

Brussels, 17 July 2003

**OPINION**

of the

Committee of the Regions

of 2 July 2003

on the

**Proposal for a Council Regulation establishing common rules for direct support schemes under the common agricultural policy and support schemes for producers of certain crops**

**Proposal for a Council Regulation amending Regulation (EC) No. 1257/1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF) and repealing Regulation (EC) No. 2826/2000**

**Proposal for a Council Regulation on the common organisation of the market in cereals**

**Proposal for a Council Regulation on the common organisation of the market in rice**

**Proposal for a Council Regulation on the common organisation of the market in dried fodder for the marketing years 2004/05 to 2007/08**

**Proposal for a Council Regulation amending Regulation (EC) No. 1255/1999 on the common organisation of the market in milk and milk products**

**Proposal for a Council Regulation establishing a levy in the milk and milk-products sector**

**(COM(2003) 23 final - 2003/0006 (CNS) 2003/0007 (CNS) 2003/0008 (CNS) 2003/0009 (CNS) 2003/0010 (CNS) 2003/0011 (CNS) 2003/0012 (CNS))**

## **The Committee of the Regions**

**HAVING REGARD TO** the Commission's package of draft regulations subtitled "A long-term policy perspective for sustainable agriculture", (COM(2003) 23 final - 2003/0006 (CNS), 2003/0007 (CNS), 2003/0008 (CNS), 2003/0009 (CNS), 2003/0010 (CNS), 2003/0011 (CNS) and 2003/0012 (CNS));

**HAVING REGARD TO** the decision by the Council on 10 February 2003 to consult it on this subject in accordance with the first paragraph of Article 265 of the Treaty establishing the European Community;

**HAVING REGARD TO** the decision by its President on 22 October 2002 instructing the Commission for Sustainable Development to draw up an opinion on the subject;

**HAVING REGARD TO** its opinion on the Communication from the Commission to the Council and the European Parliament on the Mid-Term Review of the Common Agricultural Policy (CdR 188/2002 fin)<sup>1</sup>;

**HAVING REGARD TO** its opinion on the proposals for Council Regulations (EC) concerning the reform of the common agricultural policy (CdR 273/98 fin)<sup>2</sup>;

**HAVING REGARD TO** the draft opinion (CdR 66/2003 rev. 2) adopted on 12 June 2003 by its Commission for Sustainable Development (rapporteur: **Mr Robert Savy**, President of the Limousin Regional Council (F/PES));

**adopted unanimously the following opinion at its 50<sup>th</sup> plenary session on 2 and 3 July 2003 (meeting of 2 July).**

### **Views and recommendations of the Committee of the Regions**

#### **1. Introduction**

1. Since the opinion on the Communication from the Commission to the Council and the European Parliament on the mid-term review of the Common Agricultural Policy, submitted by the Committee of the Regions on 20 November 2002, there have been a number of developments which have defined more precisely the content, context and funding arrangements of the CAP reform:

- the decisions taken at the **Brussels European Council on 24 and 25 October 2002** setting a ceiling for market aid expenditure in an enlarged EU and recalling the

importance of less-favoured regions and the multifunctional nature of agriculture. These decisions established the budget framework for market and direct aids expenditure for the period 2007-2013. They guarantee the continuation of the CAP and provide clear prospects for the medium term enabling farmers to progressively adapt their management practices and the Commission to introduce new arrangements in due course. They open the way for the enlargement of the EU;

- the submission on **16 December 2002 of the EU's proposals in connection with WTO agriculture negotiations**. These provide in particular for a 36% reduction in import duties, a 45% reduction in export subsidies and a 55% reduction in internal farm support. There are also specific measures aimed at improving the situation of developing countries.
  2. The adoption by the Commission on **21 January of proposals for regulations associated with the mid-term review of the CAP** should be seen in this context. Indeed, the WTO agriculture negotiations and the wider debate on the financial outlook for 2007-2013 underlie some of the Commission's proposals.

There are two major modifications in relation to the proposals submitted in July: a reform of the common organisation of the market in milk and milk products and new arrangements for the operation of progressive modulation. Decoupling nevertheless remains at the heart of the CAP reform.

The CoR intends to give its opinion on the key elements of the Commission proposals, i.e. decoupling, progressive modulation and rural development, on the basis of questions and criticisms raised in its opinion on the Commission Communication of July 2002.

## 2. Decoupling

The CoR gave its endorsement to the principle of decoupling aid and to the establishment of an income support payment. This single payment may have the effect of simplifying implementation of the CAP and reinforcing the role of markets in determining trends in agricultural production.

However, the CoR pointed out the risks inherent in the proposed system of decoupling, which could accentuate regional disparities, distort competition between producers or regions and result in the destabilisation of certain types of production.

The CoR is also concerned that completely decoupled payments will be vulnerable over time to pressures for their reduction and abolition.

The CoR called for assessments to examine these risks in detail prior to any decision.

The Commission has published impact studies assessing the implications of its proposals. These are largely based on macroeconomic data. They assess the prospects for production and prices per product but do not answer the questions raised by the CoR:

1. **There is no assessment of the territorial impact of the measures.** The complete decoupling of aid may lead to a fall-off in production in disadvantaged and outlying areas and to more rapid depopulation of vulnerable agricultural areas. Consideration should be given to some kind of linkage between particular areas and vulnerable or low-profit types of production, and the directions and means of development should be clearly identified so as to allow balanced development across all regions.

The opportunity presented by the review of Community measures should therefore be used to seek new provisions to compensate for natural disadvantages facing farms in particular (incline, altitude, climate), but also measures to encourage the management of large areas (mowing of slopes, land upkeep) and, more generally, their economic development.

2. **The principle adopted for determining single farm payments on the basis of the reference period 2000, 2001, 2002 does not remove the risk of distorted competition between producers, types of production or regions.** The CoR already highlighted in its opinion on the CAP midterm review the fact that the Commission's proposal would maintain the current situation, where farmers with the highest yield get much more aid per hectare than those producing less; it therefore calls on the Commission to at least extend the reference period to calendar years 1998, 1999, 2000, 2001 and 2002. Of those years, the two with the lowest overall aid should be withdrawn from the reference period for each farmer. The principle proposed by the European Commission cancels out the advantages enjoyed up to now by regions with more intensive farming and types of production receiving the most support. There are considerable risks of production or market destabilisation in the case of products which do not qualify for direct aid under the current CAP (pork, poultry, fruit and vegetables). These products could become attractive and profitable for producers and regions with historical references to the detriment of traditional areas of production.

Would it not be possible to consider setting **an average amount of aid per hectare for each broad family of products** (arable crops, stockrearing, white meat, fruit and vegetables) calculated for each area of production to avoid this major risk of distortion to competition and of market destabilisation? The draft regulation establishing common rules for support schemes (Title III – Chapter V) provides scope for the implementation and calculation of average aid per hectare at the regional level. If this provision is applied at all it should be throughout the EU. However, it still does not eliminate the risk of distortion to competition between products.

3. **The risk of destabilising markets and causing economic difficulties for the most vulnerable small, traditional farms which arises from abandoning production control instruments has not been addressed.**

However, such instruments have proved their worth in successive crises affecting bovine production or to solve the problem of the low-cost milk surplus since 1983. There is a degree of inconsistency in the management of different products. For example, there is still a control instrument in place for arable crops which is stricter than before (10% set aside, excluding industrial crops); an increase in milk quotas, even though European butter and powdered milk stocks are mounting (without even mentioning priority treatment for young farmers or farms in upland areas); the introduction of maximum guaranteed areas, which limit the potential for developing protein and energy crops, and the complete scrapping of control and guidance instruments for bovine and ovine production.

4. **There has been no evaluation of the impact of the proposed decoupling on land price trends and the land market**, even though there is the risk of a race to expand, the disappearance of small farms and the inflation of prices for prime land. Meanwhile, lower-quality and less fertile land could be left abandoned. This will affect the establishment of young farmers, which should be a priority.
5. Therefore, the CoR continues to question the appropriateness of the methods used to calculate income support in relation to the objectives of the CAP. The proposals made in the draft regulations do not seem to meet the objectives of:
  - ensuring **fairer distribution of aid between farmers, regions, most environmentally-friendly forms of agriculture, farming in vulnerable areas**;
  - **shoring up farmers' incomes in the face of possible market destabilisation caused by the complete decoupling of aid**. The adaptability of farming to market opportunities, which the Commission seeks to instil, is linked to farmers' investment decisions. Such decisions will depend on the stability of produce markets, as farmers will only invest if they have a clear idea of how things will evolve in the medium term. The situation differs for different products: crops require little specific investment whereas animal products require costly special equipment. Special attention must therefore be given to instruments for stabilising these markets:
  - **safeguarding the European agricultural model and the quality of animal products**. No attention is given to the production of plant proteins through traditional fodder crops, thus leaving still more room for imports of soya and maize from countries which widely grow genetically modified crops;
  - **transferring aid from one generation to another**.

The CoR is still in favour of the general principle of decoupling as the present system can no longer be justified:

- production decisions are based on aid rather than markets,
- aid is very unfairly distributed between products and regions.

Nevertheless, the Committee feels that, with the market studies and knowledge currently available, decoupling cannot be introduced without being accompanied by production control and income guarantee mechanisms to be defined.

### 3. Cross-compliance

1. The CoR is in favour of aid being conditional upon compliance with statutory European standards on the environment, food safety (mentioned in the explanatory memorandum but not included in Article 4 of the draft regulation), health, animal welfare and health and safety at work. It shares the Commission's conviction that the conditionality of aid is a necessary complement to decoupling.

It also endorses measures to include in Regulation (EC) 1257/1999<sup>3</sup> transitional and investment aid intended to help farmers adapt to these standards.

2. However, the CoR has concerns about the implementation of the cross-compliance principle. Article 3 of the draft regulation establishing common rules for direct support schemes under the common agricultural policy states that "a farmer receiving direct payments shall respect the statutory management requirements referred to in Annex III ...". This scheme calls for farm audits across the board. It will take time to implement, which seems incompatible with the immediately binding nature of the provisions in the draft Regulation. There is thus a need for transitional provisions to enable farmers to comply with all the eco-requirements. Initially, the scheme should be thought of as a development tool for improving practices rather than as a penalty instrument. The postponement of modulation from 2003 to 2006 also raises the question of what funding is actually available to implement this measure from 2004 onwards. Alongside modulation, farmers must not be required to pay more for any such farm audits.
3. In its previous opinion, the CoR expressed concern over the difficulty of reconciling compliance with ever higher environmental standards in Europe with improving the competitiveness of European agriculture against a background of trade liberalisation. The Commission proposal in the context of WTO agriculture negotiations does nothing to dispel this concern. It is proposing an overall reduction of 36% on farm import duties but does not set criteria for the production quality or conditions of imported products. This being the case, constraints imposed on European producers only could well have a negative impact on the competitiveness of European agriculture and a limited effect on the quality of products available to European consumers.

#### 4. **Obligatory set-aside and non-food production**

The Commission proposals provide for long-term environmental set-aside on 10% of a farm's area, as well as the introduction of support for energy crops (carbon credit).

These proposals, which form the final component of the overall direct payment scheme, merit two comments:

- there is real potential for developing new production and jobs in rural areas in the field of non-food crops. Energy crops are only one aspect of this;
- at present, most non-food crops are grown on fallow land. The possibility of doing this has resulted in a rapid increase in crops intended for biofuel production in cereal-growing areas. As it stands, the proposed regulation rules out the possibility of growing crops on fallow land, apparently limiting the prospects of developing a real European-level biomass energy policy, whereas the Kyoto protocol, developments in nuclear policy in the EU and the tense international situation affecting oil markets would seem to warrant a radical rethink of European energy policy.

#### 5. **Progressive modulation**

1. In its opinion, the CoR welcomed the establishment of a progressive modulation system, accompanied by capping and franchise arrangements. The advantage of this system was that it lessened the unfair nature of the CAP, supported employment in rural areas and strengthened the "rural development" pillar. Without questioning the principle of capping, it nevertheless questioned whether it was appropriate to apply a uniform ceiling of €300,000.

Chapter 2 of the Commission's proposal for a Council Regulation *establishing common rules for direct support schemes under the common agricultural policy and support schemes for producers of certain crops*, entitled *Degression and modulation*, introduces two major changes in relation to the guidelines contained in its communication on the mid-term review of the CAP, of 10 July 2002:

- the ceiling is removed;
- farm contributions are determined on the basis of the sum of support received, farms receiving less than €5,000 not being concerned by this system.

Only 6% of the appropriations recovered by applying the progressive modulation system will be transferred to the second pillar.

The Committee regrets that the principle of capping has been abandoned, given in particular its symbolic value. The public support enjoyed by the common agricultural policy

is often undermined by news of the high level of financial support benefiting certain farm owners.

2. On the whole, the Committee nevertheless approves of the system put forward by the Commission, inasmuch as:

- it will vary the degree to which aid is reduced depending on the direct payments received by farms;
- it maintains the principle of a major reduction in direct payments, which could reach 19% for farms in 2013, thus helping to reduce the distortions to competition associated with the methods of calculating decoupled aid.

3. However, the Committee regrets that only a portion of the reductions in aid resulting from the application of the progressive modulation system (6%) will benefit rural development programming measures. This marks a step back for the Commission, compared with the provisions it made in its July 2002 communication, which, in the Committee's view, could have consolidated and strengthened rural development as the CAP's second pillar.

It is worth noting that, possibly owing in part to the lack of new resources, there are no plans to establish a coherent policy for young farmers.

Lastly, the distribution of these appropriations is carried out on the basis of national criteria, agricultural area, farm employment and gross domestic product (GDP) per capita in purchasing power parities. This approach neglects procedures for distributing and managing this funding at regional level. The Committee is aware of the difficulty in reviewing the structure of rural development programmes for the current programming period (2000-2006). Nevertheless, it calls on the Commission to use the opportunity provided by the mid-term evaluation of these programmes to take stock of their management methods, so as to determine which systems are most effective.

## **6. Rural development**

1. The Commission's proposal for a Council Regulation amending Regulation (EC) No. 1257/1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF) and repealing Regulation (EC) No.2826/2000 takes up the main provisions contained in the Commission's communication of July 2002.

On the whole, the Committee approves of increasing the scope of the accompanying measures provided for under Regulation (EC) 1257/1999 with respect to standards, farm advisory systems, farmers who undertake to adopt standards of animal husbandry that go beyond the statutory minima, participation and the promotion of national and Community quality schemes.



2. It nevertheless would draw attention to:

- the **binding nature of certain standards, in particular in the field of animal welfare, which may threaten high-quality traditional types of production.** Support aimed at enforcing standards cannot be the only response. The impact of Community legislation on this type of production, which does not have a significant impact on intra-Community trade, should be measured more carefully, in order to provide for implementation methods that are commensurate with the desired ends;
- the **excessively restrictive definition of rural development**, seen by the Commission as an extension of agricultural activity. The Committee notes that the accompanying measures proposed cover the 2000-2006 programming period, without prejudice to any future debate on the reshaping of rural development policy. In this light, the Committee would hope in particular that **the issue of the link between regional policy and rural development policy will be addressed as of now with a view to the publication of the third cohesion report at the end of 2003.**

## 7. **Implementation of common agricultural policy reform**

The implementation of common agricultural policy reform is intrinsically linked with progress in the discussions on agriculture at the WTO and the preparation of the financial perspectives of the European Union budget for the 2007-2013 period.

### 1. **CAP reform and the World Trade Organisation**

The Committee has questions to ask regarding the link between the proposals for CAP reform presented by the Commission and its negotiating positions on agriculture within the World Trade Organisation.

It would draw attention to the risk that the outcome of the negotiations taking place within the WTO could upset the overall balance of CAP reform, concerning the following points in particular:

- the protection of geographical indications and more generally Community and national schemes designed to improve food quality and safety, including provisions aimed at informing consumers;
- the application of legally binding standards for environmental protection, animal welfare, food safety and health, including on products imported onto the Community market.

Furthermore, the CoR is of the view that no major decisions on CAP reform should be taken in advance of the outcome on the WTO negotiations.

## **2. The financial perspectives (2007-2013)**

The Committee is concerned about the direction being taken in discussions on the European Union's financial perspectives for the 2007-2013 period. It fears that when it comes to decision time, rural development and non-Objective 1 regional policy will be treated as balancing items. The Member States are already agreed on maintaining the level of financing under the first pillar at the ceiling reached for 2006 in real terms. There is also a consensus emerging that the lion's share of regional policy financing should go to regions eligible for Objective 1 after 2006. With these two sums being fixed from the outset, any adjustments would have to be made to rural development and/or non-Objective 1 regional policy appropriations, depending on the overall ceiling for expenditure chosen by the Member States.

The Committee will be on its guard to ensure that the financial conditions for consolidating and strengthening development are conducive to running a credible policy.

## **3. The timetable for implementation**

Common agricultural policy reform will be implemented in stages. Over time, it will have to incorporate not only the decisions taken in the context of the WTO, but also the initial results of measures introduced at the time of the mid-term review on markets, farmers' income and rural areas.

The Committee hopes that the implementation timetable will be flexible enough to respond not only to external events but also to implementation difficulties and to indications from the ongoing monitoring and evaluation of the impact of reform, especially at regional level. Given the risks posed by certain provisions in this reform, as pointed out by the Committee, the implementation of a monitoring system of this kind appears all the more crucial.

Brussels, 2 July 2003.

The President

of the

Committee of the Regions

The Secretary-General

of the

Committee of the Regions

**Albert Bore**

**Vincenzo Falcone**

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<sup>1</sup> OJ C 73 of 26.3.2003, p. 25

<sup>2</sup> OJ C 93 of 6.4.1999, p. 1

<sup>3</sup> OJ L 160, 26.6.1999, p. 80

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