USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

**Date:** 4/28/2004

**GAIN Report Number:** E34004

# EU-25

# Agricultural Situation

# Enlargement of the Common Agricultural Policy

# 2004

**Approved by:**
Norval Francis
U.S. Mission to the EU

**Prepared by:**
Christine Strossman

**Report Highlights:**
Key points include details on the phasing-in of CAP payments, application of the Single Area Payment Scheme in the new member states, and the possibility for the new member states to "top-up" EU payments with additional funds.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Brussels USEU [BE2]
[E3]

On March 30, 2004, the European Union published a Council Regulation (583/2004) and a Council Decision (2004/281/EC) regarding the enlargement of the Common Agricultural Policy (CAP) to the 10 new member states (NMS). Changes were proposed to the Accession treaty, as well as changes to the CAP reform legislative text. With the 10 new countries joining the EU as of May 1, 2004, the new regulations make several adjustments necessary to apply the CAP in the new countries.

For details of the proposals, see GAIN report E23202. For details of the CAP reform see E23121 and E23184.

Key points include details on the phasing-in of CAP payments, application of the Single Area Payment Scheme in the new member states, and the possibility for the new member states to "top-up" EU payments with additional funds. In order to understand the impact of joining the EU on NMS farmers' incentives, it is necessary to understand how they will receive the new payments and the amounts. This report sets out the EU framework for extending these payments to the NMS. However, due to the options available to NMS, particularly in the case of top-up payments, the choices made by individual member states will determine the impact on farmers in those countries.

**Phasing-in**

As had been agreed at the time the Accession Treaty was negotiated, direct payments in the NMS will be phased in over a period of 10 years. During this period, they will receive only a percentage of the direct payments applicable in the EU-15. Only direct payments will be phased in. Examples of direct payments include area payments for arable crops, nuts, protein crops and dairy and livestock payments. The majority of payments in the NMS fall into the direct payment category. "Market support" payments (mainly payments for processing agricultural products) will not be phased in. Examples of these kinds of payments include: dried fodder, flax/hemp and potato starch processing aid, as well as aid to producer organizations for delivery of tomatoes, citrus, peaches and pears for processing. These "market support" payments will be paid at 100% of the EU level right away. The yearly phase-in percentages for the direct payments are shown below.

| Year | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013+ |
|---|---|---|---|---|---|---|---|---|---|---|
| Percent of EU payment | 25 | 30 | 35 | 40 | 50 | 60 | 70 | 80 | 90 | 100 |

The Council Decision clarified that the phasing-in approach would apply to all new direct payments introduced before 2013 (ie. direct payments under future CAP reform initiatives). However, modulation and financial discipline do not apply to the NMS until their level of payments is 100% of the EU-15 level.

In the case of dried fodder, the EU has chosen to derogate from the general principle of phasing-in. Due to the fact that the market support payment will be partially converted into a direct payment in April 2005, the regulation provides for the dried fodder direct payment portion of the national envelope to be calculated at 100% immediately so that the aid to the affected countries does not decrease from 2004 to 2005.

## Single Area Payment Scheme

The 2003 CAP reform will introduce a decoupled Single Farm Payment (SFP) beginning as early as 2005 in the EU-15. This payment is based on direct payments farmers received under certain support programs during a reference period from 2000 to 2002. As the NMS did not receive these direct payments during the reference period and due to the high administrative burden of implementing direct payments, the NMS will be able to choose the Single Area Payment Scheme (SAPS) instead, as was foreseen by the Accession Treaty. All of the NMS except Slovenia and Malta will opt for SAPS. The NMS may opt for SAPS through 2006, with the possibility of two one-year extensions after that, ie through 2008. Before the NMS can revert to the Single Farm Payment used by the existing EU-15 for direct payments, they must demonstrate that they have the management and control systems in place to do so. If they do not have these systems in place by 2008, they will continue under the SAPS, but their aid percentage will be frozen at 50% of the EU level.

SAPS provides for a flat-rate, per-hectare payment to farmers paid once per year, irrespective of the crops produced, or even whether any crops are produced at all. The only requirement is that the land be maintained in good agricultural condition. The amount is calculated by the total amount of direct payment funds available for a given member state in the calendar year, divided by the utilized agricultural area of the member state. The definition of "utilized agricultural area" is total area taken up by arable land, permanent grassland, permanent crops and kitchen gardens which have been maintained in good agricultural condition as of June 30, 2003, whether or not in production at that date. The minimum size of a parcel is 0.3 hectare, but NMS can decide to set it at a higher level, but not higher than 1 hectare. In practice, all NMS applying SAPS have chosen to set 1 hectare as the minimum parcel size, with the exception of Cyprus, which has set the minimum size at 0.3. There is no set-aside requirement for SAPS, but production quotas, which apply to sectors such as dairy and sugar, must be respected. Cross-compliance will be optional under SAPS.

"Market support" payments in certain sectors, such as fruit and vegetables for processing, are not included in SAPS. These schemes will operate in addition to SAPS in countries which qualify for the payments and have opted for SAPS.

The European Commission has already set the aid amounts for each NMS for 2004, taking into account the phasing-in of aid and the various direct payment programs that would be available for those countries. For example, farmers in Hungary would be eligible to receive direct payments for dried fodder, rice, durum wheat, arable crops, dairy and livestock. Under SAPS, payments that would be due to Hungarian farmers under the negotiated ceilings, maximum guaranteed areas, etc. for these programs are added up into a total "envelope" for the entire country. This total amount is then divided by the total amount of eligible agricultural area to calculate a per hectare payment. Each farmer with eligible area receives the same per hectare payment.

According to reports, the payments per hectare in the NMS for 2004 would be as shown in the following table:

| | Cyprus | Czech. | Estonia | Hungary | Latvia | Lith. | Poland | Slovak. |
|---|---|---|---|---|---|---|---|---|
| Min. parcel size (ha) | 0.3 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Total eligible area (thousand ha) | 120 | 3469 | 800 | 4355 | 1475 | 2288 | 14843 | 1955 |
| Total aid (million €) | 9.69 | 198.94 | 21.4 | 305.81 | 30.48 | 82.07 | 659.86 | 85.72 |
| Per hectare payment (€ per ha) | 80.8 | 57.3 | 26.8 | 70.2 | 20.7 | 35.9 | 44.5 | 43.8 |

While the minimum parcel size of one hectare will exclude some small farmers, the minimum was reportedly set at that level due to the administrative burden that would be associated with providing direct payments of less than €50 per farmer per year.

Slovenia and Malta have opted to apply the SFP instead of SAPS. However, they will have more flexibility than the EU-15 countries covered by the SFP in terms of land use. On land for which they receive the SFP, they may grow fruit and vegetables and ware potatoes, but not permanent crops.

**"Topping-up"**

The March 30 legislation also provided further details on Complementary National Direct Payments (CNDP). These are also known as "topping-up" payments. The CNDP's are part of the compromise reached with NMS to offset the impact of the 10 year phase-in period for direct payments.

-The "30% formula"

Subject to approval by the European Commission, NMS may use their own funds to increase payments by a maximum of 30% (of the EU payment). So, in 2004 if they could get 25% of the EU payment, they could top-up to 55%. In 2005 they can get 30% of the EU payment and top-up to 60%. Topping-up allows the NMS to reach 100% of the EU payment by 2010 instead of 2013. Through 2006, the NMS will be allowed to fund the extra 30 percent in part by diverting up to 20 percent of the rural development funds that the EU will provide after accession. All such funds must be matched by funds from their own budgets. Starting in 2007, the NMS may continue to top-up EU payments by 30 percent above that year's phase in level, but it must be financed entirely by national funds.

-The "pre-accession formula"

Alternatively, a NMS which operated "CAP-like" programs prior to enlargement can top-up to the level of aid that applied in a given sector before accession, plus 10%, but it cannot be higher than the EU level. For Slovenia, the level of aid that applied before accession can be increased by 15% in 2005, 20% in 2006 and 25% in 2007.

Topping-up is possible under both SFP and SAPS. For topping-up under the SFP (applying to Slovenia and Malta only), the arrangements would be slightly different depending on which formula the NMS chose. Under the "30% formula," all payments could be increased across the board by a maximum of 30%, regardless of whether they were payments based on entitlements, payments for coupled schemes, or ceilings for partially-coupled schemes. Under the "pre-accession formula," payments under the schemes that remained coupled could be topped-up to the pre-accession level plus 10% (see above). For those schemes that were merged into the single farm payment, topping-up would be more complicated, and would be carried out in two steps. The first step would be to add-up all the pre-accession direct support granted for the sectors concerned (increased by 10% points) and see how much higher this was than the baseline direct payments available from the EU. The difference would constitute the total 'envelope' available for topping up in the region concerned. The second step would then be to divide this envelope between the farmers in the region on a per-hectare basis. In the event of partial implementation of the SFP, the envelope referred to above would have to be calculated according to the extent of decoupling applied.

For topping-up under SAPS (applying to Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary and Cyprus), the arrangements in the Act of Accession (i.e. top-ups granted from sector-specific envelopes) would apply unchanged for 2004. A simplified option would be applicable starting in 2005. Under this option the new Member States would be able to pay top-ups not from sector specific envelopes, but from a single envelope reflecting the difference between the SAPS support level and the topping-up margin (plus 30% or pre-accession level). From this envelope, top-ups would be granted per hectare for the entire area eligible under SAPS, except for permanent crops. Sector-specific top-ups would still be possible in respect of schemes outside of SAPS.

As is frequently the case with EU regulations, there are several country-specific derogations or arrangements providing exceptions from the above general rules on phasing-in, SAPS and topping-up. For details on these country-specific arrangements, see Council Decision 2004/281/EC:
http://europa.eu.int/eur-lex/pri/en/oj/dat/2004/l_093/l_09320040330en00010017.pdf

**Protein crops, energy crops and industrial crops on set-aside**

The new legislation also increased the maximum guaranteed area (MGA) for protein crops aid to take into account enlargement. The area was increased proportionally from 1,400,000 hectares for the EU-15 to 1,600,000 hectares for the EU-25.

The maximum guaranteed area for the energy crops scheme, set at 1,500,000 MT for the EU-15 was not increased. The reason given is that originally, the purpose of this aid was to compensate for the abolition of non-food set-aside. However, as the non-food set-aside has been re-introduced in the final CAP reform texts, the attractiveness of energy crops scheme decreases and an overshooting of the MGA becomes unlikely. Therefore, the MGA in maintained as agreed in the CAP reform. In practice, the NMS opting for SAPS will not participate in the energy crops scheme. The total "envelopes" of CAP payments used to calculate the SAPS per hectare payment are said not to include energy crop payments.

The limit of 1 million metric tons of soybean meal equivalent for quantities of by-products for feed or food uses as a result of the cultivation of oilseeds on set-aside land was not increased. The reason given is that this limit is subject to the US-EU Blair House Agreement, meaning that any change would need to be negotiated with the US. In any case, farmers in the NMS opting for SAPS do not have set-aside requirements.

**Visit our website:** our website **www.useu.be/agri/usda.html** provides a broad range of useful information on EU import rules and food laws and allows easy access to USEU reports, trade information and other practical information

**RELATED REPORTS FROM FAS EU-25 POSTS:**

| Report Number | **Title** | Date Released |
|---|---|---|
| E24074 | New Border Inspection Posts in Accession Countries | 4/27/04 |
| E24073 | Agreement Reached on Mediterranean Reforms | 4/23/04 |
| E24072 | Commission proposes banana import quota for new member states | 4/22/04 |
| E24058 | Approval of Border Inspection Posts in Accession Countries | 3/25/04 |
| E24005 | EU adapts timing of 2004 US rice TRQs to suit EU accession | 01/07/04 |
| E23090 | Food Safety in the Enlarged EU | 6/03/03 |
| E23121 | CAP Reform deal approved | 6/26/03 |
| E23129 | European Union Enlargement | 7/8/03 |
| E23184 | EU formally adopts CAP Reform | 9/30/03 |
| E23202 | EU Commission proposes adapted CAP payments for enlargement states | 10/29/03 |
| LO4006 | Slovak Food Industry and EU Accession | 3/19/2004 |
| LG4001 | Latvia to Halt U.S. Animal/Poultry/Fish/Seafood Imports and Transshipments | 3/9/2004 |
| AU3010 | US Export Opportunities Through European Union Accession (Czech Republic, Hungary, Slovakia and Slovenia) | 8/12/2003 |
| PL3004 | Impact of EU Accession on Poland's Dairy Production | 1/23/2003 |