



## **ELO evaluation of the legislative proposals for CAP reform** **Direct Payments**

### **Summary**

This paper summarises the ELO views on the most important issues for landowners raised by the CAP reform proposals that were published on 12<sup>th</sup> October. Since then the ELO has discussed them thoroughly amongst the ELO member organisations. Also the ELO Policy Group Chairman was one of six 'independents' who presented ideas to the Trialogue meeting in the European Parliament in Brussels on 19<sup>th</sup> December to Minister Sawicki (Poland, President of Council), Commissioner Ciolos and Chair of the European Parliament Committee on Agriculture (de Castro), and a large audience of MEPs, National Representatives, Civil Society representatives and Commission and Parliament officials. The proposed ELO positions stated in this paper are based on the feedback received from these meetings.

It should be noted that the CAP reform involves a great deal more than the proposed changes to the Direct Payments regime. Changes are proposed to the structure and contents of the Rural Development Regulation – this will be taken up in a separate paper. There are also changes to the common organisation of markets, and proposals for the abolition of milk and sugar quota regimes.

## Introduction

1. The biggest change proposed for the CAP for 2014-2020 is to replace the Single Payment System (SPS) which accounts for about 80% of the CAP annual budget and has been in place for just six years, with a new tiered set of six types of Direct Payments. We have described this as a rather unprincipled set of *ad hoc* actions supposedly to 'legitimise' the CAP. A great deal more work is required to improve these proposals and make them workable.
2. The proposals for the CAP reform have been made in the context of the Commissions proposed budget for the EU for the next Multiannual Financial Framework (MFF). This proposes a constant allowance for the CAP at the level of 2011, plus several extra-budget elements which relate to farming, research and development and market volatility. All our reactions to the acceptability of the reforms are premised on this budget. If next year when the MFF negotiations pick up following the French Presidential elections (12/5/12) the CAP budget is cut, then the ELO reserves the right to reappraise our stance on the CAP reforms.
3. The three big themes of the reformed payment system are **redistribution** of CAP financial support, **greening** of the Pillar 1 direct payments, and greater **targeting** of payments. These will affect all farmers. The targeting of payments refers to a series of adjustments the Commission proposes to address a series of seven specific other matters which will each affect a smaller sub-set of farmers, they are:
  - i. The **2011 activation** requirement to establish 2014 entitlements.
  - ii. **Active Farmers** and Agricultural Activity
  - iii. **Large payments**: progressive cutting and capping
  - iv. **Young farmers/new entrants**
  - v. **Areas of Natural Constraints** / Less Favoured Areas
  - vi. **Coupled payments**
  - vii. **Small farmers** and minimum size claim

The rest of this paper examines the three themes and seven variations.

### Redistribution

4. The €44billion of **Pillar 1 resources** for direct payments is allocated to so-called 'national ceilings' for each Member State (MS). The Commission proposes that these resources should be distributed between the Member States in such a way that ultimately each MS receives a sum of money such that when expressed per hectare of utilised agricultural area is equivalent to at least 90% of the EU27 average (which is currently about €279/hectare). The suggestion is that the redistribution by 2020 should close one-third of the gap towards this goal. Not surprisingly because the ELO comprises representative organisations from all member states there is not agreement on this redistribution, those member states who would benefit from the redistribution feel that only closing 30% of the gap to the ultimate goal is insufficient and those whose ceilings will be reduced feel the proposal goes quite far enough.
5. **Ultimate convergence towards the same payment rate for every hectare in the EU27.** Recital 21 of the Direct Payment regulation speaks of "the objective of complete convergence through the equal distribution of direct support across the European union during the period 2021-2027". ***The ELO supports this objective***

*provide it is understood to mean only that the funds will be distributed between the Member States in this way, and it does not imply that ultimately there should be equal payments per hectare over every hectare of the EU27.* There is no reason in principle that every hectare of land in the EU should receive the same payment because the productivity of land and costs of producing food and delivering environmental services varies enormously from one area to another and the value of the services produced also vary a great deal from place to place.

6. There is no reference in the proposed regulation to the redistribution of **Pillar 2 Rural Development resources**. This gap in the proposals makes it difficult to judge the acceptability of some of the other suggested changes. ***Therefore the ELO urges that the Commission comes forward as soon as possible with an objective redistribution of Pillar 2 resources. This should be based on a forward looking assessment of needs and current (not historic) use of Pillar 2 schemes.*** It is also felt that if there was a more objective allocation of Pillar 2 resources together with the fairer share-out of Pillar 1 resources then there would be no need for the 'Flexibility between Pillars' as proposed in Article 14.
7. **Redistribution of Direct Payments between farmers within Member States** is proposed as all Member States are required to move from historic based payments to regional average payments. The ELO supports this move because the historic references are progressively harder to explain and defend as time passes. However sufficient time must be allowed for the convergence of payment rates per hectare within regions. The present proposal to achieve full convergence by the beginning of 2019 starting with a 40% regional component in 2014 is too fast. ***The ELO suggests that the convergence to regional average payments should start with a maximum of 10% regional component in 2014 and the full seven years is allowed to achieve complete convergence.***

### **Greening**

8. The second theme of the reform is that the **CAP should be further greened**. There have been many references in the Commission's papers to the need for better soil, water, biodiversity and climate protection. It is judged by the Commission that European farming is not currently environmentally sustainable and therefore higher environmental standards should be respected by all farmers in the EU. ***The ELO supports this goal.*** We stress however that this should be seen as an exercise in pulling-up the basic environmental standards in all EU farming to the level currently being achieved by the very large numbers of farmers who are already fully signed-up to this goal by participating in agri-environment schemes.
9. Next, the Commission argues that the **greening should be implemented in Pillar 1** by requiring every farmer to adopt certain "*agricultural practices which are beneficial to the climate and the environment*". Their concept is that these practices should be defined as actions which are simple, annual, non-contractual and universal, i.e. common across all Member States. The ELO has previously supported Pillar 1 greening. This was because (a) it is right to bring all farmers in the EU to the higher standards which are already applied by farmers and regions with well-developed agri-environment schemes. (b) It was evident that there was no taste for additional resources to be deployed to Pillar 2 to do further greening there. (c) Because larger

Pillar 2 demands additional co-financing this is not possible in the era of fiscal austerity. However, and critically, the ELO urged that any pillar 1 greening should embrace some key features of Pillar 2, namely multi-annual, menu-driven, contractual schemes. This is essential to deal with the complexity, dynamism and sheer variation in environmental concerns across the regions of the EU. Also the very different farming systems across Europe demand that greening measures are tuned or targeted to specific farming and geographic locations. ***The ELO therefore is not persuaded by the Commission's crude greening principles and by the three proposed greening measures. These are insufficiently tuned to the environmental issues and farming systems of Europe and several aspects of the proposed measures will interfere with the productivity and competitiveness of farming without offering environmental benefit.***

10. We have suggested the search for the practical way of implementing the further greening should start with the following three principles. Greening must be done in a way that:
  - a. does not impair agricultural competitiveness and productivity - indeed it should improve the long term productivity and sustainability of European Farming;
  - b. it delivers environmental outcomes, and
  - c. it does not impair or disincentivise the excellent work farmers have already done in participating in agri-environment schemes.

There are very real dangers that without such principles the Member States, and farmers within those States, who have already gone furthest to positively embrace the delivery of environmental public goods could be most disrupted by the greening proposals. Simply adding three Mandatory Greening (MG) obligations and not working through the implications and integration with agri-environment schemes is not good enough.

11. A suggested way of integrating greening is to extend the concept of ***“equivalence to Mandatory Greening”*** which is implicit in Article 29.4 in relation to organic farming and apply it to suitable agri-environment schemes.
12. Article 29.4 says that “Farmers complying with the requirements of..” the relevant EU recognised Organic Farming certification “..shall be entitled *ipso facto* to the payment referred to in this chapter” (the Mandatory Greening payment). If, in this way, organic farming is considered to be equivalent to mandatory greening, then we see no reason not to make the same allowance for farmers enrolled in suitably defined agri-environment schemes. The same principle could also be applied to other well-defined and certified farming systems such as Integrated Farm Management as developed by the member organisation of EISA, and in other EU Commission-approved environmental management schemes such as the European Landowners’ Organisation’s Wildlife Estates Initiative.
13. Every Member State is already obliged to have agri-environment schemes in their Rural Development programmes. Indeed they should be devoting at least 25% of their Pillar 2 funds to such schemes. We acknowledge that not all such schemes may lend themselves to the concept of ‘equivalent to Mandatory Greening’, but where

they do, to the satisfaction of the Commission, this should be deemed sufficient for farmers enrolled in such schemes to satisfy the greening requirement.

14. This approach offers three immediate advantages: (a) it requires eligible farmers who are already following the appropriate agricultural practices to take no further mandatory greening actions, (b) it requires no further new checks and controls for the administration beyond the existing normal checking already in place, this is a significant practical simplification, and (c) it rewards rather than penalises those who are already doing the right thing as we require all other farmers to raise their environmental standards.
15. The intention would be that farmers have the choice of satisfying Greening *either* by adopting the three Mandatory Greening actions, *or* by enrolling in an equivalent agri-environment scheme. We acknowledge that there are at least three sets of practical and legal issue to clarify even if this proposal is accepted in principle. The first is to square the mix of annual non-contractual mandatory greening and the multi-annual contractual agri-environment agreements. The second concerns the payments which will be allowable for this greening. The third is to ascertain which measures, or which combination of measures, is deemed equivalent to mandatory greening. The important point is that there must be a presumption that well-established wide-application agri-environment schemes which have multiple options designed to suit all farming systems, and which have been approved by the Member State and the Commission as representing actions above and beyond cross compliance standards, then enrolment in such schemes is equivalent to mandatory greening.
16. It is acknowledged that these principles require more thought and discussion. We are not definitive about this yet. The ELO reserves the right to adapt its position as it becomes clearer what is feasible and as the Commission clarifies the precise terms and conditions of the ways of satisfying the proposed mandatory greening requirements. The October 2011 proposals only provide the sketchiest details.
17. It will, no doubt, be argued by some that farmers using the agri-environment equivalence route cannot be 'paid twice' for their greening actions: once from the greening element of the new Direct Payment scheme and then for the second time through their Pillar 2 agri-environmental payment. We see no reason to view this arrangement as double payment. The situation we describe is the status quo. The payment rates in agri-environment schemes have been calibrated and agreed in the full knowledge of the existence of the Single Farm Payment. Nothing has fundamentally changed, indeed as margins in arable farming have significantly risen for the last three years, the income forgone calculations should show higher agri-environment payment rates.
18. But in any case it is far from clear what *is* the payment for the Pillar 1 Mandatory Greening. The Commission's indicated 30% of the national ceilings indicates an average of about €93/hectare. Is this a payment for environmental service or not? The Commission does not propose greening in these terms. It is a payment for statutory environmental management which is a highly unusual concept. There is little doubt that the Commission will want this component to be classified as in the WTO 'Green Box' as a non-distorting measure, yet references to growing certain

numbers of crops and retaining pastures might be seen as suggestive of re-coupling to agriculture. The Commission has gone to great lengths to explain that the concept is *not* that the Greening is done for 30% of the payment. The penalty for not greening depends on the scale of non-compliance. It can range from something very small to much more than 30%, up to the full payment for wilful and repeated disregard of conditions of the payments. Also the regulation makes no reference to any change in the eligibility of organic producers to receive all the Direct Payment, and any relevant Pillar 2 agri-environment payments made to organic farmers. All this said, we acknowledge that the appropriate payment rates in agri-environment schemes are constantly reviewed.

19. Concerns are also expressed that there would be no additionality if enrolment in agri-environment is deemed equivalent to mandatory greening. The ELO refutes this suggestion. There are two hugely important, and desirable, additional aspects of our proposed approach. First, because all farmers must satisfy the new greening, then those farmers who are not enrolled in agri-environment schemes will either have to enrol in such a scheme (funds permitting) or undertake the relevant mandatory greening actions. Second, as it is the case that wide application agri-environment schemes are not available in many Member States then either those States will have to develop such schemes or their farmers will have to adopt the mandatory greening. Either way the very important principle is that the change does not penalise those already following the desired 'agricultural practices beneficial to climate and environment'. The intention is to bring everyone else up to this higher basic standard.
20. These issues must be teased out in detail. For any region which has an established wide-application Agri-Environment Scheme (AES) three options seem possible.
  - i. **All** the ARS options count as equivalent to **all** MG and **all** AES payments continue as now. (i.e. the organic farming-like option).
  - ii. **All** AES options may count as equivalent to **all** MG but then **no** payment can be made for AES.
  - iii. Between these two extremes there are an infinite number of intermediate options where **some** AES options score for **some** MG requirements and **some** AES payment can continue. It might be possible to identify some AES options which are deemed to be 'resource protection or retention of features' and equivalent to MG, leaving the other more active 'management' options in the Pillar 2 Stewardship schemes and paid for there.
21. These ideas are offered as a practical contribution both to simplify the application of mandatory greening and how to resolve the obvious conflict between Mandatory Greening in pillar 1 and existing Pillar 2 Agri-Environment Schemes. Because each Member State has gone about their approach to agri-environment in different ways, it is too early to say how practical the above ideas are for other Member States.
22. As this discussion progresses, it becomes evident that another principle has to be debated. Does it matter if different territories implement the Mandatory Greening in different ways? The Commission's approach is to try to define 'simple and common ways to be applied across all the regions and territories. This has great

appeal in creating a level playing field. Farmers' organisations are always very concerned that the CAP should be common and not allow distortions to markets in traded agricultural products. Yet the measures defined to satisfy this approach are immediately criticised as being clumsy and unsuited to many farming systems and structures. This is not surprising given the diversity of natural conditions and structures of farming around the European Union. In turn it suggests more precise targeting. If we then explore the possibility of each Member State or region defining its own alternative to Mandatory Greening the criticism will be that some farmers will find themselves having to do more environmental work for their Greening payments than others. Complaints of unlevel playing field will then quickly follow. Can simple, common measures really work across the huge variety of climate, soils, farming systems, farming structures and societal demands found in the EU? Do we welcome or deeply distrust Member State flexibility in defining the greening options?

23. ***Having carefully considered these issues the ELO invites close examination of the approach based on 'equivalence of agri-environment schemes and mandatory greening'? We say this in the full knowledge that this may well lead to a differentiated approach to greening around the EU27.***

**The specific Mandatory Greening measures:**

As a general point the ELO is disturbed that the proposed greening measures are not accompanied by any account or analysis of their expected environmental benefits. It is extraordinary that the Impact assessment of the proposals provides no evidence of the scale of the environmental benefits expected to be delivered by requiring all EU farmers to apply the three proposed measures. None of the specifics of the proposed measures seem to emerge from evidence. This is not an acceptable approach.

**Crop Diversification.**

24. The ELO is sympathetic with the aim that most farming should employ the sound principles of crop rotation, both for the agronomic benefits and environmental benefits this provides. However we are not happy with all the specifics of crop diversification. If implemented as proposed it will significantly interfere with, and thereby add costs to farm production in a number of easily identified situations, and, critically, it will do this without offering any offsetting environmental benefit. The three most common examples our members have pointed out are:
- a. Modest sized livestock farms which have mostly permanent grass except a small arable area which is rotated between a feed grain crop and temporary grass. Such farms will have to equip themselves, grow and then market a minor crop occupying 5% of a small area. They ask, for what environmental benefit?
  - b. Small groups of arable farms who have, intelligently, pooled machinery and operate block cropping. In such arrangements all the land is managed under agronomically sound rotation, but in any year any particular farm in the group may only have one or two crops even though there can be three or more crops in the rotation. Satisfying the crop diversification requirement on

each farm each year simply negates the efficiency savings the farmers have engineered, again with no environmental benefit.

c. Specialist farmers who only produce a single crop, bulbs, turf and so on.

25. **To avoid these problems the ELO proposes: (i) that winter and spring crops (wheat for example) are different crops; (ii) that temporary (rotational) grass is a distinct crop, and that wheat, barley and oats are distinctive crops; (iii) the 3 hectare threshold should be replaced by an annex table defining appropriate thresholds for each Member State set at the average size of arable farm; (iv) reducing three crops to two; (v) the maximum and minimum percentages should be dropped as impracticable and bureaucratic and (vi) thought should be given to a mechanism to allow farmers to record that at least x% of their arable area (exceeding the threshold) is planted to a different crop this year than the previous year.** This last point is to try and avoid interfering with machinery sharing between farmers who 'block crop' their land.

#### **Maintenance of Permanent Grassland**

26. The ELO understands that this element is seen principally as a Green House Gas emission reduction measure. As defined it is certainly too crude to be a measure for protecting herb-rich semi-natural grasslands, i.e. to protect biodiversity. We are concerned about the definition of permanent grassland (Article 4.1(h)). **ELO proposes: (i) that permanent grassland must include the words 'or ligneous' after 'herbaceous', to allow grazed heather and other such moorlands to be included; (ii) we would prefer the words 'for five years or longer' to be deleted. If this is not acceptable then we would insist that five is replaced by fifteen.** It is often good practice to renew pastures on these longer rotations.

#### **Ecological Focus Area**

27. The vagueness of article 32 is unacceptable. It is creating huge uncertainty, especially in conjunction with the lack of clarity and decision about what is permanent pasture. Farmers are asking about the status of grassy areas which have been created via arable reversion and agri-environment schemes to provide environmental services on arable land in the last 15 years. Have these areas been redefined as permanent grassland which can never be changed? Will they be included in Ecological Focus Area? Given these doubts it is highly dangerous that the Commission is creating large incentives for farmers to 'play safe' by ploughing-out such areas to ensure they are classified as arable land. It would be disastrous if a large area of environmental capital were destroyed, and a large flux of CO<sub>2</sub> released, as a result of policy-induced uncertainty. The uncertainty is also bound to have an inhibiting effect on farmers currently contemplating entering into agri-environment schemes.
28. A possible resolution to the complexity and overlap of mandatory greening, especially the Ecological Focus Area, and agri-environment schemes has already been discussed in paragraphs 11 to 26 above. Regardless of how this is resolved 7% is an unsubstantiated figure plucked from the air. The area of EFA is much less important rather than what it is, how it is managed and where it is sited. In providing



habitat, diversity and resource protection quality will matter much more than quantity. Our instincts are that 7% is too high especially given the era of high crop prices which Commission projections suggest will be with us for the period of this policy. The evidence basis for the choice of the proportion should be produced.

29. It has also been suggested by our members that it could be highly beneficial both for environmental management and specifically connecting-up habitats and eco-systems if it were possible for the greening actions to be satisfied by groups of farmers working together, or implemented on a local or regional basis. This could enable the ecosystems to be partly managed on a landscape scale which offers some strong ecological advantages including greater connectivity between the EFAs. We acknowledge that such arrangements would require that the administrative system is capable of linking individual applications, which might be complex.
30. ***The ELO view is of Ecological Focus Area is that: (i) the 7% EFA figure should be reduced, and certainly justified, (ii) existing margins and other such actions under agri-environment schemes must qualify as EFA; (iii) the areas of fallow land, natural features and buffer strips which are 'areas of the holding' but outside 'eligible hectares' must be allowed as EFA. This is in addition to our proposal (in paragraphs 11 to 26) to allow enrolment in an appropriate agri-environment scheme to be deemed equivalent to mandatory greening.***

#### **2011 activation requirement to establish 2014 entitlements**

31. Most ELO member organisations are not convinced that there is a serious problem which justifies this requirement specified in Article 21.2. Indeed they consider this requirement will unreasonably frustrate agreements which were made between landowners and tenants six years ago when the Single Payment System was introduced that the tenancy would be reviewed when the details of the successor scheme were known.
32. The proposal that all those seeking to establish the new entitlements must have activated an entitlement this year will cause severe problems for farmers finding that their business changes between May 2011 and the date the new scheme is launched. Farm business change is a normal occurrence, it happens through: death, divorce, ill-health forcing retirement from farming, partners splitting up, businesses developing and changing. On the present timetable there will be three year's worth of such changes before the new entitlements are established in May 2014. If implementation slips, another year's worth of the normal process of farm restructuring will occur. In any of these cases in which the land involved of the 2011 claimant divides giving rise to more than one new farm, and where any of the recipient farmers did not activate any entitlements elsewhere in 2011, there will be difficulties given proposal that the 2011 golden ticket can only be transferred to one farmer.
33. This proposal creates a new asset and hands it to the 2011 claimants some of who will be planning not to be in farming in 2014. This asset is the golden ticket to attend the 'New Payments Ball' in May 2014. There will of course be some farmers who did not activate in 2011 and do not qualify as new entrants, who will have to purchase these admission tickets. We can already anticipate who some of the beneficiaries of this bureaucratically created asset are. If Member States make use of article 10 to

raise the threshold minimum claim then there will be many 2011 claimants who by 2014 will be below the chosen minimum. These farmers will be able to cash-in if they can locate others who did not claim in 2011 but who have land available to them in 2014.

34. There is absolutely no point to this exercise, the cure is as disruptive, if not more so, than the feared dislocation of the rental market for which it has been proposed. ***The ELO suggests that the offending article (21.2) is dropped. If this is not possible then, at the very least, a way has to be devised to allow a 2011 activation ticket to be transferred to all farms which arise as a result of the disappearance of a 2011 claimant.***

#### **Active Farmer and Agricultural Activity**

35. The ELO argues that the Direct Payments should be available for any active manager of agricultural land. We are not convinced that there is a serious problem of payments being made to people who are neither farmers nor active. We are told that this provision is made in response to Court of Auditor's reports but we have not been able to track down evidence of the scale of numbers, or payments, inappropriately made to non-active non-farming applicants. Instead we only hear about golf courses, airfields and utility companies.
36. The solution proposed will entail additional bureaucracy for all applicants over €5000, and for all payments agencies, which, on current evidence, will be grotesquely out of proportion to the problem. Indeed the cited examples of airfields or golf courses or other sports fields receiving direct payments in our view is easily dealt with by stringent application of existing definitions of eligible agricultural land. Equally, considering large non-farming concerns such as water utilities, institutional landowners, or social or environmental bodies like the nature Trusts, who also manage agricultural land, the ELO defends the rights of such bodies receiving agricultural payments from the CAP. The critical thing is that they are actively managing that land and are taking the entrepreneurial risk for it in exactly the same way as any other 'farmer'. There should be no discrimination between organisations who are properly managing land for food and other ecosystem service delivery.
37. There seems to be a disconnect between the long established direction of rural policy, and the restrictive mentality behind this proposal to narrow the definition of a 'farmer'. For the last several decades, it has been active policy to encourage farmers to diversify their economic activities to utilise all their resources and assets, and to regard environmental land management as a proper part of agricultural activity. This latter is given a further big push by the 30% greening idea of the current proposal. Yet in the discussions of active farmer there seems to be a yearning to revert to a narrow definition of agricultural activity as only really embracing the raising of crops and animals. ***The ELO therefore propose that Article 9 defining Active Farmer is deleted.*** European land management is, and must increasingly be, multi-functional. Especially given their small size, active European farmers must produce crops and animals, but must also be engaged in other diversified activities and in environmental land management too. ***The definitions under the CAP must explicitly specify and encourage this multifunctionality.***

38. There is a similar disconnect in the proposed definition of agricultural activity which does not even mention Good Agricultural and Environmental Conditions, let alone environmental management. ***The ELO suggests that the definition of agricultural activity (Article 4.1(c) ) has the words environmental land management added.***
39. Referring to the details of the proposed definition of Active Farmer, the economic test is likely to be inoperable. It will set in train a non-terminating set of disputes about what is included in the non-agricultural receipts of the payment applicant. Applicants can be sole traders, partners, trusts, and companies, they can have a bewildering variety of non-agricultural receipts such as pensions, remittances, other employment, self employment, rental incomes from farmers, rental incomes from non-farmers, and so on. The range of non-agricultural activity undertaken by farmers knows no bounds. Taken at face value this will produce highly discriminatory results. We have encountered two examples to illustrate. Two UK farmers have identical land areas, similar farming operations and payment claims. One has diversified downstream into a large fruit juice pressing business with large receipts yet tiny margins. The diversified farmer whose payments are less than 5% of his fruit-juicing and other non-agricultural receipts will be excluded from Direct Payments and the other farmer gets the full payments. Yet both are managing identical farming activities. Another example concerns two dairy farmers one of whom has created a highly successful specialist cheese business (Cornish Yarg), again this beacon farmer who has diversified will lose their farm payments. Such discrimination is bound to lead to legal appeals. This proposal is wrong in principle as well as imposing an unworkable data requirement for applicants and authorities.

#### **Payment cutting and capping**

40. The proposal to cut payments above €150,000 and cap them at €300,000 is also wrong in principle and again will create administrative complexity for Europe's largest farms. It is wrong in principle because it signals that structural enlargement is not desirable, yet in a low margin business like farming where there are economies of scale, farm enlargement is necessary to create a remunerative and competitive European farming industry. Our international competitors will be very happy to see Europe tie down its biggest farms by measures such as this. In addition the proposed wage allowance, whilst justified and necessary if this article is retained, will in itself encourage reductions in labour productivity. This is an economically illiterate proposal.
41. The measure will also create enormous amount of paper work for the largest farms to document their wages bills for regular, part time and casual and seasonal workers, include the national insurance payments, document the value of housing benefits and any other in-kind benefits, and pensions. There will have to be detailed guidance on where the boundaries of labour for agricultural activity lie. We will have to make decisions about labour used in closely integrated food processing, retailing, leisure and environmental management activities which farmers regard as integral parts of their business. Again the measure will be highly discriminatory. We have encountered two farms with a similar area of arable crops and similar Direct Payment claims (about €250k), one has hired labour with sufficient wages to result in no payment cuts, the other employs contractors in which the contract agreement does not separate out labour costs, and therefore has no evidence of wages, and

would under the specified cuts lose €15k. There is no obvious reason to impact differentially on these two farms in order to legitimise the CAP.

42. ***The ELO suggests that the article on payment cutting and capping (Article 11) is deleted in its entirety.***

#### **Young farmers/new entrants**

43. The ELO welcomes the recognition that it is necessary to encourage young farmers and new entrants to bring new blood and new ideas into the industry. However we are not convinced by the specific proposal to provide this encouragement. We suspect the proposal might involve a large element of deadweight cost, i.e. merely pay people to do what they were already going to do. The scale of the help proposed is up to 2% of the national ceiling. This is a serious amount of public funds. It would be sensible to think hard about how a sum of up to this magnitude might be better used to assist farm restructuring and innovation by encouraging new, young farmers. Training and apprentice schemes sound a much more fruitful way of encouraging new entrants to farming. But these are really actions for Pillar 2 rather than direct payments. Similarly, the real blockage to 'new entrants' in many countries is the lack of 'old exits'. It is the absence of pension schemes and housing for elderly farmers which blocks the exits and therefore chokes the necessary turnover and new entrants. If anything, direct payments may well act as a brake on generational turnover. ***The ELO view is that this idea addresses a significant issue but the solution offered is unconvincing. This requires more thought, and it may be preferable to leave such measures to Pillar 2 restructuring schemes.***

#### **Less favoured Areas/Area of Natural Constraint**

44. We regret that the Commission is stuck in the rut of devising crude top-ups or compensation for farmers who are located in areas which they wish to describe as having 'natural constraints'. These areas are, broadly speaking, currently defined as 'less favoured' or suffering 'permanent natural handicap'. An exercise has been underway for several years to more objectively define these areas based on nine bio-physical criteria of how difficult it is to produce crops or raise animals. The ELO preference has been to reverse the negative concept of less favoured (or constrained) for agriculture, and instead to switch to a positive concept of identifying areas which have most potential for environmental service delivery. Farmers would then be *paid for* delivery of, non-market, environmental and cultural landscape *services* rather than *compensated* for being high cost producers of traded commodities. The uplands offer a wide range of such services, such as water management (quality, quantity, filtration), carbon sequestration (in trees and peaty soils), biodiversity, fire protection, and cultural landscape.
45. The Commission's proposal is to offer up to 5% of the National ceiling as an additional pillar 1 top-up paid at a flat rate per hectare in each region, to any farmer in the designated area. Naturally ELO members in the lowlands are not keen on this idea as it will be funded by a top-slicing of all payments. However after serious discussion, and notwithstanding our lack of enthusiasm for the compensatory approach, as the marginal farming areas are suffering economic hardship and do

have great potential to develop a wider range of ecosystem services, the ELO agrees that the idea should be given serious consideration. They favour redirecting a small proportion of Pillar 1 supports to these areas.

46. ***The ELO suggests that the notion of steering some more resource to marginal areas be given serious consideration during this reform process. We are not convinced that the proposed simple Pillar 1 top-up for farmers inside the new Areas of Natural Constraint is the best way of providing such support. This demands further debate to identify more constructive options which integrate with other (Pillar 2) support for these fragile farming areas.***

### **Coupled Payments**

47. ***The ELO generally supports the concept of market orientation of agricultural commodity production. We have gone through the process of decoupling support from farm commodity production decisions and see no sense in retreating on this move.***

### **Small Farmers and minimum claim size**

48. The motive of dramatically simplifying the payment claim process both for the benefit of very small applicants and for the administration is supported. It makes no sense at all to spend more money paying a claim than the claim is worth. Therefore we have sympathy with the Commission's motives in proposing a small farmer scheme which offers a flat rate amount (between €500 and €1000) with no requirements for mandatory greening or liability to cross compliance inspections. This is clearly relevant to the many million very small farmers in southern, central and Eastern Europe. However the small farmer problem does not figure in many Member States so the ELO would prefer that Member States can choose whether to include the Small Farmer element in their Direct Payments scheme.
49. ***The ELO suggests that the small farmer scheme is left as optional for a Member State or region to implement.***
50. On the related question of **minimum size claim**, the ELO agrees that this is left to Member States – or even regions to decide what is the appropriate minimum size to fix.

### **A final word on competitiveness**

51. Throughout the reform documents the Commission rightly stresses the importance that efforts are constantly made to assist European Agriculture to improve its competitiveness. This will be achieved both by improving the efficiency, productivity and structure of EU farming and by helping improve the quality of produce and its marketing. There are many measures in the total reform package which will provide such help.
52. One of the most critical elements is the proposed additional €5.07b resources for **Research and Innovation** in the extra-budget allocations. We understand that although part of this will displace approximately €2b of current R&D expenditure in the DG Research Seventh Framework Programme devoted to sustainable farming and food, this is still a significant expansion in research effort in our sector of the

economy. This is a correct recognition that agricultural R&D has slipped in priorities in the last two decades and this trend is now being reversed in view of the global challenges to sustainable intensification, or what we have called Food and Environmental Security.

53. This additional allocation for research will be a core part of the drive for **innovation** which is rightly threaded through the rhetoric of the proposed reform whose main other practical expression is the idea to create Innovation Partnerships. The ELO Member Organisations will certainly seek to participate in these partnerships in each Member State.
54. Another measure given strong emphasis in the reform package is the necessity for strengthening of the **advisory services** to enable farmers to increase their agricultural productivity, reduce their negative environmental impacts and increase their delivery of positive environmental services. These are complex challenges they demand knowledge-intensive, precision land management. This requires significant knowledge exchange. There is little doubt that the current arrangements in many Member States for advisory services are not optimal. Active discussion is required to address how this could be better structured exploiting the help available in the Rural Development Regulation.
55. Two other elements are **risk management** and better **arrangements in the food chain**. The Rural Development proposals offer mechanisms to deal with these issues to which we will return in a future paper.
56. The telling point is that ***all these positive measures for improving competitiveness are to be found outside the Direct Payments regulation***. Offering farmers direct payments simply because they are farmers does not make them more competitive. Indeed there are arguments that the dependency culture engendered by decoupled payments can lull agriculture into a non-innovative and non-dynamic torpor which has dangerous long run consequences for EU farming competitiveness. If direct payments are to become an instrument to encourage and enable structural reform in the industry, providing the investment to allow business restructuring, or an exit route from farming, then the whole ethos of the payments has to change.
57. The language of entitlements has to disappear, to be replaced by more active language of adjustment assistance, transitional help, and a finite duration of these compensatory payments. Such ideas have been tabled regularly over a great many years. One such idea<sup>1</sup> was to convert direct payments into tradable bonds to enable farmers to capitalise the flow of payments into a lump sum which could be invested in restructuring their business or their life. Another was the suggestion<sup>2</sup> to rename the direct payments as Transitional Adjustment Assistance to signal their purpose and their finite nature. However these were, and are evidently, a bridge too far for the current reform. The immediate imperative is the political necessity to redistribute the direct payments to remove the manifest unfairness in the current distribution. Perhaps once this is achieved then the debate can revert to the question of how all the very large amount of public finance in the Basic Payments

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<sup>1</sup> This was originally suggested by Prof Stefan Tangermann, Gottingen Univ.

<sup>2</sup> As suggested in the report urging creation of a Common Agricultural and Rural Policy for Europe (CARPE) Buckwell *et al* 1997.

can be turned to be a force for modernising European farming rather than allowing it to slumber. Such ideas are plainly beyond the current reform.

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