



Border, Midland & Western
Regional Assembly
Investing in Your Future

Border, Midland and Western Regional Assembly

Submission on the

**The Shape of the Common
Agricultural Policy Post 2013**

June 2010



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Summary

1. Agriculture and rural development policies have a critical role to play in stimulating the economic development of the BMW Region. The areas with the lowest family farm incomes are also those in which alternative or supplementary income opportunities are most limited, raising the need for a greater emphasis on regional and social cohesion in agri-rural policy.
2. The increasing reliance of farm households on off-farm employment supports the case for strengthening the link between agriculture and the broad rural and regional economies. The overall goal should be the retention of the maximum number of viable farm and rural households, drawing resources and income from farming and off-farm economic activities within the rural/regional economy.
3. Greater emphasis needs to be placed on supporting continued innovation and productivity enhancement both on-farm and off-farm to avoid stagnation in rural areas. Quantified data on the outcomes of CAP expenditure would be beneficial and the economic value of these outcomes monetised using an appropriate basis.
4. The CAP as a common policy must be implemented in a manner that is consistent with the territorial cohesion objective and we would therefore like to see a greater alignment of the programmes funded under the European Agriculture Fund for Rural Development and the Regional Development Funds
5. The link with historic entitlements should be gradually phased out and a payments system combining a base level with a tiered productivity-linked (stocking) rate should be introduced. This, in our view would optimise the contribution of the CAP payments system to the overall goal of maximising the impact of agriculture on the broad rural and regional economy. Permissible stocking rates should respect the limits imposed in the Nitrates Directive.
6. A case should be made for the retention of some coupled payments in limited circumstances in order to maintain viable levels of production in certain key production systems and in regions under particular pressure.
7. It is the view of the Regional Assembly that both an upper (ceiling) limit on payments per recipient and a minimum (floor) payment should be introduced in Ireland.
8. There is a need to retain the capacity and flexibility to react promptly and effectively to market and price instabilities with appropriate market interventions.
9. Greater flexibility in the relative allocations to the axes of rural development funding should be sought, based on rational criteria. In cases where the EU requires that modulated funds be targeted at the 'new challenges' then our view is that this should be fully funded from the CAP budget with no requirement for national co-funding.
10. The full cost of compliance with targeted 'public good' measures should be recoverable by landholders e.g., landscape maintenance, animal welfare.
11. There is a strong case to be made for simplification of the system to make it more administratively streamlined and easier to comply with for all concerned

Introduction

The Border, Midland and Western Regional Assembly welcome this opportunity to make a submission to the consultation on the shape of the Common Agricultural Policy (CAP) post 2013.

This submission arises from a presentation given to the BMW Regional Assembly by Ms. Brid Cannon, Principal Officer, EU Trade Division, Department of Agriculture, Fisheries and Food on 21st May 2010. It was subsequently discussed in detail at a meeting of the Regional and Rural Affairs Committee of the BMW Regional Assembly on June 11th 2010.

The BMW 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 Assembly are to:

- Manage the Regional Operational Programme 2007-13 under the National Strategic Reference Framework;
- Monitor the general impact of all EU Programmes under the National Development Plan/Community Support Framework in the BMW Region; and
- Promote the co-ordination of the provision of public services in the region and ensure that national policies take regional issues into account.

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 allows for a differentiation and targeting of policies in a way which recognises their particular attributes and needs. This is pertinent to a review of the differential regional impact of CAP. For this reason, the BMW Regional Assembly brings an important perspective to the debate on the future of the CAP and wishes to make its contribution from a regional perspective.

Agriculture produces the raw material for the food and drinks industry and is a significant wealth creator given its high multiplier effects both upstream and downstream. In fact the multiplier effect of the agriculture sector at 2.2¹ was found to be the highest of all sectors analysed when the Social Accounting Matrix - an integrated input/output model of the BMW Region's economy, was constructed in 2004. The agri-food industry is Ireland's most important indigenous sector, with 800 companies employing over 45,000 people and producing over a third of our net export earnings from the primary and manufacturing sectors.

¹ This means that each €1 increase in demand for agricultural produce generates a total impact of €2.20 in the region's economy.

Recent socio-economic indicators show that the economic disparity between the BMW Region and the Southern and Eastern Region is not narrowing and therefore more strategic investment and more focused and tailored policies are needed in order to bring about a greater balance in the development of the country and to maximise the contribution of each region to overall national prosperity.

Agriculture and rural development policies play a critical role in the development of the economy of the BMW Region, in several respects:

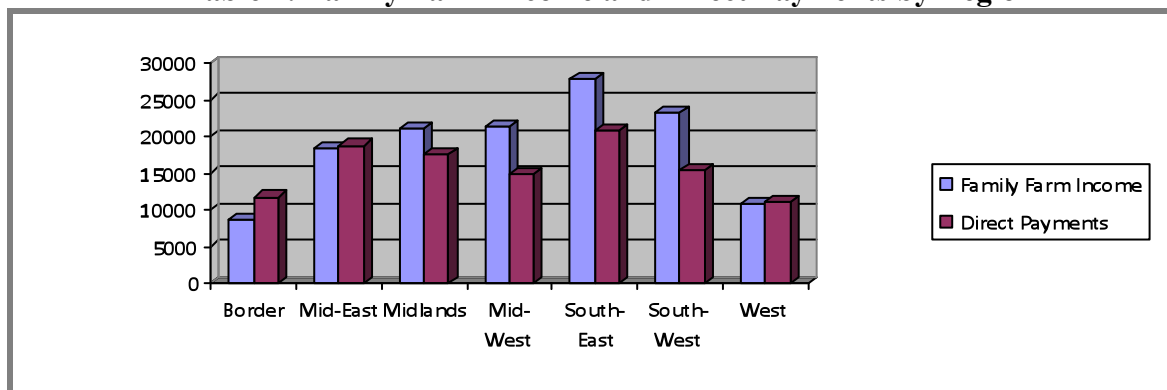
- Producing the inputs for the agri-food industry, which is a major employer in the BMW Region;
- Creation of rural-based sustainable employment and viable local services;
- Maintenance of an attractive sustainable rural landscape and retaining biodiversity, both of which are vital for our tourism industry; and
- An evolving role in the generation of energy in line with national and EU targets.

Agriculture in the BMW Region

In framing this submission, it is important to set it in the context of the different characteristics of agriculture in the Border, Midland and West Regions. Overall there is a pronounced North/West versus South/East distinction in terms of the economic size units of Irish farms.

As can be seen from the chart below, which is taken from the Teagasc National Farm Survey, average family farm incomes are substantially lower than the national average in the Border and West regions in particular, while the Midlands region is slightly above average. There is quite an amount of variability between Family Farm Income, ranging from €8,635 in the Border Region to €27,786 in the South-East. It is also notable that the level of direct payments exceeds family farm income in both the Border and West regions. In many cases **the areas with the lowest family farm incomes are also those in which alternative or supplementary income opportunities are most limited, raising the need for a greater emphasis on regional and social cohesion in agri-rural policy.**

Table 1: Family Farm Income and Direct Payments by Region



Source: Teagasc National Farm Survey 2009

These differences in farm incomes can be attributed to differences in farm size, land quality and differences in the predominant sectoral mix of farming practiced in the different regions

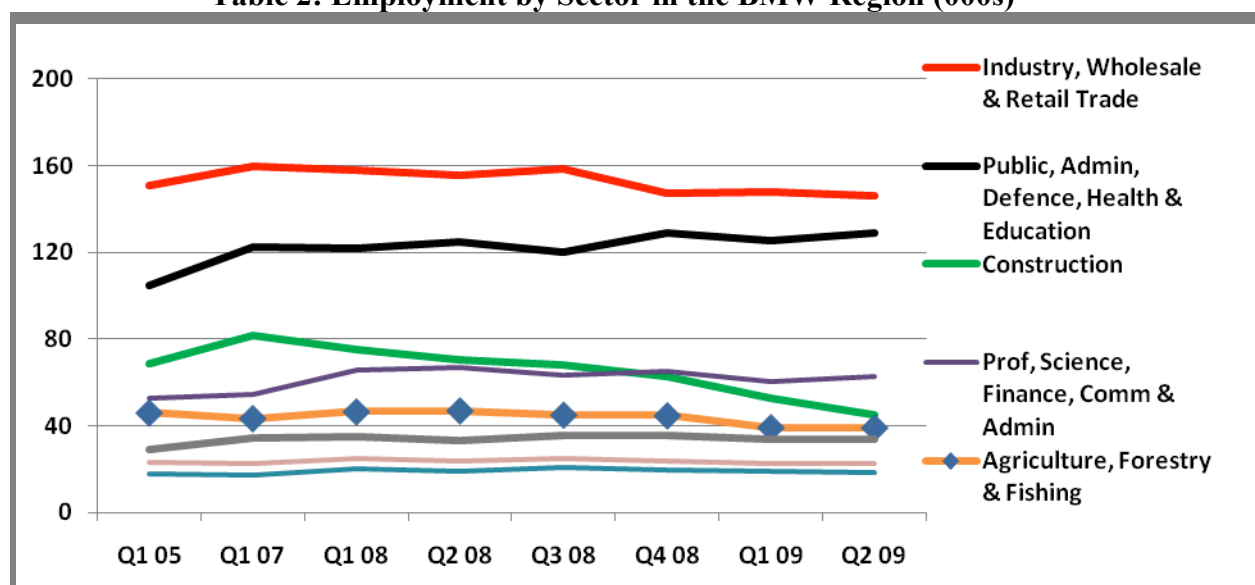
(as shown in Appendix 1). This shows that livestock farming predominates while some areas are marginal for farming in the West and North West.

The Teagasc National Farm Survey 2009 found that the highest incidence of off-farm employment occurred on farms in the Midland Region where the incidence of off-farm job for the farmer and/or the spouse was 64% compared to the national average of 56%. If we look specifically at the incidence of an off-farm job for the farm holder only, then the West Region shows the highest level at 56% (compared to national average of 40%). This high incidence of off-farm employment supports the case for strengthening the link between agriculture and the broad rural and regional economies. This would entail effecting greater synergies in enterprise, tourism, energy, telecommunications and transport policies and their associated EU co-financing. **In our view the focus for future expenditure should reflect the reality that a majority of farm households now rely on either the farm holder and/or spouse's off-farm income for household viability and public policy should therefore support the viability of farm and rural households.**

The Teagasc National Farm Survey also highlights that the Border Region has the highest average age of farm holder at 58 years while only 56% of farm households were classified as demographically viable (with a young household and/or identified successor) compared with a national average for all farms of 66%.

Trends in the sectoral composition of the regional labour force (table 2, below) highlight the declining share that agriculture, forestry and fishing represent over the past decade, even in the most rural counties, with an increased share for other sectors, notwithstanding the sharp decline in employment (especially construction) overall in the Region. **This highlights the urgent need to stimulate economic activity and generate employment in the broad rural/regional economy, especially in the most marginal rural areas. The CAP can play an important role in this by re-focussing payments towards a productivity incentive basis.**

Table 2: Employment by Sector in the BMW Region (000s)



Source: CSO Quarterly National Household Survey

The Shape of the Common Agricultural Policy Post 2013

Policy Goals

The goals of agricultural and rural development policies must be consistent with over-arching national goals for economic and social development and for balanced regional development. The specific contribution of the CAP to the attainment of these goals should be explicitly stated by the Irish Government. This would enable a set of criteria to be devised against which the competing usage of scarce public resources can be determined. It must also be recognised that all public policies as they affect the viability of farming and of the broad rural economy must be mutually reinforcing to avoid detrimental effects. In this regard, the commonly held perception that agriculture and rural development are competing for the same resources, is an artificial one. **The overall goal in our view should be the retention of the maximum number of viable farm and rural households, drawing resources and income from farming and off-farm economic activities within the rural/regional economy.**

Focus of the CAP Post 2013

The maintenance of a strong policy for agriculture and rural development is a vital national and regional interest for Ireland. This policy needs to be clearly established and focused in order to deliver the maximum benefit for farmers and for the broader rural and regional economy. The emphasis must therefore be on **maximising the benefits of the policy to Irish farmers and rural dwellers and not just maximising Ireland's 'take' from the CAP.**

The EU's CAP budget represents a declining share of EU GDP in real terms with an evolution in recent years from export refunds and market-based supports towards decoupled payments and rural development (to a lesser extent). Whatever system of payments is adopted must reflect the farm structure and grass-based production system within Ireland.

Ireland's position in the negotiations must reflect the valuable role played by productive agriculture in sustaining and creating employment and in sustaining rural communities. The economic consequences of a further depression of production would have a wide-ranging and substantially negative impact upon Ireland's economy. It is in the interests of farmers, tax payers and consumers that farmers receive a reasonable financial return from their resources (land, labour, capital and entrepreneurial). It is not in the interest of society, the environment or the economy that land would be left untended or abandoned completely and any under-utilisation of an economic asset where potential benefits can be derived is not a policy position that should be adopted. **A greater emphasis needs to be placed on supporting continued innovation and productivity enhancement both on-farm and off-farm and avoid a stagnation in rural areas.**

Farmers generally remain as price-takers selling undifferentiated produce on a wholesale market while paying full retail costs for their inputs. A production system in which prices are constantly being eroded is likely to discourage active producers and lead to negative economic consequences. It is unsustainable to expect farmers to continue to sell produce below the cost of production. This also acts as a strong disincentive to new entrants to farming.

Contribution to Territorial Cohesion

The objective of territorial cohesion which is enshrined in the Treaty on European Union (Article 2) is essentially to attain the balanced distribution of economic activity across the EU. This requires that that all areas benefit from economic and social progress, thus ensuring that all EU citizens have the same opportunities regardless of where they live or work in the European Union. Territorial cohesion implies that additional resources are provided to develop the endogenous potential of under-performing and structurally weak areas, including rural and peripheral areas and also implies that EU Member States have obligations for the provision of essential public services in these areas even where it is commercially unviable to do so.

It is clear that the CAP as a common policy must be implemented in a manner that is consistent with territorial cohesion as an overarching objective. The CAP in its current format does benefit all rural areas. However, the Single Farm Payment System in its current format clearly benefits strong agricultural areas more than weak agricultural areas, while this is mitigated somewhat by the Disadvantaged Area Payments System.

The BMW Regional Assembly wishes to see a closer alignment of regional policy and agri-rural policy in Ireland. The goals of Pillar 2 of the CAP in particular and of regional policy in terms of stimulating the rural economy and valorising the multi-functional outputs of land-use are entirely consistent. Similarly the availability of diverse sources of high quality employment in the regional economy supports the maintenance of viable rural households, consistent with the over-arching goal for agri-rural policy in Ireland. Former EU Regional Policy Commissioner Samecki has proposed that future programming for regional and rural development programmes should operate in tandem to meet common objectives.

In recent years, EU co-funded investment under the Regional Operational Programmes (OP) in tourism, enterprise support, regional roads, broadband provision, water services, village renewal and childcare infrastructure have all been of enormous benefit to rural as well as urban areas and have created the conditions for a more prosperous rural/regional economy. As Managing Authority for the ERDF co-financed BMW Regional OP, the Assembly **would therefore like to see a greater alignment of the programmes funded under the European Agriculture Fund for Rural Development and the Regional Development Funds.** Many of the objectives of these funds are similar and the outcomes should be mutually reinforcing at local and regional level.

Link with Historic Entitlements

As the direct payments system in its current format is intended to be compensatory, it has had the effect of retaining the status quo in terms of regional income distributions, with larger and more productive farms receiving higher payments linked to their higher output historically.

We note that the Department of Agriculture in Ireland currently has an expressed preference to retain a link with historic production and to move away from modulation. We would have some concerns that as the time-gap with the reference years grows the relevance of the historic basis for determination of payments and how closely it is linked with current production activities, in particular those of new entrants and its alignment with new re-defined policy objectives diminishes. **The link with historic entitlements must therefore be phased out over a transitional period.**

Flat Rate Decoupled Payments

It is evident from the analysis of the profile of payments across the country undertaken by Teagasc's Rural Economy Research Centre² that the farmers in the most advantaged agricultural areas in Ireland and with the largest average farm sizes are also the highest recipients of payments under the current single farm payment system. It is clear from the analysis that a shift to a national flat rate payment system would lead to a more equitable distribution of the payments between farms and also across the regions of Ireland from south/east to north/west.

This is also confirmed in analysis undertaken by Galligan (2007)³ who concludes that all regionally based (flat rate) scenarios analysed displayed an improvement in the equality of income distribution, compared with the status quo. It is also notable from the Teagasc analysis that the number of farmers who would gain in a national flat rate scenario exceeds the number who would lose out. The beneficiaries would be cattle and sheep farmers generally, while farmers with larger holdings and tillage farmers would lose out.

In his analysis, Galligan found that a national flat rate of €265 per hectare would lead to a significant re-distribution in favour of disadvantaged areas and the BMW Region. A modified 'regional' flat rate scenario in which disadvantaged areas would receive a €212 per hectare while non-disadvantaged areas receive €403 per hectare, would represent a minimum redistributive effect. This differentiation in effect reflects the existing bias in payments towards non disadvantaged areas, based on the current historic entitlements model.

However, it has been argued that any shift to a flat rate payments system (national or regional) could depress agricultural production and give rise to under-utilisation of land and possible abandonment of land with negative consequences for the rural/regional economy.

The link with historic entitlements should be gradually phased out and a payments system combining a base level with a tiered productivity-linked (stocking rate) rate should be introduced. This, in our view would optimise the contribution of the CAP payments system to the overall goal of maximising the economic impact of agriculture on the broad rural and regional economy. Permissible stocking rates should respect the limits imposed in the Nitrates Directive.

Partially Coupled Payments

A case should be made for the retention of coupled payments in limited circumstances in order to maintain viable levels of production in certain key production systems and in regions under particular pressure. Maintaining the Irish suckler herd and ewe numbers are cases in point. These production systems are largely grassland-based and are not responsible for high levels of CO2 emissions. It should also be taken into account that these enterprises are carried out on lands that are generally unsuited to other farm enterprises.

² Thia Hennessy, Implications of a Shift to a Flat rate Decoupled Payment, Teagasc Rural Economy Research Centre

³ Kevin Galligan, An analysis of the Single Farm Payment 2006: Regional distribution and effects of a hypothetical shift from a historic to a regional model of payment

Upper and Lower Limits on Entitlements

It is the view of the Regional Assembly that both an upper (ceiling) limit per recipient and a minimum (floor) payment should be introduced in Ireland. A minimum ‘floor’ level payment would provide some income security to the most vulnerable of farm household. There is little public benefit to be gained from a small number of individual beneficiaries receiving large annual payments. It is inconsistent with social equity and territorial cohesion objectives and is contributing to a poor public perception of the usage of scarce public funds.

Retention of Market Intervention Measures

We believe that a strong case should be made for the retention of market intervention mechanisms, with a defined counter-cyclical effect with the express intention of maintaining the viability of family farm production. Cognisance must also be taken of the possible treatment of any such mechanisms in the event of a further push towards a new World Trade Agreement encompassing agriculture. Effective market management measures are essential if supply and price volatilities are to be countered in the years ahead. **We agree that there is a need to retain the capacity and flexibility to react promptly and effectively to market and price instabilities.**

Balance between Axes

We would support a more evidence-based analysis of the relative economic benefits of the three thematic axes under the Rural Development Programme: supports for competitive agriculture, environmental goods and rural development. Such an analysis could also point towards more effective allocation of funding to schemes with the greatest impact within the thematic axes. The allocation should not be an arbitrary one based solely on historic allocations, ideological perspectives or political preferences. In this regard, **greater flexibility on the relative allocations to these 3 Axes should be sought, but clearly based on rational criteria.**

Modulation

We would recommend that should further modulation of payments be imposed for the post 2013 period, that the funds should be retained 100% within the Member State with greater flexibility as regards their utilisation. **In cases where the EU requires that modulated funds be targeted at addressing the ‘new challenges’ then our view is that this should be fully funded from the CAP budget with no requirement for national co-funding.**

Output Measurement

Clearer data on the quantified outcomes of CAP expenditure would be beneficial and the economic value of these outcomes monetised using an appropriate basis. This work could be undertaken by Teagasc’s Rural Economy Research Centre, based in Athenry.

Where the added value of public expenditure on agriculture and rural development can be clearly demonstrated and their contribution to overall national objectives is quantified, then the question of the ‘opportunity cost’ of additional exchequer funding of rural development programmes can be more clearly addressed, relative to alternative public investments to meet the same objectives.

Use of Targeted Measures

Irish farmers have demonstrated a high level of interest in environmental schemes (i.e. REPS) which combines income supports with positive environmental, biodiversity and climate change benefits. As a general principle, **the full cost of compliance with targeted ‘public good’ measures should be recovered by landholders e.g., landscape maintenance, animal welfare.**

Administrative Simplification

There is a strong case to be made for simplification of the system to make it more administratively streamlined and easier to comply for all concerned. Complexity remains a major source of non-compliance.

Conclusions

Agriculture and rural development policies in our view have a critical role to play in stimulating the economic development of the BMW Region. At present the areas with the lowest family farm incomes are also those in which alternative or supplementary income opportunities are most limited, raising the need for a greater emphasis on regional and social cohesion in agri-rural policy. The increasing reliance of farm households on off-farm employment supports the case for strengthening the link between agriculture and the broad rural and regional economies.

The overall goal in our view should be the retention of the maximum number of viable farm and rural households, drawing resources and income from farming and off-farm economic activities within the rural/regional economy. A greater emphasis needs to be placed on supporting continued innovation and productivity enhancement both on-farm and off-farm and avoid a stagnation in rural areas. Clearer data on the quantified outcomes of CAP expenditure would be beneficial and the economic value of these outcomes monetised using an appropriate basis.

The CAP as a common policy must be implemented in a manner that is consistent with the territorial cohesion objective and we would therefore like to see a greater alignment of the programmes funded under the European Agriculture Fund for Rural Development and the Regional Development Funds

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A case should be made for the retention of some coupled payments in limited circumstances in order to maintain viable levels of production in certain key production systems and in regions under particular pressure. It is the view of the Regional Assembly that both an upper (ceiling) limit per recipient and a minimum (floor) payment should be introduced in Ireland

There is a need to retain the capacity and flexibility to react promptly and effectively to market and price instabilities. Greater flexibility on the relative allocations to the axes of rural development funding should be sought, but clearly based on rational criteria.

In cases where the EU requires that modulated funds be targeted at addressing the 'new challenges' then our view is that this should be fully funded from the CAP budget with no requirement for national co-funding. The full cost of compliance with targeted 'public good' measures should be recoverable by landholders e.g., landscape maintenance, animal welfare.

There is a strong case to be made for simplification of the system to make it more administratively streamlined and easier to comply for all concerned. Complexity is a major source of non-compliance.

Appendix 1

