

EUROPEAN COMMUNITY

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SOCIAL AIDS IN AGRICULTURE



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Income aids and "pre-pension"

April 1987.

In its Communication on the implementation of the Single European Act ("Making a success of the Single Act - A new Frontier for Europe", COM(87) 100 final, 15 February 1987), the Commission stated that it intended to make proposals which would give the Community a supplementary instrument for the support of incomes.

The Commission confirmed this in its introduction to the proposals on agricultural prices and related measures for 1987/88 (COM (87) 1 final, 17 February, 1987).

On the occasion of the adoption, by the Council, of the proposals relating to agricultural structures and the adaptation of agriculture to the new situation of the markets and the conservation of the countryside (COM(86) 199 final, 21 April 1986), the Commission had withdrawn the proposal relating to a "pre-pension" scheme from the package of measures. On the same occasion, it had, however, announced that it would reconsider its position on this question in connection with the proposals concerning income aids being drafted.

When it met on 14 April 1987, the Commission adopted three proposals for Council regulations which constitute the practical expression of the statements it had made and the commitments it had entered into (COM(87) 166 final, 15 April 1987).

The NEWSFLASH reproduces the explanatory memorandum for the Commission's proposals and a tabular presentation of their contents.

Explanatory Memorandum

1. In its Communication on the implementation of the Single European Act ("A new frontier for Europe" - COM(87) 100 final, 15 February 1987), the Commission outlined the general framework for the action it would be taking or continuing with a view to guiding and supporting the efforts to adjust to new conditions which the farming community now has to make. In this connection, it mentioned work being carried out to restore equilibrium on the agricultural markets, entailing a restrictive policy as regards prices, less rigid guarantees and intervention mechanisms, and fuller co-responsibility for farmers.
2. The Commission also made clear its awareness of the fact that the adjustments that have to be made to the CAP concern an industry which is in fact, in a Community of Twelve countries, extremely diversified: natural conditions and farm structures differ very widely, and these differences are also reflected in the widely varying contribution made by farming for local socio-economic equilibria. But the adjustments now being made are bound to impact more heavily on the economically and structurally weaker farms. Action taken by the Community must allow for this.
3. Accordingly, among the objectives of the schemes operated through the structural funds, the Commission has approved those of speeding up the adaptation of the structures of agricultural production and of encouraging rural development. In this context, specifically agricultural action is only one component of the overall Community effort: in so far as certain changes in the sector can be achieved only after an improvement in the economic environment as a whole, measures relating to a specific sector are underpinned by action taken using the Community's "horizontal" instruments or policies.
4. As regards the means of action in the area of farm structures, the Council has just adopted a set of measures aimed mainly at encouraging the "extensification" of farming and at strengthening compensation provided for farmers who have to contend with hostile natural conditions in mountain and hill regions or less-favoured areas in which farming must continue if the environment is to be protected or regional development to be supported. These measures supplement and strengthen the machinery already available in this field.
5. More generally, in its Communication concerning the implementation of the Single European Act, the Commission emphasized the need to strengthen the action of the structural funds, to enhance their mutual consistency and to make the most of combined effects that can be obtained from more integrated approaches in Community action to promote cohesion and more harmonious development of the territory as a whole.

6. Action with regard to structures is the only kind of action which can get to the heart of the problem by gradually narrowing down certain disparities which are now a feature of Community agriculture; but practical results can be obtained only in the medium and long term. Thus, in order to ensure that the remedial action now being taken in the form of measures relating to the market should have a more balanced impact in the immediate future, the authorities have, in some cases, been compelled to approve direct compensation (buying back of milk quotas, beef/veal premiums, etc) or to accommodate, by appropriate "modulations", the more accurate problems in certain regions (aids to small grain farmers, increase in the production aid for small olive oil growers and aid to durum wheat, arrangements to allow for special problems certain countries have to contend with in determining the milk quotas, etc.). Obviously, however, there are definite limits to an approach of this kind, which cannot be exceeded within a policy which must remain a common policy and which, as such, aims at the improved allocation of resources in terms of the comparative advantages enjoyed by each country and each region. Excessive action along these lines would also tend to inhibit the structural change and thus consolidate a situation which is already unsatisfactory, and, as a result, force the economies of certain regions further and further out of the Community mainstream.
7. In this context, the Commission takes the view that Community action would be all the more effective and consistent if it were also supported by instruments allowing direct and selective support of incomes. Such instruments would allow of the support of the incomes of the economically weaker farmers, being those suffering most from the current adjustments to the markets, without this entailing incentives for all the farmers in given sectors or regions. The Community arrangements at present in force already authorize compensatory allowances, restricted to mountain and hill and less-favoured areas, a facility which has been strengthened by the Council's recent decisions but which, so far, has been used to only a limited extent in most of the Member States. This facility concerns, however, only part of the Community and the further extension of its scope is undesirable, since it could have a considerable impact on production: the compensatory allowance applies to all farmers regardless of their economic situation or situation as regards structures, and it is paid, at least within certain limits, on the basis of the farmer's income (LU and ha). As for the scope for action at national level, income support aids are incompatible with the provisions of article 92 to 94 of the Treaty, and are therefore prohibited. The political need for action in this field has, however, induced some Member States to find a way around this ban, notably by using derogating Council decisions. The proliferation of initiatives along these lines, outside a framework defining, accurately, at Community level, the limits and procedures for granting such aids, would entail distortion in production and in trade and would be bound to hamper efforts to remedy the situation on the markets.

8. Thus, the Commission is proposing the definition of a Community approach to income aids, which would have three separate but inter-related aspects:
 - a Community system for aids to farm incomes;
 - a system providing a framework for national aids to farm incomes;
 - a Community "pre-pension" system for farmers of 55 years and over.

9. The relevant regulations would apply throughout the Community. But rates of EAGGF co-financing would be varied to balance the effort required in terms of regional, and even national, budgetary possibilities. The Member States would also enjoy some latitude in the choice, organization and intensity of action planned with a view to ensuring optimum effectiveness of resources granted at national level and at Community level, having due regard to specific local conditions. It is for the Member States to specify the arrangements they propose, which must be compatible with existing structures. Such latitude would also enable equilibrium to be ensured between measures relating to the markets, those affecting structures and those having a social character needed to adapt each regional agriculture to the new economic environment. Programmes drawn up by each Member State with a view to the implementation of the regulations, which would include clear statements of the case, in social and economic terms, for the measures planned, would be implemented only after endorsement by the Commission.

10. The purpose of a Community farm income aid system is to facilitate transition for "main occupation" farms placed in difficulties by current adjustments as regards the markets but which are in fact potentially viable. These are farms which, once equilibrium on the Community market has been restored, would be in a position to operate in economically satisfactory conditions. The scheme would be for five years only and the aid would be scaled down over that period. It would be co-financed from the Community budget, Community intervention being modulated to allow for uneven concentration of problems and the differing ability to pay of the various Member States.

11. The purpose of providing a framework for national aids is in particular to achieve fuller knowledge and information as regards national income support schemes. The regulation defines the scope of action of the Member States by derogation from the provisions of Articles 92 to 94 of the Treaty. A very strict definition of potential beneficiaries and grant procedures for the aids should prevent inconsistencies between these national schemes and Community objectives, in particular as regards the effort to restore sound conditions on the markets: it is vital that farmers are not told one thing by one authority and the opposite by another. Thus, in this particular case, national action must be restricted to the social field, to avoid any significant impact on production.

12. The introduction of a "pre-pension" system has two separate but mutually consistent objectives:

- a social objective, being that of ensuring support in terms of incomes for a class of farmer - elderly farmers - hurt most by the crisis as they are less able to react and adapt their operations to changed market conditions;

and:

- a contribution to restoring sound conditions on the market, where the "pre-pension" is combined with set-aside of land released;

or, alternatively,

- a contribution to the structural development of farms where land released by farmers taking the "pre-pension" would be assigned to the restructuring of farms which could, in this way, rise to the viability threshold.

If the Member State decides to use this scheme, it can choose between the alternative "set-aside of released land" and the alternative "assignment to restructuring", or make an arrangement offering both alternatives together, the beneficiary being free to choose. Where the "pre-pension" is combined with set-aside of land, EAGGF co-financing is uniform for the whole of the Community; where the "pre-pension" is combined with restructuring, co-financing is modulated on the basis of levels of development and the proportion of farmers and farm workers in the region.

13. The proposals on income aids and the "pre-pension" constitute an inter-related whole, balanced with action being taken at Community level as regards prices and markets with a view to achieving better equilibrium between supply and demand in agriculture. This overall cohesion and equilibrium must be ensured at all times during the adoption and implementation of the various measures in the various fields. Cohesion and equilibrium are also among the criteria which will be referred to by the Commission when assessing the programmes established by the Member States under the regulations proposed concerning aids to farm incomes.

Aids to incomes and "pre-pension"
(Target and relationship with schemes already being operated)

Measures contemplated or in force (-) and direct or indirect effects of
measures in question (*) from which the group concerned benefits

<u>Group of farms referred to</u>	<u>Measures financed by the Member States alone</u>	<u>Measures involving Community co-financing (sometimes restricted to certain areas)</u>
<u>Viabile farms</u>		<ul style="list-style-type: none">- "pre-pension" (farmers of 55 years and more), but only if accompanied by set-aside of land released,- certain structural measures already in force (including measures to assist mountain and hill and less-favoured areas, "extensification".....)* indirect effect on the market due to the reduction in production potential (land set aside in connection with the "pre-pension")
<u>Intermediate farms (potentially viable)</u>		<ul style="list-style-type: none">- Community income aid system- all structural measures already in force (this group of farms is the particular target of conventional structural schemes)- "pre-pension" (farmers of 55 years and more), with set aside and/or restructuring of land* restructuring (on the basis of land released under "pre-pension" scheme)* indirect effect on the market due to a reduction in production potential (land set aside in connection with the "pre-pension")
<u>"Social problem" farms</u>	National aids (framework system)	<ul style="list-style-type: none">- "pre-pension" (farmers of 55 years and more) with set aside and/or restructuring land- certain structural measures already in force (in particular, measures for mountain and hill and less-favoured areas)- action under the "horizontal" structural funds (ERDF, Social Fund, EIB, NCI ...)* restructuring (thanks to land released in connection with the "pre-pension" provided that in this way it becomes viable)* indirect effect on the market due to a reduction in production potential (land set aside in connection with the "pre-pension")

ANNEX I

COMMUNITY INCOME AID SYSTEM

- Beneficiaries: Intermediate (potentially viable) "main occupation" farms (farmer and members of his family working on the "main occupation" farm the income of which falls short of 125% of the average agricultural income of the region plus any national corrective).
- Procedures:
- granted on the basis of the overall income of each beneficiary,
 - subject to proper evidence that the farm can be viable after five years,
 - compensation entailing higher prices or calculated on the basis of production or production inputs (other than labour) to be prohibited,
 - aid to be degressive, for not more than five years,
 - the aid granted may not bring the level of income of each beneficiary beyond 125% of the average agricultural income of the region plus any national corrective,
 - presentation by the Member State of a programme describing implementing procedures and the socio-economic context justifying the scheme. The arrangements may be activated only after endorsement by the Commission.
- Financing:
- "modulated" Community co-financing (70% - 45% - 20% - 10%) on the basis of the wealth of the regions and the proportion of farmers and farm workers,
 - breakdown in Community budget:
100% EAGGF Guarantee Section.

ANNEX II

SYSTEM OF FRAMEWORK FOR NATIONAL AIDS

- Beneficiaries: "Social-problem" farms, including part-time farms (farmer and family members working on the holding, the income from which falls short of the average agricultural income of the region plus any national corrective).
- Procedures for granting the aid
- granted on the basis of the level of overall income of each beneficiary,
 - compensation entailing higher prices or calculated on the basis of production or production inputs (other than labour) to be prohibited,
 - the aid granted may not bring each beneficiary's income level to a point beyond the average agricultural income of the region plus any national corrective,
 - presentation by the Member State of a programme describing implementing procedures and the socio-economic context justifying the scheme. The arrangements may be activated only after endorsement by the Commission.
- Financing National.

"PRE-PENSION"

Beneficiaries: "Main occupation" farmers and their permanent family help and employees, at least 55 years of age

Procedures for granting the aid : Farmer to cease farming and

- either allocation of the land to non-agricultural use (afforestation, preservation of the environment, preservation of the countryside),
- or, allocation of the land to restructuring of farms, provided that by this means such farms become viable and the restructuring does not entail an overall increase in production as compared with the production previously accounted for on each relevant area.

Amount of aid qualifying for EAGGF reimbursement:

1. Where the land is allocated to non-agricultural use:
 - annual allowance of 3 000 ECU (or 1 875 ECU for a bachelor), for at most 10 years, but not over the age of 70,and
 - annual premium per hectare of 250 ECU (for afforestation 300 ECU).
2. Where land is allocated to restructuring:
 - annual allowance of 3 000 ECU (or 1 875 ECU for a bachelor) if farming ceases before the age of 60 years,
 - annual allowance of 2 000 ECU (or 1 250 ECU for a bachelor) if farming ceases after age 60 years for a maximum of 10 years, and not beyond the age of 70.
3. For the "pre-pension" for paid employees and family helps:
Annual allowance of 2 000 ECU (or 1 250 ECU for a bachelor) for a maximum of 10 years and not beyond retirement age.

Financing: Community financing:

1. Uniform rate (50%) where the land is assigned to non-agricultural uses,
2. "Modulated" rate (50% - 25% - 0%) where the land is used for restructuring (allowance) and for "pre-pension" for paid employees and family helps (varied on the basis of the wealth of the regions and of the proportion of farmers and farm workers in the labour force).

Allocation in Community budget: 100% EAGGF Guidance Section.

ANNEX IV

Scope of measures planned for direct aids to incomes and
"pre-pension"

Explanatory note

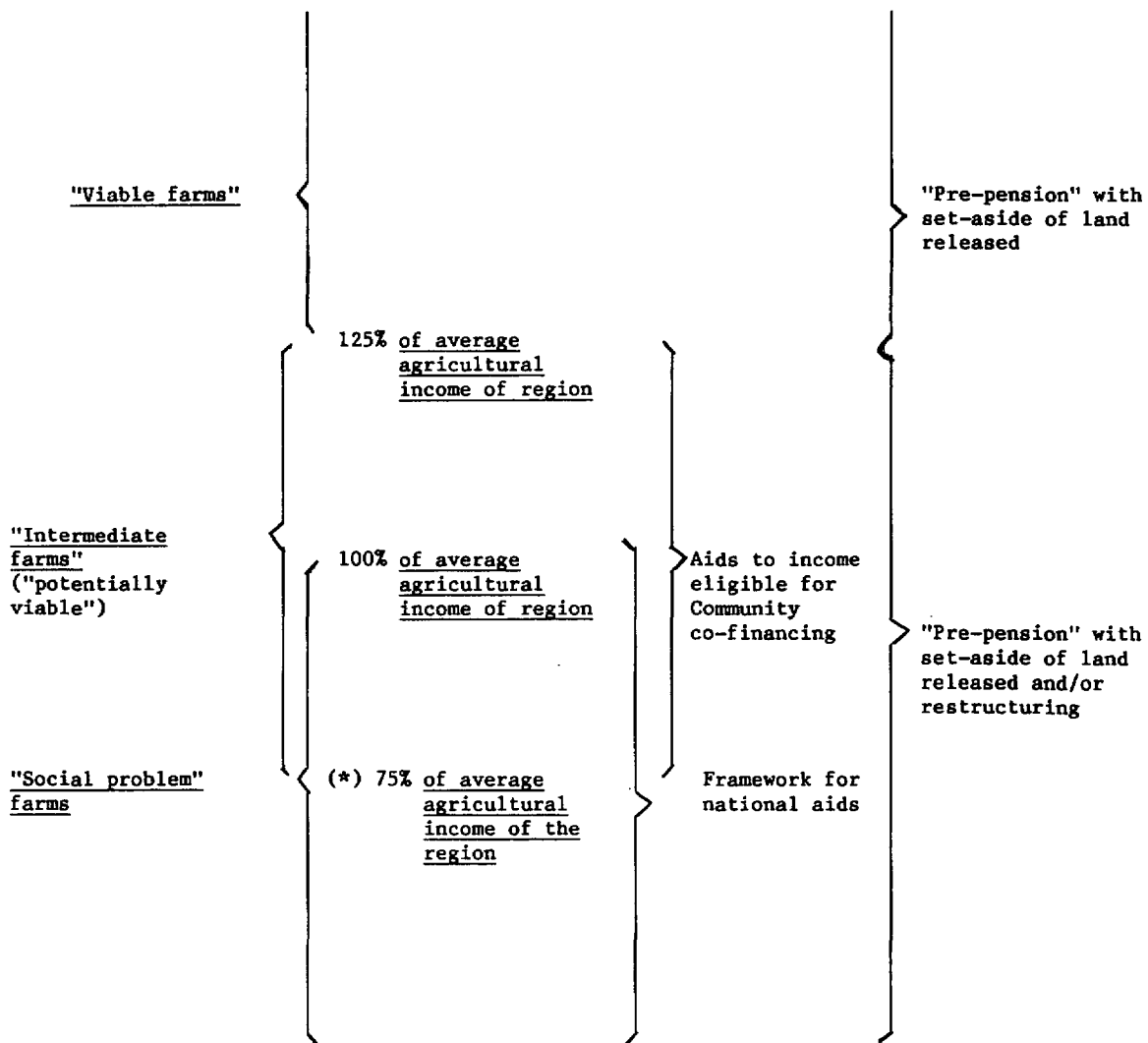
The three schemes proposed (a framework for national aids, a system of income aids eligible for Community co-financing, and the "pre-pension") partly overlap in their scope.

The chart below should dispel any ambiguity as to the composition of the sub-sets concerned.

For the assessment of this aspect of the proposal, it should be borne in mind that only the level of the average agricultural income of the region and the limit of 125% of the average agricultural income of the region provide clearly defined, operational bearings. The delimitation downwards (75% of the average agricultural income of the region) is notional and is used in practice only to allow an estimate of the breakdown of the total and of the financial impact of the system of aids to incomes co-financed by the Community budget. In fact, the area of the part eligible for co-financing has no specific delimitation downwards: this delimitation is constituted by the conditions as regards ultimate viability laid down in the regulations.

Breakdown of total
in relation with
average regional
income

Scope of Community
action



(*) National threshold (see explanatory note on preceding page)

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