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Implementation of the CAP Reforms in the Benelux

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Report Highlights: As result of the CAP Reforms, most farm subsidies will be replaced by a Single Farm Payment (SFP). The SFP is not linked to production, but is based on the level of payments received during 2000 – 2002. It is expected that decoupling will lead to lower prices, lower incomes, increased concentration and a shift of production to the most productive areas.

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CAP Reforms in the Benelux: Decoupling and Allocation of Payment Entitlements

Introduction

1. The Reform

The EU Council, in September 2003, agreed on a reform of the Common Agricultural Policy (CAP). Accordingly, almost all direct payments will be decoupled and replaced by Single Farm Payments (SFP). EU member states are able to maintain a limited number of coupled subsidies. The main elements of the reform include:

- **Reductions in price supports** for individual commodities, including for milk (e.g. asymmetric reduction in dairy intervention prices of 22 percent).
- **Decoupling** of the majority of direct support to farmers.
- Introduction of **cross compliance.**
- Introduction of **modulation.**

2. Mandatory Models

The Commission originally proposed two models for decoupling. The "Fischler Model" and the "Regional Model." Member states were able to select the format under which they would implement CAP reform.

The "Fischler Model" distributes support to individual farmers on the basis of actual support payments received during the reference period 2000 to 2002.

The "Regional Model" in its original form distributed all decoupled support via equal per hectare payments to all eligible farmers within a region (or country).

The "Hybrid Model" is a mix of the two and provides greater flexibility than the "Fischler Model." For instance:

- Part of the future budgeted subsidies finance the SFPs, while the remainder is distributed according to the "Fischler Model" as an additional support to the SFP.
- Differentiation in valuation of SFP Entitlements between crop areas and areas with permanent grassland.
- The "Hybrid Model" allows decoupling of dairy support from 2005 (opposed to 2007).
- Horticultural areas (including areas with potatoes not intended for starch production) may be supported (via the SFP).

<u>The following EU(15) countries will implement the "Fischler Model" from 2005:</u> Austria, Belgium, Ireland , Portugal, Italy, Scotland and Wales.
<u>The following EU(15) countries are implementing the "Fischler Model" from 2006:</u> France, Greece, The Netherlands, and Spain.
<u>The "Hybrid Model" (with certain variations) is being implemented:</u>
In 2005 in Denmark, Luxembourg, Germany and England; in 2006 in Finland and in 2007 in Sweden.

3. Decoupling in The Netherlands and Belgium

Member States are able to maintain coupling for a limited number of subsidies. Both Belgium and The Netherlands, however, have opted for almost total de-coupling (see table). Information in this report applies to both The Netherlands and Belgium unless specifically noted.

See FAS Report Number: E34044 "CAP Reform 2003 - Deconstructing Decoupling" for an overview of CAP Reform implementation in the twenty-five EU Member States.

Crop	**Prior Support Mechanisms**	**Mandatory Range of Decoupling (c)**	**Decoupling in the Benelux (d)**	
			Decoupling in The Netherlands	**Decoupling in Belgium**
Date of Decoupling		NA	1-1-2006	1-1-2005
Arable Crops	Area Aid Set-aside Aid Aid Grass Silage Aid Durum Wheat Special Aid	75-100% 75-100% 75-100% 60-100% 75-100%	100% 100% 100% 100% 100%	100% 100% 100% 100% 100%
Potato Starch	Production Aid	40%	**40%**	NA
Sugar Beets	Sugar Regime	Not decided yet.		
Energy Crops (a)	Area Aid	0%	**0%**	**0%**
Legumes	Area Aid	0%	**0%**	**0%**
Dried Fodder (b)	Payment Processed Products Drying Aid	100% 0%	100% **0%**	100% **0%**
Tobacco	Production Aid	40-100%	NA	Min. 40% (e)
Hops	Area Aid Resting Aid	75-100%	100% 100%	100% 100%
Seeds	Production Aid	0-100%	**Linseed 0%**	**Linseed 0%** **Spelt 0%**
Beef and Veal	Special Premium Deseasonalisation Premium Steer Premium Suckling Cow Premium Slaughter Premium Cattle Slaughter Premium Calves Extensification Fund Additional Payments	100% 100% 25-100% 0-100% 60-100% 0-100% 100% 100%	100% 100% 100% 100% **0%** **0%** 100% 100%	100% 100% 100% **0%** 100% **0% (f)** 100% 100%
Sheep and Goats	Ewe Premium, Supplementary Premium, and Additional Payments	50-100%	100%	100%
Dairy Products	Dairy Payments	100%	100% in 2007	100% in 2006

(a) Since 2004, for energy crops an energy bonus of € 45 per hectare has been provided. (b) Dried fodder crops: mainly clover, lupines, and grass. (c) Source FAS Report Number: E34044 "CAP Reform 2003 - Deconstructing Decoupling". (d) The Luxembourg Government agreed to impose maximum decoupling in the mandatory range. The decoupling will start on January 1, 2005.
(e) Decoupling as from as from 2006. Level of decoupling not decided yet. (f) In Wallonia, the Southern Region of Belgium, the Slaughter Premium for calves will be decoupled.

Single Farm Payments

In both The Netherlands and Belgium, payment entitlements are based on hectares in production and set-aside (reference areas) during 2000 – 2002 (reference period). The reference area is restricted to the area of crops which received direct payments; grains, oilseeds, and all feed crops (including grass, feed beets, alfalfa and clover) and mandatory set-aside. Each SFP will be comprised of one or more types of payment entitlements, based on individual farmers' production history. There are three different payment entitlements:

1) Regular payment entitlements (RPE), equal to the reference area minus the average number of hectares in mandatory set-aside during 2000 – 2002;
2) Set-aside payment entitlements (SAPE), equal to the average number of hectares in mandatory set-aside during 2000 – 2002; and
3) Payment entitlements subject to special conditions (SCPE). For example in case of livestock farms with a limited reference area. The average premiums based on the number of animals are now divided across hectares.

The unit value of one payment entitlement is calculated by dividing the annual average of subsidies the farmer received during the reference period, called the reference payment, by the number of payment entitlements. If the farmer experienced an unusually low level of production during the reference period because of force majeure (e.g. an animal disease outbreak), this period can be excluded from the calculation. If this situation took place over the whole length of the reference period, the SFP will be based on 1997, 1998 and 1999. However, if the farmer chose to produce only crops for which no direct payments (e.g. potatoes, vegetables and fruits) were paid, they will not receive any payment entitlements.

In Luxembourg, Payment Entitlements will be allocated according a so-called "mixed model". According the mixed model, the reference payment will be based on 65 percent of the average historical payments during the reference period, and 35 percent of the regional average of payments. Exceptions are the Dairy Premium and Suckling Cow Premium, which contribute to the reference payment on a basis of 85 percent historical and 15 percent regional.

See Appendix 1 for examples of payment allocations.

Declaration and Use of Payment Entitlements

The owners can activate their regular payment entitlements on land used either for growing crops or by voluntary set-aside as long as the land is maintained in good agricultural condition. The SFP is equal to the total value of the payment entitlements activated. Crops which are prohibited on land used to activate the payment entitlements include potatoes (other than starch potatoes), fruits and vegetables (crops which did not receive subsidies from the CAP), and permanent crops (non-rotational crops that occupy the land for five years or longer). Exceptions made on permanent crops are pastures and multi-annual crops such as artichokes, asparagus and raspberries. Energy crops such as rapeseed can be grown on land tied to a payment entitlement but will then not be eligible for the energy bonus of € 45 per hectare. The owner can choose not to activate a payment entitlement for up to three years before permanently forfeiting the right to receive that payment entitlement.

Set-aside payment entitlements can be activated on set-aside land only. All set-aside payment entitlements must be used before regular payment entitlements can be used. In order to activate payment entitlements subject to special conditions, the farmer needs to maintain at least fifty percent of his livestock units (LU).

See Appendix 2 for examples of methodology for distributing payment entitlements

A payment entitlement is not linked to a fixed piece of land. Payment entitlements can be sold with or without land (In Belgium's Walloon Region conditions of transferability have not yet been set). In The Netherlands, selling entitlements without also selling agricultural land is only possible if the payment entitlements are sold to a farmer in The Netherlands, and have been 80 percent utilized during one calendar year. Leasing of payment entitlements is only permitted if they are rented out with land.

Modulation

A gradually increasing part of the SFP will be transferred to the Second Pillar for rural development. In 2005, three percent of each of the farmer's SFP will be withheld for rural development. In 2006, this will increase to 4 percent and then to 5 percent in 2007.

National Reserve

Each Member State has a national reserve to fund unforeseen expenditures. The National Reserve is, for instance, intended to fund SFPs to farmers who started their farming operations during or after the reference period. The National Reserve is paid by (a) the residual of the EU Member State budget after payment of the SFPs, and by (b) a contribution of 0.15 percent per SFP allocated.

Financial Discipline

Beginning in 2007, the SFP will be reduced by financial discipline provisions. Each year, Agricultural Ministers will determine the degree of the reduction, based on the available budget. Dutch Government contacts expect these cuts will increase to 15 percent in 2010.

Cross Compliance

As a precondition to receiving the SFP, the beneficiaries are obliged to meet certain conditions, so-called "cross compliance". The regulations governing cross compliance include eighteen Directives and Regulations regarding public health, animal and plant health, animal welfare and environment (Council Regulation No 1782/2003 Annex III; http://europa.eu.int/eur-lex/en/consleg/pdf/2003/en_2003R1782_do_001.pdf). These Directives and Regulations will be incorporated into National Law beginning in 2005. Because cross compliance requirements are laid down in Directives, EU Member States have some freedom in the implementation and enforcement. Apart from cross-compliance, it has also been decided that the ratio between arable crops and pastures will be maintained at 2003 levels.

Implications of the CAP Reforms to the Agricultural Sector in the Benelux

Studies of the Dutch Agricultural Economics Research Institute (LEI) anticipate lower Dutch farm incomes and uncertainty regarding the continuity of farms as a result of CAP Reforms. Government and sector sources indicate that most farmers have no management strategy, the reforms are not yet clear to them, nor are the implications for their farms.

Sector sources expect that an increasing number of farmers will stop farming. These farmers will either set land aside, or will rent out or sell their payment entitlements. It is expected that their production will be, in part, taken over by other farmers, leading to increased concentration of the farming sector and a shift of production to the most productive areas.

It is not yet clear how the future trade in payment entitlements will develop. Important pricing factors include inflation and the devaluation of payment entitlements via modulation and financial discipline provisions. In general, it is anticipated that the value of land will increase and the price of primary products will decline during the first years after introduction of the SFP.

Appendix 1

In the following examples, payment entitlements are allocated to an (1) arable crop farmer in Belgium, and (2) a cattle farmer, and (3) a dairy farmer in The Netherlands.

Arable Crop Farmer in Belgium (Wallonia Loam Region), farming 100 hectares.

	Average 2000 – 2002 (ha)	Reference Yield (a) (MT/ha)	Calculated SFP Equivalent (€/MT)	Direct Payment (€)
Grains & Oilseeds (RPE)	72	6.64	63	30,119
Set-aside (SAPE)	8	6.64	63	3,347
Feed Beets (RPE)	5	-	0	0
Sugar Beets	15	Sugar Regime		
Total Reference area	85			
Reference Payment				33,466

(a) Reference yields in Belgium are regional and range from 3.64 MT/ha in Ardennes to 6.73 MT/ha in Polders and Dunes. In The Netherlands, the reference yield is 7.08 MT/ha in the Clay Region and 4.92 MT/ha in other regions.

In this example, the arable crop farmer has 85 payment entitlements (area of sugar beets is not included) of which there are 77 regular payment entitlements (sum of the average area of grains, oilseeds and feed beet production), worth € 391 each (average direct payments received for arable crop production divided by number of regular payment entitlements), and 8 set-aside payment entitlements, worth € 418 each (payments received for set-aside divided by number of set-aside payment entitlements).

Cattle Farmer in The Netherlands, raising 75 head of cattle.

	Average 2000 – 2002 (ha or head)	Calculated SFP Equivalent (€/head)	Direct Payment (€)
Pasture (RPE / SCPE)	2	0	0
Total Reference Area	2		
Steers	50	210	10,500
Suckling Cows	25	101	2,525
Reference Payment			13,025

Calculated Support will be allocated first into RPEs with a maximum value of € 5,000 each. Any additional Calculated Support will be distributed via a SCPE. In this example, the cattle farmer has two regular payment entitlements, worth € 5,000 each, and one payment entitlement subject to special conditions, worth € 3,025.

Dairy Farmer in The Netherlands, holding 50 milk cows.

	Average 2000 - 2002 (ha or head)	Calculated SFP Equivalent (€/MT)	Direct Payment (€)
Feed Beets (RPE)	10	0	0
Pasture (RPE)	30	0	0
Total Reference Area	40		
Steer Premium	2	210	420
Extensification (a)	50	80	4,000
	March 31 2007 (MT) (b)		
Milk Quota (c)	300	24.49	7,347
Milk Quota (c)	300	10.98	3,294
Reference Payment			15,061

(a) During 2000 – 2002, farmers were entitled to receive a payment of € 80 per head if the number of livestock units (LU) did not exceed 1.4 per hectare (cattle between 6 and 24 months is 0.6 LU, older cattle is 1 LU). (b) In Belgium, the SFP will be based on the milk quota on March 31, 2006. (c) As from 2006, a Dutch dairy farmer receives a milk premium of € 24.49 per MT and an additional payment from the national envelope of 10.98 per MT.

In this example, the dairy farmer has 40 regular payment entitlements, worth € 377 each.

Appendix 2

In the following examples the payment entitlements are activated and used by the arable crop farmer and the cattle farmer in Belgium, and the dairy farmer in The Netherlands of the previous examples.

In 2006, the Belgian arable crop farmer (holding 100 hectares and 85 payment) could activate payment entitlements as follows:

	Use of Payment entitlements (number)	Value of Payment Entitlements (€)	Single Farm Payment (€)
Grains and Oilseeds	50	391	19,550
Pasture	15	391	5,865
Voluntary Set-aside	12	391	4,692
Set-aside	8	418	3,344
Sugar Beets	15		
PE activated	85		
Deductions: -Modulation -Financial Discipline (a)	 4% 0%		 1,338
Single Farm Payment			32,113

(a) As from 2007, the SFP will be cut by the financial discipline.

In 2006, the Dutch cattle farmer (holding two regular payment entitlements, worth € 5,000 each, and one payment entitlement subject to special conditions, worth € 3,025) could activate his payment entitlements as follows:

	Use of Payment Entitlements (number)	Value of Payment Entitlements (€)	Single Farm Payment (€)
Pasture	2	5,000	10,000
PE activated	1		
-Steers -Suckling cows -Livestock Units SCPE activated	20 20 40 1(a)	3,025	3,025
Deductions: -Modulation -Financial Discipline	 4% 0%		521
Single Farm Payment			12,504

(a) In order to activate payment entitlements subject to special conditions, the farmer needs to maintain at least fifty percent of his livestock units.

In 2007, the Dutch dairy farmer (holding 40 regular payment entitlements, worth € 376) could activate his payment entitlements as follows:

	Use of Payment Entitlements (number)	Value of Payment Entitlements (€)	Single Farm Payment (€)
Pasture	40	376	15,040
PE activated	40		
Deductions: -Modulation -Financial Discipline	 4% 0%		602
Single Farm Payment			14,438