which the Commission received a significant number of contributions with wide-spread representation across Member States and stakeholders, (from farm and environmental groups to industries), legal proposals have been presented related to three basic Regulations:

- Council Regulation (EC) No 1782/2003 of 29 September 2003 establishing common rules for direct support schemes under common agricultural policy and establishing certain support schemes for farmers.
- Council Regulation (EC) No 1234/2007 of 22 October 2007 establishing a common organization of agricultural markets and on specific provisions for certain agricultural products (Single CMO Regulation).
- Council Regulation (EC) No 1698/2005 of 20 September 2005 on support for rural development by the European Agricultural Fund for Rural Development.

9. What does the Commission propose?

The Commission has proposed modifications in three main areas:

- Direct aid system;
- Market instruments; and
- Rural development policy.

On the direct aid system, there is a need to look at ways to make the system simpler and more efficient for farmers. To do so, Member States will be given the opportunity to change their implementation models by moving towards a flatter rate of aid. The linkage between the payments farmers receive and the farmers' obligations in the areas of environment, public, animal and plant health and animal welfare, has to be made clearer for farmers.

The direct aid scheme should be adjusted to provide for the possibility of using public support in the case of natural disasters and animal plant diseases.

The Commission has focused on the existing market support tools. Intervention - the public buying of surplus production - must revert to its original purpose as a real safety net, particularly today when market prices are good.

The set aside obligation is obsolete and will be abolished. Milk quotas will expire in 2015. In order to ensure an appropriate transition for producers, a gradual increase in quotas between now and then is proposed. Measures to help dairy farmers in regions of the EU - for example mountainous areas which depend heavily on dairy production - are also proposed.

The agricultural sector faces challenges in 2008 that were not as pronounced in 2003. These challenges include the increased need for management of production risks, fighting climate change, more efficient management of water, making the most of the opportunities offered by bio-energy and the preservation of biodiversity. Adjusting the CAP to meet these challenges will cost money. The best way of meeting them is through Rural Development policy.

This is the reason why the Commission is proposing to increase the transfer of direct payments to the Rural Development budget by 8%. The budget obtained from this additional 'modulation' will remain within the Member State that has generated it. New Member States will also be eligible for modulation in 2012. Bulgaria and Romania will be exempted.

At the meeting held in Brussels on 17 March 2008, the Council unanimously adopted the "Council's conclusions" concerning the Communication of the Commission on the "Health Check" of CAP reform since 2003.

10. Key CAP adaptations

Concerning direct payments, the Member States may keep or adapt their model of the single payment scheme until 2013, allowing for the sensitivity of particular sectors and special conditions of vulnerable areas in individual Member States to be taken into consideration. The Council agrees with the Commission proposal that new Member States may keep the single area payment scheme until 2013.

Cross-compliance continues to provide the main element of the reformed CAP, and is of key importance for ensuring public support of the new policy. The Council points out,

however, that the administrative burden for farmers and for the public administration should not be increased, and should even, where possible, be reduced.

As far as market measures are concerned, the EU Ministers of Agriculture agree that CAP should include mechanisms which work as an effective safety net.

As for abolishing milk quotas in 2015, provision is made for a 'soft landing' approach to ensure a smooth transition and predictability for producers, as well as special measures for vulnerable regions where the abolition of milk quotas would put milk production at risk. The Council invites the Commission to examine all possible measures in the context of the 'soft landing' approach.

The 'review of CAP reform' attempts to provide solutions for three main issues:

1. How can the single payments scheme be made more effective, efficient and simple?
2. How should these instruments, initially designed for a Community of 6 Member States, be kept suitable for market support in an increasingly globalised world and in an EU of 27 Member States?
3. How should new challenges, ranging from climate change to bio-fuel development and water management and current challenges such as adaptation to new risks and opportunities, be faced?

11. The key simplifications

There are three key simplifications:

- Member States have the possibility not to make reductions in direct payments if the reductions due to the breach of cross-compliance requirements do not exceed 100 euros per individual beneficiary in a calendar year and on condition that farmers adopt measures for eliminating non-compliance. This would minimize the administrative burden.
- The tolerance rate for minor infringements of cross-compliance rules has been introduced with a view to assuring the monitoring of offenders until the infringements have been eliminated.
- The so called 10 month rule, which obliges farmers to keep at their disposal for 10 months any land parcels declared to activate the single payment scheme, has been abolished.

12. Adopted simplification of the common organization of agricultural markets

At the Luxembourg meeting in April 2008, agriculture ministers of Member States adopted the amendment to the Council Regulation on the establishment of agriculture markets under point A (formal reception without discussion foreseen).

This time the regulation will include changes or reforms in the fruit and vegetable sector, processed fruits and vegetable sector, seed sector, beef sector and milk and dairy product sector, which had not been adopted during the adoption of the basic regulation.

13. Reform of the common market organization on fruit and vegetables

A new Common Market Organization (CMO) for fruit and vegetables, together with a fresh set of implementing rules has been in place since 1 January 2008. The aim of the reformed CMO is to improve the competitiveness and market orientation of the fruit and vegetable sector, reduce income fluctuations resulting from crises, promote consumption

- so contributing to improved public health - and enhance environmental safeguards. New measures encourage growers to join a Producers' Organization (PO).

POs are offered a wider range of tools for crisis management. The fruit and vegetable sector is integrated into the Single Payment Scheme. A minimum level of environmental spending is required; EU funding for promotion and organic production is increased; and export subsidies for fruit and vegetables are abolished.

13.1. Details of the reform

Pos will gain greater flexibility and their rules will be simplified. There will be additional support (60% Community co-financing rather than 50%) in areas where production covered by a PO is less than 20%, and in particular in New Member States to encourage the creation of POs.

13.2. Inclusion of fruit and vegetables in Single Payment Scheme (SPS)

Land covered by fruit and vegetables will become eligible for payment entitlements under the decoupled aid scheme which applies in other farm sectors. All existing support for processed fruit and vegetables will be decoupled, and the national budget ceiling for the SPS will be increased. The total amount that will be transferred to the SPS is around 800 million euros. For tomatoes, Member States will be allowed to apply transitional payments for a four-year transitional payment (2008-11), provided that the coupled proportion of the payment does not exceed 50% of the national ceiling.

For non-annual crops, they will be allowed to apply transitional payments for 5 years, provided that, after 31 December 2010, the coupled proportion does not exceed 75% of the national ceiling. Member States may postpone the distribution of fruit and vegetable entitlements for up to 3 years.

13.3. Environment measures

The inclusion of fruit and vegetables in the SPS means that cross-compliance will be compulsory for those farmers receiving direct payments. In addition, POs must devote at least 10% of expenditure in each operational programme to environmental measures.

13.4. Encouraging greater consumption

Higher consumption of fruit and vegetables was one of the goals identified in the Commission's White Paper on Nutrition, published in May 2008. There will be budgetary support for promotion of fruit and vegetables targeted at children in educational establishments, and free distribution of fruit and vegetables to schools, hospitals, charitable bodies, which will be 100% financed by the Community up to a limit of 5% of the quantity marketed by the PO.

13.5. Transitional soft fruit payment

To allow producers of strawberries and raspberries (for processing) to adapt to market circumstances, they will receive a transitional direct payment worth 230 euros/hectare for a maximum period of 5 years for a set number of hectares. Member States may pay a national top-up so that the total will not exceed 400 euros/hectare.

13.6. Separate fruit and vegetable payment for SAPS countries

Countries applying the Single Payment Area Scheme will be able to introduce a decoupled fruit and vegetable payment to historical producers of fruit and vegetables.

14. Reform of the wine sector

The new Council Regulation introducing a wide-ranging reform of the CMO for wine had been formally adopted by Council of Ministers in April 2008.

The changes will bring balance to the wine market, phase out wasteful and expensive market intervention measures, and allow the budget to be used for more positive, proactive measures which will boost the competitiveness of European wines.

The reform provides for a fast restructuring of the wine sector. It includes a voluntary, three-year grubbing-up scheme to provide an alternative for uncompetitive producers, and remove surplus and uncompetitive wines from the market. Subsidies for crisis distillation and potable alcohol distillation will be phased out, and the money, allocated in national envelopes, can be used for measures like wine promotion in third country markets, innovation, restructuring and modernization of vineyards and cellars. The reform will ensure environmental protection in wine-growing regions, safeguard traditional and well-established quality policies, and simplify labeling rules, for the benefit of both producers and consumers.

The very restrictive planting rights system will also be abolished at EU level from 1 January 2016. The European Commission adopted the detailed implementing regulations to allow the reform to enter into force on 1 August 2008.

The main points of the revised wine CMO are as follows:

14.1. National financial envelopes

This will allow Member States to adapt measures to their particular situation. Possible measures include: promotion in third countries, vineyard restructuring, investment in modernization of the production chain, and in innovation, support to green harvest, new crisis management measures and simple decoupled support.

14.2. Rural Development Measures

Some money will be transferred into RD measures, ring-fenced for wine regions. Measures could include setting-up young farmers, improving marketing, vocational training, support for producers' organizations, support to cover additional costs and income foregone in maintaining cultural landscapes and early retirement.

14.3. Planting rights

Planting rights are to be abolished by the end of 2015, with the possibility to continue them at national level until 2018.

14.4. Phasing-out of distillation schemes

Crisis distillation will be limited to 4 years at Member States' discretion until the end of 2011-12, with maximum expenditure limited to 20% of the national financial envelope in year one, 15% year two, 10% in year three, and 5% in year four.

Potable alcohol distillation will be phased-out over four years, with the coupled payment for the transitional period, being superseded by the decoupled Single Farm Payment.

Member States will have the option to require by-product distillation, paid for out for the national envelope and at a significantly lower level than at present, covering collection and transformation costs of the by-products.

14.5. Introduction of Single Farm Payment

The decoupled Single Farm Payment will be distributed to wine grape growers at Member States' discretion and to all growers who grub up their vines.

14.6. Grubbing-up

There will be a three year voluntary grubbing-up scheme for a total area of 175,000 hectares with a decreasing level of premium over the three years. A Member State can halt grubbing-up if the area would be more than 8% of that Member State's total vineyard or 10% of region's total area.

The Commission can halt grubbing-up if the area reaches 15% of a Member State's total vine area. Member States can also exclude grubbing-up in mountain and steep slope areas, and for environmental reasons.

14.7. Wine-making practices

Responsibility for adopting new or modifying existing oenological practices will be transferred to the Commission, which will assess the oenological practices accepted by the International Organisation for Vine and Wine (OIV), and incorporate some of them into the list of accepted EU practices.

14.8. Better labeling rules

The concept of EU quality wines will be based on wines with Protected Geographical Indications and those with Protected Designation of Origin. Well-established national quality policies will be safeguarded. Labeling will be simpler, and, for example, allow EU wines without GI to indicate variety and vintage on the label. Certain traditional terms and bottle shapes can continue to be protected.

14.9. Chaptalisation

This will continue to be permitted, although maximum levels of enrichment with either sugar or must will be reduced. For exceptional climatic reasons, Member States may request the Commission to increase the level of enrichment.

14.10. Aid for the use of must

Must aid may be paid in its current form for 4 years. After this transitional period, expenditure on must aid may be transformed into decoupled payments to grape producers.

15. Milk Quotas

With the establishment of the Common Market Organization (CMO) for milk in the European Communities, milk supplies in the Member States increased steadily in response to the price support policy. By the late 1970s, milk production was outstripping

the overall milk consumption levels while demand for major milk products, namely butter and SMP, was in decline.

Thus, in April 1984, with the aim of re-establishing balance in the milk sector, the EC decided to implement a dissuasive “additional levy”, or super levy, on quantities of milk delivered beyond a reference quantity, the EC milk quota, distributed amongst individual producers in the Member States. Despite the expected administrative difficulties with its introduction, a quota policy was considered “the most effective method, and the one having the least dramatic effect on the income of producers”, because it allowed the existing price support guarantees to be maintained.

Until the late 1990s the system stayed in place and without substantial reform. However, the reforms of Agenda 2000 and the mid term review (MTR) have significantly transformed the CMO for milk and milk products, with the aim of enhancing competitiveness of the sector and promoting more market orientation. The Agenda 2000 reform introduced intervention price cuts of 15% for butter and SMP, and quota increases by 0.4% between 2005 and 2007 with a compensatory direct payment (5.75 euro rising to 17.24 euro/t of quota) and additional payments.

In the 2003 Reform, the Agenda 2000 reforms were brought forward to 2004, the intervention price cut for butter increased 25%, and direct payments increased. However, the Council withheld approval for the additional quota increase of 1% in 2007 and in 2008 (as proposed by the Commission), in the light of high intervention stocks and limited confidence in demand growth trend at the time. The quota system itself was prolonged until 2014/15.

The reform, which has taken place in a period with more favourable market prospects than originally expected in 2003, has decreased the role of policies as production incentives. In the light of buoyant internal and external demand, the remaining quota system is now restricting production expansion, as opposed to the situation in 1984, when quotas were introduced as a response to overproduction.

In the absence of a decision to extend the national reference quantities beyond 31 March 2015², the quota regime will effectively expire. Owing to the fact that dairy production is relatively capital intensive and investment decisions have to be taken in a longer time frame than most other sectors, an early strategy would allow the sector to gradually adjust to a quota-free policy environment.

This fact, together with the obstacles which quotas are creating in the realization of CAP reform objectives, make it necessary to re-assess the future policy for the sector in the 2008-9 time frame envisaged for the “Health Check”.

The quota system restricts the level of production and consequently affects the price of milk and the market situation for milk products.

16. Conclusions

² Council Regulation (EC) No 1788/2003 of 29 September 2003, establishing a levy in the milk and milk products sector, lays down the general rules for the EU quota regime, as well as the national reference quantities for milk (quotas) for the eleven 12 month periods commencing on 1 April 2004.

The “Health Check” is not a “new reform”. The objectives of the 2003 reforms remain fundamentally the same, although there are additions. This means that the Health Check will go beyond “fine-tuning”. In this regard, the Health Check is an important exercise in its own right, leading to changes for the period 2009-13.

Furthermore the Health Check will be a stepping-stone towards the Mid-Term Review of the Financial Perspectives which will examine the period after 2013.

The future of the dairy sector will be a central topic in the Health Check, especially in view of the definite ending of the milk quota system in 2015.

However, discussions on the Health Check are ongoing, and the atmosphere in the Council and in the European Parliament Agriculture Committee has been very positive.

The Commission had put its legal proposals for how the Health Check could work. This happened on 20 May 2008. According to the plans, it is intended to finalize discussions and to get a final deal in November 2008.

On 20 November 2008, EU agriculture ministers reached a political agreement on the “Health Check” of Common Agriculture Policy (CAP). It will modernize, simplify and streamline the CAP and remove restrictions on farmers, thus helping them both to respond better to market signals and face new challenges. The details of what was agreed are summarized in **Annex 2**.

GLOSSARY of CAP TERMINOLOGY

1. Cross-compliance

Currently, cross-compliance is a mechanism that links full support under the first (and to some extent under the second) pillar of the CAP to the compliance of farmers with rules relating to basic standards for environment, food safety, animal and plant health and animal welfare as well as standards aimed at the maintenance of land in good agricultural and environmental condition.

Cross-compliance creates a link between farm-relevant support and farm-relevant legislation. It aims at being an effective mechanism to promote sustainable agriculture, and at the same time a tool which enhances the CAP's role in meeting the expectations of the society.

Payments under the first pillar and some rural development measures have to comply with parts of 19 existing and already implemented regulations and directives, the so-called statutory management requirements (SMR). The SMR cover rules relating to agricultural production, land and activities in the three areas of: the environment, public animal and plant health, and animal welfare.

Proposal:

1. Deletion of certain articles under the wild birds and habitats directives (Statutory Management Requirements (SMR) 1 and 5) because they are not relevant to farming activities.
2. Deletion of SMR 7 (identification and registration of bovine animals) because it is redundant with SMR 8.
3. Addition of an issue under Good Agriculture and Environment Conditions (GAEC) on water, two subsequent standards added : "establishment of buffer strips along water courses" in order to partly retain environmental benefits from set-aside and to contribute to water quality, as well as: "Respect of authorization procedures for using water for irrigation" in order to meet water quantity concerns.
4. Elaboration of the current standard on retention of landscape features, which is now extended to specify which landscape features should be retained (hedges, ponds, ditches and trees in line, in group or isolated), and where appropriate, field margins in order to protect existing landscape features (which can contribute to the retention of environmental benefits from set-aside).

2. Decoupling

Decoupling was introduced by the 2003 reform of CAP. It is removal of the link between direct payments and production. Prior to the reform, farmers received direct payments only if they produced particular commodities. It meant that the profitability of producing a particular product did not depend only on the amount of money for which the farmer could sell the product in the market, but also on the amount of the direct payment that was associated with the product. This in turn meant that, when farmers made their business decisions regarding which crops to grow or which type of animal to produce, they would take account of both the market price and the direct payment. In other words, farmers responded not only to signals from the market but also to the level of the direct payment that they would receive for that particular crop or animal.

The decoupling of direct payments has changed this. In principle, when farmers decide what to produce, they do not take into account the level of direct payments that they receive.

The overall effect of decoupling is to move the agricultural sector more towards the free market, and give farmers greater freedom to produce according to market demand.

3. Partial decoupling

Decoupling introduces flexibility in the choice of producers who continue to produce where it is profitable, and adapt their output to the market or change to alternative crops where it is adequate. Overall, decoupling leaves the producer at least as well off as before when his choice was the same, and most likely better off when he adjusts as a result of production flexibility and market orientation.

Currently, Member States may retain a part of the payments coupled (partial implementation), i.e.:

1. Crops sector: applicable to the Arable Crops Payments (up to 25%), Durum Wheat Quality Supplement (up to 40%) and Hops (up to 25%).
2. Olive oil sector: aid for olive groves could remain up to 40% coupled.
3. Animal sector: of which the Suckler Cow Premium (up to 100%), the Special beef Premium (up to 75%), the Slaughter Premium (up to 40% for adults and 100% for calves) and Sheep and Goats (up to 50%).
4. Seeds: 100% exclusion of certain or all species.

Proposal:

1. Arable crops, seeds and hops: full decoupling from 2010. Member States can choose as reference period either the same as in 2003 reform (budgetary envelopes) or a more recent period.
2. Suckler cow and sheep and goat meat: Member States are allowed to maintain the status quo.
3. Slaughter premium for young animals, slaughter premium for adult animals and special beef premium: Full decoupling in two steps (50% coupled in 2010, 50% coupled in 2011 and 100% coupled in 2012 onwards).

4. AGENDA 2000

Agenda 2000 was a strategy paper adopted by the European Commission in 1997. It is significant because it set out the main political, economic and social issues that confronted the EU at the beginning of the 21st century, and put forward a strategy to respond to those issues. The principle issue was that of the enlargement of the EU, then comprising 15 countries. The paper proposed a reform of the EU's policies and a new financial framework for the period 2000-6.

The paper consisted of three parts:

1. the EU's internal operation. It proposed a reform of the CAP, and the economic and social cohesion policy;
2. a reinforced pre-accession strategy; and
3. a study of the impact of the enlargement on the policies of the EU.

In 1999, the European Council, meeting in Berlin, agreed to the proposals. The subsequent legislation (to give legal effect to the proposals) was adopted later the same year.

5. Transition to SPS

Current situation: After the end of the period where SAPS be applied (2010-11) all Member States applying SAPS have to apply the SPS but they can do on a voluntary basis. Some new member states (e.g. Hungary) have already announced their intention to move from SAPS to SPS in 2009/2010.

Proposal:

Member States applying SAPS who want to move to SPS will be allowed to restrict the allocation of entitlements to farmers who declared the area benefiting from SAPS in 2005-7. (This is proposed with a view to facilitate the transition to the SPS and to avoid speculative application).

6. Modulation

Current situation: Modulation is a means of budgetary transfer by which a percentage reduction is applied to farmer direct (Pillar I) payments and the budgetary resources released are reassigned to Rural Development (Pillar II) measures.

Though modulation was first discussed in the context of the 1992 Reform, it was not until the Agenda 2000 Reforms that permission was granted to Member States to modulate up to 20% of the total amount of farmers' direct payments. Only UK, France, Spain and Germany choose to apply these voluntary modulation measures.

With the 2003 Reform, compulsory modulation for all EU 15 Member States was finally agreed, starting in 2005 with a rate of 3% and increasing to 4% in 2006 and to 5% from 2007 onwards. A EUR 5000 franchise was also introduced, below which no reduction of direct payments is applied. The released funds are re-distributed according to a common key, based on certain criteria.

Furthermore, the new EU 12 Member States have been exempted from modulation until the transition to the full level of direct payments is achieved in 2013.

In the context of the 2007-2013 Financial Perspectives, the Heads of States decided in December 2005 to introduce further voluntary modulation, up to a maximum of 20%. The Commission's proposal to enact this decision met with substantial opposition from the European Parliament until a formula was found, which restricts de facto the possibility to apply voluntary modulation to UK and Portugal, and led to the adoption of Council Regulation (EC) No 387/2007 on March 27, 2007.

Proposal:

The Communication "Preparing the Health Check of the CAP reform" identified a number of new and ongoing challenges facing CAP (mentioned earlier), and considers the Rural Development Policy as one of the possibilities to deal with these challenges.

The measures available under RD are already providing various alternatives to address the new challenges and Member States have included related measures already in their RD Programmes for 2007-13. But, apparently MS have budget needs beyond their financial possibilities.

To allow Member States to support the increasing needs to meet new challenges via the set of measures proposed under RD, it is proposed to increase compulsory modulation up to 8%, and add an additional progressive element under a new system which is based on the following principles:

1. All new receipts from modulation stay within the MS that generates them.
2. In EU 15, basic modulation, applying to all payments above 5000 euro, increase by 2% annually from 2009 until it reaches an additional 8% in 2012.
3. A progressive element is introduced: whereby payments are reduced by additional steps of 3% in successive thresholds a new system for the financial management of direct aids, establishing net global ceilings per Member State.
4. The EU10 become eligible for modulation in 2012, with a basic rate of 3% (instead of 13%). Bulgaria and Romania are exempt in relation to the phasing-in of direct payments.

7. Flatter Rate

Current situation: In implementing the SPS, Member States could opt for historic model (payment entitlements based on individual historic reference amounts per farmer), a regional model (flat rate payment entitlements based on amounts received by farmers in a region in the reference period) or a hybrid model (mix of the two approaches, either in a static or dynamic fashion).

Proposal: Three possible options

1. Member States applying the historic implementation model are allowed to review the allocated payment entitlements with a view to approximating their unit value taking into account the specificities of geographical areas when fixing closer values and during an adequate transition period.
 - a. At least three pre-established annual steps, and objective and non discriminatory criteria.
 - b. Reduction of the value per step: no more than 50% of the difference between the starting value and the one in the final step.
2. Member States applying the historic model are allowed to change over to the regional model.
 - a. In a first step, divide no more than 50% of regional ceiling between all farmers with holdings in the area.
 - b. May make progressive modifications in at least two further pre-established annual steps and objective and non-discriminatory criteria.
 - c. Reduction of the value per step: no more than 50% of the difference between the starting value and the one in the final step.
3. Member States that choose to apply the regional model are allowed to review their decisions under certain conditions with the aim to approximate the value of payment entitlements according to pre-established steps during an adequate transition period and within a limited range of reductions.
 - a. At least three pre-established annual steps, and objective and non discriminatory criteria.
 - b. Reduction of the value per step: no more than 50% of the difference between the starting value and the one in the final step.

8. Set-Aside

The set-aside scheme is the removal of farmland from production. It was introduced in the late 1980s with the objective of reducing the amount of food produced by farmers. Current situation: Farmers who in 2000-2 were required to set-aside part of their land

received set-aside entitlements. Under the regional model, farmers of a certain size received also set-aside entitlements.

Such set-aside entitlements could only be activated by land kept set aside (not producing crops) with the below exceptions:

- Areas under environmental set-aside and areas afforested could be counted as set-aside.
- Land set-aside might be subject to rotation and might be used for non-food production.

The number of set-aside entitlements is based on the former 10% set-aside obligation. For 2007-8 there was derogation to the set-aside obligation.

Proposal:

Removal set-aside obligation. Set-aside entitlements become normal entitlements. Compensation of environmental effects of its removal will be done by the addition of a standard GAEC on “establishment of buffer strips along water courses”.

9. Individual limits

Current situation: Member States determine the minimum size of agricultural parcels for which an application can be introduced: this minimum size may not be lower than 0.3 hectares.

Minimum size of holdings for Member States applying SAPS is 0.3 hectares, but new Member States may increase it up to 1 hectare. Some rules apply to Member States shifting from SAPS to SPS.

Proposal:

Almost half of the total direct payment beneficiaries in the EU-25 receive less than 500 EUR. This number essentially includes small farmers, but also includes in certain Member States recipients whose value of payment is below the administrative cost of managing it.

In order to simplify and reduce the administrative cost of direct payments, it is proposed that Member States shall either apply a minimum amount of payments of 250 euro, or apply a minimum size of eligible area per holding of at least 1 hectare.

Special provision is made for those Member States whose agricultural sector is mainly composed of very small holdings.

10. Revised Article 69

Current situation: Member States retain up to 10% of national ceilings.

Payments are made to farmers in the sector(s) concerned by the retention and can be spent in specific types of farming important for protection or enhancement of environment or improving quality and marketing of agricultural products. Payments can be coupled to production.

Proposal:

To allow more flexibility in Member States responses to the needs stemming from the overall orientation of the CAP, it is proposed that article 69 be broadened:

- The restriction that linear reductions are taken from and stay in the same sector is removed.
- Measures to address disadvantages for farmers in certain regions specializing in the dairy, beef and sheep and goat meat and rice sectors are covered.
- It also allows the possibility to use the retained amounts to top-up entitlements in areas subject to restructuring and/or development programmes.
- Support for some risk management measures - crop insurance schemes for natural disasters and mutual funds for animal and plant diseases - is provided under certain conditions. (The provisions on exceptional market support measures to animal diseases are to be dealt with in this horizontal provision on risk management, and are deleted from the single CMO).
- Measures which do not with certainty meet the conditions of WTO Green Box, should be limited to 2.5% of the ceilings.
- Finally, Member States applying SAPS will also be allowed to apply this provision.

11. Farm Advisory Systems (FAS)

Farm Advisory Systems were planned to be set up in all Member States by 1 January 2007 at the latest under rural development.

12. Good Agricultural and Environment Condition (GAEC)

Initially GAEC (annex IV of R.1782/2003) was introduced to ensure proper land management. Because of that, the existing GAEC issues and standards do not cover the water issue specifically.

GAEC concerns the issues of soil erosion, soil organic matter, soil structure, minimum level of maintenance and maintaining the total area of permanent pasture. Ensuring proper land management was considered necessary to handle risks associated with decoupling of support in the 2003 CAP reform.

However, it has become more and more crucial for agricultural activity to manage water resources: (irrigation for agriculture is one of main water using activities).

13. Aggregate Measure of Support

The Aggregate Measure of Support is an indicator used by the World Trade Organization (WTO). It quantifies the extent to which a country supports its agricultural sector through the use of measures that fall into the 'amber box'. Under the terms of the Uruguay Round Agreement on Agriculture, members of the WTO undertook to reduce their Aggregate Measure of Support.

14. Agri-environmental payments

In the context of the CAP, these are payments made to farmers who go beyond the requirements of Good Farming Practice. The purpose is to: protect and improve the environment; maintain the countryside in good condition; encourage extensive farming; preserve genetic diversity; and respect high standards of animal welfare. Farmers are reimbursed, from EU and national funds, for the costs incurred and income foregone as a result of farming in a manner that delivers these additional public goods and services.

Agri-environmental payments fall within Axis 2 of the Rural Development Policy (i.e. measures to improve the environment and the countryside).

16. Axes of Rural Development Policy

In September 2005, the EU adopted a new rural development policy which came into the effect at the beginning of 2007. The policy is structured around three core objectives of rural development policy, each of which has a corresponding axis.

- Axis 1: Improving the competitiveness of the agricultural and forestry sector. This axis comprises measures to improve knowledge and innovation, measures to improve the quality of farm products, and two transitional measures for new Member States, these being assistance for semi-subsistence farms and producers groups.
- Axis 2: Improving the environment and the countryside. This axis comprises measures to promote sustainable farming and forestry, and high standards of animal welfare. Farmers may receive payments to compensate them for actions that they have taken in the public interest but which are not profitable in themselves (such as farming in a manner that preserves biodiversity, farming in mountainous areas and thereby maintaining the rural society in those areas etc).
- Axis 3: Improving the quality of life in rural areas and helping the diversification of the rural economy. This axis comprises measures which encourage farmers to diversify into non-agricultural activities, measures to improve the quality of life in rural areas, and measures concerning the local development strategies. This axis therefore helps to promote micro-enterprises, rural tourism, basic services and village renewal.

In addition to these three axes, a fourth promotes the LEADER approach.

17. Boxes

Under the terms of the Uruguay Round Agreement on Agriculture, the measures that a country uses to support its agricultural sector are categorized into one of the following boxes:

- Green Box: This is domestic support that is not linked to either the quantity of farm products that a farmer produces or to the prices that he receives for them. As such, this type of support is deemed not to distort international trade, or to do so to a very small degree. It was excluded from reduction commitments under the Uruguay Round Agreement on Agriculture.
- Blue Box: This is payments made by governments to their farmers within the context of a programme which limits the amount that they produce. This type of support was excluded from reduction commitments under the Uruguay Round Agreement on Agriculture.
- Amber Box: These are measures of domestic support other than the measures classified as blue or green. The level of support provided by these measures (which is termed Aggregate Measure of Support) had to be reduced under the Uruguay Round Agreement on Agriculture.

18. Compensatory Allowances

Compensatory allowances were introduced in 1975. These are payments to farmers who are located in areas where farming is relatively difficult. Such areas are known as 'less favoured areas'. They include mountainous areas and areas where there are specific environmental difficulties. In these areas, farmers may apply for compensatory payments. The purpose of these payments is to ensure that land remains in farming, and that these areas are not depopulated and the land abandoned.

Compensatory allowances are only paid to farmers if they respect the rules of cross-compliance. They form part of the menu of measures available under Axis 2 of the rural development policy.

19. Direct Payments

These are payments made directly to farmers to support their incomes. Direct payments are in contrast to price support which supports the incomes of farmers by supporting the prices that they receive for their products when they sell them in the market.

Direct payments were first introduced on a significant scale following the reform of the common agricultural policy in 1992. The reform reduced the level of price support. To prevent a corresponding fall in the incomes of farmers, direct payments were introduced. They compensated farmers for the lower prices that they received in the market for their products.

20. Early retirement scheme

Farmers who are above a certain age, and who have decided to stop farming, may receive payments under an early retirement scheme. The purpose is to encourage the replacement of elderly farmers by young farmers, these being in a better position to improve the economic viability of farms.

21. European Agricultural Fund for Rural Development (EAFRD)

This fund was created in September 2005. It came into operation at the beginning of 2007, when it replaced the Guidance Section of the European Agricultural Guidance and Guarantee Fund and that part of the Guarantee Section that financed some of the rural development measures. It is the single source of funding from the European Union to rural development programmes.

22. European Agricultural Guarantee Fund (EAGF)

This fund was created in September 2005. It came into operation at the beginning of 2007, when it replaced the Guarantee Section of the European Agricultural Guidance and Guarantee Fund. It provides funding for:

- direct payment to farmers;
- the management of agricultural markets; and
- veterinary and plant health measures, food programmes and information activities.

23. European Agricultural Guidance and Guarantee Fund (EAGGF)

This was the fund which financed the CAP but was replaced in 2005 by two new funds: the European Agricultural Fund for Rural Development and European Agricultural Guarantee Fund.

24. Farm Accountancy Data Network (FADN)

The farm accountancy data network provides data on the financial and economic aspects of farming in the Member States of the EU. Each year, a sample of farms is selected which is representative of commercial farms. They provide data on their cost of production, their revenues from selling their output and on other aspects of their farming operations. The data enable the EU to monitor the income situation of farmers, and examine the effects of policy.

25. Food safety

This term refers to the extent to which food is safe to eat. The term is sometimes confused with that of food security which refers to the extent to which food is available i.e. whether it is physically available and can be bought at a price that people can afford.

26. Good Farming Practices

Member States are required to define codes of Good Farming Practice at the regional or national level. Good Farming Practice should correspond to the type of farming that a farmer would follow in the region concerned, which entails at least compliance with general statutory environmental requirements.

27. Instrument for Pre-Accession Assistance (IPA)

IPA came into force on 1 January 2007, bringing all pre-accession support into one single, focused instrument. It replaced the 2000-6 pre-accession financial instruments PHARE, ISPA, SAPARD, the Turkish pre-accession instrument, and the financial instrument for the Western Balkans (CARDS). IPA covers the countries with candidate status (currently Croatia, the Former Yugoslav Republic of Macedonia and Turkey) and countries with potential candidate countries.

IPA has five components: transition assistance and institutional building (which principally involves institution building measures with accompanying investment); cross-border cooperation; regional development; human resources development; and rural development.

28. Less Favoured Areas (LFA)

These are areas, such as mountainous and hilly areas, within the EU where farming is relatively difficult. In these areas, farmers may receive compensatory allowances within the context of measures that are financed by rural development policy (Axis 2).

29. National Ceiling

The 2003 reform of the CAP established a maximum amount of money that each Member State could use for direct payments from 2005 onwards. This amount is known as the national ceiling. It is based on the total of direct aid and equivalent payments that were paid during a previous period (historic reference period) in each Member State.

30. Payment entitlements

Payment entitlements were granted to farmers who were actively farming at the date that each Member State introduced the Single Payment Scheme.

The level of payment entitlement is calculated on the basis of reference amounts (amounts of direct payments granted in the period 2000-2). During the first year of implementation of the Single Payment Scheme, these historical amounts were allocated to farmers in the form of payment entitlements using so-called "models" (historical, regional, hybrid).

Every year, direct payments are granted to farmers if they have 'eligible hectares' at their disposal to activate the appropriate number of payment entitlements. Member States must create 'national reserves' which are to be used to address problems arising during the transitional phase, and may also be used for grants of payment entitlement to new entrants to farming.

31. Pillar's of the CAP

The 'first pillar' of the CAP is the support that is provided to farmers' incomes. This support comes in the form of market management and direct payments. It is entirely financed from the European Agricultural Guidance Fund.

The 'second pillar' of the CAP is the support provided for the development of rural areas. This support takes the form of rural development programmes and is co-financed from the European Agricultural Fund for Rural Development.

32. Premium

The term premium usually refers to a direct payment made to a farmer who produces beef, sheep and goat meat. Prior to the 2003 reform of the CAP, these payments were usually paid per head of livestock. They are now generally decoupled from production and incorporated into the Single Payment Scheme.

33. Regional Policy

This is one of the most important policies of the EU. Its aim is to strengthen economic, social and territorial cohesion by reducing disparities on the level of development among regions and Member States. This means investing in regions' indigenous potential to promote the competitiveness of regional economies, and the permanent catch-up of those lagging behind the more prosperous areas.

Regional Policy is an expression of EU solidarity. The main instruments of regional policy are:

- The European Regional Development Fund which operates in all Member States and co-finances physical investments and, to a limited extent, training for citizens. The funding is concentrated on the poorest regions in terms of GDP per head.
- The Cohesion Fund which co-finances mainly transport and environment projects in Member States of which the GNP is less than 90% of the EU average.
- Certain components of the Instrument for Pre-Accession (IPA) which helps candidate and pre-candidate countries to develop their competitiveness and their economies.

In addition, there are two more specific instruments:

- The European Union Solidarity Fund (EUSF), which provides financial assistance in the event of major natural disasters.
- The EU contribution to the International Fund for Ireland which, together with the PEACE programme in Structural Funds, aims at peace and reconciliation in Northern Ireland.

34. Rural Development Policy

The rural development policy is also known as the second pillar of the CAP. The rural development policy seeks to maintain the vitality of the countryside through the balanced development of rural areas.

The policy focuses in three major objectives:

- Improving the competitiveness of the farming and forestry sectors;
 - Enhancing the environment and the countryside; and
 - Improving the quality of life in rural areas.
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Corresponding to each core objective is a specific axis.

To this end, a 'menu' of measures is available to the Member States. They, or the regions within them, chose from this menu measures that best suit their needs. The measures are then included in their national and/or regional rural development programmes. The main target groups of the programmes are farmers, foresters and other people and groups living in rural areas. The cost of the programmes is shared between the EU and the beneficiary Member State. This arrangement is known as co-financing.

35. Sustainable Development

The concept of sustainable development refers to a form of economic growth which satisfies society's needs in terms of well-being in the short, medium and long term. It is founded on the assumption that development must meet today's needs without jeopardizing the prospects for future generations.

The EU strategy for sustainable development was adopted in May 2001. It was given an external dimension by the global partnership for sustainable development which the Commission adopted in 2002.

At the World Summit of Sustainable Development held in Johannesburg in 2002, new objectives, work programmes and timetables were approved in the areas of water, fisheries resources, oceans, chemicals, biodiversity, energy and sustainable production and consumption.

When the current European Commission took up its duties in November 2004, the European Union decided to review its sustainable development strategy in the light of numerous changes that had taken place since it was adopted in 2001.

Annex 1

Pre-accession instruments

During 2000-6, financial assistance from the European Community to candidate countries was provided through three instruments: PHARE Programme (Council Regulation EC No 3906/89), ISPA (Council Regulation EC No 1267/99) and SAPARD (Council Regulation EC No 1268/99). Details are summarised below.

1. PHARE

The aim of the PHARE Programme was to assist the candidate countries of Central Europe to prepare for joining the EU.

PHARE was focused on two main priorities: institution building, and acquis-related investment.

Institution building accounted for some 30% of the budget, and was defined as the process of helping the candidate countries to develop the structures, strategies, human resources and management skills needed to strengthen their economic, social, regulatory and administrative capacity.

An innovative tool was introduced to serve that purpose: the long-term twinning of administrations and agencies. Since its inception, this instrument has occupied a central place in pre-accession assistance. With EU support, the vast body of Member States' expertise is made available to candidate countries through the long-term secondment of civil servants and accompanying expert missions, in order to support them in their efforts to adopt, implement and enforce key areas of the acquis.

The process was as follows. The Commission identified needs in the administration in the candidate countries. The candidate country identified a concrete project to reform the administration. The Commission asked the Member States to mobilise a team of experts, led by a project Leader and a pre-accession adviser, in order to help the candidate country to reform its administration. It was a very pragmatic, case-by-case method of reforming public administration.

Initially, twinning was focused on agriculture, environment, public finance, justice and home affairs, and regional policy. Later, the twinning instrument covered the whole body of the acquis. During 1998-2001, more than 500 twinning projects were programmed. Their implementation often involved more than one Member State.

The second priority, acquis-related investment (which accounted for 70%) consisted of two major types of activity:

1. Co-financing of investment in a country to strengthen the regulatory infrastructure needed to ensure compliance with the acquis. In other words, investment in all the equipment needed to operate the internal market, such as putting the food safety structure in place, making frontiers secure, procuring, testing and measuring equipment related to the internal market, or for laboratories and control equipment in the field of consumer protection.
 2. Co-financing of investment in economic and social cohesion, initiated in Phare 2000 programmes, through measures similar to those supported in Member States through the European Development Fund (ERDF) and the European Social Fund (ESF). This promoted the functioning of the market economy and the
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capacity to cope with the competitive pressure and market forces within the EU. This represented about one third (1/3) of each PHARE National Programme.

The other important instruments in terms of programming of PHARE assistance were the National Programme for the Adoption of the Acquis (NPAA), the National Development Programme, the Regular Reports and the negotiations' process.

2. ISPA

The "Instrument for Structural Policies for Pre-Accession" (ISPA) provided financial support for investment in the areas of environment and transport, in order to speed up compliance in accession countries with the European legislation in force for these two sectors. The budget foreseen was approximately € 7 billion for 2000-6.

ISPA was of a hybrid nature, as it was situated between the financial support to third countries (PHARE) and the financial support to Member States (Cohesion Fund). ISPA was accession-oriented, following an approach similar to that of the Cohesion Fund, and applied to the Environment and Transport sectors.

A small part of ISPA budget was used to fund preparatory studies and technical assistance for project preparation and project management.

ISPA was important for "learning by doing", since it was the precursor of the Cohesion Fund. It was managed as closely as possible to the way in which the Cohesion Fund is managed.

Regarding the budget, the Commission, used the same criteria as those used for the Cohesion Fund, and decided the allocation of ISPA resources among the recipient countries on the basis of population, per capita GDP (in purchasing power parity terms) and land surface area. The ISPA Regulation specified the need to strike a balance between measures in the fields of environment and transport. As a consequence, the Commission succeeded in having a 50/50 split in the budget between transport and environment, even though it was not a legal requirement.

ISPA financed only up to 75% of project cost, though in some exceptional cases it was increased to 85%. Co-financing was required (with the EIB, EBRD, etc). The Commission wanted to develop co-financing with International Financial Institutions and also with the private sector (public/private partnerships).

The objectives of ISPA projects had their origins in the Accession Partnerships and the National ISPA Strategies for the environment and the transport sectors. The National Strategies were set up by the candidate countries and defined the priority objectives and the ways and means of realising these. The National ISPA strategies tackled the programming exercise from three angles: conformity with priority objectives, in terms of sectors and sub sectors; geographical priorities; and financial engineering (combination of public and private money, of loan money and grant money).

The minimum size of investment was € 5 million, although the actual project size could be smaller where grouped together. Generally, the project size was significant: € 6 to € 100 million for environmental projects, and € 6 to € 300 million for transport project. ISPA used to finance technical assistance during the whole project cycle: project preparation, project management and supervision.

3. SAPARD

SAPARD was the last of the three EU pre-accession programmes that aimed to help candidate countries in the pre-accession period. The European Commission initiated the SAPARD Programme in 1998 to support candidate countries prepare for participation in CAP and the EU Single Market. SAPARD was a Community framework for supporting sustainable agricultural and rural development in the central and eastern European applicant countries (CEECs) during the 2000-6 pre-accession process. It was designed to solve problems affecting the long-term adjustment of the agricultural sector and rural areas, and help implement the Community acquis in matters of CAP and related policies.

The idea of the SAPARD programme was to create the instrument that would tackle problems confronting rural areas, which at the same time could be a catalyst for change in combination with other EU instruments. In this way, SAPARD built institutional capacity to help deliver Community policies after accession.

This was based on Council Regulation (EC) No 1268/99 of 21 June 1999. This Regulation was part of the follow-up to the Commission's "Agenda 2000" Communication and the conclusions of Luxemburg European Council, which provided for financial aid to the CEECs in the form of structural and agricultural instruments for the period 2000-6. SAPARD and the other pre-accession instruments have been replaced for 2007-13 by the Instrument for Pre-Accession Assistance (IPA). This is the sole instrument for assisting candidate countries and potential candidate countries of the Western Balkans.

The Council, in the above mentioned regulation, determined that pre-accession aid for agriculture should be applied to priority areas defined for each country. It was specified that support under SAPARD should relate to one or more of 15 measures, namely:

1. Investments in agricultural holdings,
 2. Improving the processing and marketing of agricultural and fishery products,
 3. Improving the structures for quality, veterinary and plant-health controls, for the quality of foodstuff and for consumer protection,
 4. Agricultural production methods designed to protect the environment and maintain the countryside,
 5. Development and diversification of economic activities, providing for multiple activities and alternative income,
 6. Setting up farm relief and farm management services,
 7. Setting up producer groups,
 8. Renovation and development of villages and the protection and conservation of the rural heritage,
 9. Land improvement and re-parcelling,
 10. Establishment and updating of land registers,
 11. Improvement of vocational training,
 12. Development and improvement of rural infrastructure,
 13. Agricultural water resources management,
 14. Forestry, including afforestation of agricultural areas, investments in forest holdings owned by private forest owners and processing and marketing of forestry products,
 15. Technical assistance for the measures covered by regulation, 1268/1999 including studies to assist with the preparation and monitoring of the programme, information and publicity campaigns.
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During programming, it was important that rural development measures were the subject of a plan drawn up at the most appropriate geographical level. Such plans were prepared by the competent authorities of the applicant country, and covered a period of up to 7 years from 1 January 2000.

Development plans gave priority to measures to improve market efficiency, quality and health standards, and measures to maintain jobs and create new employment opportunities in rural areas, with due regard for provisions on the protection of the environment.

Measures financed under the Regulation had to comply with the commitments given in the accession partnership, and be consistent with the principles of the National Programme for the Adoption of the Acquis (NPAA). They had also to be consistent with the objectives of CAP, especially with regard to market organization and Community structural measures, and not to cause disturbances on the market.

Regarding the rate of contribution, the Community normally did not contribute more than 75% of total eligible public expenditure: (in certain cases, it covered 100% of the total eligible). For revenue-generating investments, public aid covered up to 50% of total eligible cost.

In order to implement successfully the SAPARD programme, the European Commission (on 20 July 1999) decided to allocate 520 million EURO annually under the programme. The amount of direct subsidy to each of the 10 candidate countries was determined on the basis of objective criteria such as rural population, agriculture area, GDP in purchasing parity, and the specific territorial situation. For example, Bulgaria received an annual subsidy allocation of around 52.1 million EURO, which was the third highest allocation after those of Poland and Romania.

The money allocated was spent annually on financing the National Agriculture and Rural Development Plan, 2000-6. Each candidate country's National Plans had to be adopted by European Commission.

The SAPARD Programme usually was implemented by a special implementing accredited SAPARD Agency, once the Multi-Annual Financing Agreement had been signed between the candidate country and the European Commission.

SAPARD agencies had the responsibility for selecting and managing projects, arranging finance and carrying out controls. Payments by the SAPARD agency were based on expenditure incurred by the beneficiaries. The Community contribution was paid on the basis of the total national contribution. Each SAPARD agency was comprised of two elements: a paying agency, and an implementing agency.

With EU accession on 1 May 2004 for the 10 countries, contracting within the SAPARD programme was concluded, whereas payments and reporting continued until the end of 2006.

Annex 2

Common Agricultural Policy “Health Check”

On 20 November 2008, EU agriculture ministers reached a political agreement on the “Health Check” of Common Agriculture Policy (CAP). It will modernize, simplify and streamline the CAP and remove restrictions on farmers, thus helping them both to respond better to market signals and face new challenges.

This agreement came as a result of one year’s broad discussions across all Member States, including EU institutions and different stakeholders in the agriculture sector, in which they responded to an initial EC proposal made one year earlier.

Among a range of measures, the agreement particularly:

- abolishes arable set-aside;
- increases milk quotas gradually leading up to their abolition in 2015; and
- converts market intervention into a genuine safety net.

Ministers also agreed to increase modulation, whereby direct payments to farmers are reduced and the money transferred to the Rural Development Fund. This will allow a better response to new challenges and opportunities faced by Europe’s agriculture sector, including climate change, the need for better water management, the protection of biodiversity, and the production of bio-energy. Member States will also be able to assist dairy farmers in sensitive regions to adjust to the new market situation.

Measures agreed

Phasing out milk quotas: As milk quotas will expire by April 2015, a ‘soft landing’ is ensured by increasing quotas by 1% every year between 2009/10 and 2013/14. For Italy, the 5% increase will be introduced immediately in 2009/10. In 2009/10 and 2010/11, farmers who exceed their milk quotas by more than 6% will have to pay a levy 50% higher than the normal penalty.

Decoupling of support: The CAP reform “decoupled” direct aid to farmers i.e. payments were no longer linked to the production of the specific product. However, some Member States chose to maintain some “coupled” i.e. production-linked payments. These remaining coupled payments will now be decoupled, and moved into the Single Payment Scheme (SPS), with the exception of suckler cow, goat and sheep premia, where Member States may maintain current levels of coupled support.

Assistance to sectors with special problems (‘Article 68’ measures): Currently, Member States may retain by sector 10 % of their national budget ceilings for direct payments for use for environmental measures or improving the quality and marketing of products in that sector. The possibility will become more flexible. The money will no longer have to be used in the same sector. It may be used to help farmers producing milk, beef, goat/sheep meat and rice in disadvantaged regions or vulnerable types of farming. It may also be used to support risk management measures such as insurance schemes for natural disasters and mutual funds for animal diseases. Countries operating the Single Area Payment Scheme (SAPS) will become eligible.

Extending SAPS: EU members applying the simplified Single Area Payment Scheme will be allowed to do so until 2013, instead of being forced into the Single Payment Scheme by 2010.

Additional funding for EU-12 farmers: € 90 million will be allocated to EU-12 farmers to make it easier for them to make use of Article 68 until direct payments to their farmers have been fully phased in.

Using currently unspent money: Member States applying the Single Payment Scheme will be allowed either to use currently unused money from their national envelope for Article 68 measures or transfer it into the Rural Development Fund.

Shifting money from direct aid to Rural Development: Currently, all farmers receiving more than € 5,000 in direct aid have their payments reduced by 5% and the money is transferred into the Rural Development budget. This rate will be increased to 10% by 2012. An additional cut of 4% will be made on payments above € 300,000 a year. The funding obtained this way may be used by Member States to reinforce programmes in the fields of, or innovations linked to, climate change, renewable energy, water management and biodiversity, and for accompanying measures in the dairy sector. This transferred money will be co-financed by the EU at a rate of 75% and 90% in convergence regions where average GDP is lower.

Investment aid for young farmers: Investment aid for young farmers under Rural Development will be increased from € 55,000 to € 70,000.

Abolition of set-aside: The requirement for arable farmers to leave 10% of their land fallow is abolished. This will allow them to maximize their production potential.

Cross-Compliance: Aid to farmers is linked to the respect of environmental, animal welfare and food quality standards. Farmers who do not respect the rules face cuts in their support. This so called Cross-Compliance will be simplified, by withdrawing standards that are not relevant or linked to farmer responsibility. New requirements will be added to retain the environmental benefits of set-aside and improve water management.

Intervention mechanisms: Market supply measures should not slow farmers' ability to respond to market signals. Intervention will be abolished for pig meat and set at zero for barley and sorghum. For wheat, intervention purchases will be possible during the intervention period at the price of € 101.31/tonne, up to 3 million tonnes. Beyond that, it will be done by tender. For butter and skimmed milk powder, limits will be 30,000 tonnes and 109, 000 tonnes, respectively, beyond which intervention will be by tender.

Other measures: A series of small support schemes will be decoupled and shifted to the SPS from 2012. The energy crop premium will be abolished.
