

## **AGREEMENT**

### **on the operating environment for the cattle sector**

The Minister of Fisheries and Agriculture and the Minister of Finance and Economic Affairs, for the Government of Iceland, and the Farmers' Association of Iceland hereby enter into the following agreement on the operating environment for the cattle sector in accordance with Article 30 of the Agricultural Products Act, No 99/1993, as amended.

This agreement brings a change of policy with regard to the scheme that has been in place for the past quarter-century. The aim is to phase out support entitlements over the term of the agreement, both as the base for direct payments and as quotas granting priority access to the domestic market. However, a decision on the foreseen removal of quotas in 2021 will not be made until 2019. The form of the government's support will change and will be based on a larger number of criteria than before. Changes to milk pricing arrangements have been agreed upon. Moreover, the agreement provides for a new approach to providing support for beef production.

#### Article 1

##### **Objectives of the agreement**

- 1.1 The main objective of this agreement is to strengthen Icelandic cattle farming, provide the sector with the largest possible variety of opportunities for expansion, and prepare it for the challenges ahead. The agreement is intended to provide incentives for development and innovation in the sector, guided by the wholesomeness and high quality of produce, animal welfare, and societal responsibility.
- To ensure that the general operating environment for the production and processing of cattle products, as well as the support provided by the government, are such as to promote continued advances in cost effectiveness, increased competitiveness, and lower prices.
  - To facilitate recruitment in order to enable the necessary generational change among producers, and ensure that existing farms can make the most of the government's support.
  - To contribute to a varied supply of high-quality produce capable of being sold at fair prices on the domestic market.
  - To take into account considerations relating to animal welfare and the wholesomeness of produce.
  - To ensure that the sector has sufficient leeway to prepare for increased foreign competition, and to create the necessary conditions to take advantage of opportunities for expansion in foreign markets.
  - To ensure the ability of the sector to upgrade its production facilities in order to meet stricter requirements on the living conditions and welfare of animals.

#### Article 2

##### **Eligibility requirements**

- 2.1 Payments under this agreement may only be made to those engaged in cattle farming at a registered farm, who have a value-added tax number, and whose operations are classified under either of the sectoral codes 01 and 02 of ÍSAT2008, Statistics Iceland's sectoral classification, excluding operations classified under codes 01.61, 01.62, 01.63, 01.64, 01.70 or 02.40.

- 2.2 To be eligible for payments, farmers must participate in the breeding records programme operated by the Farmers' Association of Iceland and meet reporting requirements.
- 2.3 Spouses or partners who run an agricultural operation jointly may apply for any payments under the agreement to be divided equally between each party concerned.

### Article 3

#### **Support entitlements for milk production**

- 3.1 The overall support entitlement for milk, as well as the support entitlements of each registered farm, will be determined for the period 2017 to 2020 using the same method as for 2016. The overall support entitlement will cease on 1 January 2021 unless otherwise decided in the context of the 2019 revision of the agreement. The support entitlements of individual registered farms retain their validity, with the implemented changes, as the base for direct payments (previously 'A' payments) until 31 December 2025.
- 3.2 Direct payments based on support entitlements (previously 'A' payments) will change as outlined in Table 1 in Annex I.
- 3.3 The level of production required to receive full payments based on support entitlements (previously 'A' payments) shall be decided annually, until and including 2020, according to the proposal of the Committee for the Implementation of National Agricultural Agreements. Where a producer carries out no production for one year or longer, the government will revoke the relevant support entitlements without compensation. Before this situation arises, producers may request redemption pursuant to Article 3.5.
- 3.4 From the date of commencement of the agreement, trade in support entitlements between entitlement holders will no longer be allowed. Transfers of entitlements between registered farms will not be allowed after that date, except between farms under one and the same ownership; see, however, Articles 3.5 and 3.6.
- 3.5 The government is under an obligation to grant requests for the redemption of support entitlements submitted in the period 2017 to 2019. Redemption should take place through the payment to the entitlement holder of twice the present value of such payments based on support entitlements (previously 'A' payments) as are outstanding. The redemption and sale of support entitlements is handled by the Icelandic Food and Veterinary Authority.
- 3.6 Support entitlements redeemed pursuant to Article 3.5 shall be offered for sale at the redemption price. Support entitlements redeemed pursuant to Article 3.3 shall be offered for sale at the same price. Producers who are classified as new entrants or whose production in the period 2013 to 2015 exceeds their support entitlements by at least 10% shall enjoy a right of pre-emption up to a certain limit. If a situation arises in which redeemed support entitlements do not find buyers, resulting in an imbalance between the redemption and sale of support entitlements, this shall be met by a reduction in the funds allocated to other components of the agreement, as decided by the Committee for the Implementation of National Agricultural Agreements.

#### Article 4

##### **Payments for delivered milk**

- 4.1 Payments for delivered milk (previously 'B' and 'C' payments) are to be made monthly for all delivered milk, irrespective of support entitlements. The total annual support amount will be divided in 12 equal parts to ensure that the same amount is paid every month regardless of the volume produced. For each month, the amount paid out is distributed evenly between every litre of milk delivered during that month.
- 4.2 Payments for delivered milk will change as outlined in Table 1 in Annex I.

#### Article 5

##### **Headage payments**

- 5.1 Headage payments shall be allocated to owners of cows which are registered under the breeding records programme and which produce a calf at least every two years. Total headage payments will be as listed in Table 1 in Annex I, and will be divided between the categories 'dairy cows' and 'beef cows'. Initially, the total payment will be divided between the two categories based on the headage counts of 25,000 dairy cows and 3,000 beef cows. This division will be revised annually by the Committee for the Implementation of National Agricultural Agreements. The funds available for each category will be distributed annually between all cows listed in the breeding records for the category. Payments to each producer are determined by the number of cows at each farm, in accordance with Table 2 in Annex I.

#### Article 6

##### **Production-demand balance**

- 6.1 Funds available in this component will be allocated where there is a need to respond to changes in market supply and demand. Available annual funds are as shown in Table 1 in Annex I. Funds available under this component may be allocated to the following projects:
- Strengthening of the marketing of cattle products.
  - Special compensation for the slaughtering of calves and cows.
  - Introduction of new production at dairy farms (diversification).
  - Temporary farm support without links to production.
- 6.2 The Committee for the Implementation of National Agricultural Agreements will submit a proposal for the allocation of funding under this article. Funds available under Article 6.1 which remain unused in the year in question shall be reallocated to other components of the agreement.

#### Article 7

##### **Breeding work**

- 7.1 Contributions for breeding and artificial insemination work in cattle farming will be provided in accordance with Table 1 in Annex I.

#### Article 8

##### **Investment aid**

- 8.1 Investment aid will be paid as outlined in Table 1 in Annex I. The purpose of the aid is to promote more cost-effective farming practices, improved living conditions for cattle, and better environmental protection. Contributions will be available for new

constructions and for the refurbishment of existing buildings where the purpose is to improve the environment, living conditions and welfare of the animals. Contributions may cover up to 40% of the capital costs; however, no individual producer may receive contributions exceeding 10% of the total annual funds available for investment aid.

#### Article 9

##### **Payments for beef production**

- 9.1 Support will be provided for beef production with a view to increasing the supply and quality of beef. Annual payments will be as shown in Table 1 in Annex I, and contributions will be allocated, on one hand, to a quarantine facility in connection with the import of genetic material from beef cattle, and, on the other hand, to the payment of slaughter premiums for beef meeting specific quality requirements.
- 9.2 During the first year of the agreement, ISK100 million will be allocated to the start-up costs of the quarantine facility. The Committee for the Implementation of National Agricultural Agreements decides on the allocation of other contributions under this article.

#### Article 10

##### **Reallocation and payment ceilings**

- 10.1 Where so decided by the Committee for the Implementation of National Agricultural Agreements, funds may be reallocated between components of the agreement, up to an annual limit of 20% of the appropriations for each component, with the exception of payments based on support entitlements pursuant to Article 3.2.
- 10.2 No producer may receive contributions exceeding 0.7% of the total annual contribution available under this agreement.

#### Article 11

##### **Price indexation**

- 11.1 Annual contributions under this agreement shall be as decided in the 2016 National Budget and shall be adjusted annually in accordance with price indexations applied in each annual National Budget. Where the average value of the consumer price index (the annual mean) differs from the reference value used in the National Budget for the year in question, a correction shall be applied in the National Budget for the following year.

#### Article 12

##### **Pricing**

- 12.1 Processing companies will have the authority to determine prices paid to producers as well as wholesale prices for milk products. However, for milk produced on the basis of support entitlements, a public entity shall until 1 January 2021 decide on minimum prices to producers with reference to a defined producer price index and information on farmers' net income.
- 12.2 Where a processing company receives more than 80% of all milk produced, it will be placed under an obligation to collect milk from producers in all regions around the country and to pay them the same prices regardless of location. Moreover, such a processing company will be under an obligation to sell products at the same

wholesale prices in all parts of the country, and to offer specified quantities of milk and milk products for sale to other processing companies for further processing according to a price list confirmed by a public entity.

- 12.3 Where a processing company enjoys dominant market power, its revenue in the domestic market shall be subject to limits defined by a public entity. The revenue limits shall take into account observed variable and fixed costs and a level of profitability decided by a public entity. A processing company with dominant market power must maintain accounting separation between its domestic and foreign operations.

#### Article 13

##### **Tariff protection**

- 13.1 The Minister of Fisheries and Agriculture will take action to amend the Customs Act so as to revert quantitative duties on milk and skimmed-milk powder and cheeses back to the real-price levels of June 1995.

#### Article 14

##### **Revision**

- 14.1 This agreement is to be revised twice during its term: in 2019 and in 2023. The focus is to be placed on the manner in which the production, both of milk and of beef, has developed, any progress achieved regarding the export of dairy products, and the extent to which the agreement's objectives have been reached.
- 14.2 In the context of the 2019 revision the feasibility of abolishing milk production quotas from 1 January 2021 shall be considered. Should this result in a decision not to abolish quotas, their continued implementation will be based on the existing scheme.
- 14.3 In the context of the 2019 revision the Farmers' Association of Iceland will conduct a vote among milk producers on whether to abolish milk production quotas from 1 January 2021.
- 14.4 The second revision is to take place in 2023. At the same time, the parties to the agreement may decide to initiate negotiations on a new agreement, which could come into force in 2025.

#### Article 15

##### **Reservation**

- 15.1 This agreement applies with the reservation that Iceland's international obligations may change as a result of the Althing's decision.

#### Article 16

##### **Implementation, term and reservations**

- 16.1 This agreement shall apply between 1 January 2017 and 31 December 2026 inclusive.
- 16.2 The Parties to the agreement will consult regularly on the implementation of the agreement; any such consultation should take place within the Committee for the Implementation of National Agricultural Agreements. In the event of a dispute regarding the implementation of the agreement, the parties agree to appoint for each such case a three-member arbitration panel to rule on the dispute. Each party to the

agreement is to nominate one member to the panel. The Supreme Court shall be asked to nominate the Chair of the panel, unless the parties can agree on the third member. A ruling by an arbitration panel is binding upon the parties to the agreement.

- 16.3 The Minister of Fisheries and Agriculture will issue a Regulation providing for the detailed implementation of projects under this agreement.
- 16.4 This agreement is signed, on behalf of the Government of Iceland, with the reservation that the necessary legal provisions must be adopted by the Althing. The Farmers' Association of Iceland signs the agreement with the reservation that the approval of cattle farmers must be sought.
- 16.5 This agreement is made in four identical copies. Of these, one shall be kept by the Farmers' Association of Iceland, one by the Association of Icelandic Dairy and Beef Cattle Farmers, one by the Minister of Fisheries and Agriculture, and one by the Minister of Finance and Economic Affairs.

Reykjavik, 19 February 2016

For the Government of Iceland

For the Farmers' Association of Iceland

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Sigurður Ingi Jóhannsson  
Minister of Fisheries and Agriculture

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Sindri Sigurgeirsson  
President of the Farmers' Association of  
Iceland

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Bjarni Benediktsson  
Minister of Finance and Economic Affairs

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Sigurður Loftsson  
Chairman of the Association of  
Icelandic Dairy and Beef Cattle  
Farmers

## Annex I

**Table 1 – Amounts in ISK millions**

<b>Cattle</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>
Payments based on support entitlements – Article 3	1,942	1,934	1,927	1,633	1,355	1,074	798	527	260	0
Payments for delivered milk – Article 4	2,629	2,619	2,609	2,688	2,949	3,193	3,431	3,665	3,894	4,117
Headage payments – dairy cows – Article 5	1,175	1,171	1,166	1,298	1,293	1,282	1,271	1,259	1,248	1,237
Headage payments – beef cows – Article 5	141	140	140	156	155	154	152	151	150	148
Production-demand balance – Article 6	99	98	98	97	97	96	95	94	93	92
Breeding work – Article 7	197	196	196	193	193	191	189	188	186	184
Investment aid – Article 8	193	192	191	189	188	187	185	183	182	180
Beef production – Article 9	173	98	121	143	166	186	184	182	181	179
<b>Cattle sector agreement total</b>	<b>6,550</b>	<b>6,449</b>	<b>6,448</b>	<b>6,398</b>	<b>6,396</b>	<b>6,363</b>	<b>6,305</b>	<b>6,249</b>	<b>6,193</b>	<b>6,138</b>

**Table 2 – Headage payments**

Allocation of headage payments – dairy cows	Payment ratio
1 to 50 cows	100%
51 to 100 cows	75%
101 to 140 cows	50%
141 to 180 cows	25%
>180 cows	0%
Allocation of headage payments – beef cows	Payment ratio
1 to 200 cows	100%
201 to 220 cows	75%
221 to 240 cows	50%
241 to 260 cows	25%
>260 cows	0%