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NOTE

from : French delegation
for : Council

Subject : Memorandum on the implementation and the future of the reformed CAP

Delegations will find enclosed a Memorandum on the implementation and the future of the reformed CAP presented by the French, Greek, Spanish, Irish, Italian, Cypriot, Lithuanian, Luxembourg, Hungarian, Polish, Portuguese and Slovenian delegations, and endorsed by Romania and Bulgaria.

**MEMORANDUM ON THE IMPLEMENTATION AND THE FUTURE
OF THE REFORMED CAP**

In the light of the new challenges at Community and global levels today and tomorrow, Europe must base its strategy around three major ideas, to participate at a satisfactory level in the international agricultural trade:

- The European union must take accompanying measures until 2013, that go beyond the reforms already launched, to secure the global competitiveness of European farming and promote its sustainability, whilst ensuring a high level of safety and quality of foodstuffs;
- Furthermore, an adequate level of Community preference is required as the European requirements for food, environmental and animal welfare standards are more stringent than those of international competitors. The European union must also take more account of the multiplicity of expectations expressed by society and seek to meet them;
- Finally, it must continue to place its agricultural policy at the heart of its political project, that is by maintaining its community nature and re-affirming its refusal of any re-nationalisation of the CAP.

In this context, the purpose of this memorandum is to put forward proposals to enable the EU, as provided for by the reform decided on in 2003, to make the necessary additions to the structure of the current CAP.

1. The CAP has proved capable of adapting to the profound changes that have occurred since it was first created

1.1. Over a period of more than forty years, the CAP has fully met the challenges it has had to face. Guided by the proactive reforms undertaken since the reform of 1992 which introduced direct payments and the principle of decoupling support, it has changed radically in a context shaped by:

- The successive enlargements of the EU;
- Globalisation, with intensified competition on agricultural markets and free trade agreements, leading to a fall in domestic Community prices;
- New demands from society: environmental, animal welfare, food safety, quality and expectations of consumers in Europe.

1.2. The CAP, reformed again in 2003, is now:

- More stable and under control in terms of its budget. Every year until 2013 its expenditure will remain stable (financial discipline), foreseeable over the medium term (the agreement of October 2002 and the agreement of December 2005 on financial perspectives for 2007-2013) and in steady decline in relative importance in the overall budget of the Union. The CAP (rural development included) which is one of the main common policies represents only about 0.43% of EU GNI as the research -essentially financed by national budget- represents 2% of EU GNI. Moreover, the CAP (rural development included) currently accounts for 40% of the EU Budget compared with 65% in 1990 (cf. reductions in prices, control of production). By 2013, it will represent 35%;
- More consumer and market orientated;
- More compatible with international rules (those of the WTO) concerning fair competition in trade. The concept of decoupling of direct payments, which removes the link between the amount of financial support and volume of production, is a key factor. Furthermore, the commitments given to eliminate export subsidies by the end of 2013 meets the demand for this from our trading partners;
- More environmentally friendly, with the implementation of rules for cross compliance and the steady increase in the importance of the “rural development” pillar. Public support payments are now subject to the provisions of environmental, health and animal welfare directives, thus strengthening their legitimacy in the eyes of the public;
- More supportive of the multifunctional nature of agriculture through rural development regulation and pillar II measures;

- and finally, the CAP is capable of supporting the development of non-food product production supported by research into renewable energies and new industrial applications. The instruments of the CAP will emerge as an essential tool for promotion and development of renewable energies, notably with a view to decreasing our energy dependence.

1.3. All the Member States of the European Union are engaged in the implementation of the 2003 reform. In the face of the important issues for agriculture at Community and global levels, the European Union must consolidate its agricultural strategy defined in this context up to 2013, focusing on the following key ideas:

- The EU must firstly consider its agriculture as a key instrument in securing a global food strategy that provides food security both in terms of continuity of supply and food safety and satisfactory levels of participation in international trade;
- Our agricultural model demands adequate and appropriate community preferences in the face of competitors not subject to the highly demanding environmental, social and health standards applied in the Union ;
- The European Union must also take more account of the multiplicity of expectations expressed by society and seek to meet them. Moreover, the agricultural policy has to be maintained as a common policy in the financial and institutional dimension, as a prerequisite of fair competition condition in the single market. These requirements notably justify the maintenance of the European agricultural model thereby defending our common values. The defence of the European agricultural model includes, amongst other, the regional diversity, the traditions, the agro-environmental aspects and the typical local productions.

1.4. In the immediate future and with this in mind, the present memorandum is aimed, as provided in the reform agreed in 2003, firstly to lighten the burden of the CAP's management rules and secondly to provide new responses to the consequences of the greater exposure of producers to world markets, flowing from the growing openness of the Community market and the sharp decline in intervention through the common market organisations.

2. A more simple, transparent and effective management of the CAP

- 2.1. Administrative simplification of the CAP, as highlighted by the Council Conclusions in 2005 must be a constant aim since it largely determines how far the policy is understood and therefore accepted by farmers. The reform of the CAP in 2003, with the implementation of a single payment for direct aid, is an important step in this direction, but further progress can still be made.
- 2.2. The most effective way of simplification is to prevent administrative burden from arising in the first place. A standardised impact assessment should therefore be carried out to prepare for a legal instrument. In addition, options of simplification should be explored in parallel.
- 2.3. Within the impact assessment, the calculation of the costs incurred by the parties concerned due to legal instruments must be taken into account. On this basis, measurable targets of simplification should be set.
- 2.4. The entire existing legislation should be systematically examined for options of simplification. This review should not only be confined to purely technical simplification, but also encompass a simplification of policies. Simplification does not mean to change the policy objectives or the basic consensus on agricultural policy. A clear distinction between simplification and modification of the CAP must be maintained.
- 2.5. Prior to law making, the considerations should take into account the principles of co-regulation and self-regulation in legislation, voluntary initiatives and control systems of industry that supplement statutory rules or even render them superfluous.
- 2.6. In the course of reaching a compromise at European level, legal instruments frequently become considerably more complicated and marked by bureaucracy than the original proposal submitted by the Commission. The member states are therefore called upon to focus more strongly than before on the target of simpler, more comprehensible and clearer law-making as the guiding principle of their own actions at European level.

2.7. Priority issues are:

- to re-examine and specify the requirements of the cross-compliance rules especially concerning food legislation;
- to have a greater flexibility in organising the controls as long as their efficiency is ensured;
- to work on flexible decision-making procedures geared to the situation on the ground within the scope of the Community fund for rural development that grant member states within their own institutional framework greater subsidiarity in defining and amending their plans for rural development;
- to adapt the regulatory framework to the options afforded by new technologies such as remote sensing or EDP as far as local conditions of a member state make it possible;
- to review the reporting requirements within the scope of CAP implementation and
- to simplify the legal framework in the Community for the organisation of the supply chain to make it easier for producers to organise themselves in order to reflect as closely as possible the reality. The agricultural guidelines for State aids need, consequently, to be adapted to clarify the status of collective action financed by the sector.

3. Meeting future challenges

3.1. Decoupling of payments means that farmers receive support that is stable. However, the weakening of market management measures and the convergence of Community prices with world prices mean that farmers are exposed to greater price volatility, instability in their annual revenue and therefore growing uncertainty as to their income. It is for this reason, in what is a new regulatory and economic context, that it is necessary to put in place new tools compatible with multilateral trade disciplines in order to provide better protection for agricultural incomes over the long term, and particularly in order to prevent crises emerging rather than coping with them after the fact and as a matter of urgency. Additional budgetary expenditure should not arise in the process.

3.2. In the context of the CAP reform and the introduction of direct payments, it must be possible in particular areas where a major reconversion is necessary following a modification of the regulatory framework, to produce fruits and vegetables, if it's one of the few possibilities to retain a farming activity.

- 3.3. The current arrangements for emergency support known as “de minimis” aid is an existing “acquis” which should not be a form of re-nationalisation of the CAP, that must be consolidated by developing it with the inclusion of a more appropriate threshold for aid per holding in order to reflect more effectively the economic realities of European agricultural holdings without causing distortion in competition among European farmers. The system must provide each Member State with the financial capability to manage localised, limited sectoral crises in the most appropriate way possible.
- 3.4. Improved Community management of the safeguard clauses that exist in the CMOs must make it possible to provide more effective protection for internal markets and thus to reduce instability. The necessity here, within the framework defined by WTO rules, is to use the components of these provisions, that depend on the EU, such as timetables for triggering support or implementation arrangements. A more comprehensive Community database and a more efficient and prompt circulation of information would be useful in order to prevent market distortion. For the future, the safeguard mechanisms should be adapted to a changing trading environment.
- 3.5. Optional establishment of an insurance scheme, which should not impact on the national existing schemes, to support European farmers in taking greater responsibility for the management of climatic, economic and even health risks. The use of the private agricultural insurance market enables farmers, to reduce variation in their income by covering the whole range of risks with which they are confronted. The decision to go down this road of responsibility can be problematic unless finance is forthcoming, to be found in part from public funds, as is shown by a number of experiments in this area in other countries, notably in the USA and Canada. Such financial support could come from the use of part of the one percentage point of modulation provided for under the Luxembourg agreement of June 2003 (in the case of the new MS an appropriate method should be established). Thus, MS should be allowed, on an optional basis, to incorporate such an insurance scheme into their national programmes. Furthermore, the EU should reflect on the common actions required in respect of large-scale agricultural disasters which are not insurable on the private market.

- 3.6. Specific instruments suited to the various sectors of production especially the wine and fruits and vegetables market, without prejudice to the national existing schemes must be put forward not only to manage crises, but also to prevent them, also through the use of part of the one percentage point of modulation (in the case of the new MS an appropriate method should be established). The following might be included for example:
- private equalization funds to be established at national level on an optional basis to cushion the impact of fluctuations in market prices paid to producers. While the actual incentive-providing nature of these funds would initially involve limited public funding as appropriate, producers would ultimately have to bear the costs. The funds must not cause any distortions of competition within Europe;
 - after an examination of different risk management options in the context of CMO, the possible introduction of new instruments to replace, if appropriate, current measures subject to their compliance with our international commitments, the necessity to avoid any distortions of competition and within the existing budget, such as private storage aid, processing aid, aid for voluntary reductions in production and promotion programmes.
- 3.7. A broadening of the scope and flexibility to the current system for providing support and assistance to the most deprived persons in the community within the limits of the budgetary resources available for this purpose. There is a need to adapt the current system to the changes in the CAP in order to make it effective in targeting those most in need.
- 3.8. While complying strictly with guidelines and decisions adopted during the Doha Round negotiation process, the EU must bring to bear the totality of its capacity to act in world markets. To that end, it must, notably, manage its export subsidies, whose use continues to be permitted until 31 December 2013, in a proactive and optimal manner, in compliance with the phasing out agenda defined at the WTO for all forms of export subsidies including export refunds, food aid, export credit and state trading enterprises. It is essential to ensure a level playing field for the European farmers on the market as well as in the management of internal markets. It must also leave open the possibility of recourse to all export support mechanisms authorised by the WTO.

3.9. Finally, a communication strategy to promote the CAP, focused on the European Union's citizens and consumers but also those of third countries, must be set up, within the existing budget and without delay, to remedy the communication deficit.

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This memorandum is simply a step in a process and makes no claim to be an exhaustive commentary in the ongoing reflection, on the long-term future of European agriculture, which we must continue to develop.

European agriculture deserves a vision of the future that is ambitious and in tune with the profound global changes that may be anticipated. Three fundamental trends are already visible and will grow in importance over the coming decades:

- the expansion of the planet's population, which will raise in an acute form the issue of the expansion in food production and the control of production;
- the tensions that will appear in relation to certain natural resources such as water and arable land, in addition to global warming;
- and the development of non-food commercial applications for agricultural raw materials, which opens up far-reaching prospects for the farming of tomorrow.

The common factor in all these changes is to underpin a key role for agriculture and the farming community in economic and social development. They point clearly in one direction: towards a European agriculture that is dynamic and focused on the sustainable development of a vital agricultural and agrifood sector capable of constantly and swiftly adapting to change.