

Fact Sheet



SIMPLIFICATION OF THE COMMON AGRICULTURAL POLICY



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Foreword

The European Union's agricultural model reflects both the needs of farmers and the expectations of a society which pays special attention to food safety, animal health and welfare, environmental standards and the conservation of the rural environment. The Common Agricultural Policy (CAP) is designed to meet all these aspirations across diverse farm types and climatic zones. It comprises a wide variety of measures, but also delivers many public goods to EU citizens.

The CAP is undeniably complicated. While farmers often complain about this complexity, the CAP is also misunderstood by the public in general. It is vital for both groups that it is made simpler, and that this is a continuous process involving open dialogue with all concerned.

EU citizens pay for the CAP. They have a right to expect that their taxes are spent in the fairest and most efficient manner, with minimal waste. Regulations, checks and financial controls are necessary to achieve this and to maintain citizens' confidence. It is to some extent inevitable, therefore, that the CAP is complex.

In considering ways to simplify the policy, the difficulty lies in achieving the right balance between simplicity and accountability. Finding this balance is an ongoing process; the CAP has evolved and will continue to do so in the future. A major aim of recent CAP reforms (notably in 1999 and 2003) has been to simplify its operation in the interests of agricultural stakeholders, administrations and citizens

alike. These reforms supplement previous efforts to update and simplify existing rules. The ultimate aim is to have the minimum amount of legislation necessary to achieve the CAP's aims.

This simplification effort fits into an overall, long-term European Commission plan to rationalise the EU's regulatory framework and to reduce 'red tape', so that EU policies are easier to understand and comply with. The Council of Ministers (composed of EU Member States) is also increasingly active in this field.

Simplification is not just an aim in itself – it should have material benefits. The simplification initiative should reduce costs, help encourage growth and employment and enhance value for money for all involved. Simplification is now entering a new phase – this should help retain the confidence of farmers and citizens in the CAP.

Simplification is now a top priority of the EU. The Commission will come forward with an Action Plan on simplification of the CAP in 2006 and a simplification conference is also planned for 2006.

A handwritten signature in black ink, appearing to read 'Mariann Fischer Boel'.

**Mariann Fischer Boel,
EU Commissioner for Agriculture and Rural Development**



1. What is simplification?

Simplification in the context of the CAP means different things to different people. Simplification of the CAP could be achieved by just removing levels of regulation. But simplification is much more than merely reducing the numbers of pages of rules. While this would cut red tape for farmers and the public authorities, it could also undermine control of the spending of taxpayers' money. So simplification must operate within a given policy and regulatory framework.

a) CAP simplification – a twin approach

There is a need to distinguish between two basic types of CAP simplification:

i. Technical and administrative changes to existing systems

This is a continuous process involving the updating and consolidation of hundreds of pieces of legislation, but without changing policy. The aim is to create, wherever possible, single legislative acts containing all the relevant rules covering particular policy areas. This allows stakeholders to work within a much simpler framework, without the need to understand scores of rules, some of which have been built up over 40 years. In addition, administrative procedures and management mechanisms can be streamlined to save on costs. In some cases such mechanisms, once essential, have become

redundant. This simplification effort takes place without changes being made to existing policies or CAP goals.

ii. Policy simplification – new, simpler agricultural policy

The second simplification type, on the other hand, does involve changing the substance of existing policies. While the CAP is constantly under review, changes tend to come about in set-piece reform packages every few years. For example, the most recent large-scale CAP reforms occurred in 1992, 1999 and 2003. In addition, the EU now conducts impact assessments of proposed changes prior to their adoption – an important question in those assessments is 'will the proposed reforms simplify the CAP?' In addition, the EU evaluates the success of all CAP measures – allowing ineffective policy tools to be replaced or abandoned.

Simplification = a more cost-effective CAP

Simplification should:

- Facilitate access to CAP legislation;
- Reduce transaction costs for 'clients' (farmers, operators, administrators);
- Avoid unnecessary burdens on public administration;
- Remove unnecessary public expenditure (while maintaining fraud prevention);
- Increase competitiveness in the agricultural sector;
- Improve public acceptance of the CAP.

b) Why simplification is important – for all CAP stakeholders

The main stakeholders in the CAP have, historically, been Europe's farmers; in the past, the CAP focused mostly on them, as well as others in the production chain. The CAP now includes many measures that involve and assist rural areas and rural stakeholders (other than farmers) more widely. The amount of regulation has increased over time. Farmers of all ages and types have stressed the need to reduce the administrative burden.

Consumers and taxpayers are now better informed than ever about the CAP. But they want to be more involved in opinion-forming and decision-making. Simplifying the CAP is important in order to maintain their confidence in what the CAP aims to achieve. They may take it for granted that adequate supplies of the food they want will now be available. Unlike in the post-war period, consumers' and taxpayers' concerns are nowadays much more focused on food production methods and whether sufficient attention is being paid to market requirements, the environment, food safety, food quality and animal welfare.



c) How does agricultural policy fit into the wider EU simplification initiative?

Simplification work on the CAP, led by the Directorate-General for Agriculture and Rural Development, was initiated in 1992 and has been continued and updated since. It is not taking place in isolation – it fits into the overall European Commission emphasis on better regulation, recently reinforced by the Commission communication of 25 October 2005, entitled 'Implementing the Community Lisbon programme: A strategy for the simplification of the regulatory environment'¹. This strategy aims to make legislation at both EU and national level less burdensome, easier to apply and thereby more effective in achieving its goals.

More information on the better regulation initiative can be found at:

http://europa.eu.int/comm/enterprise/regulation/better_regulation/simplification.htm

Key elements of the EU's better regulation and simplification initiative

Following extensive discussion within the EU institutions, and consultation with Member States and stakeholders, including the general public, the Commission's 25 October 2005 Communication focuses the better regulation and simplification effort on:

- Repealing EU legislation (where unnecessary, irrelevant or obsolete);
- Codification of existing legislation, partly to reduce its volume;
- Recasting legal acts, to clarify, to update and to improve consistency;
- Greater use of 'co-regulation', e.g. by using existing, independent standards rather than creating EU standards;
- Replacing directives with regulations;
- Reinforcing control of transposition of laws, e.g. by the use of information technology;
- Maintaining minimum standards of consultation;
- Ensuring that impact assessments are conducted.

¹ COM (2005) 535 final.

The Commission also issued a communication on 'Simplification and Better Regulation for the Common Agricultural Policy', on 19 October 2005², which proposes a major simplification strategy for the CAP, most notably the harmonisation of the rules covering the various agricultural markets and the production of an Action Plan during 2006. This is described more fully in the section 'Commission Communication'.

d) What simplifying the CAP does not do

It would be a mistake to believe that simplification initiatives are a way of reopening the debate over reform of the CAP. The Commission does not propose the promotion of simplification measures as a means to undermine recent CAP reforms or to achieve more reform.

A necessary level of regulation will be maintained in order that the CAP functions properly. Relaxing controls is not simplification! Furthermore, the EU has international obligations to fulfil – regulations relating to this cannot simply be withdrawn unilaterally.

² COM (2005) 509 final.



2. CAP simplification has a good track record

By their very nature, many simplification successes have not hit the headlines, but those affected by them can certainly feel the difference. Here is a brief stock-take.

a) Agriculture success stories

The EU has been undertaking CAP simplification work for more than a decade, in several ways and with notable success. The Commission's agriculture department has been a front-runner. A new departmental structure in the mid-1990s gave prominence to simplification (with policy initiatives now being routinely scrutinised with simplification in mind).

Cleaning up the agricultural rule book

For several years the Commission has conducted regular screening exercises to identify obsolete legislation. Thanks to this, 520 pieces of agricultural legislation were removed in 2003 and 2004 alone.

State aids - a prime example of CAP simplification

The CAP includes special rules for the operation of state aids in the agricultural sector. However, the regulatory framework that had been built up over the years had become increasingly complicated and difficult to operate, increasing the difficulty of deriving a benefit from these state aid rules. Since 1999 state aid rules have been undergoing a phase of simplification and clarification.

First, a single uniform legal basis for applying state aid rules to rural development measures was created. This allowed several old legal texts to be abolished. Rules covering aids for the rescue and restructuring of agricultural businesses were simplified and improved in 2004.

Also in 2004, a wide-ranging exemption regulation came into effect, allowing Member States and beneficiaries to use a fast track approval system for agricultural state aids, involving less paperwork. This simplification meant that, even as early as 2004, roughly 30 % of all new state aid could be paid out within just ten days of Member States notifying the European Commission (rather than after a five to six months delay experienced previously).

Finally, a regulation on de minimis aid came into force on 1 January 2005. It provides greater leeway for Member States to grant quick support (notably in times of crisis). Governments may grant aid of up to EUR 3 000 per farmer, for three years, without the necessity for Commission control, while remaining within budgetary amounts ('envelopes') established for each member state.

The Commission has succeeded in simplifying state aids in such a way that measures come into force much faster. The agricultural industry is thus better served, and the burdens on national administrations are much reduced.

Transparency – the CAP is open to scrutiny

At the same time as codifying and consolidating³ the CAP's rules, the Commission has made legislation much more open to scrutiny. The website of the Commission's agricultural department contains a wealth of information about all aspects of agricultural policy formation, regulation and review. The website⁴ – which is open to all – provides links to the agricultural departments of all EU Member States, where further information on the implementation of the CAP at national and regional level can be found. This transparency is helped by the availability of CAP legislation via the EUR-Lex website⁵.

Reducing control burdens

The series of CAP reforms that began in 1992 included introduction of the 'Integrated Administration and Control System (IACS)' in each Member State. This has improved the processing of farmers' aid applications and strengthened checks on aid payments. It also facilitates budget discipline. IACS remains the backbone of the system of CAP payments and has significantly improved efficiency and control. Significant success has already been achieved – life for farmers and administrators is easier and taxpayers' money is better looked after.

The EU's Court of Auditors has found (in its Annual Reports concerning the financial year 2004⁶) that, where properly applied, IACS is an effective control system to limit the risk of irregular expenditure.

Small Farmers Scheme⁷

In the early 2000s, having observed that 20 % of farmers received less than EUR 1 000 per year in direct aids, and that these payments represented just 1.2 % of the total budget for those aids, the Commission developed a trial scheme where small farmers could agree to accept an annual flat-rate payment instead of an individually calculated amount. This not only cut the amount of form filling for farmers but it also reduced the burden on national

³ To codify means to assemble an original legal act plus all subsequent modifying acts in one new legal text.

Codification creates new legally-binding texts. Consolidation produces updated but not legally binding texts.

⁴ http://europa.eu.int/comm/dgs/agriculture/index_en.htm

⁵ http://europa.eu.int/eur-lex/en/com/ind/en_analytical_index_03.html

⁶ See: http://www.eca.eu.int/audit_reports/annual_reports/docs/2004/en/AS_04_Kapitel_04.pdf

⁷ Council Regulation N° 1244/2001 of 19 June 2001 (OJ L 173, 27.6.2001), and Commission Regulation 1/2002 of 28 December.2001 (OJ L 1, 3.1.2002).



administrative resources (previously member states had had to devote the same resources to small farmers as to larger farmers entitled to far greater sums of money). The scheme also provided valuable practical experience for the design of the Single Payment Scheme within the 2003 CAP reform.

b) Progress reports

Two review exercises (1997-2000 and 2001-03) yielded more than 200 suggestions from Member States on achieving simplification. The Commission was able to act on about half of these. Progress in simplifying the CAP has been underlined in two reports by the Commission to the European Parliament and Council, in 1999 and 2001⁸. A third report was not needed as the lessons of the 2001-03 review were incorporated into the 2003 CAP reform process.

c) Involvement of Member States

Member States shoulder the main burden of applying the CAP. Simplification could not occur without ideas, input, decisions (and then implementation) from the Member States.

3. CAP reform and simplification

In June 2003 the EU reformed the CAP fundamentally. This reform completely changes the way the EU supports its farm sector. The new CAP is geared towards consumers and taxpayers, while giving EU farmers the freedom to produce what the market wants. The reform also aims to simplify the administration of the CAP.

a) The reform as a whole

The central aim of the 2003 CAP reform was to ensure that farmers need no longer manage their businesses with the aim of maximizing their subsidies from the CAP, but can gear their production and management practices to what the market and the general public demand. Farmers would not have the time to do this if they were continually occupied by form-filling. Many subsidy schemes operating in individual agricultural sectors have been replaced by the Single Payment Scheme. Following the reform agreement, nine Council regulations, and numerous other provisions were repealed almost immediately. Others were radically altered and simplified.

⁸ COM (1999) 156 final and COM (2001) 48 final (available via: http://europa.eu.int/eur-lex/en/search/search_lip.html).

b) The Single Payment Scheme – big simplification potential

The most significant single simplification effort in the CAP has been the consolidation of a large number of direct income support payments made to farmers into one payment – under the Single Payment Scheme (SPS). While the decision to move to the SPS was made in June 2003, it can be seen as the next logical step in a process that began in 1992. The 1992 reform of the CAP introduced the concept of direct payments to farmers in some sectors, a model then expanded on in the 1999 reform. The SPS is no longer linked to what a farmer produces (in other words it is 'decoupled' from production). A major aim of the SPS is release farmers' entrepreneurial potential. In its fully decoupled version⁹ the SPS allows farmers to submit just one application for aid per year and controls are applied using a whole-farm approach.

c) Potential for future simplification in the SPS

The reformed CAP offers Member States many options for how they implement measures 'on the ground'. Much of the onus in terms of simplification lies on action by Member States. Most of the variations (and complications) in how it is applied result from special requests from Member States which wished to cater for situations specific to their regions. In future, with experience gained from the early years of the SPS, these special arrangements could be phased out, and the EU would be able to move to an even simpler form of the SPS.

⁹ Not all Member States yet apply the SPS in fully decoupled mode.

The Single Payment Scheme (SPS) in a nutshell

The 2003 reform of the CAP introduced a new system of single farm payments (income support) and cut the link between support and production (decoupling). The SPS replaces most of the direct aid payments to farmers previously offered.

The main points to note are:

- All farmers may apply for direct payments;
- The single payment is an annual income payment to farmers that is based on their entitlement over the 2000-02 reference period (with the exception of the new Member States);
- Farmers may receive direct payments provided that they maintain their land in good agricultural condition and comply with the standards on public health, animal and plant health, the environment and animal welfare (cross-compliance);
- Farmers who fail to comply with these requirements face reductions in direct payments;
- Farmers are free to decide what they want to produce in response to demand without losing their entitlement to support;
- All Member States should introduce the single payment scheme by 2007 at the latest (with exception of the new Member States, which have until 2009 to introduce the scheme).



Options available to Member States in applying the SPS

Member States have options in how they calculate and make payments. The main difference lies in whether they calculate SPS on the basis of individual farmers' direct payments during a past reference period (the 'historic' approach), thus producing different payments to individual farmers, or whether all payments are averaged out and paid uniformly over a region or state ('flat rate'). Within the latter approach payment levels may be varied between arable land and grassland. An in-between system is also available which allows Member States either to operate a mixed historic/flat rate approach that stays the same over time ('static'); or they may choose a mix that alters over time ('dynamic'), usually so that the proportion of SPS based on historic references reduces as the flat rate element increases, offering a means to transit from the basic to the flat rate approach.

Member States may also maintain certain parts of direct support coupled to production alongside the SPS (referred to as 'partial decoupling'). Member States may apply a limited number of options, at national or regional level.

One Member State's choice: the Irish example

Ireland opted for a remarkably simple option consisting in:

- full decoupling for all of the schemes which were covered in the first phase of the 2003 CAP reform (applicable with effect from 1 January 2005);
- the historic SPS approach to farmers who actively farmed during the reference years 2000, 2001 and 2002, who were paid Livestock Premia and/or Arable Aid in one or more of those years and who will continue to farm in 2005. It also applies to dairy farmers who held a milk quota on 31 March 2005.

Why Ireland opted for fully decoupled payments – the simplest option

Leaving parts of some schemes coupled was not seen as an attractive alternative in the particular Irish farming situation. This had a major impact on Ireland's decision to fully decouple payments. Another important aim was to ensure that all major land-based farming enterprises were covered by the reform. And farmers wanted the opportunity to focus more sharply on the market and the demands of the final consumer, thereby improving their incomes. The fully decoupled SPS was expected to provide a better basis for a competitive agriculture and food industry than a system which required farmers to take farming decisions based on eligibility for aid.



4. Work in progress – further simplification is coming



It is misleading to characterise simplification as being an event that takes place on a given date. Simplification of the CAP has been progressing for years. And there are important new developments, so further simplification will follow immediately.

a) Rural development policy

In June 2005, the Council agreed on new rural development rules¹⁰. As a result of these reforms the use of rural development measures in the period 2007 to 2013 should be greatly simplified and easier to implement and control.

For example, a new strategic approach involving national strategy programmes will enable the setting of clear priorities and streamlining of the programming process. And each rural development programme will have just one managing authority and paying agency, with clearly defined functions and accountability.

b) CAP financing

Following the 2003 CAP reform and the 2005 decision on rural development funding, the complicated CAP budgetary system, as well as the funding of rural development and other measures from a variety of complex structural funds, is being replaced¹¹. This will greatly simplify CAP financing. It will also reinforce and modernise financial management and the control of CAP finances, strengthening budgetary discipline. In future one fund – the EAGF¹² – will be for CAP measures related to direct aids and market-related measures (e.g. export subsidies), and another – the EARDF¹³ – will cover rural development. The

same rules (for example, on the role of Member State paying agencies and the clearance of accounts procedure) will apply, in general, to both funds.

c) State aids

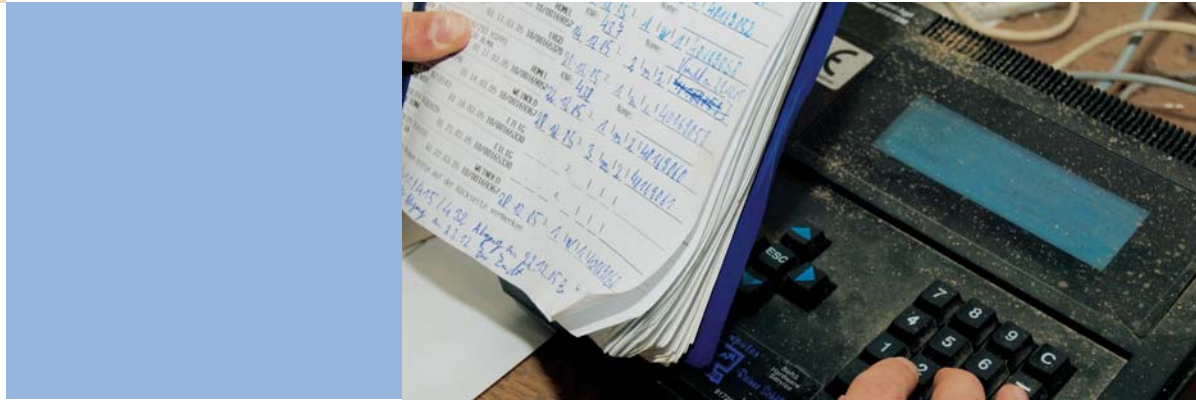
An extension of the exemption regulation will further accelerate the payment of state aids to farmers. State aid rules will also be simplified by cutting the number of legal texts from the current seven to just three (a set of guidelines, and the exemption and de minimis regulations). Member States have been invited to submit ideas for further simplification measures in this field.

¹⁰ Council Regulation No 1698/2005 of 20 September 2005 (OJ L 277, 21.10.2005).

¹¹ Council Regulation No 1290/2005 of 21 June 2005 (OJ L 209, 11.08.2005).

¹² The European Agricultural Guarantee Fund.

¹³ The European Agricultural Fund for Rural Development.



d) Reporting procedures

The Commission continues to liaise with national administrations over ways to simplify reporting procedures. An initial study has led to the adoption of a significant number of simplifications, and to the drafting of reporting guidelines. Work on improving the use of IT tools continues.

e) The Simplified SPS scheme in the new Member States

In eight out of the ten new Member States which joined the EU in 2004, an even simpler form of the SPS is applied – the Single Area Payment Scheme (SAPS). This involves the granting of a flat-rate payment per hectare of land to all farmers, thus obviating the need for complex controls on payment entitlements.

The SAPS is simpler to administer than the SPS, or earlier forms of direct payments, since less information is required from the farmer. Also, the new CAP reform rules on cross-compliance are optional under SAPS.

f) Refreshing the *Acquis Communautaire*¹⁴

Identification and elimination of obsolete legal acts continues. The Commission is exploring new means to improve the structure and presentation of EU agricultural law. New means could include, for example, the carrying out of 'legal audits' in order to eliminate unnecessary provisions, replacing multiple sectoral rules by horizontal ones covering all sectors. This would provide new opportunities to simplify management mechanisms in areas such as import and export procedures, public and private storage, tendering procedures, reporting mechanisms etc.

¹⁴ The phrase denotes the whole range of principles, policies, laws, practices, obligations and objectives that have been agreed or that have developed within the EU. The *acquis communautaire* includes most notably the Treaties, all legislation enacted to date and judgements of the European Court of Justice.

5. The next phase of simplification

The simplification process will continue and spread. There will be further streamlining of the CAP and the simplified CAP may be applied more widely within agricultural sectors. Other less dramatic developments could include: applying the simplified SPS (SAPS) across the EU-25; sharing best practices; improving transparency.

a) Further streamlining

The 2003 reform simplified the CAP's legislative framework, notably by establishing a horizontal legal framework for all direct payments and by amalgamating an array of support schemes into the SPS. The Commission can envisage extending this so that the remaining 21 support 'regimes'¹⁵ for specific products can be rationalised. They already share many common characteristics, so harmonisation should be possible.

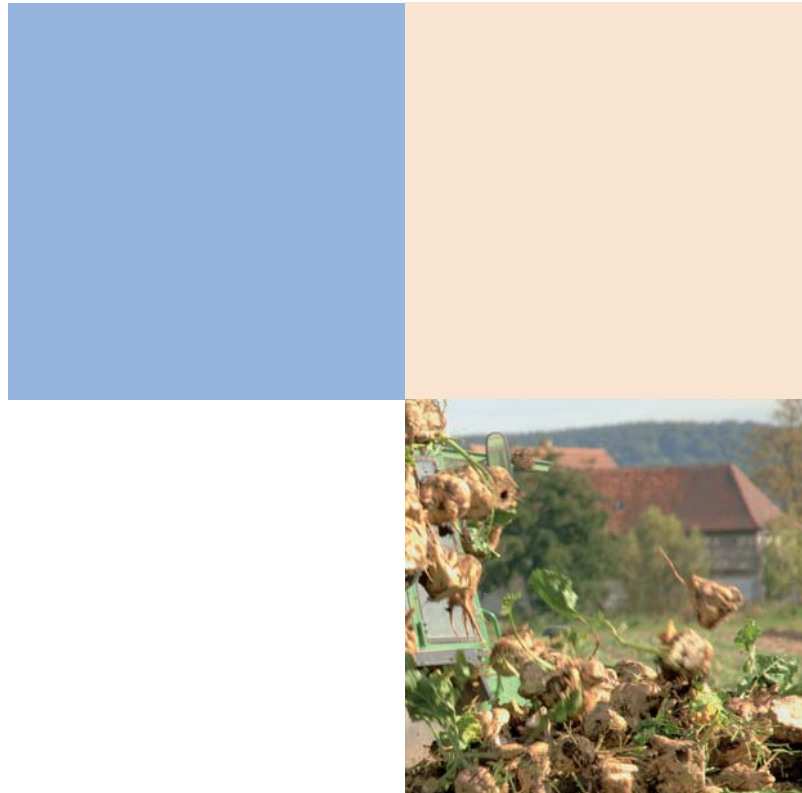
Streamlining does not involve substantial changes to existing instruments and mechanisms. This process should, therefore, be uncontroversial. The Commission is examining the possibility of making a first proposal along these lines in 2006.

b) Simplifying the CAP in other sectors

On 24 November 2005, following proposals presented by the Commission in June, the Council of Ministers reached a political **agreement to reform the EU's sugar support 'regime'**. Among the many detailed changes are several simplifications (which will bring full benefit after a transitional phase), e.g.:

- Replacement of existing production quotas by a single quota system;
- Future removal of public intervention, in favour of a private storage aid scheme;
- Inclusion of direct income support in the SPS.

Other sectors' rules and regulations will be up for review shortly, e.g. wine, fresh and processed fruit and vegetables, and the organic and quality policy areas. Regulations relating to egg marketing standards (i.e. labelling) should be replaced by simplified and streamlined provisions.



c) Best practices

The Commission hopes to establish an EU-wide network of agricultural experts to share best practice in the implementation of CAP legislation. Existing forums, such as the bi-annual conference of paying agencies, could be used as benchmarks.

d) Openness

The Commission has decided that all of its departmental websites should contain a page offering stakeholders and the general public the opportunity to comment on EU legislation.

¹⁵ Officially known as Common Market Organisations (CMOs), these regimes are designed to monitor the respective agricultural markets, with the aim of providing farmers with a steady income and consumers with secure food supplies.



6. Commission Communication – Simplification and better regulation for the CAP

On 19 October 2005 the Commissioner for Agriculture and Rural Development – Mrs Mariann Fischer Boel – presented a Commission Communication on simplifying the CAP¹⁶. This represents part of the CAP's contribution to the EU's revised 'Lisbon strategy' for achieving

growth and jobs in Europe, and the move towards better governance. The Communication contains reflections on the possibilities and limitations of simplification in agriculture. It is aimed at stimulating discussion and is not a set of proposals.

The key messages of the CAP simplification Communication

The Communication is a further step in the ongoing process of simplifying agricultural policy and law-making under the CAP.

The final outcome of this process of reflection should be the creation of a simpler, more streamlined legislative structure for the CAP. The potential of a single set of rules covering all agricultural products is also being considered. This could involve moving to a 'single Common Market Organisation' replacing the (21) existing ones.

The impact on the farm sector, and for national administrations and the Commission, should be a reduction in red tape, and rules that are easier to understand and less burdensome to comply with.

This will reduce costs for all stakeholders.

The end result will be a CAP that still deals with the real economic and environmental complexities, but without unnecessary degrees of bureaucratic complexity

¹⁶ COM (2005) 509 final - for full information go to:
http://europa.eu.int/comm/agriculture/simplification/index_en.htm

Stakeholder consultation will also take place continuously, for example via electronic mail and internet consultation exercises.

Action Plan

Debate over the Communication should produce concrete suggestions for further simplification measures. The Commission will draw up an Action Plan in the first half of 2006 highlighting possible new simplification measures. This will be discussed within the Commission's CAP simplification experts group.

Screening

Further screening will be put in place to evaluate the potential for additional simplification. The drawing up of an inventory of management mechanisms is planned in order to facilitate the screening process.

Training

Internal training and awareness building will be conducted alongside the screening process, and will include staff training in legal drafting and seminars on the purpose and objectives of simplification.

Use of IT systems

Use of IT tools can make a clear and significant contribution to ensuring swift, reliable, secure and transparent data collection and reporting for the benefit for Member States and the Commission. The CIRCA system for document distribution and AMIS-Quota for management of import quotas are examples of simple IT systems. Such tools will be used more extensively in future.

a) One regulation for market policy

A major feature of the Communication is the single CMO concept. The aim here is to replace a plethora of sectoral rules (which have many features in common) and to provide a single set of harmonised rules in the classic areas of market policy such as intervention, private storage aids, import tariff quotas, export refunds, safeguard measures, promotion of agricultural products, state aid rules, communications and reporting of data, but without changing the substance of the existing instruments and mechanisms. Apart from streamlining and reducing the amount of existing legislation, this would greatly simplify the lives of stakeholders, whether administrators or other stakeholders such as traders. **This would NOT mean further CAP reform, just a simplification of the agricultural law book.** It involves technical, not policy, simplification.

b) Other features of the Communication

Consultation process

Simplification is an area where consultation with stakeholders is absolutely essential. **A simplification conference is planned for 2006.** The aim is to focus on the views, needs and proposals of stakeholders, notably Member State administrations and farmers' organisations. Representatives of the new Member States will be invited to cite their own experiences with the introduction of the CAP from scratch.

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