Tithe an Oireachtais
Houses of the Oireachtas

An Oifig Buiséid Pharlaiminteach
Parliamentary Budget Office

An Overview of the Common Agricultural Policy (CAP) in Ireland and potential regional and sectoral implications of future reforms

Briefing Paper 9 of 2018

Contents

Abstract

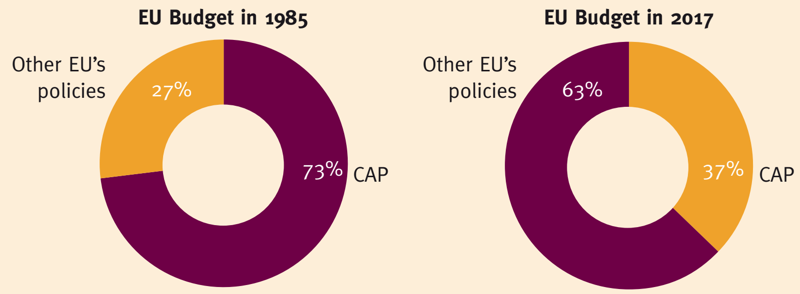
This PBO briefing paper focuses on the Common Agricultural Policy (CAP) in Ireland ahead of Budget 2019 which is of particular importance considering the ongoing negotiation of the future EU budget. CAP is one of the most important European policies that impacts on Ireland, particularly on rural Ireland and the agri-food sector. Irish farms are heavily dependent on EU subsidies, with 56% of average family farm income coming from direct payments from CAP funds. This paper gives a review of the CAP highlighting the history of the policy from its origins right up to the present day and the proposals for the future. An overview of the overall CAP budget in the EU is undertaken followed by an analysis of the regional and sectoral impact of the CAP in Ireland. Regional variation and farming system differences are evident, with direct payments relatively concentrated. Finally, this paper looks at proposals of CAP post 2020 and simulates the potential impact of putting a ceiling on farm payments of over €100,000.

KEY FINDINGS

CAP and the EU Budget

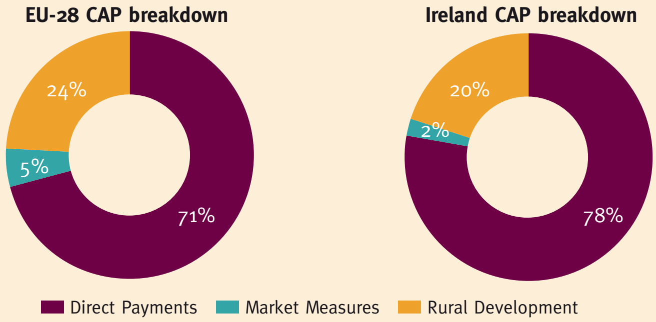
The CAP is the single most important policy of the EU Budget

Its share has decreased from a high of 73% in 1985 to 37% in 2017



In the EU-28, 71% of the EU CAP expenditure goes on direct payments

In Ireland, 80% of the CAP budget is allocated to direct payments



Average Family Farm Income

€31,412

Of which CAP supports **€17,659**

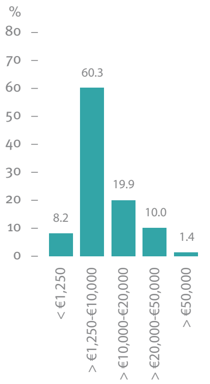
56% of income depends on CAP supports

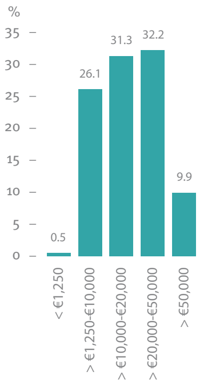
Average Earnings

€37,646

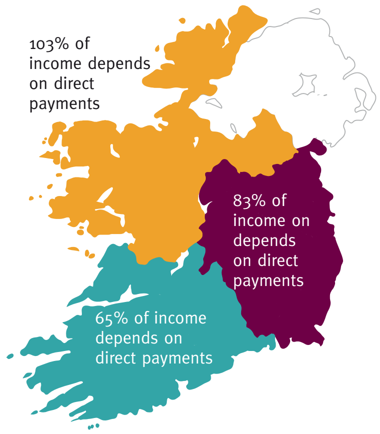
Dairy	Tillage	Cattle Other	Cattle Rearing	Sheep
22% of income depends on CAP Supports	**63%** of income depends on CAP Supports	**96%** of income depends on CAP Supports	**114%** of income depends on CAP Supports	**115%** of income depends on CAP Supports

CAP is inclusive in terms of beneficiaries but the total value of payments is more concentrated





Regional dependence on direct payments stronger in the Northern and Western Region



If a cap on direct payments of €100,000 was imposed

Most affected counties	Number of Beneficiaries	Potential Impact (€)
Meath	28	1,051,046
Cork	27	1,106,830
Tipperary	19	573,928
Wexford	14	667,253
Kildare	13	439,577
Louth	12	379,753
Kilkenny	10	468,720
Carlow	10	280,948

1. Context

This publication follows previous work undertaken by the PBO in Note 3[1] of 2018 on The Multiannual Financial Framework (MFF) of the EU which informed members of the development of the negotiations of the MFF 2021-2027. The MFF sets the ceilings for EU budgetary commitments, which impacts contributions required while also setting out the priorities of policy areas. One of the key questions highlighted was what will be the impact on Ireland of the proposed changes to the CAP budget in the new MFF. The CAP budget makes up the largest proportion of the MFF and according to the PBO,[2] the legislative proposals that would impact Ireland the most in budgetary terms are those associated with CAP. Therefore, ahead of Budget 2019, the PBO provides an analysis of CAP in the context of future reforms.

1 *PBO Note 3 of 2018, The Multiannual Financial Framework of the EU https://data.oireachtas.ie/ie/oireachtas/parliamentaryBudgetOffice/2018/2018-02-12_multiannual-financial-framework-of-the-eu_en.pdf*

2 *PBO Note 14 of 2018, The Multiannual Financial Framework 2021-2027 of the EU – the European Commission's proposals https://data.oireachtas.ie/ie/oireachtas/parliamentaryBudgetOffice/2018/2018-06-11_the-multiannual-financial-framework-2021-2027-of-the-eu-the-european-commission-s-proposals_en.pdf*

2. Background to CAP

The Common Agricultural Policy, abbreviated as CAP, is the European Union's chief agricultural policy. The CAP is a system of income and market support programmes for the agriculture and rural sectors. It is arguably one of the most important policies in the EU and it goes back to the origins of the EU itself. The CAP was established under Article 33 of the Treaty of Rome that established the European Economic Community. It was first conceived as a common policy, with the objectives of providing affordable food for EU citizens and a fair standard of living for farmers. This policy was one of the first integrated EU policies and it is the single largest area of expenditure of the EU budget. The CAP has a significant social and economic reach. There are currently around 11 million farms in the EU and 22 million people who work regularly in the sector (European Commission, 2018[3]). In Ireland, agriculture is the most important indigenous sector with around 167,500 people employed in the agri-food sector (Teagasc, 2016[4]) while food and drink exports are valued at €12.6 billion (Bord Bia, 2018[5]).

The main objectives of CAP[6] are as follows:

- to guarantee a stable supply of affordable food by supporting farmers and improving agricultural productivity;
- to ensure a fair standard of living for EU farmers;
- to encourage the sustainable management of natural resources and help tackle climate change;
- to preserve rural areas and landscapes across the EU; and
- to support the rural economy by promoting jobs in farming, agri-food industries and associated sectors.

Farming is a different activity from other businesses as it depends more on the weather and the climate than many other sectors. There is also an inevitable time gap between consumer demand and farmers' ability to supply food. Growing more crops or producing more milk inevitably takes time. Furthermore, global food prices and as a result farmers' incomes are subject to high volatility. The average family farm income is significantly lower compared to average non-agricultural income. Business uncertainties and the environmental impacts of farming give reasons for the important role that the public sector plays in this area.

The CAP takes action by providing:

- **Income supports:** direct payments to ensure income stability, to remunerate farmers for adopting environmentally friendly practices and for delivering public goods not normally paid for by the markets (e.g. taking care of the countryside);
- **Market measures:** these are measures the EU can take to deal with difficult market situations such as a sudden drop in demand due to a health scare, or a fall in prices as a result of a temporary oversupply on the market; and
- **Rural development measures:** these are national and regional programmes addressing the specific needs and challenges facing rural areas.

3 *European Commission, 2018: https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/cap-glance_en*
4 *Teagasc, 2016: https://www.teagasc.ie/rural-economy/rural-economy/agri-food-business/agriculture-in-ireland/*
5 *Bord Bia, 2018: https://www.bordbia.ie/industry/manufacturers/insight/publications/marketreviews/pages/exportperformanceprospects2018.aspx*
6 *European Commission, 2018: https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/cap-glance_en#title*

3. Major CAP Reforms

The CAP[7] undertook several reforms over time. Following on from the initial implementation of the original CAP in 1962 and the introduction of price supports, farms became more productive. However, on the back of subsequent over-production supply management became an issue. It is against this backdrop that the first major reform was made in 1984. This reform was historic as it introduced numerous measures to better align production with market demand. One of the main measures was the introduction of **milk quotas** which established a cap on milk production and significantly impacted on countries with a relatively large dairy industry such as Ireland.

Less than a decade later, in 1992, the second major reform took place. This is often referred to as the 'MacSharry' reform, named after the agricultural commissioner at that time, and focused on shifting from market support such as commodity price supports to direct payments. Prior to this, farmers were supported by subsidies such as the suckler cow premiums that were geared towards sustaining high commodity prices and allocating support payments based on the number of animals farmed. Supports to commodity prices reduced gradually and were replaced with **direct payments** to sustain farm incomes. Environmental measures were also introduced at the time of this reform.

In 2003, the new CAP reform introduced '**decoupling**' with the fundamental aim of reducing the link between direct payments and production. The payments structure that was in place was giving farmers a strong incentive to increase livestock numbers and therefore production. Conversely, the new framework aimed at breaking this link by conditioning income support on a per hectare basis in return for adherence to good environmental practices and statutory management requirements. While some countries continued with partially decoupled payments, Ireland opted for full decoupling. Ireland removed all payments based on a headage basis (i.e. the number of cattle) introduced in the 1992 reform and replaced them with the single farm payment. Another significant reform was the agreement to abolish milk quotas in 2015. A CAP HealthCheck in 2008 provided the agreement for the phasing out of quotas to lead to a soft landing in the run up to the official abolishment of milk quotas which took place on April 1st 2015.

The latest reform, which took place in 2013, aimed to promote competitiveness, sustainable practices, innovation, growth of rural areas and to better link financial resources to the productive use of land. This reform set out the current framework for CAP which was agreed from 2014-2020. The main feature of the 2013 reform was the introduction of a mandatory **"greening"** payment to make producers more environmentally friendly. This is an area that applies to 30% of total direct payments and encourages the use of various practices that benefit the environment.

7 *European Commission, 2018: https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/cap-glance_en#Timeline*

4. Financing of CAP

The total EU budget is financed by Member States on the basis of their Gross National Income (GNI). As noted earlier, the CAP has a significant proportion of the total EU budget. The CAP's share of the total EU budget has decreased overtime despite EU enlargement due to policy reforms and the growing share of other EU policies. Each Member State's contribution to CAP expenditure is generally equal to the share of its national contribution in the overall EU budget. The CAP[8] is financed through two funds that form part of the EU general budget.

These two funds or 'pillars' are:

- **Pillar 1 –** European Agricultural Guarantee Fund (EAGF) that primarily finances direct payments to farmers and measures regulating or supporting agricultural markets. Pillar 1 is entirely financed by the EU.
- **Pillar 2 –** European Agricultural Fund for Rural Development (EAFRD) that finances the EU's contribution to rural development. Pillar 2 is financed through co-funding.

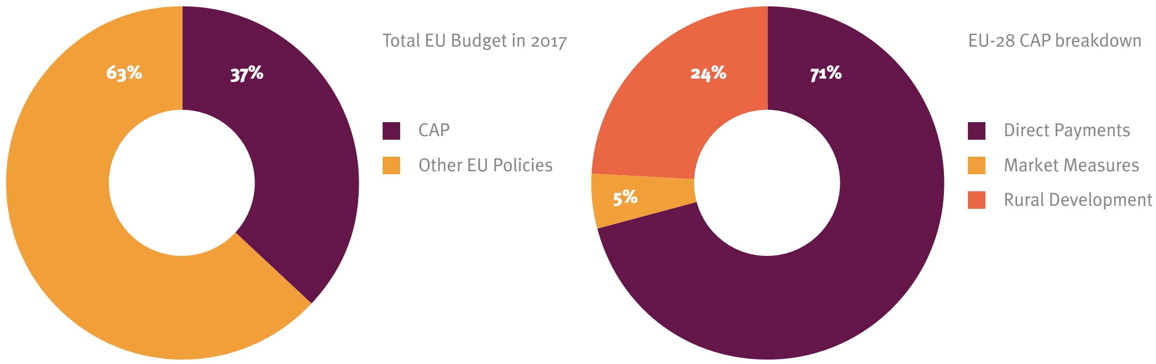
Member States are responsible for the national implementation of the CAP. They manage their own payments to beneficiaries through national paying agencies which in Ireland's case are managed by the Department of Agriculture, Food and the Marine. The list of beneficiaries is also published as set out by EU rules on transparency.

Figure 1 shows the CAP's share of the EU budget and a breakdown by pillar of CAP expenditure in the EU-28. While the CAP still constitutes the largest expenditure area of the EU budget, its share has decreased sharply over the last 30 years. In 1985[9], 73% of the total EU budget was spent on CAP, compared to approximately 37% last year. In 2017, approximately 71% of the EU CAP expenditure was on direct payments with 5% on market measures. This indicates that the majority of expenditure came from Pillar 1. The remaining funding under Pillar 2 measures (rural development) amounted to 24% of the total. The proportions of expenditure under direct payments, market measures and rural development vary among Member States (see Figure 2). For example, according to the European Commission, Denmark is the country that has the highest share of direct payments (83.6% vs the EU-28 average of 70.6%), while Malta shows the highest share of expenditure on rural development (71.5% vs the EU-28 average of 24.3%).

8 European Commission, 2018: https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/cap-glance_en#howitspaidfor

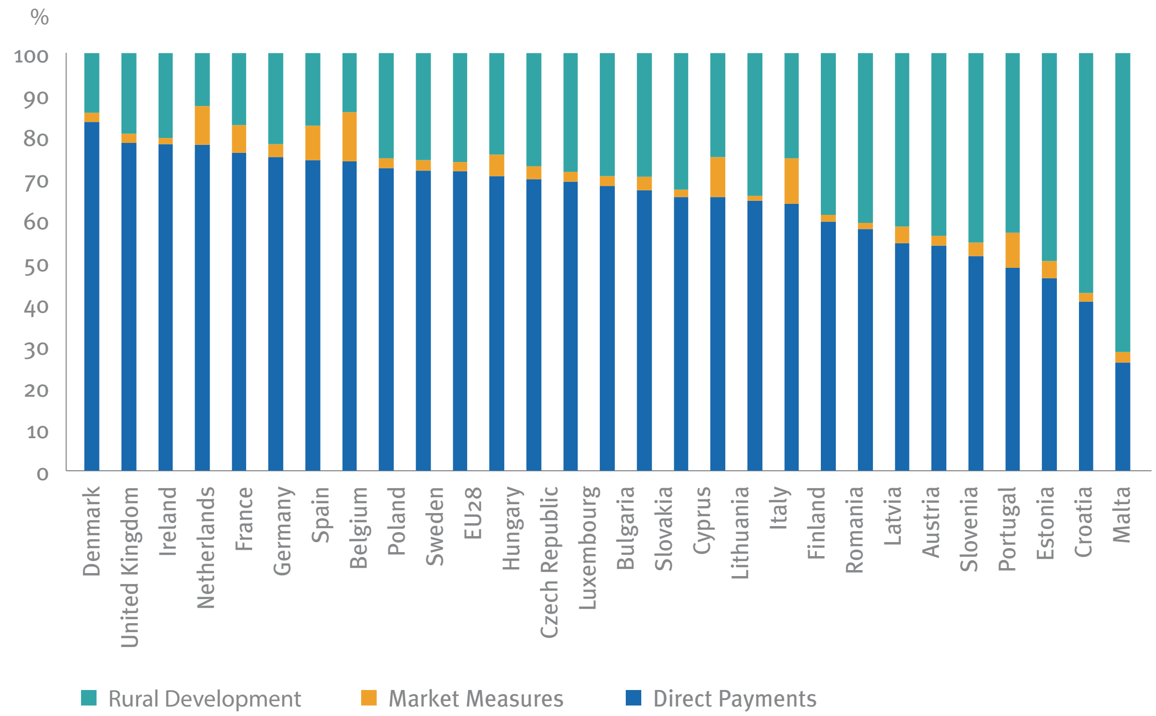
9 European Commission, 2018: https://ec.europa.eu/agriculture/sites/agriculture/files/cap-post-2013/graphs/graph1_en.pdf

Figure 1: CAP's share of the EU Budget and EU-28 CAP Expenditure



Source: European Union Statistical Worksheet.

Figure 2: CAP Pillars' Breakdown among Member States



Source: PBO based on European Union Statistical Worksheet.

Table 1, based on European Commission data[10] shows 2017 CAP payments for each country based on the budget ceilings as agreed by Member States under the current CAP financial framework[11]. France (16.4% of the EU total), Spain (11.6%) and Germany (11%) were the main beneficiaries of this support mechanism, with Ireland the 10th largest beneficiary accounting for approximately 2.9% of the total EU CAP payments. France, Germany and Italy receive the largest amount of CAP payments but overall they are among the largest net contributors to the CAP due to their large contribution to the total EU budget.

Table 1: CAP expenditure by Member State in 2017 (€'million)

	Direct payments	Market measures	Rural development	Total CAP	% of EU Total
France	7,365	640	1,666	9,671	16.4%
Spain	5,064	556	1,186	6,805	11.6%
Germany	4,847	202	1,404	6,452	11.0%
Italy	3,795	649	1,493	5,938	10.1%
Poland	3,355	119	1,192	4,666	7.9%
United Kingdom	3,082	90	755	3,927	6.7%
Romania	1,691	43	1,187	2,920	5.0%
Greece	2,021	66	703	2,791	4.7%
Hungary	1,258	55	489	1,801	3.1%
Ireland	1,208	23	313	1,544	2.6%
Portugal	655	114	580	1,349	2.3%
Austria	693	29	562	1,284	2.2%
Czech Republic	838	28	345	1,210	2.1%
Bulgaria	774	38	340	1,152	2.0%
Denmark	844	21	145	1,010	1.7%
Netherlands	735	87	118	940	1.6%
Sweden	686	21	249	957	1.6%
Finland	523	14	340	878	1.5%
Belgium	509	81	97	687	1.2%
Lithuania	437	8	230	676	1.1%
Slovakia	432	12	215	659	1.1%
Croatia	199	10	282	492	0.8%
Latvia	204	14	155	373	0.6%

10 *European Commission, 2018: https://ec.europa.eu/agriculture/sites/agriculture/files/statistics/factsheets/pdf/eu_en.pdf*

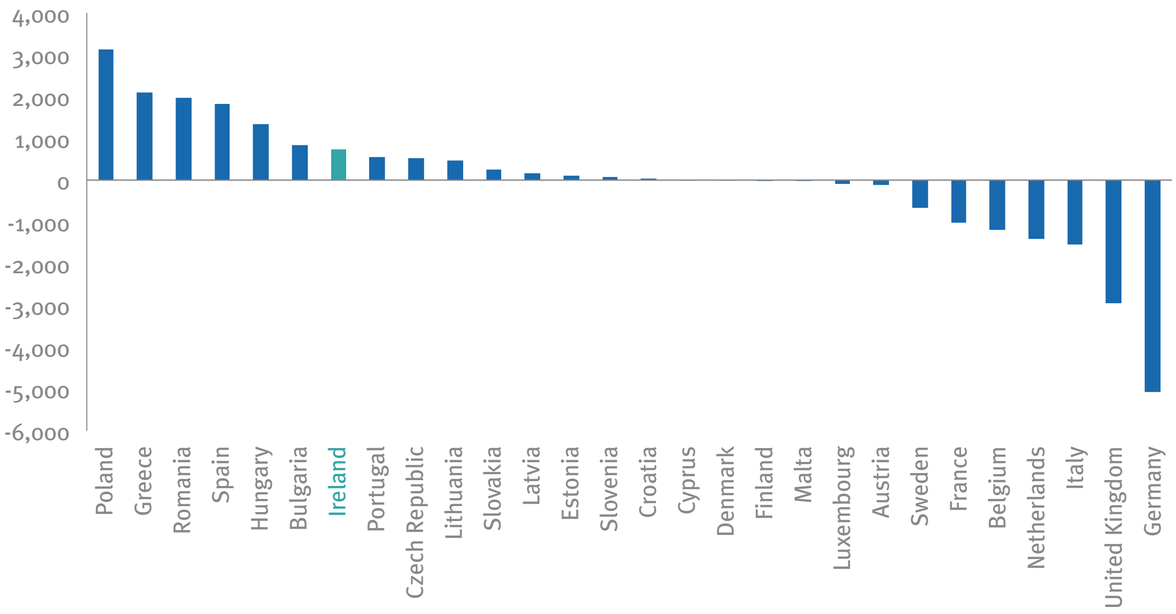
11 *The EU budget is decided every year by the Council of the EU and the European Parliament. To keep long-term spending under control, the EU operates within a Multiannual Financial framework (MFF). The current framework is set over the period 2014-2020 and, as a part of this; the CAP budget is estimated at €362 billion.*

	Direct payments	Market measures	Rural development	Total CAP	% of EU Total
Estonia	114	10	123	247	0.4%
Slovenia	136	9	120	264	0.4%
Cyprus	50	7	19	76	0.1%
Luxembourg	33	1	14	49	0.1%
Malta	5	0	14	19	0.0%
EU28	41,551	3,001	14,337	58,889	100.0%

Source: European Union Statistical Worksheet.

Major Contributors to CAP Budget

Figure 3: CAP net balances of EU Member States, 2014-2016 average (€'million)



Source: European Parliament Agriculture Committee, 2017

Looking at budget contributors compared to CAP receipts there is significant variation among countries (Figure 3). The budget for the current CAP framework 2014-2020 was reduced by 3.2% compared to the previous budget 2007-2013. Countries with the larger economies tend to be the largest net contributors. Based on data from the European Parliament Agriculture Committee[12] Germany was the largest net contributor on average between 2014 and 2016 followed by the UK, Italy and the Netherlands. Conversely, the largest net beneficiaries were Poland, Greece, Romania and Spain. The two main factors that determine whether a Member State is either a net beneficiary or a net contributor to the CAP are their share of EU's total GNI and the relative size of their agriculture sector.

In light of Brexit where no agreement has yet been reached, the EU budget will be negatively impacted by the UK's departure with the loss of the UK's net annual contribution. The European Parliament Agriculture Committee (2017) estimated a budgetary shortfall of approximately €10 billion per year and the impact of this would take around €3 billion annually from the CAP budget. This will put more pressure on the EU finances unless Member States increase contributions.

CAP and the Environment

On the one hand, agriculture is highly exposed to climate change, as farming activities particularly crops, directly depend on environmental and weather conditions. On the other hand, an increase in agricultural output generates additional greenhouse gas emissions, which are a key driver of climate change. CAP supports across Europe provide incentives to more sustainable farming and the management of natural resources. Environmental incentives have been financed since the early to mid 1990s; however, one of the largest environmental commitments was brought in under the 2013 CAP reform. This major innovation, known as 'Greening', attempted to make the direct payments system more environmentally friendly by conditioning support on the respect of environmental standards. According to the European Commission[13] 'Green' direct payments now account for 30% of the direct payment budgets of each EU country.

12 *European Parliament Agriculture Committee, 2017: http://www.europarl.europa.eu/RegData/etudes/STUD/2017/602007/IPOL_STU(2017)602007_EN.pdf*

13 *European Commission Greening, 2013: https://ec.europa.eu/agriculture/direct-support/greening_en*

5. Ireland and the CAP

As the agri-food sector in Ireland accounts for 7.8% of Modified Gross National Income (GNI*), 10.3% of merchandise exports and 8.6% of employment (DAFM, 2018[14]), the CAP is very important to Ireland. This is particularly true given that around 37% of Ireland's population resides predominantly in rural areas[15], compared to the EU average[16] of 28%. CAP has significantly contributed to the Irish economy. In the latest CAP framework 2014-2020, it is estimated that CAP will invest €10.7 billion into agriculture[17] and €2.2 billion on rural development in Ireland.

At present 80% of the Irish CAP budget is allocated to direct payments and market supports (e.g. promotion of farm products[18] and schools schemes[19]) compared to an EU average of 76%. The remaining funding is allocated to rural development in tandem with national co-financing. Between 16th October 2016 and 15th October 2017 (latest available dataset), almost €1.7 billion was allocated to just over 130,000 beneficiaries according to the Department of Agriculture, Food and the Marine CAP beneficiaries database[20].

Farm income dependency on CAP direct payments

Farm incomes[21] in Ireland are lower than the average earnings across all sectors and differ significantly by farming subsector. Farm incomes also fluctuate dramatically over time within each farming subsector due to variations in input and output prices and due to adverse weather events amongst other factors. In 2017, the average family farm income in Ireland was €31,412 including CAP payments (Teagasc National Farm Survey 2017): which is lower than the average earnings for both full time and part time employees estimated at €37,646 by the CSO[22]. Direct payments from CAP play a critical financial role in maintaining farm incomes in Ireland with large differences across farming sectors as indicated in Table 2. According to Teagasc[23], the average total CAP payment received per farm in 2017 was €17,659 and this accounted for 56% of average farm income. Dairy enterprises had on average the highest income (€86,069) and the lowest dependency on direct payments (22%) followed by tillage (€37,027) which has 63% dependence. Conversely, sectors such as cattle rearing and sheep had the lowest incomes and largest dependency on CAP payments with such supports accounting for 114% and 115% of average farm income. A dependency that is over 100% of income indicates that the sector is economically vulnerable and is trading at a loss. Dairy farms were on average the most profitable farm system with an average income per hectare of €1,529, while Sheep farms were the least profitable system at €323 per hectare.

14 *Department of Agriculture, Food and the Marine, 2018: https://www.agriculture.gov.ie/media/migration/publications/2018/January2018Factsheet120118.pdf*

15 *CSO Census of Population, 2016: https://www.cso.ie/en/releasesandpublications/ep/p-cp2tc/cp2pdm/*

16 *Eurostat, 2017: http://ec.europa.eu/eurostat/statistics-explained/index.php/Statistics_on_rural_areas_in_the_EU#Population_distribution_by_degree_of_urbanisation*

17 *European Commission "CAP in your Country" https://ec.europa.eu/agriculture/sites/agriculture/files/cap-in-your-country/pdf/ie_en.pdf*

18 *European Commission Promotion of EU Farm Products https://ec.europa.eu/info/promotion-eu-farm-products_en*

19 *European Commission Agriculture School Scheme https://ec.europa.eu/agriculture/school-scheme_en*

20 *Department of Agriculture, Food and the Marine, 2018: https://www.agriculture.gov.ie/agri-foodindustry/euinternationalpolicy/commonagriculturalpolicycap/capbeneficiariesdatabase/*

21 *It must be noted that farm incomes are generally self assessed and therefore this may not be a full like-for-like comparison.*

22 *CSO Earnings and Labour Costs, 2018: https://www.cso.ie/en/releasesandpublications/er/elca/earningsandlabourcostsannualdata2017/*

23 *Teagasc National Farm Survey, 2017: https://www.teagasc.ie/media/website/publications/2018/NFS2017_web.pdf*

Table 2: Average Family Farm Income and direct payments by sector

Farm system[24]	Family Farm Income	CAP* Supports	Income Dependency on CAP	Size (ha)	Income per hectare
Dairy	€86,069	€19,328	22%	56	€1,529
Tillage	€37,027	€23,239	63%	60	€617
Cattle Other	€17,199	€16,436	96%	37	€461
Cattle Rearing	€12,529	€14,242	114%	35	€354
Sheep	€16,586	€19,145	115%	51	€323
Family Farm Income[25]	€31,412	€17,659	56%	45	€693

Source: Teagasc National Farm Survey Report 2017.

** CAP supports include all Direct payments under the Basic Payment Scheme, as well as those linked to the Disadvantaged Area Scheme and agri-environmental schemes.*

Teagasc National Farm Survey, (2017) data shows that the average farm size across all farm systems was 45 hectares in 2017. Tillage (60 hectares) and Dairy (56 hectares) farms were on average the largest, while Cattle Rearing (35 hectares) and Cattle Other (37 hectares) were the smallest. Data from Teagasc also highlights that in the Northern and Western region there are a smaller number of farms operating on very good soils and having a shorter number of grazing days compared to farms in the Southern and Eastern region.

Furthermore, data from the CSO Farm Structure Survey 2016[26] indicates that nearly 70% of farms of over 100 hectares were located in the Southern and Eastern region, while over 60% of farms of less than 10 hectares were in the Border, Midland and Western region. The largest farms were those engaged in Mixed Crops and Livestock (59 hectares), Specialist Tillage (58.6 hectares) and Specialist Dairy (57.9 hectares). In general, the larger the farm, the greater the level of output. The CSO farm structure survey also indicated that 68.4% of specialist sheep farms were located in the Border, Midland and Western region, while the Southern and Eastern region contained 78.7% of specialist tillage farms and 77.2% of specialist dairy farms. The CSO Farm Structure survey also found that of the estimated 137,500 farms in Ireland in 2016, 53% were specialist beef while 12% were specialist dairy, 11% were specialist sheep, 3% were tillage with the remaining farms being mixed enterprises.

24 The farm system refers to the dominant enterprise in each group with enterprises often being mixed such as cattle and sheep. E.g. Cattle rearing is where greater than or equal to 50% of the standard output is from suckler cows (Teagasc National Farm Survey, (2017)) https://www.teagasc.ie/media/website/publications/2018/NFS2017_web.pdf

25 Family Farm Income defined as the return from farming for farm family labour, land and capital (Teagasc National Farm Survey, (2017)) https://www.teagasc.ie/media/website/publications/2018/NFS2017_web.pdf

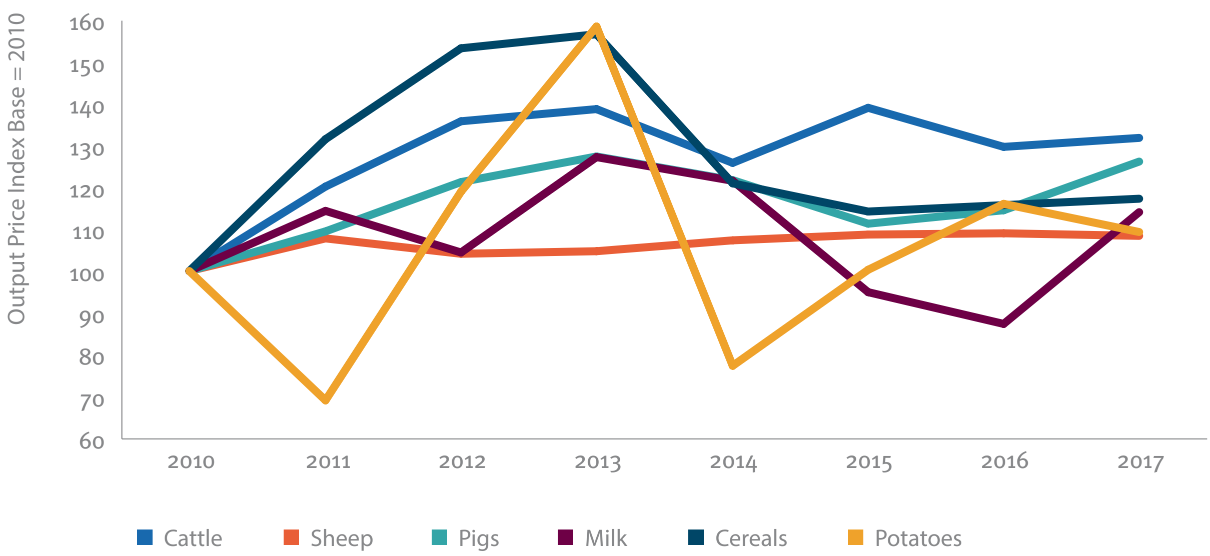
26 CSO's Farm Structure Survey, 2016: https://www.cso.ie/en/releasesandpublications/ep/p-fss/farmstructuresurvey2016/da/fs/

There is large variation in incomes across the population of farms. Farm income distribution data from Teagasc National Farm Survey, (2017) indicates that in 2017:

- 35% of all farms earned an income of less than €10,000, 46% between €10,000 and €50,000, and 19% more than €50,000;
- The breakdown by farming system indicates 70% of dairy farms reported an income of more than €50,000 (31% of these earning more than €100,000);
- By contrast, nearly half of all cattle farms earned a farm income of €10,000 or less;
- In addition to earning higher incomes, dairy farms were also those that invested the most, accounting for almost 50% of the total on-farm investment in 2017; and
- While 63% of farms had no farm business related debt, 62% of dairy farms had borrowings with an average debt of €101,160. This compares to only 27% of Cattle Rearing farms and 29% of Sheep farms.

However, further background information is required to complete the descriptive analysis just provided. First, only data for 2017 was illustrated, which saw very positive performance for dairy farms driven by a strong increase in milk prices with the income of dairy farms increasing by 65% year-on-year in 2017. This is a dramatic recovery from previous years and stresses the considerable volatility of agricultural commodity prices. Volatility in agricultural output prices is clearly seen in Figure 4 below. The overall agricultural output price index in 2017 is estimated to have risen 9.6% in 2017 relative to 2016 (CSO, 2018)[27] which follows two consecutive years of decreases of 4.8% and 3.9% in 2016 and 2015 respectively.

Figure 4: Agricultural Output Price Index



Source: CSO Agricultural Output Price Index, 2018.

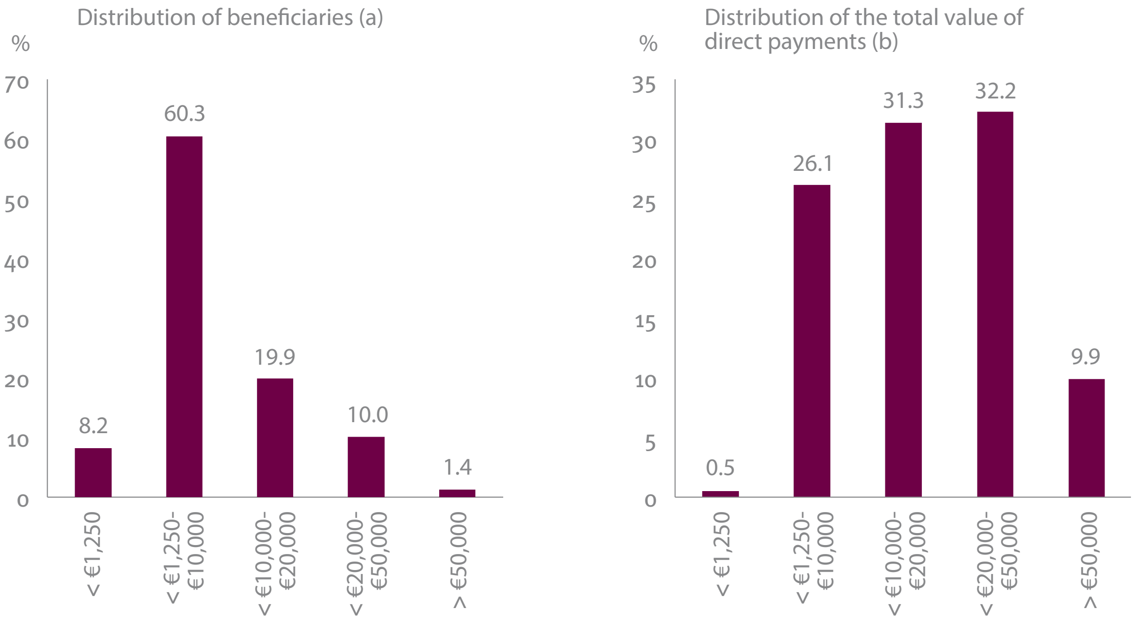
27 *CSO Agricultural Output Price Index, 2018: https://www.cso.ie/en/releasesandpublications/er/apipe/agriculturalpriceindices2017-preliminaryestimates/*

Second, farmers in the Border, Midlands and West region that show low average farm incomes (which generally are not dairy farms) maybe likely to be employed off-farm or be of an older demographic. Finally, the land also has a significant economic value which should not be disregarded. On average in 2017 the value of agricultural land nationally was €9,088 per acre (Farmers Journal Land[28] Price Report) which equates to approximately €22,457 per hectare. However, there are large variations in land values across regions with the most expensive land being located in the Southern and Eastern region, while the West and North West had on average the lowest land value. The most expensive land was located in counties Kildare, Dublin, Louth, Meath and Carlow (which may be related to the shortage of supply in those counties) while Leitrim, Mayo, Roscommon, Donegal and Sligo had the lowest average land values in 2017.

Breakdown by County

Looking at direct payments by county according to the Department of Agriculture, Food and the Marine CAP beneficiaries' database[29], Cork followed by Galway, Mayo, Kerry and Tipperary have the largest proportions of beneficiaries. These counties also account for the largest proportion of the total value of payments.

Figure 5: Distribution of direct payments*



Source: PBO based on Department of Agriculture, Food and the Marine CAP beneficiaries database.

* *For the purpose of this analysis we focus on Direct payments captured under the Basic Payment Scheme.*

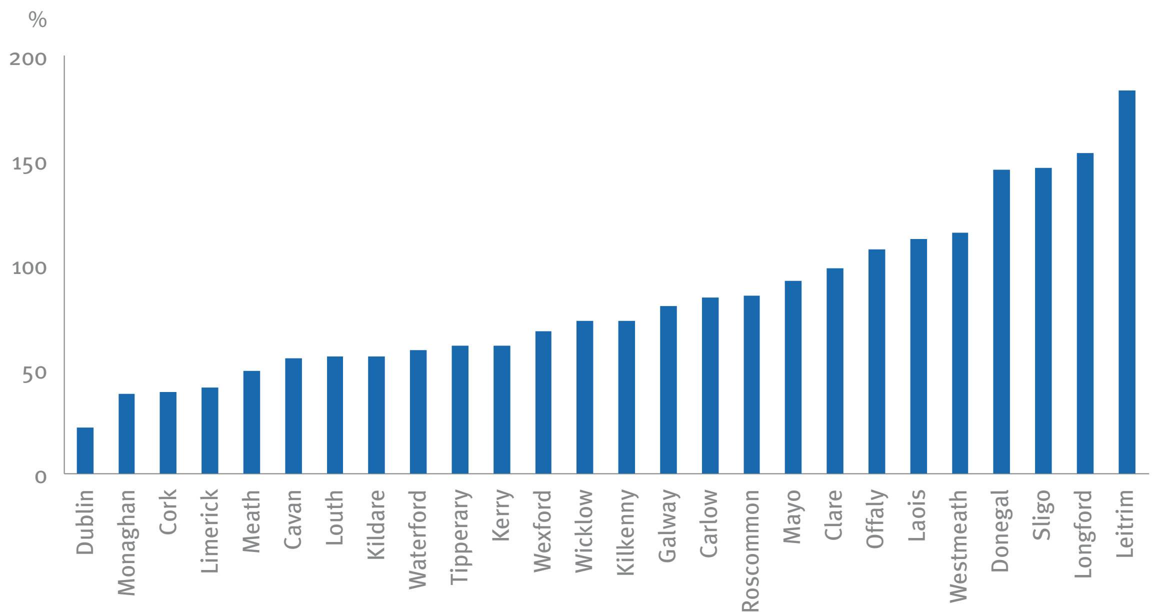
28 *Farmers Journal Land Price Report, 2017: https://www.farmersjournal.ie/average-land-price-of-9-088-per-acre-in-2017-352992*

29 *Department of Agriculture, Food and the Marine, 2018: https://www.agriculture.gov.ie/agri-foodindustry/euinternationalpolicy/commonagriculturalpolicycap/capbeneficiariesdatabase/*

Looking at distribution of direct payments (Figure 5a), over 68% of beneficiaries receive payments per farm lower than €10,000, almost 20% between €10,000 and €20,000, just over 10% between €20,000 and €50,000 and only 1.4% of beneficiaries receive payments greater than €50,000. While CAP direct payments in Ireland are inclusive in terms of the number of beneficiaries, a large proportion of the total value of payments is concentrated among few beneficiaries (see Figure 5b). The top 1.4% of beneficiaries earning more than €50,000 accounts for 9.9% of value payments. Over 40% of the total value of payments is absorbed by the top 11.6% of beneficiaries. On the other hand, the bottom 68.5% of beneficiaries earning less than €10,000 accounts for only 26.6% of the total value of direct payments which shows how concentrated CAP payments are.

Figure 6 shows that a number of counties are entirely dependent on CAP direct supports. Leitrim, Longford, Sligo and Donegal have the highest proportion of farm income coming from CAP supports on average in the country (more than 145% of income). This is followed by counties Westmeath, Laois, Offaly and Clare. In contrast, counties such as Dublin, Monaghan, Cork, Limerick and Meath have the lowest dependence per county on direct payments (less than 50% of income).

Figure 6: Counties with highest dependency on CAP supports



Source: PBO based on IFA report on the contribution of agriculture.

On a regional basis (Table 5), farms in the West and Midlands areas are on average most exposed in the country to changes to the CAP. The regions with the lowest dependence on direct payments are the East and Southern regions.

Table 5: Regional dependence on CAP Supports

	Region* Average Farm size (ha)	Average % Income CAP Supports	Average Land Price** per ha
Eastern and Midland	39	83%	€27,449
Northern and Western	25	103%	€16,223
Southern	39	65%	€23,527

Source: PBO based on IFA report on the contribution of agriculture 2016.

* *Regions based on National Farm Survey 2017 Distribution.*

** *Land price from Irish Farmers Journal Land Price Report 2017.*

6. Future of the CAP: after 2020

On 1 June 2018, the European Commission[30] presented legislative proposals on the future of the CAP for the period after 2020. Following a public consultation launched in 2017 on the future of the CAP and the communication on the future of food and farming, proposals were made with the aim to simplify the CAP and ensure that the best value for money is achieved. As a part of the next EU 2021-2027 budget, the Commission proposes that funding for the CAP is reduced by at least 5%.

Some of the key proposals according to the European Commission[31] are as follows:

- Reduction of direct payments to farmers in excess of €60,000 and a cap for payments above €100,000 per farm;
- Higher level of support per hectare for small and medium-sized farms;
- Help young farmers with a minimum of 2% of direct support payments allocated to each EU country to be set aside for helping young farmers, complemented by financial support under rural development;
- Member states will be required to allocate a minimum of 30% of their rural development budget to environment and climate measures;
- Ensuring that only active farmers receive support;
- Preserving carbon-rich soils and obligatory nutrient management tools to improve water quality and reduce gaseous emissions; and
- Encouraging new generations of farmers to join the profession through knowledge transfer and succession plans.

Capping of Payments over €100,000 Scenario

In this final part of the paper we explore the regional implications of a potential proposal which would cap direct payments at €100,000 per farm compared to the current level of payment. This is the main proposal that can be simulated on the basis of the data available and the current specification of proposals. The overall number of beneficiaries that this scenario could impact is relatively small with less than 200 farmers out of a total of almost 124,000 Irish beneficiaries of CAP supported by direct payments of over this threshold. Looking at a scenario using 2017 direct payments data of above €100,000, we find a larger financial impact on counties that have a lower dependency on direct payments (Table 6). At county level, Cork and Meath are most at risk by direct payments being reduced to a maximum of €100,000 with payments reducing by €1.11 million and €1.05 million respectively. On a regional basis, the Eastern and Midlands areas would lose approximately €2.6 million, while the Southern region would lose approximately €3.58 million. In contrast, the Western and Northern regions would lose significantly less money approximately €471,000. This is due to the small concentration of direct payments over €100,000 in that region. The counties with the highest value of direct payments at risk are also those that have a larger farm size, higher farm income and higher agricultural exports. However, there are two main caveats to make:

- First, this analysis does not imply that the counties with the highest dependence on direct payments would not be affected by changes to the CAP as the simulated scenario only focused on the most quantifiable proposal.

30 European Commission, 2018: https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/future-cap_en

31 European Commission, 2018: https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/future-cap_en#timeline

- Second, it must also be remembered that the number of farms receiving payments of over €100,000 is quite low with just under 200 farms quantified in this category in 2017 and that no clear proposals have been made over how this money capped above €100,000 per farm will be utilised. It is unknown whether the savings as a result of the cap on direct payments will be redistributed in favour of small and medium-sized farms or will it just be cut from the budget.

Table 6: Direct Payments* over €100,000 per county

	Beneficiaries (No)	Potential Impact (€)	Potential Average Impact per farm (€)
Cork	27	1,106,830	40,994
Meath	28	1,051,046	37,537
Wexford	14	667,253	47,661
Tipperary	19	573,928	30,207
Kilkenny	10	468,720	46,872
Louth	12	379,753	31,646
Dublin	9	332,506	36,945
Waterford	8	293,965	36,746
Carlow	10	280,948	28,095
Kildare	13	260,822	20,063
Galway	4	199,212	49,803
Donegal	9	161,339	17,927
Westmeath	9	159,780	17,753
Wicklow	6	153,671	25,612
Limerick	3	134,711	44,904
Offaly	6	115,791	19,299
Cavan	2	106,049	53,025
Laois	7	102,601	14,657
Kerry	1	55,550	55,550
Leitrim	1	2,643	2,643
Mayo	1	1,869	1,869
Clare	0	0	0
Longford	0	0	0
Monaghan	0	0	0
Roscommon	0	0	0
Sligo	0	0	0
Total	199	6,608,987	33,211

Source: PBO based on IFA and Department of Agriculture, Food and the Marine.

** Direct payments include payments under the Basic Payment Scheme based on Department of Agriculture, Food and the Marine, CAP beneficiaries' database.*

7. Concluding Remarks

The CAP makes up the largest area of expenditure of the overall EU budget accounting for 37% of the budget in 2017 and is very important to Ireland, particularly to rural Ireland and the agri-food sector. In this paper, we focused on the impact of CAP direct payments in Ireland across farming systems and at regional levels. On average, CAP accounts for 56% of average family farm income through supported payments averaging €17,659 per holding. This highlights that any reduction to the CAP budget has the potential to negatively impact Irish farms. Counties Cork, Galway, Mayo, Kerry and Tipperary receive the largest amount of CAP payments and have the highest number of beneficiaries. CAP dependence is largely determined by geographical location and by farming system. Producers in the West and North West have a significantly higher proportion of farm income coming from CAP compared to farms in the Southern and Eastern regions. Dairy systems are generally the most profitable and least dependent on CAP supports.

At present a consultation process is ongoing regarding proposals for the future of CAP under the next phase of the MFF between 2021 and 2027. The proposed budget for the next MFF is €365 billion which will see the CAP budget fall to less than 30% of the overall EU budget. With regards to future CAP reforms, our analysis has looked at the impact of the proposed cap to direct payments above €100,000 per farm. This cap would leave direct payments at risk particularly in regions with high proportions of high payments and lower dependency on CAP supports, which are evident predominantly in Southern and Eastern counties. The lowest impact would be seen in counties generally in the Western region. It must be noted that based on 2017 data this has the potential to impact less than 200 farms and no clear proposals have been communicated on how this money capped above €100,000 per farm will be managed and potentially redistributed.

Selected PBO Publications[32]

Commentaries

Quarterly Economic and Fiscal Commentary (Q2 2018) 10 July 2018

Quarterly Economic and Fiscal Commentary (Q1 2018) 16 April 2018

Quarterly Economic and Fiscal Commentary (Q4 2017) 23 January 2018

Post-Budget 2018 Commentary for the Committee on Budgetary Oversight 24 October 2017

Quarterly Economic and Fiscal Commentary (Q3 2017) 5 October 2017

Pre-Budget 2018 Commentary for the Committee on Budgetary Oversight 25 September 2017

Briefing Papers

Briefing Paper 8 of 2018 *Public Sector Pay and Pensions: Features and Key Determinants* 16 August 2018

Briefing Paper 7 of 2018 *Value Added Tax: Overview and Issues for Budget 2019* 24 July 2018

Briefing Paper 6 of 2018 *Potential Output, the Output Gap and Associated Key Issues for Fiscal Policy-making in Ireland* 11 May 2018

Briefing Paper 5 of 2018 *An overview of Public Private Partnerships in Ireland* 16 March 2018

Briefing Paper 4 of 2018 *The Gender and Equality Budgeting pilot in the Revised Estimates for Public Services* 2018 27 February 2018

Briefing Paper 3 of 2018 *Revised Estimates for Public Services* 2018 20 February 2018

Briefing Paper 2 of 2018 *Local Property Tax: Issues to be considered with the revaluation of the base* 15 January 2018

Briefing Paper 1 of 2018 *European Semester 2018 and how it interacts with Ireland's Budget 2019* 15 January 2018

Briefing Paper 3 of 2017 *Rainy Day Fund* 19 December 2017

Briefing Paper 2 of 2017 *Supplementary Estimates* 2017 4 December 2017

Briefing Paper 1 of 2017 *The role and functions of Ireland's Parliamentary Budget Office (PBO)* 24 November 2017

32 *For more publications please click here: https://www.oireachtas.ie/en/publications/?author%5B0%5D=parliamentary-budget-office&page=1*

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