

CAP Towards 2020

November 2011



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**Agriculture,
Food and the Marine**

An Roinn
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This presentation

- Context
- Main issues
 - Amount and distribution of funds
 - Policy issues for direct payments, rural development and market supports
- Next steps

Context

- New multi-annual financial framework (MFF) 2014 to 2020
- EU2020 strategy – smart, sustainable and inclusive growth
- Economic recovery in Ireland and EU
- Political debate on role and value of the CAP
- Policy considerations
 - Food security, climate change, price volatility, power of producers
- Co-decision of EU 27 Governments and European Parliament

EU financial context

- Agriculture: 40% of EU budget or 0.5% of EU GDP
- Irish receipts from EU (2009) €1,810m, of which
 - €1,319m from EAGF
 - €346m from EAFRD

CAP funding proposals

- CAP spending maintained in nominal terms at 2013 levels
- Irish view is that this is a reasonable starting point for negotiations

MFF proposals on support for European agriculture

- **Nominal freeze** of CAP amounts at 2013 level
- **Additional amounts** available for agriculture
 - in other Headings of MFF, and
 - outside MFF

in billion EUR

2011 prices

Current prices

| | <i>2011 prices</i> | <i>Current prices</i> |
|--|--------------------|-----------------------|
| Heading 2 of MFF | | |
| - Pillar I - Direct payments and market-related expenditure | 281.8 | 317.2 |
| - Pillar II - Rural development | 89.9 | 101.2 |
| Total CAP | 371.7 | 418.4 |
| Other Headings of MFF | | |
| - Heading 1: Most deprived persons | 2.5 | 2.8 |
| - Heading 1: Research and innovation on food security, bio-economy and sustainable agriculture | 4.5 | 5.1 |
| - Heading 3: Food safety | 2.2 | 2.5 |
| Outside MFF | | |
| - Reserve for crises in the agricultural sector | 3.5 | 3.9 |
| - European Globalisation Fund | Up to 2.5 | Up to 2.8 |
| Total additional amounts | Up to 15.2 | Up to 17.1 |
| Total amounts for 2014-2020 | Up to 386.9 | Up to 435.5 |

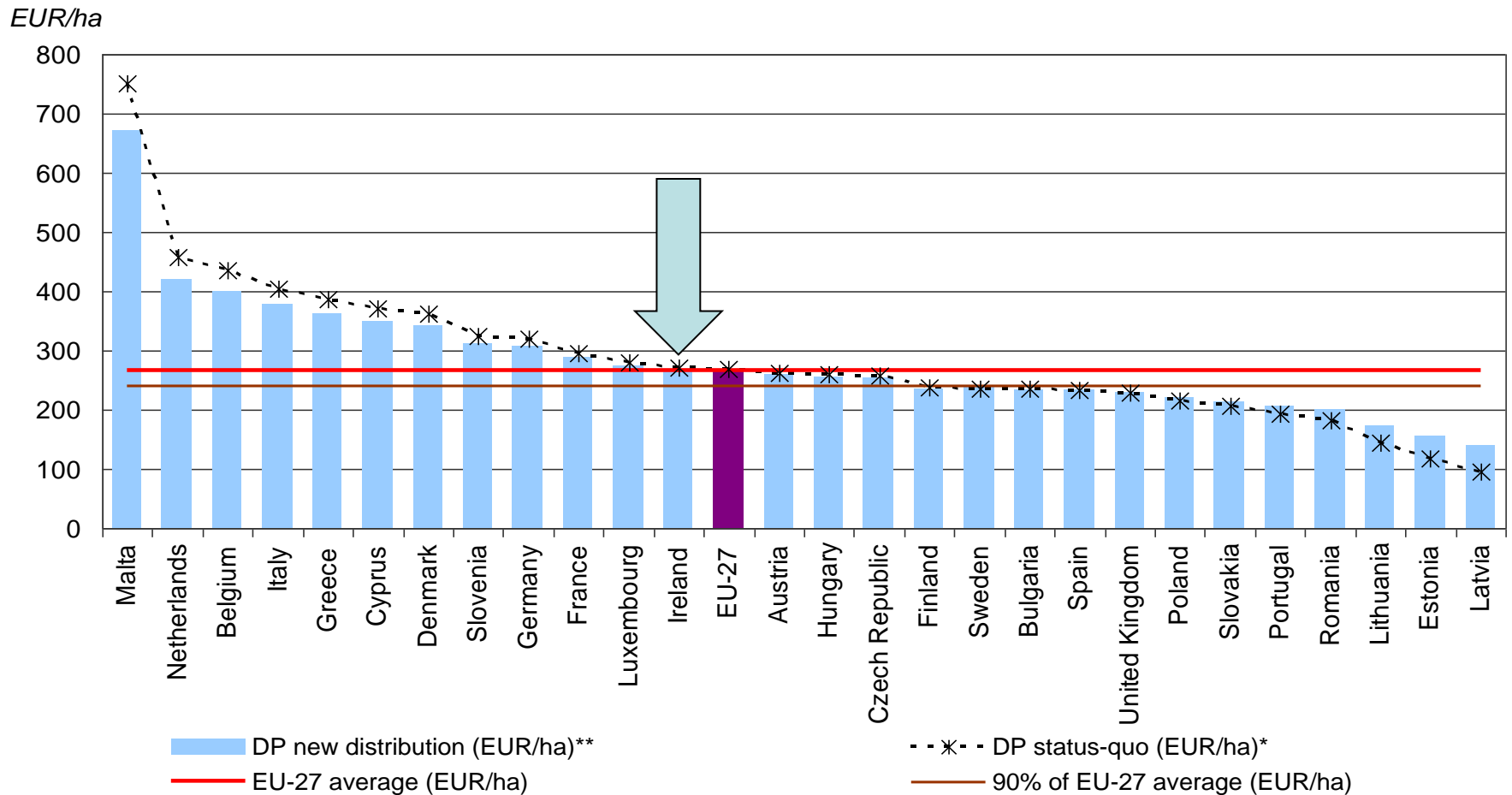
EU 27 ratio of receipts to contributions

| Net beneficiaries | Ratio | Approx balance | Ratio | Net contributors | Ratio |
|--------------------------|--------------|-----------------------|--------------|-------------------------|--------------|
| Lithuania | 4.36 | Denmark | 1.04 | Belgium | 0.31 |
| Bulgaria | 3.51 | France | 1.09 | Netherlands | 0.43 |
| Latvia | 3.51 | Austria | 1.11 | Luxembourg | 0.48 |
| Hungary | 3.21 | Finland | 1.15 | UK | 0.58 |
| Estonia | 2.72 | Slovenia | 1.16 | Germany | 0.63 |
| Greece | 2.72 | | | Sweden | 0.71 |
| Romania | 2.71 | | | Malta | 0.78 |
| Ireland | 2.65 | | | Italy | 0.81 |
| Slovakia | 2.26 | | | Cyprus | 0.85 |
| Poland | 2.18 | | | | |
| Czech | 1.53 | | | | |
| Spain | 1.50 | | | | |
| Portugal | 1.47 | | | | |

Proposed distribution of CAP funds between Member States

- Pillar 1 – Direct payments
 - Pragmatic approach based on average payments per hectare of eligible area
 - Brings those MS below 90% 1/3 of the way to 90%
 - Funded by proportional reductions on those over 100%

Redistribution of DP - Closing one third of the gap between current level and 90% of EU average by 2020



* Calculated on the basis of all direct aids on the basis of Council Regulation (EC) No 73/2009, after modulation and phasing-in, except POSEI/SAI and cotton and potentially eligible area 2009

** Calculated on the basis of Annex II to DP proposal for claim year 2019 (budget year 2020) and potentially eligible area (PEA) 2009

Source: European Commission - DG Agriculture and Rural Development

Ireland's net ceiling

- Ireland's net ceiling for direct payments set at €1.236 billion annually from 2017
- Reduction of 1.5% on current national envelope
- Details of calculations still being examined

Distribution of rural development funds between Member States

- Commission approach based on combination of objective criteria and past performance
- No specific figures yet proposed – but some figures in impact analysis

Which Objective Criteria?

Ireland's share of Rural Development Funds, rural area, agricultural area and rural population

| | Ireland | EU27 | Ireland % |
|--|---------|-----------|-----------|
| Rural development funds 2007-2013 (€m) | 2494.54 | 96244.174 | 2.59% |
| Direct Payments eligible are (ha) | 4637967 | 158427453 | 2.93% |
| Predominantly rural (PR) area (ha) | 6750.5 | 240988 | 2.80% |
| Population in PR area (persons) | 3040331 | 119365355 | 2.55% |

Irish view is that our current share of CAP funds is fair. But others can point to other “objective criteria”:

Irish Share of:

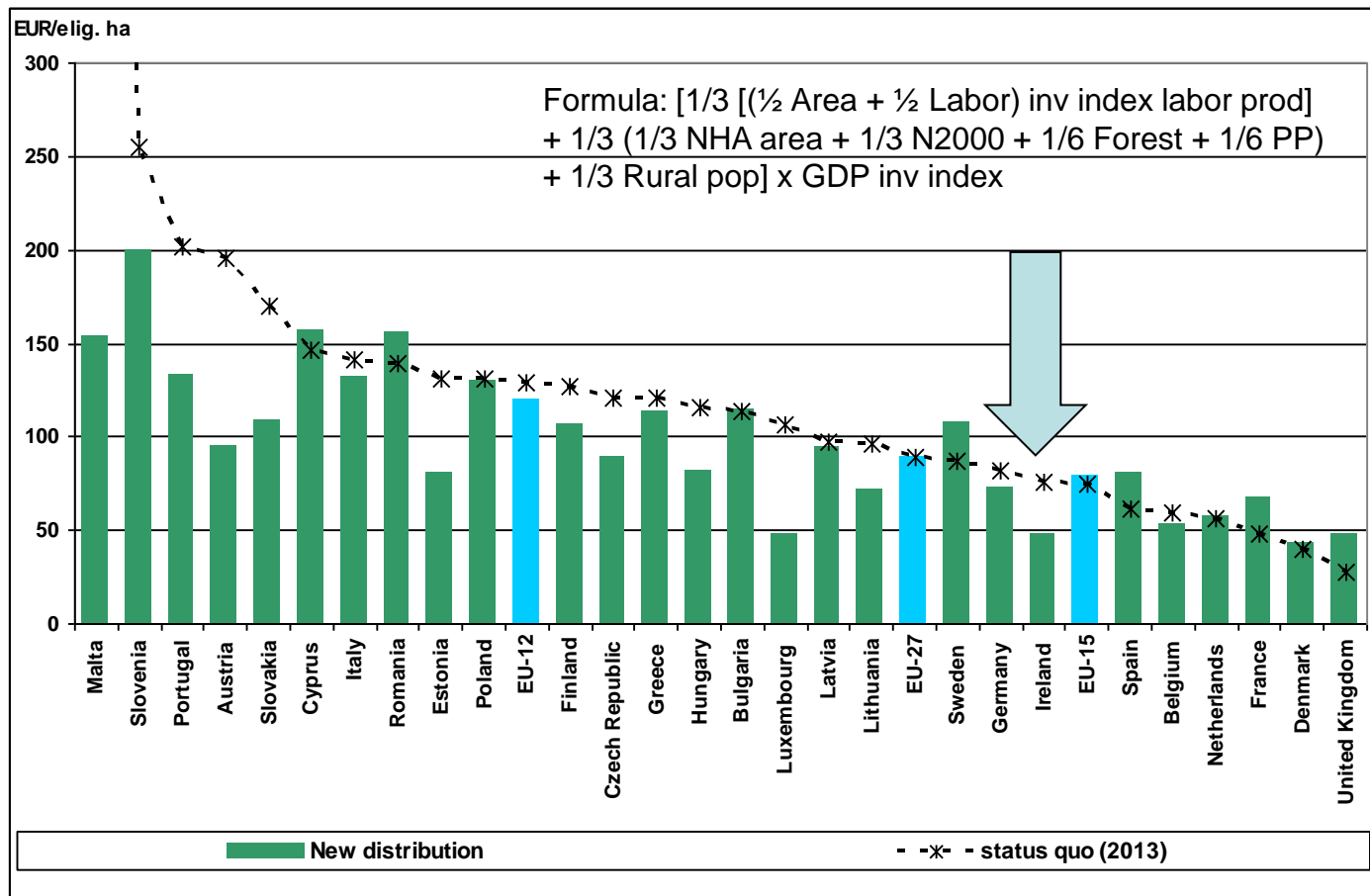
- Direct payment funds – 2.9%
- Rural dev. funds – 2.6%

Compared to:

- Utilised Ag. area – 2.4%
- Ag output (GVA) – 1.05%
- Ag labour (AWU) – 1.29%
- Rural and intermediate area – 1.73%

Pillar 2 redistribution

Example: use of objective criteria

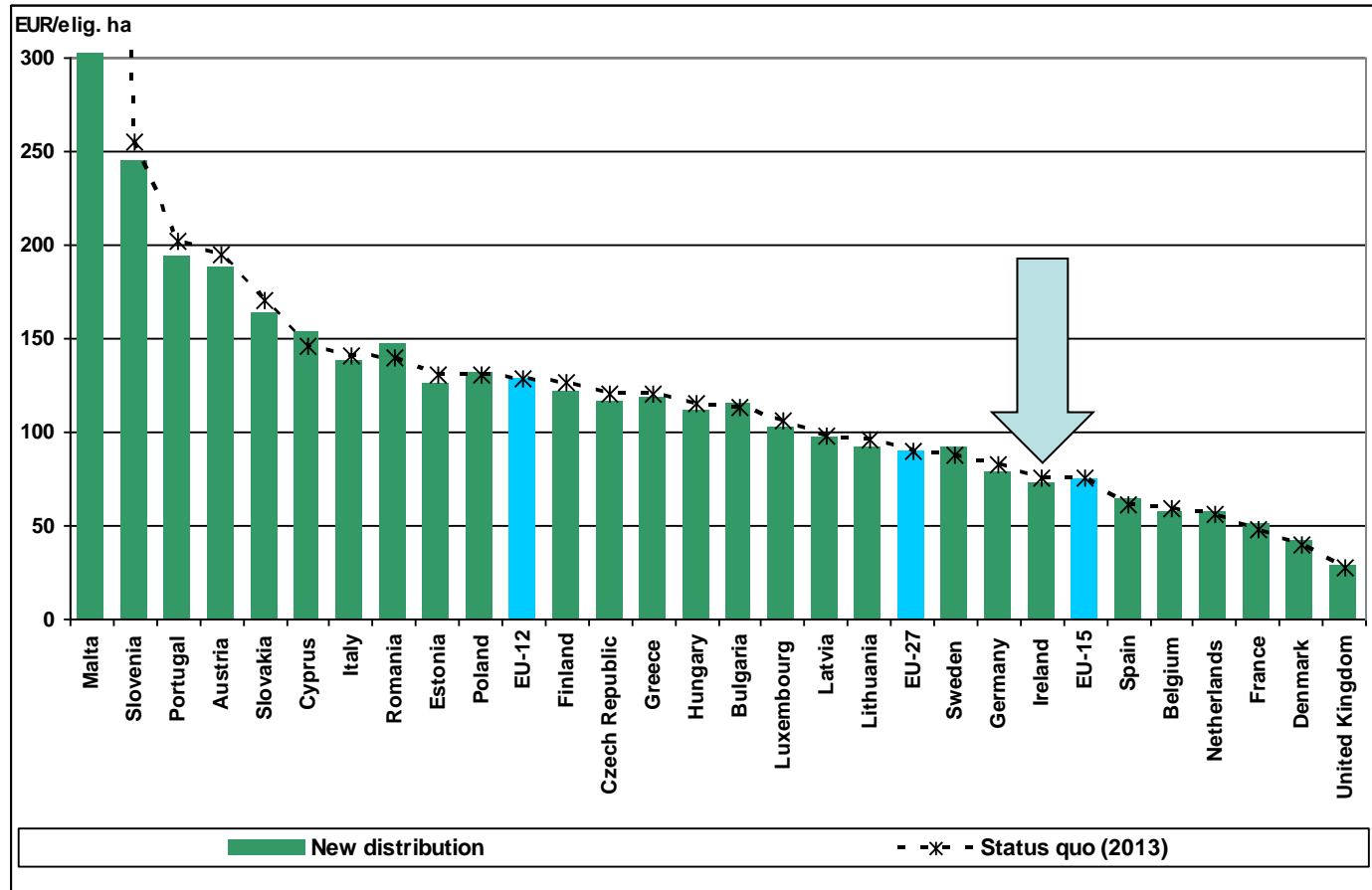


Source: European Commission, DG Agriculture and Rural Development – Commission Staff Working Paper 'Impact Assessment – CAP towards 2020'

Note: This distribution key doesn't take into account the transfers made through the market reforms in the tobacco, cotton and wine sectors

Pillar 2 re-distribution

Example: Use of objective criteria within 90-110% range and current distribution

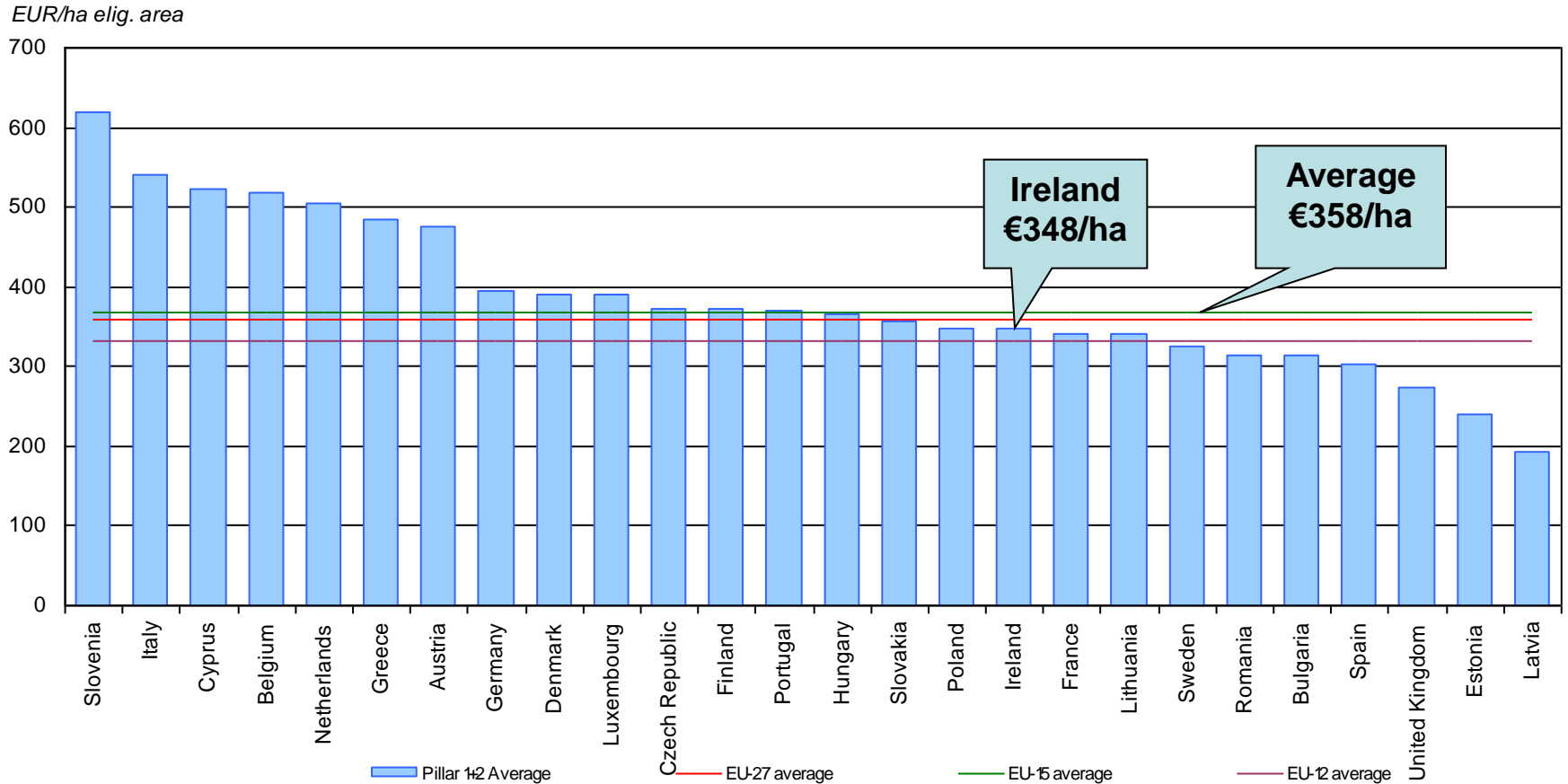


Source: European Commission, DG Agriculture and Rural Development – Commission Staff Working Paper 'Impact Assessment – CAP towards 2020'

Irish view on redistribution of CAP funds between Member States

- Use pragmatic approach for distribution of pillar 1 and pillar 2 funds combined, based on average payments per hectare of eligible area
- Ireland receives below average payments per hectare for pillar 1 and 2 combined so no justification for any loss
- Difficult to agree to direct payments allocation until we see specific proposals for pillar 2

Looking at Pillar 1 + Pillar 2 together shows much lower differences between Member States than P1 alone: This would be a better basis for any redistribution, using the pragmatic approach.



Proposed structure of direct payments

- Progressive movement to uniform national or regional payment rates per hectare by 2019
- Entitlements based on eligible hectares declared in 2014 by active farmers with at least one entitlement in 2011
- National ceiling divided between
 - Compulsory: Basic scheme, green payment (30%), young farmer (up to 2%)
 - Optional: Areas of natural constraint, coupled payments (up to 5% each)
 - Compulsory for MS, optional for farmer: small farmer scheme (up to 10%)

A national flat-rate payment would lead to very large transfers between farmers: 76,412 farmers would get payment increases averaging 86%, while 56,683 would lose average of 33%.

| National | Number gaining | Total gain in payments (€) | Average gain (€) | Number losing | Total loss in payments (€) | Average loss (€) |
|-----------------|-----------------------|-----------------------------------|-------------------------|----------------------|-----------------------------------|-------------------------|
| All regions | 76,412 | €301,914,749 | €3,951 | 56,683 | - €301,911,030 | - 5,326 |

A two region (NUTS 2) flat rate model based would also lead to very large transfers between farmers : 74,897 farmers would get payment increases averaging 81%, while 58,198 would lose average of 33%.

In the BMW region, 39,592 farmers would get payment increases averaging 101%, while 31,274 would lose average of 36%

| Region | Number gaining | Total gain in payments (€) | Average gain (€) | Number losing | Total loss in payments (€) | Average loss |
|--------|----------------|----------------------------|------------------|---------------|----------------------------|--------------|
| BMW | 39,592 | €134,056,901 | €3,385.96 | 31,274 | - €134,056,986 | - €4,286.53 |
| SAE | 35,305 | €160,642,883 | €4,550.15 | 26,924 | - €160,642,875 | - €5,966.53 |
| Total | 74,897 | €294,699,784 | €3,934.73 | 58,198 | - €294,699,861 | - €5,063.75 |

A set of 8 regional flat rates (NUTS 3) would also lead to very large transfers between farmers: 74,445 farmers would get payment increases averaging 75%, while 58,650 would lose average of 33%.

| NUTS 3 Regions | Numbers gaining | Total gain in payment | Avg. Gain | Numbers losing | Total loss in payment | Avg. Loss |
|----------------|-----------------|-----------------------|-----------|----------------|-----------------------|------------|
| Border | 15,993 | €50,601,618.87 | €3,163.99 | 11,820 | -€50,601,643.67 | -€4,281.02 |
| Midlands | 7,381 | €26,567,657.74 | €3,599.47 | 4,557 | -€26,567,665.97 | -€5,830.08 |
| West | 15,542 | €51,790,470.98 | €3,332.29 | 15,573 | -€51,790,504.71 | -€3,325.66 |
| Dublin | 355 | €1,865,072.59 | €5,253.73 | 312 | -€1,865,072.67 | -€5,977.80 |
| Mid-East | 4,775 | €24,028,462.31 | €5,032.14 | 3,514 | -€24,028,448.75 | -€6,837.92 |
| Mid-West | 9,346 | €31,763,538.97 | €3,398.62 | 6,207 | -€31,763,520.60 | -€5,117.37 |
| South-East | 9,114 | €40,186,715.36 | €4,409.34 | 6,666 | -€40,186,731.66 | -€6,028.61 |
| South-West | 11,939 | €58,847,589.00 | €4,929.02 | 10,001 | -€58,847,564.78 | -€5,884.17 |
| | 74,445 | €285,651,125.83 | | 58,650 | -€285,651,152.82 | |

Distribution of SFP payments per hectare

| Per Hectare payment | No of farmers |
|-------------------------------|---------------|
| €1,000 or Greater | 812 |
| from €900 to less than €1,000 | 383 |
| from €800 to less than €900 | 783 |
| from €700 to less than €800 | 1,401 |
| from €600 to less than €700 | 2,961 |
| from €500 to less than €600 | 6,568 |
| from €400 to less than €500 | 14,965 |
| from €300 to less than €400 | 28,504 |
| from €250 to less than €300 | 15,641 |
| from €200 to less than €250 | 15,253 |
| from €150 to less than €200 | 13,928 |
| from €100 to less than €150 | 11,924 |
| from €50 to less than €100 | 9,590 |
| from €20 to less than €50 | 3,874 |
| Less than €20 | 1,851 |
| | 128,438 |

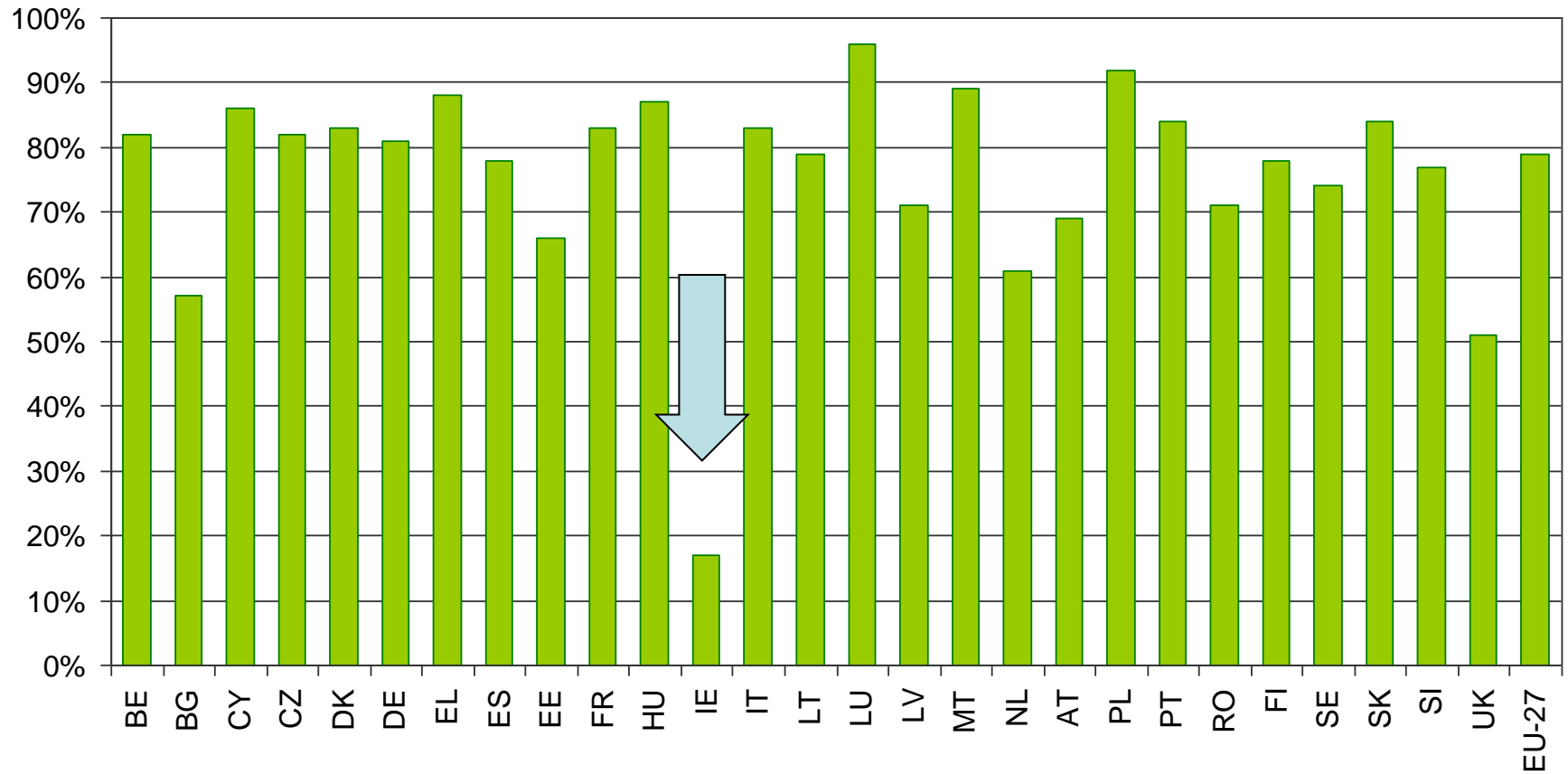
Some issues for Ireland with payment model proposed

- Movement to uniform national or regional rates would lead to very large transfers between farmers
- Irish view is that there should be flexibility on payment model at Member State level
- And a gradual back-loaded adjustment process
- Also MS flexibility on reference dates

Greening proposals

- 30% of national ceiling
- Flat rate per hectare
- Three greening criteria
 - Retention of permanent grassland at individual farm level (5% tolerance)
 - Crop diversification for farms over 3 ha - At least three crops (minimum 5%; maximum 70%)
 - Ecological focus areas to cover 7% of land excluding permanent grassland
 - Organic farms qualify automatically

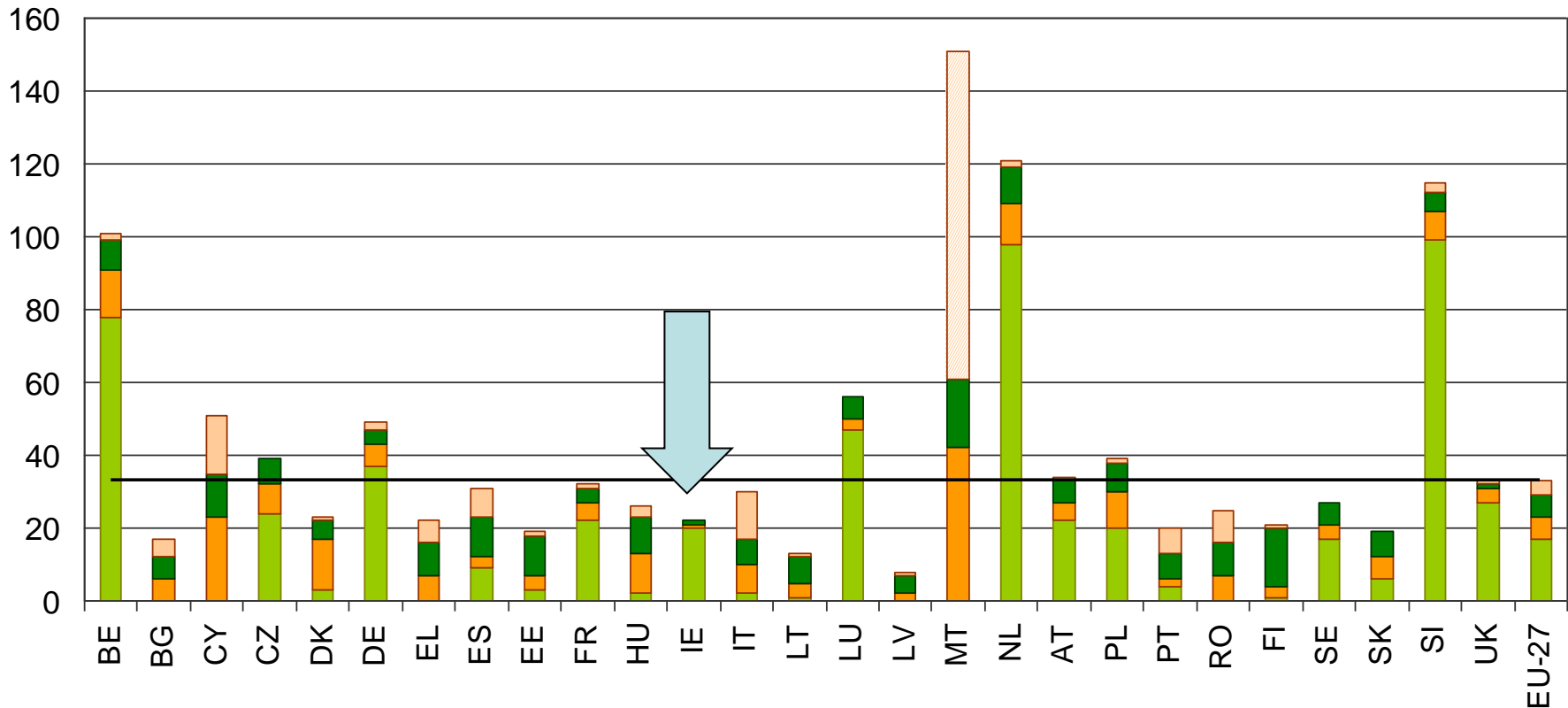
Greening: Share of farms bearing the costs of greening measures



Greening

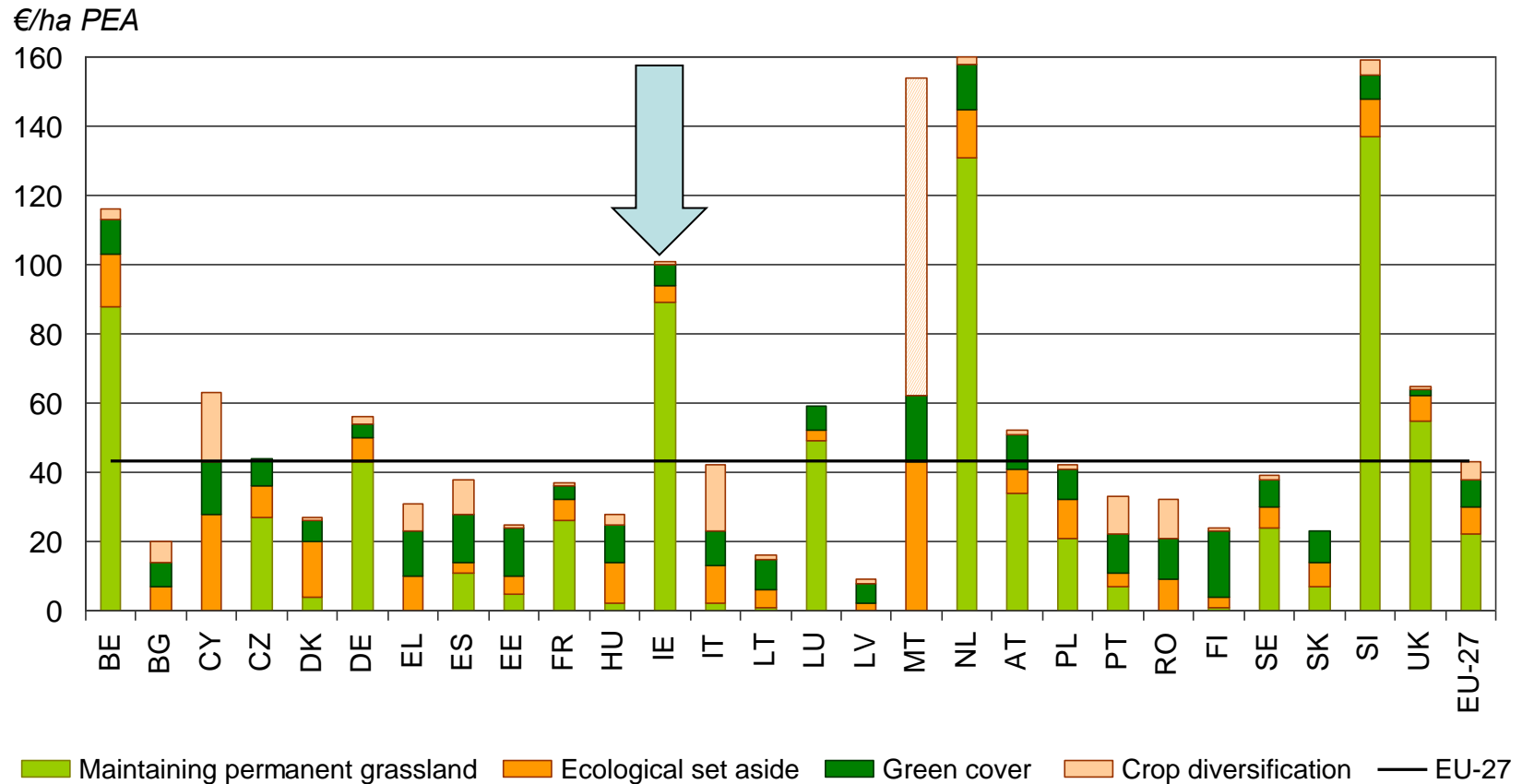
Average total cost of greening per MS

€/ha PEA



■ Maintaining permanent grassland
 ■ Ecological set aside
 ■ Green cover
 ■ Crop diversification
 EU-27

Greening: Average total cost of greening per MS – only for those farms bearing a cost



Irish response to greening

- Support action in favour of sustainable agriculture – FH2020
- But 30% proposal will accelerate move to flat rates
- Extra administration of new payment and query environmental benefit
- Particular problems for small mixed farms
- Issues with individual criteria raised by Member States
 - 7% ecological focus area too high;
 - 3ha threshold too low; 3 crops diversification too rigid
 - Permanent grassland - rigidity & reseedling
- Should consider alternative approaches – including menu of options for Member States and/or building on current systems.

Irish position on some other provisions on direct payments

- Young (under 40) farmers - 25% top-up for 5 years – Ireland proposed this measure and strongly supports
- Small-scale farmers scheme – for farms with payments below €1k – should be optional for Member States
- Areas of natural constraint – overlap with current LFA payments
- Coupled payments - 5%/10% of national ceiling – option should be for uniform provision throughout EU 27
- Capping – applies to €150k/300k net of green payment and salaries – few if any Irish farms affected
- Active farmer – need easily operable criteria, if applied at all

Rural development – structure of proposal

- Complex new structure
 - Macro-economic conditionality
 - Common strategic framework for all EU funds
 - Partnership contracts + RDP + thematic sub-programmes
 - 5% performance reserve
- Three objectives: competitiveness, sustainability and rural economy
- Six priorities :Knowledge, competitiveness, food chain, ecosystems, carbon, jobs
- Overall focus on innovation
- EU co-funding – up to 50% general; 80% for leader; 100% for innovation.

Rural Development measures

- Includes many existing measures: eg
 - Agri-environment (compulsory)
 - LEADER
- New measures
 - Farm and business development
 - Cooperative projects
 - Producer groups
 - Risk management

Some rural development issues for Ireland

- Cumbersome process needs simplification
- Would prefer higher general co-financing rates
- Forestry
 - 100% establishment grant
 - Maintenance payments only; 10 year duration
- On-farm investment – must support FH2020 expansion and sustainability
- Less favoured areas
 - New bio-physical criteria + fine tuning
 - Includes soil moisture balance

Irish Rural Development priorities

- Real focus on both competitiveness and sustainability / agri-environment
- Scope for farm investment support to assist expansion as envisaged in Food Harvest 2020
- Appropriate support for forestry and energy crops
- Simpler procedures

Market supports

- Market Supports currently in use retained at safety net level, and therefore discretionary, depending on market conditions, including APS for butter
- Strongly welcome proposed abolition of sugar quotas in 2015
- Extension of crisis management provisions welcome; Need to ensure available and accessible funds
- Extension of producer and inter-branch organisation measures to all sectors – may have implications for competition law and single market

Main priorities for Ireland

- Strong common policy with commensurate CAP budget
- Retention of Ireland's funding under pillar 1 and pillar 2. Redistribution between Member States should use the "pragmatic method" for both pillars.
- Maximum possible flexibility for Member States in relation to payment models in pillar 1
- Rethink of greening proposals needed to get something more workable
- Real focus on both competitiveness and sustainability in pillar 2 - including on-farm investment
- Major effort on simplification required.

Next steps

- Proposals now at early stage of clarification – a long way from final conclusions
- In Brussels
 - Detailed examination by Working Groups, SCA and Council
 - Parallel examination by European Parliament
 - Sequencing issue with MFF negotiations
 - Important role for Irish Presidency
 - Ireland building alliances and influencing
- In Ireland
 - Extensive stakeholder consultation
 - Continued analysis

Thank you

<http://www.agriculture.gov.ie/captowards2020/>