Single Payment Scheme - the concept

The 2003 CAP reform

This sheet describes the central element of the June 2003 Common Agricultural Policy reform - the introduction of ***Single Payment Scheme (SPS)*** payments independent of production ('***decoupled***')[1]. Full descriptions of the reform are on the DG Agriculture and Rural Development web site[2]. The main principles and mechanisms of the SPS are outlined here. A second sheet addresses detailed SPS issues. Other sheets cover particular sectors or issues.

In future direct aids to farmers will be made mainly via one SPS payment per year, replacing most existing direct aids. Member States have flexibility in applying the SPS. They may also maintain some production-linked payments where necessary to avoid production abandonment.

Rationale behind the SPS

The introduction of the SPS removes links between production and subsidies. The main aims are to:

- allow farmers freedom to produce to market demand;
- promote environmentally and economically sustainable farming;
- simplify CAP application for farmers and administrators;
- strengthen the EU's position in WTO agricultural trade negotiations.

Timing of introduction

Member States currently using the normal direct payments regimes may introduce the SPS from 1 January 2005, and must do so by January 2007 at the latest. Application of the SPS will be reviewed within two years of its introduction by all EU-15 states (i.e. by 2009 at the latest). New Member States using the ***Single Area Payment Scheme*** (***SAPS***) may introduce the SPS at any time.

Financial limits on SPS expenditure

The basis for SPS implementation is the establishment in the CAP reform agreement[3] of a maximum amount each state could spend on direct aids – known as the ***national ceiling***[4], based on the total of direct aids (and equivalent payments) paid in a historic reference period in each Member State. National ceilings accumulate all those aid payments and provide the total amount available for SPS.

Who is entitled to the SPS?

Entitlements only go to farmers actively farming at the date each Member State introduces the scheme. Farmers are allotted ***payment entitlements*** based on reference amounts (generally amounts of direct payments each farmer received in the period 2000–02, though different calculation options are available for specific cases). Each entitlement

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[1] The SPS is sometimes referred to as the Single Farm Payment

[2] http://europa.eu.int/comm/agriculture/capreform/index_en.htm

[3] Council Regulation N° 1782 of 29 September 2003 – Annex VIII (OJ L 270, 21.1.2003)

[4] See Annex VIII of Regulation 1782/2003. National ceilings are sometimes known as national envelopes

is calculated by dividing the reference amount by the number of hectares which gave rise to this amount in the reference years.

Activating entitlements
Payments are granted where farmers have eligible hectares at their disposal to activate the appropriate number of entitlements. Eligible hectares normally include all types of agricultural land except land used for permanent crops (excluding energy crops, e.g. short rotation coppice) and forestry. Entitlements are activated annually by matching them with a corresponding number of eligible hectares. Farms may produce all crops with the exception of permanent crops, fruit and vegetables and ware potatoes[5].

In general, transfer of entitlements is allowed once the SPS is introduced, but only within Member States and in some cases only within regions (Member States decide within EU rules[6]). Transfers without land are allowed, but farmers taking over payment entitlements can only receive payment if the number of entitlements is matched by the correct number of eligible hectares.

Farmers may receive separate set-aside entitlements that may be activated only with set-aside land.

Conditions farmers must fulfill ('*cross compliance*')
Farmers do not have to produce in order to receive SPS and/or other direct payments, as long as they maintain their land in good agricultural and environmental condition and respect other cross compliance standards (expressed in two ways):

- ***Good agricultural and environmental condition***: All farmers claiming direct payments, whether or not they actually produce from their land, must abide by standards to be established by the Member States[7].
- ***Statutory management requirements***: Farmers must respect other cross compliance standards called statutory management requirements set-up in accordance with 19 EU Directives and Regulations[8] relating to the protection of environment; public animal and plant health; animal welfare.

Failure by farmers to respect these conditions can result in deductions from, or complete cancellation of, direct payments. Cross compliance applies to all direct aid payments, even when they are not yet part of the SPS. Amounts of direct payments resulting from such penalties revert to the EU (though Member States may retain up to 25 % of amounts deducted).

Options for SPS design and calculation
Member States have options in how they calculate and make payments. The main difference is whether they base the SPS on what direct payments individual farmers received in the historic reference period, thus producing different levels of SPS for each

[5] For the exceptions in the regional model – see « Single Payment Scheme – the detail »
[6] See notably Commission Regulation N° 795/2004 of 21 April 2004 (OJ L 141, 30.4.2004)
[7] Under headings set out in Annex IV of Regulation 1782/2003, covering such matters as soil protection
[8] Listed in Annex III of Regulation 1782/2003

farmer, or whether all payments are averaged out over a state or region. The main options are:

- ***Basic (historic) approach***: each farmer is granted entitlements corresponding to the payments he received during the reference period (reference amounts) and the number of hectares he was farming during the reference period and which gave right to direct payments in the reference period.
- ***Regional (flat rate) approach***: reference amounts are not calculated at individual farmer level but at regional level - the sum of the payments received by the farmers in the region concerned during the reference period. Regional reference amounts are then divided by the number of eligible hectares declared by the farmers of the region in the year of SPS introduction, to establish the value of a single entitlement in that region. Finally, each farmer receives a number of (flat rate) entitlements equal to the number of eligible hectares declared in the year of SPS introduction. This approach entails some redistribution of payments between farmers.
- ***Mixed models***: Member States may, in justified cases, apply different calculation systems in different regions of their territory. They may also calculate SPS payments using a part-historic/part-flat rate approach. Such '***hybrid***' systems can further vary over the period between first application of the SPS and full implementation, giving rise to ***dynamic*** as well as to ***static*** hybrid systems. 'Dynamic hybrid' systems can act as a vehicle to transit from the basic (historic) to the regional (flat) rate approach.

Exceptions from full decoupling

Member States may maintain a proportion of product-specific direct aids in their existing form (known as '***partial decoupling***'), notably where they believe there may be disturbance to agricultural markets or abandonment of production by moving to the SPS. Member States may choose between several options, at national or regional level, but only under well-defined conditions and within clear limits. There is no time limit on continuing partial decoupling. Amounts paid out in partially decoupled form come from within national ceilings.

Member States may grant '***additional payments***' to support agricultural activities that encourage the protection or enhancement of the environment or for improving the quality and marketing of agricultural products. Additional payments may use up to 10 % of the funds available (under national ceilings) in the SPS, thus reducing the funds available for basic SPS payments and product specific direct aids.

Modulation

All direct payments, coupled or not will be reduced (the '***modulation***' mechanism), by 3 % in 2005, 4 % in 2006 and 5 % from 2007 onwards, in order to finance additional rural development measures. Direct payments under EUR 5 000 per farm will not be reduced.

A '***financial discipline***' mechanism provides for further reductions in payments when overall ceilings on CAP expenditure are in danger of being breached.

***SAPS* in the new EU Member States**

In the first years after accession, the new members may opt for a different type of direct aid scheme – not on offer in the EU-15. This '***Single Area Payment Scheme***' involves payment of uniform amounts per hectare of agricultural land in the Member State concerned, up to a national ceiling resulting from the accession agreements.

Implications

The SPS provides stable support allowing farmers to produce to market demand and to plan for the future. And Member States have flexibility to address their specific agricultural and environmental needs.

The June 2003 CAP reform was supplemented by a second wave of reform in April 2004 (covering cotton, hops, olive oil and tobacco) following the same principles.