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Department of Agriculture,
Food and the Marine

Proposed New Common Agriculture Policy Regulations

Redistribution Modelling Exercise

Analysis of the Impact of Redistributive Proposals

August 2021



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This document is a theoretical application of the information available in August 2021 and agreed as part of the EU co-legislators’ approach to CAP Reform.

I Glossary of Terms

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 payment entitlements, or via a flat rate system of payment.

Basic Payment Scheme (BPS):

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

Capping/Reduction of Payments:

Capping is an overall limit on the value of Direct Payments an individual can receive.

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 it takes the form of an annual decoupled payment. This scheme is proposed to replace the Young Farmer Scheme under the current CAP which provides an additional payment per activated payment 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 larger to smaller or medium-sized farmers by providing a redistributive payment per eligible hectare to increase sustainability.

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.

Convergence:

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

Coupled Support:

Coupled Support is an optional provision available to Member States to allow them to provide support linked to current production within specific sectors in difficulties. Coupled support is classified as "Amber Box" under World Trade Organisation Rules.

Decoupled Support:

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

Degressivity:

Degressivity is the progressive capping or reduction of payments above a certain level.

Direct Payments:

Direct Payments are a key element of the Common Agricultural Policy (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(s):

It is proposed that each Member States must provide a voluntary annual scheme or schemes for the climate, environment, animal welfare and antimicrobial resistance, also known as Eco-Schemes.

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 (GAECs):

GAECs refer to the agricultural and environmental practices that recipients of Direct Payments must comply.

Greening:

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

Maximum Unit Value of Payment Entitlements:

It is proposed that each Member State must impose a maximum unit value of payment 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 hectare (BPS + Greening) in 2019.

National Reserve:

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

Statutory Management Requirements (SMRs)

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

II 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; it includes a greater focus on improved environmental outcomes and better targeting of Direct Payments which were identified as important issues by European citizens.

The political agreement on the future CAP programme includes several mandatory measures with ring-fenced percentages of the Direct Payments ceiling. Some of these measures are new to Ireland, and some are new to all Member States. The agreement includes mandatory redistribution of funds by front loading of Direct Payments through Complementary Redistributive Income Support for Sustainability (CRISS), in addition to further continuation of capping of payments and convergence of payment entitlement values. A minimum ring-fenced sum for generational renewal (3%) which can be met through a combination of Pillar I and Pillar II measures is also included in the agreement. Lastly, there is an allocation of 25% of the Direct Payments ceiling to Eco-schemes, reflecting the strong environmental ambition contained in the CAP programme.

This document uses these proposals as the basis to model how Direct Payments could be affected by various options. It seeks to inform stakeholders on likely outcomes that could emerge from different aspects and options within the proposals. Models and case studies are used to help inform stakeholders on how the proposals could work in practice, and how a farmer's payments might be affected under the policy options available.

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

1. The overall level of budget and how it is allocated to various schemes will impact the budget available for BISS.
2. The impact of convergence will be influenced by the degree the minimum payment entitlement unit value moves towards the new average payment entitlement unit value.
3. The decision by a farmer to participate in an Eco-Scheme will have an impact on their total Direct Payment.
4. The combined effect of capping, convergence and front loading will have a positive effect on the payments received by some farmers and a negative effect on others.

The fundamental aim of this modelling exercise is to examine the regulations pertaining to redistribution of Direct Payments and inform stakeholders to help ensure the best possible outcome for Ireland's farm families, the wider agrifood sector, the environment, and rural communities.

Redistribution of Direct Payments

The importance attached to redistribution of Direct Payment is driven by concerns over the concentration of EU funds in the hands of a small number of large landowners. A frequently used statistic in terms of CAP funds is that 80% of the funds go to 20% of the farmers; however, it is worth noting that in the Irish context 56% of the funds go to 20% of the farmers and in a European context, Ireland ranks 5th best in this regard (Table 1). The EU Commission have commented that:

“The concentration of direct payments and the 80-20 ratio should not remain a marker of the fairness and effectiveness of direct payment distribution. What counts most is whether direct payments actually go to *those farmers who need it most* (in terms of income support need) and/or to *those who deliver most for the CAP objectives* (economic, environmental and social objectives) (effectiveness)¹.”

Table 1: Trend in 80-20 ratio by Member State between 2015 and 2018 with the share of Direct Payments that accrues to 20% of the Farmers in EU Member States.

% of Direct Payment received by the 20% biggest of beneficiaries (in amount)				% of Agricultural Area hold by the 20% biggest farmers (in size)	
Member States	2018	Difference 2018 vs. 2015	Ranking	2018	Difference 2018 vs. 2015
Luxembourg	48%	0%	1	48%	2%
France	51%	-3%	2	52%	-1%
Netherlands	52%	-2%	3	51%	1%
Belgium	55%	-1%	4	52%	-1%
Ireland	56%	0%	5	49%	1%
Austria	57%	-1%	6	53%	0%
Finland	57%	2%	6	54%	0%
United Kingdom	64%	0%	7	69%	0%
Slovenia	65%	1%	8	57%	1%
Greece	66%	-2%	9	67%	-1%
Germany	69%	0%	10	71%	0%
Malta	70%	-2%	11	53%	0%
Poland	70%	0%	11	66%	0%
Sweden	73%	0%	12	68%	0%
Denmark	75%	0%	13	73%	0%
Spain	76%	-2%	14	80%	-1%
Croatia	76%	-1%	14	75%	0%
Cyprus	78%	1%	15	77%	0%
Lithuania	78%	1%	15	81%	1%
Italy	80%	0%	16	74%	-2%
Bulgaria	83%	-1%	17	89%	-1%
Latvia	83%	3%	18	82%	2%
Hungary	84%	-1%	19	84%	0%
Romania	84%	0%	19	82%	0%
Portugal	85%	0%	20	87%	1%
Estonia	86%	0%	21	86%	0%
Czechia	89%	0%	22	88%	-1%
Slovakia	94%	0%	23	94%	0%
EU-28	80%	-2%	N/A	81%	-1%

Source: Adapted from DG-AGRI

¹ Commission Staff Working Document Evaluation of the impact of the CAP measures on the general objective 'Viable Food Production'.

1 Introduction

Several changes to Direct Payments are included in the new CAP regulations and these changes will be modelled to examine the effect on the Irish farming population. The purpose of the modelling exercise within this document is to provide an overview of the potential implications for Direct Payments arising from the proposals.

The proposals amend the original draft regulations which were published by the European Commission in June 2018. The models that have been presented in the document combine the component parts of the various proposals.

To complete the overview, significant assumptions are made in several areas and these are detailed below. 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 2021 which is the first year of the new Multiannual Financial Framework (MFF) period. This is a modelling exercise conducted on current understanding and therefore, cannot be used as a forecast, and it does not represent any policy choices but seeks to offer an overview of direct payment structures.

1.1 Summary of Existing and Direct Payment Elements possible in the new CAP programme

Table 2 sets out the Direct Payment elements which are present in both the current CAP regulations 2015 to 2020 and in the proposed CAP regulations.

Table 2: The Current Direct Payment Elements compared to the Proposed Direct Payment Elements.

Current Direct Payments Elements	CAP 2023-2027 Direct Payments Elements
<p>Basic Payment Scheme (BPS)</p> <p>Based on payment entitlements and compliance <i>PLUS</i> 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)</p> <p>Based on payment entitlements or payment per hectare and will require increased conditionality including additional SMRs/GAECs.</p>
	<p>Eco-Schemes</p> <p>These schemes must entail at least 25% of the Direct Payment envelope, they are mandatory for Member States to establish and voluntary for farmers to participate. The Eco-Scheme will be an annual scheme and measures must be related to climate, environment, animal welfare and antimicrobial resistance.</p>
	<p>Risk Management</p> <p>Member States may use up to 1% of their Direct Payment envelope to support farmer's contributions to a risk management tool.</p>
	<p>Sectoral allocations for producer groups / producer organisations in "other sectors".</p> <p>Up to 3% of the Direct Payment envelope.</p>
<p>Capping (Reduction of Payments)</p> <p>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 only applied to BPS payments.</p>	<p>Capping (Reduction of Payments)</p> <p>Optional capping to apply to BISS payments only. The cap is set at €100,000 with degressivity from €60,000.</p>
<p>Young Farmers Scheme</p> <p>Additional payment for eligible young farmers.</p>	<p>Complementary Income Support for Young Farmers (CISYF)</p> <p>Additional payment for eligible young farmers. Minimum 3% overall target for young farmer support between Pillars I and II.</p>
<p>Voluntary Coupled Support</p> <p>Maximum 13% of ceiling plus 2% for protein crops Ireland currently allocates < 1% to the Aid for Protein Crops Scheme.</p>	<p>Voluntary Coupled Support</p> <p>Maximum 13% of ceiling plus 2% for protein crops.</p>
<p>Redistributive Payment</p> <p>Optional for Member States to transfer funds from large to small or medium farms.</p>	<p>Complementary Redistributive Income Support for Sustainability (CRISS)</p> <p>Mandatory measure for Member States to transfer funds from large to small or medium sized farms to improve sustainability by using at least 10% of the National Ceiling, but with possibility to derogate if redistribution needs are met by other direct payments mechanisms.</p>
<p>Small Farmers Scheme</p> <p>Voluntary for Member States to establish a payment for small farms to replace Direct Payments. Voluntary participation for eligible farmers.</p>	<p>Round Sum Payment for Small Farmers</p> <p>Voluntary for Member States to establish a payment for small farms to replace Direct Payments. Voluntary participation for eligible farmers.</p>

Within the current Basic Payment Scheme (BPS) (including Greening) there are elements that are comparable with the proposed Basic Income Support for Sustainability (BISS) as shown in Table 3.

Table 3: Comparative components as part of the current BPS payment under CAP 2015 to 2020 and the proposed BISS payment

Basic Payment Scheme (BPS)	Basic Income Support for Sustainability (BISS)
<p>Flat Rate BPS Payment</p> <p>Provides Member States with the option to make payments on a uniform basis.</p>	<p>Flat Rate BISS Payment</p> <p>Provides Member States with the option to make payments on a uniform basis.</p>
<p>Convergence</p> <p>Convergence to at least 60% of the BPS national average payment entitlement unit value by 2019.</p>	<p>Convergence</p> <p>Convergence to at least 85% of BISS national average payment entitlement unit value by 2026.</p>
<p>Maximum Unit Value</p> <p>Maximum payment entitlement unit value of €700 (BPS + Greening) applied in 2019.</p> <p>The product of the maximum payment entitlement unit value is used to finance convergence.</p>	<p>Maximum Unit Value</p> <p>A maximum payment entitlement unit value must be applied by 2026.</p> <p>The product of the maximum payment entitlement unit value is used to finance convergence.</p>
<p>National Reserve</p> <p>Once off initial allocation of 3% of ceiling.</p>	<p>National Reserve</p> <p>Once off initial allocation of ceiling. Value not set down in the draft regulations.</p>

1.2 Proposed New Direct Payment Elements

New Direct Payment elements in the proposals include Eco-Schemes and CRISS and these are described in more detail below.

1.2.1 Eco-Schemes

The political agreement reached by the co-legislators has indicated that 25% of the Direct Payment ceiling will be allocated to Eco-Schemes (approximately €300m per annum). Ireland can choose to implement these schemes either as a payment additional to the BISS or based on cost incurred/income foregone. In a practical sense, both options mean Ireland will have to justify the money paid to farmers per hectare based on the environmental gains.

However, there are concerns with both approaches. Foremost, each Member State must offer the Eco-Scheme, but participation by farmers is voluntary. Ireland must allocate the full funding to this scheme, but if there is low participation, then despite safeguards Ireland may not be able to distribute the full amount of the fund and Ireland will lose these funds. At this point, these schemes are new to all farmers, Member States, and the Commission, and as such the risk of non-participation cannot be ignored. The ability to deal with these unspent funds was a significant issue in the negotiations, and ultimately significant flexibilities, such as learning periods for the first two years were included in the political agreement.

1.2.2 Complementary Redistributive Income Support for Sustainability (CRISS)

The political agreement includes a mandatory redistributive payment to the value of 10% of the Direct Payment ceiling; with an opt out for Member States when duly demonstrated in the CAP Strategic Plan that redistributive needs are addressed through other Direct Payments measures. The mechanism of implementation of CRISS is detailed in Section 2.1.4.

1.3 Direct Payment Funding Allocated to Schemes

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

Figure 1 illustrates how the CAP funding from the national ceiling is allocated to Direct Payment measures. Note that the deductions are taken from the ceiling allocation and not in a consecutive fashion.

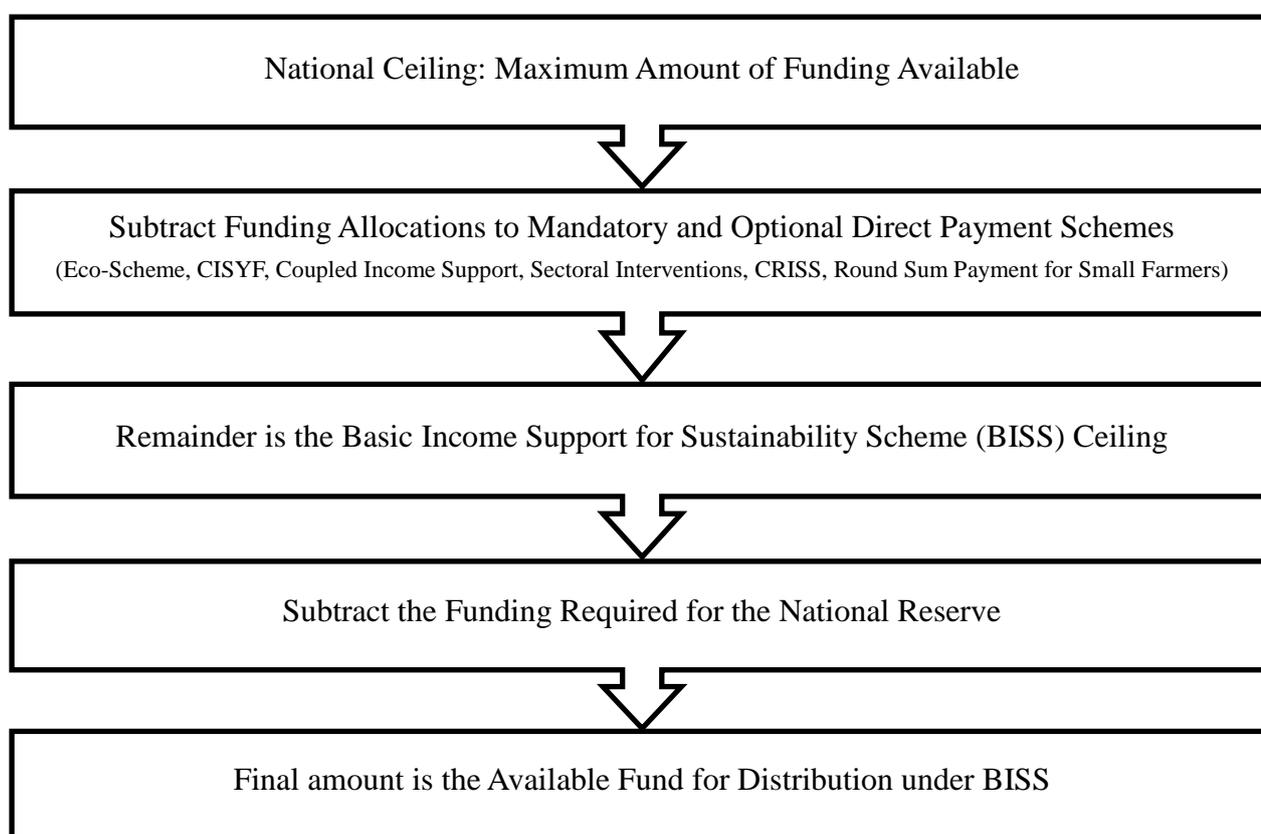


Figure 1: Flow of funding from the national CAP ceiling to the BISS

As illustrated above, component parts are interlinked and the allocation of funding for several Direct Payment schemes will not be set until the CAP Strategic Plan is finalised. In the new CAP, the BISS payment will be based on current BPS payment entitlement values plus greening e.g., BISS is derived from BPS and Greening.

Greening has been replaced in the new CAP programme by Eco-Schemes. However, this is not a direct replacement and there are differences between them. For example:

- *Greening was paid based on the value of entitlements. Eco-Schemes will be paid on eligible hectares.*
- *Greening was optional, with most Irish farmers automatically qualifying due to the predominance of grass-based production systems. Eco-Schemes will be voluntary and are not linked to the value of payment entitlements.*

2 Distribution of Direct Payments

A Member State can distribute BISS payments based on payment entitlements or on single area payments. Payment entitlements are the only means to operate if a MS has converging payments. Some aspects of the direct payments structure will reduce the total funds available for BISS payments by allocating funding to other schemes. Other aspects relate to moving money between BISS recipients.

2.1 Targeting of BISS Funds

Various components of the proposals relate to targeting of funds to BISS recipients through several mechanisms as set out below. The goal of targeting is to ensure the fair and equitable redistribution of funds. The tools to redistribute funds include convergence, CRISS (front loading), maximum unit value and capping of payments.

2.1.1 Convergence

Convergence is a mandatory provision in the current CAP programme to redistribute funds between farmers. Over the period 2015-2019 those with higher value payment entitlements saw a reduction in their values while those with payment entitlements that had a value of less than 90% of the average value saw an increase. If a flat rate payment is not being applied, Member States must ensure that, by 2026, at the latest, all payment entitlements should have a value of at least 85% of the new national average payment entitlement unit amount. Increases in the value of payment entitlements must be financed by reducing the value of payment entitlements that have values in excess of the national average.

What is a Flat Rate Payment?

Unless Member States decide to grant the BISS based on payment entitlements the BISS must be paid as a uniform amount or a flat rate per hectare. 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 a uniform amount. Under this scenario BISS payments would be based on farmers declaring one payment entitlement for each eligible hectare. Payment entitlements and a National Reserve fund would still be required.

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 payment entitlement value. As a result, 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, many farmers 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 or remaining static in value.

2.1.2 Maximum Unit Value

Member States must by 2026, set a maximum level for the value of individual payment Entitlements. Applying the maximum unit value provides a one-off permanent reduction to the value of payment 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 (BPS including Greening) in 2019.

2.1.3 Capping

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

It will be voluntary for Member States to implement capping of a farmer's BISS payment. CRISS and Eco-scheme are not subject to capping. If a Member State wishes to introduce capping, they have the flexibility to choose an approach to suit their requirements:

- 1) BISS payments over €100,000 are reduced by 100% (payment effectively capped at €100,000).
- 2) BISS payments between €60,000 and €100,000 may be reduced by up to 85% (payment effectively capped at €66,000 under the strictest application of the provisions in the regulation).

An optional provision to deduct salary and labour costs (both paid and unpaid) from the value of Direct Payments before application, under the thresholds outlined above is included in the regulation. The product of capping is used to finance the optional CRISS in the first instance. Thereafter it can be used to finance other decoupled Direct Payments or be transferred to Pillar II.

2.1.4 CRISS Methodology

CRISS, often popularly referred to among farmers as "front loading" is another measure used to redistribute funds between farmers. The EU political agreement stipulates a mandatory 10% CRISS to redistribute payments from larger to smaller or medium sized holdings to improve sustainability. An annual decoupled payment will be provided per eligible hectare. The amount per hectare will not exceed the new national average amount of Direct Payments per hectare in that year.

Implementing CRISS will mean creating a fund within the national ceiling, resulting in an allocation before payment entitlement values are calculated, reducing the amount dedicated to payment entitlements².

Although there are many varying elements (convergence, capping and ratio of hectares to payment entitlements etc.) that determine the outcome for a particular farmer, in general, more farmers would benefit if CRISS was paid on the maximum number of hectares or close to the national average farm size. Given a set ceiling, the number of hectares CRISS is paid on will determine the level of payment.

In the current CAP, Ireland decided not to implement the redistributive payment. However, ten Member States did implement the redistributive payment, with payments varying in value as displayed in Table 4. The funds allocated to the redistribution payment are generally much lower than the maximum foreseen in the Regulation (30%). Table 4 illustrates the scheme parameters implemented across the EU and the rules adopted were:

1. Member States may allocate up to 30% of the national ceiling to the payment.
2. Member States must set a maximum threshold, but this is not to be less than 30 hectares.
3. The amount paid could not exceed 65% of the national average payment per hectare.

Table 4: Implementation of redistributive payments from 2015-2020.

Member States	Hectare threshold(s) supported under the redistributive payment		2015 Unit Rate of redistributive payment *	Annual Ceiling (% of DP envelope) **** 2020
Belgium	The first	30	EUR 127	9%
Bulgaria	The first	30	EUR 77	7%
Germany	The tranche of the first	30	EUR 50	7%
	The following tranche of	30,01 - 46	EUR 30	
France	The first	52	EUR 25	20%
Croatia	The first	20	EUR 33**	10%
Lithuania	The first	30	EUR 49	15%
Poland	The tranche of the first	3	EUR 0	8.30%
	The following tranche of	3,01 - 30	EUR 40	
Portugal	The first	5	EUR 50***	2.70%
Romania	The tranche of the first	5	EUR 5	5.5%
	The following tranche of	5,1 - 30	EUR 51	
United Kingdom	The first	54	EUR 26	2.7%

(*) Based on notifications by Member States of September 2016, except for France (estimated unit rate), (**) Croatia, this amount will increase in the following years with progressive introduction of a full level of direct payment, (***) For Portugal, amount estimated as of 2017, (****) Considering the last adjustment notified by Member States in 2016. Note that Member States that did not pay or paid a nominal sum on the first hectares also operate a substantial small farmer's scheme (Poland and Romania).

² In a practical sense, this operates in a similar way to linear cuts, but in this case, it is taken at the start of the CAP programme before entitlement values are determined.

2.1.5 Mechanisms of redistribution

The different methods of redistribution target different aspects of the payment framework.

- Convergence focuses on the unit value of payment entitlements and adjusts this value to bring it closer to the average. Convergence does not take into consideration the number of payment entitlements held by farmers.
- The CRISS mechanism deducts a set percentage of the direct payments ceiling from all farmers and this fund is paid back on a set number of hectares.
- Finally capping applies to the full BISS payment and works on the basis that a farmer's payment cannot exceed a certain set value.

The various mechanisms of redistribution allocate funds in different ways. The goal of these redistributive measures is to allocate funds in the most fair and equitable way, and at those who are dedicated to contributing to the CAP objectives.

3 Models

To demonstrate the potential effects of the Direct Payment components it was necessary to identify a cross-sectional sample population of farmers for modelling purposes. It is based on 2020 land position, 2021 entitlements and 2019 sector information.

The proposed Direct Payments system is a layered or composite structure with interacting component parts. Moving funds into one scheme will mean reducing the funding available for another. All elements under the direct payments ceiling are inextricably linked to each other.

All models in this Section are based upon a combination of outcomes from the political agreement. The financial ceilings are all based on a 25% budget for Eco-Schemes.

Initially six models, illustrated in Table 5, were developed using various parameters to the CRISS components – i.e., the CRISS ceiling with a varying maximum hectare (10ha, 20ha & 30ha) and Convergence Rate (85% vs. 100%). These models were analysed to identify an optimum range of hectares to benefit the majority of farmers.

3.1 Models (Min 1) - (Max 3): Based on negotiations

The models in Table 5 labelled Model Min 1 through to Model Max 3 follow the new CAP regulations. It should also be noted that there are significant flexibilities within the regulations.

Table 5: Ceilings and parameters of Minimum and Maximum Model

Parameters	Minimum Model			Maximum Model		
	Model Min 1	Model Min 2	Model Min 3	Model Max 1	Model Max 2	Model Max 3
Convergence by 2026	85%			100%		
CRISS Percentage National Ceiling	5%			10%		
CRISS Max Hectares (ha)	10	20	30	10	20	30
CRISS	€59m			€119m		
National Ceiling (Based Draft Regulation)	€1,186bn			€1,186bn		
CISYF (2%)	€24m			€24m		
Coupled Income Support	€3m			€3m		
Eco-Scheme (25%)	€297m			€297m		
BISS Ceiling	€804m ³			€744m		
NR (3% BISS Ceiling)	€24m			€22m		
BISS after NR	€780m			€722m		
Max Unit Value applied 2026	€500			€500		

3.2 Model Parameters

For the purposes of modelling, CISYF was chosen at 2% and Coupled Income Support is set at €3 million. The minimum percentage target for young farmer supports across both Pillars as per the recent political agreement is 3%. The 2% allocation in the model parameters represents the contribution from the Pillar I payment envelope.

Models Min 1, Min 2 & Min 3 include a **CRISS** ceiling which is 5% of the National Ceiling and Models Max 1, Max 2 & Max 3 include a budget of 10% of the National Ceiling.

A fixed rate of 3% of the BISS ceiling has been included as indicative funding for the **National Reserve**.

Maximum **capping** has been modelled based on the following degressive system:

- 25% from €60,000 to €75,000
- 50% from €75,000 to €90,000
- 85% from €90,000 to €100,000
- 100% reduction to values over €100,000.

Late in the negotiation process, there was a new proposal changing the system of degressive capping to a single maximum percentage reduction of 85% from €60,000 to €100,000. It has not been possible to update the models presented here with these updates. However, an initial analysis shows that the number of farmers affected by the new capping system is consistent with the previous proposals. The total amount of capped funds increases under these new proposals (Appendix II).

The other element illustrated in these models is **convergence**. Three of the models (Min 1, Min 2 & Min 3) include convergence to at least 85% of the new national average payment entitlement value.

³ Each scheme rounded and resulting amount is circa 804m for Model Min 3 and 744m for Model Max 3.

The other three models (Max 1, Max 2 & Max 3) include convergence to 100% of the new national average payment entitlement value.

These two sets of parameters are further divided by the maximum number of eligible hectares paid under CRISS. Models Min 1 & Max 1 are based on a maximum of 10ha; Models Min 2 & Max 2 are based on a maximum of 20ha; and Models Min 3 & Max 3 are based on a maximum of 30ha. It is possible to pay CRISS using differentiated rates for different area categories, the Member States that have implemented a tranche payment framework have different farming structures than Ireland and some implement a small farmer's scheme. For the purposes of modelling, a flat-rate CRISS payment is used across all hectares up to the maximum payment area within each model.

A **maximum payment entitlement unit value of €500** has been applied in the fourth year of convergence in each of the models. However, the maximum unit value does not impact any payment entitlements in these models, as the normal convergence process brings all payment entitlement unit values below €500. In reality, the maximum unit value would be decided upon after a definitive decision is reached on the BISS ceiling and the minimum convergence percentage. The payment entitlement unit values under the two models are illustrated in Table 9.

Eco-Schemes are maintained at 25% of the National Ceiling across all models. As stated earlier, these figures do not represent current policy choices, but sample figures that allow modelling to be completed. 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. Therefore, it is not possible to model Eco-Schemes in a definitive 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. To include Eco-schemes in the modelling exercise for demonstration purposes, an indicative implementation of this scheme was included using a flat rate payment per hectare. With the Eco-scheme allocation set at 25% providing annual funding of c.€300m divided by the number of eligible hectares, a payment of approximately €64 per hectare has been used. This payment rate assumes, for example, that all farmers take part, that there is just one scheme with a flat rate of payment and that 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. These figures are included here solely to illustrate that the introduction of Eco-Schemes will influence Direct Payments and should not be viewed as the final payment level.

3.3 Features Common to all Models

The percentage deduction from the National Ceiling for CIFYF, Coupled Income Support, Eco-scheme and funding for the National Reserve are common across all models.

Holding these constant enables us to examine the variations associated with CRISS and convergence across the models.

3.4 Differences between Models

The differences in the models come in the form of different rates of convergence and CRISS across all six models, as illustrated in Table 6.

Table 6: Rates of convergence and CRISS across Model Min 1- Max 3.

Parameters	Minimum Model			Maximum Model		
	Model Min 1	Model Min 2	Model Min 3	Model Max 1	Model Max 2	Model Max 3
Convergence by 2026	85%			100%		
BISS Ceiling (After National Reserve)	€780m			€722m		
CRISS Percentage of National Ceiling	5%			10%		
CRISS	€59m			€119m		
CRISS Max Hectares (ha)	10	20	30	10	20	30
CRISS Payment Per Hectare (ha)	€52	€29	€22	€103	€58	€44
CRISS Max Payment	€520	€580	€660	€1,030	€1,160	€1,320

Assumptions common to all models:

- The models include 2020 eligible land, 2021 entitlements position with 2019 sector information sample population. For technical reasons, this composite of data from different years is used in the model.
- As per the draft regulations, capping is only applied to BISS payments and a deduction for salaries has not been included in these models.
- No allowance has been made for distribution to individuals of funds under Direct Payment interventions other than BISS, Eco-Schemes and CRISS.
- 100% participation in Eco-Schemes is assumed i.e., all farmers in sample population choose to participate.
- Flat rate Eco-Scheme payment based on eligible land with no area limit on Eco-Scheme payment.
- Sector analysis categories based on standard output matching are categorised in Appendix I.
- Payment Entitlement values in the new CAP will be calculated in proportion to their BPS and Greening value and the new BISS ceiling.

3.5 CRISS Selection Criteria

As CRISS payments are funded from the BISS ceiling, a comparison was carried out between the farmers total payment position when the CRISS budget is included or excluded. This results in a lower BISS ceiling, and proportionally lower entitlement values, or higher BISS ceiling, and proportionally higher entitlement values. Six models were originally examined to estimate the rate of payment for CRISS. This analysis was further refined to focus on two models (model Min 3 and model Max 3). It was clear from an initial analysis that using a higher range of hectares for CRISS payment resulted in a higher number of farmers benefitting. As such, the further analysis focused on the two 30ha CRISS models.

3.5.1 Model Parameters

The key figures from the chosen models Min 3 (referred to as minimum effect model) & Max 3 (referred to as maximum effect model) are illustrated in Table 7. It is important to note that decreasing the BISS ceiling (a consequence of the CRISS allocation) results in a lower new national average entitlement value. In other words, an increasing CRISS ceiling results in a corresponding decrease in the BISS ceiling and average payment entitlement value. The new national average entitlement value, or unit value, is set in year one and establishes the value to which all other entitlement values must converge over the course of the scheme.

Table 7: Key figures of the Models Min 3 & Max 3

	Minimum Model	Maximum Model
30 Hectares (Model Min 3 and Max 3)	Model Min 3 -85% Convergence	Model Max 3 -100% Convergence
BISS after NR	€780m	€722m
National Average Unit Value	€178	€165
Unit Value Minimum Amount in Year 4	€152	€165
CRISS Payment per ha.	€22	€44

Both the minimum and the maximum models assume that the parameters set out in Table 8 are constant.

Table 8: Baseline parameters that are assumed constant in the analysis of Table 7.

Parameters	Minimum / Maximum Model
	Models Min 3 / Model Max 3
Model Population with Entitlements	122k
Total Model Population ⁴	129k
Total Number of Entitlements	4.37M
Total Sets of Entitlements	170k
Eco-Scheme Payment Per Hectare (ha)	€64

⁴ This includes farmers with and without payment entitlements

3.6 Convergence effect on Payment Entitlement values

Model Min 3 has a convergence path with a minimum of 85% of the new national average payment entitlement unit value and Model Max 3 shows convergence towards 100% of the new national average payment entitlement unit value.

Due to the allocation of funding to Eco-Scheme, CRISS and other interventions in Pillar I, the resulting new national average entitlement rates under Model Min 3 is €178, and €165 under Model Max 3 (Table 9). The effects of the differing convergence levels can be seen through the minimum and maximum payment entitlement values in year 4 (2026). Due to 100% convergence in the Model Max 3 all unit vales are €165.

Table 9: Impact of the model parameters on the payment entitlement unit values under the two model scenarios

	2021 Value	Minimum Model*	Maximum Model*
Unit Values	BPS Including Greening	Model Min 3 in 2026	Model Max 3 in 2026
National Average	€265	€178	€165
Minimum	€160	€152	€165
Maximum	€700	€325	€165

*Farmers in Model Min 3 and Model Max 3 will also be able to receive further payments under the Eco-Scheme and CRISS.

As the same population is used for each of the models the national average, minimum and maximum payment entitlement unit values for 2021 are the same across all models. The minimum entitlement unit value in 2021 is €160 rising to a maximum unit value of €700 with an average value of €265. The maximum payment entitlement unit values range from €325 in Model Min 3 to €165 in Model Max 3 in 2026.

3.6.1 Convergence Population Key Figures Review

Table 10 illustrates the number of sets of 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 to finance the convergence.

Table 10: Impact of the convergence parameters on the sample population and the convergence amount under the two model scenarios

	Minimum Model	Maximum Model
Parameters	Model Min 3	Model Max 3
Sets Receiving Payment Entitlements	72k	99k
Sets Contributing Payment Entitlements	71k	71k
Sets with Static Payment Entitlements	27k	0
Annual Convergence Amount	€12.9m	€23.6m

As illustrated in Table 10 all payment entitlement sets with a unit value below 90% in Model Min 3 of the new national average receive an increase in their newly established unit value in this model. Payment entitlements with unit values between 90% - 100% of the new national average remain static.

Model Max 3 however is converging towards 100% of the new national average payment entitlement unit value. In this case all payment entitlements with a unit value below 100% of the new national average receive an increase in the newly established unit value, though some that are very close to the average remain static (rounding). Therefore, more sets hold receiving payment entitlements in Model Max 3.

Despite the different minimum convergence percentages, the number of sets that hold contributing payment entitlements is almost the same in both models. That is because it is always the payment entitlements with a unit value above the new national average that contribute to the cost of convergence. Adjusting the minimum percentage determines how much these payment entitlements contribute. It does not change which payment entitlements contribute. In the 85% models €12.9m per year is required from those payment entitlements with unit values above the new national average, whereas €23.6m per year is required from the same grouping in the 100% model. This annual change occurs in each of the four years of convergence. The number of farmers with static payment entitlements is also lower in Model Max 3 when compared to Model Min 3 as the static category is much smaller. In terms of fund redistribution, the impact of the higher convergence percentage is evident in the cumulative totals over the next CAP. Table 11 highlights these differences and compares it to the period 2015 – 2019

Table 11: Cumulative convergence cost comparison analysis

	2015-2019	Minimum Model	Maximum Model
	BPS Including Greening	Model Min 3	Model Max 3
Annual Convergence Amount	€18.86m	€12.9m	€23.6m
No of Years of Convergence	5	4	4
Cumulative Convergence Over CAP	€94.3m	€51.6m	€94.4m

3.6.2 Convergence BISS Payment Review

The convergence paths as set down previously are increasing, decreasing and static and apply to every set of payment entitlements. 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, most farmers hold just one set of payment entitlements and this set will follow one of the three convergence paths. Table 12 shows the impact to the farmer's payment entitlement unit values from both Models and reflects the change in the allocation of funding within Pillar I including the significant allocation to Eco-Schemes and CRISS in direct funding from years 1 – 4. The entitlement unit values in Table 12 capture the static model average and values at either end of the entitlement unit value scale.

Table 12: Payment entitlement unit values 2021 BPS + Greening and modelled outcomes

Parameters	2021 Value	BISS*			
	BPS Including Greening	Year 1	Year 2	Year 3	Year 4
Low Value Receiver					
Model Min 3	€160	€120	€130	€141	€152
Model Max 3		€117	€133	€149	€165
High Value Contributor					
Model Min 3	€681	€429	€393	€356	€320
Model Max 3		€364	€298	€232	€165
Static					
Mode Min 3	€261	€178	€178	€178	€178
Model Max 3		€165	€165	€165	€165

*Farmers in Model Min 3 and Model Max 3 will also be able to receive further payments under the Eco-Scheme (€64 per ha) and CRISS payments for Model Min 3 of €22 and Model Max 3 of €44 per ha.

3.7 CRISS – Overall Impact

The impact for the number of individuals in the sample population by the inclusion of CRISS with convergence and Eco-schemes across all years shows that approximately 75% of farmers would benefit from the inclusion of CRISS and 25% would not. However, it is important to consider that funding used for CRISS essentially reduces monies available under the payment entitlement system, so the net impact on farms is a key consideration.

3.7.1 CRISS – Range Impact on Farmers Payments

As CRISS requires a deduction to the BISS ceiling, it further reduces a farmer's payment entitlement unit value, before a CRISS payment is issued. Table 13 illustrates the number of farmers with changing overall payments depending on the funding allocated to BISS or CRISS. When examining the model Min 3 the majority (56%) of farmers gain up to €250, conversely around 11% of farmers lose between €100- €500 with the inclusion of CRISS. When examining the model Max 3, 66% of farmers gain between €100 to €1000, whilst 2% are negatively impacted by between €2500 to €5000.

Table 13: Redistribution of funds due to CRISS over the CAP Year 1 for Models Min 3 and Max 3

CRISS Inclusion Ranges Year 1 Net Amount*		Minimum 3 Model		Maximum 3 Model	
		Farmers	% of Farmers	Farmers	% of Farmers
+	>€1,500	0	0%	0	0%
	€1,000 - €1,500	0	0%	497	0%
	€500 - €1,000	533	0%	20,596	17%
	€250 - €500	22,678	19%	36,754	30%
	€100 - €250	43,123	35%	23,576	20%
	€0 - €100	25,264	21%	10,505	9%
-	€0 - €100	7,711	6%	4,309	4%
	€100 - €500	13,189	11%	10,014	8%
	€500 - €1,000	5,511	5%	6,495	5%
	€1,000 - €2,500	3,218	3%	6,540	5%
	€2,500 - €5,000	518	0%	1,962	2%
	€5,000 - €7,500	0	0%	497	0%
	>€7,500	0	0%	0	0%

*Convergence and Eco-scheme are constant across both models and therefore does not impact payment change.

3.7.2 CRISS – Positively affected Entitlement Ranges

Including the payment entitlement ranges enables a deeper analysis of the group positively affected by the inclusion of CRISS. Table 14 shows the distribution of payment entitlements for Model Min 3 and Model Max 3. Marginal changes are evident between the groups with 70% of both Model Min 3 and Model Max 3 owning less than 30 payment entitlements. Just under than 30% of Farmers who are positively affected by CRISS hold between 10 – 20 payment entitlements.

Table 14: Entitlement ranges positive CRISS Inclusion for Models Min 3 and Max 3

Positive CRISS Entitlement Ranges	Minimum Model		Maximum Model	
	Model Min 3		Model Max 3	
	No Farmers	% of population	No Farmers	% of population
0 - 5 Entitlements	5,243	6%	5,327	6%
5- 10 Entitlements	11,304	12%	11,383	12%
10- 20 Entitlements	26,417	29%	26,554	29%
20- 30 Entitlements	21,420	23%	21,556	23%
30- 40 Entitlements	15,259	17%	15,498	17%
40- 60 Entitlements	10,717	12%	10,725	12%
60- 80 Entitlements	1,223	1%	870	1%
> 80 Entitlements	15	0%	15	0%

3.7.3 CRISS – Impact by Sectors

All sectors have a group of farmers that are negatively affected with these ranging from 12% up to 54% of the relevant sector (Table 15). The Sectors with the highest rate of negatively impacted farmers are Dairy (54%) and Tillage⁵ (35%/34%). It is likely that this impact is correlated to the larger land area of these enterprises.

Table 15: Farmer Impact inclusion of CRISS and percentage of each sector for Models Min 3 and Max 3

Sector	Minimum Model		Maximum Model	
	Model Min 3		Model Max 3	
	% Farmers Positive CRISS	% Farmers Negative CRISS	% Farmers Positive CRISS	% Farmers Negative CRISS
Cattle Other	80%	20%	81%	19%
Cattle Rearing	87%	13%	88%	12%
Dairy	46%	54%	46%	54%
Mixed Livestock	79%	21%	80%	20%
Sheep	77%	23%	77%	23%
Tillage	65%	35%	66%	34%

3.8 Capping

The data presented below is based on the tranche system of degressive capping that has been outlined in Section 2.1.3. As the financial ceilings are the same for both models. Table 16 provides an indication of the type of impact of the different capping options and convergence rates have on the number of farmers subject to capping.

Table 16: Number of individuals impacted by capping and the total value of the capped amounts under models Min 3 and Max 3

Scheme Year	Minimum Model		Maximum Model	
	Model Min 3		Model Max 3	
	€ Amount	No Farmers	€ Amount	No Farmers
Year 1	€1.3m	174	€800k	114
Year 2	€1.2m	161	€800k	105
Year 3	€1.2m	148	€1m	109
Year 4	€1.3m	141	€1.2m	110

The capping of payments has been assumed as a constant annual impact each year within the models, however, this would be a dynamic process due to the convergence so some farms may not be impacted every year.

The higher rate of convergence in Model Max 3 resulted in less farmers being impacted by capping. However, there is a group of farmers that have a large number of payment entitlements with low unit values that will be capped as their unit values increase.

⁵ Farms classified by allocation of Standard Output. Many farms would have multiple enterprises. Farm types here intended as illustrative only with further revision of these definitions ongoing.

It is worth noting that only BISS payments may be capped, which reduces the amounts of funds released. Therefore, a farmer whose payments are capped can still receive full payment under CRISS, Eco-Schemes, CISYF and coupled supports.

3.9 Redistribution

Better targeting of funds is an objective of the new CAP and redistribution was a central issue throughout the negotiations. Given this focus on redistribution, it is important to show the implications for these decisions across each policy measure. Table 17 illustrates the differences between measures. The data shows that the theoretical amounts realised from capping will only contribute a small amount towards the redistributive total, and even the larger funds that move under convergence only contribute a moderate amount.

Table 17: Redistribution average per year including & excluding convergence in Models Min 3 and Model Max 3.

Redistribution Average Per Year	Minimum Model		Maximum Model	
	Model Min 3		Model Max 3	
	Incl Convergence	Excl Convergence	Incl Convergence	Excl Convergence
CRISS	€59.3m		€118.6m	
Capping	€1.2m		€0.95m	
Convergence	€12.9m	€0m	€23.6m	€0m
Total Redistribution	€73.4m	€60.5m	€143.15m	€119.55m
Share of National Ceiling	6.10%	5.10%	12%	10%

3.10 Overall Payments

The farmers total 2021 BPS and Greening payment is compared to Year 1 of the new scheme with the net payment differences for each model illustrated in Figures 2 and 3.

Figure 2 shows that for model Min 3, the majority of farmers (23,000) see an increase in payment in the range of €100- €500 and approximately 16,000 farmers seeing a reduction of payment in the range of €1000- €5000.

Figure 3 shows that, for model Max 3, the majority of farmers (30,000) will see an increase in payment in the range €1000- €5000 and conversely 17,000 farmers see a reduction of €1000- €5000.

It should be noted that there are some outliers in both models who will see more significant reductions.

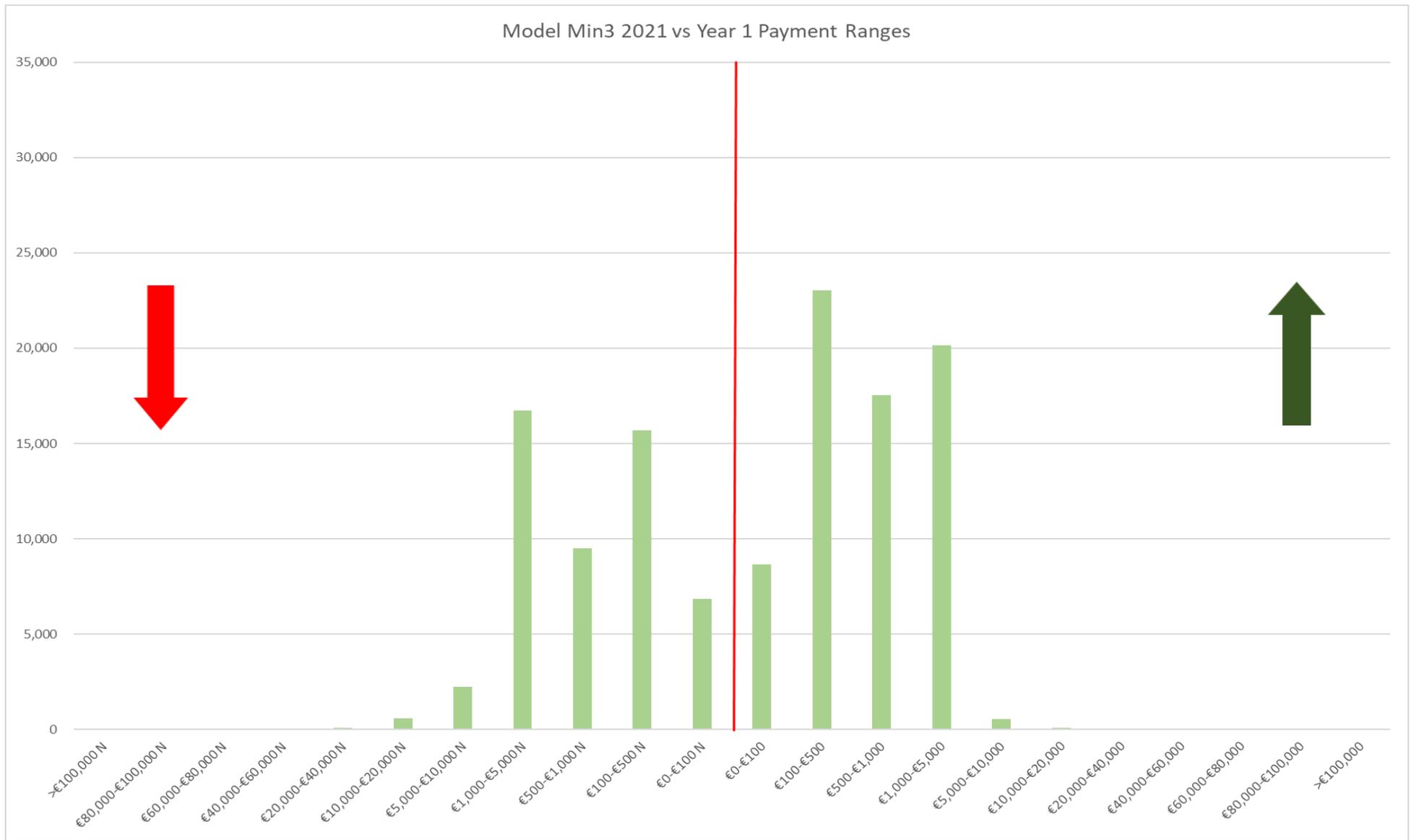


Figure 2: Payment Redistribution under Model Min 3 in Years 1 compared to 2021 position.

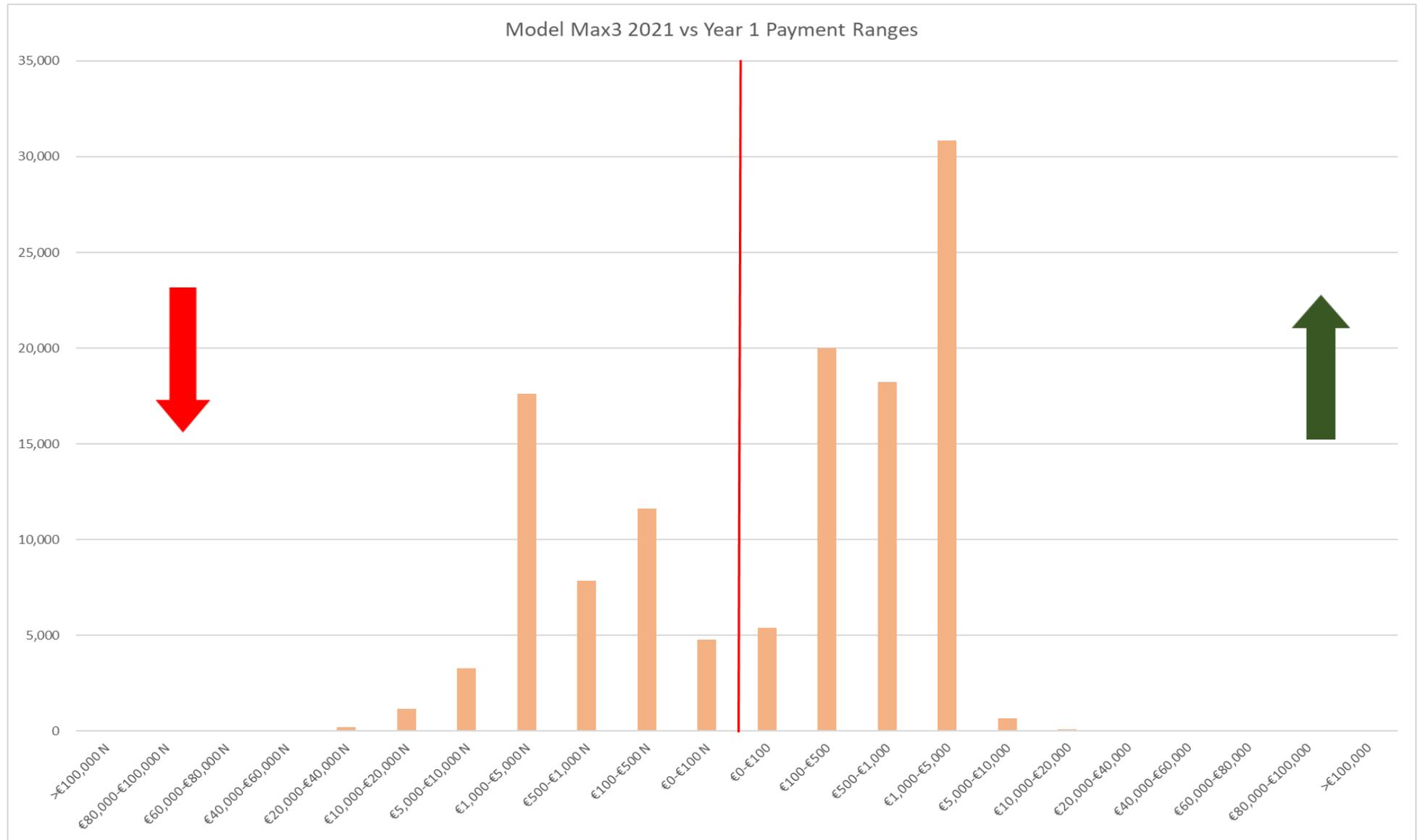


Figure 3: Payment Redistribution under Model Max 3 in Years 1 compared to 2021 position.

4 Case Studies

The case studies examine three farmers with various numbers of entitlements and unit value rates. The case studies are designed to demonstrate the various payment elements interacting and the resulting total payment for the farmer.

The case studies are used to help inform stakeholders about the effect on farmer's payments in 2023 when compared with 2021. These changes primarily result from the CRISS payments and assume full participation in the Eco-scheme. The maximum available payment under the Eco-scheme is set at the rate of €64 per eligible hectare.

The entitlement unit value selected in the case studies is between the range of €160 to €681 this is based on the model average and two unit values at each end of the scale, to examine the full spectrum of unit values. A group of entitlements is referred to as a set, the total number of sets of payment entitlements in this modelling data is approximately 170k, and this is greater than the total number of farmers holding payment entitlements in the modelling population 122k. This is due to the fact that farmers can have a number of sets of payment entitlements of varying values. In the total sets population (170k) approximately 16% of sets are under the value of €160.01, while 0.2% of sets are over the unit value of €680. The average entitlement value including greening in 2021 was €261. In addition, the average area claimed was 36.1 hectares nationally in 2019.

4.1 Case Study One: Farmer A – Low Number of Payment Entitlements (5)

Farmer A holds a low number (5) of payment entitlements with a relatively low value (€160), under the models this farmer gains €230 in model Min 3 and €325 in model Max 3 (Table 18). This results in a payment increase of 29% and 41% respectively when compared with the Farmer A BPS payment in 2021 (Figure 4).

Low Current BPS Value

Table 18: Presents Farmer A with low current BPS Unit Value Entitlements

MODEL	Current (2021)		Year One				Total Year One	Change vs. Current
Payment	Unit Value	Payment	UV	BISS	ECO	CRISS	Payment	Difference
Model Min 3	€160	€800	€120	€600	€320	€110	€1,030	€230
Model Max 3	€160	€800	€117	€585	€320	€220	€1,125	€325

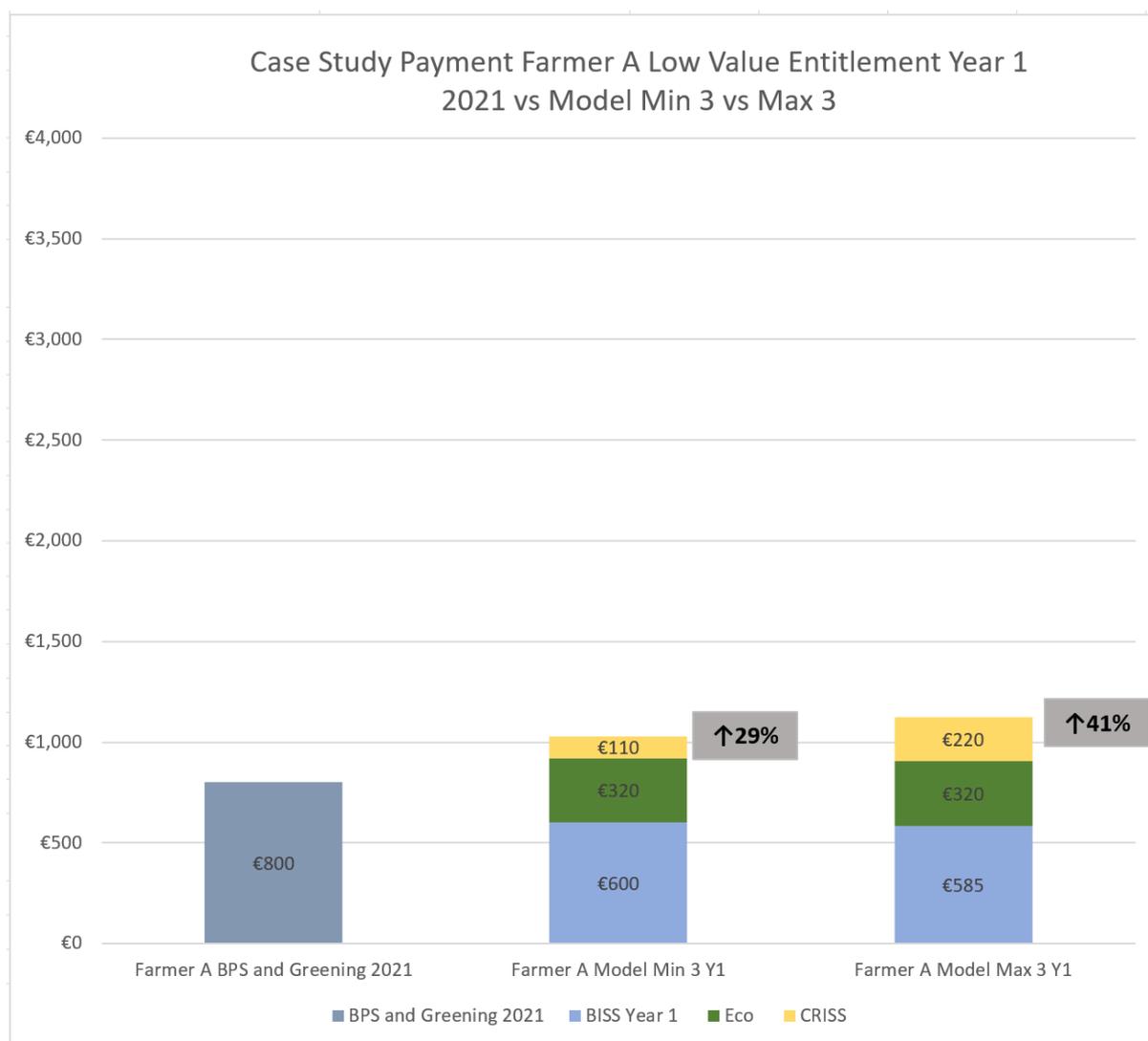


Figure 4: Case Study Payment Farmer A Low Value Entitlement Year 1 2021 compared to Model Min 3 and Model Max 3.

Alternatively, the same Farmer A is examined on an increased unit value of €681 but with the same number of payment entitlements (5), a decrease is observed of €830 in model Min 3 and €1,045 in model Max 3 is illustrated (Table 19). This represents a decrease in payments of 24% and 31% respectively when compared to the Farmer A BPS payment of €3,405 (Figure 5).

High Current BPS Value

Table 19: Presents Farmer A with high current BPS Unit Value Entitlements

MODEL	Current (2021)		Year One				Total Year One	Change vs. Current
Payment	Unit Value	Payment	UV	BISS	ECO	CRISS	Payment	Difference
Model Min 3	€681	€3,405	€429	€2,145	€320	€110	€2,575	-€830
Model Max 3	€681	€3,405	€364	€1,820	€320	€220	€2,360	-€1,045

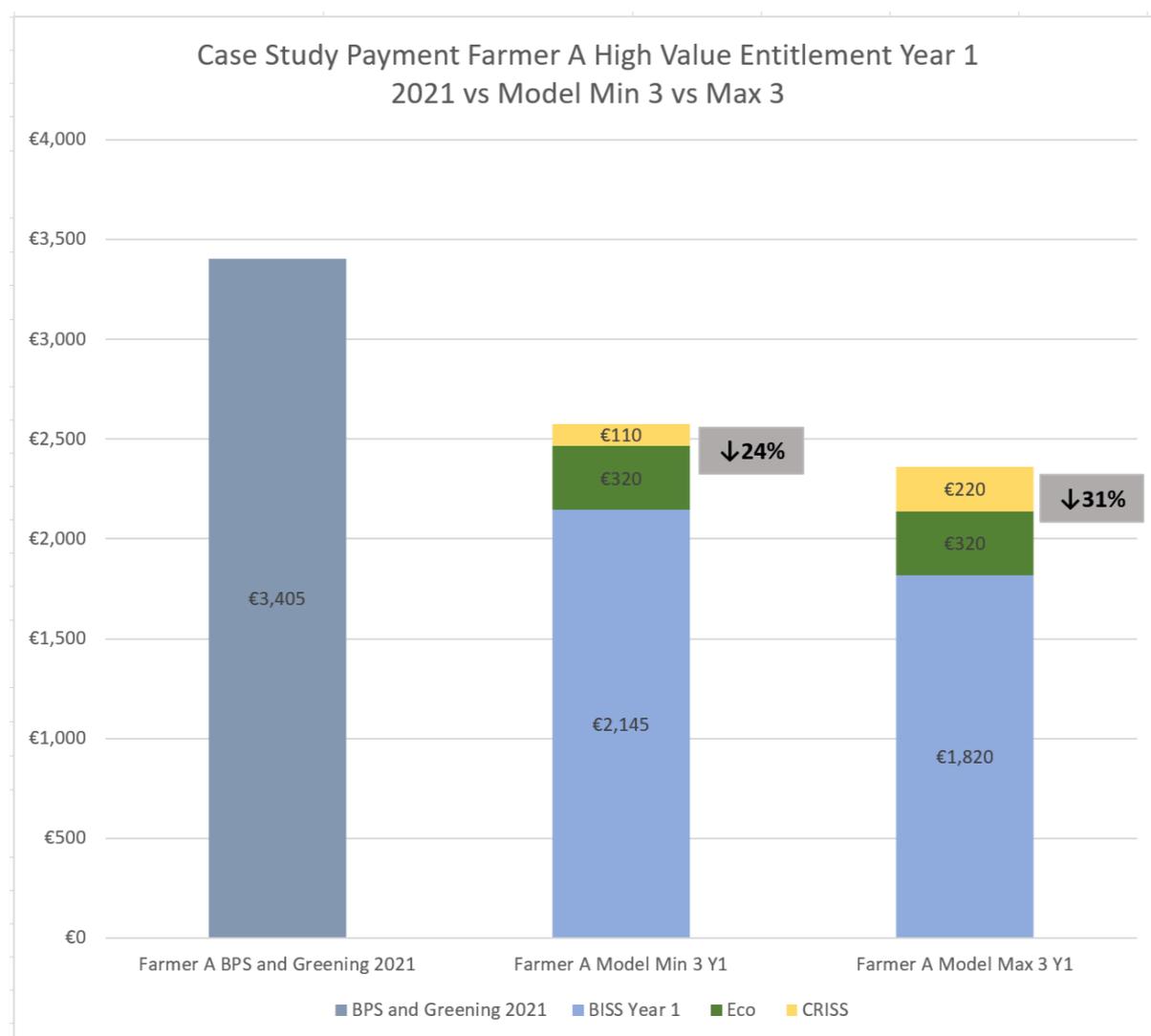


Figure 5: Case Study Payment Farmer A High Value Entitlement Year 1 2021 compared to Model Min 3 and Model Max 3

4.2 Case Study Two: Farmer B – Moderate number of Payment Entitlements (20)

When the impact on Farmer B with a mid-range number of payment entitlements (20) is examined, it can be seen in Figure 6 that a small gain is observed (1% and 5%) when compared to 2021 BPS payment. As Farmer B is based close to the average, they are likely to be the least affected by the redistribution measures, as illustrated in Table 20.

Average/Static Current BPS Value

Table 20: Presents Farmer B with average/static current BPS Unit Value Entitlements

MODEL	Current (2021)		Year One				Total Year One	Change vs. Current
Payment	Unit Value	Payment	UV	BISS	ECO	CRISS	Payment	Difference
Model Min 3	€261	€5,220	€178	€3,560	€1,280	€440	€5,280	€60
Model Max 3	€261	€5,220	€165	€3,300	€1,280	€880	€5,460	€240

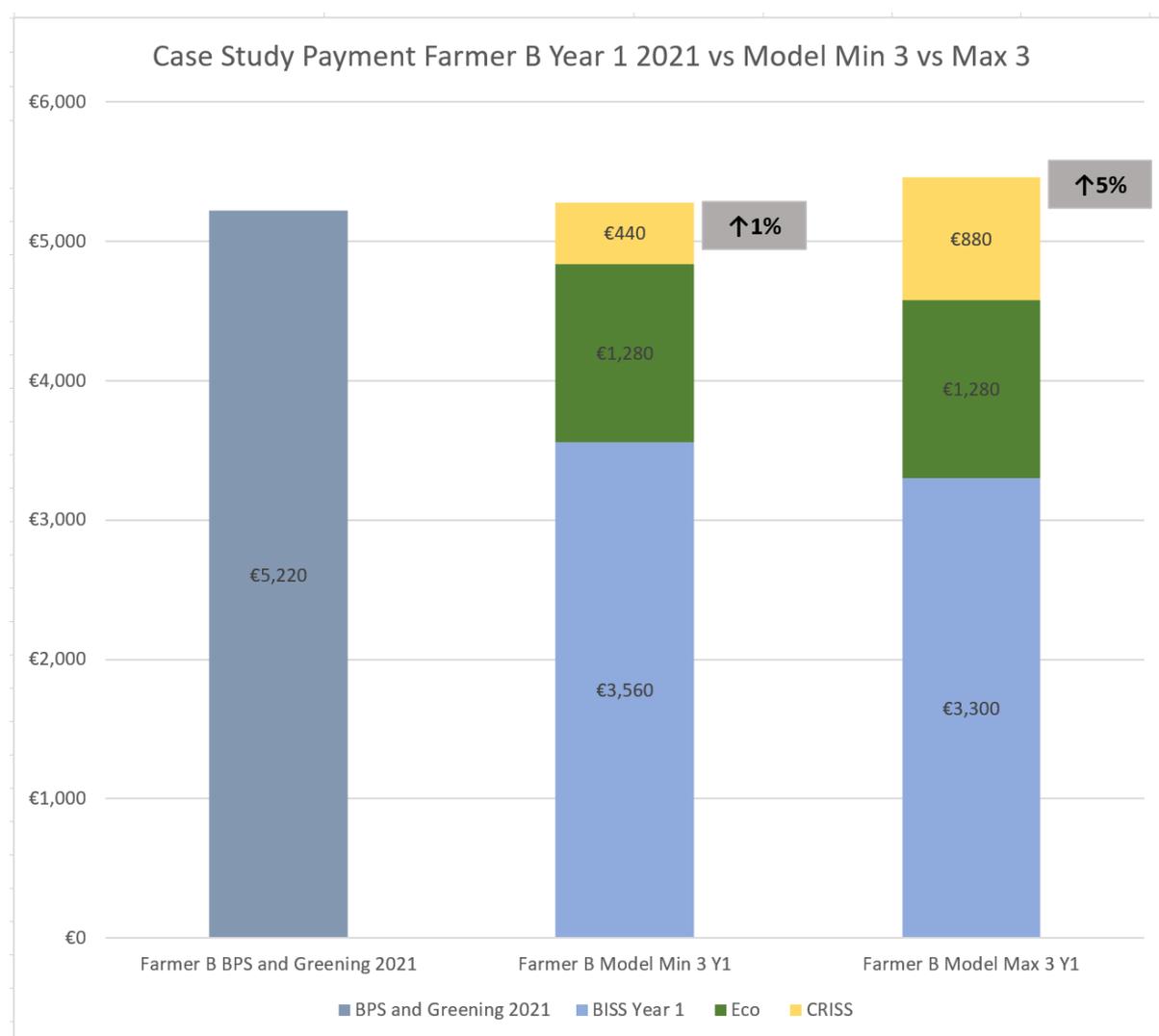


Figure 6: Case Study Payment Farmer B with Average Value Entitlement Year 1 2021 compared to Model Min 3 and Model Max 3

4.3 Case Study Three: Farmer C – High number of Payment Entitlements (40)

When Farmer C holding a higher number of payment entitlements (40) of a low unit value (€160) is examined, in Figure 7, it can be seen the net result of this is a 25% increase in model Min 3 and a 34% increase in model Max 3 when compared to the BPS payment in 2021. As CRISS is only paid on the first 30 hectares in both models, Farmer C does not receive a payment for their remaining 10 hectares as illustrated in Table 20.

Low Current BPS Value

Table 20: Presents Farmer C with low current BPS Unit Value Entitlements

MODEL	Current (2021)		Year One				Total Year One	Change vs. Current
Payment	Unit Value	Payment	UV	BISS	ECO	CRISS	Payment	Difference
Model Min 3	€160	€6,400	€120	€4,800	€2,560	€660	€8,020	€1,620
Model Max 3	€160	€6,400	€117	€4,680	€2,560	€1,320	€8,560	€2,160

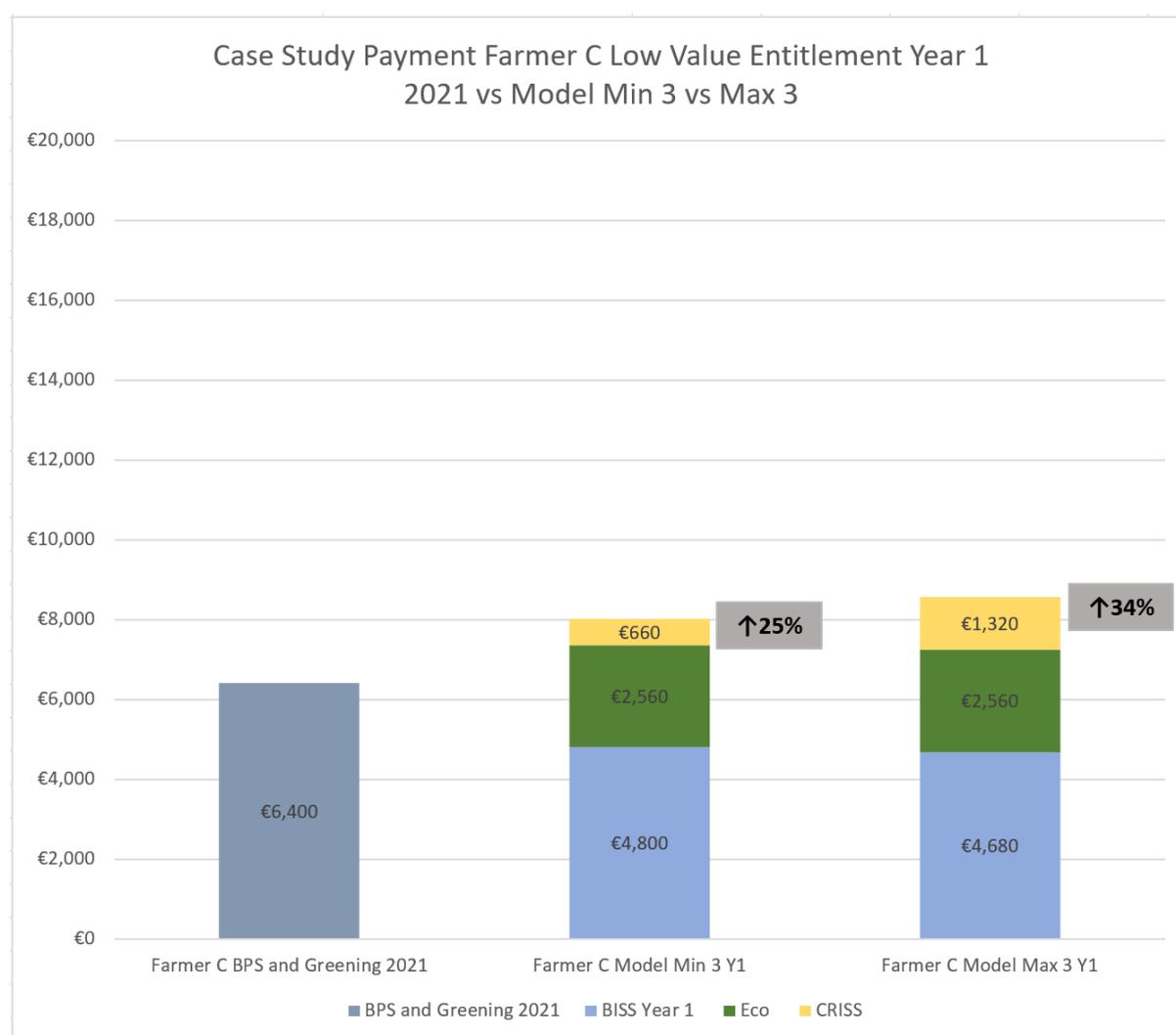


Figure 7: Case Study Payment Farmer C with Average Value Entitlement Year 1 2021 compared to Model Min 3 and Model Max 3

When the impact for the same Farmer C is examined with 40 payment entitlements, but with a higher than average unit value of €473 (Table 21), it is observed in Figure 8 that Farmer C's payment is significantly reduced with an 18% decrease in Min 3 and 23% in the Max 3 model scenario when compared to their BPS payment in 2021.

High Current BPS Value

Table 21: Presents Farmer C with high current BPS Unit Value Entitlements

MODEL	Current (2021)		Year One				Total Year One	Change vs. Current
Payment	Unit Value	Payment	UV	BISS	ECO	CRISS	Payment	Difference
Model Min 3	€473	€18,920	€305	€12,200	€2,560	€660	€15,420	-€3,500
Model Max 3	€473	€18,920	€266	€10,640	€2,560	€1,320	€14,520	-€4,400

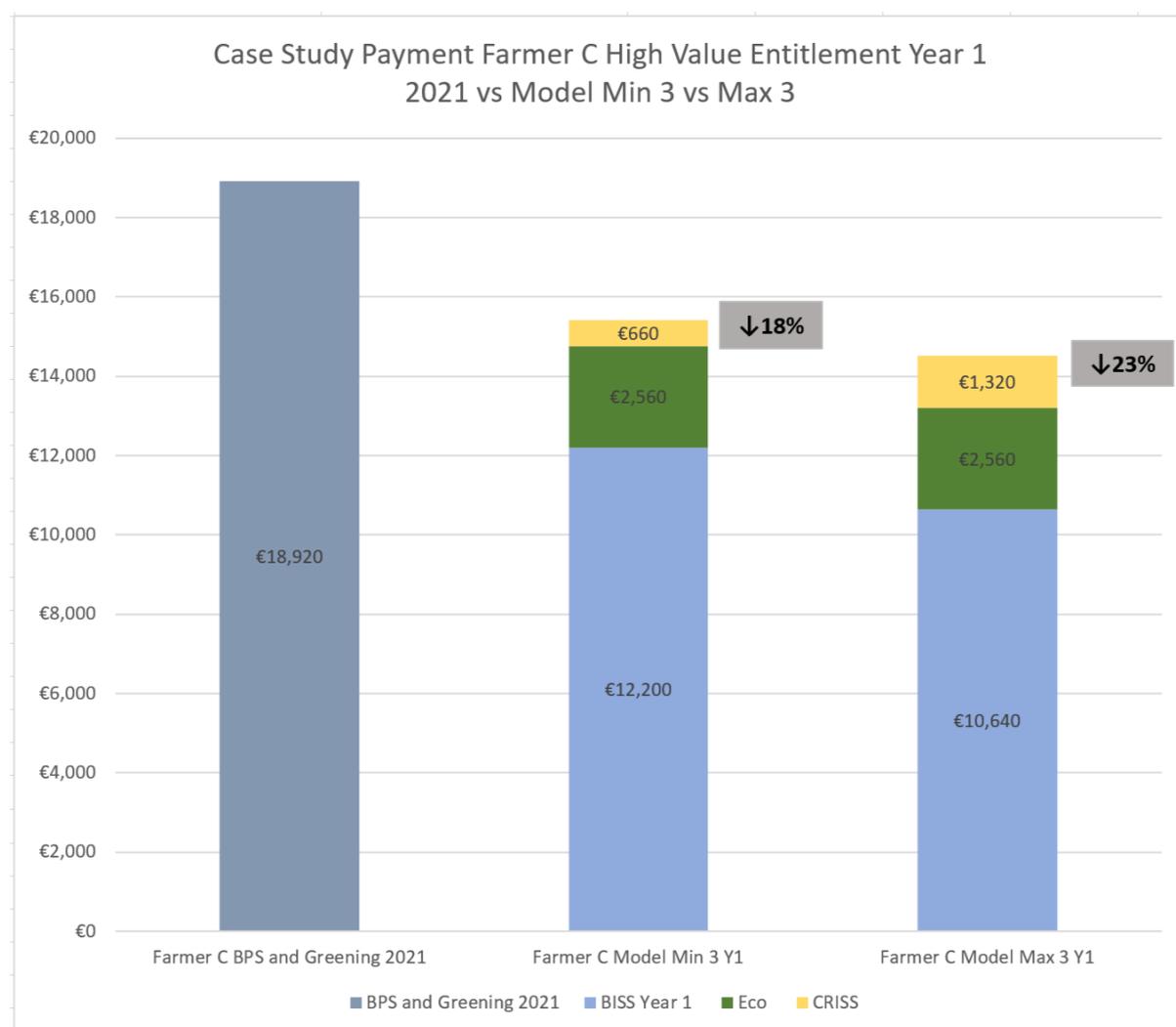


Figure 8: Case Study Payment Farmer C with High Value Entitlement Year 1 2021 compared to Model Min 3 and Model Max 3

The case studies demonstrate the complexities of the Direct Payments and redistributive mechanisms and how they interact. The different methods of redistribution target different aspects of the payment framework. The goal of these redistributive measures is to target funds at those who need it the most, or those who are contributing most to the CAP objectives – they form a limited number of optional and mandatory measures and there is very limited scope through other means to achieve this targeting. Every farmer has different payment entitlement values and different farm sizes and consequently every farmer will be affected in different ways through these measures. The Eco-scheme payment is included in all Farmer scenarios and is paid on all eligible hectares.

5 Conclusion

This document forms part of a series that provides stakeholders with information to aid better understanding of the potential implications of the new CAP regulations. The trends arising from the models presented are explored. **The paper is not a forecast of outcomes, nor does it represent policy choices, but is exclusively a modelling exercise illustrating potential trends.** The models are based on a static population, constructed with assumptions and with several unknowns and these are clearly marked throughout the document.

The proposals regarding Direct Payments show continuation with a number of concepts that operated during the current CAP programme, such as income support and convergence, support for generational renewal, targeting of payments and supports for environmental actions and animal welfare.

In general, convergence 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, most stakeholders will be familiar with how this works in practice. The amount of funding transferred between farmers is heavily dependent on the degree of convergence implemented.

Due to the relatively low numbers of individuals with payments above the proposed capping limits, capping is unlikely to result in significant redistribution of funds. The impact of financial allocations to other elements of the proposals such as Eco-schemes will also affect the implementation of capping as payments under these other measures are not subject to capping.

The inclusion of Eco-Schemes in Pillar 1 reflects a clear policy shift towards a greater environment and climate ambition for the CAP. The higher the amount of funding allocated to such schemes, the greater the impact on payment entitlement values and farmers payments. Eco-schemes will be voluntary for farmers but choosing not to participate in an Eco-scheme will affect the level of an individual's total Direct Payment. 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 new CAP.

In the case of CRISS, the model has highlighted the majority of farmers benefit, but those who have numbers of entitlements above the average, and those with higher value entitlements, are more likely to be negatively affected, as it will be funded through a percentage reduction to every payment entitlement value.

Redistribution must be considered in a holistic way, with all Direct Payments combinations taken examined. These elements are linked to each other and changes in one will affect the other making it challenging to examine elements in isolation.

Conclusion summary:

- Redistribution is a mandatory measure required at EU level to target payments to those who need them most, or those who are contributing to the CAP objectives.
- Greater allocation to Eco-schemes and CRISS greatly reduce the impact/influence entitlements have (less money moving because entitlements represent a smaller proportion of the fund).
- In most cases, BISS will represent the biggest part of a farmer's payment.
- Eco-schemes will represent an important portion of a farmer's payment.
- CRISS will represent a significant amount of the Direct Payments ceiling, but will represent a smaller portion of a farmer's Direct Payment.
- Those with higher value payment entitlements will see reductions through convergence, while those with lower value payment entitlements will see increases.
- Those with higher value payment entitlements will see reductions through funding for CRISS, although this would be mitigated to some degree by a higher rate of CRISS. The impact of CRISS on each farmer's payment is influenced by current entitlement unit value and the size of the holding relative to the area that will qualify for payment under CRISS.
- Limited funding will result from capping of payments.

6 Appendix

Appendix I - Farm System Definitions

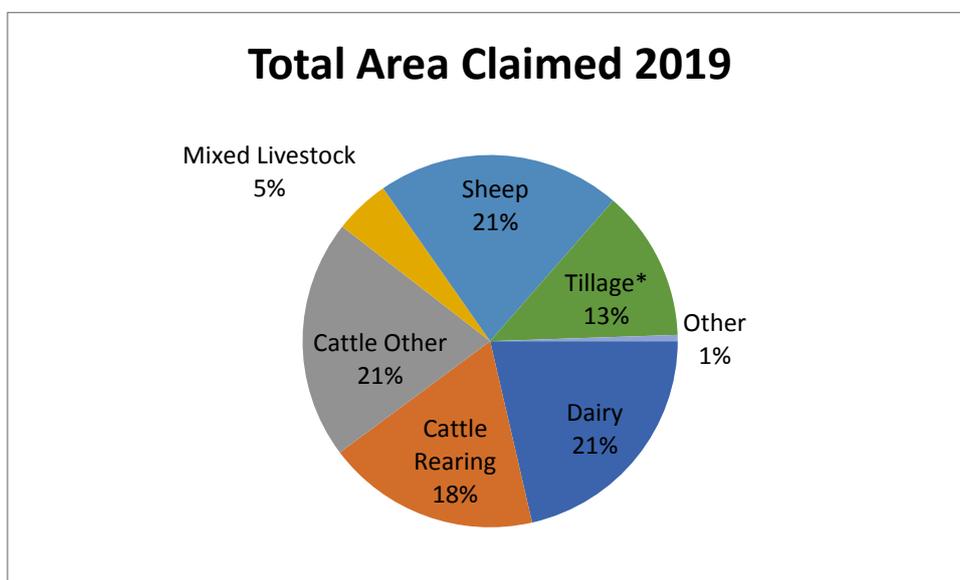
Sector Context

Preliminary analysis on internal DAFM data from 2019 illustrates the varying level of impact by sector from CAP proposals. Following the approach taken in the Farm Accountancy Data Network (FADN), and that used by the Teagasc National Farm Survey, farms are classified based on the allocation of their Standard Output (SO) which is assigned to each type of animal or crop on the farm. Farms are then classified based on the proportion of SO that is dominant.⁶ It's important to note that many farms will have more than one farm enterprise, and as such the reality is much more complex. For example, a farm classified as Tillage⁷ may have a significant beef based enterprise, but their dominant enterprise as determined by SO is Tillage. SO can also be used to indicate the economic size of a farm.

Farm Size

Data from 2019 shows that the average area claimed was 36.1 hectares nationally in Ireland. However, dairy farms were significantly above this on average (62.4 ha) while cattle-based systems were below average (28.2 ha for cattle rearing farms and 29.7 ha for cattle other farms). While the figure for tillage was 28.9 ha on average, there was significant variation within this figure, with more 'specialised' tillage farms 55 ha on average, while more 'mixed' tillage farms had an average size of 15.1 ha. Figure 9 shows the total allocation of area claimed by farm type.

Figure 9: Total Area Claimed by Farm Type



⁶ <https://www.teagasc.ie/publications/2020/teagasc-national-farm-survey-2019.php>

⁷ Tillage definition currently being reviewed, results presented in relation to tillage should be interpreted with caution.

Appendix II – Additional parameters for capping at max range

Late in the negotiation process, there was a new proposal changing the system of degressive capping to a single maximum percentage reduction of 85% from €60,000 to €100,000 and 100% above €100,000, the effect of this change is illustrated in Table 22.

Table 22: Maximum percentage reduction with total amounts and number of farmers affected.

Max 66k Capping Farmers and Amounts	Minimum Model		Maximum Model	
	€ Amount	No Farmers	€ Amount	No Farmers
Year 1	€2.5m	174	€1.6m	114
Year 2	€2.4m	161	€1.6m	105
Year 3	€2.4m	148	€1.7m	109
Year 4	€2.4m	141	€2m	110