



Environment and Rural Affairs Department
Agriculture Group

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Consultees as per list attached

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Your ref:
Our ref: 2ZYA

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Dear Sir/Madam

CAP REFORM: CONSULTATION ON MID-TERM REVIEW OF AGENDA 2000

You may already know that on 10 July 2002 the European Commission published a discussion document on its proposals for reform of the Common Agricultural Policy (CAP) under the Mid-term Review of Agenda 2000 agreement.

A summary of the main proposals in the Commission's document is attached for convenience. The three key elements are:

- market reform proposals, including cereals and dairy;
- decoupling of subsidies from production and the creation of a "single income payment";
- shift in support from production-linked subsidies (known as Pillar 1 of the CAP) to wider agri-environment and rural development measures (Pillar 2) funded by compulsory "dynamic" modulation.

(The complete text of the Commission's proposals can be found on its website at www.europa.eu.int/comm/agriculture/mtr/index_en.htm.)

The publication of these initial proposals from the Commission is the first step in a longer process which will include discussions in Agriculture Councils and the publication of the Commission's detailed legislative proposals some time in the autumn.

The Mid-term Review is an important stage in the development of the CAP and it has potentially significant implications for farmers, consumers, taxpayers, the environment, rural communities and the wider international community. We would welcome any views you may have on the current proposals from the Commission and we will write to you with further information at key stages. As this will be an ongoing process we have not set any deadline for responses at this stage – although early contributions would be helpful. You should be aware that events are likely to move quickly so



that the time available to comment on particular aspects of the package may be much shorter than we would normally offer for consultation. That, unfortunately, is unavoidable in this kind of exercise.

Any comments you wish to make on the proposals should be sent in writing to Joe Kirk at the above address or by e-mail to joe.kirk@scotland.gsi.gov.uk.

In accordance with Scottish Executive practice, in order to inform debate on these matters and in accordance with the Code of Practice on open government, all consultation responses will be publicly available. If you wish all or part of your reply to be kept confidential you should indicate this clearly in your response.

Should you have any questions relating to the Commission's proposals or the consultation exercise, please contact me.

Yours faithfully

Derek Muir

CAP REFORM: MID TERM REVIEW OF AGENDA 2000

SUMMARY OF COMMISSION'S DISCUSSION DOCUMENT PUBLISHED 10/07/02

The Commission's document sets out reform proposals which it would like to see apply from 1 January 2004. These proposals address three main issues:

- Market support regime reforms
- Decoupling of CAP direct payments from production
- Reinforcing the Rural Development Pillar through compulsory modulation

Market Support Regimes

Summary of Proposals

- Apply the final 5% reduction (of the 20% proposed in Agenda 2000) of the cereals intervention price from €101.31 to €95.35 from 2004/05. This will be compensated "as foreseen by Agenda 2000";
- Give further consideration to abolition of monthly increments;
- Address some technical weaknesses in the EU's border protection regime on cereals (Commission has indicated its wish to negotiate a change under the WTO);
- Abolish intervention for rye;
- Reduce durum wheat support to €250/ha in traditional areas over three years, and abolish the special aid in established areas. Establish a high quality premium at €15/tonne;
- No specific proposals on oilseeds;
- Reduce the rice intervention price by 50% to a basic level of €150/tonne for 2004/5. Introduce a private storage scheme to be triggered if the market price falls below the basic price. Safety net intervention will be at €120/tonne. Compensation increased to €177/tonne, of which €75/tonne will be granted as a crop specific payment, reflecting the role of rice production in traditional production areas. Reduce the Maximum Guaranteed Amounts to the 1999-2001 average or the current MGA, whichever is the lower;
- New stand alone protein supplement of €5.57/hectare;
- Replace current dried fodder arrangements with an income support envelope of €160million, to be distributed between Member States in proportion to national guaranteed quantities for dehydrated and sun-dried fodder. A reduced single support payment of €33/tonne for dehydrated and sun-dried fodder will be maintained;

- Replace existing arrangements for nuts with a flat rate payment of €100/ha, which can be topped up to a maximum of €109/tonne by Member States. The maximum guaranteed area will be 800,000ha.
- Introduce a new carbon credit of €45/ha for energy crops (contract with processor required), within a maximum guaranteed area of 1.5 million hectares.
- Leave beef market support arrangements (pretty minimal after Agenda 2000) unchanged.
- Commission to reinforce the conditions and controls under which export subsidies for live animals can be granted.
- On dairy the following options are floated:
 - i) continuation of Agenda 2000 measures until 2015;
 - ii) repeat the Agenda 2000 approach (further increase in quotas (+3%), and lowering of intervention prices, (-15% butter and -5% SMP));
 - iii) create separate quotas ("A" + "C") for production for domestic consumption and export consumption;
 - iv) abolish quotas from 2008;
- Propose nothing on Sugar, olive oil, fruit, and vegetables and wine which will be the subject of further proposals in 2003.

Decoupling Direct Payments from Production

- All direct payments for cereals, beef and sheep to be decoupled from production from 1 January 2004 (dairy from 2005/06);
- Creation of a single decoupled income payment per farm, based on historical receipts from Direct Payments (but with modulation - see below);
- Exceptions from the single scheme to include durum wheat quality premia, new stand-alone protein crop supplement, the crop specific payment for rice, and the area payment for nuts;
- The 'single income payment' to be split into 'payment entitlements' at the farm level on a hectare basis to facilitate the partial transfer of payment when only part of the farm is sold or leased.
- In order to allow sufficient flexibility, Member States will have the right to establish different approaches, including the possibility to define a certain balance between individual payment entitlements and regional or national averages.
- Payment entitlements cannot be transferred speculatively.

- All the old rules for Direct Payments (need to count cattle, measure areas) will fall away. There will be no obligation on recipients to produce anything. There will, however, be new, binding cross compliance rules - direct payments will be conditional on the respect of statutory legal standards (environment, food safety, and animal welfare) and keeping land in good agricultural conditions in line with environmental requirements.
- Compulsory long-term (10 years) non-rotational set-aside will be introduced on arable land. Farmers will be obliged to put an amount equivalent to current compulsory set-aside into long-term set-aside as an element of the cross-compliance rules. The non-food regime on set-aside land will be abolished.
- In addition, and in place of the old checks on hectares planted and numbers of animals kept, there will be whole farm audits (likely to be once every 3, 4 or 5 years), to check compliance with eg. animal welfare, environmental and health and safety requirements. Farms receiving less than €5,000 per year in direct payments will be exempt.
- Energy crops will no longer be able to be grown on set-aside. A new carbon credit to be introduced at €45/ha of energy crops with a maximum guaranteed area of 1.5 million hectares, to be paid to producers entering into a contract with a processor. Area allocation between MS to take account of historical energy crop production on set-aside and carbon dioxide commitment burden sharing arrangements.

Strengthening Rural Development

- There will be compulsory 'dynamic' modulation at 3% of the original entitlement in 2004, and a further 3% of the original entitlement in each year thereafter to a maximum of 20% (in 6 or 7 years).
- There will be transitional arrangements for Member States (like the UK) which already operate modulation.
- Modulation to be operated in the same way in each Member State For the years up to 2006, there will be a commitment that all the funds will be retargeted to Rural Development spending. No commitment for post-2006.
- Modulated funds won't be reserved to the Member State which collects them but reassigned on the basis of agricultural area, agricultural employment and prosperity criteria, to target specific rural needs. However, money saved by application of a maximum upper ceiling on direct payment receipts per farm (see below) will be reserved to the individual Member State.
- Modulation will not bite on farmers evenly. All farms will be exempted the first €5,000 and there will be a further €3,000 allowance for every full-time labour unit beyond a basic 2 full-time workers. There will also be a maximum upper limit on Direct Payment receipts per farmer of €300,000, so farmers would get the first €300,000 of any subsidy to which they were entitled, and nothing beyond that.

Use of Modulated Funds

- Modulated funds to be spent on any rural development measure under the EAGGF guarantee section. Member States will be able to use it to increase the level of Community co-financing within their programmes up to the regulatory ceilings, to finance new measures, to increase the scope and/or to finance additional beneficiaries.
- A new food quality chapter to be included in the rural development regulation, including incentives (on a flat rate basis for a maximum of 5 years) to produce to quality assurance scheme standards, and support for producer groups for promotional activities of quality products. These will be compulsory elements of a Member State's RDP in 2005/06.
- Also a new 'Meeting Standards' chapter to assist farmers adapt to environment, food safety and animal welfare standards. Aim to encourage a more rapid and widespread adoption of (legal) standards, but in no case would aid be payable where a farmer has not respected standards already incorporated into national legislation. Aid to be degressive for up to 5 years, with a maximum of €200/hectare in the first year.
- Flat rate aid also available under the 'Meeting Standards' chapter to help farmers meet costs of farm audits. In particular will help farmers prepare for and meet new cross-compliance requirements for receipt of direct payments.
- New animal welfare payments for efforts that go beyond a mandatory level, in line with agri-environment schemes. Fixed co-financing of agri-environment and animal welfare schemes to be increased to 85% in Objective 1 areas and 60% in other areas.
- Some adaptations to the non-accompanying measures to complement the introduction of the above measures, including clarification of the marketing activities under Article 33 to include specific references to the eligibility of the cost of setting up quality assurance and certificate schemes.

State Aids

- To accelerate implementation of new state aid regimes, the Commission is examining the possibility of adopting a block exemption regulation at EU level in the field of agriculture.

Budget

- Commission Paper asserts that these proposals will not overshoot the €40.5 billion Berlin ceiling (for Pillar 1), and forecasts an annual margin under the ceiling of nearly €1 billion in 2004 and just above €1 billion in 2005 and 2006. Precise estimates of the budgetary impact of each measure will be shown with the presentation of the formal legislative proposals.

CAP MTR CONSULTATION - LIST OF CONSULTEES

Association for the Protection of Rural Scotland
British Pig Association
Church of Scotland
COSLA
Crofters' Commission
Deer Commission for Scotland
Forestry Commission
FWAG Scotland
Game Conservancy Trust
Heather Trust
Highlands and Islands Agricultural Network
Highlands and Islands Enterprise
Institute of Auctioneers and Appraisers in Scotland
Institute of Chartered Foresters
Meat and Livestock Commission
National Sheep Association (Scottish Region)
National Trust for Scotland
NFU Scotland
Organic Farmers Scotland
Quality Meat Scotland
Royal Environmental Health Institute of Scotland
Royal Institute of Chartered Surveyors in Scotland
Royal Scottish Forestry Society
RSPB Scotland
Rural Forum
Scottish Agricultural Arbiters' Association
Scottish Agricultural College
Scottish Agricultural Contractors' Association
Scottish Agricultural Organisation Society
Scottish Association of Meat Wholesalers
Scottish Association of Young Farmers' Clubs
Scottish Beef Council
Scottish Consumer Council
Scottish Crofting Foundation
Scottish Dairy Association
Scottish Egg Producers Retailers Association
Scottish Enterprise
Scottish Environment LINK/SWT
Scottish Federation of Meat Traders
Scottish Food Quality Certification Ltd
Scottish Grocers' Federation
Scottish Landowners' Federation
Scottish Natural Heritage
Scottish Organic Producers' Organisation
Scottish Potato Trade Association
Scottish Quality Cereals Ltd
Scottish Wildlife and Countryside Link
SSPCA
TGWU
Timber Growers' Association
UKASTA (Scottish Council)
WWF Scotland