

Speech by Dr Czesław Siekierski, Member of the European Parliament, Vice- Chair of the Committee on Agriculture and Rural Development, at the Meeting of the Chairpersons of the Committees on Rural Affairs

Vilnius, 22 July 2013

Dear Chair, honourable Members, dear Minister, dear colleagues, Ladies and Gentlemen,

It is an honour for me to address you at this meeting in the Lithuanian Parliament, following the kind invitation of the Lithuanian Presidency to hold a keynote speech on the recent developments with regard to the Reform of the Common Agricultural Policy.

By the end of June, a political agreement on the reform was struck by Parliament, the Council and the Commission. Before that, we spent three months in intensive trilateral negotiations. This agreement is subject to the formal conclusion of negotiations on the EU's Multi-annual Financial Framework budget (2014-2020) and confirmation by the Agriculture Committee, Parliament's plenary and the Council of Agricultural ministers.

This is the first reform of the Common Agricultural Policy (CAP) shaped by the European Parliament as a full co-legislator with the Council of Agricultural ministers.

Let me mention right at the start that some key elements, which were addressed by the heads of governments at their Summit in February, dealing with the Multi-annual Financial Framework, are still subject to further negotiations. On these issues, which include capping, financial flexibility between first and second pillar or co-financing rates for rural development, the Irish Council Presidency did not consider to have a mandate for negotiations with the European Parliament. We are thus dealing to date with a partial, political agreement, which will be finalised after the summer break under the Lithuanian Presidency. I will come back to these open issues at the end of my speech.

Allow me now to briefly present the key elements of the reform as agreed to date.

Firstly on direct payments, I would like to address the question of beneficiaries, i.e. those who will benefit from direct payments and who will not.

In the future, payments will only be directed towards "active farmers". However, some flexibility will be provided to the member states for the precise definition of an "active farmer".

At Parliament's insistence, member states will have to apply a "negative list" of entities, such as transport and real estate companies, airports, permanent sports clubs, campsite operators, mining companies or other non-agricultural enterprises, to be defined by member states, which would automatically be excluded from these definitions unless they can prove that their agricultural activities form a significant part of their overall economic activities.

It should then be up to member states to extend the negative list, on objective and non-discriminatory grounds and after notifying the Commission. This agreement greatly simplifies the Commission's original proposal, which defined "non-farmers" as those whose income from direct payments amounts to less than 5% of their total receipts from non-agricultural activities (excluding those who get less than €5,000 in direct payment income).

Another very controversial question is a fairer distribution of direct payments within member states, the „internal convergence“.

The Commission's original plans for reallocating payments between farmers within the same member state have been changed as part of the deal, in order to limit the most extreme effects of the potential redistribution.

As you know, the system of allocation based on historic references is to be phased out. However, alternative options are available to manage this process. The default Commission proposal envisaged that, as of 2019, payments received by all farmers in any given member state are to be based on a uniform unit value (determined on a national or regional basis).

As an alternative, the agreement reached in June includes another option, whereby the entitlements of farmers receiving less than 90% of the national/regional average, will by 2019 be increased by at least one third of the difference between their payments in 2014 and 90% of the national/regional average.

MEPs ensured that by 2019 every farmer will receive at least 60% of the national/regional average. However, in order to avoid sudden sharp falls in levels of support that could jeopardise the viability of some farms, Parliament insisted that member states could guarantee that no farmer would lose more than 30% of his/her level of direct payments, when compared to the first year of implementation.

In addition, the new rules for direct payments provide for simplified and more flexible provisions with regard to payment entitlements. Member states or regions that currently operate either a regionalised or a hybrid system of payments (and therefore already partly meet the aims of the reform) will be able to maintain their payment entitlements.

Member states that apply the single area payment scheme SAPS (Cyprus, Bulgaria, Romania, Hungary, Slovakia, Czech Republic, Poland, Lithuania, Latvia and Estonia), confirming that their payment systems can continue until 2020. These countries may also decide to continue to grant transitional national aid to farmers and sectors which were eligible for it in 2013. In 2015, the amount available for farmers will correspond to 75% of the previous sector-specific budget and will be reduced by 5% each year until 2020, when the support scheme will be phased out.

In order to attract younger people into farming, MEPs insisted on a mandatory EU-wide top-up scheme for young farmers. Farmers under 40 years old would be eligible for an additional 25% payment for a minimum of 25 and maximum of 90 hectares (single maximum limit to be set by a member state). Member states would have to use up to 2% of their national direct payments budgets to fund this support scheme for young farmers.

On the other hand, Member states would be free to decide whether to set up a support scheme for small farmers. Farmers who qualify could then receive additional support of at least €500 and at most €1,250 (or €200 – 500 in the case of Croatia, Cyprus and Slovenia and €50 - 500 in that of Malta).

Let me now come to a key element of the reform debates, the so-called “greening of the CAP”.

Following Parliament's lead, the three institutions agreed that more should be done to protect the environment. The agreement provides for 30% of the national budget for direct payments to farmers to be linked to "greening" measures. But MEPs also won Council support for 30% of rural development spending to be earmarked for environment-related actions. The option of paying farmers twice for applying the same greening measures was definitively ruled out at the insistence of MEPs.

The deal also ensures that the new environmental rules for farmers will be more flexible and linked to the size of the holding. The three key measures proposed by the Commission – crop diversification, maintaining existing permanent grassland and ecological focus areas – would remain, but certain exceptions should be made to reflect geographical conditions and size of holding, according to the political agreement.

Farmers whose holdings are certified under national or regional environmental certification schemes would be considered "green" only on condition that the measures they apply deliver at least the same benefit as the default greening ones, or go beyond them. The same applies to "equivalent practices" supported by CAP Pillar 2 (rural development) agri-environment schemes, which farmers could choose to apply instead of the three default measures.. Equivalent measures would be strictly defined by the core legislation and assessed by the Commission for equivalence to the practices listed in the annex to the regulation.

Organic farmers shall however be automatically considered "green", without imposing any additional requirements.

Let me first address the Crop diversification. In line with Parliament's position, farmers with holdings of 10 ha – 30 ha of arable land, should be required to plant at least two different crops. None of these crops should cover more than 75% of the arable land.

Farms of more than 30 ha of arable land should be required to cultivate three crops with the main one covering not more than 75% and two main crops together not more than 95% of the arable land.

Special provisions are foreseen for holdings in north Scandinavia (north of the 62nd parallel) and an derogation is foreseen for rice growing farms.

With regard to the conservation of Permanent grassland, Member states must ensure that the ratio of the land under permanent grassland does not decrease by more than 5% at national, regional or sub-regional level (to be decided by member states), compared to the situation in 2015. According to the agreement, farmers must neither convert nor plough permanent grassland on wetlands, peat and carbon-rich soils which are located in areas designated by member states as "environmentally sensitive".

Concerning the Ecological focus areas, farmers with more than 15ha of arable land would have to ensure, as soon as the new rules take effect, that 5% of their farm, excluding permanent grassland and permanent crops, is reserved for so-called "ecological focus areas" (EFAs), such as land left fallow, terraces, landscape features, buffer strips, etc. Farms which are more than 75% grassland (provided that the remaining arable area is less than 30 ha) and farms with crops under water would be exempt from this requirement, the three institutions agreed.

EFAs could be weighted on the basis of their ecological significance, with the technicalities of setting the weighting and conversion factors being left to a delegated act. By the end of March 2017, the Commission would have to present an evaluation report and if necessary a legislative proposal to further increase the percentage of EFAs to 7%. This proposal would be subject to approval by both the European Parliament and the Council.

Parliament and Council backed Commission plans to make 30% of the national budget for direct payments conditional upon compliance with greening measures. Should farmers fail to apply them, they would lose the greening component of their direct payments. Furthermore, during the third year after the new CAP enters into force, non-compliance could lead to additional sanctions of up to 20% and from the fourth year on up to 25% of their greening payment. The additional penalty would not apply during the first two years of the new CAP, to allow farmers time to familiarise themselves with the new rules.

An additional element for "greening" the CAP was inserted in the rural development regulation. Following strong insistence from Parliament, it was agreed that at least 30% of the total budget earmarked for rural development programmes would have to be reserved for environmental and climate-related expenditure.

Parliament insisted in the negotiations that greening measures under the direct payment scheme must not be subject to any other financing from the rural development envelope, in order to avoid double funding of the same measure. This means that farmers participating in

Agro-Environment measures in the second pillar will have to go beyond the mandatory greening measures in delivering additional environmental benefits in order to be eligible for additional funding from the rural development budget.

Another major novelty in the rural development policy is the inclusion of risk management tools under Pillar 2 of the CAP, thus requiring these measures to be co-financed by member states. They will include financial contributions to premiums for crop, animal and plant insurance and also mutual funds to pay compensation to farmers in the event of economic losses caused by adverse climatic events, animal and plant diseases or pest infestation.

The three institutions also agreed to create an income stabilisation tool, to take the form of financial contributions to mutual funds to compensate farmers in the event of a severe drop in their income. By the end of 2018, a report on the experience with these new tools shall be presented, and the measures might be reassessed in the light of the experience gained.

The third legislative act concerns the Common Market Organisation, which specifically aims at strengthening farmers' bargaining position.

To better equip farmers to cope with market volatility and manage crises, but also to strengthen their price bargaining position, producer organisations and "interbranch" organisations of producers, traders and/or processors should be given significantly wider powers and new tools, MEPs argued throughout the negotiations.

As a general rule, member states would be free to decide whether or not to recognise a producer or interbranch organisations. However, they will be required to recognise producer organisations or interbranch organisations in some specific sectors like olive oil or in the fruit and vegetable sector.

EU competition rules applicable to the agricultural sector should be clarified to improve the functioning of the internal market and strengthen farmers' position in the food supply chain, the three institutions agreed, following Parliament's lead. Agreements, decisions and concerted practices of farmer organisations or associations should be allowed unless they harm competition, as they are necessary to achieve the objectives of EU farm policy.

Furthermore, EU competition rules should be applied uniformly to prevent them being interpreted differently by each member state's national competition authorities, according to the text agreed on the basis of Parliament's original position.

To boost farmers' bargaining power to get fair prices for their products, farmers' organisations in the olive oil, beef, cereals and protein crops sectors should be allowed to collectively negotiate supply contracts on behalf of their members, without falling foul of competition law.

In negotiations, MEPs insisted that contract provisions already in force for dairy farmers (adopted by Parliament in February 2012) must be extended to all agricultural sectors. According to the agreed text, member states should be able to decide whether or not to impose contracts covering delivery of farm produce from farmers to processors or distributors for their territory. However, if these contracts are made compulsory, they must be drawn up before delivery and state the price, payment periods and arrangements for collecting and delivering the product in question. Member states should also be able to stipulate a minimum duration for these contracts of at least six months.

Now some brief comments on specific sectors.

Parliament and Council rejected Commission plans to phase out sugar quotas by the end of September 2015 and agreed to maintain the system until the end of September 2017.

To preserve the reputation of quality EU wines, Parliament insisted that a system to regulate vine planting should be maintained until 2030.

The current system of vine planting rights should be replaced by a vine planting authorisation system, which could be launched as soon as in 2016, but the validity of original rights could be extended for another 3-5 years.

Strategies to improve children's eating habits, such as school fruit and vegetable schemes, should also promote local food producers and fight food waste, says the agreed text. The list of fruit and vegetables concerned should be drawn up by member states.

Member states would be allowed to grant coupled support linked with specific production where a specific sector, which is particularly important for economic, social or environmental reason, undergoes difficulties.

Member states could use up to 8% of their national budget for direct payments to finance this support. If a member state uses more than 5% of coupled aid in one year during the 2010-2014 period, that ceiling would increase to 13%. Member states who use more than 10% in one of the 2010-2014 years could apply for higher ceiling, to be approved by the Commission.

This ceiling could be increased by up to another two percentage points for those member states which use at least 2% of their national budget to support production of protein crops.

This aid should nevertheless be granted only to the extent necessary to maintain current level of production in the region concerned.

To stabilise agricultural sectors in periods of severe market imbalances, the European Commission would be empowered, at Parliament's insistence, to allow certain exceptions to EU competition rules provided that they would not undermine the single market. Farmer

organisations could thus use instruments such as private storage and promotional sales, withdraw their products from market, or jointly purchase inputs necessary to combat the spread of pests and animal diseases, but also temporarily plan their production.

Last, but not least, the Horizontal regulation will focus on improved controls for spending of public funds. Since the start of the CAP reform debate, MEPs have stressed that the new CAP must cut bureaucratic red tape, including that involved in checking proper compliance with EU rules and efficient spending of EU funds.

To make farmers' lives easier while keeping a close eye on compliance with common rules on how EU funds are spent, the political agreement includes several measures designed to remove unnecessary bureaucracy for farmers and ensure that penalties for breaching rules are proportionate.

All checks and sanctions, including those used to enforce "cross-compliance" (i.e. conditions attached to farmers' payments to ensure they conform to basic environmental, food safety and animal welfare standards), must be proportionate and tailored to the level of risk, says the agreed text. Furthermore, member states where the error rate is at an acceptable level could reduce the number of on-the-spot checks.

To simplify the application process, member states may provide farmers with a pre-filled electronic form based on the application submitted in the previous year. If there are no changes, farmers would only need to sign and submit it.

Member states could set up an early warning system, which would send an initial warning to the beneficiary who breached a cross-compliance rule and inform him or her of the need to remedy it. If this is done, depending on the severity and extent and duration of the problem, payments should not be reduced unless the non-compliance constitutes a direct risk to public or animal health. However, if the problem persists, payments to the farmer should be reduced, even retrospectively.

The agreement provides for revised transparency rules, with regard to the publication of names of beneficiaries of EU agricultural subsidies (for both legal and natural persons), amounts they receive and measures for which the payment is allocated. All the data should be compiled on a single website, which should be set up by the member state. Small farmers (all those receiving less than €1250 per year) should be identified by a code.

As a last point, let me come back to the issues which are still pending and awaiting a final agreement between the institutions. Due to the inability of the Council to negotiate with Parliament on issues where a position had been taken by heads of states and governments during the February European Summit, the political agreement on the CAP of 26 June 2013 excludes several issues which will be addressed later.

These issues include capping direct payments (i.e. setting upper ceilings for the largest agricultural holdings), external convergence (i.e. how to make the allocation of direct payments among member states fairer and more balanced across the EU), member states options for transfers of funds between Pillar 1 (direct payment ceilings) and Pillar 2 (the rural development budget), along with the rural development co-financing rates and member state budgetary breakdowns.

The European Parliament insists that these issues are part of the CAP reform legislation which has to be co-decided according to Article 43 of the Lisbon Treaty.

According to Article 15 of the EU Treaty, the European Council (the heads of governments) shall define general political directions, but shall not have legislative powers.

We are thus confident that a solution for these outstanding issues will be found in September, after further constructive talks with the Lithuanian Presidency.

Thank you very much for your attention.

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