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from: Mr Vítor CALDEIRA, President of the European Court of Auditors
date of receipt: 10 September 2012
to: Mrs Erato KOZAKOU-MARCOULLIS, President of the Council of the
European Union

Subject: Special report No 11/2012: Suckler cow and ewe and goat direct aids under
partial implementation of SPS arrangements

Sir,

I enclose a copy of special report No 11/2012 entitled "Suckler cow and ewe and goat direct aids under partial implementation of SPS arrangements" together with the Commission's replies.

The special report was adopted by the Court at its meeting on 20 June 2012 and is accompanied by the replies from the Commission, which was notified of the preliminary findings on 19 March 2012.

(Complimentary close).

(s.) Vítor CALDEIRA

Encl.: Special report No 11/2012: Suckler cow and ewe and goat direct aids under partial
implementation of SPS arrangements¹

¹ In English only. The other languages of this report are available on the European Court of Auditor's website: <http://eca.europa.eu/>.

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Special report No 11/2012

(pursuant to Article 287(4), second subparagraph, TFEU)

Suckler cow and ewe and goat direct aids under partial implementation of SPS arrangements

together with the Commission's replies

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GLOSSARY

Beef and veal	The meat of cattle under one year is called veal, while the meat of other cattle is called beef.
Agriculture and Rural Development DG	Directorate-General for Agriculture and Rural Development.
EAGF	European Agricultural Guarantee Fund.
Eligible sheep and goat animals	'Ewe', meaning any female of the ovine species having lambed at least once or at least one year old, and 'she-goat', meaning any female of the caprine species having kidded at least once or at least one year old. Therefore, the ewe and goat premiums are paid only for female sheep and goat animals.
Euratom	European Atomic Energy Community.
Eurostat	The statistical office of the European Union charged with the task to provide the EU with statistics at European level that enable comparisons between countries and regions.
LFAs	Less Favoured Areas are those where agricultural production or activity is more difficult because of natural handicaps.
Ruminant livestock	An animal that has more than one stomach and that swallows food and then brings it back up again to continue chewing it.
SBCS	Scottish beef calf scheme.
SEC	Secretariat-General: internal documents of the Commission.

SPS	Single payment scheme.
Suckler cow	A cow belonging to a meat breed or born of a cross with a meat breed, and belonging to a herd intended for rearing calves for meat production. Suckler cows are mothers who provide all their milk to their calf.
TFEU	Treaty on the Functioning of the European Union.

SUMMARY

I. Following the 2003 CAP reform, agricultural support that had previously been granted in the form of direct aids linked with a specific production of agricultural products (so called 'coupled' aid), was no longer to be paid in relation to production (i.e. was decoupled) upon the introduction of the SPS - single payment scheme.

II. However, some exceptions to full decoupling were foreseen for specific sectors and regions in order to limit the potential negative effects of an immediate transition to full decoupling, by preserving agricultural production in specific vulnerable regions and providing environmental benefits through a continuation of a specific agricultural production. Member States could continue with the previously existing suckler cow and ewe and goat schemes under the option entitled 'Partial implementation of SPS' and other specific coupled support measures (known as Article 69 and Article 68). The Commission legislative proposals for the CAP towards 2020² provide for the possibility for Member States to grant voluntary coupled support.

III. The Court set out to answer the following questions:

Are the suckler cow and ewe and goat direct aids under partial implementation of SPS:

- (a) *Targeted* to the most relevant regions in Member States?
- (b) *Effective* in maintaining specific production and thus avoiding negative social, economic and environmental effects?
- (c) *Well-monitored* and assessed by the Commission and Member States?

² COM(2011) 625 final/2 of 19 October 2011.

IV. The Court concluded that the audited schemes as designed are not targeted to address the regions and agricultural areas where they would be most relevant, thereby diluting their effect.

V. The Court did not find conclusive evidence to demonstrate that the audited schemes are in general a more effective tool than decoupled aid, allied with other EU and nationally funded measures, to maintain production and thus sustain economic activity in regions with few economic alternatives and generate environmental benefits.

VI. Additionally, there are weaknesses in the monitoring of key performance indicators and in assessing the ultimate social and environmental impacts of the schemes by the Commission and Member States, as well as a lack of coordination with other measures having similar objectives.

VII. If the Commission's proposal to continue voluntary coupled support beyond 2013 is accepted by the Council and the European Parliament, the Court recommends that the Commission should:

- (a) add a targeting requirement for coupled direct aid schemes for these sectors;
- (b) in coordination with Member States, clarify the most relevant types of farming activities to maintain production and thus address the ensuing social, economic and environmental aspects;
- (c) specify the monitoring requirements and arrangements expected from Member States and implement a permanent monitoring framework that would indicate all direct aids paid to support the animal sectors in the Member States;
- (d) in coordination with Member States, undertake a comprehensive evaluation of the impact of the different support schemes affecting the sectors with a view to enhancing farm competitiveness.

INTRODUCTION

The beef and veal and sheepmeat/goatmeat sectors in the EU

1. The sectors of beef and veal and sheepmeat and goatmeat (hereafter called 'beef' and sheepmeat/goatmeat sectors) are very important for EU agriculture. The EU is the third largest producer of beef and veal in the world with nearly 8 million tonnes of slaughtered cattle accounting for almost 12 % of world beef production³. One third of the beef produced in the EU⁴ is a direct product of specialist beef producers maintaining 'suckler cows' that produce and feed calves. Suckler cow herds are generally fed under an extensive grazing system and their offspring once weaned are either sold directly for slaughter or to other specialists who fatten bovine animals under a more intensive production system before slaughter. According to the most recent data, the suckler cow herd in the EU has stabilised at around 12,4 million animals between 2000 and 2010⁵.

2. Production in the sheepmeat/goatmeat sector, which had been stable at a little over 1 million tonnes in recent years, fell to 804 000 tonnes in 2009. The size of the herd in the EU amounts to around 81 million sheep, down from 91 million in 2008, and 13 million goats.

EU direct aids to the beef and sheepmeat/goatmeat sectors

3. Farmers in the beef and sheepmeat/goatmeat sectors have historically been supported by different EU direct aids. The primary aim of providing support to these sectors has been to **maintain production**, 'especially in areas where there is no alternative' and 'where such production is important for the

³ Agriculture in the European Union - Statistical and economic information 2010, European Commission Agriculture and Rural Development DG.

⁴ For the EU as a whole, some two-thirds of the beef produced is derived directly or indirectly from dairy herds, a sector not covered in this audit.

⁵ *Source:* Eurostat.

local economy⁶. In order to be eligible for EU direct aids, farmers had to have premium rights (individual quotas) which constitute the quantitative limits for each Member State and were distributed to farmers upon application.

4. Direct aids for farmers in these sectors include, inter alia, a basic premium and an additional/supplementary premium⁷ for suckler cows and ewe and goat. These are headage-based⁸ premiums, which are designed to maintain numbers of productive animals that will deliver offspring (calves or lambs) that in turn provide supply to the processing industry (specialised fatteners or slaughterhouses).

5. The 2003 CAP reform introduced the notion of decoupling⁹ (i.e. removal of the link between the payment of a subsidy and the requirement for a specific production) in agricultural payments and a new scheme of EU direct aid support – the Single Payment Scheme (SPS). As an exception to decoupling,

⁶ See e.g. preamble of Council Regulation (EC) No 1254/1999 of 17 May 1999 on the common organisation of the market in beef and veal (OJ L 160, 26.6.1999, p. 21), recital 12 stating that '[...] it is opportune to allow Member States to establish a link between sensitive zones or localities and the production of suckler cows so as to ensure the maintenance of such production especially in areas where there is no other alternative'. For sheepmeat/goatmeat, the preamble of Council Regulation (EC) No 2529/2001 of 19 December 2001 on the common organisation of the market in sheepmeat and goatmeat (OJ L 341, 22.12.2001, p. 3), recital 11 stated that 'A link should be established between sensitive zones or localities and the production of sheep and goats so as to ensure the maintenance of such production, especially in areas where such production is important for the local economy'.

⁷ Regulation (EC) No 1254/1999 established premium rates for the beef sector. Regulation (EC) No 2529/2001 established direct aids for the sheepmeat/goatmeat sector.

⁸ Based on the number of animals.

⁹ Council Regulation (EC) No 1782/2003 of 29 September 2003 establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers and amending Regulations (EEC) No 2019/93, (EC) No 1452/2001, (EC) No 1453/2001, (EC) No 1454/2001, (EC) No 1868/94, (EC) No 1251/1999, (EC) No 1254/1999, (EC) No 1673/2000, (EEC) No 2358/71 and (EC) No 2529/2001 (OJ L 270, 21.10.2003, p. 1).

where Member States considered that there was a risk of disturbance to agricultural markets or abandonment of production as a result of the move to the SPS, they had the option to maintain a proportion of direct aids in some sectors¹⁰ in their existing form, i.e. partial implementation of SPS¹¹.

6. Eight Member States decided to use the option to maintain direct aids under partial implementation of SPS for suckler cow and/or ewe and goat (see **Table 1**). The suckler cow premiums were allowed to remain 100 % coupled, meaning that they could continue to be paid as before the reform. For the ewe and goat premiums, 50 % coupling meant that only half of the annual financial envelopes that were available under the 2001 system were allowed to continue as coupled payments¹² (other than for outermost regions¹³, where there is 100 % coupling).

¹⁰ Including amongst others the beef and sheepmeat/goatmeat sectors.

¹¹ The single payment scheme came into operation on 1 January 2005. Member States could choose to apply the SPS following a transitional period (which ended on 31 December 2005 or 31 December 2006), where this was justified on the grounds of special agricultural conditions. The legal basis for exercising the partial implementation of SPS option was provided for in Articles 64 to 68 of Regulation (EC) No 1782/2003.

¹² The rest of the average amounts paid to farmers during a reference period (generally 2000–02) were integrated into the calculation of the SPS according to the option of calculation of entitlements chosen by each Member State.

¹³ Regions which are part of the Member State, are situated outside Europe and are fully part of the EU. There are nine such regions – six French, two Portuguese and one Spanish.

Table 1 – Member States maintaining the suckler cow and ewe and goat premiums coupled¹⁴

Member State	Sector	Premium amount
Austria, Belgium	Suckler cow premium	200 euro per suckler cow; up to 50 euro additional premium 10,50 euro per ewe; 3,50 euro supplementary premium; and 8,40 euro per goat ¹
Denmark, Finland, Slovenia	Ewe and goat premium	
France, Portugal, Spain	Suckler cow premium and Ewe and goat premium	

¹ Except in cases where the number of beneficiaries became significantly lower after decoupling thereby allowing an increase in the aid rates per farmer.

7. In 2008, in the context of the mid-term review of the CAP, known as the 'Health Check', the Commission proposed¹⁵ the continuation of targeted selective decoupling using the arguments set out in **Box 1**.

Box 1 – Arguments presented by the Commission for continuing partial implementation of SPS in the audited sectors

'[...] the extent of recent reforms and the integration of more sectors into the SPS render the partially coupled support less relevant and often preventing farmers to achieve further competitiveness and market orientation. Moreover, in the cases of non profitable sectors farmers are worse off than farmers in a full decoupling situation receiving lower payments¹⁶. Besides, farmers still receiving coupled aid have also to face both coupled and decoupled systems running in parallel, thus adding complexity

¹⁴ Spain, France and Slovenia decoupled the sheep and goat premium in calendar year 2010 while Denmark decoupled in calendar year 2012.

¹⁵ COM(2008) 306 final of 20 May 2008.

¹⁶ This argument was already raised during the discussion in the Council that preceded the 2003 reform. See Council 'CAP Reform: Explanatory note DS 222/03', Luxembourg, 18 June 2003.

and administrative costs without any income benefits. For the reasons mentioned above, move to full decoupling would be desirable. However, [...] In some specific cases a minimum level of agricultural production is important to sustain economic activity in regions with few economic alternatives, to ensure an adequate supply of raw materials to processing industries, or to generate environmental benefits.'

8. Hence, upon entry into effect of the 2009 legislation¹⁷ following the 'Health Check', further decoupling of the direct aids to the meat producing sectors was introduced¹⁸. However, there was no change for the suckler cow and ewe and goat premiums, as Member States that in 2003 had opted for the partial implementation of SPS as regards these sectors were again allowed to continue with this option, with the emphasis on the allocation of funds on a regional needs basis¹⁹. Furthermore, the possibility of providing support to the two sectors was widened via two measures linked to particular types of farming and agricultural activities (see **Box 2**).

Box 2 – Two new measures introduced in the 2009 Regulation

Article 63 of Regulation (EC) No 73/2009: Member States are allowed by derogation to use funds previously paid as coupled payments in order to establish or increase the value of payment entitlements in cases of particular farming activities which are not necessarily linked to the formerly coupled payments.

¹⁷ Council Regulation (EC) No 73/2009 of 19 January 2009 establishing common rules for direct support schemes for farmers under the common agricultural policy and establishing certain support schemes for farmers, amending Regulations (EC) No 1290/2005, (EC) No 247/2006, (EC) No 378/2007 and repealing Regulation (EC) No 1782/2003 (JO L 30, 31.1.2009, p. 16), which entered into force as of January 2009.

¹⁸ In the beef sector, the slaughter premium and the special premium for male animals were to be decoupled by 1 January 2012 at the latest.

¹⁹ Recital 34 of the preamble of Regulation (EC) No 73/2009: '[...] as regards the suckler cow and sheepmeat and goatmeat sector, maintaining a minimum level of agricultural production may still be necessary for the agricultural economies in certain regions and, in particular, where farmers cannot have recourse to other economic alternatives [...]']

Article 68 of Regulation (EC) No 73/2009 permits compensation arrangements for the dairy, beef and veal, sheep and goat, and rice sectors in economically vulnerable or environmentally sensitive areas or for economically vulnerable types of farming. Member States are allowed to earmark 10 % of their national ceilings in order to create specific coupled support schemes for farming in these sectors. This option replaced and extended the possibilities of providing coupled support that was previously available through the Article 69 provisions of Regulation (EC) No 1782/2003.

9. The current trend in the Member States using the partial implementation option of SPS for these schemes is towards integrating the premiums into the SPS. This means that farmers who previously received payments under the audited schemes are now eligible to receive payments under SPS without the need to maintain animals. The ewe and goat premium has already been, or is planned to be, decoupled in most of these Member States, while France has partially decoupled the suckler cow premium from 2010. As a result, the annual amounts under partial implementation measures fell from over 2 billion euro in 2006 (the year in which all Member States had changed over to the SPS) to a little over 1 billion euro in 2011 (see **Table 2**).

Table 2 – Evolution of the budget for the audited schemes

(euro)

Premium	Appropriations 2011	Appropriations 2010	Outturn 2009	Outturn 2006
<i>Suckler cow premium</i>	952 000 000	1 162 000 000	1 153 141 941	1 257 884 680
<i>Additional suckler cow premium</i>	51 000 000	52 000 000	51 723 556	62 112 145
Sub-Total (a)	1 003 000 000	1 214 000 000	1 204 865 497	1 319 996 825
<i>Sheep and goat</i>	22 000 000	258 000 000	232 868 953	691 666 492
<i>Sheep and goat supplementary</i>	7 000 000	78 000 000	72 391 238	215 169 838
<i>Additional payments in the sheep and goat sector</i>	-	-	-	-
Sub-Total (b)	29 000 000	336 000 000	305 260 192	906 836 330
TOTALS [(a) + (b)]	1 032 000 000	1 550 000 000	1 510 125 689	2 226 833 156

The CAP post 2013 legislative proposals

10. The Commission adopted legislative proposals for the CAP post 2013 establishing, amongst others, new rules for direct payments to farmers under support schemes within the framework of the CAP²⁰. According to Article 38(2) of this proposal 'coupled support may only be granted to sectors or regions of a Member State where specific types of farming or specific agricultural sectors undergo certain difficulties and are particularly important for economic and/or social and/or environmental reasons'. Hence, in the beef and sheepmeat/goatmeat sectors, voluntary coupled support would still be allowed, thereby retaining the possibility for direct aids such as the audited schemes.

AUDIT SCOPE AND APPROACH

The audit scope

11. The audit examined the suckler cow and ewe and goat schemes. The audit covered the period from immediately prior to implementation of the 2003 reform (i.e. 2005) up to and including 2010.

12. The overall audit question was: Are the suckler cow and ewe and goat direct aids under partial implementation of SPS:

- (a) Targeted to the most relevant regions in Member States?
- (b) Effective in maintaining production and thus avoiding negative social, economic and environmental effects?
- (c) Well-monitored and assessed by the Commission and Member States?

²⁰ Commission proposal for a Regulation of the European Parliament and of the Council establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy - COM(2011) 625 final/2 of 19 October 2011. Title IV, Chapter 1 describes the possibilities for voluntary coupled support which may be granted to certain sectors including sheepmeat and goatmeat and beef and veal up to 5 % of annual national ceilings and more than that in specific cases.

Audit approach

13. The audit was carried out by conducting audit visits to the Commission (Directorate-General for Agriculture and Rural Development) and to four²¹ Member States maintaining the schemes, while developments in these sectors in two other Member States²² were examined by desk reviews. Furthermore, fact-finding visits were carried out to two Member States that used full implementation of SPS²³ in order to compare the development of the beef and sheepmeat/goatmeat sectors in Member States that did not maintain the audited schemes.

14. The audit evidence was collected through:

- (a) Review of the Commission's monitoring procedures and files concerning the preparatory work for legislative proposals in the two sectors, including evaluations and other studies.
- (b) Meetings with the relevant national administrations as well as interviews with farmers' representatives for both sectors.
- (c) Examination of the quality of the analysis and the supporting evidence at the Member States as to the adequacy of the suckler cow and ewe and goat premiums in maintaining²⁴ a minimum level of agricultural production in the agricultural economies in certain regions and, in particular, where farmers cannot have recourse to other economic alternatives.

²¹ Belgium, Spain, France and Portugal.

²² Austria and Finland. No specific audit work was carried out as regards Slovenia, which decoupled in 2010, or Denmark, which had decided to retain the ewe and goat premium only until 2012.

²³ Ireland and the United Kingdom (England and Scotland).

²⁴ Baseline for 'Maintenance' established on trends prior to and after the introduction of SPS.

- (d) On-the-spot visits to a number of final beneficiaries to discuss the situation of their holdings and the effects of the schemes on their production decisions.
- (e) Analysis of past trends regarding production, as well as social and environmental effects in the audited Member States and comparison with Member States applying full implementation of SPS along with either national or EU specific measures to target the sectors.
- (f) Review and analysis of relevant studies and statistics.

OBSERVATIONS

Targeting the schemes to the most relevant regions in Member States

15. The justification for the retention of the audited schemes was that in regions facing difficulties and for vulnerable sectors such as the beef and sheepmeat/goatmeat sectors, sufficiently targeted measures can mitigate the risk of abandonment of production and any consequent adverse social, economic and environmental effects. The audit assessed whether the Commission and the Member States have analysed and identified the most relevant regions in Member States i.e. the fragile regions and agricultural areas within their territories where abandonment of production would have damaging effects and whether the design of the schemes was suitable to reach livestock farmers there.

Most of the funds are not subject to adequate targeting provisions

16. Some targeting of the funds is already implicit in the nature of these schemes and the agricultural activity which they subsidise, that is, an agricultural activity that is generally carried out by extensive grazing of animals on land that is not suitable for arable production. However, without explicit and sufficient targeting provisions direct aid may have the effect of subsidising other, more intensive animal farming methods.

17. The Commission did not include a regional requirement in the implementing provisions for the schemes that would explicitly target aid to where it would be most effective. Consequently, as currently implemented, the effects of the aids are diluted by being spread out across the entirety of Member States. The eligibility conditions for the basic²⁵ suckler cow and ewe premiums, representing over 90 % of the budgeted funds for the two audited sectors, do not explicitly target the aids to vulnerable regions of a Member State.

The targeted components of the schemes are limited or in the process of disappearing

18. There are some components within the current schemes which are explicitly targeted, namely the basic goat premium, the ewe and goat supplementary premium and the additional suckler cow premium. However, these components are not adequately focussed on agricultural regions or are of limited financial value. Furthermore, they are being integrated into SPS.

19. Eligibility conditions for the basic goat premium²⁶ target direct aid to farmers in specific areas where production meets certain criteria. However, Member States with relatively large goat herds have decided to fully integrate the goat premium into the SPS thereby reducing the potential for targeting this aid (see **Box 3**).

Box 3 – Member States discontinuing the use of targeted components of the audited schemes

France, which has a population of over 1,3 million goats (representing 10 % of EU goat animals) decided to fully integrate the goat premium into the SPS as of 2006 and the ewe premium as of 2010. Spain, which accounts for 22 % of the total goat animals

²⁵ I.e. the suckler cow and ewe premiums described in Articles 111(1) and 101(1) of Regulation (EC) No 73/2009.

²⁶ As is provided for in Article 101(2) of Regulation (EC) No 73/2009.

in the EU, also fully decoupled the premiums as of 2010. The largest EU goat producer, Greece (around 38 % of the total goat population) had decided to fully integrate the goat premium into SPS upon its introduction.

20. The 'ewe and goat supplementary premium' targets certain regions and specific farming practices²⁷. It is designed so as to only be paid 'to farmers in areas where sheep and goat production constitutes a traditional activity or contributes significantly to the rural economy'. However, this premium, which amounted to 215 million euro in 2006, is in the process of disappearing as there is a tendency to fully integrate it into the SPS²⁸. In fact, for calendar year 2010, only Portugal and Finland have maintained this premium coupled.

21. The additional premium for suckler cows also includes a targeting provision through being linked to convergence regions²⁹. However, such regions do not necessarily constitute *agricultural* regions where the keeping of suckler cows could be expressly linked to particular social and environmental impacts. The additional suckler cow premium amounted to 51 million euro in 2010 (down from 62,1 million euro in 2006), representing 5 % of the total for the audited schemes. The detailed amounts per measure and Member State are shown in **Annex I**.

Effectiveness of the schemes in maintaining specific production and thus avoiding negative social, economic and environmental effects

22. The schemes were intended to sustain a certain level of specific production in vulnerable regions, and thus avoid negative social, economic and

²⁷ Article 102 of Regulation (EC) No 73/2009.

²⁸ Decoupling by 50 % required by regulation as of the first year of SPS implementation; full decoupling of aids to these sectors in France and in Spain as of 2010.

²⁹ I.e. regions under the Convergence objective as used in the allocation of EU Structural Funds, corresponding to NUTS (Nomenclature of Territorial Units for Statistics) level 2, where per capita GDP is less than 75 % of EU-25.

environmental consequences of the implied restructuring due to decoupling³⁰. These goals remain relevant in the Commission's legislative proposals for the framework of the CAP in the period 2014-20³¹.

23. Consequently, the audit examined whether the trends in the two sectors in the audited Member States differed significantly from those in Member States that had fully integrated the premiums into the SPS, and whether any difference could be attributed to the audited schemes.

No persuasive evidence exists that the audited schemes strongly influence the overall evolution of animal numbers

24. Overall, the number of suckler cows in Member States using partial implementation of SPS increased slightly³² (+ 2 %) between 2005 and 2010, while the number in decoupled Member States decreased by 6 %³³. However, the influence of the suckler cow premiums is not apparent from the general suckler cow trends in individual Member States.

25. For example, in France, a Member State using partial implementation of SPS and which accounts for roughly 32 % of the total number of suckler cows, the herd was declining from 2001 to 2004; however, since 2004, suckler cow numbers started increasing and since 2008 have been relatively steady (see **Graph 1**). The decrease in the 2001-04 period occurred despite the existence of the suckler cow premiums and other direct aids to the beef sector.

³⁰ SEC(2008) 1885 of 20 May 2008, p. 50.

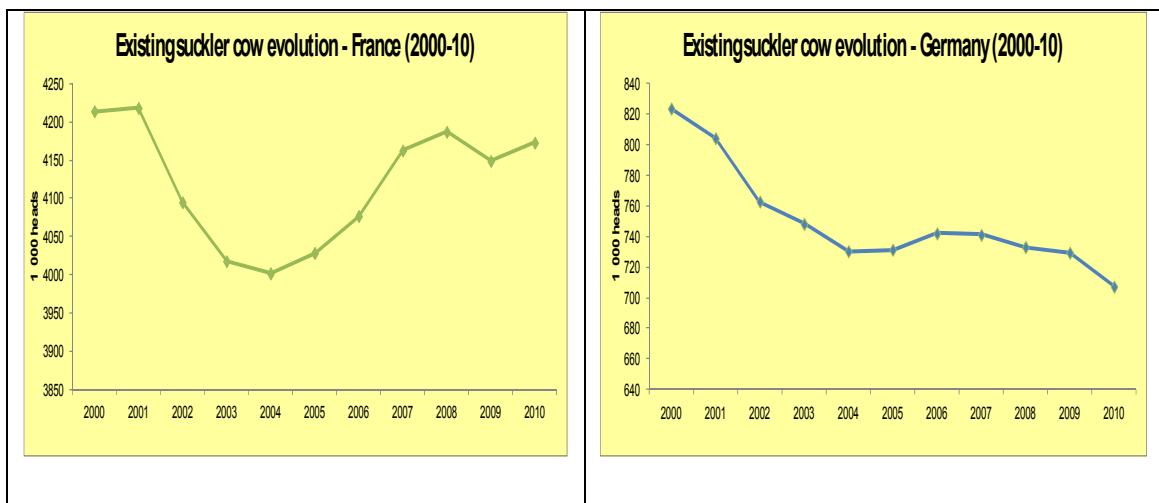
³¹ Stating that 'by means of an implementing act, the Commission shall approve Member States' decisions (i.e. those referred to in Article 39(3), or, where appropriate, in Article 39(4)(a) of the CAP post 2013 legislative proposals) where one of these needs in the region or sector concerned is demonstrated'.

³² Austria, Belgium, France, Portugal and Spain.

³³ Ireland and the United Kingdom.

26. In contrast, Germany, a Member State which had fully decoupled the audited schemes and which accounts for roughly 6 % of the total suckler cow herd, experienced a declining trend from 2000 to 2004, when the suckler cow premiums were still available. Since then, the number of suckler cows has stabilised/decreased at a slower rate, even after full implementation of SPS.

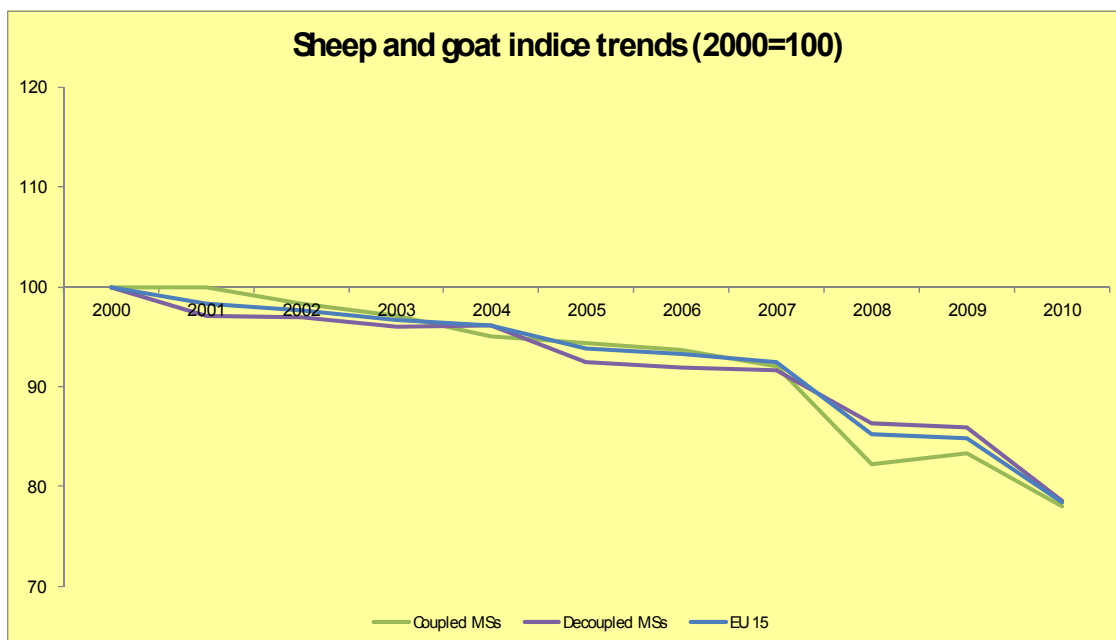
Graph 1 – Suckler cow trends in France and Germany 2000-10



Source: Based on Eurostat data.

27. Sheep numbers, which have been in a long-term decline, show no significant change in this trend for Member States implementing either full or partial SPS since 2005. This decline has been so pronounced that the premiums from the audited schemes, available since the 1990s, have been unable to reverse it (see **Graph 2**). Goat numbers have remained stable for Member States using either full or partial implementation of SPS.

Graph 2 – Trend in sheep and goat numbers for coupled and decoupled Member States 2000-10



Source: Based on Eurostat data.

28. Furthermore, the fact that four³⁴ of the six Member States which had retained the 50 % coupling option for the ewe and goat premiums have decided to fully integrate them into the SPS and use instead Article 68 support for these sectors indicates that these premiums have not been considered to be totally effective (see **Box 4**).

Box 4 – Example of integrating the ewe and goat schemes into the SPS and providing additional specific support to the sheep and goat sector

As of 2010, France fully decoupled the sheep premiums and designed a more focused and targeted specific support scheme to replace the ewe and goat scheme under partial implementation of SPS, on the basis of technical and economic selection criteria. This was done in the framework of Article 68(1)(b) and in combination with SPS aid (i.e. total payments in addition to SPS of about 135 million euro in 2010).

³⁴ Denmark, Spain, France and Slovenia.

An effect of this policy change on beneficiaries is shown in the following case: A farmer located in Auvergne, who raised sheep on a farm located at more than 1 000 metres altitude where other economic alternatives are limited, experienced a gain of 15 000 euro in aid between 2006 (partial decoupling: 50 % of the ewe premium) and 2010 (full decoupling of the premiums plus Article 63 and 68 specific support). However, the farmer's production remained constant during this period, ranging from 612 to 653 sheep.

These trends in animal numbers are predominantly influenced by exogenous or contextual factors particular to each Member State

29. The lack of a strong link between the animal premiums and animal numbers suggests that significant exogenous or contextual factors, particular to each Member State, exert a predominant influence on the evolution of animal numbers. These factors include suitability of land, market circumstances, the extent of competition from third countries, and consumer tastes.

30. These exogenous and contextual factors have such a strong overall effect that the audited schemes either lose their effect, where these factors are positive, or cannot reverse the situation, where these factors are negative. This is supported both by the Court's analysis of long-term trends of animal numbers in individual Member States (see **Box 5**) and by the Commission's evaluations and other studies³⁵.

Box 5 – Example of strong effects on animal production of exogenous factors

Portugal, a Member State using partial implementation of SPS, has experienced positive trends in suckler cow numbers due to a programme to convert arable land to pasture in 1994 in order to favour animal farming and the allocation of an additional 90 000 animal entitlements that increased the national suckler cow quota.

³⁵ Commission's Evaluation Report (2010): 'Evaluation of Market Effects of Partial Decoupling', p. 147 to 150.
Ministry of Agriculture in Spain: 'Analysis for possible decoupling of bovine premiums (suckler cow premium and slaughter premium)'.

Headage-based premiums that are not linked to other conditions do not provide incentives to improve competitiveness

31. The retention of coupled aid is a transitional measure to support farmers in sensitive areas but, according to the Commission, was not intended to compromise the overall direction of the reform towards decoupling and more market orientation by producers. However, a support scheme that pays premiums on a headage basis without any other specific conditions does not provide immediate incentives for farmers to improve their competitiveness.

32. In contrast, linking the headage payments to quality improvements as practiced by certain Member States (e.g. Ireland and United Kingdom-Scotland), has the potential to be a more effective support measure which encourages both the maintenance of production as well as the desired increased market orientation. Such an approach would also address a fundamental problem highlighted in the impact assessment carried out in the context of the 'Health Check of the CAP', notably, the fact that partially coupled support is 'often preventing farmers to achieve further competitiveness and market orientation. Moreover, in the case of non profitable sectors farmers are worse off than farmers in a full decoupling situation receiving lower payments'³⁶.

No discernible difference in other overall trends between Member States implementing full and partial SPS

33. The continuation of the audited schemes was also intended to mitigate the negative social, economic and environmental consequences of restructuring due to decoupling, i.e. full implementation of SPS in these sectors. The audit compared trends in relevant proxy indicators (meat production, number of beneficiaries and animals per farm, and area under permanent pasture) for Member States using full decoupling and those using partial implementation of

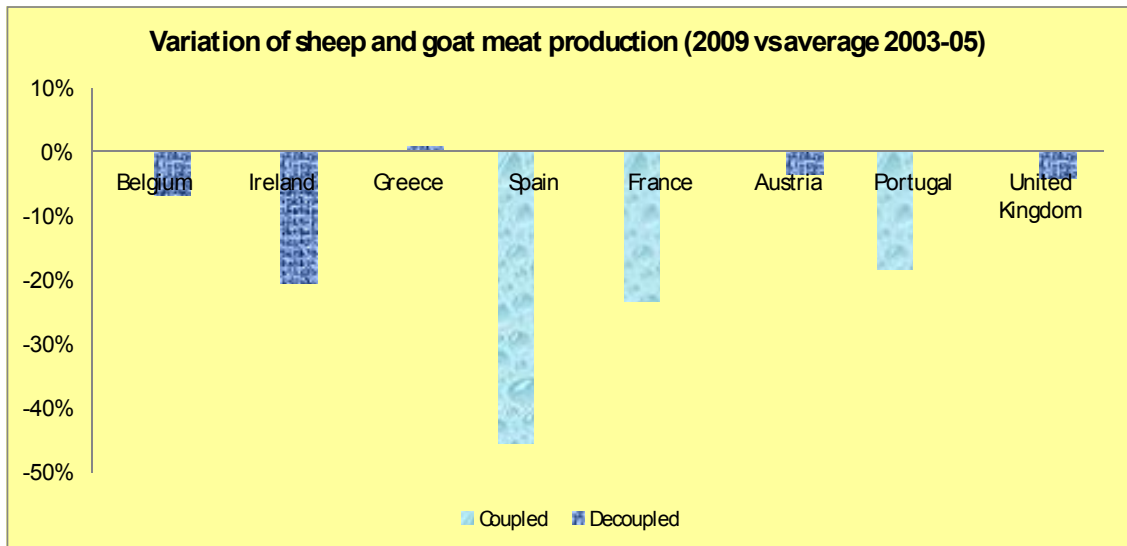
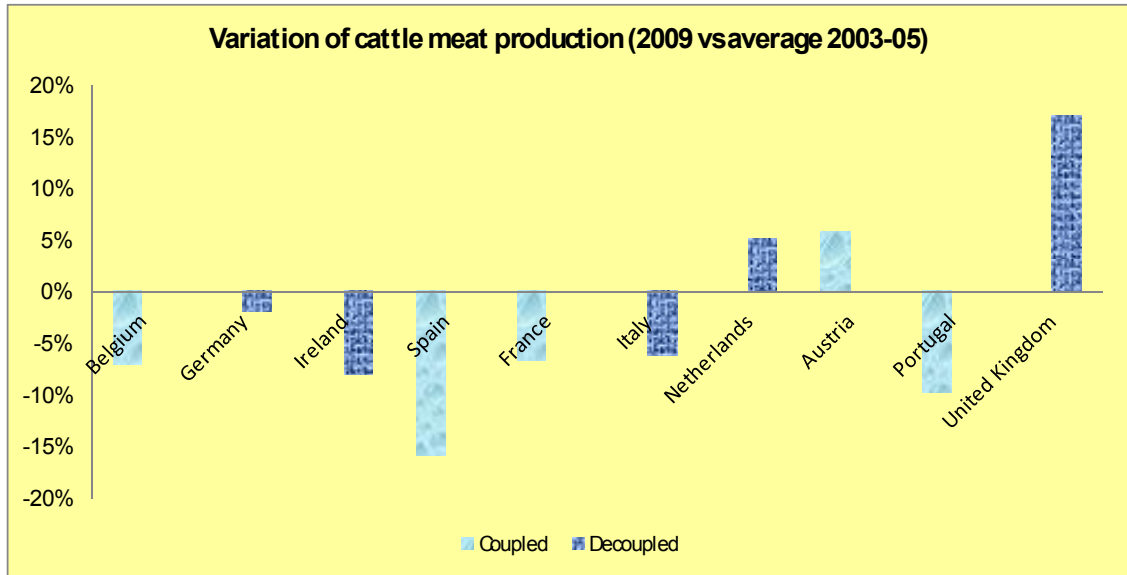
³⁶ CAP Health Check – Impact Assessment Note No 3, p. 3.

SPS, in order to help determine the extent of such negative consequences under decoupling.

No significant difference in meat production trends between Member States which use the audited schemes and those which do not

34. The audit found no discernible difference in the trends observed in meat production between those Member States which maintain the audited schemes coupled (i.e. as before the reform) and those which have fully integrated these premiums into the SPS (see ***Annex II*** for meat production trends). While only one-third of EU beef production is directly related to suckler cows, nevertheless these trends provide an indication that decoupling of the audited schemes has not had a significant impact on meat production.

Graph 3 – Meat production – Comparison of Member States using the premiums and those which do not



Source: Based on Food and Agriculture Organization of the United Nations (FAO) Statistical Year Book 2010, Table B.10.

35. These trends are again strongly influenced by exogenous and contextual factors, including restructuring currently taking place at both farm (e.g. exit of unsustainable farms, higher concentration of animals per farm) and industry

level (e.g. supermarket chains entering the market directly as customers, merger of slaughterhouses, etc.).

36. As an illustration of these contextual factors, there was evidence that the organisation of the agri-food production chain strongly affects the processing industry. For example, in Portugal, where 75 % of farms are classified as 'very small', the national authorities noted the weak bargaining power of small and fragmented livestock farmers vis-à-vis suppliers and customers as factors limiting the productivity of the sector. This was exacerbated by the fact that slaughterhouses in Portugal provided only a slaughtering service, instead of playing a more prominent role in meat marketing. In contrast, in the United Kingdom after full implementation of SPS, the national authorities noted a shift towards improving herd productivity and farm competitiveness and efforts to expand livestock farmers' market share and outputs via cooperatives.

Similarities in certain relevant social and environmental trends across all Member States

37. In the audited Member States, there has been an overall decrease in the number of suckler cow and sheep and goat beneficiaries, in line with the overall trend in agriculture, with less competitive farmers leaving the sector. Such a decrease can have adverse impacts, for example, a reduction in farm employment, economic consequences for rural communities, and negative environmental effects. However, these potential impacts have been largely offset by the general trend across the EU of increasing the number of maintained animals per farm (see **Annex III**), with the more competitive farmers taking over part of the production factors of those who have left, in an attempt to increase their competitiveness and profitability by increasing their scale of production.

38. The maintenance of a minimum production requirement, such as that encouraged by the audited schemes, can play a role in providing environmental benefits such as decreasing fire risk and enhancing biodiversity. For example,

the Commission has already identified certain types of farming activities, such as extensive grazing systems, shepherding and transhumance³⁷ of animals, which are linked to social and environmental impacts.

39. However, other EU policy instruments such as agri-environment or LFA measures or even EU regulatory requirements³⁸ play a similar and complementary role. These measures are also linked to the envisaged environmental impacts of the audited schemes. It is therefore unclear to what extent the audited schemes, when applied across the whole of Member States' territories, contribute to the avoidance of negative environmental consequences. This is corroborated by the fact that, in the decoupled Member States visited, there was no evidence of widespread environmental problems caused by land abandonment after decoupling of the audited schemes.

40. Furthermore, the 'permanent pasture area' used by ruminant livestock (see **Table 3**), which can be used as an environmental indicator, has either been stable or has not severely declined across the EU Member States regardless of the choice to decouple the audited schemes or not.

³⁷ Seasonal moving of animal herds from one location to another.

³⁸ E.g. Article 6(2) of Regulation (EC) No 73/2009 which stipulates that Member States should ensure that land which was under permanent pasture in 2003 should be maintained.

Table 3 – Total land declared under permanent pasture

Declared permanent pasture area (1 000 hectares)			
EU - 15	2006	2009	Percentage change (2009 vs 2006)
Belgium ⁽¹⁾	459	458	-0,2%
Denmark	225	215	-4,4%
Spain ⁽¹⁾	5 695	6 001	5,4%
France ⁽¹⁾	8 103	8 106	0,0%
Austria ⁽¹⁾	1 437	1 397	-2,8%
Portugal ⁽¹⁾	1 037	1 124	8,4%
Finland	22	19	-15,1%
A) Sub-totals (Partial implementation of SPS Member States)	16 978	17 320	2,0%
Germany	4 925	4 798	-2,6%
Ireland	4 264	4 233	-0,7%
Greece	2 740	2 719	-0,8%
Italy	2 303	2 325	1,0%
Luxembourg	66	65	-1,7%
Netherlands	813	832	2,4%
Sweden	800	713	-11,0%
United Kingdom	9 919	9 796	-1,2%
B) Sub-totals (Full implementation of SPS Member States)	25 830	25 481	-1,4%
⁽¹⁾ Member States visited on the spot. Belgium, Spain, France, Austria and Portugal with suckler cow premiums and Denmark and Finland with ewe and goat premiums. Portugal: see Box 5 for reasons of the increase.			

Source: European Commission Agriculture and Rural Development DG.

Decoupling of the premiums has adversely affected animal farming in fragile areas

41. Although there are some cases where there seems to be a good justification for the schemes the experience with decoupling shows that in general this move did not imply dramatic changes in the production structure at the EU level as was also noted by the Commission³⁹. The Court's audit found

³⁹ COM(2008) 306 final.

that in certain regions within Member States, such as mountainous areas or regions where not many viable agricultural alternatives exist, there is a real risk⁴⁰ of abandonment of livestock farming, which, as shown in **Box 6**, has materialised in certain Member States. In such areas, due to difficult soil or climate conditions and lower profitability, an absence of a specific production requirement causes ruminant livestock production to decrease which, in turn, can have social and economic consequences.

Box 6 – Abandonment of production associated with decoupling in fragile regions

Scotland, which has a large share of low productivity land⁴¹ and whose production alternatives are thus limited to ruminant livestock production fed under an extensive grazing system, experienced a strong decline in the number of beneficiaries after the introduction of SPS. Part of the abandonment was explained by the Scottish authorities as due to older or less efficient farmers getting out of farming who then sublet their land. The fact that there is an accelerated decrease in animal numbers maintained after the introduction of SPS, is a cause of environmental concern, especially in the more disadvantaged 'Hills and Islands' areas or the fragile North-West region of Scotland. According to the information provided by the Scottish authorities 'since the introduction of Single Farm Payments, the decline in sheep numbers has accelerated, with a decrease of 14,4 % in the last 5 years. Cattle

⁴⁰ For a detailed analysis of the environmental risks that can be dealt with through sheep and goat farming, see Commission Evaluation report, (2007) 'Study on environmental consequences of Sheep and Goat farming and of the Sheep and Goat premium system', p. 48 to 64.

⁴¹ According to the Quality Meat Scotland report 'The importance of livestock production to the Scottish economy', based on the Macaulay Land Use Research Institute's land capability classification for agricultural use, only 6 % of Scotland's land area is classified as 'above average quality land' and therefore suitable for arable crops. Subsequently, there is a high dependency on ruminant livestock farming reflecting the land capability of Scotland and the limited alternatives for production on this land. According to the European Commission's classification system for determining Less Favoured Areas, nearly 85 % of Scotland's agricultural land is categorised as LFA and ruminant livestock production is the dominant farming activity with more than 90 % of breeding ewes and 82 % of beef cows found in these areas.

numbers also declined by 7,5 % between 2005 and 2009, although there has been a small increase of 0,8 % in the last year.’

Another example of the risk of abandonment of production in difficult areas is Portugal, which has a high proportion of its agricultural land in disadvantaged areas. The majority of sheep farming in Portugal occurs in areas with natural problems or in marginal areas with no economically viable alternatives. In 2009, a large proportion (53 %) of total ewe premiums was paid to beneficiaries in the Alentejo region which is classified as LFA. After 50 % decoupling of the ewe and goat premiums, an analysis of the trends shows there was a sharper decline in sheep and goat beneficiaries in this region than in others, which shows that the risk of abandonment of production due to decoupling is more pronounced in disadvantaged areas where alternatives are limited.

The Commission and Member States’ monitoring and assessment systems

42. The Commission and the Member States should have in place appropriate management tools such as well-functioning performance management frameworks to regularly monitor predetermined performance indicators, and for assessing social, economic and environmental impacts of the schemes⁴². In addition, the two schemes should be properly coordinated with other support available to the sectors.

Weak performance monitoring at Member State level

43. In general, each of the Member States audited has at its disposal detailed information concerning the livestock sectors and the agricultural situation of

⁴² Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities (OJ L 248, 16.9.2002, p. 1), the Financial Regulation, Article 27 states that: ‘Budget appropriations shall be used in accordance with the principle of sound financial management, namely in accordance with the principle of economy, efficiency and effectiveness’. Further, it states that ‘Specific, measurable, achievable, relevant and timed objectives shall be set for all sectors of activity covered by the budget. Achievement of those objectives shall be monitored by performance indicators [...]’.

different agricultural regions within their territory. However, this information is scattered across departments at various levels or in various agencies which collect such information each for their own purposes.

44. Since there is no legal requirement concerning monitoring arrangements, most of the Member States visited did not implement a monitoring system linking the outputs of the audited animal aid schemes with specific final outcomes nor had they defined specific performance indicators for the audited schemes.

45. Despite the reasons given for maintaining the partial implementation of SPS measures through the audited aid schemes⁴³, the Commission did not clarify what is meant by 'production' (e.g. number of farms, beneficiaries, maintained animals, etc.) or 'supply to processing industries' (e.g. calves or lambs, live carcass weight, tonnes of meat, etc) and how these two components would address the envisaged socio economic and environmental impacts.

46. As a consequence, these terms are not defined in a coherent manner across the Member States implementing the audited schemes and are not linked to the needs stated by the budgetary authorities and the Commission in support of maintaining the schemes. Instead, the Member States had widely different interpretations on the possible objectives of the schemes and on the different approximate substitutes (i.e. operational objectives) that could be used to monitor their effectiveness (see **Box 7**). However, such interpretations do not necessarily constitute appropriate⁴⁴ performance indicators for the achievement of the set issues that the two schemes were supposed to address and that the Commission could monitor at EU level.

⁴³ See paragraph 7, Box 1: 'a minimum level of agricultural production [...] to ensure an adequate supply of raw materials to processing industries [...]'.

⁴⁴ Performance indicators must be relevant, accepted, credible, easy and robust (RACER).

Box 7 – Different interpretations in the Member States for performance indicators

France: According to stakeholders, ‘production’ could be monitored by the number of calves or tonnes of veal exported instead of only suckler cow animals maintained. ‘Supply to the processing industry’ could be the kilograms of live carcass weight of beef, veal and lambs. For the goat sector the interpretation by the stakeholders as a measure of supply to the processing industry was the goat milk produced and delivered to the cheese industries.

Belgium: ‘Production’ was taken to mean the numbers of the ‘Blanc-Bleu Belge’ breed of cows. Beef production was defined by the term ‘production indigene brute (PIB)’ (indigenous gross production) which is counted in terms of tonnes weight of equivalent carcass. This is calculated considering the number of slaughtered animals in Belgium plus exported live animals minus live imported animals.

Spain: The national authorities defined ‘production’ as a combination of the total number of animals, the number of farms and the quantity of meat produced. As ‘supply to the processing industry’ they used carcasses of animals reared domestically plus imports for fattening.

No global view of different measures that have similar expected impacts as the audited schemes

47. An additional constraint in the monitoring by the Commission is that there is no monitoring tool that would provide a global/holistic view of the aids that are available to the animal sectors from various sources and which work in synergy with each other. Such aids are available under both Pillar I and Pillar II of the CAP⁴⁵ as well as from national funds. Although this information exists at various levels within the Commission, it is not systematically collected and monitored in a comprehensive manner.

⁴⁵ Pillar I comprises market support measures and direct aids, including SPS, to EU producers. Pillar II covers rural development measures, aimed at supporting rural communities to develop and diversify.

48. For example, the livestock sectors benefit significantly from Pillar II rural development funds, notably agri-environment measures⁴⁶, and the interviewed stakeholders (national authorities and farmers' representative associations) agreed on the complementarity of this aid. In addition, suckler cow and sheep and goat farmers' production decisions are significantly affected by other Pillar I policy instruments (e.g. cross-compliance conditions⁴⁷, Article 68 measures, etc.) or nationally funded measures (see **Box 8** for examples).

Box 8 – Examples of support schemes for the audited sectors with similar objectives

Ireland: Animal welfare recording and breeding scheme for suckler herds

(coupled aid also known as suckler cow welfare scheme). A nationally funded scheme with the agreement of the Commission⁴⁸ currently paying a premium of 40 euro per head (about 92,5 million euro) to improve animal welfare and the quality of the dedicated beef suckler herd. **Grassland sheep scheme** (decoupled aid using Article 68 provisions). Financed by unused SPS appropriations, it is an area based scheme linked to stocking density of sheep, with different rates for lowland and upland farmers, equivalent to 10 euros per ewe (about 54 million euro over its three year duration).

United Kingdom (Scotland): Scottish beef calf scheme (SBCS) (coupled aid financed via Article 69 and then Article 68 provisions). It provides direct support to specialist beef producers of male and female calves which are at least 75 % beef bred and at least 30 days old (119 200 000 euro from 2010-13 or about 18-19 million pound sterling in annual payments).

⁴⁶ See also, European Commission (2010) Evaluation of CAP measures concerning sectors subject to past or present direct support – Lot 1: Horizontal issues: 'Evaluation of market effects of partial decoupling', p. 66.

⁴⁷ These cross compliance conditions include keeping land in good agricultural and environmental condition and respect of statutory management regulations.

⁴⁸ I.e. in accordance with Article 88(3) of the EC Treaty and the European Commission's Agricultural State Aid Guidelines.

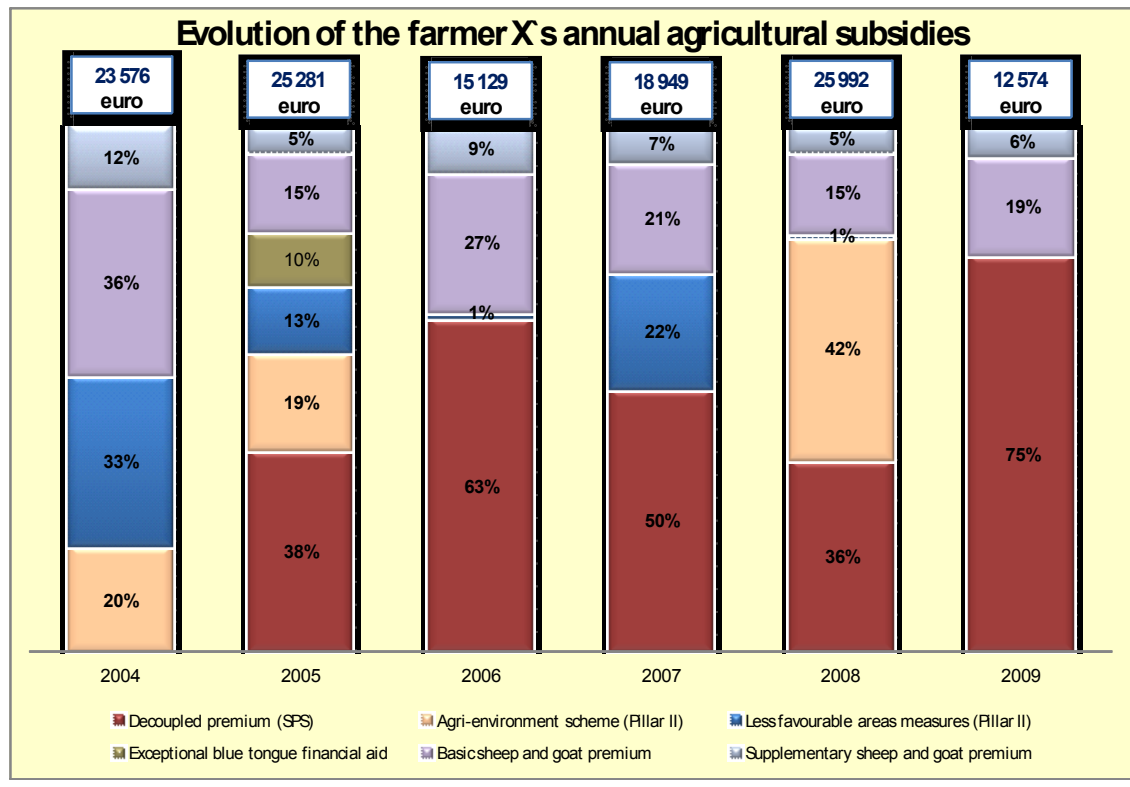
49. Beneficiaries visited do not distinguish between the various components of aid which they receive. Instead, it is the total amount of aid that mattered to beneficiaries in making their production decisions, and not one single scheme by itself (see **Box 9**). There is thus potential for double funding⁴⁹ through the existence of various schemes with similar objectives, which could be avoided if the Commission had a global view of the different schemes available to farmers and their impacts.

Box 9 – Example of a combination of different aid schemes accomplishing similar objectives

The beneficiary was located in a disadvantaged area in one of the audited Member States and was visited on the spot. The farmer's major economic activity consisted of production of lamb animals that he sold for fattening to other farmers or directly for slaughter. Lamb production arose out of maintenance of 400 ewes grazing in a fenced-in area within the circa 250 ha of the farmer's land. Protein crops and cereals produced from the farm were, according to the farmer, used mostly as feed for his animals. In 2009, the farmer passed on half of the business to his son (transferring 200 sheep).

⁴⁹ The term 'double funding' as used by the Commission refers to payments being made under two or more schemes in order to achieve the same objective.

An analysis of the relative contribution of the different schemes shows the small financial importance of the sheep premiums on the farmer's production decision. Meanwhile, LFA and agri-environment measures have similar objectives to the audited schemes in terms of regional targeting and environmental outcomes and contribute much more to the farmer's total subsidy income. Additionally, cross compliance requirements for SPS premiums in this farm would have been met most efficiently by grazing livestock such as sheep and therefore, the farmer would have maintained grazing animals even in the absence of the specific production requirement imposed by the ewe scheme.



Assessment of the schemes' impacts by the Commission is hindered by some shortcomings

The Commission's current reform is not supported by an evaluation of the 2008 Health Check

50. The Commission contracted several evaluation studies relevant to the two sectors which also addressed the audited schemes and the effects of various support measures to the two sectors. Evaluations, together with the impact

assessment exercise, are essential tools for the Commission to study the impacts of a policy and to help prepare an informed opinion when drafting relevant legislative proposals⁵⁰.

51. However, evaluations in an environment of rapid reforms, as currently being experienced (2003 CAP reform followed by the 2008 'Health Check of the CAP' reform, followed by the CAP post 2013 reform), have to rely on an analysis of the past which may no longer be fully relevant and/or come too late to be on their own of adequate help to the Commission.

52. For example, concerning the two audited meat sectors and schemes, the evaluations available⁵¹ when the Commission was developing the post 2013 CAP proposals only covered the situation pertaining to the decisions of the 2003 reform⁵² and not that post 2008. However, Member States were already implementing provisions that resulted from the 'Health Check of the CAP' which improved and introduced new tools for the Member States⁵³ to deal with potential disturbances in the audited sectors due to decoupling. The same issues are relevant to an evaluation of CAP measures for the sheep and goat sector which was published in November 2011⁵⁴.

53. As a result, the Council and the Parliament are currently called to take decisions on a new reform without fully absorbing the impacts of the 2008

⁵⁰ Legislative proposals on the post 2013 CAP reform.

⁵¹ Evaluation of direct aids in the beef and veal sector, October 2010 and Evaluation of market effects of partial decoupling, October 2010.

⁵² I.e. covering Article 69 measures of Regulation (EC) No 1782/2003.

⁵³ See e.g. new Article 68 of Regulation (EC) No 73/2009 replacing old Article 69 of Regulation (EC) No 1782/2003 and new possibilities offered via Article 63 of the same Regulation.

⁵⁴ Evaluation of CAP measures for the sheep and goat sector – November 2011.

reforms of the CAP which introduced important changes concerning the possibilities of providing specific support⁵⁵.

CONCLUSIONS AND RECOMMENDATIONS

54. The Court did not find conclusive evidence to demonstrate that the suckler cow and ewe and goat schemes, as under the partial implementation option of SPS, are in general a more effective tool than decoupled aid, allied with other EU and nationally funded measures, to maintain production and thus sustain economic activity in regions with few economic alternatives and generate environmental benefits.

55. A number of Member States have concluded that the intended effects of the schemes would be better addressed by total decoupling of the premiums along with a coordinated approach of using Pillar I and Pillar II funds to support the sectors in fragile areas or for specific purposes. Accordingly, there is a growing trend to absorb the audited aid schemes into SPS and to rely on alternative instruments to protect vulnerable sectors.

56. The Commission has proposed that voluntary coupled aid should be permitted beyond 2013 in certain sectors, including the audited sectors. Neither the Council nor the European Parliament has yet reacted formally to the Commission's proposal. The recommendations below suggest detailed changes that the legislator might wish to include in any revised scheme if the Commission's proposal is accepted.

⁵⁵ For example, the 2010 report titled 'Evaluation of market effects of partial decoupling' (Evaluation of CAP measures concerning sectors subject to past or present direct support – Lot 1: Horizontal issues, p. 2) stated that its aim was to analyse the effects of coupled or partially coupled aids – as they are established by Regulation (EC) No 1782/2003 – on the market, within a general context of total decoupling. Similarly, the report published in 2010 titled 'Evaluation of direct aids in the beef and veal sector' focuses on the period 2005-07 and does not cover the effects of legal provisions introduced with Regulation (EC) No 73/2009.

Are suckler cow and ewe and goat schemes targeted to the most relevant regions in Member States?

57. Member States were allowed to maintain the suckler cow and ewe and goat schemes because of production risks in certain sectors and regions. The audit concluded that most of the funds under the audited schemes are made available across Member States' territories. Thus, despite the legislator's emphasis on fragile regions, the schemes, as designed, do not focus on those regions and areas where local production is vital to the economy and the environment and where no alternatives exist. The effects of the schemes are therefore diluted by the lack of targeting (paragraphs 15 to 17).

58. The only targeted measures foreseen in the aids for both sectors are the additional premiums where these apply and which can only be paid to farmers located in certain areas. However, these are of limited financial significance and/or in the process of being decoupled (paragraphs 18 to 21).

Recommendation 1

The Commission should add a targeting requirement for coupled direct aid schemes. In particular, the Commission's implementing rules should require the Member States to identify and justify agricultural areas in which coupled animal premiums could have a demonstrably beneficial effect and where there is a lack of real viable alternatives.

Are the suckler cow and ewe and goat schemes effective in maintaining specific production and thus avoiding negative social, economic and environmental consequences?

59. A comparison between Member States having completely decoupled support and Member States having maintained the audited support schemes does not provide any conclusive evidence in favour of the overall effectiveness of the latter in maintaining production (paragraphs 22 to 28).

60. The impact of exogenous and contextual factors influencing the sectors is predominant, rather than the impact of the schemes as such (paragraphs 29 and 30). However, there was evidence that, in fragile regions, decoupling of the premiums has resulted in a reduction in livestock production (paragraph 41).

Recommendation 2

The Commission, in coordination with the Member States, should clarify the most relevant types of specific farming activities (e.g. extensive grazing systems, shepherding, etc.) to maintain agricultural production and sustain economic activity in regions with few economic alternatives and generate environmental benefits.

To maximise the effectiveness of EU support to the audited sectors, such support should be focused on farmers and specific farming activities in disadvantaged regions facing environmental, social and economic risks.

61. Suckler cow and sheep and goat farmers' production decisions are affected by the panoply of different support measures available to them coming from different sources. To the extent that coupled aid schemes are deemed necessary, they are likely to have a greater impact if they are focussed and better orientated towards farm competitiveness (paragraphs 31 and 32).

62. There were no discernible differences between Member States using full or partial implementation of SPS in trends concerning social, economic and environmental aspects such as meat production, number of beneficiaries and animals, and area under permanent pasture (paragraphs 24 to 28 and 33 to 40).

Are the suckler cow and ewe and goat schemes well-monitored and assessed by the Commission and the Member States?

63. In most Member States visited, monitoring of performance indicators was weak due to the lack of an ad hoc performance monitoring system for

measuring the results and outcomes of the audited schemes, and the different interpretations of the terms 'production' and 'supply to the processing industry' by each Member State (paragraphs 43 to 46). An additional constraint in the monitoring by the Commission was the lack of an appropriate tool providing a global view of the aids that are available from different sources (paragraphs 47 to 49).

64. The rapid pace of recent CAP reforms does not always enable precise quantitative assessments to be made in a timely manner. Thus, the Commission's system for assessing the impacts of the audited schemes is hindered by the unavailability of an evaluation of the 2008 Health Check (paragraphs 42 and 50 to 53).

Recommendation 3

The Commission should specify the monitoring requirements and arrangements expected from Member States for the aid schemes concerning the animal sectors and include these in a legal requirement, such as an implementing act, requiring Member States to use appropriate performance indicators and up to date data which are well linked to the envisaged outcomes from the animal aid schemes.

The Commission should implement a permanent monitoring framework that would indicate all the direct aids paid to support the animal sectors in the Member States, including national aids and Pillar II support, by collecting and monitoring information in a comprehensive manner across the EU. By doing so, the Commission would take into consideration the overall effects of different types of schemes aimed at the animal sectors and identify potential synergies amongst them, with a view to avoiding double funding under support instruments which have similar objectives.

Recommendation 4

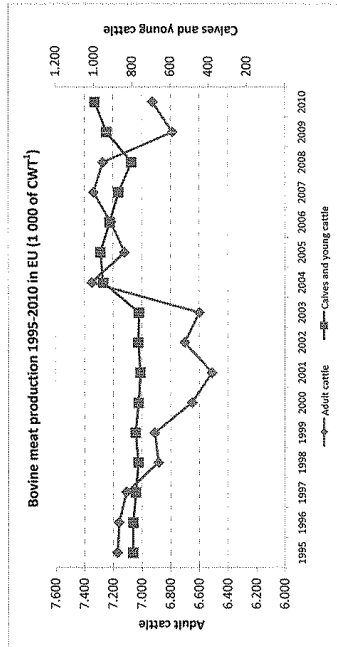
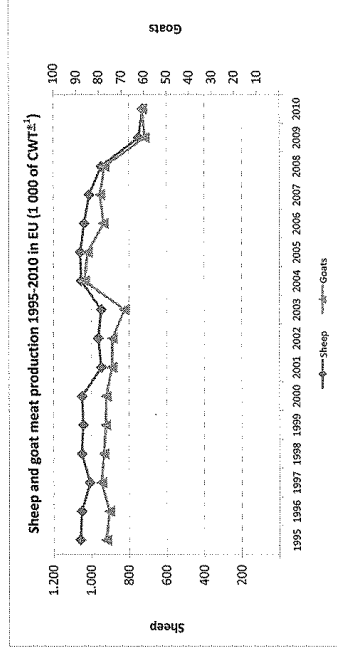
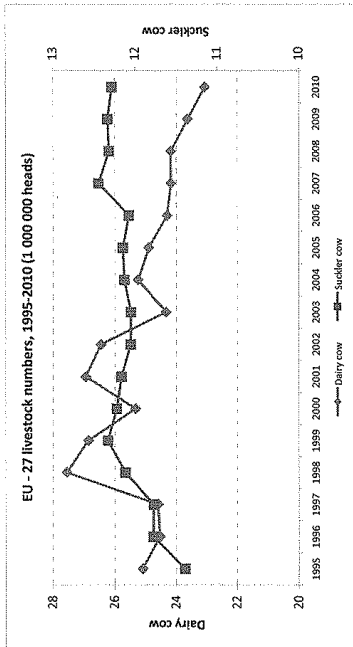
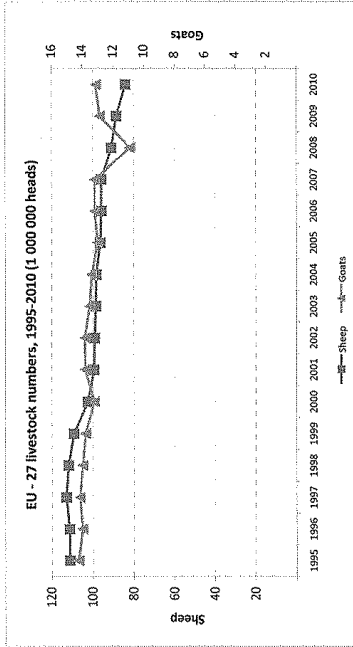
The Commission in coordination with the Member States should undertake a comprehensive evaluation of the impact of the different support schemes and where appropriate, assess the impacts of alternative measures to improve production quality and competitiveness, e.g. by encouraging herd improvements.

This Report was adopted by Chamber I, headed by Mr Ioannis SARMAS, Member of the Court of Auditors, in Luxembourg at its meeting of 20 June 2012.

For the Court of Auditors

Vítor Manuel da SILVA CALDEIRA
President

Livestock and meat production in EU (1995-2010)



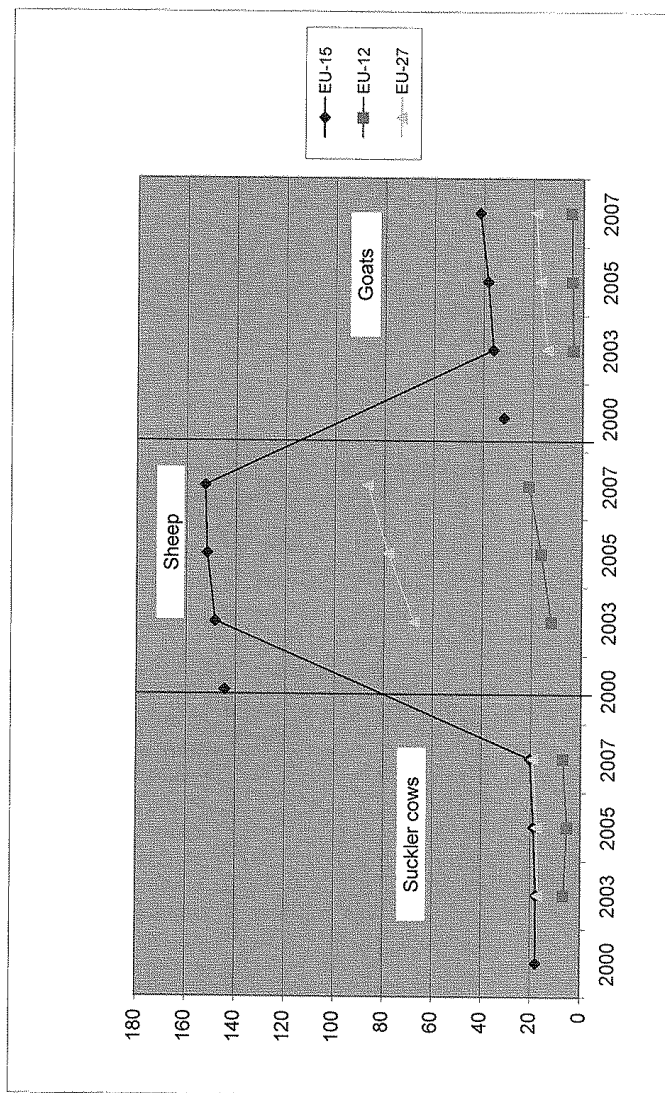
¹CWT = Carcass weight equivalent in tonnes.

Source: Eurostat

Note: Until 2004, data concerning meat production refer to the EU-15.

ANNEX III

Average number of animals per farm



Source: Eurostat (FSS).

REPLIES OF THE COMMISSION TO THE SPECIAL REPORT OF THE EUROPEAN COURT OF AUDITORS

"SUCKLER COW AND EWE AND GOAT DIRECT AIDS UNDER PARTIAL IMPLEMENTATION OF SPS ARRANGEMENTS"

SUMMARY

IV. Despite the fact that payments are granted across the whole territory of the Member State, they are actually concentrated in the regions where those types of farming are predominant, and implicitly targeted to regions without viable economic alternative.

V. Several analyses or evaluations show the relevance of coupled payments and the need to maintain them in the suckler cow and sheep and goat sectors. In particular:

- Recent impact assessments⁵⁶ indicate the economic need to maintain coupled support in certain sectors and for certain regions of Europe. In particular, the analysis compare the margin over operating costs with and without coupled payments and look at the particular Member States, types of production systems and types of areas (LFA, mountain LFA, non-LFA) to assess the impacts.

- Synthesis of the evaluations analysing environmental impacts of CAP measures applied in different sectors⁵⁷ indicates a positive environmental effect of some of the coupled measures, in particular the suckler cow premium which, among other positive impacts, helped to maintain extensive farming and to avoid intensification in some regions.

- The evaluation of direct aids in the beef and veal sector⁵⁸ recommended maintaining of some type of coupled aid in sensitive regions, in particular for suckler cows as it helps maintaining the suckler cow's herd and it could slow down employment decline in the breeding activity in sensitive regions.

- Similarly, the Evaluation of CAP measures for the sheep and goat sector⁵⁹ recommends specific production linked support to the sheep and goat production in order to maintain farming in specific vulnerable regions.

VI. The assessment of the impacts of CAP support in general and the schemes for beef and sheep and goat sectors is done on a regular basis by the Commission. In terms of income and employment (social impact), the above mentioned evaluations and analyses give good indication on the fact the income of those livestock sectors depend strongly on the coupled aids and that environmentally, the decoupling of coupled aid would certainly lead either to intensification of herds or to abandonment of breeding activities, which in sensitive regions will result in loss of employment and even to abandonment of agricultural production. While the above mentioned evaluations and analyses are focused on examining the impacts of direct aids, the other intervening measures (such as agri-environmental payments or LFA payments) are also taken into account in these evaluations.

In addition, relevant provisions in the applicable legislation aim either at ensuring the compliance with the budgetary ceilings fixed by the Commission for the audited schemes⁶⁰, following the implementation of the schemes by the Member States⁶¹, or monitoring the controls carried out by the Member States under the IACS rules⁶².

⁵⁶ See Note 3 of Annex C of the Health Check impact assessment (SEC(2008) 1885 of 20 May 2008) and Annex 3E of the CAP post 2013 impact assessment (SEC (2011) 1153 final/2 of 20 October 2011).

⁵⁷ See http://ec.europa.eu/agriculture/eval/reports/environment-summary/index_fr.htm.

⁵⁸ See http://ec.europa.eu/agriculture/eval/reports/directaidbeef/exec_sum_en.pdf.

⁵⁹ See http://ec.europa.eu/agriculture/eval/reports/sheep-goat/executive_summary_en.pdf.

⁶⁰ Article 64(2) of Regulation (EC) No 1782/2003.

⁶¹ See communications under Article 3 of Regulation (EC) No 795/2004.

⁶² Notifications referred to in Article 76 of Regulation (EC) No 796/2004.

VII.(a) Within the framework of the reform of the CAP towards 2020, the Commission has proposed⁶³ that Member States may grant coupled support to sectors or regions under certain specific conditions. The Commission will specify how the requirement shall be implemented.

VII.(b) The legislator has considered that these concepts could be better defined at national level. The identification of the types of farming to be targeted is left to the Member States to take into account the real situation of the concerned sector or region on their territory.

Nevertheless, within the framework of the reform of the CAP towards 2020⁶⁴, the Commission will be empowered to adopt delegated acts concerning the conditions for granting voluntary coupled support as well as the rules on consistency with other Union measures and on the accumulation of support.

VII.(c) The Commission has an overall view of the situation across the EU regarding the various coupled support measures applied in the animal sectors. Member States are subject to the obligation to periodically notify the Commission with the number of animals and the amounts paid under both coupled suckler cow and sheep and goat payments⁶⁵ and coupled Article 68 payments⁶⁶ as well as under complementary national direct payments (CNDP) implemented in the Member States who joined in 2004 and 2007. As far as social, economic and environmental impacts of the schemes, the Commission considers that it is more a matter for evaluation than monitoring.

When it comes to the decision making process for the upcoming reform, the Commission bases its proposals on an impact assessment which draws on a whole range of information sources, quantitative analyses, qualitative and quantitative information from the literature and public consultations⁶⁷. Evaluation reports are one of these information sources.

As for the future, the Commission proposal for the CAP towards 2020 foresees the establishment of a common monitoring and evaluation framework with a view to measuring the performance of the common agricultural policy, including first and second pillar measures.

VII.(d) The Commission regularly undertakes evaluations of all support schemes applied under the CAP. This was also the case for the direct payments applied to the beef and veal sector and sheep and goat sectors. The elements studied by the retrospective evaluations depend on the policy objectives set by the legislator

Also, the Commission proposal for the CAP towards 2020 foresees a framework for monitoring and evaluation, in cooperation with Member States.

INTRODUCTION

4. In the case of suckler cows, the "basic" premium is 100% EU funded and the national additional premium is nationally funded or co-financed by EAGF under certain conditions, while both basic and supplementary sheep and goats premiums are 100% EU funded.

8 and Box 2.- Joint reply. The two measures referred to by the Court are different in nature. Indeed, Article 63 of Regulation (EC) No 73/2009 is not a permanent direct support measure like Article 68 of the same Regulation as it is a one-off decision to be taken by the Member State when integrating the related amounts into the single payment scheme in view of transferring certain amounts from a sector to another. Furthermore, under Article 68 of Regulation (EC) No 73/2009, within the 10%

⁶³ Article 38 of the proposal on direct payments (COM (2011) 625 final/2 of 19 October 2011)..

⁶⁴ Article 38 of the proposal on direct payments (COM (2011) 625 final/2 of 19 October 2011)..

⁶⁵ Commission Regulation 1121/2009, Article 4.

⁶⁶ Commission Regulation 1120/2009, Article 51 (3) c.

⁶⁷ See point 1.3 of the Impact Assessment of the Common Agricultural Policy Towards 2020, SEC (2011) 1153 final/2 of 20 October 2011.

limit referred to in the Court's observations, Member States are allowed to only use up to 3.5% of their national ceiling for financing coupled support in particular in the two sectors at stake.

10. Following a wide public consultation and a thorough impact assessment, the Commission adopted proposals for the CAP towards 2020⁶⁸, which in its Title IV, Chapter 1 foresees the possibility to grant voluntary coupled support. The ultimate decision to grant coupled support such as the audited schemes depends on the decision of the Member States, which are free to select one or several particular sectors among the eligible sectors/productions and to design the schemes they want to implement. According to the proposal⁶⁹, the Commission shall be empowered to adopt delegated acts concerning the conditions for granting this voluntary coupled support as well as the rules on consistency with other Union measures and on the accumulation of support.

OBSERVATIONS

15 and 16 - Joint reply. Suckler cow and sheep and goat breeding are in general predominant in regions without viable agricultural economic alternative. As a result some targeting, including regional, is inherent to the type of coupled support.

Recital 34 of Regulation (EC) No 73/2009 indicates that maintaining a minimum level of production may be necessary for the agricultural economies in certain regions, and in particular, where there are not economic alternatives.

Therefore, despite the payments are granted across the whole territory of the Member State, they are actually concentrated in the regions where those types of farming are predominant.

16. Commission agrees that targeting is implicit in the nature of the schemes.

The main objective of the coupled aid to suckler cow and sheep and goat premium is to maintain a minimum level of production in those sectors and/or regions facing difficulties. The premiums are thus targeted to those types of breeders and it is possible that a more intensive breeding farm is supported with one of those coupled aids, support which does not go against the objective of the premium. However by nature, due to the traditional localisation of such production, this risk is minimum.

17. Despite the fact that payments are granted across the whole territory of the Member State, they are actually concentrated in the regions where those types of farming are predominant, and implicitly targeted to regions without viable economic alternative.

18. Joint reply to paragraphs 18 to 21.

Within a more general decoupling trend, partially coupled support was deemed necessary in some specific cases where a minimum level of agricultural production is important to sustain the economic activity e.g. in regions with few economic alternatives. However, maintaining such coupled payments entails administrative costs for Member States authorities. As a consequence some Member States have chosen to integrate these coupled schemes into the SPS as they considered that the level of coupled payment allowed (50%) was not sufficient to justify keeping two management and control systems in parallel.

Box 3 – The goat premium was integrated into the SPS as France, Spain and Greece considered that the limited level of coupled payment allowed (50%) was not a sufficient incentive for to keeping two administrative management and control systems in parallel at Member State level.

The same reasoning applies to the ewe premium as the maximum level of coupled support is the same in both cases, i.e. up to 50% according to Article 67 of Regulation (EC) No 1782/2003.

⁶⁸ COM(2011)625final2 of 19 October 2011.

⁶⁹ See Court footnote 31

24. See joint reply to paragraphs 18 to 21.

The evaluation of direct aids in the beef and veal sector⁷⁰ recommended maintaining some types of coupled aid in sensitive regions, in particular for suckler cows as it helps in maintaining the suckler cow's herd and it could slow down employment decline in the breeding activity in sensitive regions.

25 to 27 - Joint reply. Although there is a general tendency to decrease livestock herds in the EU the situation is rather complex.

For sheep/goat the herd declined in most Member States but not in Greece, Romania, Finland and Denmark. For bovine production the picture is more balanced with lower decline rates than in the dairy herd. As for the suckler herd, it was rather stable in Spain, France and Portugal during the revised period. In contrast, many of the small producing Member States, especially in Central and Eastern Europe reported declines in beef net production.

28. The Evaluation of CAP measures for the sheep and goat sector⁷¹ recommends specific production linked support to the sheep and goat production in order to maintain farming in specific vulnerable regions.

Furthermore, for the four Member States mentioned by the Court, the sheep and goat premiums were integrated into the SPS because they considered that the level (50%) of coupled payment allowed was not sufficient to justify keeping two management and control systems in parallel.

Box 4 - See reply to paragraph 28.

The Commission considers that the objectives of the audited schemes have been achieved.

In relation to the example given, the fact that the herd remained almost constant is in line with the objective to maintain the production in this area.

29-30 - Joint reply. The Commission acknowledges that exogenous and contextual factors do influence production. However, some analyses⁷² have shown that those premiums have contributed to maintain animal production in some fragile regions and have mitigated the effects of those external factors.

Although the dynamics of the beef sector are affected by external factors, in the case of suckler cows, the coupled premium appears to have supported the sector⁷³. Concerning the goat sector, the maintaining of coupled support has slowed down the decline in the sector, influenced by the fall in consumption and the drop in market prices.

The objective of partial decoupling is not to formulate an exact level of production to be achieved, but rather to maintain a minimum level of agricultural production to sustain the economic activity in regions with few economic alternatives.

31. The Commission confirms that overall the orientation toward decoupling has not suffered from the maintenance of some coupled aids: the decoupled part of direct aids represented 85.3% of the total direct aids in calendar year 2009, compared to an expected rate of decoupling at around 93.6% in calendar year 2013.

The Commission also wishes to underline that the improvement of the competitiveness of those farmers receiving the audited coupled aids was not a primary objective of the audited schemes and is better ensured by other CAP instruments (e.g. rural development investment measures). Coupled aids aim at keeping a minimum production activity in regions where decoupling could lead to

⁷⁰ See http://ec.europa.eu/agriculture/eval/reports/directaidbeef/exec_sum_en.pdf.

⁷¹ See http://ec.europa.eu/agriculture/eval/reports/sheep-goat/executive_summary_en.pdf.

⁷² See report on the evaluation of market effects of partial decoupling - October 2010.

⁷³ See report on the evaluation of market effects of partial decoupling - October 2010.

abandonment of production and to its consequences on employment, environment (minimum agricultural activity is in sensitive areas essential for e.g. biodiversity, landscape).

See also reply to paragraph 17.

32. See reply to paragraph 31. The Commission notes that in the same paragraph quoted by the Court, the CAP Health Check Impact Assessment also underlines that: *"In some specific cases a minimum level of agricultural production is important to sustain economic activity in regions with few economic alternatives, to ensure an adequate supply of raw materials to processing industries, or to generate environmental benefits."*

Furthermore, the conclusions of the section dedicated to "Partially Coupled Support "(page 44) clearly points out that: *"Evidence from analysis suggests that targeted selective decoupling whereby coupled support is retained in sectors of extensive livestock meat production (beef and sheep) would maximise the benefits from full decoupling in the crop sector, while at the same time maintaining the overall positive social and environmental impacts of coupled support in fragile regions of high environmental value."*

34. See also joint reply to paragraphs 29-30.

35. The concentration trend noted by the Court is the effect of the long term structural adjustment of the agricultural sector. Based on Eurostat data, the concentration trend in terms of number of suckler cows, sheep and goats per producer can be confirmed for most Member States and for the EU-27 as a whole.

37. The social impacts of partial implementation of the SPS, e.g. on employment or the vitality of rural areas, will only become apparent in the longer term.

However, whether or not this decrease is linked to the choice of support system (coupled versus decoupled) is difficult to assess.

The impact assessments of both the Health Check and the CAP towards 2020 reforms have shown that the decrease in the number of livestock farms will be high albeit to different extents depending on the MS in case of full decoupling.

39. Because CAP objectives are multiple and CAP tools and their combination contribute to those objectives in different ways, it is indeed sometimes difficult to distinguish at first glance the effect of one tool from another tool on one objective. This is the role of analysis and evaluation of CAP instruments done by the Commission.

For instance, the Synthesis of the evaluations analysing environmental impacts of CAP measures applied in different sectors⁷⁴ show that some coupled measures have clearly a positive environmental effect, in particular the suckler cow premium which, among other positive impacts, helped to maintain extensive farming.

All in all, those different CAP tools referred to in the Court' observation are not necessarily used in the same regions and MS have flexibility to decide, which tools are the most appropriate to fulfil the assigned objectives.

41. Several analyses and evaluations demonstrate the relevance of these schemes. (see paragraph V)

Box 6 – The decision to continue implementing coupled support for ruminants in the framework of the partial implementation of the SPS is a Member State decision.

⁷⁴ See http://ec.europa.eu/agriculture/eval/reports/environment-summary/index_fr.htm .

The decision of the UK-Scotland to continue granting a coupled support in the beef sector first, under Article 69 of Regulation (EC) No 1782/2003, then under Article 68 of Regulation (EC) No 73/2009 is partially related to the context referred to in the Court's observation.

42. See reply to paragraph VII d).

43-44 - Joint reply. The assessment of the impacts of CAP support schemes in general and the schemes for beef and sheep and goat sectors in particular is done on a regular basis by the Commission. (see reply to point V above for quoted analysis and evaluations). In terms of income and employment (social impact), the above mentioned evaluations and analyses give good indication on the fact the income of those livestock sectors depend strongly on the coupled aids and that environmentally, the decoupling of coupled aid would certainly lead to abandonment of breeding activities, which in sensitive regions will result in loss of employment and even to abandonment of agricultural production. While the above mentioned evaluations and analyses are focused on examining the impacts of direct aids, the other intervening measures (such as agri-environmental payments or LFA payments) are also taken into account in these evaluations.

In addition, the monitoring of the schemes is ensured by relevant provisions in the applicable legislation aiming e.g. at ensuring the compliance with the budgetary ceilings fixed by the Commission for the audited schemes⁷⁵, at following the implementation of the schemes by the Member States⁷⁶ at monitoring the controls carried out by the Member States under the IACS rules⁷⁷.

45. Please see reply to paragraph VII b).

46. Please see reply to paragraph VII b).

Box 7 - Please see reply to paragraph VII b).

47. The Commission proposal for the CAP towards 2020 foresees the establishment of a common monitoring and evaluation framework with a view to measuring the performance of the common agricultural policy, including first and second pillar measures.

49. The Commission considers that the risk of double funding is mitigated as Member States shall ensure that a farmer may receive support for a given operation under only one support measure (Article 38(2) of Regulation (EC) No 1120/2009). Consequently, the Member State's notification on specific support shall include in particular a description of any existing measures applied under Community support schemes or under measures financed by State aids in the same area or sector as the specific support measure and, where appropriate, the demarcation between them (Part A(c) of Annex IV to Regulation (EC) No 1120/2009). This information is scrutinized by the Commission at the time of the assessment of the notification, irrespective of a possible approval of the notified measures. However this procedure to avoid double funding for a same operation does not prevent the use of different tools (i.e. support schemes) in view of achieving a similar objective.

Box 9 - See reply to paragraph 39.

Member States have certain flexibility among voluntary schemes to decide which scheme or combination of schemes will fit best with the challenges of specific sectors or regions. Having different instruments which in combination contribute to achieving the multiple objectives of the CAP is considered as positive by the Commission and helps in obtaining better value for money.

52. The evaluation of the meat sector requires time for the impact of the policy to become visible, as there is a time lag (typically several years) between the production decisions of farmers and their

⁷⁵ Article 64(2) of Regulation (EC) No 1782/2003.

⁷⁶ See communications under Article 3 of Regulation (EC) No 795/2004.

⁷⁷ Notifications referred to in Article 76 of Regulation (EC) No 796/2004.

impact. The example referred to by the Court provides a good illustration: the implementation in the Member States of Article 68 measures⁷⁸ started only in 2010. Consequently, an evaluation at this stage would have been premature.

To address this inherent limitation, the evaluation of market effects of partial decoupling⁷⁹ (concluded in 2010) included a simulation of a situation with full decoupling of direct aid in both the beef and veal and sheep and goat sectors, giving an indication of possible effects of full decoupling applied to those sectors.

In addition, the impact assessment for the CAP towards 2020 includes specific analysis supported by the latest available data on the suppression of coupled support for beef, sheep and goat sectors⁸⁰.

53. When it comes to the decision making process for the upcoming reform, the Commission bases its proposals on an impact assessment which draws on a whole range of information sources, quantitative analyses, qualitative and quantitative information from the literature and public consultations⁸¹. Evaluation reports are one of these information sources.

CONCLUSIONS AND RECOMMENDATIONS

54. Several analyses or evaluations show the relevance of coupled payments and the need to maintain them in the suckler cow and sheep and goat sectors. In particular:

- Recent impact assessments⁸² indicate the economic need to maintain coupled support in certain sectors and for certain regions of Europe. In particular, the analysis compare the margin over operating costs with and without coupled payments and look at the particular Member States, types of production systems and types of areas (LFA, mountain LFA, non-LFA) to assess the impacts.
- Synthesis of the evaluations analysing environmental impacts of CAP measures applied in different sectors⁸³ indicates a positive environmental effect of some of the coupled measures, in particular the suckler cow premium which, among other positive impacts, helped to maintain extensive farming and to avoid intensification in some regions.
- The evaluation of direct aids in the beef and veal sector⁸⁴ recommended maintaining of some type of coupled aid in sensitive regions, in particular for suckler cows as it helps maintaining the suckler cow's herd and it could slow down employment decline in the breeding activity in sensitive regions.
- Similarly, the Evaluation of CAP measures for the sheep and goat sector⁸⁵ recommends specific production linked support to the sheep and goat production in order to maintain farming in specific vulnerable regions.

55. The decision to partially implement the single payment scheme⁸⁶ was left to the Member States in order to allow them to facilitate the transition between the payment regimes in force in the previous period and the new single payment scheme in sectors where such a transition could affect certain types of farming. The decision to grant coupled support was taken by the Member States on the basis of an analysis at national level of the potential negative effect of the immediate implementation of the SPS in the identified sectors. The "growing trend" referred to by the Court is

⁷⁸ Article 68 of Council Regulation (EC) No 73/2009 (which replaced Article 69 of Council Regulation (EC) No 1782/2003).

⁷⁹ Report on the evaluation of market effects of partial decoupling - October 2010.

⁸⁰ See Sub-annex 3E of the Impact Assessment report. (SEC(2011) 1153 final/2 of 20 October 2011).

⁸¹ See point 1.3 of the Impact Assessment of the Common Agricultural Policy Towards 2020, SEC (2011) 1153 final/2 of 20 October 2011.

⁸² See Note 3 of Annex C of the Health Check impact assessment and Annex 3E of the CAP post 2013 impact assessment (SEC (2011) 1153 final/2 of 20 October 2011).

⁸³ See http://ec.europa.eu/agriculture/eval/reports/environment-summary/index_fr.htm.

⁸⁴ See http://ec.europa.eu/agriculture/eval/reports/directaidbeef/exec_sum_en.pdf.

⁸⁵ See http://ec.europa.eu/agriculture/eval/reports/sheep-goat/executive_summary_en.pdf.

⁸⁶ Article 64 of Regulation (EC) No 1782/2003

the result of the possibilities of "decoupling" offered by the legislation, either at the beginning of the SPS or later on the framework of the Health Check decisions.

There are several tools in the CAP that allow supporting fragile sectors and/or regions, and Member States can decide which tools fit best to the specific needs of the sectors and/or regions. Pillar 1 coupled aids for sheep and goat and for suckler cow are essential in some regions to maintain the herds because the operating costs of those sectors may not always be covered by output and thus, in case of full decoupling, there is a high risk that farmers stop producing.

56. In the framework of the reform of the CAP towards 2020 and following a thorough assessment of the impacts towards the CAP objectives, the Commission has proposed⁸⁷ that Member States may grant coupled support to farmers to a limited number of sectors or production and to finance this support by using up to certain percentage of their annual national ceiling. The coupled support may be granted to sectors or regions where specific types of farming or specific agricultural sectors undergo certain difficulties and are particularly important for economic and/or social and/or environmental reasons. The support is granted to the extent necessary to create an incentive to maintain current levels of production, within defined quantitative limits.

57. Despite the fact that payments are granted across the whole territory of the Member State, they are actually concentrated in the regions where those types of farming are predominant, and implicitly targeted to regions without viable economic alternative.

Several analyses and evaluations show the relevance of these schemes. (see paragraphs V, 18 to 21 and 54)

58. As the additional premiums referred to by the Court were paid on top of "basic" premiums, the decision by the Member States of integrating these supports into the SPS was applicable to both "basic" and additional premiums and therefore taken irrespective of the related targeting.

Recommendation 1

Within the framework of the reform of the CAP towards 2020, the Commission has proposed⁸⁸ that Member States may grant coupled support to sectors or regions under certain specific conditions. The Commission will specify how the requirement shall be implemented.

60. The Commission acknowledges that exogenous and contextual factors do influence production. However, some analyses⁸⁹ have shown that those premiums have contributed to maintain animal production in some fragile regions and have mitigated the effects of those external factors.

Although the dynamics of the beef sector are affected by external factors, in the case of suckler cows, the coupled premium appears to have supported the sector⁹⁰. Concerning the goat sector, the maintaining of coupled support has slowed down the decline in the sector, influenced by the fall in consumption and the drop in market prices.

The objective of partial decoupling is not to formulate an exact level of production to be achieved, but rather to maintain a minimum level of agricultural production to sustain the economic activity in regions with few economic alternatives.

Recommendation 2

The legislator has considered that these concepts could be better defined at national level. The identification of the types of farming to be targeted is left to the Member States to take into account the real situation of the concerned sector or region on their territory.

⁸⁷ Article 38 of the legislative proposal on direct payments , COM(2011)625/3 of 12/10/2011

⁸⁸ Article 38 of the proposal on direct payments (COM (2011) 625 final/2 of 19 October 2011)..

⁸⁹ See report on the evaluation of market effects of partial decoupling - October 2010.

⁹⁰ See report on the evaluation of market effects of partial decoupling - October 2010.

Nevertheless within the framework of the reform of the CAP towards 2020⁹¹, the Commission will be empowered to adopt delegated acts concerning the conditions for granting voluntary coupled support as well as the rules on consistency with other Union measures and on the accumulation of support.

61. As mentioned in reply to paragraphs 29 and 30, although farmers decisions are indeed affected by coupled supports, other external factors are influential. The main objective of coupled supports is to maintain a certain type of production and no other EU available scheme than coupled payment have this level of influence.

62. There have been mixed trends between main beef producer Member States. For instance, Ireland, UK and Portugal had reported more uneven trends on beef supply compared to Belgium, Germany, France, Italy and Spain.

The general decrease of dairy herd numbers is more obvious in the countries with higher proportion of dairy cows like Germany, Italy, etc. Exceptions to this trend can be found in Poland, UK and Ireland.

Besides in the case of suckler cows the coupled premium appears to have supported the sector.

Concerning the goat sector, the maintaining of coupled support has slowed down the decline in the sector, influenced by the fall in consumption and the drop in market prices (see "Evaluation of market effects of partial decoupling", October 2010).

See also joint reply to paragraphs 29-30.

63-64 - Joint reply - The legislator has considered that these concepts could be better defined at national level (see reply to recommendation 2).

The Commission has an overall view of the situation across the EU regarding the various coupled support measures applied in the animal sectors. Member States are subject to the obligation to periodically notify the Commission on the number of animals and the amounts paid under both coupled suckler cow and sheep and goat payments and coupled Article 68 payments, as well as under complementary national direct payments (CNDP) implemented in the Member States who joined in 2004 and 2007. As far as social, economic and environmental impacts of the schemes, the Commission considers that it is more a matter for evaluation than monitoring.

When it comes to the decision making process for the upcoming reform, the Commission bases its proposals on an impact assessment which draws on a whole range of information sources, quantitative analyses, qualitative and quantitative information from the literature and public consultations⁹². Evaluation reports are one of these information sources.

As for the future, the Commission proposal for the CAP towards 2020 foresees the establishment of a common monitoring and evaluation framework with a view to measuring the performance of the common agricultural policy, including first and second pillar measures.

Recommendation 3

The Commission proposal for the CAP towards 2020 foresees the establishment of a common monitoring and evaluation framework with a view to measuring the performance of the common agricultural policy, including first and second pillar measures.

The Commission considers that the risk of double funding is mitigated as Member States shall ensure that a farmer may receive support for a given operation under only one support measure

⁹¹ Article 38 of the proposal on direct payments (COM (2011) 625 final/2 of 19 October 2011)..

⁹² See point 1.3 of the Impact Assessment of the Common Agricultural Policy Towards 2020, SEC (2011) 1153 final/2 of 20 October 2011.

(Article 38(2) of Regulation (EC) No 1120/2009). Consequently, the Member State's notification on specific support shall include in particular a description of any existing measures applied under Community support schemes or under measures financed by State aids in the same area or sector as the specific support measure and, where appropriate, the demarcation between them (Part A(c) of Annex IV to Regulation (EC) No 1120/2009). This information is scrutinized by the Commission at the time of the assessment of the notification, irrespective of a possible approval of the notified measures. However this procedure to avoid double funding for a same operation does not prevent the use of different tools (i.e. support schemes) in view of achieving a similar objective.

Recommendation 4 - The Commission regularly undertakes evaluations of all support schemes applied under the CAP. This was also the case for the direct payments applied to the beef and veal sector and sheep and goat sectors. The elements studied by the retrospective evaluations depend on the policy objectives set by the legislator.

Also, the Commission proposal for the CAP towards 2020 foresees a framework for monitoring and evaluation, in cooperation with MS.