

## **CAP REFORM 2003: THE CLA ONE-PAGE SUMMARY**

This page summarises the most important elements of the CAP Reform agreed on 26<sup>th</sup> June 2003. The final regulation has not yet been agreed, it is expected at the end of September 2003. The information below is based on the draft of 7/7/03.

### **Decoupling**

The essence of the agreement is to switch support from production (that is hectares of specific crops and numbers of animals) to producers. This is to be done for payments in the arable sector (cereals, oilseeds and proteins) and for the sheep and beef sectors. Payments from all these support regimes will be combined into a new Single Farm Payment. Dairy premia will also be added into the single farm payment in the future. The single farm payment will be paid per eligible hectare of agricultural land, but only to active farmers, and subject to a number of conditions (see below). Entitlements can be sold with or without land. A National Reserve of up to 3% of entitlements will be available for hardship and transition cases and new entrants.

Member States are offered flexibility in operating the decoupling, many options can be decided regionally. The main options are whether to:

- start decoupling in 2005 or up to two years later for all products except dairy premia whose decoupling can be delayed until 2008;
- fully decouple, or partially decouple within the limits for each sector;
- allocate the single farm payments based on average payments claimed over the three-year historic reference period 2000 to 2002, or allocated across all agricultural land as a regionalised average payment per hectare.
- create a National Envelope (<10% of payments) for environmentally friendly farming;

### **Fund switching (modulation)**

All payments, decoupled or not, are to be reduced, 3% in 2005, 4% in 2006 and 5% in 2007 and thereafter. These cuts are modulated; the first €5000 (£3500) is exempt. The funds collected are switched to the Rural Development second pillar, at least 80% within the Member State in which they are collected. There is provision for national modulation to continue to enable Rural Development schemes already agreed to be operated.

### **Cross compliance**

The full receipt of all payments in future will be conditional on compliance with (1) a set of 18 environmental, animal welfare, and plant, animal and public health measures, (2) keeping all land in good agricultural and environmental condition, (3) on a 10% set-aside obligation for arable producers (which can be changed), and (4) restrictions on what can be grown on 'entitlement' land. There is a scale of penalties from 10% to 100% of the payments for non-compliance. A voluntary farm advisory system has to be set up to assist farmers understand the cross compliance.

### **Sectoral reforms**

There are minor reforms of the cereal sector (halving the monthly increments) and stronger reforms of the dairy sector. The intervention prices for dairy products will be reduced, butter (25%) and skim milk powder (15%) over four and three years respectively, both starting in 2004. These price cuts will be compensated with a dairy premium paid per tonne of milk quota held. The dairy payments will be decoupled and consolidated into the single farm payment in 2008, based on quota held on 31/3/04. Reforms of olive oil, cotton, and tobacco and sugar will be proposed this autumn.

### **Financial Discipline**

This mechanism replaces the previous idea of degressivity in which a series for payment cuts was pre-announced to finance reforms of other sectors and enlargement. The new mechanism requires the Commission each year, starting in 2007, to propose the percentage cut in direct payments (decoupled and coupled) which has to be made that year in order that the policy operates across the 25 Member States within the Brussels budget ceiling for Pillar 1. These payment cuts are modulated as the first €5000 is exempt from cuts. However the Commission has the right, in future, to propose additional franchises above this level.

### **Rural Development**

There are new measures for assisting farmers and processors to meet higher standards and improve quality, there is an emphasis in these measures on young farmers. The EU co-financing rate for agri-environment schemes has been raised from 50% to 60%.