



Foreign Agricultural Service

**GAIN Report**

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 5/6/2003

GAIN Report #E23059

# **European Union**

## **Trade Policy Monitoring**

### **CAP Reform - Budget Impact**

### **2003**

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#### **Report Highlights:**

**This report describes the impact of the CAP reform proposals on the EU budget.**

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Includes PSD changes: No

Includes Trade Matrix: No

Unscheduled Report

Brussels USEU [BE2], E2

## **Budget aspects of the Mid-Term Review proposals**

### **Introduction**

In January 2003, the European Commission adopted its proposal to reform the Common Agricultural Policy (CAP). The proposals are part of the mid-term review (MTR) mandated under Agenda 2000. The key elements of the proposed reform are: decoupling (a single farm payment independent from production), cross-compliance (linking those payments to sustainable farming requirements), degression and modulation (a reduction in direct payments for bigger farms to generate additional money for rural development and to finance further reforms) and a stronger rural development policy.

### **Budget Impact**

The reference scenario used for the Commission's analysis is the "status quo", with current base areas and ceilings for livestock premiums fully or almost fully taken up. Compared to such a scenario, the MTR proposals for certain specific market sectors and the decoupled income payments are estimated to yield net savings for the EU-15 of EUR 337 million for financial year 2006 and EUR 186 million as from 2010. This impact results from the fact that the savings from the proposed market measures are greater than the effect of the proposals concerning direct aids, estimated at EUR +729 million in 2006 and around EUR +1,6 billion as from 2010.

For the new accession countries, the MTR proposals will lead to an additional cost of EUR 88 million in 2010 increasing annually to reach EUR 241 million in 2013. The budget impact of the proposals mostly concern the milk sector and a number of arable crops. Under the accession agreement of December 2002, EU leaders agreed on phasing in direct aids over a 10-year transition period. The starting level for 2004 is set at 25 percent of the current EU-system, rising to 30 percent in 2005 and 35 percent in 2006. In a second step after 2006, direct payments to the new member states would be increased in such a way as to ensure that they reach in 2013 the full CAP support level then applicable.

To remain within the ceilings set at the Brussels European Council in October 2002 for the financing of market measures and direct aids for an enlarged Europe of 25 member states, a reduction in the direct aids for EU-15 is proposed as from financial year 2007. The aggregated result for the EU-25 can be seen as neutral with an estimated saving compared with the current situation of EUR 98 million for 2010 and extra costs of EUR 55 million by 2013.

<b>Table 1: Status Quo - Estimates of Expenditure (in million EUR)</b>										
<b>Market Measures</b>										
<b>EU 15</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Cereals	498	509	506	482	484	516	523	523	523	523
Dried fodder	317	317	317	317	317	317	317	317	317	317
Rice	110	118	130	140	190	400	563	563	563	563
Dairy products	2479	2443	2127	1730	1409	1304	1328	1328	1328	1328
Beef & Veal	479	468	432	432	432	432	432	432	432	432
Promotion measures	67	67	67	67	67	67	67	67	67	67
<b>Total EU 15</b>	<b>3951</b>	<b>3922</b>	<b>3579</b>	<b>3167</b>	<b>2898</b>	<b>3035</b>	<b>3229</b>	<b>3229</b>	<b>3229</b>	<b>3229</b>
<b>Candidate Countries</b>										
Cereals	38	97	97	97	97	97	97	97	97	97
Dried fodder	3	7	7	7	7	7	7	7	7	7
Dairy products	154	392	452	452	452	452	452	452	452	452
Beef & Veal	22	55	55	55	55	55	55	55	55	55
<b>Total Candidate Countries</b>	<b>216</b>	<b>551</b>	<b>611</b>	<b>611</b>	<b>611</b>	<b>611</b>	<b>611</b>	<b>611</b>	<b>611</b>	<b>611</b>
<b>Total EU-25</b>	<b>4167</b>	<b>4473</b>	<b>4190</b>	<b>3778</b>	<b>3509</b>	<b>3646</b>	<b>3840</b>	<b>3840</b>	<b>3840</b>	<b>3840</b>
<b>Direct aids to producers</b>										
Total EU-15	27616	27826	28805	29783	30762	30762	30762	30762	30762	30762
Total Candidate countries		1364	1682	2022	2382	2978	3574	4169	4765	5361
<b>Total EU-25</b>	<b>27616</b>	<b>29190</b>	<b>30487</b>	<b>31805</b>	<b>33144</b>	<b>33740</b>	<b>34336</b>	<b>34931</b>	<b>35527</b>	<b>36123</b>
<b>Total Market Measures + Direct Aids to Producers</b>										
<b>EU-15</b>	<b>31567</b>	<b>31748</b>	<b>32384</b>	<b>32950</b>	<b>33660</b>	<b>33798</b>	<b>33991</b>	<b>33991</b>	<b>33991</b>	<b>33991</b>
<b>Candidate countries</b>	<b>216</b>	<b>1915</b>	<b>2293</b>	<b>2633</b>	<b>2993</b>	<b>3589</b>	<b>4185</b>	<b>4780</b>	<b>5376</b>	<b>5972</b>
<b>EU-25</b>	<b>31783</b>	<b>33663</b>	<b>34677</b>	<b>35583</b>	<b>36654</b>	<b>37387</b>	<b>38176</b>	<b>38771</b>	<b>39367</b>	<b>39963</b>

<b>Table 2: MTR Proposals - Estimates of Expenditure (in million EUR)</b>										
<b>Market Measures</b>										
<b>EU 15</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Cereals	493	244	167	157	162	163	164	164	164	164
Dried fodder	243	144.1	104.1	64.1	24	0	0	0	0	0
Rice	110	38	7	7	7	7	7	7	7	7
Dairy products	2461	2101	1754	1393	1090	919	861	861	861	861
Beef & Veal	479	468	432	411	394	377	377	377	377	377
Promotion measures	67	67	49	34	26	24	24	24	24	24
<b>Total EU 15</b>	<b>3853</b>	<b>3062</b>	<b>2513</b>	<b>2067</b>	<b>1702</b>	<b>14890</b>	<b>1434</b>	<b>1434</b>	<b>1434</b>	<b>1434</b>
<b>Candidate Countries</b>										
Cereals	38	97	87	85	85	85	85	85	85	85
Dried fodder	2.8	7	7	7	7	7	7	7	7	7
Dairy products	154	321	241	311	279	247	247	247	247	247
Beef & Veal	22	55	55	55	55	55	55	55	55	55
<b>Total Candidate Countries</b>	<b>216.3</b>	<b>480</b>	<b>490</b>	<b>458</b>	<b>426</b>	<b>394</b>	<b>394</b>	<b>394</b>	<b>394</b>	<b>394</b>
<b>Total EU-25</b>	<b>4070</b>	<b>3542</b>	<b>3003</b>	<b>2525</b>	<b>2128.4</b>	<b>1884</b>	<b>1828</b>	<b>1828</b>	<b>1828</b>	<b>1828</b>
<b>Direct aids to producers</b>										
Total EU-15	27616	28658	29533	30413	31393	32372	32372	32372	32372	32372
Total Candidate countries		1540	1786	2142	2522	3232	3879	4525	5171	5819
<b>Total EU-25</b>	<b>27616</b>	<b>30108</b>	<b>31320</b>	<b>32555</b>	<b>33915</b>	<b>35604</b>	<b>36251</b>	<b>36897</b>	<b>37543</b>	<b>38191</b>
<b>Total Market Measures + Direct Aids to Producers</b>										
<b>EU-15</b>	<b>31470</b>	<b>31720</b>	<b>32047</b>	<b>32480</b>	<b>33095</b>	<b>33862</b>	<b>33806</b>	<b>33806</b>	<b>33806</b>	<b>33806</b>
<b>Candidate countries</b>	<b>216</b>	<b>1930</b>	<b>2276</b>	<b>2600</b>	<b>2948</b>	<b>3626</b>	<b>4273</b>	<b>4919</b>	<b>5565</b>	<b>6213</b>
<b>EU-25</b>	<b>31686</b>	<b>33650</b>	<b>34323</b>	<b>35080</b>	<b>36043</b>	<b>37488</b>	<b>38079</b>	<b>38725</b>	<b>39371</b>	<b>10019</b>

**Table 3: Net Change in Support - Status Quo vs. MTR Proposal  
Estimates of Expenditure (in million EUR)**

<b>Market Measures</b>										
<b>EU 15</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Cereals	-6	-265	-339	-324	-322	-353	-358	-358	-358	-358
Dried fodder	-74	-173	-213	-253	-293	-317	-317	-317	-317	-317
Rice	0	-80	-123	-133	-183	-393	-556	-556	-556	-556
Dairy products	-18	-342	-373	-337	-319	-385	-467	-467	-467	-467
Beef & Veal	0	0	0	-21	-33	-55	-55	-55	-55	-55
Promotion measures	0	0	-18	-33	-41	-43	-43	-43	-43	-43
<b>Total EU 15</b>	<b>-97</b>	<b>-860</b>	<b>-1066</b>	<b>-1101</b>	<b>-1196</b>	<b>-1546</b>	<b>-1795</b>	<b>-1795</b>	<b>-1795</b>	<b>-1795</b>
<b>Candidate Countries</b>										
Cereals	0	0	-10	-12	-12	-12	-12	-12	-12	-12
Dried fodder	0	0	0	0	0	0	0	0	0	0
Dairy products	0	-71	-111	-141	-173	-205	-205	-205	-205	-205
Beef & Veal	0	0	0	0	0	0	0	0	0	0
<b>Total Candidate Countries</b>	<b>0</b>	<b>-71</b>	<b>-121</b>	<b>-153</b>	<b>-185</b>	<b>-217</b>	<b>-217</b>	<b>-217</b>	<b>-217</b>	<b>-217</b>
<b>Total EU-25</b>	<b>-97</b>	<b>-931</b>	<b>-1187</b>	<b>-1254</b>	<b>-1381</b>	<b>-1763</b>	<b>-2012</b>	<b>-2012</b>	<b>-2012</b>	<b>-2012</b>
<b>Direct aids to producers</b>										
Total EU-15	0	833	729	630	630	1610	1610	1610	1610	1610
Total Candidate countries	0	86	104	120	140	254	305	356	406	458
<b>Total EU-25</b>	<b>0</b>	<b>919</b>	<b>833</b>	<b>750</b>	<b>770</b>	<b>1864</b>	<b>1915</b>	<b>1966</b>	<b>2016</b>	<b>2068</b>
<b>Total Market Measures + Direct Aids to Producers</b>										
<b>EU-15</b>	<b>-97</b>	<b>-28</b>	<b>-337</b>	<b>-470</b>	<b>-566</b>	<b>64</b>	<b>-186</b>	<b>-186</b>	<b>-186</b>	<b>-186</b>
<b>Candidate countries</b>	<b>0</b>	<b>15</b>	<b>-17</b>	<b>-33</b>	<b>-45</b>	<b>37</b>	<b>88</b>	<b>139</b>	<b>189</b>	<b>241</b>
<b>EU-25</b>	<b>-97</b>	<b>-13</b>	<b>-354</b>	<b>-503</b>	<b>-611</b>	<b>101</b>	<b>-98</b>	<b>-47</b>	<b>3</b>	<b>55</b>

## Degression and Modulation

In order to remain within the financial ceilings, a new financial mechanism is being proposed. The Commission proposes a system of degression which would reduce the percentage of direct aid in the EU-15, although the first EUR 5,000 per farmer would remain untouched. Producers receiving between EUR 5,000 and EUR 50,000 would see a 50 percent reduction in direct aids. The proposal also intends to boost rural development through modulation. Modulation is the concept of re-channeling the savings resulting from the cuts in direct payments to the EU's rural development budget. The modulation part resulting from degression, starting at 1 percent in 2006 and rising to 6 percent in 2012, should be made available to the member states as additional EU support for measures to be included in their rural development programming. It would release an estimated EUR 1.5 billion for rural development. The degression part of the system starts with 1 percent for financial year 2006 and reaches 13 percent for financial year 2012 (19 percent minus the modulation rate of 6 percent = 13 percent). The resulting net savings would amount to EUR 276 million for 2008, rising to EUR 1.9 billion by 2013. Degression and modulation will not apply in the new member states until the phasing-in of direct payments reaches the normal EU level.

<b>Degression and Modulation: percentage reduction of direct payments</b> <b>A: Degression</b> <b>B to D: by tranche of direct payment</b> <b>E: Modulation - destined for the rural development budget</b> <b>F: destined for financing future market needs</b>								
		2006	2007	2008	2009	2010	2011	2012
A	% general reduction in direct payments	1	4	12	14	16	18	19
	% total reduction applying successively to the different tranches of direct payments							
B	from 1 to 5,000 EUR	0	0	0	0	0	0	0
C=(A+E)/2	from 5,001 to 50,000 EUR	1	3	8	9	11	12	13
D=A	above 50,000 EUR	1	4	12	14	16	18	19
	of which % of the direct payments destined for the rural development budget							
E	from 5,001 EUR to 50,000 EUR	1	2	3	4	5	6	6
E	above 50,000 EUR	1	2	3	4	5	6	6
	of which % of the direct payments destined for financing future market needs							
F	from 5,001 EUR to 50,000 EUR	0	1	5	5	6	6	7
F	above 50,000 EUR	0	2	9	10	11	12	13

Source: European Commission - MTR proposal

## MTR - Impact Analysis

The European Commission recently published the main findings of two impact analyses of the MTR proposals on the agricultural markets and farm incomes in the current and the enlarged EU. The studies show that the MTR proposal to cut the link between production and subsidy ("de-coupling") would favor the extensification of production systems and would secure higher incomes for EU farmers. According to the analysis, farm income in 2009 would be 8.5 percent higher than in 2001. Diverging trends across sectors are expected, with less favorable developments projected in the dairy and oilseed sectors, while the meat sector would see a significant increase.

The study can be downloaded from the European Commission's website at [http://europa.eu.int/comm/agriculture/mtr/docs/index\\_en.htm](http://europa.eu.int/comm/agriculture/mtr/docs/index_en.htm).

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