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REPORT

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Subject:	Proposal for a Regulation of the European Parliament and of the Council establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy (<i>CAP reform</i>) Proposal for a Regulation of the European Parliament and of the Council on support for rural development by the European Agricultural Fund for Rural development (EAFRD) (<i>CAP Reform</i>) Proposal for a Regulation of the European Parliament and of the Council on the financing, management and monitoring of the common agricultural policy (the horizontal regulation) (<i>CAP Reform</i>) Proposal for a Regulation of the European Parliament and of the Council establishing a common organisation of the markets in agricultural products (Single CMO Regulation) (<i>CAP Reform</i>) - <i>General Approach</i>

INTRODUCTION

1. On 12 October 2011, the Commission submitted to the Council and to the European Parliament the above legislative proposals, following up on its Communication on the CAP towards 2020¹.

¹ Doc. 16348/10.

2. In December 2011 under the Polish Presidency, the Council preparatory bodies concluded their first technical examination of the proposals.¹
3. In the first half of 2012 under the Danish Presidency, the Council continued proceedings at all levels to resolve substantive issues raised by delegations with a view to ensuring that future CAP legislation would be workable in practice and could be implemented in a cost-effective manner. The Council ("Agriculture and Fisheries") at its session on 18 June 2012 took note of the Danish Presidency progress report (doc. 8949/12).
4. In the second half of 2012 under the Cyprus Presidency, the Council took work forward both at technical and political level, focussing on outstanding issues and paying particular attention to the need for adequate flexibility for Member States in the implementation of the new policy on the ground. The Council ("Agriculture and Fisheries") at its session on 18-20 December 2012 took note of the Cyprus Presidency progress report (doc. 17592/12).
5. The European Economic and Social Committee delivered its opinions on all four proposals on 25 April 2012. The Committee of the Regions delivered its opinions on the four proposals 4 May 2012.
6. On 13 March 2013 the European Parliament is expected to adopt a decision on the opening of, and mandate for, inter-institutional negotiations on the CAP reform proposals².

I. THE PRESIDENCY'S OBJECTIVE

7. The Irish Presidency has been clear in its objective that Council reach a general approach on CAP reform at its session on 18-19 March 2013, with a view to a political agreement with the European Parliament in first reading by the end of June 2013³.

¹ The Polish Presidency progress reports are set out in docs. 18176/11 (Direct Payments), 18205/11 (Single CMO) and 18358/11 (Rural Development).

² Based on the amendments adopted by the Parliament's Committee on Agriculture and Rural Development on 23-24 January 2013.

³ As included in the work programme presented to the Council ("Agriculture and Fisheries") on 28 January 2013.

8. Delegations, fully supportive of the Irish Presidency's goals, have intensively discussed Presidency compromise suggestions on the draft Regulations.
9. On the basis of these discussions and taking due account of the political guidance provided in the European Council conclusions of 7-8 February 2013 on the Multiannual Financial Framework¹ and by the Council ("Agriculture and Fisheries"), most recently at its sessions on 28 January and 25-26 February 2013, the Presidency has prepared the draft Regulations set out in docs. 7183/13 + COR 1 + ADDs 1 and 2², 7329/13, 7304/13 + COR 1 and 7303/13. These texts include all amendments for which the Presidency noted the broad support of delegations in the Special Committee on Agriculture and the respective Working Parties, as well as the final amendments suggested by the Presidency to address the remaining outstanding concerns.
10. The final suggested amendments aiming to address delegations' remaining outstanding concerns are described below.

II. SUGGESTED AMENDMENTS TO ADDRESS REMAINING OUTSTANDING CONCERNS

A) Direct Payments Regulation

11. The final suggested amendments (doc. 7183/13 + COR 1 + ADDs 1 and 2) mainly concern the operation of the basic payment scheme, the greening provisions and the possibility to transfer funds between the first and the second pillars as foreseen by the European Council.

¹ Doc. EUCO 37/13.

² 7183/13 COR 1 + ADD 1 and ADD 2 to be distributed.

12. As regards the basic payment scheme, the ten point Presidency compromise package considered by the Council ("Agriculture and Fisheries") at its session on 25-26 February 2013 (doc. 6638/13) provided in particular for increased flexibility on convergence of the level of direct payments at national or regional level by allowing Member States to move towards partial rather than full convergence by 2019, to limit the first convergence step to 10% of the national or regional ceiling, to employ alternative convergence options, and to apply convergence to the greening payment. The Presidency noted that this package was broadly supported as going in the right direction.
13. Following up on the Council debate and with a view to ensuring as smooth a transition to the new basic payment scheme as possible, the final amendments suggested by the Presidency mainly aim to clarify the alternative convergence options available to Member States and to include the possibility for Member States currently applying the SAPS to continue with this scheme until 2017.
14. As regards greening, the Presidency noted that its comprehensive compromise package tabled in the SCA on 4-5 March 2013¹ to reflect the European Council conclusions of 7-8 February 2013 on the Multiannual Financial Framework² was broadly supported as going in the right direction. This package aimed in particular to:
- adjust and clarify the scope of 'equivalent practices' (practices which yield an equivalent or higher benefit for the climate and the environment compared to the greening practices proposed by the Commission);
 - provide for a progressive application of the crop diversification requirements and clarify the exemptions to that requirement;
 - adjust the applicable minimum ratios of permanent grassland in relation to the total agricultural area;
 - allow for a graduated application of the Ecological Focus Area (EFA) requirement (starting with 3% in the first year), adjust the scope of eligible EFA, allow for 50% of the EFA requirements to be applied at regional level and/or collectively by groups of farmers, and clarify the weighting factors and exemptions.

¹ As set out in docs. 6901/13 + ADD 1 and 6901/1/13 REV 1.

² Point 67.

15. Following up on the discussion in the SCA, the final amendments suggested by the Presidency aim to the extent possible to accommodate delegations' remaining concerns, in particular by clarifying the exemptions to the crop diversification requirements, and further adjusting the scope of eligible EFA and the exemptions.
16. As regards the other amendments to the draft Direct Payments Regulation suggested by the Presidency in order to reflect the conclusions of the European Council on the Multiannual Financial Framework, delegations at the meeting of the SCA on 11-12 March 2013 broadly supported the amended provisions on capping and flexibility between pillars as set out in Annex I to doc. 7185/13. Delegations also noted the commitment by the Commission representative that the forthcoming Commission proposal as regards the application of direct payments to farmers in respect of the year 2014 would contain the national ceilings and net ceilings for 2014 resulting from the external convergence mechanism set out in the European Council conclusions (point 64). Delegations further noted that the Commission would present its suggestions on the ceilings for the subsequent years thereafter.
17. Following up on the discussion in the SCA, the final amendments suggested by the Presidency aim to accommodate delegations' requests to be able to adjust the transfer percentages between the pillars per calendar year, together with the possibility to review that decision. As regards the provisions on financial discipline, the Presidency considers that these faithfully reflect point 66 of the European Council conclusions (Method for financial discipline), without need for amendment.

B) Single CMO Regulation

18. The final suggested amendments (doc. 7329/13) mainly concern the sugar quota regime, vine plantings, marketing standards, and the applicability of national rules in the dairy sector.

19. As regards sugar, the Presidency tabled suggestions at the SCA at its meeting on 11-12 March 2013 to extend the quota regime until the 2016/2017 marketing year and to allow for the possibility of a reallocation of quotas to Member States who had relinquished all quota pursuant to the 2006 reform (doc. 7153/13).
20. Following up on the SCA discussion, the final amendments suggested by the Presidency provide for a further extension to the 2017/2018 marketing year and clarify the conditions for any reallocation of quota.
21. As regards vine plantings and with a view to reflect the outcome of the High Level Group on Vine Planting Rights, the Presidency tabled suggestions at the SCA at its meetings on 4-5 and 11-12 March 2013 (doc. 6892/1/13 REV 1).
22. Following up on those discussions, the final amendments suggested by the Presidency mainly aim to confirm the balance struck in the SCA on the percentage of the total area to be made available each year for new plantings authorisations; to fix the period of application of the authorisations scheme at 1 January 2019 to 31 December 2024, and to clarify the procedure for the grant of authorisations.
23. On marketing standards, the Presidency tabled a compromise at the SCA at its meeting on 4-5 March 2013 (doc. 6893/13) reflecting the status quo on the two outstanding issues namely the list of sectors and products to which marketing standards may be applied by delegated acts and the delegation of power to impose mandatory labelling of "place of farming and/or origin" to these sectors. The Presidency concluded that this compromise reflected the centre of gravity in Council.
24. Following up on the SCA discussion, the final amendment suggested by the Presidency aims to provide further reassurance in relation to the fruit and vegetables sector by reintroducing the current requirement on the mandatory origin labelling for the marketing of fresh fruit and vegetables into the legal text.

25. On the use of the crisis reserve, reference prices and exceptional measures, and the extension of rules and financial contributions Presidency tabled a compromise package for consideration at the SCA (doc. 7157/13). At its meeting on 11-12 March 2013 the Presidency noted there was broad support for the package.
26. Following up on the SCA discussion, the final amendments suggested by the Presidency aim to clarify that the non extension of the rules and financial contributions applied by producer organisations, associations of producers organisations and inter-branch organisations in the dairy sector, is without prejudice to applicable national rules.

C) Horizontal Regulation

27. The final suggested amendments (doc. 7304/13 + COR 1) mainly aim to resolve the level of penalties for greening.
28. On the level of the penalties for "greening" (Article 77a(5)(b)) a number of Member States consider that the penalty to be imposed on farmers where they have not complied with the "greening" requirements should not go beyond the amount of the green payment. Indeed, those delegations take the view that not receiving up to 30% of the basic payment is a sufficient deterrent and, at the same time, an encouragement for farmers to comply with the eligibility criteria, commitments or other obligations set out in Chapter 2 of Title III of the Direct Payments Regulation. Other Member States agree that there should be a penalty but take the view that it should be set at a low level. On the other hand, the Commission has insisted that the green payment should be treated in the same way as all other area-based payment schemes and that the penalty should therefore be set at a maximum of 200% of the green payment.

29. So as to reconcile these divergent positions, and since, in accordance with point 67 of the European Council conclusions on the Multiannual Financial Framework, greening is mandatory, the Presidency final suggestions include a derogation from the rules applying to the other area-based payment schemes, a specific administrative penalty applicable only to the green payment, with its level limited to a maximum of 50% for a given year.

D) Rural Development Regulation

30. The final suggested amendments (doc. 7303/13) mainly aim to resolve outstanding concerns on areas with natural constraints and agri-environment-climate payments.
31. As regards Areas with Natural Constraints (Articles 32 and 33), the Presidency has included flexibility by suggesting that the phasing out of payments becomes degressive by 2016 at the latest. Member States may decide to start, and finish, the phasing out earlier. The first degressive payment must be no more than 80% of both the payment foreseen in the current programme and the payment under the new system.
32. The aggregation threshold for the new delimitation has been maintained at 60%. Furthermore, when carrying out the fine-tuning exercise to exclude areas in which significant natural constraints have been overcome, Member States can also consider evidence of normal land productivity.
33. Finally, the Presidency has provided for more flexibility on the delimitation of the areas. To this effect, Member States may choose between two different systems. The conditions for eligibility are satisfied where at least 60% of the agricultural area, meets at least one of the biophysical criteria at 100% of its threshold value or, two biophysical criteria at a minimum of 90% of their threshold value.

34. Agri-environment-climate payments (Article 29) are directly linked to the "Greening" baseline. The Special Committee on Agriculture agreed to exclude those payments from the baseline and to also amend Article 29 of the Horizontal Regulation to reflect this decision.

III. CONCLUSION

35. In light of the above, the Council is invited at its session on 18-19 March 2013 to:
- endorse the final amendments suggested by the Presidency to the remaining outstanding concerns;
 - thus finalise the draft Regulations in docs. 7183/13 + ADDs 1 and 2, 7329/13, 7304/13 + COR 1 and 7303/13;
 - on this basis, reach a General Approach on the CAP reform package.
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