

MAROŠ ŠEFČOVIČ

VICE-PRESIDENT OF THE EUROPEAN COMMISSION

Brussels, 12 MAI 2011
C/2011/3185 final

Dear Chairman,

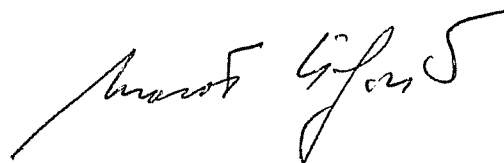
The Commission would like to express its appreciation for the report produced by the Joint Committee on Agriculture, Fisheries and Food of the Irish Parliament on Reform of the Common Agricultural Policy Post-2013. Since the report was submitted, the Commission has adopted the Communication {COM(2010) 672 final of 18 November 2010} entitled "The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future", which outlines a blueprint aimed at making the European agriculture sector more dynamic, competitive, and effective in responding to the Europe 2020 vision of stimulating sustainable growth, smart growth and inclusive growth.

In line with the Commission's decision to encourage national Parliaments to react to its proposals to improve the process of policy formulation, we welcome this opportunity to respond to your comments.

I enclose the Commission's response and hope you will find this a valuable contribution to your own deliberations.

I am looking forward to developing further our political dialogue.

Yours faithfully,



*Chairman of the Joint Committee on Agriculture,
Fisheries and Food
c/o Ms Josie Briody
Clerk to the Committee on Agriculture, Fisheries and Food
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EUROPEAN COMMISSION

COMMENTS OF THE EUROPEAN COMMISSION ON A REPORT FROM THE JOINT COMMITTEE ON AGRICULTURE, FISHERIES AND FOOD OF THE IRISH PARLIAMENT (HOUSES OF THE OIREACHTAS) ON THE REFORM OF THE COMMON AGRICULTURAL POLICY POST-2013

The Commission would like to make a number of comments on the 12 recommendations included in the Report of the Joint Committee. The recommendations are listed and commented below.

1. THE FIRST PILLAR SHOULD CONTINUE TO BE FULLY FUNDED AT EU LEVEL

In the recently adopted Communication¹ on "The EU Budget review", the Commission refers to the June 2010 European Council's statement that "a sustainable, productive and competitive agricultural sector could make an important contribution to the Europe 2020 strategy, considering the growth and employment potential of rural areas while ensuring fair competition." In this context, a common European agricultural and rural development policy is regarded as fundamental.

The Commission is of the view that the instruments of the future CAP should continue to be structured around two pillars. The first pillar would contain the support paid to all farmers on a yearly basis, whereas the second pillar would remain the support tool for community objectives giving the Member States sufficient flexibility to respond to their specificities.

2. FINAL DECISIONS ON CAP REFORM SHOULD BE TAKEN IN THE FULL KNOWLEDGE OF THE RESOURCES THAT WILL BE AVAILABLE FOR THE CAP

In the Budget Review Communication, the future of the CAP is addressed in terms of the important contribution it can make, in particular, to the sustainable growth priority of the Europe 2020 Strategy.

The Commission has committed itself in the coming months to translate the ideas and options set out in the Budget Review Communication into concrete proposals. Discussions with the other institutions and with stakeholders will feed into proposals in June 2011 for a new Multiannual Financial Framework covering the

¹ COM(2010) 700 final of 19 October 2010

period after 2013 and, in the second half of 2011, the Commission will make the legislative proposals required to implement those policies, including the CAP, that are needed to take forward the EU's ambitions for the years ahead.

3. CRITICAL ISSUES IN THE FOOD CHAIN SHOULD BE ADDRESSED

The Communication on the future of the CAP recognises that there is a clear necessity to improve the functioning and transmission of market signals along the food supply chain. Long term prospects for agriculture will not improve if farmers cannot reverse the steadily decreasing trend in their share of the value added generated by the food supply chain. In the discussion on the future of the CAP, special attention is being drawn to key issues of interest, which relate to the current imbalance of bargaining power along the chain, contractual relations, the need for restructuring and consolidation of the farm sector, transparency, and the functioning of the agricultural commodity derivatives markets.

4. OPPORTUNITY SHOULD BE TAKEN TO SIMPLIFY THE CAP SCHEMES FOR BOTH NATIONAL ADMINISTRATIONS AND FARMERS

The Commission is fully aware that ensuring controllability of CAP measures together with continued work on simplification of the policy are essential prerequisites for achieving the future aims of the CAP. Pursuing the simplification of the CAP implementation procedures, enhancing control requirements and reducing the administrative burden for recipients of funds are major motivations for reform.

5. RESOURCES AT LEAST SUFFICIENT TO MAINTAIN THE PRESENT VALUE OF DIRECT PAYMENTS SHOULD BE PROVIDED IN THE NEW FINANCIAL PERSPECTIVE

Supporting farm incomes and limiting farm income variability through the direct payments system remains a mainstay of the CAP.

However, the Budget Review Communication acknowledges that there are major issues to address, in particular, the continued allocation of direct payments based on historical references and the levels of direct payments to farmers, which vary considerably between Member States. Whilst some variation may be justified, there is a strong case for progressively making payments levels more equitable between Member states and farmers. The Commission believes that moving away from historical references would also avoid a culture of dependency, which may hold back the use of incentives to ensure that results are delivered.

For those reasons, the Commission is inclined to consider moving on from the historical reference approach by further targeting the CAP on the EU's broader policy priorities with a basic income support and the greening of direct aids to support more demanding environmental practices, beyond cross-compliance requirements, and positive improvements to boost innovation and competitiveness of rural areas.

6. THE HISTORIC BASIS FOR GRANTING DECOUPLED PAYMENTS SHOULD BE RETAINED, WITH POSSIBLE MODIFICATIONS

During the preparation of the Communication on the future of the CAP, there was widespread agreement that the distribution of direct payments should be reviewed and made more understandable to the taxpayer. In this context, the historic model for implementing decoupled payments is seen as failing to address adequately the economic criteria (to fulfil the basic income function of direct payments) and the environmental criteria (to support for the provision of public goods), which both need to be considered in relation to the future of the system.

The Commission will therefore seek to adapt the direct payment system in terms of the redistribution, redesign and better targeting of support, while avoiding major disruptive changes which could have far reaching economic and social consequences in some regions and/or production systems.

7. DISTINCT AND ADEQUATE BUDGETS SHOULD BE ALLOCATED TO EACH OF THE TWO PILLARS AND MODULATION SHOULD BE DISCONTINUED

In reply to Recommendation 1, the Commission's support for the continuation of a CAP structured around two pillars was indicated, through annual direct payments and market measures in the first; and multi-annual, co-funded rural development measures in the second pillar.

However, in light of the significant challenges facing the EU agricultural sector and, in the aftermath of a major economic crisis and the need to make both efficient use of taxpayer resources and the effective public policy returns European citizens expect, the distinction between the two pillars should focus on ensuring clarity, each pillar being complementary to the other in terms of efficiency, without overlapping.

The institutional discussion on the future of the two pillars of the CAP and their funding gives an opportunity for the advantages and disadvantages of maintaining the current modulation mechanism, or moving to allocated budgets for each pillar, to be reappraised in the Impact Assessment, which will accompany the Commission's legislative proposals on this matter later in 2011.

8. THE NEW DIRECT PAYMENTS SYSTEM SHOULD RETAIN THE LEVEL OF FLEXIBILITY WHICH IS PROVIDED FOR IN THE CURRENT COUNCIL REGULATION

The Commission is considering three possible options for future reform of the CAP. Option 1 would introduce more equity in the distribution of direct payments between Member States while leaving unchanged the current direct payment system. Option 2 would redesign the direct payment, including an additional payment to compensate for specific natural constraints and an equivalent to the current coupled support paid through Article 68 of Council Regulation 73/2009 and other coupled aid measures. Such a payment component would take account of specific problems in certain regions where particular types of farming are considered particularly important for economic and/or social reasons. Voluntary coupled support may continue to be granted, within clearly defined limits (with support based on fixed areas, yields or number of heads). Option 3 would phase out direct payments in their

current form and provide instead limited payments for environmental public goods and additional specific natural constraints payments.

9. THERE SHOULD BE A POSSIBILITY OF PROVIDING ADDITIONAL ASSISTANCE FOR ACTIVE/YOUNG FARMERS THROUGH A SPECIAL ENVIRONMENTAL/CLIMATE-CHANGE SCHEME

The Commission firmly believes that environmental, climate change and innovation objectives should be guiding themes for future rural development policy and foresees in the Communication on the future of the CAP that the specific needs of young farmers and new entrants will be a priority.

10. MARKET SUPPORT INSTRUMENTS SHOULD ADDRESS HOW TO COMBAT PRICE VOLATILITY AND EXPORT REFUNDS SHOULD ONLY BE PHASED OUT IN THE CONTEXT OF A FUTURE MULTI-LATERAL WTO AGREEMENT

There is a broad consensus across the EU to keep the overall market orientation of the CAP while also maintaining the general architecture of the market management tools. However, some specific adaptations appear necessary, most notably in streamlining and simplifying instruments currently in place, as well as in introducing new policy elements with respect to the functioning of the food chain.

In addition, the Commission considers that a risk management toolkit should be included to deal more effectively with income uncertainties and market volatility that hamper the agricultural sector's possibility to invest in staying competitive. The toolkit would be made available to Member States to address both production and income risks, ranging from a new WTO green box compatible income stabilization tool, to strengthened support to insurance instruments and mutual funds. Coherence with other CAP instruments, in particular market instruments, would be ensured for new instruments introduced.

With regard to export refunds, the Commission remains committed to the EU's current negotiating position that any possible phasing out of the instrument will only be considered in the context of an eventual WTO agreement.

11. RURAL DEVELOPMENT MEASURES SHOULD BE EXPANDED TO ENABLE FARMERS (A) TO MODERNIZE AND INNOVATE AND (B) TO PRESERVE AND ENHANCE THE ENVIRONMENT AND NATURAL RESOURCES AND TO COMBAT CLIMATE CHANGE

Within the framework of a rural development policy, which has proved its value by reinforcing the sustainability of the EU's farm sector and rural areas, the Commission agrees that the environment, climate change and innovation should be guiding themes that steer the policy more than ever before. Investments should lift both economic and environmental performance and environmental measures should be more closely tailored to the specific needs of regions. Measures to help unlock the potential of rural areas should also pay close attention to innovative ideas for business and local governance.

12. THE FUTURE LFA CRITERIA SHOULD BE SUFFICIENTLY FLEXIBLE TO ENSURE THAT THE EXISTING LFAS IN IRELAND WILL CONTINUE TO BE SO DEFINED AND ALLOW APPROPRIATE ADDITIONS TO BE MADE

Promoting the sustainable development of agriculture in areas with specific natural constraints, at increased risk of land abandonment, will be an important objective for the future CAP. To compensate for production difficulties in such areas, the Commission is considering ways of providing an additional income support to affected farmers in the form of an area-based payment, as a complement to the support given under the second pillar.