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CAP Reform 2003 - Deconstructing Decoupling

2004

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Report Highlights:
This report covers decoupling and the Single Payment Scheme of the 2003 CAP Reform as it applies to the EU-15 and New Member States (NMS). It concludes with a discussion about some of the possible ramifications of the reform.

CAP Reform 2003 leaves several sectors unreformed and provides flexibility with regard to payment schemes. External factors may keep farmers from being able to take advantage of their new freedom to farm. The result of the reform may be hard to notice, especially in the short-term. Furthermore, aspects of the reform may make it difficult to fully understand what sectors and farmers are receiving what levels of support.

Includes PSD Changes: No
Includes Trade Matrix: No
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Executive Summary

The 2003 CAP Reform shifts agriculture policy toward improving rural development, agri-environmental policy, and less market distorting farmer support. The reform package is more or less budget neutral.

This report focuses on the decoupling aspect of the reform, which is of particular interest to the EU's trading partners. It is clear that decoupling payments is a movement toward a more free market approach for agricultural support. However, for several reasons the affect of decoupling may not be noticeable, at least in the short-run, and it may be hard to track what money is supporting which farmers.

1. Though the reform does decrease commodity-specific aid, many sectors still receive coupled payments. Exports, measured by value, are less than 50 percent affected by decoupling.
2. There is a great deal of flexibility in the application of the reform. This creates less transparency and removes some of the commonality of the Common Agricultural Policy.
3. There may be external barriers to switching commodity production, such as land constraints and farmer know-how.

The 2003 CAP Reform decreases commodity-specific aid. The reform decouples payments for arable crops, beef, sheep and goats, dairy, tobacco, olive oil, and hops. However, there are many commodities that remain coupled. Examples of such commodities include: drying aid for cereals, durum wheat quality premium, protein crop supplement, crop-specific payments for rice, flax, potato starch processing, and dried fodder processing. Fruit, vegetable, and wine payments are not affected by the reform. Neither is the sugar support scheme. Quota systems and maximum guaranteed areas remain in place. Moreover, even those commodities that are decoupled are allowed to maintain, in most cases, some coupled payments.

The reform, only affecting certain sectors, also provides a great deal of flexibility with regard to implementation. The reform provides options for partial decoupling and different payment schemes. EU-15 states may select between a payment based on individual historical payments (SFP) or one that is a flat rate divided evenly within a region. For the NMS, Malta and Slovenia will implement a Single Farm Payment (SFP) system. The remaining NMS countries will initially implement the Single Area Payment System (SAPS) that provides each farmer a national flat rate, and then they will switch to a regional flat rate system.

Finally, while the reform does provide freedom for farmers to select which commodity to produce and still receive support, there may be external factors that limit farmers' freedom to choose. For example it may not be easy for a farmer to invest in new equipment or to learn a series of new skills. Furthermore, certain land may only be useful for certain types of agricultural activity.

The Root and Seed of Reform

On June 26, 2003 the Commission agreed on the 2003 Cap Reform and adopted it on September 29 of the same year. The reform provides a series of policy changes to address issues ranging from removing trade distortions to improving rural development and agri-environmental policy. The major reforms include:

- Intervention Price Cuts
- Cross-Compliance
- Modulation
- Farm Advisory System
- Financial Discipline
- Decoupling of farmer subsidies from commodity production

The *intervention price cuts* will lower intervention prices for rice and dairy. *Cross-compliance* is a set of environmental and animal and plant health regulations that must be adhered to in order to receive farmer assistance. To move toward sustainable development *modulation* will gradually decrease the overall level of direct aid and require that the money be used for rural development instead. In addition, the reform requires a *Farm Advisory System* be implemented to assist farmers on land and farm management. Starting in 2007, *financial discipline* requires that all direct payments be reduced when CAP expenditure is within €300 million of the budget ceiling. CAP Reform 2003 also requires the *decoupling* of payments from production. This report focuses on the purpose of decoupling and its implementation. It also aims to explain how the system works for both the EU-15 and the New Member States (NMS). The discussion will then focus on why there may not be many noticeable differences in the near future.

Defining Decoupling and Its Purpose

Decoupling allows farmers to receive direct payments regardless of the commodity produced or if one is produced at all. Decoupling is intended to provide a *simple* mechanism for supporting farmers while removing incentives to over-produce. Commodity-specific aid may create a surplus of a commodity that is not desired or leave a hole in a market where excess demand is not met.

In addition, decoupling affects trade relations. Commodity-specific support has been characterized as a Blue or Amber Box category under the WTO Uruguay Round. These payments are classified as trade distortionary, whereas decoupled payments could be classified within the Green Box, which are considered non-trade distorting or minimally trade-distorting.[1]

Direct aid became an important aspect of European Agriculture policy in the 1990s. Previously, as seen in Chart 1, there was a switch from market intervention toward direct payments. Intervention prices were cut under the MacSharry reforms and farmers received "compensatory payments" to cover some of the difference from the loss in revenue. These compensatory payments are the basis for the direct payments European farmers receive today.

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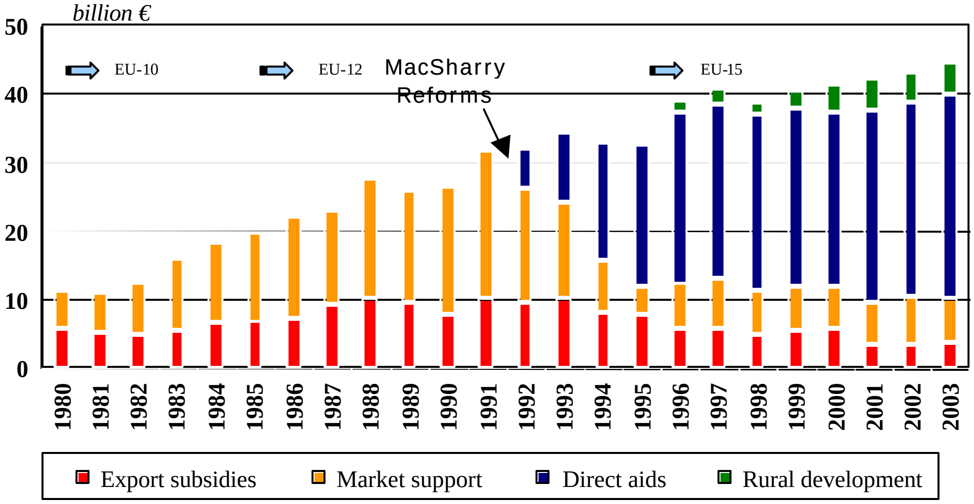
[1] The WTO provides further definitions of the Blue, Amber and Green Box categories through the following link, http://www.wto.org/english/tratop_e/agric_e/agboxes_e.htm

Though there has been a decrease in the money spent on market intervention, Chart 1 shows that overall expenditure on agriculture has increased. The chart also highlights the portion of the budget spend on direct aid.

Chart 1 – Agriculture Spending Over Time for EU



Source: Delegation of the European Union to the US, Washington, DC, June 8, 2004

The Extent of Decoupling

Very specific commodities are included for decoupled payments. Chart 2 and Chart 3 highlight an estimate of what percent of commodities by export value and production value are affected by decoupling or receive no support. While the EU may be making strides with its policies compared to previous decades, commodity-nonspecific payments or no payments only affect 43 percent (with the selection of full decoupling of every EU-15 country) of the value of the EU-15 exports to the world. This number shrinks to 35 percent under the scenario with minimum decoupling. Trade partners may not feel this is adequate even if the reforms seem radical in comparison to the policies of the 1990s. However, if one takes into account the percent of *production* that falls under either decoupled payments or no support the numbers are much higher. Decoupled payments and no direct support constitute 72 percent and 52 percent of production for maximum and minimum decoupling.[2] So, although the production percentage is high for decoupled and no payments, trade partners may not feel the benefit.

Examples of commodities that will remain coupled include: drying aid for cereals, durum wheat quality premium, protein crop supplement, crop-specific payments for rice, flax, potato starch processing, the sugar support scheme, dried fodder processing, fruits, vegetable, and wine.

[2] It should be noted that some of the commodities with no domestic support payments do receive export subsidies, such as poultry. The percent of coupled payments does not capture all trade distorting support. Also, the percent decoupled includes the decoupling for commodities that will be phased-in, for example both dairy and tobacco are considered 100% decoupled for the maximum and minimum scenarios. This also holds for the trade value calculation.

Chart 2 – Percent of Exports with Decoupled or No Direct Aid Payments to the World by Value, Maximum decoupling by all EU-15 and Minimum decoupling by all EU-15[3]

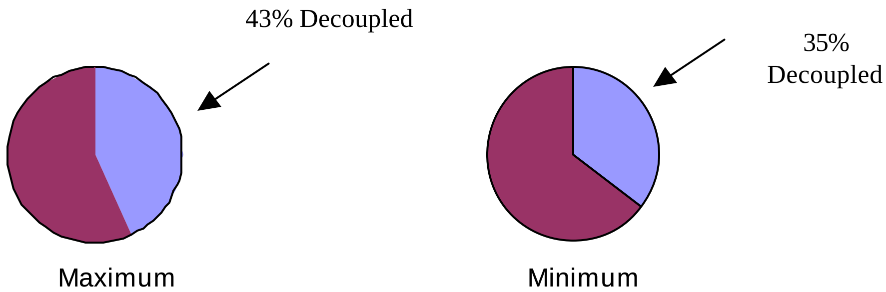
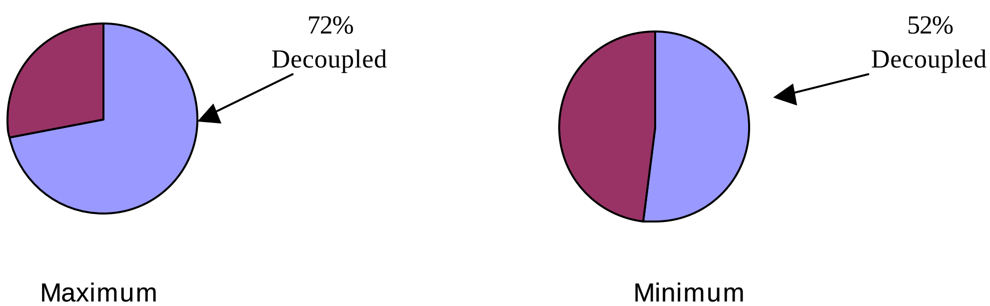


Chart 3 – Percent of Production Decoupled or No Direct Aid Payments, Maximum decoupling by all EU-15 and Minimum decoupling by all EU-15[4]



The reform includes full or partial decoupling of the following commodities: arable crops may be coupled up to 25 percent of the per hectare payments OR 40 percent of the supplementary durum wheat premium may be coupled. Veal can remain up to 100 percent coupled. In addition, Member States (MS) may select either 100 percent of the suckler cow premium AND 40 percent of the slaughter premium for bovine other than calves OR they may select either 100 percent of the slaughter premium for bovine animals other than calves OR 75 percent of the special male premium. As much as 50 percent of sheep and goat premia can stay commodity-specific aid. Dairy is expected to begin decoupling in 2008 after the price reforms are fully instituted, as agreed in Agenda 2000. If desired, MS may choose to decouple dairy early.

The Mediterranean reforms agreed on in April 2004 affect tobacco, olive oil, hops and cotton. Tobacco will be fully decoupled over a three-year period. Half of the direct aid will be used for a decoupled payment, while the other half will be used for a restructuring envelope. It is suggested that the envelope be use to make improvements in tobacco growing areas. For holdings less than 0.3 hectares all olive oil payments will be decoupled. For the remaining holdings at least 60 percent must be decoupled. The remaining 40% will form a national envelope to fund an aid payment per hectare.[5] Spain will receive an additional 20 million Euros for its coupled olive oil aid. Hops and cotton may be coupled up to 25 percent and 35

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[3] See Appendix I for an explanation of calculations
[4] See Appendix Ia for an explanation of calculations
[5] See Appendix II for olive oil envelope numbers and cotton payments

percent, respectively. See Gain Reports GR4013 and GR4017 for more details on the cotton and tobacco reform in Greece.

Table 1 -- Example of Share of Payments that can remain commodity-specific – High and Low

Payment for:	Proportion of payment that *must* remain commodity-specific	Proportion of payments that *may* remain commodity-specific -
Cereals and oilseeds	0	25
Durum Wheat	0	40
Rice	42	42
Protein Crops (supplementary p.)	100	100
Starch potatoes	60	60
Dried fodder	0	0
Sheep	0	50
Beef		
Slaughter premium for calves	0	100
And Either		
Suckler cow premium	0	100
And		
Slaughter premium for adults	0	40
Or		
Slaughter premium for adults	0	100
Or		
Special male premium	0	75
Drying aid, isolated regions aid	100	100
Cotton	0	35
Olive Oil	0	60
Hops	0	25

Source: CEC (2003b), OECD, and (EC) No 864/2004

Table 1a -- Tobacco Decoupling – Over Time

Year	Proportion of payment that *must* remain commodity-specific	Proportion of payments that *may* remain commodity-specific -
2006 – 2009	0	60
2010	0	0

Source: Legislation (EC) No 864/2004

Implementing Decoupling

The legislation outlines which farmers are eligible for the Single Payment Scheme (SPS). Previously, payment for farmers was based on the production of a particular commodity. A new system, SPS, was introduced in the 2003 CAP Reform. This scheme provides farmers direct payments based on their land entitlements, rather than their production.

Eligibility within the EU-15

Farmers who previously received payments from the list in Appendix II - Table i during the reference period of 2000-2002 are eligible for the SPS; certain farmers, such as fruit and vegetable farmers, are not eligible. Each Member State (MS) can choose its payment method – either a Single Farm Payment (SFP - based on individual historic payments) or a regional payment (flat-rate payment). The farmer may use the land for any agricultural activities except permanent crops, potatoes (other than potato starches), fruits, and vegetables. In addition to the crop limitation, farmers must meet cross-compliance standards - a set of environmental and animal and plant health regulations. The farmers will also be restricted by quotas and maximum guaranteed areas, which affect many crops, such as sugar.

Eligibility for the New Member States
All farmers are eligible for decoupled direct payments within the 10 New Member States. Initially they will not be held to the same cross-compliance regulations. Romania and Bulgaria recently finished their agriculture talks for accession. The rules for them will be basically the same, though the timeline differs slightly. See Gain Report E34028 for more details.

Payment Scheme for EU-15
There are two methods from which MS can choose: (1) SFP – based on an average of previous payments from 2000-2002 per farmer, referred to as the "historic payment," and (2) taking a region's historic average of direct payments and then doling it out per farmer based on their hectares, referred to as the "flat-rate."

(1) SFP - Historic Payment Scheme
For the SFP, the majority of payments are based on a reference period from 2000-2002. The SFP is a three-year average during the reference period of all CAP aid receipts listed in Table i, in Appendix II. Reference amounts are based on calculations provided by the reform and can be found in Appendix III, which is Annex VII in (EC) No 1782/2003.

Equation 1: SFP – Historic-Rate
SFP Aid (each farmer) = [(average Σ Farmer's Individual Aid 2000-2002) / (average *S* Individual's Eligible Hectares 2000-2002)] * Farmer's Current Eligible Hectares

(2) Regional – Flat Rate Payment Scheme
Regional payments are based on total aggregate entitlement of a specified region during the reference period. It is then averaged out over the total number of eligible hectares and each farmer receives a uniform payment per hectare. MS may designate regions within their countries. If a country has less than three million hectares of land eligible for direct decoupled aids, it may be classified as a single region. Another difference between the farm payment and the regional payment is that all farmers within the region can be eligible for the regional payment even if they are not eligible under the farm payment. According to the legislation, this can only be done in "duly justified cases."

Equation 2: Regional Aid – Flat-Rate
Regional Aid (per farmer) = [(average *S* Aid in Region 2000-2002) / (average *S* Eligible Region Hectares 2000-2002)] * Farmer's Current Eligible Hectares

Payment Scheme for New Member States
In December of 2002, the Accession Treaty included two options for the application of CAP to the NMS. They could select to implement a SFP scheme or adopt a Single Area Payment Scheme (SAPS). Whichever was selected could be implemented as early as the date of the countries' accession.

Slovenia and Malta will implement the CAP direct aid and then the SFP. They will emulate the EU-15 and CAP direct aid payments for 2004. Then they will have until 2008 to implement the SFP. These two countries already had an Integrated Administration and Control System (IACS, the EU's subsidy payment system), or a similar system, which is necessary for CAP implementation. Both of these countries had programs in place that closely resembled the CAP direct aid system and therefore allow for a historic calculation of payments to farmers.

The other eight accession countries will implement SAPS, which provides farmers a subsidy based on their farm area and a per-hectare entitlement calculated on a national basis. Their payment is not based on their individual production level and therefore is similar to the flat-rate option under the SPS. However, under SAPS, all farmers may benefit from the aid, including those who grow fruit, vegetables, and potatoes. By the end of 2008, these countries must implement the *flat rate* version of the SPS. They may choose to adopt the policy before 2008, if so desired. There is no choice for these eight NMS between SFP and flat-rate payments. Given that these eight NMS did not have access to CAP aid or a similar system during the reference period, it would be impossible to establish eligibility for aid under the farm-based historic approach.

NMS will have their direct aid phased in over a period of ten years. In 2004, NMS will receive only 25 percent of the full EU rate. The rate increases by 5 percent to 10 percent in the following years. In lieu of full direct payments equivalent to the EU-15, the NMS have the ability to utilize top-up payments. This money comes from their budgets rather than the EU budget. As the direct payment from the EU rises the top-up payment can remain the same, 30 percent of the EU level in each year. For the NMS, the system provides farmers with the direct payment and then an additional amount from the top-up according to the NMS designation. See Appendix IV for the available top-up numbers.

Table 2 summarizes the payments and the timeline for the reforms. In addition to the ten NMS, Romania and Bulgaria recently finished their agriculture talks with the Commission. The same basic rules that apply to the ten NMS will apply to Bulgaria and Romania, though the timeline differs slightly. See Gain Report E34028 for specifics.

Box 1 – Summary of Payment Schemes

- SFP – farmer payment based on individual historic payments from 2000-2002
- Regional Flat Rate – farmer payment based on regional historic payments from 2000-2002
- SAPS – Payment system for NMS that provides a national flat rate payment for all farmers

Table 2 – EU Decoupling Timeline

Decoupling Process	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Decoupling EU-15		Decoupling officially begins EU-15		Member States may select to delay decoupling until this year. It must be in effect by January 1, 2007						
Decoupling-Mediterranean Reform		Hops Decoupling Begins	Cotton & Olive Oil Decouple	----- Phase out Tobacco Payment	-----		End Tobacco Payment			
[1]Decoupling Accession Country	--- May implement simplified version of SFP, SAPS (from date of accession to 2008). May begin decoupling ---				By the end of 2008, must implement decoupling plan: "regionalized" version					
EU-15										
National "Envelope" (mil. Euro)			€ 2,893	3,310	3,310	3,310	3,319	3,319	3,319	3,319
CAP AID Ceiling for EU-15 -- Sum of Reference amounts not to exceed (sum MS Caps, mil. of euro)		€ 26,601	28,926	33,095	33,095	33,095	33,192	33,192	33,192	33,192
EU-Accession Countries										
CAP AID Ceiling for NMS -- Sum of Reference amounts not to exceed (sum NMS Caps, mil. of euro)		€ 1,597	1,913	2,455	3,069	3,682	4,295	4,909	5,522	6,135
Direct Payments -- % of EU-15 Amount	25%	30	35	40	50	60	70	80	90	100
National Top-ups	30%	30	30	30	30	30	30	20	10	0
Percent Payment of EU Rate including Top-up	55%	60	65	70	80	90	100	100	100	100
EU-25										
AID Ceiling Total (Not including Top-Up, mil. of euro)		€ 28,198	30,839	35,550	36,164	36,700	37,487	38,101	38,714	39,327

Source: (EC) No 1782/2003, (EC) No 864/2004, and The second wave of CAP reform by, European Commission

Flexibility and Non-Transparency

Some Exceptions to the Common Policy
Within the framework of the reform, there are several exceptions regarding implementation. One such example is the ability of countries to exclude some commodities or areas from the SPS. If a country states that it wishes an exemption from the SPS for certain commodities or regions, it should fall under one of the categories in Box 2 below. Excluding a payment from the SPS allows the payment to remain commodity-specific. These are included in the legislation to protect those farmers and regions that are most vulnerable to abandonment.

Box 2 – Possible Exclusions from SPS, if requested by August 1, 2004

- Finland and Sweden north of the 62nd Parallel and any adjacent areas with a similar climate that makes agricultural activity difficult receive a supplementary amount to their area payment for cereals, oilseeds, linseed and flax and hemp grown for fiber.
- Payments that are seen as necessary to ensure producers a fair income through aid granted for the production of basic seed or certified seed.
- The direct payments covering the fattening aid for male bovine, supplement to the premium for maintaining suckler cows, aid for the private storage of locally manufacture cheese, aid for beef and veal production and measures to improve product quality with in the limits of the consumption needs of the FOD that apply to the French Overseas Departments, the Azores and Madeira, the Canary and Aegean Islands may also be excluded from the SFP if chosen by August 1, 2004.
- These payments, if not included in the SFP, will be subtracted from the national ceiling.

Source: (EC) No 1782/2003

In addition to exceptions made for the SPS, there are also exceptions regarding the reference period (2000-2002), in order to provide flexibility. For example, if a farmer's production was adversely affected during the reference period by a case of force majeure or exceptional circumstances occurring before or during the reference period, the farmer shall be entitled to request that the reference amount be calculated on the basis of the calendar year or years in the reference period not affected. If the whole period was affected then 1997-1999 will be the basis. Member States may decide the deadline for farmers to notify authorities about their circumstances. Examples of exceptional circumstances are the death of a farmer, the incapacity of a farmer, a natural disaster, or an accidental destruction of livestock buildings on agricultural land. Within the Mediterranean reforms there are more exceptions for the reference period. For olive oil the reference period is actually 1999/2000 to 2002/2003.

In addition to exceptions, the reform also provides a great deal of flexibility with regard to implementation. The countries within the EU-15 have choices about whether to fully decouple, and there is flexibility regarding the time frame of the adoption of these reforms. Some MS will reform in 2005, others will wait until 2006, and some countries will phase in the reforms over seven years, but all EU-15 countries must begin their reforms by 2007. NMS also have flexibility regarding the timeline of their reforms, though they must be implemented by the end of 2008.

Another aspect of the reform that will make the policy less uniform is the application of cross-compliance regulations. These rules, which determine the environmental component of farmer payment eligibility, do not have to be uniform.

Ambiguity also lies in the selection of regions for the regional payment option. The legislation requires that the areas should be selected with objective criteria. However, it may be difficult for the Commission to enforce this. There are few legal measures the Commission can take to enforce objective criteria. Careful selection of regions could group farmers based on previous commodity production. This would help to maintain their previous level of subsidy. For example, if one region includes all intensive dairy farmers, they will continue to receive a similar payment. This might slow any transition to different commodities.

The table at the end of this section highlights the choices each Member State made regarding its implementation date and its percent decoupling for the various commodities. There is great variety within the amount of decoupling, the implementation time, and the way the payment schemes are set up. Though the underlying regulations are the same, it is not a uniform implementation. Some countries will select the flat-rate model, which can provide a redistribution effect. Others will use a transition period to get to a flat rate, while still others will base payments on historic receipts.

Box 3 – Ambiguity for Trading Partners – Implementation

- Exceptions to SPS rule
- Percent Decoupling
- Commodities the MS Decouple
- Implementation Date
- Payment Scheme
- Selection of Regions
- Variation of Cross-compliance regulations

Where is the Money Going?

Though partial decoupling and timeline flexibility add a layer of complexity for trading partners, there may be some pieces of the reform that are even more opaque. Member States may take up to 10 percent of their total national aid entitlement to be used for “additional payments,” or the *national envelope*. The money is taken from direct payments to farmers and should be used for improving the environment or the quality of marketing. The Commission must clear the use of this money. However, its use leaves yet another aspect of uncertainty for trade partners. Though it is not intended to be used to re-couple payments, it will be important to monitor the use of these funds. For example, Scotland has officially chosen to fully decouple, however it recently announced that it will use the entire 10 percent of the national envelope to fund a supplement for beef bred calves in the suckler herd.

Other envelopes, like tobacco and olive oil, may leave more wiggle room. While the use of the olive oil envelope is specified, the tobacco reform does not detail how the money should be used. It is suggested that the money be used to assist in the reform of the tobacco regions, but it is not a requirement. These provisions can make the final results of who receives what support harder to track.

Beyond timeline flexibility, the NMS also have payment options that make the landscape of their agricultural aid more difficult for observers to navigate. As mentioned previously, NMS have top-up funds. The top-up funding can be taken from either national funds or by transferring a country's rural development allocation to the direct aid budget (a maximum amount of 20 percent). While this money does require Commission approval, it has a great deal of flexibility. It can be split evenly among farmers, or can be used to increase the subsidy for a particular commodity. For example, if a NMS wanted to improve the competitiveness of its potato starch the country could use all of the top-up money to subsidize those farmers. The available information on top-up funds is located in Appendix IV. The table shows that most NMS have opted for sector-specific funding, using the top-up option to couple payments. The uses of these funds make it easier for NMS to provide commodity-specific aid.

Further ambiguity is found in the top-up payment scheme for the NMS. The majority of the NMS do not have a sophisticated IACS, a system used to monitor what farmers are producing. Therefore, in the beginning, it could be difficult to ensure that the sector-specific top-up payments are reaching the appropriate farmer. This again makes it difficult to know exactly which farmers and what crops are receiving subsides.

Box 4 – Ambiguity for Trade Partners – Money Application

- The extent of monitoring of the national and commodity envelopes
- Top-Up Payments

Table 3 – Remaining Coupling by Country and Commodity

Country	Date of Implementation	Payment Plan	Arable Crops	Sheep & Goat Premia	Beef	Dairy	National Envelope	Olive Oil	Cotton	Tobacco	Hops
EU regulation	*January 1, 2005 through 2007*	*SFP and Regional*	*Either 25% of per hectare payments OR 40% of supplementary durum wheat premium*	*Up to 50%*	*100% Veal Slaughter Premium And EITHER BOTH 100% of suckler cow premium AND 40% of slaughter premium OR either 100% of the slaughter premium OR 75% of the special male premium*	*Full Decoupling from January 1, 2005 through 2008*	*Up to 10% of CAP Aid maybe allocated to the Envelope*	*40% of payments may remain coupled -- 2006*	*35% of payments may remain coupled --2006*	*After a four year transition period-Full Decoupling- During transition up to 60% can be coupled -- 2006*	*Fully decoupled- except for a max of 25% for specific circumstances in production regions -- 2005-2006*
Austria	January 1, 2005	SFP	Max decoupling	Max decoupling	100% of suckler cow premium & 40% of the slaughter premium	January 1, 2007	n.a.	-------------- Not Available --------------			
Belgium / Flanders	January 1, 2005	SFP within Regions	100% linseed	Max decoupling	100% suckler cow & 100% slaughter premium calves	January 1, 2006	n.a.	-------------- Not Available --------------			
Belgium / Wallonia	January 1, 2005	SFP within Regions	100% linseed	Max decoupling	100% suckler cow	January 1, 2006	n.a.	-------------- Not Available --------------			
Denmark	January 1, 2005	Static Hybrid	Max decoupling	50% Ewe	75% Male Premium	n.a.	n.a.	-------------- Not Available --------------			
France	January 1, 2006	SFP	25% coupled plus fully coupled in French overseas departments	50% ewe premium	100% suckler cow premium, 40% slaughter premium adult & 100% slaughter premium calves	n.a.	n.a.	-------------- Not Available --------------			
Finland	January 1, 2006	Dynamic Hybrid	100% seeds 10% arable	50% Ewe Premium	75% Male Special Beef Premium	n.a.	Yes - For Direct Aid ?	-------------- Not Available --------------			
Germany	January 1, 2005	Dynamic Hybrid	Max decoupling	Max decoupling	Max decoupling	January 1, 2005	n.a.	Not Applicable	Not Applicable	40%	25%
Greece	January 1, 2006	SFP	40% durum wheat	50% ewe premium?	Max decoupling	n.a.	n.a.	n.a.	35%	60%	n.a.
Ireland	January 1, 2005	SFP	Max decoupling	Max decoupling	Max decoupling	January 1, 2005	n.a.	-------------- Not Available --------------			
Italy	January 1, 2005	SFP	100% seeds	Max decoupling	Max decoupling	January 1, 2005	Yes (soya, sunflower seed, suckler cows, and durum wheat)	<40%	Not Applicable	60%	Not Applicable

Country	Date of Implementation	Payment Plan	Arable Crops	Sheep & Goat Premia	Beef	Dairy	National Envelope	Olive Oil	Cotton	Tobacco	Hops
Luxemburg	January 1, 2005	Static Hybrid	Max decoupling	Max decoupling	Max decoupling	January 1, 2005	n.a.	-------------- Not Available --------------			
NL	January 1, 2006	SFP	100% linseed	Max decoupling	40% beef premium adult, 100% beef premium calf	January 1, 2007	n.a.	-------------- Not Available --------------			
Portugal	January 1, 2005	SFP	Max decoupling	50% ewe premium	100% suckler cow premium, 100% slaughter premium calves, 40% slaughter premium adults	n.a.	n.a.	-------------- Not Available --------------			
Spain	January 1, 2006	SFP	40% durum wheat?	50% ewe premium?	100% suckler cow	n.a.	n.a.	-------------- Not Available --------------			
Sweden	January 1, 2005	Static Hybrid	Max decoupling	Max decoupling	75% male beef premium	January 1, 2007 ?	0.5% for marketing & promotion measures	-------------- Not Available --------------			
UK											
England	January 1, 2005	Transitional Hybrid	Max decoupling	Max decoupling	Max decoupling	January 1, 2005	n.a.	-------------- Not Available --------------			
Northern Ireland	January 1, 2005	Static Hybrid	Max decoupling	Max decoupling	Max decoupling	n.a.	n.a.	-------------- Not Available --------------			
Scotland	January 1, 2005	SFP	Max decoupling	Max decoupling	Max decoupling	January 1, 2005	Beef Bred Calves	-------------- Not Available --------------			
Wales	January 1, 2005	SFP	Max decoupling	Max decoupling	Max decoupling	n.a.	n.a.	-------------- Not Available --------------			
Note:	These tables are based on the latest information provided by AgraFocus Europe and are intended to serve as a guide to the countries' intended coupling decisions. Only the information for Germany and Italy are based on an official announcement.										
Sources:	FAS Gain Reports, AgraFocus Europe, June 2004										

Payment Plan Definitions

SFP = A historic payment system based on individual farmer receipts.
Regional = A flat rate based on historic payments to a specified region.
Static Hybrid = A payment scheme that includes both SFP and regional payments.
Dynamic Hybrid = A payment scheme that includes both SFP and regional payments. However, this system is a transitional payment plan as the payment scheme moves toward either the SFP or the flat-rate plan.

n.a. = Not Available

A Mirage?

Policy Limitations

Changes to EU farm production as a result of CAP reform may be hard to detect. The opportunity for each country to select its decoupling percent, to request exceptions, and to utilize the national envelope could result in payments that closely mirror the pre-reform level and allocation of direct payments.

Predicted Changes
The OECD predicts that as a result of CAP Reform there will be a decrease in beef inventory and a move toward exentensification by 2012. However, overall, according to the OECD report, *Analysis of the 2003 CAP Reform*, there is relatively little change predicted within the next seven years. Perhaps the minimal short-term change can be attributed to the fact that not all production is affected.

Exceptions
The reform provides many methods for countries to continue to support their weakest sectors. For example, it allows direct payments to remain coupled in those areas, such as near the 62nd parallel (see Box 2), and it provides a national envelope that could provide a carte blanche use of support funds. It also permits partial coupling of payments or full coupling of payments for sectors that governments fear are vulnerable to dissolution.

External Limitations

In addition to the policy limitations, there could be external factors that limit change in the short-run.

Farmer Ability, Knowledge, and Equipment
It may be a misperception that decoupling payments gives farmers the ability to produce whatever they like. Decoupling should allow farmers to switch from wheat to cotton, or beef to wheat, or from whatever commodity the markets are not supporting to one that they are supporting. However, there are issues regarding start-up costs and knowledge needed for switching commodities. Decoupling provides the freedom for farmers to produce different crops (within the reform guidelines, no permanent crops etc.) but farmers may find it difficult to switch their livelihood.

Land Flexibility
Another reason there may be little change in the short-run is the fact that different land is suitable for different types of farming. Simply decoupling payments will not enable every farmer to switch production without changing locations.

Box 5 – Few Visible Changes

- Not a large enough portion of agriculture affected
- There are many exceptions within the reform that allow countries to continue to support less productive regions
- Farmer ability and lack of equipment may not allow for an easy transition to commodities desired by the market
- Land may only be suitable for specific production

A Definitive Reform
Though actual production changes may be difficult to see in the short-run, it is clear that decoupling payments is a movement toward a more free market approach to support for farmers. Despite the fact that there may be logistical impediments to reform, the philosophical move toward a more market-oriented payment scheme should be noted.

Conclusion

CAP Reform 2003 leaves many sectors unreformed and provides flexibility with regard to payment schemes. In addition, external factors may keep farmers from being able to take advantage of their new freedom to farm. The result of the reform may be hard to notice, especially in the short-term. Furthermore, flexibility in the implementation of the reform may make it difficult to fully understand what sectors and farmers are receiving what levels of support.

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E34006	Commission presents draft EU agriculture budget for 2005	5/7/04
E34004	Enlargement of the Common Agricultural Policy	5/3/04
AU4008	CAP Reform - Austria's Decoupling Approach and Impact	5/24/04
UK4002	UK announces CAP reform implementation plans	2/18/04

E23184	EU formally adopts CAP Reform	9/30/2003
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Appendix I

Explanation of Calculations for Trade Value

The value of trade percent decoupled was calculated by applying decoupling percents to any commodity that would be affected by decoupling. To simply calculate the export of raw products, such as wheat or dairy, without considering their use in processed goods, would seriously underestimate the amount of trade that is affected by commodity-specific direct aid. Therefore, this calculation estimates the value of all goods, pure and processed, in order to capture the value of EU-15 exports that are included in decoupled payments. The calculation also includes the value of goods that do not receive any direct aid, such as poultry.

The GTA database was used to gather EU-15 agriculture exports to the world. The commodities were identified by their four-digit trade code. For each subcategory, for example, the commodity of beer within the “Beverages, Spirits, and Vinegar” category, the appropriate maximum and minimum level of allowed decoupling was applied. Next, the decoupling percent was multiplied by the entire value of the subcategory. The value of each pure or processed commodity was multiplied by its maximum and minimum decoupling percent. Those subcategories were then added together. The two different sums were used to calculate the percent value of all commodities *affected* by the maximum and minimum amount of decoupling. Furthermore, the percent decoupled includes the decoupling percent after all phase-in periods are over. For example, 100 percent is used for dairy and tobacco decoupling, though this will not be the case for several years.

Appendix Ia

Explanation of Calculations for Production Value

The European Commission published the data for the EU-15 share of products in total agricultural production. To calculate the upper and lower bounds for production affected by decoupling, each category was multiplied by its maximum and minimum decoupling percent. Two categories, *agricultural services* and *other*, were excluded from the calculation. The maximum and minimum decoupling percents were then summed separately and used to calculate the percent of production that would be decoupled under both scenarios. If two percentages could apply to the same commodity, e.g. wheat (since it includes durum), the higher level of decoupling was used.

Appendix II

Table i – Previous crop payments for eligible farmers

Crop	***Payment***
Arable crops	Area aid including set-aside, grass silage, supplementary amounts (*), durum wheat supplement and special aid
Potato starch	For potatoes intended for the manufacture of potato starch
Grain legumes	Area Aid
Rice	Area Aid
Seeds (*)	Production Aid
Beef and Veal	Special Premium, deseasonalisation premium, suckler cow premium, slaughter premium, extensification, additional payments, milk and dairy production – dairy payments and additional payments
Sheep and Goats	Ewe and she-goats premium, supplementary premium and “certain” additional payments
POSEIDOM (*)	Beef and Veal
POSEICAN (*)	Beef and Veal; Sheep and Goats
Aegean Islands (*)	Beef and Veal
Dried Fodder (*)	Payment for processed products
Milk and Dairy products	Dairy premium and additional payments starting 2007
Tobacco	Production Aid
Cotton	Support through the payment for unginned cotton
Olive Oil	Production Aid
Hops	Area Aid, Temporary resting aid

Source: Legislation (EC) No 864/2004 & (EC) No 1782/2003

Table ii -- Cotton Payments

Country	Area (ha)	Payment (Euro/ha)
Greece Total	370000	
■ Greece Area 1	300000	594
■ Greece Area 2	70000	342.85
Spain	70000	1039
Portugal	360	556

Source: Legislation (EC) No 864/2004

Table iii -- Envelope Available for Olive Grove Hectarage Payment in millions of Euros

Country	Spain	Italy	Greece	Portugal	France	Cyprus	Slovenia	Malta
Euros	412.45	272.05	208.14	22.66	2.11	2.93	0.17	0.07

Source: Legislation (EC) No 864/2004

Appendix III

Calculation of the reference amount referred to in Article 37 of (EC) 1782/2003

A. Area aids

1. Where a farmer has received area aids, the number of hectares, to two decimal places, for which a payment has been granted, respectively, in each year of the reference period, shall be multiplied by the following amounts:

For cereals, including durum wheat, oilseeds, protein crops, linseed, flax and hemp grown for fibre, grass silage and set-aside:

— EUR 63/t multiplied by the yield as provided for in Article 4(2) of Regulation (EC) No 1251/1999 determined in the regionalisation plan for the region concerned applicable in the calendar year 2002.
This point shall apply without prejudice to the provisions laid down by Member States in application of Article 6(6) of Regulation (EC) No 1251/1999. By way of derogation from Article 38, for flax and hemp, the average shall be calculated on the basis of the number hectares for which a payment was granted in the calendar year 2001 and 2002.

1.2. For rice:
— EUR 102/t multiplied by the following average yields:

Member States	Yields (t/ha)
Spain	6,35
France Metropolitan territory — French Guyana	 5,49 7,51
Greece	7,48
Italy	6,04
Portugal	6,05

1.3. For grain legumes:
— for lentils and chick peas, EUR 181/ha

— for vetches, respectively, EUR 175,02/ha in 2000, EUR 176,60/ha in 2001 and EUR 150,52/ha in 2002.

Where a farmer has received durum wheat supplement or special aid, the number of hectares, to two decimal places, for which such a payment has been granted, respectively, in each year of the reference period, shall be multiplied by the following amounts:

In the zones listed in Annex II of Regulation (EC) No 1251/1999 and in Annex IV of Regulation (EC) No 2316/1999:
— EUR 291/ha for the single payment to be granted for the calendar year 2005,
— EUR 285/ha for the single payment to be granted for the calendar year 2006 and subsequent calendar years.

In the zones listed in Annex V of Regulation (EC) No 2316/1999:

— EUR 46/ha for the single payment to be granted for the calendar year 2005.

For the purpose of the preceding points, 'number of hectares' shall mean the determined number of hectares corresponding to each different type of area aid listed in Annex VI of this Regulation, for which all the conditions laid down in the rules for the granting of the aid have been met, taking into account the application of Articles 2(4) and 5 of Regulation (EC) No 1251/1999. In case of rice, by way of derogation to Article 6(5) of Council Regulation (EC) No 3072/95, where the areas given over to rice in one Member State in the reference period exceeded its Maximum Guaranteed Area for this period, the amount per hectare shall be reduced proportionally.

B. Potato starch payment

Where a farmer has received potato starch payment, the amount shall be calculated by multiplying the number of tonnes for which such a payment has been granted, respectively, in each year of the reference period, by EUR 44,22 per tonne of potato starch. Member states shall calculate the number of hectares to be included in calculation of the single payment proportionately to the number of tonnes of potato starch produced for which the aid provided for in Article 8(2) of Regulation (EEC) No 1766/92 has been granted, respectively, in each year of the reference period, and within the limits of a base area to be fixed by the Commission on the basis of the number of hectares, covered by a cultivation contract in the reference period, communicated by Member States.

C. Livestock premiums and supplements

Where a farmer has received livestock premiums and/or supplements, the amount shall be calculated by multiplying the number of determined animals for which such a payment has been granted, respectively, in each year of the reference period, by the amounts per head established for the calendar year 2002 by the corresponding Articles referred to in Annex VI, taking into account the application of Article 4(4), Article 7(2) and Article 10(1) of Regulation (EC) No 1254/1999 or Article 8(3) of Regulation (EC) No 529/2001.

By way of derogation from Article 38, for sheep and goat additional payments granted on the basis of Article 11(2) first, second and fourth indent of Regulation (EC) No 529/2001, the average shall be calculated on the basis of the number of animals for which the payment has been granted in the calendar year 2002.

However, the payments under Article 4(2) second subparagraph of Regulation (EC) No 1254/1999 shall not be taken into account. Moreover, by way of derogation from Article 38, in case of application of Article 32(11) and (12) of Commission Regulation (EC) No 2342/1999 and Article 4 of Commission Regulation (EC) No 1458/2001, the number of animals, for which a payment was granted in the year during which such measures were applied, to be taken into account for the calculation of the reference amount, shall not be higher than the average of the number of animals for which a payment was granted in the year/years during which such measures were not applied.

D. Dried fodder

When a farmer has delivered fodder under a contract as provided for in Article 9(c) of Regulation (EC) No 603/95 or a declaration of areas as under Article 10 of the same Regulation, Member States shall calculate the amount to be included in the reference amount proportionately to the number of tonnes of dried fodder produced for which the aid provided for in Article 3 of that Regulation has been granted, respectively, in each year of the reference period, and within the limits of the following ceilings expressed in EUR millions:

Member State	Ceiling for fodder processed into the products referred to in Article 3(2) of Regulation (EC) No 603/95 (dehydrated fodder)	Ceiling for fodder processed into the products referred to in Article 3(3) of Regulation (EC) No 603/95 (sun-dried fodder)	Total ceiling
UEBL	0,049		0,049
Denmark	5,424		5,424
Germany	11,888		11,888
Greece	1,101		1,101
Spain	42,124	1,951	44,075
France	41,155	0,069	41,224
Ireland	0,166		0,166
Italy	17,999	1,586	19,585
Netherlands	6,804		6,804
Austria	0,070		0,070
Portugal	0,102	0,020	0,122
Finland	0,019		0,019
Sweden	0,232		0,232
United Kingdom	1,950		1,950

Member States shall calculate the number of hectares to be included in calculation of the reference amounts proportionately to the number of tonnes of dried fodder produced for which the aid provided for in Article 3 of Regulation (EC) No 603/95 has been granted, respectively, in each year of the reference period, and within the limits of a base area to be fixed by the Commission on the basis of the number of hectares, covered by a cultivation contract or a declaration of areas in the reference period, communicated by Member States.

E. Regional aids
In the regions concerned, the following amounts shall be included in the calculation of the reference amount: EUR 24/t multiplied by the yields utilized for the area payments for cereals, oilseeds, linseed and flax and hemp grown for fibre in the regions indicated in Article 4(4) of Regulation (EC) No 1251/1999;

— The amount per head as provided for in Article 9(1)(a) and (b) of Regulation (EC) No 1452/2001, Articles 13(2) and (3), 22(2) and (3) of Regulation (EC) No 1453/2001, Article 5(2) and (3), 6(1) and (2) of Regulation (EC) No1454/2001, multiplied by the number of animals for which such a payment has been granted in 2002;

The amount per head as provided for in Article 6(2) and (3) of Regulation (EEC) No 2019/93 multiplied by the number of animals for which such a payment has been granted in 2002.

F. Seed aids
Where a farmer has received seed production aid, the amount shall be calculated by multiplying the number of tonnes for which such a payment has been granted, respectively, in each year of the reference period, by the amount per tonne established in application of Article 3 of Regulation (EEC) No 2358/71. Member States shall calculate the number of hectares to be included in calculation of the single payment proportionately to area accepted for certification for which the aid provided for in Article 3 of Regulation (EEC) No 2358/71 has been granted, respectively, in each year of the reference period, and within the limits of a base area to be fixed by the Commission on the basis of the total area accepted for certification as communicated to the Commission according to Regulation (EEC) No 3083/73. This total area shall not include the area accepted for certification for rice (*Oryza sativa L.*), spelt (*Triticum spelta L.*), and fibre and oil flax (*Linum usitatissimum L.*) and hemp (*Cannabis sativa L.*) that already has been declared for arable crops
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G. Cotton
Where a farmer has declared areas sown under cotton, Member States shall calculate the amount to be included in the reference amount by multiplying the number of hectares, to two decimal places, which produced cotton that was granted aid pursuant to paragraph 3 of Protocol 4 on cotton (*) in each year of the reference period, by the following amounts per hectare:

— EUR 966 for Greece

— EUR 1 509 for Spain

— EUR 1 202 for Portugal

H. Olive oil
Where a farmer has received olive oil production aid, the amount shall be calculated by multiplying the number of tonnes for which such a payment has been granted in the reference period (i.e. respectively, in each of the marketing years 1999/2000, 2000/01, 2001/02 and 2002/03) by the corresponding unit amount of aid, expressed in EUR/tonne, as fixed in Commission Regulations (EC) No 1415/2001 (**), (EC) No 1271/2002 (***), (EC) No 1221/2003 (****) and (EC) No 1794/2003 (*****), and multiplied by a 0,6 coefficient. However, Member States may decide by 1 August 2005 to increase this coefficient. This coefficient shall not be applied to farmers whose average number of olive GIS-ha during the reference period, excluding the number of olive GISha corresponding to additional trees planted outside any approved planting scheme after 1 May 1998, is less than 0,3. The number of olive GIS-ha shall be calculated by a common method to be established in accordance with the procedure referred to in Article 144(2) and on the basis of data from the geographic information system for olive cultivation.
Where the aid payments during the reference period have been affected by application of the measures laid down in Article 2(3) of Regulation (EEC) No 1638/98 (******), the calculation mentioned in the third subparagraph shall be adjusted as follows:

— where the measures were applied to only one marketing year, the number of tonnes to be taken into account for the year concerned shall be equal to the number of tonnes for which aid would have been granted had the measures not been applied

— where the measures were applied to two consecutive marketing years, the number of tonnes to be taken into account for the first year concerned shall be established in accordance with the first indent, and the number of tonnes to be taken into account for the following year shall be equal to the number of tonnes for which aid was granted in respect of the last marketing year before the reference period, which has not been affected by an application of the said measures

Member States shall calculate the number of hectares to be included in the calculation of the single payment as the number of olive GIS-ha obtained by a common method to be established in accordance with the procedure referred to in Article 144(2) and on the basis of data from the geographic information system for olive cultivation, excluding the number of olive GIS-ha of additional trees planted outside an approved planting scheme after 1 May 1998, except for Cyprus and Malta, for which the date shall be 31 December 2001.

I. Raw tobacco

Where a farmer has received a tobacco premium payment, the amount to be included in the reference amount shall be calculated by multiplying the three-year average number of kilograms from which such a payment was granted, by the weighted three-year average aid amount granted per kilogram, taking into account the total quantity of raw tobacco of all variety groups and multiplied by a 0,4 coefficient. Member States may decide to increase this coefficient.

As from 2010 the coefficient shall be 0,5.

The number of hectares to be included in calculation of the single payment shall correspond to the area indicated in the registered cultivation contracts for which the premium payment has been granted, respectively, in each year of the reference period, and within the limits of a base area to be fixed by the Commission on the basis of the total area as communicated to the Commission in accordance with Annex I(1.3) to Commission Regulation (EC) No 2636/1999 (*******).

Where the aid payments during the reference period have been affected by an application of the measures laid down in Article 50 of Regulation (EEC) No 2848/98, the calculation mentioned in the third subparagraph shall be adjusted as follows:

— where the premium has been partly or totally reduced, the amounts of payment to be taken into account for the year concerned shall be equal to the amounts which would have been granted without the reduction,

— where the production quota has been partly or totally reduced, the amounts of payment to be taken into account for the year concerned shall be equal to the premium amounts that would have been granted in the preceding year, without the reduction of the premium, provided that the production area indicated in the last cultivation contract was not used for the cultivation of a crop eligible under any other direct support scheme in the year concerned.

J. Hops

Where a farmer has received hops area aid or temporary resting aid, Member States shall calculate the amounts to be included in the reference amount by multiplying the number of hectares, to two decimal places, for which a payment has been granted, respectively, in each year of the reference period, by an amount of EUR 480 per hectare.

(*) OJ L 291, 19.11.1979, p. 174.
(**) OJ L, 191, 13.7.2001, p. 10.
(***) OJ L 184, 13.7.2002, p. 5.
(****) OJ L 170, 9.7.2003, p. 8.
(*****) OJ L 262, 14.10.2003, p. 11.

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Appendix IV

Table iv - Top-Up Amounts

Country	SAPS (EURO/ha) at 25%	Summary of Top-Up Payments for Commodities	Total Top-Up (Euro)	From Rural Dev. Fund (Euro)
Czech	57.3	Potato Starch 102.29 €/ton of starch	3.443m	0
Cyprus	80.8	National state aid – equivalent to top-up		
Estonia	26.8	Arable 56.81 €/ha; Seed 83.02 €/ha & 121.16 €/ha; ewe premium 14.02 €/head; cattle – Bulls/steers 49.49 €/head; Suckler cows 69.29 €/head; heifers 34.65 €/head; Calves 9.9 €/head	28.622m	12.240m

Hungary	70.2	Arable 93.03 €/ha, Rice 231.56 €/ha; Tobacco 2552.43 €/ha (burley) & 3224.85 €/ha (Virginia); Beef 136.09 €/head; Suckler cows 124.25 €/head; Cattle extensification 45.85 €/head; Mild 8.71 €/t; Ewe 6.28 €/head; supplementary ewe 3.85 €/head	407.074m	0
Latvia	20.7	Arable 65.96 €/ha; Fodder Area 17.90 €/ha; seeds 303,000E; Potato Starch 55.43 €/ton; Suckler cow premium 138.57 €/head; Adult slaughter premium 80.00 €/head; ewe premium 13.22 €/head; Milk 6.31 €/t	54.218m	14.627m
Lithuania	35.9	Arable 56.81 €/ha; Fibre flax 77.42 €/ha; Bulls 147.71 €/head; Suckler cow premium 144.81 €/head; Adult slaughter premium 25.78 €/head; Ewe premium 11.56 €/head	90.470m	36.825m
Poland	44.5	Arable, gain, legumes, seeds, nuts & fodder crops 61.83 €/ha; Hops 219.78 €/ha; Potato starch 52.97 €/t of starch; Tobacco 1086.96 €/t	853.902m	215.630m
Slovakia	43.8	Arable 96.78 €/ha	38.120m	29.860m

Country	**Summary of Payments**	**From Rural Dev. Fund (Euro)**
Slovenia	Arable 198.11 €/ha; Protein Crops 16.67 €/ha; energy crops 13.50 €/ha; Olive oil 396.75 €/ha; Hops 288.04 €/ha; Seeds vary 15.85 to 62.67 €/100kg; Dairy 4.89 €/t, plus national envelope 1.231m; “heavy” ewes 12.5 E, “light” ewes & goats 10.09E, plus a national envelope of 51.6m.	14.2m

Slovenian farmers will receive direct payments from the EU at a level of 25 percent of the EU-15 level. On top of this add the numbers provided in the table, calculated from their 2003 levels plus 10 percent increase from their 2003 levels of direct aid, provided by Slovenia’s own support programs prior to joining the EU.

Source: AGRA FACTS, 07/07/04