

## **HEALTH CHECK OF THE CAP**

### **(GUIDE)**

- (1) Introduction: The Health Check of the CAP reform
- (2) Regulation establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers
- (3) Regulation on modifications to the common agricultural policy by amending Regulations (EC) No 320/2006, (EC) No 1234/2007 (EC) (single CMO), No 3/2008 and (EC) No [...] /2008
- (4) Regulation amending Regulation (EC) No 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD)
- (5) Timing

## TABLE OF CONTENTS

TABLE OF CONTENTS .....	2
1. INTRODUCTION: THE HEALTH CHECK OF THE CAP REFORM .....	4
2. REGULATION ESTABLISHING COMMON RULES FOR DIRECT SUPPORT SCHEMES UNDER THE COMMON AGRICULTURAL POLICY AND ESTABLISHING CERTAIN SUPPORT SCHEMES FOR FARMERS .....	5
2.1. Flatter rate.....	5
2.2. Farmer's definition.....	6
2.3. Types of entitlements .....	6
2.4. Set-aside .....	7
2.5. Modification of entitlements .....	7
2.6. National reserve.....	7
2.7. 80% activation rule.....	8
2.8. Payment dates/advance payments .....	8
2.9. Cross compliance.....	8
2.10. Partial decoupling.....	9
2.11. SAPS: Transition to SPS .....	9
2.12. SAPS: Prolongation.....	10
2.13. Individual limits .....	11
2.14. Revised Art. 69 .....	11
2.15. Modulation .....	12
2.16. Other support schemes .....	13
2.16.1. Energy crop premium .....	13
2.16.2. Protein crops .....	14
2.16.3. Nuts .....	14
3. REGULATION ON MODIFICATIONS TO THE COMMON AGRICULTURAL POLICY BY AMENDING REGULATIONS (EC) N. 320/2006, (EC) NO 1234/2007 (SINGLE CMO), (EC) N. 3/2008 AND (EC) N. [...] /200 .....	15
3.1. Intervention .....	15
3.2. Milk quota .....	15
3.3. Other dairy issues .....	16
3.4. Other support schemes .....	17
3.4.1. Flax and Hemp .....	17
3.4.2. Dried fodder.....	18

- 3.4.3. Starch potato ..... 18
- 4. REGULATION AMENDING REGULATION (EC) NO 1698/2005 ON SUPPORT FOR RURAL DEVELOPMENT BY THE EUROPEAN AGRICULTURAL FUND FOR RURAL DEVELOPMENT (EAFRD)..... 19
  - 4.1. Current Situation ..... 19
  - 4.2. Proposal ..... 19
- 5. TIMING.....23

## 1. INTRODUCTION: THE HEALTH CHECK OF THE CAP REFORM

On 20 November 2007, the Commission adopted its Communication "Preparing the Health Check of the CAP reform" whose main objectives were to assess the implementation of the 2003 CAP reform, and to introduce those adjustments to the reform process that are deemed necessary in order to further simplify the policy, to allow it to grasp new market opportunities and to prepare it for facing new challenges such as climate change, water management and bio-energy.

In recent months, one of the above objectives, that of grasping market opportunities, has taken a new dimension with the sharp rise in the price of many agricultural commodities to exceptional levels. Their steady increase in 2006 and in the first semester of 2007 had already led to the conclusions drawn in the November Communication that any remaining supply controls of the CAP (namely, dairy quotas and set-aside) would have to be removed. The combination of factors that led to these developments and the best response of the EU to this development are addressed in a separate Commission Communication.

But the main conclusions of the November Health Check Communication about the assessment of the most recent reforms of the CAP remain valid. These reforms marked a new phase in this process by decoupling the majority of direct payments via the Single Payment Scheme (SPS) in 2003 for the sectors of arable crops, beef and sheep, and dairy and in 2004 for olive oil, cotton and tobacco. As part of the 2003 reform, Rural Development (RD) policy was strengthened with additional funds and with the reform of its policy instruments in 2005. Finally, the reform process continued with reforms in sugar (2006) and fruit and vegetables and wine (2007).

In line with the indications given in the Communication, the Commission has adopted legal proposals accompanied by an impact assessment report on the Health Check of the CAP taking on board the result of a wide consultation of stakeholders and the contributions from other European Institutions.

Legal proposals are related to three basic Regulations:

- Council Regulation (EC) No 1782/2003 of 29 September 2003 establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers.
- Council Regulation (EC) No 1234/2007 of 22 October 2007 establishing a common organisation of agricultural markets and on specific provisions for certain agricultural products (Single CMO Regulation)
- Council Regulation (EC) No 1698/2005 of 20 September 2005 on support for rural development by the European Agricultural Fund for Rural Development

These proposals, without constituting a fundamental reform, are a contribution to future developments of the CAP that are consistent with the overall goal of the Commission and the requirements of the Treaties to promote a sustainable and market orientated agricultural sector.

## 2. REGULATION ESTABLISHING COMMON RULES FOR DIRECT SUPPORT SCHEMES UNDER THE COMMON AGRICULTURAL POLICY AND ESTABLISHING CERTAIN SUPPORT SCHEMES FOR FARMERS

### 2.1. Flatter rate

#### 2.1.1. Current situation:

In implementing the SPS, MS could opt for a historic model (payment entitlements based on individual historic reference amounts per farmer), a regional model (flat rate payment entitlements based on amounts received by farmers in a region in the reference period) or a hybrid model (mix of the two approaches, either in a static or in a dynamic fashion).

Historic: Austria (2005), Belgium (introduced in 2005), Ireland (2005), Italy (2005), Portugal (2005), UK – Scotland (2005), UK – Wales (2005), France (2006), Greece (2006), Netherlands (2006), Spain (2006)

Regional: Malta (2007), Slovenia (2007)

Static hybrid: Denmark (2005), Luxemburg (2005), Sweden (2005), UK – Northern Ireland (2005)

Dynamic hybrid: Germany (2005), UK – England (2005), Finland (2006)

#### 2.1.2. Proposal:

Three possible options:

- Member States applying the historic implementation model are allowed to review the allocated payment entitlements with a view to approximating their unit value taking into account the specificities of geographical areas when fixing closer values and during an adequate transition period (Art. 46).
  - At least three pre-established annual steps and objective and non discriminatory criteria.
  - Reduction of the value per step: no more than 50% of the difference between the starting value and the one in the final step.
- Member States applying the historic model are allowed to change over to the regional model (Art. 47)
  - In a first step, divide no more than 50% of regional ceiling between all farmers with holdings in the area (Art. 48(1))
  - May make progressive modifications in at least two further pre-established annual steps and objective and non discriminatory criteria (Art. 49(1)).
  - Reduction of the value per step: no more than 50% of the difference between the starting value and the one in the final step (Art. 49(3)).

- Member States that chose to apply the regional model are allowed to review their decisions under certain conditions with the aim to approximate the value of payment entitlements according to pre-established steps during an adequate transition period and within a limited range of reductions (Art. 49 (2)).
  - At least three pre-established annual steps and objective and non discriminatory criteria (Art. 49(2)).
  - Reduction of the value per step: no more than 50% of the difference between the starting value and the one in the final step (Art. 49(3)).

## **2.2. Definition of "farmer"**

### *2.2.1. Current situation*

The current provisions do not allow MS to exclude some recipients to receive payments if they fulfil the conditions set out by regulations.

### *2.2.2. Proposal*

In order to prevent that agricultural income support be allocated to companies and firms whose business purpose is not or only marginally targeted at exercising an agricultural activity, MS are allowed to refrain from granting them direct payments under this Regulation (Art. 30 (2)).

## **2.3. Types of entitlements**

### *2.3.1. Current situation*

Currently there are four types of entitlements under the SPS: regular entitlements, set-aside entitlements, special entitlements and entitlements with F&V authorisation.

### *2.3.2. Proposal*

Three types of entitlements remain:

- Regular entitlements (set aside entitlements become regular entitlements)
- Special entitlements: Status quo remains (special entitlements do not have to be activated with land but farmers have to maintain 50% of agriculture activity expressed in livestock units (LU)). The proposal sets out that when transferred, they must become regular entitlements except in cases of inheritance or anticipated inheritance (Art. 45). (See point 2.4)
- Entitlements with F&V authorisation may remain until the end of the transitional period (2010). (Art. 50).

## **2.4. Set-aside**

### *2.4.1. Current situation*

Farmers who in 2000-2002 were required to set-aside part of their land received set-aside entitlements. Under the regional model farmers of a certain size received also set aside entitlements.

Such set aside entitlements could only be activated by land kept set aside (not producing crops) with the below exceptions:

- Areas under environmental set-aside and areas afforested could be counted as set-aside (R. 1698/2005 art 39 and art 43)
- Land set-aside might be subject to rotation and might be used for non-food production (R. 1782/03 art 55)

The number of set aside entitlements is based on the former 10% set aside obligation. For 2007/2008 there is derogation to the set aside obligation.

### *2.4.2. Proposal*

- Removal set aside obligation. Set aside entitlements become normal entitlements. Compensation of environmental effects of its removal will be done by the addition of a standard under GAEC on "establishment of buffer strips along water courses". (Annex III)

## **2.5. Modification of entitlements**

### *2.5.1. Current situation*

Fractures of entitlements can be created but entitlements cannot be merged.

### *2.5.2. Proposal*

Commission shall lay down rules for modification (merger) of entitlements where there are fractures. (Art. 37).

## **2.6. National reserve**

### *2.6.1. Current situation*

Restrictions on entitlements from the national reserve exist. Entitlements from the National reserve can not be transferred for 5 years after allocation (this prohibition was included in 2003 to avoid speculation). These entitlements need to be activated each year of this 5 year period.

### 2.6.2. *Proposal*

The prohibition of transfer of rights received from the national reserve is removed and also the obligation of activating these entitlements each year of this 5 year period (deletion of ex 48 (8)).

## 2.7. **80% activation rule**

### 2.7.1. *Current situation*

Farmers may transfer their payment entitlements without land only after they have used at least 80% of their payment entitlements during at least one calendar year

### 2.7.2. *Proposal*

The restriction on sale of entitlements without land is removed (ex Art. 46(2) 2<sup>nd</sup> subparagraph is deleted) but the 80% rule is kept for MS shifting from SAPS to SPS (Art. 63(3)).

## 2.8. **Payment dates/advance payments**

### 2.8.1. *Current situation*

MS are allowed to make only one payment from 1 December. The Commission may provide for an advance or allow MS to do so.

### 2.8.2. *Proposal*

Payments could be made in two instalments as from 1 December. (Art. 31(2))

## 2.9. **Cross compliance**

### 2.9.1. *Current situation*

Cross compliance is a mechanism that links full support under the first (and to some extent under the second) pillar of the CAP to the compliance of farmers with rules relating to basic standards for environment, food safety, animal and plant health and animal welfare, as well as standards aimed at the maintenance of land in good agricultural and environmental condition.

### 2.9.2. *Proposal*

- Deletion of certain articles under the wild birds and habitats directives (SMR 1 and 5) because they are not relevant to farming activities.
- Deletion of SMR 7 (identification and registration of bovine animals) because it is redundant with SMR 8.

- Addition of an issue under GAEC on water, two subsequent standards added: "establishment of buffer strips along water courses" in order to partly retain environmental benefits from set-aside and to contribute to water quality, as well as: "respect of authorisation procedures for using water for irrigation" in order to meet water quantity concerns.
- Elaboration of the current standard on retention of landscape features, which is now extended to specify which landscape features should be retained (hedges, ponds, ditches and trees in line, in group or isolated), and, where appropriate, field margins in order to protect existing landscape features (which can contribute to the retention of environmental benefits from set-aside).

(Art. 4 to 6)

## 2.10. Partial decoupling

### 2.10.1. Current situation

MS may retain a part of the payments coupled (partial implementation); i.e.:

- Crops sector: applicable to the Arable Crops Payments (up to 25%), Durum Wheat Quality Supplement (up to 40%) and Hops (up to 25%)
- Olive oil sector: aid for olive groves could remain up to 40% coupled.
- Animal sector: of which the Suckler Cow Premium (up to 100%), the Special beef premium (up to 75%), the Slaughter Premium (up to 40% for adults and 100% for calves) and Sheep and Goats (up to 50%).
- Seeds: 100% exclusion of certain or all species

MS choices on partially coupled support

	coupled support MAX	BE		DK	DE	EL	ES	FR	IT	NL	AT	PT	SL	FI	SE
		North	South												
Starting in		2005	2005	2005	2005	2006	2006	2006	2005	2006	2005	2005	2007	2006	2005
<b>LIVESTOCK</b>															
Sheep and goat	50%			50%			50%	50%					50%	50%	50%
Slaughter (calves)	100%	100%					100%	100%		100%	100%	100%			
Beef option 1)															
suckler cow	100%	100%	100%				100%	100%			100%	100%			
and slaughter (adults)	40%						40%	40%			40%	40%			
Beef option 2)															
slaughter (adults)	100%									100%					
or special male bovine	75%			75%									75%	75%	75%
<b>CROPS</b>															
COP	25%						25%	25%							
or Durum	40%														
Hops	25%				25%			25%			25%		25%		
Olive oil (olive groves)	40%							6%							
<b>Optional exclusion of SPS</b>															
Specific regional aid															
Seeds (all species)						100%	100%		100%			100%			
Seeds (certain species)		100%	100%					100%		100%				100%	

### 2.10.2. Proposal

- Arable crops, seeds and hops: full decoupling from 2010. MS can choose as reference period either the same as in 2003 reform (budgetary envelopes) or a more recent period.(Art. 66)
- Suckler cow and sheep and goatmeat: MS are allowed to maintain the status quo. (Art 54 and 55 (1))
- Slaughter premium for young animals, slaughter premium for adult animals and Special beef premium: Full decoupling in two steps (50% coupled in 2010, 50% coupled in 2011 and 100% decoupled in 2012 and onwards). (Art 55 (2)).

## **2.11. SAPS: Transition to SPS**

### *2.11.1. Current situation*

After the end of the period where SAPS can be applied (2010/2011) all MS applying SAPS have to apply the SPS but they can do it before in a voluntary basis.

Some new MS (e.g. Hungary) have already announced their intention to move from SAPS to SPS in 2009/2010.

### *2.11.2. Proposal*

MS applying SAPS who want to move to SPS will be allowed to restrict the allocation of entitlements to farmers who declared the area benefiting from SAPS in the 2005-07 period. (This is proposed with a view to facilitate the transition to the SPS and to avoid speculative application). (Art. 61(3))

## **2.12. SAPS: Prolongation**

### *2.12.1. Current situation*

EU-12 have to change to SPS by 2010/11

10 MS out of EU-12 apply SAPS:

Cyprus (2004), Czech Republic (2004), Hungary (2004), Latvia (2004), Lithuania (2004), Slovakia (2004), Estonia (2004), Poland (2004), Bulgaria (2007), Romania (2007)

SAPS application limited until end 2010 (Bulgaria and Romania end 2011)

### *2.12.2. Proposal*

Prolong possibility to apply SAPS until end 2013 (Art. 111(3)).

## **2.13. Individual limits**

### *2.13.1. Current situation*

MS to determine the minimum size of agricultural parcels for which an application can be introduced; this minimum size may not be lower than 0.3 ha.

Minimum size of holdings for MS applying SAPS is 0.3 ha, but NMS may increase it up to 1 ha. Same rules apply to MS shifting from SAPS to SPS.

MS can decide not to grant any aid if the amount per application is less than 100€

### *2.13.2. Proposal*

Almost half of the total direct payment beneficiaries in the EU-25 receive less than 500 EUR. This number essentially includes small farmers, but it also includes in certain Member States recipients whose value of payment is below the administrative cost of managing it.

In order to simplify and reduce the administrative costs of direct payments, it is proposed that Member States shall either apply a minimum amount of payments of 250 € or apply a minimum size of eligible area per holding of at least 1 hectare. (Art. 30(1)).

Nevertheless, special provision is made for those Member States whose agricultural sector is mainly composed of very small holdings (Cyprus and Malta)

## **2.14. Revised Art. 69**

### *2.14.1. Current situation*

MS retain up to 10% of national ceilings.

Payments are made to farmers in the sector(s) concerned by the retention and can be spent in specific types of farming important for protection or enhancement of environment or improving quality and marketing of agricultural products. Payments can be coupled to production

### *2.14.2. Proposal*

To allow more flexibility in Member State responses to the needs stemming from the overall orientation of the CAP, it is proposed that Article 69 be broadened:

- The restriction that linear reductions are taken from and staying in the same sector is removed.
- Measures to address disadvantages for farmers in certain regions specialising in the dairy, beef and sheep and goat meat and rice sectors are covered.
- It also allows the possibility to use the retained amounts to top up entitlements in areas subject to restructuring and/or development programs

- Support for some **risk management measures** -crop insurance schemes for natural disasters and mutual funds for animal and plant diseases- is also provided under certain conditions.
- Measures, which do not with certainty meet the conditions of the WTO Green Box, should be limited to 2,5% of the ceilings.
- Finally, Member States applying SAPS will also be allowed to apply this provision.

Art. 68, 69 and 70

## **2.15. Modulation**

### *2.15.1. Current situation*

Modulation is a means of budgetary transfer by which a percentage reduction is applied to farmer direct (Pillar I) payments and the budgetary resources released are reassigned to rural development (Pillar II) measures.

Though modulation was first discussed in the context of the 1992 Reform, it was not until the Agenda 2000 reforms that permission was granted to Member States to modulate up to 20 % of the total amount of farmers' direct payments. Only UK, France, Germany and Spain chose to apply these voluntary modulation measures.

With the 2003 Reform, compulsory modulation for all EU-15 Member states was finally agreed, starting in 2005 with a rate of 3 % and increasing to 4 % in 2006 and to 5 % from 2007 onwards. A EUR 5 000 franchise was also introduced, below which no reduction of direct payments is applied. The released funds are re-distributed according to a common key, based on certain criteria. The allocation criteria safeguard 1 percentage point of modulation to be distributed directly back to the MS where it was generated, the rest being distributed between the Member States according to agricultural area, agricultural employment and GDP. However, it is also guaranteed that any MS must receive back at least 80 % of what it contributes to modulation (90 % in the case of Germany).

Furthermore, the new EU-10+2 Member States have been exempted from modulation until the transition to the full level of direct payments is achieved (i.e. in 2013)

In the context of the 2007-2013 Financial Perspectives, the Heads of State decided in December 2005 to introduce further voluntary modulation, up to a maximum of 20 %. The Commission's proposal to enact this decision met with substantial opposition from the European Parliament until a presidency compromise formula was found, which restricts de facto the possibility to apply voluntary modulation to UK and PT, and led to the adoption of Council Regulation (EC) No 387/2007 on 27 March 2007.

### 2.15.2. Proposal

The Communication "Preparing the Health Check of the CAP reform" identified a number of new and ongoing challenges facing the CAP such as climate change, bio-energy, water management and biodiversity and considers the RD policy as one of the possibilities to deal with these challenges.

The measures available under RD are already providing various alternatives to address the new challenges and MS have included related measures already in their RD Programs for the period 2007-13. Nevertheless, first experiences with the financial up-take of RD resources in 2007 suggest that Member States have budget needs beyond their financial possibilities.

To allow Member States to support the increasing needs to meet new challenges via the set of measures proposed under RD, it is proposed to increase compulsory modulation up to 8% (Art. 7(1)) and to add an additional progressive element (Art. 7 (2)) under a new system which is based on the following principles:

- All new receipts from modulation stay within the Member State that generates them (Art. 9(4)).
- In EU-15, basic modulation, applying to all payments above € 5 000, increases by 2% annually from 2009 until it reaches an additional 8% in 2012. (Art.7(1))
- A progressive element is introduced; whereby payments are reduced by additional steps of 3% in successive thresholds a new system for the financial management of direct aids, establishing net global ceilings per Member State, is proposed. (Art. 7(2))
- EU-10 become also eligible for modulation in 2012, with a basic rate of 3% (instead of 13%). Bulgaria and Romania are exempted, in relation to the phasing-in of direct payments. (Art. 10).

Thresholds	2009	2010	2011	2012
1 to 5 000	0	0	0	0
5 000 to 99 999	2%	4%	6%	8%
100 000 to 199 999	5%	7%	9%	11%
200 000 to 299 999	8%	10%	12%	14%
Above 300 000	11%	13%	15%	17%

## 2.16. Other support schemes

### 2.16.1. Energy crop premium

*Current situation:* An aid of EUR 45 per hectare for energy crops for the production of biofuels and electric and thermal energy produced from biomass.

*Proposal:* Abolition in 2010.

### 2.16.2. Durum wheat

*Current situation:* Aid of EUR 40 per hectare, granted subject to the use of certain quantities of certified seeds of varieties recognised, in the production zone, as being of high quality for the production of semolina or pasta.

*Proposal:* Abolition and shift into the SPS in 2010.

### 2.16.3. Protein crops

*Current situation:* Aid of EUR 55,57 per hectare of protein crops (peas, field beans, lupins).

*Proposal:* Decouple and shift into SPS in 2010.

### 2.16.4. Specific payment for rice

*Current situation:* Aid per hectare, the value set according to the yields in the Member States concerned

*Proposal:* Decouple and shift to SPS (50% in 2010 and 50% in 2012). Revise Art. 69 can be used for environmentally sensitive areas.

### 2.16.5. Nuts

*Current situation:* Aid per hectare granted to farmers producing nuts, with a possibility of granting additional national aid.

*Proposal:* Decouple and shift to SPS in 2010.

Choice for MS to grant national aid in addition to the Community aid up to a maximum of 120,75 €/Ha remains.

**3. REGULATION ON MODIFICATIONS TO THE COMMON AGRICULTURAL POLICY BY AMENDING REGULATIONS (EC) N. 320/2006, (EC) NO 1234/2007 (SINGLE CMO), (EC) N. 3/2008 AND (EC) N. [...]/200**

**3.1. Intervention**

*3.1.1. Current situation*

Intervention foreseen for: common wheat, durum wheat, barley, maize and sorghum, paddy rice, sugar, beef and veal, pigmeat, butter and skimmed milk powder.

Intervention for maize set at 0 tonnes as from the marketing year 2009/2010

*3.1.2. Proposal*

<b>Sector</b>	<b>Intervention scheme</b>
<b>Wheat</b>	Tendering from the beginning. No quantitative limits.
<b>Coarse grains</b>	Quantitative ceilings at zero. Tendering from the beginning if the special intervention measures are activated under the disturbance provision of the sCMO.
<b>Dairy sector</b>	Obligatory tendering up to a fixed ceiling. Beyond this, tendering at Commission's discretion.
<b>Rice, durum wheat and pigmeat</b>	Abolished
<b>Beef sector</b>	Full tendering where the price is below trigger price (1560€/t)

Art. 4, 11, 12, 13, 18 and 34 a)

**3.2. Milk quota**

*3.2.1. Current situation*

Milk quotas are set at Member State level until 2014/15.

Fat adjustment: Levy is calculated on the deliveries adjusted for fat content.

Direct sales and deliveries quotas: The total quota for each MS quota is currently sub-divided into deliveries and direct sales.

Super levy: Producers pay levy at specified rate when they exceed own quota and MS exceeds quota

### 3.2.2. *Proposal*

Soft landing: increase of quota by 1% annually from 2009 to 2013.

Review clause: report will be prepared before 30 June 2011.

## 3.3. **Other dairy issues**

### 3.3.1. Private storage aid for cheese

*Current situation*: The cheese market is steadily expanding thanks to an expanding EU and external demand. In general, therefore, prices for cheeses have for some time remained at firm levels which have not significantly been influenced by the reduction of the institutional prices for the bulk products (butter and powder).

The current regulation provides for a permanent obligatory Private Storage Aid for 3 Italian cheeses (Grana Padano, Parmigiano, Provolone) without limitation of quantities. A permanent unlimited support scheme is, however, not consistent with modern market support.

*Proposal*: Abolition of mandatory aid for three 3 Italian cheeses (art. 18 (5)). Abolition of optional aid for long keeping cheeses and cheeses which are manufactures from sheep and/or goat's milk (Art. 18 (6) (a) ii)

### 3.3.2. Private storage aid for butter

*Current situation*: The basic Regulation provides that aid for private storage shall be granted for unsalted butter and salted butter.

In an era of continuing reduction of product related market support it is difficult to accept the obligatory nature of a private storage system.

*Proposal*: Optional for the Commission based on the market situation. (Art. 18 (6))

### 3.3.3. Skimmed Milk Powder as feeding stuff

*Current situation*: An obligatory aid for skimmed milk and skimmed milk powder used for animal feeding is provided.

The obligatory character of this provision equally stems from the substantial lack of balance on the SMP market some years ago. Like the other schemes for disposal aid the intention of this measure was to provide an alternative to intervention or

export with high refunds. In the context of the dairy reform the obligatory element of this aid has become obsolete.

*Proposal:* Optional for the Commission based on the market situation (Art. 99)

### 3.3.4. Aid for skimmed milk for casein production

*Current situation:* The obligatory character of this provision equally stems from the substantial lack of balance on the SMP market some years ago

*Proposal:* Optional for the Commission based on the market situation. (Art. 100)

### 3.3.5. Disposal aid for butter

*Current situation:* These aids (for the use of butter in pastry and ice creams, butter for cooking and butter to be used in non-profit establishments) have been reduced in line with the reduction of the intervention price for butter as from 2004 and have consequently been put to zero before tenders were suspended due to the favourable market situation. These schemes are no longer needed to support the market at intervention price level and could therefore be abolished

*Proposal:* Abolition (point 24)

## 3.4. **Other support schemes**

### 3.4.1. Flax and Hemp

*Current situation:* In the flax and hemp CMO the direct aid has been incorporated into the SPS with the 2003 Reform (with an option of 25% partial coupling as arable crops area payment) and a processing aid per tonne for long flax fibre is granted within a Maximum Guaranteed Quantity divided by MS.

Regarding short flax and hemp fibre as well as the additional aid for traditional areas, the Council decided in March 2008 to phase them out until 2008/2009.

The Council also decided to increase the long flax fibre in 40 €/Tonne starting in 2009/2010.

*Proposal:* Decouple long fibre flax processing aid and shift to SPS (phasing out by 2013, in two steps: 50% in 2011 and full decoupling in 2013). (Points 18, 19 and 20).

### 3.4.2. Dried fodder

*Current situation:* In the dried fodder sector, the 2003 reform integrated the direct aid into the SPS scheme and retained the processing aid (per tonne, uniform for dehydrated and dried fodder).

*Proposal:* Decouple the processing aid and shift to SPS in 2011.

Point (17) and Art. 8 c).

### 3.4.3. Starch potato

*Current situation:* In the potato starch sector, the 2003 Reform incorporated the direct aid for potato starch in SPS, but in order to maintain production in traditional areas 60% of this aid has been retained as aid for potato starch producers (per tonne of starch delivered). A transformation aid is granted to the manufacturers per tonne of potato starch with, guaranteed minimum prices within the quota limit. Finally, production refunds for starch are granted when using starch for the production of certain goods

Proposal:

- Decouple aid to growers and shift to SPS (phasing out by 2013, in two steps: 50% in 2011 and full decoupling in 2013).
- Decouple processing aid and shift to SPS in 2011.
- Removal of quotas at the end of transition period (2013)
- Minimum price goes with abolition of processing aid
- Abolish production refund for all starches in 2010.

Art. 84a) and 95a) and point (33)

#### **4. REGULATION AMENDING REGULATION (EC) NO 1698/2005 ON SUPPORT FOR RURAL DEVELOPMENT BY THE EUROPEAN AGRICULTURAL FUND FOR RURAL DEVELOPMENT (EAFRD)**

##### **4.1. Current Situation**

The new RD policy of the EU (2007-2013) provides a menu of measures from which Member States can choose on the basis of the subsidiarity principle and for which they receive Community financial support in the context of integrated rural development programs. It changes the way these programs are developed by strengthening the strategic approach content and by fostering the sustainable development of rural areas. For that purpose the current RD policy focuses on three core policy objectives agreed by all Member States: 1) improving the competitiveness of agriculture and forestry, 2) supporting land management and improving the environment and 3) improving the quality of life and encouraging diversification of economic activities in rural areas.

A thematic axis corresponds to each core of these objectives in the rural development programmes.

Axis 1: Competitiveness

Axis 2: Environment + Land management

Axis 3: Economic diversification + Quality of life

The three thematic axes are complemented by a « methodological » axis dedicated to the LEADER approach (LEADER axis).

A minimum funding for each axis is required to ensure some overall balance in the programme (10 % for Axis 1, 25 % for Axis 2; 10 % for Axis 3 and 5 % for the Leader Axis – which will be 2.5 % in the new Member States).

This approach allows that EU support for rural development (originating from the European Agricultural Fund for Rural Development/EAFRD) is concentrated on commonly agreed EU priorities for the three policy axes, while leaving sufficient flexibility at Member State and regional level to find a balance between the sectoral dimension (agricultural restructuring) and the territorial dimension (land management and socio-economic development of rural areas).

##### **4.2. Proposal**

With the ceiling for the overall CAP budget fixed until 2013, additional funding for rural development can only be realised through an increase in compulsory modulation. The additional funding is needed to reinforce the efforts with regard to the EU priorities in the field of climate change, renewable energy, water management and biodiversity.

The justification for directing the additional money towards these policy areas is given in the amendment of the Community Strategic Guidelines on rural development. The mandatory consequences with respect to the modifying the already existing RD programs 2007-13 are spelled out in an amendment of the Council Regulation on rural development (1698/2005). In this Regulation the following provisions are essential:

An amount equal to the amounts resulting from the application of the compulsory modulation shall be spent by Member States in the period from 1 January 2010 to 31 December 2015 as Community support under the current rural development programmes for the operations (Article 16a of the amended rural development Regulation) approved after 1 January 2010. Member States may base their choice of operations falling into the scope of the NC on the indicative list of types of operations set out in the Table shown below (Annex II of the amended RD Regulation). This Table is non-exhaustive and MS could also program under the heading of the New Challenges other measures which are related to the potential effects listed in this Table.

<b>Priority: Climate change</b>		
<b>Types of operations</b>	<b>Articles and measures</b>	<b>Potential effects</b>
Improve efficiency of nitrogen fertiliser use (for ex. reduced use, equipment, precision agriculture), improvement of manure storage	Article 26: Modernisation of agricultural holdings  Article 39: Agri-environment payments	<i>Reduction of methane (CH<sub>4</sub>) and nitrous oxide (N<sub>2</sub>O) emissions</i>
Improvement of energy efficiency	Article 26: Modernisation of agricultural holdings	<i>Reduction of carbon dioxide (CO<sub>2</sub>) emissions by saving energy.</i>
Soil management practices (for ex. tillage methods, catch crops, diversified crop rotations)	Article 39: Agri-environment payments	<i>Reduction of nitrous oxide (N<sub>2</sub>O); carbon sequestration.</i>
Land Use change (for ex. conversion of arable land to pastures, permanent set-aside, reduced use/ restoration of organic soils)	Article 39: Agri-environment payments	<i>Reduction nitrous oxide (N<sub>2</sub>O); carbon sequestration.</i>
Extensification of livestock (for ex. reduction stocking density, increase grazing)	Article 39: Agri-environment payments	<i>Reduction of methane (CH<sub>4</sub>).</i>
Afforestation	Articles 43 and 45: First afforestation of agricultural and non-agricultural land	<i>Reduction of nitrous oxide (N<sub>2</sub>O); carbon sequestration.</i>
Forest fire prevention	Article 48: Restoring forestry potential and introducing prevention actions	<i>Carbon sequestration in forests and avoid carbon dioxide (CO<sub>2</sub>) emissions.</i>

<b>Priority: Renewable energies</b>		
<b>Types of operations</b>	<b>Articles and measures</b>	<b>Potential effects</b>
Biogas production – anaerobic digestion plants using animal waste (on farm and local production)	Article 26: Modernisation of agricultural holdings  Article 53: Diversification into non-agricultural activities	<i>Substitution of fossil fuel; reduction of methane (CH<sub>4</sub>)</i>
Perennial energy crops (short rotation coppice and herbaceous grasses)	Article 26: Modernisation of agricultural holdings	<i>Substitution of fossil fuels; carbon sequestration; reduction of nitrous oxide (N<sub>2</sub>O).</i>
Processing of agricultural/forest biomass for renewable energy	Article 28: Adding value to agricultural and forestry products	<i>Substitution of fossil fuels.</i>
Installations/infrastructure for renewable energy using biomass	Article 53: Diversification into non-agricultural activities  Article 54: Support for business creation and development  Article 56: Basic services for the economy and rural population	<i>Substitution of fossil fuels.</i>
<b>Priority: Water Management</b>		
<b>Types of operations</b>	<b>Articles and measures</b>	<b>Potential effects</b>
Water saving technologies, water storage  Water saving production techniques	Article 26: Modernisation of agricultural holdings  Article 30: Infrastructure	<i>Improve the capacity to use water more efficiently.</i>
Wetland restoration  Conversion of agricultural land into forest/agro-forestry systems	Article 39: Agri-environment payments  Article 41: Non-productive investments  Article 43 and 45: First afforestation of agricultural and non-	<i>Conservation of high-value water bodies; protection of quality water.</i>

	agricultural land	
Development of semi-natural water bodies	Article 57: Conservation and upgrading of the rural heritage	<i>Conservation of high-value water bodies; protection of quality water.</i>
Soil management practices (for ex. catch crops)	Article 39: agri-environment payments	Contributing to the reduction of losses of different compounds to water, including phosphor.

<b><i>Priority: Biodiversity</i></b>		
<b>Types of operations</b>	<b>Articles and measures</b>	<b>Potential effects</b>
No application of fertilizer and pesticides on high nature value agricultural land  Integrated and organic production	Article 39: Agri-environment payments	Conserved species-rich vegetation types, protection and maintenance of grasslands.
Perennial field and riparian boundary strips  Construction/management of biotopes/habitats within and outside Natura 2000 sites  Land Use Change (extensive grassland management, conversion of cropland to pasture, long-term set-aside)  Management of high nature value perennials	Articles 38 and 46: Natura 2000 payments  Article 39: Agri-environment payments  Article 41: Non-productive investments  Article 47: Forest-environment payments  Article 57: Conservation and upgrading of the rural heritage	Protected birds and other wildlife and improved biotope network; reduced entry of harmful substances in bordering habitats.
Conservation of genetic diversity	Article 39: agri-environment payments	Conserved genetic diversity.

**5. TIMING**

<b>20 MAY 2008:</b>	<b>Adoption of legal proposals</b>
<b>OCTOBER 2008:</b>	<b>Political agreement at Council</b>
<b>NOVEMBER 2008:</b>	<b>EP opinion and adoption legal proposals</b>
<b>DECEMBER 2008:</b>	<b>Publication</b>