

BORDER, MIDLAND AND WESTERN REGIONAL
ASSEMBLY

**Policy Paper on the Mid-Term Review of the
Common Agricultural Policy**

March 2003

TABLE OF CONTENTS

1	Introduction	3
1.1	<i>Background to the Border Midland Western (BMW) Assembly.....</i>	3
1.2	<i>Balanced Regional Development.....</i>	4
2	Agriculture in Ireland and the BMW Region	5
2.1	<i>The Role of Agriculture in Ireland.....</i>	5
2.2	<i>Agriculture in the BMW Region</i>	6
3	The Proposals of the Mid-Term Evaluation of CAP	7
4	Impact Analysis of the Proposed Reforms.....	10
5	Issues for the BMW Region	11
5.1	<i>Overview</i>	11
5.2	<i>Potential Drawbacks of the Proposals.....</i>	11
5.3	<i>Potential benefits of the proposals.....</i>	14
6	Conclusions & Recommendations	16
6.1	<i>Overview</i>	16
6.2	<i>Decoupling</i>	16
6.3	<i>Modulation</i>	16
6.4	<i>Other Issues.....</i>	17
6.5	<i>Conclusion.....</i>	18

LIST OF TABLES AND CHARTS

Chart 1.2	Indices of GVA per person at basic prices 1995-99 (EU15=100).....	4
Table 2.1	GVA of agriculture at basic prices as % of GDP	5
Table 2.2	Selected Characteristics of Farms in the National Farm Survey 1999 ..	6
Map 2.2.1	Agricultural Regions of Ireland.....	7

1 Introduction

This policy paper assesses the potential impact of the proposed reforms of the Mid-Term Review of Common Agricultural Policy (CAP) as proposed by Commissioner Fischler in October 2002 and revised in January 2003, on the Border, Midland and Western Region.

The first section outlines the role of the Border, Midland and Western Regional Assembly and its role in promoting balanced regional development. Section two provides an overview of agriculture in the region. The third section outlines the details of the proposals and the fourth section reviews the impact analysis as predicted in the recent FAPRI report. The fifth section provides an analysis of the potential impacts for the region and the final section contains the summary and conclusions of the BMW Assembly on the potential impact of the proposals.

1.1 Background to the Border Midland Western (BMW) Assembly

The BMW Regional Assembly (along with the Southern and Eastern Regional Assembly) was established and came into effect on the 21st July 1999 under the Local Government Act 1991. It is comprised of 29 nominated elected representatives of the local authorities within the region. Its establishment represents a new departure in public administration in Ireland and it performs tasks previously undertaken by Central Government Departments.

The main roles of the BMW Regional Assembly are to:

- Manage the Regional Operational Programme under the National Development Plan
- Monitor the general impact of all EU Programmes under the National Development Plan/Community Support Framework in the BMW Region
- Promote the co-ordination of the provision of public services in the region.

Since its establishment, the Assembly has achieved several significant milestones including:

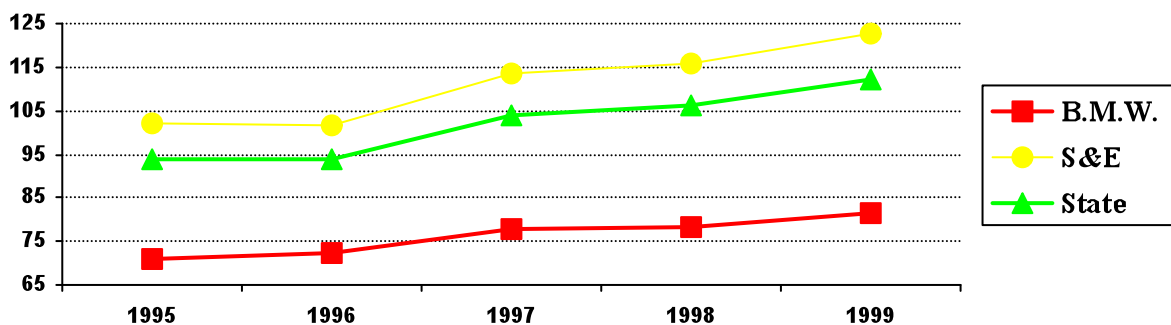
- Adoption of the Regional Operational Programme
- Provision of the Programme Complement
- Commencement of the implementation of Measures – over €647m spent in the programme, to date
- Submission and acceptance of the first two Annual Implementation Reports to the EU Commission
- Preparation of policy papers and submissions on the National Spatial Strategy, the Strategic Rail Study and the Future of EU Cohesion Policy.

1.2 *Balanced Regional Development*

The Government and the EU stated objective for regional policy is to achieve balanced regional development in order to reduce the disparities between and within the regions. The designation of two regions in Ireland is part of the process of achieving more balanced regional development in that it enables a clear focus on the key issues facing each of the Regions and allow for a differentiation and targeting of policies in a way which recognises their particular attributes and needs.

Recent socio-economic indicators show that the disparity between the two regions is in fact widening and more strategic investment and more focused policies are needed in order to bring about a closer convergence and a greater balance in the development of the country. This is evidenced in the recent regional Gross Value Added figures, which show a slower rate of increase in the B.M.W. Region than in the S&E Region.

Chart 1.2 Indices of GVA per person at basic prices 1995-99 (EU15=100)



Source: Central Statistics Office 2003, Regional GDP Figures,

2 Agriculture in Ireland and the BMW Region

2.1 The Role of Agriculture in Ireland

Agriculture and the agri-food sector play an important role in the Irish economy, but it is one that is declining. As can be seen from the table below primary agriculture has declined from 6.6% of the GDP in 1995 to 3% in 2000. This is due not only to the decline in primary agriculture, but also to the overall rise in GDP in other sectors during this period.

Table 2.1 Gross Value Added of agriculture at basic prices as % of Gross Domestic Product, 1995-2000

Year	Gross Value Added at basic prices	GDP at factor cost (IR£m)	GVA as % of GDP at factor cost
1995	2,455.7	37,074.0	6.6%
1996	2,440.3	41,069.0	5.9%
1997	2,275.9	47,162.0	4.8%
1998	2,240.3	54,058.0	4.1%
1999	2,005.7	62,171.0	3.2%
2000	2,128.2	71,912.0	3.0%

Source: Central Statistics Office (Output, Input and Income in Agriculture Statistical Release and Eirestat: National Income and Expenditure)

The agri-food sector (including agriculture, food, drinks and tobacco accounted for 11.5% of GDP in 1998 and employment in agriculture accounted for 7.6% of total employment. The agri-food sector accounted for 10.2% of Irish exports in 1998 and is estimated to be responsible for 27% of net foreign earnings from export (BMW OP 2000: 63).

Agriculture is an indigenous sector and thus has strong linkages within the economy and has a geographic spread throughout the country. It plays an important role as the mainstay of many fragile rural communities and also contributes significantly to the creation and maintenance of the physical environment.

The development of agriculture in Ireland, as in other Member States is largely determined by the Common Agricultural Policy (CAP) and international agreements especially related to the World Trade Organisation. The framework of Agenda 2000 is built around improving the competitiveness of the EU agricultural and agri-food

sectors whilst also recognising the need for a more integrated rural policy that promotes sustainable farming and the protection of the rural environment.

2.2 *Agriculture in the BMW Region*

Agriculture in the BMW Region has particular characteristics, which distinguishes it from agriculture in the Southern and Eastern (S&E) Region. Farm incomes are substantially lower than in the S&E Region. This is due in general to poorer land, smaller farm size, poorer age structure and higher dependence on off-farm incomes. The National Farm Survey of 1999 indicated the following characteristics of farms in the BMW and S&E Regions.

Table 2.2 Selected Characteristics of Farms in the National Farm Survey 1999

All Farms	BMW	S&E	Ireland
% of population	49.6	50.4	100.0
Av. Area Owned (ha)	25.1	38.1	31.3
Economic Size (ESU)¹	13.0	27.0	19.8
Gross Output (£)	19, 275	38,742	28,634
Family Farm Income	6,030	12,220	9,061
Age of Holder	53.8	51.0	52.3
Off farm job (H/S)²	48.2	42.3	45.0

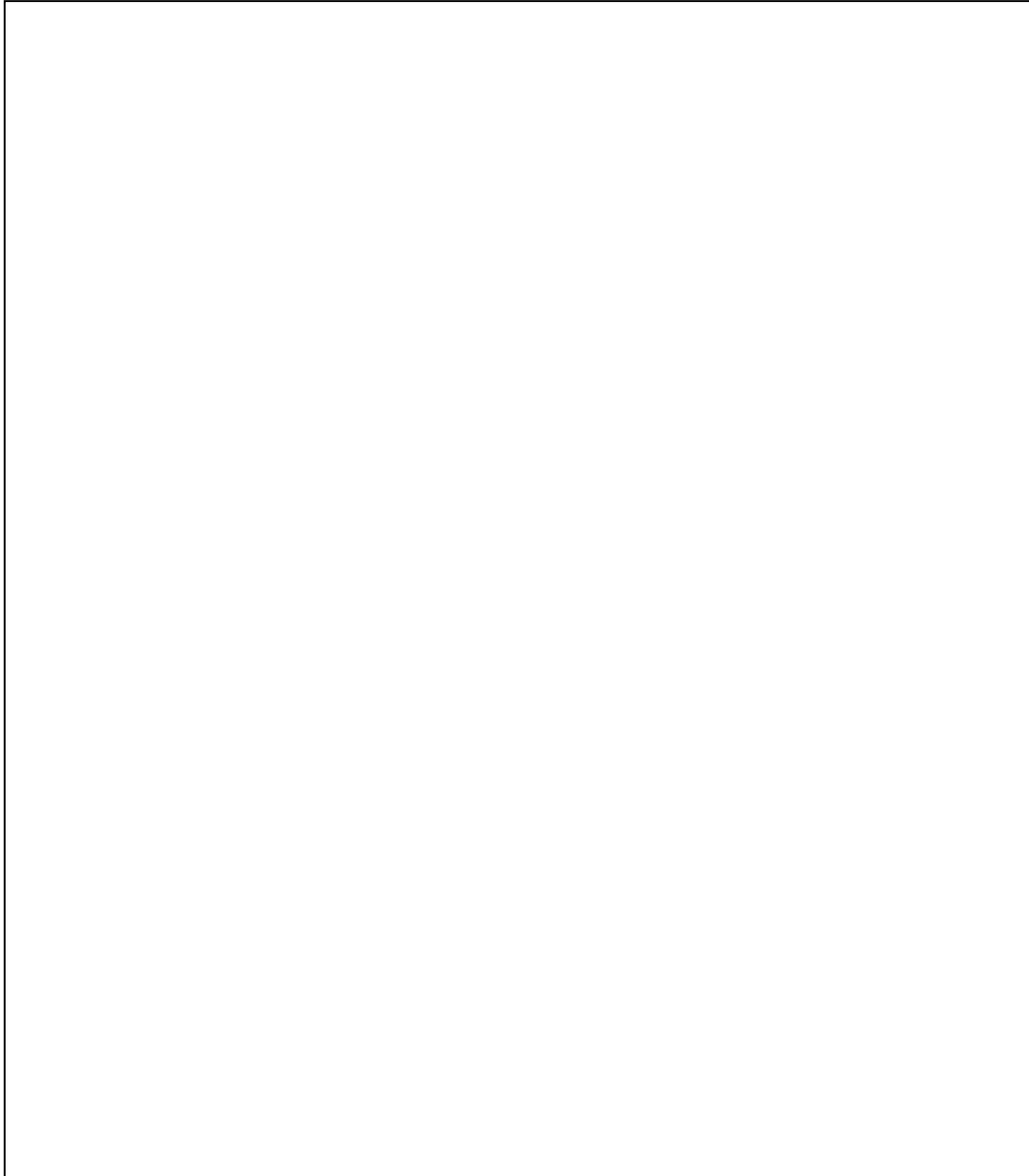
Source: Taken from Teagasc National Farm Survey as reproduced in WDC, The State of the West

As shown in the above table, farm incomes in the BMW Region are only half of those in the S&E Region and similarly economic size and area owned are substantially lower. The type of farming practised in each region is also significantly different as shown in the map below. In the BMW Region there is a higher proportion of sheep and cattle grazing and smaller dairy farms whilst there are more large dairy farming and arable farming in the S&E Region.

¹ Measure of the size of the farm business rather than the land area farmed

² Holder or spouse

Map 2.2.1 Agricultural Regions of Ireland



Source: <http://www.leavingcert.net/serve/>

3 The Proposals of the Mid-Term Evaluation of CAP

In 1999 the European Council in Berlin agreed the Agenda 2000 reform of CAP, which represented an extension of the 1992 reform for market policy and the consolidation of rural development as the second pillar of CAP. The objectives of Agenda 2000 included more market orientation, increased competitiveness, food safety and quality, stabilisation of agricultural incomes, integration of environmental concerns and developing the vitality of rural areas. In July 2002 the Commission

introduced a mid-term review, commonly known as the “Fischler Reform Proposals”. Following consultations with Member States, he revised the reforms and introduced new draft legislation in January 2003. The objectives of the proposals are to:

- **Enhance the competitiveness of EU agriculture** by setting intervention as a safety net measure (This includes measures that decrease specific interventions and simplify direct payments in the beef sector)
- **Promote a market oriented, sustainable agriculture** by completing the shift from product to producer support with the introduction of a decoupled system of payments per farm
- **Strengthen rural development** by transferring funds from the first to the second pillar of CAP via the introduction of an EU-wide system of compulsory dynamic modulation and expanding other instruments for rural development. Compulsory modulation has been deferred until at least 2007 although Member States can introduce it on a voluntary basis before that date.

In practice the proposals contain the following elements:

1) Decoupling of direct aids – establishment of single farm income payment

The Commission proposes a single decoupled income payment per farm, which will be conditional on compliance with environmental, animal welfare and food safety standards. The effect of this proposal is that payments will be made per farm (based on area) and not based on production as before. The single-farm payment will be calculated using the premium rates that applied in 2002, multiplied by the arable area or the number of animals during the three reference years. Entitlements may be transferred with or without land between farmers within the same Member State.

Decoupling will break the link between agricultural subsidies and production and will instead place more emphasis on land management. Payments will only be made if stringent land management obligations are met.

2) Reinforcement of environmental, food and occupations safety standards

All direct farm payments will be conditional on meeting such standards (cross-compliance). It will apply a whole-farm approach to both used and unused agricultural land. In the case of non-compliance direct payments will be proportionately reduced.

3) A new farm auditing system

A new EU wide system of farm auditing for professional farms will be introduced, with supports available under rural development. It will initially be compulsory for producers receiving more than €15,000 p.a. in direct payments or with a turnover of more than €100,000 per year. Other farmers will be able to enter the system on a voluntary basis. Supports will be available up to a maximum of 95% of the cost of such services. Very few farms in the BMW Region will be affected by this due to the lower turnover of farms in the Region.

4) Environmental set-aside

The Commission proposes to introduce compulsory long-term set-aside (10 years) on arable land in order to receive direct payments.

5) Increase in support for sustainable agriculture and rural development

This section proposes a better balance of support between market policy and rural development, which is also expected to increase the social acceptability of CAP and to address consumer, environmental and welfare concerns within the second pillar.

6) Dynamic modulation

Dynamic modulation was to be introduced on a compulsory basis for all member states until it was recently deferred. This meant that direct payments would have been reduced progressively in steps of 3% per year to a maximum of 20%. It would have applied to direct payments over €5,000 p.a. for up to two annual work units (AWU) and the maximum amount payable to a farm would have been €300,000. It was estimated that the amount generated through modulation will be €5-6 billion in 2005 and this was to be used to reinforce rural development programmes in member states and to target specific rural needs. Changes were made to these proposals as a result of a decision by heads of member states and it was decided to introduce compulsory modulation in 2007 for larger farms. Progressive contributions will be made from 1% in 2007 to 6% per year in 2012, which will be made available to Member States as

additional EU support for rural development programmes. Nearly half of all Irish farmers in receipt of direct payments (mostly in the BMW Region) will not be affected by modulation if the current proposals are agreed.

7) *New Quality Incentives for Farmers*

Incentive payments will be available for farmers who participate in schemes designed to improve the quality of agricultural products and the production processes used. Supports will also be available for producer groups for activities intended to inform consumers about and promote the products produced under such quality schemes.

4 Impact Analysis of the Proposed Reforms

Various studies have been commissioned by the European Commission and the Irish Department of Agriculture and Food to assess the impacts of the proposals on the agri-food sector and the economy as a whole. The most notable of these was the FAPRI report carried out by Teagasc and the University of Missouri. This report looks at the effects of decoupling by analysing the potential effects vis à vis the baseline scenario, i.e. if no changes to agricultural policy were made. The report predicts the effects at an aggregate level, the farm level and the economy-wide effects.

The principal predictions at an aggregate level are:

- EU suckler cow numbers will decline by 18% relative to the baseline level and the Irish suckler cow herd is projected to decline by 30%.
- EU beef production is projected to decline by 6% and Irish beef production by 12% in 2010.
- EU lamb production is projected to decline by 8% and by 12% in Ireland by 2010.
- EU lamb prices should be 19% higher in 2010 and 21% higher in Ireland by 2010.
- A reduction in sheep and cattle numbers will lead to a reduction in inputs and a decline in value output from the beef sector (11% lower by 2010) but a 5% increase in value output in the lamb sector.

At a farm level, the principal predictions include:

- Land area used for livestock production and suckler cow numbers will all fall immediately following decoupling.
- The increase in the price of beef will lead to a slight increase in the area used, and a subsequent increase in suckler cow numbers and beef output by 2010.

The wider implications for the economy include:

- There will be an initial reduction in farm level incomes and an increase in processing activity. By 2010 however, this situation will be reversed as input expenditure falls, beef and lamb prices recover and farm level income increases. There will then be a reduction of employment in the meat-processing sector.
- Overall there will be a very small impact on the economy as a whole.

Another prediction made in the report is the decline of greenhouse gas emissions of 12.5% by 2010.

5 Issues for the BMW Region

5.1 Overview

The above proposals have been received with some caution, although some aspects have been welcomed. Various farming and other relevant organisations were consulted in relation to their views on the potential effects of the proposals. Reactions to the proposals include questions and uncertainties about how they will work in practice as well as positive and negative reactions. Whilst many of the proposals in relation to increased environmental protection and safety standards are broadly welcomed, a number of issues of concern have been raised in relation to the impact they will have on farmers in the region, particularly smallholders.

5.2 Potential Drawbacks of the Proposals

Many farming organisations in the Region are treating the proposals cautiously and have raised a number of potential disadvantages and questions in relation to how they will work in practice. These include the following:

- There was considerable uncertainty as to whether **the payments would be made to the landowner or the person farming the land** and a fear that

payments would be made to people not actually involved in farming. It seems that some of this has been clarified in the recent changes, which will introduce measures for the establishment of land generating rights and land eligible for the decoupled payments. There will also be provision made for the transfer of entitlement rights with or without changes. The legislation dealing with the establishment of rights will need to be very clear and it is important to ensure that payments are made to those who are farming and maintaining the land and not by virtue of simple ownership of land.

- There were queries in relation to **how farmers can increase their premia entitlement in the years ahead and what reference years would be used**. There was some initial confusion on the issue of how reference years would be calculated. The changes suggested in the draft legal texts of January 2003 stipulate that the reference years will be 2000-2002. However, there is still great uncertainty regarding issues such as suckler quotas. There is huge concern among suckler farmers that the asset they have built up over the years through purchase of quote will be dissolved.
- There is a considerable **risk of a drop in agricultural value output in the beef sector**, which will have implications for the region as it depends more heavily on the the beef sector. The decline in the level and expenditure on inputs (feeds, fertiliser etc.) and the long-term decline in the meat processing industry will have particular effects in the BMW Region, where a greater percentage of the regional GDP is from the agri-food sector.³ The threat of a decline in production in the meat processing industry is of particular concern to the BMW Region, where meat-processing plants are the main employers in some counties (e.g. Co. Roscommon). This could similarly have knock-on effects on the wider economy of the Region, as both the farm input and processing sectors will be affected.
- There was a fear that **modulation would have reduced farm incomes** and may cause an overall decline in agriculture as a result. These fears have

³ e.g. in 1997 agriculture, forestry and fishing accounted for 11.2% of the GVA in the BMW Region, compared with only 4.4% in the Southern and Eastern Region. See CSO, Regional GDP, 2003.

been somewhat abated due to the later introduction of modulation, the increase in cut-off rates and the lower rate of digression. The BMW Regional Assembly still fears that its compulsory introduction post 2007 could cause a drop in farm incomes and calls for the €5,000 exemption to be raised.

- The BMW Regional Assembly is also concerned **that fundamental reforms may not be necessary**, as the markets are reasonably stable and the Berlin budget ceilings are not being threatened. The Agenda 2000 agreement was made for seven years and reforms are being introduced after only two years. There is also some concern that the reforms are being introduced now due to pressure to meet the requirements of the WTO negotiations.
- Some research suggests that Irish producers and particularly those in the **BMW Region (where farms are smaller) would secure a smaller share of premiums under an EU –wide area based system** compared to the headage-based system (IFA suggests 8.5% compared to 12%).
- The result of decoupling may be that the **payments made will be more akin to welfare payments and thus increase dependency**. The Commission hopes that it will free up farmers' time to devote to more profitable activities, but this raises the question of the future role of farmers and the implications of receiving payments that have no link to production. The BMW Regional Assembly accepts that agriculture may need to be linked more to the market place and determined less by subsidies, but has some reservations about breaking all links between production and payments and the potential loss of incentives to produce. There are particular concerns that farmers will be considered as caretakers of their holding and not part of the productive sector. There are also no guarantees given in relation to how long the reformed regime will last. Farmers and rural communities need greater certainty about future payments.

- There is an overall fear that the **changes may have a negative impact on the agriculture and food industry within the region** through the reduction of stock numbers and the land area used for livestock production.
- There are concerns regarding the **viability of new entrants to farming** and how this may be affected by the low level of payment entitlements on holdings with low levels of stock prior to the transfer of the holding. In relation to dairy farming, there is some concern that by setting the reference year for dairy rights in March 2004, few active farmers will sell their quota until after that date, thus limiting the access of new entrants.
- The proposals could lead to an **increase in part-time farming**, which may have a negative impact on agriculture in the region.
- The possible **impacts of the emerging proposals with regard to the dairying sector** are particularly worrying for dairy farmers in the BMW Region.

5.3 Potential benefits of the proposals

The potential benefits of the proposals for the Region are outlined below:

- They will ensure **greater compliance with environmental, food quality, animal welfare and occupational safety standards**. Farmers will be encouraged to play a more active role in land management, which should have aesthetic as well as environmental benefits.
- The **new quality incentives for farmers** will not only help to increase the quality and price of food produced, but will also help to increase consumer confidence and awareness.
- More emphasis will be placed on **sustainable agriculture and integrated rural development**, which may increase the long-term viability and sustainability of rural communities. The nature of any additional rural

development payments and who might benefit from them is however not yet clearly spelled out.

- With less emphasis on payments linked to production, there will be a **lower tendency to over-produce and practice unsustainable agriculture** and an opportunity to produce for the marketplace rather than the premium. Similarly the market will dictate the level of production, not the quota, and production may fall more in line with consumption.
- The **new farm auditing system** will help farmers to comply with the various standards and may help to reduce paperwork through increased co-ordination. However, the threshold of €15,000 in direct payments would not affect the majority of farmers in the BMW Region.
- Links will be broken between production and direct payments, which represents a **move away from subsidy dependence of agriculture** and will help the EU to meet its requirements in the next round of the WTO negotiations.
- There may be **some gains in farm income** as predicted by the FAPRI report. Under the present system income may be less than the direct payments to the farmers when production costs exceed the market return. Decoupled payments will facilitate the scale-back of production in such cases whilst retaining the direct payment and thus increasing farm incomes. Linked to this, the market may also gain through the elimination of surplus production, which can depress the price.
- Decoupling may also benefit farmers contemplating **off-farm employment or semi-retirement**. The proposals may suit farmers who intend to wind down their farming activities, but in so doing, they could disadvantage active farmers and potential new entrants.

- Farmers will have **greater flexibility and opportunities to diversify in line with market needs**. They will also be able to buy and sell at times that suit them and the proposals will put an end to retention periods.
- Emphasis may shift **more to quality rather than quantity**, which may for example benefit suckler herds and may force factories to pay more for quality.

6 Conclusions & Recommendations

6.1 Overview

The BMW Regional Assembly feels that there are a number of issues of concern that need to be taken into account before the finalisation of the proposals. The Minister for Agriculture and Food should seek clarification on these issues and weigh up the implications of the proposals from both a national and a regional perspective. Any negative impacts on agriculture and the food-processing sector will be felt more strongly in the BMW Region due to its higher dependency on the sector.

6.2 Decoupling

Whilst decoupling does have some advantages, the BMW Regional Assembly still has some concerns about completely breaking the links between production and payments and the effect this may have on incentives to produce. The Assembly is also concerned about the potential loss of value output in the beef sector. It must be ensured however that there are no major negative effects on beef production in the Region and that farmers are paid fair prices. It is important also to ensure that there are sufficient incentives to produce and that farmers in the Region are not unfairly disadvantaged in the marketplace.

6.3 Modulation

Some concern had been raised in relation to modulation by farming organisations who claimed that the ceiling of €5,000 was too low and that farmers should first of all be guaranteed a fairer minimum income. As this measure has now been deferred and the rate of modulation lowered, these concerns no longer apply to the same extent. Modulation can however be introduced by member states on a voluntary basis. If this is to be case, it needs to be outlined clearly what types of on-farm investment and

rural development measures would benefit from higher levels of funding in order to maximise the positive impacts on farming and rural communities and compensate for the potential negative effects of modulation, and possible reduced production levels. There should also be a system of regional ring-fencing where money transferred under the system should be spent on rural development initiatives within the region. The BMW Regional Assembly would welcome additional support for rural development measures within the region.

6.4 Other Issues

- The BMW Regional Assembly welcomes the possible benefits the reforms may have on environmental, animal welfare, food quality and safety standards as well as the potential gains for rural development.
- The queries in relation to land ownership and transfer of entitlements to premia with sale or lease of land need to be addressed. It is recommended that the payments should be made to the farmer and not the landowner and that there is a clear system put in place for the sale and lease of land and facilitate the entry of new farmers and assist active producers.
- The BMW Assembly would welcome a reduction in bureaucracy and would welcome a guarantee that the new system will produce such a reduction and that the compulsory farm auditing system will not create even more paperwork for farmers.
- The new proposals should ensure a more equitable structure for the entry of young farmers and new entrants. There should be sufficient incentives for entry.
- The economy of rural areas must not be undermined by the reforms. The retention of viable rural communities must be to the forefront in considering these reforms. In the event that the reforms impact negatively on employment levels in rural areas, then the Government should seek to secure alternative employment opportunities in those areas.
- The uncertainty caused by the proposed reforms, allied to the proposals emerging with regard to the WTO trade negotiations, are further undermining confidence in the agriculture sector in general and among farmers in particular.

6.5 Conclusion

In conclusion, the Border, Midland and Western Regional Assembly, recognising that the reform proposals contain issues of concern and some opportunities for necessary reform, calls on the Minister for Agriculture and Food to ensure that any reforms that are agreed do not impact negatively on Irish agriculture, or on the rural economy either regionally or nationally.

REFERENCES

Central Statistics Office (2002, 2003), *Selected Statistics*, CSO, Dublin

EU Commission DG Agri (2002), *Impact Assessment of the Mid-Term Review Proposals on the Agricultural Markets and Farm Income in the EU15*, EU Commission, Brussels

FAPRI –Ireland Partnership (2003), *An Analysis of the Effects of Decoupling of Direct Payments from Production in the Beef, Sheep and Cereal Sectors*, Teagasc Rural Economy Research Centre, Dublin

Western Development Commission (2001), *The State of the West: Recent Trends and Future Prospects*, WDC, Ballaghaderreen

Websites

Central Statistics Office: www.cso.ie

European Commission: www.euireland.ie/news/agri
www.europa.eu.int/comm.agriculture

Irish Co-operative Organisation Society: www.icos.ie

Irish Creamery Milk Suppliers Association: www.icmsa.ie

Irish Farmers Association: www.ifa.ie

Irish Green Party:www.greenparty.ie

Irish Sheep and Cattle Farmers Association:www.iscaireland.com