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Meeting with CZ Minister of Agriculture, Mr Miroslav Toman	10-09-2018 Brussels

Scene Setter

You will meet Mr Miroslav Toman, CZ Minister of Agriculture since June 2018.

You should note the following:

- **<u>CZ's Position on new CAP:</u>**
  - **Simplification**: CAP proposals only meet simplification partially, there are still concerns and a simpler CAP is needed.
  - **Budget**: reduction of the CAP budget is unacceptable. Critical views on cuts in the 2nd Pillar for rural development.
  - **Capping**: it should be voluntary for the Member States.
  - **Advisory services** to farmers: should be voluntary for Member States
  - **Subsidiarity**: Voluntary nature of measures would help prevent increase in administrative burden
  - **Audit** and **controls**: concerns about later finding from COM
  - **CMO proposal** is quite balanced but does not agree with the reduction of school milk and wine schemes

- **<u>Audit</u>**: You can be asked by the minister about the development in the financial clearance procedure, which has produced a significant correction based on one error. The procedure is ongoing, (should be finalised by January) and so for all on-going contradictory procedures on audit files you are advised to refrain from discussing it.

- **<u>UTP</u>**: Our UTP proposal is a good example for an EU that protects weaker actors. The Czech Republic has specific legislation on UTPs and a functioning and experienced competent authority, the Office for the Protection of Competition:
  - The legislation only applies to the agri-food sector and only to retailers.
  - It covers a list of prohibited practices (late payments, contributions to marketing costs, claims for unsold products, last-minute cancellations, 'hello money') as well as general principles.
  - It also allows confidential complaints, ex officio investigations, and complaints by trade or professional associations.
  - The maximum fine is close to EUR 40 million.

  The Austrian Presidency supports the initiative and maintains the momentum. The Romanian Presidency should finalise the file.

[redacted], AGRI C1, [redacted] [redacted], AGRI R1 [redacted] [redacted], AGRI G1, [redacted] [redacted]; AGRI D1, [redacted] [redacted]

First key messages

1. MFF and CAP BUDGET

- The Commission has proposed to maintain a strong budget for agriculture – the proposed amount of EUR 365 billion (current prices) must be seen together with the aim to reinforce the efficiency and performance of the CAP.
- Whilst the overall ambition is indeed reasonable, it does represent a 5% cut for the CAP [compared to EU-27 CAP allocation in 2020*7].
- Direct payments to farmers are cut moderately by less than 4%.
- An equal moderate cut has been applied to market envelopes (e.g. wine) and support to the Outermost Regions.
- The Commission proposes also to make an important further step towards convergence of the direct payments by closing 50% of gap to 90% of the EU average over 6 years.
- Following the MFF communication, the CAP proposal includes degressive payments for direct payments per beneficiary above EUR 60.000 and capping above EUR 100.000.
- As regards the EAFRD: the Commission has **NOT proposed to cut support for rural areas.** The proposal is to rebalance EU and national support, since the current EU co-financing rate [stemming from the years of financial crisis] are less appropriate, also in view of the current budgetary context. A similar approach is followed for other European Structural & Investment funds.
- All this is done with the aim to keep adequate public support to rural areas.
- The CAP will also be prepared to act in the times of crises – the proposal includes a modernised and simplified agricultural reserve. Support for risk management tools including income stabilisation will need to be introduced in the strategic plans.

- The MFF also includes EUR 10 billion for research & innovation in food, agriculture, rural development and the bio economy. This fits perfectly with the Commission's ambition to support the modernisation of European agriculture.
- I need to highlight the importance of a swift agreement on the MFF – we also need speedy progress on the CAP proposal:
    - to ensure seamless transition between the current and new MFF
    - to provide predictability and continuity of funding
    - to ensure that EU funds start delivering results on the ground as soon as possible.

2. FUTURE CAP

- We put forward our proposal for the future CAP on 1 June after an intensive preparatory process and in what is a very difficult budgetary context.
- For the future CAP we propose a modernisation and simplification of the political framework, a fairer and more targeted distribution, an enhanced climate and environmental ambition and action for growth and jobs in rural areas and generational renewal.
- We are in constant contact with the co-legislators, the Council and the European Parliament, in order to efficiently use the window of opportunity to advance before the European elections.
- We would indeed welcome a political agreement which provides clarity and predictability for all involved actors, farmers and other beneficiaries alike. This will also help national administration to properly prepare for the new period (which is in particular helpful to transit to the new delivery model based on more subsidiarity and flexibility; the Commission stands ready to assist)

Flexibility and subsidiarity

- **Among the key elements** is surely a <u>**new partnership**</u> between the EU, MS/regions and farmers.
- It is based on a **rethinking of the governance** to reply to **criticism of administrative burden and limits of a "one size fits all" approach;** this will allow better targeting, simplification and a policy focused on performance.
- Acting within this common framework, **Poland and other Member States** will benefit from **increased flexibility** and be able to design intervention strategies, choose types of intervention from the EU-level menu and adapt them to their particular circumstances.

Direct payments / Coupled Income Support

- The Member States could continue to grant **coupled income support** with **enhanced flexibility.** But it will remain subject to certain conditions and limits, inter alia a **budgetary limit** to minimize the potential market distortion, a closed list of sectors, the requirement to address difficulties by improving the quality, the sustainability and/or the competitiveness of those sectors.
- The proposed percentage (10(+2)%) has been set to ensure a **balanced approach** and a continuity with the current average share of spending for voluntary coupled support.

New delivery model and compulsory conditions (administrative and control implications on Member States)

- As you are aware, for the CAP post 2020 the Commission has proposed a **New Deliver Model**.
- In the spirit of modernising and simplifying the CAP, Commission proposal also aims at **rebalancing the implementation of the policy** between the Commission and the Member States.
- In the future, we will move away from the detailed rules at the level of beneficiary and **concentrate on the performance** in the Member States.

- You will in the future draw national strategic CAP plans and you will be much **more accountable for the results** that the CAP achieves on the ground.
- Member States will also have to **respect basic Union requirements** set in the EU legislation and ensure existence of prescribed governance system **BUT…**
- **… detailed eligibility rules** at the level of beneficiary will not be subject to EU legislation and you will be **free to determine** them to reflect your national specific conditions and needs.
- So in other words we will put an **end to one-size-fit-all** approach.
- Detailed rules will not be a subject of eligibility of expenditure – Commission will no longer concentrate on them when in annual clearance procedures
- This will also put an end to detailed administrative checks and controls – in the future, you will define them yourself to the extent necessary to ensure proper implementation of the EU funds.
- Of course, the Commission will assist Member States throughout the entire process, starting from coming up with the template of the CAP plan, then approving Member States' plans once submitted and issuing guidelines for the CAP administration.
- The new delivery model is of course one of the main points of interest for all the Member States and European Parliament in the ongoing technical meetings on the CAP package and my services are offering all necessary clarifications.

Audit

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3. UTP

- This April the Commission proposed a Directive on UTPs.
- The proposal is part of the Commission's overall strategy to improve the functioning of the food supply chain, in particular by enhancing the position of farmers within the chain.
- Adoption of the directive is possible under the Romanian Presidency in first half of 2019.
- UTPs can be detrimental to small and medium-sized operators, in particular farmers and they have been on the political agenda for a long time – also the Czech Republic has legislation on UTPs.
- The proposed Directive includes:
    - a short list of prohibited UTPs that aims at a minimum standard of protection across Member States;
    - minimum enforcement powers for Member States authorities;
    - a coordination mechanism for these enforcement authorities.
- The ambition of this proposal is not to cover all possible UTPs; at this stage it focuses on manifestly unfair practices that have a clear negative impact on efficiency in the food supply chain.
- Under this proposal Member States remain free to complement the Directive with their own national measures, and after three years there will be an evaluation of the Directive.
- Another component of the Commission's strategy to improve the functioning of the food supply chain is to assess how market transparency can be improved.
- DG AGRI is preparing a thorough analysis of the possible impacts of measures to improve market transparency, based on feedback from technical experts and stakeholders.

Second key messages (defensive points)

<u>MFF</u>

<u>Reduction of the rural development envelope</u> is excessive

- The Commission has NOT proposed to reduce support for rural development. What the Commission has proposed is the rebalancing of support between the EU and the Member States.
- The current co-financing rates, stemming from the years of financial crisis are no longer appropriate and in view of the overall budgetary context, maintaining them at an unchanged high level would not be reasonable.
- In general, the governments are invited to bring in the increased national contributions, so an adequate level of support to rural areas will be maintained.
- We should also see this together with the proposed changes for the first pillar: cuts to the direct payments to farmers are very modest, so their pivotal role to support farmers' income will remain.

A cut in the MFF for the CAP, in nominal terms, will bring farmers in serious problems, also taking into account inflation and the increasing trade liberalisation.

- The Commission's MFF proposal only reduces the direct payments moderately with less than 4% at most and the overall support of rural development will remain largely the same. <u>For PT, the DP allocations will even increase thanks to the further convergence</u>.
- The new strategic plans for the CAP enable each Member State to tailor the interventions in a more targeted and efficient way to address their local needs.
- The proposal cannot be seen in isolation. In order to address the increasing competition the recently adopted omnibus package increases substantially the possibilities for farmers to organise themselves in the food chain. In addition, the proposal made on the 11th of May, to address unfair trading practices, will add another key element to help farmers in this area.

Future CAP

Why was the CIS budgetary limit reduced compared to VCS?

- It cannot be seen as a reduction due to the following reasons:
- The uniform ceiling (10+2%) is in fact an increase compared to the baseline ceiling (8+2%) that applied in 2015-2020.
- In the current system, only those MS that fulfilled certain preconditions (potentially 22 MS, from which 18 MS decided to actually apply this possibility) could decide to increase their VCS ceiling to 13(+2)%. For these MS (including the CZ) the new ceiling is somewhat lower indeed.
- However, on average at EU level, the MS decided to allocate 9(+1)% of their national ceiling for VCS (EU28).
- Therefore, 10(+2)% appears a balanced compromise, in particular in light of the benefits (e.g. precise targeting according to the needs of a specific sector/type of farming/region) and possible drawbacks (e.g. potential market distortion) of coupled support.

Is there a possibility for exceeding the CIS budgetary limit?

- Exceeding this share will be possible only for those MS that justified their need for enhanced support in 2015-2020, which was also approved by way of a Commission implementing act (potentially BE, FI, PT).
- Even in these cases, this option to go beyond 10+2% will be limited at the VCS % formerly approved by the Commission for these MS in CY2018.

No capping!

- Introduction of degressivity and capping needs to be seen in the overall context of better redistribution of direct payments.
- It was proposed in an effort to ensure a fairer distribution of payments and, particularly, to help our small and medium-sized farmers, who are the backbone of the European family farm model
- Bigger farms have more economies of scales and a privileged position to access the capital and consequently use the rural development money.
- The capping will be compulsory but it will take into account labour to avoid negative effects on jobs.
- It needs to be kept in mind that the proceeds of capping will be redistributed within each Member State, in priority to boost redistributive payments, or to rural development.

Strategic plan does not mean any simplification!

- In the future, a single CAP plan will bring together all simplified elements across pillars: three different administrative processes will be integrated into a single one.
- This will require a new way of working among your services and with your stakeholders but it will also bring several benefits:
    - There will not be overlaps between pillars, ensuring a more coherent policy and a more strategic approach towards DP/market measures
    - There will not be more overloaded RD programmes, since we are not to require detailed rules as today
- The CAP Plan will be subject to an approval process, which is the best safeguard in order to guarantee a level-playing field. The process will ensure the completeness, consistency, coherence of the national strategy and its effective contribution to the CAP objectives.

UTP

Why did you limit the coverage of the proposed directive to SMEs?

- The detailed impact assessment that Commission services had done for the proposal has shown that UTPs occur in relations where bargaining powers is asymmetric; parties with similar bargaining powers, e.g. big manufacturers dealing with big retailer, are more likely to be able to meet eye-to-eye and to agree on acceptable trading practices.
- The Commission therefore deemed a targeted protection of SMEs justified because they are the ones that cannot defend themselves against UTPs due to their lack of bargaining power. Another consideration was that there is also a risk of negative unintended consequences when interfering in the contractual relationships between larger operators.
- We know that many stakeholders, as well as the Parliament and Member States have asked for a modification of the scope of the proposal. However, it is too early for the Commission to comment on these demands; the legislative process is the right place to have these discussions.
- Nevertheless, my services are currently looking into possibilities to set an alternative threshold for enterprises that are large enough to have sufficient bargaining power to defend themselves against UTPs, so we can come forward with a proposal later in the legislative process, if required. (For instance a turnover limit for ‘very large’ enterprises could be introduced)

Background

1. Curriculum Vitae

Mr Miroslav Toman, Minister of Agriculture

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Education	[redacted]
[redacted]	[redacted]

2. MFF - *Common Agricultural Policy support to the Czech Republic*

Overall allocation

The proposed allocation for the Common Agricultural Policy for 2021-2027 is EUR 365 billion for EU-27 (in current prices). The pre-allocated amounts for Czech Republic are shown in the table below[1].

Compared to the baseline, **direct payments to farmers** will be moderately cut by less than 4%. Direct payment levels per hectare between Member States will continue to converge ("external convergence"). For all Member States with direct payments below 90% of the EU-27 average, their gap to 90% of that average will be closed by 50% over 6 years. All Member States will contribute equally to bridge this gap.

A reduction of direct payments at farm level will be compulsory, taking into consideration the labour costs. The reduction of the direct payments will increase from at least 25% for the tranche between EUR 60 000 and EUR 75 000 to a 100% reduction for amounts exceeding EUR 100 000. The savings from the reduction will remain in the envelope of the Member State in which they originate and used for redistributing agricultural support towards medium and smaller farms or for rural development.

For other schemes financed from the European Agricultural Guarantee Fund (e.g. wine; olive oil; hops; support to outermost regions and small Aegean islands), a reduction of less than 4% to the pre-allocated amounts is proposed in view of the overall allocation for the Common Agricultural Policy. On the other hand, the support for beekeeping is proposed to be increased to EUR 60 million with MS allocations set in the basic act (compared to EUR 36 million set by the Commission Decision currently).

For **rural development**, it is proposed to rebalance the financing between the EU and MS budgets. An increase in national co-financing rates will ensure an adequate level of public support to European rural areas. Currently, the prevailing maximum co-financing rate by the EU for rural development measures is 53% and this is proposed to be reduced to 43%. However also the "**transitional regions**" will see co-financing reduced to 43%; down from 75%. For less developed regions, the maximum co-financing rate of 85% is proposed to be reduced to 70%. However, final co-financing rates also depend on the measures chosen. For example, EU co-financing rates for environmental measures are 80%.

Member States will have the option to shift up to 15% of their direct payments to rural development or vice versa, with an additional 15% flexibility towards rural development for interventions addressing climate and environmental objectives or an additional 2% in case of EAFRD support to young farmers.

	Direct Payments		Rural development		Other pre-allocated envelopes		TOTAL CAP	
	EUR million	Δ%	EUR million	Δ%	EUR million	Δ%	EUR million	Δ%
CZ	5.871,9	-3,9%	1.811,4	-15,3%	49,5	37,3%	7.732,9	-6,7%

[1] Percentage change compared to the baseline (i.e. the initial 2020 allocation before flexibility between direct payments and rural development)

3. Direct payments

II./D) Voluntary coupled support (VCS)

VCS is an important support scheme in the Czech Republic under the present MFF. The available budgetary ceiling is used to its full extent (13(+2)% of their DP national ceiling) with an annual use-rate around 99%.

The CZ decided to finance 12 support measures as from claim year 2015, which remained unchanged ever since. The most supported sectors are: Milk and milk products (1 measure, 50 mio EUR i.e. 40%), Beef and veal (1 measure, 19 mio EUR i.e. 14 %), Protein crops (1 measure, 17 mio EUR i.e. 13%) and Sugar beet (1 measure, 17 mio EUR i.e. 13%).

Acknowledging the importance of coupled support under certain circumstances, the COM proposal foresees that Member States should be allowed to grant coupled income support for the sectors undergoing difficulties. It aims at addressing these difficulties by improving their competitiveness, sustainability and/or quality.

Coupled Income Support, which may be notified under amber box, will continue to be subject to a budgetary limit (10(+2)%), whilst its administration will be simplified. The national authorities, as well as the sectors concerned, may find it difficult to accept if this results in decrease of amounts potentially available for coupled support (compared to VCS). The CZ is one of these MS and has already expressed their wishes on various forums that the share available for coupled support should be 13(+2)%.

It is to be noted as well that certain MS, during the council working parties on Horizontal questions, complained about the exception granted to BE, FI and PT to use more than 10+2% of their DP envelope for coupled support.

4. FINANCIAL AUDIT

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