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Agriculture Council: Political Agreement on CAP Reform

At the end of its meeting held from 22 February to 11 March 1999, and within the process of the preparation of the Berlin European Concil, the Agriculture Council, awaiting the Opinion of the European Parliament, reached, by qualified majority, a political agreement on the overall Presidency compromise in agreement with the Commission concerning the agricultural aspects of Agenda 2000.

Bearing in mind that the Vienna European Council regarded Agenda 2000 as a package on which agreement can only be reached as a whole, the political agreement in the Agriculture Council must be considered as being without prejudice to the overall agreement on Agenda 2000 to be reached at the European Council in Berlin on 24/25 March 1999.

In summary, the decision includes a reduction in intervention prices for butter and skimmed milk powder of 15% in three steps over three years starting in 2003, combined with milk quota increases; a reduction of 20% in cereals intervention price in two equal steps; oilseed aid per hectare is to be aligned to that of cereals in 2002; the basic price of beef is fixed at euro 2224/t which relates to the trigger for private storage support, i.e. a 20% reduction, while intervention is maintained only as a safety net at euro 1560/t. Farmers' incomes are supported through a series of direct payments such as: dairy: euro 17.24/t of milk, supplemented by a payment from the EU funded national envelope; cereals and oilseeds: euro 66/t; beef: a suckler cow premium of euro 200/animal, a bull premium of euro 210 paid once per lifetime, a premium of euro 150 on steers paid twice per lifetime, a slaughter premium of up to euro 80 on bulls, steers, dairy cows, suckler cows and heifers and euro 50 on calves over 1 month. These premia with the exception of calves premium can be supplemented through the national envelope. The cost of the reform respects the objective of budgetary stabilisation.

Speaking after the conclusion of the Council of Agriculture Ministers, the Commissioner of Agriculture and Rural Development, Mr Franz Fischler, described the outcome as a solid basis for ensuring the future development of the EU's agricultural sector. While being slightly less ambitious than the Commission's proposals, the package nevertheless amounts to the most radical reform since the CAP was first established in the early 1960's. Indeed, seldom has a Commission proposal come through such a long and difficult negotiating process and remained so intact as these proposals on CAP reform. This is a credit, not only to the Commission but also to the Ministers of Agriculture who showed great political courage in taking decisions which today may seem to some to be politically unpalatable, to ensure that the EU's farmers and the agricultural industry have a prosperous future.

When implemented, the reform will benefit farmers, consumers, agri-industry, the environment and the EU economy in general. It also sends a clear signal to our trading partners as to the EU's commitment to the European model of Agriculture which will be defended with vigour in the forthcoming round of WTO negotiations.

The priorities for the European Commission when it drew up its proposals for reforming the CAP was to ensure that European agriculture would become more competitive on both the EU and global markets, more environmentally sensitive and that farmers livelihoods would be protected. These priorities have been fully upheld in this package of measures. CAP reform is a further step towards supporting people rather than products and compensating farmers not only for their production but also for their additional contribution towards society, in particular as guardians of the countryside.

It is quite clear, that based on the long term historic trend in farmer numbers that agriculture alone will not sustain the rural areas permanently either economically or in terms of maintaining rural population. The approach under Agenda 2000 whereby the rural development policy will operate as the second pillar of the CAP should provide more opportunities to promote economic activities both on and off farm and hence contribute towards maintaining an economically and socially vibrant rural sector.

Reacting to critics of CAP reform, Commissioner Fischler pointed out that many of today's predictions of catastrophe and doom and gloom were also put forward regarding the 1992 reforms and added: "they were wrong then and they are wrong now".

The suggestion that farmers are being asked to operate at uneconomic world market prices is untrue. This agreement will in fact reinforce EU preference in many areas thereby ensuring that EU farmers will continue to have priority access for more than 90% of their production to the most lucrative consumer market in the world, while at the same time allowing them to expand and diversify their production to take advantage of new opportunities outside of the EU market.

Concluding, Mr Fischler said that it has always been clear that CAP reform is politically and socially impossible without extra funding in the short term and urged EU Governments to provide the necessary financial resources in the interest not only of the agricultural sector, but also because of the economic contribution to the EU economy overall which will be generated as a result of a reformed CAP and added that in any case the cost of this package respects the principle of budget stabilisation.

Main Elements by sector

Arable Crops

The arable crops sector covers cereals, oilseeds crops, and protein crops (COPs). Arable crops occupy a central place in the farm sector, as much in terms of human consumption as well as demand from the animal feed industry (feed for pigs and poultry). COP product accounts for 11% of the value of the EU production and 21% of EU agricultural income. It accounts about 42% of EAGGF expenditure and uses 40% of the EU Usable Agricultural Area (UAA).

Main elements

The Council conclusions for arable crops are:

- the *intervention price* is cut by 20% in two steps starting at the 2000/2001 campaign to bring it to 95.35 euro/t from 119.19 euro/t now. Intervention will thus return to its original role of acting as a safety net for farm incomes;

- with the reduced role of intervention, *seasonal price corrections* are no longer justified. The monthly increments system is therefore abrogated;

- *direct payments* are increased in two steps to 66 euro/t from 54/t euro. They should be paid between 16 November and 31 January (now: 16 October - 31 December);

- *oilseeds and linseeds* direct payments per hectare will be reduced in three annual steps to that of cereals, while the reference price system for oilseeds will be abolished in 2000. As a consequence, the lifting of the Blair House areas limitation will start from the 2002/2003 marketing year onwards.

- the Commission confirms that agri-environmental schemes could cover sunflower and spring rape;

- in order to ensure the profitability of *protein crops* compared to other crops, they will receive a premium of 6.5 euro/t on top of the basic direct payment;

- *maize* specific sub-base areas and specific yields can be retained;

- *irrigated areas* can be defined as sub-base areas with specific yields. For Portugal the irrigated base area is raised by 60000 ha;

- *compulsory set-aside* is retained, and the basic rate will be set at 10% for the marketing years 2000/2001 and 2001/2002, and at 0% from 2002/2003 onwards;

- *voluntary set-aside* is maintained, but the scheme will be improved, in particular to take account of environmental considerations;

- *compensation* for set-aside is set at the same rate as for arable crops;

- the payment for producers of *potatoes* intended for the manufacture of potato starch is set at 118.41 euro/t

- member states where *maize silage* is not a traditional crop, shall have the possibility of making grass silage eligible for the arable crops area payment and of defining specific sub-base areas for grass silage (without changing the total national base area) to which the basic cereals reference yield applies.

Beef

The beef sector is faced with increasingly difficult market circumstances.

The Commission has taken the view that the only viable long-term strategy is to lower price support in order to restore a better balance between supply and demand on the European market. This would have a number of positive consequences in terms of helping beef to re-establish its position on the home market compared to other meats, increasing the competitiveness of European beef on growing world markets and reducing the need for export refunds to traditional outlets. This approach has been endorsed by the Council.

Main elements

Market support
The basic price is to be fixed at 2224 euro/t which is equivalent to a 20% price reduction arrived at in three equal steps. There would be a phased introduction of the changes so that the current market support price (2780 euro/t) will be reduced in three steps. On 1 July 2002, the basic price (for private storage) would be established on the introduction of the third and final reduction in the support level. Private storage aid could be granted when the average Community market prices is less than 103% of the basic price.

As from 1 July 2002, a "safety net" intervention system will be set up. When the average market price for bulls or steers in a Member State (or region thereof) is less than 1560 euro/t, buying-in tenders shall be organised in that Member State by the Commission through the Management Committee procedure.

Premia
The basic special premium for male animals would be increased in three steps up to 210 euro for bulls and 300 euro for steers in the year 2002 and would be continued at this level in the subsequent calendar years. Payments will be one-off for bulls and twice (2 x 150) in a lifetime for steers. The premium for bulls takes into account the benefit of retaining the arable crop payment for silage maize. For male animals, the regime would include a set of regional ceilings for the number of premium rights.

The minimum ages for the payment of the two brackets of the special male premium are fixed respectively at 9 months (or 185 kgs carcass weight) and after 21 months. A slaughter premium will be paid directly to the farmer, under condition of a retention period. Its amount will be 80 euro for bulls, steers, dairy cows, suckler cows and heifers (from 8 months for all these categories of animals), and 50 euro for calves (of more than 1 month and less than 7 months and less than 160 kg carcass weight).

Two ceilings for the slaughter premium are fixed per Member State, one for adult animals (bulls, steers, cows and heifers) and one for calves, equal to the number of animals slaughtered in 1995 plus exports to third countries in 1995 on the basis of Eurostat data, or any other published official statistical information for these years accepted by the Commission.

Regional ceilings
Regional ceilings for the special male premium are fixed on the basis of the 1996 figures as in the proposal, but these figures are however updated. The ceiling is calculated in conformity with the Council Statement of November 1996 (using a 5% trigger).

Belgium	235 149	Luxembourg	18 962
Denmark	277 110	The Netherlands	157 932
Germany	1 782 700	Austria	423 400
Greece	143 134	Portugal	175 075
Spain	713 999	Finland	250 000
France	1 754 732	Sweden	250 000
Ireland	1 077 458	United Kingdom*	1 419 811
Italy	598 746		

* +100 000 on a temporary basis until such time as live animals under 6 months of age may be exported.

For the three new Member States, the ceilings are fixed at the level foreseen in the accession Treaty.

Quantitative limits
Member States may fix a maximum of special premia per holding different from 90 animals/holding.

In such a case, Member States may determine that any reduction in the number of premia, due to premium applications above the regional ceiling, is not applied to small farmers who apply for not more than a number of animals to be fixed by the Member State. The reduction necessary to stay under the ceiling will be borne only by the other farmers.

Suckler cow
The annual suckler cow premium will be increased up to 200 euro in 2002 and will continue to be based on indi-

vidual ceilings. The national premium additional to the suckler cow premium is increased to 50 euro/head. A maximum 20% of the suckler cow premium rights can be claimed for heifers.

Member States where more than 60% of suckler cows and heifers are kept in mountainous areas, may decide to manage the payment of the suckler cow premium to heifers, not in the individual quota, but by allocating a part of maximum 20% of the suckler cow national ceiling to a separate national ceiling.

As for male animals national ceilings to cover all suckler cow premium rights are to be introduced at the following levels:

Belgium	394 253	Luxembourg	18 537
Denmark	112 932	The Netherlands	63 236
Germany	639 535	Austria	325 000
Greece	138 005	Portugal	277 539
Spain	1 441 539	Finland	55 000
France	3 779 866	Sweden	155 000
Ireland	1 102 620	United Kingdom	1 699 511
Italy	621 611		

National Envelopes

A financial envelope per Member State will be introduced which can be used to top up payments on male or female bovine, including dairy cows. This will allow Member States flexibility to compensate for regional differences in production practices and agronomic conditions which might make restructuring difficult, and also aims to encourage extensive production.

National Envelopes (expressed in millions of euro):

Belgium	39.4	Luxembourg	3.4
Denmark	11.8	The Netherlands	25.3
Germany	88.4	Austria	12.0
Greece	3.8	Portugal	6.2
Spain	33.1	Finland	6.2
France	93.4	Sweden	9.2
Ireland	31.4	United Kingdom	63.8
Italy	65.6		

Extensification

The total number of animals qualifying for the special premium and the suckler cow premium will continue to be limited to two livestock units (LU) per hectare of forage area.

The current extensification premium will be significantly increased. Only genuinely extensive production practices will now qualify as the criteria are made more rigorous by taking account of all the adult cattle and sheep actually present on the farm.

The amounts of the extensification premium will be the following:

- in 2000 and 2001:
  33 euro between 2.0 and 1.6 LU/ha
  66 euro if less than 1.6 LU/ha

- from 2002:
  40 euro between 1.8 and 1.4 LU/ha
  80 euro if less than 1.4 LU/ha.

On the other hand, member states may apply extensification as proposed originally by the Commission i.e. 100 euro per livestock unit where the stocking rate is less than 1.4 livestock units per hectare.

The number of hectares taken into account is limited to temporary and permanent prairies and all other forage areas, except arable crops.

The obligation of actual grazing of the animals on pasture land during the growing season, is replaced by the condition that the pasture land should represent at least 50% of the total forage area declared.

Pasture land will be defined by Member States. This definition will include at least the following criterion: pasture land is grassland which, following the local farming practices, is recognised as being destined for grazing by bovine animals and/or sheep.

This does not exclude the mixed use of this land (pasture, hay, grass silage) during the same year.

In Member States where more than 50% of the milk is produced in mountainous areas, the extensification premium is also applicable in the case of dairy cows kept on holdings situated in these areas.

Milk

Main elements

As in the case of the other sectors included in CAP reform, the milk sector will also continue to face competitive challenges internally and externally. Already, EU producers are exporting certain value added dairy products without export refunds, therefore it is quite clear that a downward adjustment in prices will help strengthen this trend. It is agreed that intervention prices for butter and skimmed milk powder will be reduced by 15% in three equal steps, starting in 2003. This in turn facilitates an increase in quota which should at least partly be disposed of without subsidy.

Quotas of most Member States will be increased by 1.5% in three steps starting in 2003. The other five member states - Greece, Spain, Ireland, Italy and the UK (Northern Ireland) - will receive a specific quota increase in two steps starting in 2000. This will lead, at the end of the implementation period, to a 2.39% overall increase in quotas.

Specific Quota increase:

Greece	70.0	Italy	600.0
Spain	550.0	United Kingdom	
Ireland	150.0	(Northern Ireland)	19.7

The milk quota regime is extended until 2006 and the future of the regime after 2006 will be reviewed in 2003.

To ensure farm incomes are protected a system of aids will be introduced increasing over three years. This aid will increase in three equal steps to 17.24 euro/t in 2005 supplemented by a payment from the EU financial envelope allocated to member states, which will also increase over three years from 2003 to 2005.

National Envelopes relating to dairy - year 2005 (expressed in millions of euro):

Belgium	25.7	Luxembourg	2.1
Denmark	34.5	The Netherlands	85.8
Germany	216.0	Austria	21.3
Greece	4.9	Portugal	14.5
Spain	43.1	Finland	18.6
France	187.9	Sweden	25.6
Ireland	40.7	United Kingdom	113.1
Italy	77.0		

Wine

The decision establishes a new Common Market Organisation for Wine.

For reasons of clarity, simplification and transparency, it is considered appropriate to replace the present 23 regulations dealing with wine with a single regulation.

The proposed measures aim to have a positive impact on the competitive performance of the EU's wine sector in the context of an expanding global economy. The measures will address the new situation in the sector in the immediate and medium term (over a period of ten years).

Main elements

The Council has decided to retain the existing ban on new vineyard plantings until the year 2010 and to allocate to Member States new planting rights as follows (in addition to traditional derogations, subject to a separate discipline), in hectares:

Germany	1 534	Austria	737
Greece	1 098	Portugal	3 760
Spain	17 355	*Total*	*51 000*
France	13 565	Reserve	17 000
Italy	12 933		
Luxembourg	18	*Grand Total*	*68 000*

The Commission shall be empowered (in the period up to 31 December 2003), via the Management Committee procedure, to allocate additional new planting rights (from a reserve) to those regions which can show that there is additional need which could be met by the distribution of additional planting rights.

The new system for planting rights will enable a disciplined increase of EU wine production potential to enable the development of areas with a manifest need. A new system for managing planting rights will lead to greater flexibility and allow for the regularisation of plantings. The introduction of an inventory will enhance controls and information.

The availability of structuring and conversion measures to adapt vineyards to the market will be beneficial to small and medium-sized enterprises, as will the formalisation of producer and interbranch (or equivalent) organisations.

The market mechanisms proposed will refocus their aims to the current situation; i.e. maintain all traditional outlets for wine and vine-based products, allow the Commission to address exceptional cases of serious structural surplus, ensure continuity of supply and ensure the quality of wine reaching the market. A number of obsolete mechanisms are removed as is the possibility of finding artificial outlets for unmarketable products. "Preventive distillation", "compulsary distillation of table wines" and "support distillation" is to be abandoned. A "crisis" distillation measure, available on a voluntary basis, will be introduced to deal with exceptional cases of market disturbance as well as specific distillation measures for the potable alcohol market.

The successful application of restructuring and conversion measures is intended to reduce any potential need to trigger the crisis distillation measures and the Commission will target the objectives of restructuring and conversion measures flexibly, according to the sector's needs.

The radical simplification which the proposal achieves will vastly improve transparency and understanding in the sector.

Overall, the final decision represents a substantial financial commitment to maintain and develop one of Europe's most competitive sectors.

Measures applying to all Common Market Organisations

As far as the horizontal regulation is concerned, the compromise foresees in particular:

- *Environmental requirements*, whereby Member States should define appropriate environmental measures to be applied by farmers, as well as proportionate penalties for environmental infringements involving, where appropriate, the reduction of direct payments.

- A system whereby Member States may be authorised to *modulate direct payments* per farm, within certain limits, in relation to employment on the farm or overall prosperity of the holding.

- Funds made available from aid reduction following cross-compliance or modulation remain available for the respective Member State as an additional Community support for agri-environment measures, less favoured areas, early retirement, afforestation.

The original provision to have ceilings on direct payments has been deleted.

Rural Development Policy

The new policy for rural development will help to establish a coherent and sustainable framework for the future of Europe's rural areas. For the Commission this has always represented a key element in the discussions on the future of the CAP.

The new policy is guided by a multi-sectoral, integrated approach to rural development. On the one hand, it recognises that farming plays a number of roles including the preservation of the rural heritage. On the other hand, it recognises that the creation of alternative sources of income must be an integral part of rural development policy.

A major innovation has been to bring a series of rural development measures together in a single, coherent package offering support to all rural areas in 3 main ways:

- **By creating a stronger agricultural and forestry sector.** The principal measures include those for the modernisation of agricultural holdings and for the processing and marketing of quality agricultural products. In addition the viability of agricultural holdings will be facilitated by measures for the establishment of young farmers and through improved conditions to encourage early retirement from farming. Forestry has been formally recognised as a key element of rural development for the first time where a new measure will seek to support the sector where it serves an ecological function.

- **By improving the competitiveness of rural areas.** Here, the principle objectives are to support the quality of life of the rural community and to promote diversification into new activities. The measures are designed to create alternative sources of income and employment for farmers and farming families and for the wider rural community.

- **By maintaining the environment and preserving Europe's unique rural heritage.** Agri-environment measures will support environment-friendly agricultural methods. They will be the only compulsory element in the new generation of rural development programmes and hence a decisive step towards the recognition of the multi-functional role of agriculture. As an additional measure which will help in the further 'greening' of the CAP, the traditional compensatory allowances in support of farming in less favoured areas will be extended to areas where farming is restricted by the existence of specific environmental constraints

Guiding principles for the new rural development policy are those of decentralisation of responsibilities and flexibility. It is for the Member States to come forward with proposals for rural development programmes targeted at an appropriate geographical level. They can draw on a menu of rural development measures set out in the regulation according to their needs and priorities. The regulation itself reflects a major step in the direction of the simplification of European legislation: a single text replaces nine previously existing regulations.

Outside the European Union's least developed regions, the so-called Objective 1 regions, rural development measures will be financed from a single source: the EAGGF–Guarantee Section.

This underlines the fact that as a result of the decisions taken in the Council rural development has become the second pillar of the CAP.

Rural Development - Table of Amounts

Measure	Payment (Euro)	Reference
Setting-up aid for young farmers	25 000	
Early retirement scheme	15 000*	per transferor and year
	150 000	total amount per transferor
	3 500	per worker and year
	35 000	total amount per worker
Compensatory allowance in less favoured areas:		
Minimum	25	per hectare of areas used for agriculture
Maximum	200	per hectare of areas used for agriculture
Support for agri-environmental undertakings:		
Annual crops	600	per hectare
Specialised perennial crops	900	per hectare
Other land uses	450	per hectare
Premium to cover losses from afforestation		
- for farmers or associations thereof	725	per hectare
- for any other private law person	185	per hectare
Payment related to protective and ecological role of forests:		
Minimum compensatory payment	40	per hectare
Maximum compensatory payment	120	per hectare

* Adjustable subject to respect for total amount

This special edition of the Newsletter is available in English only due to the tight production schedule. The text is available in English, French and German on DG VI's Internet Site. A series of specific fact sheets on each sector will be published, in 11 languages, after the formal adoption of the regulations.

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