## *Non-paper on external convergence of CAP direct payments*

**30 April 2018**

In the Agriculture and Fisheries Council of 19 March 2018, a debate took place on the level of CAP support per hectare in the Member States and the request of some Member States to harmonise that level across the EU (external convergence). This document, drafted by **Belgium, Cyprus, Denmark, Greece, Italy, the Netherlands and Slovenia** provides elements on the appropriate level of CAP support in Member States and explain why any further external convergence is the wrong direction to take for the CAP review.

The level of CAP support needs to take into account the following:

(a) The gap between farmers' income and average income in each Member State, not only those with a low average income and cost level;
(b) The actual differences in cost levels and agricultural land prices levels between Member States, which Art. 39(2) TFEU requires to take into account when allocating CAP support;
(c) The differences between Member States in agricultural productivity, a prime CAP objective (Art. 39(1) TFEU) and a pre-condition for agricultural income[1] which needs to be stimulated rather than discouraged by further financial transfers to Member States with lower productivity;
(d) The higher costs of public good services for climate and environment in Member States with high productivity, high cost levels and high agricultural land prices and pressure on land from urbanization;
(e) The significant budgetary transfers that already have taken place from Member States with high cost and land price levels and high productivity to Member States insisting on further external convergence while there is no economic justification for any such transfers according to WTO[2]: continuation of external convergence will inevitably further distort the competition among Member States, instead of removing that distortion;
(f) No further reductions should be allowed in the joint CAP pillar allocations for purpose of redistribution among Member States.

For these reasons, the statement of the European Commission in its Communication of 29 November 2017 that all EU farmers face similar challenges it is not appropriate, in light of the wide diversity of relative costs of labour and land, different targets in relation to climate change (non-ETS) and environment (e.g. National Emissions Ceilings Directive), as well as the different agronomic potentials across the EU should be acknowledged.

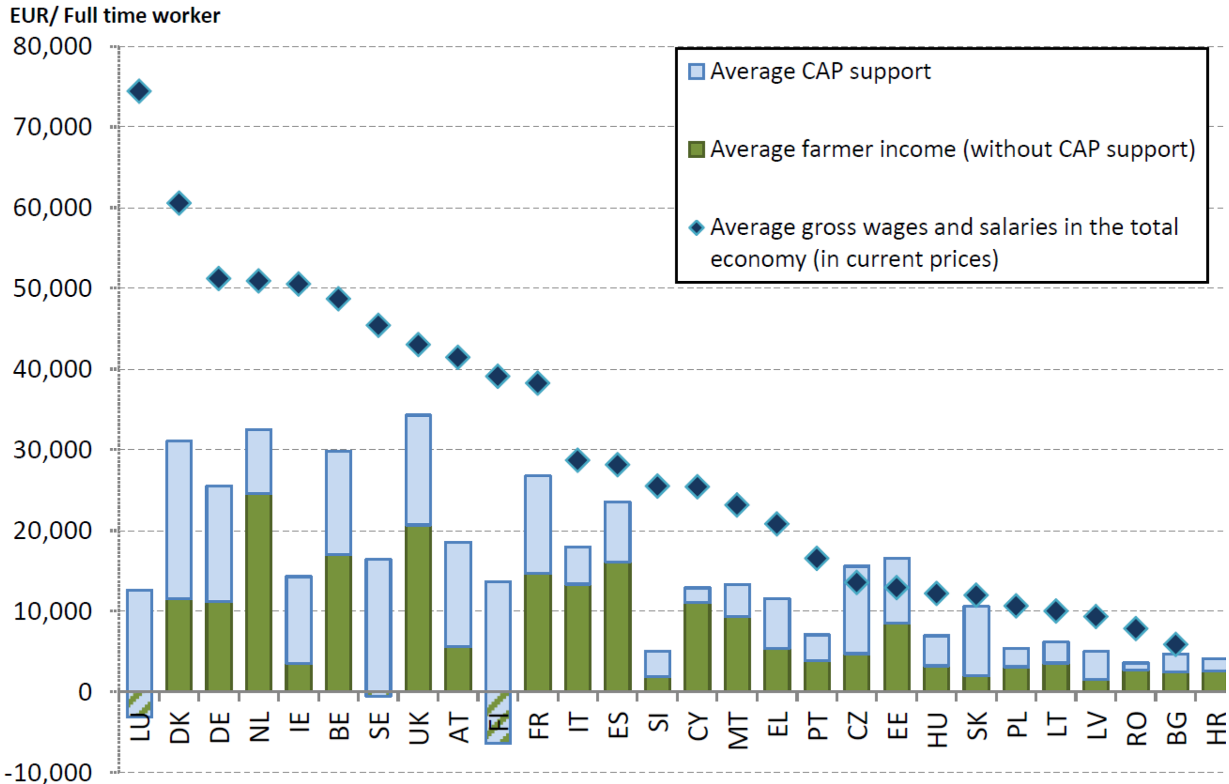
[1] Art. 39(1) TFEU: The objectives of the common agricultural policy shall be:
(a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour;
(b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture; [...].

[2] The WTO considers decoupled payments no to distort the market at all, so any claims that lower support levels per hectare distort competition are not justified. Convergence of agriculture economies of MS should not be pursued by budgetary transfers to MS with low levels of support per hectare, but by increasing the productivity, safeguarding the market orientation of the CAP and thereby enabling farmers to achieve a fair living standard I the market.

## Background

The Commission Communication of 29 November 2017 proposes that the CAP should help to reduce differences between Member States in CAP support. However, in doing so, the Communication stressed the wide diversity of relative costs of labour and land in EU Member States as well as the different agronomic potentials across the EU.

**FARMERS' INCOME IS STILL LAGGING**
**BEHIND** SALARIES IN THE WHOLE ECONOMY



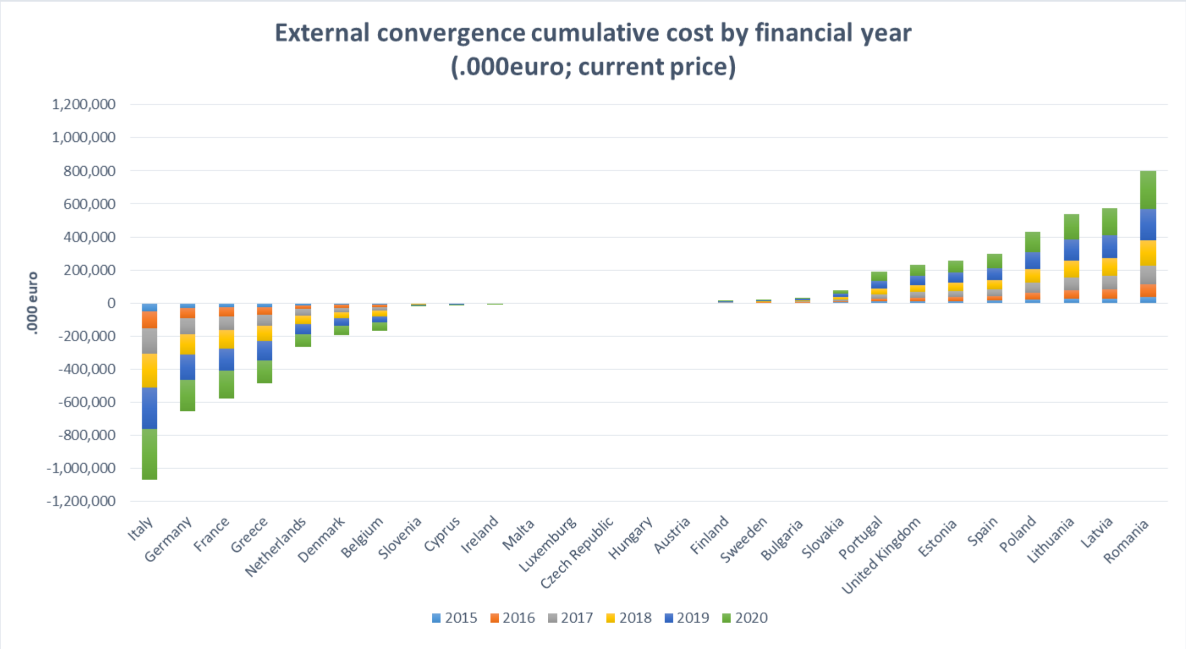

Source: DG AGRI based on DG AGRI and Eurostat data, 2011-2013
***Average CAP support*** *= operating subsidies per worker incl. support covering possible negative market income*
***Average farmer income (without CAP support)*** *= entrepreneurial income per worker - operating subsidies*
***Nota****: CAP support does not include investment support; average farmer income without CAP support in LU and FI was negative over the period considered - the negative income compensated by CAP support is hatched on the graph*

As is immediately clear from the figure 6 of the Commission Communication and the text accompanying it, there is nothing fair or effective about equalizing income support per hectare across all EU Member States, given that the CAP direct payments should reduce the gap between agricultural income and average income in the total economy.

According to the figures, current direct payments, in some Member States as Denmark, Germany, Netherlands, Belgium, Italy, Greece, Ireland, Luxemburg, Sweden, Austria, Finland, France, Slovenia, Cyprus and Malta do not close the **gap between agricultural income and income in other economic sectors**.

Furthermore, Italy, Germany, France, Denmark, Netherlands, Belgium, Greece, Slovenia, Cyprus and Malta already made an effort during the current programming period to contribute to the increase of direct payments allocations of other Member States, as reported in figure 1.

**Figure 1- Cumulative cost and benefit from the external convergence in the 2014-2020 period.**



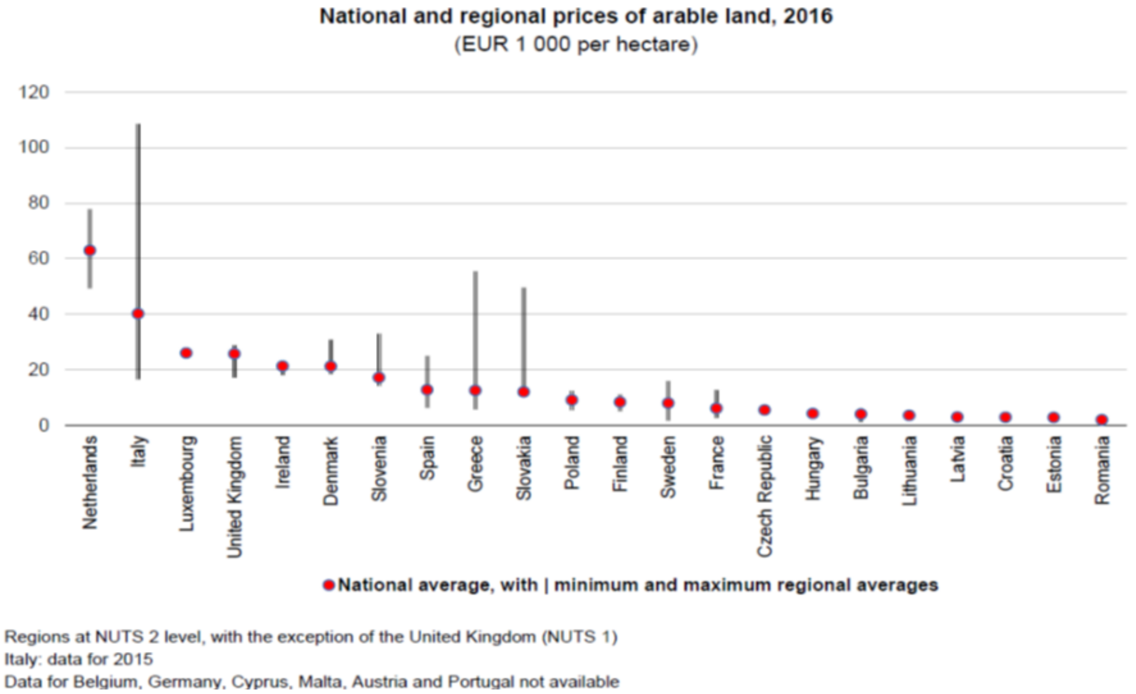

The allocation of resources based on the eligible area, such as the external convergence, does not represent a mechanism suitable to achieve a distribution of resources compliant with the challenges and objectives underlined in the Communication of the Commission for the CAP post 2020. Member States allocation of CAP direct payments cannot be based merely on the agriculture area, but shall be based on factors coherent with the specific objectives targeted by direct support, such as the cost of land and the cost of labour, together with the contribution made by agriculture to employment in the individual Member States. Moreover, the different agronomic conditions, the level of payment per farmer and the purchase power parities should be taken into account.

The external convergence mechanism based on eligible area should not be applied anymore in the post 2020 for the following reasons:

- it increases the gap between agricultural income and income in the whole economy in the contributing Member States, while overcompensating at the same time the beneficiary countries;
- it transfers financial resources from small farms with low average income towards bigger farms with a high average income (*as described in Figure 11 pag. 27 of the Commission background document on Economic challenges facing EU agriculture*);
- not taking into account the different level of prices among countries in the convergence towards the EU average, will lead to a different treatment of farmers throughout Europe and a distortion of the well-functioning of the internal market;
- it does not take into account the differences among MS in land prices, in the cost of labour, in the agronomic conditions among MS and moreover it thus increases the speculation on agricultural land in beneficiary countries as the capitalisation of CAP support on land value is increased.

## Annex

**Table 1: Cost of agricultural land by Member States (EUROSTAT, 2016)**
http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=apri_lprc&lang=en




**Note: For Belgium the price of arable land is 42.317€/ha (2016, FEDNOT)**

**Table 2: Labour cost per hour in euro for the whole economy in the EU Member States, 2016 (wages and salaries and other labour costs)**