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Annex 8: Simplification of the CAP

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1. BACKGROUND AND STATE OF PLAY

For more than 10 years, Commission is constantly monitoring the effects of the EU policy on administrative burden¹. A large number of projects and activities have been carried out with a view to simplifying EU policies and in particular the CAP. In 2009, the Commission published a progress report of the actions undertaken and ongoing to simplify the CAP².

Firstly, it is worthwhile remembering that the CAP, as a harmonised common policy replacing 27 national policies is in itself a simplification. However it is also a dynamic policy that has developed its rules and regulations over 50 years. Many of these applied across different farm sectors and had to accommodate different interests. CAP deals with conditions that vary among the 27 EU Member States. In the reform process, compromise often won out over simplicity and clarity. The CAP has now changed greatly since the early years. Old complex systems supporting various agricultural products have been replaced by a more straightforward tool targeted to producers' support. In the meantime the number of beneficiaries has been multiplied from hundreds of business operators to thousands of farmers.

As the EU's biggest common policy, the CAP takes a lot of managing and it is of great importance to make it as simple as possible for farmers, consumers, as well as the authorities and administrations in charge of its everyday management. This is done both on a continuous basis to check how current legislation can be simplified and in the context of reforms as it was the case for instance during the CAP Health Check process. Member States simplification experts as well as stakeholders are regularly consulted to exchange views on simplification and to share best practices.

The reduction of administrative burden of the CAP has been followed closely by the High Level Group of Independent Stakeholders on Administrative Burdens, commonly referred to as the Stoiber Group. This group issued in March 2009 an encouraging opinion on agriculture, confirming the positive developments of the CAP in terms of reducing red tape for farmers³.

Simplification actions concern for instance reduction of paperwork and other "red tape" as well as duplication of work, more efficient inspection of premises, rules written in clearer language, elimination of obsolete legal acts, a better communication in particular to the general public, etc. These changes make life simpler for farmers, food businesses and civil servants. Taxpayers can see more clearly how their money is spent.

¹ All background documents available on:
http://ec.europa.eu/governance/better_regulation/key_docs_en.htm
http://ec.europa.eu/agriculture/simplification/index_fr.htm

² Communication COM(2009) 128 of 18/03/2009, A simplified CAP for Europe - a success for all

³ http://ec.europa.eu/enterprise/policies/better-regulation/files/hlg_opinion_agriculture_050309_en.pdf

2. ACHIEVEMENTS AND CHALLENGES

2.1. External assessment of the administrative burden of the CAP

The measurement of administrative burden facilitates the debate on simplification. For various measures it provides an order of magnitude of administrative burden and pinpoints the areas with a high level of red tape. Considerable efforts have thus been undertaken at EU level to assess the costs of administrative burden on farms arising from the CAP.

In particular, a study assessing the administrative burden on farms arising from the 2003 CAP reform in 2006 in 5 Member States (DK, DE, FR, IE and IT) and presenting an outlook on future developments was published in 2007⁴. Several elements with an impact on administrative burdens on farms were identified which have been analysed then during the Health Check of the CAP:

- The discretion left to Member States in relation to implementation rules and timing: This relates for example to the MS choices with regard to the SPS model (historic, regional, hybrid) as well as to whether MS chose to decouple fully or maintain certain elements coupled. Other factors are the way the application procedure is set up and the system for transferring entitlements. Certain costs are one-off related to the establishment period; other may change due to information technology evolution e.g. on-line submission of application or administrative set-up (e.g.. the use of information technology in all Member States would achieve a further reduction of administrative burden on farms by more than EUR 400 million).
- The extent of public sector involvement in the application process (the more help provided the lower cost for farmer)
- The involvement of external assistance and the use of technical solutions as a business culture while positive learning curve effect provides a potential for a reduction of recurrent administrative costs over a period of a few years
- The structural differences such as farm size, differentiation in production, number of applicants, etc.

Other studies are on going, one of which is assessing the administrative burden for beneficiaries associated with a number of Rural Development measures⁵ (training, farm modernisation, diversification, organic farming, crop rotation, reduction of fertilizers and catch crops). The contractor has presented a number of *preliminary recommendations* for the reduction of administrative burden which concern:

- Promote eGovernment solutions - introduce and/or encourage the use of online portals, electronic submission of documents, pre-filled forms so that beneficiaries can follow the status of their files: the expected administrative burden reduction would be EUR 25 million per year out of a current administrative burden of EUR 235 million per year;

⁴ http://ec.europa.eu/agriculture/analysis/external/burden/index_en.htm

⁵ References to be added when study is published

- Simplify reporting requirements at Member State level (reducing the number of attachments, documents of proof, etc.): the expected administrative burden reduction would be EUR 17 million per year out of a current administrative burden of EUR 240 million per year;
- Provide concrete guidelines on what information and to what level of detail is expected: the expected administrative burden reduction would be EUR 12 million per year out of a current administrative burden of EUR 240 million per year;
- Streamline the information requirements of national and EU sponsors: the expected administrative burden reduction would be EUR 7 million per year out of a current administrative burden of EUR 240 million per year;
- Simplify of the application procedure for measure 111 (vocational training and information actions): the expected administrative burden reduction would be EUR 2.5 million per year out of a current administrative burden of EUR 10 million per year
- Less burdensome funding schemes, such as lump sums, standardised costs and thresholds for submitting supporting documents: the current administrative burden is EUR 45 million per year
- Give prior notice of on-the-spot controls: the expected administrative burden reduction would be EUR 0.5 million per year out of a current administrative burden of EUR 4.7 million per year

This study points also out that irritation due to administrative procedures plays a big role in the beneficiaries' feeling of complexity. The following irritant factors are often quoted: frequent changes and difficult terminology in the legislation, timing and deadlines, forms and attachments to be submitted with applications/payment claims, provide original receipts of expenditure, providing bank guarantees and statements, disfunctioning of eGovernment solutions, on-the-spot controls, penalties. However, it should be pointed out that these complexities do not systematically stem from EU legislation but also from the choices and modalities of implementation by national or regional authorities.

2.2. Results of the Eurobarometer qualitative survey of July 2010

A qualitative Eurobarometer study was commissioned by DG AGRI consisting of a programme of 81 qualitative group discussions, conducted amongst the general public and farmers in the 27 MS. The aim of this qualitative survey was to follow-up the quantitative Eurobarometer survey on Europeans, agriculture and the CAP published in March 2010. The study set out to get an understanding of how members of the public view the countryside and agriculture and how farmers thought the public might view these issues. Furthermore, it was assessed how the public thought certain groups might view farming and the countryside; and what farmers thought these different groups would think. The farmers offered some suggestions for the simplification of the CAP which related to three main areas: information provision, simplifying the bureaucratic processes, and stability and uniformity in the CAP regulations. Suggestions for simplification are summarised in the table below.

Areas for simplification	Suggestions	Respondents from:
Decreasing / simplifying the paperwork and bureaucracy and introducing greater flexibility	<ul style="list-style-type: none"> -Simplifying the forms farmers have to submit. -A criticism was that they have to submit the same forms year after year, or to different workers of the same institution. Suggestions for simplification included that farmers should receive prefilled forms and that they should only be reporting changes to the data, not the same information every year. -Less duplication of the workload across European and national authorities, particularly with regard to inspections. -Decentralization of the administration. -Greater flexibility in the system. -Better turnaround time in the payment of S-subsidies. 	EL, SK, SE, PL, UK, CZ, FI, DE, IE, IT, LT, AT, BE, DK, EE, FR, HU, LU, NL, ES, BG, HU
Stability and uniformity in the CAP regulations	<ul style="list-style-type: none"> -Farmers were of the opinion that the regulations change too often which makes it difficult for them to get used to regulations and to make long-term plans. -Farmers felt that the measuring of the acreage of their fields can be simplified. They suggest consistency in the measurements used. This is currently done by air and at different times of the day, which causes the shadows cast on the fields to be different, resulting in different readings and causing disagreement about the size of the land. Photographic mapping of the land was also suggested. -Setting a standard price for products so that farmers will be able to know what the products will be selling for. -Subsidies should be more consistent and fairer by, for example, not just providing subsidies for milk but for apples, for example, if these come under the minimum price. -Equal regulations and subsidies across all EU countries. 	FI, NL, PL, UK, ES, BE, HU, LU, DK, SE, SI, FR, EL, PL, BG, PT
How information on the CAP is provided to farmers	<ul style="list-style-type: none"> -Receiving clear and straightforward instructions written in simple, informal language when participating in the CAP. -Have an organisation/body to which farmers can turn to when information is unclear. -Providing information to farmers through seminars, although there was felt to be a lack of content control of EU supported courses – the content is the same although the courses claim to be different. -Receiving new regulations and information about application periods and timeframes in time. 	DK, SI, MT, EE, EL, LT, PL, SK, ES

Respondents from two countries were sceptical about the possibility of making the CAP simpler or the EU's capacity to do so and expected the norms to be stricter in future (CZ, IE)

as the CAP is seen as a “self-perpetuating bureaucracy.” (IE) However, respondents from Portugal and Italy were of the opinion that the CAP had already been simplified over time, especially with the introduction of computers.

2.3. What has been done so far to reduce administrative burden?

Stocktaking of completed or on going simplification actions has been done in the Communication² "A simplified CAP for Europe – a success for all" in March 2009 and an exhaustive rolling Action Plan is regularly updated by DG AGRI and published on Europa website: http://ec.europa.eu/agriculture/simplification/actionplan_update_en.pdf. This chapter reminds the main elements of simplification achieved so far.

2.3.1. The Health Check of the CAP simplified mainly the single payment scheme and market instruments

Simplification was one of the major drivers behind the Commission's Health Check proposals in November 2007⁶. The Health Check simplified the single payment scheme (SPS) provisions and rendered the 2003 CAP reform more efficient. One of the main simplification elements in the Health Check consisted of further decoupling, abolition of set aside and abolishing of several schemes, such as payments for energy crops and durum wheat, as well as the disposal scheme for cream, butter and concentrated butter. As the study on administrative burden indicated, coupled support schemes give rise to additional administrative burden for farmers. Further decoupling leads therefore automatically to a reduction of such burden. The Health Check also simplified the rules on the modulation franchise as well as the provisions concerning the functioning of the National Reserve and payment entitlements that originate from that reserve. Moreover, the rules on set-aside were abolished and the conditions applicable to the transfer of payment entitlements were simplified. The Health Check was assessed to lead to a reduction in administrative burden to farms of around EUR 135 million as result of abolishing the special schemes for energy crops, crop area payment, durum wheat, nuts and starch potatoes. Moreover, the abolition of set-aside was estimated to reduce administrative burden to farms by EUR 146 million.

2.3.2. The Single CMO replaced 78 legal acts

An important accomplishment within the context of legislative simplification of the CAP was the adoption in 2007 of the Council Regulation establishing a common organisation of agricultural markets, commonly referred to as the "Single CMO" regulation. Given its technical character, the single CMO was not about changing the underlying policy but harmonising provisions, thereby making CAP rules easier to navigate, slimmer, more accessible and less burdensome to apply. The Single CMO regulation grouped together and replaced all 21 individual common organisations of the market into one single regulation, thereby reducing the number of articles from around 920 to around 230 and repealing a total of 78 Council acts. On a macro level, the adoption of the single CMO has substantially reduced the number of acts governing the CAP which is now mainly regulated by only 4 legal acts, namely the regulations on Direct Payments, the single CMO, Rural Development and the Financing of the CAP. Finally, the single CMO facilitates further simplification and reduction of administrative burden at the level of Commission implementing provisions.

⁶ http://ec.europa.eu/agriculture/healthcheck/index_en.htm

2.3.3. *Cross compliance has been simplified to lower the irritant factor*

Even though the study on administrative burden on farms (see 2.1 above) and the evaluation report on cross compliance⁷ concluded that the administrative cost accruing from cross-compliance is relatively low, i.e. between 0.3% and 4.3% of the overall burden, farmers nevertheless see cross-compliance as an irritant. To reduce the perceived discomfort and to ease the system, the Commission allowed advance notice for on-the-spot checks. Furthermore, farmers are no longer faced with a reduction of their payments if their infringement is of minor importance or the reduction would be less than the *de minimis* limit of EUR 100. These improvements allow farmers to better plan their activities, demand less paperwork to remedy small infringements and remove the threat to be penalised for trivial infractions. The measure also simplifies the task of national administrations.

As regard the clarification of standards at farm level, following the report of the Court of Auditors on cross-compliance⁸, a full cycle of discussions with Member States' experts on the review of each SMR and GAEC and how they have been translated into standards at farm level has been organised. During the meetings Member States had the occasion to present their own list of standards. DGs SANCO and ENV have been closely associated to these discussions and gave presentations on how legal texts apply at farm level. Each specific meeting was devoted to one or several closely related SMRs and the GAEC to allow ample time for discussion and exchange of best practices. Guidance documents for national authorities have been issued in December 2009 which comprise a summary of obligations at farm level, as well as a section with a list of points clarified during the expert group meetings.

2.3.4. *All in all, the "25%"burden reduction target has been reached for the CAP*

In 2007, the Commission presented an ambitious Action Programme to eliminate unnecessary administrative burdens on businesses in the EU. The European Council endorsed the Programme and agreed that administrative burdens arising from EU legislation, including national measures implementing or transposing this legislation, should be reduced by 25 % in 2012.

Progress made in the various policy fields have been evaluated⁹ in 2009. It was established that for the agricultural sector the level of administrative burden for farmers and companies concerned have been reduced by 36%, so well above the target of 25% (1 891 400 000 € on a total of 5 289 700 000 €). For instance, the reduction of costs for direct payments and common market organisations were assessed to be the following¹⁰:

- (1) Direct payments (estimated overall level of administrative burden: EUR 3.81 billion)

⁷ Evaluation of the application of cross compliance as foreseen under regulation 1782/2003, Alliance Environnement, July 2007, http://ec.europa.eu/agriculture/eval/reports/cross_compliance/index_en.htm

⁸ Special Report No 8/2008

⁹ Communication COM (2009) 544 of 22 October 2009, Actions programme for reducing administrative burdens in the EU sectoral reduction plans and 2009 actions

¹⁰ See detailed list in annex B (page 8) of the Communication COM (2009) 544: http://ec.europa.eu/enterprise/policies/better-regulation/documents/files/com_2009_544_annexes_en.pdf

Description	Estimated reduction in burden
Health Check <i>(see chapter 2.3.1)</i>	250 million
Abolition 10-month rule <i>(parcels declared by a farmer for direct payments had to be at the farmer's disposal for a period of at least 10 months. This provision has been replaced by a single date, which may be determined by the Member State. This means that farmers are no longer required to keep land at their disposal for 10 months to receive support. They gain greater flexibility in their farm management and in responding to market developments.)</i>	21.5 million
Cross-compliance <i>(see chapter 23.3)</i>	5.5 million
Total	277 million or 7.3%

In the context of the action programme for reducing administrative burden, the method followed only allowed for taking into account the reduction of burden resulting from concrete action taken by the Commission. This approach provides the results in the table above.

However, when assessing the overall reduction of administrative burden which farmers will experience, it is also possible to take into account the effects of the fact that part of the overall burden was associated with the setting up of the system and only relevant for one-year, the fact that farmers get used to working with the system (learning curve) and that the use of pre-established forms also simplifies matters. If those elements are taken into account, the level of red tape to farmers is reduced considerably.

Description	Estimated reduction in burden
One-off costs	1.3 billion
Health Check	250 million
Abolition 10-month rule	21.5 million
Cross-compliance	5.5 million
Use of pre-established forms	180 million
Learning curve	90 million
Total	1.847 billion or 48.5%

- (2) Import and export licences (estimated overall level of administrative burden: EUR 12 million)

Description	Estimated reduction in burden
Licence requirements <i>(reduction of number of products requiring a licence)</i>	6 million
Total	6 million or 50%

- (3) Single CMO (estimated overall level of administrative burden: EUR 28 million)

Description	Estimated reduction in burden
Suppression of special support schemes in Health Check <i>(such as disposal scheme for cream and butter, dried fodder and production refund starch)</i>	28 million
Total	28 million or 100 %

2.3.5. *What is still on-going in the DG AGRI rolling Action Plan?*

In 2006, a first version of the "rolling" Simplification Action Plan was presented by DG AGRI. The plan has evolved with currently 62 projects of which 56 have been implemented. This plan includes for instance part of the 39 simplification suggestions put forward by MS and assessed by the Commission services at the end of 2009¹¹.

Among the projects for which work is in progress, there are the following:

- An electronic system to facilitate the necessary exchange of information between Commission's services and Member States, ISAMM (Information System for Agricultural Market Management and Monitoring), which would replace multiple existing systems or current practices: this would rationalise and technically simplify the management of the CAP processes while allowing collection of historical data for impact analysis and support to CAP decision process.
- The harmonisation of provisions on payment deadlines between the first pillar and certain area and animal-related payments under the second pillar: this would bring clarity to farmers, controllers and national authorities, who no longer would have to distinguish between pillars and the various applicable rules.

2.4. What are the challenges for the future CAP as regards simplification?

2.4.1. Challenges ahead

As described in chapters 2.1 and 2.2, assessment and decrease of administrative burden of existing pieces of legislation and rules are done on a continuous basis at EU level. DG AGRI rolling Action Plan is a good indicator of this work and a good follow-up to the results of evaluations as well as inputs coming from expert groups on simplification and from MS¹². In particular there are some calls to further simplify rural development implementing rules and cross-compliance.

As regards the new concepts that the Communication of the future CAP put forward, such as the green payment within the 1st pillar, the notions of active farmers, of small farmers, etc., the right balance needs to be found between simplicity of measures and better efficiency, effectiveness and targeting in view of achieving better value for the use of public money. For instance, reinforcing the use of sustainable practices to all EU farmers via first pillar payments may lead to extra costs for farmers and extra burden in terms of controls and management of the scheme for EU and national administrations. However doing nothing in that field would disregard the society's demand for a more sustainable agriculture and for more environmental public goods and the urgent need to further contribute to climate change mitigation and adaptation. Thus one has to assess and define the simplest way of designing the scheme in order to obtain the better leverage effect.

¹¹ SEC(2009) 1601 of 16.11.2009 "Simplification of the CAP: outcome of assessment of 39 simplification suggestions, submitted at the Council (Agriculture/Fisheries) on 24 April 2009 and state of play of other simplification activities (http://ec.europa.eu/agriculture/simplification/sec2009_1601_en.pdf)

¹² Document (AGRI 196) st07477/11 "Simplification of the Common Agricultural Policy beyond 2013" submitted to the Council by NL and DK in view of Council of 17/03/2011.

In broad terms, the tools of the new CAP should be kept as simple as possible while fulfilling all its assigned objectives. Indeed, the simplification objective should be seen in the context of the challenges that the future CAP must meet, namely

- food security by maintaining the agricultural production capacity throughout the EU,
- environment and climate change by ensuring the sustainable management of natural resources and the provision of environmental public goods such as the preservation of the countryside and of the biodiversity, integrating and promoting climate change mitigation in actions supported by the CAP and enhancing farmers' resilience to the threats posed by a changing climate
- and territorial cohesion by contributing to the vitality of rural areas and territorial balance throughout the EU.

2.4.2. Results of the stakeholder consultation for the impact assessment

Following the Communication on the CAP towards 2020, the Commission has launched a stakeholder consultation. To the question n°9 "*What difficulties would the options analyzed [as mentioned in the Communication on the CAP towards 2020] be likely to encounter if they were implemented, also with regard to control and compliance? What could be the potential administrative costs and burdens?*", the most common reflection was that the second option (so-called "integration" – see also section 4.3 below for description) would lead to higher administrative costs. But some respondents also thought that it would not necessarily imply a higher burden on farmers and Member States. Some of the difficulties brought up were today's inefficiency, lack of clarity and the functioning of control and compliance systems. Many found that it is important to reduce the administrative burden.

Many argued that especially greening would increase the administrative burden, but some also said it would be a price worth paying in light of the improvements it yields. Cross-compliance was another area of concern for many respondents. Some highlighted the possibility to simplify cross-compliance if greening mechanisms in Pillar I are introduced; others expressed wishes for an improved sanction system and the need to allow for more regional flexibility in GAEC. Training for both authorities and farmers was suggested as ways to reduce the administrative burden.

There were fewer comments on pillar II than on pillar I measures, and they were also less critical. Some respondents said that strategic targeting is one way to reduce the administrative costs and others believed that more flexibility for regional level decision-making would decrease the administrative burden.

It is worth noting that many respondents did not make any comment on this question.

2.4.3. Results of the ad hoc simplification consultative group

Following the Communication on the CAP towards 2020, Commission organised a conference in order to consult the heads of paying agencies and coordination bodies from all Member States as well as farmer representatives as to the simplification, management and controllability of certain key elements in the Communication. They have already rendered a first set of recommendations (see sub-annex below) that have been taken on board as much as possible in this impact assessment. Those recommendations concern the following aspects:

1st pillar

- "Active" farmers
- Eligibility of land
- Greening of direct payments
- Capping of direct payments
- Small farmers scheme

2nd pillar

- Improving the management of payments under pillar II for measures not covered by IACS
- Leader approach
- The management and control of small projects
- The use of standard costs
- The treatment of indirect costs
- Alignment of the management of the IACS-related measures of pillars I and II

There was a clear message from the participants at the Conference that certain of the novel elements being discussed (in particular, a definition of active farmer, a special support scheme for small farmers and greening) would not represent a simplification as such, but would, rather, lead to an increase in the administrative and control burdens as well as in the risk of errors in the transactions (unless corrective measures, such as additional controls, would be taken). The positions represented in the conference conclusions indicate the preference of the participants on how such measures, if introduced, should be implemented. The broad principles which have emerged from the discussions are that:

- the right balance must be found between the desire for simplification and reduction of administrative burden on the one hand and the political objective on the other hand;
- novel elements should be as simple as possible without too many complicated conditions and which Member States' authorities should be able to manage and control as automatically as possible and with existing tools, in particular the IACS;
- while there is agreement that rules and definitions must be established at EU level, the envisaged new elements will only be manageable and controllable if Member States are given the necessary flexibility to adapt to the very different national and regional situations, (e.g. climate, terrain) and are able to make greater use of existing public databases for their control needs;
- farmers must retain the flexibility to be able to adapt to market conditions.

3. OBJECTIVES RELATED TO SIMPLIFICATION

- Simplify the legal framework and ensure that the legal texts are as clear, comprehensible, coherent and easily accessible as possible.
- Reduce administrative burden for farmers and managing authorities (MS and where possible the Commission) of existing tools without watering down their efficiency and increasing the risk of errors;
- Keep level of administrative burden of the new key concepts of the CAP as low as possible.

4. POLICY OPTIONS AND THEIR IMPACTS ON ADMINISTRATIVE BURDEN

The Communication on the CAP towards 2020 has put forward 3 broad policy scenarios. The first one (hereinafter called "adjustment" scenario) builds on the well-functioning aspects of the policy and focus on adjustments as regard distribution of direct payment between Member States. The second one (hereinafter called "integration" scenario) makes major overhauls of the policy to better meet the balance between the different policy objectives by more targeted measures (namely greening, capping, small farmer scheme, specific natural constraint payment, etc.). The third option (hereinafter called "refocus" scenario) strongly focus on environmental and climate change objectives by a moving away of income support and most market measures and providing a clear financial focus on rural development policy.

This chapter first assesses qualitatively and separately the simplification impacts of the possible evolution of existing tools and of the new key concepts mentioned in the Communication on the CAP towards 2020. An attempt of quantitative assessment of 2 main elements (greening and small farmer scheme) is also done in section 4.2. The last section puts the tools together in the 3 policy scenarios for their overall assessment.

4.1. Qualitative assessment of existing policy tools and new key concepts

4.1.1. Direct payments

a) New model of direct payments

Maintaining the current well established rules would be easy for the Member States applying the Single Payment Scheme (SPS). However, the coexistence of different SPS models (historic, regional, hybrid) which makes the policy frame more complex at EU level would also persist. The move to a common model for all MS for the distribution of direct payments at farm level, such as a flat rate, would very much simplify the policy framework even if applicable at regional level (i.e. like the current SPS regional model). In the first year of implementation of the new system, there would be administrative burden associated with the redistribution (recalculation of their value) and possibly transition (i.e. defining steps for progressive modifications in following years for each farmer) as well with allocation of new entitlements.

For those MS currently applying the Single Area Payment Scheme (SAPS), the administrative burden associated with the transition to regional SPS would be significant in the first year and is related to the establishment and allocation of entitlements. However those MS would have had in any case to set up a new system of entitlements when shifting

to SPS (planned for 2014 at the latest) implying significant administrative burden for the national authorities as well as for farmers. Farmers would however also benefit from the flexibility offered by entitlements, i.e. the possibility to sell, lend or activate the entitlement on different hectares. The transition period would allow farmers to adapt to the new system.

For the farmers, the introduction and application of a new model is burdensome as such and possible additional control requirements could create an additional burden/irritant.

Moreover, the daily management and control of several additional layers of payments may be burdensome at both EU and national level. A certain degree of flexibility for MS in application of the different components of the direct payment may help MS to choose the best solution also in term of reducing administrative burden.

Complexity in the current policy framework stems also from the fact that supports for coupled production and supports to agri-environmental measures of pillar II may also be paid via Article 68 of Council Regulation 73/2009. This creates “grey zones” of support and additional administrative burdens in particular for Member States due to the necessity of defining consistent rules which do not lead to duplication of payment for a same operation.

By setting only one mechanism for all coupled payments and by shifting to rural development elements of article 68 that better fit in pillar II, the current administrative burden to avoid the overlapping would disappear and the management of coupled aid would be simplified.

Of course, the opposite option of phasing out of direct payments would bring in the long run administrative facilitation since the scheme would not have to be administered anymore (provided Member States would not replace the direct payment system by national policies).

b) Active farmers

Improving the targeting of payments to active farmers would require careful fine tuning of definitions in cooperation with MS and selecting criteria at MS level to be integrated into the IACS register which would require substantial administrative effort for them and certainly for farmers to prove eligibility, as they would have to provide supplementary detailed information and possibly submit accompanying documents with their application. It is likely that this rule may lead to a considerable increase of administrative burden for both farmers who would need to provide the relevant information and national/regional authorities who would have to control them. The expected benefit of the rule is hardly quantifiable (i.e. number of non genuine farmers excluded from the payments and corresponding "saved" amount). Leaving space for national adaptation of the definition of active to choose the most easily accessible information (while keeping the requirements WTO compatible) would ease the implementation of such a rule both for farmers and for managing authorities.

c) Capping of direct payments

It can be expected that the new provisions, especially the ones regarding the progressive capping (refer to experience with modulation), mitigation of capping for large farmers with high employment and provisions related to the artificial conditions created to avoid capping will be complex to draft and to implement/control or enforce by Member States.

d) Small farmers scheme

An approach built on the assumption that the DP for small farmers would be generally increased does not require any additional control but cross-reporting from existing controls. Depending on the share of farmers concerned and on the rules that would be simplified for the small farmers, this would in turn simplify the overall management of the direct payments scheme for MS.

e) Green payment

“Greening” direct payments would not have simplification effects and is likely to increase administrative burdens for managing authorities and farmers in particular due to additional controls, but this depends strongly on details of the implementation and on possibilities of using existing and well functioning tools such as IACS. A generalised application leaving little room for Member States would make the administrative burden lighter, e.g. not demanding to scrutinise or approve single actions applied by Member States. However, in the light of the sensitivity of greening the CAP it might be advisable to provide for appropriate monitoring and evaluation mechanisms which might be administratively cumbersome for Member States. As a generalised first pillar payment it would be administratively very complex to base the payment on cost incurred/income foregone while a lump sum per hectare would be less burdensome to implement.

For the farmers, greening would indeed lead for some of them to change their practices which in the first years may be irritant and costly. However even if not immediately quantifiable at individual level, the environmental benefits of the scheme (see annex 2 on "Greening of the CAP") are likely to be considerable.

f) Cross compliance

As regards cross compliance, the Communication foresees the need for providing farmers and administration with a simpler and more comprehensive set of rules. Indeed the rationalization of the scope of cross compliance and its focus on the most important existing standards and to GAEC would make it clearer and more understandable for farmers. Changes to the sanction and control provisions are also envisaged so as to reduce the administrative burdens of both farmers and national authorities.

As regard the immediate inclusion of the Water Framework Directive in the scope of cross compliance, this is likely to cause administrative complications as a system of management, controls and sanctions of this environmental legislation is not yet fully in place and well-known by farmers.

4.1.2. *Market instruments*

a) Simplifying and streamlining of market intervention

Removing the fixed price in the intervention system allows intervention to act only when necessary in the marketplace so avoiding in some cases unnecessary expenditure. Open tenders need to be run, with the corresponding administrative costs for the national administration, even when this is not necessary when prices are well above the intervention limit. The red tape would include, for example publishing tendering regulations and notifications by 1 November every year.

From the point of view of legislative simplification, provisions covering more than one sector (as is the case with for example rules on intervention schemes, exceptional/emergency measures, POs and IBOs) should be streamlined as far as possible, so as to render the legal framework more user-friendly and accessible. A number of elements could be transferred to delegated acts. This would concern elements not considered essential but that are necessary to the proper functioning of the system, for example buying in periods, rules on disposals and rules on storage, detailed granting conditions.

It is also envisaged to remove from the single CMO certain elements which do no longer fulfil any obvious market objective and which are burdensome and costly to manage for national administrations.

For instance, the expiry of the sugar quota scheme will lead to a significant reduction in administrative costs for national administrations as well as for the operators in the sugar sector (including sugar beet growers), who will no longer have to deal with the administrative issues associated with the management of the quota system.

From a control point of view, every market measure has an inherent risk and current policy instruments are generally to have ex-ante examination of all applications with a limited amount of ex post controls. The measures dealt with by Commission auditors of market measures are of a large number and diverse character and pursue different policy objectives. The different nature of measures (market stabilisation, social measures, emergency measures etc.) seem to limit the possibility to streamline their control¹³.

From a control viewpoint the tendering procedures are quite important as they are transparent. They are a tool to avoid corruption and hidden state aid.

b) Improve the food chain functioning

New measures in relation to producer organisations, associations of producer and Interbranch organisations, depending on how they are implemented, as well as contractualisation are likely to increase the administrative burden level both for Member States authorities and for beneficiaries.

¹³ For example, while in the case "classical CAP" measures (e.g. intervention storage) it is much easier for Member States to deal with the administrative requirements, in an emergency situation, the main focus would be on fighting the spread of an animal disease and this may be much more complex. Furthermore, in the case of social measures (aid for the most deprived) a lot of the work is often done by voluntary workers not necessarily being always well acquainted with public administration and accounting.

However, it could make the regulation more effective and adapted to the huge diversity of the agricultural situations in the enlarged Union, allowing subsistence and semi-subsistence farmers to benefit from EU schemes and easing the participation of family farmers¹⁴.

c) Strong focus on the market

There will be a substantial slimming down of the legal framework, with a significant reduction of burden on Member States authorities. Beneficiaries are not requested to submit data and information, with the exception of situations of crisis. Time spent on meeting information obligations will be significantly reduced.

From a control point of view, the associated risks would only relate to administration of crisis situations and to supervise that emergency measures are only used when facing crisis situations and not as hidden state aids. The pure reduction of measures should imply for Member States reduction of administrative burden and simplification.

4.1.3. Rural development

a) Minimum funding per axis

The maintenance of the axis system would provide a crude guarantee of a minimum level of spending per objective, but may unduly constrain the development of a full-fledged strategic approach in combining measures in the best possible way to meet the policy objectives.

The abolition of the axis system may lead some Member States to change their spending patterns, but provided that strategic programming works effectively, these changes should be appropriate to their situation. The abolition of the axes would also reduce the burden on financial management.

b) Common Strategic Framework

If designed with the correct level of ambition, a Common Strategic Framework (CSF) will help to coordinate rural development policy with the other European policies covered (i.e. the ERDF, the Cohesion Fund, the ESF and the EFF), especially in the case of Member States / regions that have struggled with coordination in the current period. The CSF will also help to link the policies covered to the objectives of the Europe 2020 strategy.

There will be additional administrative burden involved in putting new systems in place, which nonetheless should be compensated by the resulting better synergies and increased efficiency of the new management system.

c) Focus on environmental and climate change objectives

The programming will be simplified, as there would no longer be any competition for funding between objectives.

¹⁴ Official Communication to the European Commission from the Netherland Ministry of Agriculture (17 January 2011).

4.1.4. Risk management

a) Extending current framework for insurances and mutual funds

This option would not add to the administrative burden, or the complexity, as measures that are already in place in the CAP, and that are already controlled, could continue to be applied.

For farmers, this option is rather similar to the option of status quo. Farmers will however have to familiarise themselves with the new or adjusted rules, which is a one-off increase in the level of administrative burden. Once acquainted with the policy and more experienced with the system it is expected that the level of administrative burden to farmers may reduce somewhat over time.

Also for national authorities, this option may be associated with one-off costs, required to modify national rules, possible organisational changes and time to become acquainted with the new setting. Once past that stage, with some experience, it is likely to become easier.

b) Income stabilisation tool

An income stabilisation tool (IST) aims at compensating farmers for a substantial loss. In order to determine what a substantial loss is, a lot of information must be collected and a lot of time would be required for processing. This information is not straight forward, as what is used as the income determinant could be very subjective. In the case of Canada (who has a scheme called AgriStability, which is a form of IST), tax declaration forms are used. However, this is not an alternative to the EU as a whole, as there are no taxation rules at EU level.

Thus an IST could be complex to manage and burdensome to administer. The complexity stems from the difficulty in finding an appropriate measure for income, collecting information verifying the income indicator, and control of the measure. Depending on how the tool would be implemented, the burden of administering it would impact differently upon different parts of the administration chain.

In this option farmers are required to submit a substantial amount of information and documents when applying for support and to prove eligibility. Depending on the practicalities of the system this may mean that a farmer will have to spend considerable time collecting the information and preparing the application or, alternatively work with a consultant/accountant. It would be a "light" solution if the farmer could use already existing documents and information.

For national authorities, this option foresees a case by case processing of data and judging if an applicant is eligible for support as well as deciding upon the level of support. The level of administrative burden to MS is estimated to be substantial. It is possible that by using existing data sources and flows, as well as finding ways to automate the process, the burden on national authorities may be somewhat reduced.

c) Crisis fund

The budgetary needs of the 'Global Agricultural Risk Management Fund' would vary substantially between years, depending on the number and severity of events occurring.

The setting up of a fund, managing it and carrying out controls do increase the burden to the national authorities. These are required to set up and maintain an infrastructure, ready to start its operations in case of urgency. In addition, when an emergency occurs, resources will be required to process demands, grant support as well as verifying the correct spending of the funds.

The level of administrative burden for farmers is dependent on the occurrence of an adverse situation and if they decide to apply for support. The level of burden would then be determined by the modalities of the application procedure as well as the (ex-post) control arrangements.

4.2. Quantitative assessment of administrative costs and administrative burden of options for future direct payments

4.2.1. The EU Standard Cost Model

The assessment has been done on the basis on the EU Standard Cost Model (EU SCM). The EU SCM breaks down administrative costs imposed by legal acts into components that can be assessed with reasonable accuracy. Thanks to this analytical approach, it is possible for farmers, national or regional authorities, paying agencies to situate themselves according to the assumptions done and measure the real impact on their own fields. The SCM does not aim at producing statistically valid results, but rather estimates¹⁵.

The measurement focuses only on the administrative activities that must be undertaken in order to comply with information obligations (IO) laid down in the legislation and not on the fulfilment of the legislation as such. For instance, the time spent by farmers to fulfil eligibility conditions on farm is not considered as administrative costs or burden. Other important element is that the EU SCM is based on a perfect compliance with the legislation. For instance, dealing with errors found in administrative checks of applications for subsidies is not part of the model¹⁶.

Administrative costs are defined as the costs incurred by "businesses" (i.e. farmers) in meeting legal IO. An IO is a legal obligation placed on businesses to provide information on their activity or production to public authorities. Every IO has attributes that describe the:

- content of the data required (what must be provided)
- target group (the population that must provide it), and
- frequency (how often per year it must be provided and how long it takes to provide it).

When analysing the administrative costs, a distinction should be made between information that would be collected and processed by businesses even in the absence of the legislation and information that is solely collected because of a legal obligation. The former are called “business-as-usual” costs, the latter administrative burdens. Added together the administrative burdens and business-as-usual costs constitute the administrative costs.

¹⁵ Considering the level of detail and the number of parameters involved, conducting statistical measurements would not be cost-efficient.

¹⁶ However, even if the number of errors may increase in the first years of a new system, it is likely that it will decrease after some years.

This model is firstly used for assessing the administrative costs of business, i.e. as regards direct payments, for farmers. It may also be used for assessing the administrative costs for public authorities. However the distinction between business-as-usual and administrative burden is not straightforward for public authorities. For instance, the introduction of the applications of farmers into the IT systems and the whole process of payment (administrative checks, on-the-spot controls, etc.) are generally considered as the core business of the public authorities and may thus not be considered in the EU SCM. Assumptions taken for the present assessment are detailed in the following section.

The EU SCM uses as a basis the average EU tariffs per hour corresponding to different employee types. Those tariffs cover both wages and non-wage labour costs, as well as a standard proportion of so-called overheads costs (i.e. 25%) linked with individual employees and borne by businesses but not included in their salaries (i.e. fixed administration costs such as premises, telephone, heating, electricity and IT equipment).

4.2.2. Options and assumptions

It is important to note that DG AGRI made use of the EU SCM to calculate the net administrative costs, i.e. reduction of costs due for instance to small farmers scheme or clarification of cross compliance scope has also been estimated.

Only the main changes in information obligations stemming from policy changes for direct payments have been assessed for the purpose of this impact assessment. They are shortly described below (for more details, cf. section 4.1.1 above and annex 3 on direct payments). The description concern first the farmers and then where relevant the impact for public authorities.

- **Basic income support based on payment entitlements:** In MS using SAPS, familiarisation with payment entitlement would be required and the application for payments may take more time to be filled in. Public authorities would thus e.g. receive additional calls and would need to hold more information meetings for beneficiaries.
- **Active farmer:** The administrative verification of the eligibility criteria "being an active farmer" would be done automatically (the updating of the IT system to the new direct payments is considered as a "one-off" cost) on the basis of the share of agricultural activity in income based on fiscal declaration to be provided to paying agencies. The particular complexity of the information which needs to be first identified and then introduced in the IT systems may lead to an additional administrative cost for public authorities.
- **Small farmer scheme:** Small farmers would receive a lump sum of maximum 1000 Euros (or of an amount corresponding to maximum 5% of the direct payment envelope of the MS – c.f. chapter 7 of annex 3 on direct payments, option 3 "max 1000 EUR and max 5% of DP envelope") replacing all components of direct payments and would be exempted from greening measures and cross compliance controls and sanctions. The application for direct payments and the controls would be simplified.
- **Young farmer scheme:** Farmers of age below 40 years with relevant occupational skills and competences, commencing their agricultural activity, would receive an additional amount on their eligible hectares (with a maximum of hectares that can be paid) during a period of 5 years. Most of the information relevant for this new scheme is part of the usual information gathered by paying agencies for the access to the basic payment

scheme. It is thus considered that no additional information obligation exist for this scheme. For paying agencies, once the controls are introduced in the IT systems, there would be part of the normal processing of the claim.

- **Greening:**

Crop diversification and ecological focus area: Crops would have to be declared in the application for direct payments. The areas would have to be declared and localised in the application for direct payments. However, a part of this IO may be considered as "business as usual"¹⁷ as farmers know *de facto* how their land is used and may use parcel maps etc. as part of their regular farm management practice. The particular complexity of the information which needs to be introduced in the IT systems may lead to consider a specific administrative cost for public authorities.

Administrative checks would be done with updated IT systems and on-the-spot checks would be integrated into existing field controls for income support which therefore might be longer. Administrative checks might lead to higher rate of errors that paying agencies would need to deal with manually, number of errors that would certainly decrease over the years. As the EU SCM is based on a perfect compliance with the legislation, those costs are not considered.

Organic farmers would automatically benefit from greening payment if they submit the organic certificate or prove that they are in conversion.

Greening would lead to additional phone calls from farmers and familiarisation activities (information meeting) of public authorities, likely to decrease in time.

- **Degressivity and capping:** Mitigation of capping and degressivity would be done on the basis of the wages paid in the previous year to the on farm employees. Farmers would have to provide relevant information to the public authorities annually. Recapitulative of wages may be quite time consuming in particular in case of seasonal employment. It would be the same for introducing of the information in the IT system and its processing for public authorities.
- **Cross compliance** scope and requirements would be clarified and a better integration and coordination of cross compliance controls with controls of existing legislations would be achieved. Duration of controls of cross compliance requirements would thus decrease.
- The changes in information obligations associated with the natural constraint payment or the coupled supports have not been assessed as there modalities of application may be very different from one MS to the other. However they are likely to increase administrative costs for both farmers and public authorities.
- Administrative costs stemming from the evaluation of effects of direct payments at MS level by MS public authorities has not been assessed.

¹⁷ The obligation of declaration of permanent grassland already exists in the current legislation.

The following assumptions have been used:

- **Number of beneficiaries in EU 27:** 7 868 471
(source: CATS data for budget year 2009, i.e. mainly for claim year 2008)
- **Number of beneficiaries in MS using SAPS:** 3 097 688
(CATS data for budget year 2009, i.e. mainly for claim year 2008)
- **Number of "small" farmers** in the small farmers scheme: 29% of the beneficiaries
(AGRI calculation based on CATS data 2009 - see annex 3 on Direct Payments, chapter 7, option 3)
- **Number of organic farms:** 197 000 (source: Eurostat).
No official figures exist for number of farms in in-conversion process, thus they are not counted whereas the same exemption for greening requirements may also apply to them.
- **Share of farms with paid labour:** 37% (source: FADN)
- **Rates of controls:**

Cross compliance: 1% on-the-spot checks of all farmers subject to cross compliance (not the small farmers); Greening: 5% of on-the-spot checks of all farmers subject to greening.

- **Average wages rate per hour:**
(source: SEC GEN, Administrative burden calculator)

It is considered that farmers fulfil by themselves all the information obligations, thus only one average rate of wages is used for "manager" (i.e. 31.29 Euros/hour). Controls of public authorities are done by specialised technicians whose rate is 18.47 Euros/hour; Introduction of data in the IT system is "elementary occupation" whose rate is 10.89 Euros/hour.

Note that those rates are applied for farms and public authorities of entire EU 27 whereas some major differences may exist in reality (cf. below estimates based on adjusted rates).

- No outsourcing, nor specific equipments needed to fulfil the information obligations. However updating of IT systems by public authorities will be needed (one-off cost for the first year and regular and usual update the following years)
- Administrative burden versus "business as usual": it is considered the IO for farmers stemming from the policy changes are generally administrative burden whereas for public authorities, a large share is business as usual (thus only administrative costs).

4.2.3. *Results of the quantification of administrative costs of changes in the legal obligations for direct payments post 2013*

The results are the following (detailed tables 1-4 below):

	Total administrative costs	Total administrative burden
Businesses	452 389 937.84 €	367 191 949.28 €
Public authorities	38 612 002.38 €	1 972 454.88 €

Source: AGRI calculation made with the SEC GEN Administrative burden calculator

When the average wage per hour is adjusted to take account of the differing wage levels in the various EU Member States (based on PPS coefficients), the above table reads as follows

	Total administrative costs	Total administrative burden
Businesses	353 818 877.90 €	282 705 464.62 €
Public authorities	32 268 676.15 €	1 471 925.44 €

These results, based on the above-mentioned assumptions, show that the overall administrative cost of the future direct payment system would approximately represent a 15% increase in the administrative cost.

Table1: Detailed calculation of administrative costs and administrative burden calculation for farmers

No	Policy tool	Type of obligation	Description required action(s)		Entities concerned	Tariff	Time	Price	Freq	Nbr entities concerned	Total administrative costs	Business as usual costs (% of ACT)	Total administrative burdens (Admin Cost - Business as usual)
			per hour	minutes		per action	per year						
1	Basic payment scheme	Application for subsidy or grant	Familiarizing with the information obligation	Going from SAPS to SPS - getting used to the entitlements	Farmers in MS using SAPS (source: CATS 2009)	31,29 €	30	15,65 €	1	3.097.688	48.463.328,76 €	0	48.463.328,76 €
2	Basic payment scheme	Application for subsidy or grant	Filling in forms and tables, including recordkeeping	Going from SAPS to SPS - application for payments may take more time	Farmers in MS using SAPS (source: CATS 2009)	31,29 €	30	15,65 €	1	3.097.688	48.463.328,76 €	0	48.463.328,76 €
3	New Active farmer eligibility condition	Application for subsidy or grant	Submitting the information	Active farmers - providing fiscal declaration	100% of farmers (source: CATS 2009)	31,29 €	10	5,22 €	1	7.868.471	41.034.076,27 €	0	41.034.076,27 €
SUB-TOTAL BASIC PAYMENT SCHEME											137.960.733,79 €		137.960.733,79 €
4	New Small farmer scheme	Application for subsidy or grant	Filling in forms and tables, including recordkeeping	Small farmers - simplified application	29% des agriculteurs (source: AGRI calculation based on CATS)	31,29 €	-120	-62,58 €	1	2.291.909	-143.427.665,22 €	0	-143.427.665,22 €
5	New small farmer scheme	with audits & inspection by public authorities	Inspecting and checking	Small farmers - simplified controls	5% of the small farmers	31,29 €	-90	-46,94 €	1	114.595	-5.378.537,45 €	0	-5.378.537,45 €
6	New small farmer scheme	with audits & inspection by public authorities	Inspecting and checking	Small farmers - no time spent for cross compliance controls	1% of the small farmers	31,29 €	-180	-93,87 €	1	22.919	-2.151.414,98 €	0	-2.151.414,98 €
SUB-TOTAL SMALL FARMER SCHEME											-150.957.617,64 €		-150.957.617,64 €
7	New greening payment	Application for subsidy or grant	Submitting the information	Organic famers: providing certificate to paying agencies	Organic farmers (source: Eurostat), excl. small farmers	31,29 €	5	2,61 €	1	130.861	341.220,65 €	0	341.220,65 €
8	New greening payment	Application for subsidy or grant	Familiarizing with the information obligation	Greening - familiarization with requirements	100% of farmers subject to greening (not the small and not the organic farmers)	31,29 €	30	15,65 €	1	5.445.701	85.197.988,56 €	0	85.197.988,56 €
9	New greening payment	Application for subsidy or grant	Filling in forms and tables, including recordkeeping	Greening - declaration of ecological focus area and crops	100% of farmers subject to greening (not the small and not the organic farmers)	31,29 €	120	62,58 €	1	5.445.701	340.791.954,26 €	25	255.593.965,69 €
10	New greening payment	with audits & inspection by public authorities	Inspecting and checking	Greening - increase of duration of on the spot controls	5% of farmers subject to greening (not the small and not the organic farmers)	31,29 €	60	31,29 €	1	272.285	8.519.798,86 €	0	8.519.798,86 €
SUB-TOTAL GREENING PAYMENT											434.850.962,33 €		349.652.973,77 €
11	New Capping of direct payments	Application for subsidy or grant	Submitting the information	Capping - providing on farm employment wages to paying agencies	Farms with on-farm employment (not the small farms) (source: FADN)	31,29 €	30	15,65 €	1	2.063.328	32.280.765,62 €	0	32.280.765,62 €
SUB-TOTAL CAPPING											32.280.765,62 €		32.280.765,62 €
12	Cross compliance	Cooperation with audits & inspection by public authorities	Inspecting and checking	Cross compliance - simplification of controls	1% of farms subject to cross compliance (not the small)	31,29 €	-60	-31,29 €	1	55.766	-1.744.906,25 €	0	-1.744.906,25 €
SUB-TOTAL CROSS COMPLIANCE											-1.744.906,25 €		-1.744.906,25 €
TOTAL											452.389.937,84 €		367.191.949,28 €

Table2: Detailed calculation of administrative costs and administrative burden calculation for public authorities

No	Policy tool	Type of obligation	Description required action(s)		Entities concerned	Tariff	Time	Price	Freq	Nbr entities concerned	Total administrative costs	Business as usual costs	Total administrative burdens
			per hour	minutes		per action	per year	(% of ACT)	(Admin Cost - Business as usual)				
1	Basic payment scheme	Application for subsidy or grant	Familiarizing with the information obligation	Going from SAPS to SPS - increase in phone calls and information meetings for beneficiaries	+10% of calls of farmers in MS using SAPS (source of farmers in MS using SAPS: CATS 2009)	18,47 €	15	4,62 €	1	309.769	1.430.357,43 €	50	715.178,72 €
2	New Active farmer eligibility condition	Application for subsidy or grant	Inspecting and checking	Active farmers - introduction of fiscal declaration in the IT system	100% of farmers (source: CATS 2009)	10,89 €	15	2,72 €	1	7.868.471	21.421.912,30 €	100	0,00 €
SUB-TOTAL BASIC PAYMENT SCHEME											22.852.269,73 €		715.178,72 €
3	New small farmer scheme	Application for subsidy or grant	Inspecting and checking	Easiest introduction of the simplified applications in the IT system	All the small farmers	10,89 €	-30	-5,45 €	1	2.291.909	-12.479.444,51 €	100	0,00 €
4	New small farmer scheme	Inspection	Inspecting and checking	Small farmers - simplified controls	5% of the small farmers	18,47 €	-90	-27,71 €	1	114.595	-3.174.866,94 €	100	0,00 €
5	New small farmer scheme	Inspection	Inspecting and checking	Small farmers - no cross compliance controles	1% of the small farmers	18,47 €	-180	-55,41 €	1	22.919	-1.269.946,78 €	100	0,00 €
SUB-TOTAL SMALL FARMER SCHEME											-16.924.258,22 €		0,00 €
6	New greening payment	Application for subsidy or grant	Inspecting and checking	Organic famers - introducing organic certificate in IT system	Organic farmers (source: Eurostat) excl. Org small farmers	10,89 €	1	0,18 €	1	130.861	23.751,31 €	100	0,00 €
7	New greening payment	Application for subsidy or grant	Inspecting and checking	Greening - introducing of datas on ecological set aside and crops in IT system	100%of farmers subject to greening (not the small and not the organic farmers)	10,89 €	15	2,72 €	1	5.445.701	14.825.920,35 €	100	0,00 €
8	New greening payment	Application for subsidy or grant	Familiarizing with the information obligation	Greening - familiarization with requirements	10% of farmers subject to greening (not the small and not the organic farmers)	18,47 €	15	4,62 €	1	544.570	2.514.552,33 €	50	1.257.276,17 €
9	New greening payment	Inspection	Inspecting and checking	Greening - increase of duration of on the spot controls	5% of farmers subject to greening (not the small and not the organic farmers)	18,47 €	60	18,47 €	1	272.285	5.029.104,66 €	100	0,00 €
SUB-TOTAL GREENING PAYMENT											22.393.328,66 €		1.257.276,17 €
10	New Capping of direct payments	Application for subsidy or grant	Inspecting and checking	Capping - introducun on farm employment wages sent by farmers in IT system	Farms with on-farm employment (not the small farms) (Source: FADN)	10,89 €	30	5,45 €	1	2.063.328	11.234.820,63 €	100	0,00 €
SUB-TOTAL CAPPING											11.234.820,63 €		0,00 €
11	Cross compliance	Inspection	Inspecting and checking	Cross compliance - coordination of controls	1% of farms subject to cross compliance (not the small)	18,47 €	5	1,54 €	1	55.766	85.832,58 €	100	0,00 €
12	Cross compliance	Inspection	Inspecting and checking	Cross compliance - simplification of controls	1% of farms subject to cross compliance (not the small)	18,47 €	-60	-18,47 €	1	55.766	-1.029.991,00 €	100	0,00 €
SUB-TOTAL CROSS COMPLIANCE											-944.158,42 €		0,00 €
TOTAL											38.612.002,38 €		1.972.454,88 €

Table 3: Detailed calculation of administrative costs and administrative burden calculation for farmers (adjusted hourly wage)

No	Policy tool	Type of obligation	Description required action(s)		Entities concerned	Tariff	Time	Price	Freq	Nbr entities concerned	Total administrative costs	Business as usual costs (% of ACT)	Total administrative burdens (Admin Cost - Business as usual)
			per hour	minutes		per action	per year						
1	Basic payment scheme	Application for subsidy or grant	Familiarizing with the information obligation	Going from SAPS to SPS - getting used to the entitlements	Farmers in MS using SAPS (source: CATS 2009)	18,48 €	30	9,24 €	1	3.097.688	28.630.055,88 €	0	28.630.055,88 €
2	Basic payment scheme	Application for subsidy or grant	Filling in forms and tables, including recordkeeping	Going from SAPS to SPS - application for payments may take more time	Farmers in MS using SAPS (source: CATS 2009)	18,48 €	30	9,24 €	1	3.097.688	28.630.055,88 €	0	28.630.055,88 €
3	New Active farmer eligibility condition	Application for subsidy or grant	Submitting the information	Active farmers - providing fiscal declaration	100% of farmers (source: CATS 2009)	26,22 €	10	4,37 €	1	7.868.471	34.384.263,02 €	0	34.384.263,02 €
SUB-TOTAL BASIC PAYMENT SCHEME											91.644.374,78 €		91.644.374,78 €
4	New Small farmer scheme	Application for subsidy or grant	Filling in forms and tables, including recordkeeping	Small farmers - simplified application	29% des agriculteurs (source: AGRI calculation based on CATS)	26,21 €	-120	-52,41 €	1	2.291.909	-120.124.634,74 €	0	-120.124.634,74 €
5	New small farmer scheme	with audits & inspection by public authorities	Inspecting and checking	Small farmers - simplified controls	5% of the small farmers	26,21 €	-90	-39,31 €	1	114.595	-4.504.673,80 €	0	-4.504.673,80 €
6	New small farmer scheme	with audits & inspection by public authorities	Inspecting and checking	Small farmers - no time spent for cross compliance controls	1% of the small farmers	26,21 €	-180	-78,62 €	1	22.919	-1.801.869,52 €	0	-1.801.869,52 €
SUB-TOTAL SMALL FARMER SCHEME											-126.431.178,06 €		-126.431.178,06 €
7	New greening payment	Application for subsidy or grant	Submitting the information	Organic famers: providing certificate to paying agencies	Organic farmers (source: Eurostat), excl. small farmers	30,69 €	5	2,56 €	1	130.861	334.702,85 €	0	334.702,85 €
8	New greening payment	Application for subsidy or grant	Familiarizing with the information obligation	Greening - familiarization with requirements	100% of farmers subject to greening (not the small and not the organic farmers)	26,12 €	30	13,06 €	1	5.445.701	71.113.413,28 €	0	71.113.413,28 €
9	New greening payment	Application for subsidy or grant	Filling in forms and tables, including recordkeeping	Greening - declaration of ecological focus area and crops	100% of farmers subject to greening (not the small and not the organic farmers)	26,12 €	120	52,23 €	1	5.445.701	284.453.653,10 €	25	213.340.239,83 €
10	New greening payment	with audits & inspection by public authorities	Inspecting and checking	Greening - increase of duration of on the spot controls	5% of farmers subject to greening (not the small and not the organic farmers)	26,12 €	60	26,12 €	1	272.285	7.111.341,33 €	0	7.111.341,33 €
SUB-TOTAL GREENING PAYMENT											363.013.110,55 €		291.899.697,28 €
11	New Capping of direct payments	Application for subsidy or grant	Submitting the information	Capping - providing on farm employment wages to paying agencies	Farms with on-farm employment (not the small farms) (source: FADN)	26,22 €	30	13,11 €	1	2.063.328	27.055.003,24 €	0	27.055.003,24 €
SUB-TOTAL CAPPING											27.055.003,24 €		27.055.003,24 €
12	Cross compliance	Cooperation with audits &	Inspecting and checking	Cross compliance - simplification of controls	1% of farms subject to cross compliance (not the small)	26,22 €	-60	-26,22 €	1	55.766	-1.462.432,61 €	0	-1.462.432,61 €
SUB-TOTAL CROSS COMPLIANCE											-1.462.432,61 €		-1.462.432,61 €
TOTAL											353.818.877,90 €		282.705.464,62 €

Table 4: Detailed calculation of administrative costs and administrative burden calculation for public authorities (adjusted hourly wage)

No	Policy tool	Type of obligation	Description required action(s)		Entities concerned	Tariff	Time	Price	Freq	Nbr entities concerned	Total administrative costs	Business as usual costs	Total administrative burdens
			standard description	detailed description		per hour	minutes	per action	per year			(% of ACT)	
1	Basic payment scheme	Application for subsidy or grant	Familiarizing with the information obligation	Going from SAPS to SPS - increase in phone calls and information meetings for beneficiaries	+10% of calls of farmers in MS using SAPS (source of farmers in MS using SAPS: CATS 2009)	10,91 €	15	2,73 €	1	309.769	844.993,82 €	50	422.496,91 €
2	New Active farmer eligibility condition	Application for subsidy or grant	Inspecting and checking	Active farmers - introduction of fiscal declaration in the IT system	100% of farmers (source: CATS 2009)	9,13 €	15	2,28 €	1	7.868.471	17.954.032,23 €	100	0,00 €
SUB-TOTAL BASIC PAYMENT SCHEME											18.799.026,05 €		422.496,91 €
3	New small farmer scheme	Application for subsidy or grant	Inspecting and checking	Easiest introduction of the simplified applications in the IT system	All the small farmers	9,12 €	-30	-4,56 €	1	2.291.909	-10.451.879,77 €	100	0,00 €
4	New small farmer scheme	Inspection	Inspecting and checking	Small farmers - simplified controls	5% of the small farmers	15,47 €	-90	-23,20 €	1	114.595	-2.659.038,83 €	100	0,00 €
5	New small farmer scheme	Inspection	Inspecting and checking	Small farmers - no cross compliance controles	1% of the small farmers	15,47 €	-180	-46,41 €	1	22.919	-1.063.615,53 €	100	0,00 €
SUB-TOTAL SMALL FARMER SCHEME											-14.174.534,14 €		0,00 €
6	New greening payment	Application for subsidy or grant	Inspecting and checking	Organic famers - introducing organic certificate in IT system	Organic farmers (source: Eurostat) - small org farmers	10,61 €	1	0,18 €	1	130.861	23.139,23 €	100	0,00 €
7	New greening payment	Application for subsidy or grant	Inspecting and checking	Greening - introducing of datas on ecological set aside and crops in IT system	100%of farmers subject to greening (not the small and not the organic farmers)	9,09 €	15	2,27 €	1	5.445.701	12.374.961,18 €	100	0,00 €
8	New greening payment	Application for subsidy or grant	Familiarizing with the information obligation	Greening - familiarization with requirements	10% of farmers subject to greening (not the small and not the organic farmers)	15,42 €	15	3,85 €	1	544.570	2.098.857,05 €	50	1.049.428,53 €
9	New greening payment	Inspection	Inspecting and checking	Greening - increase of duration of on the spot controls	5% of farmers subject to greening (not the small and not the organic farmers)	15,42 €	60	15,42 €	1	272.285	4.197.714,10 €	100	0,00 €
SUB-TOTAL GREENING PAYMENT											18.694.671,56 €		1.049.428,53 €
10	New Capping of direct payments	Application for subsidy or grant	Inspecting and checking	Capping - introducun on farm employment wages sent by farmers in IT system	Farms with on-farm employment (not the small farms) (Source: FADN)	9,13 €	30	4,56 €	1	2.063.328	9.416.074,95 €	100	0,00 €
SUB-TOTAL CAPPING											9.416.074,95 €		0,00 €
11	Cross compliance	Inspection	Inspecting and checking	Cross compliance - coordination of controls	1% of farms subject to cross compliance (not the small)	9,13 €	5	0,76 €	1	55.766	42.414,75 €	100	0,00 €
12	Cross compliance	Inspection	Inspecting and checking	Cross compliance - simplification of controls	1% of farms subject to cross compliance (not the small)	9,13 €	-60	-9,13 €	1	55.766	-508.977,02 €	100	0,00 €
SUB-TOTAL CROSS COMPLIANCE											-466.562,27 €		0,00 €
TOTAL										32.268.676,15 €		1.471.925,44 €	

4.3. Assessment per broad policy scenarios

Table 5 distributes the various tools and concepts described in section 4.1 in the 3 broad policy scenarios of the Communication.

Table 5: Description of policy scenarios

	Direct payments	Market instruments	Rural development
Adjustment	Redistribution – regional model	Streamlining (exceptional measures, public intervention and private storage)	Moderate budget increase Current management system unchanged
Integration	Redistribution – regional model with different layers: Capping – Small farmer Greening Specific natural constraints Coupled support Cross compliance: streamlined and more climate change	Streamlining (exceptional measures, public intervention and private storage) Focus on food chain functioning Risk management strategies (insurances and mutual funds)	Redistribution Common Strategic Framework Strengthened strategic targeting Streamlined toolkit No axis system
Refocus	Phasing-out of direct payments	No market instrument, only exceptional measures	Doubling of funding Environmental and climate change focus Significantly reduced toolkit No Leader Simplified management system

Tables 6 and 7 have been done along the description of impacts in section 4.1 for cruise rhythm (implementing one-off costs have been considered separately – see table 6). Positive figures mean more simplification achieved compared to status quo while negative figures mean more "complexity" and increase in administrative burden level. "0" means that the expected effects on administrative burden would be negligible compared to status quo. The evaluation takes into account the balance of administrative burden increase or decrease with the benefits in terms of reaching the policy objectives.

Table 6: Costs in cruise rhythm, compared to the status quo

(F = Farmers MS= Member States → achievement of objective)

		Adjustment	Integration	Refocus
Direct payments	New distribution	+1 F: keep the well-know system of entitlements (simplification effect differs between MS with SPS or SAPS) one single rate per hectare at regional / national level MS: one single rate per hectare at regional / national level (simplification effect differs between MS with regional or historical model)	+1 F: keep the well-know system of entitlements (simplification effect differs between MS with SPS or SAPS), one single rate per hectare at regional / national level MS: one single rate per hectare at regional / national level (simplification effect differs between MS with regional or historical model); management of different layers of payments → better targeting to needs	+2 F: no paper MS: no payment to manage, no control, etc.
	Capping	N/A	-1 F: necessity to provide information on labour on farm to mitigate the capping MS: necessity to control the additional information and integrate them in the payment calculation → better equity of the distribution of payments and money available for innovation	N/A
	Small farmer	N/A	+2 F (small): less red tape MS: lump sum payment and light controls for a share of farmers	N/A
	Greening	N/A	-1 F: changes in practices, additional controls MS: additional controls (administrative and on the spot) → environmental benefits	N/A
	Active farmers	N/A	-2 F: necessity to provide information to prove farmers' status MS: additional controls (administrative)	N/A
	Cross compliance	0 F, MS: No change	0 F: clearer set of rules, additional requirements linked to climate change MS: clearer set of rules to be controlled, articulation with greening requirements	+2 F: less irritant factors, no control of GAEC MS: no control
Market instruments	Intervention	+1 MS: streamlining of intervention	+1 MS: streamlining of intervention	+2 MS: only crisis situation
	Food chain	0 F, MS: No change	-1 F: costs of maintenance of the producers' organisations, interbranches, etc., costs of diffusing information to members, etc. MS: costs of controls	N/A
	Risk management	0 F, MS: No change	0	N/A
		0	+1	+2

Rural development	F, MS: No change	F: single "guichet" for all the EU funds MS: streamlined toolkit, no axis	MS: no axis, only 1 objective, no LEADER
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Table 7: Summary of impacts on administrative burden per scenario

	Direct payments	Market instruments	Rural development	CAP as a whole
Adjustment	+ 1	+ 1	0	+ 2
Integration	- 1	0	+ 1	0
Refocus	+ 4	+ 2	+ 2	+ 8

All in all, the expected effect of adjustment and refocus scenarios is a decrease of administrative burden while the integration scenario may lead to a slight increase of administrative burden. Expected increase of administrative burden for some new key concepts allowing a better targeting of the 1st pillar payments (greening and active farmers) are likely to be partly offset by the simplification achieved with the small farmer scheme and the new distribution of direct payments via a flat rate per hectare at national or regional level.

In any case, those effects have to be seen in the broader context of the 3 objectives recalled in section 2.3.1 above namely food security, environmental sustainability and territorial cohesion.

Table 8: One-off costs due to first implementation, compared to the status quo (F = Farmers MS= Member States)

		Adjustment	Integration	Refocus
Direct payments	New distribution	MS: new calculation of entitlements MS (SAPS): time to become familiar with entitlements F (SAPS): time to become familiar with entitlements	MS: new calculation of entitlements MS (SAPS): time to become familiar with entitlements F (SAPS): time to become familiar with entitlements	None
	Capping	N/A	MS: Adaptation of IT payment system F: irritant factor of cutting	N/A
	Small farmer	N/A	MS: Adaptation of IT payment system	N/A
	Greening	N/A	MS: Adaptation of IT payment system and control procedures Articulation with cross compliance	N/A
	Active farmers	N/A	MS: Adaptation of IT payment system and administrative control procedures	N/A
	Cross compliance	None	MS: Adaptation of control procedures	None
Market instruments	Intervention	None	None	None
	Food chain	None	F: costs of getting organised MS: costs of recognition of producers' organisations, etc.	N/A
	Risk management	None	MS: Modification of national rules, possible organisational changes and time to become acquainted with the new setting	N/A
Rural development		None	MS: Increased coordination with the other EU funds Definition of measures due to the new baseline of greening	Definition of additional measures for environment and climate change

SUB-ANNEX: RESULTS OF THE SIMPLIFICATION CONFERENCE

ACTIVE FARMER and ELIGIBILITY OF LAND

A: ACTIVE FARMER

Issue description

An active farmer is addressed in the Communication on the CAP towards 2020 as a tool to better define the beneficiary of direct payments. The aim is to improve the targeting and by that the efficiency of the direct payment policy.

The introduction of decoupled payments with the 2003 reform represents an important step towards market orientation. Farmers are free to produce whatever is more profitable for them while still having a stable income. From an international perspective, the decoupled payments are not causing trade distortion. However, there are also unintended side-effects. As the link between the production and the support is gone¹⁸, there are cases where payments under the SPS or the SAPS are made to non-farmers, sofa-farmers, non-agricultural companies etc. Therefore, the CAP is faced with critics about the distribution of aid, for example by the European Court of Auditors.

During the Health-Check, an attempt has been undertaken by establishing obligatory minimum requirements and by giving the Member States the possibility to exclude those who primarily are not involved in farming (Article 28(2) of Regulation (EC) No 73/2009¹⁹). Since no Member State so far has made use of additional criteria²⁰, alternatives have to be examined. The Commission is currently exploring the ways how to define criteria in order to reinforce the link to "real" active farmers, including part-time farmers. The aim is to ensure a proper targeting without generating unintended effects or unnecessary administrative burden. Therefore, feasible solutions have to be found jointly with Member States to get better insight into situations in the Member States and thus explore possibilities.

¹⁸ Currently, "farmer" is defined as "...a natural or legal person, or a group of natural or legal persons, whatever legal status is granted to the group and its members by national law, whose holding is situated within Community territory, as defined in Article 299 of the Treaty, and **who exercises an agricultural activity.**" The definition of "agricultural activity" - "the production, rearing or growing of agricultural products including harvesting, milking, breeding animals and keeping animals for farming purposes, **or maintaining the land in good agricultural and environmental condition...**" – expresses the fact that direct support is decoupled.

¹⁹ The provision states that "from 2010, Member States may establish appropriate objective and non-discriminatory criteria to ensure that no direct payments are granted to a natural or legal person:

(a) whose agricultural activities form only an insignificant part of its overall economic activities; or

(b) whose principal business or company objects do not consist of exercising an agricultural activity."

²⁰ As explained by MS, the reasons are: it is very complicated to define the appropriate criteria which exclude only sofa-farmers and at the same time do not exclude other groups of farmers, it would lead to exclusion of small and/or part-time farmers which in some MS constitute a significant part of the farmers, criteria would most likely be challenged by farmers in court, controls appear to be difficult (in addition, the income share from agricultural activity may oscillate over the years and administrative task is disproportionate.

Possible approaches

The first analysis of the Commission services has indicated some possible criteria, indicated below in a non-hierarchical sequence, which could be used:

- a) Proportion of working time invested in the farm
- b) Proportion of management contribution
- c) Proportion of income
- d) Proportion of capital invested
- e) Professional qualification and/or practical experience
- f) Residence on or close to farm
- g) Presence of farm machinery or relevant facilities

B. ELIGIBILITY OF LAND

Issue description

The issue of eligibility is sensitive in that it touches on the fundamental question of what the first pillar of the CAP shall support. The Management Committee for Direct Payments has recently discussed the eligibility of areas for decoupled support. The discussion has shown that in the vast majority of cases the assessment of eligibility of an area is beyond doubt.

However, the Single Payment Scheme (SPS) is faced with criticism from the Court of Auditors about the lack of minimum activity and about the activation of (high values) entitlements on marginal land (un-cultivated or un-grazed areas). This is linked to the criticism that beneficiaries of the SPS are not always "real" farmers, but companies, landlords, investors etc. At the same time, the land fulfils the eligibility criteria by being kept only in GAEC, even if it might be questionable whether there is a real grazing activity (e.g. areas under heather).

In order to better target the aid to active farmers and to exclude potential "sofa-farmers", the rules on eligibility of the land, in particular in relation to areas not being cultivated or grazed²¹, should be strengthened. Areas which do not fulfil the first pillar eligibility criteria could nevertheless be eligible for support under certain measures of the second pillar as declared by the Commission during the Health Check.

Possible approaches

Due to the fact that direct support is decoupled, there are basically two options through which a certain level of activity by beneficiaries could be required. The first option is a yearly activity as such and the second one is the maintenance state of the area.

²¹ The eligibility of areas used for production or rearing of animals is not under question. Moreover, it is not the intention to change the rules which currently provide for the eligibility of areas in the specific situations mentioned in Article 34(2)(b) of Regulation (EC) No 73/2009, e.g. areas afforested under the second pillar or areas no longer complying with the eligibility condition because of Natura 2000 obligations. In general, it remains however that e.g. forest and scrubs are ineligible. Consequently the current recommendations for dealing with "mixed areas" partly covered by such ineligible elements, e.g. the 50 trees-guidance, landscape features etc., remain valid.

As regards "a yearly activity criterion", the determining factor to assess the eligibility of areas is the "activity" carried out by the farmer on these areas. Areas would have to be cultivated, grazed or mowed on a yearly basis in order to remain eligible. Member States could by way of derogation be allowed to establish that the activity may take place only every 2nd or 3rd year when this is justified for environmental reasons or where such derogation would not imply that the nature and plant cover of the area would change. For control purposes, a date of mowing prior to the control period must be fixed. Nevertheless, checking a specific activity is not always possible as traces on the spot might have disappeared implying thus a risk of conflict between farmers and controllers and risk of errors. Furthermore, the possibility of derogations providing for activities only every 2nd or 3rd year would complicate the implementation and increase the risk of errors.

In the second option, "the maintenance state of the area", the determining factor is the "state" of the area and not that a particular activity is carried out. This means that areas are eligible if the state of the area is such that they are suitable for grazing or cultivation, without any heavy preparatory actions, i.e. ploughing to prepare sowing should be possible on arable land and animals should be able to enter areas of permanent pasture on which plants of forage value should grow. The principle would be common for the entire EU, but there would be a margin of appreciation for each Member State to establish, if needed, more detailed criteria reflecting e.g. traditional agricultural method and machineries²².

Based on preliminary and non-committal reactions from Member States in the Management Committee, this second option received the most support, though not univocal²³. In terms of simplification, a clearer link to the state of the area would probably improve the controllability and reduce the number of doubtful cases, whilst the controls would stay at the same level, as eligibility checks are already standard. Furthermore, the controls can be done at any time of the year.

OUTCOME OF THE CONFERENCE

During the consultations, it has become clear that no single one of the criteria suggested as a possible approach for definition of an active farmer would serve as a common indicator at EU level due to the unique nature of the structures and situations which prevail at national level.

Recommendations

Without prejudice to the political advisability of introducing a definition of active farmer or strengthening the definition of what is eligible land, the Conference recommends that

²² Note however that excluding farmers because they dispose of areas which do not require significant maintenance efforts, but otherwise are suitable for agricultural production would be difficult as the farmer, at any moment, could decide to e.g. place animals on the areas.

²³ The discussion at the Management Committee included also an examination of four possible alternative scenarios to the current rules: "Yearly applicable EU-wide criteria" (scenario 1), "EU-wide criteria applicable every 3rd year" (scenario 2), "The area should be suitable for cultivation or grazing without any exceptional intervention" (scenario 3), "Applying a reference year and linking the eligible area to an approval and registration in the LPIS" (scenario 4). The preferences and arguments presented by the delegations did not point towards the existence of "one perfect solution", which would please all and avoid any "grey zones", but they gave nevertheless some indications of aspects which are important in the views of the different Member States.

the objective of determining which farmers are really active should be achieved by linking this to the definition of what is eligible land.

For determination of what constitutes eligible land the option of "the maintenance state of the area" was considered to be the most viable. This means that area is eligible if the state of the area is such that it is suitable for grazing or cultivation, without any heavy preparatory actions. An active farmer would, nevertheless, have to maintain the eligible land under him in good condition to maintain the farming potential of each hectare of land at an interval to be determined depending on national situations. A list of exclusions to "eligible land" should be determined at EU level (with additional exclusions at the discretion of the Member States). The principle should be common for the entire EU, but there should be a margin of appreciation for each Member State to establish, if needed, more detailed criteria reflecting e.g. traditional agricultural methods²⁴.

The Conference also recommended that there should be sufficient flexibility for the farmer to respond to market developments, requiring the farm level approach as opposed to an annual maintenance activity at each individual hectare.

A separate definition of active farmer would require additional controls and increase the management burden of the paying agencies and, thus, not be a simplification as such. The costs of such additional controls should therefore be proportionate to the objective of better targeting the support and excluding beneficiaries who are not "real" farmers.

There could be a need to have case-by-case analysis to allow excluded persons back into the system in exceptional cases.

It should also be borne in mind that the various greening measures which may become mandatory will also be indicators of eligibility of land and farming activity.

²⁴ Note however that excluding farmers because they dispose of areas which do not require significant maintenance efforts, but otherwise are suitable for agricultural production would be difficult as the farmer, at any moment, could decide to e.g. place animals on the areas. This could be dealt with at national level.

CAPPING

Issue description

In the Commission Communication on the future of the CAP after 2013, a "capping" of direct payments is considered, which would consist in introducing an upper ceiling for direct payments received by large individual farms to improve the distribution of payments between farmers. Capping was part of the Commission's initial reform proposals in each of the past major CAP reforms – the 1992 MacSharry reform, the 1999 Agenda 2000 reform, the 2003 Mid-Term Review and the Health Check. Although on a large scale capping has not yet been implemented, there are some measures which include already elements of the currently considered payment limitation, such as progressive modulation or the 90-head rule for the special premium for male bovine animals.

The goal is to examine the feasibility of such capping and to get views on the possible requirements to make such measure work, especially as regards the administration of the scheme, the mitigation and the circumvention of the cap.

Possible approaches

The capping could be made either as an absolute cap with which the risk of circumvention would be higher (option 1) or a progressive cap with several thresholds and several reduction rates, where circumvention would probably be lower (option 2).

Under both options, to avoid disproportionate effects on large farms with high employment numbers, capping could be mitigated by taking into account salaried labour intensity.

For deductions to take the labour intensity into account there would basically be two relevant methods:

- full time equivalent of the number of people working on the farm (with or without remunerations),
- the amount salaries effectively paid and declared.

Recommendations

Without prejudice to the political advisability of capping, the Conference recommends that :

- the measure would have to take account of the need for flexibility at national level due to the unique systems at national level and the different databases and information available to the paying agencies;
- any capping implies the risk of circumvention by splitting of farms, which could lead to additional administrative and control burden for the paying agencies;
- while an absolute cap is simpler to administer, a progressive cap would also be manageable for the paying agencies and would be more appropriate as it reduces the risk of circumvention;
- mitigating the impact of capping has its merit, but any criteria used for such mitigation would have to be controlled and, thus, imply additional administrative burden for the paying agencies. One possible criterion could be labour intensity, provided relevant databases are available and exploitable, but

the assessment and management of this criterion could be complicated by, for instance, seasonal employment, contractors and the degree to which family members should be included in the labour force. Another criterion could be farm investment, even if investments are sometimes associated with a highly mechanised farm with a low labour input.

GREENING OF THE FIRST PILLAR

Issue description

As indicated by the Communication CAP towards 2020, the greening of both pillars of the CAP is a key objective of the next reform aiming at meeting the climate change and other environmental challenges, as well as making a strong case for the added value of the policy as an integral part of the Europe 2020 strategy.

The two CAP pillars should work together in a complementary way, with simple measures of general application required for direct payments in the first pillar, and incentives for more targeted measures offered in rural development programs in the second pillar

With a view to further strengthening the role of direct payments for the provision of public goods, it is envisaged to put in place a 'greening' component by supporting, across the whole of the EU territory, generalized, non-contractual, annual environmental measures that go beyond cross compliance.

The introduction of this new component should not significantly complicate the management of direct payments, notably in terms of administrative burden for farmers and paying agencies, nor significantly increase the risk of error. It will therefore be necessary to find the right balance between the environmental benefits of the greening and the burden which its administration implies.

Possible approaches

The measures currently under consideration for the 'greening' component include:

- **permanent grassland**, which concerns grassland (around 50 mio ha),
- **green cover and crop diversification**, which concern arable land (around 100 mio ha) (with green cover also potentially applicable on permanent crops)
- **ecological set aside**, which is potentially applicable on all eligible land (around 160 mio ha), and
- Support to designated **Natura 2000** areas (around 17 mio ha).

Example for an action: Crop diversification

- Reasoning of the measure: Monocultures can exhaust soils and favour selectively the presence of certain pests and weeds, triggering high use of pesticides and herbicides.
- As elements for the design the measures, it would require that e.g. the main crop would not exceed [70] % of the utilized agricultural area of the farm. A possible additional obligation would be a minimum of 3 or 4 crops at the same time.

- The measures should be mandatory at the farmer level:

Each farmer will be required to undertake environmental actions, such as permanent grassland, green cover, crop rotation and ecological set aside; some of these would apply to all potentially eligible area, while others would apply only to grassland or to arable land (the reflection on possibilities for other crops, such as permanent crops, is ongoing).

- These measures covering the whole EU territory will be defined as uniformly as possible:

Discretion will be left to the Member States in some limited conditions e.g.: either general framework for the measures at EU level with the possibility for Member states to specify at regional level alternative conditions or more well defined greening component at EU level including a choice for Member States to leave out [one] measure from the list.

- These measures must not replace cross compliance-obligations or AEMs:

The 'greening' component needs to find its right place in the overall direct payment structure without unduly duplicating similar measures that are part of cross compliance and rural development or making agri-environmental measures less attractive to farmers.

Cross compliance rules form the baseline for these actions, i.e. the level of actions only above which the payments are made. The level of ambition of the GAEC must be adapted consequently after the definition of these new agri-environmental actions. In this respect certain evolutions of the GAEC framework are envisaged.

A not mutually exclusive existence of agri-environment measures and the environmental actions seems appropriate. There are clear cases where rural development measures add value by being more ambitious or better tailored to the local situation. In such cases, the possibility should be granted to go beyond the 'greening' component.

- The level of the payments will be relatively low, the measures shall be simple

The budget for the 'greening' component would have to be set as a % of the total budget for direct payments. All farmers in a Member State (or region) will get the same payment corresponding to the share of direct payments allocated to the 'greening' component. Above basic payment, green payments will be an annual flat rate. Therefore the level per ha of the green payments will be relatively low, compared for instance to the level of payments of the agri-environmental measures of the second pillar. The level of the requirements to meet the eligibility criteria will have to be adjusted accordingly.

Recommendations

1. General issues

Without prejudice to the political advisability of introducing a greening component under the first pillar or other possible options in this respect (such as through reinforcing cross-compliance or support under the second pillar), the Conference recommends that:

- the greening component should be kept simple, annual and managed under the existing control framework of the IACS (with control as much as possible under the LPIS and via remote sensing and together with the controls for the base premium);
- in order to ensure the controllability of the greening component, given the differences between the Member States, it is necessary to allow a certain flexibility for Member States and, possibly, farmers in the choice of the measure(s) to be implemented, taken from a limited and exhaustive list laid down at EU level (especially due to climatic or soil differences in the Member States);
- the greening component should aim at a balanced impact on farmers in all Member States with a view to avoiding distortions of competition;

- the impact which the introduction of a greening component under pillar 1 could have on what is already done under pillar 2 should be minimized as much as possible in order to avoid any overlap between both pillars and currently existing cross-compliance requirements should be deleted if they are taken up under the new greening component;
- greening commitments should be determined at the level of the farm rather than for the individual parcel (whole farm approach);
- the control obligations, including any possible reduction of the control rates, for the greening component should take into account the quality of the existing control systems, bearing in mind that the introduction of the component will in any case increase the burden for both farmers and the national administrations;
- the greening payment should not be differentiated by measure chosen.

2. **Permanent grassland**

The Conference recommends that:

- area under grassland is controllable via the LPIS, supplemented by remote sensing where necessary;
- there should be no additional requirement (such as animal density or certain maintenance practices) other than the long-term presence of grass;
- flexibility (including exchange/substitution of the land concerned) is necessary, via an all-farm approach, in order to allow farmers to adapt to climatic conditions, market or other needs.

3. **Crop diversification**

The Conference recommends that:

- diversification could be defined preferably as a maximum % of one crop, but possibly also as a minimum number of crops existing on the holding or a combination of both;
- a genuine crop rotation over several years could not be manageable and should therefore remain confined to pillar 2;
- diversification would be difficult to apply to farms with only a limited amount of arable land and to specific cultures (for example permanent crops, for example vineyards or orchards, horticulture) and should not therefore be applied to these categories;
- the possibility to control via remote sensing would depend on the definition of diversification at *crop level group*.

4. **Green cover**

The Conference is of the opinion that:

- green cover would be one of the more difficult greening components to control due to the limited possibility of remote sensing (climatic conditions) and the specific issue of timing for on-the-spot controls (cover being required some six months following the aid application) and, thus, not be recommendable from a simplification point of view;
- the timing issue also applies to the payment date which may have to be delayed in order to carry out the additional ex-ante controls required.

5. **Natura 2000**

The Conference recommends that:

- this measure would be simple to control only if the eligibility condition for receiving the greening component consists merely of the parcel already being in a designated *Natura 2000* zone, without respect of the conditions of *Natura 2000* (which would have to be controlled under other systems such as the cross-compliance regime) being added to the eligibility conditions.

6. **Ecological set-aside/ green infrastructure**

The Conference recommends that:

- this measure would be manageable and controllable, provided that the eligibility condition would be limited to the land being set aside and not include any additional requirements (such as the complete prohibition of production, grazing or the use of pesticides);
- under this scenario, remote-sensing could generally be used for the controls, though there would be certain limitations for such use which in some cases would require classical on-the-spot checks;
- the set-aside obligation should not concern grassland areas (focus on arable land);
- buffer strips and certain other elements such as landscape features should only be taken into account for compliance with the set-aside obligation if they are included in the LPIS (which implies a certain minimum size/width);
- certain transitional rules should be foreseen in the second pillar to avoid possible overlapping with the new set-aside obligation.

7. **Sanctions**

The Conference recommends that:

- the sanction system for non-respect of the greening measures should be established at EU level and, as far as possible, follow the approach currently foreseen in the IACS (including the respect of the proportionality principle);
- the sanctions for such non-respect should not have any impact on the eligibility of the basic payment.

8. **Other issues**

The Conference recommends that any possible evaluation mechanism of the effect of the greening component would imply additional work and, if considered necessary at all, should be kept simple and not duplicate the requirements of pillar 2.

SUPPORT FOR SMALL FARMERS

Issue description

In the Commission Communication on the future of the CAP after 2013 a simple and specific support scheme for small farmers is considered that should replace the current regime in order to enhance the competitiveness and the contribution to the vitality of rural areas and to cut red tape. A scheme for small farmers was implemented in the past in Article 2a of Regulation (EC) No 1259/1999. Besides, a "semi-subsistence" farming scheme is currently available in Rural Development.

The goal is to examine the feasibility of such small farmers scheme and to get views on the possible requirements to make such measure work in an effective and efficient way, especially as regards the administration of the scheme and the possible abuses related to such scheme.

Possible approaches

The scheme could be made general (setting a direct payment threshold under which beneficiaries would automatically get a bonus) or targeted (certain range of farmers fulfilling additional criteria (e.g. competitiveness potential) farmers in a specific zone would get a bonus).

The reference for eligibility could be historical or based on a yearly assessment.

The threshold could be EU-wide or national.

The bonus could consist in a completion of the payment to the threshold amount, the attribution of a flat-rate amount and the increase by a progressive percentage the lower the payment is (with possibly several bands).

The bonus could be attributed as a top up (an additional payment) or through an increase of the value of entitlements.

Recommendations

Without prejudice to the political advisability of introducing a special support scheme for small farmers under the first pillar, the Conference recommends that:

- support to small farmers can be and is already granted under pillar 2 and that such support can be designed in such a way that it promotes investment, restructuring and growth or facilitates phasing out of activities or specifically targets those farmers who are considered necessary for the maintenance of the vitality of rural areas;
- any support scheme for small farmers under pillar 1 should take account of and avoid duplicating support already granted under pillar 2 and, thus, could possibly remain optional for those Member States which are granting support to small farmers under pillar 2;
- any support scheme for small farmers under pillar 1 should be limited to a certain number of general principles, while leaving flexibility to Member States, within a framework established at EU level to allow them taking the specificities and organisation of each national/regional situation into account and to avoid giving a bonus to those who do not need it or who are merely

holding on to their land and are maintaining the status quo. It should also be left to the Member States to determine the precise thresholds for defining small farmers, possibly within a range set at EU level;

- support for small farmers under pillar 1 should be considered part of the national envelope.
- for any support for small farmers under pillar 1 the existing direct payments/IACS should be used and the management should be as automatic as possible so as to limit to the extent possible the administrative burden for both farmers and paying agencies;
- a support scheme for small farmers could be designed in such a way that entry into the scheme would depend on the on-farm situation (in terms of hectares and other criteria such as income) remaining stable for a certain reference period (3 years). This would allow a simplified application system. To further simplify the application, farmers below a certain threshold could be sent pre-filled applications based on that of the previous year and then check one box to indicate that they have not changed their situation;
- the control burden for the paying agencies for small farmers should be limited, without compromising the effectiveness of the controls;
- as regards the precise way to deliver the aid, it could be a flat rate amount or a percentage/absolute increase to the base amount of aid as all these options could easily be handled through the existing IT systems. However, it would be difficult to dispense with entitlements for small farmers because without entitlements problems would arise for farmers who outgrow the small farmers' category.

ALIGNMENT OF THE MANAGEMENT OF THE IACS-RELATED MEASURES OF PILLARS 1 AND 2

Issue description

In its Communication on the future of the CAP after 2013 the Commission confirms its view that the two pillars structure should be maintained in the future. It also states that the better targeting of the direct payments should not result in an overall increase of the administrative burden.

IACS tools govern the management of first pillar measures (direct payments) and second pillar measures (currently essentially Axis 2 measures). However, the IACS rules currently vary between the two pillars, both as regards the relation between the national authorities and the final beneficiaries and between the Member State and the Commission. The goal is to examine where the harmonization of the IACS rules between the two pillars would lead to a reduction of the overall administrative burden for farmers and for the administration and where it would rather lead to an increase of such burden, taking into account the objective of better mitigating the risk of errors.

Possible approaches

One possible approach could be to fully align the rules with the ones currently applicable for direct payments, which have proved their efficiency. This approach would have the advantage of full coherence of a single set of rules.

Another approach would be to assess the specific simplification impact of each possible alignment between the two pillars, or of further simplification to the existing rules, and to retain the ones that would have the best impact in terms of reducing the administrative burden.

Recommendations

The Conference recommends that:

- rules should be aligned "as much as possible" as an important contribution to simplification, but there are limitations to the possibility of doing so, which would plead for the second approach identified above;
- alignment is generally possible for claims, controls and payment deadlines (1/12/n – 30/6/n+1).
- it could also be considered whether to align the definition of what is eligible land, which is currently different in the two pillars. Such alignment would also be simplification, but would have to be considered against the potential loss of the possibility of supporting certain environmentally valuable land under the second pillar;
- all control provisions for both pillars should be integrated into one single regulation, though certain specific control requirements will have to remain for the second pillar;
- the respective roles of the paying agencies and the managing authorities should be clarified, the latter being responsible for establishing the programmes, selecting the projects, monitoring and evaluation, while the entire management and implementation of the measures would be the responsibility of the paying agencies;

- the payment of advances generally creates significant additional administrative burden for the paying agencies and, thus, can significantly delay the final payment. Therefore, the simplest and most efficient approach to speed-up payments would be to finalise controls as quickly as possible and, thus, avoid the need to pay advances. Nonetheless, it may not always be possible to completely eliminate the possibility of advances (as of 16/10/n) to meet some specific circumstances and there should be room for sufficient flexibility;
- as regards the rhythms of payments from the Commission to the Member States, the current situation is generally satisfactory and does not pose any significant management problems.

IMPROVING THE MANAGEMENT OF PAYMENTS UNDER THE SECOND PILLAR OF THE CAP FOR MEASURES NOT COVERED BY THE IACS

Issue description

Given the variety and specificities of the rural development instruments, the administrative burden for the farmers and the administration as well as the risk of errors differ widely. The goal is to identify where the main difficulties are and which improvements could be made to reduce the administrative burden, taking into account the objective of mitigating the risk of errors.

Some general issues are set out below. More specific issues for discussions are set out in the three attachments relating to

- the Leader approach (Annex 1),
- the management and control of small projects (Annex 2),
- the use of standard costs (Annex 3),
- the treatment of indirect costs (Annex 4).

Recommendations

The Conference recommends that:

- the respective roles of the paying agencies and the managing authorities should be clarified along the general principles that the latter being responsible for establishing the programmes, selecting the projects, monitoring and evaluation, while the entire management and implementation of the measures would be the responsibility of the paying agencies;
- applicants for support under the second pillar should preferably have a single entry gate in the administration responsible for managing the relations with the applicants.
- eligibility rules for all the structural funds and for the rural development should be aligned as much as possible.

THE LEADER APPROACH

Issue description

Leader is characterized by the implementation of local development strategies through projects. It is characterized by bottom-up approach where a decision-making is carried out through local public-private partnerships and is therefore a distinctive multi-governance tool for the implementation of parts of the rural development programs. The participation of the LAGs (Local Action Groups) in the administration of funding, taking onboard some of the tasks reserved in the traditional (top-down) system for management authority and paying agency, needs to be compatible with the principles of sound financial management.

The “administrative mainstreaming” of Leader into the management and control system of agricultural funding in the current period has brought along challenges for all actors involved. An unclear division and overlapping tasks between LAGs, management authorities and paying agencies in several Member States are seen as a constraint to the smooth and genuine implementation of the Leader approach.

Still, it has to be taken into account that the implementation systems differ very much between programs, dividing the tasks in different ways. The diversity of the solutions used also reflect different administrative traditions as regards multi-level governance: LAGs have at least to have the competence to select projects. They decide which project has to be funded. In many Member States, LAGs are also in charge for the formal approval of projects or might even have certain tasks in the payment of funding.

Possible approaches

The division of labour between the managing authority, the paying agency and LAG could often be defined in a clearer way than it is now the case. This could be done through the establishment of common principles on task-sharing, and responsibilities after an identification of the practical difficulties.

In Leader, one role of the paying agency is to make an eligibility check of projects. The local development strategies are a decisive element for this eligibility checks. They need therefore to have an appropriate level of precision, and have to set clearly which type of actions corresponds to the objectives. They can be considered as "mini programs". Requirements could be established at EU level to describe minimal obligatory elements of the strategies in the sense of strategic objectives and priorities.

The delegation of tasks to the LAG going beyond the task of project selection is possible, but needs to be formalized. The administrative checks on measure 431 (running the LAG, acquisition of skills and animation) for operations implemented by the LAG themselves and the on-the-spot checks are the only tasks which should not be able to be delegated to the LAGs.

Recommendations

The Conference recommends that:

- within an EU framework, LAGs should establish their own administrative principles (such as rules of procedure, selection of projects) which they have to respect;

- the administrative role and concrete tasks which a LAG is to perform should be clearly defined and proportionate to its administrative capacity;
- in cases where some of the paying agency's responsibilities are delegated to a LAG, the delegation has to be in conformity with the provisions of Annex I of Regulation (EC) No 885/2006.

THE MANAGEMENT AND CONTROL OF SMALL PROJECTS

Issue description

Beneficiaries with small projects often hesitate to apply for support since the efforts of producing an application are too burdensome compared to the aid received. The administrative costs for treating and controlling these small projects may sometimes exceed the amount of aid granted. Cutting excessive paperwork and simplification of the procedures are often mentioned as solutions to these problems of small grants and contracts.

In the current rural development legislation there are no specific provisions for small grants/projects. An exception is a provision under Regulation 1975/2006²⁵, which provides for the possibility for Member States not to carry out *in situ* visits to verify the realisation of smaller investment. There is no definition of "smaller investments" in the current rural development legal framework; it is in the competence of the Member States to define it.

It is also the competence of the Member States to define the eligibility conditions for a given payment under a given measure/programme.

Initiatives to reduce the administrative burden for beneficiaries of small grants have to find balance between simplification and efficient management of public funds.

Possible approaches

There are several steps in the project management where simplification issues could be discussed:

Eligibility conditions for the payments

The normal rule is that eligible costs are to be determined for each payment on the basis of the costs occurred, i.e. on the basis of individual invoices. The reimbursement based on invoices is burdensome both for the beneficiaries and the administration

In the future Member States may decide paying small grants as a lump sum. The pre-established lump sum shall cover all eligible costs or part of eligible costs of an operation in accordance with pre-defined terms of agreement on activities and/or outputs. The grant is paid if the pre-defined terms are completed. The calculation of the lump sum shall be fair, equitable and verifiable. Supporting documents will be required from the beneficiary to verify that the actions claimed were in fact realised.

Administrative checks

Currently, administrative checks shall be carried out on all applications for support, payment claims and other documents required. Administrative checks on applications for support shall include:

- the eligibility of the operation,
- compliance with the selection criteria,

²⁵ Commission Regulation (EC) No 1975/2006 laying down detailed rules for the implementation of Reg. (EC) 1698/2005, as regards the implementation of control procedures as well as cross-compliance in respect of rural development support measures

- compliance with applicable national and Union rules on e.g. public procurement and State aid,
- the reasonableness of the costs submitted and
- the reliability of the applicant.

One could consider that the administrative checks on applications for small grants/projects, under a certain level of amount, could be simplified by taking away the parts concerning rules on public procurement and State aid as well as the reasonableness of the costs. Member States already often have simplified rules for small projects and the EU rules for public procurement are often only binding for very big projects. For small projects, Member States also often have simplified rules to assure the reasonableness of costs.

Currently, administrative checks on payment claims shall include in particular, and where appropriate for the claim in question, verification of:

- the delivery of the products and services co-financed
- the reality of expenditure claimed
- the completed operation compared with the operation for which the application for support was submitted and granted.

It could be considered that beneficiaries of small grants would have the possibility not to send the original invoices to the Paying Agency and instead provide a list of the items to prove the reality of expenditure and keep the actual invoices on their premises for the possible on-the-spot check. Supporting documents should still be required from the beneficiary to verify that the products and services were delivered as planned.

Administrative checks related to investment operations shall include at least one visit to the operation supported or the investment site to verify the realisation of the investment. However, Member States may decide not to carry out *in situ* visits for smaller investments (Article 24 of Regulation 1975/2006). In the future the possibility of not having *in situ* visits for smaller investments should remain.

On-the-spot-checks

Sampling:

Member States are required to organise on-the-spot checks on approved operations using an appropriate sampling basis. These checks shall, as far as possible, be carried out before the final payment is made. The expenditure covered by on-the-spot checks shall represent at least 4 % of the annual expenditure financed by the EAFRD. For the whole programming period 5 % of the EAFRD expenditure shall be controlled on-the-spot.

Currently the sample of approved operations chosen for on-the-spot checks shall take into account in particular

- the need to check an appropriate mix of types and sizes of operations,
- any risk factors identified following national or Union checks,
- the need to maintain a balance between axes and measures and
- the need to select randomly between 20% and 25% of the control sample (i.e. the risk-based sample represents 75-80%).

It could be considered whether small grants/projects could be taken into account only in the random sample.

Content of the check:

During the checks Member States shall endeavour to verify that:

- payment claims submitted by the beneficiary are supported by accounting or other documents

- the nature and the timing of the relevant expenditure (for an adequate number of expenditure items) comply with Union provisions and correspond to the approved specifications of the operation actually executed
- the use or intended use of the operation is consistent with the use described in the application
- the public funded operations have been implemented in accordance with Union rules and policies, especially the rules on public tendering and relevant mandatory standards established by national legislation or in the Rural Development Programme.

For small grants/projects the second and last point could in the future be taken out from the checks.

We have also to have in mind that small projects could be more risky because the beneficiaries are less aware of all the rules to be respected.

In general a special clause saying that Member States may take into account the cost/benefit relation when doing checks for small grants/projects could be introduced.

Calculation of payment

Concerning the calculation of payments one option which could constitute a considerable simplification for small projects, would be to pay the grant on a standard cost. Standard cost is a predetermined cost which in advance establishes the cost of products or services. The total standard cost typically includes direct materials, direct labour and overheads. In the current Rural Development legislation the use of standard costs is already permitted in certain measures under axis 1 and 2. The move towards the standard costs is seen to reduce administrative burden, as well as to be more compatible with electronic applications. For further details, please see also Annex 3 on standard costs.

Recommendations

The Conference recommends that:

- a threshold for small projects should be fixed by the Member States within a range determined by EU legislation;
- the simplification of eligibility conditions through the use of lump-sum payments, standard costs and the treatment of indirect costs (see Annex 3) are promising way of reducing the administrative burden for the management of small projects without increasing the risk of errors;
- limitation of *in situ* visits for small projects should continue to be possible;
- the minimum level of on-the-spot controls should be determined on the basis of the number of beneficiaries (as it is the case for IACS) rather than the amount of the grants involved.

THE USE OF STANDARD COSTS

Issue description

Definition: Standard cost is a predetermined cost. It establishes in advance the cost of products or services under given circumstances. The total standard cost typically includes direct materials, direct labour and overheads. The calculation of total standard cost is based on estimated standard scales of unit costs (e.g. average hourly salary).

In standard costing it is fundamental that the final payment remunerates the outcome, not costs occurred.

Current situation: Article 53 of Regulation (EC) No 1974/2006 permits the use of standard costs for certain Axis 1 (meeting standards) and Axis 2 measures (e.g. LFA, Natura 2000, AEM, animal welfare, non-productive investments, and some forestry measures). The permitted standard costs must only contain verifiable elements, be based on expert knowledge, have sources clearly indicated, and be differentiated as appropriate. For some of the measures, the calculations may not contain elements linked to fixed costs.

Importance: The ESF²⁶ and ERDF²⁷ regulations include the possibility of applying standard scales of unit costs for support given in the form of grants. On the other hand, EAFRD beneficiaries must document all financial transactions and present receipts upon request.²⁸ In order to align the rules within the EU funds, several Member States have requested the adoption of standard costing to investment measures. Standard costing is seen to reduce administrative burden for the beneficiaries and the administration through the reduction in handling of invoices and changes in project support decisions. It is also more compatible with electronic applications. Yet, the application of standard costing is initially very work-intensive for the administration. Setting the standards requires time, expertise, and staff training. Also audit focus and practises must be changed.

Implications:

1. Calculation of standard costs

Process: The process of setting cost standards is very technical, time-consuming, and burdensome. Preliminary studies may have to be conducted, and suitable experts must be found. Staff capacity and knowledge must be ensured well in advance. Legal provisions for updating/indexing the standard scale of unit costs must be put in place.

Contents: The standard costs must have a clear and direct link with the operation in question. The basis for calculating the standard scale of unit costs must be fair, equitable, verifiable, and justified, as well as established in advance. Over- and under compensation must be avoided. The calculation of standard costs should cover fixed and variable costs. The calculations may also include a component of indirect costs (overheads). The standard costs of a project can be differentiated according to activities or types of costs (e.g. qualified/unqualified labour costs).

²⁶ Article 11.3(b) of Regulation (EC) No 1081/2006 as amended by Regulation (EC) No 396/2009

²⁷ Article 7.4 of Regulation (EC) No 1080/2006 as amended by Regulation (EC) No 397/2009

²⁸ Article 26(5) of Regulation (EC) no 1974/2006

The standard costs for a project can either be calculated on the basis of

- a. *process* (average hourly salary x number of hours worked); or
- b. *outcome* (payment is conditional upon quantified outcome, e.g. number of training participants who obtained a job and retained it for a certain period after the course)

The outcome-based standard costs are more risky for the support recipient, as the attainment of the agreed outcomes may not depend solely on the beneficiary. Clear rules on allowed variance in outcome must be agreed beforehand. It may be beneficial to tie parts of the payment into outcome, parts into process. In general, it is recommended to use standard costing only for that part of variance which can be controlled by the beneficiary. The outcome-based approach may not be suitable for all RD measures due to WTO rules linking payments to agricultural output, controllability issues, and the amount of uncontrollable variance.

2. *Controls and audits*

Focus: The focus of verifications and audits moves towards from financial audit to the technical and physical aspects of operations. The importance of *in situ* controls increases. The audit departments must also define new procedures and methods for verifying the calculation methods underlying the standard costs and for checking whether the units declared by the beneficiary correspond to delivery.

The audits seek to confirm that the conditions set in terms of outputs for the reimbursement of costs are fulfilled. Furthermore, the audits seek to verify whether the amount declared equals the standard rate per unit of product or service multiplied by the actual units delivered. The focal point of audits at Member State level is in the calculation method for arriving at the standard scales of unit costs. On the level of the beneficiary, on the other hand, the audits centre on the correct application of the method in individual projects.

Documentation: The PA/MA responsible for the calculations must document the method and data used in the standard cost calculations. The beneficiary must certify, justify, and archive documents on the declared quantities.

Detailed supporting documents (e.g. time sheets in case of labour costs) are necessary only for direct costs as indirect costs (overheads) could be paid as a fixed percentage of operations.

Possible approaches

Under the ESF and ERDF regulations, standard scales of unit costs are defined by the Member State. These costs are to be established in advance on the basis of a fair, equitable, and verifiable calculation. These costs apply typically to easily identifiable quantities (training hours/days, hours worked, hotel nights, meals, certificates obtained etc).

For EARDF, the current Article 53 could be expanded to include also grant-based Axis 1 and 3 investment measures. However, the standard costing is only suitable to those operations where it is possible to define quantities and standard scale of unit costs related to an activity. Standard costing is more difficult to apply for non-standard investments.

The Member States could choose in which measures to apply real costs (checked against invoices) and in which estimated standard costs (checked against outcomes). The control provisions related to these two cost types would be different.

Recommendations

The Conference recommends that:

- there should as much as possible be common EU rules on standard costs for the second pillar of the CAP and the Structural Funds;
- the use of standard costs may simplify the management, though not for all measures, and that, therefore, a certain flexibility in using such costs should be left to the Member States;
- the extent to which the use of standard costs could reduce the administrative burden for the paying agencies depends on whether it is made compulsory for the beneficiaries.

THE TREATMENT OF INDIRECT COSTS

Issue description

Definition

There are two types of costs related to a project/investment, namely:

a) Direct costs

- directly related to an individual activity of the entity; link can be demonstrated
- consist of
 - investment costs
 - general costs (e.g. architect fee, license fees)

b) Indirect costs

- are not/ cannot be connected directly to an individual activity of the entity in question
- can only be allocated to the project on a pro rata basis
- consist of
 - administrative costs (e.g. human resources, security, accounting)
 - overheads (e.g. rent, utilities, supplies, employee fringe benefits and social security contributions)

Current situation

During the current programming period, a number of Member States and Regions have requested authorisation of indirect costs (especially overhead costs) for certain types of projects. Recently the issue has been raised as regards the provision of training to businesses and farmers. These indirect costs are not listed in Article 55 of Commission Regulation (EC) No 1974/2006, which defines the concept of general costs for investment projects. The lack of definition triggers interpretation issues and creates ambiguity on the eligibility of the costs.

Currently the indirect costs have been accepted by the Commission under the condition that they are applied in duly justified cases. Furthermore, the indirect costs must be limited as a percentage of the eligible costs of the project or a lump sum, or both taken together. The need for having such costs must be justified by the Member States.

The implementing rules of the EU financial regulation (Article 181 of the Commission Regulation (EC) No 2342/2002) foresee, in the case of grants, the funding of beneficiary's indirect costs up to a maximum of 7% of total eligible direct costs for the action. The 7% ceiling may be exceeded by reasoned decision of the Commission. The same article also permits the use of lump sums up to €25 000 to cover one or more categories of eligible costs.

Importance

The ESF²⁹ and ERDF³⁰ regulations include the possibility of refunding indirect costs, declared on a flat-rate basis, of up to 20% of the direct costs of an operation for support given in the form of grants. The same regulations also permit, for grants, the use of lump sums to cover all or part of the costs of an operation. Simplification related to indirect costs is important because of alignment of the rules within the EU funds and for reducing administrative burden for the beneficiaries.

Implications

The option for declaring indirect costs on a flat rate or lump-sum basis must be foreseen at the stage of programming of the operations. The preparations must start early, both on the Member State and EU level. Preliminary studies based on data from current programming period operations are required for arriving at a suitable flat rate or lump sum. The calculations must be reasonable (so as to not raise/decrease the indirect costs declared), fair (treating all projects and beneficiaries equally), and verifiable (the MA must demonstrate how the model has been chosen).

The objective is to get rid of the need to justify the individual costs which make up the indirect costs in a detailed manner. However, this simplification implies that the declared direct costs must be verified carefully since they form the basis of a careful verification of the declared direct costs, in accordance with the granting decision. This verification of direct costs allows justifying the amount of declared indirect costs and constitutes a part of the management checks and of audits on operations.

Possible approaches

- EU-level definition of a fixed percentage/lump sum for indirect costs by the implementing rules, as well as the listing of cases where these costs could be used.
- Definition of indirect costs and the model of calculation on the EU-level. Member States would use their own certified data to come up with a fixed percentage/lump sum for indirect costs.
- Definition of indirect costs on the EU-level, clearly outlining the conditions under which these costs could be used. Member States would be granted flexibility in deciding upon the implementing rules and concrete parameters, including:
 - measures/actions where applied
 - model of calculation
 - basis of calculation (personnel costs or total project costs) in case of flat-rate
 - limited percentage of eligible costs in case of flat rate
- No EU-level definition of indirect costs, only maximum allowed percentage for flat rate. This leaves the Member States with flexibility on definition, implementing rules and concrete parameters but obliges them to define direct/indirect costs or have a pre-established list of all eligible direct costs on which the flat rate is based.

Recommendations

The Conference recommends that:

²⁹ Article 11.3(b) of Regulation (EC) No 1081/2006 as amended by Regulation (EC) No 396/2009

³⁰ Article 7.4 of Regulation (EC) No 1080/2006 as amended by Regulation (EC) No 397/2009

- there should as much as possible be common EU rules on indirect costs for the second pillar of the CAP and the Structural Funds;
- the treatment of indirect costs would be simplified by setting them as a percentage of total eligible costs.