Northern Ireland Assembly

Research and Information Service
Briefing Paper

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EU issues relating to the work of the ARD Committee – Spring 2015 and beyond

1 Context

This briefing paper provides an overview of current EU issues that have implications for the work of the ARD Committee in Spring 2015 and beyond, with a particular emphasis on the following:

- CAP Pillar 1 implementation issues and future direction;
- RDP progress – lack of Commission approval for NIRDP;
- State of EU dairy market and interventions;
- State of the EU pork market and interventions;
- Transatlantic Trade and Investment Partnership (TTIP) CETA; and
- Unfair Trading Practices.

Since the last EU update paper provided to the Committee there has been a significant change in that the European Parliament elections have taken place (May 2014) and a new European Commission(EC) has been appointed. The new EU Commissioner for

Agriculture and Rural Development, Mr Phil Hogan, (Irish Fine Gael politician) has been in post since November 2014.

2 Current selected EU issues

There follows a brief overview of some key issues and their component elements at an EU level that have implications for the work of the ARD Committee and the agricultural industry within Northern Ireland.

2.1 CAP Pillar 1 Implementation issues and future direction of the Policy

The newly revised CAP is now in the process of being rolled out across the EU and farmers within Northern Ireland will soon be receiving their pre populated Single Application Form packs.

In support of the application process for the new Area Based schemes under CAP such as the Basic Payment Scheme DARD is currently in the process of preparing a series of roadshows, starting on the 10th of March[1], which will provide information to farmers planning to apply for CAP support.

Whilst it is still too early to definitively identify any particular implementation issues there are suggestions from some stakeholders that a number of issues may present particular problems within Northern Ireland.

Conacre availability

The new CAP requirement for recipients to be ‘active farmers’ appears to be having a negative impact on the availability of conacre land within Northern Ireland. Whilst the evidence is still largely anecdotal there have been press reports over the last few weeks indicating that the price for conacre land has gone up (a recent auction saw a price of £340 per acre rather than expected £150-£200 per acre[2]), and that some potato and vegetable growing farmers in particular are finding it hard to access land to grow their produce[3]. The key issue here is that the active farmer test has led some conacre landlords seeking to secure entitlements as ‘active farmers’ and as such they are no longer letting their land, which has decreased the supply of land available to let or take out in conacre.

The Ulster Famers Union(UFU) has directly linked this issue to the fact that the Commission set a future rather than historic year for establishing

[1] O’Neill announces series of DARD CAP Reform roadshows , DARD Press Release, 25th February 2015
[2] Limited supply drives up conacre, Farming Life, 26 February 2015
[3] UFU meets with local MEPs as land availability difficulties for potato and vegetable growers worsens, UFU Press Release, 19th February 2015

entitlements(Regulation 1307/13, Article 24 paragraph 2[4]), which led to landowners needing to be active farmers within 2015.

Young Farmers Scheme

The Young Farmers Scheme will provide a top up payment to the Basic Payment Scheme for farmers who meet the following criteria:

- have established and activated payment entitlements under the Basic Payment Scheme;
- be aged no more than 40 in the year of application;
- be the head of holding; and
- have at least a Level II qualification in agriculture (or a related subject containing at least a farm business management module).

Article 50 paragraph 2a of the Basic Payment Regulation (1307/13[5]) further defines the requirements that need to be met in relation to being head of holding as follows:

'who are setting up for the first time an agricultural holding as head of the holding, or who have already set up such a holding during the five years preceding the first submission of an application under the basic payment scheme or the single area payment scheme referred to in Article 72(1) of Regulation (EU) No 1306/2013'

This 5 year preceding limit on the establishment of a holding has been identified by some stakeholders as a potential issue within Northern Ireland, in that it would exclude applicants who are head of a holding that was established more than 5 years ago. At this stage however there is no concrete evidence to suggest that This issue will make significant numbers of potential Young Farmers Scheme applicants ineligible.

CAP simplification

Commissioner Hogan has put on record his intention to simplify the CAP, but has equally stated that any such simplification should not be at the expense of the operational effectiveness of the CAP.

Within this context the Commissioner has asked for the views of key CAP stakeholders including:

- Member States – had up until the end of February to respond
- MEPs – have up until the 13th march to respond.

Commissioner Hogan has also stated that there are three main principles that need to guide the process of CAP simplification, as follows:

[4] REGULATION (EU) No 1307/2013 of the European Parliament and of the Council, establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy and repealing Council Regulation (EC) No 637/2008 and Council Regulation (EC) No 73/2009, 17 December 2013, Article 24 paragraph 2.

[5] REGULATION (EU) No 1307/2013 of the European Parliament and of the Council, establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy and repealing Council Regulation (EC) No 637/2008 and Council Regulation (EC) No 73/2009, 17 December 2013, Article 50 paragraph 2a.

- the main political decisions taken in 2013 in relation to the overall CAP deal should stay in place
- there is a need for stability – simplification should be focussed on those areas which can be changed without changing the basic acts;
- any simplification proposals should not lead to a weakening of financial management or increase the risk of errors in CAP expenditure.

Given these principles, EU agricultural press sources[6] have suggested that the Commission has specifically asked stakeholders for their issues and possible solutions relating to the three policy areas of Direct Payments, Rural Development and Market Measures.

Further CAP reform

Whilst Commissioner Hogan's CAP simplification agenda is now well established, over the last week there have also been suggestions that the Commissioner could well be open to a wider reform of the CAP during 2017. This suggestion emerged at a sustainable agriculture conference in Brussels on the 4th March 2015 where the Commissioner hinted that he was contemplating such action *'…considering that so many people were unhappy with the CAP'*[7]*.*

2.2 RDP progress – lack of Commission approval for NIRDP

All EU Member States and devolved/regional (where applicable) Rural Development Programmes (RDPs) require formal approval from the European Commission prior to becoming open to applications. Within the context of the 2014-20 RDP period, DARD submitted the final version of the Northern Ireland Rural Development Programme (NIRDP) to the European Commission on the 14th October 2014.

DARD's submission date was later than the submissions from other UK jurisdictions and the ROI, as revealed by the following data for RDP submission dates:

- Republic of Ireland – 3rd July 2014[8]
- Scotland – 19th June 2014[9]
- Wales – July 2014[10]
- England – 25th June 2014

The delay in DARD submitting its finalised RDP was largely as a result of earlier debates around the level of P1>P2 modulation and the wider debate on the breakdown of the overall Northern Ireland budget and potential impacts on the NIRDP.

[6] Hogan asks MEPs for input on CAP simplification, AgraEurope, 26th February 2015
[7] CAP may be reformed again in 2017 - Farm Commissioner, AgraEurope, 5th March 2015
[8] http://www.agriculture.gov.ie/media/migration/ruralenvironment/ruraldevelopment/ruraldevelopmentprogramme2014-2020/DraftRDP20142020SummaryofMeasures300914.pdf
[9] http://www.gov.scot/Topics/farmingrural/SRDP
[10] http://www.assembly.wales/en/bus-home/pages/rop.aspx?meetingid=233

Of the 4 UK RDPs and 1 Irish RDP, the European Commission has only formally approved the English RDP to date. Across the EU a total of 27 (out of 118 RDPs) have now been approved by the Commission.

Indications provided within EU agricultural press suggest that there are unlikely to be any more RDP approvals prior to May, mainly due to the fact that the European Parliament needs to approve the EU's revised Multiannual Financial Framework (MFF) in order to provide funds for RDPs, and this is projected to occur at some point in April.

Press speculation suggests that the 91 RDPs still requiring approval, as of the 19th February 2015, effectively fall into one of the following 2 categories[11]:

- 30-40 would be ready for adoption upon MFF approval by the European Parliament;
- the remainder would require additional work but should be rubber stamped by the end of July.

A response to an Assembly question by DARD Minister Michelle O'Neill on the 2nd February 2015 might suggest that the NIRDP is within the second of the aforementioned categories[12].

Question:
To ask the Minister of Agriculture and Rural Development for an update on the Rural Development Programme 2014-2020.

Answer:

The draft Rural Development Programme 2014-2020 was formally submitted to the European Commission on 14th October 2014. We are currently waiting for the Commission's response on the content of the draft Programme.

Because of a backlog in approving Programmes across Europe, the European Commission have advised that the earliest possible date for approval of our Programme is likely to be June 2015 and not April as originally planned.

While any delay in the approval process of the RDP is disappointing, it will not affect the continuing work by my officials in obtaining the necessary business case approvals and in developing the schemes for opening. We will continue to work to open the schemes as early as possible once all the necessary approvals are in place.

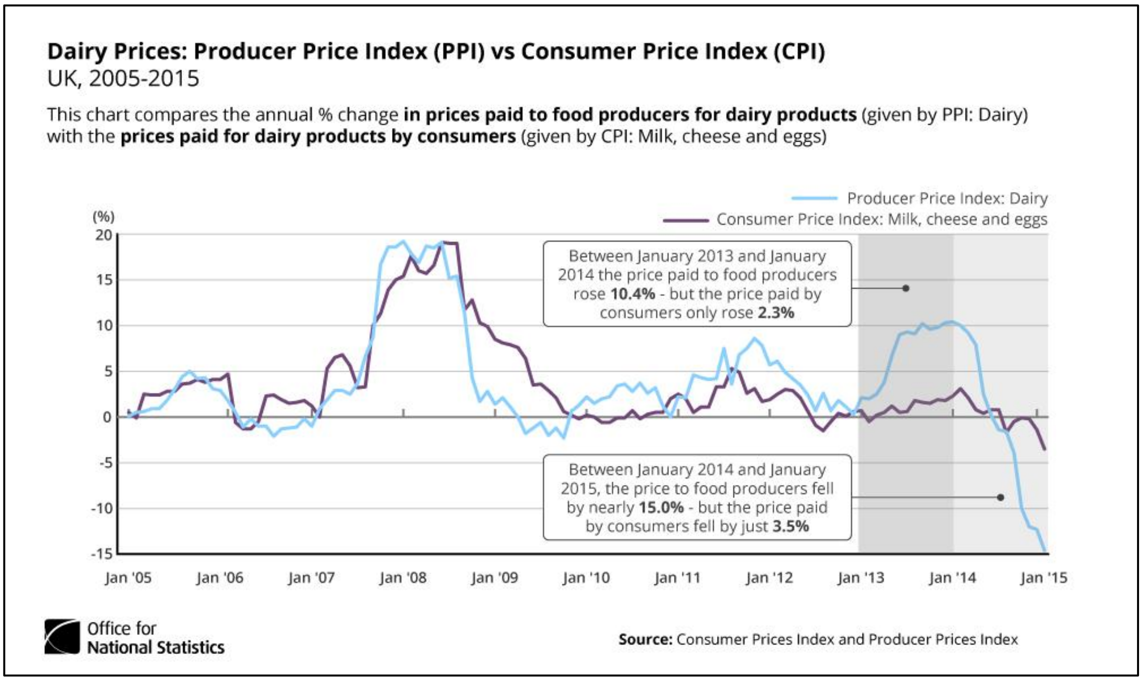
[11] No more CAP 2014-2020 rural development plans before May, AgraEurope, 19th February 2015
[12] AQW 41624/11-15, submitted by Ms Claire Sugden MLA, 02/02/2015

2.3 State of EU dairy market and interventions

Volatility within the EU dairy market continues to have a serious impact on the profitability and viability of many milk producers.

The degree of volatility within the UK is revealed in recently released the Office for National Statistics data set out in figure 1 below, with milk producers initially seeing a 10.4% rise in the price they were paid between January 2013 and January 2014, only to be followed by a 15% drop in the price they were paid between January 2014 and January 2015. Volatility of this scale could present significant challenges for business planning in any sector.

Figure 1: Dairy Prices UK 2005-2015 : Producer Price Index (PPI) vs Consumer Price Index (CPI)[13]



The volatility identified by the ONS is also reflected in the dairy farm income data collated by DARD for 2011/12, 2012/13 and 2013/14 and 2014/15 (forecast) as set out in table 1 below.

Table 1: Farm Business Income for Dairy sector within Northern Ireland 2011-15

Year	Farm Business Income for Dairy	% change on previous year
2011/12[14]	£56,333	-
2012/13[15]	£27,928	-50%
2013/14[16]	£61,549	120%
2014./15 forecast[17]	£40,307	-36%

[13] Dairy Prices: Producer Price Index (PPI) vs Consumer Price Index (CPI) UK, 2005-2015, Office for National Statistics, 17th February 2015
[14] Farm Incomes in Northern Ireland 2012/13, Policy and Economics Division, DARD
[15] ibid
[16] Northern Ireland agricultural incomes in 2014, Statistical Press Release, DARD, 29th January 2015
[17] ibid

There are a number of factors which contribute to milk price volatility within the EU including:

- Milk and dairy products are global commodities and as such are subject to global changes in supply and demand:
  - Global supply variation due to factors such as weather/climate variation – in recent years Australian dairy production dropped significantly due to drought – meant that world production dropped and milk price rose;
  - Global demand variation – Chinese imports variation and Russian import ban in recent years – both factors have suppressed prices due to oversupply in the market;
- Within the EU specifically, the impending abolition of milk quotas (in effect from the 1st April 2015) has seen many EU countries ramping up their milk production – which could adversely impact on milk prices if supply exceeds demand.
- Russian import ban on EU dairy products - 7th August 2014 the Russian government announced a 1 year import ban for a range of EU agricultural commodities, including milk and dairy products – has led to an oversupply of milk and a subsequent downward pressure on milk prices.

Under the provisions of Council Regulation (EC) No 1308/2013[18] the EU has the ability to deploy a number of mechanisms in circumstances where market conditions for particular commodities deteriorate. An overview of a number of these mechanisms is set out in table 2 below.

Table 2: EU market intervention mechanisms[19]

Mechanism	What the mechanism does
Intervention	When market prices for certain agricultural products fall below a predetermined level, the public authorities of the member states may intervene to stabilise the market by purchasing surplus supplies, which may then be stored until the market price increases. The product may then be returned to the market for sale, exported to a third country or disposed of in an alternative way. The current intervention price for milk is 17ppl.
Export refunds	Export refunds may be paid by the European Union to trading companies that sell certain agricultural goods in third countries. The refund normally covers the difference between the internal EU price and the world market price. Export refunds in 2013 reached the rate of zero for all products, and they may only be activated when the market conditions are such that exceptional measures are justified.
Private Storage Aid (PSA)	Some products have a seasonal cycle, meaning that in certain periods there is a relative over-production, while later in the year there is a relative shortage. Certain external factors may increase the seasonal peak beyond normal expectations, thus potentially causing the market price to fall. In such cases it may be decided to temporarily support producers of products, such as olive oil and

[18] REGULATION (EU) No 1308/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 17 December 2013 establishing a common organisation of the markets in agricultural products and repealing Council Regulations (EEC) No 922/72, (EEC) No 234/79, (EC) No 1037/2001 and (EC) No 1234/2007

[19] Glossary of terms related to the Common Agricultural Policy, European Commission website, 19th December 2014

	butter, regarding the cost of private storage

The European Commission announced on the 28th August[20] 2014 that it would open Private Storage Aid (PSA) for butter, Skimmed Milk Powder (SMP) and certain cheeses in order to alleviate the impact of Russian restrictions on imports of EU dairy products and to limit the negative effects on the internal market. The European Commission also confirmed that the period for public intervention of butter & SMP would be extended until the end of 2014.

The European Commission moved to close the measure for Private Storage Aid (PSA) of cheese[21], on the 23rd September, due to apparent abuses of the support.

As things currently stand PSA for EU butter and SMP has now been extended until at least the 30th September 2015[22]. Intervention support for butter and SMP has also been available since the 1st of January 2015 should prices drop to a level to trigger it[23]. The Commission has not reopened PSA for cheese and has given no indication that such a move is likely.

Whilst evidence suggests that milk prices in some parts of the EU appear to be stabilising or improving[24], the most recent data from DARD reveals that milk prices have continued to fall within Northern Ireland, with an average farm gate price of milk (including retrospective bonuses) of 22.33 pence per litre in January 2015, 0.46ppl lower than the figure recorded for December 2014[25].

2.4 State of the EU pork market and interventions

The previously mentioned Russian import ban implemented on the 7th August 2014 applied to EU pigmeat.

Similarly to dairy products the closing of a significant market for EU pig producers has led to a situation of oversupply that has had a negative impact on prices and has generated considerable volatility for EU pig producers. The loss of a key market has been further compounded by the fact the EU pigmeat production has expanded and is projected to do so over the coming years.[26]

Pig farm income data collated by DARD for 2011/12, 2012/13 and 2013/14 and 2014/15 (forecast) as set out in table 3 below, highlights these volatility issues.

[20] European Commission announces emergency market support measures for the milk sector, European Commission Press Release, 28th August 2014
[21] Private Storage Aid for cheese closed, European Commission Press Release, 23rd September 2014
[22] EU confirms further butter/SMP storage aid extension, AgraEurope,26th February 2015
[23] EU emergency butter/SMP aid extended to February, AgraEurope,28th November 2014
[24] Milk Market Observatory, Update of Meeting of 24 February 2015 , European Commission
[25] Northern Ireland Milk Prices and Production, DARD, 4th March 2015
[26] EU pigmeat production to hit 23m tonnes by 2016, says Commission, AgraEurope, 9th March 2015

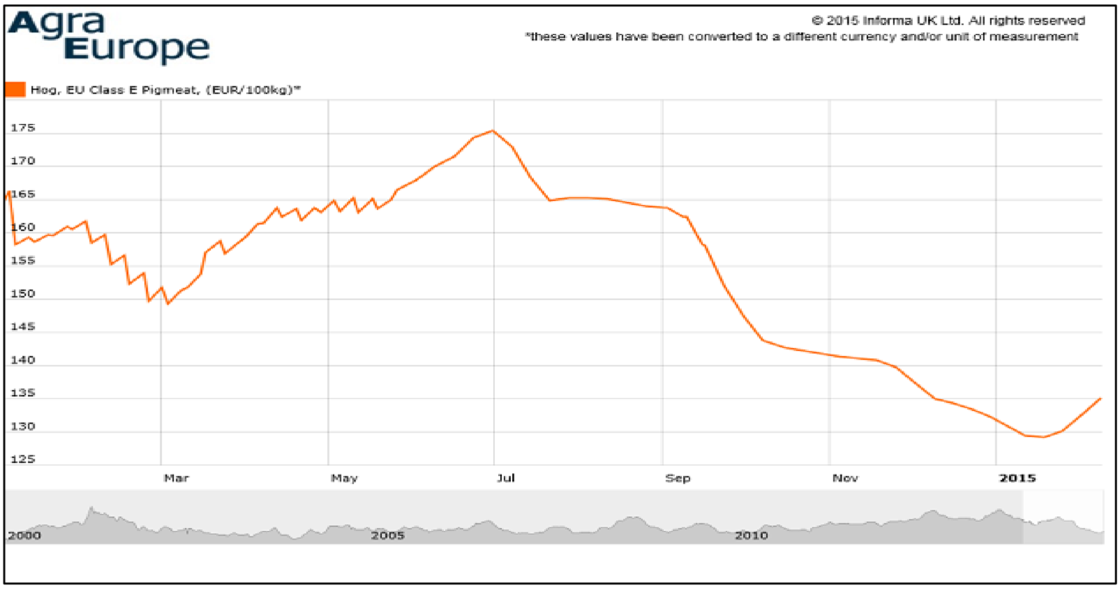
Table 3: Farm Business Income for Pigs sector within Northern Ireland 2011-15

Year	Farm Business Income for Pigs	% change on previous year
2011/12[27]	£48,449	-
2012/13[28]	£31,473	-35%
2013/14[29]	£75,236	139%
2014/15 forecast[30]	£59,863	-20%

European Commission data confirms the fact that despite recent signs of recovery, the general trend for pig meat prices within the EU has been downwards since July 2014, as set out in figure 2 below.

As a response to the downwards price pressure and the impact it was having on pig producer margins/incomes the European Commission agreed to introduce Private Storage Aid (PSA) for pigmeat on the 24th February 2015[31], with the agreed rates being set out in table 4 below. These supports entered into force on the 9th of March

Figure 2 : Hog, EU Class E Pigmeat price (€/100kg) January 2014-February 2015[32]



[27] Farm Incomes in Northern Ireland 2012/13, Policy and Economics Division, DARD
[28] ibid
[29] Northern Ireland agricultural incomes in 2014, Statistical Press Release, DARD, 29th January 2015
[30] ibid
[31] Member states wave through PSA for pigmeat, AgraEurope, 24th February 2015
[32] ibid

Table 4: EU Private Storage Aid rates for Pigmeat[33]

Categories of products	Products in respect of which aid is granted	Amount of aid for a storage period of (EUR/tonne)		
		90 days	120 days	150 days
1	2	3	4	5
Category 1 ex0203 11 10	Half-carcases without the forefoot, tail, kidney, thin skirt and spinal cord ([illegible])	230	243	257
Category 2 ex0203 12 11 ex0203 12 19 ex0203 19 11 ex0203 19 13	Hams Shoulders Fore-ends Loins, with or without the neck-end, or neck-ends separately, loins with or without the chump(14)(15)	254	266	278
Category 3 ex0203 19 55	Legs, shoulders, fore-ends, loins with or without the neck-end, or neck-ends separately, loins with or without the chump, boned (4)(5)	281	293	305
Category 4 ex0203 19 15	Bellies, whole or trimmed by rectangular cut	210	221	233
Category 5 ex0203 19 55	Bellies, whole or trimmed by rectangular cut, without rind and ribs	226	238	254
Category 6 ex0203 19 55	Cuts corresponding to 'middles', with or without rind or fat, boned (14)	228	241	254

Despite the introduction of PSA for pigmeat there has been criticism from some stakeholders including:

- that this is not needed;
- does not cover offal and fats which have been particularly affected by the Russian import ban; and
- is well below the rates of support that were available in 2011.

2.5 Transatlantic Trade and Investment Partnership (TTIP)

The Transatlantic Trade and Investment Partnership (TTIP) is the ongoing effort to establish a comprehensive trade and investment deal between the USA and the EU[34]. TTIP negotiations which are ongoing, began in June 2013 and are unlikely to reach a conclusion within 2015. Any negotiated deal will also require the endorsement of the European Parliament and European Council before implementation.

A key area for the TTIP negotiations is the removal of so called trade barriers in the form of import tariffs, unnecessary regulations and restrictions across many areas of economic activity, including agriculture.

In numerical terms the successful negotiation and implementation of TTIP is estimated to be worth an additional €119 billion a year[35] to the EU economy.

Advocates of TTIP point to a number of potential benefits for EU agriculture that would emerge from an implemented EU/USA trade deal including:

[33] European Commission Press Release, PSA rates for pigmeat
[34] In focus: Transatlantic Trade and Investment Partnership (TTIP), European Commission website
[35] Reducing Transatlantic Barriers to Trade and Investment: An Economic Assessment, Final Project Report, Centre for Economic Policy Research, London, March 2013

- opening up the US market to EU produce by removing tariffs and trade barriers – particularly for higher value and processed products such as alcohol, cheeses and ham;
- opening the EU market to US maize and soy – often used as animal feed – could potentially reduce feed costs for EU livestock farmers;
- negotiations will not include EU restrictions on beef containing growth hormones or GMOs;

Some EU agricultural stakeholders have however raised concerns about a number of potentially negative impacts for EU agriculture as a result of TTIP including:

- opening the EU market to lower animal welfare US beef and poultry which is cheaper to produce and may undercut EU producers;
- efforts to make US/EU regulations more compatible could more adversely impact on EU agriculture – effectively the fear of harmonisation benefiting US producers – especially in areas such as food safety and environmental protection where EU producers have invested considerably; and
- opening up an opportunity to US biotechnology firms to potentially unpick EU regulations around the cultivation and usage of GMOs.

2.6 Comprehensive Trade and Economic Agreement (CETA)

The Comprehensive Trade and Economic Agreement (CETA) is a comprehensive trade agreement between the EU and Canada. The five year negotiations on CETA recently concluded with the creation of an agreed legal text[36] on the 26th September 2014, that now needs the approval of the European Parliament and European Council before being implemented (potential implementation in 2016 or even 2017).

Canada is the EU's 12th most important trading partner. The EU is Canada's second biggest trading partner after the US and accounts for nearly 10% of its external trade. Trade in goods between the EU and Canada is worth almost €60 billion a year. Machinery, transport equipment and chemicals are the EU's main exports to Canada[37].

CETA is projected to increase trade in goods and services between the EU and Canada by nearly a quarter, increasing EU output by about €12 billion a year[38].

From an agricultural perspective CETA is being presented as providing benefits to EU agriculture including:

- opening up the Canadian market for EU produce – abolition of customs duties will mean that nearly 92% of EU agriculture and food products will be exported to Canada duty-free –benefits mainly for dairy exports and cheese in particular;
- preventing EU traditional food products from being copied in Canada;

[36] Consolidated CETA Text, 26th September 2014
[37] CETA Questions and Answers, European Commission website
[38] ibid

- does not affect EU restrictions on beef containing growth hormones or GMOs; and
- enabling EU producers to bid for public contracts in Canada.

Some EU agriculture stakeholders have raised particular concerns about a specific potential impact from CETA for EU agriculture as follows:

- Canadian beef and pork will have access to the EU market – potential negative impacts for EU beef and pork producers in terms of the price they receive;
- Provides a potential means for the biotechnology sector to put pressure on the EU in relation to the wider adoption of GMOs.

2.7 Unfair Trading Practices

UK

Within the UK the Groceries Code Adjudicator Act came into force on the 25th June 2013 and a key element of the Act was the creation of the role of the Grocery Code Adjudicator (GCA). The Adjudicator's role is to oversee the relationship between supermarkets and their suppliers, with the express purpose of ensuring that large supermarkets adhere to the Groceries Supply Code of Practice.

The key responsibilities of the Adjudicator are identified as follows:

- investigate confidential complaints from any source about how supermarkets treat their suppliers (can come from suppliers or 3rd parties);
- make recommendations to retailers if a complaint is upheld;
- require retailers to publish details of a breach of the code;
- in the most serious cases, impose a fine on the retailer; and
- arbitrate disputes between retailers and suppliers.

The GCA published its first annual report and accounts in June 2014[39]. This revealed that the Adjudicator had met with many stakeholders, however there had only been two requests for arbitration, no investigations had been launched and no enforcement actions had been recommended or utilised.

It should also be noted that the Groceries Code Adjudicator Act currently only applies to the relationship between suppliers and supermarkets, not the relationship between suppliers and manufacturers of food.

EU

At an EU level the so called Supply Chain Initiative (SCI) has existed since September 2013. The SCI seeks to promote fair business practices in the food supply chain as a basis for commercial dealings. It aims to generate a culture change through a commitment of signatories to fair trading practices coupled with measures aimed at

[39] Annual Report and Accounts, 23 June 2013 – 31 March 2014, Groceries Code Adjudicator

integrating those principles into day-to-day company operations and to control their application. The Initiative also aims to ensure that companies address disputes in a fair and transparent manner whilst reassuring the complainants that they will not suffer from retaliation.

Sign up to the SCI voluntary however, and there has been some criticism levelled at the approach due to the lack of producer/farmer and meat processor involvement.

In July 2014, the European Commission issued a Communication on Tackling unfair trading practices in the business-to-business food supply chain which encouraged sign up to the Supply Chain Initiative and also asked Member States to examine whether their current national regulatory framework is appropriate to address unfair trading practices.

The Commission is expected to present a report on the Communication in 2015 which should help to address the issue of whether there is a need for further EU action to address Unfair Trading Practices (UTPs).

The Internal Market and Consumer Protection (IMCO) Committee of the European Parliament has discussed the potential need to adopt legislative action at EU level to address unfair trading practices, at a meeting on the 3rd of December 2014. It should be noted that a number of the MEPs on the Committee believe that the current voluntary SCI is not sufficient and that there is a need for the EU to address issues around UTPs through legislation and enforcement.

Commissioner Hogan has also raised the prospect of legislative proposals to deal with the relationship between farmers, processors and retailers in a recent speech that he gave at a 60th anniversary Irish Farmers Association event in Dublin on the 6th January 2015. Speaking at the event, Commissioner Hogan made particular reference to ‘problems ‘ in the EU supply chain and the fact that he *‘…will not hesitate to call for changes so that farmers are not put out of business arising from the squeeze on their margin of profitability. All players in the food chain should realise that it is imperative that producers get a decent return for their raw material. Without producers none of the downstream businesses would even exist.’*