Common Agricultural Policy Reform

COST ESTIMATE	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Reform proposed by the European Commission*									**EUR million**	
Market measures EU-15	3,853	3,062	2,513	2,067	1,702	1,490	1,434	1,434	1,434	1,434
CC-10	216	480	490	458	426	394	394	394	394	394
EU-25	4,070	3,542	3,003	2,525	2,128	1,884	1,828	1,828	1,828	1,828
Direct payments EU-15	27,616	28,658	29,533	30,413	31,393	32,372	32,372	32,372	32,372	32,372
CC-10	0	1,450	1,786	2,142	2,522	3,232	3,879	4,525	5,171	5,819
EU-25	27,616	30,108	31,320	32,555	33,915	25,604	36,251	36,897	37,543	38,191
Total EU-15	31,470	31,720	32,047	32,480	33,095	33,862	33,806	33,806	33,806	33,806
CC-10	216	1,930	2,276	2,600	2,948	3,626	4,273	4,919	5,565	6,213
EU-25	31,686	33,650	34,323	35,080	36,043	37,488	38,079	38,725	39,371	40,019
Status quo										
Market measures EU-15	3,951	3,922	3,579	3,167	2,898	3,035	3,229	3,229	3,229	3,229
CC-10	216	551	611	611	611	611	611	611	611	611
EU-25	4,167	4,473	4,190	3,778	3,509	3,646	3,840	3,840	3,840	3,840
Direct payments EU-15	27,616	27,826	28,805	29,783	30,762	30,762	30,762	30,762	30,762	30,762
CC-10	0	1,364	1,682	2,022	2,382	2,978	3,574	4,169	4,765	5,361
EU-25	27,616	29,190	30,487	31,805	33,144	33,740	34,336	34,931	35,527	36,123
Total EU-15	31,567	31,748	32,384	32,950	33,661	33,792	33,991	33,991	33,991	33,991
CC-10	216	1,915	2,293	2,633	2,993	3,589	4,185	4,780	5,376	5,972
EU-25	31,783	33,663	34,677	35,583	36,654	37,387	38,176	38,771	39,367	39,963
Difference										
Market measures EU-15	-97	-860	-1066	-1,101	-1,196	-1,546	-1,795	-1,795	-1,795	-1,795
CC-10	0	-71	-121	-153	-185	-217	-217	-217	-217	-217
EU-25	-97	-931	-1187	-1,254	-1,,381	-1,763	-2,012	-2,012	-2,012	-2,012
Direct payments EU-15	0	833	729	630	630	1,610	1,610	1,610	1,610	1,610
CC-10	0	86	104	120	140	254	305	356	406	458
EU-25	0	919	833	750	770	1,864	1,915	1,966	2,016	2,068
Total EU-15	-97	-28	-337	-470	-566	64	-186	-186	-186	-186
CC-10	0	15	-17	-33	-45	37	88	139	189	241
EU-25	-97	-13	-354	-503	-611	101	-98	-47	3	55

Source of data: The Secretary-General of the European Commission. CAP Reform: A long-term policy perspective for sustainable agriculture (proposals for Council regulations): http://europa.eu.int/comm/agriculture/mtr/memo_en.pdf. *Note*: * the table shows calculations made on the basis of regulation proposals; calculations reflecting the amended and adopted documents have not yet been published.

At the end of June, the Council of the European Union adopted a document called the **Common Agricultural Policy Reform: A long-term policy perspective for sustainable agriculture (proposals for Council regulation)**, which the European Commission prepared in early 2003. The document covers the period up until 2013 and proposes CAP measures that should allow a maximum adjustment of provisions and significantly simplify the procedure of applying for agricultural assistance. These measures should redirect a large part of environmentally detrimental assistance to sustainable agriculture, facilitate the enlargement process, and improve the position of the EU in negotiations with the WTO – since the scope of market measures is to be reduced. Expert analyses show that re-orientation towards a more extensive agriculture and fewer market-distorting domestic measures should contribute to a lower export orientation, thereby allowing higher world market prices, which should particularly benefit developing countries. Since agricultural policy is not under the competence of member states, but under the exclusive competence of the Union, its reform is highly important for the agriculture of all current and future members, including Slovenia's.

In addition to an explanatory memorandum, the document contains **proposals for seven regulations**. They are generally applicable and fully binding pieces of law and are directly applicable in all member states. The first regulation is one of the most interesting as it lays down the common rules for **direct payment** schemes. Agricultural producers receiving direct payments will have to meet the requirements of good agricultural practice, keep agricultural land in good condition, and meet the standards of public health, animal and plant health, safety at work, the environment, and animal welfare. This **cross compliance** is compulsory; failure to meet these requirements may result in a 10-100% cut in direct payments. **Degression** will be applied to the direct payments of farmers who receive a total of over EUR 5,000 in aid a year. The Council of the EU adopted the following rates of degression: 3% in 2005, 4% in 2006 and 5% for each year up to 2013. The saved funds will be earmarked for rural development programmes – this is called **modulation**. Four-fifths of the saved funds will stay in member states, while the rest will be allocated to member states under criteria comprising agricultural land area, employment in agriculture, and GDP per capita in terms of purchasing power. The draft regulation also proposes the introduction of a new instrument, the **single payment scheme**, which should replace most direct payments given under market measures. This payment will be subject to direct payments received in the reference period covering the calendar years of 2000, 2001 and 2002; however, an agricultural producer may ask for a different reference period if they underwent extraordinary conditions in the given period. The Council also adopted a decision allowing member states where there is the threat of land abandonment to keep 25% of production-related payments or keep a 40% supplement for durum wheat. In the beef production sector, there are three possibilities: member states can keep up to 100% of current suckler premiums and 40% of slaughter premiums, or up to 100% of slaughter premiums, or an alternative of up to 75% of special premiums for male beef. As regards sheep and goats, up to 50% of the premiums can still be production-related, including premiums for less favoured areas for production. Single payments will be introduced in 2005; however, member states may postpone the shift to a new system until 2007 if they need a transitional period due to particular agricultural conditions. Payments for milk will be included in the single payments in 2008, when the CAP reform is fully implemented; however, member states may introduce this system earlier. Special aid schemes will be devised for the production of durum wheat, beans, rice, shellfish, energy plants and potato starch.

The second regulation covers **assistance for rural development** and complements two very important issues: the meeting of standards and ensuring food quality. This regulation considers rural development policy as an instrument that follows and supplements other CAP measures and helps realise its objectives, while taking into account the particularities of agricultural production and structural and natural differences between individual agricultural areas. Producers eligible for this assistance will have to meet the criteria of environmental standards, public health, plant and animal health, and safety at work. This assistance should improve the quality of agricultural products and should mainly be given for providing information, promotion, and consulting activities.

The other regulations refer to changes involving individual markets, i.e. the **market regulation for wheat, rice, dried fodder, and milk and milk products**. As regards milk products, the intervention price should drop by 25% in four years for butter (less than proposed by the Commission) and by 15% in three years for milk powder. The system of milk quotas should be used up until the market year of 2014/2015 in order to stabilise the perspective of milk producers. A special charge on milk and milk products continues to be applied, which the EU introduced in 1984 to curb milk production; producers must pay a charge for quantities that exceed particular reference quantities of milk or milk equivalents. The current intervention price for wheat will be retained (even though the Commission proposed a cut); while a monthly seasonal correction to intervention is to be reduced by 50% (even though the Commission proposed to remove the correction).

From the proposed common agricultural policy reform it is clear that a new policy will guarantee the basic level of financial assistance despite a changed system of providing support to agricultural producers. While clearly re-orienting agricultural producers to market-driven thinking and behaviour, the policy will continue to regulate markets for the most important agricultural products and will recognise the activity's multifunctional role more than before. The single payment scheme is likely to hold back farmers' production. Agricultural producers will be encouraged to produce less food, but this food will have to be produced in a way that is friendlier to the environment, plants and animals. Producers are not generally satisfied with the policy reform, yet the introduction of the single payment, which they disapprove of, may be an appropriate price to pay for what they will benefit from the reform, i.e. the long-term preservation of the amount of appropriations for agriculture (see table). The total EU-25 expenditure, calculated from the European Commission's proposals for the EU-25, should rise by EUR 55.3 million in 2013 compared to the amount allowed by current policy. For the EU-15, the proposed measures should save an estimated EUR 336.9 million in 2006 and EUR 185.7 million from 2010 to 2013. The savings made in the policy's market-price segment should be higher than the estimated amount of direct payments to farmers. Additional funding will be required for new member states as of 2009 because of higher direct payments; EUR 37 million in 2009 and EUR 241 million in 2013.

Two main **findings** can be drawn from the adopted reform: (i) Common agricultural policy reform gives considerable room to member states to take decisions which best suit them. The most important issues are the introduction of a single agricultural payment and a combination of production-related and non-related payments. This implies the start of decentralisation, compared to the current centrally-regulated policy; (ii) The reform is vague about its implementation in member states and even vaguer about its implementation in acceding countries. The European Commission has committed itself to drafting implementing regulations for the reform to be implemented in acceding countries. Namely, they do not meet all criteria to introduce single payments, especially with regard to the full payment in the reference period, the necessary records, and additional administrative requirements.

The Government of the Republic of Slovenia adopted a position that the proposed changes are in line with the policy objectives laid down in Slovenia's Programme of Agricultural Policy Reform and the Agriculture Act. The proposed measures aim to stimulate a less intensive and environmentally-friendly agriculture and the production of quality food. It believes, however, that Slovenian agriculture could benefit from the gradual implementation of the reform, in order to gain some time for the necessary structural changes. The Government also anticipates further explanations about the transition from the current to the new common agricultural policy, i.e. a new system of direct payments and structural policy. Namely, this year Slovenia has introduced a system of direct payments which fully matches the system currently applied in the EU, even though this will be chang
ed by the reform. Common agricultural policy reform will therefore open new negotiations between Slovenia and the EU.