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The March 1999 and June 2003 CAP reforms: Main provisions

The CAP reforms of March 1999 (2000 Agenda reform) and June 2003 (Luxemburg compromise) are part of a process started a few years earlier with the 1992 Mac Sharry reform. Although it did not come close to suppressing intervention and wholly liberalizing markets, the 1992 reform did represent a turning point. It suggested the reduction of price support and the compensation of induced income losses through direct aids, founded on the land (cereals and oleo-proteaginous) and livestock (beef) factors of production. The 1999 reform was a further step in the same direction, with new falls ininstitutional prices and partial compensation for income losses through direct aid, still founded on primary production factors. The 2003 reform goes farther by suppressing the link between direct aid and product choices. In other words, the 2003 reform goes even farther by "decoupling" the direct support aids from agricultural incomes. This paper presents the main provisions of both 1999 and 2003 reforms.

The 1999 reform: expanding on the 1992 reform

On March 26 1999, the 1999 reform was passed by the Heads of States and governments at the Berlin European Council. A new step in the direction announced in 1992, it includes new, substantial reductions to the institutional prices of cereal grains (-15% in two stages) and beef (-20% in three stages) and in the partial compensation for induced income losses through an increase in the direct aids granted per hectare (cereals and oleo-proteaginous) or per head of cattle (beef). It broadens the approach to dairy products by suggesting a 15% fall in the intervention price of butter and skimmed milk powder in three stages, partially compensated by granting a direct aid proportional to the quota. While reductions in cereal and beef institutional prices have been implemented since 2000/01, dairy reform was postponed until 2005/06 (the initial European Commission schedule foresaw implementation as early as 2000/01). That decision goes with a postponement of the increase in dairy quotas (+1.5% in three times). However, 5 Member States (Spain, Greece, Ireland, Northern Ireland and Italy) profit from an immediate increase of their references over two years, to a total value of 1.39 million tonnes (see Inset 1). In practice, the dairy quota policy was postponed until at least 2007/08.

With regards to cereals, the 1999 reform fixes the rate of compulsory fallow land for COP areas (cereals, oleaginous and proteaginous) up to 10% over the 2000/01-2006/07 period with a possibility that this percentage might be revised according to market conditions. In other words, it perpetuates the existence of fallow land as a major control tool of the supply. With regards to beef, the 1999 reform modifies the conditions for granting beef premiums by fixing of individual, regional and/or national ceilings and introducing various provisions aiming to favour less intensive production systems. It restricts the total number of animals that may profit from the suckler cow premium (SCP) and from the beef special premium to 1.8 livestock units (LU) per hectare of fodder area, with the grant of supplements if stocking densities are lower (low intensification premiums). It introduces two new cattle premiums, the slaughter premium (SP) which aims at compensating the fall in the beef intervention price and the de-seasonalisation premium (DS) which aims at smoothing supplies in time. It implements national flexibility envelopes aiming to satisfy the specific production systems determined at the level of each Member State in application of the subsidiary principle. In this respect, however, we must note the significant reduction of these national envelopes compared to the initial Commission proposals (for 2002 and for the whole European Union, 1,936 million Euros within proposals and 493 million Euros in the final text), a reduction “compensated” through the introduction of the two new cattle premiums mentioned above.

Inset 1: Main provisions of the 1999 CAP reform

Arable sector: cereals, oleaginous and proteaginous crops

15% drop in the intervention price in two equal stages during 2000/01 and 2001/02 (of 119.19 Euros/ton at 101.31 Euros/ton); decision on the final reduction in the intervention price to be applied from the 2002/03 campaign postponed to that date and to be fixed according to market developments; maintenance of the monthly increases in the intervention price.

Payment of a direct aid per hectare, the amount of which is fixed by multiplying the basic amount per ton (72.5 Euros/ton for proteaginous crops and 63 Euros/tons for other arable crops from 2002/03 and beyond) by the average yield fixed in the regionalization scheme regarding the considered region. Maintain present scheme with the payment of an additional bonus of 344.5 Euros/hectare for durum wheat, and potential inclusion of silage cereals in the scheme. So, compared with 1992, there is a unification of the payments per hectare (except for proteaginous and durum wheat).

Set-aside remains compulsory as a potential tool for supply control; fixing of the 10% compulsory rate of fallow lands for 2000/01-2006/07, but opportunity to reviewing this percentage according to market conditions; maintenance of the opportunity to set aside lands voluntarily. Compensation per hectare set aside equal to that decided for cereals.

Beef sector

20% drop in the support price in three equal stages over 2000-02 (from 2780 Euros/ton to 2224 Euros/ton); from July 1st 2002 implementation of an intervention system only planned as a “safety net” (if in a Member State or a region, the oxen average price is lower than 1560 Euros/ton, implementation of purchases by auction. From July 1st 2002 , introduction of an aid to private storage which will be granted when the average community price is lower than 103% of the expected price of 2224 Euros/tonne; opportunity of exceptional measures, included in the form of ad hoc intervention purchases, in case of major market disruptions.

Compensation for income loss by an increase in beef premiums: from 145 to 200 Euros/animal for the annual suckler cow premium, from 135 to 210 Euros/animal for the beef special premium (premium paid once a year per animal, and from 109 to 150 Euros/animal for the beef special premium (premium paid twice a year, at 9 and 21 months; opportunity to grant the suckler cow premium to heifers (for a maximum of 40% of the premium rights); gradual implementation of a slaughter premium, of 80 Euros/animal for dairy cows, suckler cows, heifers and oxen, of 50 Euros/animal for calves.

Adaptation of the various mechanisms regulating premiums: fixing of regional ceilings for access to beef special premiums; fixing of individual ceilings for access to suckler cow premium; total number of animals giving right to the beef special and suckle cow premiums limited to 1.8 unit of oxen (livestock unit) per hectare of fodder area with an additional grant of 40 Euros/animal in case density would be comprised between 1.4 and 1.8 livestock units and 80 Euros in case density would be lower than 1.4 livestock unit; payment of this additional aid per animal or per hectare of permanent pasture; implementation of a national envelope for each Member state (financed on community funds) which will complete the previous payments for oxen and heifers; possibility of granting a national extra of 50 Euros/animal for the suckler cow premium (for a maximum of 40 cows).

Milk and dairy sector

The reform maintains the milk quota system until 2005/06 and postpones dairy reform until that date; however, immediate increase in some country’s national quotas (Spain, Greece, Ireland Northern Ireland and Italy), to a total of 1.39 million tons.

From 2005-2006, 15% discount on the butter intervention price and that of skimmed-milk powder in three equal shares; 1.5% increase in all the Member States quotas in three stages, at the rate of drop in support prices, with privileged grant of additional quantities to young farmers and mountain areas producers.

Compensation of income loss through granting of a proportional premium to quotas (17.24 Euros/ton from 2007 and beyond, out of the national envelop); fixing of an additional national envelop financed on community funds and governed by national provisions identical to those granted within the beef production framework.

Rural development and other steps

Implementation of a new single regulation regarding rural development in place of the present EAGGF “structural funds” regulation (European agricultural guidance and guarantee funds), of four “5a objectives” rules, three rules regarding the support measures of the May 1992 CAP and of the rule regarding the structural aid in favour of forestry: simplification of eligibility criteria (flexibility and subsidiarity), better integration of environmental objectives within the eligibility criteria for subsidies to less well-off areas, support to rural areas under three forms, i) strengthening of the agricultural and forest sector (aid to investment and modernisation of farms, aids to the process and marketing of quality farm produce, aid for young farmers starting out, support for early retirement of farmers and so on.), ii) boosting the competitiveness or rural areas (stimulating new sources of employment for farmers and their family, and for the wider rural community), and iii) preservation of environmental resources and the European Union’s rural heritage, in particular via the promotion of eco-sustainable agricultural practices.

Willingness to handle some of the problems concerning all Common market organisations, with horizontal regulation including rules governing the cross-compliance of direct aids (the respect of environmental requirements may become a condition for granting direct aid) and their modulation (Member States will be able to reduce the amounts which will be paid to farmers according to three criteria: the workforce employed on the farm, the farm’s overall prosperity reckoned by the standard gross margin and the total value of the payments granted for support systems.

At the horizontal level, i.e. applying to all forms of produce, the 1999 reform implements the cross-compliance principle and the modulation of direct aids. That means that eco-sustainability requirements may become a condition for the allocation direct aids and that, at Member States’ discretion, their amount may be reduced according to three criteria: workforce hired on the farm, its global prosperity (assessed by standard gross margin) and the amount of direct aids received. The sums saved in this way may be reallocated towards rural development measures reorganized within a new single payment described in the second Pillar of the CAP. Though optional, these new measures are major ones, particularly because the 2003 reform will make them compulsory. However, the reform adopted in 1999 does not take up the European Commission's initial suggestions to limit the total amount of direct aid a farm may receive.

The 2003 reform: decoupling, cross-compliance and modulation of direct aids

The objectives of the 2003 CAP reform finalised on June 26th 2003 are identical to those of the Agenda 2000 reform: a competitive European agricultural sector; environmentally sustainable production methods capable of providing quality products which meet society's expectations; a fair way of life and increased stability of farmers' incomes; an agriculture rich in its diversity, preserving the landscape and fostering a lively and active rural environment; a simple policy guaranteeing a clear division of responsibilities between the European Commission and the Member States; and a justification of sustainable agriculture through the provision of services that society expects from farmers. The general philosophy of the reform is equally identical to that of both previous reforms, *i.e.*, reducing support via prices and (partial) compensation of income losses through direct aids. The Luxemburg compromise, however, differs from the two previous reforms by four innovative measures:

i) Decoupling measures of farming income support *via* the transformation of most direct aids into a single payment par farm calculated on a historic basis;
ii) (compulsory) Cross-compliance of all direct aids, single payment included, subject to respect for environmentally sustainable farming and environmental good practices as well as statutory standards regarding environment, food safety, health and animal well-being, as well as obligations with regard to safety in the workplace,
iii) (compulsory) Reduction in market direct aids *via* modulation;
iv) Resources saved on rural development measures devoted to expanding the second pillar of the CAP.

The provisions regarding these four points as well as those relating to the vertical measures of the Common Market Organizations (CMO) are detailed in Inset 2: Only the most "significant" provisions are commented on below.

The decoupling of agricultural income support

The new reform replaces most of the bonuses granted within the various CMO with a single payment per farm calculated on a historical basis. Each farmer will have a Single Farm Payment per hectare worked out by multiplying the average level of the 2000, 2001 and 2002 premiums by the value of these premiums (hectares of reference). The number of payment rights is equal to the number of hectares of reference, and the single payment per farm is obtained by multiplying this number of rights by the payment right per hectare. To profit from the single payment, farmers must have eligible hectares. These correspond to all cultivated surfaces with the exception of those used for sustainable crops. There will not be any obligation to produce, but lands will have to be kept in good agronomic and environmental conditions. The settlement of the single payment, as for other direct aids, will also be conditioned upon the compliance with several standards and good farming and environmental practices (cross-compliance principle; see infra). The eligible hectares may be used for all agricultural production with the exclusion of permanent crops, fruit and vegetables and potatoes other than those grown for potato flour.

Payment rights will be transferable within a same Member State, with or without the land in case of purchases and/or sales with or without land, necessarily with the land in case of hiring. In case of a transfer without land, the farmer purchaser will only be able to develop such a payment right if he has eligible hectares. Moreover, a Member State will have the possibility to restrain the geographical market scale of the payment rights.

The Member States who so wish will be able to maintain a partial link with production: in the sector of arable crops by preserving the aid per hectare at a maximal level of 25%; in the cattle sector, by choosing to keep either the SCP up to 100% and the SP for bovine species other than calves up to 100% or BSP up to 75%; and in the sheep and goat sector by maintaining the link with production up to 50%.

Inset 2: Main provisions of the 2003 CAP reform

The decoupling of farm income support policy

Single payment: Transformation of the present direct aids into a single payment per farm on a historical basis, with some exceptions: fixing of a reference amount equal to the average over the three years 2000, 2001, 2002 of the payments received and of a payment right per hectare reckoned by dividing the amount of reference by the number of hectares having given right to the direct payments; the hectares determined in this way are the reference hectares, the total number of payment rights is equal to the number of reference hectares and the single payment is calculated on this basis.

Definition of a national ceiling of reference amounts for each Member State (8.005 billion Euros for France from 2007).

Requirement to possess eligible hectares to receive payment rights per hectare: total surface area occupied by arable lands and permanent pastures, except for areas occupied by permanent crops, forests or assigned to a non-agricultural activity.

Free transferability of payment rights within a Member State: possibility, on Member State decision, to limit the market to regional scale; transfer of payment rights with or without land in case of purchases or sales; compulsory transfer of payment rights with land in case of renting.

No obligation of production to receive single payment: free choice of production, except for permanent crops, fruit and vegetables, and potatoes others than those used for making potato flour.

Implementation of a national reserve under the form of a linear reduction of the reference amounts up to 3%; priority to use this reserve for farmers having no new rights (newly settled) and those having abnormally low amounts.

Partial decoupling: possibility to maintain a link with production for each Member State:
- in case of arable crops by keeping the hectare aid up to 25% or up to 40% of the supplementary durum wheat hectare;
- in case of beef by keeping the SCP up to 100% and the SP up to 40% for the other bovine specie animals other than calves or the BSP up to 75%. Moreover, possibility to keep the SP for calves up to 100%;
- in the sheep and goat sector, by keeping the link with production up to 50%.

Regionalization of single payment: Option for each Member State to regionalize the single payment; division of the national ceiling into regional ceilings and regional subsidies between all the regional farmers, with or without distinction between arable areas and pastures; moreover, option to apply this regionalisation to just one specific part of the regional ceilings.

Option for a Member State to keep up to 10% of the national ceilings to grant to particular types of agriculture considered as important for the environment protection or improvement, or the improvement of the quality and the marketing of produce.

Conditions for granting subsidies

Subsidy granting is subject to cross-compliance with statutory requirements in terms of management, i.e., with respect to 18 directives:
- from January 1st 2005, 5 environmental directives (wild bird conservation; underground water protection against pollution caused by dangerous substances; environment protection, and particularly soils, when using purification mud in agriculture; water protection against pollution by nitrates from agriculture; and preservation of natural habitats, as well as fauna and flora), and 3 directives as regards public health and animal health (animal identification and registration; earmarking, farm registers and passports within the system of cattle identification and registration; as well as the labelling of beef and related products);
- From January 1st 2006, 7 directives concerning Public Health and animal and plant health (marketing of phyto-sanitary products; prohibition on substances with hormonal or thyreostatic effect and beta-agonist substances; general principals and constraints of food laws, European Food Safety Authority and procedures regarding food safety; prevention, control and eradication of swine vesicular disease; fighting and eradication of the sheep catarrhal fever);
- From January 1st 2007, 3 directives as regards health and animal well-being (minimum norms as regards calves protection; minimum standards as regards swine protection; and animal protection in livestock farming.

Subsidies are also subject to the application of good farming and environmental practices aiming to limit soil erosion (minimum cover, minimum management reflecting specific local conditions, reservoir terraces), maintaining the concentration of organic matter in soils (standards in crop rotation, stubble management), soil structure preservation (use of appropriate machines) and maintaining certain minimum levels (minimum cattle density, permanent pasture protection, maintaining topographic features (particularities), as well as avoiding the spread of undesirable vegetation on agricultural lands. Moreover, farmers must maintain permanent pastures at 2003 level, unless there are satisfactory mitigating circumstances.

Reduction in direct payments in cases of failure to respect the aforementioned directives and/or good farming and environmental practices; maximum of 5% reduction; 15% if repeated non-respect, in case of carelessness; from a 20% reduction, at least, up to 100% in case of deliberated negligence.

Creation of a farm advisory system, helping farmers respect standards and implement good agricultural and environmental practices.

Moreover, Member States will have the possibility to “regionalize” the single payment described above according to various terms: fixing a regional budget divided between all farmers in a regional according to their number of eligible hectares, without or with distinction between arable lands and grassland areas; regionalisation of only one part of the single payment, the other part being delivered in the form of an individualized payment; and the option of re-distributing aid between regions.

At the Member State's discretion, the single payment scheme will be implemented in January 2005, 2006 or 2007.

Cross-compliance of direct aids

The granting of the a farm's full single payment and other direct aids is subject to the observance of 18 European directives concerning environment, public health, animal and plant health and animal well-being (see Inset 2 for further details). Furthermore, recipients will also have to prove that they practice eco-sustainable good environmental and farming practices in order to limit soil erosion, respect certain conditions regarding organic matters and structure, and preserve a minimum level of maintenance. In cases of infringement, direct aid will be reduced in proportion to the risk or harm caused.

Modulation of direct aid and reinforcement of the 2nd pillar of the CAP

Beyond a 5000 euro exemption of direct aids per year, each farm will be submitted to a deduction on the total amount of the direct aids that it gets. This deduction will be of 3% in 2005, 4% in 2006 and 5% in 2007 and beyond. The modulation of direct aids should allow for an annual saving of 1.2 billion Euros, an amount which will be re-allocated to the CAP's second pillar. The rural development regulations have been expanded to cover new measures for promoting food quality and safety, ensuring that farmers respect standards for animal well-being.

Moreover, from 2007 first pillar direct payments will be adjusted downwards to avoid exceeding the annual ceilings of the market expenses fixed for the 2007-2013 period (financial discipline).

Sector-based reforms

The 2003 reform also modifies provisions governing various CMO. The most important measures concern durum wheat (withdrawal of the durum wheat supplement in non-traditional areas; in the traditional areas, maintenance of a downwards supplement, incorporated into the single payment with, however, the possibility of maintaining a link with production - up to 40%), rice (a 50% reduction in the intervention price: increase in the direct aid, only one part of which will be integrated into the single payment; up limit to 75,000 tons), and dairy products (in relation to the terms of the Agenda 2000 reform, continuing the implementation of the provisions from the 2004/05 campaign, and accelerating the reduction of butter prices while simultaneously, increasing compensation).

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Aid modulation

A 3% cut in First pillar direct aids in 2005, 4% in 2006, 5% in 2007 and beyond (fixing of the modulation rate until 2012); allowance for the first 5000 Euros of direct aids and exemption for farmers from the far outlying regions (French overseas departments, Madeira, the Azores, the Canaries and Aegean islands).

Financial discipline

From 2007, implementation of financial discipline with modification of direct aid if forecasts indicate that agricultural market expenses will exceed the ceilings fixed for 2007 - 2013.

Transfer of money saved to the expanded second pillar

Transfer of money saved to fund the rural development measures of the second pillar; redistribution according to three criteria (agricultural area, farm job and gross domestic product per inhabitant); However, member states are guaranteed to keep at least 80% of the money saved in their territory.

Introduction of new rural development measures

- Incentives in favour of produce quality (specific aids up to 3000 Euros per farm over five years if farmer participates in programs aiming to improve the quality of his produce; aid granted to producers' associations for actions aiming to inform consumers and promote produce made within the quality scheme benefiting from the above specific measures, up to 70% of the eligible costs);

- Incentives to meet standards (temporary and decreasing aids, up to 10,000 Euros per farm and per year to help adapt to European standards not yet included in the national laws; aids compensating for the expenses regarding Farm Advisory System, up to 80% of the costs and with a ceiling of 1500 Euros per farm and per year);

- Incentives to improve animal well-being (beyond national standards, granting aids for animal well-being with an upper limit of 500 Euros/head of cattle and per year).

Sector measures

Cereals: Reduction by half in the monthly increases: exclusion of rye from the intervention scheme.

Proteaginous: Transformation of the aid/ton into a specific payment per hectare (55.57 Euros per hectare); maximum area guaranteed fixed at 1.4 million hectares.

Fuel crops: 45 Euro specific aids per hectare; maximal area benefiting from it with an upper limit of 1.5 million hectares; to receive the aid, necessity of a contract between farmer and processor, except if farmer processes crops on site: areas used to cultivate fuel crops cannot be considered as lying fallows (see infra).

Fallow land: kept at 10%; possibility to make it rotational and with non-food crops on set-aside lands

Durum wheat: Progressive withdrawal of the durum wheat supplement in non-traditional production areas; maintained, but at a level adjusted to reflect the reduced supplement (285 Euros per hectare from 2006) in traditional areas; decoupling, but member states will be able to maintain the link with production up to 40%; introduction of a durum wheat quality premium for semolina and pasta (40 Euros per hectare, paid in the limit of the maximum areas guaranteed, presently in force in traditional production areas.

Potato and potato flour: fixed price at 110.54 Euros per ton of potato flour since the Agenda 2000 reform, inclusion of the present direct payment up to 40% in the single payment, the other part remaining linked to production under the form of a specific aid.

Nuts: replacement of the present system by an annual set payment of 120.75 Euros per hectare on a maximal area of 80.000 hectares; possibility for Member States to grant national supplements up to 120.75 Euros per hectare.

Rice: 50% drop in the intervention price: increase in direct aid (52% per ton at 177 Euros per ton, a part of it (102 Euros per ton) being incorporated into the single payment, the other part remaining linked to production; definition of the maximum areas guaranteed and intervention limited to 75.000 tons.

Dairy farms: Maintenance of the dairy quota system until 2014/15; progress from the 2004/05 campaign of the reform with asymmetric cuts to butter guaranteed prices (a total of -25% distributed down to -7% in 2004, 2005, 2006 and -4% in 2007) and of skimmed milk powder prices (-15% under the form of three equal drops in 2004, 2005, 2006); corresponding increase in compensation (11.80 Euros per ton in 2004, 23.63 Euros per ton in 2005 and 35.50 Euros per ton from 2006): limitation of the butter intervention at 30.000 tons from 2007.