

Common Agricultural Policy reform – the final compromise

Reforma Společné zemědělské politiky – konečný kompromis

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INTRODUCTION

Agricultural activity has been, is and will be of paramount importance for the Union identity. A sustainable agriculture model requires a policy spread throughout the European territory, economically and socially sustainable and environmentally friendly. This model must remain in tune with farmers, consumers, taxpayers and international rules.

The third reform of the Common Agricultural Policy (CAP) required many meetings among member states and candidates from the first submission in 2000. They resulted in final compromise concluded during Greek Presidency at the Ministerial Conference in Luxembourg on 26th June 2003. This reform will be edited in the form of the Regulation of the Council.

The Czech Republic evaluates the final agreement positively. According to the first estimates, none of the newly approved regimes and techniques should reflect negatively at the Czech agriculture.

This article also refers to the article “The analysis of proposals of the Common Agricultural Policy and its impacts for the EU” published in *Agricultural Economics* in 2003 (6), where the basic issues of the CAP reform are described.

MATERIAL AND METHODS

It is possible to sum up the main objectives of the CAP reforms into the following points:

- increase of the EU agricultural competitiveness by adjustment of interventions as a real safety net, which enable the EU producers to react onto the market signals while they will be protected from extreme price fluctuations at the same time
- support of more market oriented sustainable agriculture by finishing the shift from support of producers to support of products by introducing a single farm payment for the EU farmers, independent from production
- this payment will be linked to the respect of environment, 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”)

- better balance between supports and strengthening of rural development by finance transfer from the first to the second pillar of the CAP through introducing the system of modulation for the whole EU; new measures to promote the environment, quality and animal welfare and to help farmers to meet the EU production standards starting in 2005
- mechanism for financial discipline to ensure that the farm budget fixed until 2013 is not overshot
- revisions to the market policy of the CAP:
 - in the milk sector: the intervention price for butter will be reduced by 25% over four years, for skimmed milk powder, by 15% reduction over three years
 - reduction of monthly increments in the cereals sector by half, the current intervention price will be maintained
 - reforms in the rice, durum wheat, nuts, starch potatoes and dried fodder sectors.

The Council decision to guarantee to farmers the flat rate payments based on historical records in exchange for greater market orientation does not undermine the Common Market Organisations (CMO), which will continue to regulate markets where and whenever necessary.

Reforms regarding the so-called Mediterranean products, such as olive oil, tobacco or cotton, will be tabled in September 2003, also within the existing budgetary framework, and will be based on the objectives and the approach of the present reform package.

Points already regarded in the revised text of Greek Presidency includes two groups: the Horizontal Regulation and the Rural Development Regulation.

Within the Horizontal Regulation, there were agreed the following points:

- Cross-compliance
- Farm Advisory System
- Advanced Payments
- Hardship/transition cases
- Special Entitlements
- Set-aside
- Regionalisation.

Within the Rural Development, there were agreed these points:

- Improved investment support for young farmers
- Improved measures in favour of young farmers (they should be given priority)
- Higher setting-up grant for young farmers if they participate in advisory services
- Derogation concerning investment support for small (traditional) processors allowing them to meet standards
- Clarification (through a recital) that in the case of state-owned forests investment support can be given for ecological and social improvements (but not for economic ones).

DISCUSSION

Horizontal regulation

• *Cross-compliance*

Member states may retain 25% of the amount resulting from the application of cross compliance.

• *Modulation*

It will start in 2003 with the rate of 3% that will be increased to 4% in 2006 and from 2007 onwards to 5%. A farmer will be cut in his amounts of payments each year by the aforementioned percentage. 1% of funds generated through modulation will be re-distributed to the country where it has been generated, the remaining percentage will be distributed according to the key proposed by the Commission. However, any Member State shall receive at least 80% of its modulation funds in return.

• *Financial discipline*

The principle of degressivity was excluded and was replaced by a mechanism of financial discipline. This mechanism is created starting from 2007, with the view to ensure that the amounts for the financing of the CAP respect the annual ceilings set in the financial perspectives. An adjustment of direct support shall be fixed when the forecasts indicate that market measures and direct payments with a security margin of 300 mio. EUR will be exceeded in a given budget year. Farmers will receive added supports that will be calculated in following way:

- to 5 000 EUR – all the reduction will be refunded
- for amounts between 5 000 and 50 000 half of reduction will be provided

It is a great advantage for the CR, because this principle cannot be applied again in the future in the case of large farms.

• *Single farm payment*

The following payments need not be integrated in the single farm payment:

- drying aid = supplementary payment for cereals, oil-seeds, flax and hemp
- direct payments (base payments and supplements) applied only to the outermost regions and the Aegean islands
- seeds

More, the Member States (MS) may:

- a) retain up to 25% of the current payment per hectare in extremely problematic areas because of minimum risks of leaving the soil or alternatively up to 40% of the supplementary durum wheat aid component of the single farm payment;
- b) they can use up to 50% of the current sheep and goat premia incl. supplementary premium in less favoured areas;
- c) retain up to 100% of the current suckler cow premium component of the single farm payment and up to 40% of the slaughter premium component of the single farm payment;
- d) instead of c) the MS may retain up to 100% of the slaughter premium component of the single farm payment or alternatively up to 75% of the special male premium component of the single farm payment.
- e) make additional payments at the national or regional level for the purposes of encouraging specific types of farming important for environment protection, up to 10% of the total amount available within the national ceilings.

• *Set-aside*

Areas must cover a single area of at least 0,1 ha in size and be at least 10 meters wide. The MS may accept a minimum strip width of 5 meters if fully justified by environmental reasons.

Market regulations

• *Cereals*

The basic amount for arable crops remains at 63 EUR/t.

• *Durum wheat*

The specific aid will be fixed at 313 EUR/ha in 2004, 291 EUR/ha in 2005 and 285 EUR/ha from 2006 onwards in traditional zones and will be decoupled starting from 2005.

• *Rye*

If in a MS the proportion of rye as a part of its total cereal production exceeded 5% in average during the 3 years 2000–2002 and its proportion of the total Community production of rye exceeded 50% during the same period, the amounts of modulation money generated in this MS will be re-allocated at a level of at least 90% to the MS concerned, until the end of the next financial perspective. At least 10% of the modulation money has to be spent in rye producing regions.

• *Rice*

The proposed system of private storage aid is removed. The intervention price is at 150 EUR/t, intervention is limited to 75 000 tonnes per year.

• *Potato starch*

Maintenance of the minimum price at a level reduced in parallel of the maize intervention price. 40% of the direct payment to producers of starch potatoes will be integrated in the single farm payment. Maintenance of production refund.

• *Dried fodder*

Suppression of phasing out of processing aid, mainte-

nance of the aid at proposed levels. By 30. 08. 2008, the Commission will present a report on sector on the basis of an evaluation of the common market organisation for dried fodder.

- *Nuts*

The aid shall be granted for a maximum guaranteed area of 800 000 ha divided into fixed nationally guaranteed areas. The amount of the aid shall be 120.75 per hectare per year calculated as an average at national level. Nuts shall include almonds, hazelnuts, walnuts, pistachios and locust beans.

- *Dairy*

No additional general quota increase in 2007 and 2008 is decided now. The Commission will present a market outlook report once the dairy reform is fully implemented on the basis of which a decision will be taken. The integration of dairy direct payment into the single farm payment will take place only when the reform is fully implemented. The intervention prices for butter are reduced 7% in 2004, 7% in 2005, 7% in 2006, 4% in 2007 and for skimmed milk powder 5% in 2004, 5% in 2005, 5% in 2006. The compensation per tonne is fixed 11.81 EUR/t in 2004, 23.65 EUR/t in 2005 and 35.5 EUR/t from 2006 onwards. The target price for milk is abolished.

Rural development regulation

- *Agri-environment measures*

Increase of the maximum amount eligible for Community support for agri-environment measures to 85% in areas covered by Objective 1 and 60% in the other areas.

- *Support for State forests*

Support for the state forests is market neutral and does not distort competition in the forestry sector.

- *Simplification*

The Commission will review again with Member States the scope for further simplification of the administrative provisions for the implementation of rural development programmes. As regards control provisions, the review of the amended Regulation 1257/99 will encompass in particular in situ checks in the context of administrative controls.

Dates of application

Different dates of application will apply for each part of the reform. As far as the single payment scheme is concerned, Member States shall apply the scheme starting from 1. 1. 2005. If, however, a Member State needs a transitional period to implement the single payment scheme, due to its agricultural specific conditions, the Member State concerned may apply the scheme starting at the latest from 1. 1. 2007. In this case the direct payments under each current regime will be subject to budgetary ceilings equal to the corresponding components of the single farm payment for each aid. The Commission will fix the ceilings.

The system of single payment scheme is convenient for the Czech Republic, because in such a way the negotiated financial frame agreed in Copenhagen can be fully

utilised. In this scheme, the farmer need not to apply for direct payments onto each regime (for example onto area, premium for cows, premium for sheep and so on). In praxis it means: the total financial package will be divided by used agricultural soil and single farm payment will be calculated. The above-mentioned package will be calculated by the Commission on the base of agreed direct payments in Copenhagen.

CONCLUSION

The goal of the third reform is to make the CAP acceptable not only for European agriculturists but also for the society as a whole. The status quo would only weaken our capacity to keep, let alone enhance that model, and fail to preserve good living conditions for our farming community.

The third reform of the CAP is meant to last. The reform offers to our farmers a clear planning framework for their business decisions. It will enhance their entrepreneurial function to produce what the consumers and the market want, it will optimise costs. In future, farmers will be rewarded for the service they provide to society instead of depending on public handouts. Thereby, the reform will substantially contribute to stabilise farmers' incomes and to open at the same time new paths to diversify their enterprises. The reform will enhance quality, advantage of disadvantaged regions, and respond to societal concerns regarding the environment and animal welfare. It signifies a major departure from the trade-distorting agricultural support, a progressive further reduction of export subsidies, a reasonable balance between internal production and market opening.

The overall CAP expenditure will stay within the agreed ceilings, despite an increase in the number of farmers by 50% following the EU enlargement. The support the EU offers to its farmers is a policy choice, based on the objective of ensuring a sustainable agriculture, in its social, economic and environmental aspects.

The Czech Republic evaluates the final compromise of the CAP positively. According to the first estimates, none of the newly approved regimes should reflect negatively in the Czech agriculture.

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