

LATVIA'S POSITION ON „HEALTH CHECK” OF THE COMMON AGRICULTURE POLICY REFORM

Basic principles: “activity driven”, “fair treatment” and “simplification”.

CAP „health check” must not prematurely influence the discussion on the overall revision of EU budget.

I THE COURSE OF IMPLEMENTATION OF DIRECT PAYMENTS AND A POSSIBLE SIMPLIFICATION

1. Equality among EU Member States.

1.1. A further reform of CAP pillar I is necessary in the long-run, ensuring equal support eligibility conditions and levels in all EU Member States as this is not ensured by the current CAP.

1.2. Upon granting decoupled payments, new and equal eligibility criteria must be laid down for all the Member States, which are not linked to historic data but reflect an actual activity of the farmer at present. Thus ensuring that in the course of time this support does not turn into a mere rural social support for doing nothing or the business of „*harvesting of subsidies*”. New eligibility criteria should be regularly revised.

Latvia proposes to distribute direct payments to Member States by applying the following criteria:

- agricultural land that must be maintained in good agricultural and environmental condition (hereinafter referred as – GAEC);
- economic indexes, for example, income from agricultural activity, gross coverage in the sector, actual expenses to meet cross-compliance requirements;
- climatic conditions characterizing adequacy for agricultural activity (in case the payment for less favored area is abolished).

1.3. Latvia can also support introduction of flat rate support on a regional level outside the borders of Member States (regions would be determined on the basis of environment, criteria characterizing production conditions, etc. but not on the basis of State borders).

2. Revision of direct payment schemes (both single payment scheme and single area payment scheme)

2.1. A possibility must be provided for all the Member States that (upon application of both single payment (SPS) and single area payment scheme (SAPS) they have equal rights to apply coupled payments thus eliminating unequal attitude to Member States and encouraging a fair competition in the Community. The second possibility is a considerable simplification of SPS so that it can be introduced in due time in new Member States without additional administrative costs.

2.2. Latvia supports the possibility to consider application of SAPS until 2013. Thus a simple, stable and foreseeable policy will be ensured with lesser administrative burden for farmers and administration institutions, and new Member States will be less motivated to transfer to a more complicated SPS for only reason to be able to apply a partial coupling of payments. This is particularly relevant before CAP changes that will most probably come closer to a fully decoupled payment scheme.

2.3. Latvia supports revision of the SPS minimum eligible area (0,3 ha). To make administration and control system more efficient, a minimum eligible area per one farm must be 1 ha - similar as in SAPS.

2.4. Latvia does not support introduction of restrictions on payments by laying down a maximum level of support. Such restrictions contradict to objectives of competitiveness promotion and determination of maximum ceiling and can encourage artificial splitting up of large-scale farms.

2.5. Latvia could support introduction of restriction on a minimum level of payments but on condition that its threshold is laid down on the level of a Member State not on EU level. The need to lay down a minimum level of support is associated with lessening of the administrative burden because there is a risk that in case of small amounts of support applied for the administrative costs can exceed the amount of the support granted.

2.6. Latvia would prefer a possibility to make direct payments in two installments, ie. Article 28(2) of a Council Regulation No 1782/2003 must be amended, providing a Member State a possibility to make direct payments (both SP and SAP) in two installments.

2.7. Latvia considers that a possibility must be provided for Member States, applying SAP, to use conditions laid down in Article 69 of a Council Regulation 1782/2003, which currently provides possibility for old Member States to support farming practices that are important for environmental protection or to improve product quality or marketing as well as conditions of this Article must be made more flexible.

3. Abolishment of the requirement for good agricultural condition as on 30 June 2003.

In Article 143(b) (4) of a Council Regulation a provision that eligible for payments is such a land area, which was in good agricultural condition as at 30 June 2003, must be deleted.

Taking into account a great extent of decoupling, Latvia is convinced that there is no further need for this condition and it is unequal in respect of administrative costs and restricts benefits from a general land management. This condition:

- is discriminatory – it refers only to new the Member States, which acceded to the European Union on 1 May 2004. Such a condition is applicable neither to Bulgaria and Rumania nor to EU-15 (old member States);
- slows down development of the sector of agriculture in new Member States by artificially restricting possibilities for farmers to use land resources. Farmers have limited possibilities to receive support if enlargement results in cultivation of new agricultural land areas, which have not been in good agricultural condition as at 30 June 2003;
- creates additional administrative burden in administration of payments;
- provides no motivation for farmers to maintain agricultural land in good agricultural and environmental condition.

4. Decoupling of payments.

4.1. Decoupling of direct payments must be supported but only when it is applied in all Member States alike and at the same time by adjusting the level of support equal in all Member States. Therefore as soon as possible clear deadlines and sectors of agriculture must be defined, which will further maintain the coupled payments.

4.2. In case of full decoupling there is no need to continue granting different support rates to farmers. Equal support must be ensured to all EU farmers for maintaining of land in GAEC. In case of the equal support rate no payment entitlement system is needed thus the administration would be simplified.

II REVISION OF CROSS-COMPLIANCE CONDITIONS

5. Revision of cross-compliance conditions

5.1. Taking into account the Commission's resolution of 21.01.2008 to revert to this question during CAP „health check” at the Council of Agriculture and Fisheries, Latvia considers that entry into force of the package of cross-compliance standards in new Member States must be revised. Latvia is sure that a full package of cross-compliance standards must be in force in new Member States only when the level of their direct payments reaches EU-15 level.

5.2. Cross-compliance conditions must be revised:

5.2.1. Statutory management requirements (SMRs), which are not directly related to agricultural land used and activities carried out by the farmer, and SMRs, which do not apply to activities covered by the Rural Development Program and territories should be deleted, i.e. it must be provided in a Council Regulation No.79/409 on the conservation of wild birds (SMR 1 - Annex III paragraph 1 of a Council Regulation No.1782/2003), in a Council Directive No.92/43 on the conservation of natural habitats and of wild flora and fauna in relation to hunting (part of SMR 5 – Annex III paragraph 5 of a Council Regulation No.1782/2003);

5.2.2. In a Council Regulation No 1783/2003 and a Council Regulation No 1698/2005 that cross-compliance requirements shall be applicable and controlled only in relation to agricultural land used and declared for support by the farmer and agricultural activity as well as activities covered by the Rural Development Program territories declared for support.

It is necessary because compliance with environmental requirements according to conditions a Council Regulation No 1782/2003 within cross-compliance system should be controlled in respect of the entire area of land owned and used by the farmer (ie. both agricultural and non-agricultural land as well as land declared for support) as well as in respect of any activity carried out by the farmer. Without laying down a precise object for control the administrative burden would be created by controlling undeclared territories used and activities carried out by the farmer.

5.3. It is premature to incorporate new legislative requirements into cross-compliance system, for example, implementation of the Community Water Framework Directive in river basin areas as well as Directive of the European Parliament and of the Council establishing a Framework for Community Action in the field of Marine Environmental Policy (Marine Strategy Directive) (COM(2005) 505) and Thematic Strategy on the Protection and Conservation of the Marine Environment (COM(2005) 504).

5.4. Latvia considers that requirements that land areas used for permanent pastures must be maintained as permanent pastures (Article 3 of a Council Regulation No 796/2004) must be abolished, because decoupling of payments as such facilitates enlargement of meadows and pastures. Besides this requirement restricts orientation of farmers towards market and it can hinder the development of energy crop support scheme. This condition, as compared with its benefits, is complicated to administrate and it has high administration costs.

5.5. Latvia invites to provide the possibility in Article 9 of a Council Regulation No 1782/2003 to keep not less than 80 % of the financing accrued by reduction of support due to failure to meet cross-compliance requirements on condition that this sum is used to finance an Advisory System or technical assistance measures for introduction of cross-compliance system and improvement of performance.

III UTILIZATION OF NEW POSSIBILITIES AND IMPROVED CONFORMITY TO MARKET REQUIREMENTS.

6. Revision of individual Common Market Organization elements

6.1. To enhance orientation of farmers to the market and to ensure a free competitiveness on the internal market, CMO elements, which developed in the result of specific historical factors such as quotas, intervention, export refunds and other production limiting indicators, must be phased out if there is no an objective need for them anymore.

6.2. Intervention in cereal market

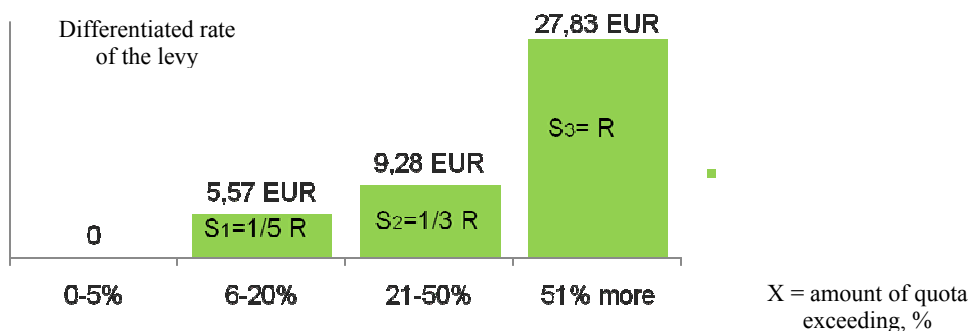
Taking account of the existing experience regarding intervention into cereal and animal product market, the intervention mechanism should be maintained only as the measure ensuring market stability – introducing the measure only in cases of market instability.

6.3. Milk quotas

6.3.1. Latvia supports abolition of milk quota from 2015, ensuring as smooth the transition to quota-free regime as possible:

- gradual annual increase of the total national quota for every Member State starting from 2008/2009 quota year until the planned abolition of quotas; Latvia considers that the annual increase of at least 5% would ensure milk market stability for coming years;
- abolition of fat correction for delivery quota adjustment according to Article 80(2) of Regulation No 123/07 (single CMO) from 2008/2009 quota year;
- a gradual annual reduction of the rate of levy for the overrun of total national milk quota, at the same time introducing a differentiated method for calculation of the total payable levy. Such a method would enable a Member State to pay a lower levy for a relatively smaller overrun of the quota. Besides a certain „tolerance limit” would be admitted for a minimum overrun (up to 5 %), which would not be subject to payment of the levy.

Graphical picture of the differentiated calculation of the levy:



where

R = applicable full rate of the levy (27,83 EUR in 2008/2009 quota year)

Total payable levy $P = (S_1 * X_1) + (S_2 * X_2) + (S_3 * X_3)$

6.3.2. Latvia would like to have that in Article 72(2) Part one of a Council Regulation (EC) No1234/2007 a possibility is provided for a Member State to determine itself the percentage¹, to

¹ Currently 70 % is set as a minimum of individual quota fulfillment for a producer in order to avoid the unused part of quota to be reverted to the national reserve.

be fulfilled by a producer in order to avoid the unused part of quota to be reverted to the national reserve.

6.3.3. Latvia agrees that some additional measures are provided for individual regions unfavorable for agricultural production to lessen a negative impact of quota abolition. However such measures must be inseparably linked to relevant measures of the Rural Development Program (see Application of less favorable criteria from the year 2010).

6.4. Sugar quotas

Latvia supports a further reform of sugar CMO and abolition of sugar quotas after 2015 with a view to ensuring of sugar production in economically more competitive regions and establishments.

6.5. Potato starch quota

Latvia supports revision of potato starch quota system and possible changes of production quota system from 2009.

7. Abolition of compulsory set-aside

Latvia supports abolition of compulsory set-aside because it restricts farmers' free choice of production and creates unnecessary administrative burden, but it does not support that the compulsory set-aside is replaced by new environmental development programs. As conditions of set-aside do not apply to the farmers who have declared a smaller number of hectares than it would be necessary for production of 92 t of grain then there are some concerns that such a condition could encourage an artificial splitting up of farms in new Member States in order to avoid the need to comply with set-aside condition.

8. Revision and assessment of effectiveness of energy crop and hemp support scheme.

8.1. Latvia considers that a currently valid energy crop support scheme must be revised by assessing whether it is the right type of support in order to stimulate production of renewable energy because it creates an artificial demand for production of field crops besides it will be possible to grow energy crops on non-eligible agricultural lands as well as areas under rapeseed and cereals are rapidly enlarging that in its turn is reducing the rate of a complementary national direct payments for field crops.

Moreover, in fear from a proportional reduction of the support and additional to controls farmers are losing interest in participation in this scheme.

Latvia considers that the requirement for payment of securities by processors and purchasers of energy crops must be discarded because thus financial resources are frozen, production costs are increased and a person harvesting energy crops, the initial processor or on-farm processor is always approved and registered by the competent controlling authority.

8.2. Latvia considers that the currently valid support scheme applicable to flax and hemp fiber processing must be revised in order to assess its effectiveness and contribution to the development of flax and hemp fiber.

IV NEW CHALLENGES

9. Revision of modulation principles

Latvia is satisfied neither with voluntary nor compulsory modulation principles i.e. that 80 per cent of the financing resulting from modulation remaining to the respective Member States.

Latvia considers that the financing received as the result of modulation must serve as the instrument that would diminish the differences among rural areas in the Community and **this can be achieved by impartial distribution criteria of finances based on actual needs.**

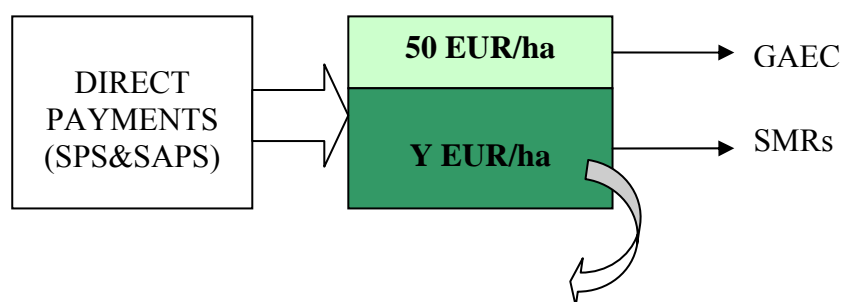
It must be ensured that rural development budgets of Member States cover a higher ratio of modulation funding, for example, to transfer the minimum 80 % to the EU rural development budget as compared with the current less than 20 % and redistribute it among EU Member States according to actual needs of every Member State thus eliminating concerns that the reduction achieved through modulation will widen the gap among the Member States even more.

10. Laying down an equal support rate per one unit all over EU for fulfillment of equal conditions.

10.1. As eligibility conditions for SAPS and LFA are similar (i.e. maintaining of land in good agricultural and environmental condition), there is no reason to pay these types of support from different financial resources.

10.2. The envelope of direct payments must be divided into two parts:

- aid to land area, which has been maintained in GAEC – it must be laid down equal for all the Member States as 50 EUR/ha, that are average costs in EU for fulfillment of this condition;
- aid for fulfillment of SMRs – differentiating it according to implementation costs of relevant requirements on the farm or the group/category of farms.



The support for maintaining of land in GAEC must be equal for all the Member States, e.g. 50 EUR/ha, which are average EU costs necessary for fulfillment of such a condition.

The support for fulfillment of SMRs must be differentiated depending on implementation costs of concrete requirements:

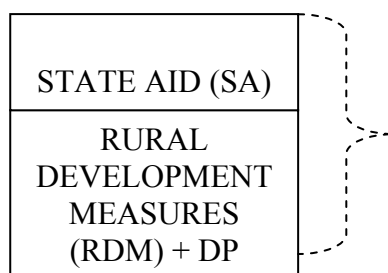
$$Y = x_1 + x_2 + \dots + x_n,$$

where:

Y – the total amount of support, EUR/ha;

$x_1; x_2 \dots x_n$ – support for compliance with every specific SMRs (or compliance with SMRs area), that is compulsory to a specific farm and that is a fixed value in EU, taking into account average implementation costs, EUR/ha.

10.3. The total area based maximum amounts of payments must be laid down for rural development and national support - EUR 1000 per ha, including direct payments 50 EUR/ha for fulfillment of requirement for good agricultural and environmental condition.



Area based maximum amounts of payments

$$\text{Rate of the support} = \sum_{(SA+RDM)} \leq 1000 \text{ EUR/ha}$$

The total amount of payments according to the rural development and the state aid shall not exceed 1000 EUR/ha.

11. Revision of agri-environment aid conditions.

11.1. Measures aimed at turning environment back to normal state should be reviewed in cases where environment has been polluted due to ignorance of *Acquis*. Therefore more the principle of “polluter pays” should be taken into account.

11.2. To revise legal provisions regarding five year commitment, allowing changes in the size of area under commitment, i.e. not to apply sanction in the form of reimbursement of the previously received aid for reduced areas as well as to allow changing of the field location (Article 10 (6) Commission Regulation (EC) No 1975/2006 of 7 December 2006 laying down detailed rules for the implementation of Council Regulation (EC) No 1698/2005, as regards the implementation of control procedures as well as cross-compliance in respect of rural development support measures).

11.3. To raise farmers’ interest in undertaking of voluntary agri-environment commitments, eligibility conditions of agri-environmental support must be sufficiently flexible as well as amount of support must correspond to the current market situation (i.e. a possibility must be provided to adjust the level of support to the changes in market prices in a respective year). However, overcompensation of farmers and non-compliance with WTO „green box” conditions must be avoided.

12. Clear and simple risk management system.

12.1. Latvia considers that a clear decision must be made as soon as possible on the level of responsibility of the European Commission and the level of participation of EU instruments in risk management system. Latvia considers that no later than by the end of 2008 the European Commission should submit specific proposals regarding this area.

12.2. A motivated participation of farmers must be enhanced, namely, involvement of higher number of farmers in the risk management scheme by developing a number of instruments with a goal of activating the sector, resulting in minimized risks and consequently – the potential losses.

13. Climate changes, bioenergy, management of water resources and biological diversity

Latvia considers that tasks (objectives) in the area of climate changes, bioenergy, management of water resources and biological diversity should not be included into requirements of cross-compliance (situation is different in every EU Member State therefore a certain flexibility should be provided to Member States). Incorporation of additional measures in rural development programs will not solve these issues.

Latvia considers that more attention should be paid to prevention, readiness and proper reaction to natural disasters and elimination of consequences therefore it is necessary to develop a strategy for prevention of natural disasters and setting up of cautionary system on the level of Member States and EU level. At the same time new risk management instruments should be developed, methods and models of management of natural disasters.

Latvia considers that while providing European financing for elimination of flood risk in the same way resources should be provided for dealing with draught, drawing attention to implementation of rational and water saving technologies in all spheres. Significance of a problem caused by draught and water deficit must be assessed in the context of other environmental protection issues without creating excessive administrative and financial burdens.

Instead of new measures a more effective implementation of the existing rural development measures should be encouraged, first of all through rural development by promoting environmental protection (supporting environmentally friendly investments) and animal welfare as well as conservation of biological diversity. The issue of climate changes should be emphasized in other sectors of national economy, for example in the sector of energy.

12. Simplification of legislation.

Taking into account objectives and principles of a *better legislation*, Latvia considers that the decision-making procedure must be simplified regarding approval of rural development programs. Furthermore, the condition that rural development programs of Member States shall be approved according to management procedure (*Council Regulation (EC) No 1698/2005 of 20 September 2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) - Article 18(4) and thus also Article 90 of the aforementioned Regulation*) must be deleted.

Such a decision-making procedure is contrary to objectives of a better legislation in respect of cutting down on administrative burden as well as such comitology procedure is not used neither in European Fisheries Fund nor Structural Funds that is also considerably influencing the Community budget.