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**Non-paper of Latvia**

# WHY EXTERNAL CONVERGENCE OF DIRECT PAYMENTS SHOULD BE CONTINUED

This document is aimed to spotlight how all the reasoning backs the full convergence of direct payments for Latvia in the 2021-2027.

There are five strong arguments backing the full external convergence of direct payments to be done without any further delays and not later than within the next financial period 2021-2027:

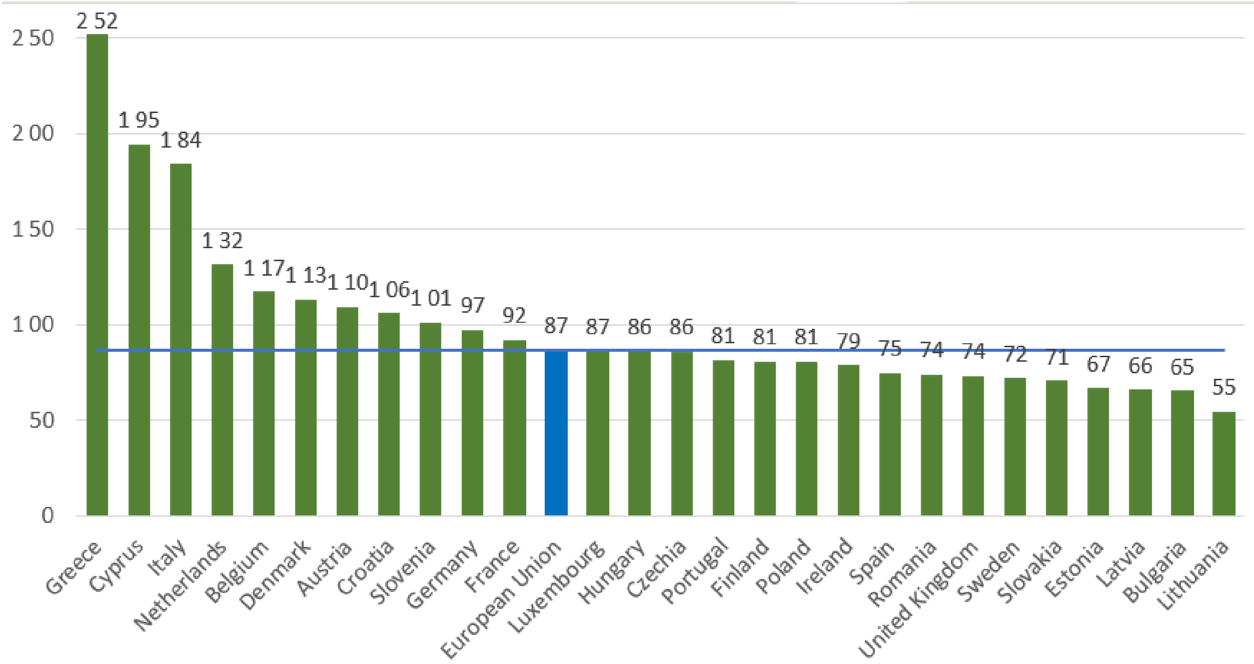
**1. Green architecture requires adequate funding – direct payments' role in achieving the EU's environmental and climate objectives is substantially increasing.** Requirements for all Member States are equal and bear equal expenses but CAP financial support for Member States differs up to 4-5 times. Allocation mechanism of direct payments should be related with costs linked with achievement of environmental and climate objectives.
**2. The production costs for Latvia are high** – costs of main agricultural resources are the same as the EU average level.
**3. Structure of costs in EU farms approves the continuation of convergence –** although there are differences in labor and land costs between Member States in absolute values, in reality labor and land costs represent a minimal share of total costs.
**4. A clear political signal for external convergence** – leaders of the EU are aware of the unfair conditions among EU farmers and European Commission supports the external convergence.
**5. A full picture of allocation of CAP support among all Member States** – more than 60% of Common Market Organization (CMO) funding is allocated to three Member States.

**Latvia requires that the convergence of direct payments is completed in the next financial period 2021-2027 and that Latvia receives the average EU level of direct payments. Existing direct payment system does not provide a level playing field to all farmers in the EU. Great part of farmers receives very generous payments – ranging from 100% up to even 209% of EU average. While for Latvia, European Commission's Proposal provides only 77% level.**

## 1.Green architecture requires adequate funding

The focus of CAP has shifted from production towards income and environmental support. Green payments currently comprise about one third of direct payments and this direction is going to be further promoted in the next period. Member States with the highest level of direct payments are by no means the only ones facing challenges regarding the high costs of public services for climate and environment. It is even harder for Member States below the average level of direct payments to sustain these inherently costly public services. The rules and requirements are the same for all Member States while support levels differ drastically.

**Graph 1: Differences in CAP allocation for greening among Member States (2017), EUR/ha**

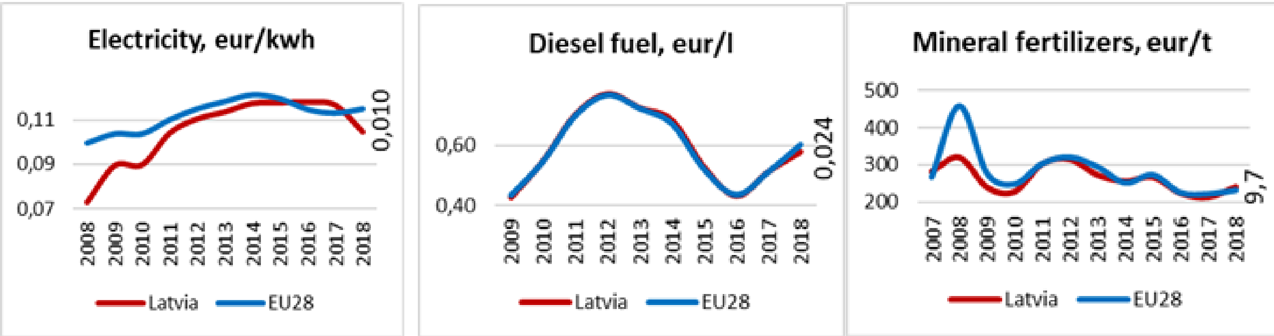



***Source:*** *Calculation of Ministry of Agriculture of Latvia, based on EU Regulation 1307/2013*

**2.The production costs for Latvia are high**

Latvia is the Northern country just like Sweden, Estonia and Finland, and is far from the main markets. This puts Latvia at production cost, agricultural resource cost and availability disadvantage.

**Graph 2: The prices of agricultural recourses in Latvia and EU**



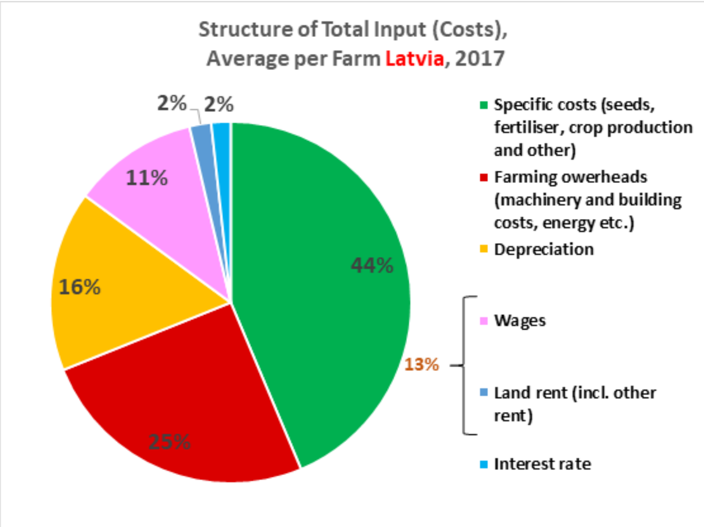

*Source:* *Eurostat*

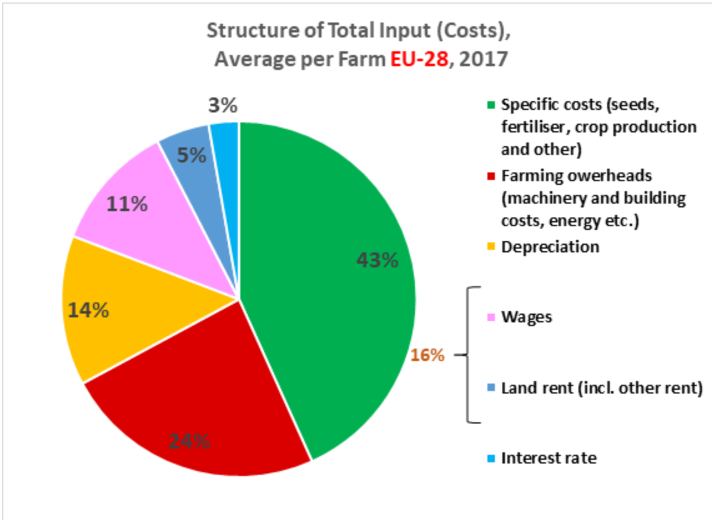
Agricultural expenses for Latvian farmers are at the EU's average level in absolute values. Prices for such substantial agricultural input as electricity, diesel fuel and mineral fertilizers are at EU's average level.

**3. Structure of costs in EU farms approves the continuation of convergence. Differences in costs of agricultural land and labor exist although with the minor share in the total costs of farmers**

Regarding labor and land costs, countries that are against convergence of direct payments, point at large differences between those costs among Member States. Although there are differences in labor and land costs between Member States in absolute values, in reality they represent a minimal share of total costs (land rent costs 5% and labor costs 11% in EU). Therefore, agricultural land prices should not be viewed as crucial argument deciding on external convergence. Support should focus more on rural regions that have potential and that are sustainable for agricultural production.

**Graph 3: Structure of total costs in Latvia and EU, 2017**




*Source:* Eurostat

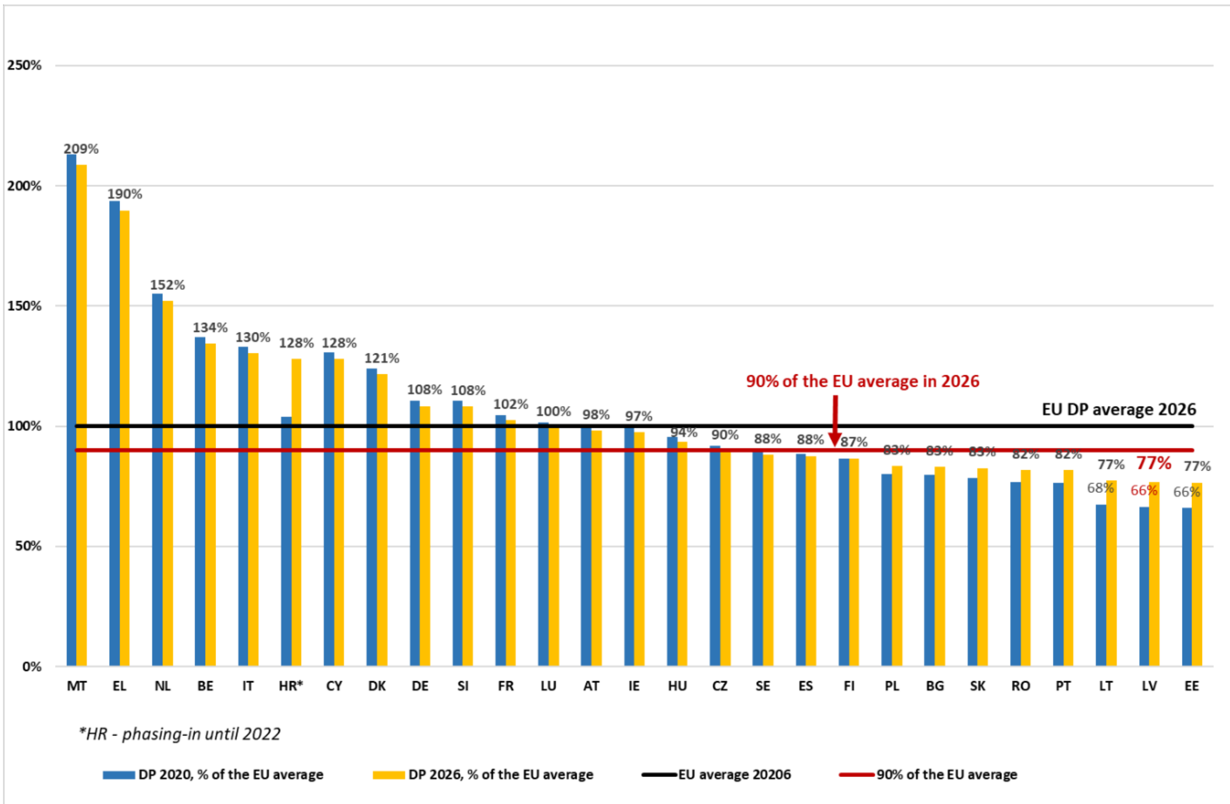
## 4. A clear political signal for external convergence

The unfairness of direct payments rates has been admitted at the highest levels of the EU. European Commission's Multiannual Financial Framework (MFF) proposal puts external convergence on track thus admitting unfairness that differences among Member States are unjustified and that fact cannot be neglected, and proving their will to change the situation.

Commissioner on Agriculture and Rural development Janusz Wojciechowski on October 8, 2019 in European Parliament hearing said: *"We are very well advanced on the way to equalising payments in between States and Regions, farmers within National States. I'll do my best to speed this process up. Any inequalities will be very painful problem for many farmers and countries especially for Central and Eastern countries."*

That is a clear message that direct payments levels will be leveled out in a justified manner. Member States that for decades have been left in disadvantageous conditions in the Common Market of the EU will receive the average EU level as demanded.

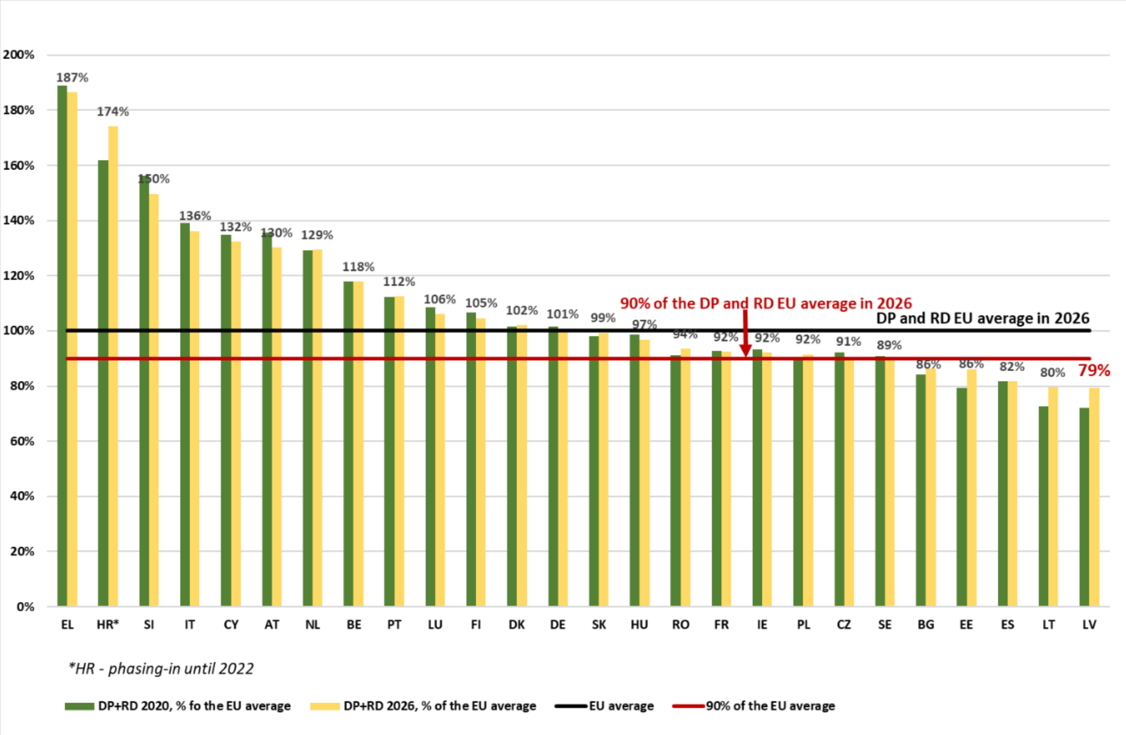
**Graph 4: Direct payments in 2020 and 2026, % of the EU average**



**5. A full picture of allocation of CAP support among all Member States**

Unfair and disproportionate conditions among Member States in direct payments requires further evaluation of allocation of CAP support among all Member States. When direct payments and rural development funding is taken together, Latvia still receives well below the EU average level.

**Graph 5: Direct payments and Rural development financing per ha in 2020 and 2026, % of the EU average**




Moreover, it has to be taken into account that significant proportion of CAP funding is dedicated to market related measures, i.e. Common Market Organization (CMO) measures. According to European Commission's data – 62,8% of all CMO funding receive three Member States (mainly support for wine sector, fruit and vegetable sector, and outermost regions and small Aegean islands etc.). Latvia receives only 0,36 % of all CMO funding. In total numbers there are three Member States for whom CMO funding gives up to 10% extra to their direct payment envelopes. Meanwhile Latvia is underfunded in CAP.

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**The existing allocation mechanism of direct payments to Member States is based on historical data and are linked to production. Therefore, allocation mechanism is obsolete and political. Partial approximation of payment levels is insufficient, unjustified and unfair. The full convergence for Latvia is required in order to attain EU's climate and environmental objectives and to ensure a level playing field for all EU farmers.**