



Directorate-General for Agriculture and Rural Development (DG AGRI):

Study to assess the administrative burden on farms arising from the CAP

2006-G4-03

Executive summary

October 2007

Directorate-General for Agriculture
and Rural Development
(DG AGRI):

Study to assess the administrative
burden on farms arising from the
CAP

Executive summary

October 2007

EXECUTIVE SUMMARY

This study for DG Agriculture and Rural Development (DG AGRI) aims at measuring the administrative burdens for farmers arising from the 2003 Common Agriculture Policy (CAP) reform. The study provides an assessment of the administrative costs for selected CAP-related measures, especially the Single Payment Scheme (SPS), in five selected Member States in 2006, and an outlook on further expected developments.

The methodological approach and design of the study is based on the elements of the EU Net Administrative Cost Model as set out in COM (2005) 518 final. Drawing on the experience of earlier studies, the methodological approach and design has been further developed, mainly to account for parallel steps and for the order of activities.

The findings in the report are based on a series of workshops and interviews with experts in the field, with farmers and with farm advisory services. The findings indicate the order of magnitude of the administrative burdens in the five selected Member States. However, it is not claimed that the findings are statistically reliable.

This report makes a cross-country comparison of existing administrative costs and tries to explain why the costs are different in the five Member States concerned. The report also presents an outlook on the administrative costs for the near future. In addition, filled Report Sheets that are part of the report are shown in a separate Annex.

Cost drivers

The analysis shows that a number of other factors than the selection and implementation of the model affect the administrative costs. The main cost drivers are:

- Approach and timing of transposition of the CAP regulations
- Public administration
- Business culture
- National, structural differences

It is therefore not possible to quantify or assess the precise importance of each of the cost drivers, but a qualitative assessment can be given based on information gathered under the study.

Transposition of the CAP regulations

The Single Payment Scheme system leaves great discretion to Member States in relation to implementation, and the Member States have been free to decide the timing within given limits.

The Single Payment Scheme is implemented by the Member States according to a "historical model", a "regional model" (flat rate), or a regional "hybrid" model (regional model with historic elements). Further, the regional model may be "static" or "dynamic".

The Member States were also free to choose whether to retain elements of partially coupled payments (ranging up to 100% of allocated ceiling expenditure within specific regimes) within the scope of the overall reforms agreed in 2003.

The sample of countries covers the variation in different implementation options, and hence the different administrative costs stemming from the chosen set-up as the different models may lead to different administrative costs.

Some member states have incorporated the new and/or changed clauses into the existing legislation. Other countries have enacted the regulations as issued by the Commission through national legislation. The number of legal acts used to transpose the 4 regulations therefore varies between 1 in Ireland and 13 in Italy, and the number of information obligations related to the CAP varies between 21 in Ireland and 107 in Italy, but there is no clear relation between number of legal acts and the number of information obligations. France has 7 legal acts and 43 information obligations but Germany has approximately the same number of information obligations (47), but only 2 legal acts. There is no clear relation between the number of information obligations and total cost per farmer.

The application for single payment and transfer of entitlements reveal great diversity across the five countries. In particular, the use of pre-printed application forms and the complexity of the application vary and this has an impact on the total administrative costs. In addition, the level of detail demanded by the authorities differs.

The difference in "maturity" in the countries and the timing of the implementation also affects the administrative costs. The reform was initiated in 2005 in Denmark, Germany, Italy, and Ireland, and farmers and their advisors had therefore acquired a good understanding of the system in 2006. France, on the other hand, decided to postpone the initiation of the reform until 2006. The study's focus on the administrative costs for the year 2006, and part of the measured differences are hence due to the different timings of the national implementations. There is thus a great deal of administrative activities for the farmers during the first year of the reform in connection with the establishment of payment entitlements and in connection with the timing of the implementation of specific schemes. This affects particularly France and Italy where a considerable part of the administrative costs can be categorised as establishment costs.

Public administration

Different extents of public sector involvement in the application process have a certain impact on the administrative costs for the farmers. In Italy, the existence and activity of the centres for agricultural assistance (CAA) plays an important role. They are a decentralized part of the public administration systems, funded by the Italian State and they carry out a full range of activities free of charge. In other countries, these activities are either carried out by the farmers themselves or paid for by the farmers. Without this arrangement, the administrative costs of Italian farmers would be much higher, but the study does not provide any basis for a quantification of this impact.

The public sector involvement also affects the administrative costs imposed on farmers by making different types of IT solutions and pre-filled forms available. This has a direct cost saving impact in France where the authorities have developed and distributed a checklist, and in Germany, where an electronic system to deal with transfers of entitlements saves time for the farmers. The parallel system in Denmark, which is not running satisfactorily, seems to have led to higher administrative costs for the farmers.

Business culture

National practices are reflected in the way in which farmers apply for the SPS and how they organise the process. In particular, the involvement of external assistance and the use of technical solutions may play a role. In Denmark, the main rule is that consultants assist the farmers intensively through the application

for single payment and other administrative tasks, whereas in France, no tradition for involving consultants exists.

As mentioned, the existence of technical solutions is important for the administrative costs, but the actual use the systems are of course just as important.

National, structural differences

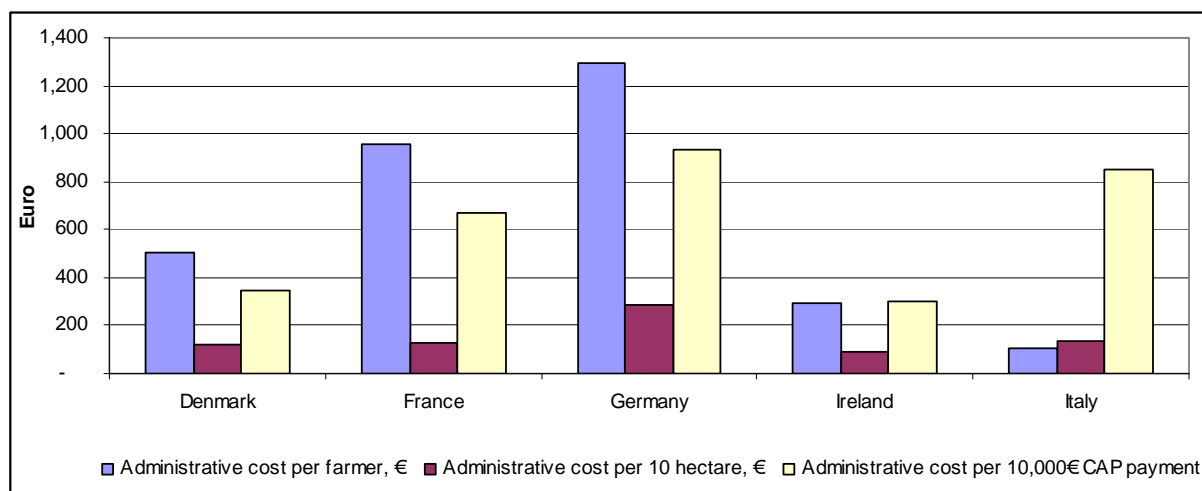
In some cases, regional aspects influence the level of farmers' administrative costs. This is the case in Germany and France, where farmers are affected by rules and administration from more than one region when they hold land or transfer land across regional borders.

National structural differences in particular affect the administrative costs per farmer in Italy, where the average farm size is approximately 8 ha, which is barely a fraction of the German average of approximately 46 ha and the average size of 74 ha in France. The majority of Italian farms are very small and characterised by less diversity in production, less changes, fewer transfers, etc. These factors contribute to keeping the total cost level per farmer relatively low in Italy, but the costs per ha farmland are still at the same level as in Denmark and France.

2006 - Administrative costs from the CAP

The CAP related administrative costs for farmers across the five countries are shown in the chart below. The administrative costs include both internal and external costs, but public sector costs are excluded, whether both when they are related to public administration of the system and when they relate to assistance to the farmers in connection with CAP related activities.

Figure 1: Farmers' administrative costs caused by the CAP requirements in 2006

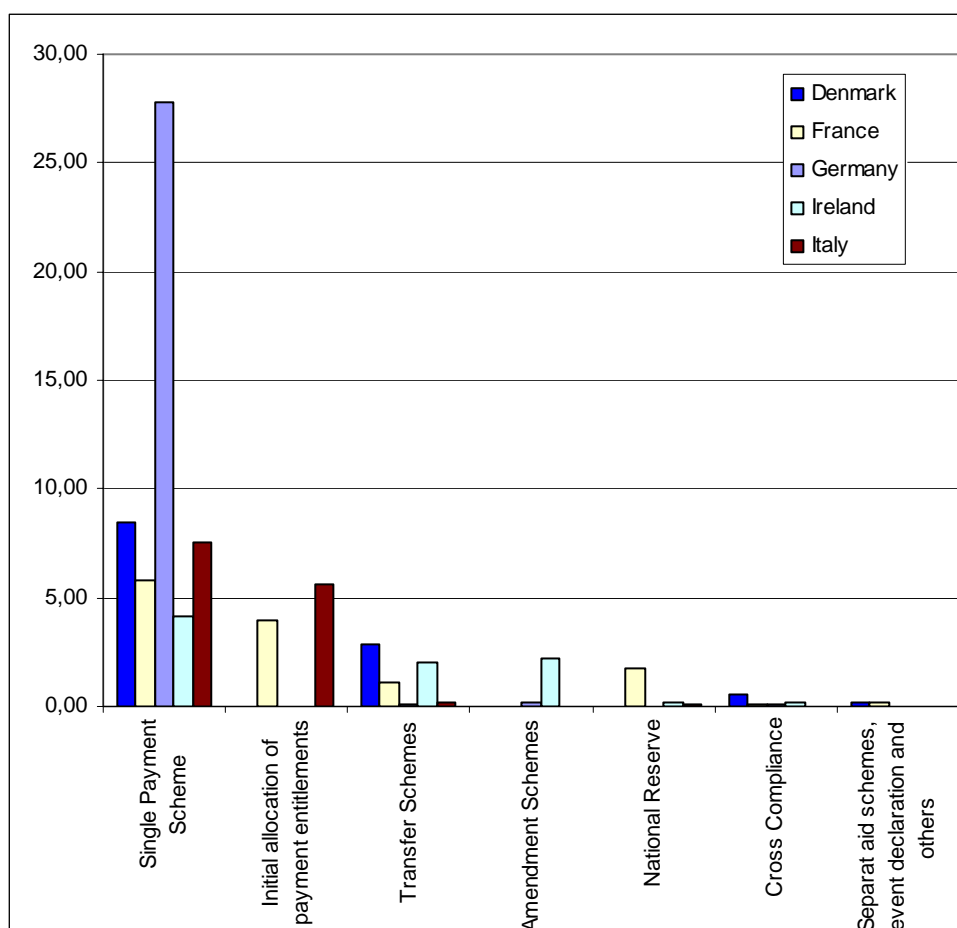


The variation in total costs across countries is partly explained by the different size of the agricultural sectors of the five countries. The costs are therefore estimated per farmer, per ha and as the percentage of total CAP payments in each of the countries.

The average administrative cost per farmer varies between €110 in Italy and €1,300 in Germany. The average farm size is 8 ha in Italy, but between 34 and 74 in the other four countries. As a result of this, the average administrative cost per ha varies less between the five countries. The total administrative costs constitute between 3.0 and 9.3% of the total CAP payments received by the five countries.

The importance of the various subject groups in the total picture of administrative costs in 2006 is illustrated in the chart below, where a breakdown of costs per ha farmland is shown. This illustration shows that the single payment scheme is especially burdensome for the farmers. The one-off initial transfer of entitlements has also played a role in France and Italy in 2006, and in especially in France the transfer scheme and the national reserve has contributed to the administrative costs of farmers.

Figure 2: Farmers' administrative costs per ha by subject group and country, 2006



The total administrative costs are highest in Germany and lowest in Ireland, but a comparison across the five countries is affected by country specific factors like the Italian system of free assistance from a semi-public agency and by the relatively high one-off costs in Italy and France. In addition, well functioning IT solutions save time for the farmers in Germany.

It should also be noted that the administrative costs related to cross compliance included in the scope of the study are relatively low. This is mainly explained by the relatively small number of farmers that is subject to cross compliance controls. However, cross compliance obligations create quite some anxiety among farmers.

In **Denmark**, the administrative costs stems mainly from the application under the single payment scheme and from the costs related to transfers of entitlements. On a closer look, it appears that also the costs related to the single payment scheme stem mostly from transfers of land and entitlements as well. When the

farm structure does not change, the administrative costs are limited. The situation in **Ireland** is more or less similar, with the exception of high costs related to amendments of entitlements (a specific case in Ireland). The administrative costs in **Italy** are taken over to a large extent by public or semi-public agencies. The resulting direct costs for farmers are relatively low. The costs related to the allocation of entitlements are highest in Italy and France. This is explained by the fact that entitlements stemming from payments for tobacco and olive oil production were allocated in 2006 (Italy) and that **France** started the initial implementation of the single payments scheme in 2006. As in the other Member States, the costs related to the single payment scheme application are relatively high in **Germany**. It should be noted though that the different regions (Länder) use different application forms and that the situation differs within Germany. Despite the high number of transfers, Germany has been able to keep the burden related to the transfer of entitlements low through a web based administrative tool.

Finally, the administrative costs are affected by the differences in the chosen models and their implementation. This impact cannot be quantified on the basis of the results of this study because of the influence of other factors. It seems fair to conclude, however, that recoupling of direct aid in principle leads to a higher administrative cost than decoupling, as farmers in countries with recoupled models, have to submit more information. However, other factors (the national administrative culture, habits within the sector) are more important than the choice of model of the CAP Reform.

Outlook

The development of the administrative costs over the coming years will vary among countries. For countries like France and Italy, the high one-off costs in 2006 will lead to immediate reductions, and a general, gradual reduction is foreseen in all countries because of an increased familiarisation among farmers and their advisors and a general learning of rules and processes (the learning curve). The administrative costs may also change because of regulatory changes or as a result of possible changes in the administrative set-up and use of IT systems.

The key expected changes are related to the four mentioned groups of cost drivers: The transposition of the CAP regulations, public administration, business culture, and national, structural differences.

Transposition of the CAP regulations

The different transposition patterns will affect the development of farmers' administrative costs in various ways for a number of reasons. One-off costs related to the establishment period will thus reduce administrative costs by up to 30% in France and 40% in Italy.

Changes in the crops coupled may further lead to a reduction of time spent on calculating land in connection with the declaration form. The Fruit and Vegetable reform will simplify the application for single payment from January 2008, reduce the number of transfers, and thereby lead to a reduction of total costs.

The set-aside entitlements will be put on hold and save time spent on demarcation between entitlements related to land that has been set aside vs. land in use. This holds true for all EU countries. The 10-month rule related to the disposal period is likely to be abolished at EU level and this will facilitate the application for single payment as well as transfer of rights considerably.

Public administration

Submitting applications on-line is foreseen to be a growing trend in the following years. This is the case in Denmark, France, and several German Bundesländer where an IT solution is available, and an increasing use of this is expected. Ireland is starting in 2007 and the Bundesländer that have not established an online solution for the single payment application are expected to do so in the near future.

A range of IT solutions is in the pipeline, and a planned IT solution in Denmark will ease transfer of entitlements. This may save the major part of the 25% of total administrative costs spent on this activity in 2006.

Better databases will improve data availability across regional and state levels as well as between different ministries in Italy and France, and new database will facilitate cross-compliance controls in France.

The public administration is likely to reduce administrative costs by improving pre-printed forms and increasing the use of preprint in Ireland and in the Bundesländer. In Ireland, a text message-service reminding the farmers of the applications via their cell phones is also planned.

A positive learning curve effect within the public administration is anticipated in the near future. The impact of this may be limited in the short term, but in the longer term, a positive effect will be seen in all countries.

Business culture

A positive learning curve effect provides a potential for a reduction of recurrent administrative costs over a period of a few years. The total savings on this account will be highest in Denmark and Ireland, where 14% of costs relate to familiarisation and training, and in France where these cost elements constitute 10%.

Structural differences

The learning curve will probably be steeper for large farms than for the smaller ones, which will lead to a slower reduction of administrative costs in countries and regions dominated by small farms.