

Commission press release on the mid-term review of the EU agricultural policy (10 July 2002)

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Commission press release on EU farm policy mid-term review (10 July 2002)

"Towards sustainable farming" Commission presents EU farm policy mid-term review

Today, the European Commission has tabled a mid-term review of the EU's Common Agricultural Policy (CAP). The Commission is of the opinion that public expenditure for the farm sector must be better justified. Besides supporting farming incomes, it must yield more in return regarding food quality, the preservation of the environment and animal welfare, landscapes, cultural heritage, or enhancing social balance and equity. This review will free farmers from red tape, encouraging them to produce at high standards for the highest market return, rather than for the sake of the maximum possible subsidy. For European consumers and taxpayers, the review will ensure better value for money. To achieve those goals, the Commission proposes 1) to cut the link between production and direct payments, 2) to make those payments conditional to environmental, food safety, animal welfare and occupational safety standards, 3) to substantially increase EU support for rural development via a modulation of direct payments with the exemption of small farmers, 4) to introduce a new farm audit system, 5) new rural development measures to boost quality production, food safety, animal welfare and to cover the costs of the farm audit. As to the market policy, which remains an essential pillar of the CAP, the Commission proposes 1) to bring to a close the process of cereal reforms, notably with a final 5% cut in the intervention price and a new border protection system, 2) a decrease in the additional durum payment accompanied by a new quality premium, 3) a compensated decrease in the rice intervention price and 4) adjustments in the dried fodder, protein crop and nuts sectors. The proposals fully respect the objectives policy direction and financial framework for the CAP set in Agenda 2000.

"We cannot expect our rural areas to prosper, our environment to be protected, our farm animals to be well looked-after, and our farmers to survive, without paying for it. In future, farmers will not be paid for overproduction, but for responding to what people want: safe food, quality production, animal welfare and a healthy environment. While guaranteeing farmers a stable income, the new system will free them from the straitjacket of having to gear their production toward subsidies. They will be able to produce the crop or the type of meat where they see the best market opportunities and not the highest subsidies. And we will to cut back on red tape and form-filling for farmers and national administrations. Our proposal means better value for money for farmers, consumers and taxpayers alike. It facilitates the enlargement process and help to better defend the CAP in the WTO.

The new system does not distort international trade on the contrary, it should improve opportunities for developing countries", Franz Fischler, Commissioner for Agriculture, Rural Development and Fisheries said.

The 10 achievements of the "mid-term review"

Focus the support to reward our farmers for their environmental, food safety and quality or animal welfare services

Provide more money to help farmers to produce in a market and consumer oriented way

Continue to provide support and stability in agricultural incomes

Help farmers to get on with their work by cutting red tape and simplifying paperwork

Ensure that our farmers can benefit from growing markets

Concentrate on the products and services the consumer wants, without artificial incentives to produce what consumers do not need.

Integrate food quality, food safety and animal welfare fully into the CAP

Reinforce compliance in the farmed environment, with fewer environmentally damaging incentives, and more environmentally friendly services

Offer more support for traditional and high-nature value farming systems

Take the lead in international farm trade talks with a modern farm policy which is positive for international trade and for developing countries

Maintaining the farm policy objectives and the financial framework...

The Commission rejects the notion that EU agriculture can promote the objectives expected from our citizens with the abolition of support or with its re-nationalisation. But it also rejects the notion that EU agriculture should limit itself to the passive role of observing developments without a forward looking policy response.

Today's proposals stem from the mandate of the European Council of Berlin to the Commission to submit a Midterm Review (MTR) of the Agenda 2000, putting it into the wider context of the recent public debate about the Common Agricultural Policy (CAP) and its future.

The objectives of the CAP remain the same as those established in Berlin and enhanced in the European Summit of Göteborg: a competitive agricultural sector, production methods that support environmentally friendly, quality products that the public wants, a fair standard of living and income stability for the agricultural community, diversity in forms of agriculture, maintenance of visual amenities and support for rural communities, simplicity in agricultural policy and the sharing of responsibilities among Commission and member states, justification of support through the provision of services that the public expects farmers to provide.

... But achieving them with new policy tools

This review actively responds to the concerns that EU citizens express about the effectiveness of the CAP by focusing on the pertinent policy question of how best to support EU agriculture and rural areas. Aiming at the improvement of coherence in CAP policy instruments, the Commission proposes a set of substantial adjustments to achieve the following:

1. Enhance the competitiveness of EU agriculture by setting intervention as a real safety net measure, allowing EU producers to respond to market signals while protecting them from extreme price fluctuations. To achieve this, the proposed market measures include:

1.1. Crops

In the **cereal** sector, the Commission proposal includes a final 5% cut in intervention price, the abolition of the monthly increments for the cereal intervention price and rye intervention, and the adjustment of the EU border protection system in accordance with the international rights and obligations of the EU.

Further measures in the crop sector:

the decrease in the level of the specific additional payment to durum wheat and the introduction of a quality premium;

the decrease of the rice intervention price to world market levels and the compensation of producers with direct aid;

adjustments in the dried fodder and protein crop sectors and a permanent aid for nuts.

1.2. Beef

In the **beef sector**, a major simplification of the system of direct payments in order to better link producers to consumer demand for better quality and safety.

Moreover, four alternative options for the future of support in the **dairy** sector are presented for a political discussion.

2. Promote a market oriented, sustainable agriculture by shifting support from product to producer with the introduction of a decoupled system of payments per farm, based on historical references and conditional upon cross-compliance to environmental, animal welfare and food quality criteria.

3. Strengthen rural development by transferring funds from the first to the second pillar of the CAP via the introduction of an EU-wide system of compulsory dynamic modulation, and expanding the scope of currently available instruments for rural development to promote food quality, meet higher standards and foster animal welfare.

[...]

The proposals in detail

Decoupling of direct aids - establishment of a farm income payment

The Commission proposes to introduce a single decoupled income payment per farm. In a first stage, this payment, based on historical payments adjusted to take into account the full implementation of Agenda 2000, will cover the arable crop, beef and sheep sector, as well as grain legumes and starch potatoes. The revised payments for rice, durum wheat and dried fodder will be also integrated into the scheme. Other sectors could follow later. The farm income payment will be conditional on compliance with statutory environmental, animal welfare and food safety standards ("cross compliance").

Although the new scheme will not cover all sectors at this stage, farmers receiving the new decoupled farm payment will have flexibility to farm all products on their land including those which are still under coupled support except if these productions have been explicitly excluded. Of course, the rules of the coupled market support regimes will apply (e.g. production quotas, planting rights, etc.). The decoupled farm income payment will be established at the farm level. The overall amount to which a farm is entitled will be split into parts (payment entitlements) in order to facilitate a partial transfer of the payment when only a part of a farm is sold or leased.

With this move a major simplification in the support of EU producers will be achieved. This will improve

the overall market orientation of agriculture, and will allow farmers to fully benefit from market opportunities in supplying the products that consumers demand. Furthermore, the transfer efficiency of the direct payment as an income aid will increase significantly, which should lead to an improvement in the income situation of farmers. Finally, decoupling will contribute to environmental integration by removing production specific incentives, which potentially damage the environment.

Reinforcement of environmental, food safety, animal welfare and occupational safety standards

The full granting of the decoupled farm income payment and other direct payments will be conditional on the respect of certain number of statutory environmental, animal welfare and food safety standards, as well as occupational safety requirements for farmers. The focus of these cross-compliance requirements is on supporting the enforcement of "good farming practices" defined as encompassing mandatory standards. Although cross-compliance must reflect regional differences, avoiding distortion of competition requires a level playing field ensured through basic implementation criteria. Member states should define and enforce standards, following a common framework providing basic implementation criteria. The Commission will launch in the next months the works to establish such a framework.

Cross-compliance will be applied as a whole-farm approach attached to both used and unused agricultural land. On unused land, cross-compliance will involve the respect of statutory management requirements and the obligation to maintain land in good agricultural condition. A whole farm approach follows directly from the logic of decoupling and will emphasise the main purpose of cross-compliance: support the implementation of environmental, animal welfare and food safety legislation. In the case of non-respect of cross-compliance requirements, direct payments should be reduced while maintaining proportionality with respect to the risk or damage concerned.

A new farm auditing system

In order to meet society's expectations and to help farmers meet the standards of modern, high quality agriculture, the Commission considers that it is necessary to establish and support a EU wide system of farm auditing for professional farms, to be defined by member states on the basis of economic size. The focus of such farm audits would be material flows, on-farm processes and equipment relating to environment, food safety, animal welfare and occupational safety standards. Many farmers and farming organisations accept the necessity of improving transparency and awareness with respect to on-farm processes. Support for farm audits will be available under rural development. The introduction of farm audits for all professional farms is a general objective to be pursued. As a first step, the Commission proposes that a system of farm auditing will be mandatory as a part of cross-compliance requirements for producers receiving more than € 5000 per year in direct payments.

Environmental set-aside

In order to maintain the supply control benefits of set-aside, while reinforcing its environmental benefits under the new decoupled system of support, the Commission proposes introducing compulsory long-term set-aside (10 years) on arable land. Farmers would be obliged to put an amount of arable land equivalent to current compulsory set-aside on their holding they have to meet in order to receive direct payments.

Support for energy crops and carbon credit

Under the Commission proposals the current set-aside arrangements will be replaced by long-term environmental set-aside. Currently, support for energy crops is provided through the possibility to grow industrial crops on set-aside land. Energy crops account for the largest amount of non-food production on set-aside land. They will be of increasing importance should biofuel incorporation become compulsory as foreseen in the Commission's recent Communication. However, the new set-aside arrangements would no longer lend themselves to the production of energy crops. The Commission therefore proposes replacing the existing arrangements for non-food crops with carbon credit, a non-crop specific aid for energy crops with the objective of achieving carbon dioxide substitution. Such an aid would complement investment and

establishment measures under the second pillar. The aid level will be 45 EUR/ha of energy crops with a maximum guaranteed area of 1.5 million hectares and would be paid to producers entering into a contract with a processor. The area allocation between member states will take into account historical energy crop production on set-aside and CO₂ commitment burden sharing arrangements. The arrangements will be reviewed five years after its entry into force taking into account the implementation of the EU bio fuel initiative.

Increasing the support for sustainable agricultural and rural development...

A better balance of support between market policy and rural development will increase both the social acceptability of the common agricultural policy and the possibility to address consumer, environmental and animal welfare concerns within the second pillar. Furthermore, although the shift to decoupled direct payments will reduce incentives within policy instruments towards environmentally damaging production, it may also create pressures towards abandonment in some marginal area. The importance of instruments designed to promote sustainable agriculture throughout the EU such as agri-environment and less favoured area payments, as well as other measures within the second pillar is therefore significantly increased.

...by introducing dynamic modulation

In order to achieve a better balance between policy tools with the objective of further promoting sustainable agriculture, the Commission proposes introducing a system of dynamic modulation on a compulsory basis for all member states. Under dynamic modulation all direct payments will be reduced progressively in arithmetic steps of 3% per year to reach 20%, the maximum agreed in Agenda 2000. This covers both coupled and decoupled payments.

It is proposed to introduce a franchise dependent on the employment situation on each farm. For up to 2 (full time) annual work units (AWU), the franchise will be € 5000. This will ensure that the majority of farms will not be subject to modulation. For each additionally employed AWU an additional € 3000 may be granted on an optional basis by member states. Although such a franchise would fully exempt from modulation around three quarters of the farms in Europe, it would account for less than a fifth of direct payments paid to farmers.

After the application of the franchise and modulation the maximum sum paid to a farm will be € 300 000. Direct aids beyond this amount (and the franchise) will be capped and made available for transfer to the second pillar in the member state concerned.

The amounts saved by modulation each year will be distributed to member states on the basis of agricultural area, agricultural employment and a prosperity criterion, to target specific rural needs. Such a key reflects the important role of agriculture in land use and land management in rural areas. This will allow some redistribution from intensive cereal and livestock producing countries to poorer and more extensive/mountainous countries, bringing positive environmental and cohesion effects. The savings from capping will be distributed according to the amount capped in each member state.

The additional funding for rural development generated by dynamic modulation will amount to around € 500-600 million in 2005 according to first estimates, and will increase annually by an equivalent amount with each 3% increase in dynamic modulation.

...and new measures to boost environment, animal welfare, food quality and safety

The four measures currently comprise agri-environment, less favoured areas, afforestation of agricultural land and early retirement. The Commission proposes to extend the scope of the accompanying measures to better address concerns about food safety and quality, to help farmers to adapt to the introduction of demanding standards, and to promote animal welfare.

A new food quality chapter will be added into the rural development regulation to encourage farmers to

participate in quality assurance and certification schemes, including geographical indications and designation of origin and organic farming. There will be support for producer groups to promote these agricultural products

The Commission proposes the introduction of a chapter "Meeting standards" to help farmers financially to adapt to demanding standards based on EU legislation in the field of the environment, food safety and animal welfare as well as implementing farm audits.

The Commission proposes to introduce into the agri-environment chapter the possibility to offer animal welfare payments for efforts that go beyond a mandatory reference level in line with agri-environment schemes. In addition, it is proposed to increase the fixed co-financing rate for these measures by a further 10 points, to 85% in areas covered by Objective 1 and 60% in other areas.

Cereals

For the EU as one of the major exporters of cereals in the world, it is important that prices on the internal market are as far as possible in line with those on world markets. This is necessary to transmit market signals to EU producers and to maintain EU exports without relying on export subsidies. The Commission therefore continues to believe that it is necessary to establish intervention as a real safety net through the final 5% reduction of the intervention price from € 101.03/t to € 95.35/t from 2004/05. Cereal producers will be compensated as laid down in Agenda 2000. In addition, the Commission proposes the abolition of the monthly increment. This would imply a major simplification of market management and would help to improve market fluidity over the year. Recent market developments have given rise to problems in the practical implementation of the system. The Commission intends therefore to undertake steps in this context to negotiate a change and a simplification of the EU's border protection for cereals and rice which, in current circumstances, functions unsatisfactorily and does not meet its objectives.

Rye

Unless measures are taken, the particularly unbalanced situation in the rye market will lead to a dramatic build up of stocks which have very limited outlets on the world market. Given the limited scope for disposal with export subsidies, the Commission therefore proposes to abolish intervention for rye, a step which, in parallel to the 5% drop in the intervention price for cereals, would enable balance to be maintained in coarse grain markets. Although in the short-term a fall in the price of rye is expected, mid-term prospects for cereals on domestic and external markets would lead to an improvement in the rye market balance as well.

Durum wheat

As far as durum wheat is concerned, the Court of Auditors has argued that the level of the specific additional payment could not be justified on economic grounds and represented an overcompensation of producers. This analysis was confirmed by an evaluation study of the sector undertaken by independent experts, which also highlighted a number of quality problems. The Commission therefore proposes to reduce the current specific supplement for durum wheat to € 250/ha in traditional areas and to abolish the special aid in established areas. These changes will be phased in over a three year period. In order to promote quality, it is further proposed to introduce a specific premium paid per ton of durum wheat sold to the processing industry within the framework of a contract specifying quality criteria. Minimum requirements would be established at the EU level. This high quality premium is proposed at € 15 /t and would be available to producers meetings these criteria throughout the EU. Overall, these measures maintain a balance of support between different areas.

Oilseeds

Analysis suggest that no serious deterioration of the EU's production potential will occur in the foreseeable future. In addition, the proposed reduction of intervention price guarantees for cereals would be a favourable element in this context. No specific measure is therefore envisaged.

Rice

In order to stabilise rice markets in view of long-term prospects and the implementation of the Everything but Arms initiative, the Commission proposes a one step reduction of the intervention price by 50% to a basic price of € 150/t for 2004/5.

A private storage scheme will be introduced which will be triggered when the market price falls below the basic price. Safety net intervention will be established at € 120/t. The global price reduction will be compensated at a rate of 88% equivalent to the total cereals compensation over the 1992 and Agenda 2000 reforms. This leads to compensation of € 177/t, including the existing payment of € 52/t. Of this, €102 /t multiplied by the 1995 reform yield would become an income payment paid per farm. The remaining € 75/t multiplied by the 1995 reform yield would be paid as a crop specific aid reflecting the role of rice production in traditional wetlands.

Dried fodder

Significant criticism has been directed at the dried fodder regime including comments from the Court of Auditors in its report "Greening the CAP". Although the final product is a natural product of high feed value and a source of plant protein, the way in which it is produced, with high inputs of fossil fuel for dehydration and the use of irrigation in some member states, raises concern. The Commission therefore proposes to replace the current arrangements with an income support envelope for farmers of €160 million. This envelope will be distributed between member states in proportion to national guaranteed quantities for dehydrated and sun-dried fodder. Producer entitlements will be based on the quantities delivered to the industry in a historical reference period. In order to ensure a transition for the industry a simplified single support scheme for dehydrated and sun-dried fodder with a reduced payment of € 33/t will be maintained and the respective national guaranteed quantities will be merged.

Beef

The subsidy system for beef is still characterised by policy instruments which have not discouraged intensive production systems as much as intended. The Commission therefore proposes the decoupling of headage payments and their replacement with a single income payment per farm based on historical entitlements. Together with reinforced cross-compliance conditions, this should reduce pressures towards intensive production and help achieve a more balanced market situation. The Commission also intends to reinforce the conditions and controls under which exports subsidies for live animals can be granted.

Nuts

In view of the important part played by traditional nut production in protecting and maintaining the environmental, social and rural balance in a number of regions, the Commission suggests maintaining and simplifying the support arrangements for this sector. It is therefore proposed to replace existing arrangements by a flat rate payment of € 100/ha. This can be topped up by up to a maximum of € 109/ha by the member states. The maximum guaranteed area will be 800 000 ha.