

C.E.D.R.



**European Council for Agricultural Law
Comité Européen de Droit Rural (C.E.D.R.)
Europäisches Agrarrechtskomitee**

**XXIII European Congress and Colloquium of Agricultural
Law – Røros (Norway) – 6-10 March 2005**

**XXIII Congrès et Colloque Européens de Droit Rural
– Røros (Norvège) – 6-10 mars 2005**

**XXIII Europäischer Agrarrechtskongress mit Kolloquium
– Røros (Norwegen) – 6.-10. März 2005**

Commission II – Kommission II

**THE CONSEQUENCES OF THE NEW REVISION OF THE CAP ON
EXPLOITATION AND RURAL PROPERTY**

**LES CONSÉQUENCES DE LA NOUVELLE RÉVISION DE LA PAC
SUR L'EXPLOITATION ET LA PROPRIÉTÉ AGRICOLE**

**DIE AUSWIRKUNGEN DER NEUEN REVISION DER GAP
AUF DIE LANDWIRTSCHAFTLICHEN BETRIEBE UND DAS
BÄUERLICHE EIGENTUM**

National Report – Rapport national – Landesbericht

**The Netherlands – les Pays Bas –
die Niederlande**

Dutch report – Rapport hollandais – Holländischer Bericht

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Implementing the CAP reform in the Netherlands: The Consequences of the New Revision of the CAP on Exploitation and Rural Property

1. Introduction

In this paper I will briefly name the main points of the CAP reforms and will discuss their effects on agricultural production and incomes in the Netherlands. These effects have also informed our choices in translating the reforms into Dutch national legislation. The decisions we have made have to do with the degree of decoupling of income support and the choice for the so called historical model.

I will further discuss the national reserve and the transfer of payment entitlements, and how this is dealt with in the Netherlands. I would then like to look at cross-compliance and the complexity of the new farm payment scheme.

2. CAP reform summary

The most important elements of the new reformed CAP are:

1. a single payment scheme for EU farmers, independent from production; limited coupled elements may be continued to avoid abandonment of production,
2. this payment will be linked to the respect of environmental, food safety, animal and plant-health and animal welfare standards, as well as the requirement to keep all farmland in good agricultural and environmental condition (“cross-compliance”),
3. a strengthened rural development policy with more EU money, new measures to promote the environment, quality and animal welfare and to help farmers to meet EU production standards starting in 2005,
4. a reduction of direct payments (modulation) for bigger farms to finance new rural development policy,
5. a mechanism for financial discipline to ensure that the farm budget fixed until 2013 will not be overshot,
6. revisions to the market policy of the CAP:
 - asymmetric price cuts in the dairy sector. The intervention price for butter will be reduced by 25% over four years, in addition to what has already been foreseen as a result of Agenda 2000; for skimmed milk powder a 15% reduction over three years, as agreed in Agenda 2000 is retained,
 - reduction of the monthly increments in the cereal sector are reduced by 50%; the current intervention price is retained,
 - reforms in the rice, durum wheat, nuts, starch potatoes and dried fodder sectors¹.

¹ Council of the European Union, Brussels, 30 June 2003 (10961/03), CAP Reform – Presidency Compromise (in agreement with the Commission).

3. Effects of the reforms in the Netherlands

A full decoupling of direct income support, would have a number of consequences for the Netherlands. The Agricultural Economics Research Institute (*LEI*) has calculated the possible effects. In the first place, incomes will be affected as income support forms a large part of farm income, on average 40%. In the dairy sector it is more than 50%. In addition, the reforms could bring about changes in production: crop or livestock production may increase or decline. Now farmers have greater freedom to choose whether they wish to continue past production, without loss of support. The effects vary from sector to sector. I will now discuss some of the most evident effects.

3.1 Dairy sector

The most important factor for the dairy sector is the decision to reduce the intervention price for skimmed milk powder and butter. As a result farmers will be paid a lower price for their milk. This will be partially compensated for by a milk premium. The milk quota will also be increased by 1.5%. As a result of these decisions, dairy farmers' incomes could be reduced by between 12% and 30%. The exact size of the reduction will depend on the effects of the reduced intervention prices for the milk prices. If the milk price follows the intervention price exactly (-20%), then the loss of income would be more than 30%. If milk price reductions only follow the intervention price to a limited extent (-12%), the loss of income might be fully compensated by the increased quota of 1.5% and the milk premium². The ultimate price reduction also depends on whether the anticipated increase in sales of cheese and milk products (which give added value to milk) are realised.

The effects on income will probably be greater in the Netherlands than in most other Member States because:

- the price of milk here falls more than in other countries. The income margin on milk is narrower here than in other countries.
- The returns on milk largely determine the business results of specialised businesses. In the Netherlands there are a relatively large number of specialised dairy farms (80% of all farms with dairy cattle), compared with other countries. Mixed farms are less dependent on their income for milk, and therefore less vulnerable to falling milk prices³.

Other effects

The price of the milk quota may go down as a result of falling milk prices (and the resulting loss of income) and the future decoupling of the milk premium from milk production. Land prices may also fall as an indirect result of the reduced incomes. If the milk premium is included in the decoupled farm payment in the Netherlands in 2007, more dairy farmers could decide to cease milk production. Loss of income could also result in earlier cessation of business. This would lead to upsizing, with a smaller group of larger businesses being

² Bont, C.J.A.M. de, J.F.M. Helming, J.H. Jager, Hervorming Gemeenschappelijk Landbouwbeleid 2003. Gevolgen van de besluiten voor de Nederlandse landbouw, November 2003, Rapport 6.03.15, LEI, Den Haag.

³ Bont, C.J.A.M. de, W.H. van Everdingen, J.H. de Jager, H.H.W.J.M. Sengers, J.J. de Vlieger, De melkprijs in beweging. Gevolgen van Europese zuivelhervorming voor de melkveehouderij, November 2003, Rapport 6.03.14, LEI, Den Haag.

responsible for milk production. The fall in milk prices will also lead to a reduction in incomes in the dairy processing industry⁴.

3.2 Plant and meat sectors

In the plant and meat sectors it is interesting to look at the effects of the reforms for the crops and productions involved, because one of the most important changes brought by the new system is decoupling, which means that payments will no longer be related to crop or livestock production.

In the plant sector the shifts in type of crop production are not as great as was anticipated in the original reform proposals. The reason is that the Council decided that fruit, vegetables, and potatoes for seed and consumption may not be cultivated on land that is eligible for support under the single payment scheme (Article 51 of Regulation 1782/2003). This was intended to prevent growers of traditional market regulated crops to switch to free cultivation. This would have had an adverse effect on the original growers of these products, who do not have the right to payment entitlements.

However, even without this ban, the question would arise of whether such a switch would be attractive in the Netherlands. As potatoes and sugarbeet provide better returns than cereals, a switch to these cultures would be possible. Sugarbeet is however restricted by quota and potatoes cannot be grown on all the farmers' land because it exhausts the soil. Large shifts to the cultivation of these crops would therefore not be very likely, even without the ban.

Other permitted changes in type of cultivation, for example to ornamental plant cultivation, including bulb growing, are also as unlikely. These are very specialised crops requiring high levels of investment. The choice to grow these crops is not likely to be affected by the prospect of an average €400 per hectare payment.

The *LEI* has calculated that under total decoupling the area of land under cereals in the Netherlands will probably decrease by about 8% in the period to 2012, and the area of grassland and silage maize is expect to increase slightly. By linking 60% of support to production the level of starch potato production will remain stable⁵.

Further, the specially introduced premium schemes, such as the protein bonus (€55 per hectare) and the energy premium (€45 per hectare) do not affect the size of acreage under these crops. Neither will the 100 hectares acreage for nuts agreed for the Netherlands affect these or other crops.

The effects of full decoupling are greater in the meat sector, particularly further up the chain, (slaughter and processing). Decoupling can lead to a reduction in the meat livestock herd by 50% in the period to 2012. This could mean an increase in income for meat and veal producers as a result of probable price rise for beef and veal due to smaller supply.

The exact effect depends very much on the choices on (de)coupling that are made. This applies in particular to the beef sector, where Member States can choose to keep certain support schemes fully coupled⁶.

⁴ Bont, C.J.A.M. de, J.F.M. Helming, J.H. Jager, Hervorming Gemeenschappelijk Landbouwbeleid 2003. Gevolgen van de besluiten voor de Nederlandse landbouw, November 2003, Rapport 6.03.15, LEI, Den Haag.

⁵ Bont, C.J.A.M. de, J.F.M. Helming, J.H. Jager, Hervorming Gemeenschappelijk Landbouwbeleid 2003. Gevolgen van de besluiten voor de Nederlanden landbouw, November 2003, Rapport 6.03.15, LEI, Den Haag.

⁶ Bont, C.J.A.M. de, J.F.M. Helming, J.H. Jager, Hervorming Gemeenschappelijk Landbouwbeleid 2003. Gevolgen van de besluiten voor de Nederlanden landbouw, November 2003, Rapport 6.03.15, LEI, Den Haag.

4. Choices made by the Netherlands – degree of decoupling

I have tried to present a picture of the effects we anticipate of a total decoupling of support and production. Member States do however have the choice of deciding on limited coupling between support and production. This is positive because it enables certain undesirable effects of total decoupling, such as depopulation of the countryside, to be avoided, without letting go of the principle of decoupling.

For this reason Regulation 1782/2003 provides a compulsory (partial) coupling between production and direct payment in the starch potato sector. This was done as decoupling in this sector would seriously affect employment in parts of the EU, including the north-eastern part of the Netherlands.

Decoupling can also have serious consequences for the rest of the chain. Especially in those sectors that are best served by local production. Choices made by other Member States are also important for a country's competitive position. In the Netherlands this was a factor in the decision to couple the slaughter premium. If this were to be decoupled in the Netherlands, while it remained coupled in the other important producing countries, France and Belgium, it could lead to a serious reduction in production in the Netherlands. This production may then be taken over by other Member States and would have negative consequences for the Dutch supply and processing businesses. For this reason it was decided to continue to keep the calf slaughter premium coupled to production.

This decision also led to the decision to couple the slaughter premium for adult cattle to production to avoid the risk that producers would slaughter animals at a younger age to be eligible for a coupled calf slaughter premium. As there are two separate financial ceilings for each premium, this would result in a reduction of the slaughter premium per calf. The financial ceiling, based on historical references, would then have to be divided over a larger number of animals. This risk is made greater by the fact that the regulations on slaughter premium (Article 130 of Regulation 1782/2003) provides that now calves aged up to 8 months are eligible for the calf slaughter premium. This used to be 7 months.

Comparable are the choices for linseed and grass seed support. Agreements have been made with the other most important producing countries. We have agreed with Denmark, France and Germany to completely decouple the support for grass seed and with Belgium and France to keep linseed coupled.

5. Regional or historical model: the pros and cons

At first sight, the regional model would appear to have one distinct advantage over the historical, as it seems easier to implement. No payment entitlements need to be calculated and fixed on the basis of the farmer's direct payments in the reference period. In the regional model the available financial ceiling is divided among the whole acreage under agriculture in the region concerned, irrespective of whether businesses had support in the past. However, the advantage of simplicity disappears if a combination of regional and historical model (hybrid model) is chosen, as it involves partly dividing the financial ceiling over the amount of all agricultural land, and partly allocating payment on the basis of historical references. Some Member States have chosen this hybrid model. What also complicates the regional model are the so-called stickered payment entitlements, which, on the basis of the historical business situation, allow the farmer to grow vegetables, fruit and seed and table potatoes. Each farm must be inspected to ensure that no more of these crops are being grown than the stickered payment entitlement allows. The transfer of the stickered payment entitlements will also have to be registered separately. This makes the regional model more complicated than it would at first seem.

However, the deciding factor for the Netherlands in choosing the historical model was the resulting redistribution of income. Income will be redistributed among farmers, whether they received direct payments in the past or not, and it will also, depending on the degree of regionalisation, be redistributed among sectors. In areas where there are large differences

in the size of EU support, calculated per hectare, this redistribution of support could be substantial⁷.

6. Introduction of the single payment scheme

The Netherlands has chosen to introduce the single farm payment scheme in 2006 instead of 2005. The most important reason for this is the complexity of determining payment entitlements. During and after the reference period many changes took place to businesses in the form of mergers and divisions. This all makes the fixing of payment entitlement more complicated. Furthermore in the Netherlands the payments to be included in the single payment scheme are now paid by different paying agencies. This means that the payments made in the reference period are not registered centrally or uniformly. It will therefore require extra effort to collate the information from these agencies. It is expected that the postponement will ensure more accuracy in fixing payment entitlements, so that errors, and the consequent complaints and appeals, can largely be avoided. It will also give extra time to prepare for applications to be submitted electronically, and is expected to reduce the administrative burden and implementation costs.

7. National choice: cross-border consequences

I have briefly outlined the scope available to Member States to retain coupling of payment schemes or to decide to delay the implementation of the single payment scheme. Such decisions have potential cross-border consequences. I give two examples.

7.1 Slaughter premium

As Member States are allowed to make certain choices, it may be that the slaughter premium in one Member State is decoupled and in another remains coupled to production. This could make it attractive for farmers who have already received the decoupled support to apply for slaughter premium for their animals in a coupled Member State (the Netherlands for example). To be eligible for the slaughter premium, the only requirement is that the animals are held for two months by a Dutch livestock producer, before being slaughtered. If such practices were to take place on a large scale, it could lead to a financial ceiling overspend, with a lower premium per animal as a result. The differences in national choices could therefore lead to undesirable "premium tourism".

7.2 Starch potatoes

Another related problem arises from the payment for starch potatoes. The Netherlands will introduce the farm payments scheme in 2006. Until that time the farmer will receive full coupled support via the starch processing industry. In Germany the single payments scheme is already being introduced in 2005. The Council regulation has laid down that 40% of the payment for starch potatoes is decoupled and 60% is coupled (via the processing industry).

This therefore means that

- a German farmer who supplies his starch potatoes to the Dutch processing industry in 2005, would receive 100% coupled support in the Netherlands. This is in addition to the decoupled farm payment that has already been introduced in Germany and includes 40% decoupled support for starch potatoes.

⁷ Bont, C.J.A.M. de, J.F.M. Helming, J.H. Jager, Hervorming Gemeenschappelijk Landbouwbeleid 2003. Gevolgen van de besluiten voor de Nederlandse landbouw, November 2003, Rapport 6.03.15, LEI, Den Haag.

- a farmer established in the Netherlands who supplies to a processor established in Germany would not yet receive decoupled support in the Netherlands and would receive 60% coupled support in Germany.
- this, in contrast to the Dutch farmer supplying a processor established in the Netherlands who will receive 100% coupled support.

In practice, we are already seeing Dutch starch potato growers who are only receiving 60% coupled support for their supplies to German processors, trying to renegotiate their contracts. Similar situations may also arise in other sectors where the support is paid out via the processor (e.g. dried fodder crops).

7.3 Determining payment entitlement for Starch potatoes

These cross-border sales, which also occurred during the reference period, also have their effects in determining the payment entitlement for the 40% decoupled support. Member States may only allocate payment entitlement to their own farmers. This means that the Netherlands cannot allocate payment entitlement based on the supply of starch potatoes by German farmers to the Dutch processing industry in the reference period and vice versa. These sales are however included in the financial ceiling of the Member State concerned. Because the cross-border sales between Member States will not be equivalent, one Member State will be faced with a ceiling underspend. The other Member State could then find itself overspending on the financial ceiling.

8. Cross-compliance

Another important aspect of the reforms is cross-compliance, which is partly intended to maintain public support for the CAP in Europe. If farmers do not meet EU standards for environment, public health, animal and plant health and animal welfare, this will have consequences for the income support they receive.

Although the principal of cross-compliance was supported by all Member States, fears were expressed about a potential increase in the inspection burden, both for the farmer and the government. The Commission responded positively to these concerns. The number of directives and regulations listed as involving cross-compliance standards has now been reduced from the proposed 38 to the present 18 and will be implemented in phases over 3 years. This then also recognised the wishes of the Member States to only include standards for which the farmer was directly responsible and which directly involved agriculture. This is also expressed in Article 6 of Regulation 1782/2003 and Article 65 (2) of Regulation 796/2004.

The approach is that supervision of the cross-compliance will be carried out by the specialised control bodies who are already responsible for the regular enforcement of the cross-compliance regulations. Where responsibility for regular enforcement is spread over different bodies and takes place at different levels (centralised, decentralised), the controls will have to be streamlined and care taken that information can easily be exchanged so that they are available to the paying agency. In the Netherlands for instance, five specialised control bodies are involved in the cross-compliance standards in force since 2005, including local and provincial governments, police and water boards.

The purpose of cross-compliance is to improve farmers' compliance with directives and regulations even more. Non-compliance leads to a cut in support. This is expected to result in even better compliance with the regulation among farmers. Moreover, Member States will probably also target their enforcement better, because they will otherwise risk financial losses in the clearance of accounts procedure.

With regard to cross-compliance it is also interesting to consider the situation in which the Member States do not translate the Directives involved into national legislation or do not translate them correctly. According to Regulation 1782/2003, article 4(2), the cross-

compliance standards refer, in case of Directives, to the Directives as they are implemented by the Member States. If the EU regulation has not been translated correctly, according to the Commission, no binding standard exists for the farmer and the Member State cannot apply sanctions. With respect to the clearance of accounts there is also no question of ineligible expenditure, or the non-application of sanctions (such sanctions are inapplicable to the concerned farmer). In that case there can be no reduction within the framework of the clearance of accounts procedure. In such cases, the infringement procedure is the appropriate measure for the Commission to take⁸.

Further, article 4(2) of Regulation 1782/2003 raises the question of whether a cross-compliance sanction should also be imposed if the Member State, in addition to the implementation of the compulsory minimum standards under the Directive, has taken further measures based on it. The Commission has taken the standpoint that the Community minimum standard is the determining factor, which is also desirable from the point of view of equal treatment between farmers in different countries. From the control point of view, it would however be preferable if it could be enforced on the basis of stricter national standards. This would make the two levels of control, on the Community and national standards, unnecessary.

9. National reserve

9.1 Categories

To alleviate transition problems during the introduction of the single payment scheme, certain categories of farmers will be eligible for allocation of payment entitlements from the national reserve. These are farmers who have a low reference amount compared to their present production capacity because, for instance, they invested in production capacity *after* the reference period. This investment is then not reflected in the payment entitlements to be allocated, as they are based on historical references. This allocation from national reserve is laid down in Regulation 1782/2003, article 42 (4) and elaborated in Articles 18 to 23b of Regulation 795/2004. Member States must allocate payment entitlements from the national reserve to the category of farmers included under these articles. Member States do have some freedom in the way they calculate and allocate these payment entitlements, as long as this is done objectively, ensures equal treatment of farmers and does not lead to market or competitive distortion.

In addition, Member States can chose to allocate payment entitlements to other categories of farmers such as farmers starting businesses and farmers involved in restructuring projects. The Netherlands has decided not to make use of these options. We do not expect restructuring programmes to have any influence on the allocation of payment entitlements. The option for farmers starting businesses would imply an open-ended allocation from the national reserve, which would intervene in the usual business transfers of farmers starting business. Farmers who started a business before 15 May 2004 can however apply for funding from the national reserve because of their investment.

9.2 Application to the national reserve

Research by the Agricultural Economics Research Institute (*LEI*) would appear to show that applications to the Dutch national reserve would mostly be limited to the category investors (Regulation 795/2004, article 21). No other special cases than those dealt with by the Regulation are known in the Netherlands. The Commission has shown its willingness to expand the list of special cases should this be necessary. This has already led to an amendment of Regulation 795/2004 (addition of Article 23b).

⁸ Council of the European Union, Brussels, 30 June 2003 (10961/03), CAP Reform – Presidency Compromise (in agreement with the Commission).

9.3 Size of national reserve

In first instance, Member States are to create a national reserve via a linear percentage reduction of the reference amounts of up to 3%. Also to be added to the national reserve are the reference amounts for farmers who did receive direct payments in the reference period, but who ultimately do not apply for payment entitlement.

If the Member State so chooses, the national reserve can be topped-up further by levying a tariff on transferred payment entitlements and it may also reduce payment entitlement to farmers who were entitled to payment during the reference period, but who, in the meantime, have wholly or partially transferred their business. This reduction can be added to the national reserve (windfall profit clause)⁹. The reasoning behind this is that it does not seem fair that a farmer first sells his land, when the price reflects the fact that the land is eligible for premiums, and that he then also becomes eligible for full allocation of payment entitlements.

As the demands on the national reserve are expected to be limited, the Netherlands is applying a low linear reduction of 0.25% on the reference amounts. The windfall profit clause and the tariff on transferred payment entitlements will not be applied. Moreover, the windfall profit clause is a complex instrument. For instance, no windfall reduction can be applied if the farmer involved demonstrates that he has enlarged his farm again within one year, or if the farmer can demonstrate that the price of the transferred business is the same as the price without payment entitlement¹⁰. Control of such conditions can be expected to lead to a considerable administrative burden.

The question was raised whether the means by which the national reserve is constituted are sufficient. This issue is dealt with in Regulation 1782/2003. If the size of the national reserve is insufficient, Member States must top it up by means of a linear reduction on all the payment entitlements¹¹. The national reserve is therefore always large enough to be able to honour any claims.

10. Nature of payment entitlements – relationship land owner/user

Payment entitlements can be regarded as personal income support entitlements. The first allocation will mostly be made to farmers who, in the reference period, already received direct payment. They replace the income support that was linked to crop or livestock production. It is not a production entitlement, like the milk quota, for instance. The farmer can after all grow crops and keep animals even without payment entitlements, though then without subsidy. Unlike the milk quota, this scheme is not land-based, having no link with land. Only if the farmer eligible for payment entitlements wants to receive full support under the entitlements, must he then have at his disposal an equivalent acreage eligible for subsidy.

The question has been raised whether the new system will affect the contractual relationship between the landowner and the land user, for instance between landlords and tenants. In principle, it will not be affected. The payment entitlement and accompanying support is paid to the land user (for example the tenant), but to obtain it, he needs land (for example from the landowner). This was also the case with coupled support. In the Netherlands, landowner associations maintain the position that because they made the land available in the reference period, they have a right to part of the payment entitlements. They refer to jurisprudence created in the Netherlands as a result of disputes between landlords and tenants in milk quota cases. In cases where there was a contract between

⁹ Article 42, (paragraph 1, 2, 8 and 9), Article 45 (1), Article 46 (3) of Regulation 1782/2003 and Articles 8, 9 and 10 of Regulation 705/2004.

¹⁰ Article 10, Regulation 795/2004.

¹¹ Article 42 (7) of Regulation 1782/2003.

the landlord and the tenant at the time the milk quota was allocated, the judge ruled that on ending such tenancy agreement, the milk quota reverted to the landlord. The tenant is then in most cases entitled to a payment of 50% of the value of the milk quota from the landlord. The reasoning here is that the landlord has made his land available and the tenant has created the milk production.

The above does not seem to do justice to the nature of the payment entitlement, namely that it is a personal and not a land-based payment entitlement. The landlord does not have any claim to this entitlement, just as in the past he had no right to part of tenant's income support. In addition, the payment entitlement, unlike the milk quota, is tradable separately from the land or business. If the landlords' standpoint were to be upheld, this would mean that the tenant would have to rely on his landlord to become eligible for his personal income support. Whereas in the past he was free to decide for himself on which land he would grow subsidised crops. According to the landlords, if the tenant ends the tenancy agreement, the tenant would lose (part of) his payment entitlements. This seems to be in conflict with the single payment system, which creates a continued income support for active farmers who had the right to income support in the reference period. This would further mean a recoupling of entitlements to the land. This again goes against the Community regulation.

The landlord and tenant are naturally free to make their own agreements about the transfer of payment entitlements from the tenant to the landlord, or to any subsequent tenant. It is expected that in the near future legal proceedings will arise on this issue because of the financial interests involved.

11. Transfer of payment entitlement

Payment entitlements can be transferred, with or without land. They can only be transferred without land if the farmer has used 80% of his entitlement during at least one calendar year or if he forfeits the unused entitlements to the national reserve. This is to prevent farmers who have ceased business, but who have the right to allocation of entitlements on the basis of historical references, from applying for entitlements only to sell them as quickly as possible for financial gain. It is fairly easy for a farmer who has ceased business but who has historical reference, to become eligible for payment entitlements. The only requirement is that the applicant is actually farming. The requirements are minimal. The 80% requirement means that the farmer has to have enough land at his disposal during one year to use his payment entitlements before he can sell them.

This condition and the windfall profit clause mentioned earlier both help to make speculative transfer by farmers who have already ceased farming less attractive. A higher tariff on entitlement transfers in the early years of the new system would also act as deterrent.

Payment entitlement may also be leased, but must be accompanied by the leasing of an equivalent number of hectares eligible for subsidy.

Strict application of the above scheme would lead to practical problems if the farm transfer took place before the new system came into effect. In this case the farmer taking over the business would have a farm without payment entitlements and the transferring farmer would have entitlements without a farm. The entitlement of the transferred farm would then revert to the national reserve and could be allocated to the new farmer as starter/investor. To avoid such a tortuous route, a provision has been included in Regulation 795/2004 (Article 17) that if parties agree that the payment entitlements are included in the sale of the farm, this will be seen as a transfer of entitlements with land. In this case the payment entitlements would be applied for by or on behalf of the person who sold the farm and allocated to the person buying the farm. At the time of submitting the application, the selling farmer must be farming again as an application for allocation of payment entitlement can only be made by a person who is actually farming. This poses some practical problems in

cases where the selling farmer is not able to become a farmer again at the time of application, for example in case of emigration.

12. Complexity

The most important principle of the reforms, that is, the decoupling of direct income support from production, would appear to represent a considerable simplification. The decoupling of support removes the necessity to inspect the subsidy requirements of the crops and livestock production involved. Decoupling also means a smaller administrative burden for the farmer as they no longer need to submit several applications for the various crop and livestock premiums.

On closer inspection however, the initial fixing of payment entitlements turns out to be a complicated and costly process. Businesses may have merged or divided up since the reference period, for instance, which complicates the allocation of payments entitlements. In the light of the financial interest involved, we can also expect that a considerable number of farmers will appeal to force majeure on grounds that their production suffered detrimental affects during one year of the reference period. This could again lead to complaints and appeal procedures.

Once the payment entitlements have been allocated, the implementation burden for the government should also decline. On the other hand, the transactions for payment entitlements have to be laid down and verified. Aspects such as the ban on transfer to vegetables, fruit and potatoes will also have to be enforced. From the above can be concluded that once the farm payment scheme leads to a reduced administrative burden, the farmers, rather than the government will feel the benefits.

13. Conclusion

The reformed CAP will encourage the farmer to think more in terms of market forces. Moreover he is no longer obliged to continue cultivating the crops or producing the livestock to which the premiums were coupled. In the Netherlands the shift to other crops will be limited. This is partly due to the ban on growing certain crops (other than starch potatoes, fruit and vegetables) on land that is becoming eligible for subsidy. Effects on income are mostly expected to affect the dairy sector.

We anticipate that farmers in the Netherlands will be able to adapt to the new system and generate sufficient income. To give them more time, the Netherlands has not chosen to implement the regional model, as this could lead to redistribution of income. In sectors where the consequences of decoupling would be too great, we have chosen to keep production coupled.

The new system of income payments is fairly complicated, but there do not yet appear to be any real legal problems because of conflict with national legislation. Because of the financial interests involved, there is the likelihood of civil proceedings between tenants and landlords.

Because of the complexity of the new system, if the administrative and implementation burdens are reduced, the farmer, rather than the government, is likely to benefit from this.