CAP REFORM SUMMARY

INTRODUCTION

The Council of Agriculture Ministers of the European Union (EU) reached agreement, in Luxembourg on 26 June 2003, on a fundamental reform of the common agricultural policy (CAP), based on the Commission proposals presented on 23 January 2003. In line with the overall objectives of Agenda 2000, this reform will be introduced from 2004 and 2005, completing that reform process in some areas and establishing a more stable policy framework for European agriculture.

This landmark reform will move the CAP into a new era by changing the nature of EU support to the farm sector and the rural economy.

The new CAP will:

- be geared towards consumers' and taxpayers' interests while continuing to assist farmers;
- safeguard the rural economy and environment;
- keep budgetary costs stable and manageable;
- help in negotiating a World Trade Organisation (WTO) agricultural agreement that meets the needs of EU agriculture and society.

The reforms are a crucial step in helping EU farmers to:

- become more market-oriented, and competitive on EU and world markets, while receiving reasonable income support;
- reap the rewards for farming in an environmentally-sustainable way;
- continue to produce high quality foods in the diverse regional situations that characterise European agriculture and to bring added value to them;
- maintain the essential character of the EU's countryside.

Commenting on the Council's decision, EU Farm Commissioner Franz Fischler said:

> "This decision marks the beginning of a new era. Our farm policy will fundamentally change. Today, Europe has given itself a new and effective farm policy. The bulk of our direct payments will no longer be linked to production. To our farmers, it offers a policy which will stabilise their incomes and enable them to produce what the consumers want. Our consumers and taxpayers will get more transparency and better value for money. This reform also sends a strong message to the world. Our new policy is trade friendly. We are saying goodbye to the old subsidy system which significantly distorts international trade and harms developing countries. Today's decision will give Europe a strong hand in the negotiations on the Doha Development Agenda. The EU has done its homework,

now it's up to others to move to make the WTO trade talks a success. But let there be no mistake. At the Cancún Ministerial Meeting, the EU will be ready to use its increased negotiating capital only if we get something in exchange. Unilateral disarmament is not on. The ball is now in the camp of other countries, such as the US, whose agricultural policies continue to be highly trade-distorting and have even become increasingly so".

THE KEY ELEMENTS OF THE NEW CAP

More market-oriented, simpler and less trade-distorting support via:

- the introduction of a **single payment scheme** for EU farmers, independent (i.e. "decoupled") from production, with limited "coupled" elements maintained where Member States consider this necessary to avoid abandonment of production;
- the linking of the **single payment scheme** to the respect of environmental, food safety, animal and plant health and animal welfare standards, as well as to the requirement to keep all farmland in good agricultural and environmental condition ("**cross-compliance"**);

Strengthening of rural development policy via:

- the shift of more EU money, new measures to promote the environment, quality and animal welfare and to help farmers to meet new EU standards
- a reduction in direct payments ('modulation') for bigger farms to finance the new rural development policy;

Revisions to the market support parts of the CAP via:

- significant reforms in the intervention mechanism of sectors of structural imbalance (butter, rye, rice)
- adjustments in support mechanisms in other sectors (durum wheat, drying aids, starch potatoes, dired fodder, nuts)
- a mechanism for financial discipline ensuring that the farm budget fixed until 2013 is not overshot

DESCRIPTION OF THE REFORM AGREEMENT

1. MAJOR NEW ELEMENTS OF THE CAP EXPLAINED

Reforming the CAP involves many detailed changes, some taking place over a period of years. The most important ones are as follows:

Single payment scheme

A single payment scheme will replace most of the premia (direct aid payments to farmers) currently offered. The new single payment scheme will not be linked to what a farmer produces any more (in other words it will be 'decoupled'). The amount of the payment will be calculated on the basis of the direct aids a farmer received in a reference period (2000 to 2002). A major aim of the single payment scheme is to allow farmers to become more market oriented and to release their entrepreneurial potential. Management decisions that in the past have been influenced by what the CAP offered in subsidies can now be taken on the basis of market requirements. Where a particular production activity is profitable farmers will continue to follow it. The reformed CAP is designed so that farmers take advantage of such opportunities.

In order to ensure continued land management activities throughout the EU, beneficiaries of direct payments will be obliged to keep their land in good agricultural and environmental condition. Farmers who fail to comply with this requirement will face reductions in direct payments (see section on 'cross-compliance' below).

Full decoupling

The single payment scheme comes into operation on 1 January 2005. Member States may delay implementation up to 2007. But, by 2007 at the latest, all Member States should introduce the single payment scheme.

Partial decoupling

Full decoupling is the general principle from 2005 onwards**.** However, Member States may decide to maintain a proportion of direct aids to farmers in their existing form, notably where they believe there may be disturbance to agricultural markets or abandonment of production as a result of the move to the single payment scheme. Member States may apply a number of options, at national or regional level, but only under well-defined conditions and within clear limits:

- They may retain 25 % of the COP component (basic area payments for cereals and other arable crops) of the single payment scheme or, alternatively, up to 40 % of the supplementary durum wheat aid in order to continue the existing coupled per hectare payments up to the above-mentioned percentage levels;
- 50 % of the sheep and goat premia can be granted as coupled payments;

- In the bovine sector, Member States can opt for keeping up to 100 % of the suckler cow premium and up to 40 % of the slaughter premium coupled. Alternatively, they could keep 100 % of the slaughter premium coupled or, instead, up to 75 % of the special male premium;
- In the dairy sector decoupling will take place once the reform is fully implemented (2007). Member states may opt to apply decoupling from 2005;
- Drying aid, seeds and direct payments in outermost regions and the Aegean Islands need not be integrated into the single payment scheme.

Additional coupled payments

Member States may grant "additional payments" to support agricultural activities that are important for the protection or enhancement of the environment or for improving the quality and marketing of agricultural productions. These "additional payments" may use up to 10 % of the funds that are available for a certain sector included in the single payment scheme in a Member State concerned. The additional payment must be within the overall limits laid down for the sector in question.

Dairy payments

Dairy direct aids will be introduced in stages and fully implemented by 2007. Generally, dairy payments will form part of the single payment scheme from 2006/07 onwards, unless Member States decide on an earlier introduction of decoupling within a regionalised application of the single payment scheme.

At the latest two years after implementation of the single payment scheme by all Member States, the Commission will submit a report to the Council, if necessary with appropriate proposals, on any market disturbances or structural developments that may have taken place as a result of maintaining sector-specific direct payments.

As a result of the move to the single payment scheme the vast majority of EU direct aids to farmers will no longer be linked to production.

Compulsory cross-compliance

The reformed CAP puts greater emphasis on cross-compliance. Hitherto cross-compliance was voluntary for Member States and applied to environmental standards only. Cross-compliance is now compulsory. All farmers receiving direct payments will be subject to cross-compliance. A 'priority list' of 18 statutory European standards in the fields of environment, food safety, and animal health and welfare has been established and farmers will be sanctioned for non-respect of these standards, in addition to the sanctions generally applied, through cuts in direct payments.

Beneficiaries of direct payments will also be obliged to maintain all agricultural land in good agricultural and environmental condition, in order to avoid land abandonment and subsequent environmental problems. Where a farmer fails to comply with such requirements, reductions in his payments will be applied as a sanction.

Control of cross-compliance requirements will be carried out on the basis of IACS (Integrated administration and control system for certain EU aid schemes) with a high level of flexibility as regards the required control rates. This will ensure that control can rely on the existing mechanisms established in the fields concerned. The Commission will outline indicators for each legal obligation in order to facilitate the application of cross-compliance.

Member States may retain 25 % of the money collected through the application of cross-compliance (i.e. non-compliance by farmers). Member States must ensure that there is no significant decrease in their total permanent pasture area.

Modulation and financial discipline

The need to reinforce rural development has been an important element in the discussion on the CAP over the last years. In this respect and in order to finance the additional rural development measures agreed, direct payments for bigger farms will be reduced (the mechanism known as '**modulation**'), by 3 % in 2005, 4 % in 2006 and 5 % from 2007 onwards (see table). Direct payments up to an amount of EUR 5000 per farm will remain free of reductions.

Budget year	**2005**	**2006**	**2007**	**2008 to 2013**
Farms with up to EUR 5 000 direct payments a year	0%	0%	0%	0%
Above EUR 5 000	3%	4%	5%	5%

One percentage point (i.e. 20 % of the modulation money generated in a particular Member State) will be allocated to the Member State concerned.

The remaining amounts will be re-distributed among Member States according to clear criteria:

- Agricultural area;
- Agricultural employment;
- GDP per capita in purchasing power.

However, every Member State will receive at least 80 % of its modulation funds. Reductions in direct payments will not apply in the accession states until direct payments reach EU levels.

Outermost regions of the EU and the Aegean Islands will be exempt from modulation.

Member States will be permitted to continue with domestic modulation up to the level required to fund rural development programmes established before 2006.

A '**Financial Discipline**' mechanism will be applied in order to keep CAP spending in line with the strict budgetary ceilings laid down by EU leaders at the European Council in Brussels in October 2002. This means that direct aid will be adjusted when forecasts indicate that spending in the relevant areas of the CAP (market expenditure and direct payments - subheading 1a of the financial perspective) will exceed established ceilings, reduced by a safety margin of EUR 300 million. In other words, if overspending on direct aids is forecast then direct aids will be reduced thus ensuring that the budget is not exceeded. The Council will fix the necessary adjustment each year based on a Commission proposal.

This discipline mechanism should ensure that CAP expenditure is kept on a tight rein and that recent trends in CAP spending (which include an effective freeze on overall spending and a shift away from market and export-related payments) continue.

Strengthened rural development policy

A modulation rate of 5 % will result in additional rural development funds of EUR 1.2 billion a year being made available. The reform also includes a significant extension of the scope of currently available instruments for rural development, starting in 2005, to promote food quality, meet higher standards and foster animal welfare. Together these two changes will provide new strength to EU rural development policy.

The changes are all targeted primarily to help farmers responding to new challenges. It will be for Member States and regions to decide if they wish to take up these measures within their rural development programmes. The new measures will comprise:

- Food quality measures: incentive payments will be available for farmers who participate in recognised schemes designed to improve the quality of agricultural products and the production processes used, and give assurances to consumers on these issues; and, support for producer groups for activities intended to inform consumers about and promote the products produced under quality schemes will be eligible for public funds;
- Meeting standards: Member States may offer temporary and degressive support to help their farmers to adapt to the introduction of demanding standards based on EU legislation concerning the environment, public, animal and plant health, animal welfare and occupational safety. Aid will not be payable where an individual farmer is not respecting standards already included in national legislation;
- Farm Advisory Service: support will be available for farmers to help them with the costs of using farm advisory services;
- Animal welfare: there is now provision to support farmers who enter into commitments for at least five years to improve the welfare of their farm animals and which go beyond usual good animal husbandry practice. Support will be

payable annually on the basis of the additional costs and income foregone arising from such commitments.

2. SOME MORE DETAILS

The 'horizontal' regulation

Many of the key elements of the reform agreement are contained in a horizontal regulation. This covers, inter alia, cross-compliance, the single payment scheme and its regional application, modulation and financial discipline, set-aside and the Farm Advisory System. It will represent, therefore, the key reference point for the detail of the June 2003 reforms.

Specifications of the single payment scheme

There will be detailed rules for the application of the new payment. The main points already established are as follows.

Payment entitlements

Entitlement to the new payment goes to farmers who are actively farming the land. In general this means farmers who are active at the moment the new scheme enters into force and who can prove historical claims during the reference period. Farmers will be allotted payment entitlements based on historic reference amounts (amounts of aid received in the 2000-2002 period). Each entitlement will be calculated by dividing the reference amount by the number of hectares which gave rise to this amount (including forage area) in the reference years.

In a given year, payments will be granted only for those entitlements for which a farmer has an eligible hectare under his disposal. Thus, in order to get the full payment, he must have as many eligible hectares as he has entitlements. **Eligible hectares** include any type of agricultural land except land used for growing permanent crops. An **eligible hectare** that a farmer declares for a payment from the single payment scheme may be used for any agricultural activity except for fruit and vegetables and table potatoes.

Payment entitlements may be transferred, with or without land, between farmers within the same Member State. A Member State may define regions where entitlements may not be transferred out of the region. Transfers without land are allowed, but the farmer taking over the payment entitlement can only receive payment if entitlements are matched by the appropriate eligible hectares.

Payment entitlements can thus only be used where there is land related to them. Furthermore farmers must be complying with the other conditions required, in particular maintaining land in good agricultural and environmental condition.
Whereas the single payment scheme gives farmers generally the choice as to what they do with their land, these stipulations will ensure that the land will be kept in good environmental and agricultural conditions.

Special arrangements may be applied to cover, for example, beef feed lots, or where farmers have no or only a few hectares at their disposal (e.g. in the case of transhumance).

Entitlements that remain unused for three years will be transferred to national reserves that will be established at the start of the new scheme with the aim of solving hardship cases and problems arising during the transitional phase and for grants of entitlements to newcomers. The national reserve will account for up to 3 % of a Member State's envelope for the single payment scheme.

Regional application options

The single payment scheme may be 'regionalised' with a high degree of discretion given to Member States in its application. Member States may:

- allocate uniform payment entitlements within a region (by taking into account all eligible hectares within the limits of a regional financial 'envelope' to be defined) rather than calculating a single payment individually for each farmer;
- vary payment levels between arable land and grassland (as identified on 31 December 2000), without prejudice to the actual use of that land;
- make different sectors contribute to different degrees to the redistributed regional envelope while allocating some payments or parts of them on the basis of individual reference amounts;
- redistribute funds between regions when the regional financial envelopes are defined;
- advance the integration of the milk premiums into the single payment scheme.

Member States with less than 3 million hectares of eligible land can be considered as one region.

National reserve

Member States are to create a national reserve via a linear percentage reduction of the reference amounts. This reduction may be up to 3 %. The national reserve is to be used to provide reference amounts for hardship cases (e.g. in cases of *force majeure* or exceptional circumstances). A host of individual farm circumstances will have to be taken into account especially during the transition phase.

In addition, the national reserve will be used to allocate entitlements to solve problems of transition. This applies in particular to farmers who have a low reference amount as compared to their production capacity, because, during the reference period, they rented or bought land, invested in new facilities, or participated in national programmes of reconversion.

Set-aside

Within the single payment scheme, farmers will receive set-aside entitlements calculated on the basis of historic references. Set-aside entitlements will be activated only if accompanied by an eligible hectare put into set-aside (excluding permanent pasture). Set-aside land may be subject to rotation and may be used for energy crop production. Organic producers will be exempt from the set-aside obligation.

Set-aside areas must cover at least 0.1 hectare in size and be at least 10 metres wide. For justified environmental reasons a width of 5 metres may be accepted.

Farm Advisory System

The aim of the system is to provide a type of audit of farms receiving CAP support. The audits will involve farmers conducting regular stocktaking and accounting of material flows. They will record farm management processes that take place on their farms, notably in relation to the environment, food safety and animal welfare (there will be some flexibility in what is applied at regional level). The system also provides a service for farmers as they will receive feedback on how standards and good practices can be applied in the production process. Until the end of 2006 Member States may opt to operate Farm Advisory Systems. From 2007 Member States will be obliged to introduce the System. The participation of farmers is voluntary at first. In 2010 the Council will decide, on the basis of a Commission report, whether to make the advisory system compulsory for certain categories of farmers.

Assistance via rural development measures

The strengthened rural development policy provides specific new elements of support. The funding involved is as follows.

Food quality measures

Under the incentive payments provided to farmers who participate in schemes designed to improve the quality of agricultural products, production processes and marketing and promotion, annual payments will be offered, for a period of up to five years and up to a maximum of EUR 1 500 per farmer per year. Additional public support for producer groups undertaking consumer information activities, including for products produced under quality schemes, is available but will be limited to 70 % of eligible project costs.

Meeting standards

Temporary and degressive support will help farmers to adapt to the introduction of demanding standards based on EU legislation not yet included in national legislation concerning the environment, public, animal and plant health, animal welfare and occupational safety. Aid will be payable on a flat-rate basis, and degressive for a maximum period of 5 years. Aid will be subject to a ceiling of maximum EUR 10 000 per holding in a given year.

Support will be provided to farmers to help them with the costs of using farm advisory services. Farmers may benefit from public support of up to a maximum of 80 % of the cost of such services, subject to a ceiling of EUR 1 500.

Animal welfare

Animal welfare measures apply only to commitments beyond the level of statutory standards. The statutory standards will have to be met at farmers' own cost. Only when such standards are newly introduced, the new 'meeting standards' measure may provide assistance for adjustment. However, the EU will provide support to farmers who enter into commitments of at least five years to improve the welfare of their farm animals which go beyond good animal husbandry practice. Such support will be paid annually in relation to the additional costs involved, and income foregone, up to a limit of EUR 500 per livestock unit/year.

Support for young farmers

Support measures for young farmers will be reinforced. The measures concerning the support for young farmers include an increased setting-up aid as well as a higher aid intensity for investment aid.

Support for the implementation of Natura 2000

Aid in areas with specific environmental restrictions is targeted specifically towards requirements resulting from the Birds and Habitats Directives (Natura 2000). The aid level can, in justified cases, start from EUR 500/hectare, going down to EUR 200/hectare over five years.

Forest measures

Investment in state-owned forests may be supported for ecological and social reasons. Annual premiums will also be applicable for private tenants.

The main support price/direct aid decisions

- *Cereals*: Intervention price and direct payment of EUR 63/tonne retained, but monthly increments reduced by 50 %. Rye excluded from the intervention system but Member States whose rye production is very significant can receive an additional 10 % of the modulation money raised in the Member State concerned in order to assist, within the framework of rural development measures, rye producing regions;
- *Protein crops*: The current supplement for protein crops (EUR 9.5/tonne) will be maintained and converted into a crop specific area payment of EUR 55.57/hectare. It will be paid within the limits of a new Maximum Guaranteed Area of 1.4 million hectares;
- *Grain legumes*: The current regime remains unchanged for 2004-2005. Thereafter it will be integrated in the single payment regime;

- *Durum wheat*: The supplement for durum wheat in traditional production zones will be paid independently from production. Member States may decide to keep 40 % linked to production. It will be fixed at EUR 313/hectare in 2004, EUR 291 in 2005 and EUR 285 from 2006 and included in the single payment scheme. The specific aid for other regions where durum wheat is supported, currently set at EUR 139.5/hectare, will be phased out. The cuts will be implemented over three years, starting in 2004 (EUR 93/ha in 2004, EUR 46/ha in 2005 and zero thereafter). From 2004/05 introduction of a special premium of EUR40/tonne, depending on certain criteria;
- *Drying aids*: Supplementary payment increased from EUR 19/ha to EUR 24/ha;
- Starch potatoes: 40 % of the existing payment of EUR 110.54 per tonne of starch will be included into the single payment scheme, on the basis of historical deliveries to the starch industry. The remainder will be maintained as a crop specific payment for starch potatoes. The minimum price will be maintained, as will the production refund for starch;
- *Dried fodder*: Support in the dried fodder sector will be redistributed between growers and the processing industry. Direct support to growers will be integrated into the single payment scheme, based on their historical deliveries to the industry. National ceilings will apply to take into account current National Guaranteed Quantities. The processing aid will be fixed at EUR 33/tonne in 2004/05;
- *Support for energy crops*: An aid of EUR 45 per hectare will be offered to farmers who produce energy crops. It will be applied on a Maximum Guaranteed Area, in the whole EU, of 1 500 000 hectares. Farmers qualify to receive the aid, if their production of energy crops is covered by a contract between the farmer and the processing industry concerned. Where the processing occurs on the farm concerned no contract is necessary.
- *Rice*: The intervention price will be cut by 50 % to EUR 150/tonne. Intervention will be limited to 75 000 tonnes per year. To stabilise producers' revenues, the current direct aid will be increased from EUR 52/tonne to 177/tonne. Of this, EUR 102/tonne will become part of the single payment scheme and be paid on the basis of historical rights limited by the current maximum guaranteed area. The Commission has been requested to renegotiate the bound duties for rice;
- *Nuts*: the current system will be replaced by an annual flat rate payment of EUR 120.75/hectare for 800 000 hectares divided into fixed national guaranteed areas for almonds, hazelnuts, walnuts, pistachios and locust beans. Member States are allowed to use their guaranteed quantities in a flexible way. This aid can be topped up by an annual maximum amount of EUR 120.75 per hectare by Member States;
- *Dairy*: The Council decided on asymmetric price cuts in the milk sector. The intervention price for butter will be reduced by 25 % (-7 % in 2004, 2005, 2006 and -4 % in 2007), which is an additional price cut of 10 % in addition to what has been already foreseen as a result of Agenda 2000. For skimmed milk powder prices will be cut by 15 % (3 steps from 2004 to 2006), as agreed in Agenda 2000.

Intervention purchases of butter will be suspended above a limit of 70 000 tonnes in 2004, falling in annual steps of 10 000 tonnes to arrive at 30 000 tonnes from 2007. Above that limit, purchases may be carried out only under a tender procedure. The target price for milk will be abolished. Compensation (i.e. becoming part of the single payment scheme) is fixed as follows: EUR 11.81/tonne in 2004, EUR 23.65 in 2005 and EUR 35.5 from 2006 onwards. In order to provide a stable perspective for dairy farmers, the Council decided the prolongation of a reformed dairy quota system until the 2014/15 season. The general quota increases decided under Agenda 2000 will take place from 2006 onwards;

ASSESSING THE IMPLICATIONS

1. DOES THE REFORMED CAP MEET THE EU'S NEEDS?

CAP aids to farmers are adapted to today's requirements

The reform package aims to alter farmers' approach to production and marketing decisions. And it sets a framework for taking into account the concerns of the public about food safety and quality, the environment or animal welfare. The provisions of the reform package aim to encourage farmers to alter their farming practices in this respect.

Farmers look more to the market

The move away from production-linked aid payments means that, backed by continued income support through the CAP, farmers may take farm production and management decisions on the basis primarily of market conditions. Reductions in support prices for several of the major agricultural commodities mean that farmers can no longer rely on being able to sell their produce into public storage for a guaranteed price underwritten by the EU if the market price is low. This should reduce the incentive to overproduce. Farmers should no longer gear their production to the subsidies on offer. They will first look to the market and will thus have much more freedom of choice.

More environmentally-friendly

The CAP reform deal gives an important boost to environmentally-sustainable farming, in two main ways:

> *Cross-compliance* Firstly, the new, single payment scheme and all other direct aids are linked to environmental, food safety, animal and plant health and animal welfare standards. There is an explicit new requirement for farmers to maintain land in good agricultural and environmental condition. The cross-compliance concept was already embedded in the CAP but, with the advent of the single payment scheme which will eventually apply across much of EU agriculture, cross-compliance will be obligatory and of increasing importance.
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> *Agri-environment measures* Secondly, the environment will be the beneficiary of the reinforced rural development measures that are part of the CAP reform agreement and the additional funding available via modulation. In order to reinforce the application of agri-environmental measures, EU support will be increased to 85 % of the cost in areas covered by 'Objective 1' and 60 % in other areas.

Boosting the rural economy

The reform package as a whole should provide a boost to rural economies. Not only does it offer new opportunities as a result of decoupling, continued income support to farmers, and more modulation money available for investment aid under rural development. It also widens rural development support with the introduction of new measures.

2. RECOGNITION OF NATIONAL/REGIONAL NEEDS

Full decoupling within the single payment scheme is the main principle contained in the CAP reform. Nevertheless, the CAP is now, more than ever before, responsive to the particular needs of the Member States. The choice to postpone the introduction of the single payment scheme, if justified, the retention of some partially de-coupled elements, the flexibility in use of modulated funds, and the strengthened rural development measures (in which Member States already have the main role in deciding how and where funds are used) all allow Member States to take account of the specific needs of their rural communities.

However, the framework for this national flexibility is still laid down at EU level and the Commission is charged with ensuring that implementation in Member States respects this framework and that there are no inconsistencies that could lead to unfair treatment between farmers throughout the EU.

3. WHICH SECTORS ARE AFFECTED AND WHICH ARE NOT

The single payment scheme, modulation, and cross-compliance - the core of the CAP reform agreement – apply across the agricultural spectrum. Alterations in particular product sectors affect primarily the arable sector (cereals; protein crops), beef and sheepmeat/goatmeat producers, and the dairy sector (though not immediately). However, other productions such as starch potatoes, dried fodder, rice and nuts are covered.

Several production sectors have not been included in this CAP reform package. This does not mean that they have been ignored. The Council's reform decision includes a clear commitment to reform in further sectors at a later date. The Council agreed that, in autumn 2003, the Commission will submit a communication on reform in the olive oil, tobacco and cotton sectors, which will be followed by legal proposals. The Commission proposals will provide a long-term perspective for these sectors in line with the financial framework. The proposed reforms for these sectors will be based on the objectives and the approach of the present reform package. The Commission has already committed itself to come forward with ideas for the future of the sugar support system, once the results of several current studies become available and have been analysed, possibly in autumn 2003.

CONCLUSIONS

The main aims of the CAP reform process have been met by the June agreement.

Orienting farmers towards entrepreneurship and markets

The new CAP will enhance farmers' ability to produce what consumers and the market require. Farmers can be entrepreneurs first. In future farmers will be rewarded for the services they provide to society. But, in future, the support they receive need no longer interfere with their production decisions. The reform will, thereby, substantially contribute to stabilising farmers' incomes and will open at the same time new paths to diversify their enterprises, including a stronger development of non-food agricultural production such as renewable energy resources.

Safeguarding the long-term integrity of farm support

The agreement offers a modern and effective policy to European farmers, which responds both to their long term interests and to the demands and realities of current times. It offers EU farmers a clear planning framework for their business decisions. This reform is in accordance with the conclusions of the Berlin, Göteborg and Brussels summits of recent years, including the overall budgetary framework for the enlarged EU set until 2013. The Commission will propose in due time the measures necessary to extend the reform to the new Member States.

Responding to consumers' and citizens' expectations

This reform is the EU's answer to the demands of citizens for healthy food, high quality, environment and animal-friendly production methods, the maintenance of natural living conditions and care of the countryside. It will enhance quality, make prices more attractive, limit farm expenditure and assist disadvantaged regions. The reform should also help improve the public's understanding of, and support for, the role of farmers in European society.

For the first time, the main subsidies are explicitly linked to compliance with EU standards covering the environment, public and animal health and animal welfare. Farmers also have to maintain land in good agricultural and environmental condition as defined by the Member States. Member States will have to inspect a sample of farms each year on a systematic basis to ensure that standards are met. Decoupling of aid payments to farmers also means the end of incentives to intensive production set by policies. This should encourage more extensive production and greater diversity of crop rotations.

Ensuring land management throughout the EU

Under the reformed CAP, there will be rules and safeguards to ensure that land management standards are respected throughout the EU. Decoupled payments will be linked to the requirement to keep land in good agricultural and environmental condition.

Linking payments to standards laid down in legislation should help to improve the respect and application of such standards across all Member States.

Making the CAP compatible with international commitments

In future, the vast majority of subsidies for farmers will be paid independently of the volume of production (‘decoupled’). This means that direct aids can be classified as ‘green box’ under the WTO agreements, ie. non trade-distorting. They will therefore not be subject to reduction in the eventual trade agreement. By discouraging over-production, the perceived negative impact of the CAP on the world's poorest farmers will be removed. This reform is also a message to the EU’s trading partners, including in particular developing countries. It signifies a major departure from potentially trade-distorting agricultural support, a progressive further reduction of export subsidies, a reasonable balance between domestic production and preferential market access, and a new balance between internal production and market opening.

Overall CAP expenditure will stay within the agreed ceilings, despite an increase of 50 % in the number of farmers following the EU’s enlargement. The CAP reform is Europe’s important contribution to the Doha Development Agenda.

Further information on the reform is available on the Internet at:
http://europa.eu.int/comm/agriculture/mtr/index_en.htm