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NOTE

From: Presidency

To: Council

Subject: Communication from the Commission on "The Future of Food and Farming"

- *Information from the Commission*
- *Exchange of views*

I. INTRODUCTION

The Commission adopted its Communication on "The Future of Food and Farming" on 29 November 2017 (doc. 14977/17). On 11 December 2017, the Commission presented the Communication to the Council and Ministers gave their initial reactions.

On 29 January 2018, the Council held a first thematic discussion focusing on the CAP's added value, the key objectives at EU level to maintain and further enhance it and the appropriate level of subsidiarity for the implementation of the policy.

On 19 February 2018, the Council will continue its series of thematic discussions and exchange views on direct payments, rural development and measures aimed at protecting the environment and climate.

II. DIRECT PAYMENTS

Direct payments are an essential part of the CAP in line with its EU Treaty provisions. They provide an important income safety net, ensure that there is agricultural activity in all parts of the EU and contribute to the protection of the environment and developing the rural economy.

Currently direct payments are granted to farmers in the form of a basic income support. Basic payments are complemented by a series of other support schemes targeting specific objectives or types of farmers such as payments to young farmers, redistributive payments and a small farms scheme, payments for areas with natural constraints as well as voluntary coupled support.

As a general rule, direct payments are not linked or conditional to the quantities produced but to the number of hectares farmed. To support certain sectors or regions in difficulty Member States may however also decide to grant a limited part of direct payments linked to the quantities produced to the extent necessary to maintain current levels of production.

The Commission believes that, if simplified and better targeted, direct payments could fulfil their mission more effectively. To ensure a fair and better targeted support of farmers' income the Commission suggests to explore in particular the following possibilities:

- A compulsory capping of direct payments;
- Degressive payments to reduce the support for larger farms;
- Enhanced focus on a redistributive payment to the benefit of small and medium sized farms;
- Targeting support to "genuine" farmers to focus on those who are actively farming in order to earn their living.

Referring to the principle of equality between Member States the Commission also suggests to reduce the differences between Member States in CAP support.

The Commission wants to make the CAP more result-driven by introducing a new delivery model based on an increased subsidiarity that would also cover direct payments. Result orientation and more subsidiarity will be ensured, according to the Commission, through a comprehensive process of programming on a Member State level in line with EU set common and specific objectives resulting in a national CAP strategy. The future CAP Strategic Plans would cover interventions stemming from both agricultural funds.

At the Council meeting on 29 January 2018 Member States welcomed the Commission's suggestion of increasing the current level of subsidiarity. At the same time, they stressed the importance of simplification and the need to limit the administrative burden for both farmers and authorities, as well as to prevent delays in payments.

In order to prepare the exchange among ministers on 19 February, the Special Committee on Agriculture looked, at its meeting on 5 February, into some of the Commission's ideas on direct payments, market measures, risk and crisis management as set out in the Communication in more technical detail.

At this meeting Member States stressed the important role that direct payments play in achieving the CAP's objectives set out in the Treaty. Member States agreed that the direct payments aim to provide farmers with income support filling the existing income gap compared to other economic sectors and contributing to a fair standard of living and with a safety net against the increasing risks of price volatility, extreme weather events and diseases. Member States also emphasised that direct payments should aim at rewarding farmers for the public goods they supply, such as sustainable food production, security and quality, protection of the environment, improvement of animal welfare and mitigation of climate change. Moreover, direct payments help farmers to adopt new technologies and hence to improve their competitiveness on the market.

Many delegations supported Commission suggestions to target support to genuine farmers by focusing on those who are actively farming to earn their living while stressing the need to avoid the administrative difficulties encountered in the implementation of the active farmer concept. Several delegations argued for the targeting of direct payments to young farmers as well as to small and medium sized farms and areas with natural constraints or regions lagging behind.

Member States recognised the importance of direct payments being fairly distributed. Mechanisms such as redistributive and degressive payments as well as capping were backed by a considerable number of delegations, many of which pleaded for the choice to be left to Member States.

Delegations also considered the principle of equality between Member States in the distribution of direct payments as an important element of fairness. Aspects to be taken into account in this regard should include the average amount of direct payments per hectare as well as other factors, such as labour and land costs, agronomic conditions and support under the second pillar.

It was a widely shared view that voluntary coupled support was an effective tool to support sensitive sectors, in particular in the light of increasingly open markets and the conclusion of a series of free trade agreements. Member States called for continuing the possibility of coupled support and for greater flexibility in its implementation. While the extension of voluntary coupled support to further sectors and purposes such as environmental services would be worth exploring, care should be taken to avoid any risk of distorting competition.

The single area payment scheme was acknowledged by many as simple and fair. Member States applying the single area payment scheme should be allowed to continue doing so and those applying the basic payment scheme should be allowed to switch, on a voluntary basis.

While welcoming the increased flexibility offered by the proposed delivery model, Member States emphasised the need to ensure equal conditions and to preserve the "common" character of the CAP. Member States valued the overall goal of reducing administrative burden to national authorities and farmers and called for a simple and flexible process of inclusion of the direct payments into the CAP Strategic Plan. Indicators to demonstrate the performance of direct payments should be simple, quantifiable, easily measurable and in a direct link to the defined objectives.

With regard to risk management Member States backed the Commission's suggestion to increase farmers' understanding and knowledge on the different risk management instruments and to create a permanent EU-level platform on risk management. Further, primarily voluntary measures could be explored to help farmers manage risks while care should be taken that equal conditions apply to all Member States.

While Member States considered the Omnibus Regulation as a major achievement there was wide support for further improving the Common Market Organisation (CMO) and, in particular, strengthening farmers' position in the food chain. Measures to be explored included improving market transparency for all types of agricultural products, reinforcing support for producer organisations and clarifying the relation between the CMO and competition rules. Some delegations proposed underpinning contractualisation rules, expanding the producer organisations' support to other sectors, strengthening the role of the inter-branch organisations. With regard to crisis management there was wide support for reviewing the functioning of the crisis reserve, for instance by ensuring its autonomous financing on a multi-annual basis. As far as the new delivery model was concerned, the Commission's suggestion to include operational programmes for fruit and vegetables, wine and apiculture in CAP Strategic Plans was largely backed.

To guide further the Council discussion the Presidency proposes the following questions:

1. How could direct payments be designed and targeted in the future to ensure a fairer and more effective outcome for farmers across the EU?
2. How could coupled support be better designed to contribute to CAP objectives and EU added value?

III. ENVIRONMENTAL PROTECTION AND CLIMATE ACTION

Agriculture plays an important role in the EU for the environment and for natural resources such as biodiversity, air, water and soil for which farmers are the most immediate stewards. In this light, the CAP aims to address the current environmental and climate challenges linked to farming.

The current "green architecture" of the CAP encompasses three main instruments: cross-compliance and green direct payments ("greening") are compulsory and funded under pillar I, while agri-environmental and climate measures are voluntary and funded under pillar II. Cross-compliance establishes a link between CAP payments and the respect of environmental rules and other provisions. Greening makes 30% of direct payments conditional to the undertaking of agricultural practices which are beneficial to environment and climate. Agri-environment measures provide payments to farmers who subscribe, on a voluntary basis, to environmental commitments related to the preservation of the environment and maintaining the countryside. In addition, at least 30% of the European Agricultural Fund for Rural Development (EAFRD) contribution to the rural development programmes have to be allocated to climate change mitigation and adaptation as well as environmental measures. However, as highlighted i.a. by the European Court of Auditors (ECA) in its Special Report no. 21/2017, the "greening" payment has not fully met the intended ambition, while adding complexity to the direct payments rules to be applied by farmers and national/regional administrations. At the same time, the coordination and complementarity of pillar I and pillar II measures for environmental and climate action remains a challenge for the future of the CAP.

In its Communication, the Commission puts a great emphasis on the environmental aspects of EU agriculture. It calls for higher ambition at EU level in tackling these challenges, in light of the Juncker priorities and the international commitments of the Union (such as the COP21 Paris Agreement and the UN 2030 Agenda for Sustainable Development). It also highlights the importance of result orientation with regard to resource efficiency, environmental care and climate action. In order to increase the environmental ambition of the CAP, the Commission proposes to:

- Replace the current green architecture of the policy with a new approach which should integrate and make more efficient, flexible and simple the instruments currently available under both pillars, thus improving the focus on results;
- Introduce an enhanced conditionality, streamlining cross-compliance and greening, while increasing the level of environmental ambition. The compulsory practices under conditionality would be the baseline for more ambitious voluntary practices;
- Implement the CAP in line with the greater subsidiarity provided for by the new "delivery model", increasing Member States' flexibility to better take into account local conditions and identify targets and indicators in their national CAP Strategic Plans and not compromising the level-playing field;
- Address the uptake of technological development and digitalisation in relation to resource efficiency enhancing an environment and climate smart agriculture, especially amongst small- and medium-sized farms;
- Link schemes that aim at environmental performance to advisory services.

At the Council meeting on 29 January 2018 Member States considered that the CAP's added value could be further enhanced with regard to protecting the environment, adapting and mitigating climate change and meeting the UN 2030 Sustainable Development Goals. This would be possible through a trust-based partnership with farmers who should be rewarded for the provision of these public goods.

In order to prepare the exchange among ministers on 19 February, the Special Committee on Agriculture looked, at its meeting on 12 February, into some of the Commission's ideas on the new environmental architecture in more technical detail. At this meeting, the Commission presented the main elements of the future of the CAP in order to reinforce its environmental ambition, underlining that the focus will be more on what needs to be achieved rather than what conditions Member States have to respect.

After recalling the key challenges (climate change, societal expectations for public goods, engagement of farmers, etc.), more details on the proposed new greening architecture of CAP were presented:

- The new architecture would be structured in two layers: an "enhanced conditionality", mandatory for farmers, and a voluntary mix of interventions funded under pillar II (climate/environmental schemes) and, if chosen by Member States, also under pillar I (eco-schemes). Flexibility would be ensured in both layers, so that each Member State can decide on the sustainable measures to be implemented by their farmers in the light of on local specificities and needs;
- The new conditionality would be based on streamlining current cross-compliance (Statutory Management Requirement - SMRs and Good Agricultural and Environmental Condition - GAEC) and greening requirements, into one single system, incorporating SMRs and a set of GAEC-type standards. These standards would be developed by Member States, taking account of their specific conditions, into appropriate requirements for their farmers to respect (as in the current GAEC). Respect of the new conditionality would be a condition for farmers to receive pillar I support, and it would serve as the baseline for more ambitious environmental schemes, such as agri-environment-climate measures (AECM);
- The controls and sanctions system would follow the logic of the current cross-compliance (no eligibility criteria) and the Member States will have more leeway to define the details;
- Other types of intervention to address environment and climate objectives (for example eco-schemes and AECM) may be defined by Member States based on local needs;
- This new architecture would be designed in the framework of the "new delivery model". Member States would prepare a CAP Strategic Plan based on objectives and specific targets. The interventions proposed should fit the objectives and address the targets.
- The CAP Strategic Plans, including the conditionality as defined by the Member States, would be subject to approval by the Commission.

At that same meeting, many Member States underlined once again the key contribution of the CAP to protecting the environment and addressing climate change. In this regard, they recognised that the CAP's added value could be further strengthened, in particular with regard to protecting the environment, adapting to and mitigating climate change and ensuring sustainable development.

Many Member States stressed that a more ambitious approach at EU level should be mirrored by common EU objectives. These should be shared by all Member States and translated into national/regional measures to take account of different territorial specificities and needs. Member States also emphasised the need to set incentives to encourage farmers to opt for a higher level of environmental and climate practices. There was broad support for a high level of subsidiarity and flexibility in the implementation of environmental and climate measures, while ensuring an EU level-playing field, competition and equal treatment.

Many Member States addressed the "enhanced conditionality" proposed by the Commission. They agreed with the proposed new conditionality combining in one layer the cross compliance and greening while recalling the need to further exploring the opportunity for real simplification. Many delegations called for streamlining the current requirements and for having more clarity on the system of sanctions stemming from this conditionality.

Some Member States expressed their view that the new conditionality should build on the current cross compliance and greening and limit the introduction of new and complex conditions. There were suggestions by some delegations to take into account ecological certification schemes for farmers and organic farming when defining the new conditionality. The idea of having a list of interventions at EU level from which the Member States could select the most appropriate ones to correspond to their national needs was also welcomed. Some Member States requested more information on the proposed "eco-schemes" and supported the Commission's idea to make them voluntary.

As regard the interplay between the two pillars many Member States called for better synergy and avoidance of duplication. There should be a complementary between the interventions funded by the two pillars. The environmental and climate measures envisaged under the second pillar should remain voluntary. Some Member States pointed out that it is appropriate to reconsider the current approach to calculate the compensation based solely on the additional costs and the income forgone, in the light with the WTO rules.

The Member States recalled the need to simplify the rules. Several delegations called for a special attention to the small farms to lower the burden on them and to possibly provide exceptions. The new technology can play a significant role in simplifying the control mechanisms.

Simplification as well as flexibility was also requested as regard the introduction of the CAP Strategic Plan. Member States broadly welcomed the new "delivery model" proposed by the Commission but at the same time underlined the need of less complexity and a realistic approach to the performance monitoring. Member States stressed the importance that this model reduces the administrative burden on farmers, the Commission, and national/regional administrations. Many Member States also called for simple, clear, easily measurable and controllable indicators and targets to monitor the environmental and climate performance of the CAP. They emphasised the fact that in the environmental field many results can only be monitored at a multi-annual basis.

To guide further the Council discussion the Presidency proposes the following question:

How and at what level should environmental measures be regulated in order to ensure the proposed result orientation and contribution to common environmental objectives while ensuring level playing field in the internal market and a high level of environmental ambition?

IV. RURAL DEVELOPMENT

Rural development measures (the "second pillar" of the CAP) are co-financed at national level on the basis of multi-annual rural development programmes (RDPs) elaborated by Member States and approved by the Commission. Rural development contributes to the life and vitality of rural areas in several ways by financing individual projects at farm level (e.g. modernisation of farms, conversion to organic farming) and activities aiming at boosting rural areas (e.g. investments in connectivity and basic services, provision of broadband internet, preservation of life and nature, renewal of villages). Environment and climate action are other key areas covered by the Rural development policy (see section III above). The policy also aims at facilitating access of young people to farming, with measures complementing the "young farmer payment" in pillar I such as the support in the start-up phase for new farmers and advisory services.

In its Communication, the Communication highlights the importance of creating growth and employment opportunities in rural areas for the countryside to remain vital and become more resilient. The promotion of the use of financial instruments to support farm investments, and new "rural value chains" such as the bioeconomy, the circular economy and ecotourism are mentioned in the Communication as key for strengthening the socio-economic fabric of rural areas. Generational renewal should ensure that the sector becomes more dynamic and open to technology and innovation, and the Communication envisages a simpler and better targeted support for the installation of new farmers, together with other incentives at EU and national level.

The main weaknesses of the current RDPs, as highlighted by the ECA in its Special Report no. 16/2017 and confirmed by Ministers at the AGRIFISH Council on 29 January 2018, are their complexity and the significant administrative burden they impose on national/regional authorities, as well as their insufficient focus on results. In order to simplify the programming and increase its strategic view, the Commission suggests to establish CAP Strategic Plans covering interventions in both pillars, providing for greater subsidiarity and flexibility for Member States as well as for a more result-based policy framework. Simplification, targeting and result orientation should be attained through the proposed new "delivery model", providing Member States with greater subsidiarity and enhanced room for manoeuvre for the identification of specific interventions to achieve targets tailored to their national and regional needs.

In order to prepare the exchange among ministers on 19 February, the Special Committee on Agriculture looked, at its meeting on 12 February, in more technical detail into some of the Commission's ideas to strengthen the socio-economic fabric of the rural areas. At this meeting, the Commission further clarified the structural issues that rural development should address, namely lack of attractive employment opportunities, underinvestment in connectivity and young people moving away from the countryside. Under the new "delivery model", Member States will have more flexibility in setting objectives and targets on the basis of their local needs, tailoring the CAP interventions on the basis of broad types of interventions set at EU level, and establishing compliance frameworks for beneficiaries. This should allow overcoming the complexity of RDPs and improve the result orientation of rural development policy.

Member States agreed with the Commission that the main challenges faced by rural areas concern in particular generational renewal and job opportunities. In line with the findings of the ECA Special Report no. 16/2017, most Member States considered the current RDPs as too complex and detailed and highlighted delays in their approval. In this light, they called on the Commission to adopt a less prescriptive approach focusing more on results when drafting the new basic legislative provisions on rural development. The new rules should reduce the administrative burden and ensure that Member States enjoy more flexibility, including as regards the adaptation of programmes during the programming period. New legislation should also be approved in a timely manner in order to provide Member States and regions with enough time to draft their CAP Strategic Plans.

As well as for environment protection and climate action, many Member States pointed out that the indicators for the CAP Strategic Plans should be simple, quantifiable and linked to the objectives to achieve. They also highlighted the need to ensure coherence with other EU policies and funds (cohesion policy and other ESI funds, in particular), in order to exploit potential synergies and enhance the beneficial effects on rural areas. The continued coexistence of CAP Strategic Plans with other programming instruments, such as the Partnership Agreements, was widely highlighted as an issue to consider with particular attention to avoid duplications and unnecessary administrative burden. Some Member States also addressed the issue of state aid, recalling the positive experience of the "one-window approach", which should thus be maintained.

On the specific topic of generational renewal, there was broad agreement on the need to continue and step up efforts to facilitate the access of young people to farming, in particular through addressing the main barriers of access to land and capital and providing appropriate incentives to facilitate the exit of the older generation. Many Member States also called for measures to improve the conditions of life in rural areas, such as boosting employment to ensuring broadband connectivity and providing social services. Other key measures mentioned were advisory services and innovation and knowledge sharing, which should improve entrepreneurship at large and facilitate young farmers settlement. Many Member States assessed current incentivizing initiatives under both pillars positively. They pleaded for maintaining and simplifying them as well as for complementing and better coordinating them with policies and legislation at national level (e.g. fiscal exemptions for young farmers). Better use of existing tools would allow delivering generational renewal in a more effective way in the framework of the future CAP.

To guide further the Council discussion the Presidency proposes the following question:

How should the rural development policy be further modernised and simplified to contribute to more sustainable rural economies and jobs and growth in rural areas?