COUNCIL OF
THE EUROPEAN UNION

EN

Brussels, 16 December 2013
17854/13
(OR. en)
PRESSE 582

Common agricultural policy: the reform is approved by the Council

Today, the Council adopted the common agriculture policy (CAP) reform package following a first reading agreement with the European Parliament.

This reform sets out the new rules for the CAP in the next seven-year period, in order to equip the European agricultural sector for the opportunities and challenges of the future. The main objectives of the reform are to make the CAP greener and better targeted, with a more equitable distribution of income support to farmers across the Union and a more effective rural development policy. Following the Multiannual Financial Framework (MFF) agreement, the CAP budget for the 2014-2020 period amounts to EUR 408.31 billion (38% of the overall EU budget). The first pillar of the CAP (direct income support and market-related expenditure) will take up EUR 312.73 billion (76.6%) and the second pillar (rural development policy) EUR 95.58 (23.4%).

The CAP reform package comprises four main legal texts:

– the regulation establishing rules for direct payments to farmers (95/13). This regulation provides the basic rules for granting direct income support to farmers in order to reward them for the provision of public goods and services. It also contains a number of specific support schemes (particularly for young farmers, small famers and farmers in areas with natural constraints) and rules for granting a limited amount of coupled support (linked to production);

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– the regulation establishing a **common organisation of the markets** in agricultural products (96/13). The single common market organisation (Single CMO) regulation aims to streamline, expand and simplify the current provisions on public intervention, private storage, exceptional measures and aid to specific sectors, as well as to facilitate cooperation through producer and interbranch organisations;

– the regulation on support for **rural development** (*93/13*). The rural development regulation covers voluntary measures for rural development, adapted to national and regional specificities, whereby member states draw up and co-finance multiannual programmes under a common framework in cooperation with the EU;

– the regulation on the financing, management and monitoring of the CAP (horizontal regulation) (*94/13*). The **horizontal regulation** lays down rules concerning expenditure, the farm advisory system, the management and control systems to be put in place by member states, the cross-compliance system and the clearance of accounts.

The package also includes a **transitional regulation for the year 2014** (*103/13*) to bridge the gap between the existing legal framework and the elements of the reform for which it was decided that they will apply only from 2015 (particularly as regards direct payments and rural development), in order to give Member States sufficient time to roll out the new policy on the ground.

The European Parliament adopted its legislative resolution on these five regulations at its plenary meeting on 20 November this year.

Finally, as part of the CAP reform package, the Council also adopted a regulation determining **measures on fixing certain aids and refunds** related to the common organisation of the markets in agricultural products (*15173/13*). This regulation sets out the market management measures to be decided upon by Council on its own under Article 43(3) TFEU.

The reformed CAP remains a strong common policy structured around its two complementary pillars: **direct payments and market management (first pillar)** and **rural development (second pillar)**. It contains important new elements which will make European agriculture greener, fairer and better targeted.

The most important element of the new CAP is the newly introduced "**greening" payment**: in future, 30% of direct income support for farmers will be granted only if they observe certain farming practices that are beneficial for the environment and the climate, particularly growing at least three different crops on their arable land, maintaining a minimum area of permanent grassland, and preserving areas and landscape features with a particular ecological value ('ecological focus area'). In order to avoid penalising those that already farm in an environmentally-friendly manner, the regulation provides for a "**greening equivalency**" system to acknowledge certain farming practices whose benefit for the environment and the climate can be considered equivalent to the specific greening practices included in the regulation .

The reformed CAP also provides for a more equitable distribution of direct payments envelopes between Member States by progressively reducing the biggest differences in the average level of direct payments received by farmers across the Union (**'external convergence')**. At the same time, there will be a progressive rebalancing of direct payments levels at national or regional level (**'internal convergence'**), with adequate flexibility for Member States to avoid any disruptive financial consequences for farmers in particular sectors or regions. Member States will also be able to grant a greater portion of their direct payments envelopes in the form of **coupled support** (linked to production) to farmers in sectors or regions which face particular difficulties and where farming activity is important for economic, environmental and/or social reasons.

In order to better target direct payments to those farmers most in need of support, there will be a mandatory 5% reduction in any support amount above EUR 150 000 received by large farmers (who can benefit from economies of scale). At the same time, Member States will have the possibility to increase the support received by smaller farmers by granting them a higher amount on the first hectares (**'redistributive payment'**). The existing **'financial discipline'** mechanism (which provides for the possibility to make linear cuts to the direct payments received by farmers) will be maintained in order to ensure that the CAP budget does not exceed the established budgetary ceiling. However, farmers whose direct income support does not exceed EUR 2000 will be exempt.

The new CAP also contains a mandatory support scheme in favour of **young farmers** (for which Member States may use up to 2% of their direct payments envelopes) and the possibility for Member States to set up a simplified scheme for **small farmers** whose support does not exceed EUR 1250.

The new CAP will allow Member States to better target CAP funds to their specific needs by introducing the possibility of **transferring funds between the two CAP pillars**. Member States have also the possibility to grant additional payments for **less favoured areas** if needed. **Rural development co-funding rates** are tailored to each specific situations from the less developed regions to the transition regions or the outermost regions. Furthermore, **National allocations** for rural development per Member State can be adjusted**.**

ANNEX

MAIN ISSUES OF THE CAP REFORM

1. DIRECT PAYMENTS

Reduction of the amount of income support received by large farms (Article 11)

– Implementation of a mandatory 5% reduction rate for amounts above EUR 150 000 (with an exemption for Member States that use more than 5% of their national direct payments envelope for increasing support to small farmers in the form of a redistributive payment).

Redistributive payment (Article 41)

– The option for Member States to redistribute direct income support between farmers by using up to 30% of their national direct payments envelope for granting small farmers an extra payment for the first hectares on which they activate payment entitlements (with a maximum of 30 hectares or the average farm size in a Member State if that is higher than 30 ha).

External Convergence

– In order to ensure a more equitable distribution of direct income support across the Union and reduce the link to historical references, the levels of direct support per hectare should be progressively adjusted. The agreement on the Union's Multiannual Financial Framework therefore provides that Member States with direct payments below the level of 90% of the average should close one third of the gap between their current level and this level, with all Member States arriving at a minimum level by 2020. This convergence will be financed proportionally by all Member States with direct payments above the Union average.

Internal Convergence (Article 25)

– Member States should rebalance at least partially the average level of direct payments per hectare at national or regional by 2019. They may achieve this through different models which can be applied at national or regional level.

– One possibility is to ensure that farmers whose level of per hectare payments is beneath 90% of the national or regional average level will see the value of their payments increased (by at least one third of the difference between the current level and 90% of the national or regional level).

- In applying this model, Member States should, as a general rule, make sure that by 2019 the value of all payment entitlements reaches at least 60% of the national or regional value.

- Where the 60% minimum results in a maximum loss greater than 30% in Member States applying this threshold, the minimum rate may be reduced in order to respect the 30% maximum.

- For the purposes of internal convergence, Member States may also take account of the 30% greening payment received by farmers.

Coupled Payments (Articles 52 and 53)

- All Member States permitted a level of 8% coupling, plus 2% for protein crops.

- Member States who used more than 5% coupled aid in one year in the period 2010-2014 permitted a level of 13%, plus 2% for protein crops.

- Member States who used more than 10% in one year in the 2010-2014 period may decide to use more than 13% coupled aid upon approval by the Commission.

Financial Discipline (Article 8)

- Farmers receiving less than EUR 2000 in direct payments will be exempt from any linear cuts to direct payments.

Active Farmer (Article 9)

- Tighter rules in order to avoid the situation where legal persons whose primary activity is not agricultural claim direct payments, particularly by providing a mandatory 'negative list' of persons who a priori are excluded from direct payments unless they can prove that their agricultural activity is not marginal. This list includes airports, railway services, water works, real estate services, and permanent sports and recreational grounds.

Young Farmer (Articles 50 and 51)

- Mandatory scheme agreed in Pillar 1, using up to 2% of national ceiling.

- Small Farmer (Articles 61 to 65)

- Optional scheme for farmers who receive up to EUR1250.

- Alternative calculation methods to accommodate circumstances in Member States.

Greening (Articles 43 to 47)

– 30% of direct payments subject to the observation of farming practices that are beneficial for the environment and the climate, particularly crop diversification, maintenance of permanent grassland and the establishment of 'Ecological Focus Area' on each farm.

Equivalence (Article 43 & Annex IX)

– Farming practices covered by second pillar agri-environent schemes or certification schemes that yield at least an equivalent benefit for the environment and climate as the practices included in the regulation may be considered as 'equivalent practices'. The possibility of receiving Union funding for the same greening measure under both the first pillar and the second pillar ('double funding'(is explicitly excluded.

Maintenance of Permanent Grassland (Article 44)

– Member States should ensure that a minimum ratio of permanent grassland in relation to the total agricultural area is maintained. This ratio can be applied at national, regional or farm level.

Ecological focus areas (EFAs) (Article 45 and Annex X)

– The minimum area threshold where there will be no EFA requirement is 15 hectares of arable land.

– The percentage - starting at 5% in 2015, then moving to 7% after a Commission report in 2017 and subject to a legislative proposal

– EFA applies to arable land only, not to permanent grassland and land under permanent crops.

– A list of EFA eligible areas has been agreed (e.g. fallow land, terraces, landscape features, buffer strips, agro forestry, etc.) as well as exemptions (e.g. holdings where more than 75% of the holding is in grassland, heavily forested areas, etc.)

– Annex X of the regulation includes a matrix that may be used by Member States in order to apply conversion and weighting factors when calculating the total number of hectares covered by 'ecological focus area' on a farm..

2. SINGLE CMO

Vine plantings (Articles 61 and following)

- New planting authorisations system to commence in 2016 and last until 2030;
- 1% annual increase in vine planting authorisations;
- Current vine planting rights' duration extended from 3 to 5 years as transitional measure.

Sugar (Articles 124 and following)

- End of quotas on 30 September 2017;
- Standard provision on agreements between sugar growers and undertakings maintained after the end of quotas;
- White sugar remains eligible for private storage.

Milk (Articles 148 and following)

- Milk quotas confirmed to expire in 2015;
- Inclusion of the soft-landing "milk package" provisions agreed in 2011.

Public intervention and private storage (Articles 8 and following)

- Extension of the intervention period for butter and skimmed milk powder (SMP) by one month;
- Automatic tendering for butter and SMP beyond ceilings;
- Maximum volume for buying-in at a fixed price increased to 50 000 tonnes for butter;
- Certain PDO/PGI cheese become eligible for private storage.

School schemes (Articles 22 and following)

- Budget increased from 90 million to 150 million euros.

Producer Organisations and Interbranch Organisations (Articles 152 and following)

- Provisions on producer organisations, association of producer organisations and interbranch organisations extended to all sectors to strengthen the role of farmers in the supply chain;

- possibility to have financial support for setting up producer groups under rural development;
- POs in the olive oil, arable crops and beef sectors entitled to engage in collective bargaining on behalf of their members, under certain conditions and with safeguards for competition.

Exceptional measures (Articles 219 and following)

- Improved rules allowing the Commission to react timely and effectively against threats of severe market disturbance affecting any sector;
- Additional financial support for crises coming from the Crisis Reserve (any unused amounts returned to farmers through direct payments).

Article 43(3) TFEU related provisions (Fixing Regulation)

- In order to align the CAP reform package to the Lisbon Treaty a number of measures concerning public intervention and private storage, the school schemes, export refunds and the sugar sector will be exclusive Council competence under Article 43(3) TFEU.

3. RURAL DEVELOPMENT

Common strategic framework

- The Common Provisions Regulation will now provide common rules on programming for all EU Funds, requiring Member States to establish a Partnership contract at national level covering their respective programmes for each Fund.
- The EAFRD will therefore be integrated with the European Investment funds, providing for greater coherency, effectiveness, as well as the possibility to co-financed a single project from different Funds. This provides a great opportunity for innovative projects and coherent strategies in a given area, including urban-rural links or combined agricultural and fishing farms.

Priorities (Article 5)

- The Axis system in the current period will be replaced by six priorities, comprising voluntary measures which allow Member States to design the programmes and their financing based on an analysis of the specific needs.
- Programming will therefore be greatly simplified, and should facilitate the implementation of projects for beneficiaries.

Investments (Article 17)

– In the interest of simplification, but also of allowing beneficiaries to design and realise integrated projects with increased added value, a single measure will cover most types of physical investments. Those will aim to increase the economic and environmental performance of agricultural holdings and rural enterprises, to improve the efficiency of the agricultural products marketing and processing sector, to provide infrastructure needed for the development of agriculture and forestry and to support non-remunerative investments necessary to achieve environmental aims.

Forestry (Articles 21-27,34)

– Support for investments in forestry has also been simplified and streamlined. There will be a single integrated measure covering all investments, and support will be targeted to specific forest holders to increase both efficiency and effectiveness of the measure.

Agri Environment (Article 28) / Organic Farming (Article 29) / Natura and Water Framework Directive (Article 30)

– The measures concerning environment and climate have been strengthened to increase their effectiveness and their implementation has remained compulsory.

– Moreover, a large degree of flexibility has been introduced by allowing for shorter commitments periods and periods of conversion, in order to encourage a wider uptake of the measures.

– Due to the similarity of some greening practices introduced in Pillar I to the agri-environment and climate measures in Pillar II, the Regulation provides for the exclusion of double funding, ensuring that farmers will not be paid twice for the same activity

Areas with natural constraints (ANCs) (Article 31-32 and Annex II)

– A new delimitation of areas with natural constraints (previously known as less favoured areas) is introduced. Such areas will now be defined on the basis of eight biophysical criteria, ensuring an objective and transparent system across the EU.

– In order to guarantee a smooth transition and a continuity, Member States have until 2018 to implement the new delimitation, with the possibility of course to start earlier for those who have completed the delimitation. Member States may also grant phasing out payments until the end of the programming period to farmers who will no longer be eligible for payments.

– The Regulation also provides flexibility for Member States during the process of delimitation, by setting out flexible and diverse criteria fine-tuning, and in specific cases a possibility for cumulating the bio-physical criteria in a given area..

Financing (Article 59)

– In the interest of simplification, the Regulation provides for a single rate of fund contribution (co-financing rate) for all measures. A derogation is provided for several measures of particular importance, such as those related to environment, climate change adaptation and mitigation, and innovation.

– The rate of fund contribution has also been adjusted to take into account the different situations across regions - the Regulation provides for higher co-financing rates for less developed regions, the Outermost regions and the smaller Aegean islands, as well as two types of transition regions where the GDP per capita for the 2007-2013 period was less than 75 % of the average of the EU.

– In order to ensure effective use of the Union's resources, the Regulation provides minimum spending requirements for the environment and for LEADER. At least 30% of the total EAFRD funds must be reserved for measures related to the environment and climate change adaptation and mitigation (including not only Articles 28 to 30, but also forestry and investments in physical assets). Another 5% must be reserved for the LEADER approach, which supports the implementation of local strategies.

Innovation

– Innovation has been defined as a cross-cutting objective of the next programming period. It will be supported through various rural development measures such as *knowledge transfer*, *cooperation* and *investments in physical assets*. In addition, through the European Innovation Partnership for Agricultural Productivity & Sustainability – (EIP) Rural Development will promote resource efficiency, productivity and the low-emission and climate-friendly/-resilient development of agriculture and forestry. The EIP will therefore support and facilitate, cooperation between agriculture and research in order to accelerate technological transfer to farmers.

4. HORIZONTAL REGULATION

This **Regulation** is called "horizontal" since it brings together the rules relevant for all CAP instruments, previously scattered in various pieces of CAP legislation,. It deals in particular with:

– **Financing, management and control systems,** which includes the paying agencies and the Integrated Administration and Control System (IACS). In many respects, the rules applying to direct payments, market measures and rural development have been harmonised in order to create synergies.

– **Farm advisory system**, which is a set of advice services which Member States must set up so as to help farmers understand, in particular, their cross-compliance and greening obligations.

– **Cross-compliance**, a system created by the 2003 CAP reform which makes aid and support to farmers subject to compliance with requirements of public interest, notably standards related to environment, animal welfare and the use of plant protection products. The scope of the cross-compliance has been adjusted.

– **Withdrawals of unduly paid aid and penalties** imposed on those beneficiaries of the support schemes who do not comply with eligibility conditions or other obligations. The Regulation lays down the general principles for all such **penalties** to be imposed by Member States and confers on the Commission delegated and implementing powers to lay down detailed rules. For "greening", the penalties will be phased in gradually, with no penalties imposed for the first two years of application of greening (claim years 2015 and 2016), and a cap at 20% of the greening payment for claim year 2017 and at 25% as from claim year 2018.

– The **publication of the names of the beneficiaries of the CAP funds** in order to discourage individual beneficiaries from irregular behaviour and at the same time by reinforcing the **personal** accountability of the farmers for use of public funds received. In order to strike a balance between the objective of the public control of the use of the CAP funds and the beneficiaries' right to respect for their private life, the names of those beneficiaries receiving an amount lower than the maximum amount of aid possible under the Small Farmers Scheme will not be published.

Last but not least, as a novelty, this Regulation establishes **a reserve for crises** in order to support the agricultural sector in the case of major crises affecting the agricultural production or distribution by applying, at the beginning of each year, a reduction to direct payments. The unused amounts will be reimbursed to farmers. The cases in which that reserve for crises can be used are provided for in the Single CMO Regulation.