KEY ELEMENTS OF THE AGREEMENT ON CAP REFORM 2014-2020

2nd July 2013

INTRODUCTION

Following a series of meetings of the EU Council of Agriculture Ministers, the EU Commission and European Parliament between the 24th and 26th of June 2013, final agreement was reached on the main elements of the CAP Reform 2014-2020.

The CAP agreement comprises rules for Direct Payments (Pillar I), Rural Development (Pillar II), Market Supports (Single CMO) and rules for financing and implementation of the CAP by Member States.

The following document outlines the key issues agreed of most relevance to Irish agriculture.

1. MFF CAP BUDGET 2014-2020

1.1 Pillar I and Pillar II

- **Single Farm Payment (Pillar I) –**The proposed funding allocation for the SFP for Ireland for 2014-2020 is €1.215b/year. This is a cut of 3.2% from the 2013 allocation of €1.25b.

- **Rural Development** – Based on an 8% funding cut, the use of objective criteria and past performance, and additional allocation for Ireland of €100m, the indicative funding allocation for Ireland for Rural Development for 2014-2020 is €313m/year

1.2 Transfer of funding between Pillars

- Member states may transfer up to 15% of funding between Pillar I and Pillar II (in both directions)
- There is no requirement for national co-financing of any EU funding that is transferred between the Pillars.

2. THE SINGLE FARM PAYMENT (SFP)

The following section outlines the changes that have previously applied to farmer's Single Farm Payment (SFP) over the course of the last CAP reform 2006-2013 and the proposed changes that will be introduced in the CAP reform 2014-2020.

2.1 CAP Reform 2006-2013 – Reductions to farmers' original SFP

- The Single Farm Payment that farmers have received since the end of 2005 was based on their level of production in the reference years 2000-2002.

- These payments have been reduced over the last 7 years from their original amount through a 3% deduction for the National Reserve and a further 10% modulation cut, where the farmer's payment was above €5,000.

2.2 Budget cut (MFF) and Crisis Reserve – cuts to the 2013/2014 Single Farm Payment

- Pending agreement by the EU Council and Parliament on the new EU Budget for 2014-2020, a cut will be imposed on farmers' direct payments in 2013.

- This cut takes account of the fact that the SFP budget for 2014-2020 has been reduced. In addition, a new Crisis Reserve fund of 1% of the SFP is being introduced[1].

- The current EU Commission proposal is that to pay for this, where the farmer's SFP exceeds €5,000, a cut of 4.97% will be applied to his payment above this amount in 2013. However, this formula is not yet agreed and therefore the reduction could apply to all payments in 2013. This would be at a slightly lower %.

- In 2014, to reflect the fact that Ireland's SFP ceiling has fallen from €1.34b to €1.21b (9%)between 2005 and 2014, due to modulation and the MFF budget cut, the value of farmers' payment entitlements will be adjusted accordingly. It is not clear how this will be applied. It may be applied to all farmers' entitlement equally, regardless of the size of their overall payment. The adjustment may also be applied as per the old system – i.e. only where payments are greater than €5,000[2].

- From 2014, the advance SFP payment, payable from the 16th October, will become a permanent feature of the SFP system.

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2.3 Changes to the Single Farm Payment – Calculating the farmer's payment in 2015

- From 2015 onwards, the structure of the Single Farm Payment will change significantly.

- It will be broken into a number of components, some of which must be applied by the Member State (mandatory), and some of which the Member State has the option of introducing (voluntary). These are:
    - Basic payment (mandatory)
    - Greening payment (mandatory)
    - Young Farmers payment (mandatory)
    - Areas of natural constraint payment (voluntary)
    - Coupled payment for vulnerable sectors (voluntary)
    - Front-loaded redistributive payment (voluntary)
    - Small farmers payment (voluntary)

- The Basic Payment comprises the part of the SFP envelope that is left over once these other mandatory and voluntary measures have been deducted from the overall national ceiling for the SFP. The national ceiling for Ireland between 2014 and 2020 is €1.21b annually.

[1] Where the Crisis Reserve is not required in any year, it will be paid back to farmers at the end of the year.

[2] For the purpose of estimating the changes to farmer's individual payments in Annex I, it is assumed that the old system is retained – i.e. deductions to payments apply only where the payment is greater than €5,000.

- The proposed funding allocations for each of these measures is as follows:
    - Mandatory Measures
        - Greening – 30% - €363m
        - Young Farmers – up to 2% - €24m

    - Voluntary Measures
        - Areas of natural constraint - up to 5% - €60m
        - Coupled payment for vulnerable sectors – up to 8% - €97m
        - Front-loaded redistributive payment – up to 30% - €363m
        - Small farmers payment – up to 10% - €121m

- From the Basic Payment envelope, a further mandatory deduction of up to 3% must be applied for the National Reserve. This would result in a National Reserve of an estimated €25m[3].

- It should be noted that because the 30% greening payment will be variable (i.e. a % of the farmer's own payment), it can, in effect, be included as part of the overall Basic Payment envelope for the purpose of calculating the farmer's SFP in 2015.

- In summary, therefore, the value of the farmer's entitlement value in 2015 will be a % of the value he had in 2012, net of the MFF Budget, Crisis Reserve, Young Farmer and National Reserve deductions.

- The various % deductions have yet to be agreed. However, it is estimated that, if the mandatory deductions are applied (up to their maximum value), the farmer's initial position in 2015, from which approximation increases or deductions will then be applied, will be an average of 92% of his 2012 entitlement value.

2.4 Approximation model + 60% Minimum Payment

- In addition to the deductions outlined above, all Member States are required to move further from their existing payment models towards a payment model where all payments are closer to the average national/regional payment per hectare by 2019.

- It is assumed that Ireland will choose the option of the approximation model with a 60% minimum payment. This is a partial convergence model whereby the farmers' payments, including the variable greening payment, will move towards, but not all the way to, the average national payment between 2015 and 2019. This movement will commence in 2015 and will be applied in equal steps between 2015 and 2019.

- The potential impact on different cohorts of farmers is outlined below:

2.4.1 Farmers whose entitlement value per hectare is below 90% of the national average:

- The farmer's entitlement value will be increased by at least 1/3 of the difference between their 2015 value and 90% of the national average between 2015 and 2019

- In addition, all entitlement values will be brought up to a minimum of 60% of the national average by 2019

[3] The % for the National Reserve can be increased if required for young farmers and restructuring.

2.4.2 Farmer whose entitlement value per hectare is between 90% and 100% of the national average:

- There will be no change to the entitlement value for these farmers between 2015 and 2019.
- However, it should be remembered that these farmers will have experienced a reduction from their 2012 payment to pay for the MFF budget cut, Crisis Reserve, Young Farmer and National Reserve.

2.4.3 Farmers whose entitlement value per hectare is above 100% of the national average

- Farmers with entitlement values above the national average will have their value further reduced between 2015 and 2019 to pay for the increase in entitlement values of farmers below 90% of the average
- The % reduction will be based on objective criteria to be determined by the Member State.
- No farmer's entitlement value will be reduced by more than 30%. However, it should be remembered that this 30% maximum reduction is in addition to the reductions the farmer will have already incurred from to pay for the MFF budget cut, Crisis Reserve, Young Farmer and National Reserve.
- In addition, the Member State also has the option of fixing a maximum payment per hectare for all farmers.
- The 30% maximum loss takes precedence over the 60% mandatory minimum – i.e. no farmer will lose more than 30%. The minimum unit value will be set at a lower level if necessary to respect the 30%threshold.

- ***Note: The estimated overall impact to individual farmers of the proposed changes to the Single Farm Payment is set out in Annex I.***

2.4.4 Reference year – first activation of entitlements under the new payment scheme

- There are now two options for a Member State to decide upon the reference year. These are:
    - Farmers will apply for payment in 2015. The number of entitlements he receives will be the number of hectares he declares in 2015.
    - Alternatively, farmers will apply for payment in 2015. However, the number of payment entitlements will be equal to the number of eligible hectares he declared in 2013 (if the number of hectares declared in 2013 is less than the number declared in 2015).
    - A farmer will be eligible for payments in 2015 if he has activated an entitlement in 2013.
    - To activate an entitlement in every subsequent year, the farmer must declare an eligible hectare per entitlement.

2.4.5 Alternative internal convergence - movement to a flat national/regional payment

- The option of movement to a flat national/ regional payment per hectare has been retained in the Regulation.
- The unit value of payment entitlements in 2015 for farmers will vary between different farmers, depending on the payment they bring into the new system
- However, as of claim year 2019, all payment entitlements nationally or at regional level will have a uniform unit value
- The practice in other Member States that have adopted this system has been to apply a regional flat-rate system, rather than a national flat-rate system
- A regional system could have been based on agronomic (land-type) regions, or administrative regions (e.g. BMW, county). This could result in significant differences in payment levels in different regions of the country.

3 OTHER SINGLE FARM PAYMENT ISSUES IN THE CAP REFORM FROM 2015

3.1 Active Farmers

- Only active farmers will be eligible for direct payments.

- A farmer will not be deemed active if he does not meet a minimum stocking level on land which requires stock for it to be maintained – (i.e. land that cannot be mechanically managed, e.g. upland area).

- A negative list of persons has been agreed who will not qualify for direct payments. No direct payments will be allocated to those who operate airports, railway services, waterworks, real estate services, permanent sport and recreational grounds.

3.2 Greening Measures

- 30% of the Single Farm Payment will be paid to farmers for undertaking greening measures. These are the maintenance of permanent grassland, crop diversification and Ecological Focus Areas.
- The majority of Irish farmers will qualify for the greening payment automatically as most of their farm is in permanent grassland, with no or very low amounts of arable land.
- For farmers who fail to comply with the greening measures, there will not be a penalty in place in 2015 and 2016, except for the loss of the 30% greening payment.
- From 2017, they will be subject to a further penalty deduction from their basic payment for non-compliance, starting at 20% in 2017 and rising to 25% in 2018.

3.2.1 Permanent Grassland

- The total agricultural area under permanent grassland (> 5 years) cannot decrease by more than 5% compared to a reference ratio established in 2012.
- This will be measured at a national or regional level, and not at a farm level, as originally proposed.
- There is no ban on ploughing or reseeding (except for certain NATURA land where the management plan does not allow ploughing).

3.2.2 Crop diversification

- Where a farmer's arable land[4] is greater than 10has, he is required to grow two different crops
- Where his arable land is greater than 30has, he is required to grow three different crops
- Where more than 75% of his farm is in grassland, and his arable area does not exceed 30has, the farmer does not have to undertake crop diversification.
- Winter and spring crops can be considered distinct crops even if they belong to the same genus.

3.2.3 Ecological Focus Area

- Where a farmer's arable area covers more than 15has, he must set aside 5% of his arable land for Ecological Focus Areas.

[4] Arable land is land that is under crops and temporary grassland (<5 years).

- This is subject to review by the EU Commission, with a potential to increase the EFA requirement to 7% from 2018.
- Where more than 75% of his farm is in grassland, and his arable area does not exceed 30has, the farmer does not have to undertake EFA.
- Ecological Focus Areas exclude permanent grassland but include field margins, hedges, trees, fallow land, landscape features, buffer strips and afforested areas.

3.2.4 Greening equivalency

- The regulation includes a list of measures that may be deemed equivalent to those above in terms of environmental benefit and which may qualify the farmer equally for the greening payment (e.g. organic farming).

3.2.5 'Double funding' of rural development agri-environment measures

- There will be no 'double funding' of greening and agri-environment measures.

3.3 Young Farmers

- Up to 2% of National Envelope must be used to provide a top-up payment to Young Farmers who are establishing for the first time
- A Young Farmer is a person aged under 40 and must satisfy objective criteria, particularly education and training.
- Young farmers will receive a 25% top-up payment for a period of up to 5 years. This starts from the date of commencement of farming in his own right, e.g. if a young farmer commences in 2013, and the Young Farmer top-up is introduced in 2015, he will be entitled to only 3 years of a top-up.
- The top up payment will be based on the number of entitlements multiplied by a flat rate (€ amount). This flat rate will either be 25% of the farmer's own average value of entitlements, or 25% of the national average payment. It will be paid on a maximum of 25 hectares or a maximum of the average number of hectares in the country (in Ireland, this is 32has).

3.4 Coupled Payments

- Member States who have not coupled payments in the current reform (or less than 5% of the SFP) have the option of using up to 8% of their national ceiling to finance voluntary coupled payments for vulnerable sectors and regions.
- Where the level of coupled support in a Member State is greater than 5% in the current CAP reform, they can use up to 13% of their annual national ceiling
- An additional 2% of coupled support may be provided for support of protein crops.

3.5 National Reserve

- The National Reserve can be used to allocate entitlements to young farmers, new entrants and to farmers in order to prevent land abandonment, including in areas subject to restructuring.
- The value of payment entitlements from the National Reserve will generally be the national or regional average

3.6 Other voluntary measures for Member States

- Member States may choose to implement a **Small Farmers Scheme**, whereby farmers can participate in a more simplified payments scheme if their payment is between €500-€1,250. Farmers would have lower cross compliance requirements and be exempt from greening.
- Member states may also choose to grant an additional payment for **areas of natural constraints** (LFAs). This would be separate to the LFA measures under Pillar II.
- Member States may also choose to use up to 30% of the basic payment as a **redistributive payment on the first 30has** for each farmer (or up to the national average farm size if this is greater than 30has).
- Member States may also apply a **reduction coefficient** to eligible hectares which consist of permanent grassland located in areas with difficult climate conditions (e.g. altitude, poor soil quality).

3.7 Inspections/penalties

- In the current reform, where a farmer has a minor problem with one of the cross compliance measures and is below the tolerance level, this does not currently attract a penalty. The farmer is told to rectify the breach and the inspection process checks that this has been carried out.
- In the new reform, the farmer will get a warning for a minor breach but there will not be a follow-up inspection.

4 RURAL DEVELOPMENT

4.1 **Overview of the Rural Development Programme 2014-2020**

- Member states will continue to design their own multi-annual programmes on the basis of the menu of measures available at EU level

- These programmes will be co-funded from the national exchequer.

- The new rules for the 2nd Pillar provide a more flexible approach than at present. Measures will no longer be classified at EU level into "axes" with associated minimum spending requirements per axis.

- Instead, it will be up to Member States / regions to decide which measures they use (and how) in order to achieve targets set against six broad "priorities".
- The six priorities will cover:
  - Fostering knowledge transfer and innovation;
  - Enhancing competitiveness of all types of agriculture and the sustainable management of forests;
  - Promoting food chain organisation, including processing and marketing, & risk management;
  - Restoring, preserving & enhancing ecosystems;
  - Promoting resource efficiency & the transition to a low-carbon economy; and
  - Promoting social inclusion, poverty reduction and economic development in rural areas.

4.2 Co-financing of Rural Development measures

- The maximum rates of EU co-financing are as follows:
  - 53% EU co-financing of general RD measures,
  - Up to 75% EU co-financing of agri-environment measures

4.3 Minimum levels of expenditure on programmes

- Member States will have to spend at least 30 % of their rural development funding from the EU budget on agri-environment/agri-climate programmes, forest-related measures, organic farming, NATURA 2000 areas and ANCs.
- In addition Member States will have to spend at least 5% on LEADER

4.4 Examples of proposed funding programmes

- An indicative list of measures has been published which can be included in the Rural Development Programme. These include the following:

- Strengthened measures for **Farm Advisory** Services, to include advice for short-supply chains, organic farming, and health aspects of animal husbandry.

- **Grant aid** for Farm restructuring / investment / modernisation

- Business start-up grants, investment grants, training and advisory services for **Young Farmers**

- **Risk management toolkit** - Insurance & mutual funds – for crop & weather insurance, animal disease extended to include income stabilisation option (which would allow a pay-out (up to 70% of losses) from a mutual fund if income drops by 30%);

- **Producer groups / organisations -** Support for setting up groups / organisations on the basis of a business plan and limited to entities defined as SMEs;

- **Agri-environment - climate payments**: Joint contracts, link to adequate training/information, greater flexibility when extending initial contracts – payments given only where activities go beyond greening requirements. Higher payments can be made when groups of farmers come together in an agri-environment plan.

- **Organic Farming -** New separate measure for greater visibility;

- **Forestry** - grants and annual payments up to 12 years, and including payment for establishment costs ;

- **Mountain areas** - For mountain areas (and farmland above 62º N), aid amounts can be up to 450 €/ha (increased from 250 €/ha);

- **Areas facing natural & other specific constraints** - New delimitation for Areas with Natural Constraints (ANC) – with effect from 2018 at the latest – based on 8 biophysical criteria. 60% of the area (possibly DED) will have to satisfy criteria in order to qualify.

- **LEADER -** Greater emphasis on awareness-raising and other preparatory support for strategies; promoting flexibility for operating with other funds in local areas, i.e. rural-urban co-operation. LEADER will now be used as the common approach for community–led local development by the following ESI Funds: the ERDF, ESF, EMFF and EAFRD.

4.5 Development of new Rural Development plans and implications for existing programmes

- It is recognised that new Rural Development programmes may not be in place by Member States until early-mid 2014.
- Until such time as a new Rural Development plan is in place, where a programme is funded annually, such as the agri-environment schemes, Less Favoured Areas and other area-based schemes, transitional rules can be applied so that there is no interruption to these schemes.

4.6 Funding

- The EU allocation for Ireland as a result of the MFF decision is €313m/ annum, or €2.191b over the seven years
- The total RDP allocation is dependent on national co-financing. At the 53% EU (47% national financing) this would result in a total allocation to the RDP of €4.133b over the seven years.

5 SINGLE CMO (MARKET SUPPORTS)

5.1 APS, Intervention Buying, Export refunds

- These measures have been retained for all existing commodities, but revised
- For butter, the maximum purchase limit for intervention buying in has increased from 30,000t to 50,000t

5.2 Sugar Quota

- The sugar quota regime will end in 2017

5.3 School Fruit and School Milk Schemes

- These will be extended and the annual EU budget for the school fruit scheme is increased from €90m to €150m per year.

5.4 Producer organisations and interbranch organisations

- The recognition of Producer Organisations and interbranch organisations has been extended to all sectors
- For the dairy sector, the main aspects of the 2012 Milk Package have been integrated into this section.
- Rules and compulsory contributions required of members of POs and IOs may be extended to non-members
- However, consultation with relevant stakeholders will be required before member states can decide that non-members of a PO or IO who benefit from its work should pay the PO or IO all or part of the members' contribution.

5.6 Fruit and vegetable sectors

- Funding is retained for Producer Organisations in the fruit and vegetable sector
- Operational programmes must have a duration of 3 to 5 years
- May have additional elements among its objectives: production and consumption forecasting and follow up, quality improvement for fresh or processed product, and water focused environmental measures

5.5 Contractual relations

- MS may decide that product sales between producer and processor or distributor must be covered by a written contract.

5.5.1 Beef and veal sectors

- PO may negotiate on behalf of its members
- The PO carries out activities such as joint distribution, promotion, quality control, equipment or storage facilities etc.
- Negotiations may take place provided the production covered is less than 15% of the total national production of the product (Though national comp authority may override this)
- Provided the product is not part of obligation to supply a co-op the producer is a member of.
- A few other conditions apply.

5.5.2 In the arable crop sector (for certain crops)

- PO may negotiate on behalf of its members
- For certain crops not intended for sowing, and, in the case of barley, not for malting
- Similar provisions to beef/veal sector, incl. 15% limit and prohibition on product covered under commitment to supply a co-op

4.5.3 Regulation of supply for PDO/PGI ham

- PO or IO may for limited period of time lay down binding rules for the regulation of supply of such ham
- This must apply to at least 2/3 of producers of that ham, representing at least 2/3 of the production of that ham in the relevant geographic area
- Some restrictions apply

APPENDIX I – IFA ESTIMATE OF IMPACT OF CHANGES TO SINGLE FARM PAYMENT SYSTEM ON INDIVIDUAL FARMERS

TABLE 1: ESTIMATED IMPACT OF APPROXIMATION + 60% MINIMUM PAYMENT

	Farmer 1	Farmer 2	Farmer 3	Farmer 4	Farmer 5	Farmer 6	Farmer 7	Farmer 8	Farmer 9	Farmer 10	Farmer 11	Farmer 12
Gross Payment Entitlement 2005 €/ha	25	50	100	180	225	325	425	525	625	750	875	1,000
Payment per hectare € 2012 (after modulation deduction)	25	50	100	178	218	308	398	488	578	691	803	916
Payment per ha € 2013 after Crisis Reserve-MFF deduction	25	50	100	177	215	301	386	472	557	664	771	878
Payment per ha 2015 € after YF and NR deduction and first step of approximation/60% minimum	48	68	106	173	207	287	365	440	515	610	707	802
Payment per ha 2019 € with 60% min. payment + approximation	146	146	146	186	210	280	341	389	438	503	577	640
2019 Payment as a % of 2012 payment	583%	292%	146%	105%	96%	91%	86%	80%	76%	73%	72%	70%

Assumptions for calculations:

- Farm size for all categories of farmer is the national average, i.e. 32has
- If the farm size was greater or less than this, it would make a change to the individual farmer's figures, as modulation and the MFF budget cut are assumed to apply only to payments above €5,000
- Modulation deduction for 2006-2013 was 10% for payments above €5,000
- It is assumed that the EU Commission proposal for the application of the Crisis Reserve and MFF budget cut is retained. This will impose a cut of 4.97% in 2013 on payments above €5,000
- Young Farmer cut in 2015 is 2% - applies equally to all farmers
- National Reserve deduction in 2015 is 3% of the basic payment envelope - applies equally to all farmers
- The estimated national average basic payment, including variable greening, in 2019, is €243/ha. This is based on an eligible area of 4.73m has, and a basic payment envelope of €1.15b
- 60% of the average basic payment is therefore €146/ha
- The % deduction required for above average farmers to pay for approximation and the 60% minimum payment is an IFA calculation. It is based on Department of Agriculture estimates for approximation outlined in October 2012, which utilised SFP data from 2010. The average estimated deduction for approximation+ 60% minimum payment is 12%, vs. an average estimated deduction of 9% for approximation only.
- The first move towards approximation/60% occurs in 2015 and is applied in 5 equal steps between 2015 and 2019
- The calculations are based on the mandatory measures only being applied - i.e. no additional options available to the Member State have been included