IP/03/898

Luxembourg, 26 June 2003

EU fundamentally reforms its farm policy to accomplish sustainable farming in Europe

Today, EU farm ministers adopted a fundamental reform of the Common Agricultural Policy (CAP). The reform will completely change the way the EU supports its farm sector. The new CAP will be geared towards consumers and taxpayers, while giving EU farmers the freedom to produce what the market wants. In future, the vast majority of subsidies will be paid independently from the volume of production. To avoid abandonment of production, Member States may choose to maintain a limited link between subsidy and production under well defined conditions and within clear limits. These new "single farm payments" will be linked to the respect of environmental, food safety and animal welfare standards. Severing the link between subsidies and production will make EU farmers more competitive and market orientated, while providing the necessary income stability. More money will be available to farmers for environmental, quality or animal welfare programmes by reducing direct payments for bigger farms. The Council further decided to revise the milk, rice, cereals, durum wheat, dried fodder and nut sectors. In order to respect the tight budgetary ceiling for the EU-25 until 2013, ministers agreed to introduce a financial discipline mechanism. This reform will also strengthen the EU's negotiating hand in the ongoing WTO trade talks. The different elements of the reform will enter into force in 2004 and 2005. The single farm payment will enter into force in 2005. If a Member State needs a transitional period due to its specific agricultural conditions, it may apply the single farm payment from 2007 at the latest.

Commenting on today's decision, EU Farm Commissioner Franz Fischler said: *"This decision marks the beginning of a new era. Our farm policy will fundamentally change. Today, Europe has given itself a new and effective farm policy. The bulk of our direct payments will no longer be linked to production. To our farmers, it offers a policy which will stabilise their incomes and enable them to produce what the consumers want. Our consumers and taxpayers will get more transparency and better value for money. This reform also sends a strong message to the world. Our new policy is trade friendly. We are saying goodbye to the old subsidy system which significantly distorts international trade and harms developing countries. Today's decision will give Europe a strong hand in the negotiations on the Doha Development Agenda. The EU has done its homework, now it's up to others to move to make the WTO trade talks a success. But let there be no mistake. At the Cancún Ministerial Meeting, the EU will be ready to use its increased negotiating capital only if we get something in exchange. Unilateral disarmament is not on. The ball is now in the camp of other countries, such as the US, whose agricultural policies continue to be highly trade-distorting and have even become increasingly so."*

The **key elements** of the new, reformed CAP in a nutshell:

- a single farm payment for EU farmers, independent from production; limited coupled elements may be maintained to avoid abandonment of production,
- this payment will be linked to the respect of environmental, 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"),
- a strengthened rural development policy with more EU money, new measures to promote the environment, quality and animal welfare and to help farmers to meet EU production standards starting in 2005,
- a reduction in direct payments ("modulation") for bigger farms to finance the new rural development policy,
- a mechanism for financial discipline to ensure that the farm budget fixed until 2013 is not overshot,
- revisions to the market policy of the CAP:
  - asymetric price cuts in the milk sector: The intervention price for butter will be reduced by 25% over four years, which is an additional price cut of 10% compared to Agenda 2000, for skimmed milk powder a 15% reduction over three years, as agreed in Agenda 2000, is retained
  - reduction of the 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

Further information on the reform is available on the internet at:

http://europa.eu.int/comm/agriculture/mtr/index_en.htm

The reform in detail

A single farm payment to promote a more market orientated, sustainable agriculture

A single farm payment will replace most of the premia under different Common Market Organisations. Consequently, the vast majority of the EU direct payments will no longer be linked to production. As a principle, farmers will receive this single farm payment based on a reference amount in a reference period of 2000 to 2002.

Those Member States who deem it necessary to minimise the risks of land abandonment, can maintain up to 25% of the current per hectare payments in the **arable sector linked to production**. Alternatively, 40% of the supplementary durum wheat premia may be maintained tied to production.

For the **beef sector**, Member States may decide to

- retain up to 100% of the present suckler cow premium and 40% of the slaughter premium

or

- retain either up to 100% of the slaughter premium or alternatively up to 75% of the special male premium

A maximum of 50% of the **sheep and goat** premia including the supplementary premium in less favoured areas can remain linked to production.

Drying aid for cereals and direct payments in **outermost regions** and Aegean Islands may remain tied to production, if Member States wish so.

Dairy payments will be included in the single farm payment from 2008, once the dairy reform has been fully implemented. Member States may introduce the system earlier.

Additional special arrangements apply for other products, such as rice, durum wheat, starch or dried fodder (see below).

Member States may make additional payments of maximum 10% of the sum of the single farm payments for their farmers to encourage specific types of farming which are important for the environment, quality production and marketing.

The new system will enter into force in 2005. If a Member State needs a transitional period due to its specific agricultural conditions, it may apply the single farm payment from 2007 at the latest. To cope with intolerable distortions of competitions and to ensure the respect of international obligations, the Commission can take the necessary steps through management committee procedure.

Reinforcing environmental, food safety, animal health and welfare standards

The full granting of the single farm payment and other direct payments will be linked to the respect of a certain number of statutory environmental, food safety, animal and plant health as well as animal welfare standards. Cross-compliance will also contribute to the maintenance of rural landscapes. In the case of non-respect of cross-compliance requirements, direct payments would be reduced while maintaining proportionality with respect to the risk or damage concerned.

A new "Farm Advisory System"

The farm advisory system will be voluntary for Member States until 2006. From 2007 Member States have to offer advisory systems to their farmers. Their participation will be voluntary. In 2010, based on a Commission report on the functioning of the system, the Council shall decide whether the advisory system should become compulsory for farmers.

This service will provide advice through feedback to farmers on how standards and good practices are applied in the production process. Farm audits will involve structured and regular stocktaking and accounting of material flows and processes at enterprise level defined as relevant for a certain target issue (environment, food safety, and animal welfare). Support for farm audits will be available under rural development.

Strengthening rural development

EU money available for rural development will be significantly increased and the scope of EU rural development support will be widened by introducing new measures. These changes will enter into force in 2005. It will be for Member States and regions to decide if they wish to take up these measures within their rural development programmes.

They serve to better address concerns about food safety and quality, help farmers to adapt to the introduction of demanding standards based on EU legislation, and promote high standards of animal welfare. These are key objectives for promoting sustainable agriculture and responding to the wider expectations of European society at large, are central to the CAP reform package as a whole, and they will provide new income opportunities for farmers (agri-environment services, promotion and marketing of quality products).

New quality incentives for farmers

1. Incentive payments will be provided to farmers who participate in schemes designed to improve the quality of agricultural products and the production process used and give assurances to consumers on these issues. Such support will be payable annually for a maximum 5 year period, and up to a maximum of € 3 000 per holding in a given year.
2. Support will be provided to producer groups for activities intended to inform consumers about and promote the products produced under quality schemes supported under the above measure. Public support will be permitted up to a maximum of 70% of eligible project costs.

New support to help farmers to meet standards

1. Temporary and digressive support will help farmers to adapt to the introduction of demanding standards based on EU legislation not yet included in national legislation concerning the environment, public, animal and plant health, animal welfare and occupational safety. Aid will be payable on a flat-rate basis, and digressive for a maximum period of 5 years. Aid will be subject to a ceiling of maximum € 10 000 per holding in a given year.
2. Support will be provided to farmers to help them with the costs of using farm advisory services. Farmers may benefit from public support of up to a maximum of 80% of the cost of such services, subject to a ceiling of € 1 500.

Covering the farmers' costs for animal welfare

Support will be provided to farmers who enter into commitments for at least 5 years to improve the welfare of their farm animals and which go beyond usual good animal husbandry practice. Support will be payable annually on the basis of the additional costs and income foregone arising from such commitments, with annual payment levels of maximum € 500 per livestock unit.

Improved investment support for young farmers

The aid intensity of EU investment aid for young farmers will be increased .

Financing

Reducing direct payments for bigger farms to boost rural development

In order to finance the additional rural development measures, direct payments for bigger farms will be reduced ("modulation") in the following way:

Budget year	**2005**	**2006**	**2007**	**2008 to 2013**
Farms with up to € 5 000 direct payments a year	0%	0%	0%	0%
Above € 5 000	3%	4%	5%	5%

Outermost regions will be exempt from modulation.

A modulation rate of 5% will result in additional rural development funds of € 1.2 billion a year.

As regards the distribution of the funds generated through modulation, one percentage point will remain in the Member States where the money is raised. The amounts corresponding to the remaining percentage points will be allocated among Member States according to:

- criteria of agricultural area
- agricultural employment
- GDP per capita in purchasing power

As a bottom line, every Member State will receive at least 80% of its modulation funds in return (for further details see section on rye).

Reductions of direct payments will not apply in the acceding countries until the direct payments reach the normal EU level.

Ensuring financial discipline

The fixing of a ceiling for CAP expenditure (subheading 1a) at the Brussels Summit in October 2002 implies that a financial discipline mechanism will have to be introduced from 2007. An adjustment of the direct support will be fixed when forecasts indicate that subheading 1a, with a security margin of € 300 million, will be exceeded in a given budget year. The Council will fix the adjustment based on a Commission proposal.

Stabilising markets and improving common market organisations

Arable sector

- ***Cereals***

The current intervention price for cereals is maintained. The basic amount for arable crops remains € 63/t. The existing seasonal correction for intervention price ("monthly increments") will be reduced by 50%.

To avoid a further accumulation of intervention stocks, rye will be excluded from the intervention system. To cushion adverse effects of the necessary restructuring, the following transitional measure will apply. For Member States where the rye production is higher than 5% of its total cereal production and 50% of the EU's total rye production, 90% of the modulation money stays in the country. At least 10% of this money has to be spent in rye producing regions.

- ***Protein crops***

The current supplement for protein crops (€ 9.5/t) will be maintained and converted into a crop specific area payment of € 55.57/ha. It will be paid within the limits of a new Maximum Guaranteed Area set at 1.4 million ha.

- ***Support for energy crops – a carbon credit***

The Commission proposes an aid of € 45/ha for energy crops. This will apply for a maximum area of 1 500 000 ha. The aid will only be granted in respect of areas whose production is covered by a contract between the farmer and the processing industry except where the processing is undertaken by the farmer on the holding. Within five years of the application of the energy crops scheme, the Commission will submit a report to the Council on its implementation, with proposals if appropriate.

- ***Durum wheat***

The supplement for durum wheat in traditional production zones will be paid independently from production. Member State may decide to keep 40% tied to production. It will be fixed at € 313/ha in 2004, € 291 in 2005 and € 285 from 2006 and included in the single farm payment. The specific aid for other regions where durum wheat is supported, currently set at € 139.5/ha, will be phased out. The cuts will be implemented over three years, starting in 2004.

A new premium will be introduced to improve the quality of durum wheat used for semolina and pasta production. The premium will be paid in traditional production zones to farmers who are using a certain quantity of certified seeds of selected varieties. Varieties will be selected to meet quality requirements for semolina and pasta production. The premium amounts to € 40/ha and is paid within the limits of Maximum Guaranteed Areas that currently apply in traditional production zones.

- ***Starch potatoes***

The current policy provides for a direct payment for producers of starch potatoes. Its amount was fixed at € 110.54 per tonne of starch in the framework of Agenda 2000. 40% of this payment will be included into the single farm payment, on the basis of the historical deliveries to the industry. The remainder will be maintained as a crop specific payment for starch potatoes. The minimum price will be maintained, so will the production refund for starch.

- ***Dried fodder***

Support in the dried fodder sector will be redistributed between growers and the processing industry. Direct support to growers will be integrated into the single farm payment, based on their historical deliveries to the industry. National ceilings will apply to take into account current National Guaranteed Quantities.

The processing aid will be fixed at € 33/t in 2004/05.

In 2008 the Commission will present a report, accompanied, if necessary, by proposals.

Rice

In order to stabilise market balances due notably to the impact of the Everything but Arms (EBA) initiative, the Council decided a one step reduction of the intervention price by 50% to € 150/t in line with world market prices. Intervention will be limited to 75 000t per year. To stabilise producers' revenues, the current direct aid will be increased from € 52/t to 177/t, a rate equivalent to the total cereals compensation over the 1992 and Agenda 2000 reforms. Of this, € 102/t will become part of the single farm payment and be paid on the basis of historical rights limited by the current maximum guaranteed area (MGA). The remaining € 75/t multiplied by the 1995 reform yield will be paid as a crop specific aid. The MGA will be set at the 1999-2001 average or the current MGA, whichever is lower.

The Council also invited the Commission to open negotiations in the framework of the WTO for the modification of the bound duties for rice with the EU's trading partners.

Nuts

The current system will be replaced by an annual flat rate payment of € 120.75/ha for 800 000ha divided into fixed national guaranteed areas for almonds, hazelnuts, walnuts, pistachios and locust beans. Member States are allowed to use their guaranteed quantities in a flexible way. This aid can be topped up by an annual maximum amount of € 120.75 per hectare by Member States.

Dairy

In order to provide a stable perspective for dairy farmers, the Council decided the prolongation of a reformed dairy quota system until the 2014/15 campaign.

The Council decided on asymmetric price cuts in the milk sector. The intervention price for butter will be reduced by 25% (-7% in 2004, 2005, 2006 and -4% in 2007), which is a additional price cut of 10% compared to Agenda 2000. For skimmed milk powder prices will be cut by 15% (in 5% steps over three years from 2004 to 2006), as agreed in Agenda 2000.

Intervention purchases of butter will be suspended above a limit of 70 000 tonnes in 2004 and falling to 30 000 from 2007. Above that limit, purchases may be carried out under a tender procedure. The target price for milk will be abolished.

The compensation is fixed as follows: € 11.81/t in 2004, € 23.65 in 2005 and € 35.5 from 2006 onwards.

The single farm payment will only apply in the dairy sector once the reform is fully implemented, unless Member States decide to introduce it earlier.

The Council decided to increase the milk quotas for Greece (+120 000t) and on a temporary exemption for the Azores regarding milk quota implementation of 73 000t in 2003/2004, 61 500t in 2004/2005 and 50 000t from 2005/2006 onwards.

Reform of the olive oil, tobacco and cotton sectors

In autumn 2003 the Commission will submit a communication on the reform of olive oil, tobacco and cotton, which will be followed by legal proposals. The Commission proposals will provide a long-term perspective for these sectors in line with the financial framework. The proposed reforms for these sectors will be based on the objectives and the approach of the present reform package.