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THE NEW COMMON AGRICULTURAL POLICY IN EUROPE

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THE NEW COMMON AGRICULTURAL POLICY IN EUROPE

INTRODUCTION

The Council of European Union (EU) Agriculture Ministers met in June 2003 to discuss changes to the EU's Common Agricultural Policy (CAP), based on the plan that the European Commission had laid out Brussels in January of the same year. The plan was intended to outline the structure of a more competitive and sustainable EU agricultural industry. The CAP had been criticized for not meeting the needs of farmers, the rural economy or the environment. Moreover, it was considered costly and inadequate to address the challenges posed by international efforts to liberalize agricultural trade[(1)] and by the enlargement of the EU. Reform was also considered critical to improve the situation of developing countries, which are hampered by EU production subsidies when trying to penetrate European markets. The main goal of the reform was thus to:

> … reduce the overall burden of the CAP, delivering better value for money to taxpayers and consumers; encouraging animal welfare; reducing damage to the environment; giving a better deal for farmers and making world trade fairer … to see market price support and production controls phased out, with transitional support payments to help farmers to adjust … complemented by a shift towards expanding the resources available for targeted support for wider rural development and agri-environment schemes.[(2)]

To achieve these goals, the Commission proposed to cut the link between production and direct payments (*decoupling*), to link those payments to environmental, food

(1) World Trade Organization negotiations on further liberalization of agricultural trade were mandated by Article 20 of the Uruguay Round and formally commenced in March 2000.

(2) Department for Environment, Food and Rural Affairs, U.K., *Common Agricultural Policy – Reform*, available on-line at: http://www.defra.gov.uk/farm/capreform/index.htm.

safety, animal welfare, health and occupational safety standards (*cross-compliance*), to introduce a new *farm advisory system*, to increase EU support for rural development by a *modulation* of direct payments, and to introduce new *rural development measures* to boost production quality, food safety and animal welfare and to cover the costs of the farm advisory system.

BACKGROUND

A. Initial Objectives

The Common Agricultural Policy was established in 1962 to help ensure food security in Europe. Post-war experience of food shortages and the ongoing Cold War with the Soviet Union had a strong bearing on the first stages of the CAP.

Two of the CAP's key objectives, as stipulated in Article 39.1 of the Treaty of Rome, are: (3)

- to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour, and

- to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture.

The CAP led to an increase in domestic food production and reduced reliance on imports. Its chief instrument was market management through import taxes and export subsidies.(4) This approach, however, created tension with other suppliers to the world market that were not making as much use of market management tools. Moreover, in the 1980s the CAP was to become a very expensive policy as the EU expanded.

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(3) http://www.hri.org/docs/Rome57/Rome57.txt.

(4) High producer prices were maintained through the establishment of minimum-level intervention prices or minimum grower-price schemes. This served to stimulate production, but it also suppressed domestic demand, leading to the emergence of high-priced surplus production that could be stored or sold on international markets only with the benefit of substantial levels of public funding.

B. Budget

The EU's overall budget in 2002 was €89 billion (US$76.68 billion),[(5)] i.e., slightly over 1% of the EU's Gross National Product (GNP).[(6)] Agriculture accounts for approximately 50% of the EU's budgeted expenditures, i.e., around €45 billion (US$38.77 billion). CAP expenditures used to account for 80% of the EU budget in the 1980s, when agriculture was the only significant common policy. Arable crops (grains, oilseeds, and protein crops) account for almost 50% of CAP expenditures, followed by beef and other meats.

C. Beneficiaries

The extent to which the CAP benefits individual EU countries depends on their share in the EU production of the most supported commodities. The allocation of the CAP budget among member states gives an incomplete picture of these benefits, since large producers of sugar, beef, milk and grain also benefit from transfers from consumers[(7)] all over the EU. Moreover, countries also differ in their levels of contribution to CAP funding. For instance, Germany is the largest contributor to the EU budget, but its rate of return on the share of that contribution that is devoted to the CAP is only 47%. France is the second-largest contributor, with a rate of return of 84%; then the United Kingdom, with a rate of return of 56%. Among those who benefit most from the EU budget's CAP funding are the countries that receive large amounts of structural funds.[(8)] These include Greece (with a rate of return of 418%), Ireland (242%), Portugal (259%) and Spain (169%).[(9)]

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(5) Based on the 1 February 2002 exchange rate.

(6) See data available at: http://europa.eu.int/comm/budget/furtherinfo/index_en.htm#framework2000.

(7) Transfers from consumers are defined as the implicit tax on consumers due to market price support, including the effect of border policies. (Source: OECD Secretarial Estimates)

(8) Structural funds are the EU's main instruments for supporting social and economic restructuring across the Union. They account for over one-third of the EU's budget.

(9) See data available at: http://europa.eu.int/comm/budget/furtherinfo/index_en.htm#framework2000. See also Jean-Christophe Bureau, *Enlargement and Reform of the EU Common Agricultural Policy: Impacts on the Western Hemisphere Countries*, Interim report, Contract number 3502, Inter-American Development Bank, First draft, 17 September 2002.

D. Farm Support Under the Common Agricultural Policy

Financial accounts do not provide a complete overview of transfers to farmers, which are different from production support. According to Jean-Christophe Bureau, data on production support must be supplemented by data on transfers from consumers, and also by data on payments (including domestic payments) to the agricultural sector, even though these are not directly tied to production.

The OECD provides many measurements of farm support. A key measure is the Producer Support Estimates (PSE). These are an indicator of the annual monetary value of gross transfers to agricultural producers, measured at the farm-gate level, as a result of policies that support agriculture. The PSE makes it possible to express support to producers as a percentage of gross total farm receipts, which include the value of total production (at farm-gate prices) as well as budgetary support.

The OECD compiles other indicators that are not aimed at producers, and sometimes have little impact on production, but that include transfers from consumers which benefit the agricultural sector. The General Services Support Estimate (GSSE) indicator includes transfers to services provided to the agricultural sector generally (not individually to farmers), such as funding for research, training and marketing. Such transfers affect the production and consumption of agricultural commodities.

Finally, the Total Support Estimate (TSE) is an indicator of the annual monetary value of all gross transfers from taxpayers and consumers arising from policies that support agriculture, net of the associated budgetary receipts, regardless of their objectives and impacts on farm production and income, or consumption of farm products. The TSE includes transfers from taxpayers to consumers.

The value of the PSE, the GSSE and the TSE in the European Union amounted to roughly €103.9 billion in 2002, more than twice the amount identified as expenditures in EU annual reports on the CAP (see Table 1). Despite a significant reduction since the 1980s, market price support was still the dominant way of subsidizing producers in the EU in 2002.[(10)] That support represented 35% of the gross receipts of the agricultural sector, compared to an OECD average of 31%.

(10) Bureau (2002).

REFORM OF THE COMMON AGRICULTURAL POLICY

As originally conceived and applied, the CAP placed little emphasis on the sustainability of the agricultural production that resulted, or on the externalities of EU surpluses. However, international changes brought a progressively wider range of issues to bear on the EU's agricultural policy agenda. The end of the Cold War in Europe in the early 1990s, and the wrapping up of the Uruguay Round of multilateral trade negotiations in 1994, resolved the challenges that had brought about the CAP's creation; they were thus key factors in driving EU policy makers to reform the CAP.

A. Moving Toward Reform

Since 1992, there has been a significant shift in the EU from systems of price support to systems of direct aid to farmers. The main goal was to cut the internal price of EU agricultural products, without undermining farm incomes. Generally, low prices serve to:

- boost consumption;
- reduce the gap between EU and world market prices;
- reduce "surpluses" (by boosting domestic consumption and export possibilities).

From the standpoint of countries in regions such as Africa, the Caribbean and the Pacific, this practice made the EU market less attractive for agricultural exports and increased the price-competitiveness of EU exports. It also reduced the EU's need to use protective tariffs and set up export refunds. This shift in the nature of support to the European farming sector is seen in the evolution of CAP expenditures since 1992.

As shown in Table 1, 18.3% of CAP expenditures in 1991 were for storage costs, whereas 33% were for export refunds. By 1999, less than 4% of CAP expenditures were for storage costs and a mere 14.1% for export refunds. Total expenditures on storage costs fell by €4,034 million (US$4,214 million)[11] between 1991 and 1999, a reduction of 72%, while expenditures on export refunds fell by €4,507 million (US$4,708 million),[12] a 45% reduction.

(11) Based on the 1 February 1999 exchange rate.

(12) *Ibid*.

Overall, however, total CAP expenditures grew by 29% during the 1990s, from €30,551 million (US$31,914 million) in 1991 to €39,541 million (US$41,305 million) in 1999.

Table 1: Evolution of CAP Expenditures

Year	Total	Export Refunds		Storage Costs	
	€ million	€ million	%	€ million	%
1989	24,084	9,708	40.3	2,804	11.6
1990	24,936	7,722	31.0	4,097	16.4
1991	30,551	10,080	33.0	5,602	18.3
1992	30,350	9,487	31.3	5,267	17.4
1993	33,659	9,999	29.7	5,358	15.9
1994	32,205	8,075	25.1	1,070	3.3
1995	34,492	7,802	22.6	339	1.0
1996	39,108	5,700	14.6	1,392	3.6
1997	40,423	5,884	14.6	1,597	4.0
1998	38,748	4,826	12.5	2,008	5.2
1999	39,541	5,573	14.1	1,568	3.9
2000	40,346	5,048	12.5	951	2.3
2001	42,071	3,382	8.0	1,060	2.4
2002	44,238	3,398	7.7*		
2003	44,762	4,150	9.3*		

Source: Extracted from the European Commission, *The Agricultural Situation in the European Union*, Annual Reports, Table 3.4.4.
* Figures for 2002 and 2003 are taken from the U.S. Department of Agriculture, Global Agriculture Information Network (GAIN) Report E23067-5/5/2003, and are appropriations.

In 2000, the sense among EU members was that CAP expenditures would likely continue rising in the new millennium.(13)

(13) European Commission, *The Agricultural Situation in the European Union: 2000 Report*, p. 128, available at: http://europa.eu.int/comm/agriculture/publi/agrep2000/2000_en.pdf.

B. Elements of the Reform(14)

The latest reform of the CAP involves many detailed and technical changes, some taking place over a period of years. The most important are discussed below.(15)

1. The Single Payment Scheme

In principle, direct aid to farmers and major farm subsidies are to be replaced by a new single payment scheme, which member states will be able to introduce starting in January 2005.(16) This new single payment will not be linked to production. Rather, it will be determined on the basis of historical references, using 2000-2002 as the reference period. Payments will also be based on land use: farmers will be obliged to keep their land in good agricultural and environmental condition (see the section on cross-compliance, below).

The new arrangement is said to:(17)

- free farmers from the need to grow particular crops or keep specific numbers of animals, instead allowing them to gear their production to the market;
- reduce the negative impact of the CAP on the world's poorest farmers by cutting over-production of subsidized food;
- allow the EU to engage positively in the WTO negotiations with a significant offer on agricultural trade; and
- remove the incentive to intensify production and damage the environment.

2. Cross-Compliance

The reformed CAP places more emphasis on the principle of compliance with EU standards concerning the environment, as well as public and animal health and welfare. Cross-compliance is directly linked with the new single payment scheme.

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(14) This section is largely modelled after the European Commission's *CAP Reform Summary*, available at: http://europa.eu.int/comm/agriculture/capreform/sum_en.pdf.

(15) For a detailed comparison of pre-reform and reform measures such as intervention prices and payments, see the Appendix.

(16) Farmers may, if they wish, delay this until 2007 under certain conditions. See the Appendix for details.

(17) http://www.defra.gov.uk/farm/capreform/agreement-summary.pdf , p.3.

Hitherto, cross-compliance was voluntary for member states and applied only to environmental standards. It is now compulsory, and a priority list of statutory European standards relating to the environment and to public and animal health and welfare has been established. Under the new CAP, farmers who do not comply will be penalized through cuts in the direct payments they receive. Beneficiaries of direct payments must also keep their land in good agricultural and environmental condition to avoid land abandonment and subsequent environmental problems. Again, failure to comply with those requirements will lead to a reduction in farmers' direct payments.

Cross-compliance requirements will be managed through an integrated administration and control system called the Farm Advisory System.

3. Farm Advisory System

The Farm Advisory System is intended to provide a type of audit of farms receiving CAP support. By 2007, the system will be available to farmers to help them meet their cross-compliance obligations. Farmers will conduct regular inspections and accounting of material flows, and input data in the system. They will also document their farm administration processes, especially in relation to the environment, food safety and animal welfare. In addition to its audit function, the system will give farmers pointers on how to apply standards and good practices in the production process, thus helping to promote efficient development of rural areas.

4. Modulation

The need to finance additional rural development measures was an important element of discussions on the CAP. In that respect, payments to bigger farms will be reduced by 3% in 2005, 4% in 2006 and 5% from 2007 onwards to 2013 by a mechanism called "modulation."

The money will be redistributed among member states according to the following criteria:

- agricultural area;
- agricultural employment;
- GDP per capita in purchasing power.

Along with the reduction of payments to bigger farms, a financial discipline mechanism will be applied to maintain CAP expenditures in line with budgetary ceilings laid down by EU leaders at the European Council in Brussels in October 2002. The mechanism seeks to adjust direct payments to farmers depending on expenditure forecasts. When the combination of forecast market expenditures and spending on direct payments to farmers exceeds established ceilings, direct payments will be reduced to guarantee that the budget is not exceeded.

The arrangement will not be introduced immediately; it will take effect in 2007, and only when the Commission judges that CAP expenditures are within €300 million of the budget ceiling.(18)

5. Rural Development Measures

The new rural development policy proposes specific support measures to help farmers respond to new challenges. The European Commission estimates that a modulation rate of 5% will result in rural development funds of €1.2 billion a year.(19) These funds would translate into a series of new measures designed to help achieve the Commission's objectives, such as the following:

- *Food quality measures*: Incentive payments will be available for farmers who participate in recognized programs designed to improve the quality of agricultural products. Annual payments will be offered, for a period of up to five years and up to a maximum of €1,500 per farmer per year.

- *Meeting standards*: Member states may offer temporary and degressive support to help their farmers to adapt to the introduction of demanding standards based on EU legislation concerning: the environment; public, animal and plant welfare; and occupational safety. Aid will not be payable where an individual farmer does not respect standards already included in national legislation. Aid will be payable on a flat-rate basis, for a maximum period of five years. It will be degressive, and subject to a ceiling of €10,000 per holding in a given year.

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(18) Department for Environment, Food and Rural Affairs, U.K., *Common Agricultural Policy (CAP) reform: Summary of agreement of 26 June 2003*, available at: http://www.defra.gov.uk/farm/capreform/agreement-summary.htm.

(19) European Commission, Directorate-General for Agriculture, Newsletter, Special Edition, July 2003, p. 3, available at: http://europa.eu.int/comm/agriculture/publi/newsletter/capreform/special_en.pdf.

- *Farm advisory service*: Support will be available for farmers to help them with the costs of using farm advisory services.

- *Animal welfare*: Support will be available for farmers who enter into commitments for at least five years to improve the welfare of their farm animals, above and beyond usual good animal husbandry practice. Support will be payable annually on the basis of the additional costs and income forgone arising from such commitments, up to a maximum of €500 per livestock unit/year.

INTERNATIONAL REACTIONS

A. Europe

The new CAP is expected to strengthen the EU's position in the World Trade Organization (WTO), since decoupling would change the nature of direct payments. They would no longer be classified as "blue box," but as "green box."(20) The green box includes those kinds of domestic support that are not, or that are less, trade-distorting.

Agriculture Commissioner Franz Fischler, speaking in the European Parliament on 3 June 2003, indicated that the European Parliament, the Commission and the member states are broadly in agreement on the goals of reform. He recognized that differences remained with regard to how the reforms should be organized, but felt that these differences could be overcome. He acknowledged that there were solid arguments for leaving a range of sensitive areas out of decoupling, but stated that intervention should in the future provide a safety net and not be a substitute for market price setting.

The pro-reform countries, led by the United Kingdom, Sweden, the Netherlands and Denmark, see the introduction of decoupling and modulation as major victories. The

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(20) The WTO divides domestic support measures into three categories – commonly referred to as "boxes" of different colours – according to their potential to distort agricultural trade. The **Amber Box** includes most domestic support measures that are considered to distort production and trade. These measures are slated for reduction, with some members pushing for their complete elimination. **Green Box** measures should not have distorting effects in agricultural markets; at the very worst, their effects must be minimally trade-distorting. They include funds for research, and allow for the promotion of food security stocks, direct payments to producers that are decoupled from current prices or production levels, structural adjustment assistance, safety net programs, environmental programs and regional assistance programs. The amount of Green Box subsidies is currently unlimited, and no reduction commitments are required. **Blue Box** measures are an exemption from the general rule that all subsidies linked to production must be reduced or kept within defined minimal levels. The measures typically include production-limiting programs (e.g., payments made according to acreage – for instance, compensation for leaving part of the land fallow – or according to animal numbers, on condition that milk/meat production quotas are not exceeded).

Germans, led by Green Minister Renate Kunast, have options for pursuing the country's environmental agenda through the increased rural development funding coming from modulation. At the other end of the spectrum, those countries originally opposed to the reforms, led by France, Ireland and Spain, have all got something out of the deal. For instance, the French have achieved the removal of cereal price cuts.

The European Commission also believes that the new CAP will give Europe a strong hand in the negotiations on the Doha Development Agenda, and that it is now up to other nations to make the WTO trade negotiations a success. U.S. and EU trade officials insisted that the success of the negotiations in Cancún, in September 2003, hinged on the other party's commitment to cut billions of dollars in farm subsidies. The Cancún ministerial meeting ended without a consensus, however, as developed countries and developing countries were unable to reconcile their priorities.

B. Canada

Canada is committed to working with developing countries, especially the least developed, to help them benefit further from trade liberalization and become fully integrated into the multilateral trading system.(21) Trade-distorting agricultural subsidies are also considered to be detrimental to Canada's second-largest primary and manufacturing sector, which accounts for about 8.4% of Canadian GDP and around 1.8 million jobs.(22) Substantial reduction of those subsidies is thus of major economic importance to Canada.

The CAP is a key bilateral trade concern for Canada, because CAP subsidies have shifted Europe from being a net food importer to becoming a major net exporter.(23) The average agricultural tariff of the EU is estimated to be four times that of Canada, and high support prices make EU farmers among the most heavily subsidized in the world.

The previous CAP, through its use of production-linked subsidies, has resulted in overproduction of farm commodities. The excess production is purchased at the EU's intervention price, which is higher than the world prices. The EU then subsidizes exports of these agricultural products, enabling them to be sold at competitive prices in world markets.

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(21) http://www.dfait-maeci.gc.ca/tna-nac/bulletin-e.asp.

(22) http://www.agr.gov.sk.ca/DOCS/Econ_Farm_Man/PremierReportonAg.pdf.

(23) http://www.parl.gc.ca/InfoComDoc/37/1/SINT/Studies/Reports/fait10/12-Part II-e.htm.

This leads to lower world market prices and reduces Canadian producers' access to third-country markets.

Overall, for Canada, the long-term decrease in support and protection announced in June 2003 is a step in the right direction. Nonetheless, a number of major sectors are still profoundly insulated from world market signals, and producer support remains high for beef, sugar, dairy, barley and wheat. However, the shift from market price support measures towards area and headage[(24)] payments will help reduce production and trade distortions in a number of commodity sectors.

C. United States

According to *Inside U.S. Trade,* there are disagreements within the EU on the extent to which existing payments should be reduced to finance further reforms, and the extent to which funds should be allocated to rural development.[(25)] Some maintain that decoupling is unlikely to be as extensive as initially envisaged. This would appear to be consistent with the Agriculture Commissioner's line that there are "solid arguments" for leaving a range of sensitive areas out of decoupling.

Also, claims that CAP reform will result in less trade distortion are accurate only in relative terms, as the reference point for those claims is the level that EU production would attain in 2009 if existing policies were to be pursued.[(26)] However, if current EU production levels are taken as the point of reference, then post-reform EU production levels will be higher, but at prices that will be much lower than those currently prevailing. This could facilitate the clearing of EU markets without recourse to WTO-restricted trade instruments. The argument that the new policy will be less trade-distorting must, therefore, be carefully scrutinized.

Although EU ministers believed that policy concessions made at the end of June 2003 were sufficient, and expected reciprocal action from the United States, U.S. Trade Representative Robert Zoellick and Secretary of Agriculture Ann M. Veneman have urged the EU to "rapidly transform the CAP reform into significant proposals at the WTO." EU Trade Commissioner Pascal Lamy promptly turned the tables, saying "it's the U.S.'s turn to show the

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(24) Headage is the number of animals held as stock on a farm.

(25) http://www.agritrade.cta.int./news0307.htm.

(26) http://www.agricta.org/agritrade/capreform/index.htm.

colour of their money. This means that they have to considerably reduce their subsidies outlined by the Farm Bill."[27] The negotiations are now in a stalemate.

D. African, Caribbean and Pacific Countries

From the perspective of African, Caribbean and Pacific countries, it should be noted that since the decoupled system is based on historical payments to farmers, it locks in existing trade distortions on the basis of a system of payments that is compatible with current WTO rules and thus not subject to challenge. CAP reform would thus freeze existing patterns of EU (over)production, with the notable difference that this production would be available at lower (world market) prices. This situation could entail serious trade implications, particularly in those product areas where current distortions are greatest (e.g., sugar, dairy products and rice).

CONCLUSION

The main goals of the proposed CAP reform are to reduce the overall economic burden of the CAP by phasing out market price support and production controls while expanding the resources available for targeted support for wider rural development. To achieve these goals, the European Commission proposed to cut the link between production and direct payments (*decoupling*), to link those payments to environmental, food safety, animal welfare, health and occupational safety standards (*cross-compliance*), to introduce a new *farm advisory system*, to increase EU support for rural development by a *modulation* of direct payments (from which small farmers would be exempted), and to introduce new *rural development measures* to boost production quality, food safety and animal welfare and to cover the costs of the farm advisory system.

The new CAP is expected to strengthen the EU's position in the World Trade Organization, since decoupling would change the nature of direct payments. They would no longer be classified as "blue box," but as "green box." However, a range of sensitive areas are being left out of decoupling, leading some to believe that decoupling is unlikely to be that extensive. It has also been pointed out that claims that the reform will result in less trade

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(27) http://europa.eu.int/comm/commissioners/lamy/speeches_articles/spla176_en.htm.

distortion are accurate only in relative terms, as the reference point for such claims is the level that EU production would attain in 2009 if existing policies were to be pursued.

For Canada, however, the long-term decrease in support and protection announced in June 2003 is a step in the right direction. A number of major sectors are still profoundly insulated from world market signals, and producer support remains high for beef, sugar, dairy, barley and wheat; but the shift from market price support measures towards area and headage payments will help reduce production and trade distortions. The CAP reform will also complement Canada's commitment to working with developing countries, especially the least developed, to help them benefit further from trade liberalization and become fully integrated into the multilateral trading system.

APPENDIX

COMPARISON OF PRE-REFORM AND REFORM MEASURES

Source: European Commission, Directorate-General for Agriculture, *Reform of the Common Agricultural Policy*, March 2003, http://europa.eu.int/comm/agriculture/publi/reports/reformimpact/index_en.htm.

Comparison of the current Agenda 2000 situation and the legal proposals for CAP reform (January 2003)

SECTOR MEASURES	*Status quo* (Agenda 2000)	Draft legal texts (January 2003)
Cereals	Intervention price at 101.31 EUR/t; direct payments of 63 EUR/t multiplied with the reference yield Monthly increments (seven steps each adding 0.93 EUR/t to intervention price)	Final intervention price cut of 5 % (from the 20 % proposed in Agenda 2000), down to 95.35 EUR/t. Increase direct payment to 66 EUR/t, decoupled. Abolition of monthly increments Suppression of the production refunds for starch production from cereals and potatoes
Rye	Rye intervention at the general cereals level	Abolition of rye intervention
Durum wheat	Specific supplementary payment: • 344.5 EUR/ha in traditional areas • 138.9 EUR/ha in areas where the production is 'well-established' Within the limit of the Maximum Guaranteed Areas (MGA) Supplements depending on the use of certified seed	Decoupling and reduction, over three years, of supplements to: • 250 EUR/ha in 'traditional areas' • zero in 'well-established areas' Premium of 40 EUR/ha in 'traditional areas', within the MGA limit, provided certain quantities of seed are used from varieties selected for their quality for semola and pasta production
Oilseeds	Alignment of the area payment for oilseeds and cereals	No specific measures. Increase payment to 66 EUR/t, decoupled
Protein crops	Specific supplementary payment of 9.5 EUR/t times the reference yield	New stand-alone supplement of 55.57 EUR/ha (9.50 EUR/t times the average reference yields of regions where protein crops are grown) Maximum guaranteed established at 1.4 million ha
Rice	Intervention price at 298.35 EUR/t (paddy rice) Direct payment of 52.65 EUR/t multiplied with the reference yield and paid per hectare, within MGAs	50 % cut in intervention price to 150 EUR/t, triggering private storage. Below 120 EUR/t, specific safety mechanism Compensation payments of 177 EUR/t of which 75 EUR/t granted as a crop-specific payment, and 102 EUR/t is decoupled Reduce national MGAs to 1999-2001 average or the current MGA, whichever is the lower

SECTOR MEASURES	*Status quo* (Agenda 2000)	Draft legal texts (January 2003)
Starch potatoes	Measures for producers: • Payment of 110.54 EUR/t • Minimum price of 178.31 EUR/t	Payment to producers 50 % coupled, 50 % decoupled Suppression of the minimum price for starch potatoes and of refunds for starch production
CO_2 credits	Non-food regime on set-aside land (contract with processor required)	45 EUR/ha for energy crops (contract with processor required). MGA of 1.5 million ha – No allocation by Member State
Dried fodder	Direct payments: • 68.83 EUR/t for dehydrated fodder • 38.64 EUR/t for sun-dried fodder	Shared (initially 50/50) support: • decoupled income payment for farmers according to deliveries and national guaranteed quantities • industry aid of 33 EUR/t (for four years, degressed); single Maximum Guaranteed Quantity. Abolition of 5 % franchise
Nuts	Multiannual quality/marketing improvement plans, operated by producer groups Specific measures repealed in 1996 but possible to keep plans running until they expire (10 years), the last plans expiring in 2006/07 No specific support measures afterwards	Flat-rate payment of 100 EUR/ha with MS top-up option up to 109 EUR/ha MGA of 800 000 ha Areas under active improvement plans not eligible for the new support
Beef	Basic price at 2 224 EUR/t with private storage possible at 103 % of this price. Safety net intervention level of 1 560 EUR/t Headage payments: 150 EUR for steers (two payments), 210 EUR for bulls/year and 200 EUR/year for suckler cows Slaughter premium of 80 EUR (bulls, steers, cows) and 50 EUR (calves)	No specific measure foreseen, however major implications of decoupling Land dedicated to permanent pasture on 21.12.2002 must be maintained in that state (in relation to good farming practice)

SECTOR MEASURES	*Status quo* (Agenda 2000)	Draft legal texts (January 2003)
Beef	Eligibility criteria: up to 1.8 LU/ha (from 01.01.2003, currently 1.9 LU), head limit of 90 (with derogation) Extensification premium: 100 EUR/premium (stocking density 1.4 LU/ha). Other options for Member State: National envelope (budget)	Granting export subsidies for live animal line with animal welfare requirements
Dairy	Quota-regime valid until 2008 Stepwise reduction of intervention price by 15 % from 2005/6 onwards Cow premium rising from 5.75 EUR/t to 17.24 EUR/t of quota from 2005/6 onwards plus additional payment ('top-up' premium and/or area payment) Global increase of quota by 2.39 % (first increase for Spain, Italy, Greece and Ireland in 1999-2001 and other Member States from 2005-2007)	Quotas maintained to 2014/15 Advance by one year Agenda 2000 (i.e. price cut of 15 %, compensated by direct payments, extra quota) with an asymmetric price cut of: • -3.5 %/year for SMP • -7 %/year for butter In addition, continue these price reductions in 2007 and 2008, with a 1 % increase in quotas and corresponding increase in payments Direct payments to be decoupled from the outset (2004) Ceiling to butter intervention: above 30 000 t buying-in by tender
DECOUPLING		
Scope	Various arable premia linked to the production of specific crops. Partial decoupling Animal premia linked to the requirement of producing beef or dairy	Single decoupled farm income payment covering: - cereals, oilseeds, protein crops, flax, hemp, linseed (base aid of 66 EUR/t) - durum wheat supplement (reduced to 250 EUR/t) - starch potatoes (50 %) - grain legumes - seeds - rice (102 EUR/t) - dried fodder (new) - beef, sheep - milk from 2004 (2005 budget)

DECOUPLING	*Status quo* (Agenda 2000)	Draft legal texts (January 2003)
		certain regionalised aids are included (ultra-peripheric regions, Aegean Sea, Finland/Sweden COP drying supplement) The following payments are not included: - durum wheat quality premium (40 EUR/ha) - protein crop supplement (55.57 EUR/t) - crop-specific payments for rice (75 EUR/t) - flax, hemp (processors) - potato starch (processors) - dried fodder (processors, 33 EUR/t, transitional) Only perennial crops are excluded (fruit and vegetables on arable land are included)
Reference period		2000, 2001, 2002. National reserve in case of *force majeure* and new entrant farmers
Establishment and transfer of rights		Conditions for calculation, establishment of rights, total amounts (Member State ceilings) are annexed to the base regulation Definition of land generating rights and land eligible for the decoupled payment. Treatment of rights not linked to the land (certain animal premia). Transfer of entitlement rights with or without land
Options		Fixing of ceilings per Member State. Possible decoupling at regional level (common principles) and granting an average decoupled payment also for crops not currently receiving direct payments
Set-aside	For arable crops, 10 % set aside, exempting farmers producing less than annually 92 t of cereals (calculated with the reference yields)	Maintenance of individual historical set-aside obligation (based on the 10 % set-aside requirement) but now on a long-term (10 years), non-rotational basis (exemption if rotational provides for environmental benefits). Exemption of set-aside obligations for organic farms. Abolition of the non-food regime on set-aside land

OTHER MEASURES	*Status quo* **(Agenda 2000)**	**Draft legal texts (January 2003)**
Degression and modulation	Optional reduction of direct payments up to 20 % Unspent money remains in Member State to be spent on accompanying measures	Modulation applied as from 2006-2012. Fixing of annual rates of reduction from 1 % in 2006 to 19 % in 2012 Introduce progressive and differentiated rate of aid reduction. Apply franchise up to EUR 5 000, between EUR 5 000-50 000 apply an intermediate rate and above EUR 50 000 a full rate of reduction Increasing part of modulation (from 1 % in 2006 to 6 % in 2012) transferred to EU rural development budget (distribution key) The rest is to finance new CAP reforms.
Cross-compliance	Optional use of reductions of direct payments for enforcing statuary environmental legislation and so-called specific environmental requirement	Partial or entire reduction of direct payments in case of non-respect of: • obligations arising from about 40 legislative acts applying directly at farm level (minimal list of statutory legal standards - environment, food safety, and animal welfare - with others at the request of Member State) • good farming practices (common framework) • maintaining permanent pasture
Farm Advisory System		Recognition of the advisory vocation of the Farm Advisory System Obligatory participation for farms receiving more than EUR 5 000 in direct payments or having an annual turnover greater than EUR 100 000. Advice will account for all relevant material flows and on-farm processes Financial support covering part of the costs for farmers is eligible under rural development

RURAL DEVELOPMENT (In addition to the simplification of certain current measures)	***Status quo*** **(Agenda 2000)**	**Draft legal texts (January 2003)**
Food quality	Investment aid in favour of food quality including the establishment of certification systems eligible under rural development plans Promotion of certain commodities subject to two horizontal regimes: one for internal promotion, one for external promotion	Establish a food quality chapter as a new 'accompanying measure' including: encouragement to farmers to participate in quality assurance and certification schemes (maximum 1 500 EUR/year for five years) Support for producer groups for promotion in the context of quality assurance, geographical indication and organic farming. Public support up to 70 % of eligible costs Target first pillar measures only to external promotion The choice of implementation or not is left to Member States and/or regions
Animal welfare	Only regulatory measures	New animal welfare measure alongside and in the same logic as agri-environment measures (covering cost incurred and income foregone due to commitments beyond legal standards) Maximum of 500 EUR/livestock unit
Meeting standards	No incentive measure in place	Support for farm audits – flat-rate payments to farmers to cover audit costs Public aid up to 80 % of cost to farmers for first participation in the system, to a maximum of EUR 1 500 Temporary and degressive aid (maximum of 10 000 EUR/farm) to farmers to help them to implement statuary standards when EU rules have not been transposed into national legislation Not applicable where standards have already been transposed into national legislation