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THE IMPLEMENTATION OF THE "HEALTH CHECK" OF THE CAP IN THE MEMBER STATES, IN PARTICULAR WITH REGARD TO THE NEW ARTICLES 68 AND 69 OF REGULATION (EC) N°73/2009

STUDY

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This document was requested by the European Parliament's Committee on Agriculture and Rural Development.

AUTHORS

Mr Eamonn Pitts
Mr Seamus O'Grady
Mr Hannes Wimmer (Metis GmbH)

RESPONSIBLE ADMINISTRATOR

Mr. Albert Massot Marti
Policy Department B – Structural and Cohesion Policies
European Parliament
B-1047 Brussels
E-mail: albert.massot@europarl.europa.eu

EDITORIAL ASSISTANCE

Ms Catherine Morvan

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ABOUT THE EDITOR

To contact the Policy Department or to subscribe to its monthly newsletter please write to: poldep-cohesion@europarl.europa.eu

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Abstract

The reforms of the common agricultural policy (CAP) have made its application more flexible and granted the Member States greater room for manoeuvre in terms of managing the policy. The latest CAP reform, or 'Health Check', adopted at the beginning of 2009 confirmed the regional single payment scheme as a reference model for the future. The aim of this study is to ascertain the implementing arrangements adopted by the Member States with regard to the provisions of Regulation (EC) No 73/2009. The study comprises a description of the implementing arrangements chosen in the 27 Member States, in particular in relation to decoupling, choice of payment system and use of Article 68, which permits specific national supports for farming within the overall Single Farm Payment. This is followed by a comparative analysis and conclusions.

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LIST OF ABBREVIATIONS

CAP	Common Agricultural Policy
EC	European Council
F&V	Fruit and Vegetables
OECD	Organisation for Economic Co-operation and Development
SPS	Single Payment System
SAPS	Single Area Payment System
WTO	World Trade Organisation

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EXECUTIVE SUMMARY

This report is concerned with the implementation of changes in the Common Agricultural Policy of the European Union since the passage of Council Regulation 73/2009. This regulation is particularly concerned with the Single Farm Payment first implemented in 2005.

The new regulation *inter alia* made provisions for further decoupling of subsidies and set deadlines for their removal. It also provided for different models for payment of subsidies within the Union, with mechanisms for proceeding to a preferred flat rate system. Thirdly it provided a mechanism for Member States to adjust the single farm payment system and to make limited provision for them to design policies, within the overall system, which were more suited to their individual circumstances.

This report is concerned with these particular issues.

It sets out to describe the changes made by Member States in each of these areas in the past year and their plans for the immediate future.

It then analyses the decisions made and discusses the reasons for any patterns identified.

Decoupling

The regulation set a deadline of 2012 for the ending of coupled subsidies, with an earlier deadline in some cases. There is ample evidence that this target will be achieved, with some countries removing coupled subsidies ahead of the scheduled target. The only coupled subsidies of EU origin which will remain after 2012 – and for which provision is made in the regulation – are in the areas of suckler cows, sheep and goats and certain vegetables for processing. During 2009 a Commission official estimated that 87% of direct support was currently decoupled (Ivan, 2009). Given the small number of subsidies which will remain coupled in 2012, it is likely that this figure will increase towards 99% after that year.

However coupled subsidies also arise under two other headings.

New Member States were permitted to top up their single farm payments during the transitional phase, by making complementary national direct payments. A small number of these were coupled. Complementary national direct payments are scheduled to end in most new Member States in 2013, and in 2016 in Romania and Bulgaria. Presumably the coupled subsidies end then too.

Nationally devised coupled subsidies also arise under the provisions of Article 68 of the regulation, which are dealt with in greater detail later in this report. There are restrictions in the total amount of nationally devised supports (10% of the national ceiling), and in the proportion of this expenditure which can be utilised in coupled subsidies (generally 3.5% of the national ceiling). There is also a provision that coupled subsidies of this kind are permitted only to maintain but not to increase production.

Overall the indications are that the extent of coupled subsidies in the Union is set to fall significantly over the next few years.

In the process of decoupling, the amounts of the coupled subsidy were ordinarily integrated into the Single Farm Payment. However article 63 of the regulation allowed Member States, by derogation, to apply the funds formerly used in coupled payments to establish or increase the value of entitlements based on particular types of farming activities not necessarily linked to the formerly coupled payment.

One Member State has already exercised this option – France. Arable crop premium (25% coupled), sheep premium (50%) & beef slaughter premium (40% & 100%) are fully decoupled from 2010, and suckler cow payments were decoupled by 25% (i.e. 75% "coupled" rather than 100%). The savings from these newly decoupled payments (€767 million) will be channelled in particular towards a new payment per hectare for grassland farming & forage crops (worth a total of €707m). Denmark has used this option to redistribute the former coupled support for protein crops, flax and dried fodder. Sweden is in the process of applying a similar formula, with redistribution of coupled supports from protein crops in 2010, and of payments for dried fodder and potato starch in 2012.

Germany plans to use this option in 2012 to adjust regional payments in favour of farmers in two Bund slander. Finland also plans to use this option in 2012.

Choice of Payment System

When the Single Payment System (SPS) was introduced in 2005, Member States had options in how they calculated and made payments. The main options were:

- **Basic (historic) approach:** each farmer was paid corresponding to the payments he had received historically, and the number of hectares he was farming.
- **Regional (flat rate) approach:** amounts are not calculated at individual farmer level but at regional level – the sum of the payments received by the farmers in the region concerned. Regional amounts are then divided by the number of eligible hectares to establish the value of an average entitlement per hectare in that region (the whole state could correspond with a region). Each farmer then receives a payment corresponding with the number of eligible hectares and the regional flat rate per hectare.
- **Mixed models**: Member States could apply different calculation systems in different regions of their territory. They could also calculate SPS payments using a part-historic/part-flat rate approach.
- **SAPS**: New Member States were given a simplified option, called SAPS as an alternative to the flat rate approach. This system was administratively simpler than other systems.

The flat rate approach was the one preferred and Member States, while given an initial choice, were expected to move over time to the flat rate approach.

In 2010, only two Member States are operating the "preferred" flat rate system – both new members, Slovenia and Malta.

Ten EU15 Member States are implementing the historical system while six are implementing mixed models. (UK is operating both in different regions).

In all ten countries implementing a historical model (Belgium, Greece, France, Ireland, Italy, Netherlands, Austria, Portugal, Spain, Scotland or Wales) no date has yet been set for a change to the flat rate system.

Of the countries implementing mixed systems, UK is expected to move fully to the flat rate system in 2012, in England. Germany has a target, which is likely to be achieved, of completing the programme of change to a regionalized flat rate system in 2013. Finland has also set a target for fully transferring to the flat rate system by 2016.

Of the new Member States, two, Hungary and Latvia have plans to implement the flat rate system before 2012. There are no plans in Bulgaria, Czech Republic, Cyprus, Estonia, Lithuania, Poland, Romania or Slovakia for introducing the SPS system any earlier than that provided for in the legislation (2014).

In addition to the SAPS payment which comes from the European Union, new Member States were allowed to supplement these payments with what are called "complementary National Direct Payments", for a limited period. These are linked to the SAPS and allow the level of support to be raised from national resources over the initial phasing-in level. These payments are scheduled to be phased out as the overall level of the SAPS reaches its designated level i.e. before 2013 in the case of those new Member States who joined in 2004, and 2016 in the case of Romania and Bulgaria. In many countries some of these payments are coupled.

Nationally devised subsidies (article 68)

The 2003 regulation allowed Member States to earmark up to 10% of their respective national subsidy ceilings for "specific supports to farming" in their national territories. This principle was extended in articles 68 and 69 of the 2009 regulation, which provided a wider range of objectives which can be used for granting specific support and eased the conditions attached. Some provisions are a carryover from the 2003 regulation. Other provisions are new and therefore of greater interest to this study.

In 2010 the option to utilise articles 68 and 69 is being implemented by 22 Member States (i.e. excluding United Kingdom, Lithuania, Luxembourg, Cyprus and Malta). This compares with eight Member States using the old provisions in 2007.

The most important innovation under Article 68 was that compensation arrangements were permitted for the dairy, beef and veal, sheep and goat, and rice sectors in *economically vulnerable or environmentally sensitive areas or for economically vulnerable* types of farming. During the negotiations this provision was criticised as anti competitive and likely to lead to a reversion to coupled aids through the back door.

In 2010, 14 Member States are implementing these provisions in the dairy sector, while eight do so in the sheep and goat sector and three in the beef sector. Two Member States have schemes for grassland farming, while one has provisions for mountain areas.

Another new potential area was to contribute to crop, animal or plant insurance. Four Member States have chosen to exercise this option (France, Greece, Italy and Netherlands).

A further option was to provide support for protection against animal and plant diseases and environmental incidents. Only France has made provision to use this option. It will do so from 2011.

In 2010 there are also a number of schemes under the headings of article 68 (1) (a), which were already legislated for in Regulation 1782/2003, in particular for improvement of product quality, supporting specific types of farming which were important for the environment, and for agricultural activities with specific environmental benefits.

Extent of expenditure: a limit of 10% of national ceilings was placed in the legislation on these nationally devised subsidies. There has been a wide diversity of response to the opportunity provided as illustrated in Summary Table 1.

Summary Table 1: Percentage of national ceilings devoted to schemes under articles 68 and 69, 2010

RANGE	MEMBER STATES
7.5% to 10%	Slovenia, Greece, Hungary, Finland and Italy
4.8% to 5.7%	France, Portugal, Spain, Czech Republic and Latvia
2% to 3.5%	Netherlands, Romania, Slovakia and Bulgaria
1% to 2%	Belgium, Denmark, Austria, Estonia, Poland and Ireland
< 1%	Germany and Sweden
Zero	United Kingdom, Lithuania, Luxembourg, Cyprus and Malta

Source of Funds: The regulation provides that these special payments can be financed through either of two mechanisms (a) use of unused allocations (b) linear reduction in the levels of single payments. Some Member States have chosen to use only unused allocations (including Netherlands, Denmark, Ireland, Belgium and Germany), which accounts to some degree for the low percentage of total ceilings allocated to section 68 schemes in these countries. New Member States had no unused allocations and were in practice forced to make linear reductions in payments.

Most other Member States used a combination of unused resources and reductions in other payments.

For example in France, €385m will be re-channelled under the new Article 68 by top-slicing 4.5% of the direct payments national envelope, in order to provide extra support to structurally fragile areas and for economically vulnerable types of farming. Likewise in Italy, a reduction of a maximum of 3.8% in the general level of single farm payments will be made to pay for the wide range of special payments, mostly for quality improvements, under Article 68.

Overall Impact: It is readily apparent that the overall financial expenditure under these schemes in 2009 is far below that planned for 2010 and later. Agra Europe (2009) suggests that the budget for 2009 had provision for expenditure of €425m for schemes under the old Article 69 amounting to barely 1% of the combined national ceilings. The total estimated expenditure for each of the years 2010 to 2012 under the new regulation approaches €1.6 billion, a near fourfold increase. The number of Member States applying the schemes (22) is considerably larger than those applying the old regulation (8).

Summary Table 2 summarises the situation in the 27 Member States in relation to choice of payment system and use of Article 68.

Summary Table 2: Implementation of payment system and of Article 68

MEMBER STATE	PAYMENT SYSTEM IN 2010	TARGET SET FOR CHANGE OF SYSTEM	IMPLEMENTING ARTICLE 68
Austria	Historic	No	Yes
Belgium	Historic	No	Yes
Bulgaria	SAPS	No	Yes
Czech Republic	SAPS	No	Yes
Cyprus	SAPS	No	No
Denmark	Hybrid	No	Yes
France	Historic	No	Yes
Germany	Hybrid	Yes	Yes at very low level
Estonia	SAPS	Yes	Yes
Finland	Hybrid	Yes	Yes
Greece	Historic	No	Yes
Hungary	SAPS	Yes	Yes
Ireland	Historic	No	Yes
Italy	Historic	No	Yes
Lithuania	SAPS	No	No
Latvia	SAPS	Yes	Yes
Luxembourg	Hybrid	No	No
Malta	SPS		No
Netherlands	Historic	No	Yes
Poland	SAPS	No	Yes
Portugal	Historic	No	Yes
Romania	SAPS	No	Yes
Slovakia	SAPS	No	Yes
Slovenia	SPS		Yes
Spain	Historic	No	Yes
Sweden	Hybrid	No	Yes
United Kingdom	Hybrid and Historic in different regions	Yes and No	No

Reflections on Decoupling

The process of decoupling agricultural subsidies and their integration into the single farm payment has extended far beyond the range of payments included in the Single Farm Payment system in the 2003 regulation and now includes a majority of those payments included as "compatible support schemes" in that regulation and several others which did not even achieve that status.

An important aspect of this may be that Member States were given little choice in the matter.

Article 63 of the regulation states that as from 2010, Member States *shall* integrate the support available under coupled support schemes into the single payment scheme, by certain dates, with some narrowly defined exceptions. Article 64 provides for the incorporation of these payments into the single farm payment. The only scope for independent action by Member States is to advance the abolition date.

The successful decoupling of such a large number of different subsidies will improve the negotiating position of the European Union in relation to any future negotiations relating to freer trade in agriculture. The position, however, is weakened slightly by the options provided for coupled subsidies under Article 68.

An associated issue is the provision in Article 63, which provides Member States with an option, while engaged in the process of decoupling, to restructure the subsidies being paid in favour of some particular farming activities, and against others. France has chosen to exercise this option in 2010 on a significant scale, while Finland and Germany plan to do so, on a limited scale in 2012.

This option, introduced in the 2009 regulation, was not available to those Member States, who had fully decoupled early, such as Ireland and the UK, or to those new Member States, who historically did not have subsidies which came within the scope of the single payment.

There are, however, several other Member States which could have exercised the article 63 option but which have not done so. A possible reason may be the wish not to reduce payments to farmers in general (beyond those necessitated by modulation). When any payment system is revised and there are winners and losers, it is recognised that losers shout more loudly than the winners cheer. This creates a reluctance to modify schemes which create winners and losers. The decision of the French Ministry to proceed with a radical overhaul of its subsidies, in which its cereal farmers are clear losers, in this context, must be admired.

Reflections on Choice of Payment System

The situation in relation to choice of payment system does not comply with the apparent wishes of the Council as expressed in legislation. In the legislation there is a clear preference for a unified system of administration of the Single Farm Payment throughout all 27 Member States, old and new, based on a regional flat rate approach. There is also provision for the temporary maintenance of alternative systems. However in only two Member States is the preferred system in place in 2010 (Malta and Slovenia). Hungary, Latvia, and the UK (in England) have plans which would see the flat rate system in place in those countries by the end of 2012. Germany plans to have the flat rate system in place by 2013, and Finland by 2016.

There is a recognised administrative practice, whereby no actions are taken until they are necessary. The presence of a 2013 deadline for action would in many administrations ensure that no action was taken to implement until shortly before that date.

We advance two further linked hypotheses for the slow implementation of the preferred system. The first relates to the fact that the overall policy is due to be reviewed in the period up to 2013, with the potential replacement of current policy by a different one after that date. The second and linked hypothesis relates to the preferences of some individual ministers for an outcome in this process which might allow continued use of an historical basis for payments. In the new Member States, the delay may be related to a continuing concern for their ability to administer the complex integrated administration and control systems required.

With a widespread interest in the nature of future policy and a process already in place to discuss policy change, it is hardly surprising if administrators of the current policy would prefer to adopt a wait-and–see approach. National administrators have already implemented a fundamental reform of subsidy payments to farmers within the last five years. It is hardly surprising in these circumstances, if they are reluctant to introduce a further change which would be likely to be in place only for a period of a maximum of three years. Our first hypothesis in relation to the slow implementation of the preferred payment system relates to the inevitability of further change and the reluctance to introduce another system which will be temporary and which could create winners and losers.

A linked issue is the preference of some Member States for a continuation of the link to historical data. The Commission have clearly indicated that a historical basis for granting subsidies would be increasingly difficult to defend in international fora and Ministers from the new Member States have recently clearly opposed an historical basis for allocation (Declaration on the future of Common Agricultural Policy beyond 2013, Feb 2010).

The preference of some ministers for an historical basis may be linked to the issue of not creating winners and losers within the system. So long as a theoretical prospect exists of retaining a historical basis for payments, it is unlikely that these ministers would proceed down the road of implementing the "preferred" regional flat rate system. Likewise those ministers and administrators, who prefer a radical change in policy after 2013, may be reluctant to "waste time" setting up what is for them also an inferior alternative.

Reflections on Nationally devised subsidies (article 68)

The use of Article 68 is far more extensive than that of the corresponding article in the 2003 regulation with 22 countries participating compared with eight. The provision to support the dairy and sheep and goat sectors in "economically vulnerable or environmentally sensitive areas or as economically vulnerable types of farming" has proved particularly popular.

The schemes to support product quality, marketing and the environment, which were the core of the previous regulation, have been retained on a similar scale to the past (though countries involved and emphasis within countries has changed).

There is a wide difference in overall response to the opportunities provided by Article 68 with some countries reacting enthusiastically to the opportunities provided to design a policy specifically oriented to their needs and allowing some limited return to coupled subsidies. Others have not used the facility at all while some have adopted an intermediate position.

A major criticism of the Article 68 measures is the potential they offer for subsidies which could distort competition. During the negotiations "reformist" Member States expressed the fear that some countries might use the new Article 68 as a way of reverting to coupled aid payments through the back door, thereby distorting the market for those who were maintaining a pure decoupled approach.

However the Commission pointed out at the time, that payments would be limited to 10% of the total ceiling and that the "top-slicing" approach meant that new money for one group of producers can be created only by taking from another group. Besides there would be a limit, within the overall 10% maximum, of 35% on coupled and potentially trade distorting policies. (Agra Europe, 2008). The remaining 65% would have to be spent on policy instruments that are not or only minimally production distorting and are therefore Green Box compatible under the WTO.

Overall it is not likely that level of new coupled subsidies shown in this report are going to prove a difficulty in trade negotiations, though the concentration of these subsidies in the dairy and sheep and goats area could present a problem.

1. INTRODUCTION

This report has been prepared for the Agricultural and Rural Development Committee of the European Parliament by Metis GmbH, of Vienna, following a competitive tendering process. The content and structure of the study follow the specifications drawn up by the European Parliament.

The purpose of the study is to ascertain the implementing arrangements adopted by the Member States with regard to Regulation 73/2009. This regulation is particularly concerned with the Single Farm Payment first implemented in 2005.

The key information on the decisions made was obtained from Ministries of Agriculture in the Member States, from the European Commission and from additional information published in the specialist agricultural press.

In addition a questionnaire was drawn up to elicit the missing data in specific Member States. Country experts helped to answer the questions relevant to their country by ascertaining the data from official and other sources.

On 12 April 2010 the Draft Study report was presented to the members of the European Parliament's Agricultural and Rural Development Committee. The discussion in the plenary provided both a validation of the draft findings as well as additional comments which have been considered and incorporated in the present final report.

The study provides background information in chapter 2 and consists of two main parts – a description of implementing arrangements in the 27 Member States[1] (chapter 3) and an analysis and comparative summary with conclusions and implications (chapter 4).

[1] In the report we refer to "old" and "new" Member States. In our report "old" Member States are those which were already members of the European Union by 2004. "New" Member States are those ten states which joined the Union in 2004 and the two states, Romania and Bulgaria, which joined in 2007.

2. BACKGROUND

2.1. Common Agricultural Policy Reform

The Common Agricultural Policy has been hailed as one of the outstanding achievements and at the same time has been one of the most heavily criticised aspects of the European Union since its foundation. Established in the 1960s, the key characteristic of the policy was support for farmers' incomes through protecting the internal market for agricultural products and maintenance of target price levels. By the 1980s the cost of this policy had become a major issue and the first reform of the policy limited the volume to which price guarantees would apply. However cost continued to be an issue, as did the impact of the policy, (particularly export refunds), on the agricultural production of less developed countries.

By the turn of the new century, Europe was committed to a greater level of free trade in agriculture and the nature of the existing policy was incompatible with this objective. There was also a growing awareness of environmental costs associated with the old policy.

The major reform which took place in 2003, introduced a policy of direct financial support for farmers, replacing the old policy of product support and requiring over time the decoupling of these payments. In addition the new "direct" payments were made conditional on achievement of minimum standards in farming practice and environmental sustainability.

These latter changes took place against a background of substantial enlargement of the Union, with ten new Member States joining in 2004 and two more in 2007. The wider range of farming conditions required different responses in different areas and there was therefore a need for greater flexibility.

The 2003 Reform

The 2003 reform provided for a new farm payment system which was not dependent any more on production of specific products but had conditions attached related to good farming practice and meeting environmental goals (cross compliance). It also permitted some differences in methods of operation and in levels of subsidy across Member States, provided these were in accordance with a common framework.

The 2003 reform in Regulation 1782/2003 provided three models for applying the new single payment scheme (SPS) to farmers:

1) the historic model, with payments calculated on the basis of **past** production and the possibility of retaining partial decoupling of support in certain sectors;
2) the regional scheme, with a clear geographical focus, based on a flat-rate payment per hectare by area; and
3) a single area payment scheme (SAPS), aimed solely at the new Member States, which had less rigorous compliance conditions

The 15 old Member States could therefore choose between the first and second models and were also free, to a limited extent, to retain the coupling of subsidies with production, for a limited time period. In addition there was scope for applying different solutions in different parts of the national territory. The new Member States could opt immediately for the SPS regional system or use the SAPS alternative.

Part of the new flexibility afforded to Member States in the 2003 reform was the freedom to support particular defined enterprises in ways that they chose, with Commission approval. These ways were circumscribed but the principle was clear. A limited proportion of the total available funds for farming support could be chosen by the Member State itself – involving a partial nationalization of the policy. However the funds applied must still be paid as part of the single farm payment.

2.2. The "Health Check" Alterations

It was envisaged in 2003 that the operation of this radically new system would be reviewed in five years. This process was carried out in 2008 and was called the "Health Check". It was not a fundamental review and resulted in no major changes in the single farm payment. The most significant changes were increased modulation, the ending of "set-aside" and increased dairy quotas. Those changes related to the single farm payment are mostly incorporated in Council Regulation 73/2009.

In the context of the single farm payment, it was agreed that in the future, the regional model would be the preferred model, and that the limited permission for "partially coupled" payments would cease. Deadlines were set for phasing out the old systems.

Member States, which had chosen the historical model could switch to the regional model but can continue to operate the historical model.

The flexibility to use part of the funds available for essentially nationally designed supports was retained and extended.

Council Regulation 73/2009 in implementing these decisions, brought about a number of changes to the Single Farm Payment Scheme as follows

- The partial decoupling applied in certain sectors was abolished with deadlines set for the ending of most of these payments. Most of the aid still linked to production was to be incorporated, in phases, into the single payment scheme, with a few exceptions, where Member States could opt to maintain the existing support (suckler cow premium, sheep and goat premiums and some processed fruit and vegetable payments (articles 51 and 54);
- Member States were also empowered to use, either fully or partially, the savings resulting from the decoupling of a sector to support particular types of farming (article 63) as an alternative to incorporating them in the generalized single farm payment.
- Those Member States that had opted for the historical model were allowed to revise their payment entitlements (article 45).
- Alternatively, they could move directly towards a regional model (article 46) or combine models (article 47).
- Those Member States that had previously chosen to follow a mixed scheme were allowed to revise their existing payment entitlements to speed up their transition to the regional model (article 48).
- A deadline of 2013 was established for the abolition of the new Member States' current simplified arrangements (SAPS) (article 122).

- Finally, by way of compensation for the phasing-out of production-related supports, the exemption previously in place under Article 69 of Regulation (EC) No 1782/2003 was extended, allowing the Member States to earmark up to 10% of their respective national ceilings for specific support, or to make use of any surplus funds from previous years (articles 68 and 69 of the new regulation).

Implications

Member States, as a result of this regulation, had to make decisions about when to end partial decoupling (if they had used it between 2005 and 2009), whether to end the historical basis for calculating the single farm payment and what precise form of regional or national payment to use in its stead, and to what extent to use the facility for designing its own support systems within the overall single farm payment system.

This will involve significant work on the part of Member States, with potentially significant political impact, involving reductions and increases in the levels of subsidy paid to different farming groups, compared with the recent past. Those Member States, which have chosen to implement changes for 2010, will have made their decisions by 1 August 2009 and communicated them to the EU Commission.

The decisions made are of wide interest because a further review of the Common Agricultural Policy is scheduled for the near future, discussions have already begun on the nature of the changes, if any, to be implemented, and parliamentarians and officials will have a keen interest in the early availability of data on the outcome of the latest reform.

Methodology and Data sources

The task involved in this report is to provide, based on the current situation, an early perspective to Members of the European Parliament and other interested parties, of what the landscape of the common agricultural policy will look like, when the changes to the CAP arising from the "Health Check" have been fully implemented.

The data available from this study will not permit any fundamental analysis of the impact of changing policy, as in many cases the decisions will not have been fully implemented. Rather it will indicate the thinking in the administration in Member States regarding further reform. It will enable (a) an assessment of how quickly EU agriculture will be fully decoupled, (b) an assessment of the speed at which a common payment model may be applied (c) to what extent Member States are willing to use the freedom granted to them to fashion policies specific to their needs, and (d) the emphases in these policy choices.

The key source of information on the decisions made (or being contemplated) is the Ministries of Agriculture in the Member States. It is probable that there does not exist at this stage a public data source with much of this data. However it was considered likely that the DG Agriculture of the EU Commission would have this information in considerable detail, as in many cases the Member States are obliged to inform it of proposed actions.

Information was obtained from the Commission on a number of issues of interest to the study. In particular they supplied the information contained in Annexes A and B of this report, which deal with measures under Articles 68 and 69. This information was supplemented by information published in the specialist agricultural press. One particular valuable source of data and commentary was a series of short articles in AGRA FACTS over recent months, which dealt specifically with the topic of this study, the implementation of the "Health Check". Some articles in Agra Europe were also useful.

These data sources allowed us to identify a series of further questions which needed to be answered in each Member State. A questionnaire was drawn up (see Annex C of this report) to elicit the missing data. Metis GmbH has a network of associates in each Member State. These associates were sent the questions relevant to their state and asked to ascertain the data from official and other sources. At the time of writing the final draft of this report, acceptable responses to the questionnaire had been received from all Member States except Malta.

This describes the information gathering phase of the study. The subsequent phases involved analysis of these data and drafting the report. A presentation of draft findings was presented to the Agriculture and Rural Affairs Committee of the European Parliament on the 12 April 2010, before preparing the final report.

3. PART I: IMPLEMENTING ARRANGEMENTS CHOSEN BY THE MEMBER STATES

In this first part we present the options chosen by each of the Member States with regard to the arrangements for implementing the aforementioned articles of Regulation (EC) No 73/2009 (Articles 45, 46, 47, 48, 51, 54, 63, 68, 69 and 122).

The analysis is broadly divided in three sections, decoupling (articles 51, 54 and 63), choice of model (articles 45 to 48, and 122) and use of the options provided to redesign the payment system to suit national needs (article 68 and 69).

In the analysis of the article 68 measures, emphasis is placed on the 1) the percentage of the single payment ceilings allocated for this specific support, 2) the headings chosen for allocation of support 3) the sources of funds and 4) the changes since the previous regulation.

3.1. Abolition of Partial Decoupling (sections 51 and 54)

A fundamental objective of the 2003 legislation was the decoupling of payments from current farming activities. However the old Member States could decide in the short term to continue to make some coupled direct payments for arable crops and hops, and to the number of animals for sheepmeat, goatmeat, beef and veal (known as partial implementation and provided for in articles 64 to 68 of that regulation).

What was decoupled in the 2003 legislation?

Regulation 1782/2003 recognised different types of farm payments and proceeded to introduce the single payment for a range of these, which are listed in Annex VI of that regulation.

Annex VI subsidies included payments in the following commodity areas – arable crops, potato starch, grain legumes, rice, seeds, beef and veal, milk and dairy products, sheep and goats. The single payment system meant one payment to farmers producing any of these commodities.

Other payments were listed in Annex V. These subsidies included subsidies for dried grapes, hops, tobacco, olive oil, cotton, dried fodder, citrus for processing, tomatoes for processing, and wine. In addition it included agri-environmental payments, disadvantaged area payments and payments for forestry. These were not initially incorporated in the Single Payment and were described as "compatible support schemes".

A number of commodity subsidies were not mentioned in either annex: nuts, protein crops, energy crops, grain legumes, (which is however mentioned in Chapter 13 of regulation 1782/2003), silkworms, and bananas.

The dairy sector was decoupled in all Member States between 2005 and 2007.

Reforms to the sugar, fruit and vegetables, bananas and wine sectors between 2005 and 2007 introduced new payments which were integrated into the single farm payment.

While the single payment became effective throughout the Union in 2005, many payments were still coupled in 2008.

Table 1 shows the payments in individual Member States which remained coupled, and the extent to which they were coupled, as at July 2008. The table is sourced directly from a Commission website (ec.europa.eu/agriculture/markets/sfp/pdf/2008_01_comFVrev.pdf). It would seem that the list is not fully comprehensive, as a commentary by AGRA FACTS, on the proposed decoupling for 2010 and later, lists as coupled, several payments for minor crops such as nuts, protein crops, dried fodder and potato starch, which are not included in this table (Agra Facts, 2009). It also includes durum wheat payments in Spain and Italy, which also are not listed in Table 1. On the other hand the list includes some payments which were no longer coupled in 2008. For example the Commission website table includes among the coupled subsidies for Portugal an item "olive oil coefficient for decoupling: 1". Olive oil payments were decoupled in Portugal in 2006. Nevertheless we have to assume that the table on the Commission website, which we have used, presents a reasonably accurate picture of the situation in relation to coupled subsidies in 2008.

Five member States were already fully decoupled, before the passing of the "Health Check" legislation (Estonia, Ireland, Luxembourg, Malta and the United Kingdom) and are not therefore included in Table 1 (but again protein crops which e.g. remained coupled in UK are not included in Table 1). By contrast three Member States (France, Spain and Portugal) had chosen to retain the maximum number of coupled payments authorised in both animal and vegetable products, (Kroll, 2008).

Regulation 73/2009 imposed deadlines for the ending of coupled subsidies as follows

- From January 2010: Arable crops, durum wheat, olive oil and hops.
- From January 2012: Special Beef and Slaughter Premium, rice, nuts, seeds, protein crops, aid for starch potato growers.
- From April 2012: Processing aid for dried fodder.
- From July 2012: potato starch and flax and hemp.
- From 2012/2013: aid for long fibre flax. To be phased in from 2010/2011 with reduced rate of €160t (from €200t).
- From July 2012: aid for short fibre flax. To be phased in from 2009/2010 at a rate of €90t.

Member States had the option, which some have chosen, to end coupled subsidies earlier.

Table 2 shows a list of coupled payments which are scheduled to end, following the Health Check, the passing of Regulation 73/2009 and the actions announced by Member States. (Agra Facts, 2009). The list is confined to those coupled payments already included in Table 1. It is apparent that the vast bulk of coupled payments are scheduled to end by 2012 and that a significant number will end in 2010.

Member States, which apply the SAPS, were permitted to keep part or all of the sugar payment and the fruits and vegetables payments separate after the reform of these sectors between 2003 and 2008, *i.e.* they could earmark those payments for farmers, who had grown sugar beet and fruits and vegetables during the reference period.

Latvia, Lithuania, Hungary, Poland, Romania and Slovakia kept 100% of the sugar payment separate, while the Czech Republic kept 85% of this payment separate. Bulgaria, Latvia, Lithuania, Hungary, and Poland kept 100% of transitional soft fruit payments separate. The Czech Republic kept a coupled payment for tomatoes intended for processing, Hungary for tomatoes and other fruits, and Poland for tomatoes, peaches and pears. Romania decided to keep 50% of the envelope, for tomatoes intended for processing, coupled until 2011, while Slovakia decided to keep coupled 50% of the envelope for tomatoes intended for processing, and 100% of the envelope for fruits other than annual crops (OECD, 2009).

The list of payments which remain and for which there are as yet no firm proposals for decoupling are shown in Table 3. Apart from suckler cow payments in a number of countries, the remaining coupled payments are not of significant economic importance.

During 2009 a Commission official estimated that 87% of direct support was currently decoupled (Ivan, 2009). Given the small number of subsidies which will remain coupled in 2012, it is likely that this figure will increase towards 99% in that year.

However despite this trend in decoupling subsidies of EU origin, there has been a growth in coupled subsidies of national origin, which is discussed later. One group of these arose in the new Member States, who were permitted to make top up national payments called "Complementary National Direct Payments" during the period of transition to the full EU subsidy. Some of these payments were coupled. The second group of national coupled payments arises under the provisions of section 68 and 69 of the new regulation. Both of these are dealt with later in this report.

3.2. Article 63: Summary of Implementation in Member States

Article 63 of regulation 73/2009 deals with the integration of coupled supports into the single payment scheme. Article 63 (1) obliges Member States to integrate the former coupled supports into the single payment scheme. However Member States are also allowed by derogation to apply the funds formerly used in coupled payments to establish or increase the value of entitlements based on particular types of farming activities not necessarily linked to the formerly coupled payment.

One Member State has exercised this option – France. Arable crop premium (25% coupled), sheep premium (50%) & beef slaughter premium (40% & 100%) are fully decoupled from 2010, and suckler cow payments were decoupled by 25% (i.e. 75% "coupled" rather than 100%).

Under **Article 63**, the savings from these newly decoupled payments (€767 million – €640m from arable, €127m from livestock) will be channelled in particular towards a new payment per hectare for grassland farming & forage crops (worth a total of €707m). Aid will be allocated on the basis of a maximum stocking density of 0.8 Livestock Units (LU) per hectare, reducing degressively to 0.8 – 0.5 LU/ha thereafter. Furthermore €30m will be channelled to fodder crops, and €30m to vegetables & potatoes (Agra Facts, No 68/09).

In Denmark, with the abolition of coupled support for protein crops, flax and dried fodder, the payments were integrated into the flat rate component of the hybrid system being implemented in Denmark. In Sweden, with the abolition of coupled support for protein crops in 2010, Article 63 was applied and this process will continue in 2012 with the decoupling of subsidies for potato starch and dried fodder.

Germany plans to use the provisions of Article 63 in 2012. The premia for certain Annex XI products will be decoupled that year and would ordinarily be transferred directly to the single farm payment. In Germany it is planned that an adjustment will be made at that point to the regional payments to favour farmers in two Bundesländer, Rhineland-Pfalz and Saarland. Finland also plans in 2012 to use Article 63 to divert the proceeds of the decoupled payments for potato starch and seeds.

Table 1: Extent of continued coupling of payments during 2008

MEMBER STATE	SECTORS REMAINING COUPLED IN 2008 AND TRANSITIONAL COUPLED PAYMENTS OF THE FRUIT & VEGETABLES SECTOR
Belgium	Suckler cow premium 100% Slaughter premium calves 100% (Flanders and Brussels only) Seeds (some species) 100%
Bulgaria	Transitional soft fruit payments 100%
Czech Republic	Separate sugar payments 85% Separate payment for tomatoes intended for processing 100%
Denmark	Special male bovine premium 75% Sheep and goat premium 50%
Germany	Hops payments 25% Tobacco coefficient for decoupling: 0.4
Greece	Seeds 100% Olive oil sector: 2% deduction for the funding of working programmes established by producer organisations (Art 110 (i) of 1782/2003 and Art. 8 of Reg. 865/2003). Annex VII point H and I: tobacco and olive oil coefficient for decoupling: 1 F&V: Until end 2010: 30% of the envelope for tomatoes intended for processing Until end 2012: 60% of the envelope for citrus fruits intended for processing
Spain	Seeds 100% Arable crops 25% Sheep and goat premiums 50% Suckler cow premium 100% Slaughter premium calves 100% Slaughter premium bovine adults 40% Outermost regions 100% Tobacco coefficient for decoupling: 0.4 Olive oil coefficient for decoupling: 0.936 F&V: Until end 2010: 50% of the envelope for tomatoes intended for processing Until end 2009: 100% for citrus fruits intended for processing

MEMBER STATE	SECTORS REMAINING COUPLED IN 2008 AND TRANSITIONAL COUPLED PAYMENTS OF THE FRUIT & VEGETABLES SECTOR
France	Arable crops 25% Sheep and goat premium 50% Suckler cow premium 100% Slaughter premium calves 100% Slaughter premium bovine adults 40% Seeds (some species) 100% Outermost regions 100% Olive oil sector: 10% deduction for the funding of working programmes established by producer organisations (Art 110 (i) of 1782/2003 and Art. 8 of Reg. 865/2003). Hops payments 25% Annex VII point H and I: - olive oil coefficient for decoupling: 1 - tobacco coefficient for decoupling: 0.4 F&V: Until end 2011: 50% for tomatoes intended for processing Until end 2010: 98% of national envelope for orchards producing prunes, peaches, and pears intended for processing From 2011 until end 2012: 75% of national envelope for orchards producing prunes, peaches, and pears intended for processing
Italy	Seeds 100% Olive oil sector: 5% deduction for the funding of working programmes established by producer organisations (Art 110 (i) of 1782/2003 and Art. 8 of Reg. 865/2003). Annex VII point H and I: - olive oil coefficient for decoupling is increased to 1 - tobacco coefficient for decoupling: 0.4 - for the region Puglia, decoupling coefficient for tobacco: 1 F&V: Until end 2010: 50% for tomatoes intended for processing Until end 2010: 100% for pears, peaches and prunes intended for processing. From 2011 until end 2012: 75% of envelope for prunes
Cyprus	F&V: Until end 2010: 100% of national envelope for citrus fruits; Until end 2012: 75% of national envelope for citrus fruits
Latvia	Separate sugar payments 100% F&V: Transitional soft fruit payment 100%
Lithuania	Separate sugar payments 100% F&V: Transitional soft fruit payment 100%

MEMBER STATE	SECTORS REMAINING COUPLED IN 2008 AND TRANSITIONAL COUPLED PAYMENTS OF THE FRUIT & VEGETABLES SECTOR
Hungary	Separate sugar payments 100% F&V: Separate F&V payments (tomatoes and other fruits) 100% Transitional soft fruit payment 100%
Netherlands	Slaughter premium calves 100% Slaughter premium bovine adults 100% Seeds for fibre flax 100%
Austria	Suckler cow premium 100% Slaughter premium calves 100% Slaughter premium bovine adults 40% Hops payment 25%
Poland	Separate sugar payments 100% F&V: Separate F&V payment for tomatoes, peaches and pears 100% Transitional soft fruit payment 100%
Portugal	Suckler cow premium 100% Slaughter premium calves 100% Slaughter premium bovine adults 40% Sheep and goat premium 50% Seeds 100% Outermost regions 100% Tobacco coefficient for decoupling 0,5 Olive oil coefficient for decoupling: 1 F&V: Until end 2011: 50% of envelope for tomatoes intended for processing
Romania	Separate sugar payments 100% F&V: Until end 2011: 50% of envelope for tomatoes intended for processing
Slovenia	Special male bovine premium 75% Sheep and goat premium 50% Hops payment 25%
Slovakia	Separate sugar payments 100% F&V: Separate F&V payments: 50% of the envelope for tomatoes intended for processing and 100% of the envelope for fruits other than annual crops Transitional F&V payments : 50% of envelope for tomatoes intended for processing
Suomi/ Finland	Sheep and goat premium 50% Special male bovine premium 75% Seeds (timothy seed) 100%
Sweden	Special male bovine premium 74.55%

Source: Derived from table found at http://ec.europa.eu/agriculture/markets/sfp/ms_en.pdf

Table 2: Coupled Payments which are being decoupled

MEMBER STATE	COUPLED PAYMENT	PROPOSED REDUCTION	SCHEDULED END DATE
Belgium	Slaughter premium calves 100% (Flanders and Brussels only)		2012
	Seeds (some species) 100%		2010
Denmark	Special male bovine premium 75%		2012
	Sheep and goat premium 50%		2012
Greece	Seeds 100%		2010
	30% of the envelope for tomatoes intended for processing		2011
	60% of the envelope for citrus fruits intended for processing		2010
Spain	Sheep and goat premiums 50%		2010
	Suckler cow premium 100%		2010
	Olive oil coefficient for decoupling: 0.936		2010
	Slaughter premium calves 100%		2012
	Slaughter premium bovine adults 40%		2012
	Seeds		2012
	tomatoes intended for processing 50%		2012
	citrus fruits intended for processing 100%		2011
France	Arable crops 25%		2010
	Sheep and goat premium 50%		2010
	Suckler cow premium 100%	to 75% in 2010	
	Slaughter premium calves 100%		2010
	Slaughter premium bovine adults 40%		2010
Germany	Hops payments 25%		2012
	Tobacco coefficient for decoupling: 0.4		2012
Italy	50% for tomatoes intended for processing		2011
	100% for pears, peaches intended for processing.		2011
	100% for plums intended for processing	to 75% in 2011	2013
Netherlands	Slaughter premium calves 100%		2010
	Slaughter premium bovine adults 100%		2010
Austria	Slaughter premium calves 100%		2010
	Slaughter premium bovine adults 40%		2010
	Hops payment 25%		2010

MEMBER STATE	COUPLED PAYMENT	PROPOSED REDUCTION	SCHEDULED END DATE
Portugal	Slaughter premium calves 100%		2012
	Slaughter premium bovine adults 40%		2012
	Seeds 100%		2012
	Tomatoes intended for processing 50%		2012
Finland	Special male bovine premium 75%		2010
	Seeds (timothy seed) 100%		2011
Slovenia	Sheep and goat premium 50%		2010
	Hops payment 25%		2010
	Special male bovine premium 75%		2012
Sweden	Special male bovine premium 74.55%		2012

Source: Derived by the authors from a series of paragraphs on the implementation of the Health Check in AGRA Facts and from questionnaire circulated to Member States

Table 3: Coupled Payments for which there is no defined data for their abolition

MEMBER STATE	SECTORAL PAYMENTS REMAINING COUPLED
Belgium	Suckler cow premium 100%
Spain	Suckler cow premium 100%
	Outermost regions 100%
France	Suckler cow premium 75%
Austria	Suckler cow premium 100%
Portugal	Suckler cow premium 100%
	Sheep and goat premium 50%
	Outermost regions 100%
Finland	Ewe premium Sheep and goat premium 50%

Source: Derived by the authors from a series of paragraphs on the implementation of the Health Check in AGRA Facts and from questionnaire circulated to Member States

3.3. Design of Payment System – EU 15 Member States

When the Single payment system (SPS) was introduced in 2005, Member States had options in how they calculated and made payments. The main difference was whether they based the payments on what individual farmers received in the historic reference period, thus producing different levels of payments for each farmer, or whether all payments were averaged out over a state or region. The main options were:

- **Basic (historic) approach:** each farmer was paid corresponding to the payments he had received, and the number of hectares he was farming, in the reference period.

- **Regional (flat rate) approach:** amounts are not calculated at individual farmer level but at regional level – the sum of the payments received by the farmers in the region concerned. Regional amounts are then divided by the number of eligible hectares to establish the value of an average entitlement per hectare in that region (the whole state could correspond with a region). Each farmer then receives a payment corresponding with the number of eligible hectares and the regional flat rate per hectare. This approach called the flat rate approach entails some redistribution of payments between farmers and is the preferred option of the Commission. It was expected that Member States would move towards implementing this option. While this approach is referred to as "regional", Member States have options to define "regions" in objective ways other than geographic or administrative, e.g. based on land quality or land use.
- **Mixed models**: Member States could apply different calculation systems in different regions of their territory. They could also calculate SPS payments using a part-historic/part-flat rate approach. Such 'hybrid' systems can further vary over the period between first application of the SPS and full implementation, giving rise to dynamic as well as to static hybrid systems. 'Dynamic hybrid' systems can act as a vehicle to transit from the basic (historic) to the regional (flat) rate approach.

By 2008 none of the EU15 Member States had fully implemented the preferred regional model.

Six Member States were implementing hybrid systems (Denmark, Germany, Luxembourg, Finland, Sweden and the United Kingdom – in England and Northern Ireland). Of these four were "dynamic hybrids" with a medium term objective of achieving a fully regional payment system within a defined period. The systems in Luxembourg and Sweden -and in Northern Ireland – were static i.e. they contained a mixture of regional and historical elements but without any promised movement towards a fully regional system.

In Denmark and in Luxembourg only one region (corresponding with the State) is being used: in Germany there are regions corresponding with each of its Bundeslander, except that three predominantly urban Länder (Berlin, Bremen and Hamburg) are incorporated in adjoining Lander. Finland has three regions and Sweden five, calculated by reference to yields. In the UK, the regions correspond as in Germany to political divisions (England, Scotland, Wales and Northern Ireland) but within England three regions have been defined, which are related to their economic potential for agriculture (Kroll, 2008).

In the other nine Member States of EU15, and in the Scotland and Wales regions of the UK, only the historical approach was being applied in 2008. However it is interesting that the new grassland premium being applied in France from 2010 as a result of its use of Article 63 (see above) will be applied on a flat-rate rather than historical basis (Agra Europe 2009).

By 2008, two of the new Member States had introduced the single payment system, Malta and Slovenia, which therefore were the only Member States to be implementing the preferred regional model. Both have just one region.

In our questionnaire we endeavoured to ascertain the movement in Member States towards the preferred flat rate system. We asked whether defined dates had been set for movement to a flat rate system, whether from the historical system being implemented in ten EU15 Member States or from the hybrid systems being implemented in six (the UK is implementing both but in different regions).

No date has been set in any of the countries implementing the historical model for a change to the "preferred" model. In Belgium, while there has been no official statement on

the reasons, there is opposition to a flat rate system on the basis that a land based subsidy would be "captured" by landlords in the form of increased rents. In Ireland there is also opposition among most farming politicians to any change in the historical system. Likewise in Portugal social partners and farming organizations are not favourable to a change from the historical model.

In Italy no explanation has been offered for the decision taken in 2009 to continue with the historical model. This decision was taken as a result of a political agreement between the Italian government and the governments of the Italian regions, on 29 July 2009.[2] While there is no concrete national plan to implement the flat rate system in Austria, there is a wide recognition that the historical basis cannot last beyond 2013. In Netherlands the Dutch parliament agreed with a resolution saying that no changes in the current historic basis for payments should be made before 2013. (Ref: 2008-11-19, 21501-32, nr 304, Kamerstuk 2008-2009, 2e Kamer)

Of the countries implementing a hybrid system, the UK has a target date, which is likely to be met, of 2012 for implementing the flat rate system in England. Germany has a target, which is likely to be achieved, of completing the programme of change to a regionalized flat rate system in 2013 in accordance with a plan published by the Federal Ministry in 2006 (Bundesministerium für Ernährung, Landwirtschaft und Verbraucherschutz, 2006). In this plan, unified entitlement levels will be established, but these will be differentiated by Bundesland. Finland has also set a target for fully transferring to the flat rate system by 2016 (though some payments in the sugar sector will continue to 2018). No date has been set for Northern Ireland, Luxembourg, Denmark and Sweden to move from their hybrid systems to the flat rate system.

3.4. Payment System – New Member States

Article 143 of Council Regulation (EC) No 1782/2003 allows the new Member States to use, for a transitional period (3 years, with a possible 2 year extension), specific arrangements for granting direct payments to farmers: the Single Area Payment Scheme (SAPS).

In essence **SAPS is a decoupled support arrangement** (no obligation to produce) based on two elements fixed at national level:

- a national financial envelope which is to be established by the Commission and is the sum of all the direct payments the Member State concerned would receive under 'normal' direct payment arrangements; and
- a national agricultural area, to be established as the part of the agricultural area that was in 'good agricultural condition' in June 2003

All of the new Member States except Slovenia and Malta (which adopted the flat rate system on the first day), have adopted this scheme, which is administratively simpler than the "preferred" SPS system. New Member States can at any time chose to move from the SAPS payment system to the SPS system but they were expected to do so by 2011.

Article 122 of regulation 73/2009 permits the continued use of the SAPS system in the period to 2013 but requires the replacement of the Single Area Payment Scheme by the Single Farm Payment by December 2013. Articles 55 to 61 of regulation 73/2009 describe

[2] (details to be found at http://www.statoregioni.it/dettaglioDoc.asp?idprov=7264&iddoc=22764&tipodoc=2&CONF=CSR

the administrative arrangements which would apply when a new Member State chose to apply the SPS. In our questionnaire we sought to find out what plans were in existence in new Member States to move from the SAPS system to the SPS system.

The Hungarian government has had plans for early implementation of the SPS system but two attempts to introduce it have met with difficulties, caused by an inquiry at the constitutional court. It is now suggested that the new Hungarian government will seek to implement a hybrid model (assuming Commission approval). Latvia has plans to introduce the SPS in 2011. These plans originally incorporated an historical payment of 50% and a flat rate payment of 50%. However agreement was not obtained from the EU Commission for this plan and the current plan incorporates only a 10% historical element. There are no plans in Bulgaria, Czech Republic, Cyprus, Estonia, Lithuania, Poland, Romania or Slovakia for introducing the SPS system any earlier than that provided for in the legislation (2014).

In addition to the SAPS payment which comes from the European Union, new Member States were allowed to supplement these payments with what are called "Complementary National Direct Payments", for a limited period. These are linked to the SAPS and allow the level of support to be raised over the initial phasing-in level. These payments are scheduled to be phased out as the overall level of the SAPS reaches its designated level i.e before 2013 in the case of those new Member States who joined in 2004, and 2016 in the case of Romania and Bulgaria. In many countries some of these payments are coupled.

In our questionnaire we asked about coupled subsidies within the "Complementary National Direct Payments". There is no discernible pattern except that coupled subsidies appear to account for only a small share of total complementary direct payments, applying to a limited number of sectors (typically two). Romania from 2010 has decoupled all crop and bovine payments but retained coupling for sheep and goats. Bulgaria by contrast, which in 2008 had no coupled payment, has three in 2010. Slovenia has no coupled payments while Lithuania has only one. Hungary, during 2009, announced that it was stopping payment of coupled subsidies in the arable sector but actually increasing them in the case of milk, beef and sheep producers (Agra Europe, 2009).

Table 4 summarises the sectors in which coupled payments are paid as part of complementary national direct payments in 2010.

Table 4: Coupled payments in 2010 within the Complementary National Direct Payments

MEMBER STATE	SECTORS IN WHICH COUPLED PAYMENTS APPLY
Bulgaria	Suckler cows, animals for slaughter, female sheep and goats
Czech Republic	Cattle
Estonia	Suckler cows, ewes,
Hungary	Suckler cows, ewes,
Latvia	Suckler cows, seeds, ewes, slaughtered bovines, potato starch
Lithuania	Bulls
Poland	Hops, energy crops
Romania	Sheep and goats
Slovakia	Suckler cows, sheep and goats
Slovenia	None

Table 5 summarises the expenditure on complementary national direct payments in some new Member States in the period 2004 to 2008. The expenditure is shown as a percentage of the national direct payments in the EU 15 (Source OECD, 2009). As the payments from the EU increase over the period to 2013 (and 2016 in the case of Romania and Bulgaria) these complementary payments from national exchequers will be phased out. For example in Estonia, in 2010 the SAPS amount is at 70% of the general level, allowing for a maximum complementary payment of 30% of this level. In 2011 the SAPS amount rises to 80%, with a consequent reduction in the complementary payment to 20%.

Table 5: Expenditure on Complementary National Direct Payments as % of EU 15 rate

	2004	2005	2006	2007	2008
Bulgaria	Not relevant	Not relevant	Not relevant	0	17
Czech Republic	21	28	29	30	32
Estonia	18	15	30	34	49
Hungary	14	26	21	25	25
Latvia	43	38	41	47	52
Lithuania	14	25	28	32	35
Poland				34	35
Romania	Not Relevant	Not relevant	Not relevant	6	7
Slovakia	22	14	15	27	34

Source: adapted from a table to be found in OECD, 2009

3.5. Articles 68 and 69: Summary of Implementation in Member States

In the 2003 regulation (1782/2003) an exemption was provided (under article 69) allowing Member States to earmark up to 10% of their respective national ceilings for "specific supports to farming" in their national territories. This principle was extended in articles 68 and 69 of the new regulation, which provided a wider range of objectives which can be used for granting specific support (see BOX). The provisions under 68 1 (a) and (c) are a carryover from regulation 1782/2003 and continue its provisions. The other provisions are new and therefore of greater interest to this study.

ARTICLE 68

1. Member States may grant specific support to farmers under the conditions laid down in this Chapter:

a) for:

(i) specific types of farming which are important for the protection or enhancement of the environment;

(ii) improving the quality of agricultural products;

(iii) improving the marketing of agricultural products;

(iv) practising enhanced animal welfare standards;

(v) specific agricultural activities entailing additional agri-environment benefits;

b) to address specific disadvantages affecting farmers in the dairy, beef and veal, sheepmeat and goatmeat and rice sectors in economically vulnerable or environmentally sensitive areas, or, in the same sectors, for economically vulnerable types of farming;

(c) in areas subject to restructuring and/or development, programmes in order to ensure against land being abandoned and/or to address specific disadvantages for farmers in those areas;

(d) in the form of contributions to crop, animal and plant insurance premiums in accordance with the conditions set out in Article 70;

(e) by way of mutual funds for animal and plant diseases and environmental incidents in accordance with the conditions set out in Article 71.

Within the overall restriction of 10% of national ceilings, there is a further limitation. Support under headings a, (i) to (iv), b, and e of article 68 above – the coupled subsidies – are limited collectively to 3.5% of the national ceiling, in accordance with article 69 (4). (Finland has been granted a derogation which allows them to use the full 10% in coupled supports). Furthermore the support provided under 68 (1) (b) (economically vulnerable farming) shall be limited to that required to *maintain* (i.e no increase) existing production.

The limit of 3.5% means that countries, wishing to utilise the full 10% for national measures, would have to use environmental, or crop insurance schemes. (There is a technical derogation which allows Member States to increase the limit of expenditure under the headings listed above to 6% or even 10% in the case of Finland. This must be applied exclusively to the dairy and beef sectors. Latvia and the Czech Republic appear to be using this provision to increase their expenditure above the 3.5% limit.

In 2010 the option to utilise articles 68 and 69 is being implemented by 22 Member States (excluding United Kingdom, Lithuania, Luxembourg, Cyprus and Malta).[3] However there are reports that Scotland is retaining a coupled headage payment for beef breed calves, introduced under the 2003 regulation (Agra Facts no 68-09). This measure is not included in the official Commission table.

The table in Annex A gives titles of all schemes under Article 68 which have been notified to the Commission, the amount budgeted for 2010, 2011 and 2012 and the relevant objective.

The table includes one modest scheme in Germany, costing only €2 m in 2010 and 2011 but nothing thereafter. This scheme does not reflect the general attitude of the German Federal Ministry towards Section 68 measures. In general, options under Articles 68 and 69 will not be used in Germany, because Germany (a) is in favour of full decoupling; the recoupling via Article 68 is not in its interest and (b) the regional model induced considerable redistributions of Direct Payments; therefore additional redistribution based on Art 69 is not in the interest of policy makers. (The new German government has however announced a new short term subsidy for its dairy sector, not included in the Annex A, which will be paid for through increased modulation rather than use of Article 68).

[3] {Source : Document received from the EU Commission (see Annex A)}.

Breakdown of schemes under different headings

The most important innovation under Article 68 was that compensation arrangements were permitted for the dairy, beef and veal, sheep and goat, and rice sectors in *economically vulnerable or environmentally sensitive areas or for economically vulnerable* types of farming, under Article 68(1)(b). During the negotiations this provision was criticised as anti competitive and likely to lead to a reversion to coupled aids through the back door (Agra Europe, Analysis, September 12, 2008).

In 2010, 14 Member States are implementing these provisions in the dairy sector, while seven do so in the sheep and goat sector and three in the beef sector. (During the preparation of this report, Ireland announced an additional scheme for the sheep sector, bringing the total number of countries applying Article 68 in the sheep and goat sector to eight. This scheme is not included in the table). Two Member States have schemes for grassland farming, while one has provisions for mountain areas. (Some other schemes are geographically limited, which could coincide with mountainous or other economically vulnerable areas).

Another new potential area was to contribute to crop, animal or plant insurance under article 68 (1) (d). Four Member States have chosen to exercise this option (France, Greece, Italy and Netherlands).

A further option was to provide support, through mutual funds, for protection against animal and plant diseases and environmental incidents, under Article 68(1) (e). Only France has decided to use this option – from 2011.

In 2010 there are also a number of schemes under the headings of article 68 (1) (a), which were already legislated for in Regulation 1782/2003, in particular for improvement of product quality, specific types of farming which were important for the environment, and for agricultural activities with specific environmental benefits. Details may be found in Annex A.

Among the payments included under this heading are quality payments in the Belgian region of Flanders, agri-environment measures in Denmark, farming for conservation in the Burren region of Ireland, quality improvements in olive oil, durum wheat and sugar in Greece, quality payments for protein crops, milk and tobacco in Spain. Spain also has programmes under these headings for a national crops rotation programme on non-irrigated land. France has quality payments for protein crops and durum wheat and aid programmes for crop rotation and organic farming. Italy has product quality programmes in the following sectors: beef and veal, sheep and goat meat, olive oil, dairy products, tobacco, sugar and floriculture products, and also has a programme on crop rotation.

Hungary has programmes under article 68 (1) (c) to provide aid for tobacco growing and fruit and vegetable growing areas, which are subject to restructuring and development programmes. Netherlands has a programme under an animal health heading and a water transport allowance. Poland has a programme for support of production of pulses and herbage legumes. Portugal has programmes for quality improvements of animal products, and crops, and a special programme for environmental measures in olive oil production and in extensive pastures. Romania has a programme for improving quality in organic products while there are programmes in Finland for supporting protein and oilseed products and potato starch and a quality premium for slaughtered lambs. Sweden has programmes for quality improvement and for marketing of food products.

This list shows the wide potential scope that Member States have to devise schemes which will suit their own particular needs and which can be financed either through using unspent resources in the monies available for the single farm payment, or through conscious setting

aside of part of those monies, with consequent impact on the levels of single farm payment support received by other farmers.

Extent of Proposed Expenditure

An issue of interest is the extent to which Member States are utilising the entitlement to use up to 10% of their national ceilings under these schemes. Table 7 shows the budgetary allocations for 2010, (derived from the Commission document shown in Annex A) and the ceilings for single payments for the same year (taken from a Commission website).

Five Member States, (Slovenia, Greece, Hungary, Finland and Italy) plan to use in excess of 7.5% of their national ceilings in 2010 under these schemes. Slovenia in fact is budgeting to spend close to the 10% limit at 9.74%.

While five Member States have chosen not to use this option at all, two others (Germany, who are opposed to the use of articles 68 and 69, and Sweden) plan to use less than 1% of their national ceilings under these schemes.

The extent to which Member States are planning to use Article 68 and 69 is shown in Table 6.

Table 6: Percentage of national ceilings devoted to schemes under articles 68 and 69, 2010

RANGE	MEMBER STATES
7.5% to 10%	Slovenia, Greece, Hungary, Finland and Italy
4.8% to 5.7%	France, Portugal, Spain, Czech Republic and Latvia
2% to 3.5%	Netherlands, Romania, Slovakia and Bulgaria
1% to 2%	Belgium, Denmark, Austria, Estonia, Poland and Ireland
< 1%	Germany and Sweden
Zero	United Kingdom, Lithuania, Luxembourg, Cyprus and Malta

The ceilings for Single Farm Payments will remain largely unchanged in the next couple of years in the EU15 Member States as will expenditure under these schemes. However ceilings will increase significantly in the new Member States – by about 27% in ten countries and by over 48% in the remaining two, Romania and Bulgaria. (The direct aid for new Member States is being phased in gradually. The 100% rate will apply by 2013 in the Member States that joined the EU in 2004 and by 2016 in Bulgaria and Romania).

This higher ceiling is not reflected generally in plans to finance schemes under sections 68 and 69, where only Bulgaria and Slovakia have plans to increase expenditure above 2010 levels, in both cases maintaining their 2010 proportions of 3.5%. Finland among the EU15 Member States also plans to increase expenditure above 2010 levels, which would bring its expenditure up to the 10% limit in 2012.

Table 7: Expenditure under articles 68 and 69 as a proportion of total national ceilings for Single Farm Payment

MEMBER STATE	NATIONAL CEILING, SINGLE FARM PAYMENT 2010 (000 EURO)	2010 BUDGETED EXPENDITURE UNDER ARTICLES 68 AND 69 (000 EURO)	ARTICLE 68/69 EXPENDITURE AS % OF TOTAL SINGLE FARM PAYMENTS
Belgium	611 805	6 389	1.04
Denmark	1 030 478	15 800	1.53
Germany	5 771 997	2 000	0.03
Greece	2 211 683	181 900	8.22
Spain	5 091 544	247 812	4.87
France	8 420 822	472 600	5.61
Ireland	1 340 521	25 000	1.86
Italy	4 207 177	316 250	7.51
Luxembourg	37 236	0	0
Netherlands	853 090	22 002	2.58
Austria	745 235	11 900	1.60
Portugal	589 499	32 461	5.51
Finland	565 520	45 301	8.01
Sweden	763 082	3 500	0.46
United Kingdom	3 975 916	0	0
Bulgaria	336 041	11 761	3.50
Czech Republic	654 241	31 826	4.86
Estonia	71 603	1 253	1.75
Cyprus	38 928	0	0
Latvia	105 368	5 130	4.87
Lithuania	271 029	0	0
Hungary	947 114	77 290	8.16
Malta	4 231	0	0
Romania	729 863	25 545	3.50
Poland	2 192 294	40 800	1.86
Slovenia	103 389	10 080	9.74
Slovakia	280 364	9 813	3.50
Total	**41 950 070**	**1 596 813**	**3.81**

Source: Derived by the authors from different data sources.

Sources of Funds

The regulation provides in article 69 that these special payments can be financed through either of two mechanisms (a) use of unused allocations (b) linear reduction in the levels of single payments. Some Member States have chosen to use only unused allocations (including Netherlands, Denmark, Ireland, Belgium, Austria and Germany), which accounts to some degree for the low percentage of total ceilings allocated to section 68 schemes in these countries. Most other Member States used a combination of unused resources and reductions in other payments from their national envelopes.

For example in France, €385m will be re-channelled under the new Article 68 by top-slicing 4.5% of the direct payments national envelope, in order to provide extra support to structurally fragile areas and for economically vulnerable types of farming – notably a coupled sheep & goat headage payment (€135m), and a coupled payment for mountainous milk production (2c/litre, up to a total of €45m), with a ceiling applying on each holding (Agra Facts, 2009). Likewise in Italy, a reduction of a maximum of 3.8% in the general level of single farm payments will be made to pay for the wide range of special payments being undertaken in Italy, mostly for quality improvements, under Article 68.

Romania has chosen to take 3.5% of the national envelope to support dairy farming in less favoured areas and organic farming. Finland likewise appears to have ended some coupled subsidies and used the proceeds to fund article 68 measures, rather than incorporating them into the single payment (Agra Facts No 71-09). Latvia and Slovakia have chosen to reallocate 3.5% of their national envelope to provide the resources for dairy support schemes. The Italian programme of payments, for quality improvement, agri-environmental measures and supporting farm insurance, amounts to 7.5% of their ceiling. Of this about 45% will come from unspent amounts, with the balance coming from reducing the general level of payments (Agra Facts, 76-09). The programme in Slovenia which is close to the 10% limit is being financed partly from unused allocations, the proceeds from the abolition of an energy premium and the resources previously used by Slovenia under the old article 69 (Agra Facts 80-09). Likewise the main sources of the funds needed for the Article 68 schemes in Portugal are unused funds and the resources previously used under Article 69 of the earlier regulation. About 40% of the planned expenditure in Greece arises from unspent funds with the balance coming from a reallocation of expenditure formerly carried out under Article 69 of the old regulation. Sweden, by contrast to all other Member States, has chosen to finance its Article 68 expenditure, exclusively through a general reduction in the single farm payment. This reduction is at the rate of 0.45%.

Variety of Objectives

Here we examine the range of objectives for which individual Member States have made provision under article 68 in 2010. The French programme is split over 10 different headings, while the Greek and Italian have nine and the Spanish, eight. Most other countries have a more limited list of objectives with ten countries having only one heading for their programmes under article 68, Sweden has two, Ireland, Hungary, Poland and Slovenia have three, Netherlands four, Portugal and Finland five in 2012 (up from two in 2010, in line with their increasing use of the options provided in this legislation).

Comparison with Article 69 of regulation 1782/2003

In Annex B there are data relating to the operation of the similar scheme under Article 69 of regulation 1782/2003 in 2007. (These data were supplied by the EU Commission). The table indicates the objective as defined in the regulation, the sectors involved, and some financial data. This article was more restrictive in that it was limited to schemes for

improvement of product quality and marketing, specific types of farming which were important for the environment, and for agricultural activities with specific environmental benefits. Neither was it generally available to the new Member States. (As Slovenia was operating the single farm payment, they were able to use the Article 69 provisions).

The same upper limit of 10% of expenditure applied but had to be applied within each sector. For example a scheme for quality improvement or marketing of beef could be designed but the overall expenditure had to be met from the allocation to the beef sector under the single farm payment scheme. This latter restriction no longer applies and schemes can be funded from anywhere within the overall national ceiling, provided the 10% and 3.5% limits are respected.

Only seven of the EU 15 Member States were implementing schemes under the old Article 69 in 2007 (Greece, Spain, Italy, Portugal, Finland, Sweden and the UK – in Scotland only). The first four of these countries were using the facility widely with applications in respectively, six, five, five and four commodity sectors. Finland applied it in two sectors, and Scotland in one. Sweden did not apply the article on a sectoral basis but rather had a quality and marketing scheme across all sectors. Slovenia, a new Member State, applied the scheme in one commodity sector.

While no financial data has been made available by the Commission it is readily apparent that the overall financial expenditure under these schemes in 2007 is far below that planned for 2010 and later, which are detailed in Annex A. Agra Europe (2009) suggests that the budget for 2009 had provision for expenditure of €425 m for schemes under the old Article 69 amounting to barely 1% of the combined national ceilings. The total estimated expenditure for each of the years 2010 to 2012 under the new regulation approaches €1.6 billion, a near fourfold increase.

Firstly the number of Member States applying the schemes (8) is considerably smaller than those applying Article 68 of the new regulation 73/2009 (22). Secondly only a few of these applied schemes up to the limit of 10% of the commodity ceiling, Greece for arable crops, beef and sugar, Spain for dairy, cotton and sugar, Portugal for olives and sugar, Slovenia, Finland and Scotland for beef.

3.6. National Legislation

In the terms of reference we were asked to assess the degree to which the reforms associated with the "Health Check" resulted in national legislation. The answers to this were extremely varied and presumably depend on variations in constitutional structure and administrative law. The only clear trend apparent from the data obtained in the questionnaire was that states which elected to use the provisions of Articles 68 and 69 to devise national subsidies within the overall single farm payment system, in general did require to pass some national legislation generally to define eligibility criteria for the new nationally designed schemes.

One should bear in mind that the absence of legislation may arise either (1) because the particular provision was not implemented or did not need to be implemented in that particular state or (2) because its constitutional structure did not necessitate legislation.

Some of the issues concerned only a handful of states. For example only two new Member States have prepared schemes for early replacement of SAPS with the SPS. Hungarian attempts to introduce SAPS have met with constitutional difficulties. Only France has so far used Article 63. Table 8 summarises the responses to our question on this subject in relation to two of the other main issues.

Table 8: Was legislation necessary to implement certain articles of Reg. 73/2009

MEMBER STATE	REDUCTION OR ELIMINATION OF COUPLED PAYMENTS	SETTING ASIDE PART OF NATIONAL CEILINGS TO PAY FOR ARTICLE 68 MEASURES
Austria	No	Yes
Belgium	Yes	Not relevant
Bulgaria	Not relevant	Yes
Czech Republic	Not relevant	No
Cyprus	No	No
Denmark	Not yet	Yes
France		Yes
Germany	Not relevant	Not relevant
Estonia	Not relevant	No
Finland	No	Yes
Greece	Yes	Yes
Hungary	Not relevant	Yes
Ireland	Not relevant	No
Italy	No	Yes
Lithuania	Not relevant	No
Latvia	Not relevant	Yes
Luxembourg	Yes	Yes
Netherlands	Yes	Yes
Poland	Not relevant	Yes
Portugal	Yes	Yes
Romania	Not relevant	Not yet. Maybe in 2010
Slovakia	Not relevant	Not yet
Slovenia	Not relevant	Yes
Spain	Yes	Yes
Sweden	Yes	Yes
United Kingdom	Not relevant	No

Source: Replies from questionnaire circulated to Member States

4. PART II: REFLECTIONS ON THE SUPPORT ARRANGEMENTS RESULTING FROM THE "HEALTH CHECK"

In this section of the report we will comment on the differences and similarities found, and detailed in Chapter 3, in the implementation of the Health Check in the different Member States.

The analysis will, as in Chapter 3, be divided in three parts (a) extent of decoupling (b) choice of payment system and (c) use of the options provided by Article 68 to redesign the payment system to suit national needs.

4.1. Decoupling

The process of decoupling agricultural subsidies and their integration into the Single Farm Payment has extended far beyond the range of payments included in the Single Farm Payment system in the 2003 regulation and now includes a majority of those payments included as "compatible support schemes" in that regulation and several others which did not even achieve that status.

An important aspect of this may be that Member States were given little choice in the matter.

Article 63 of regulation 73/2009 states that as from 2010, Member States *shall* integrate the support available under the coupled support schemes referred to in Annex XI of that regulation into the single payment scheme by dates defined in the annex, with some narrowly defined exceptions (suckler cow premium, sheep and goatmeat payments and transitional fruit and vegetable payments).

The list in Annex XI includes in addition to those coupled payments listed in Annex VI of the 2003 regulation, many payments not originally included in the single farm payments. Article 64 provides for the incorporation of these payments into the single farm payment. The only scope for independent action by Member States in this area is to advance the abolition date.

The successful decoupling of such a large number of different subsidies will improve the negotiating position of the European Union in relation to any future negotiations in relation to freer trade in agriculture. However the position is weakened slightly by the options provided for coupled subsidies under Article 68.

An associated issue is the provision in Article 63, which provides Member States with an option, while engaged in the process of decoupling, to restructure the subsidies being paid in favour of some particular farming activities, and against others. Only France has chosen to exercise this option though Germany and Finland plan to do so, on a limited scale in 2012. (Details in section 3.2 above).

This option, introduced in the 2009 regulation, was not available to those Member States, who fully decoupled early, such as Ireland and the UK, or to those new Member States, who historically did not have subsidies which came within the scope of the single payment. (See Table 1, where the only coupled subsidies of EU origin, operating in the new Member States are those for sugar and for processed fruit and vegetables. Complementary National Direct Payments authorised in the new Member States are not included).

However there are several other Member States which could have exercised the article 63 option but which have not done so. A possible reason may be the wish not to reduce payments to famers in general (beyond those necessitated by modulation). When any payment system is revised and there are winners and losers, it is recognised that losers shout more loudly than the winners cheer. This creates a reluctance, on the part of ministers and officials, to modify schemes which create winners and losers.[4]. The decision of the French Ministry to proceed with a radical overhaul of its subsidies, in which its cereal farmers are clear losers, in this context, must be admired.

From the overall perspective of decoupling, one must bear in mind that article 68 provides Member States with options to make coupled payments. And some have chosen to do so. France in 2010 removed an EU payment to sheep and lamb producers, which had been 50% coupled, but has under Article 68, substituted a nationally designed scheme which is 100% coupled. At present these arrangements last until 2012 (Agra Europe, 2009).

4.2. Choice of Payment System

The situation in relation to choice of payment system does not comply with the apparent wishes of the Council as expressed in legislation. In the legislation there is a clear preference for a unified system of administration of the Single Farm Payment throughout all 27 Member States, old and new, based on a regional flat rate approach. There is also provision for the temporary maintenance of alternative systems. However in 2010, the preferred system is in place in only two Member States (Malta and Slovenia). Hungary, Latvia and the UK (in England) have plans which would see the flat rate system in place in those countries by the end of 2012 while Germany would follow in 2013.

We seek here to explore why movement in the "preferred" direction is so slow. There is a recognised administrative practice, whereby no actions are taken until they are necessary. The presence of a 2013 deadline for action would in many administrations ensure that no action was taken to implement until shortly before that date.

We advance two further linked hypotheses for the slow implementation of the preferred system.

The first relates to the fact that the overall policy is due to be reviewed in the period up to 2013, with the potential replacement of current policy after that date.

The second and linked hypothesis relates to the preferences of some individual ministers in the old Member States for an outcome in this process which might allow continued use of an historical basis for payments. In the new Member States, the delay may be related to a continuing concern for their ability to administer the complex integrated administration and control systems required.

The single farm payment was negotiated in 2003, and implemented in 2005. It was originally foreseen that the policy would be subjected to a fundamental review before 2013. This process has already begun.

The choice of 2013 as a year for review was not a coincidence. 2013 had already been selected as a year for review of the EU Budget, of which agriculture forms a significant share (close to 40%). Negotiations in relation to budgetary issues and the possible further reform of the CAP are expected to run in parallel. Initial discussions in the Council of Ministers were scheduled for 2009 and 2010, with an expected communication from the

[4] (Some respected critics of the CAP reform process have asserted that the reform to date does not hurt the interests of major beneficiaries or alter the distribution of benefits eg Mahe and Bureau, 2008).

Commission during this year, leading to draft legislation in 2011 and potential agreement on the way forward during 2012 by the Council of Ministers and the Parliament.

The nature of a new policy is attracting a considerable amount of academic and lobbying interest. Agriculture economists presented a variety of perspectives on what a new policy should look like at a seminar in Brussels in February 2009 "Reflections on the Common Agricultural Policy from a long-run perspective"[5] Some academic interest within Member States is centred on the distributional aspects of replacing the historical basis with a regional or area based one (e.g. Pupo D' Andrea, 2008, in Italy, Chattelier 2008 in France).

Some governments have already taken up positions regarding the direction, which policy should take, after that date. For example it was reported late in 2009 that the French agriculture Minister hopes to get the 21 Member States that have signed up to a common paper on the regulation of the dairy market, to agree a position on the "redefinition of the CAP" after 2013, and will launch this initiative before the end of the year.

Other governments, including the Irish and Dutch, have sought public consultation on the direction which policy should take in the 2013 review.

With such widespread interest in the nature of future policy it is hardly surprising if administrators of the current policy would prefer to adopt a wait-and–see approach. National administrators have already implemented a fundamental reform of subsidy payments to farmers within the last five years. Negotiations are already in train in relation to post 2013 when a further new system may be put in place. It is hardly surprising in these circumstances, if they are reluctant to introduce a further change which would be likely to be in place only for a period of a maximum of three years. Our first hypothesis in relation to the slow implementation of the preferred payment system relates to the inevitability of further change and the reluctance to introduce another system which will be temporary and which could create winners and losers.

A study in Ireland showed that in a "flat-rate" system about 53% of farmers would gain and about 47% would lose. The losers would be the more intensive producers while the gainers are the more extensive producers. In fact, nearly a quarter of producers would lose between 20% and 50% of their existing level of Single Farm Payment while 25% would see their payments increase by about 50%. This model of reform would present huge, if not insurmountable, implementation difficulties of a political economy nature, according to Boyle (Boyle 2010) and for these and other reasons he believes the model is unlikely to be adopted. Opposition in Ireland to a flat rate system also comes from the major farming organisation whose new President is quoted as stating that any move from a historical-basis to flat-rate payment would result in a loss for Ireland with a major negative impact on agricultural production, exports and the national and rural economy. (Irish Examiner, 11/02/10).

A linked issue is the preference of some Member States for a continuation of the link to historical data. The Commission have clearly indicated that a historical basis for granting subsidies would be increasingly difficult to defend in international fora and Ministers from the new Member States have recently clearly opposed an historical basis for allocation (Declaration on the future of Common Agricultural Policy beyond 2013, Feb 2010).

The preference of some ministers for an historical basis may be linked to the issue of not creating winners and losers within the system. So long as a theoretical prospect exists of retaining a historical basis for payments, it is unlikely that these ministers would proceed down the road of implementing the "preferred" regional flat rate system. Likewise those

[5] Papers read at this Seminar may be accessed at: http://ec.europa.eu/dgs/policy_advisers/activities/conferences_workshops/budget3_en.htm

ministers and administrators, who prefer a radical change in policy after 2013, may be reluctant to "waste time" setting up what is for them an inferior alternative.

4.3. Use of Article 68

The use of Article 68 is far more extensive than that of the corresponding article in the 2003 regulation with 22 countries participating compared with eight. The provision to support the dairy and sheep and goat sectors in "economically vulnerable or environmentally sensitive areas or as economically vulnerable types of farming" has proved particularly popular.

The schemes to support product quality, marketing and the environment, which were the core of the previous regulation have been retained on a similar scale to the past (though countries involved and emphasis within countries has changed).

There is a wide difference in overall response to the opportunities provided by Article 68 with some countries reacting enthusiastically to the opportunities provided to design a policy specifically oriented to their needs and allowing some limited return to coupled subsidies. Others have not used the facility at all while others have adopted an intermediate position.

It is not immediately clear on which basis Member States made their choices in relation to the use of Article 68, though one can speculate. Finland for example from the beginning of its membership in the mid 1990s was critical of the mismatch between the tools available under the CAP and the needs of Finnish farming. It is not therefore a surprise that they have chosen to use the opportunities offered by Article 68 to tailor the CAP more to Finnish needs.

Likewise the decisions taken in France to exploit the opportunities of Article 68 are consistent with its decisions under Article 63 (but represent a radical departure from its earlier attitudes, in that it did not use any of the provisions of article 69 of regulation 1782/2003). In both cases it has taken the opportunity to support particular farming activities and to remove support from others. It is one of the few Member States to use the top slicing option (i.e. to reduce funds available to other farmers) to create the funds necessary.

A major criticism of the Article 68 measures is the potential they offer for subsidies which may distort competition. During the negotiations "reformist" Member States expressed the fear that some countries might use the new Article 68 as a way of reverting to coupled aid payments through the back door, thereby distorting the market for those who were maintaining a pure decoupled approach. However the Commission pointed out at the time, that payments would be limited to 10% of the total ceiling and that the "top-slicing" approach meant that new money for one group of producers can be created only by taking from another group. Besides there would be a limit within the overall 10% maximum of 35% on coupled and potentially trade distorting policies. (Agra Europe, 2008). The remaining 65% would have to be spent on policy instruments that are non or only minimally production distorting and are therefore Green Box compatible under the WTO.

Overall it is not likely that level of new coupled subsidies shown in this report are going to prove a difficulty in trade negotiations, though the concentration of these subsidies in the dairy and sheep and goats area could present a problem.

4.4. Equity Impact

The changes introduced in Regulation 73/2009 have not been long in force. It is certainly too early to assess the impact they will have on equity but some hypotheses are advanced here. One of the greatest criticisms of the CAP over the years was the wide differences in the amounts of subsidies paid to different famers. A particular criticism relates to the amount of the subsidy paid to joint stock companies in the food sector and of large farming companies with many hundreds of hectares of land, when the main objective is intended to be the support of the incomes of family farms.

In the original 2003 reform the introduction of modulation was intended to meet some of this criticism and this principle was extended in the "Health Check" reform. Effectively modulation is a tax on the largest recipients of the Single Farm Payment. Another mechanism introduced in the 2003 reform was the proposed preferred method of payment of the Single Farm Payment – a flat rate per hectare with some possibilities for adjusting according to land quality. As we have seen the progress in implementing this preferred policy is slow. And therefore a mechanism for reducing inequality or achieving equity is not in full operation.

A third option introduced in Regulation 73/2009 was the power granted to Member States, while in the process of decoupling to reallocate former coupled money to other unassociated sectors. As reported earlier France has used this facility with a significant reallocation of money from its cereal sector to grassland farming. This would generally be seen as achieving a considerable improvement in equity within the French farming sector.
The ability of Member States to reallocate up to 10% of their national ceilings to schemes designed nationally could in theory work in favour of increased equity, but could also work in the other direction. We have seen suggestions that the French schemes would lead to increased equity but that the Italian schemes, which tend to support agricultural production typical of relatively prosperous Northern Italy, might not lead to increased equity. It is certainly too early to be definitive on any of these equity questions but we raise a few points here.

4.5. Overall conclusions

The study has revealed that the overall objective of reducing coupled subsidies is well on the way to being achieved, while the objective of a common payment system is far from being achieved. The flexibility offered by Article 68 is provoking a wide range of different responses, reflecting a wide range of conditions and policy attitudes, and therefore the heterogeneity of the Union. The varied responses to the two issues of payment system and use of article 68 are summarised in Table 9.

Table 9: Implementation of payment system and of Article 68

Member State	Payment System in 2010	Target set for change of system	Implementing Article 68
Austria	Historic	No	Yes
Belgium	Historic	No	Yes
Bulgaria	SAPS	No	Yes
Czech Republic	SAPS	No	Yes
Cyprus	SAPS	No	No
Denmark	Hybrid	No	Yes
France	Historic	No	Yes
Germany	Hybrid	Yes	Yes at very low level
Estonia	SAPS	Yes	Yes
Finland	Hybrid	Yes	Yes
Greece	Historic	No	Yes
Hungary	SAPS	Yes	Yes
Ireland	Historic	No	Yes
Italy	Historic	No	Yes
Lithuania	SAPS	No	No
Latvia	SAPS	Yes	Yes
Luxembourg	Hybrid	No	No
Malta	SPS		No
Netherlands	Historic	No	Yes
Poland	SAPS	No	Yes
Portugal	Historic	No	Yes
Romania	SAPS	No	Yes
Slovakia	SAPS	No	Yes
Slovenia	SPS		Yes
Spain	Historic	No	Yes
Sweden	Hybrid	No	Yes
United Kingdom	Hybrid and Historic in different regions	Yes and No	No

ANNEX A: DETAILS OF MEASURES TAKEN BY MEMBER STATES UNDER ARTICLE 68 AND 69 OF REGULATION 73/2009 AND BUDGETS TO 2012

European Commission
DG AGRI-D.1

Implementation of Specific Support
(Article 68 of Regulation (EC) No 73/2009)

DS/2010/03
20 January 2010

MS	Implemented measures	Reference to Article	Amount per measure 2010	2011	2012	2013	Total 2010-2013	Comments
Belgique/België	Grassland premium - breeding (Wallonia)	Article 68(1)(b)	4.389.440	?	?	?	4.389.440	
	Specific support for a better quality - all sectors (Flanders)	Article 68(1)(a)(ii)	2.000.000				2.000.000	
		Total Belgique	6.389.440	0	0	0	6.389.440	
България	Specific support in the dairy sector	Article 68(1)(b)	11.761.435	14.573.020				
		Total България	11.761.435	14.573.020	0	0	26.334.455	
Česká Republika	Aid for dairy farmers	Article 68(1)(b)	31.825.955	31.825.955	31.825.955		95.477.865	
		Total Česká Republika	31.825.955	31.825.955	31.825.955	0	95.477.865	
Danmark	Agri-environment measures	**Article 68(1)(a)(v)**	**15.800.000**	**15.800.000**	**15.800.000**	**15.800.000**	**63.200.000**	
		Total Danmark	15.800.000	15.800.000	15.800.000	15.800.000	63.200.000	
Deutschland	Basic amount of grassland premium (dairy sector)	Article 68(1)(b)	2.000.000	2.000.000			4.000.000	State aid 111 mio De minimis 85/75 mio Article 136
		Total Deutschland	2.000.000	2.000.000	0	0	4.000.000	
Eesti	Specific support in the dairy sector	Article 68(1)(b)	1.253.400	1.253.400	1.253.400	1.253.400	5.013.600	
		Total Eesti	1.253.400	1.253.400	1.253.400	1.253.400	5.013.600	
Ireland	Grassland Sheep Scheme	Article 68(1)(b)	18.000.000	18.000.000	18.000.000		54.000.000	
	Grassland Dairy Efficiency Programme	Article 68(1)(b)	6.000.000	6.000.000	6.000.000		18.000.000	
	BurrenLIFE: Farming for Conservation in the Burren (livestock)	Article 68(1)(a)(i)	1.000.000	1.000.000	1.000.000		3.000.000	
		Total Ireland	25.000.000	25.000.000	25.000.000	0	75.000.000	
Ellas	Improvement of the quality of olive oil	Article 68(1)(a)(ii)	16.600.000	17.100.000	17.100.000		50.800.000	
	Improvement of the quality of durum wheat	Article 68(1)(a)(ii)	18.000.000	18.000.000	18.000.000		54.000.000	
	Improvement of the quality of sugar	Article 68(1)(a)(ii)	3.000.000	3.000.000	3.000.000		9.000.000	
	LFA producers in the meat sector (beef sector : heifers)	Article 68(1)(b)	1.600.000	1.600.000	1.600.000		4.800.000	
	LFA producers in the meat sector (beef sector: suckler cows)	Article 68(1)(b)	12.000.000	12.000.000	12.000.000		36.000.000	
	LFA producers in the meat sector (sheep and goats)	Article 68(1)(b)	20.000.000	20.000.000	20.000.000		60.000.000	
	LFA producers in the milk sector (dairy cows)	Article 68(1)(b)	6.400.000	6.400.000	6.400.000		19.200.000	
	Allocation of new entitlements to farmers in LFA / mountainous areas	Article 68(1)(c)	30.000.000	30.000.000	30.000.000		90.000.000	
	Insurance against additional risks caused by adverse climatic events (all sectors)	Article 68(1)(d)	74.300.000	74.300.000	74.300.000		222.900.000	Total 152,4 mio
		Total Ellas	181.900.000	182.400.000	182.400.000	0	546.700.000	
España	National programme quality legumes	Article 68(1)(a)(ii)	1.000.000	1.000.000	1.000.000	1.000.000	4.000.000	
	Quality programme tobacco	Article 68(1)(a)(ii)	5.800.000	5.800.000	5.800.000	5.800.000	23.200.000	
	National programme crops rotation non irrigated land	**Article 68(1)(a)(v)**	**69.600.000**	**69.600.000**	**69.600.000**	**69.600.000**	**278.400.000**	
	Aid to sheep & goat farmers on the quality schemes	Article 68(1)(a)(ii)	7.200.000	7.200.000	7.200.000	7.200.000	28.800.000	
	Aid for milk quality products	Article 68(1)(a)(ii)	800.000	800.000	800.000	800.000	3.200.000	
	Aid to sheep & goat producers	Article 68(1)(b)	26.200.000	26.200.000	26.200.000	26.200.000	104.800.000	
	Aid to milk producers in LFA	Article 68(1)(b)	40.200.000	40.200.000	40.200.000	40.200.000	160.800.000	
	Ex-Article 69 measures (beef, cotton, sugar, milk)	Article 72(3)	97.012.000	97.012.000	97.012.000		291.036.000	
		Total España	247.812.000	247.812.000	247.812.000	150.800.000	894.236.000	
France	Additional aid for protein crops	Article 68(1)(a)(i)	40.000.000	40.000.000	40.000.000	40.000.000	160.000.000	
	Aid for the quality for durum wheat	Article 68(1)(a)(ii)	8.000.000	8.000.000	8.000.000	8.000.000	32.000.000	
	Maintenance of the organic farming	**Article 68(1)(a)(v)**	**50.000.000**	**50.000.000**	**50.000.000**	**50.000.000**	**200.000.000**	
	Aid to the diversification of crop rotation	**Article 68(1)(a)(v)**	**90.000.000**				**90.000.000**	
	Aid for conversion to the organic farming	**Article 68(1)(a)(v)**		**34.000.000**	**44.000.000**	**56.000.000**	**134.000.000**	
	Aid for calves from suckling cows and for organic/labelled calves	Article 68(1)(b)	4.600.000	4.600.000	4.600.000	4.600.000	18.400.000	
	Aid for the sheep and goat producers	Article 68(1)(b)	135.000.000	135.000.000	135.000.000	135.000.000	540.000.000	
	Aid for the milk producers in mountain area	Article 68(1)(b)	45.000.000	45.000.000	45.000.000	45.000.000	180.000.000	
	Crop harvest insurance	Article 68(1)(d)	100.000.000	100.000.000	100.000.000	100.000.000	400.000.000	Total: 133,3 mio
	Mutual funds in case of animal or vegetal diseases or environmental incidents	Article 68(1)(e)		40.000.000	40.000.000	40.000.000	120.000.000	
		Total France	472.600.000	456.600.000	466.600.000	478.600.000	1.874.400.000	
Italia	Improvement of the quality of agricultural products in following sectors:							
	- Beef and veal sector	Article 68(1)(a)(ii)	51.250.000	51.250.000	51.250.000	51.250.000	205.000.000	sub-total quality 2010: 147,25 mio, 2011:147,95 mio, 2012-2013: 152,95 mio
	- Sheep meat and goat meat	Article 68(1)(a)(ii)	10.000.000	10.000.000	10.000.000	10.000.000	40.000.000	
	- Olive oil	Article 68(1)(a)(ii)	9.000.000	9.000.000	9.000.000	9.000.000	36.000.000	
	- Dairy products	Article 68(1)(a)(ii)	40.000.000	40.000.000	40.000.000	40.000.000	160.000.000	
	- Tobacco	Article 68(1)(a)(ii)	21.500.000	21.500.000	21.500.000	21.500.000	86.000.000	

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European Commission
DG AGRI-D.1

Implementation of Specific Support
(Article 68 of Regulation (EC) No 73/2009)

DS/2010/03
20 January 2010

MS	Implemented measures	Reference to Article	Amount per measure 2010	2011	2012	2013	Total 2010-2013	Comments
	- Sugar	Article 68(1)(a)(ii)	14.000.000	14.700.000	19.700.000	19.700.000	68.100.000	
	- Floricultural products	Article 68(1)(a)(ii)	1.500.000	1.500.000	1.500.000	1.500.000	6.000.000	
	Crops rotation	**Article 68(1)(a)(v)**	**99.000.000**	**99.000.000**	**99.000.000**	**99.000.000**	**396.000.000**	
	Insurance payments for harvests, animals and plants	Article 68(1)(d)	70.000.000	70.000.000	70.000.000	70.000.000	280.000.000	state aid 23,333 mio/year
		Total Italia	316.250.000	316.950.000	321.950.000	321.950.000	1.277.100.000	
Latvija	Specific support in dairy sector	Article 68(1)(b)	5.130.000	5.130.000	5.130.000	5.130.000	20.520.000	
		Total Latvija	5.130.000	5.130.000	5.130.000	5.130.000	20.520.000	
Magyarország	Specific support to address specific disadvantages in the dairy sector	Article 68(1)(b)	46.164.125	46.164.125	46.164.125	46.164.125	184.656.500	
	Aid for tobacco growing areas subject to restructuring and development programmes	Article 68(1)(c)	22.126.200	22.126.200	22.126.200	22.126.200	88.504.800	
	Aid for fresh fruit and vegetable growing areas subject to restructuring and development programm	Article 68(1)(c)	9.000.000	9.000.000	9.000.000	9.000.000	36.000.000	
		Total Magyarország	77.290.325	77.290.325	77.290.325	77.290.325	309.161.300	
Nederland	Animal welfare	Article 68(1)(a)(iv)	10.500.000	11.500.000	?	?	22.000.000	
	Extensive weather insurance	Article 68(1)(d)	7.002.000	7.965.000	9.360.000	9.360.000	33.687.000	
	Electronic I&R for sheep and goat	Article 68(1)(b)	3.500.000	1.500.000	1.500.000	1.500.000	8.000.000	
	Water transport allowance	Article 68(1)(a)(i)	1.000.000	1.000.000	1.000.000	1.000.000	4.000.000	
		Total Nederland	22.002.000	21.965.000	11.860.000	11.860.000	67.687.000	
Österreich	Dairy cow premium	Article 68(1)(b)	11.900.000	11.900.000	11.900.000	11.900.000	47.600.000	state aid 14,1 mio/year
		Total Österreich	11.900.000	11.900.000	11.900.000	11.900.000	47.600.000	
Polska	Specific support for farmers keeping cows in the region of south-eastern Poland	Article 68(1)(b)	28.500.000	28.500.000	28.500.000		85.500.000	
	Specific support for farmers keeping sheep in the region of southern Poland	Article 68(1)(b)	1.500.000	1.500.000	1.500.000		4.500.000	
	Specific support for farmers cultivating pulses and herbage legumes	Article 68(1)(a)(i)	10.800.000	10.800.000	10.800.000		32.400.000	
		Total Polska	40.800.000	40.800.000	40.800.000	0	122.400.000	
Portugal	Extensive handling systems for autochthonous races (beef, sheep, goats)	Article 68(1)(a)(i)	2.760.000	2.760.000	2.760.000	2.760.000	11.040.000	
	Quality improvement of agricultural products (crops and animals)	Article 68(1)(a)(ii)	8.000.000	8.000.000	9.700.000	9.700.000	35.400.000	
	Support to economic vulnerable types of agriculture in milk & sheep sectors	Article 68(1)(b)	8.800.000	8.800.000	8.800.000	8.800.000	35.200.000	
	Agro-environmental measure for protection of the olive national patrimony	**Article 68(1)(a)(v)**	**6.650.000**	**6.650.000**	**6.650.000**	**6.650.000**	**26.600.000**	
	Agro-environmental measure of support to the extensive pasturing	**Article 68(1)(a)(v)**	**6.251.000**	**6.251.000**	**6.251.000**	**6.251.000**	**25.004.000**	
		Total Portugal	32.461.000	32.461.000	34.161.000	34.161.000	133.244.000	
Romania	Specific support schemes for improving the quality in the organic farming sector	Article 68(1)(a)(ii)	3.098.000	*3.098.000*	*3.098.000*	*3.098.000*	*12.392.000*	
	Support scheme to the milk sector in LFA	Article 68(1)(b)	22.447.205	*22.447.205*	*22.447.205*	*22.447.205*	*89.788.820*	
		Total Romania	25.545.205	*25.545.205*	*25.545.205*	*25.545.205*	*102.180.820*	
Slovakia	Specific support to address specific disadvantages in the dairy sector	Article 68(1)(b)	9.812.740	11.093.740	12.433.470	13.586.160	46.926.110	
		Total Slovakia	9.812.740	11.093.740	12.433.470	13.586.160	46.926.110	
Slovenia	Additional payment for extensive rearing of female bovine animals	Article 68(1)(b)	4.620.000	4.620.000	4.620.000	4.620.000	18.480.000	cndp 1,98 mio
	Dairy payment for agricultural holdings in mountain areas and on steep slopes	Article 68(1)(b)	1.400.000	1.400.000	1.400.000	1.400.000	5.600.000	cndp 0,6 mio
	Preserving animal rearing on agricultural holdings with permanent pastures.	Article 68(1)(c)	4.060.000	4.060.000	4.060.000	4.060.000	16.240.000	cndp 1,74 mio
		Total Slovenia	10.080.000	10.080.000	10.080.000	10.080.000	40.320.000	
Suomi/ Finland	Supporting protein and oilseed crops	Article 68(1)(a)(i)		6.500.000	6.500.000	6.500.000	19.500.000	
	Supporting starch potato crops	Article 68(1)(a)(i)			3.500.000	3.500.000	7.000.000	
	Quality premium for slaughtered lambs	Article 68(1)(a)(ii)		900.000	900.000	900.000	2.700.000	
	Supporting beef and veal production	Article 68(1)(b)	36.665.000	36.665.000	36.665.000	36.665.000	146.660.000	
	Dairy cow premium	Article 68(1)(b)	8.645.000	9.500.000	9.500.000	9.500.000	37.145.000	state aid 6 mio/year
		Total Suomi/Finland	45.310.000	53.565.000	57.065.000	57.065.000	213.005.000	
Sverige	Support for activities improving quality	Article 68(1)(a)(ii)	3.200.000	3.200.000	3.200.000	*3.200.000*	*12.800.000*	Article 136
	Support for activities improving marketing	Article 68(1)(a)(iii)	300.000	300.000	300.000	*300.000*	*1.200.000*	
		Total Sverige	3.500.000	3.500.000	3.500.000	*3.500.000*	*14.000.000*	
		Total 22 MS	1.582.662.065	1.570.971.625	1.582.406.355	1.218.521.090	5.954.561.135	

N.B.: Provisional figures notified by the Member States and still subject to modification.

Source: EU Commission, DG Agri

ANNEX B: DETAILS OF MEASURES TAKEN BY MEMBER STATES IN 2007 UNDER ARTICLE 69 OF REGULATION 1782/2003

European Commission
DG Agriculture and Rural development
Direct Support

Version : 05.12.2007

Overview of the implementation of Article 69 of Regulation 1782/2003 in MS

	Part of the ceiling	Objective	Measures	Amount of aid [1)]
Greece	1) 10% arable crops,	Quality	1) **cultivation of durum wheat** and maize, hybrid varieties, non GMO, **certified seed**	1) 120 EUR/ha
	2) 10% beef sector,	Quality	2) carcasse classification at least R3, minimum 20 animals on the holding, weight 1 year 240 kg, 2nd year 280 kg.	2) 200 EUR/animal
	3) 5% sheep and goat sector	Environment, quality	3) **production of milk in less favoured areas** and intensive production of quality milk (total viable content), min 10 t of sheep and goat milk per year, (LFA: 8t), farm register, retention period for a number of female animals >1 year, minimum ratio between animals kept and quantity of milk delivered.	3) 4 EUR/animal
	4) 2% tobacco	Quality	4) **production of leaf tobacco of superior quality** with specific quality characteristics	
	5) 4% olive oil.	Quality	5) production of olive oil and table olives with **specific quality characteristics** and producers implementing **marketing measures for olive products**	
	6) 10% sugar sector	Quality		
Spain	1) 7% of beef sector (54.96 MEUR)	Environment, quality	1a) **suckler cow premia top up**, livestock density less than 1.5 LU/ha forage area, modulation of the aid according to the number of animals, max. 100 animals per holding 1b) payments to beef producers **participating in recognised quality schemes** (origin, integrated or organic farming, voluntary labelling systems)	
	2) 10% dairy payments	Quality	2) participation in a **code of a good hygiene practice** established by the quality systems or regional authorities, payment for max 500000 kg per holding	
	3) 5% tobacco sector	Quality and marketing	3) **improving quality** by use of certified seed, free of foreign material, humidity ceilings	
	4) 10% cotton sector	Quality and marketing	4) delivery of **quality product** to processor, max 12% humidity, 5% foreign material, minimum production on the surface	
	5) 10% sugar sector	Quality	5) respect of quality criteria	
Italy	1) 8% arable sector	Environment, quality	1) cultivation of certain **varieties of durum wheat**, wheat, maize or application of 2 year **crop rotation** or more minimum use of certified seed, GMO-free, product grown until full agronomic maturity,	1) max 180 EUR/ha
	2) 7% bovine sector	Environment	2) - **suckler cows of meat breeds**, retention period of 6 months - extensive livestock keeping (cows and other bovine animals with obligation of minimum grazing, max 1.4	2) max 180 EUR/head

European Commission
DG Agriculture and Rural development
Direct Support

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	Part of the ceiling	Objective	Measures	Amount of aid [1)]
			LSU/ha of fodder UAA (animals older than 6 months taken into account), retention period 6 pr 7 months, cows of a certain breeds, age requirements, - **slaughter premia** if compliance **with PGI**, organic farming, voluntary labelling, retention period of 7 months, slaughtered between 12 and 26 months	
	3) 5% ovine sector	Environment	3) **ewe and goats**, more than 50 heads, minimum **grazing period** 120 days	3) max 15 EUR/head
	4) 8% sugar sector	Environment	4) minimum 2 years rotation	4) 180 EUR/ha
	5) 8% energy crops (as of 2007)	Environment	5) an incentive for the use of **oilseeds** to produce bio-ethanol	5) 53,27 EUR/ha
Portugal	1) 1% arable crops, rice	Marketing, environment	1) marketing of entire production via a **producer group** (if not authorisation of producer groups for marketing to third party provided), higher aid for **organic production**	1) a) organic farm produce : 8.2 EUR/t (max. 13.0 EUR/t) arable crops, 5.8 EUR/t (max. 9.2 EUR/t) rice b) other farms: 6.7 EUR/t (max. 10.6 EUR/t) arable crops, 4.8 EUR/t (max. 7.5 EUR/t) rice
	2) 1% bovine sector, ovine sector 2a) bovine ovine sector	Marketing, environment, maintaining of purebred indigenous breed	2) marketing of entire production via **a producer group**, higher aid for **organic production** 2a) **female purebred animals** entered in the register of adult animals by 1 June, animals participating in agri-environmental measure not eligible, aid for using domestic breeds	2) = organic farm produce: 24 EUR/slaughtered bovine animal, 5 EUR/lamb or kid slaughtered = other farms: produce 20 EUR/slaughtered bovine animal, 4 EUR/lamb or kid slaughtered 2b) supplement to suckler cow premia and ewe and goat premia for domestic breeds: 103 EUR per female bovine and 9 EUR per ewe and goat (aid may be increased if ceiling not used)
	3) 10 % olive sector	Environment Marketing	3) deliver whole product to a recognised producer group or a co-operative processor (in 2006 also private processors admissible)	3) 30 EUR/t up to 50 EUR/t
	4) 10% sugar sector			
Slovenia	10% of beef and veal sector	Environment	Specific types of farming contributing to environmental protection (suckler cows)	Additional payment
Finland	1) 2.1 % arable crops (5.8 milllion EUR)	1) environment, increase of diversification of farming, improvement of soil structure to	1) aid for **cultivation of winter cereals** on at least 10% of the arable area, max. percentage of the individual crop: 50%, cereal crops sown in spring are not eligible, areas used to fulfil 30% minimum area for plant cover requirement (agri-environmental measure) is excluded	1) max. 50 EUR/ha,

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Direct Support

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	Part of the ceiling	Objective	Measures	Amount of aid [1]
		prevent erosion	from aid	
	2) 10 % bovine sector (10.1 milllion EUR)	2) promoting high quality beef	2) aid to raise **suckler cows of certain beef breeds** (suckler cows and heifers with at least 50% of beef breed aver 8 months(breed listed), animal must be eligible for 365 days, support paid in proportion to eligible days, number of eligible heifers max 40% of total annual number of eligible suckler cows/heifers of the farm aid for **heavy slaughtered male bovines and heifers**, male bovines > 330 kg, heifers > 210 kg	2) max 200 EUR/suckler cow/heifers, max 80 EUR/ heavy slaughter animal
Sweden	0.45% of the total envelope	quality	1) **participation** in accredited **quality certification schemes** in primary production aiming at developing high quality products, aid should contribute to cover certification costs	1) flat rate 2000 SEK, 20 SEK/ha
		quality, marketing	2) **quality and marketing measures** to enhance the quality of food and agricultural products (development production methods or new products)	2) 75% of the costs max. 50 000 SEK/year
		marketing	3) **participation in agricultural fairs** and food exhibitions within the European union, costs of preparation and participation (double funding with rural development excluded by data base cross checks, priority to applications that cover more than one applicant)	3) 75% of the costs, max. 50 000 SEK/year
United Kingdom (only Scotland)	1) 10% of beef sector	1) environment, quality	1) **production of beef bred calves,** calves born on the farm and reached age of four months	1) £70/ first 10 beef bred calves and £35 all other beef bred calves, depending on number of applications

1) Amount of aid: All Member States applying Article 69 of Regulation (EC) No 1782/2003 have indicated that they will adapt the amount of aid depending on the number of applications.

Source : EU Commission, DG Agri

ANNEX C: QUESTIONNAIRE FOR IDENTIFYING IMPLEMENTING ARRANGEMENTS IN THE MEMBER STATES

1. (Attn: BG, CZ, EE,CY, LV, LT,H, PL, RO, SK)

Has a date been set to move to the "preferred" Single Payments Systems from the current SAPS system?

a) Yes ☐
If so when? _____

b) No ☐

If not has there been any statement from a minister or senior ministry official which explains why no move has yet been made? Please give details (speech to parliament, press interview etc with full reference).

2. (Attn: B, GR, ES, FI, IE, NL, AT, PT, UK (Wales and Scotland))

For Member States that have chosen to continue to implement a historical basis for payment of the Single Farm Payment.

Has any date been set for changing to a flat rate (regional) or mixed (partly historical, partly fixed) system?

a) Yes ☐

b) No ☐

If yes:

- Has any action been taken under article 45 of regulation73/2009 to revise payment entitlements? Explain.
- Please explain the stance of the Member State towards the retention of a historical basis for payment post 2013?

If no:

- Has there been any statement from a minister or senior ministry official which explains why no move has yet been made. Please give details with full reference.

3. (Attn: LU, SE, UK (Northern Ireland))

For Member States are at present implementing a hybrid system with historical and flat rate (regional) elements.

Has a date been set for movement towards a completely flat rate system?

a) Yes ☐

b) No ☐

If yes has any action been taken under article 48 of regulation 73/2009 to revise existing payment entitlements?

4. (Attn: DK, D, FI, UK (England))

For Member States that are at present implementing a mixed (hybrid) payment system with a medium term objective of achieving a fully regional (flat rate) payment system within a defined period.

Has a date been set for achieving this goal?

a) Yes ☐
When?
Is it likely to be achieved? Explain.

b) No ☐

5. (Attn: BG, CZ, EE,CY, LV, LT,HU, PL, RO, SK)

New Member States were permitted in regulation in regulation 1782/2003 to supplement the SAPS payment from Europe by what are called "Complementary National Direct Payments", for a limited period, while the European payments built up to the agreed level.

Are these payments being made in your country?

a) Yes☐

b) No ☐

If yes: Are they now being phased out?
Are these payments coupled to production?

6. (Attn: all Member States)

As part of the process of decoupling, Member States were permitted in article 63(2)to standardise the amounts in their payment entitlements, after the elimination of coupled payments.

Has this procedure been used in your Member State?

a) Yes ☐

b) No ☐

7. (Attn: all Member States)

Did the implementation of the "health check" involve any legislation or regulation at national level?

a) Yes ☐

b) No ☐

If so can you give details of the national legislation implementing the following articles of Council regulation 73/2009?

(a) The substantial reduction or elimination of coupled payments , articles 51 and 54

(b) Standardisation of the amounts arising from a decoupling action , article 63(2)

(c) Any movement towards introducing a regional or mixed model of payment, articles 46 and 47

(d) The abolition of the SAPS payment system – new Member States – and its replacement by the SPS, article 55

(e) Setting aside as provided for in article 68 of part of the national ceilings to allow for special national measures

8. (Attn: all Member States)

Article 68 and 69 provide an opportunity for Member States to redesign the subsidy payments to suit national needs. We have reasonable data on the actions taken in each Member State but would seek the following additional insights.

(1) Where schemes have been proposed under this article for the year 2010 and later, what is the source of the finance

(a) unused resources from earlier years of direct payments

(b) reducing the value of the standard direct payments across the board

(c) a combination of both

(2) Has there been any policy statement from the Ministry regarding the advisability of utilising these options to design schemes to suit national needs, while cutting "normal" direct payments. If so, please give references.

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