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NOTE

from : Presidency
to : Delegations

Subject : Informal meeting of the Ministers for Agriculture
 (Brno, 31 May-2 June 2009)
 Common Agricultural Policy post-2013: What future for direct payments?

Delegations will find attached a document prepared by the Presidency on the abovementioned subject, with a view to discussion at the Informal meeting of the Ministers for Agriculture in Brno on 2 June 2009.

Common Agricultural Policy post-2013: What future for direct payments?

The Common Agricultural Policy has always been one of the cornerstones of European integration. The CAP has been an essential tool for the achievement of basic objectives in the field of food production, and it has contributed considerably to the improvement of the quality of life in rural areas.

The rapid development of the Community's agriculture sector in a dynamic environment means that CAP principles and instruments need periodic review and, where necessary, adjustment so as to ensure that contemporary needs and challenges are met while fulfilling strategic objectives based on the European model of agriculture.

Therefore, only a few months after the Health-Check was agreed and passed into law, and while the first experiences gained by the Member States with its step-by-step implementation are still to be gauged, the debate continues on the future shape of the CAP in the period post-2013. This fact is confirmed by the debate and the interest in this topic expressed by the majority of Member States throughout the preceding presidencies. This is an ongoing debate and one that should not, however, anticipate the EU budget review.

Challenges for the CAP

In the light of global population growth and the consequent growing demand for food, the CAP's objective of assuring the availability of food supplies at reasonable prices remains relevant. This objective must also be seen in the context of risks of potential food crises brought about e.g. by climate change or natural disasters, economic or political developments in the world, and by potential fast spreading diseases.

A significant factor influencing the future direction of the CAP will undoubtedly also be the need to adapt to new conditions and trends associated with climate change, scarcity of natural resources (water in particular), preservation of biological diversity and use of recoverable energy sources.

The accession of 12 new Member States to the EU was a milestone in the EU's development. The integration of new Member States into the common structures generates new impulses requiring a response across all EU policy areas, including agriculture.

The global economic crisis has coincided with a period of high volatility of prices of basic

agricultural commodities, affecting the competitiveness of European agriculture and farmers' income.

European agriculture must confront these challenges. It must be able to continue to produce high quality and safe food, ensure sustainability of resources and quality of the environment through the CAP allowing farmers to respond to market changes. It is clear that in this effort stronger support for innovation throughout the sector will be indispensable.

All of the above aspects will continue to influence European agriculture and will have to be taken into account in the future development of the CAP. In the period to come an agreement will need to be reached on the long-term direction of EU agricultural policy and on the balance of expenditure associated with the support for the farming sector in line with the overall European social demands and available EU resources.

Achievements in the CAP

Successive reforms of the CAP have made it more simple, transparent and effective. Decoupling has been gradually introduced, consumer requirements for safe and quality food have been taken into account and the rural economy is being diversified. Simultaneously, strict standards governing animal welfare and protection of the environment have increased the importance of agriculture as a sector safeguarding public goods.

Nevertheless, further simplification of the CAP as well as maximum cost effectiveness is to be encouraged. It will be absolutely necessary, in the debate on the future of CAP, to seek the harmonious development of production and non-production functions of agriculture in the context of the further development of rural areas, since in the long-term perspective these aspects cannot be addressed without reference to European geographic, economic and historic conditions.

The CAP has proved to be dynamic and enduring, responding to both internal as well as external challenges. Its long-term future as a common policy requires the continuation of this dynamism in order to meet tests of economic viability, fairness, effectiveness, and coherence with the Single Market.

The CAP has always relied on a variety of policy tools. The reform steps taken within the CAP since 1992 have enabled farmers in the EU to be more market-oriented while retaining the necessary stability of their income, which is to a large extent guaranteed by the main political instrument of the CAP – the direct payment scheme.

Direct payments within the CAP

The direct payment scheme is now a significant policy tool designed to meet the CAP objectives. It is legitimate therefore to debate how well it serves this purpose, but also more broadly to ask how appropriately it responds to the expectations of tax payers and consumers, whether and how it should contribute, in addition to income support, to the provision of public goods, and to what extent it allows farmers the necessary freedom to produce what the market requires. It is legitimate also to consider how well the direct payment scheme is coordinated with market tools and funds spent on rural development.

The CAP reform of 2003 introduced a new system of direct payments – the Single Payment Scheme (SPS). These payments, however, are independent of the current volume of production. This means that since 2005 the bulk of support in the various sectors has been granted under the new system of direct payments.

The key element of this system is the payment entitlement. In the SPS the calculation of the amount of payment entitlement is based on historical data. The criticism can be made therefore, that over time, the current distribution of direct payments becomes more difficult to justify. While the payment is almost fully decoupled from production, payment entitlements were calculated using production indicators referring to a historic period more than a decade old .

The level of direct payments in individual regions is considerably influenced by differences in the levels of productivity in the historical reference period. These different levels of productivity are not only the result of objective differences in land quality but also a consequence of unique historical circumstances during the reference period. The question can be asked therefore, whether the current disparity in the level of direct payments between individual EU regions is justifiable.

While the Single Payment Scheme is independent of production, it allows for exceptions and provides for a series of implementation options which can make the system seem complex. It is open to debate as to whether it would be possible to identify an alternative model of direct payments which would be simple to implement, sufficiently flexible to meet diverse needs and above all easier to justify and explain to the public; and which would result in less divergent levels of direct payments between the regions.

It is recalled that as part of the CAP Health Check agreement the Commission and the Council declared the following: *"In the framework of the discussions that started in Annecy on 23 September 2008 on the future of the Common Agricultural Policy after 2013 and without prejudice to the new financial perspective for that period the Council and the Commission are committed to thoroughly examine the possibilities for development of the direct payment system in the Community and addressing the differing level of the direct payments between Member States"*.

In an effort to fulfill this commitment the Presidency invites Ministers to respond to the questions contained in Annex.

Questions to be discussed by the Members States

From the starting point that the system of direct payments after 2013 should be simple, flexible, and easier to justify and explain to the public:

1) What role and function should be played by the direct payments scheme post-2013 with respect to income support to farmers, providing public goods, etc.?

2) What relationships between the direct payments and the other existing instruments – particularly market regulation measures and rural development tools, would be suitable?

3) What, in your view, would be the best way forward to fulfill the Council's commitment to thoroughly examine the possibilities for development of the direct payment system in the Community and address the differing level of the direct payments between Member States for the Common Agricultural Policy after 2013?
