DEFRA

Department for
Environment,
Food & Rural Affairs

15 JUL

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11 July 2002

Dear consultee,

CAP REFORM: CONSULTATION ON MID-TERM REVIEW OF AGENDA 2000

On 10 July, the European Commission published a discussion document containing its proposals for reform of the Common Agricultural Policy (CAP), the so-called Mid-term Review of Agenda 2000.

We are conducting a consultation exercise on this document and would like to receive the views of all interested parties. A summary of the Commission's proposals is attached to this letter. The full document can be found via the Commission's website at www.europa.eu.int/comm/agriculture/mtr/index_en.htm.

The Commission's proposals mark an important next step in the future of the CAP. The possible implications are wide-ranging and would impact on farmers, consumers, taxpayers, the environment, rural economy and developing countries. We would welcome comments on any aspect of the document, but it would be helpful if your responses could focus on the economic and practical effects of the Commission's proposals in three main areas:

- Market reform proposals, including on cereals and dairy;

- The decoupling of subsidies from production and the creation of a 'single income payment';

- The shift in support from production-linked subsidies ('Pillar 1' of the CAP), to wider agri-environment and rural development measures ('Pillar 2'), including the 'dynamic modulation' mechanism proposed to fund this.

There will be an initial discussion of the Commission's proposals at the EU Agriculture Council of Ministers on 15 July, but the critical negotiations will occur at the Agriculture Councils in September, October and November of this year. In order that we can make an initial assessment of comments in time for the Agriculture

Council meeting on 23 September it would be useful to have responses to this consultation **by Friday 6 September.** I am very sorry about the tight timetable, particularly as it covers the summer break, but the timetable is not of our making and we would like to have the views of consultees before the substantive negotiations begin.

Please either e-mail your response to capreform.consultation@defra.gsi.gov.uk, or post to the following address:

Ms Nina Hassall
8th Floor, 9 Millbank
c/o Nobel House
17 Smith Square
London
SW1P 3JR

Tel: 020 7270 1990 (until 26 July 2002)
020 7238 6000 (from 29 July 2002)

Please let Nina know if you would like to comment but will have difficulty doing so by 6 September. We will take account as best we can of any responses received after this date.

We expect the European Commission to bring forward legislative proposals during the autumn based on the ideas in their proposals and the discussions in Council. We will make available copies of these proposals as soon as they are available, and would welcome additional comments at the appropriate time. If you have not responded to this consultation exercise by **4 October** but would still like copies of the legislative proposals please let Nina know.

For a hard copy of the consultation papers please contact the DEFRA Helpline on telephone 08459 33 55 77 (local call rate number), fax 020 7270 8419, email helpline@defra.gsi.gov.uk. If you need a copy of the consultation papers in large print, another language, in Braille or in another format, please contact Nina Hassall as above to discuss availability.

At the end of the consultation period we intend to make copies of the comments received publicly available. We will assume that your reply may be made available unless you indicate clearly that you wish part or all of it to be excluded from this arrangement. The main DEFRA library at 3 Whitehall Place, London, SW1A 2HH (Tel. 0645 335577 - calls charged at local rates) will supply copies on request. An administrative charge will be made to cover copying and postage. To enable requests to be dealt with efficiently and to avoid undue delay for those calling the library in person, it would be appreciated if personal callers could give the Library at least 24 hours notice of their requirements.

The Data Protection Act: information provided by respondents to this consultation exercise will be held and used for the purposes of the administration of this current exercise. If you submit comments in response to this consultation exercise we may keep your name and address on a list to be used for future consultation exercises on related topics.

Andrew Gregory

Andy Gregory
EU Agriculture Branch

CAP REFORM: MID TERM REVIEW OF AGENDA 2000

SUMMARY OF COMMISSION'S DISCUSSION DOCUMENT – 10 JULY 2002

The Commission's document sets out reform proposals which it would like to see apply from 1 January 2004. These proposals address three main issues:

- Market support regime reforms
- Decoupling of CAP direct payments from production
- Reinforcing the Rural Development Pillar

Market Support Regimes

The package will:

- Apply the final 5% reduction (of the 20% proposed in Agenda 2000) of the cereals intervention price from €101.31 to €95.35 from 2004/05. This will be compensated "as foreseen by Agenda 2000";
- Propose abolition of monthly increments;
- Address some technical weaknesses in the EU's border protection regime on cereals (Commission has indicated its wish to negotiate a change under the WTO);
- Abolish intervention for rye;
- Reduce durum wheat support to €250/ha in traditional areas over three years, and abolish the special aid in established areas. Establish a high quality premium at €15/tonne;
- Contain no specific proposals on oilseeds;
- Reduce the rice intervention price by 50% to a basic level of €150/tonne for 2004/5. Introduce a private storage scheme to be triggered if the market price falls below the basic price. Safety net intervention will be at €120/tonne. Compensation increased to €177/tonne, of which €75/tonne will be granted as a crop specific payment. Reduce the Maximum Guarantees Amounts to the 1999-2001 average or the current MGA, whichever is the lower;
- New stand alone protein supplement of €55.57/hectare
- Replace current dried fodder arrangements with an income support envelope of €160million, to be distributed between Member States in proportion to national guaranteed quantities for dehydrated and sun-dried fodder. A reduced single support payment of €33/tonne will be maintained for dehydrated and sun-dried fodder will be maintained;

- Replace existing arrangements for nuts with a flat rate payment of €100/ha, which can be topped up to a maximum of €109/tonne by Member States. The maximum guarantee area will be 800,000ha.

- Introduce a new carbon credit of €45/ha for energy crops (contract with processor required), within a Maximum Guaranteed Area of 1.5 million hectares.

- Leave beef market support arrangements (pretty minimal after Agenda 2000) unchanged.

- Commission to reinforce the conditions and controls under which export subsidies for live animals can be granted.

- On dairy float the following options:

  i) continuation of Agenda 2000 measures until 2015;

  ii) repeat the Agenda 2000 approach (further increase in quotas, +3%, and lowering of intervention prices, -15% butter and -5% SMP);

  iii) create separate quotas ("A" + "C") for production for domestic consumption and export consumption;

  iv) abolish quotas from 2008;

- Propose nothing on Sugar, olive oil, fruit, and vegetables and wine which will be the subject of further proposals in 2003.

Decoupling Direct Payments from Production

- All direct payments (cereals, beef, sheep) to be decoupled from production from 1 January 2004 (dairy from 2005/06);

- Creation of a single decoupled income payment per farm, based on historical receipts from Direct Payments (but with modulation - see below);

- Exceptions from the single scheme to include durum wheat quality premia, new stand-alone protein crop supplement, the crop specific payment for rice, and payments to potato starch and dried fodder processors;

- Where allocating payments on a historical basis gives serious regional inequities, Member States will have the right to reallocate payments within their territory to achieve a balance.

- The 'single income payment' to be split into 'payment entitlements' on a hectare basis to facilitate the partial transfer of payment when only part of the farm is sold or leased. Member States will be able to establish different approaches (e.g. to define a balance between individual payment entitlements and regional/national averages).

- Payment entitlements cannot be transferred speculatively: agricultural land must be maintained in good agricultural condition and to mandatory environmental standards.

- All the old rules for Direct Payments (need to count cattle, measure areas) will fall away. There will be no obligation on recipients to produce anything. But there will be new, binding cross compliance rules: direct payments will be conditional on the respect of statutory legal standards (environment, food safety, and animal welfare) and keeping land in good agricultural conditions in line with environmental requirements.

- Compulsory long-term (10 years) non-rotational set-aside will be introduced on arable land. Farmers will be obliged to put an amount equivalent to current compulsory set-aside into long-term set-aside as an element of the cross-compliance rules. The non-food regime on set-aside land will be abolished.

- In addition, and in place of the old checks on hectares planted and numbers of animals kept, there will be whole farm audits (likely to be once every 3, 4 or 5 years), to check compliance with eg. animal welfare, environmental and health and safety requirements. Farms receiving less than €5,000 per year in direct payments will be exempt.

- Energy crops will no longer be able to be grown on set-aside. A new carbon credit to be introduced at €45/ha of energy crops with a maximum guaranteed area of 1.5 million hectares, to be paid to producers entering into a contract with a processor. Area allocation between MS to take account of historical energy crop production on set-aside and carbon dioxide commitment burden sharing arrangements.

Strengthening Rural Development

- There will be compulsory 'dynamic' modulation at 3% of the original entitlement in 2004, and a further 3% of the original entitlement in each year thereafter to a maximum of 20% (in 6 or 7 years).

- There will be transitional arrangements for Member States (like the UK) which already operate modulation.

- Modulation to be operated in the same way in each Member State For the years up to 2006, there will be a commitment that all the funds will be retargeted to Rural Development spending. No commitment for post-2006.

- Modulated funds won't be reserved to the Member State which collects them but reassigned on the basis of agricultural area, agricultural employment and prosperity criteria, to target specific rural needs. However, money saved by application of a maximum upper ceiling on direct payment receipts per farm (see below) will be reserved to the individual Member State.

- Modulation will not bite on farmers evenly. All farms will be exempted the first €5,000 and there will be a further €3,000 allowance for every full-time labour unit beyond a basic 2 full-time workers. There will also be a maximum upper limit on Direct Payment receipts per farmer of €300,000, so farmers would get the first €300,000 of any subsidy to which they were entitled, and nothing beyond that.

Use of Modulated Funds

- Modulated funds to be spent on any rural development measure under the EAGGF guarantee section. Member States will be able to use it to increase the level of Community co-financing within their programmes up to the regulatory ceilings, to finance new measures, to increase the scope and/or to finance additional beneficiaries.

- A new food quality chapter to be included in the rural development regulation, including incentives (on a flat rate basis for a maximum of 5 years) to produce to quality assurance scheme standards, and support for producer groups for promotional activities of quality products. These will be compulsory elements of a Member State's RDP in 2005/06.

- Also a new 'Meeting Standards' chapter to assist farmers adapt to environment, food safety and animal welfare standards. Aim to encourage a more rapid and widespread adoption of (legal) standards, but in no case would aid be payable where a farmer has not respected standards already incorporated into national legislation. Aid to be degressive for up to 5 years, with a maximum of €200/hectare in the first year.

- Flat rate aid also available under this chapter to help farmers meet costs of farm audits. In particular will help farmers prepare for and meet new cross-compliance requirements for receipt of direct payments.

- New animal welfare measure. Fixed co-financing of agri-environment and animal welfare schemes to be increased to 85% in Objective 1 areas and 60% in other areas.

- Some adaptations to the non-accompanying measures to complement the introduction of the above measures, including clarification of the marketing activities under Article 33 to include specific references to the eligibility of the cost of setting up quality assurance and certificate schemes.

State Aids

- To accelerate implementation of new state aid regimes, the Commission is examining the possibility of adopting a block exemption regulation at EU level in the field of agriculture.