



COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMUNICATION FROM THE COMMISSION

**on Simplification and Better Regulation
for the Common Agricultural Policy**

A. INTRODUCTION

This communication outlines the Commission's plans for simplifying the Common Agricultural Policy (CAP) whilst respecting economic, environmental and political realities. Reducing red tape in the farm sector by making rules more transparent, easier to understand and less burdensome will reduce costs for businesses and ensure that European citizens receive value for money.

Since its introduction the CAP has established a comprehensive political and legal framework for European agriculture; as a fully integrated common policy it replaces a significant amount of national legislation. It has largely accomplished the objectives set out in the EC Treaty while cushioning the social impact of agricultural restructuring. As a corollary farmers and administrations have to deal with a dense set of rules and measures, which may increase the risk of failing to meet policy objectives, make it more difficult to ensure sound expenditure of EU funds and diminish acceptance of CAP measures.

The CAP simplification work undertaken by the Commission for over a decade is now entering a new phase. Building on the framework action to "Update and simplify the Community *acquis*"¹, and following its communication "Working together for growth and jobs – a new start for the Lisbon Strategy"², the Commission adopted in March 2005 a communication on "Better Regulation for growth and jobs"³, which underlined the contribution of better regulation to achieving the Lisbon objectives.

At the December 2004 Agriculture Council, the Commissioner for Agriculture and Rural Development announced her intention to bring forward the present communication. It forms part of the CAP's contribution to realising the EU's Lisbon strategy and the Commission's overall governance concept.

B. THE PURPOSE OF SIMPLIFICATION

Simplification aims to identify and remove unnecessary burdens; two types may be distinguished:

- **technical simplification** (i.e. within a constant policy framework) implies revision of the legal framework, administrative procedures and management mechanisms to achieve streamlining and greater cost-effectiveness and attain existing policy objectives more effectively, without changing the underlying policies;
- **'policy simplification'** reduces complexity through improvements to the agricultural support and rural development policy instruments. It may be described as 'policy development with simplification implications'. Impact assessment has a particular role to play here.

To avoid policy debates arising in the context of simplification, it is important to ensure that this distinction is not obscured. Simplification must not become an additional forum to reopen policy decisions.

¹ COM(2003) 71.

² COM(2005) 24.

³ COM(2005) 97.

This communication focuses primarily on opportunities for technical simplification, although some actions such as rationalising or harmonising market management mechanisms may become political issues.

C. LIMITATIONS

Simplifying the CAP is an ambitious project which needs to be pursued with political resolve and a strong sense of realism. Agricultural and rural development policies are by nature complex, reflecting both internal and external policy objectives outlined in the EC Treaty.

Simplification must be compatible with broad policy objectives such as the environment, food safety, cohesion and protection of the Community's financial interests.

Sound policy management is necessary. The CAP is unique in the extent to which it is regulated and financed at EU level. Without a common approach to the single market, aids in agriculture and trade with third countries, it would be impossible to guarantee a level playing field in the internal market and pursue further liberalisation in world trade. An EU framework ensures that rural development programs are carried out under common rules without creating unfair competitive advantages. Basic standards in the field of environment, animal welfare, organic farming and labelling need to be settled on a common basis, if they are to be seen as fair. This requires robust legislation, and effective financing and control mechanisms to protect public interest and ensure accountability.

Policies must be applied in a diverse range of agricultural conditions and administrative traditions across the enlarged EU.

Political consensus on large and complex policies requires balance between administrative simplicity and the flexibility to reflect local needs, to take into account the principles of proportionality and subsidiarity, and accountability to other Community Institutions.

Control burdens are often cited as a profitable area for simplification. However, over the last 15 years modern, effective and proportionate control arrangements have been put in place; the Integrated Administration and Control System (IACS) has kept the administrative burden for farmers at a manageable level while ensuring a high degree of financial security and protection of taxpayers' money.

Although simplification must not be used as an argument to weaken these arrangements, the Commission is ready in appropriate cases to consider more streamlined procedures provided that they do not reduce the degree of financial assurance.

D. STOCKTAKING

CAP simplification is not a new activity; the Commission has carried out various actions since the mid-1990s.

Successive CAP reforms have provided opportunities to simplify, most recently by combining a large number of direct income support payments into a comprehensive decoupled single payment scheme.

The Commission has drawn attention to its CAP simplification activities through reports to Parliament and Council, and stressed in them its determination to strive for further simplification⁴.

It has worked closely with national authorities to identify simplification possibilities. In a systematic analysis carried out in 1997–2000, around 200 suggestions were received from the Paying Agencies; the Commission was able to take positive action on about half of them. The remainder were not acted upon because they would have entailed excessive costs, undermined sound financial management, or were not judged to offer real simplification potential.

This exercise was repeated in 2001–2003. Member States' suggestions were analysed by a simplification group established by the Commission, composed of representatives of national administrations. This exercise became absorbed into discussions on the 2003 Reform and did not give rise to publication of a separate report.

I Horizontal actions

(a) Cleaning up of agricultural rules

The Commission attaches great importance to public access to Community law and to improving its clarity and transparency. It has sought to reduce the number of agricultural acts in force and improve the presentation of legal texts, especially those modified on several occasions.

It has for many years screened the '*acquis*' to identify obsolete agricultural legislation, a task supported by the two-year programme on "Updating and simplifying the Community *acquis*"⁵. In 2003 and 2004, as part of the ongoing simplification activities, around 520 agricultural legal acts have been removed from the list of acts in force by formal repeal and recognition of obsolescence.

Access to agricultural legislation has benefited from improvements in IT tools. All Community legislation is now freely available via the EUR-Lex website⁶. Consolidation and codification⁷ of legal texts both make the *acquis* more accessible and improve legal certainty. Most agricultural legal acts available online are in their consolidated version and a limited number have been formally adopted in codified form.

(b) State aid rules

Since 1999 state aid rules for agriculture have been simplified and made more transparent.

A single legal basis for the application of state aid rules to rural development⁸ was created. Most state aid rules were incorporated into the "Community guidelines for state aid in the agriculture sector"⁹, allowing abolition of several texts¹⁰. For the first time, all rules for state

⁴ COM(1999) 156; COM(2001) 48.

⁵ COM(2003) 71.

⁶ http://europa.eu.int/eur-lex/lex/en/repert/index_03.htm.

⁷ *Consolidation* produces updated but not legally binding texts; *codification* creates new legally-binding texts.

⁸ Article 51 of Regulation (EC) No 1257/1999 (OJ L 160, 26.6.1999, p. 80).

⁹ OJ C 232, 12.8.2000, p. 19.

¹⁰ See point 22 of the guidelines.

aid in agriculture were published in the Official Journal. Transparency has been further improved by making documents available on the internet¹¹.

Rules for state aid for advertising of agricultural products were streamlined in 2001¹², allowing for the abolition of two texts¹³.

Rules for rescue and restructuring aid were simplified and improved in 2004¹⁴.

The need for Commission authorisation before granting new state aid was reduced by a wide-ranging exemption Regulation¹⁵. From 2004 about 30% of all new state aid could be paid within 10 days of informing the Commission, compared with previous delays of up to six months.

A new format for yearly reports has simplified reporting requirements from 2004¹⁶.

A Regulation on *de minimis* aid¹⁷ entered into force on 1 January 2005, providing greater leeway for Member States to grant quick support notably in the face of crisis.

(c) Reporting

An internal study of the justification for Member States' reporting obligations led to informal guidelines and a reduction of the number and frequency of reports, improved use of IT tools including web technology that automatically checks data integrity, standardisation of forms and some restructuring of legal acts. This has become an ongoing process, independently of the initial study.

Certain acts on irregularities in the areas of CAP expenditure and structural funds¹⁸ are being or will be reviewed with the aim to reduce the administrative burden for Member States.

II Policy-related actions

The Commission has considered it appropriate to integrate simplification into its agricultural policy work rather than set up a separate policy simplification programme. Integration of simplification into the normal agenda will be more visible from 2005 - as part of an improved planning methodology, the simplification aspects and intended beneficiaries of all proposed measures are identified.

(a) 2003 CAP Reform

The 2003 reform has brought radical change to the CAP, especially its income support policy. It established the single payment scheme where direct income support for farmers is largely decoupled from production and introduced mandatory cross-compliance obligations. It has also established comprehensive common rules for direct support in most sectors.

¹¹ http://europa.eu.int/agriculture/state_aid.

¹² OJ C 252, 12.9.2001, p. 5.

¹³ See para. 75 of the advertising guidelines.

¹⁴ OJ C 244, 1.10.2004, p. 2.

¹⁵ Commission Regulation (EC) No 1/2004 (OJ L1, 3.1.2004, p. 1).

¹⁶ Annex III B of Commission Regulation (EC) No 794/2004 (OJ L 140, 30.4.2004, p. 1).

¹⁷ Commission Regulation (EC) No 1860/2004 (OJ L 325, 28.10.2004, p. 4).

¹⁸ Council Regulation (EEC) No 595/91 (OJ L 67, 14.3.1991, p. 11); Council Regulation (EC) No 1469/95 (OJ L 145, 29.6.1995, p. 1); Commission Regulation (EC) No 1681/94 (OJ L 178, 12.7.1994, p. 43).

This reform is an important step towards better quality of EU legislation – 9 Council regulations and numerous other provisions were repealed; the basic regulations of the cereals, rice and dried fodder common market organisations (CMOs) and the milk quota regulation were recast. Procedural simplification has been achieved through the setting up of a single management committee for all direct payments.

The Commission originally proposed a single decoupling model, two types of payment entitlements decoupled from production, no re-coupling and no transitional periods or derogations. During the legislative process numerous alternative options and special arrangements were requested by Member States and accepted by the Council. Member States may now choose between 2 decoupling models with a number of sub-models, apply partial de-coupling or exclude certain support schemes from decoupling, implement a separate support system and make use of various derogations.

Nevertheless, the reform's potential for simplification of the way agricultural income support is granted, managed and controlled, is still significant. In its fully decoupled version farmers need to introduce only one aid application and controls are applied using a whole-farm approach.

Whether this potential simplification for farmers is realised depends on Member States' choices. There is already evidence to suggest that the decoupled system will be much simpler to manage once the necessary IT systems have become fully operational.

Many Member States have chosen to make use of the full range of options provided by the flexibility introduced into this regime. This heterogeneous implementation of the reform has contributed to complication and increasing burdens on farmers and administrations.

(b) Single Area Payment Scheme (SAPS)¹⁹ for new Member States

On the initiative of the Commission it was agreed in the enlargement negotiations that for a maximum of 5 years from accession the new Member States may grant simplified direct income support. SAPS allows the granting of a flat rate per hectare of agricultural area, calculated by dividing the total available income support by the overall number of hectares used for agricultural production. Under IACS only area-related checks are required and complex controls on animal premiums become obsolete. This system reduced the cost of preparatory work before and during accession. It will allow the eight new Member States concerned to switch smoothly to the single payment scheme.

(c) Rural development

The new Council Regulation on rural development support for 2007 to 2013 will simplify the content, scope and implementation of the policy.

The strategic approach (Community Strategic Guidelines – national strategy plans – programmes) will allow the setting of clear priorities and streamlining of programming, while defining the scope of the policy through building up programmes around four axes. Each axis in turn can be built up from a range of predefined measures. To ensure programme balance minimum spending rates will apply to each axis.

Simplification will consist of moving from two funding sources, five programming systems and three management and control systems to a single funding, programming, financial

¹⁹ See Article 143b of Regulation (EC) No 1782/2003.

management and control framework. There will be a single fund (EARDF) with financial management and control rules adapted to multi-annual programming. Operational and financial programme management will be simplified by setting the co-financing rate at axis level, leaving Member States free to shift between measures within an axis. For individual measures the number of eligibility conditions has been reduced.

The organisational structure has been kept simple: each programme will have one managing authority (operational implementation) and paying agency (financial implementation), with clearly defined functions and accountability.

A simple reporting system based on a common framework for monitoring and evaluation will allow progress in implementation of strategies and programmes to be measured.

(d) CAP financing

The adoption of a new Council Regulation (EC) No 1290/2005²⁰ brings the financing rules for both pillars of the CAP into a single legal text. It creates two funds (EAGF and the EAFRD) that, as far as possible, will apply the same rules on, for example, the role of the paying agencies and the clearance of accounts procedure; it will also facilitate the treatment of irregularity cases. The new rules will simplify financial management of rural development policy in the next programming period.

The Commission implementing regulation currently in preparation aims to regroup more than twelve separate regulations containing all measures relating to paying agencies, financial and budgetary discipline, and the transmission and archiving of documents. This regulation may, if appropriate, also contain control and Member States' mutual assistance measures.

E. IMPACT ASSESSMENT

The Commission has long experience in the use of impact assessments in agricultural and rural development policy making. For several years all important agricultural proposals have been accompanied by an impact assessment. Building on this approach, in 2002, the Commission replaced single sector impact assessment methods with an integrated and cross-sectoral approach²¹ with five key steps²²:

- analysis of the problems,
- establishment of the objectives,
- identification of options,
- analysis of their impact,
- comparison of their advantages and disadvantages.

The principle of 'proportionate analysis' is central to the Commission's impact assessment work, meaning that the IA is proportionate to the potential impacts of the action.

These processes represent an ideal opportunity to consult stakeholders in line with the Commission's minimum standards for consultation²³. Their contribution is essential in

²⁰ OJ L209, 11.8.2005, p. 1.

²¹ COM(2002) 276.

²² SEC(2005) 791.

²³ COM(2002) 704.

ensuring the quality of the assessment and the appropriateness of any final proposals. Consultation methods have recently become more diversified, including various *ad hoc* fora and hearings.

In line with the Commission's approach to impact assessment, it is essential that the scope of impact assessments is broad and that it includes environmental, economic, consumer protection, competition, and social policy concerns. This interdisciplinary approach better reflects the diversity of the real world.

F. THE WAY FORWARD

I Technical simplification

(a) Cleaning up agricultural rules

Identification and elimination of obsolete Council and Commission legal acts will continue.

The Commission will explore new ways to improve the structure and presentation of agricultural law. It will examine the possibility of carrying out a "legal audit" with a view to eliminating unnecessary provisions, replacing multiple sectoral rules by horizontal ones and examining the use of sunset clauses where appropriate.

This will provide new opportunities to simplify management mechanisms relating to certain specific import and export procedures, private storage, public storage, tendering procedures, financial instruments and processes, reporting obligations etc. Some work relating to the traditional CMOs is already under way. The proposed single CMO (see b) below) will further advance this work in the context of an overall re-evaluation of market mechanisms.

(b) A Single CMO regulation

The 2003 reform simplified the CAP's legislative environment by establishing a horizontal legal framework for all direct payments and amalgamating an array of support systems into a single payment scheme.

It is envisaged to extend the horizontal approach to the 21 CMOs, each of which is governed by a separate Council basic regulation, often accompanied by a collateral set of further Council rules.

Most basic regulations follow the same structure and have numerous provisions in common. Often they contain different solutions to identical or similar problems. The extent to which harmonisation is possible and sectoral approaches can be replaced by horizontal ones should be examined.

This will provide a single set of harmonised rules in the classic areas of market policy such as intervention, private storage, import tariff quotas, export refunds, safeguard measures, promotion of agricultural products, state aid rules, communications and reporting of data.

Existing instruments and mechanisms will not be changed in substance except where this is justified by the advantages of harmonisation and does not substantially alter their effectiveness.

Questioning the "raison d'être" of provisions that in some cases have existed for decades is inherent to the Commission's task of establishing a better legislative environment.

The outcome should be a simpler and more streamlined legislative structure of the first pillar of the CAP.

A step by step approach will be used:

- initially, a first Commission proposal would include those provisions that most basic regulations have in common and the rules of CMOs that will not be subject to substantive policy reviews in the foreseeable future;
- later, the single CMO regulation could be completed by regulations not included in the first phase of the exercise (e.g. fruit and vegetables, wine).

This would be in line with the approach pursued for Council Regulation (EC) No 1782/2003 on direct payments.

The Commission will examine the possibility of making a first single CMO proposal in 2006.

(c) Administrative costs

The Commission is prepared in the context of the current initiative to test the feasibility of an 'EU net administrative cost method' to discuss options for assisting national administrations to quantify and reduce administrative costs imposed on farmers by CAP mechanisms.

(d) State aids

An extension of exemption Regulation (EC) No 1/2004 will accelerate the payment of state aid to farmers.

State aid rules will be simplified by reducing the seven texts still in force to three: the exemption regulation, one set of guidelines, and the *de minimis* regulation.

On 30 May 2005, Member States were invited to submit state aid simplification proposals.

(e) Sharing best practices

The establishment of a network of EU agricultural experts to share best practice in the implementation of CAP legislation will be examined. Existing structures such as the bi-annual conference of Paying Agencies, "*Panta Rhei*" and the Management and Advisory Committees should be used.

II Policy related actions

(a) Sugar CMO reform

The Commission proposal for reform of the sugar sector²⁴ offers a significant number of simplifications:

- introduction of a single quota system;
- variable production levies linked to quotas replaced by fixed charges not dependent on complicated calculations based on excess consumption;
- intervention replaced by private storage;

²⁴ COM(2005) 263.

- the rules on trade with third countries simplified by abolishing the export of non-quota sugar and simplifying import management;
- inclusion of direct income support in the sugar sector in the Single Payment Scheme.

(b) Single Payment Scheme

Simplification of the recent CAP reform arrangements and their implementation will be examined as foreseen in the review clauses in Council Regulation (EC) No 1782/2003.

(c) Other sectors

Simplification will play an important role in the various scheduled policy reviews, including the CMO for wine, organic farming and quality policy. Simplification of the fresh and processed fruit and vegetables sectors, in the context of the reform currently in progress, will include an examination of technical standards and their relationship with existing international standards.

The regulations²⁵ relating to egg marketing standards should be replaced by simplified and streamlined provisions, and the technical elements transferred to the Commission implementing regulation.

(d) Impact assessment and evaluation

As set out in the new Guidelines²⁶, ‘proportionate analysis’ is central to the Commission’s approach to impact assessment. In agriculture, where numerous minor measures are proposed, this is of particular importance.

Simplification will be integrated into the well established practice of evaluation of CAP measures, in particular the *ex-ante* evaluation which is carried out for all proposals.

III Processes

CAP simplification needs to be embedded in a process of awareness raising, dialogue and planning.

(a) Stakeholder consultation, screening, Action Plan

Simplification suggestions made by Member States and stakeholders during the present consultation process, which are appropriate and accompanied by adequate justifications, will be taken into consideration in the development of a CAP action plan to be drawn up at Commission services level during 2006.

Although stakeholder consultation takes place primarily within the impact assessment processes, the Commission reaffirms its willingness to consider all valid simplification suggestions submitted by agriculture sector stakeholders.

In addition to examining sectors highlighted by Member States and stakeholders, the options for screening for further simplification potential will be examined. The recently modified structure of the Commission’s Directorate General for Agriculture and Rural Development and

²⁵ Council Regulation (EEC) No 1907/90; Commission Regulation (EC) No 2295/2003.

²⁶ SEC(2005) 791.

the planned establishment of an inventory of management mechanisms will facilitate this work.

This action plan will also take into consideration the outcome of discussions on the present communication. It will indicate the concrete measures envisaged, and be discussed within the Commission's CAP simplification experts group.

(b) Conference

A simplification conference is planned for 2006, focussing on the views and needs of stakeholders, in particular Member States and representatives of farming organisations. The conference should also increase the sense of ownership and responsibility for simplification amongst all actors involved, including Member States. The new Member States should be invited to contribute from their experience with the introduction and implementation of the CAP upon accession.

(c) Training

Internal training and awareness raising form an important part of the ongoing work, in conjunction with the screening process. It will include staff training in legal drafting, and seminars on the purposes and objectives of simplification.

(d) IT systems

The use of IT tools is essential in the development of mechanisms ensuring reliable, timely and transparent data collection and reporting for the benefit of Member States and the Commission (e.g. the CIRCA system for document distribution and AMIS-Quota which is a new system in development for tariff quota management). IT tools also help to provide appropriate electronic means for enhancing information communication with national authorities.

G. CONCLUSION

This communication is one step in an ongoing process to ensure that Better Regulation, in particular simplification, remains central to agricultural policy and law making.

The active co-operation of all EU Institutions involved is essential. All actors should be aware that it is crucial to strike a balance between defending specific interests and avoiding excessive complexity, in particular where difficult political compromises need to be negotiated.

The Commission will continue to play an active part in this process, but cannot achieve the objectives of simplification alone. It invites Member States and the other EU Institutions to accept responsibility for reducing burdens for farmers and avoiding their creation.