

# THE NEXT CAP REFORM POST-2013 - IMPLICATIONS FOR IRELAND

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## Summary of Commission legislative proposals Oct 2011

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Direct Payments	Rural Development	Market Measures
New basic payment to replace the Single Payment Scheme and the Single Area Payment Scheme	New criteria to allocate Pillar 2 funds across member states	Confirmation of ending of milk quotas, of sugar quotas, and of wine planting ban
Convergence of direct payments across and within member states	New rural development priorities to replace current axes	Extension of market disturbance clause to all commodities under the CMO
New “green” component of direct payments	Simplification of supported measures	Measures to improve functioning of the food chain
New rules for coupled payments	Enhanced risk management toolkit	Measures to support quality production
Greater targeting of beneficiaries through defining ‘active’ farmers	European Innovation Partnership	
Changed cross-compliance rules	Better coordination with other EU funds	

# The budget background

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2011 prices	Commitment appropriations, € billion		
	2013 budget *7	2014-2020	Change
Pillar 1	304.6	281.8	-7%
Pillar 2	97.2	89.9	-8%
Other MFF and extra-MFF		15.2	
Total	401.8	386.9	-4%

- Agricultural budget increases in nominal terms and falls only slightly in real terms
- Share in total EU budget commitments falls from 39% in 2013 to 33% in 2020
- Distribution between Pillar 1 and Pillar 2 held constant (76:24) but with some reallocation of Pillar 2 issues to the Pillar 1 budget
- Member States can opt to shift up to 10% of their Pillar 1 payments to Pillar 2 – should we do it?

# Direct payments regulation

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- Limited convergence of national ceilings per hectare
- New basic income payment plus 30% green payment
- Payments based on entitlements (SAPS abolished) allocated on the basis of eligible area farmed in 2014, provided beneficiary had at least 1 entitlement in 2011
- Relation between basic and green payments unclear
  - Written in the Regulation as a form of super cross-compliance
  - Commission 2010 Communication suggested optional
  - Commissioner's views that they are separate but linked

# Direct payments regulation

- Possibility to allocate up to 5% to areas with natural constraints
- Requirement to allocate up to 2% for new entrants
- Possibility to allocate up to 5% for coupled payments
- Progressive capping of large payments
- Small farmer scheme
- Targeting at 'active' farmers
- Payments will remain fixed in nominal terms, not index-linked, so will fall in real terms over time

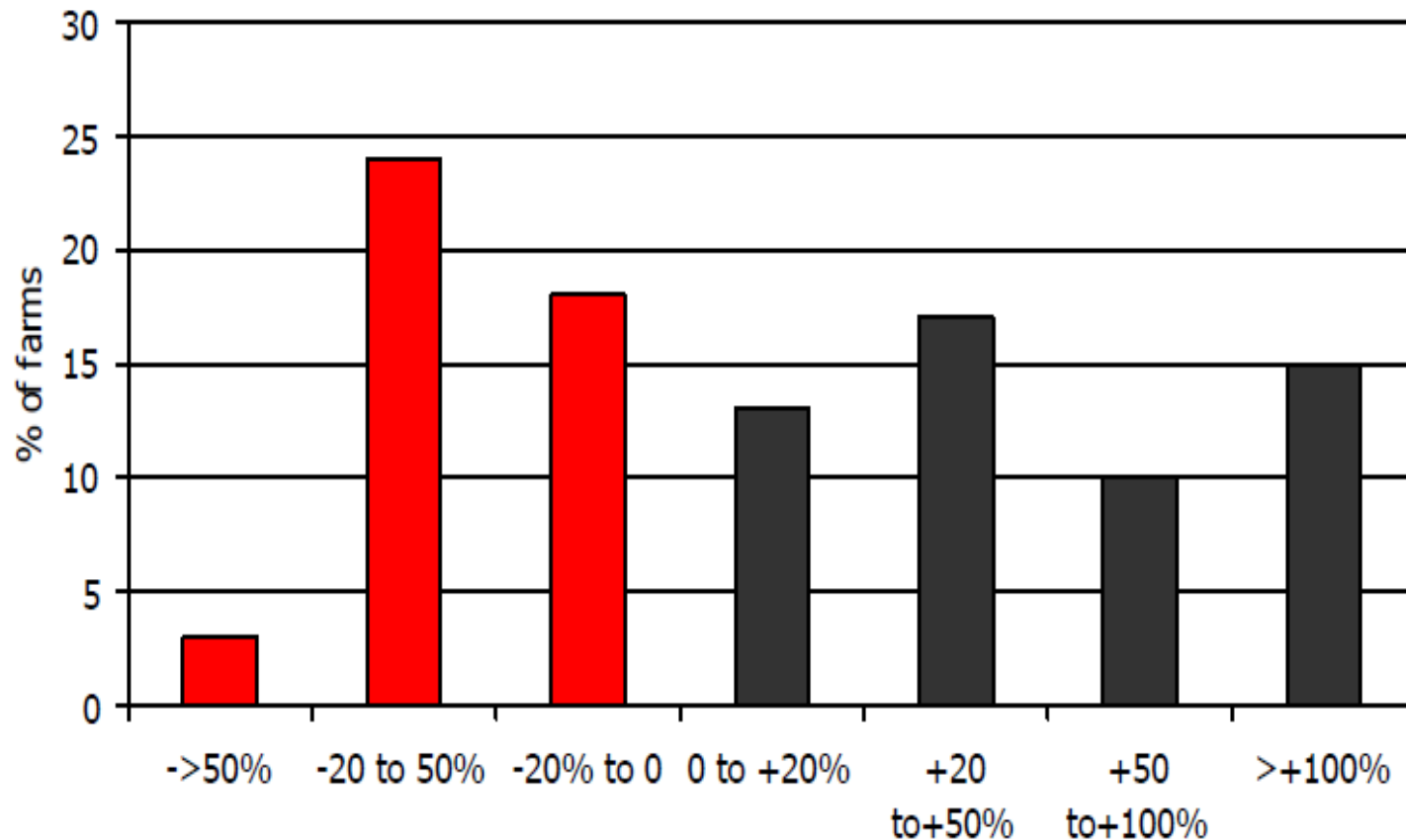
# Issues for Ireland

- Implications of the move to a regional model
- Implications of introducing new scheme with allocation of entitlements based on land farmed in 2014
- Implications of the green payment
- Implications of the RD Regulation

# Move to regional model

- Move to uniform entitlement value within regions
  - ▣ Regions to be defined “in accordance with objective and non-discriminatory criteria such as their agronomic and economic characteristics and their regional agricultural potential, or their institutional or administrative structure”
- Phased move to regional model by 2019
  - ▣ But 80% of existing payment effectively regionalised in 2014 under Commission proposal

# Ireland's payments per ha are very varied



Percentage of farms gaining and losing from moving to a uniform flat-rate payment, 2006 data Source: Teagasc



# Redistribution means moving payments from active to part-time/less intensive farms

- ..because compensation payments/ha originally related to output/ha in livestock farming
- But...
  - ▣ Rates of payment differed across enterprises
  - ▣ Tillage farmers always had uniform per ha payment
  - ▣ Payment on livestock farms depended on particular production system in use rather than efficiency per se
  - ▣ Entitlements could be moved between farms through trading and stacking
  - ▣ Farms may have altered systems/management since original allocation in 2005 (e.g. young farmer takes over farm from widow)
- Thus link between production efficiency and size of payment/ha may be much weaker than assumed

# Estimated redistribution among farming systems due to move to uniform flat-rate payment

	<b>2010 SFP/ha, €</b>	<b>2010 SFP payment, €m</b>	<b>Redistribution due to uniform flat rate payment, €m</b>	<b>% gain/loss by system due to flat rate redistribution</b>	<b>% of total SFP redistributed</b>
Dairy	311.3	299	-3	-0.9%	-0.2%
Cattle rearing	258.0	240	47	19.6%	3.2%
Cattle other	352.3	467	-58	-12.4%	-3.9%
Sheep	252.4	203	45	22.2%	3.0%
Mixed Livestock	407.1	137	-21	-15.1%	-1.4%
Tillage	285.5	142	-5	-3.6%	-0.3%
All	308.5	1,487			

Source: Own calculations based on 2010 National Farm Survey

# Estimated redistribution among regions due to a move to a uniform flat-rate payment

	2010 SFP/ha, €	2010 SFP payment, €m	Redistribution due to uniform flat rate payment. €m	% gain/loss by system due to flat rate redistribution	% of total SFP redistributed
Border	262	191	34	17.8%	2.4%
East	320	134	- 5	-3.6%	-0.3%
Midlands	351	165	-20	-12.2%	-1.4%
SouthWest	281	161	16	9.9%	1.1%
SouthEast	398	319	-72	-22.5%	-5.1%
South	274	232	29	12.5%	2.1%
West	258	206	40	19.5%	2.9%

Source: Own calculations based on 2010 National Farm Survey

## Estimated redistribution among regions due to a move to a uniform flat-rate payment including LFA payments

	2010 SFP/ha, €	2010 SFP payment, €m	Redistribution due to uniform flat rate payment. €m	% gain/loss by system due to flat rate redistribution	% of total SFP redistributed
Border	332.7	243	16	6.6%	1.0%
East	343.4	144	5	3.3%	0.3%
Midlands	393.3	184	- 18	-9.8%	-1.1%
SouthWest	326.7	187	16	8.6%	1.0%
SouthEast	418.0	335	- 51	-15.2%	-3.1%
South	318.2	270	31	11.5%	1.9%
West	333.2	266	17	6.4%	1.1%
All*	354.7	1,629	16		1.0%

Source: Own calculations based on 2010 National Farm Survey

## Estimated redistribution among economic size groups due to a move to a uniform flat-rate payment

<b>Total Standard Output (€'000)</b>	<b>2010 SFP/ha, €</b>	<b>2010 SFP payment, €m</b>	<b>Amount redistributed €m</b>	<b>% gain/loss by economic size group</b>	<b>% of total SFP redistributed</b>	<b>Share of 2010 gross output</b>
0-8	260.7	101.77	18.63	18.3%	1.2%	4.5%
8-15	264.4	233.59	38.96	16.7%	2.6%	11.4%
15-25	264.5	227.46	37.81	16.6%	2.5%	11.5%
25-50	338.7	303.06	- 27.07	-8.9%	-1.8%	15.4%
50-100	354.0	298.55	- 38.44	-12.9%	-2.6%	21.5%
> 100	338.9	333.24	-29.97	-9.0%	-2.0%	35.6%
All	308.5	1,503.59	-			

Source: Own calculations based on 2010 National Farm Survey

# Estimated redistribution among economic size groups due to a move to a uniform flat-rate payment including LFA payments

<b>Total Standard Output (€'000)</b>	<b>2010 SFP/ha, €</b>	<b>2010 SFP payment, €m</b>	<b>Amount redistributed €m</b>	<b>% gain/loss by economic size group</b>	<b>% of total SFP redistributed</b>	<b>Share of 2010 gross output</b>
0-8	349.5	136.44	2.00	1.5%	0.1%	4.5%
8-15	338.3	298.89	14.50	4.9%	0.8%	11.4%
15-25	320.1	275.27	29.75	10.8%	1.7%	11.5%
25-50	377.1	337.42	-20.07	-5.9%	-1.2%	15.4%
50-100	383.2	323.16	-24.08	-7.5%	-1.4%	21.5%
> 100	357.2	351.17	-2.46	-0.7%	-0.1%	35.6%
All	354.7	1,722.35	-			

Source: Own calculations based on 2010 National Farm Survey

# Direct payments regulation

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- Concern that shift to regional system would threaten Food Harvest 2020 targets overblown
- Need to distinguish between income effects and production effects of payments
  - ▣ Direct payments in principle decoupled
  - ▣ Distinction between marginal and absolute effect of payments
  - ▣ Production potential affected only if (a) land goes out of production, or (b) land is farmed less intensively
  - ▣ Empirical studies show very limited production effects of switching direct payments
  - ▣ Opposition to regional system driven by income losses rather than sector concerns

# Green Pillar 1 payments

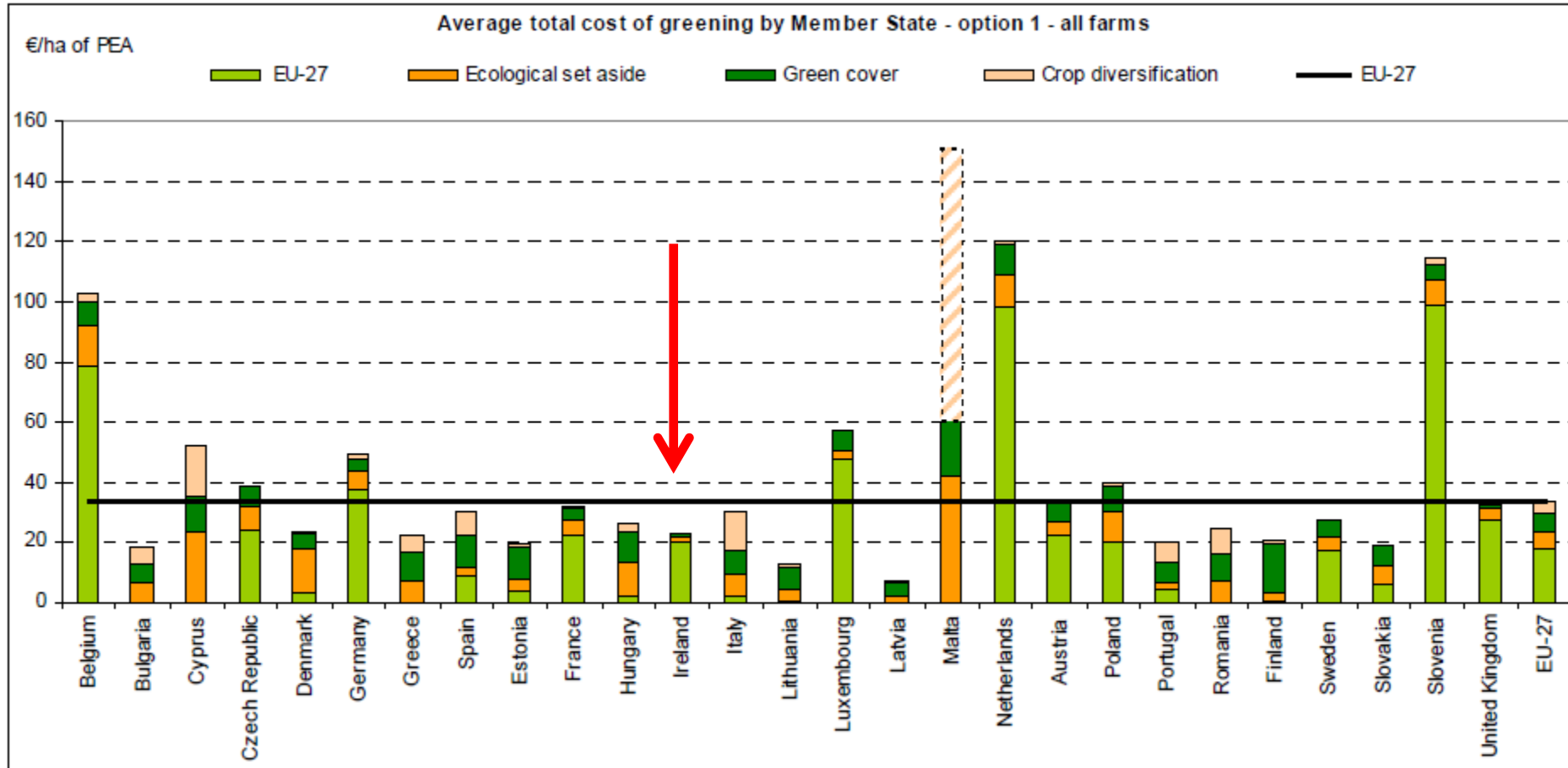
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- Greening measures (crop diversification, maintenance of permanent pasture, ecological focus areas) will have environmental benefits
  - “The proposed greening element within Pillar 1 ... will result in ‘green wash’ with little real environmental gain” – Birdlife
- But will measures have net benefits?
- Average EU-wide cost to farmers equivalent to increase of 2% in input costs (€33/ha), but very variable across farms
- Could additional environmental benefits be provided more efficiently by increasing budget for agri-environment payments in Pillar 2?



# Average total cost of greening, €/ha

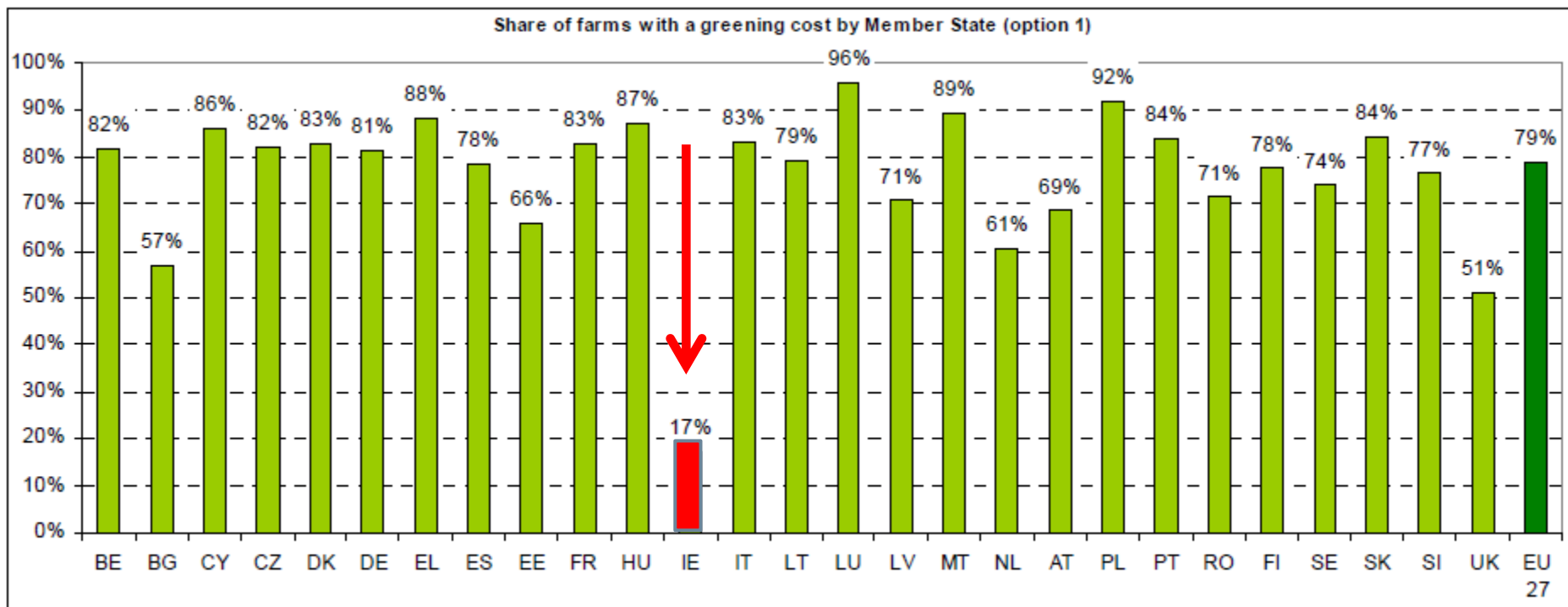
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Source: DG AGRI L3 calculations based on EU FADN, the AIDS7K model and AGLINK.

# Percentage of farms with a greening cost

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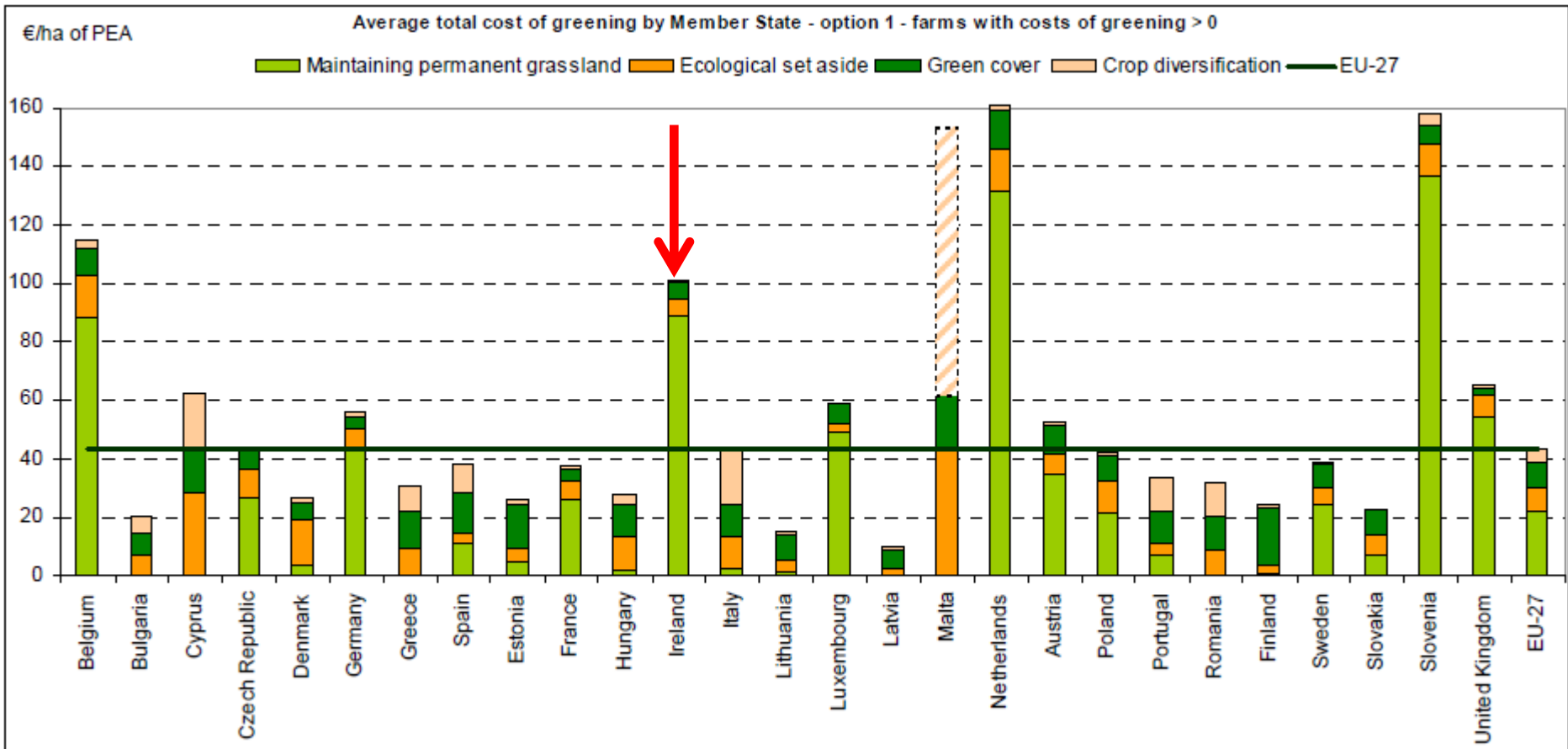


Source: DG AGRI L3 calculations based on EU FADN, the AIDS7K model and AGLINK.

Annex 2d Costs of greening

# Average cost of greening for farms affected

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Source: DG AGRI L3 calculations based on EU FADN, the AIDS7K model and AGLINK.

# Rural development programming

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- Priorities not axes (but 25% minimum for environment and climate change)
- Simplification of measures (from 40 to 20)
  - ▣ Competitiveness measures
  - ▣ Agri-environment measures
  - ▣ Rural quality of life measures
  - ▣ Risk management measures
  - ▣ Continuation of LEADER (5% minimum)
- Greater management coordination with other EU funds
  - great in principle but cumbersome in practice

# Prospects for the reform process

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- Inter-institutional decision-making under Treaty of Lisbon rules for first time
- Expected agreement Irish Presidency first semester 2013
- Timetable totally dependent on reaching prior agreement on the Multiannual Financial Framework by end 2012
- Possibility that current rules/payments will be rolled over into 2014?

**Thank you for your attention!**