

The future shape of the Common Agricultural Policy **Information Note on Current State of the Debate**

1. Review of EU Funding Arrangements

Funding arrangements for the Common Agricultural Policy are fixed until 2013 under the EU Financial Perspective 2007 to 2013. Currently there is a review in train of all aspects of the EU budget. This will be followed by negotiations to determine the composition of the next Financial Perspective of the EU from 2014 to 2020, including the funding available for agriculture and rural development.

2. Allocation of funds for agriculture

A number of Member States are pressing to have future agriculture policy decided, at least in outline, in advance of the EU budget review. While there is some support for this among the Council, it is inevitable that discussions on the future of CAP will be informed by the level of funding available under the next Financial Perspective following the review of the EU budget and that negotiations on both issues will become inextricably linked.

3. Timing of proposals

The timing for tabling of detailed proposals is not yet clear. However, it can be expected that this will occur as early as 2010.

4. Policy debates to date

Policy analysis and debates have commenced in a number of Member States and at EU level on the broad outline and general principles of future EU agriculture policy. A number of common themes and key issues are emerging from these debates and they, together with discussions on the future EU budget, are set to inform the concrete proposals that will be tabled at a later date. The emerging issues are summarised in the following paragraphs.

5. Continuation of the CAP beyond 2013

The majority of Member States have expressed a desire to maintain a strong EU agriculture policy beyond 2013, although among those Member States seeking to maintain a strong policy, there are differences regarding the preferred shape and focus of that policy.

However, there are demands from a small number of Member States for eventual dismantling of the CAP and for the allocation of EU funds previously targeted at the CAP to other budget headings including the structural and competitiveness headings. This approach has little support but there will be strong competition for funding both between the different EU budget headings and, within agriculture, between Pillar 1 and Pillar 2 and between Member States.

6. Rebalancing of Member States' shares of agriculture funding

There are strong and repeated demands from new Member States for "rebalancing" of Member States' shares of agricultural funding in their favour. The new Member States claim that the "historical reference period" of 2000 to 2002, used to determine

Single Payment entitlements, severely disadvantages them in the distribution of Pillar 1 funds.

In relation to rural development funds the new Member States fare significantly better. In December 2005 there was a separate division of funds between the old and new Member States. This is unlikely to be repeated next time. The current breakdown between Member States takes into account amounts reserved for convergence regions, past performance and particular situations and needs based on objective criteria. Ireland did extremely well in the division of funds agreed in December 2005, getting a €500m top-up on the Rural Development allocation it was entitled to under the historic key used to distribute funds among the old EU15, giving a total allocation of €2.3b for 2007-2013.

7. Emphasis on territorial cohesion

The Territorial Agenda of May 2007 sets out the major goals and orientations on a cooperation policy framework between Member States and the Commission aimed at reinforcing territorial cohesion. It comes within the remit of the Minister for the Environment and Local Government. In essence the Agenda is suggesting the proofing of major policies, including the CAP, against the cohesion policy to achieve an overall development strategy which caters to the agricultural, rural and urban sectors. Taken to its limits, it could involve the integration of future rural development policy into regional policy, although the Commissioner for Agriculture has expressed her opposition to this. It is expected that the territorial cohesion agenda will be further developed under future Presidencies and may need to be factored into the policy debate on the future of EU agriculture.

8. Pillar 1 versus Pillar 2

Within the Council of EU Agriculture Ministers there are mixed views as to the appropriate balance between Pillar 1 and Pillar 2. The main distinctions between the two pillars of multi-annual programmes, subsidiarity and co-financing, remain. However this distinction has been blurred to some extent by the expansion in the CAP Health Check of national discretion under pillar 1 through the menu of eligible measures under Article 68, the provision in the Health Check to fund agri-environment rural development measures from pillar 1 through modulation, and the introduction of some minor cases of co-funding into pillar 1.

One Member State has indicated that it favours a single pillar structure for the future, co-financed from national funds, targeted at payments for agriculture related activities which represent added value and are not rewarded by the market. A small number of other Member States have signalled an interest in linking all or most future payments to the quantifiable delivery of public goods in areas such as food safety, preservation of the landscape, care of the environment and animal welfare. The mechanisms to achieve such values have traditionally been the preserve of Pillar 2.

9. Full decoupling

The main issues are the extent to which coupled supports will be tolerated post 2013 and scope, if any, for re-coupling that will be allowed e.g. through Article 68.

Under the Health Check, it is agreed to fully decouple all bar the suckler cow and sheep/goat premiums by 2013. The Commissioner, speaking to young farmers in September 2008, made it clear that she favoured continuing the process to full decoupling eventually. However, there are rumblings from Member States that would suggest a resistance or a move in the opposite direction.

The Health Check discussions on Art 68 indicated a strong interest in providing for assistance for sectors or regions under particular pressure and provision was made for this in the final deal within certain limits. There may be a desire to continue, or even expand, this post 2013. This provides one route to some degree of re-coupling payments to production, albeit mainly for marginal, sub-economic production.

10. Continuation of Single Payment Scheme

Currently nine Member States (Belgium, Greece, Spain, France, Ireland, Italy, Netherlands, Austria and Portugal, plus Scotland and Wales) operate the historical model for SPS payments, i.e. based on the historical level of entitlements in 2000 to 2002 at individual farm level. However, many of these are now moving away from that model.

Ten of the new Member States apply the single area payment system (SAPS). Slovenia and Malta apply a regional SPS model; Luxembourg, Sweden and Northern Ireland apply a static hybrid model while Denmark, Germany, Finland and England apply a dynamic hybrid moving to a flat rate model.

It is clear from discussions on the Health Check that a majority of Member States would envisage the continuation of direct supports beyond 2013. This has been echoed by the Commissioner in her address to the Congress of European young farmers in September last when she stated she still saw “the Single Payment Scheme as a part of our future policy, but certainly targeted in a different way than today.”

11. Flatter payment rates

The Commission has made clear its view that the further in time we move from the reference period of 2000 to 2002 the less justification there is for payments based on the historic model. This view has been echoed by a number of Member States, including some that currently operate the historic SPS model. The debate on the historic model has become caught up in the demands from new Member States for a larger share of funds. The conclusion is that while movements towards flatter rates remained optional in the Health check, it is clear that there will be increased pressure to move away from the historic model in the period after 2013.

The graphs under at Figures 1 and 2 calculate the average direct payment per Member State per hectare and per beneficiary after implementation of CAP reforms and integration of new Member States (i.e. a notional current position).

Figure 1: Average direct payment per MS (in € per hectare)

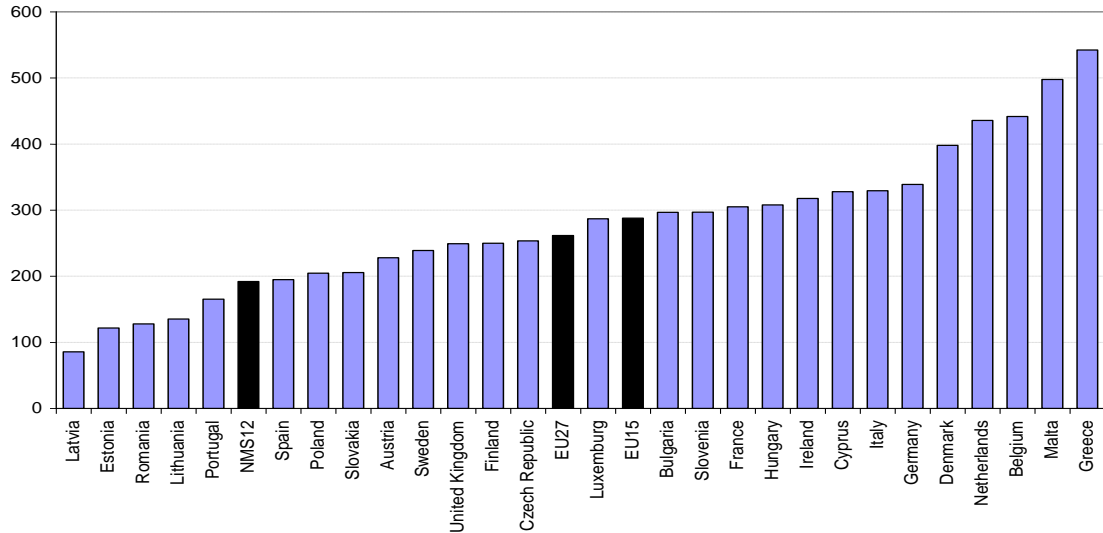
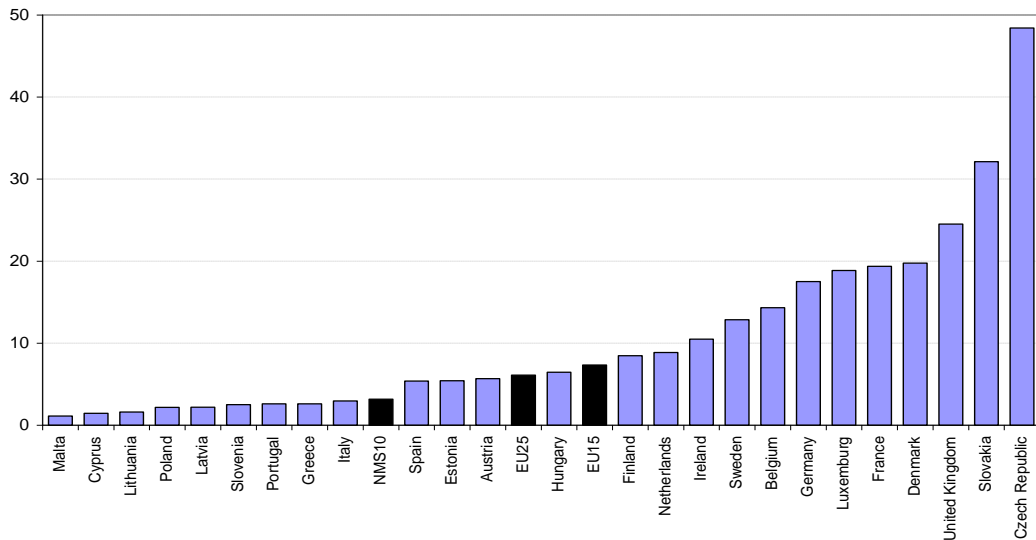


Figure 2: Average direct payment per MS (in 000 € per beneficiary)



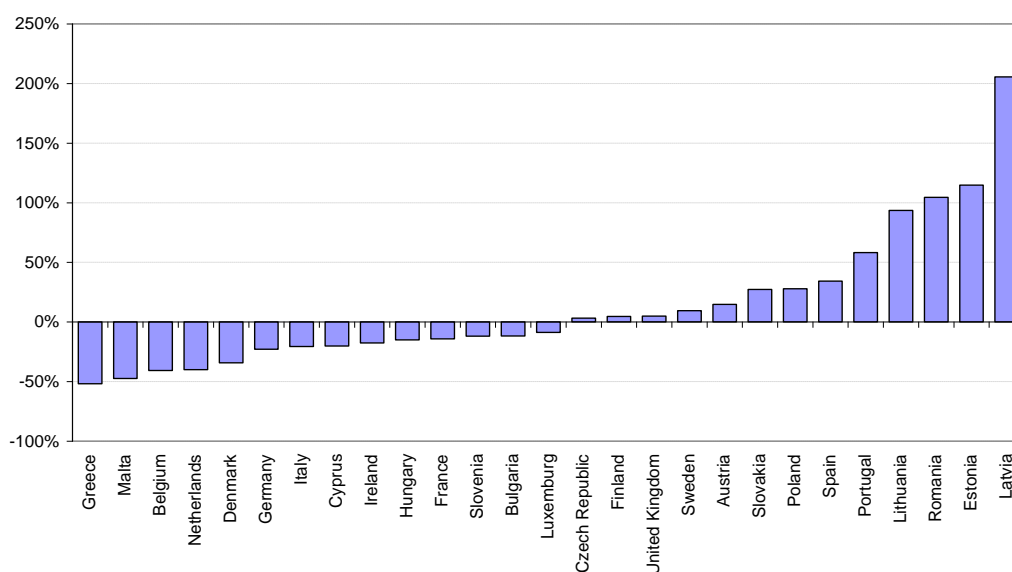
As to the types of “flatter rates” envisaged, options examined in the Commission’s impact analysis for the Health Check included an EU-wide flat rate per eligible hectare, the application of SAPS in all Member States, movement towards regional flat rate entitlements applied to all eligible area or based on current entitlements.

12. EU-wide flat rate

The Commission Health Check impact assessment showed a major redistribution of funding between Member States if an EU-wide flat rate per eligible hectare was applied. It rejected such a measure because it would imply a fundamental reform of

the Single Payment Scheme beyond the scope of the Health Check, would involve a major redistribution of funding between Member States while it would not necessarily improve the distribution of payments within individual Member States, could have adverse impacts on land values, affect farm structures and decrease transfer efficiency. Details of the redistribution effect are outlined at Figure 3 under. The Commission rejection of this option in the Health Check review does not preclude it from being raised again in the CAP post 2013 discussions. Ireland would be among the losers in such a scenario, as illustrated under.

Figure 3: Redistribution between MS with an EU-wide flat rate



13. Application of SAPS to EU 27

Commission in its Health Check impact assessment also rejected the notion that all Member States would convert to the Single Area Payment System applied in the new Member States on the grounds that this would be inconsistent with the philosophy of decoupled support (not based on fixed entitlements). Nevertheless, as some of the new Member States have advocated the continuation of SAPS beyond 2013 and there is some support among Member States for the simplification associated with such a system, this idea should not be ruled out.

14. Regional flat rate per eligible area or entitlement

A more moderate approach to “flatter” payments would be the application of flat rate on a regional or national basis, and provision for this has been made in the Health check. There is research to show that, if implemented in Ireland, it would broadly have the effect of shifting funding from farmers in the east to the west and from cattle fattening and tillage farms to cattle rearing and sheep farms with little change on dairy farms.

15. Establishment of upper and/or lower unit values for entitlements

Another mechanism for the approximation of entitlements would be the establishment of upper and/or lower unit values for entitlements. This is already possible within the Health check provisions. Analysis of the impact of a €400 per ha maximum and €200

per ha minimum suggest there would be more winners than losers with presumably a shift in funds from more intensive to less intensive farms.

16. Caps on payments

One of the possibilities examined by the Commission prior to presentation of its Health Check proposals was the establishment of caps on large payments. In the event, the Commission shied away from the proposal and instead proposed progressively higher rates of modulation on higher payments. The final agreement of higher modulation on payment over €300k only indicated the difficulty of getting agreement on any kind of cap. For Ireland this is not an especially relevant issue as the number of beneficiaries in receipt of payments in excess of €100,000 is very small.

17. “Variable” direct payments

One Member State has from time to time raised the possibility of US style deficiency payments linked to market prices, a sort of variable premium, fixed annually dependent on the aggregate of market returns. There is very little concrete information available about these ideas and it is difficult to see how they would be consistent with the principle of decoupling.

18. More targeted direct payments

As outlined above, there are calls from some Member States for greater targeting of single payments to link them to the delivery of public goods. From this perspective any system of direct payments after 2013 would be linked to the achievement of more measurable outcomes and would involve a more precise measurement of the results achieved. The view expressed is that, with the passing of time, the notion of compensation for reduced market prices in the form of direct income support is outdated and should be replaced by pillar 2 type payments for achievement of specific objectives. Equally, it could involve an increase in cross compliance requirements to secure direct payments.

19. Modulation

In the event of a perceived shortfall in funding for pillar 2, there is the prospect of additional modulation in the period from 2013. Given the expected competition for EU funding, there could be greater reliance on modulation to fund the EU co-funding requirement for rural development especially in the richer Member States. At current rates of payment, each additional 1% modulation deduction would transfer approximately €8.5 million per year in Ireland from pillar 1 to pillar 2. At present, 80% of the original modulation deduction of 5% remains in the Member State of modulation. Under the Health Check agreement, all of the funds generated from additional and progressive modulation remain with the Member State of modulation and are directed at addressing the so-called new challenges. For the future, in the likely event that further modulation arises after 2013, the key issues will be the rate of increase, if any, the rate of co-financing and the degree of leakage of funds to other Member States.

20. Eligible rural development measures and division between axes

Currently rural development funds are directed towards meeting the objectives of competitiveness, environment and rural diversity and there is a requirement that expenditure on the competitiveness and rural diversity axes must make up at least 10% each of funding. In contrast, the funds generated from additional modulation decided under the Health Check are directed at addressing exclusively a series of priorities related to the “new challenges” of climate change, renewable energy, water management, bio-diversity and milk sector adjustment.

The Rural Development Regulation will fall to be replaced in 2013 and it is presumed that, at the very least, the new challenges will be integrated into the three existing axes. There may also be moves to drop existing measures or to add new challenges and/or to alter the axis balance limits.

21. More precise measurement of results of rural development measures

Given the current difficult economic climate and the need to demonstrate value for money, consideration may also be given to introduction of more specific selection criteria and indicators to measure the effectiveness, outputs and impacts of rural development programmes.

22. Co-financing of rural development programmes

Current Community co-financing rates for Ireland are 50% for Axis 1 and 3, and 55% in respect of Axis 2 (and Leader). In the Health Check, higher co-financing rates (75%) were agreed for the funds generated from additional modulation. There is a view which regards national contributions as an advantage in increasing the overall availability of resources. In this respect, the prospect of co-financing of rural development expenditure continuing after 2013 is very likely. Clearly this has implications for exchequer funding for agriculture.

23. Supply and market management measures

A number of questions were raised in the health check discussions about the continued pertinence of current market support and supply control mechanisms. While many of the Commission proposals were rolled back in the final deal pressure will continue to move away from such measures.

The Commission has made it clear that it believes in the continued gradual dismantling of market support measures. The Commission is on record as saying that the EU should abolish export refunds in 2013 irrespective of a WTO agreement and has also described intervention as an outdated mechanism that has the potential to distort the market. There is support for the Commission view among a number of Member States. Equally there is trenchant opposition to the diminution of market supports. As an additional complication, certain Member States have called for the introduction of new mechanisms such as buffer stocks to address price volatility and to provide security of food supply.

In the post 2013 scenario therefore, there will be a division between those seeking abolition of market management mechanisms and those who wish to retain such

supports, albeit in new forms. The experience of the exceptional supply and price volatility of past few years will influence the discussion on these issues.

24. Emergence of crisis management measures

In preparation for the health check, the Commission examined the need for additional crisis management measures such as subsidised insurance and the establishment of mutual funds. Its conclusion was that price risks were sufficiently addressed with safety-net intervention and with the flexibility that decoupling provides. The Commission rejected the notion of an EU-wide insurance scheme to cover production risks as immensely expensive and in view of the wide variation in risks between Member States. In the Health Check provision was included in Article 68 for national discretion to direct EU funds to insurance and mutual funds.

Notwithstanding the Commission view, a number of Member States can be expected to press this agenda strongly in the context of the CAP after 2013, particularly in the event of a reduction in market support instruments.

There is already a trend towards encouraging farmers to take greater responsibility for production risks. The State aid guidelines provide that from 1 January 2010, compensation for losses due to adverse weather effects must be reduced by 50% if the farmer does not have insurance covering at least 50% of his annual production or production related income and the statistically most frequent climatic risks. In addition, the review of the Community Animal Health Strategy includes proposals for cost sharing mechanisms underpinned by mutual funds.

For the present, under the Health Check provision is made for MS to use Article 68 funds to fund insurance against adverse weather events and animal and plant disease and certain cost associated with the establishment of mutual funds for animal and plant diseases and environmental incidents.

Post 2013 (or even earlier, depending on the outcome of the discussions on the Community Animal Health Strategy), there may increased pressure from the Commission on Member States to divert funds to subsidise insurance and the creation of mutual funds e.g. by expanding the conditionality applying from 2010 to State aid rules. In addition, a number of Member States can be expected to press the introduction of general EU-wide schemes.

25. Views expressed by Ireland to date

In the general debates that have taken place to date, Ireland has provided the following broad outline of its views on the future shape of the CAP.

As regards basic principles Ireland believes that it is important to maintain a strong agricultural production base in the European Union in the future to take account of the challenges ahead in meeting increased demands for food. Our view is that any reduction in food production in the EU would be taken up elsewhere where less efficient production systems exist and would result in a heavier carbon footprint.

We also argue that our food production and distribution policy must be sustainable within all meanings of the word - economically, socially and environmentally. Therefore, the CAP should provide sufficient incentives to our farmers to ensure that they maintain a strong production base such that strong rural communities are retained. Equally farmers must have the necessary security and freedom to respond to market demands and we must encourage innovation at all stages in the production chain.

To achieve these objectives, there is a continuing need for an active and appropriately resourced European agricultural policy. That policy needs to recognise the role that a cohesive agriculture and rural development policy can play in addressing future energy needs, addressing environmental concerns and providing a secure and sustainable food supply in Europe. It also needs to be simple, flexible and easy to understand such that it is imperative that further simplification of policies and processes is achieved

Decoupled payments are, in our view, the best means of underpinning the viability of the EU farm structure, based on small family farms. They address the multi-functional nature of EU agriculture, orientated to what the market demands, supportive of rural social structures and capable of delivery of important social and environmental public goods.

As regards the future model of payments we should not confuse the allocation of funds between Member States with the mechanisms or models used within Member States on which to base payments. The former will be a matter for the European Council to decide. Ireland favours retention of the current flexibility in regard to the latter.

Pillar 2 provides an important basis for the delivery of specific public goods, particularly related to the environment and to vulnerable areas. However, while rural development policies are deserving of our support, this should not be at the expense of Pillar 1. Moreover, it is essential that our common policies allow sufficient flexibility to take into account the wide diversity of production systems across the 27 Member States.

There is also a need to ensure that existing high standards of food production are maintained and that we have credible and reliable systems of equivalence for imported products.

Although market supply and management mechanisms have diminished in importance with successive CAP reforms, there is a need to retain the capacity and flexibility to react promptly and effectively to market instability and price volatility.

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