Background

EU farm policy reform as approved by Parliament

[28-06-2013 - 16:20]

Following the political agreement on EU farm policy reform struck by Parliament, the Council and the Commission in two steps - in June and September 2013, MEPs approved the final form of the post-2013 common agricultural policy (CAP) on Wednesday. Most of the new rules will enter into force on 1 January 2014.

This is the first reform of the Common Agricultural Policy (CAP) shaped by Parliament as a full co-legislator with EU member states.

This background details the agreement on:

• who should get EU-funded direct payments,

• how to make distribution of EU funds fairer

• the measures that farmers should take to protect the environment better,

• how best to help young and small farmers,

• how to strengthen farmers' price bargaining position, and

• how to improve spending controls while cutting red tape.

NB: "direct payments" are payments granted directly to farmers under certain support schemes, such as the current Single Payment Scheme and the Single Area Payment Scheme, which will be replaced by a new system of payments when this reform is implemented.

These payments provide farmers with a safety net in the form of a basic income support, decoupled from production, to shield their income against increasing market volatility and the vagaries of the weather, to which farming industry is so vulnerable. By linking direct payment receipts to certain environmental conditions, they also help to ensure that basic public goods are delivered through sustainable farming.

Contact

Ján JAKUBOV
BXL: (+32) 2 28 32119
STR: (+33) 3 881 73840
PORT: (+32) 498 98 35 90
EMAIL: agri-press@europarl.europa.eu

Who will get direct payments, and who will not?

At Parliament's insistence, member states will have to apply a "negative list" of entities, such as transport and real estate companies, airports, permanent sports clubs, campsite operators, mining companies or other non-agricultural enterprises, to be decided by member states, which would automatically be excluded from the definition of "active farmer", i.e. the entity entitled to receive EU-funded direct payments, unless they can prove that their agricultural activities form a significant part of their overall economic activities.

It should be up to member states to extend the negative list, on objective and non-discriminatory grounds and after notifying the Commission, the three institutions agreed. This greatly simplifies the Commission's original proposal, which defined "non-farmers" as those whose income from direct payments amounts to less than 5% of their total receipts from non-agricultural activities (excluding those who get less than €5,000 in direct payment income).

How to allocate direct payments more fairly

Distribution within member states

The Commission's original plans for reallocating payments between farmers within the same member state have been changed as part of the deal, in order to limit the most extreme effects of the potential redistribution.

While the system of allocation based on historic references is to be phased out, alternative options are available to manage this process. The default Commission proposal envisages that, as of 2019, payments received by all farmers in any given member state are to be based on a uniform unit value (determined on a national or regional basis).

As an alternative, the deal includes another option whereby the entitlements of farmers receiving less than 90% of the national/regional average, will by 2019 be increased by at least one third of the difference between their payments in 2014 and 90% of the national/regional average.

MEPs ensured that by 2019 every farmer will receive at least 60% of the national/regional average. However, in order to avoid sudden sharp falls in levels of support that could jeopardise the viability of some farms, Parliament insisted that member states could guarantee that no farmer would lose more than 30% of his/her level of direct payments, when compared to the first year of implementation.

Closing the payments gap between member states

Parliament insisted the need for measures to reduce differences between the levels of payments received by farmers in different member states as much as possible in coming years. Under the new rules, this difference in member states getting less than 90% of the EU average should be cut by at least one third by 2020. This means that by 2020 farmers from different member states will receive at least 72% of the EU average per hectare payment.

Large versus small farmers

To channel money to small and young farmers, rather than big beneficiaries whose greater ability to adapt makes it easier for them to operate with lower payments, MEPs fought from the start of negotiations with member states for a mechanism to reduce payments above certain level and even set a ceiling for direct payments a single beneficiary may receive.

As a compromise, Parliament and EU agriculture ministers agreed in the negotiations that member states will reduce the amounts of direct payments exceeding €150,000 by at least 5% above that level. However, to encourage farmers to employ more workers on their holdings, member states will be allowed to deduct salaries of their employees, including taxes and social contributions related to employment, from the total amount of direct payments to be granted to a farmer.

No advantage will be given to farmers who artificially create the conditions to avoid the deduction.

The amounts gained by such reductions will remain in the member state or in the region where they were deducted and it will be moved to the regional development budget. No co-financing rates will apply for this amount.

Alternatively, member states might decide to apply an across the board reduction of direct payments to all farmers and then grant a top-up payment of a maximum of a 65% of the national or regional average payment per hectare for a maximum of 30 hectares or to the number of hectares corresponding to the average farm size on their territory. If they do grant this so-called "redistributive payment" and use more than 5% of their annual national ceiling for it, they will not be obliged to apply 5% reduction to the payments over €150,000.

How to improve environment protection

Following Parliament's lead, the three institutions agreed that more should be done to protect the environment. The agreement provides for 30% of the national budget for direct payments to farmers to be linked to "greening" measures. But MEPs also won Council support for 30% of rural development spending to be earmarked for environment-related actions. The option of paying farmers twice for applying the same greening measures was definitively ruled out at the insistence of MEPs.

The deal also ensures that the new environmental rules for farmers will be more flexible and linked to the size of the holding. The three key measures proposed by the Commission – crop diversification, maintaining existing permanent grassland and ecological focus areas – would remain, but certain exceptions should be made to reflect geographical conditions and size of holding, according to the political agreement.

Farmers whose holdings are certified under national or regional environmental certification schemes would be considered "green" only on condition that the measures they apply deliver at least the same benefit as the default greening ones, or go beyond them. The same applies to "equivalent practices" supported by CAP Pillar 2 (rural development) agri-environment schemes, which farmers could choose to apply instead of the three default measures.. Equivalent measures would be strictly defined by the core legislation and assessed by the Commission for equivalence to the practices listed in the annex to the regulation.

Organic farmers shall be automatically considered "green", without imposing any additional requirements.

Crop diversification

In line with Parliament's position, farmers with holdings of 10 ha – 30 ha of arable land which is not entirely cultivated, with crops under water for a significant part of the year, should be required to plant at least two different crops. None of these crops should cover more than 75% of the arable land.

Farms of more than 30 ha of arable land should be required to cultivate three crops with the main one covering not more than 75% and two main crops together not more than 95% of the arable land. Holdings in north Scandinavia (north of the 62nd parallel) with more than 10 hectares of arable land should cultivate at least two crops on arable land with none covering more than 75% of the land.

Permanent grassland

Member states must ensure that the ratio of the land under permanent grassland does not decrease by more than 5% at national, regional or sub-regional level (to be decided by member states) compared to the situation in 2015. According to the agreement, farmers must neither convert nor plough permanent grassland on wetlands, peat and carbon-rich soils which are located in areas designated by member states as "environmentally sensitive".

Ecological focus areas

Farmers with more than 15ha of arable land would have to ensure, as soon as the new rules take effect, that 5% of their farm, excluding permanent grassland and permanent crops, is reserved for so-called "ecological focus areas" (EFAs), such as land left fallow, terraces, landscape features, buffer strips, etc. Farms which are more than 75% grassland (provided that the remaining arable area is less than 30 ha) and farms with crops under water would be exempt, the three institutions agreed.

EFAs could be weighted on the basis of their ecological significance, with the technicalities of setting the weighting and conversion factors being left to a delegated act. By the end of March 2017, the Commission would have to present an evaluation report and if necessary a legislative proposal to further increase the percentage of EFAs to 7%. This proposal would be subject to approval by both the European Parliament and the Council.

Greening sanctions

Parliament and Council backed Commission plans to make 30% of the national budget for direct payments conditional upon compliance with greening measures. Should farmers fail to apply them, they would lose the greening component of their direct payments. Furthermore, during the third year after the new CAP enters into force (2017), non-compliance could lead to further sanctions of up to 20% and from the fourth year (2018) on up to 25% of their greening payment. The additional penalty would not apply during the first two years of the new CAP, to allow farmers time to familiarise themselves with the new rules.

Budget ring-fencing for voluntary environmental measures

At Parliament's insistence that a spending must be ring-fenced for optional greening measures, the three institutions agreed that at least 30% of the total budget earmarked for rural development programmes would have to be reserved for environmental and climate expenditure.

No double funding

Parliament insisted in the negotiations that optional greening measures financed from the rural development envelope must not be subject to any other financing under the EU budget. This means that farmers would have to go beyond the mandatory greening measures in delivering environmental benefits in order to be eligible for additional funding from the rural development budget.

How to allocate EU funds more flexibly

Direct payment schemes and payment entitlements

In a significant move towards simplification, member states or regions that currently operate either a regionalised or a hybrid system of payments (and therefore already partly meet the aims of the reform) will be able to maintain their payment entitlements.

Much-needed certainty will be provided to member states that apply the single area payment scheme (Cyprus, Bulgaria, Romania, Hungary, Slovakia, Czech Republic, Poland, Lithuania, Latvia and Estonia) by a confirmation that their payment systems can continue until 2020. These countries may also decide to continue to grant transitional national aid to farmers and sectors which were eligible for it in 2013. In 2015, the amount available for farmers will correspond to 75% of the previous sector-specific budget and will be reduced by 5% each year until 2020, when the support scheme will be phased out.

Flexibility between pillars

Member states will be able to transfer up to 15% of their annual national ceilings for direct payments (Pillar 1) to support measures under the rural development programming (Pillar 2).

At the same time, member states will be able to make available up to 15%, or in case of countries where the level of direct support remains lower than 90% of EU average (Bulgaria, Estonia, Finland, Latvia, Lithuania, Poland, Portugal, Romania, Slovakia, Spain, Sweden and the UK), up to 25%, of funds originally intended for rural development programmes to the direct payments budget.

How best to help young and small farmers

Young farmers

To attract younger people into farming, MEPs insisted on a mandatory EU-wide scheme. Farmers under 40 years old would be eligible for an additional 25% payment for a minimum of 25 and maximum of 90 hectares (single maximum limit to be set by a member state).

Member states would have to use up to 2% of their national direct payments budgets to fund the support scheme for young farmers.

Small farmers

Member states would be free to decide whether to set up a support scheme for small farmers too. Farmers who qualify could then receive additional support of at least €500 and at most €1,250 (or €200 – 500 in the case of Croatia, Cyprus and Slovenia and €50 - 500 in that of Malta).

How to improve risk management

Risk management tools would be placed under CAP Pillar 2 (rural development budget) and would thus be subject to co-financing by member states. They should include financial contributions to premiums for crop, animal and plant insurance and also mutual funds to pay compensation to farmers in the event of economic losses caused by adverse climatic events, animal and plant diseases or pest infestation.

The three institutions also agreed to create an income stabilisation tool, to take the form of financial contributions to mutual funds to compensate farmers in the event of a severe drop in their income. By the end of 2018, the Commission should carry out an assessment of the risk management tools and table a legislative proposal, if necessary, to improve their implementation.

How to strengthen farmers' bargaining position

To better equip farmers to cope with market volatility and manage crises, but also to strengthen their price bargaining position, producer organisations and "interbranch" organisations of producers, traders and/or processors should be given significantly wider powers and new tools, MEPs argued throughout the negotiations.

As a general rule, member states would be free to decide whether or not to recognise a producer or interbranch organisations. However, in some cases, they would be required to recognise producer organisations in the fruit and vegetable sector, the olive oil and table olive sector, the silkworm sector and the hops sector and interbranch organisations in the olive oil, table olives and tobacco sectors, Parliament, Council and Commission agreed.

Competition rules

EU competition rules applicable to the agricultural sector should be clarified to improve the functioning of the internal market and strengthen farmers' position in the food supply chain, the three institutions agreed, following Parliament's lead. Agreements, decisions and concerted practices of farmer organisations or associations should be allowed unless they harm competition, as they are necessary to achieve the objectives of EU farm policy.

Furthermore, EU competition rules should be applied uniformly to prevent them being interpreted differently by each member state's national competition authorities, according to the text agreed on the basis of Parliament's original position.

Collective negotiations

To boost farmers' bargaining power to get fair prices for their products, farmers' organisations in the olive oil, beef, cereals and protein crops sectors should be allowed to negotiate supply contracts on behalf of their members, without falling foul of competition law.

Contractual relations

In negotiations, MEPs insisted that contract provisions already in force for dairy farmers (adopted by Parliament in February 2012) must be extended to all agricultural sectors. According to the agreed text, member states should be able to decide whether or not to impose contracts covering delivery of farm produce from farmers to processors or distributors for their territory. However, if these contracts are made compulsory, they must be drawn up before delivery and state the price, payment periods and arrangements for collecting and delivering the product in question. Member states should also be able to stipulate a minimum duration for these contracts of at least six months.

Supply management for PDO and PGI ham and cheese products

To improve the working of the market with ham and cheese registered under a protected designation of origin (PDO) or protected geographical indication (PGI) and to improve their quality, MEPs insisted on a provision to enable member states to establish a supply management system for ham and cheese products for up to three years (although prolongation would be possible), provided that it in no way harms competition or free movement of goods. Such measures must not allow price fixing, says the agreed text.

Measures for milk, sugar, wine, fruit and vegetables

Sugar quotas

To enable beet growers to adapt to the far-reaching reform of the sugar sector adopted in 2006, Parliament and Council rejected Commission plans to phase out sugar quotas by the end of September 2015 and agreed to maintain the system until the end of September 2017. Member states who relinquished all their quotas in 2006 will not be able to get them back, says the provisionally agreed text.

MEPs also ensured that after sugar quotas are abolished, contracts between beet producers and processors should include price and quantities and further delivery details.

Wine planting rights

To preserve the reputation of quality EU wines, Parliament insisted that a system to regulate vine planting should be maintained until 2030.

The current system of vine planting rights should be replaced by a vine planting authorisation system, which could be launched as soon as in 2016, but the validity of original rights could be extended for another 3-5 years. Under the provisionally agreed rules, member states would have to make up to 1% of their total planted area available for new authorisations each year.

Programmes to support healthy eating habits

Strategies to improve children's eating habits, such as school fruit and vegetable schemes, should also promote local food producers and fight food waste, says the agreed text. The list of fruit and vegetables concerned should be drawn up by member states.

Voluntary coupled support for ailing sectors

Member states would be allowed to grant support linked with specific production where a specific sector, which is particularly important for economic, social or environmental reason, undergoes difficulties.

Member states could use up to 8% of their national budget for direct payments to finance this support. If a member state uses more than 5% of coupled aid in one year during the 2010-2014 period, the ceiling would increase to 13%. Member states who use more than 10% in one of the 2010-2014 years could apply for higher ceiling, to be approved by the Commission.

This ceiling could be increased by up to another two percentage points to be used by member state to support production of protein crops.

This aid should nevertheless be granted only to the extent necessary to maintain current level of production in the region concerned.

This aid coupling option could apply to cereals, oilseeds, protein crops, grain legumes, flax, hemp, rice, nuts, starch potato, milk and milk products, seeds, sheepmeat and goatmeat, beef and veal, olive oil, silk worms, dried fodder, hops, sugar beet, cane and chicory, fruit and vegetables and short-rotation coppice, says the agreed text. Nevertheless, MEPs insisted as a part of the deal that the Commission must issue a pledge (in the form of a written declaration) to take all available actions to help other ailing sectors if necessary in the event of a crisis.

Better crisis-management tools

To stabilise agricultural sectors in periods of severe market imbalances, the European Commission would be empowered, at Parliament's insistence, to allow certain exceptions to EU competition rules provided that they would not undermine the single market. Farmer organisations could thus use instruments such as private storage and promotional sales, withdraw their products from market, or jointly purchase inputs necessary to combat the spread of pests and animal diseases, but also temporarily plan their production.

The Council and Commission nevertheless rejected Parliament's proposal to grant aid for at least three months to milk producers who voluntarily cut their production at least by 5%. This measure was intended to complement other measures to ensure that the expiry of milk quotas would not lead to a serious crisis in the milk sector, like that of 2009.

How to improve spending controls while cutting red tape

Since the start of the CAP reform debate, MEPs have stressed that the new CAP must cut bureaucratic red tape, including that involved in checking proper compliance with EU rules and efficient spending of EU funds.

To make farmers' lives easier while keeping a close eye on compliance with common rules on how EU funds are spent, the new rules will include several measures designed to remove unnecessary bureaucracy for farmers and ensure that penalties for breaching rules are proportionate.

More proportionate checks and sanctions

All checks and sanctions, including those used to enforce "cross-compliance" (i.e. conditions attached to farmers' payments to ensure they conform to basic environmental, food safety and animal welfare standards), must be proportionate and tailored to the level of risk, says the agreed text. Furthermore, member states where the error rate is at an acceptable level could reduce the number of on-the-spot checks.

To simplify the application process, member states may provide farmers with a pre-filled electronic form based on the application submitted in the previous year. If there are no changes, farmers would only need to sign and submit it.

Early warning system

Member states could set up an early warning system, which would send an initial warning to the beneficiary who breached a cross-compliance rule and inform him or her of the need to remedy it. If this is done, depending on the severity and extent and duration of the problem, payments should not be reduced unless the non-compliance constitutes a direct risk to public or animal health. However, if the problem persists, payments to the farmer should be reduced, even retrospectively.

Transparency should not breach privacy

The agreement provides for the publication of names (for both legal and natural persons) of beneficiaries of EU agricultural subsidies, municipalities and post codes where they reside, amounts they receive and measures for which the payment is allocated. All the data should be compiled on a single website, which should be set up by the member state. Small farmers (all those receiving less than €1250 per year) should be identified by a code.