The President
House of Representatives of the States General
Postbus 20018
2500 EA The Hague

Date: 28 October 2011
Re: Government response to legal proposals Common Agricultural Policy

Dear Madam President,

On 12 October the European Commission presented its legal proposals for the Common Agricultural Policy (CAP) 2014-2020. Following on from the Commission's Communication of 18 November 2010, these legal proposals aim to present the shape of the future CAP in more detail.

In this letter I will set out the government response to the legal proposals. This follows the response to the Commission Communication of 18 November 2009 and the letter of 8 March 2009 in which I answered the questions from the Standing Committee for Economic Affairs, Agriculture and Innovation on the shape of the future CAP.

Background
The CAP has been with us for more than fifty years. The key objective over past decades was to increase agricultural productivity to ensure a reasonable and stable income for farmers and moderate and stable food prices for the consumer. By the end of the 1970s the price support system began to be phased out.. It had a trade distorting effect on the international market. This, and the massive overproduction, led to a new system of direct payments linked directly to compliance with a set of standards on food safety, animal rights and environmental concerns (cross-compliance).

The present situation
In the present situation market and pricing policy is a minor part of the CAP, massive overproduction is a thing of the past and export subsidies now account for less than 1% of the budget. Market-orientation has increased. In the Netherlands land-using sectors like dairy and arable still receive direct payments, with the amount of payment based on historic production. Rural development policy has become an integral part of the CAP.

The present policy proposals aim to further modernise the CAP and bring it into line with current and future wishes of society The public dialogue in the Netherlands has made it clear that the desired approach is one that strengthens competitiveness, innovation and sustainability. The farm sector in the Netherlands wishes to see incentives for greater sustainability, a policy that takes the sector forward, aimed at farmers who are prepared to move forward with it. A policy that encourages and supports new concepts, new ideas, for which society creates scope. The Government welcomes the new proposals as they provide the opportunities to do just that. The Netherlands also sees that, as it requested in the Agriculture and Fisheries Council of April 2011, the impact analysis published with the proposals for reform pays more attention to the external dimension of the CAP . The Commission concludes that the proposals further aim to strengthen the farm sector's market orientation and European negotiations on multilateral trade agreements. With the aim for greater sustainability in a global perspective the negative effects of agriculture in developing countries will decrease.

The Government will urge for continued attention to be paid to the developing countries' interests and for that purpose calls on the Commission to monitor and evaluate the external dimension at regular intervals. The Government also believes that the results of knowledge development and innovation in Europe should also become available to developing countries. For more details on the approach of the Netherlands to the CAP and development cooperation I refer to the letter of 22 September 2011 that I and the State Secretary for Foreign Affairs sent to the House .

Commission proposals
As I mentioned earlier, the Commission proposals build on the Communication of the Commission of 18 November 2010 which set out the three main objectives for the future CAP. They are:

- Economically viable food production
- Sustainable management of natural resources and climate action, and
- balanced territorial development.

The Commission Communication described a number of options with respect to the design of the financial instruments. With the proposals the Commission has clearly chosen to adapt the direct payment system by means of targeted payments.

The Dutch approach
The main planks of the Dutch approach include:

1. Replacing the system of direct payments with a system of targeted payments. Payments will no longer be based on production and premiums realised in the past, instead they will be aimed at:
   a. Strengthening the farm sector's competitiveness, sustainability and innovation;
   b. Awarding performance over and above legal requirements of providing public goods like nature values, environment, landscape, animal health and animal welfare;
2. No extension of market and pricing policy, payments should be limited to providing a safety net on the way to abolishing export subsidies by 2013;
3. A rural policy geared to European priorities, and within these priorities, to agricultural activities;
4. Simplifying the CAP combined with stronger financial management and accountability (in line with the motion by Luijben) geared at reducing the administrative burden for farmers and the implementation burden for public authorities. Ensuring the legitimacy of spending European resources.
5. Proper attention to the external effects of the CAP specifically for developing countries.

The Dutch approach will be in line with the approach adopted during the negotiations on the Multiannual Financial Framework 2014-2020. This means that the Dutch contribution to the EU will be substantially reduced and the budget reformed, geared to the priorities of this decade. In this context there will be room to actively respond to the negotiations as they progress. The size of the new EU budget ties in with the Government's approach and the relevant motions from the House like the Plasterk/Ten Broeke motion.
The Government will look at all the resources for agriculture within and the MFF and beyond. It believes all European resources should be brought under the MFF, including the reserve for crises in the farm sector. This will help improve transparency and make for a horizontal weighing of interests. It will also prevent a weakening of the incentives for budgetary discipline.

The Netherlands believes some of the Commission proposals are necessary to ensure CAP funds contribute to the objectives of the Europe 2020 strategy and that there is a level playing field in Europe for its implementation. However some proposals seem to go further than is strictly necessary.

The requirements and obligations imposed on the Member States by the Commission create a tension with the proportionality principle. In some cases the envisaged objectives lead to disproportionate administrative and implementation burdens. I will go into this further below.

Commission proposals and Dutch government appraisal.

Redistribution of direct payments
In the CAP reform proposals the Commission proposes a redistribution of direct payments. Member States currently receiving direct payments per hectare of farmland below the level of 90% of the EU average will receive one-third of the difference between their current payment and the 90% EU average in compensation. This is to be funded by Member States receiving a higher than average hectare payment, like the Netherlands. In the Commission proposal the national ceiling that may be used for direct payments in the Netherlands in 2020 will be approximately € 760 million, a more than 8% (approximately €80 million) decrease compared to the € 830 million in 2013. For rural development policy the Commission proposes a new budget distribution based on objective criteria taking account of the current distribution among Member States.

The Netherlands believes that a more equitable distribution of decoupled payments is justifiable. With the calculation method used by the Commission, payment to the Netherlands would be cut by more than 8%. By not taxing the Member States with an above average hectare payment equally, the Netherlands, Denmark, Belgium and Italy stand to lose by this method whereas a much lower percentage of reduction is imposed on other prosperous Member States .
The redistribution proposed by the Commission also affects the possibilities for continued support of the farm sector during the necessary transition period towards more competitive, sustainable and innovative agriculture in 2020. The Netherlands therefore believes that the present Commission proposal does not represent a more equitable distribution of payments. The Dutch Government therefore urges the Commission to:

- base the redistribution of payments on the total CAP budget per Member State, instead of redistribution for the first and for the second pillar separately, also in view of the Dutch nett position;
- apply the equality principle instead of the proportionality principle for all Member States with hectare payments above the EU average, thus making the Member States with above average payments contribute equally to the redistribution.

Direct payments

Basic premium
The Commission proposes to make the transformation to what is known as the regional model of direct payments in which all hectares of farmland are in principle eligible for payment. In this way the Commission wants to abandon completely the historical model in which direct payments are based on volume produced in the past.

The Netherlands supports the proposed transformation from a historical to a regional model. For the Netherlands this change will mean that the area of land under payment entitlement will increase from 1.4 million to over 1.8 million hectares. The average value of the entitlements will go down accordingly. On the other hand, with this system in place a farm's entire acreage will be included in the system where now in many cases only a part of a farm's acreage is under payment entitlements. The financial consequences of this changeover to the regional model may vary greatly from one farm to another as the starting position varies per farm. However, the number of farms within the entitlement system will rise only slightly as the new system will only apply to those farms that used their payment entitlements in 2011 (in line with their application on 15 May of the same year at the latest) and to specialised fruit, vegetable, and wine growers.

The Commission proposes introducing the regional model by reallocating a Member State's available budget over the eligible land in that Member State and direct the payments to active farmers. It should be remembered that the Commission proposals aim to better target the payments at specific issues and/or groups. The resources will then no longer be available for generic hectare payments, the basic premium. It also affords Member States the opportunity to distinguish between regions with a basic premium differing per region.

The Dutch Government continues to aim for a transformation from the current generic payments to targeted payments. In addition to funding investment schemes for strengthening competitiveness and innovation, targeted payments can also be used for rewarding the provision of public goods. Such services will often resemble hectare payments.

The Netherlands does not support the Commission's definition of 'active farmer' who is eligible for direct payments to the exclusion of others. Tightening the definition any further would give rise to a sizable implementation burden which is disproportionate to the envisaged aim. The current approach used by the Netherlands which excludes, for example, managed land like airports, is simpler, more practical and more effective.

Greening payment alongside the basic payment (30% of direct payments)
Under the Commission proposals all farmers eligible for direct payments would be required to fulfil certain 'greening' requirements. In return for doing so, their basic payment amount would be topped up. A total of 30% of the direct payment budget would be used for this. Arable farmers will need to have a minimum of three different crop types per year (this does not apply to nursery crops) and/or maintain a certain level of permanent pasture and/or have a minimum of 7% of land devoted to ecological management, to be eligible for this greening payment. Organic farms would automatically be eligible.

The Dutch Government is positive about these steps towards targeted payments and agrees to the proposed 30% of the direct payment budget reserved for this. However, it believes the proposed form of the greening payment is not effective enough. It will not lead to tangible gains for biodiversity but will produce an additional burden in terms of administration, implementation and control for government and farmers.
The greening of the CAP features prominently in the public debate on the future of the CAP. Much is being said and written about the options to make the greening of the CAP more visible by, for instance, promoting nature and landscape. Or by reducing emissions from agricultural production that could have a detrimental effect on nearby nature areas. The outcome of the public debate is reflected in the government's position on the greening

measures, which should not only be aimed at visibility but also at the promotion of more sustainable farming methods.

The Netherlands supports the proposal of requiring arable farmers to manage part of their land ecologically. There are however still many uncertainties about what this 7% ecological management entails and how this percentage is computed. At present, the Netherlands thinks this 7% percentage is too high. The government also believes that users of grassland should also be able to participate in ecological management schemes. The greening proposal is eminently suitable for further development by interested parties in public dialogue. The Netherlands also supports the indirect coupling of basic payments to participation in the greening measures, which would be an extra incentive for participation. The Dutch Government will also press for the possibility of voluntary, regional diversity in greening measures, which could greatly enhance biodiversity gains. Furthermore, the government will promote the role of farmers associations, like agricultural nature conservation organisations, in their implementation.

The Netherlands believes the Commission's greening concept is too limited. It would urge the Commission to support the use of targeted payments for investments in sustainable and innovative production methods. Such as investment schemes for innovative, integrated sustainable housing systems and precision agriculture. They should be an integral part of a menu of European greening options. Within a general European framework Member States should then be free to choose tailored measures. By, for instance, taking measures that contribute to biodiversity, environment, air quality, animal welfare, and climate and suit national and regional production and management circumstances. Obviously, these options should fall within a general European framework to guarantee a level playing field.
In the further negotiations the Dutch Government will work towards designing the proposed greening measures in such a way that they encourage agricultural nature conservation outside the National Ecological Network, in line with the negotiated agreement on the decentralisation of nature management.

Transition measure
The Commission wishes to give Member States the opportunity to make the transition from the historical to the regional model gradually. There is a target date of 2019 for the full implementation of the regional model in the Member States. In the regional model, all farmers in one Member State or one region get the same payment per hectare.

The Dutch Government is in favour of a short transition period to ensure the new model of direct payments for all farms is put in place as soon as possible and can be used to strengthen future-oriented farms.

Capping
The Commission proposes a capping of direct payments for large farms. The amount of direct payments exceeding EUR 150 000 will progressively be reduced. The higher the amount, the larger the reduction. Farms receiving more than EUR 300 000 will no longer be eligible for the basic payment. The Commission proposals take into account salaried labour costs for farms with a large workforce.

The Dutch Government is not convinced of the need for capping. The Netherlands promotes targeted payments curtailing the role of direct payments as income support in which case farm size is no longer relevant. What becomes relevant is the provision of services. The

Commission proposal for capping the direct payments will increase the costs associated with implementation, enforcement and control. Neither are the proposals very clear on the way partnerships, co-ownership, etc. is to be dealt with.

Coupled payments

The Commission proposes that Member States set aside 5 to 10% of the available budget for coupled support payments. In its proposals the Commission wishes to open up the possibility for Member States to re-establish coupled support schemes if they wish to do so for a wide range of sectors and crops that are particularly important for economic and/or social reasons.

The Dutch Government is not in favour of re-establishing coupled support schemes for sectors for which support had to be decoupled over recent years. This would be an unnecessary and undesirable reversal of policy which could disturb competitive relationships between Member States, sectors and third countries, developing countries amongst them.

Young farmers
Member States are also required to make additional payments available to help young farmers entering the business, for which a maximum 2% of the budget for direct payments is to be set aside. Young farmers will then receive an extra payment for a maximum of five years, worth 25% of the basic payment , in the Netherlands, over a maximum of 25 of their payment entitlements.

The Netherlands believes that it is also important to provide additional targeted incentives to the development, optimisation and greater sustainability of farms. This is why the Netherlands would like to see greater possibilities for, for instance, sureties for young farmers, to promote innovative developments.

Small-scale farmers
Under the small-scale farmers scheme, Member States are to put aside 10% of the national budget for direct payments. The farmers eligible for this scheme receive more than €500 a year in direct payments, the threshold put in place by the Netherlands. Member States are to make annual payments of between €500 and €1,000 to farmers who decide to give up their entitlements but exact amounts are still to be established.

The government is not in favour of a lump sum payment nor does it see why such small-scale farms should be exempt from cross-compliance. Such farmers may work a small area of land but are often intensive producers. The proposed modalities would also increase Member States' implementation costs.

Top-up payments for farmers in LFAs
In its legal proposals the Commission provides Member States with the possibility of making payments available to some of the Less Favoured Areas in addition to the regular payments from the second pillar. Member States can reserve a maximum 5% of the national budget for this purpose.
The government agrees with the voluntary character of this possibility for top-up payments. The Dutch Government will look at the extent to which this possibility could be an option for the implementation of the new CAP in the Netherlands as is currently envisaged.

Transferring funds to the second pillar

In conclusion, the Commission provides Member States with the possibility of transferring a maximum 10% of the national budget for direct payments to rural development policy (the second pillar).

The Netherlands supports this proposal but would argue in favour of a transferral of these resources without the usual co-financing by Member States so as not to increase the total CAP budget. A limited number of Member States are allowed to transfer 5% of the rural development budget to the budget for direct payments.

Market and pricing policy
The Commission proposes abolishing the current trade-distorting quota schemes while keeping a safety net in place for crisis situations. It also proposes strengthening the position of producers.

Phasing out trade distorting measures
The Commission suggests abolishing all production limiting measures. This means that the current quota schemes for sugar, potato starch and milk would disappear. The same applies to the planting rights for the wine sector. In line with the 2005 agreements the quota scheme for sugar will be abolished in 2015. The area for the crisis regimes imposed by the Commission will be extended. A number of sector-specific promotion schemes like the school milk and school fruit schemes will be retained.

As was indicated earlier, the Netherlands believes that market support should be limited to a safety-net system. The Netherlands therefore supports the Commission proposal to phase out production limiting measures as agreed earlier.

Strengthening the position of producers
The Commission suggests several ways of reinforcing the position of producers in the market. Recognising producer organisations (including interbranch organisations and associations of producer organisations) at their request becomes mandatory for Member States. At present this is only the case in some sectors. Producer organisations are given a greater role: Member States can declare producer organisation rules binding for non-affiliated members, and non-affiliated members may be obliged to make a financial contribution to initiatives that have been declared generally binding.

For the dairy sector the Commission proposes the possibility for producer organisations to negotiate the terms of delivery with processors on behalf of their members. Member States may also make supply contracts mandatory between producers and processors of raw milk. The possibility for Member States to declare producer organisation rules generally binding already exists in the vegetable and fruit sector. The Netherlands is not keen on market intervention by subjecting supply contracts to new government rules.

Export subsidies
The Netherlands is in favour of having the remaining export subsidies completely phased out by 2012 even in the absence of a WTO negotiating agreement. Unfortunately the Commission does not put forward any proposals to this effect as it makes the abolition of export subsidies dependent on WTO negotiations and the export subsidy phase-out by other WTO members like the US and Canada.

Rural development policy
The Netherlands considers the CAP to be a coherent package of measures with the first pillar (direct payments) and the second pillar (rural development policy) complementing each other. In

the implementation of the new CAP after 2013 the Netherlands will look at the extent to which the application of the provisions for the second pillar may be an option.

The Commission proposes a Common Strategic Framework to promote the cohesion between Structural Funds, the European Fisheries Fund and the European Agricultural Fund for Rural Development to better implement the Europe 2020 Strategy. Partnership Contracts between the Commission and each Member State set out their national commitments in an integrated approach. On 6 October the Commission presented a regulation setting out common provisions concerning the implementation of CSF, special arrangements for financial instruments, conditionalities and financial management. The relevant negotiations are all taking place in the context of the future of the EU’s cohesion policy. The House will be informed on the progress of these negotiations separately.

The objectives of Europe’s rural development policy (second pillar) remain the same and include improving competitiveness, nature and the environment and improving the quality of life in rural areas. On the basis of the Europe 2020 Strategy the Commission has elaborated these objectives into six core priorities for the second pillar:
Transfer of knowledge in agriculture and forestry;
Improving competitiveness;
Risk management and improving supply chain organisation;
Protection of ecosystems relying on agriculture and forestry, including the Natura 2000 sites;
Sustainable use of raw materials and CO2 reduction; and
Encouraging job opportunities and diversification.

The measures prescribed by the Commission to achieve these priorities are similar to the current measures but elaborated with new possibilities for innovation, farmers associations s and risk management. Current Rural Development Plans still have four priority axes with a mandatory minimum spending percentages budget, but this has been abandoned in the new Commission proposals.

The Netherlands welcomes the greater flexibility and more specific targeting of resources under the new proposals as it allows Member States to respond more adequately to the national situation and contribute to European objectives. In this, the Netherlands sees the second pillar as an integral part of the CAP, with the two pillars complementing each other. Two pillars both aimed at a sustainable and competitive agriculture sector and a living countryside.

The Dutch Government wants to primarily use the second pillar for investments aimed at sustainability and innovation to improve the competitiveness of the agriculture sector. The second pillar resources targeted at climate, biodiversity, Natura 2000, water and energy will effectively contribute to the competitiveness of the sector.

Farmers Associations
The government is positive about the inclusion in the proposals of the possibility for farmers’ collectives to work on agrarian nature conservation especially as we are under the impression that the Commission was inspired by the four CAP pilots in the Netherlands. A collective approach will be conducive to a coherent agro-environmental approach and will benefit the delivery of public goods. The effect of the agri-environmental measures will benefit the approach to climate change, renewable energy, water management and biodiversity in the rural area and is expected to lead to greater participation in agro-environment schemes. In the

time to come I will continue to work towards elaborating this approach with the farmers associations and stakeholders.

Risk management
The Netherlands welcomes the possibilities for risk management in the new CAP. The government sets great store by a proper system of risk management for farmers with the possibility to facilitate and optimise risk management instruments temporarily and degressively. Risk management is the responsibility of producers themselves and covering the risks will always have to go hand in hand with greater awareness and prevention.

Innovation
My ambition for a more sustainable agriculture sector by 2020 is supported by the Commission's emphasis on innovation in the second pillar. Innovation is the key to a more sustainable and competitive Dutch and European agriculture sector, in line with the strategic orientations of Europe 2020.

Where the European Innovation Partnership (EIP) is concerned the Netherlands is as yet undecided. The principle behind the partnership, which aims to reduce and streamline current instruments fostering innovation is sound. Provided it is well designed the EIP may improve the link between the development and application of knowledge in the farm sector and support the golden triangle of knowledge, government and agribusiness.

Young farmers
The Commission proposals for the second pillar include possibilities for support to young farmers and farmers in LFAs. The Netherlands believes targeted payments to young farmers could encourage them to invest in sustainable and innovative production methods and make the payments for young farmers from the first pillar more effective.

Less Favoured Areas
The government welcomes the proposal to retain LFA payments. Over recent years Member States have studied new criteria for the designation of LFAs. A report drawn up by Wageningen University was sent to the House in January 2010 and my predecessor drew up a preliminary response. The Netherlands agrees with the proposed adaptations and the more objective approach to areas which now come under Article 19 of Regulation 1257/1999/EC.

Horizontal provisions
The Commission uses the CAP reforms to establish common rules for a number of requirements relevant to the implementation of the CAP. The new horizontal regulation is to be the basis for a new streamlined implementation, monitoring and evaluation and justification of the CAP.

The Netherlands supports this horizontal regulation. The integration of regulations will reduce the risks in implementation. The Netherlands will press for the continuation of the harmonisation of rules, definitions and concepts.

Cross compliance
The Commission has expressed the wish to simplify the system of cross compliance. It presents an integrated list of statutory management requirements and standards. The voluntary rules to keep the land in good agricultural and environmental condition will lose their voluntary character.

The Netherlands does not think the adaptation of the cross compliance system is an improvement, the additional GAEC rules and the rewording of standards will only increase the implementation and administrative burden. The risk of non-compliance will also increase, and with it the financial risks. The Netherlands believes that rewarding farmers for performance and services is more effective and more efficient.

Farm advisory system
The Commission proposes improvement of the farm advisory system on various points. The Netherlands supports the importance attached to an adequate spread of knowledge about cross-compliance but also points out that this is the responsibility of producers themselves. It does not wish to intervene in a smoothly running knowledge and advisory market.

Simplification
The Netherlands is disappointed with the extent of the Commission proposals for simplification of the CAP. Simpler rules will diminish the risk of errors and improve accountability. The current proposals rather seem to increase the administrative and implementation burden and as a result do not help to improve financial accountability. The Netherlands, together with the other Member States, will continue to press for further simplification based on the earlier proposals put forward on behalf of the 25 Member States. These proposals include 'key principles' to make simplification of the CAP more visible and noticeable: ensuring a proper balance between the costs and benefits of measures, introducing risk-based supervision and inspection, introducing the proportionality principle for sanctions, providing Member States whose financial management is demonstrably sound and are able to provide additional security through national declarations, with more responsibility and flexibility in programming and implementing effective inspection methods, ensuring transparent and unequivocal interpretation of EU regulation and encouraging and using digitalisation and providing applicants with electronic services.

Follow-up negotiations public dialogue
The Commission's presentation of legal proposals has marked a new phase in the negotiating process. In the period up to end 2012 under Danish and Cypriot Presidency further negotiations about the Commission proposals are expected to take place every month during the Agriculture Council. At the same time, the European Parliament which for the first time has full co-decision power in the CAP reforms will determine its position. Final agreement will probably not be reached until the first half of 2013 under the Irish Presidency.

In the Netherlands the public dialogue will again be accompanied by discussions and exchange of ideas on the future of the CAP. This will take place online, on the website www.toekomstGLB.nl and offline, as on 9 November, when the Commission proposals, and the government's appraisal of them, will be discussed with a wide group of stakeholders in Utrecht.

Yours sincerely,

Henk Bleker
Minister for Agriculture and Foreign Trade