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AN CEATHRÚ TUARASCÁIL

TUARASCÁIL MAIDIR LE HATHCHÓIRIÚ AN CHOMHBHEARTAIS TALMHAÍOCHTA I NDIAIDH-2013

JOINT COMMITTEE ON AGRICULTURE, FISHERIES AND FOOD

FOURTH REPORT

REPORT ON REFORM OF THE COMMON AGRICULTURAL POLICY POST-2013

PRN NO. A10/1527 NOVEMBER, 2010

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Chairman's Foreword

The Joint Committee on Agriculture, Fisheries and Food has a wide-ranging remit covering all aspects of agriculture including EU policy and how it could affect the agricultural sector.

With this in mind, and as part of the continuing negotiations on the future of the Common Agricultural Policy (CAP) post-2013, the Joint Committee decided to compile a report to present to the EU Commission with regard to these negotiations.

Because of the significant changes likely to be made to the CAP post-2013, the Committee felt that the interests of the Irish agricultural sector should be represented and protected as much as possible.

Since these negotiations will provide the policy framework under which the Irish agri-food industry will operate in the period of 2014-2020 and since that industry is of major economic significance to Ireland, the outcome of the negotiations is vital for the Irish economy as a whole.

As part of the compilation of the report, the Committee received submissions from several organisations outlining their perspectives on the negotiations and feels it has gained a valuable insight into the factors affecting the industry, therefore enabling it to make a number of recommendations as outlined in the report.

The Committee would like to acknowledge the assistance of Mr Bart Brady, Consultant, in the compilation of this report.

Johnny Brady

Johnny Brady T.D.
Chairman

November 2010

Chapter 1: The Evolution of the CAP

1.1 The Common Agricultural Policy (CAP) was first formulated in the 1960s. Because the then EEC had major deficits in many important products, food security played a significant role in shaping the policy. Support prices were set at relatively high levels which were maintained by high external tariffs and, where necessary, intervention buying and the subsidisation of exports.

1.2 The CAP has changed dramatically since then due to a number of factors, some of them inter-connected:

- high support prices resulted in major increases in production, large intervention stocks and substantial subsidies for the export of surpluses, all leading to public concern about the cost of the CAP and also about the co-existence of large long-term intervention stocks with widespread world hunger

- high levels of border protection and export subsidies provoked criticism from trading partners in general and from developing countries in particular about distortions in world trade and production patterns

- environmentally-damaging intensive production incentivised by high support prices, together with increasing environmental awareness by the public, led to demands for more environmentally-friendly production

- consumers became more concerned about food safety and quality, as well as animal health and welfare

- the rules of the General Agreement on Tariffs and Trade (GATT) - now the World Trade Organisation (WTO) – were fully extended to the agricultural sector in the early 1990s, requiring a review of the support mechanisms of the CAP and increasing the awareness of the need for greater efficiency in EU food production

- the enlargement of the EU to include twelve new Member States, some of them significant agricultural producers, had the potential to increase costs substantially

- there was a growing belief that agriculture alone could not develop the economies of rural areas and that wider rural development measures were necessary

1.3 A series of reforms were introduced over the decades to adjust the CAP in line with these developments. As a result, the CAP has been radically changed from the initial model. The CAP now consists of two interconnected ‘pillars’ as follows:

The First Pillar: contains two elements - market supports and direct payments*:

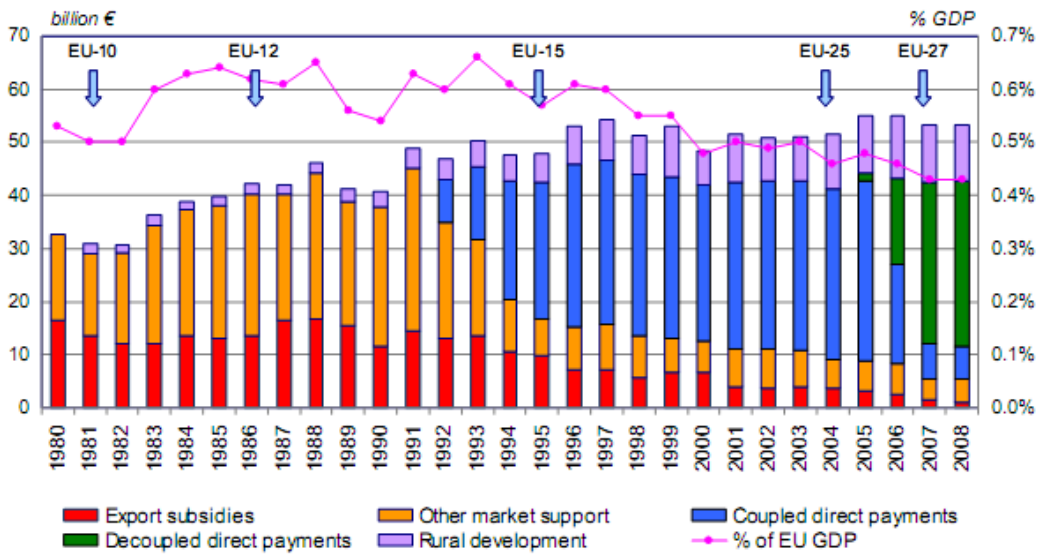
market supports are at a level designed to prevent market collapse rather than, as in the past, to maintain relatively high prices, thus enabling farmers to produce in line with market signals, although leaving their returns more exposed to market volatility

direct payments provide basic income support for farmers that is mostly decoupled from production and is conditional on adherence by farmers to standards relating to food safety, the environment and animal welfare

The Second Pillar: this is the rural development policy which assists farmers in improving their competitiveness, compensates them for the provision of additional public goods in the environmental area and provides incentives for the development of the wider rural economy.

1.4 The changes in the CAP over the decades are illustrated in Figures 1 and 2 following.

Figure 1: the shares in total CAP expenditure devoted to the main instruments of the CAP in each year 1980-2008 and CAP expenditure as share of EU GDP



Source: EU Commission

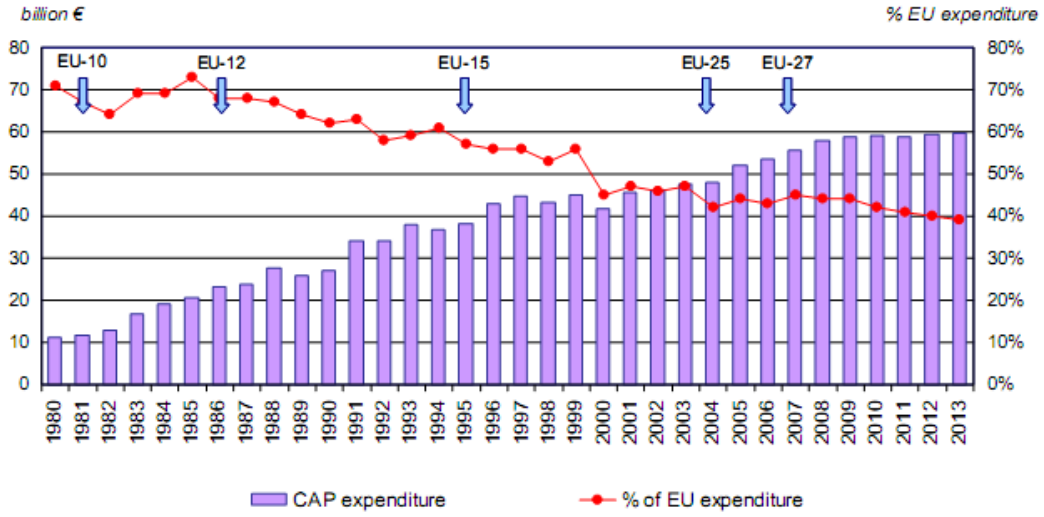
1.5 This figure shows

- the shift from export subsidies and other market supports to income supports
- the shift in income supports from coupled to decoupled supports

* In this report, unless otherwise stated, all references to direct payments refer to those direct payments (uncoupled, which constitute the Single Farm Payment, and coupled) which are funded from the First Pillar.

- the increase in expenditure on rural development
- the stabilisation of expenditure on the CAP which, despite successive enlargements, will represent just over 0.4% of EU GDP in 2008 compared with close to 0.7% as recently as 1993

Figure 2: the development of CAP expenditure over the years 1980-2013 and as share of EU expenditure



Source: EU Commission

1.6 This figure shows

> the share of CAP expenditure in overall EU expenditure has decreased sharply from almost 75% in 1985 to 44% in 2009 and will fall further to an estimated 39% in 2013;this change is, of course, due not only to successive CAP reforms but also to an increase in EU expenditure on other policies.

1.7 Internationally, the support levels provided by the CAP compare favourably with OECD norms, both at present and in the trend since the late 1980s, as the following table shows:

Table 1: Total Support Estimate as percentage of GDP

Country/Entity	1986-88	2007-2009
EU	2.6	0.9
US	1.3	0.8
TOTAL OECD	2.25	0.89

Source: OECD

Chapter 2: The Financing of the CAP

2.1 Funding for the CAP is decided each year as part of the overall EU budgetary process; however, annual expenditure must not exceed the annual limits set out in the multi-annual Financial Perspective decided by the European Council.

2.2 The current Financial Perspective relates to 2007-2013 and the next may relate to 2014-2020 (there is a view at European level that a five-year period would be more appropriate, to coincide with the life-spans of both the Parliament and the Commission).

2.3 Separate limits are set in the Financial Perspective for the First Pillar (market supports and direct payments) and the Second Pillar (rural development). In the current Financial Perspective, an allowance for inflation of 1% a year is applied to First Pillar expenditure.

The financing of the First Pillar

2.4 To ensure that the annual limits for the First Pillar are respected, EU legislation provides for a reduction of direct payments – by the Council of Ministers on a proposal of the Commission - whenever the forecasts for expenditure in a given year on direct payments and market supports combined indicate that the limit set by the Financial Perspective for that year, less a margin of €300m, will be exceeded. This mechanism has not had to be employed so far.

2.5 Expenditure on direct payments is pre-determined by the national envelopes assigned by a Regulation of the Council of Ministers to each Member State, subject to the budget control mechanism described in the preceding paragraph. Initially in the case of the EU 15, the size of each Member State's envelope was calculated by reference to its production in the years 2000-2002 in sectors to which direct payments then applied; in the case of the EU 12, national envelopes were also decided by reference to production in those years but with some modifications agreed in the course of the accession negotiations to take account of exceptional factors. All national envelopes were subsequently increased to take account of the later introduction of direct payments to additional sectors.

2.6 The national envelopes for the EU 27 are being phased in, over the years to 2013 for the EU 10 and over the years to 2016 for the EU 2. Thus, 2016 will be the first year when all Member States receive their full entitlements to direct payments. However, the impact of full entitlements on the EU budget will be in 2017 because of a timing factor.

2.7 Expenditure on market supports is determined by the operational decisions taken on the deployment of those supports to manage the market. Obviously, developments in the market greatly influence those decisions. The budgetary control mechanism described in paragraph 2.4 above applies if there is a danger that the overall limits in the Financial Perspective are likely to be exceeded.

The financing of the Second Pillar

2.8 The annual limits set out in the Financial Perspective for the Second Pillar are supplemented by a transfer of monies from the First Pillar through a process known as modulation. Under modulation, direct payments to any farmer in excess of €5,000 a year will be reduced by 10% in 2012 (5% in 2008), with payments over €300,000 being reduced by a further 4%, and the amounts involved transferred to the Second Pillar.

2.9 The actual amounts spent annually under the Second Pillar (within the limits set by the Financial Perspective plus modulated monies) is determined by the multi-annual Rural Development Programmes agreed by each Member State with the Commission and the actual rate of expenditure by each Member State. The programmes must be structured around four themes or axes (competitiveness, the environment, quality of life and diversification of the rural economy, and LEADER). Member States must respect minimum levels of expenditure for each of these axes.

Chapter 3: The Financial Benefits of the CAP to Ireland

3.1 The benefits of the CAP to Irish agriculture are considerable. However, the Irish economy as a whole does not benefit to the same extent since the Irish taxpayers' contribution to the cost of EU-wide CAP expenditure has to be taken into account. The following table sets out the position in this respect.

Table 2: Gross and net receipts from EU agricultural expenditure

	Gross receipts	**Estimated Irish contribution to EU agricultural expenditure**	**Net receipts**
	€m	**€m**	**€m**
2007	**1,812**	**729**	**1,083**
2008	**1,814**	**712**	**1,102**
2009	**1,677**	**639**	**1,038**

Source: Department of Agriculture, Fisheries and Food

3.2 The main EU schemes from which Irish agriculture benefits, with the amounts paid out in recent years, including the Irish Exchequer contribution, are:

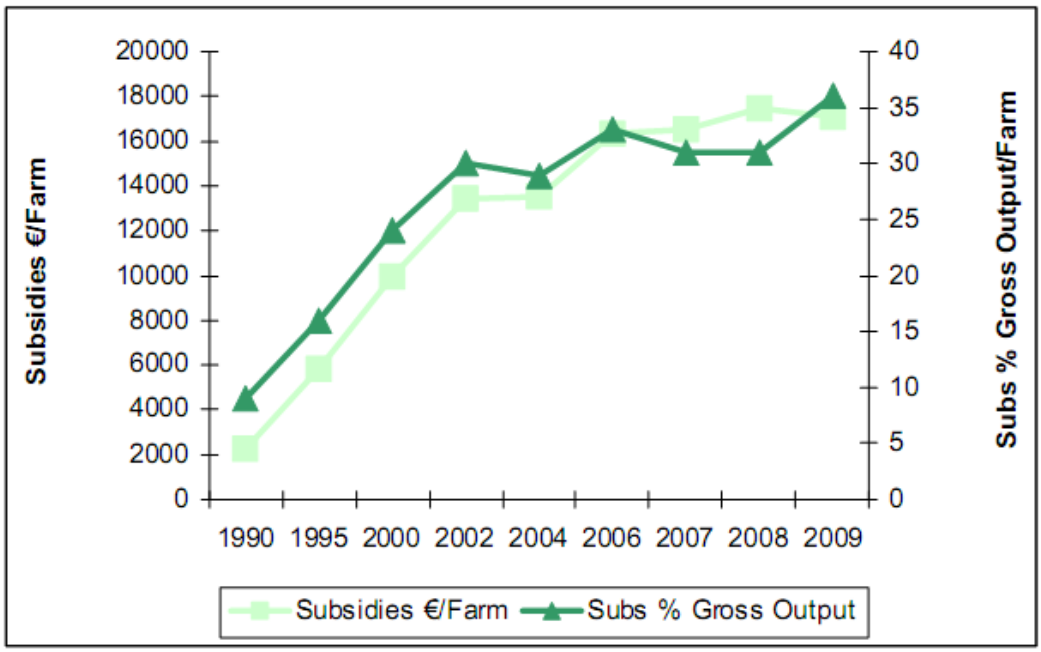
Table 3: Main EU Schemes, total amounts paid

	2007 €m	2008 €m	2009 €m
Direct Payments(Single Farm Payment)	**1,302**	**1,300**	**1,300**
Rural Environmental Protection Scheme (REPS)	**312**	**310**	**338**
Less Favoured Areas	**254**	**256**	**224**
Forestry Premiums	**66**	**69**	**67**

Source: Department of Agriculture, Fisheries and Food

3.3 Figure 3 below, taken from Teagasc's National Farm Survey 2009, shows the growth in importance of receipts from EU schemes to Irish agriculture. The receipts included in the Figure are all non-capital subsidies, direct payments, premia and grants (including the Irish Exchequer contribution) and they increased from approximately €2,200 per farm, or 8% of Gross Output, in 1990 to €17,109, or 36% of Gross Output, in 2009.

Figure 3: average subsidies per farm and as a percentage of Gross Output, 1990-2009



Source: National Farm Survey 2009, Teagasc

3.4 The Teagasc Survey also shows that these same subsidies represented 84%, 103% and 143% of Family Farm Income in 2007, 2008 and 2009, respectively. These national average rates of dependency disguise even higher dependency levels in some regions and for some farm systems and on part-time farms. The subsidies as a percentage of Family Farm Income varied in 2009

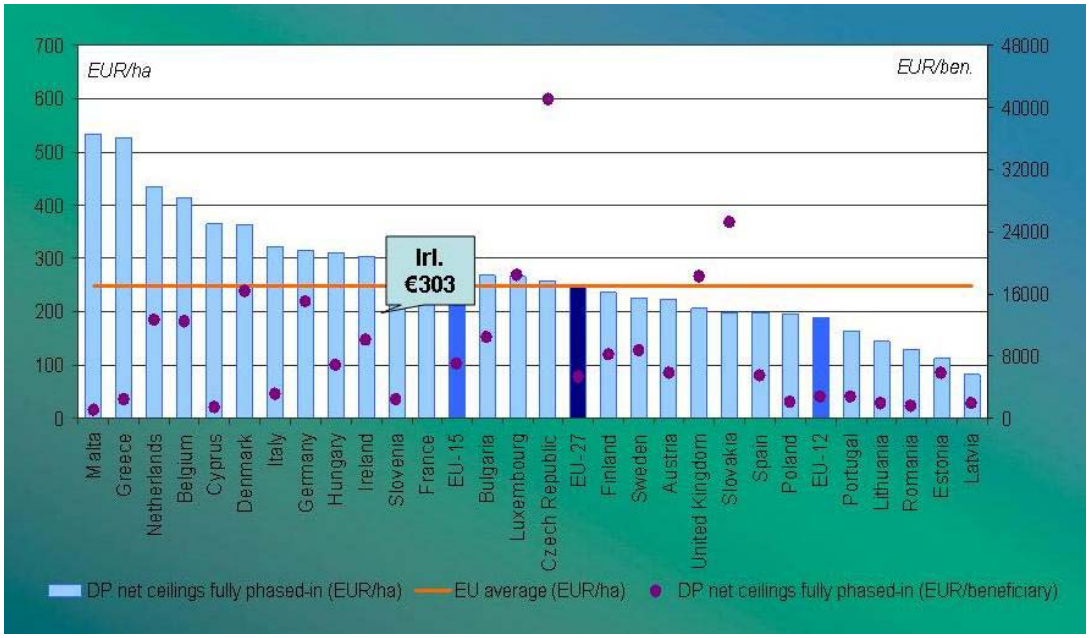
- from 113% in Region 5 (Clare, Limerick, Tipperary North) to 201% in Region 1 (Louth, Leitrim, Sligo, Cavan, Donegal, Monaghan)
- from 87% on specialist dairy farms to 204% on cattle rearing farms
- from 118% on full-time farms to 183% on part-time farms

Chapter 4: Comparison of Member States' benefits from the CAP

4.1 Figures 4, 5 and 6 in this Chapter were prepared by the Department of Agriculture, Fisheries and Food based on EU data. These figures illustrate the effects of using different methodologies in comparing the distribution of CAP expenditure among the Member States.

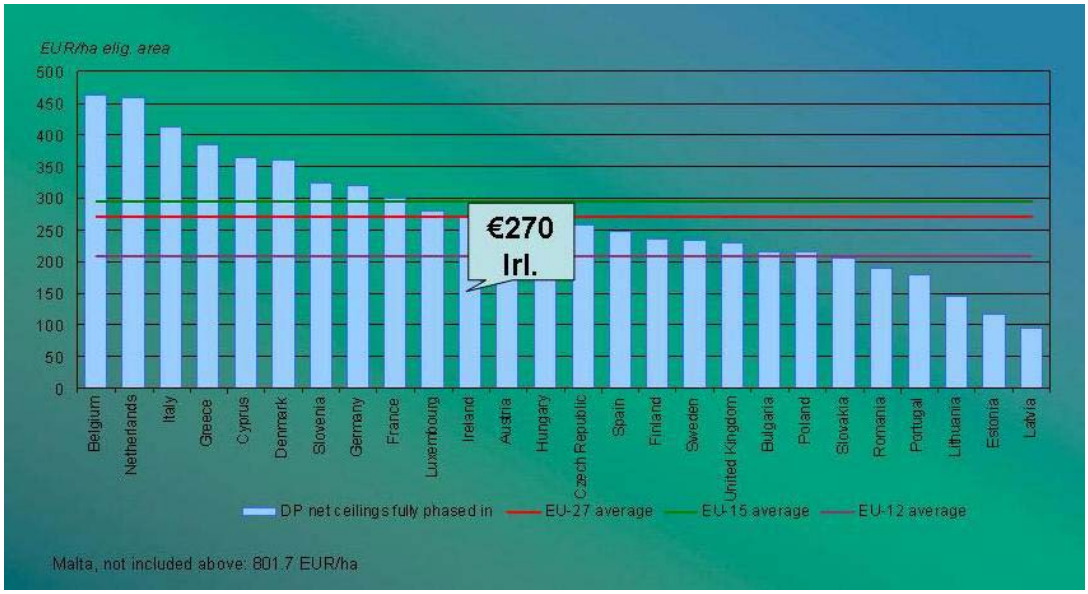
4.2 Figure 4 below shows the levels of direct payments per hectare of Utilisable Agricultural Area (UAA) in each Member State in 2016 when payment rates to the EU 12 will be fully aligned with those applicable to the EU 15. It also shows the average amount received per beneficiary in each Member State. The amounts exclude the sums transferred to the Second Pillar under modulation.

Figure 4: Direct payments per hectare of Utilisable Agricultural Area (average €249) and per beneficiary, 2016



4.3 Figure 5 below shows the levels of direct payments per hectare of land declared as eligible (in 2008, the latest available year) in each Member State. As for Figure 4, the amounts relate to 2016 and exclude modulated monies.

Figure 5: Direct payments per hectare of declared eligible area (average € 271), 2016



4.4 Figure 6 below provides a broader indicator of benefits. This figure covers all CAP payments (both Pillars) and nets these payments against each Member State's contribution to CAP expenditure to give a picture, in ratios, of the net balance of each Member State. These estimates may vary in line with actual data from year to year.

Figure 6: CAP budget transfer ratios (benefit / contribution), 2013

Net Beneficiaries	Ratio	Approx. Balance	Ratio	Net Contributors	Ratio
Bulgaria	6.23	Spain	1.1	Luxembourg	0.29
Lithuania	4.43	Austria	0.99	Netherlands	0.39
Hungary	3.92	France	0.97	Belgium	0.47
Romania	3.74	Denmark	0.95	Malta	0.54
Poland	3.01	Finland	0.92	Germany	0.61
Latvia	2.6			Sweden	0.63
Greece	2.59			UK	0.66
Estonia	2.49			Italy	0.7
Slovakia	2.49			Cyprus	0.8
Czech Rep.	2.1				
Ireland	1.89				
Slovenia	1.48				
Portugal	1.43				

4.5 There are a number of significant conclusions to be drawn from these figures:

- Figure 4: By the criterion of payment per hectare of UAA, Ireland receives 22% above the EU average payment. Ireland would therefore lose a sum of the order of €200m a year if a flat-rate EU-wide payment per hectare of UAA similar to the current average were introduced.

- Figure 5: The basis for comparison used in this figure - payment per hectare of eligible area - is arguably the appropriate basis for comparison since eligible land is defined in the relevant Council Regulation as the land that gives rise to the entitlement to the payment whereas UAA (Figure 4) is not so clearly defined. On this basis of comparison, Irish farmers do not benefit disproportionately from direct payments. In fact, Irish farmers receive slightly less (one euro less) per hectare than the EU average. Ireland would not therefore lose if a flat-rate EU-wide payment per hectare of eligible land similar to the current average were introduced.

- Figure 6: While Ireland is a net financial beneficiary of total CAP expenditure, it is by no means in the top rank of beneficiaries.

4.6 It should also be pointed out that any flat-rate system or any other significant change in the distribution system would give rise, in Ireland and in all other Member States, to a substantial number of farmers who would receive higher payments and a substantial number who would receive lower payments by reference to the existing system (except in the most unlikely event that total EU expenditure on direct payments were increased substantially to prevent anyone losing). In Ireland's case, a flat-rate system would result in funding moving 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.

Chapter 5: The Elements in the Negotiations

5.1 There are many elements which will feature in the negotiating mix on CAP reform. The main elements, which are linked to various degrees, are described below.

The overall EU budget review

5.2 In agreeing the Financial Perspective 2007-2013 in December 2005, the European Council decided as follows:

> *Europeans are living through an era of accelerating change and upheaval. The increasing pace of globalisation and rapid technological change continues to offer new opportunities and present new challenges. Against this background, the European Council agrees that the EU should carry out a comprehensive reassessment of the financial framework, covering both revenue and expenditure, to sustain modernisation and to enhance it, on an ongoing basis*

> *The European Council therefore invites the Commission to undertake a full, wide ranging review covering all aspects of EU spending, including the CAP, and of resources, including the UK rebate, to report in 2008/9. On the basis of such a review, the European Council can take decisions on all the subjects covered by the review. The review will also be taken into account in the preparatory work on the following Financial Perspective.*

5.3 The above extract reflects a tension at the time between those Member States which wanted to terminate, or reduce, the UK rebate and those Member States, including the UK, which wanted to reduce CAP expenditure. Since the level and nature of expenditure, as well as revenue sources, directly influence the level of the UK rebate, the extent of any trade-off between funding for the CAP and the future of the rebate, which is of the order of €4 billions, will be a significant factor in the overall outcome.

General economic situation

5.4 The banking and financial crisis which began in 2007 and the subsequent international recession has added to the fiscal pressures in Member States. Many of these, particularly those which are, or will soon become, net contributors to the EU budget, are likely to want to reduce the burden of their EU budgetary contributions by reducing EU expenditure. Some may favour co-financing of the CAP as a means of achieving this objective.

5.5 At this point, it might be noted that the biggest source of pressure on agricultural expenditure is the annually increasing cost of phasing in direct payments in the new Member States. These will have their maximum budgetary impact in 2014 for the EU 10 who joined in 2004 and in 2017 for the EU 2 who joined in 2007. The following is an attempt to estimate the extent of that impact.

5.6 On the expenditure side, the total national envelopes for direct payments for the EU 27, under existing entitlements, will be €45.8 billions in 2017. Expenditure on market supports would amount to €5.3 billions on the basis of average annual market support expenditure during the current Financial Perspective (ie 2006-2010) or €4.3 billions on the basis of average annual expenditure in the three most recent years (2008-2010). Then provision must be made for the margin of €0.3 billion referred to at paragraph 2.4 above, bringing the total amount to be provided for to €50.4 - €51.4 billions.

5.7 On the resources side, the maintenance of the same level of resources for market supports and direct payments as provided in the current Financial Perspective would yield €50.6 billions in 2017 (that is, the level of resources provided for in 2013 increased by 1% a year, as in the current Financial Perspective).

5.8 The above can be presented in tabular form as follows:

Table 4: Estimate of expenditure on, and resources for, direct payments and market supports in 2017

	Expenditure €bn	**Resources €bn**
Direct Payments	**45.8**	
Market Supports	**4.3-5.3**	
Buffer	**0.3**	
TOTAL	**50.4- 51.4**	**50.5**

5.9 On the basis of these estimates, the maintenance of the same level of resources as in the current Financial Perspective would be likely to trigger the budget control mechanism referred to in paragraph 2.4 above. If the higher level of estimated expenditure were realised, this would result in a reduction in direct payments of about 2%.These estimates do not make any provision for the additional costs of future enlargements (see paragraphs 5.14 to 5.21 below).

5.10 While there are economic difficulties in providing adequate funding for the CAP, it is generally recognised that the CAP can play a significant role in dealing with those difficulties. This was accepted by the European Council in its Conclusions on the EU's 2020 Strategy at its meeting on 17 June 2010 which reads:

> *A sustainable, productive and competitive agricultural sector will make an important contribution to the new strategy, considering the growth and employment potential of rural areas while ensuring fair competition*

Rebalancing between agricultural and non-agricultural expenditure

5.11 Quite apart from the fiscal pressures on Member States, some would prefer to see EU expenditure on agriculture reduced and allocated to other purposes.

Redistribution between First and Second Pillars

5.12 Some Member States would prefer to see a higher proportion of whatever funds are made available for agriculture going to the Second Pillar. Some of these are new Member States which believe that they would get a higher share of the overall funding for agriculture if more is allocated to the Second Pillar. There is a small number of Member States whose ultimate objective is to abolish the First Pillar altogether.

5.13 Apart from the distribution between the two Pillars, a significant number of Member States consider that there should be no further modulation and that the funds for the two Pillars should be fixed at the outset for the duration of the Financial Perspective.

The additional costs of further enlargement

5.14 There are four countries which have been given the status of "candidate" – Turkey, Croatia, FYR Macedonia and Iceland. There are five countries which are in the "potential candidate" category – Montenegro, Serbia, Albania, Kosovo and Bosnia & Herzegovina.

5.15 The information available on the cost of further enlargement is incomplete and some that is available may be outdated.

5.16 A Commission staff working document of 6 October 2004 estimated that the cost of market supports and direct payments for Turkey would be €6 billion a year when direct payments were fully phased in and that a further €2.3 billion a year would be required for rural development.
5.17 A Commission Communication of 29 October 2009 on Croatia suggests that market supports and fully-phased-in direct payments would amount to €400m and rural development to €350m a year.

5.18 A report of 24 February 2010 attached to the Commission's Opinion on Iceland's application concluded that the cost of applying both Pillars to Iceland "would most likely account for less than 0.1% of EU-27 CAP spending", that is, about €50m.

5.19 It seems that there are no estimates available for FYR Macedonia or for the countries in the "potential candidate" category.

5.20 The approach adopted for the application of the CAP to the EU 12 was that market support policy and rural development policy would be fully operative from accession and that direct payments would be phased-in over a ten-year period, starting with 25% in the first year. It is assumed that similar arrangements will apply to further enlargements.

5.21 A crucial issue, therefore, in assessing the agricultural costs of further enlargement during the period of the next Financial Perspective is the timing of the accession of the respective candidates. Accordingly, while the agricultural costs of Turkey's accession are very large, the actual costs to be met could be a fraction of the total or even zero, depending on whether Turkey accedes before 2020.The costs of Croatia's accession, which could take place about mid-way through the 2014-2020 period, will have a significant impact on the resources available for the CAP if no specific provision is made. The smaller costs of the accession of Iceland and FYR Macedonia would add to the pressure.

Redistribution of national envelopes

5.22 Many of the new Member States are seeking what they see as a fairer distribution of national envelopes for direct payments. They argue that their original national envelopes, agreed prior to accession, were based on non-representative production levels as, at that time, the transition to the market economy had not been completed and production had also been adversely affected by their inability to export to Russia due to the economic crisis there in the mid-1990s.

Appropriateness of the historical method

5.23 Those new Member States which are seeking a redistribution of national envelopes are opposed to the historical method used for determining those envelopes for the reason set out in the preceding paragraph. Apart from those Member States, there is a widely held view, at Member State level and among farmers and other interested parties, that it is no longer justifiable to distribute direct payments on the basis of production in 2000-2002 and that it will be even less justifiable by 2020. This case is supported by claims of inequity as between individual farmers and as between types and levels of production because of the present-day effects of direct payment levels that are determined by data which is up to ten years old.

5.24 Commissioner Ciolos has made his views on this issue very clear. At the Public Debate Conference on the CAP post 2013 in Brussels on 19/20 July 2010, he said

> *"Some people are tempted by the idea of a uniform rate. This was one of the ideas put forward during the public debate. How far do you have to go to achieve a level playing field? For my part, fairness and equality are not the same thing.*
>
> *Likewise, maintaining historical criteria is no longer an option either. The signposts of the past will not enable us to prepare for the future and help the sector modernise.*
>
> *We need to build upon objective, realistic criteria: the type of farm and the socio-economic, climatic and environmental context in which farmers work.*
> *One thing is clear: we cannot perpetuate a system which fails to give similar rights to farms in categories where they work under similar conditions."*

5.25 In his address to this Committee on 1 October 2010, Commissioner Ciolas said

> *"In these troubled times, we have to make the CAP Europe's investment for its future. And it will not be the case if the support for our farmers is based on what they did in the past.*
> *Direct payments must evolve towards better targeting active farmers in order to optimize the use of public funds. They have to better reflect the care farmers take of (the) environment, providing stronger incentives for sustainable farming – but must also retain the elements of income support for those many farms that need it.*
> *We must move to a system where the taxpayer can understand what farmers are doing for them. The current system sees considerable differences in the rate of aid that farmers get from one member state to another. This is not justifiable for the period after 2013. Direct payments must be more equitably distributed amongst member states, regions and types of agriculture.*
> *Our aim is to put forward a balanced solution, acceptable to all member states. We will not solve problems in some countries by creating difficulties in others."*

5.26 The views of the European Parliament on this issue can be gathered from the following extracts from the Parliament's Resolution on the future of the CAP after 2013 adopted on 8 July 2010:

> *"Whereas the current distribution and level of support to Member States and farmers results from the distribution and level of that support in the past, when it was coupled with the type and scale of production and represented compensation for the fall in farmers' incomes resulting from the substantial drop in guaranteed prices; whereas that method of distribution gives rise to an understandable sense of injustice on the part of some EU farmers, and maintaining it is, moreover, inconsistent with the future goals of the CAP (whereas clause S)*
>
> *Calls for a fair distribution of CAP payments and insists that it should be fair to farmers in both new and old Member States (section 45)*
>
> *Calls for a fair distribution of CAP funds to farmers across the EU; recalls that to respect the diversity of farming in the EU, objective criteria must be found in order to define a fair system of distribution ….*
>
> *Believes that in order to reduce the disparities in the distribution of direct support funds between Member States and to reflect the wide diversity characterising European agriculture, the hectare basis alone will not be sufficient, and therefore calls on the Commission to propose additional objective criteria and to evaluate their potential impact, taking into account the complexity of the agricultural sector and the differences between Member States, in order to achieve a more balanced distribution (section 64)*
>
> *Believes that direct support should move to an area basis in all Member States within the next financial programming period; this would constitute a sufficient transition period allowing farmers and agricultural structures that are still using the historical payments system the flexibility to adapt to the changes, and to avoid too radical a redistribution of support, without prejudice to promptly achieving a balanced distribution of support amongst Member States (section 65)"*

5.27 It is clear from the foregoing quotations that both the Commissioner and the Parliament favour a move away from the historical basis of allocating direct payments. It is also clear that the Commissioner does not favour a flat-rate per hectare system, at least as the sole means of determining national envelopes. The Parliament seems to envisage a move, after a transitional period, to a flat-rate system, possibly using other criteria as well.

Alternative methods of allocating direct payments

5.28 The debate on the future of the CAP at EU level has so far thrown up a large number of possible methods of redistributing the resources available for direct payments among the Member States.

The following is a non-exhaustive list:

- A flat-rate system, on an EU-wide, national or regional basis
- A base of flat-rate payments plus additions on the basis of a variety of criteria, some of which are described separately below
- Lower and upper limits to apply to individual payments (evening out minimum and maximum payments per hectare or per farmer), or upper limits alone
- More targeted payments linked directly to the delivery of public goods
- Counter-cyclical payments which would balance price movements up or down
- Income per head
- Population density
- Cost of production or overall cost levels in individual Member States
- Production levels in a new more recent base year or years

5.29 Unsurprisingly at this early stage of the debate, there is no method which has so far won widespread acceptance.

The provision of public goods

5.30 It is widely accepted that the agricultural sector has a major role to play in the management of the environment, in sustainable development and in combating climate change. This role involves reducing greenhouse gases through the provision of feedstock for bio-energy and the development of carbon sinks. It also involves preservation of air, soil and water quality, enhancement of the landscape and the safeguarding of bio-diversity. Some of these public goods are a by-product of good agricultural methods but others require extra effort and expense by farmers. The tool of cross-compliance can ensure the delivery of only some of these public goods. Incentives or compensation are required for the remainder. This will involve a demand on financial resources.

Food Security

5.31 Food security has emerged again as a significant issue both at EU and global levels. The EU has become a net importer of agricultural goods, importing over €78 billion worth of products a year, and is experiencing a widening trade deficit in agricultural products. At a global level, the FAO expects world population to grow from 6 billion today to 9 billion by 2050 and food demand to double. A robust agri-food sector, supported by adequate resources in both Pillars of the CAP, is needed to

ensure food supplies domestically while avoiding wildly fluctuating prices and to enable the EU to make an appropriate contribution to global food security.

The need to improve competitiveness

5.32 The trend towards trade liberalisation, through the WTO Doha Round and other trade deals like Mercusor, will maintain pressure on all elements of the EU food chain. On the other hand, there will be opportunities for EU food producers in non-EU markets which both trade liberalisation and the expected increase in world demand for food will open up. Improved competitiveness can therefore both protect and expand existing employment and economic activity in the EU's agri-food sector. However, there is a need to make adequate resources available in the Second Pillar to assist with the capital investment involved.

Appropriate market management

5.33 The nature of food production – its dependency on weather conditions and the natural time-lag between a change in market conditions and a production response – results in both over-supply and under-supply with consequent price volatility. Such volatility is damaging to both consumers and producers. While there is little demand for market management involving costly storage of intervention purchases and extensive use of export refunds as in the past, the basic need for an appropriate degree of market management remains. Developments in the milk sector in 2009 provide an example of this need and indicate that the market management tools available at the time were inadequate.

Less Favoured Areas

5.34 The Less Favoured Areas scheme is under review. The Commission is examining possible new criteria for redefining these areas. They are also considering the merits or otherwise of funding this scheme from the First Pillar, rather than the Second Pillar as at present.

Chapter 6: Submissions

6.1 Submissions were received from the following organizations:

Carbery Group
Irish Cattle and Sheep Farmers' Association
Irish Co-operative Organisation Society
Irish Creamery Milk Suppliers Association
Irish Dairy Board
Irish Dairy Industries Association
Irish Farmers' Association
Irish Grain and Feed Association
Irish Rural Link
Macra na Feirme
Meat Industry Ireland

6.2 While not all issues were covered in all submissions, they had much in common on the main issues. The following is a summary of the main points on which there was a considerable measure of agreement; it relates only to the issues which will be part of the negotiations on CAP post-2013 and excludes issues which are for decision nationally.

General

- EU agriculture can make a significant contribution to food security in the EU and globally, to the environment and to the needs of climate change as well as to economic recovery

- The CAP post-2013 should therefore be well-funded and provided with the appropriate policy instruments to enable it to realise its potential.

- A level playing field is a crucial requirement. Consequently, there should be no co-financing of the First Pillar by the Member States, EU standards should be applied vigourously to imports from third countries and any unfair commercial practices in the food chain should be eliminated

First Pillar

- Ireland's national envelope for direct payments should be maintained, with provision for indexation of payments; the historical basis is the best means of maintaining the size of the national envelope; flat-rate payments per hectare are unacceptable

- There should be better protection against price volatility, including new instruments of market management and the retention of export refunds.

- Active and young farmers and sustainable grassland production should be supported through the direct payments system

- Provision should be made for decoupled direct payments in vulnerable and strategic sectors

- There should be no further modulation

Second Pillar

- the suite of measures to encourage and support greater efficiency, sustainability, innovation and job creation in rural areas should be expanded.

6.3 There was a minority view expressed by one organisation centering on the resources issue:

- Rural development measures need to be more sector-neutral, with the focus on job creation and long-term sustainability instead of on agriculture

- The successors to Axes 3 and 4 under the Second Pillar should receive a significantly larger share of funding; a cap on payments to landowners or a means test should be implemented

Chapter 7: Issues and Recommendations

General Issues

Resources

7.1 In the first phase of its existence, the CAP was a costly policy with little or no integration with other sectors or policy areas. Over the last three decades, it has been reformed several times. As indicated in Chapter 1

- the CAP is now a multi-functional policy that is well integrated with other public policy areas.

- the great bulk of expenditure now goes to provide income supports direct to farmers rather than through intermediate measures such as intervention purchases

- through cross-compliance and rural development measures, the CAP promotes on-farm efficiency, ensures food safety, procures public environmental goods and addresses public concerns about animal welfare

- rural development measures also aim to alleviate the economic and social problems of rural areas

- the cost of the CAP is no longer disproportionate in terms of EU GDP or by reference to international comparisons

- the rules of international trade agreed in the WTO are being respected.

7.2 Consequently, the CAP, while obviously not perfect, is now well-adapted to the needs of European society. More importantly, the CAP has now the capacity, particularly with further appropriate reform, to make a significant contribution to EU and global food security, to combating climate change and to general economic recovery. However, this potential – a potential recognized by the European Council in the context of the EU's 2020 Strategy (see paragraph 5.10 above) - will be realised only if sufficient resources are provided.

7.3 Any recourse to co-financing of the First Pillar would endanger the proper functioning of the Single Market because of the variation in the financial capacity of Member States

Recommendation 1. The resources needed for the CAP (a) to preserve existing economic, social, food security and quality and environmental gains, (b) to contribute further in those areas and (c) to increase economic activity and employment should be provided, including the resources required to cover the additional costs of enlargements. The First Pillar should continue to be fully funded at EU level.

Sequencing

7.4 The negotiations on the CAP will be part of wider negotiations on both the expenditure and revenue sides of the EU budget and on the overall Financial Perspective. All aspects of these negotiations will take place in parallel over a period of about two years. However, final decisions on specific reforms to the CAP can properly be taken only in the light of the resources that are to be provided for the CAP.

Recommendation 2. The relevant Presidencies should ensure that the negotiations on the new Financial Perspective should be sequenced so that the final decisions on further changes in the CAP will be taken in the full knowledge of the resources that will be available for the CAP.

Market returns to farmers

7.5 There is clear evidence that the return to farmers is a very small fraction of the retail price that consumers pay. This indicates that farmers' bargaining position in the food chain is weak but could also be indicative of unfair commercial practices. Such practices would not only be damaging to farmers but would undermine the effect of expenditure on EU market management measures. A related issue is the appropriate labeling of food products.

Recommendation 3. Unfair commercial practices in the food chain should be addressed and, where necessary, competition law should be amended to ensure equity for farmers while not impairing the benefits of fair competition for consumers or disrupting the operation of the single market. Appropriate labeling should give consumers the knowledge they need to make informed decisions on food purchases, also without disrupting the operation of the single market.

Simplification

7.6 The rules of the CAP, particularly in relation to direct payments, are regarded by farmers as unduly complex and burdensome and can often lead to unfair penalties on farmers.

Recommendation 4. The forthcoming reform of the CAP provides an opportunity which should be taken to simplify the conditions attaching to the various schemes for both national administrations and farmers to the maximum

extent consistent with the need to ensure eligibility of entitlement and to protect against fraud.

Specific Issues – First Pillar

Provision for Direct Payments

7.7 A major issue in the CAP negotiations will be the level of resources to be provided for direct payments. These payments compensate farmers for the costs they incur in meeting the high standards that EU consumers demand, and EU law imposes, in relation to food safety, the environment, animal and plant health and animal welfare. Equity requires that the compensation is adequate. Yet there has been no adjustment of direct payments to take account of inflation in farmers' costs over the years since the introduction of the present system. Instead farmers have had their payments reduced through modulation. The dependence on direct payments for the viability of the family farm in Ireland is clearly demonstrated in Chapter 3. The consequences of inadequate compensation into the future will be serious and many-sided. Without adequate compensation, farmers will reduce production and some will go out of business altogether. As a result

- *the EU will continue to lose market share on the domestic and world markets with an adverse impact on economic activity and employment.*
- *food security risks and price volatility in the EU will increase*
- *the EU will contribute less to global food security*
- *there will be reduced attention to the environment and increasing environmental degradation*
- *the economies of rural areas, which are highly dependent on farmers' purchasing power, will be damaged*

Recommendation 5. Resources at least sufficient to maintain the present value of direct payments should be provided in the new Financial Perspective.

Determination of national envelopes

7.8 There are many considerations to be taken into account in arriving at an equitable distribution of the resources available for national envelopes. The question of equity between farmers is a major consideration. Equality of payment per hectare would not be equitable since it would not take account of the wide diversity of farming in the EU. Equity requires that the assistance provided to farmers through direct payments has to be directly related to the cost of farming and the cost of living – both of which vary greatly among Member States.

7.9 The legitimate expectations of farmers constitute another crucial element to be considered; many farmers have made investments and other commitments, and in many cases have taken bank loans, based on their legitimate expectations that the level of their direct payments would be maintained.

7.10 There is also the consideration that a flat-rate system, or indeed any significant changes from the present distribution system, would give rise, in all Member States, to a substantial number of farmers who would receive higher payments and a substantial number who would receive lower payments, by reference to the existing system, with resultant changes in the welfare of large numbers of farmers and attendant social and economic consequences.

7.11 Insofar as equity between Member States is concerned, the data prepared by the Department of Agriculture, Fisheries and Food which is referred to in Chapter 4 above, indicates clearly that Ireland does not receive an undue share of the relevant resources.

Recommendation 6. At this early stage of the negotiations, no alternative for determining national envelopes which would meet the considerations referred to above better than the historic basis has been put forward. The historic basis should therefore be retained. However, given the low level of support within the EU for the historic basis, Ireland should actively engage in the debate on possible modifications to that basis with a view to ensuring that any modifications take account of

- **the different cost structures in the Member States**
- **all forms of EU assistance to farmers, particularly from the Second Pillar**
- **the social and economic consequences of increasing some farmers' payments while reducing those of others through any significant changes to the existing distribution method**
- **the legitimate expectations of farmers**

Ireland should also seek, irrespective of whatever method is ultimately agreed for the determination of national envelopes, the maximum flexibility to distribute the Irish national envelope in a manner best suited to Irish circumstances.

Modulation

7.12 The general rate of modulation will rise to 10% in 2012 (from 5% in 2008). Modulation reduces a farmer's income in order to fund policy objectives which deserve adequate funding in their own right. It is seen by farmers, with justification, as unfair, particularly since there has been no increase in direct payments to compensate for inflation.

Recommendation 7. Distinct and adequate budgets should be allocated to each of the two Pillars and modulation should be discontinued.

Coupled payments

7.13 The current system of direct payments provides for the retention of coupled payments in specified circumstances (eg, economically vulnerable types of farming). This flexibility could be beneficial in the future, particularly to protect vulnerable enterprises such as our sheepmeat production and production from the suckler cow herd.

Recommendation 8. The new system should retain the level of flexibility which is provided for in Article 68 of the current Council Regulation 73/2009 and allow a Member State which has fully decoupled to use that flexibility.

Active/young farmers

7.14 It is important, for reasons of competitiveness as well as equity, that active farmers, including young progressive farmers, are not disadvantaged under the direct payments system. It is difficult to achieve this objective within the constraints of existing and possible future WTO restrictions on production-linked assistance. It may be possible to provide additional assistance to such farmers, either through extra direct payment entitlements from the national reserve or through the Second Pillar, by relating such assistance to investments which lead directly to exceptional benefits in the environmental/climate-change areas.

Recommendation 9. The possibility of providing additional assistance for active/young farmers through a special environmental/climate-change scheme, either through the national reserve or the Second Pillar, and of establishing a sufficiently well-resourced national reserve for this purpose should be explored; if necessary, suitable legislative amendments should be sought in the CAP negotiations.

Market Supports

7.15 The length of the cycle in most types of primary food production inhibits the adjustment of production to short-term market developments resulting from exceptional developments such as weather conditions and natural disasters. The resultant price volatility can be extreme with correspondingly adverse effects on farmers' incomes and on the stability of food supplies and also on consumers' interests. These effects can be particularly severe in Ireland where the domestic market is small and exportable surpluses are large and where small family farms, which are least capable of coping, predominate. Quite apart from the effect on family income, significant volatility discourages the forward planning and investment that is crucial for future competitiveness.

7.16 The existing market intervention measures are set at safety net levels while, under a WTO agreement, export refunds are due to be phased out by the end of 2013. The crisis in the dairy market in 2009 demonstrated that the market supports were not adequate to deal with periods of extreme volatility. The need for adequate market supports could be particularly acute as the milk sector moves away from the quota system. The conclusions and recommendations of the EU High Level Group on Milk which reported on 15 June 2010 represent a major contribution to the debate on future market management. They were considered by the Council of Ministers in July and September; the Council have invited the Commission to carry out further work.

Recommendation 10. Existing market supports should be supplemented by new instruments of market management which would combat price volatility

effectively. Consideration by the Commission and Council of the issues raised in the report of the High Level Group should be expedited and appropriate measures implemented as quickly as possible and extended as appropriate to other sectors. Export refunds should not be eliminated unilaterally by the EU; the requirement that all forms of export subsidisation should be phased out in parallel, which was a central part of the WTO agreement, should be strictly adhered to.

Specific issues – Second Pillar

Scope and funding

7.17 As already indicated in this report, the CAP has the potential to contribute to economic recovery, particularly in rural areas, to food security, to environmental preservation and enhancement and in combating the effects of climate change. There are, therefore, major opportunities for worthwhile investment in the agri-food sector and in rural economies, although the circumstances vary among the Member States.

7.18 There is a danger that the objectives of these investments will be frustrated by unwarranted trade concessions to third countries, particularly if unfair competition is permitted. It makes no sense to invest in the competitiveness of EU farms and then allow product from mega-farms in third-countries to capture sizeable elements of the EU domestic market.

Recommendation 11. (1) The suite of rural development measures should be expanded to enable farmers (a) to modernize and innovate leading to cost reduction and increased productivity and (b) to realize their full potential contribution towards preserving and enhancing the environment and natural resources and to combating climate change. (2) The financial resources required to fund these measures adequately should be provided. (3) Member States should have the flexibility to choose which measures best suit their circumstances, including flexibility on the amount of funding to be allocated to the different axes. (4) The investment of EU, Member State and individual farmers' funds in these measures should not be undermined by undue liberalisation of trade through multilateral or bilateral arrangements or by applying less vigourous standards to imports than to domestic production. (*See also Recommendation 9 above*)

Less Favoured Areas

7.19 The original rationale for the Less Favoured Areas (LFAs) scheme when introduced in 1975 was that farmers should be compensated for the additional costs of farming in difficult conditions so that those areas would continue to be populated and conserved. That rationale is even stronger to-day. It is crucial that the land in those areas - much of which is now likely to be adversely affected by climate change – is managed in a sustainable way through appropriate farming methods and that farmers are assisted in doing so through an adequate compensatory payments scheme; otherwise, much of this land will be abandoned with adverse impact on the environment, bio-diversity and the economy of the areas in question. A change in the source of funding from the Second to the First Pillar could adversely affect the

existing level of funding for the scheme or could reduce the funding for existing First Pillar expenditure.

Recommendation 12. **The criteria for defining LFAs in the future should be sufficiently flexible to ensure that the existing LFAs in Ireland will continue to be so defined and any appropriate additions made, in order to preserve the economic and social fabric of these vulnerable areas. There should be no change in the source of funding unless adequate funding for the LFAs is assured.**

Appendix A

Terms of Reference

Dáil Éireann on 23rd October 2007 ordered and amended on 31st October 2007*

"(1) (*a*) That a Select Committee, which shall be called the Select Committee on Agriculture, Fisheries and Food consisting of 13* members of Dáil Éireann (of whom 4 shall constitute a quorum), be appointed to consider -

(i) such Bills the statute law in respect of which is dealt with by the Department of Agriculture, Fisheries and Food;

(ii) such Estimates for Public Services within the aegis of the Department of Agriculture, Fisheries and Food;

(iii) such proposals contained in any motion, including any motion within the meaning of Standing Order 159, concerning the approval by Dáil Éireann of the terms of international agreements involving a charge on public funds; and

(iv) such other matters

as shall be referred to it by Dáil Éireann from time to time;

(v) Annual Output Statements produced by the Department of Agriculture, Fisheries and Food; and

(vi) such Value for Money and Policy Reviews conducted and commissioned by the Department of Agriculture, Fisheries and Food as it may select.

(*b*) For the purpose of its consideration of matters under paragraphs (1)(*a*)(i), (iii), (iv), (v) and (vi), the Select Committee shall have the powers defined in Standing Order 83(1), (2) and (3).

(*c*) For the avoidance of doubt, by virtue of his or her *ex officio* membership of the Select Committee in accordance with Standing Order 92(1), the Minister for Agriculture, Fisheries and Food (or a Minister or Minister of State nominated in his or her stead) shall be entitled to vote.

(2) The Select Committee shall be joined with a Select Committee to be appointed by Seanad Éireann to form the Joint Committee on Agriculture, Fisheries and Food to consider -

(i) such public affairs administered by the Department of Agriculture, Fisheries and Food as it may select, including, in respect of Government policy, bodies under the aegis of that Department;

(ii) such matters of policy, including EU related matters, for which the Minister for Agriculture, Fisheries and Food is officially responsible as it may select;

(iii) such related policy issues as it may select concerning bodies which are partly or wholly funded by the State or which are established or appointed by Members of the Government or by the Oireachtas;

(iv) such Statutory Instruments made by the Minister for Agriculture, Fisheries and Food and laid before both Houses of the Oireachtas as it may select;

(v) such proposals for EU legislation and related policy issues as may be referred to it from time to time, in accordance with Standing Order 83(4);

(vi) the strategy statement laid before each House of the Oireachtas by the Minister for Agriculture, Fisheries and Food pursuant to section 5(2) of the Public Service Management Act 1997, and for which the Joint Committee is authorised for the purposes of section 10 of that Act;

(vii) such annual reports or annual reports and accounts, required by law and laid before either or both Houses of the Oireachtas, of bodies specified in paragraphs 2(i) and (iii), and the overall operational results, statements of strategy and corporate plans of these bodies, as it may select;

Provided that the Joint Committee shall not, at any time, consider any matter relating to such a body which is, which has been, or which is, at that time, proposed to be considered by the Committee of Public Accounts pursuant to the Orders of Reference of that Committee and/or the Comptroller and Auditor General (Amendment) Act 1993;

Provided further that the Joint Committee shall refrain from inquiring into in public session, or publishing confidential information regarding, any such matter if so requested either by the body concerned or by the Minister for Agriculture, Fisheries and Food; and

(viii) such other matters as may be jointly referred to it from time to time by both Houses of the Oireachtas,

and shall report thereon to both Houses of the Oireachtas.

(3) The Joint Committee shall have the power to require that the Minister for Agriculture, Fisheries and Food (or a Minister or Minister of State nominated in his or her stead) shall attend before the Joint Committee and provide, in private session if so desired by the Minister or Minister of State, oral briefings in advance of EU Council meetings to enable the Joint Committee to make known its views.

(4) The quorum of the Joint Committee shall be five, of whom at least one shall be a member of Dáil Éireann and one a member of Seanad Éireann.

(5) The Joint Committee shall have the powers defined in Standing Order 83(1) to (9) inclusive.

(6) The Chairman of the Joint Committee, who shall be a member of Dáil Éireann, shall also be Chairman of the Select Committee.

***Seanad Éireann on 23 October 2007 ordered*:**

"(1) That a Select Committee consisting of 4 members of Seanad Éireann shall be appointed to be joined with a Select Committee of Dáil Éireann to form the Joint Committee on Agriculture, Fisheries and Food to consider –

(i) such public affairs administered by the Department of Agriculture, Fisheries and Food as it may select, including, in respect of Government policy, bodies under the aegis of that Department;

(ii) such matters of policy, including EU related matters, for which the Minister for Agriculture, Fisheries and Food is officially responsible as it may select;

(iii) such related policy issues as it may select concerning bodies which are partly or wholly funded by the State or which are established or appointed by Members of the Government or by the Oireachtas;

(iv) such Statutory Instruments made by the Minister for Agriculture, Fisheries and Food and laid before both Houses of the Oireachtas as it may select;

(v) such proposals for EU legislation and related policy issues as may be referred to it from time to time, in accordance with Standing Order 70(4);

(vi) the strategy statement laid before each House of the Oireachtas by the Minister for Agriculture, Fisheries and Food pursuant to section 5(2) of the Public Service Management Act, 1997, and for which the Joint Committee is authorised for the purposes of section 10 of that Act;

(vii) such annual reports or annual reports and accounts, required by law and laid before either or both Houses of the Oireachtas, of bodies specified in paragraphs 1(i) and (iii), and the overall operational results, statements of strategy and corporate plans of these bodies, as it may select;

Provided that the Joint Committee shall not, at any time, consider any matter relating to such a body which is, which has been, or which is, at that time, proposed to be considered by the Committee of Public Accounts pursuant to the Orders of Reference of that Committee and/or the Comptroller and Auditor General (Amendment) Act, 1993;

Provided further that the Joint Committee shall refrain from inquiring into in public session, or publishing confidential information regarding, any such matter if so requested either by the body or by the Minister for Agriculture, Fisheries and Food; and

(viii) such other matters as may be jointly referred to it from time to time by both Houses of the Oireachtas,

and shall report thereon to both Houses of the Oireachtas.

(2) The Joint Committee shall have the power to require that the Minister for Agriculture, Fisheries and Food (or a Minister or Minister of State nominated in his or her stead) shall attend before the Joint Committee and provide, in private session if so desired by the Minister or Minister of State, oral briefings in advance of EU Council meetings to enable the Joint Committee to make known its views.

(3) The quorum of the Joint Committee shall be five, of whom at least one shall be a member of Dáil Éireann and one a member of Seanad Éireann.

(4) The Joint Committee shall have the powers defined in Standing Order 70 (1) to (9) inclusive.

(5) The Chairman of the Joint Committee shall be a member of Dáil Éireann."

Appendix B

MEMBERSHIP OF THE JOINT COMMITTEE ON AGRICULTURE, FISHERIES AND FOOD

Deputies:

Bobby Aylward (FF)
Johnny Brady (FF) [Chairman]
Noel Coonan (FG)[3]
Andrew Doyle (FG)
Martin Ferris (SF)
Thomas McEllistrim (FF) [Vice-Chairman]
Shane McEntee (FG)[2]
Mattie McGrath (FF)
Ned O'Keeffe (FF)[1]
Christy O'Sullivan (FF)
Eamon Scanlon (FF)
Tom Sheahan (FG)
Seán Sherlock (Lab)

Senators:

Paul Bradford (FG)
John Carty (FF)
Michael McCarthy (Lab)
Francis O'Brien (FF)

[1]Deputy Ned O'Keeffe replaced Deputy Martin Mansergh by Order of the Dáil of 26 June 2008
[2]Deputy Shane McEntee replaced Deputy Michael Creed by Order of the Dáil of 13 October 2010
[3]Deputy Noel Coonan replaced Deputy P.J. Sheehan by Order of the Dáil of 13 October 2010