

Compromise on the reform of the CAP (Brussels, 30 June 2003)

Caption: On 30 June 2003, the Council of the European Union welcomes the compromise secured on the reform of the common agricultural policy (CAP) and specifies all the measures adopted in Luxembourg on 26 June 2003.

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Compromise on the reform of the common agricultural policy (Brussels, 30 June 2003)

COUNCIL OF THE EUROPEAN UNION

Presidency Compromise (in agreement with the Commission)

Delegations will find attached the final compromise from the Presidency 1.

Annex

The reformed CAP: accomplishing a sustainable agricultural model for Europe

Agricultural activity has been, is and will be of paramount importance for the Union's identity. The Council recalls that farming in the EU is not only about producing food or fibre. A sustainable agricultural model requires a policy spread throughout the European territory, economically and socially sustainable and environmentally friendly, market-oriented and simpler despite the diversity of Europe's countries and regions.

If the European Agricultural Model is to be preserved and prosper, it must remain in tune with farmers, with consumers and taxpayers and international rules. In a changing world, there is no preservation without adaptation. The status quo would only weaken our capacity to keep, let alone enhance that model, and fail to preserve good living conditions for our farming Community.

In order to actually make that agricultural model a reality, the Council decided that the reform of the Common Agricultural Policy (CAP) should be substantial, in line with the objectives of Agenda 2000, completing the reform process in some areas, and establishing a stable framework in others.

The Council's decision to guarantee to farmers flat rate payments based on historical records in exchange for greater market orientation does not undermine the CMO's, which will continue to regulate markets where and whenever necessary.

This reform is in accordance with the conclusions of the Berlin, Göteborg and Brussels summits, and hence also with the overall budgetary framework for the enlarged EU set until 2013, which is hereby confirmed.

Reforms regarding the so-called Mediterranean products, such as olive oil, tobacco or cotton, will be tabled in September 2003, also within the existing budgetary framework, and will be based on the objectives and the approach of the present reform package.

The Commission will propose in due time the measures necessary to extend this reform to the new Member States.

With this reform, the Council is sending a strong message to European farmers, European citizens and the world, in particular the developing countries.

To European farmers, the Council offers a modern, lean and effective policy, which responds at one and the same time to their long term interest and to the demands and realities of our times. This reform is meant to last. The reform offers to our farmers a clear planning framework for their business decisions. It will enhance their entrepreneurial function to produce what the consumers and the market want, it will optimise costs. In future, farmers will be rewarded for the service they provide to society instead of depending on public handouts.

Thereby, the reform will substantially contribute to stabilise farmers' incomes and open at the same time new paths to diversify their enterprises, including a stronger development of non-food agricultural production such as renewable energy resources.

Considering that greater market orientation is generally accompanied by greater price volatility, the

Commission will study ways of crisis management.

This reform is our answer to the demands of our citizens for healthy food, more quality, environment and animal-friendly production methods, the maintenance of our natural living conditions and the care of our countryside.

The reform helps improve the public image of, and thus support for the CAP, and hence the image and role of farmers in European society. It will enhance quality, make prices more attractive, limit farm expenditure, add an element of cohesion to the advantage of disadvantaged regions, and respond to societal concerns regarding the environment and animal welfare. This will increase the support of the consumers for the CAP and the readiness of taxpayers to pay for it.

This reform is also a message to our trading partners, including in particular the developing countries. It signifies a major departure from trade-distorting agricultural support, a progressive further reduction of export subsidies, a reasonable balance between domestic production and preferential market access, and a new balance between internal production and market opening.

The Council stresses that it accepts the responsibility of what, after enlargement, will become the world's major agricultural and agri-food power, and recalls that the EU already is by far the world's main importer of agricultural products from the developing countries, thanks also to its vast trade preferences and the consequently much more limited applied import tariffs (below 10%) than generally believed.

The Council stresses that the reform allows to reduce the remaining trade distortions of CAP measures, and that overall CAP expenditure will stay within the agreed ceilings, despite an increase in the number of farmers of 50% following the EU's enlargement.

The CAP reform is Europe's important contribution to the Doha Development Agenda (DDA), and constitutes the limits for the Commission's negotiating brief in the WTO Round. Its substance and timing are aimed at avoiding that reform will be designed and imposed in Cancun and/or Geneva –which could happen if we went there empty handed.

The Council stresses that the margin of manoeuvre provided by this reform in the DDA can only be used on condition of equivalent agricultural concessions from our WTO partners.

While the European Union has been moving throughout the 1990s towards less trade distorting support and has taken the initiative to very substantially move further and early in the DDA, it does not intend to, and will not pay twice in order to conclude the round.

Europe has done its part. It is now up to others to do theirs.

Finally, we want to improve governance and co-operation within the WTO in the interest of rich and poor countries alike.

Every country or Union has a right to an agricultural policy of its own, provided it is sustainable and avoids or limits trade distortion. The support the EU (just like others) offers to its farmers is a policy choice, based on the objective of ensuring a sustainable agriculture, in its social, economic and environmental aspects.

The reform confirms and acts on that choice, and aims at securing the future of EU farmers in a changing world in the light of societal demands and international requirements.

The key elements of the new, reformed CAP in a nutshell:

- a single farm payment for EU farmers, independent from production; limited coupled elements may be maintained to avoid abandonment of production,

- this payment will be linked to the respect of environmental, food safety, animal and plant health and animal welfare standards, as well as the requirement to keep all farmland in good agricultural and environmental condition ("crosscompliance"),
- a strengthened rural development policy with more EU money, new measures to promote the environment, quality and animal welfare and to help farmers to meet EU production standards starting in 2005,
- a reduction in direct payments ("modulation") for bigger farms to finance the new rural development policy,
- a mechanism for financial discipline to ensure that the farm budget fixed until 2013 is not overshot,
- revisions to the market policy of the CAP:
 - asymmetric price cuts in the milk sector: The intervention price for butter will be reduced by 25% over four years, which is an additional price cut of 10% compared to Agenda 2000, for skimmed milk powder a 15% reduction over three years, as agreed in Agenda 2000, is retained
 - reduction of the monthly increments in the cereals sector by half, the current intervention price will be maintained
 - reforms in the rice, durum wheat, nuts, starch potatoes and dried fodder sectors.

Presidency Compromise

In agreement with the Commission

1. Points already included in revised texts from Presidency

1.1. Horizontal Regulation

Cross Compliance: Reduced list of Annex III.

Cross Compliance: COM Declaration concerning control of cross compliance units link with the IACS system (Art. 28) – see Annex 1.

Cross Compliance: Simplified version of Annex IV (now targeted at the risks of land abandonment).

Cross compliance: Insertion in the wording of Article 6 the provision that a farmer has responsibility only "as a result of an action or omission directly attributable to the individual farmer".

Farm advisory system: voluntary for MS until 2006 included; from 2007 onwards systems have to be set up and offered to farmers. Participation of farmers voluntary. In 2010 report by COM on functioning of the system; on that basis decision if participation becomes compulsory for (certain categories of) farmers.

Farm advisory system: Suppression of the 100 000 EURO turnover criterion

Farm advisory system: More flexibility for Member States as regards the establishment of farm advisory bodies (deletion of articles 15, 16, 17)

Advanced payments: Provision for advances and authorisation of Member States, “subject to the budgetary situation, to pay prior to 1 December advances of up to 50% of the payments in regions where, due to exceptional conditions, farmers face severe financial difficulties” (article 31, new version).

Hardship/transition cases: Extension of the rules concerning hardship/ transition cases to help MS address specific problems of transition. Transition cases will be defined by the Commission through management committee procedure – See Commission Declaration in Annex 2.

Special Entitlements:

New text, including: - a better link with the system of normal entitlements; - the possibility of transfers; - a derogation allowing the activation of special entitlements without land if a minimum activity level (+/- 50%) is maintained.

Set-Aside: New text, including:

- the possibility of rotational set-aside;
- the possibility to grow non-food crops on set-aside land;
- a (continued) exemption of organic farmers from the set-aside obligation.

Regionalisation: New text concerning, offering a broad spectrum of possibilities to re-distribute direct payments within regions, including uniform payment entitlements per eligible hectare (Article 58).

1.2. Rural development regulation

Improved investment support for young farmers (higher max. aid intensity)

Improved visibility of measures in favour of young farmers. New Recital underlines that they should be given priority.

Higher setting-up grant for young farmers if they participate in advisory services linked to the setting-up of their activity.

Derogation concerning investment support for small (traditional) processors allowing them to meet standards.

Clarification (through a recital) that in the case of state-owned forests investment support can be given for ecological and social improvements, but not for economic ones.

2. Additional points

2.1. Horizontal regulation

Cross Compliance: Member States may retain 25% of the amount resulting from the application of cross compliance

Cross Compliance: The Commission will prepare a Working Document in order to facilitate the application of Cross Compliance by establishing indicators for each legal obligation listed in Annex III of the proposal

(see Commission Declaration in Annex 1 A)

Modulation: Modulation will start in 2005 with a rate of 3%. This rate will be increased to 4% in 2006 and to 5% from 2007 onwards (in this context see Commission Declaration [...] in Annex 3).

All the amounts of payments to be granted in the respective year to a farmer shall be reduced for each year by the aforementioned percentage. A franchise of 5.000 € will apply according to the rules set out in article 11, paragraph 1, lit. a of the Commission proposal.

As regards the distribution of the funds generated through modulation, one percentage point will be re-distributed to the country where it has been generated, with the remaining percentage points re-distributed according to the key proposed by the Commission. However, any Member State shall receive at least 80% of its modulation funds in return.

Modulation: Modulation does not apply to direct payments to producers in outermost regions and Aegean islands.

Financial discipline: A mechanism is created starting from 2007 (budget year), with a view to ensure that the amounts for the financing of the common agricultural policy (subheading 1a) respect the annual ceilings set in the financial perspectives. An adjustment of direct support shall be fixed when the forecasts indicate that the subheading 1a, with a security margin of 300 Mio €, will be exceeded in a given budget year. The Council, on the basis of a proposal from the Commission presented not later than 31st of March of the calendar year in respect of which the adjustment applies, shall fix the adjustments at the latest by 30th of June of the calendar year in respect of which the adjustments applies. (For the application of this mechanism see the Commission Declaration in Annex 4).

Annex VIII: in order to take into account the sanctions applied by the Member States, the following shall apply:

Under the ceilings fixed in Annex VIII, the part of the reference amounts corresponding to the payments for arable crops, as well as the amounts of the ceiling themselves, are increased in function of the difference between the area actually determined and the area for which premia were paid for arable crops in 2000 and 2001, in application of article 9(2) and (3) of Reg. 3887/92, and within the limit of the base areas (or maximum guaranteed area for durum wheat). The calculation of the increase of the ceilings will take into account the average national yield used for the calculation of Annex VIII.

ANNEX VIII

National ceilings after the impact of the compromise and acceptance of MS requests and corrections for sanctions (after rounding)

MIO EUR

Member State	2004	2005	2006	2007	2008 and subsequent years
Belgium	408	525	525	525	
Danmark	838	996	996	996	
Germany	4479	5468	5468	5468	
Greece	837	856	856	856	
Spain	3207	3401	3401	3401	
France	7199	8055	8055	8055	
Ireland	1131	1317	1317	1317	
Italy	2539	2882	2882	2882	
Luxemburg	26	35	35	35	
Netherlands	386	779	779	779	
Austria	613	711	711	711	

Portugal	435	501	501	501
Finland	467	552	552	552
Sweden	612	729	729	729
United Kingdom		3350	3868	3868 3868

The above amounts cover all components, including the supplementary drying aid, direct payments in outermost regions and Aegean islands and the aid for seeds. For 2005, the components for the dairy premium and the additional payments to milk producers are not included.

The Commission will adjust the ceilings fixed in Annex VIII for the other Member States (and if need be, review the above mentioned increases) in function of the information to be given by the Member States.

Single Farm Payment – partial implementation:

1. The following payments **need** not to be integrated in the single farm payment:

- Drying aid (supplementary payment for cereals, oilseeds, flax and hemp);
- Direct payments (base payments and supplements) in outermost regions and Aegean islands. The existing direct payments under the CMOs shall be adapted in order to be applied only to the outermost regions and Aegean islands.
- Seeds.

In addition, Member States may, at the national or regional level,

a) retain either

up to 25% of the COP component of the single farm payment in order to continue, at a level up to 25%, the current per hectare payments of the COP regime.

Or, alternatively

up to 40% of the supplementary durum wheat aid component of the single farm payment in order to maintain, at a level up to 40%, the supplementary durum wheat aid per hectare.

b) use up to

50% of the sheep and goat component of the single farm payment in order to continue, at a level up to 50%, the current sheep and goat premia, including the supplementary premium in less favoured areas.

c) retain

up to 100% of the suckler cow premium component of the single farm payment in order to maintain, at a level up to 100% the current suckler cow premium.

and

up to 40% of the slaughter premium component of the single farm payment in order to maintain, at a level up to 40%, the current slaughter premium.

d) instead of c) the Member States may retain either

up to 100% of the slaughter premium component of the single farm payment in order to maintain, at a level up to 100%, the current slaughter premium;

or alternatively

up to 75% of the special male premium component of the single farm payment in order to maintain at a level up to 75%, the current special premium for bovine males.

e) make

additional payments, at the national or regional level, for the purposes of encouraging specific types of farming which are important for the protection or enhancement of the environment and of improving the quality and marketing of agricultural products.

These payments shall not exceed 10% of the total amount available within the national ceiling referred to in Article 44. Furthermore, in any specific sector (arable, beef, sheep, dairy), they shall not exceed 10% of that sector's contribution to the national ceiling. In the arable, beef and sheep/goat sectors, the additional payments must also be within the overall limits mentioned in indents a), b), c) and d).

3. In case of application of any of the aforementioned derogation from the full implementation of the single farm payment, the following ceilings apply:

- For each specific case of application of the aforementioned derogation from the full implementation of the single farm payment, a specific financial limit to be fixed by the Commission (Management Committee Procedure), based on the historical references used for the calculation of the relevant part of the ceilings of Annex VIII multiplied by the percentage of coupled payments applied in each of the aforementioned cases. To this limit, Article 44(2) applies *mutatis mutandis*.

- The national ceiling for the single farm payments, fixed in Annex VIII of the proposal, is reduced by the amount of the aforementioned specific financial limits.

4. The rules governing those parts of the aforementioned direct payments, which remain coupled, will be included in the horizontal regulation. These rules will be based on the current provisions and will notably also cover the possibility to maintain national supplementary payments, as currently foreseen for suckler cows (see Annex 5).

5. At the latest two years after the implementation by all the Member States of the single farm payment, the Commission will submit to the Council a report, if necessary accompanied by appropriate proposals, on the possible consequences observed in terms of market development and disturbances as well as structural developments following implementation by the Member States of the options offered to them as regards maintaining sector-specific direct payments.

National reserve (Article 45 of the Commission proposal): In addition to the possibilities already foreseen in the proposal Member States may feed the national reserve through the application of a levy on the sales of entitlements with or without land. Detailed rules will be defined by the Commission (Management Committee Procedure).

Use of the land (Article 53 of the Commission proposal): No payment entitlement can be activated with eligible land on which fruit and vegetables and table potatoes are grown. 10961/03 12

Set-aside: Set aside areas must cover a single area of at least 0.1 ha in size and be at least 10 meters wide. To maximise the environmental benefits, Member States may accept, for duly justified environmental reasons, a minimum strip width of 5 meters.

Set-aside: In addition to the standard set-aside approach based on historical set-aside entitlements, as proposed in the revised legal text, the Council, in case of market needs, may decide on proposal of the Commission, to apply further set-aside obligations, according to current rules, to all the land that a

beneficiary grows with cereals and oilseeds (see Declaration of the Council and the Commission in Annex 6).

Regional implementation: (Article 58 of the Commission proposal)

The following elements are added to article 58 of the proposal.

- Member States shall subdivide the national ceiling between the regions according to objective criteria which permits redistribution between regions. - Member States may allocate different per unit values for grassland and arable land as identified on 31 December 2002.
- In the case of regional implementation, the per-unit value of an entitlement can be recalculated.
- In the case of regional implementation, the set-aside obligation shall be established at the regional level. The proportion of individually allocated set-aside entitlements will correspond to the regional proportion of set-aside land as a part of the arable land calculated as an average of the three years reference period.
- Member States with less than 3 Mio hectares of eligible land can be considered as one region.
- In order to ensure a balanced application of the regional implementation, Member States may opt for an earlier integration of milk premia, in part or in full into the single farm payment. This would mean to include the amounts of milk premia into the calculation of the regional entitlements.

2.2. Market regulations

Cereals: No reduction of the intervention price. The monthly increments are reduced by half. The basic amount for arable crops remains at 63 €/t.

Durum wheat: The specific durum wheat aid will be fixed at 313 €/ha in 2004, at 291,0 €/ha in 2005 and at 285,00 €/ha from 2006 onwards in traditional zones and will decoupled starting from 2005.

Rye: In view of the structural adjustment pressures resulting from the abolition of rye intervention, the following transitional measure shall apply: If in a Member State the proportion of rye as a part of its total cereal production exceeded 5% on average during the 3 years 2000-2002 and its proportion of the total Community production of rye exceeded 50% during the same period, the amounts of modulation money generated in this Member State will be re-allocated at a level of at least 90% to the Member State concerned, until the end of the next financial perspective. In such cases, at least 10% of the modulation money has to be spent in rye producing regions.

In addition, rye producing Member States may use the possibilities offered under heading 2.1, single farm payment, point 2e (additional payments within the limits of the national or regional envelope).

Drying aid: The supplementary payment for cereals, oilseeds, linseed and flax and hemp grown for fibre (so called drying aids is increased from EUR 19 to EUR 24 per tonne.

Rice: Withdrawal of super-penalty in case of overshoot of MGA – introduction of a proportional penalty.

Rice: The proposed system of private storage aid is removed. The intervention price is established at 150 €/t. Intervention is limited to 75 000 tonnes per year.

Rice: The Council invites the Commission to open negotiations for the modification of the bound duties for rice, in line with the negotiating directives set out in Annex 7 of this document.

Potato starch: Maintenance of minimum price at a level reduced in parallel of the maize intervention price.

Starch potatoes: 40% of the direct payment to producers of starch potatoes will be integrated in the single farm payment. Starch: Maintenance of production refund. 10961/03 14

Dried fodder: Suppression of phasing out of processing aid, maintenance of the aid at proposed levels.

By 30 September 2008, the Commission will, on the basis of an evaluation of the common market organisation for dried fodder, present a report on the sector dealing in particular with the development of areas of leguminous and other green fodder, the production of dried fodder and the savings of fossil fuels achieved. The report will be accompanied, if needed, by appropriate proposals.

Nuts: A Community aid shall be granted for nuts for a maximum guaranteed area (MGA) of 800.000 hectares divided into fixed NGA. The amount of the aid shall be EUR 120,75 per hectare per year calculated as an average at national level. Nuts shall include almonds, hazelnuts, walnuts, pistachios and locust beans.

A national aid of up to EUR 120,75 per hectare per year may be granted by Member States.

Member States are allowed to use in a flexible way their NGA, on condition that the total annual amount for which Community aid is requested is less than or equal to the NGA of the Member State multiplied by the amount of 120,75 EUR.

Dairy: No additional general quota increase in 2007 and 2008 is decided now. The Commission will present a market outlook report once the dairy reform is fully implemented on the basis of which a decision will be taken. However, given the deficit situation in fresh milk supply, the national reference quantity for Greece is increased by 120 000 tonnes. In addition, the temporary exemption for the Azores regarding milk quota exemption will be 73 000 tonnes in 2003/2004 and 61 500 tonnes in 2004/2005. From 2005/2006 onwards an additional reference quantity of 50 000 tonnes is granted to the Azores.

The general quota increases decided under Agenda 2000 will take place from 2006 onwards.

Dairy: The integration of dairy direct payment into the single farm payment will take place only once the reform is fully implemented, except in the case of regional implementation of the single farm payment where an earlier integration into the single farm payment is possible (see heading 2.1, Article 58 - regional implementation).

Dairy: The intervention prices for butter and skimmed milk powder (SMP) are reduced as follows:

- For butter: 7% in 2004; 7% in 2005; 7% in 2006; 4% in 2007.
- For SMP: 5% in 2004; 5% in 2005; 5% in 2006.

The compensation per tonne, including the additional payments, is fixed as follows: -

11.81 €/t in 2004; 23.65 €/t in 2005 and 35.5 €/t from 2006 onwards.

The target price for milk is abolished. For the fixation of the milk levy in case of quota overshoot (presently 115% of the target price) as well as the aid for school milk (presently 75% of the target price) an equivalent amount will be fixed in the relevant Council Regulations as would result from the present calculation.

Dairy: Butter intervention is limited to 70.000 tonnes in 2004/2005; 60 000 tonnes in 2005/2006; 50 000 tonnes in 2006/2007; 40 000 tonnes in 2007/2008 and 30 000 tonnes per year as from 2008/2009.

Bovine Animals: For the calculation of Annex VIII, the following adaptations are taken into account:

The number of suckler cow premia for Austria is increased by 50 000 animals. These animals are taken off

from the Austrian regional ceiling for the special premium, which shall be reduced accordingly.

As the Portuguese conversion programme of land currently under arable crops to extensive livestock farming will de facto be repealed at the entry into force of the single farm payment scheme, Portugal is allowed to carry out an operation to complete the remaining conversion while taking into account the specificity of the suckler cow sector in Portugal. As a result, the number of suckler cow premia for Portugal shall be increased to 416 539 animals.

For Portugal and Austria, the suckler cow premium ceilings in the current common market organisations will be adapted accordingly. The percentage of heifers, which can receive the suckler cow premium, is increased from 20% to 40% (Art. 10 of Reg. 1254/1999).

The number of slaughter premia for adult bovines in Italy is increased up to 1 892 201 animals.

From the date of application of the single farm payment, calves are defined as bovine animals of an age of more than 1 month and less than 8 months and a maximum carcass weight to be defined. 10961/03 16

2.3. Rural development regulation

Investment aid for processing and marketing: New recital concerning derogation for small processing units, see Annex 8 (The relevant Article is already included in the Presidency compromise text of the regulation – see point 1.2.).

Investment aid for processing and marketing: New recital concerning the development of innovating approaches in food processing and amendment of article 25. (See Annex 8)

Amendment to Article 16: Possibility to increase the maximum amount eligible for Community support in duly justified cases to take account of specific problems – see text in Annex 8.

Amendment to Article 31: Possibility to grant an annual premium to cover maintenance costs and income foregone for private tenants in the case of afforestation of agricultural land owned by public authorities – see text in Annex 8.

Amendment to Article 47(2): Increase of the maximum amount eligible for Community support for agri-environment measures to 85% in areas covered by Objective 1 and 60% in the other areas – see text in Annex 8.

Possibility of support for State forests: Commission Declaration concerning the amendment of Article 29:

“While implementing Chapter VIII of Regulation (EC) N° 1257/1999, the Commission will ensure that support for the state forests is market neutral and does not distort competition in the forestry sector.”

Simplification: Commission Declaration on further progress:

“At the occasion of adapting the implementing rules for the amended Regulation 1257/99, the Commission will review again with Member States the scope for further simplification of the administrative provisions for the implementation of rural development programmes. As regards control provisions, the review will encompass in particular in situ checks in the context of administrative controls.”

2.4. Dates of application.

Different dates of application will apply for each part of the reform. As far as the single payment scheme is

concerned, Member States shall apply the scheme starting from 1.1.2005. If, however, a Member State needs a transitional period to implement the single payment scheme, due to its agricultural specific conditions, the Member State concerned may apply the scheme starting at the latest from 1.1.2007.

In case Member States decide to apply the single payment scheme later than 1.1.2005, the direct payments under each current regime will be subject to budgetary ceilings equal to the corresponding components of the single farm payment for each aid. The Commission (Management Committee Procedure) will fix the ceilings.

In order to cope with intolerable distortion of competition and to ensure the respect of international obligations, the Commission will be enabled to take the necessary steps through Management Committee Procedure.

2.5. Declaration concerning Olive Oil, Tobacco, Cotton reforms.

The Council notes that the Commission will submit next autumn a communication on the reform of the Common Market Organisations for olive oil, tobacco and cotton, and will follow it by legal proposals.

As in its July 2002 communication, the Commission will provide a longterm policy perspective for these sectors in line with their present budgetary envelope and the new framework for agricultural expenditure agreed at the Brussels European Council in October 2002.

The reform for these sectors will be based on the objectives and the approach of the current reform.

2.6. Commission Declarations

- Declaration of the Commission on the Control System of Cross Compliance (Article 28 of the COM proposal) – see Annex 1.
- Declaration of the Commission concerning the application of Annex III – see Annex 1A. 10961/03 18
- Declaration of the Commission on the Establishment of a List of Cases of Farmers in a Special Situation (Article 45 of the COM proposal) – see Annex 2.
- Declaration of the Commission concerning the adaptations of the financial perspective 2000-2006 – see Annex 3.
- Declaration of the Commission concerning the application of the mechanism of financial discipline – see Annex 4.
- Declaration of the Commission on the Optional Implementation of the Single Payment Scheme – see Annex 5.
- Declaration of the Commission concerning supply management through set-aside – see Annex 6.
- Commission Declaration concerning the Amendment of Article 29 of Reg. 1257/1999 concerning Support for State Forests – see point 2.3.
- Commission Declaration concerning Simplification of the Implementation of Rural Development Measures – see point 2.3.
- Declaration of the Commission on the Transition from the Optional Modulation System (Article 4 of Reg. 1259/1999) to the Proposed Community Modulation System – see Annex 9.

- Declaration of the Commission on the Application of Modulation to the Accession Countries (Recital 41a of the COM proposal) – see Annex 10.
- Declaration of the Commission on Crises Management – see Annex 11.
- Declaration of the Commission on the application of the modulation and financial discipline to G.A.E.C. – see Annex 12.

2.7. Council and Commission declaration

Declaration of the Council and the Commission concerning the transposition of the political agreement into the legal text – see Annex 13.

Annex 1

DECLARATION OF THE COMMISSION ON THE CONTROL SYSTEM OF CROSS COMPLIANCE (ARTICLE 28 OF THE COMMISSION PROPOSAL)

A. Link between the IACS and the control system of cross compliance

The implementing rules of Art. 28 concerning the control system of cross compliance will be based on the following principles:

I. The IACS remains the relevant control tool; however, this does not mean that Cross Compliance should be controlled exactly in the same way as the eligibility rules. “Integrated control” means for Cross Compliance that the Paying Agencies should make their payments and apply the reductions on the basis of a complete overview of the different control results.

II. In this context the standard IACS control rate of 5 % would first apply to the eligibility control and, as a basis for further risk analysis, to the Cross Compliance control of all beneficiaries of direct payments.

III. As to the eligibility controls all selected farmers will be controlled according to the existing IACS rules.

IV. As to the Cross Compliance controls the following procedure which gives flexibility to the Member States for the implementation of the control system could be applied:

1. The list with the pre-selected farms (5% sample) is transmitted to the different specialised control bodies.
2. Each specialised control body then has the choice to apply one of the two options or, where appropriate, both options combined:

Option 1: the specialised control body performs its own risk analysis on the IACS sample, and retains at least 20% (which corresponds to a maximum control rate of 1%) of the farms for which the relevant standards apply. In this context it has to be noted that Standards containing an obligation for notification of diseases only “apply” once the obligation is triggered by the outbreak of the disease.

Option 2: the specialised control body does not retain the IACS sample but establishes its own list of farms to be controlled, based on its own risk criteria; this list shall contain a number of farms at least equal to 1% of the farms (beneficiaries of the direct aid) to which the relevant standards apply.

3. In order to safeguard the most efficient use of the control capacities the control bodies can decide to achieve the control rate of 1% of the beneficiaries of direct aid by the following means:

- a) If the normal risk analysis of the control body at farm level concludes that non beneficiaries of direct aid present a higher risk than the selected beneficiaries of direct aid, the control body is allowed to replace beneficiaries of direct aid by farmers who are not beneficiaries of direct payments to the extent that the higher risk of the latter can be demonstrated.
- b) In addition, if for reasons of efficiency it appears more appropriate not to control directly at farm level but at the level of undertakings (e.g. slaughter houses, traders, suppliers), the sample of undertakings to be controlled should be established in such a way that it covers indirectly 1% of the beneficiaries of direct aid to which the relevant standards apply.
- c) For cross-compliance requirements for which a minimum control rate already exists on Community level (e.g. identification and registration of animals, see Standards N° 7, 8 and 10), this control rate shall apply instead of the 1% applicable in option 1 and 2.
- d) In both options, the control reports, containing an assessment of the gravity of the potential infringement, must be sent to the paying agency for application of sanctions.

B. Nature of controls performed by Commission services

The Controls performed by Commission services concerning the implementation of the control system of cross compliance are only related to the proper functioning of the control system as defined under point A. The main elements of these controls can be summarised as follows:

- I. Transfer of any appropriate and necessary information concerning the beneficiaries of direct payments to the specialised control bodies by the competent paying agencies (either IACS sample or list of beneficiaries on a national or regional level).
- II. Application of risk analysis and selection methods according to option 1 or option 2 (including an eventual replacement of the pre-selected beneficiaries by other operators and the eventual application of the controls at the level of undertakings instead of farms).
- III. Set up of the control reports containing notably the detected non-respect of Cross compliance standards, the assessment of the gravity of the infringements and all relevant information's on the investigations performed during the on the spot checks.
- IV. Transfer of the control reports to the competent paying agencies.
- V. Application of the system of reductions and exclusions by the competent paying agencies on the basis of the control reports.

C. Application of corrections within the Clearance of Accounts procedure

- I. The basic rules of the clearance of accounts as established in Council Regulation n°1258/1999 will apply to cross compliance. The financial corrections therefore have to be proportionate to the risk to the fund, taking into account the fact that the cross compliance standards are not an eligibility rule but a basis for sanctions.

Therefore the risk for the fund, in principle will not be assessed on the basis of the risk of non-eligible expenditure, but on the risk of financial loss resulting from the non-application of sanctions

- II. As regards eligibility as well as cross-compliance the clearance of accounts will preserve its preventive role. The Commission services will therefore continue to provide recommendations and guidelines, as it is currently the case for IACS, taking into account particular problems of the Member States when

implementing the new control system on cross compliance.

III. The fact that some “cross compliance standards” are generally Directives poses a specific problem in the case where the Member States has incorrectly, inadequately or not at all transposed a Directive. In such a case, the concerned standard is not legally binding for the farmer. Therefore, sanctions cannot be applied by the Member State to the farmer. In these circumstances, there is no ineligible expenditure, as well as no sanctions missing because such sanctions are inapplicable to the concerned farmer. The consequence of this is that clearance of accounts is not the appropriate response to this kind of situation. For these reasons the non-transposition of Directives will be subject to the proceedings under Art. 226 and 228 of the Treaty.

Annex 1A

DECLARATION OF THE COMMISSION ON THE APPLICATION OF ANNEX III OF THE COMMISSION PROPOSAL

The Commission, in collaboration with Member States, will establish a document which lays down the indicators of each legal obligation resulting from the statutory requirements listed in Annex III in order to guide farmers on how to comply with these standards of cross-compliance.

These indicators could also be a helpful tool for the competent national control bodies.

Annex 2

DECLARATION OF THE COMMISSION ON THE ESTABLISHMENT OF A LIST OF CASES OF FARMERS IN A SPECIAL SITUATION (ARTICLE 45 OF THE COMMISSION PROPOSAL)

When implementing Article 45 concerning the national reserve and the establishment of a list of cases of farmers in a special situation which prevented them, in full or partially, from receiving direct payments in the reference period, the Commission will consider including, notably, the following cases:

- a) farmers who received, by way of actual or anticipated inheritance, by a farmer who retired or died in the reference period, a holding or part of a holding, whose land was leased during the reference period;
- b) farmers who bought, in the reference period or before or not later than [31 May 2003], a holding or part of it whose land was under a lease during the reference period;
- c) farmers who entered, in the reference period or not later than [31 May 2003], in a multi-annual lease of a holding or part of it whose lease conditions may not be adjusted;
- d) farmers who made investments or purchased land, in the reference period or not later than [31 May 2003], in order to increase their production;
- e) farmers who participated, in the reference period in national programs of reconversion of production.

Annex 3

DECLARATION OF THE COMMISSION CONCERNING THE ADAPTATION OF THE FINANCIAL PERSPECTIVE 2000-2006

The Commission states that the earlier start of modulation requires a minor adaptation of the financial perspective 2000-2006.

Annex 4

DECLARATION OF THE COMMISSION CONCERNING THE APPLICATION OF THE MECHANISM FOR FINANCIAL DISCIPLINE

When the mechanism for financial discipline will have to be applied for the first time, the Commission will submit a proposal to the Council, which, in addition to the adjustment rate, will also include a franchise of 5.000 €. Additional franchises, above 5.000 € with a partial exemption from the adjustment might also be proposed.

Annex 5

DECLARATION OF THE COMMISSION ON THE OPTIONAL IMPLEMENTATION OF THE SINGLE PAYMENT SCHEME

When implementing the optional implementation of the single payment scheme, the Commission will base the conditions for the granting of the supplementary amounts on the existing conditions provided for in Regulations (EC) No 1251/1999, 1254/1999 and 2529/2001 and their respective implementing rules.

In this context, the Commission will also maintain to the extent necessary the possibility to grant aids funded from the national budget, in particular the amount corresponding to the additional national suckler cow premium.

Annex 6

DECLARATION OF THE COMMISSION ON THE APPLICATION OF SET-ASIDE

In order to maintain the function of set-aside as a flexible instrument of supply control, it is foreseen to open the possibility for the introduction of further set-aside obligations. Independent of the standard set-aside approach based on historical set-aside entitlements, in case of market needs, the Council may decide on proposal of the Commission to apply further set-aside obligations to all the land that a beneficiary grows with cereals or oilseeds. The obligation holds independently of the amount of direct payments received. All derogations of the standard set-aside system will apply.

Annex 7

RICE: Art. XXVIII MANDATE

“The Council authorises the Commission to open negotiations for the modification of the bound duties for rice, with the following negotiating directives:

The Commission will propose that the current bound specific duties for rice under headings 100620 husked (brown) rice, 100630 milled rice, other concessions consisting of tariff quotas under the above tariff lines and headnote 7 of the Community schedule CXL for agricultural products be supplemented by a more stable and predictable import regime, that takes into account the impact of the reform of the rice CMO on the EC actual tariff protection.

The Commission will also take into account the interest of Developing Countries, including those of traditional suppliers, as well as the implementation of the “EBA” regulation. New tariff items could be created by means of a breakout from an existing tariff line.

The Commission will offer compensation as appropriate for the above modifications of its schedule CXL in accordance with relevant WTO provisions, in particular Article XXVIII of the GATT 1994 and the Understanding on the Interpretation of Article XXVIII of the GATT 1994.”

Annex 8

ADDITIONAL AMENDMENTS TO THE RUTAL DEVELOPMENT REGULATION.

- Investment aids for processing and marketing: new recital concerning small processing units.

(The relevant Article is already included in the Presidency compromise text of the Rural Development Regulation.)

“This Chapter lays down eligibility conditions for support for investments for improving the processing and marketing of agricultural products including the requirement for enterprises which receive such support to already comply with minimum standards related to environment, hygiene and animal welfare. Given that small processing units can sometimes experience difficulties in complying with such standards, Member States should be allowed to grant a period of grace with reference to the eligibility conditions for investments in small processing units made in order to comply with newly introduced standards related to the environment, hygiene and animal welfare.”

- Investment aid for processing and marketing: new recital concerning innovation.

Given the importance of promoting innovation in the food processing sector, the scope of the existing Chapter of Regulation (EC) No 1257/1999 for improving processing and marketing of agricultural products should be extended to provide support for the development of innovative approaches in food processing.

- Amendment to Article 16

(a) Article 16(3) is replaced by the following:

“3. The maximum amount eligible for Community support is laid down in the Annex. This amount may be increased in duly justified cases to take account of specific problems.

A support higher than this maximum amount may be granted during a period not exceeding five years from the date the provision imposing new restrictions becomes mandatory in accordance with Community legislation. This support shall be granted annually on a degressive basis and shall not exceed the amount set out in the Annex.”

- Amendment to Article 25.

(10a) In article 25(2), the fourth indent is replaced by the following:

“ to develop and apply new technologies”

- Amendment to Article 47.

(20) In the second subparagraph of Article 47(2), the last indent is replaced by the following:

“the community contribution to the programming for measures laid down in Articles 22 to 24 of this Regulation shall not exceed 85% in areas covered by Objective 1 and 60% in the other areas.”

- Article 31 is amended as follows:

(a) In paragraph 1, the second subparagraph is replaced by the following:

“Such support may include in addition to establishment costs:

– an annual premium per hectare afforested to cover maintenance costs for a period of up to five years,

– an annual premium per hectare to cover loss of income resulting from afforestation for a maximum period

of 20 years for farmers or associations thereof who worked the land before its afforestation or for any other private law person.”

(b) Paragraph 2 is replaced by the following:

“2. Where support is granted for afforestation of agricultural land owned by public authorities, it shall cover only the cost of establishment. If the afforested land is rented by a private law person, the annual premium referred to in paragraph 1, second subparagraph, may be granted.”

(c) In paragraph 3, the second subparagraph is replaced by the following:

“In the case of fast-growing species cultivated in the short term, support for afforestation shall be granted for establishment costs only.”

Annex 9

DECLARATION OF THE COMMISSION ON THE TRANSITION FROM THE OPTIONAL MODULATION SYSTEM (ARTICLE 4 OF 1259/99) TO THE PROPOSED COMMUNITY MODULATION SYSTEM

Pursuant to article 90 of the proposed horizontal regulation the transitional rules the Commission will establish will contain the following main elements:

- provide for the possibility to keep in place an additional voluntary modulation applied on either national or regional level, up to the level necessary to fill the gap between the funds available under the new mandatory modulation scheme and the financial needs resulting from “accompanying measures” established before 2006. Member States have the same flexibility in implementing such an voluntary modulation system as they have currently under Art. 4 of Regulation N° 1259/1999. For the additional voluntary modulation a separate accounting on the amounts withheld and on the use of the additional modulation receipts will have to be kept;
- a provision to enable to switch funding source when modulation funds from the optional scheme are exhausted for longer running commitments such as 5-year agri-environment contracts;
- a provision to broaden the use post 2006 to all rural development measures of remaining modulation money not yet committed from the optional scheme on condition of a separate tracking of the use of this money;
- a provision to enable using modulation money generated under the optional scheme during n+4 (instead of n+3), to ensure a smooth transition between the two programming periods.

Annex 10

DECLARATION OF THE COMMISSION ON THE APPLICATION OF MODULATION TO ACCESSION COUNTRIES (Recital N° 41a OF THE COMMISSION PROPOSAL)

The present regulation covers the Community as constituted at the time of its entry into force. Taking into account the fact that, according to the Treaty of Accession, the accession of the new Member States shall take place on 1st May 2004, the present regulation should be adapted, by the date of accession, according to the procedures provided for by the Treaty of accession, in order to make it applicable to the new Member States.

The Commission commits itself to propose that the mechanism of financial discipline as well as modulation shall not apply in the new Member States until the phasing-in of direct payments reaches the EU level.

Annex 11**DECLARATION OF THE COMMISSION ON CRISES MANAGEMENT**

The Commission will examine specific measures to address risks, crises and national disasters in Agriculture. A report accompanied by appropriate proposals will be presented to the Council before the end of 2004.

The Commission will analyse in particular the financing of these measures through the one percentage point of modulation directly re-distributed to Member States as well as the inclusion, in each common market organisation, of an article empowering the Commission to act, in the case of a Community-wide crisis, along the lines established for such cases in the common market organisation for beef.

Annex 12**DECLARATION OF THE COMMISSION ON THE APPLICATION OF MODULATION AND FINANCIAL DISCIPLINE TO G.A.E.C.**

The Commission considers that all the holdings which are part of a G.A.E.C. (groupements agricoles d'exploitation en commun) as established by the French "Code Rural" are considered each as a single farmer for the purpose of applying the additional amount of aid provided for in case of modulation and the franchises in the context of the financial discipline mechanism.

Annex 13**DECLARATION OF THE COUNCIL AND THE COMMISSION CONCERNING THE TRANSPOSITION OF THE POLITICAL AGREEMENT INTO THE LEGAL TEXT.**

The Council and the Commission ask the Special Committee for Agriculture to continue the technical examination of the legal texts with a view to find solutions in line with the political agreement on the CAP Reform taking into account, as far as possible, particular problems of the Member States concerning the implementation of the political agreement in the legal texts.

1. Originally distributed in Luxembourg on 25 June 2003 with reference DS 223/03. The current document contains the corrections agreed in the session.