

European Landowners Organisation

AGENDA 2000: AREAS FOR MEMBER STATE DISCRETION

SUMMARY

On 24-26 March 1999, the Heads of State and Government meeting at the Berlin European Council reached agreement on the political and financial guidelines proposed by the Commission in *Agenda 2000*.

The agreement on CAP reform, on top of its compulsory elements, includes a number of discretionary options for Member States to decide upon. The main elements of the reform are presented in the paper, focusing in particular on the discretionary elements of the proposals, notably with regard to the arable, dairy and livestock commodities, the horizontal measures (cross-compliance and modulation) and the rural development regulation, and suggesting a line for the ELO.

INTRODUCTION

On 24-26 March 1999, the Heads of State and Government meeting at the Berlin European Council reached agreement on the political and financial guidelines proposed by the Commission in *Agenda 2000*. Although some issues remain to be resolved, the main principles of the reform have been set.

By and large, the proposals put forward in Berlin fall short of the Commission's original proposals. The CAP is still far from undergoing any radical reform. In effect, most of the changes adopted aim at spreading the period of reform, and/or minimising its impact (e.g. lesser price reductions). The proposed system will remain complex to administer, and in some cases its complexity has increased (for instance in the case of the extensification premium).

One area in which the Commission has remained consistent with its earlier proposals is in devolving a number of decisions to the Member States. This paper aims to identify those areas of Member State discretion, and to provide, where possible, an ELO steer, in particular with regard to the arable, dairy and beef Regulations, as well as the Horizontal measures (cross-compliance and modulation) and Rural Development Regulations.

ARABLE

Compulsory elements

- The cereals intervention price will be reduced by 15% in two steps starting on 1 July 2000. The Commission retains the option for further price reductions
- The area payment for cereals will be increased in two steps to Euro 63/t to compensate for approximately 50% of the reduction of the intervention price.
- Compulsory set-aside will be set at 10% for the period 2000-2006 (the Commission retains the option to propose changes), and will be paid at the cereals rate.

- The exemption for compulsory set-aside is maintained for small producers (less than 92 tonnes). From 2000, specific payments for oilseeds, protein crops, linseed and maize will be available to these producers instead of the current system of basing payments to small producers on the average “all cereals” yield.
- Area payments on oilseeds and linseed will be reduced to the same rate as cereals (Euro 63/t) over a three-year period. There will be a supplement for proteins, bringing payments for proteins to Euro 72.5/t from 2000.
- The dates by which area payments are made to farmers will be changed from 16 October/31 December to 16 November/31 January.

Discretion

- Retention of the option of having separate base areas for maize
- Possible new option of making area payments on grass silage in Member States where maize is not a “traditional crop”.
- Management rules for set-aside will need revision.

ELO recommendations on the discretionary measures

The provision for making area payments on grass silage in Member States where maize is not a traditional crop, according to the latest hints by the Commission, would concern Luxembourg, Austria, Ireland, Denmark, Sweden and Finland.

The decision to adopt these measures should be left to Member States. If this option is adopted however, Member States should be aware that since the overall national base area cannot be altered, Member States which decide to create a base area for grass silage will have to reduce the arable base areas accordingly. This could create redistribution effects which need to be taken into account.

With regard to set-aside, the ELO strongly recommends that the Member States should adopt systems which allow the maximum flexibility, for instance by allowing uncultivated conservation headlands to count towards set-aside, and by ensuring that schemes which set aside land – such as agri-environment or afforestation schemes – should be included as part of a farm’s obligations on compulsory set-aside (this is currently the case for agri-environment and afforestation schemes, but there is a need for reassurances that these provisions will continue to apply).

BEEF REGIME

Compulsory elements

- The beef intervention price is to be reduced by 20% over three years, in three steps starting on 1 July 2000.
- A safety net intervention system will be established “where market prices fall short of a critical price level”
- Price reductions are compensated for by increases in premia to the following rates in 2002:
 - Beef Special Premium: Bulls: Euro 210/head once per lifetime
Steers: Euro 150/head twice per lifetime
Suckler cows: Euro 200/head annually
 - Adult Cattle Slaughter Premium: Euro 80 for animals over 8 months
 - Calf Slaughter Premium (aid to veal producers): Euro 50 for animals 1 to 7 months
- Suckler cow ceilings: national ceilings are set for all Member States as the highest number of animals on which payments were made in 1995, 1996 or 1997 + 3% (at the level agreed in the accession Treaty for the three new Member States).
- Special male premium ceiling: national ceilings are based on the basis of the 1996 premium applications (and of the accession Treaty for the three new Member States). The ceiling for the

UK is raised by 100,000 head until such time as live animals under 6 months of age can be exported.

Discretion

- Optional national top-up for the Suckler Cow Premium Scheme, up to a maximum of Euro 50 per animal, provided that no discrimination is caused between livestock farmers in the Member State concerned. The first Euro 24.15 are EU funded in Objective 1 areas, and 100% funded in countries where 30% or more of the cow population are sucklers and 30% or more of male slaughterings are class S & E based on the average of the previous two years (it is believed that the last clause applies to Belgium only).
- Member States are allowed to raise (but probably not to abolish altogether) the 90-head limit on claims under the Beef Special Premium Scheme. Member States may also choose to exempt smaller producers (i.e. those with claims below a certain number of head per year) from the effects of scale-back of premium should the national/regional ceiling on claims be exceeded.
- Two optional bases for the payment of the extensification premium (in both cases the payments are supplements to payments under the Beef Special Premium and Suckler Cow Premium Schemes):
 - a two-tier system with payments of Euro 33/head and Euro 66/head for producers with actual stocking rates of <2 and <1.6 LU/ha for the years 2000 and 2001; in 2002 rates rise to Euro 40 and Euro 80/head, and stocking density limits are reduced by 0.2 LU/ha
 - a single-tier system with a payment of Euro 100/head for producers with an actual stocking density of <1.4 LU/ha
- The current limit of 120,000 kg milk quota which limits the eligibility of dairy producers to the Suckler Cow Premium is made optional.
- Member States are empowered to make additional payments to producers:
 - either as headage payments on male cattle, suckler cows, dairy cows and heifers, either broadly within the terms of the basic premium schemes or as supplements to the Slaughter Premium for adult cattle
 - and/or as area payments in respect of pasture land (to be defined by Member States) which is not used to support a claim for additional payments on cattle, but is used for rearing cattle.
 - Member States' shares of these funds is shown in Appendix A.

ELO recommendations on the discretionary measures

- Member States should be obliged to pay the full national top-up of Euro 50/head for the Suckler Cow Premium, in order to avoid distortions of competition.
- The 90-head limit on Beef Special Premiums should be removed. Although this would extend the take-up of the scheme, it would also constitute a worthwhile simplification.
- With regard to the national envelope top-up, the ELO's preference is that in the long run, payments should move to an area basis. In the short run however, and in view of the fact that the national envelope has been much depleted by various changes to the original proposals, its use to top-up headage payments should be accepted for reasons of administrative simplicity. Producers of quality beef could be further encouraged by using the national envelope to target beef producers, through the Beef Special Premium (for instance by making a premium available for more mature animals).

DAIRY REGIME

Compulsory elements

- Quota regime extended to 2006
- 15% reduction in support prices, starting on 1 July 2005, to be phased in over three years in equal instalments.
- Community funded compensation for reductions in support prices expressed in Euro/tonne of milk quota held by the producer on 31 March each year, phased in over three years starting in 2005 (building up to Euro 17.24/tonne of quota in 2007).
- Provision for additional national envelope for topping up the basic payments.
- Specific quota increases allocated to certain Member States (Italy – 600,000 t, Spain – 550,000 t, Republic of Ireland – 150,000 t and Northern Ireland – 19,700 t). 64% of the additional quota to be allocated in the 2000/2001 quota year and 36% the following year.
- 1.5% linear increase in milk quotas for all other Member States, over three years starting in 2005.
- Mid-term review of the quota regime.

Discretion

- Additional flexibility introduced in the quota management arrangements from 2000/2001:
 - discretion to decide on a national quota leasing deadline before 31 March (the end of the quota year) rather than 31 December
 - discretion to introduce a siphon on permanent quota transfers effected by lease of land (quota to feed into the national reserve)
 - discretion to provide for transfers of quota independently of the land
 - discretion to introduce a provision that if a producer does not make use of at least 70% of his quota within a 12-month period either through deliveries or direct sales, all or part of the unused quantity shall revert to the national reserve.

ELO recommendations on the discretionary measures

- There can be no overall ELO line on this issue. The decision taken by Member State governments should be made on a case-by-case basis. This is because the political priorities, cultural preferences and mechanisms used to administer quota differ in each country. In the UK for instance, there is strong resistance to the measures proposed in the Regulation, and a clear preference for retaining the status quo. In Germany, however, there is a clear political agenda that a siphon should apply to 'sofa producers'.
- The ELO however is strongly opposed to providing for transfers of quota independently of the land. This measure, in some circumstances, could result in some land being 'stripped' of its value.

HORIZONTAL MEASURES

Compulsory elements

- Member States are required from 1 January 2000 to take appropriate environmental measures (which may include general mandatory environmental requirements, support for agri-environmental measures, or specific environmental requirements constituting a condition for direct payments).
- No direct payments shall be made to "premium hunters".

Discretion

- Attachment of appropriate environmental conditions to direct payments
- Reduction of direct payments by up to 20% according to labour force criteria, overall prosperity criteria and/or the total amount of aids received by farmers
- Savings from both of the above to be available to Member States as additional Community support for early retirement, less favoured areas and areas with environmental restrictions, agri-environmental schemes and afforestation schemes.

ELO recommendations on the discretionary measures

The ELO's position on both cross-compliance and modulation is very clear.

The ELO has been and remains firmly opposed to the principle of **cross-compliance**. This position is based on the ELO's recognition that the current mechanisms of direct support to agriculture are unsustainable in the long-term (for a range of reasons, including enlargement of the EU and the next round of WTO talks). The ELO advocates rather an increase in the support made available for rural development and agri-environment. We are concerned that a policy of making support conditional to 'good' environmental behaviour, although understandable in the short-run, may in the long-run create policy conflicts when/if direct payments are reduced, thus reducing the incentive for farmers to be environment-friendly. As an effective agri-environmental policy will ultimately rely on setting up separate agri-environment policy instruments, the ELO's preference would be for such a move to occur now, rather than being postponed. The ELO will continue to argue for the adoption of a Land Stewardship Programme, along the lines put forward in EPG 57/98.

However, we recognise that the decision is far from easy under the current proposals, since the Commission provides that savings from the implementation of the cross-compliance measures (as indeed from the implementation of modulation) can be used, among other things, for agri-environment measures as detailed in the Rural Development Regulation. The temptation to settle for that arrangement is great, and has received the support of many environmental pressure groups.

With regard to modulation, the ELO has been and remains opposed to the modulation of support payments, whether by labour units, enterprise size or enterprise gross margin. Our position is based on the analysis that the only clear output of modulation is to distort markets. At the same time, it is a very blunt way of providing support to small farms, family farms, or environment-friendly farms, the three categories of farms which modulation is generally supposed to favour. The ELO is also concerned at the potential impact on competition of a varied implementation of modulation. Distortions of competition will unavoidably arise not only within a country, but between Member States.

A better way of making resources available for rural development and agri-environment, and which would be in keeping with the ELO's policies, would be to make a much smaller cut across *all payments*, in the order of, say 3% to 5%, and make those resources available to agri-environment, rural development and early retirement schemes. This would avoid having distortions of competition within Member States, as the impact of the reduction in support would be uniform across all products and producers, and arguably could be overcome by productivity gains. This system, especially if it were adopted across all Member States would set the basis for a forward-looking CAP.

RURAL DEVELOPMENT

Compulsory elements

- Member States are required to draw up seven-year Rural Development Plans beginning on 1 January 2000. The agri-environment schemes are compulsory, and Member States are required to introduce them in relation to “their specific needs”. All other measures are optional. Member States must “ensure the necessary balance between the different support measures”.

Discretionary elements

- Introduction of a number of measures:
 - investment in agricultural holdings;
 - establishment of aid for young farmers;
 - training for farmers;
 - early retirement for farmers/farmworkers;
 - processing and marketing of agricultural products;
 - support for rural development (e.g. diversification, conservation of rural heritage.....)
 - afforestation of agricultural land (e.g. a planting grant for short-rotation coppice);
 - compensation for areas with environmental restrictions.
- A continued discretionary option to support farmers in the Less Favoured Areas, but these payments must switch from a headage to an area basis.
- Rural development plans shall be drawn up at the geographical level deemed to be most appropriate.

Comments on the discretionary measures

Some of these measures are not currently in place in all Member States. For instance, the UK does not have early retirement schemes or young farmers schemes,

The resources available for rural development and accompanying measures remain very small (10% of the Agriculture budget), and hardly increase throughout the period (from Euro 4300 Mio in 2000 to Euro 4370 Mio in 2006)

Another important change is the decision by the Commission to shift support in less-favoured areas from a headage to an area basis. The ELO welcomes the Commission’s decision to move to area payments, as we have argued for a long time that area payments constitute an effective way of moving towards decoupled support. We are concerned however that the concept of Less Favoured Areas is shifting away from a mechanism to compensate for agronomic/economic hardship to an agri-environmental and social policy instrument. We accept current concerns for the environment and for the social role played by farming, but would argue that these apply beyond the LFAs, to agriculture as a whole.

With regard to the shift to area payments, the ELO urges that a number of recommendations be taken up. There is a risk for instance that a shift to area payments, especially in larger, more diverse, countries, could result in the emergence of large-scale ‘winners’ and ‘losers’ (i.e. only a limited shift in resource allocation at farm level is acceptable in the short term). In some Member States, where stocking densities vary widely across less favoured areas, an undifferentiated move to area payments may result in substantial shifts in resources to those areas where stocking densities are currently much lower. In these Member States therefore, an effective way of limiting such shifts may be to ring-fence the existing LFA compensatory allowances by region.

With a view to the long-term, the ELO would also urge Member States to opt for the simplest possible system. There is a real possibility that the mechanism used to allocate area payments in LFAs could then be extended to other payments. These are good reasons for opting for simplicity.

With regard to rural development plans, the ELO would argue that the most appropriate geographical approach has to be a mixed one. Plans drawn up at a national level only will fail to take into account the variety of regional situations and needs. Plans drawn up at a regional level only may result in policy distortions across the country, as the regions may focus on widely differing issues; 'boundary effects' will be aggravated as a result. The ELO's preference therefore would be for a system which combined broad-brush planning at national level with regional involvement. As a guideline, it is suggested that agri-environment, early retirement and young farmers schemes as well as compensatory allowances be determined at national level, while investment in agricultural holdings, training, marketing and processing, forestry and rural development initiatives be determined at regional level.

In Objective 2 areas, non-accompanying measures *may* be covered by rural development plans under the Rural Development Regulation, but these measures can also be covered by Development Plans under the Structural Funds Regulation (see Appendix B). It will be very important that – whatever the structure adopted to draw up the plans for the non-accompanying measures in Objective 2 areas – there be appropriate coordination between the relevant authorities, to ensure maximum consistency.

ELO Policy Group
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**Any comments or queries on this submission should be addressed to the
Secretary-General of the ELO at the address below**

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APPENDIX A

NATIONAL ENVELOPE FOR BEEF: ALLOCATION BY MEMBER STATE (IN MIO EURO)

	2000	2001	2002 and subsequent years
Belgium	13.1	26.3	39.4
Denmark	3.9	7.9	11.8
Germany	29.5	58.9	88.4
Greece	1.3	2.5	3.8
Spain	11.0	22.1	33.1
France	31.1	62.3	93.4
Ireland	10.5	20.9	31.4
Italy	21.9	43.7	65.6
Luxembourg	1.1	2.3	3.4
Netherlands	8.4	16.9	25.3
Austria	4.0	8.0	12.0
Portugal	2.1	4.1	6.2
Finland	2.1	4.1	6.2
Sweden	3.1	6.1	9.2
United Kingdom	21.3	62.5	63.8

APPENDIX B

RURAL DEVELOPMENT AND STRUCTURAL FUND PROGRAMMING AND FINANCE (STRUCTURAL FUND PROCEDURES SHOWN IN ITALICS)

	Objective 1 and transitional Objective 1 areas	Objective 2 areas	Other areas (including transitional 5b)
Accompanying measures (agri-environment, less-favoured areas, compensatory allowances, afforestation of agricultural land, early retirement)	Programming: Rural Development Plans under the CAP Rural Development Regulation Finance: EAGGF Guarantee		
Other measures (farm investments, training, processing and marketing, young farmers, some forestry and wider Article 33 measures)	Programming: <i>Development Plans under the Structural Funds Regulation</i> Finance: <i>EAGGF Guidance under the Structural Funds</i>	Programming: <i>Development Plans under the Structural Funds Regulation; <u>or</u></i> Rural Development Plans under the CAP Rural Development Regulation Finance: EAGGF Guarantee	Programming: Rural Development Plans under the CAP Rural Development Regulation Finance: EAGGF Guarantee