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## CAP Reform – an explanation of the main elements

The Commission, the Council and the European Parliament (EP) have today reached a political agreement on the reform of the Common Agriculture Policy – subject to formal approval by the Council and the EP as a 1<sup>st</sup> reading Agreement once the texts have been formalised in all languages. Based on the Commission proposals from October 2011 (see [IP/11/1181](#) and [MEMO/11/685](#)), the agreement relates to four basic European Parliament and 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. A number of issues will be dealt with separately within the negotiations on the Multi-Annual Financial Framework (MFF) for 2014-2020 – notably on the transfer of funds between Direct Payments (1<sup>st</sup> pillar) and Rural Development (2<sup>nd</sup> Pillar), the allocation of national envelopes for Direct Payments and Rural development, and rates of co-financing, and the question of capping & degressivity.

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

### 1. Direct Payments

In order to move towards a fairer distribution of support, the CAP system for Direct Payments will move away from one where allocations per Member State - and per farmer within the Member State - are based on historical references. This will mean a clear and genuine convergence of payments not only between Member States, but also within Member States. Moreover, the introduction of a Greening Payment – where 30% of the available national envelope is linked to the provision of certain sustainable farming practices – means that a significant share of the subsidy will in future be linked to rewarding farmers for the provision of environmental public goods. All payments will still be subject to respecting certain environmental and other rules [see "cross compliance" point 4 below horizontal regulation]

**The Basic Payment Scheme (BPS):** Member States will dedicate 70% of their Direct Payments national envelope to the new Basic Payment Scheme – minus any amounts committed for Young Farmer top-ups, and other options such as Less Favoured Area top-ups, the Small Farmers Scheme, the Redistributive Payment and as "coupled" payments. For the EU-12, the end-date for the simpler, flat-rate **Single Area Payments Scheme (SAPS)** system will be extended until 2020.

**Internal Convergence:** Those Member States that currently maintain allocations based on historic references must move towards more similar levels of payment per hectare. They may choose from different options: to take a national approach, or a regional approach (based on administrative or agronomic criteria); to achieve a regional/national rate by 2019, or to ensure that those farms getting less than 90% of the regional/national average rate see a gradual increase – with the additional guarantee that every farmer reaches a minimum payment of 60% of the national/regional average by 2019. The amounts available to farmers receiving more than the regional/national average will be adjusted proportionally, with an option for Member States to limit any "losses" to 30%.

Member States also have the right to use a **redistributive payment for the first hectares** whereby they can take up to 30% of the national envelope and redistribute it to farmers on their first 30 hectares (or up to the average farm size if higher than 30ha). This will have a significant redistributive effect. A further possible option is to apply a maximum payment per hectare.

**Young Farmers:** In order to encourage generational renewal, the Basic Payment awarded to new entrant Young Farmers (those under 40) should be topped up by an additional 25% for the first 5 years of installation. This shall be funded by up to 2% of the national envelope and will be compulsory for all Member states. This is in addition to other measures available for young farmers under Rural Development programmes.

**Small Farmers Scheme:** Optional for Member States, any farmer claiming support may decide to participate in the Small Farmers Scheme and thereby receive an annual payment fixed by the Member State of between 500 € and 1 250 €, regardless of the farm size. Member States may choose from different methods to calculate the annual payment, including an option whereby farmers would simply receive the amount they would otherwise receive. This will be an enormous simplification for the farmers concerned and for national administrations. Participants will face less stringent cross-compliance requirements, and be exempt from greening. The total cost of the Small Farmers Scheme may not be more than 10% of the national envelope, except when a Member State chooses to ensure that small farmers received what they would be due without the scheme. 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 internal convergence for specific sectors in certain regions and to 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 8% of the national envelope if the Member State currently provides coupled support, or up to 13% if the current level of coupled support is higher than 5%. The Commission has flexibility to approve a higher rate where justified. In addition, there is a possibility of providing a 2% "coupled" support for protein crops.

**Areas with Natural Constraints (ANCs) /Less Favoured Areas (LFAs):** 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 ANC/LFA options available under Rural Development.

**Greening:** In addition to the Basic Payment Scheme/SAPS, 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 their national envelope in order to pay for this. This is compulsory and failure to respect the Greening requirements will result in penalties which go beyond the Greening payment, i.e. after a transition offenders will also lose up to 125% of their Greening payment.

The 3 basic measures foreseen are:

- maintaining **permanent grassland**; and
- **crop diversification** (a farmer must cultivate at least 2 crops when his arable land exceeds 10 hectares and at least 3 crops when his arable land exceeds 30 hectares. The main crop may cover at most 75% of arable land, and the two main crops at least 95% of the arable area);
- **maintaining an "ecological focus area" of at least 5% of the arable area of the holding** for farms with an area larger than 15 hectares (excluding permanent grassland) – i.e. field margins, hedges, trees, fallow land, landscape features, biotopes, buffer strips, afforested area. This figure will **rise to 7%** after a Commission report in 2017 and a legislative proposal.

**Greening Equivalency:** In order to avoid penalising those that already address environmental and sustainability issues, the accord foresees a "Greening equivalency" system whereby the application of environmentally beneficial practices already in place are considered to replace these basic requirements. For example, organic producers will have no additional requirements as their practices are shown to provide a clear ecological benefit. For others, agri-environment schemes may incorporate measures that are considered equivalent. The new regulation contains a list of such equivalent measures. To avoid "double funding" of such measures, the payments through RD programmes must take into account the basic greening requirements [see RD section below].

**Financial Discipline:** Subject to approval of the MFF and notwithstanding the separate decision for the 2014 budget year, it was agreed that any future Financial Discipline reduction in annual direct payments (i.e. when payment estimates are higher than the available budget for the 1<sup>st</sup> Pillar) should apply a threshold of €2 000. In other words, the reduction would NOT apply to the first €2 000 of each farmer's Direct Payments. This will also serve to feed the Market Crisis reserve where necessary [see horizontal regulation].

**"Active farmers":** In order to iron out a number of legal loopholes which have enabled a limited number of companies to claim Direct Payments, even though their primary business activity is not agricultural, the reform tightens the rule on active farmers. A new negative list of professional business activities which should be excluded from receiving Direct Payments (covering airports, railway services, water works, real estate services and permanent sports & recreation grounds) will be mandatory for Member States, unless the individual businesses concerned can show that they have genuine farming activity. Member States will be able to extend the negative list to include further business activities.

**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 2013 in order to avoid speculation. Member States which might see a large increase in declared eligible area are allowed to limit the number of payment entitlements to be allocated in 2015 to either 135% or 145% of the number of hectares declared in 2009.

## 2. Market management mechanisms

With milk quotas expiring in 2015, the reform foresees the **end to the sugar quota regime** on September 30, 2017, confirming the indication of the 2005 sugar reform to put an end date for the quota regime while allowing for additional time for the sector to adjust. This will ensure improved competitiveness for EU producers on the domestic and world market alike (as EU exports are limited by WTO rules under quotas). This will also provide the sector with a long-term perspective. Ample supply on EU domestic markets at reasonable prices will also benefit the intermediate and final users of sugar. In order to provide added security, standard provisions for agreements between sugar factories and growers will be maintained. For the period after quotas, white sugar will remain eligible for private storage aid. Most developing countries will continue to enjoy unlimited duty-free access to the EU market.

On **wine production**, the accord respects the decision of the 2006 wine reform to end the system of wine planting rights at the end of 2015, with the introduction of a system of authorisations for new vine planting from 2016 – as recommended by the High Level Group on Wine last December (see [IP/13/1378](#)) – with growth limited to 1% per year.

Other amendments to the Single Common Market Organisation (CMO) rules aim to improve the market orientation of EU agriculture in light of increased competition on world markets, while providing an effective safety net for farmers in the context of external uncertainties (together with direct payments and options for risk management under rural development). The existing systems of **public intervention** and **private storage aid** are revised to be more responsive and more efficient, for example with technical adjustments for beef and dairy. For **dairy**, these changes, come in addition to the 2012 "Milk Package" which is incorporated into the Regulation and strengthening the bargaining power of farmers.

Moreover, new **safeguard clauses are 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 a **Crisis Reserve** financed by annually reducing direct payments. Funds not used for crisis measures will be returned to farmers in the following year. In case of severe imbalance in the market, the Commission may also authorise producer organisations or inter branch organisations, respecting specific safeguards, to take certain temporary measures collectively (for example market withdrawal or storage by private operators) to stabilise the sector concerned.

The **School Fruit Scheme** and the **School milk scheme** are to be extended, and the annual budget for the school fruit scheme is increased from EUR 90 to EUR 150 million per year.

In order to improve farmers' negotiating position in the food chain, the Commission is looking for a better organisation of the sectors with a few limited derogations to EU competition law. Rules related to the recognition of **Producer Organisations (POs)** and **inter-branch organisations** are now covering all sectors – with further options for establishing such organisations now transferred to Rural Development funding (see below). Furthermore, the possibility for farmers to collectively negotiate contracts for the supply of olive oil, beef, cereals and certain other arable crops is foreseen under certain conditions and safeguards. The Commission will provide guidelines about potential issues relating to competition law.

In the interests of simplification and market orientation, a number of minor or unused schemes are abolished (aid for the use of skimmed milk and skimmed milk powder in animal feed and casein, coupled aid for silkworms!)

### 3. Rural Development

Rural development policy will retain its current, successful foundation concept: Member states or regions will continue to design their own multi-annual programmes on the basis of the menu of measures available at EU level – in response to the needs of their own rural areas. These programmes will be co-funded from the national envelopes – where the amounts and rates of co-funding will be dealt with within the context of the MFF. The new rules for the 2<sup>nd</sup> Pillar provide a more flexible approach than at present. Measures will no longer be classified at EU level into "axes" with associated minimum spending requirements per axis. Instead, it will be up to Member States / regions to decide which measures they use (and how) in order to achieve targets set against six broad "priorities" and their more detailed "focus areas" (sub-priorities), on the basis of sound analysis. The six priorities will cover: Fostering knowledge transfer and innovation; Enhancing competitiveness of all types of agriculture and the sustainable management of forests; Promoting food chain organisation, including processing and marketing, & risk management; Restoring, preserving & enhancing ecosystems; Promoting resource efficiency & the transition to a low-carbon economy; and Promoting social inclusion, poverty reduction and economic development in rural areas. Member States will have to spend at least 30 % of their rural development funding from the EU budget on certain measures related to land management and the fight against climate change, and at least 5 % on the LEADER approach.

Rural Development policy will also operate in closer co-ordination with other policies through an EU-level Common Strategic Framework and through Partnership Agreements at national level covering all support from European Structural and Investment (ESI) funds (the EAFRD, ERDF, Cohesion Fund, ESF and EMFF) in the Member State concerned.

In the new period, Member States / regions will also have the possibility to design **thematic sub-programmes** to pay especially detailed attention to issues such as young farmers, small farms, mountain areas, women in rural areas, climate change mitigation / adaptation, biodiversity and short supply chains. Higher support rates will be available within sub-programmes in some cases.

The streamlined menu of **measures** will build on the strong points of measures available in the current period. Among other things, it will cover:

- **Innovation:** This key theme (and more specifically the planned European Innovation Partnership for Agricultural Productivity & Sustainability – the "EIP") will be served by various rural development measures such as "knowledge transfer", "cooperation" and "investments in physical assets". The EIP will promote resource efficiency, productivity and the low-emission and climate-friendly/-resilient development of agriculture and forestry. This should be achieved, *inter alia*, through greater cooperation between agriculture and research in order to accelerate technological transfer to farmers;
- **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);
- **Farm restructuring / investment / modernisation:** Grants still available – sometimes with higher support rates when linked to the EIP or joint projects;
- **Young farmers** - A combination of measures can include business start-up grants (up to €70 000), general investments in physical assets, training and 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%);
- **Producer groups / organisations:** Support for setting up groups / organisations on the basis of a business plan and limited to entities defined as SMEs;
- **Agri-environment - climate payments:** Joint contracts, link to adequate training/information, greater flexibility when extending initial contracts,;
- **Organic Farming:** New separate measure for greater visibility;
- **Forestry:** Strengthened / streamlined support through grants and annual payments;
- **Mountain areas:** For mountain areas and farmland above 62° N, aid amounts can be up to 450 €/ha (increased from 250 €/ha);
- **Other areas facing natural & other specific constraints:** New delimitation for Areas with Natural Constraints (ANC) – with effect from 2018 at the latest - based on 8 biophysical criteria; Member States retain flexibility to define up to 10% of their agricultural area for specific constraints to preserve or improve the environment;
- **Co-operation:** Expanded possibilities to support technological, environmental and commercial cooperation (e.g. pilot projects, joint environmental schemes, development of short supply chains and local markets);
- **Non-agricultural activities:** Grants for start-up and development of micro- and small businesses;
- **Basic services and village renewal:** Investments in broadband infrastructure and renewable energy can go beyond small-scale, relocation of activities / conversion of buildings now covered;
- **LEADER:** Greater emphasis on awareness-raising and other preparatory support for strategies; promoting flexibility for operating with other funds in local areas, i.e. rural-urban co-operation; N.B. LEADER will now be used as the common approach for community-led local development by the following ESI Funds: the ERDF, ESF, EMFF and EAFRD.

#### 4. Horizontal Regulation

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

**Farm Advisory Service:** The list of issues on which Member States will have to offer advice to farmers has been enlarged to cover, beyond cross compliance, the green direct payments, the conditions for maintenance of land eligible for direct payments, the Water Framework and Sustainable Use of Pesticides Directives, as well as certain rural development measures.

**Cross compliance:** All direct payments, certain rural development payments and certain vine payments will continue to be linked to the respect of a number of statutory requirements relating to environment, climate change, good agricultural condition of land, human, animal & plant health standards and animal welfare. The list has been simplified to exclude rules where there are no clear and controllable obligations for farmers. The deal confirms that the Water Framework and the Sustainable Use of Pesticides Directives will be incorporated into the cross-compliance system once they have been shown to have been properly applied in all Member States, and obligations to farmers have been clearly identified.

**Crisis reserve** : A crisis reserve will be created every year for an amount of €400 million (in 2011 prices) by application of financial discipline. If the amount is not used for a crisis it will be reimbursed to farmers as direct payments in the following year.

**Transparency:** Member States will have to provide full transparency of all beneficiaries – with the exception of those farms which are eligible for the Small Farmers Scheme in that Member State.

**Monitoring & Evaluation of the CAP:** The Commission will present a report before the end of 2018 – and every 4 years thereafter – on the performance of the CAP with respect to its main objectives – viable food production, sustainable management of natural resources, and balanced territorial development.

## **5. Further elements**

**Alignment:** In terms of further implementation, a number of issues in particular relating to the Single CMO regulation have been designated as subject to approval under Article 43(3) and others under Article 43(2).

**Transitional arrangements:** The aim is that all the new Regulations enter into force from January 1, 2014 – and the Commission can now start work on the implementing rules for these Council Regulations. However, given the preparation necessary, it is already clear that the Member State Paying Agencies do not have enough time to have the necessary administration and controls for the new system of direct payments in place by the start of next year (when the IACS forms are sent out to farmers). As a result, the Commission has made a separate proposal that there should be a transition year for Direct Payments in 2014. In other words, the new elements such as Greening and the Young Farmers top-up will only apply from 2015 onwards. Similarly, Member States are encouraged to work on their multi-annual Rural Development programmes, which should be approved early next year. However, for certain annual elements, such as agri-environment payments, transition rules should apply so that there is no interruption in this type of scheme.

### **For more information:**

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

[http://ec.europa.eu/agriculture/cap-post-2013/index\\_en.htm](http://ec.europa.eu/agriculture/cap-post-2013/index_en.htm)

[IP/13/613](#)