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Agricultural Situation

Simplification of direct aid payments to EU farmers

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Report Highlights:
The June 19, 2001 Agricultural Council adopted a simplified procedure for the payment of direct aids to small farmers in the EU. During the period 2002-2005, eligible farmers will receive a flat rate payment of EUR 1,250 annually. About one third of EU farmers will be eligible, and EU expenditure will cover about 2 percent of total EU aid payments.

Includes PSD changes: No
Includes Trade Matrix: No
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EU SMALL FARMERS' SCHEME AGREED FOR 2002-2005

1. SUMMARY. The June 19 EU Agricultural Council agreed on new rules to simplify direct aid payments to farmers, at a cut-off point of EUR 1,250 per farmer per year. In participating EU member states, farmers can apply for a flat-rate aid payment for the years 2002-2005, based on the direct aid received either in the year preceding the year of application or the average aid in the three years preceding the year of application. The Small Farmers' Scheme (SFS) covers all of the economically important forms of direct aid, both in the arable crop sector and in the livestock sector. The European Commission estimates that up to one third of EU farmers could be eligible, whereby total expenditure would cover about two percent of total EU aid payments. During the trial period 2002-2005, the European Commission will study the effects of augmenting the EUR 1,250-limit in the future, and possibly bring the SFS into the Rural Development pillar of the Common Agricultural Policy. As far as WTO notifications are concerned, Commissioner Fischler has stated that SFS payments will be notified as (production-decoupled) green box subsidies, reducing the subsidies of production-coupled blue box subsidies accordingly. There is also speculation that this policy may provide a cost-effective way to deal with farmers in acceding East European countries. END SUMMARY.

2. In December of 2000 the European Commission came out with a proposal for a Council Regulation on a simplified scheme for paying certain direct aids to farmers in the EU. Following discussions with EU member states and the European Parliament, the EU Agricultural Council of June 19, 2001 has adopted the draft Council Regulation. The main objective behind the new system is to reduce the administrative burden on farmers, national administrations and the European Commission. Savings are estimated to be made in terms of administrative costs of processing applications, making payments, and carrying out controls. For practical reasons, the proposed scheme has been referred to as "Small Farmers' Scheme" or SFS. The SFS differs from the simplified schemes already in place, such as the schemes for arable crop farmers producing less than 92 MT of cereals, and the livestock farmers with less than 15 livestock units. By setting a maximum payment limit of EUR 1,250 per (SFS) farmer per year, for the first time a distinction will be made between EU farmers receiving small amounts of EU aid and those receiving large amounts.

3. According to data from FADN (Farm Accountancy Data Network of the EU) 23 percent of the surveyed farms received less than EUR 1,000 in 1996/97, while 43 percent received less than EUR 2,500. These data are not accurate because only about a third of all EU farmers are included in FADN. By setting the cut-off point at EUR 1,250 per year (agreement on SFS was obtained during the AgCouncil of June 19), the European Commission estimates that up to one third of all EU farmers could be eligible, whereby the total aid payments under SFS would represent 2 percent of total EU aid payments. Large variations exist between EU member states with regard to proportionate shares of farmers eligible for SFS. The scheme could apply to more than two thirds of farmers in Portugal, but would cover maximally 5 percent of the farmers in the U.K. and Denmark.

4. A farmer in a participating EU member state is eligible for SFS if he has received aid under at least one of the support schemes (as defined under SFS) during each of the three calendar years preceding the year of application. If he opts for applying for the SFS payment, he will receive an

amount equal to the highest of either the average of the applicable direct aids obtained during the three calendar years preceding the year of application, or the total amount of applicable direct aids granted in the calendar year preceding the year of application. Even when past aid payments exceeded the EUR 1,250 limit, a farmer can still opt for SFS if he accepts to be paid a maximum of EUR 1,250 under SFS in return for a smaller administrative burden. The applicable support schemes which are covered under SFS comprise payments both in the arable crop sector and in the livestock sector. More particularly, SFS covers area payments for arable crops, area aid to grain legumes, rice area aid, and area aid for flax and hemp. In the livestock sector, SFS will be applicable for the special premium and the suckler cow premium in the beef and veal sector, cattle extensification payments and additional payments, as well as for the supports in the sheep and goats sector (ewe and she-goat premium including the LFA-supplement). Consequently, all of the economically important forms of direct aid are covered under SFS. However, SFS farmers also remain entitled to the aids granted under other support schemes not covered by SFS.

5. SFS will be available for the calendar years 2002 to 2005, period during which intermediate evaluations will be made and possibilities to increase the threshold in the future explored. Due to its temporary nature, participation in the scheme is on a voluntary basis, both for member states and farmers in the member states that decide to apply the scheme. Member states may decide to implement SFS at national or regional level. Once accepted as eligible for the flat rate payment, farmers are free to use the land for any agricultural purpose except for the production of hemp falling within CN code 5302 10 00 (raw or retted true hemp), provided that the land is maintained in good agricultural condition. For the EU budget, the SFS constitutes a neutral measure in that it provides merely for the payment of existing aids through a simplified procedure. EU financial statements on the measure even refer to potential savings owing to the fact that payments will be based on payments in previous years, whereas future aids outside SFS are, in certain agricultural subsectors, increasing progressively following the Agenda 2000 decisions.

6. Given that the flat-rate SFS payments will be decoupled from production, the EU Commission has already stated that their value will no longer need to be notified to the WTO as a blue-box-subsidy, but would be categorized in the green box. Although not openly discussed at this point in time, some policy analysts have suggested that SFS could be moved into the Rural Development pillar of the CAP in the future, which implies the possibility of member state cofinancing. The EU Commission has, however, commented that such a decision would not be taken before an in-depth-analysis is made in the framework of the mid-term review of Agenda 2000, scheduled to start in 2002. Another frequently heard comment is that SFS would facilitate the political negotiations with regard to eligibility of farmers in East European countries (that applied for EU membership) to CAP direct aid payments.