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Department of Agriculture,  
Food and the Marine

**Proposed CAP Post-2020**  
**Direct Payment Modelling Exercise**

**September 2019**



## Contents

Glossary of Terms.....	4
1. Executive Summary.....	7
2. Introduction .....	8
3. Direct Payment elements – existing and proposed .....	10
3.1 Summary of existing and proposed Direct Payment Elements .....	10
3.2 Proposed new Direct Payment Elements .....	11
3.2.1 ECO Schemes .....	12
3.2.2 Sectoral Interventions .....	12
4. How Direct Payment Funding is Allocated to Schemes .....	13
5. Distribution of Direct Payments.....	14
5.1 Re-distribution of BISS Funds between Recipients.....	14
5.1.1 Convergence.....	14
5.1.2 Maximum Unit Value.....	15
5.1.3 Capping.....	15
5.1.4 Complementary Redistributive Income Support for Sustainability (CRISS) .....	16
5.2 Inter-dependencies of Component Parts .....	16
6. Sample Population used for Modelling Purposes.....	17
7. Modelling Individual Components.....	20
7.1 Calculation of Funding Allocation for BISS Individual Component Models .....	20
7.2 Individual Component: Capping.....	21
7.2.1 Model Scenario: Minimum Degressive Capping .....	22
7.2.2 Model Scenario: Maximum Degressive Capping.....	23
7.2.3 Analysis of Applying Capping from €60,000.....	24
7.2.4 Model Scenario: 100% Capping of payments over €100,000 .....	25
7.2.5 Analysis of Applying Capping from €100,000.....	25
7.3 Individual Component: Maximum Unit Value per Payment Entitlement.....	27
7.3.1 Analysis of those impacted by a Maximum Payment Entitlement Unit Value of €600 ...	28
7.3.2 Analysis of those impacted by a Maximum Payment Entitlement Unit Value of €500 ...	29
7.4 Convergence .....	30
7.4.1 Individual Component: Converge to at least 75% of the Average Payment Entitlement Unit Value by 2026.....	30
7.4.2 Individual Component: Converge to 100% of the Average Payment Entitlement Unit Value by 2026.....	32

7.4.3	Analysis of individuals on each convergence path.....	33
7.5	ECO Schemes.....	35
8.	Composite Models .....	36
8.1	Composite Models (i) - (iv): Based on the European Commission’s Proposals .....	36
8.2	Composite Model (v): Based on proposed the COMAGRI Proposal .....	37
8.3	Model Parameters .....	37
8.4	Model Results and Overview .....	40
8.4.1	Modelled Payment Values.....	40
8.4.2	Effect of Convergence on Payment Entitlement Values .....	43
8.4.3	Convergence Population Review.....	44
8.4.4	Convergence BISS Payment Review .....	45
8.4.5	Capping of Payments Review .....	46
9.	Conclusion.....	48

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This document is a theoretical application of the information available on 1 September 2019 on the current EU Commission proposed CAP Post-2020 Regulations and the proposed COMAGRI amendments.

These proposals are currently under discussion and will be subject to change.

## **Glossary of Terms**

### **Basic Payment Scheme (BPS):**

Since 2015 the Basic Payment Scheme (BPS) has operated as the primary direct payment in Ireland. Entitlements form the basis of the BPS payment.

### **Basic Income Support for Sustainability (BISS):**

The CAP proposals provide the BISS as the direct successor to the BPS. The BISS can be implemented either using entitlements, or via a Flat Rate system.

### **Capping/Reduction of Payments:**

Capping is an overall limit on the value of direct payments an individual can receive. The product of capping of payments is proposed to be used to finance the Complementary Redistributive Income Support for Sustainability (CRISS).

### **Common Agricultural Policy (CAP):**

The Common Agricultural Policy is the agricultural policy of the European Union (EU). Under CAP a series of subsidies and support programmes for agriculture and rural development are implemented. CAP protects family farm incomes, supports the rural economy, ensures the production of high-quality, safe food and protects rural landscapes as well as the environment.

### **Complementary Income Support for Young Farmers (CISYF):**

The CISYF is a proposed optional income support for young farmers which takes the form of annual decoupled payment per eligible hectare. This scheme is proposed to replace the Young Farmer Scheme which under the current CAP provides an additional payment per activated entitlement (up to a maximum of 50) for 'young farmers.'

### **Complementary Redistributive Income Support for Sustainability (CRISS):**

The CRISS is a proposed scheme which aims to ensure a redistribution of support from bigger to smaller or medium-sized farmers by providing a redistributive payment per eligible hectare to increase sustainability.

### **Convergence:**

The convergence mechanism aims to bring entitlement values towards a national average value.

### **Conditionality**

Conditionality refers to the requirements set down either as Statutory Management Requirements (SMR's) or Good Agricultural and Environmental Conditions (GAEC's) which must be met by any individual who wishes to receive Direct Payments.

**Coupled Support:**

An optional provision available to Member States to allow them to provide coupled support to specific sectors in difficulties. Coupled support is classified as “Amber Box” under WTO Rules.

**Decoupled Support:**

Decoupled support is support that is not linked to current production.

**Degressivity:**

Degressivity is the progressive reduction of payments above a certain level. Under the proposals it requires Member States to reduce payments in excess of €60,000 incrementally.

**Direct Payments:**

Direct Payments are a key element of the CAP. One of the primary roles of Direct Payments is to provide income support to farmers. They also support a range of other objectives such as environmental protection and generational renewal.

**ECO Scheme:**

It is proposed that each Member States must provide a voluntary annual scheme or schemes for the climate and the environment (“ECO-Schemes”). Under the proposals these will apply to farmers that commit to observe agricultural practices beneficial for the climate and the environment which go beyond conditionality requirements.

**Entitlements/Payment Entitlements:**

Payment Entitlements are a system of payment units specified in the EU Regulations for direct payments. They form the basis for payments under the BPS and were established based on an individual’s historic production. Although not attached to any particular piece of land or sector, each payment entitlement must be supported by an eligible hectare of land.

**Flat Rate:**

The Flat Rate system is an alternative to payment entitlements and convergence. Payments are based purely on eligible hectares. A uniform amount per eligible hectare is paid to all farmers.

**Good Agricultural and Environmental Conditions (GAEC’s):**

GAEC’s refer to the agricultural and environmental practices that recipients of Direct Payments are obliged to comply with.

**Greening:**

Greening is the payment made to farmers that implement greening measures. This payment is calculated as a percentage of the value of the farmer's BPS payment entitlements.

**Max unit value of payment entitlements:**

It is proposed that each Member States must impose a maximum unit value of entitlements by 2026. The product of this must be fed back into convergence. Under the current CAP Ireland applied a maximum unit value of €700 per Ha (Basic Payment Scheme and Greening Payment) in 2019.

**National Reserve:**

A fund created in the first year of a new CAP reform period. The National Reserve provides allocations of entitlements to eligible applicants. A National Reserve only exists in a system with Payment Entitlements.

**Statutory Management Requirements (SMR's)**

SMR's refer to the EU legislation that recipients of Direct Payments are obliged to comply with as part of conditionality.

## 1. Executive Summary

Since its introduction in 1962, the Common Agricultural Policy (CAP) has evolved to reflect changing circumstances and societal demands. The current reform is no different in this regard.

The European Commission's proposals for CAP Post-2020 represent continuation of some current policies combined with novel measures and a new delivery model. The proposals are still subject to discussion at EU level; they have not yet been agreed.

Due to their significant contribution to overall farm income the level and allocation of Direct Payments to farmers merits significant attention.

The European Commission's proposals contain a number of measures that propose redistribution of support within the farming population. The current policy of convergence of Payment Entitlement unit values is proposed to continue, as is the capping of payments. The proposals also reflect a strong environmental ambition which foresees a portion of the existing Direct Payment budget being allocated to reward farmers for enhanced environmental measures (ECO Schemes). The proposals also contain measures aimed at ensuring generational renewal.

This document uses the European Commission's proposals and those voted on by COMAGRI as the basis to model how direct payments could be affected by various options. It seeks to inform stakeholders on likely trends that could emerge from different aspects and options within the proposals.

To improve understanding regarding the impact of individual components within the proposals the document contains a number of individual component models as well as a series of composite models that reflect the layered overall approach that will be required at implementation.

The modelling applies theoretical figures to a 2018 sample population. Some clear trends emerge from the modelling exercise. They are:

1. The overall level of budget and how it is allocated to various schemes will impact the budget available for BISS. Similarly, allocation of support to one particular group of individuals will reduce the funding available to support others.
2. The impact of convergence will be influenced by the degree the minimum Payment Entitlement unit value moves towards the average Payment Entitlement unit value.
3. An individual's decision regarding whether to participate in an ECO Scheme may have significant impact on their total Direct Payment value.

Additional modelling around these parameters will be required to understand their full impact. This will be possible when there is greater certainty around the legislative proposals.

## 2. Introduction

Several changes to Direct Payments are proposed in the European Commission's proposals for the Common Agricultural Policy (CAP) post 2020. Only when the final details of the Regulations **and** the outcome of the Multiannual Financial Framework negotiations are known will it be possible to fully model the potential effects on Direct Payments.

The purpose of the modelling exercise within this document is to provide an overview of the potential implications for Direct Payments of the proposals as set out by both the European Commission draft regulations and the proposal from the European Parliament's Committee on Agriculture and Rural Development (COMAGRI).

The Complementary Redistributive Income Support for Sustainability (CRISS), and the possible Round Sum Payment for Small Farmers have not been modelled. Any decisions on the implementation of these schemes would be taken after the completion of the SWOT analysis and when there is greater certainty in the legislative proposals. Therefore, it is not considered useful to model the effects of these proposed Direct Payment Schemes at this time.

For illustrative purposes this document includes individual component parts of the proposals and demonstrates the trends arising from these components. However, it is important to note that these components will not be implemented separately; they will be implemented together as the components of the proposal are interlinked. Changes in one will affect the others. Five composite models have also been presented which layer together the component parts of the various proposals. When the proposals are finalised, they will be implemented in this layered way with all component parts combining to give an overall effect.

To complete the overview, significant assumptions are made in a number of areas. In order to present the models, it is also necessary to use a financial ceiling to examine the effects of the proposals. The models have been constructed based on Ireland's financial ceiling for 2019 which is the last year for which the ceiling has been set. Under the Multiannual Financial Framework (MFF) the European Commission has proposed reducing the total CAP budget by 5%. However, the MFF has not yet been agreed. Any reductions in the budget will have its

### ***What is COMAGRI?***

*Members of the European Parliament are divided up among 20 specialised standing committees, including the Committee on Agriculture and Rural Development, known as COMAGRI.*

*In April 2019 COMAGRI voted on their proposed changes to the European Commission's three legislative proposals for CAP Post-2020. The European Parliament has not yet held a full vote at plenary level on the CAP Post-2020 proposals.*

own implications which will need to be considered in addition to the effects of the proposed CAP Post-2020 Regulations.

Discussions in relation to the proposed CAP Post-2020 are continuing. These proposals were expected to be implemented in 2021. However, this timescale is clearly very challenging given the current state of play in the CAP negotiations and the absence of agreement on the MFF.

The models set out in this document are based around an implementation period of 2021 – 2027.

This is a modelling exercise conducted on current funding levels, using a sample population. Therefore, it cannot be used as a forecast, but it may illustrate the type of trends that could emerge from the proposals.

### ***What is the MFF?***

*The MFF (Multiannual Financial Framework) is the EU's long-term budget, over a period of at least five years.*

*The MFF sets the maximum level of resources also known as the ceiling for each major category of EU spending, including the CAP.*

*The current MFF runs from 2014 to 2020. Discussions are on-going in relation to the next MFF.*

### 3. Direct Payment elements – existing and proposed

Within the proposed CAP Post-2020 Regulations there are some elements which can be compared with elements of the current CAP Regulations. There are also novel non-comparable elements. A complete overview of Payment Entitlements in the current Basic Payment Scheme (BPS) is available on the Department of Agriculture, Food and the Marine website [agriculture.gov.ie](http://agriculture.gov.ie).

#### 3.1 Summary of existing and proposed Direct Payment Elements

Table 1 sets out the Direct Payment elements which are present in both the CAP Regulations 2015 to 2020 and also in the European Commission’s proposed CAP Regulations covering the period 2021 to 2027.

<b>Current Direct Payments Elements 2015 – 2020</b>	<b>Proposed Direct Payments Elements 2021 - 2027</b>
<p>Basic Payment Scheme (BPS) Based on Payment Entitlements and Compliance. <u>PLUS</u> Greening Payment (Payment for Agricultural Practices Beneficial for the Climate and the Environment) Both above based on Payment Entitlements and compliance with SMR’s and GAEC’s. In addition, Greening Payment is dependent on compliance with Greening obligations.</p>	<p>Basic Income Support for Sustainability (BISS) Based on Payment Entitlements and will require increased conditionality including additional SMRs/GAECs.</p>
	<p>ECO Schemes Mandatory for Member States to set up. Voluntary for farmers to participate. Annual environmental schemes. Compliance with a specific set of green obligations.</p>
	<p>Sectoral allocations for producer groups / producer organisations in “other sectors”. Up to 3% of the direct payment envelope.</p>
<p>Capping (Reduction of Payments) Member States must reduce BPS Payments over €150,000 by at least 5%. Ireland applied a 100% capping limit on all BPS payments in excess of €150,000. Capping didn’t apply to other Direct Payments.</p>	<p>Capping (Reduction of Payments) Capping proposed to apply to all Direct Payments. The cap is set at €100,000 with degressivity from €60,000.</p>
<p>Young Farmers Scheme Additional payment for eligible young farmers.</p>	<p>Complementary Income Support for Young Farmers (CISYF) Additional payment for eligible young farmers. Minimum 2% overall target for young farmer support.</p>

<b>Current Direct Payments Elements 2015 – 2020</b>	<b>Proposed Direct Payments Elements 2021 - 2027</b>
<b>Voluntary Coupled Support</b> Maximum 13% of ceiling plus 2% for protein crops Ireland currently allocates < 1% to the Aid for Protein Crops Scheme.	<b>Voluntary Coupled Support</b> Maximum 10% of ceiling plus 2% for protein crops.
<b>Redistributive Payment</b> Voluntary for Member States to transfer funds from large to small or medium farms.	<b>Complementary Redistributive Income Support for Sustainability (CRISS)</b> Mandatory for Member States to transfer funds from large to small or medium sized farms to improve sustainability.
<b>Small Farmers Scheme</b> Voluntary for Member States to establish a payment for small farms to replace Direct Payments. Voluntary participation for eligible farmers.	<b>Round Sum Payment for Small Farmers</b> Voluntary for Member States to establish a payment for small farms to replace Direct Payments. Voluntary participation for eligible farmers.

Table 1: Comparative Elements under the current CAP 2015 to 2020 and the proposed CAP 2021 to 2027

Within the BPS (and Greening) there are elements that are comparable with the proposed BISS, as shown in Table 2.

<b>BPS (2015-2020)</b>	<b>BISS (proposed for 2021-2027)</b>
<b>Flat Rate BPS Payment</b> Provides Member States with the option to make payments on a uniform basis.	<b>Flat Rate BISS Payment</b> Provides Member States with the option to make payments on a uniform basis.
<b>Convergence</b> Convergence to at least 60% of the BPS national average entitlement unit value by 2019.	<b>Convergence</b> Convergence to at least 75% of BISS national average entitlement unit value by 2026.
<b>Maximum Unit Value</b> Maximum Payment Entitlement unit value of €700 (BPS + Greening) applied in 2019. The product of the maximum Payment Entitlement Unit Value is used to finance convergence.	<b>Maximum Unit Value</b> Undefined maximum Payment Entitlement unit value must be applied by 2026. The product of the maximum Payment Entitlement Unit Value is used to finance convergence.
<b>National Reserve</b> Once off initial allocation of 3% of ceiling.	<b>National Reserve</b> Once off initial allocation of ceiling. Value not set down in the draft Regulations.

Table 2: Comparative components as part of the current BPS payment under CAP 2015 to 2020 and the proposed BISS payment under CAP 2021 to 2027

### 3.2 Proposed new Direct Payment Elements

New Direct Payment elements in the European Commission's proposal include ECO Schemes and provision of funding for certain Sectoral Interventions. In addition, some elements that are optional in the current CAP are proposed to become mandatory.

### **3.2.1 ECO Schemes**

The European Commission proposals state that all Member States must provide support for a voluntary ECO Scheme. The proposals state that support for ECO Schemes must take the form of an annual payment per eligible hectare granted as either, payments additional to the BISS, or payments compensating beneficiaries for all or part of the additional costs incurred, and income foregone arising from the action(s) undertaken.

This support must be funded within the direct payments ceiling. The Commission proposals do not specify a minimum percentage of the direct payments ceiling that must be spent on ECO Schemes, however COMAGRI has proposed that at least 20% of the direct payment ceiling must be allocated to the ECO Scheme.

### **3.2.2 Sectoral Interventions**

The Commission proposals provide for up to 3% of a Member States allocation for Direct Payments to be spent to fund the actions of recognised producer organisations in a range of “other sectors” outside fruit and vegetables, apiculture, wine, hops and olive oil/table olives.

These “other sectors” include cereals, beef and veal, pigmeat, sheepmeat, eggs and poultrymeat. Ireland does not have a strong tradition of participation in producer organisations. However, there is merit in considering the potential impact allocating funds to such sectoral interventions could have.

#### 4. How Direct Payment Funding is Allocated to Schemes

The overall budgetary allocation from the Multiannual Financial Framework (MFF) will directly influence the available funds for all Direct Payment Schemes.

Figure 1 illustrates the flow of CAP funding from the national ceiling to the calculation of the funding available for distribution under the BISS.

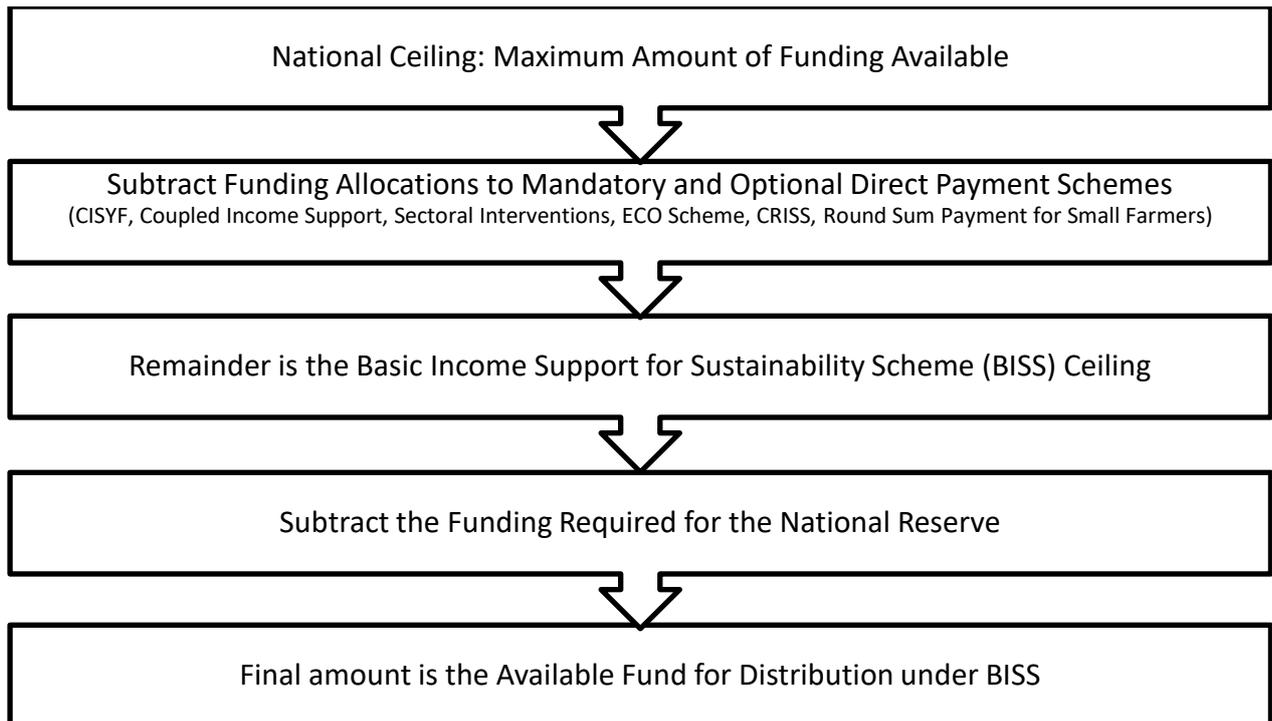


Figure 1: Flow of funding from the National CAP Ceiling to the BISS

As illustrated above component parts are interlinked and the allocation of funding for several Direct Payment schemes will not be set until the Ireland's CAP Ceiling and CAP Strategic Plan are agreed.

## 5. Distribution of Direct Payments

Under the European Commission's proposals if a Member State chooses not to have a flat rate of payment, BISS Payment Entitlements will be based on the existing BPS Payment Entitlement value plus the Greening Payment.

As set out in Section 4 some aspects of the proposals will alter the total funds available for BISS payments by allocating funding to another scheme. Other components of the proposals relate to moving money between BISS recipients.

### 5.1 Re-distribution of BISS Funds between Recipients

Various components of the European Commission's proposals relate to moving money between BISS recipients through a number of mechanisms as set out below.

#### 5.1.1 Convergence

Convergence is a mandatory provision in the current CAP programme to redistribute funds between farmers. Since 2015 those with higher value entitlements have seen a reduction in payments while those with entitlements that had a value of less than 90% of the average value have seen an increase in payments.

Convergence is proposed to continue under CAP post-2020.

If a flat rate payment is not being applied the Commission proposals state that Member States must ensure that, by 2026, at the latest, all Payment Entitlements should have a value of at least 75% of the national average Payment Entitlement unit value. The proposals state that increases in the value of Payment Entitlements should be financed by reducing the value of Payment Entitlements that have values in excess of the national average.

Within the European Parliament COMAGRI has proposed full or 100% convergence of payments by 2026. Under this

#### **What is a Flat Rate Payment?**

*The European Commission has proposed that unless Member States decide to grant the BISS based on Payment Entitlements the BISS shall be paid as a uniform amount or a flat rate per hectare.*

*In order to calculate this payment, the available BISS ceiling would be divided by the number of eligible hectares declared by all of the farmers eligible for a BISS payment.*

*There would no longer be a requirement for Payment Entitlements or the establishment of a National Reserve if all farmers were receiving a flat rate payment.*

#### **What is 100% Convergence?**

*If Payment Entitlements are converging towards 100% of the national average unit value of Payment Entitlements, all Payment Entitlements will follow a convergence path towards an almost uniform amount. Minor deviations would exist due to rounding.*

*Under this scenario BISS payments would be based on farmers declaring one BISS Payment Entitlement for each eligible hectare. Payment Entitlements and a National Reserve fund would still be required.*

proposal all farmers within a Member State or territorial area would have the same entitlement value per Ha by 2026.

#### ***What are convergence paths?***

*Under the current CAP each set of BPS Payment Entitlements has followed one of three convergence paths as they move towards the national average; static, increasing or decreasing entitlement value with the result that all Payment Entitlements now have a value of at least 60% of Ireland's national average.*

*Farmers have also been transferring Payment Entitlements throughout the current CAP period. As a result, farmers can now hold more than one set of BPS Payment Entitlements. Depending on their value, different sets of BPS Payment Entitlements held by an individual farmer may follow different convergence paths. Hence, a farmer can have a set of BPS Payment Entitlements that is increasing in value while another set is simultaneously reducing in value or static.*

#### **5.1.2 Maximum Unit Value**

The European Commission proposals state Member States must by 2026 set a maximum level for the value of payment entitlements.

Applying the maximum unit value provides a one-off permanent reduction to the value of entitlements exceeding the maximum unit value. The proceeds of this reduction contribute to the funds necessary for convergence.

Ireland applied a maximum payment amount per hectare of €700 (Basic Payment Scheme and Greening) in 2019.

#### **5.1.3 Capping**

The Regulations for the current CAP provided for a minimum 5% reduction to the value of BPS payments received by a farmer over €150,000 per annum (Greening excluded). Ireland chose to cap all BPS payments in excess of €150,000 by 100%.

The European Commission has proposed mandatory capping and degressivity to the value of all direct payments as follows:

- Payment value falling between €60,000 and €75,000 to be reduced by at least 25%
- Payment value falling between €75,000 and €90,000 to be reduced by at least 50%
- Payment value falling between €90,000 and €100,000 to be reduced by at least 75%
- Payment value above €100,000 to be reduced by 100%

The European Commission has proposed mandatory deductions for salary and labour costs (both paid and unpaid) from the value of direct payments before application of the thresholds outlined above.

COMAGRI has proposed no farmer would receive direct payments with a total value exceeding €100,000 in any given calendar year with an optional provision to offset salaries against the value of direct payments.

The product of capping is used to finance the Complementary Redistributive Income Support for Sustainability (CRISS).

#### 5.1.4 Complementary Redistributive Income Support for Sustainability (CRISS)

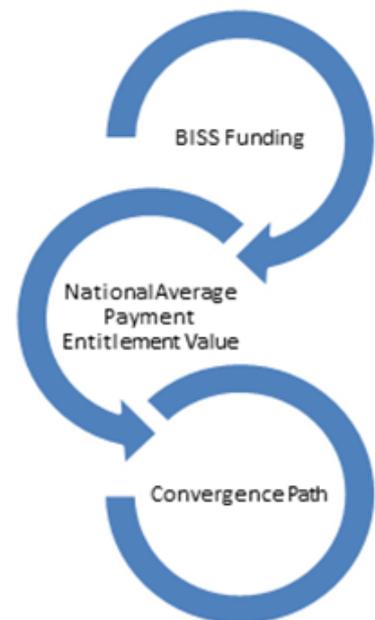
The European Commission proposes a mandatory CRISS to redistribute payments from bigger to smaller or medium sized farms to improve sustainability. Under this proposal an annual decoupled payment will be provided per eligible hectare. The amount per hectare will not exceed the national average amount of Direct Payments per hectare in that year.

### 5.2 Inter-dependencies of Component Parts

The interlinking of all of the components of the European Commission proposals for CAP Post-2020 makes it challenging to isolate out the effects of particular components.

For example, any increase or decrease to the BISS funding available will change the national average Payment Entitlement value. This in turn will affect the convergence path of every eligible farmer. Convergence, maximum unit value, capping and CRISS will all combine with other factors to produce an overall effect on individual's payment levels.

As convergence is proposed to be mandatory where a flat rate of payment is not used, Payment Entitlements above the national average will always converge downwards. Conversely, Payment Entitlements below the national average will converge upwards unless they are so close to the national average that they remain static



## 6. Sample Population used for Modelling Purposes

In order to demonstrate the potential effects of the Direct Payment components outlined in the proposed CAP Post 2020 Regulations it was necessary to identify a sample population, for modelling purposes.

A snapshot of the BPS Payment Entitlements held by Irish farmers on **1<sup>st</sup> October 2018** was selected to form a sample population. Individuals that are currently farming but who are not in possession of BPS Payment Entitlements are not included in this population.

The BPS Payment Entitlements held by farmers are subject to change. Therefore, as this sample population is illustrative of a point in time, it does not reflect changes made to these Payment Entitlements since 1<sup>st</sup> October 2018.

Table 3 provides a brief overview of the main Payment Entitlement characteristics of the sample population.

<b>Description</b>	<b>Value</b>
No of Farmers	125,509
No of Payment Entitlements	4.4m
No of Sets of Payment Entitlements	152,356
Total Value of Payment Entitlements plus Greening (estimated for 2019)	€1.17bn
Average Payment Entitlement Unit Value plus Greening	€265
Average Payment (BPS plus Greening estimated for 2019)	€9,385
Average Area Submitted (Hectares)	36.3

*Table 3: Main Payment Entitlement characteristics of the sample population*

Figure 2 sets out the age profile for the sample population. The average age for these farmers on 1<sup>st</sup> October 2018 was 58.3 years with 60% aged between 45 and 69 years of age.

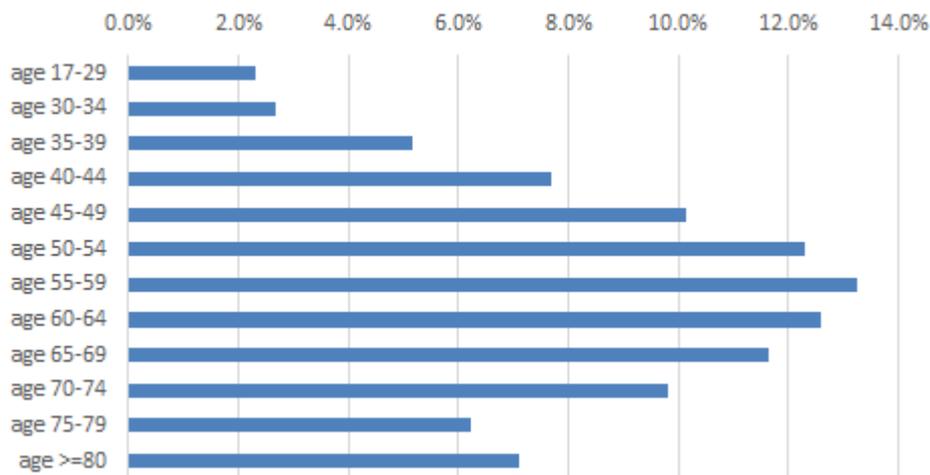


Figure 2: Age Profile of Sample Population

The majority of applicants in the sample population applied for the 2018 BPS as individuals (89%). A further 9% applied as Joint Ventures with 2% applying as a Company.

The regional spread of the sample population is illustrated in Figure 3. The majority of farms are located in Cork (12,792 farms), followed by Galway (11,779 farms) and Mayo (11,286 farms).

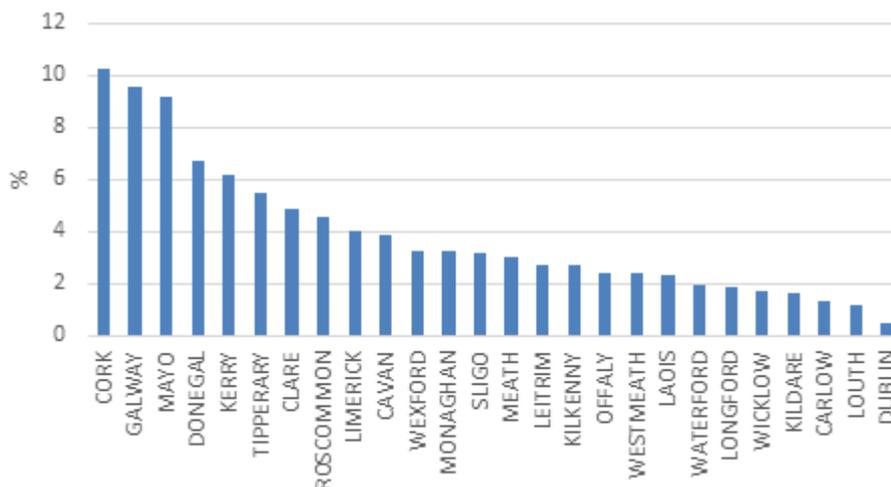


Figure 3: Location of farms in sample population

The dominant farm enterprise within the sample population is Beef (Cattle Rearing and Cattle Other) which accounts for 60,726 farms (49% of total farms). The breakdown of each farm type within the sample population is illustrated in Figure 4.

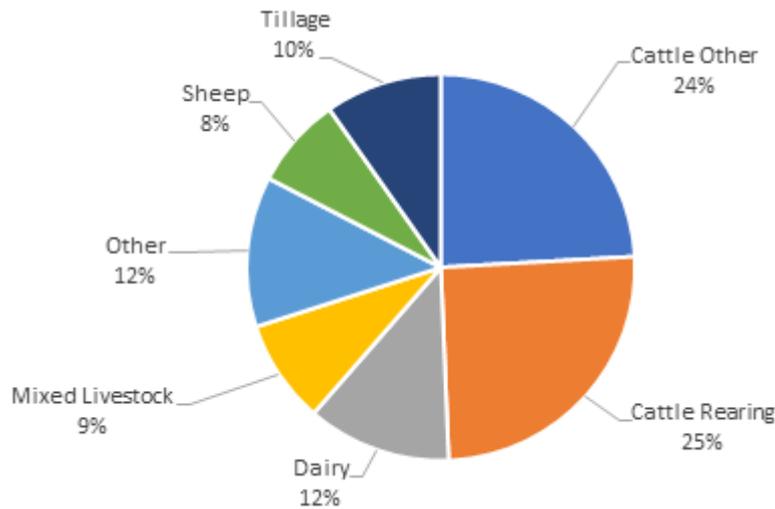


Figure 4: Breakdown of farm enterprise type within the sample population

The average standard output for the sample population is €38,048 in 2018. The distribution of standard output is almost evenly spread across the sample population; 35% of farms are classified as very small or small, 33% are classified as medium and 32% are classified as large or very large in terms of standard output.

This 2018 sample population of farmers has been projected forward to provide a view of their 2019 BPS Payment Entitlement position. This view of 2019 was based on the convergence paths of the BPS Payment Entitlements held by each of these farmers as set in 2016 for the CAP period to 2020.

## 7. Modelling Individual Components

This section presents the results of theoretical individual component models to give an indication of possible effects of individual components proposed for CAP Post-2020.

The individual component analysis set out below has been undertaken solely to indicate the trends that may emerge from implementation of individual component parts. The potential effects of other interacting components are not included.

The proposals for CAP Post-2020 provide for the individual components to be implemented together as set out in a number of composite models in Section 8. The proposals do not provide for the components to be implemented on an individual basis.

To facilitate the modelling a number of assumptions were made regarding the funding available, allocation to other Direct Payment interventions and the operation of the individual components. The details of these assumptions are set out in the following sections.

### 7.1 Calculation of Funding Allocation for BISS Individual Component Models

Each of the individual component models are based on the funding allocation as set out in Figure 5. All values are assumed based on metrics provided in the European Commission's proposals, funding allocations under the current CAP or on arbitrarily chosen values.

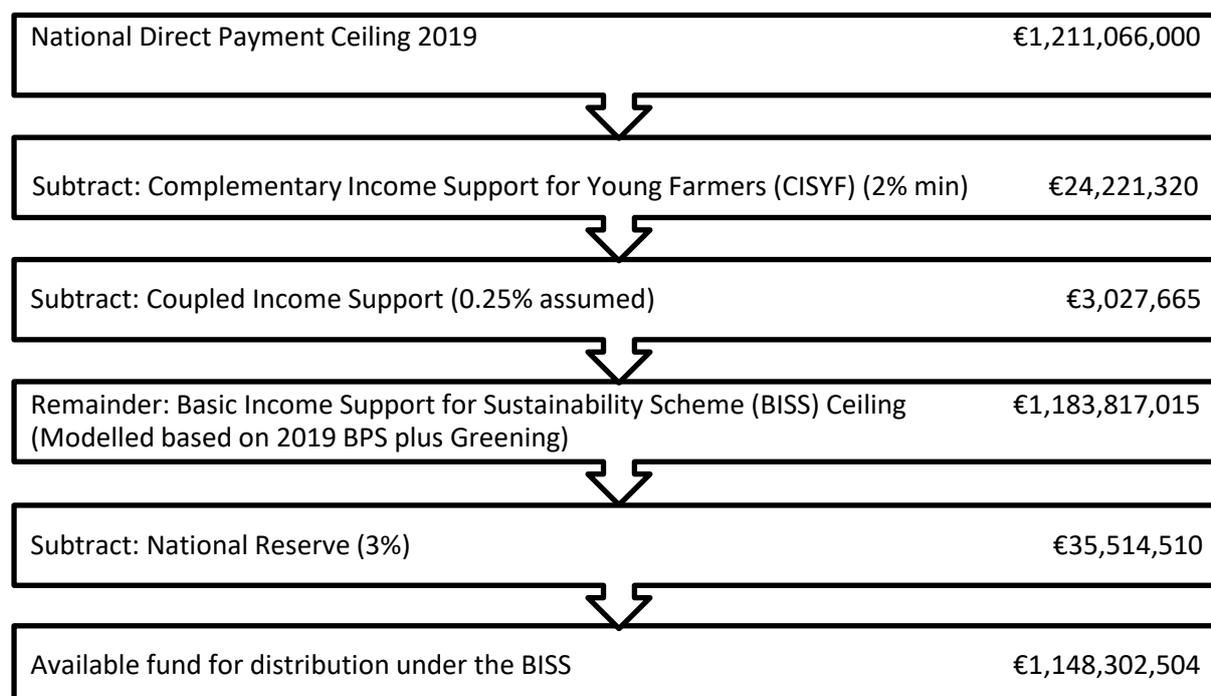


Figure 5: Funding allocation for component scenarios

Allocation of funding to other Direct Payment interventions will influence the value payable under BISS. Allocation of funding to ECO Schemes and other Direct Payment interventions has been excluded for the purposes of modelling the theoretical effect of individual BISS Components.

## 7.2 Individual Component: Capping

### **Modelling Assumption: Payment Entitlement unit values**

*The estimated 2019 BPS Payment Entitlement unit value plus the estimated 2019 Greening payment were added together to create a basis for estimating the BISS Payment Entitlement unit value stated above.*

*The current value of all estimated BPS Payment Entitlements in 2019 is higher than the theoretical BISS ceiling used for the individual component modelling. Therefore, 97.5% of the BPS Payment Entitlement unit value is used to represent the BISS Payment Entitlements.*

*This co-efficient is required because the sample population includes all Payment Entitlements allocated in 2015, and all Payment Entitlements allocated from the National Reserve in subsequent years.*

*As the number of Payment Entitlements increases the value of each Payment Entitlement has to be adjusted to remain within the same overall financial ceiling.*

The individual effect of capping under three different scenarios is outlined below.

### **Assumptions common to all three models on the individual effect of capping:**

- 2018 static sample population as set out in Section 6.
- Capping is based on estimated BISS Payment Entitlement values only and not all Direct Payments as set out in the proposals for CAP post-2020.
- Maximum Unit Value remains at 2019 level of €700/Ha including Greening Payment.
- The effect of convergence under CAP post-2020 is excluded.
- Allocation of funding to ECO Schemes or other possible Direct Payment interventions has been excluded
- An allowance has not been made to offset salaries (paid and unpaid) against the modelled capping thresholds.

### 7.2.1 Model Scenario: Minimum Degressive Capping

This model applies the minimum capping levels as set out in the European Commission's proposal i.e. the reduction in any given calendar year as follows:

- 25% from €60,000 to €75,000
- 50% from €75,000 to €90,000
- 75% from €90,000 to €100,000
- 100% reduction to values over €100,000.

Table 4 outlines the effect of the application of this component on the sample population.

Description	Value Per Annum
Number of Individuals impacted by Capping Component	716
Percentage of Individuals Impacted	0.57%
Total Amount of Funds Released	€8.2m
Percentage of Theoretical BISS Ceiling Involved	0.72%
Average Payment Change per Individual Impacted	-€11,522
Average Percentage Change in Payment per Individual Impacted	-10.24%
Maximum Direct Payment Possible	€81,250

Table 4: Component Model Scenario minimum degressive capping

This model shows 716 individuals within the sample population would be impacted by implementation of this component. This is less than 1% of all farmers in the sample population and also releases less than 1% of the theoretical ceiling. Based on the European Commission's proposals this funding (€8.2 million) would be used to finance payments made under the Complementary Redistributive Income Support for Sustainability (CRISS).

The maximum payment available to farmers under this modelled scenario is €81,250 per year, on average application of this capping proposal would see average payments of those impacted reduced by €11,522 or just over 10%.

## 7.2.2 Model Scenario: Maximum Degressive Capping

This model applies the maximum capping levels permitted under the European Commission's proposals i.e. a maximum direct payment of €60,000 per individual in any given year. Table 5 outlines the effect of the application of this component on the sample population.

Description	Value Per Annum
Number of Individuals impacted by Capping Component	716
Percentage of Individuals Impacted	0.57%
Total Amount of Funds Released	€16.4m
Percentage of Theoretical BISS Ceiling Involved	1.43%
Average Payment Change per Individual Impacted	-€22,917
Average Percentage Change in Payment per Individual Impacted	-23.02%
Maximum Direct Payment Possible	€60,000

Table 5: Component Model Scenario maximum degressive capping

The models set out in Sections 7.2.1 and 7.2.2 both commence capping at €60,000, therefore the capping is applied to same cohort (716 individuals).

The theoretical application of 100% capping over €60,000 releases just over 1.4% or €16.4 million of the theoretical ceiling. Similar to the previous model, this funding would be used to finance payments under the Complementary Redistributive Income Support for Sustainability (CRISS).

The maximum payment available to farmers under this scenario is €60,000 per year, on average application of this capping proposal would see average payments to affected farmers reduce by almost €23,000 or ~23%.

### 7.2.3 Analysis of Applying Capping from €60,000

For the 716 individuals within the sample population impacted by capping in this theoretical model the average farm size is 250 hectares, with an average of 253 Payment Entitlement each. In 2018 the average total payment (BPS + Greening) for these farms is €88,077.

These farms are predominantly large (based on standard output) with an average standard output of approximately €137,694.87. Just over half of these farms are owned by individuals (54%), 31% are owned by companies and the remainder are in a partnership. The average age of these farmers is 58 with the majority (77%) aged between 45 and 74.

Figure 6 below illustrates the sectoral breakdown for the 716 individuals within the sample population with modelled BISS Payments over €60,000 per annum.

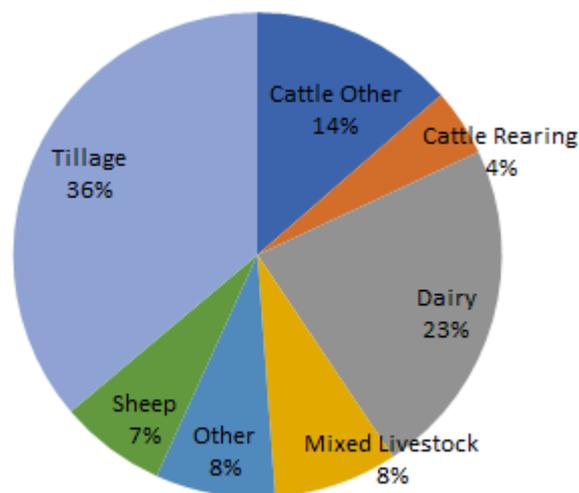


Figure 6: Sectoral breakdown of 716 individuals within sample population with modelled BISS Payments over €60,000 per annum

Modelling degrees of degressively illustrates that the amount capped increases along with the level of degressivity.

**Composite Models (i) to (iv)** in Section 8 indicate that when ECO Schemes and convergence are taken in to account, along with other factors, capping will likely impact a significantly smaller group of individuals and the funding outlined in the models within Section 7.2.1 and 7.2.2 is unlikely to be released.

#### 7.2.4 Model Scenario: 100% Capping of payments over €100,000

This model applies the capping levels proposed by COMAGRI i.e. a maximum Direct Payment of €100,000 per individual in any given year. Table 6 outlines the effect of the application of this component on the sample population.

Description	Value Per Annum
Number of Individuals impacted by Capping Component	113
Percentage of Individuals Impacted	0.09%
Total Amount of Funds Released	€3.3m
Percentage of Theoretical BISS Ceiling Involved	0.29%
Average Payment Change per Individual Impacted	-€29,023
Average Percentage Change in Payment per Individual Impacted	-19.36%
Maximum Direct Payment Possible	€100,000

Table 6: Component Model Scenario COMAGRI proposal of capping at €100,000

As the initial capping value in the COMAGRI model is set at a higher level (€100,000) than the European Commission's proposals (€60,000), a lower number of farmers in the sample population are impacted (113). This is less than 0.1% of the sample population.

Correspondingly the application of a higher capping level releases less funding for use in the Complementary Redistributive Income Support for Sustainability (CRISS). In this model the value released is €3.3m which is less than 0.3% of the theoretical ceiling.

The maximum payment available to individuals under this scenario is €100,000 per year. On average the application of this capping model would see average payments for affected individuals reduce by ~€29,000 or just over 19%.

#### 7.2.5 Analysis of Applying Capping from €100,000

For the 113 farmers within the sample population impacted by capping in this theoretical model the average farm size is 380 hectares and they hold a corresponding number of Payment Entitlements. In 2018 the average total payment for this cohort is €136,366 (BPS + Greening).

These farms are predominantly (90%) large based on standard output with an average standard output of approximately €218,393. The majority of these farms were owned by companies 45%, with a similar amount (44%) owned by individuals. The average age of these individuals is 57 with 54% aged over 55.

Figure 7 below illustrates the sectoral breakdown for the 113 farms within the sample population with modelled BISS Payments over €100,000 per annum.

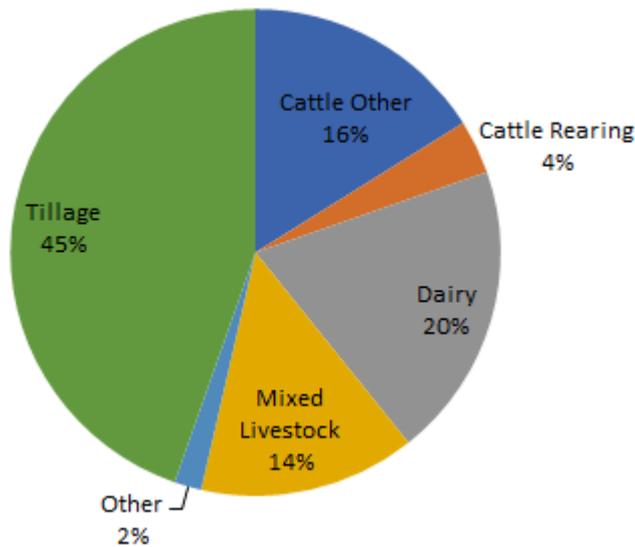


Figure 7: Sectoral breakdown of 113 farms within sample population with modelled BISS Payments over €100,000 per annum

**Composite Model V** in Section 8 indicates that when ECO Schemes and convergence are taken in to account, along with other factors, the effect of capping will likely affect a smaller number of individuals, however a value close to the funding outlined in the model above may be released especially towards the end of the CAP period.

### 7.3 Individual Component: Maximum Unit Value per Payment Entitlement

In 2019, Ireland set the maximum Payment Entitlement amount at €700 including Greening.

Table 7 considers the effects of modelling two different maximum unit values (€600 and €500) on the sample population, if applied in 2021.

#### This model assumes:

- 2018 static sample population as set out in Section 6.
- Capping of total Direct Payments has not been applied.
- Allocation of funding to ECO Schemes or other possible Direct Payment interventions has been excluded.

Description	Maximum Payment Entitlement Unit Value	
	€600	€500
Number of Individuals Impacted	1,214	2,833
Percentage of Individuals Impacted	0.97%	2.26%
Total Amount of Funds Released	€1.7m	€7.1m
Percentage of Theoretical BISS Ceiling Involved	0.15%	0.62%
Average Payment Change per Individual Impacted	-€1,233	-€2,200
Average Percentage Change in Payment per Individual Impacted	-8.64%	-14.27%
Average Reduction of Individual Payment Entitlement Unit Value per Individual Impacted	€58	€90

Table 7: Component Model Scenario Maximum Unit Value per Payment Entitlement

Application of a maximum unit value to a Payment Entitlement can only occur once during the CAP period. Unlike capping, the maximum unit value reduces the value of the Payment Entitlement to the maximum value e.g. €600, and the value of that Payment Entitlement will not increase above that maximum value again.

Table 7 illustrates the lower the maximum Payment Entitlement unit value the larger the population affected and the more funds that will be made available for convergence. In the theoretical model the number of individuals within the sample population that are impacted by the application of the maximum Payment Entitlement unit value more than doubles to 2,833 when the maximum unit value reduces from €600 to €500 per Payment Entitlement.

In the model the average payment reduction for each of the impacted farms increases from €1,233 to €2,200 as the maximum unit value is reduced from €600 to €500 per Payment Entitlement.

*Composite Models (i) to (v) in Section 8 indicate that when ECO Schemes and convergence are taken in to account, along with other factors, the effect of the maximum Payment Entitlement unit value will likely be significantly smaller, and the funding outlined in the model above is unlikely to be released overall.*

*The composite models show the value released will depend on when the maximum Payment Entitlement unit value is applied as well as its absolute value.*

### **7.3.1 Analysis of those impacted by a Maximum Payment Entitlement Unit Value of €600**

For the 1,214 farmers in the sample population impacted by a maximum Payment Entitlement unit value of €600, the average farm size is 38 hectares, and they hold on average 36 Payment Entitlements. In 2018 the average total payment (BPS + Greening) for this cohort is €23,507.

These farms are predominantly small (39% based on standard output). The majority of these farms are owned by individuals (85%) with an average age of 58. Figure 8 below illustrates the sectoral breakdown for these 1,214 individuals.

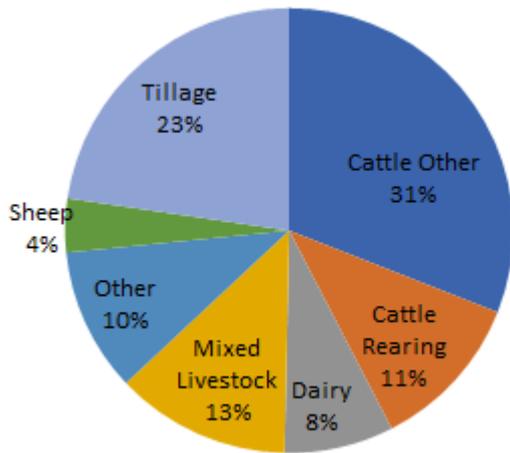


Figure 8: Sectoral breakdown of individuals within sample population with Payment Entitlements unit value greater than €600

### 7.3.2 Analysis of those impacted by a Maximum Payment Entitlement Unit Value of €500

For the 2,833 farmers in the sample population impacted by a maximum Payment Entitlement unit value of €500, the average farm size is 42 hectares, and they hold, on average, 40 Payment Entitlements. In 2018 the average total payment (BPS + Greening) for this cohort is €23,145.

These farms are evenly distributed based on standard output. The majority of these farms are owned by individuals (85%) with an average age of 58. Figure 9 below illustrates the sectoral breakdown for these 2,833 farmers.

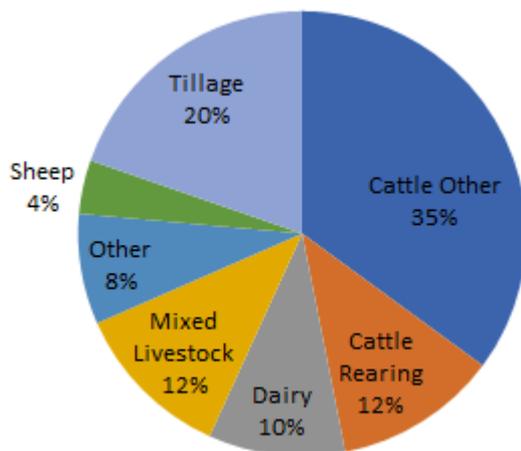


Figure 9: Sectoral breakdown of individuals within sample population with Payment Entitlements unit value greater than €500

## 7.4 Convergence

The individual theoretical effects of two different convergence levels are outlined below.

### **Assumptions common to both models on the individual effect of convergence:**

- 2018 static sample population as set out in Section 6.
- Capping of total Direct Payments has not been applied.
- Maximum Unit Value remains at 2019 level of €700/Ha including Greening Payment.
- Allocation of funding to ECO Schemes or other possible Direct Payment interventions has been excluded.

Farmers have been able to transfer Payment Entitlements throughout the current CAP period. A small proportion of the sample population (<15%) hold more than one set of BPS Payment Entitlements. Each set of Payment Entitlements can be impacted differently by convergence hence the total number of individuals outlined in Sections 7.4.1 and 7.4.2 exceeds the sample population of 125,509 individuals. Individuals with more than one set of BISS Payment Entitlements may be included in more than one convergence path.

### ***What are the three convergence paths?***

- 1. Increase towards the national average Payment Entitlement unit value, i.e. receiving.*
- 2. Decrease towards the national average Payment Entitlement unit value i.e. contributing.*
- 3. Remain static over the period, due to their close numerical proximity to the national average Payment Entitlement unit value.*

### **7.4.1 Individual Component: Converge to at least 75% of the Average Payment Entitlement Unit Value by 2026**

The European Commission has proposed that by 2026, at the latest, all Payment Entitlements are to have a value of at least 75% of the average Payment Entitlement unit value. Convergence has been calculated over the five year period 2021 to 2026.

Table 8 outlines the effect of the application of this convergence component on the sample population.

Description	Value
Number of Individuals that Hold a Receiving Set of Payment Entitlements	59,453
Number of Individuals that Hold a Contributing Set of Payment Entitlements	54,567
Number of Individuals that Hold a Static Set of Payment Entitlements	16,390
Annual Convergence Amount	€7.5m

Table 8: Component Scenario review of minimum proposed 75% convergence by 2026.

As illustrated in Table 8, under this theoretical model €7.5 million will transfer annually from individuals holding a contributing set of BISS Payment Entitlements to individuals holding a receiving set of BISS Payment Entitlements.

Figure 10 illustrates the breakdown of the sample population in terms of convergence path types under this model. As stated previously farmers may be included in more than one convergence path.

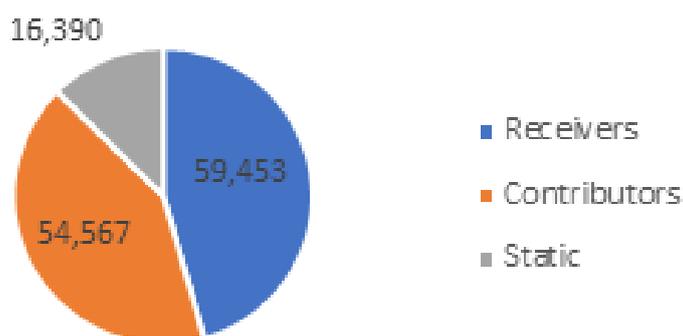


Figure 10: Breakdown of convergence paths for sample population if subject to minimum proposed 75% convergence by 2026.

**Composite Models (i) to (iv) in Section 8 show that the same of individuals within the sample population are likely to be impacted by convergence to at least 75% of the average Payment Entitlement unit value, however in a scenario where funding has been re-allocated to other interventions such as the ECO Scheme the value being transferred between individuals due to convergence is likely to be lower.**

#### 7.4.2 Individual Component: Converge to 100% of the Average Payment Entitlement Unit Value by 2026

COMAGRI have proposed that by 2026, at the latest, all Payment Entitlements are to have a value of 100% of the average Payment Entitlement unit value. Table 9 outlines the effect of the application of this convergence component on the sample population.

Description	Value
Number of Individuals that Hold a Receiving Set of Payment Entitlements	68,091
Number of Individuals that Hold a Contributing Set of Payment Entitlements	54,567
Number of Individuals that Hold a Static Set of Payment Entitlements	7,427
Annual Convergence Amount	€24.6m

Table 9: Component Scenario review of COMAGRI proposal 100% convergence by 2026.

As illustrated in Table 9, under this theoretical model €24.6 million will transfer annually from individuals holding a contributing set of BISS Payment Entitlements to individuals holding a receiving set of BISS Payment Entitlements. Figure 11 illustrates the breakdown of the sample population in terms of convergence paths under this model.

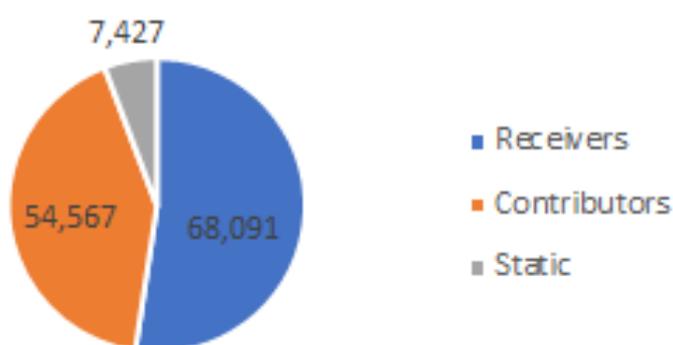


Figure 11: Breakdown of convergence paths for sample population if subject to COMAGRI proposal of 100% convergence by 2026.

**Composite Model (v)** in Section 8 shows that the same of individuals within the sample population are likely to be impacted by convergence to 100% of the average Payment Entitlement unit value, however in a scenario where funding has been re-allocated to other interventions such as the ECO Scheme the value being transferred between individuals due to convergence is likely to be lower.

### 7.4.3 Analysis of individuals on each convergence path

All payment entitlements with a value above the average Payment Entitlement unit value always contribute to convergence, therefore the same individuals within the sample population will be “contributors” under convergence to either at least 75% or to 100% of the average Payment Entitlement unit value by 2026.

Figure 12 illustrates the sectoral breakdown for the 54,567 individuals within the sample population modelled as “contributors” under convergence.

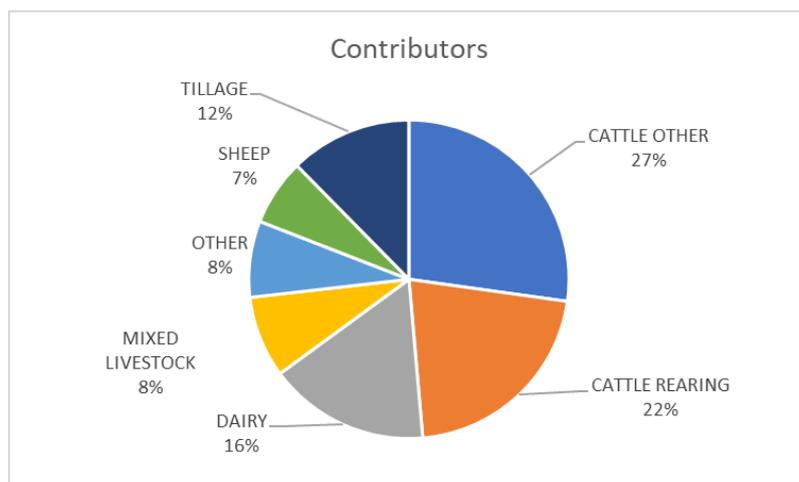


Figure 12: Sectoral breakdown of individuals within sample population with Payment Entitlements contributing to convergence in the period 2021 - 2026.

Figure 13 outlines the sectoral breakdown for the 59,453 individuals within the sample population that are modelled as “receivers” under convergence to at least 75% of the average Payment Entitlement unit value by 2026.

Figure 14 outlines the sectoral breakdown for the 68,091 individuals within the sample population that are modelled as “receivers” under convergence to 100% of the average Payment Entitlement unit value by 2026.

Convergence to 100% of the average Payment Entitlement unit value will increase the value of all Payment Entitlements that are below the average unit value therefore there are an additional 8,638 individuals in the group illustrated by Figure 14 compared to those illustrated in Figure 13. However, there is no significant difference in sectoral breakdown between these two groups.

Figures 13 and 14: Sectoral breakdown of individuals within sample population with Payment Entitlements on a receiving path under convergence

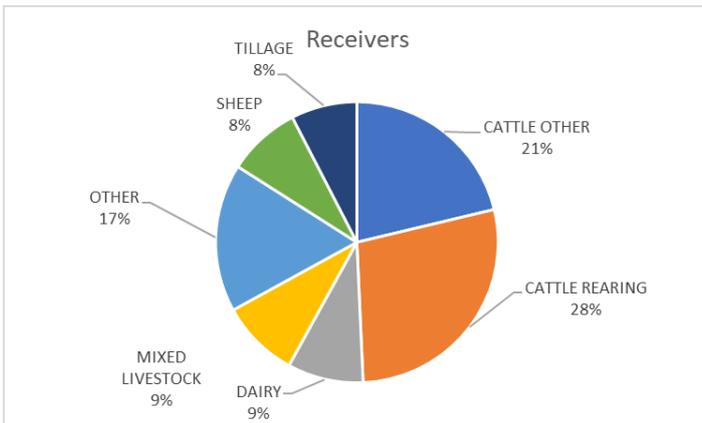


Figure 13: to at least 75% of the average Payment Entitlement unit value by 2026.

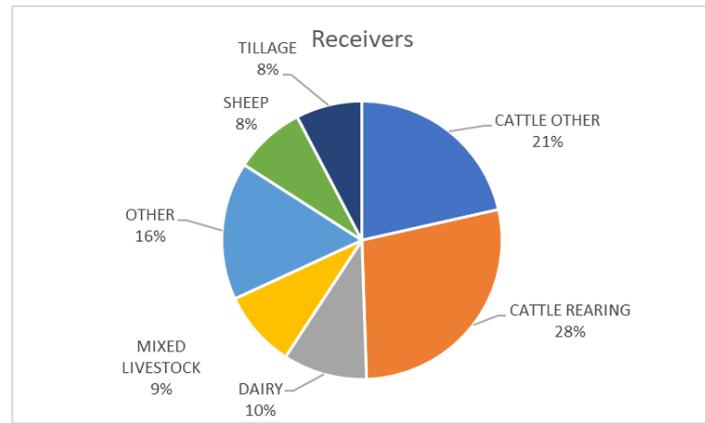


Figure 14: to 100% of the average Payment Entitlement unit value by 2026.

Figure 15 illustrates the sectoral breakdown for the 16,390 individuals within the sample population that are not affected by convergence to at least 75% of the average Payment Entitlement unit value by 2026.

Figure 16 outlines the sectoral breakdown for the 7,427 individuals within the sample population that are not affected by convergence to 100% of the average Payment Entitlement unit value by 2026.

Figures 15 and 16: Sectoral breakdown of individuals within sample population with static Payment Entitlements under convergence

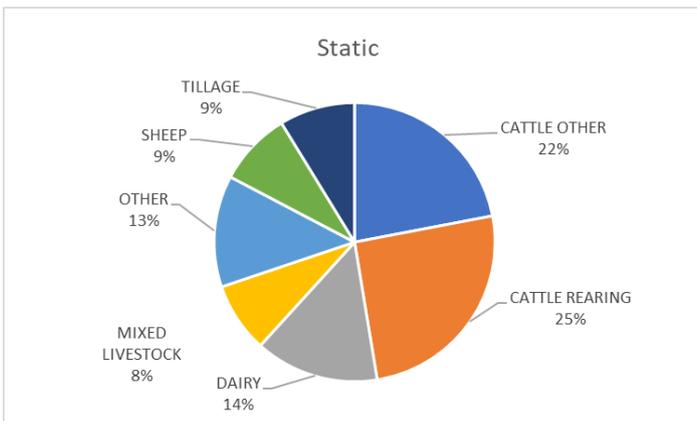


Figure 15: to at least 75% of the average Payment Entitlement unit value by 2026.

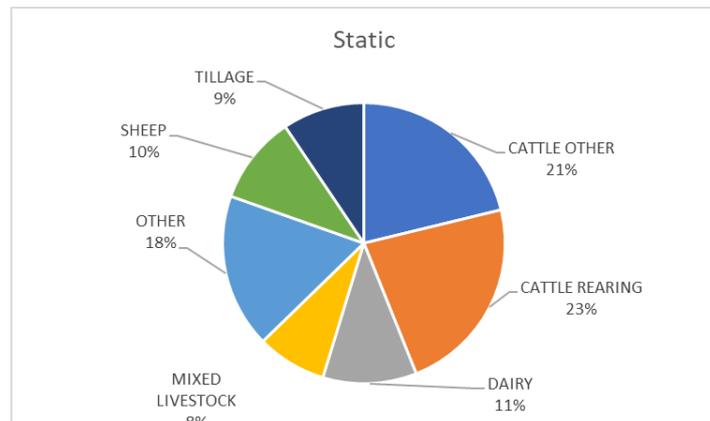


Figure 16: to 100% of the average Payment Entitlement unit value by 2026.

## 7.5 ECO Schemes

ECO Schemes are a novel measure within direct payments, and as such there are many conditions and operational details that have yet to be clarified. This uncertainty will remain until the proposals and funding levels are agreed, and the CAP Strategic Plan is approved. Therefore, it is not possible to model ECO Schemes in an informed way at this point. However, because ECO Schemes are an important new element it is considered necessary to attempt to reference them in the modelling exercise.

The European Commission's proposals do not specify a percentage of the direct payments ceiling that must be allocated to ECO Schemes; instead this is left for Member States to define in their CAP Strategic Plan. COMAGRI have proposed an allocation of 20% for this measure and in this document this proposal and a higher allocation amount of 30% is also examined within Section 8 in light of the clear articulation in the proposals for a higher environmental ambition for CAP Post-2020.

An allocation of 20% of the modelled fund equates to some €242m and 30% represents an allocation of €363m per annum. The European Commission's proposals allow for the payment of this amount to be made as either a payment per hectare additional to BISS, or as all or part of income foregone, or costs incurred due to implementation of the specific measures involved. In order to include ECO Schemes in the modelling exercise for demonstration purposes, an overtly simplistic implementation of this scheme would see a flat rate payment per hectare of either €53 or €79 (20% or 30% of modelled total Direct Payments funding respectively). This assumes, for example, that all farmers take part, there is just one scheme with a flat rate of payment and the number of eligible hectares does not change.

The model is only able to give an indication of the trends that ECO Schemes will introduce to the make-up of the Direct Payment envelope. It cannot provide any indications regarding payment expectations under any potential scheme. These figures are included here solely to illustrate that the introduction of ECO Schemes will have an effect on direct payments and should not be viewed as an expected payment level.

## **8. Composite Models**

The proposed Direct Payments system is a layered or composite structure with interacting component parts. Choices made for one component will affect the others.

Changes to the funding available will subsequently change the national average Payment Entitlement unit value, thereby changing all the outputs from models.

Five composite models have been created to show the overall trends associated with the interlinked component parts. This composite effect illustrates implementation where the effects of all component parts are considered together

### **8.1 Composite Models (i) - (iv): Based on the European Commission's Proposals**

The composite models numbered (i) to (iv) follow the proposed CAP Post-2020 Regulations as set out by the European Commission.

The proposals state that mandatory capping will be implemented. Two scenarios have been included in the composite models, minimum and maximum. Minimum levels of capping are as follows:

- 25% from €60,000 to €75,000
- 50% from €75,000 to €90,000
- 75% from €90,000 to €100,000
- 100% reduction to values over €100,000.

Maximum capping has been modelled on the basis of a 100% cap to all Direct Payments over €60,000.

The other re-distributive elements of these composite models are convergence to at least 75% of the national average Payment Entitlement value, and an arbitrary maximum Payment Entitlement unit value of €500 applied in 2026. In addition, ECO Scheme allocations of 20% and 30% of the financial ceiling have also been considered in the models.

## **8.2 Composite Model (v): Based on proposed the COMAGRI Proposal**

The composite Model numbered (v) follows the proposals as voted on by COMAGRI in April 2019.

This composite model includes a 20% minimum allocation for ECO Schemes. Capping in this model is set at 100% of payments over €100,000 and Model (v) also includes convergence to 100% of the national average Payment Entitlement value by 2026.

An arbitrary maximum Payment Entitlement unit value of €500 has also been included in 2026.

## **8.3 Model Parameters**

Table 10 illustrates the funding allocations for each model. The allocated funding for the BISS ceiling has been calculated using the method illustrated in Section 4. All funding allocation values in Table 10 are assumed based on metrics provided in the proposed European Commission / COMAGRI proposals, funding allocations under the current CAP or are arbitrarily chosen. They do not imply a policy decision.

As shown in the table two levels of funding have been included for the ECO Scheme. COMAGRI proposals include a minimum value of 20%, this equates to €242.2 million within the proposed theoretical ceiling. Also included is an arbitrary allocation of 30% of the theoretical ceiling which equates to €363.3 million.

Table 10 illustrates that the level of funding allocated to other Direct Payment schemes, will reduce the value payable under BISS. However, under the proposals for CAP Post-2020 farmers are not limited to only drawing down BISS payments. Depending on their eligibility farmers may apply for additional payments under other Direct Payment schemes.

Table 10 also illustrates the levels of capping, convergence percentages and maximum unit values incorporated in each of the five composite models.

The European Commission's proposals provide for up to 3% of a Member States allocation for direct payments to be spent to fund the actions of recognised producer organisations in a range of "other sectors" outside fruit and vegetables, apiculture, wine, hops and olive oil/table olives.

These "other sectors" include cereals, beef and veal, pigmeat, sheepmeat, eggs and poultrymeat. Ireland does not have a strong tradition of participation in producer organisations, however there is merit in considering the potential impact allocating funds to such sectoral interventions could have.

Description	European Commission Proposals				COMAGRI Proposal
	Model (i)	Model (ii)	Model (iii)	Model (iv)	Model (v)
National Direct Payment Ceiling 2019	€1.2bn	€1.2bn	€1.2bn	€1.2bn	€1.2bn
Complementary Income Support for Young Farmers (CISYF) (2%)	€24.2m	€24.2m	€24.2m	€24.2m	€24.2m
Coupled Income Support (0.25%)	€3m	€3m	€3m	€3m	€3m
Sectoral Interventions (1%)	€12.1m	€12.1m	€12.1m	€12.1m	€12.1m
Scheme for the Climate and the Environment (ECO Scheme)	€242.2m (20%)	€242.2m (20%)	€363.3m (30%)	€363.3m (30%)	€242.2m (20%)
BISS Ceiling	€929.5m	€929.5m	€808.4	€808.4m	€929.5m
National Reserve (NR) (3%)	€27.9m	€27.9m	€24.3m	€24.3m	€27.9m
BISS Ceiling Following NR Reduction	€901.6m	€901.6m	€784.1m	€784.1m	€901.6m
Capping	Min <sup>1</sup>	100% @ €60,000	Min <sup>1</sup>	100% @ €60,000	100% @ €100,000
Convergence by 2026	75%	75%	75%	75%	100%
Max Unit Value applied in 2026	€500	€500	€500	€500	€500

Table 10: Funding allocations for Composite Models (i) – (v)

<sup>1</sup> Minimum Degressivity e.g. 25% from €60,000 to €75,000, 50% from €75,000 to €90,000, 75% from €90,000 to €100,000, 100% reduction to values over €100,000.

### **Assumptions common to the five composite models:**

- 2018 static sample population as set out in Section 6.
- Capping is only applied to BISS and ECO Scheme as modelled.
- An allowance has not been made to offset salaries (paid and unpaid) against the modelled capping thresholds.
- Maximum Unit Value remains at 2019 level of €700/Ha including Greening Payment until 2026 when it reduces to €500/Ha.
- No allowance has been made for distribution to individuals of funds under Direct Payment interventions other than BISS and the ECO Scheme.
- 100% participation in ECO Scheme i.e. all farmers in sample population chose to participate.
- Flat rate ECO Scheme payment per Ha. and no area limit on ECO Scheme payment.
- Average claimed area of 36.3Ha. per applicant (as submitted for the Basic Payment Scheme in 2018).

### **Modelling Assumption: Payment Entitlement unit values**

*The estimated 2019 BPS Payment Entitlement unit value plus the estimated 2019 Greening payment were added together to create a basis for estimating the BISS Payment Entitlement unit value stated above.*

*The current value of all estimated BPS Payment Entitlements in 2019 is higher than the theoretical BISS ceiling used for the individual component modelling. Therefore, 97.5% of the BPS Payment Entitlement unit value is used to represent the BISS Payment Entitlements.*

*This co-efficient is required because the sample population includes all Payment Entitlements allocated in 2015, and all Payment Entitlements allocated from the National Reserve in subsequent years.*

*As the number of Payment Entitlements increases the value of each Payment Entitlement has to be adjusted to remain within the same overall financial ceiling.*

## 8.4 Model Results and Overview

The following sections review the models by comparing estimated BPS and Greening Payments in 2019 with estimated BISS and ECO Scheme Payments in 2026. The impact of various levels of convergence is also reviewed. The effects caused by setting the capping rates at several levels are also explored.

### 8.4.1 Modelled Payment Values

Table 11 presents an overview of the estimated BISS and ECO Scheme payment position of the sample population in 2026 following the application of the various model parameters.

An allocation of funding from the 2019 BPS ceiling to a different intervention which is not in existence in 2019 will automatically reduce the available BISS ceiling. For example, by allocating 20% or 30% to the ECO Scheme the ceiling available for payment under BISS is correspondingly reduced.

Table 11 compares the estimated 2019 Payment Entitlement position (BPS Payment Entitlements and Greening) of the sample population with the estimated 2026 BISS Payment Entitlement position. Due to the allocation of funding to an ECO Scheme all individuals in Models (i) to (iv) have a reduced payment compared to 2019 if they decide not to participate in the ECO Scheme. However, in Model (v) due to the impact of a higher level of convergence and the other different elements of this model, including capping rates, some individuals will not have a decreased BISS payment in 2026. Under Model (v) 87,505 individuals will have a decreased BISS payment in 2026.

Under the five composite modelled scenarios the average payment receivable under BISS in 2026 varies from €6,224 in Model (iv) to €7,174 in Model (v). This compares to an average modelled 2019 BPS and Greening payment of €9,385.

In Models (i) to (v) the average decrease when comparing 2026 BISS Payments to 2019 BPS and Greening Payments ranges from €2,211 in Model (v) to €3,161 in Model (iv). However, these figures change significantly if an individual joins the ECO-Scheme.

In the absence of certainty around the ECO Scheme it is not possible to model ECO Scheme payment rates. Notwithstanding the challenges in modelling, Table 11 illustrates the average ECO Scheme payment will range from €1,871 in Model (ii) to €2,854 in Model (iii) based on the theoretical rates used in the models. This translates to an average combined total BISS and ECO Scheme payment of between €9,091 in Model (iii) and 9,012 in Model (ii).

Based on the theoretical ECO Scheme rates included in the five composite models if an individual participates in an ECO Scheme there is potential to maintain a similar level of

direct payment under the modelled scenarios. Individuals will be able to choose to participate in ECO Schemes or to avail of other options under CAP Post-2020. The decision to participate in an ECO Scheme will have a significant impact on an individual's total Direct Payment in all of the modelled scenarios.

Description	Model (i)	Model (ii)	Model (iii)	Model (iv)	Model (v)
Individuals in sample population	125,509	125,509	125,509	125,509	125,509
Modelled average 2019 BPS and Greening Payment	€9,385	€9,385	€9,385	€9,385	€9,385
Modelled Average BISS Payment in 2026	€7,164	€7,141	€6,237	€6,224	€7,174
<b>Average Change excluding ECO Scheme</b>	<b>-€2,221</b>	<b>-€2,243</b>	<b>-€3,148</b>	<b>-€3,161</b>	<b>-€2,211</b>
Number of Individuals with Decreasing Payment in 2026 if ECO Scheme excluded	125,509	125,509	125,509	125,509	87,505
Modelled Average ECO Scheme Payment in 2026	€1,898	€1,871	€2,854	€2,818	€1,914
Total Average BISS and ECO Scheme Payment in 2026	€9,062	€9,012	€9,091	€9,042	€9,088
<b>Average Change 2019 BPS and Greening Payment versus 2026 BISS and ECO Scheme Payment</b>	<b>-€323</b>	<b>-€373</b>	<b>-€294</b>	<b>-€343</b>	<b>-€297</b>
Number of Individuals with Decreasing Payment in 2026 if ECO Scheme included	68,016	68,063	64,788	64,837	60,628
Number of Individuals with Increasing Payment in 2026 if ECO Scheme included	57,493	57,446	60,721	60,672	64,881
Maximum Direct Payment 2026	€81,250	€60,000	€81,250	€60,000	€100,000

*Table 11 Impact of the parameters under the five composite model scenarios on the estimated BISS and ECO Scheme payments received by the sample population in 2026 compared to their average 2019 BPS Payment Entitlements and Greening.*

## 8.4.2 Effect of Convergence on Payment Entitlement Values

Table 11 provides an insight into the impact of the various convergence parameters within each of the models on the sample population.

Table 10 outlines the convergence parameters used in each of the models. Models (i) to (iv) have the same convergence path i.e. minimum 75% of the national average Payment Entitlement unit value. Model (v) is converging towards 100% of the national average Payment Entitlement unit value.

Since Models (i) and (ii), have the same convergence path and the same ceiling allocation the results in terms of convergence will be identical. Therefore, for display purposes the results from Models (i) and (ii) will be shown together. The same also applies to Models (iii) and (iv).

Table 12 provides an overview on the unit values of the Payment Entitlements held by the sample population and compares the 2019 estimated BPS values (Payment Entitlements + Greening) with the 2026 BISS Payment Entitlements.

Description	Model (i) and (ii)	Model (iii) and (iv)	Model (v)
National Average 2019 (incl. Greening)	€265	€265	€265
Minimum Unit Value 2019 (incl. Greening)	€159	€159	€159
Maximum Entitlement Unit Value 2019	€700	€700	€700
National Average 2026	€204	€177	€204
Minimum Entitlement Unit Value 2026	€153	€133	€202
Maximum Entitlement Unit Value 2026	€439	€382	€217

*Table 12: Impact of the convergence parameters on the sample population's Payment Entitlement unit values under the five composite model scenarios.*

As the sample population is used for each of the models the national average, minimum and maximum Payment Entitlement unit values for 2019 are the same across all models. The sample population's minimum entitlement unit value in 2019 is €159 rising to a maximum unit value of €700 with an average value of €265.

Under the models in 2026 the national average values fall in a range between €177 and €204. The national average value is the same for Models (i), (ii) and (v) as the ceiling allocation is the same. However, the effects of the differing convergence levels and the

ceiling allocations can be seen through the minimum and maximum Payment Entitlement values in 2026.

All individuals will converge towards at least 75% of the national average Payment Entitlement value under Models (i) to (iv), however, due to the ceiling allocations for these models 75% of the national average (the minimum Payment Entitlement unit value) ranges from €153 in Models (i) and (ii) to €133 in Models (iii) and (iv). Under the 100% convergence scenario in Model (v) the minimum Payment Entitlement unit value is, as expected, higher than in the other models at €202.

The maximum Payment Entitlement unit values range from €439 in Models (i) and (ii) to €382 in Models (iii) and (iv). Due to 100% convergence the maximum value is close to the national average in Model (v). Variation exists between the national average, minimum and maximum Payment Entitlement values in 2026 due to rounding in the modelling process.

It can be seen from Table 12 that in 2026 no entitlement value reaches the maximum €500 applied across Model (i) to (v). This is because in these composite models the effects of convergence, re-allocation of funding to ECO Schemes and Direct Payment interventions all affect the entitlement value. This contrasts with the component modelling in Section 7.3 where these measures were excluded, and a €500 maximum value provided €7.1m for redistribution.

### **8.4.3 Convergence Population Review**

Table 13 illustrates the number of individuals with Payment Entitlements that follow each of the three convergence paths within each of the models. As an individual may hold more than one set of BISS Payment Entitlements, individuals may appear more than once across each of the categories. Also shown is the amount of funding which will move between these groups in order to finance the convergence.

Since Models (i) and (ii), have the same convergence path and the same ceiling allocation the results in terms of convergence will be identical. Therefore, for display purposes the results from Models (i) and (ii) are shown together. The same also applies to Models (iii) and (iv).

<b>Description</b>	<b>Model (i) and (ii)</b>	<b>Model (iii) and (iv)</b>	<b>Model (v)</b>
Individuals with Receiving Payment Entitlements	59,453	59,453	68,088
Individuals with Contributing Payment Entitlements	54,567	54,567	54,567
Individuals with Static Payment Entitlements	16,390	16,390	7,430
Convergence Amount	€5.9m	€5.1m	€19.3m
Percentage of BISS Ceiling moving under convergence	0.65%	0.65%	2.14%

*Table 13: Impact of the convergence parameters on the sample population and the convergence amount under the five composite model scenarios.*

As illustrated in Table 13 the population of Individuals with receiving Payment Entitlements is the same under the parameters set in Models (i) to (iv). While these models have differing ceiling values, they are converging towards the same level of at least 75% of the national average. Model (v), however, is converging towards 100% of the national average Payment Entitlement unit value, therefore, more farmers hold receiving Payment Entitlements.

The number of farmers with static Payment Entitlements is also lower in Model (v) when compared to the other models.

In terms of fund redistribution, Model (v) sees the highest amount of funds moved from Payment Entitlements above the national average at €19.3m. Within Models (i) to (iv) between €5m and almost €6m is redistributed.

#### **8.4.4 Convergence BISS Payment Review**

The convergence paths as set down previously, increasing, decreasing and static, apply to each set of BISS Payment Entitlements. As stated within BISS a farmer may hold more than one set of Payment Entitlements and each of these sets may follow a different convergence path. However, the majority of farmers in the sample population will hold just one set of Payment Entitlements and this set will follow one of the three convergence paths.

Table 14 reviews the overall BISS payments received by an individual in each scenario with 32 hectares following each of the convergence paths within each of the models. As the convergence paths and ceiling allocations are the same for Models (i) and (ii), the results are identical, therefore, these have been grouped in Table 14, for display purposes. The same applies for Models (iii) and (iv).

Convergence Path	Annual Modelled Payment			
	2019 BPS Plus Greening	BISS plus ECO Scheme, 2026		
		Models (i) and (ii)	Models (iii) and (iv)	Model (v)
Contributor	€11,509	€9,835	€9,638	€8,302
Receiver	€6,332	€6,880	€7,069	€7,076
Static	€8,338	€8,078	€8,111	€8,184

Table 14: Payment comparison 2019 versus 2026 for an individual with 32ha under each of the convergence paths

Table 14 illustrates that under Models (i) to (v) those receiving under convergence under the modelled conditions are likely to achieve an increased payment in 2026 if they elect to participate in an ECO Scheme. This Table also illustrates that under Models (i) to (v) those contributing to convergence are projected to receive a lower payment in 2026 even if they choose to participate in an ECO Scheme. Those that are not affected by convergence are projected to receive a similar annual payment under the modelled conditions assuming they chose to participate in an ECO Scheme.

It should also be borne in mind that the comparisons in Table 14 do not include any potential payments an individual may qualify for under other Direct Payment interventions, such as CISYF, Coupled Income Support or Sectoral Interventions.

#### 8.4.5 Capping of Payments Review

Table 15 illustrates the number of individuals in the sample population impacted by capping within each of the five models.

As the ceilings are the same for Models (i) and (ii) and capping commences at €60,000 the number of individuals impacted is the same for both of these models. Therefore, the results are presented together, for display purposes in Table 15. The same applies to Models (iii) and (iv).

Year	Model (i) and (ii)	Model (iii) and (iv)	Model (v)
2021	614	593	94
2022	604	594	94
2023	597	590	93
2024	594	585	86
2025	595	581	89
2026	591	571	94
2027	591	571	94

Table 15: Number of individuals within the sample population impacted by capping under the five models

The capping of payments has been applied annually within the model scenarios, however, due to the application of convergence also within these models the same members of the sample population may not be impacted every year.

As per Table 15, if capping commences at a lower level, more individuals will be impacted as shown by Models (i) and (ii). However, if the ceiling allocation for BISS payments is also decreased, as in Models (iii) and (iv), there will be fewer individuals impacted, even if the reduction of payment level is the same.

In Model (v) the reduction of payment values above €100,000 resulted in fewer individuals being impacted overall.

Table 16 outlines the total amount of funds accrued through the application of capping within each of the five models. These funds would be made available in the first instance for the Complementary Redistributive Income Support for Sustainability (CRISS).

<b>Year</b>	<b>Model (i)</b>	<b>Model (ii)</b>	<b>Model (iii)</b>	<b>Model (iv)</b>	<b>Model (v)</b>
2021	€6.8m	€13.7m	€6.6m	€13.2m	€2.6m
2022	€6.7m	€13.2m	€6.5m	€13.0m	€2.5m
2023	€6.6m	€13.0m	€6.5m	€12.9m	€2.6m
2024	€6.5m	€12.8m	€6.5m	€12.7m	€2.7m
2025	€6.5m	€12.6m	€6.4m	€12.6m	€2.9m
2026	€6.4m	€12.5m	€6.4m	€12.6m	€3.1m
2027	€6.4m	€12.5m	€6.4m	€12.6m	€3.1m

*Table 16: Amount of funds realised as a result of capping under the five composite models*

In contrast to the number of farmers impacted as illustrated in Table 15, the amount accrued varies within each of the models. This is due to the level of degressivity applied between Models (i) to (v). Models (i) and (iii) apply degressivity to payments above €60,000 where as Models (ii) and (iv) cap all direct payments at €60,000. The funding accrued from Model (v) is lower as the reduction of payments does not commence until €100,000.

The level of funding accrued from models (i) to (iv) reduces over the period 2021 to 2027 as a result of the downward effects of convergence. Individual Payment Entitlement unit values are decreasing for some individuals towards the national average over this period, therefore, overall BISS payments will also reduce for some individuals in the sample population that are subject to capping. In contrast in Model (v) the funding accrued increases from 2023 onwards due to upward convergence. As per Table 13, more individuals hold receiving sets of Payment Entitlements in Model (v) than any other Model. Combining this with the average value of Payment Entitlements in Model (v) results in the amount accrued under capping increasing over time in Model (v).

## 9. Conclusion

This document forms part of a series that seeks to provide stakeholders with information to aid them in better understanding the proposals set out in the new CAP regulations. The proposals are draft regulations. The final shape of the proposals is yet to be agreed by the EU co-legislators.

Through a series of models, the paper has explored the trends arising from the proposals. The paper is **not** a forecast of outcomes but a modelling exercise illustrating potential trends. The models are based on a static population, constructed with assumptions and with a number of unknowns. This is particularly the case with new proposals, such as the introduction of the ECO Schemes which are challenging to include in the models at this point due to the number of unknowns.

The models do not consider any implications of potential EU budget changes.

A number of issues have been highlighted in this exercise;

The proposals regarding Direct Payments continue with the implementation of a number of concepts currently operating in Direct Payments such as a central basic payment, convergence and degressivity albeit there are a number of differences in the new proposals when it comes to implementation.

Convergence, as proposed by the European Commission, has a broadly similar effect to the current programme with similar numbers of farmers affected. However, as individuals have already undergone convergence in the current CAP, under the Commission's proposals there will be less funding being transferred and convergence transfers will involve a lower amount of the ceiling than is currently the case. The Parliamentary proposals for a greater level of convergence would lead to more funding being transferred than under the current CAP and the amount of funding transferred would represent a higher amount of the financial envelope.

In practice the various interventions for Direct Payments will be implemented in a composite way and not individually. These elements are linked to each other and changes in one affect the other making it challenging to examine elements in isolation.

Due to limited number of individuals with payments above the proposed capping limits, capping would be unlikely to result in any significant funds being made available for any CRISS Scheme. The impact of financial allocations to other elements of the proposals such as ECO Schemes would also affect the implementation of capping. The Commission's proposals are to cap all Direct Payments including ECO Schemes, but this remains a subject for further negotiations.

The new element of ECO Schemes reflects a clear policy direction towards a greater reallocation towards the environment. The higher the amount of funding allocated to such schemes, the greater the impact on payment entitlement values and farmers payments. While they are voluntary for farmers, choosing not to participate in an ECO Scheme will effect the level of an individual's total Direct Payments. Participation in ECO Schemes will offer farmers the opportunity to maximise their Direct Payment amounts while also contributing to the greater environmental ambition proposed for the CAP Post-2020.