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NOTE

From:	Presidency
To:	Special Committee on Agriculture
Subject:	Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - The Future of Food and Farming (Markets & Direct payments) <i>- Exchange of views</i> <i>- Preparation of the Council debate</i>

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. On that occasion, the Presidency announced that the Council meeting on 19 February would focus on policy elements such as direct payments and measures contributing to environmental protection and climate action, as well as on rural development. The Council also took note of the fact that, in preparation for that ministerial debate, the Special Committee on Agriculture would look into some of the Commission's ideas set out in the Communication in more technical detail in order to prepare the Council debate more effectively.

To that end, this note sets out some questions for the SCA's discussion on 5 February 2018 focussing on direct payments and market measures. A separate paper for the SCA meeting on 12 February will focus on measures contributing to environmental protection and climate action, as well as on rural development.

II. DIRECT PAYMENTS

Background

Direct payments are an essential part of the CAP in line with its EU Treaty obligations. They provide an important income safety net by helping to stabilise farmers' revenues in times of volatile market prices, adverse weather conditions and variable input costs. They also ensure that there is agricultural activity in all parts of the EU. Furthermore, direct payments play a role in protecting the environment and helping to develop the rural economy.

Currently direct payments are granted to farmers in the form of a basic income support based on the number of hectares farmed. Basic payment 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.

The Commission believes that, in spite of providing an important income safety net, direct payments could fulfil their mission more effectively if they were simplified and better targeted. In the Communication, the Commission mentions that the concentration of a large part of payments on a small number of farms raises “accusations of unfairness”. 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 delivery model based on results that would also cover direct payments. The future CAP strategic plan would cover interventions in both pillars to ensure policy coherence and EU set common and specific objectives. In order to advance towards a more result-driven policy mechanism, solid and measurable indicators and targets as well as a credible performance monitoring and reporting system would need to be developed. Assurance based on legality and regularity would be replaced by assurance based on performance.

Questions for the SCA:

i) Result and target orientation:

- a) What results do we expect from direct payments?
- b) Should direct payment focus on specific groups/types of farming/agricultural sectors?
- c) What would be the appropriate targeting mechanisms to provide fairer distribution and should these mechanisms be mandatory – e.g. capping, redistributive and degressive payments?
- d) Voluntary coupled support: How could coupled support contribute better to meeting CAP objectives?

ii) Basic Payments:

- a) What are the costs and benefits of a basic payment scheme including payment entitlements? Should this type of direct payment be continued?
- b) Would a single area payment scheme be preferable?

iii) Delivery model:

- a) Which parameters would need to be set at EU level in order to avoid disrupting the single market/distorting competition?
- b) Which indicators could be used to demonstrate the performance of direct payments in the results-based assurance model?
- c) On the basis of what analysis included in the CAP strategic plan should Member States make their choices?

In addition to answering those questions, delegations may also highlight other aspects of the current regime where they see scope for simplification.

Suggested questions for the Council debate:

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

III. RISK MANAGEMENT

The Commission recognises in its Communication the increasing risks of price volatility leading to increased pressure on incomes, the risks stemming from climate change, the associated increased frequency and severity of extreme weather events and more frequent sanitary and phytosanitary crises affecting EU livestock and agronomic assets.

The CAP already provides tools to prevent and manage risks; they range from direct payments and market intervention to current second pillar measures, in particular the Income Stabilisation Tool (IST) and insurance support.

The future of risk management post 2020 was discussed during the Informal Council meeting in Tallinn on 5 September 2017 where ministers exchanged views on the engagement of farmers and the further development of the risk management tools in both pillars.

In its Communication, the Commission suggests to increase the understanding and the knowledge of the farmers on the different risk management instruments, to create a permanent EU-level platform on risk management and to develop an integrated and coherent approach combining EU-level interventions with Member States' strategies and private sector instruments.

Question for the SCA: How can risk management be improved?

IV. MARKET MEASURES AND CRISIS MANAGEMENT

Background

The EU markets for agricultural products are regulated by a set of rules constituting the Common Market Organisation (CMO). The CMO establishes the parameters for intervening on agricultural markets and providing sector-specific support (e.g., fruit and vegetables, wine, apiculture). It includes rules on marketing of agricultural products and the functioning of producer and interbranch organisations. It also covers issues related to trade and competition rules. Special intervention and exceptional market support measures are provided for, in order to react efficiently and effectively against a market crisis. The Omnibus Regulation, which entered into force on 1 January 2018, further strengthened the position and the roles of producer organisations to engage in the food supply chain and on the markets.

At the Informal meeting in Tallinn held on 5 September 2017 ministers exchanged views on the crisis reserve and the need for more flexibility and modernisation.

With regard to the CAP after 2020, the Commission suggests to help farmers make more money from the market. To this end the Commission calls for action to close the investment gap in agriculture to allow farmers to restructure, modernise, innovate, diversify and take up new technologies and digital-based opportunities such as precision farming. The Commission also argues for additional reflection on the role and effective functioning of agricultural producer organisations.

At the Council meeting on 29 January 2018, Commissioner Hogan stated that the current market measures envisaged in the CMO Regulation function well and thus no significant changes are suggested in the Communication. Commissioner Hogan also indicated that in the Commission's view sectoral plans (e.g. for fruit and vegetables, wine etc.) should be included in the CAP Strategic Plan.

Questions for the SCA:

- i)** Having regard to the achievements in the Omnibus Regulation, do you consider that any CMO measures should be further modernised/modified?
- ii)** What additional measures need to be envisaged in order to strengthen farmers' position in the food chain to achieve overall CAP objectives?
- iii)** How can crisis management be improved?
- iv)** **Delivery model:**

Which market measures and elements could be appropriate for inclusion in a strategic plan? (Ideas on appropriate objectives, targets, indicators could also be shared.)

No questions on topics III and IV are envisaged for the Council debate.

Conclusion

The Presidency invites delegations at the SCA meeting on 5 February to provide views on the technical questions set out above. They may also comment on the proposed questions for the Council meeting on 19 February.