

AGREEMENT

on the operating environment for the sheep 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 sheep sector, in accordance with Article 30 of the Agricultural Products Act, No 99/1993, as amended.

This agreement brings significant changes to the arrangements established by previous agreements on the operating environment for the sheep sector. It has been agreed to phase out support entitlements over the term of the agreement. The form of the government's support will change, and a greater emphasis will be placed on quality assurance in production, regional support, and efforts to produce high-value sheep products.

Article 1

Objectives of the agreement

- 1.1 The main objective of this agreement is to strengthen Icelandic sheep farming in harmony with society and the natural environment, using the concepts of specificity, sustainability, diversity and economic value as guiding principles. This should be done by fostering the cultural aspects of sheep farming, while at the same time promoting development, innovation, recruitment, and stronger rural communities around the country.
- To ensure that the government's support contributes to the continued development of the sector and an improved financial situation.
 - To build stronger foundations for sheep farming with regard to local communities and employment.
 - 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 to consumers at fair prices.
 - To strengthen quality assurance in sheep production and other aspects relating to the production, including animal welfare, the wholesomeness of produce, environmental protection, and sustainable land management.
 - To strengthen marketing work, innovation and market awareness in sheep farming with a view to increasing economic value and creating openings for the sector to take advantage of opportunities for expansion in foreign markets and among tourists visiting the country.

Article 2

Eligibility requirements and payment arrangements

- 2.1 Payments under this agreement may only be made to those engaged in sheep 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 record 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.
- 2.4 Table 1 in Annex I lists the amounts available for individual projects during the period of validity of the agreement.
- 2.5 The total payment to which each producer is entitled under this agreement shall be determined provisionally no later than in February each year on the basis of the payment received in the previous year, the number of sheep units, and the number of winter-fed sheep. Payments to new entrants shall be determined on the basis of sheep units and the number of winter-fed sheep. The arrangements for payments to producers shall be outlined in more detail in a Regulation, although a similar flow of payments as under the previous agreement is foreseen.

Article 3

Sheep farm support entitlements; direct payments

- 3.1 The support entitlements of registered farms as of 1 January 2017 are determined as those listed by the Icelandic Food and Veterinary Authority after transfer notifications due before 15 January 2017 have been registered.
- 3.2 Support entitlements may be transferred between registered farms until 31 December 2020. After that date, no transfers will be allowed. The deadline for transfer notifications is 15 January 2021.
- 3.3 Until 31 December 2020, tenants of registered farms may purchase support entitlements, in which case these must be registered to their names. Support entitlements specifically registered to a tenant's name may be transferred without seeking the consent of the farm owner. However, the farm owner shall retain a right of pre-emption at the end of tenancy.
- 3.4 Support entitlements lose their validity on 1 January 2026. Support entitlements expire if they remain unused for three consecutive years in the period between the date of commencement of the agreement and 31 December 2025. Funds which remain unspent for this reason shall be allocated to other sections of the agreement after obtaining the proposals of the Committee for the Implementation of National Agricultural Agreements.
- 3.5 Direct payments on the basis of support entitlements will change as outlined in Table 1 in Annex I.
- 3.6 In order to receive direct payments in full, each producer must be the owner of at least 0.7 winter-fed sheep for each sheep unit of support entitlements. This requirement will be lifted on 1 January 2021.
- 3.7 Where the number of animals is below the abovementioned minimum, the relevant direct payments will be withheld pro rata. Direct payments withheld under this

provision shall be allocated to other projects covered by the agreement in accordance with the decision of the Committee for the Implementation of National Agricultural Agreements.

- 3.8 Entitlement holders may submit requests for the redemption of their entitlements between the date of commencement of the agreement and 31 December 2020. The government undertakes to buy support entitlements for a price corresponding to the present value of any direct payments due for the two calendar years following upon the year in which redemption is requested pursuant to the agreement. The redemption of support entitlements is handled by the Icelandic Food and Veterinary Authority. Funds which are freed up in this manner later during the term of the agreement shall be allocated to other sections of the agreement in accordance with the decision of the Committee for the Implementation of National Agricultural Agreements.

Article 4

Quality assurance

- 4.1 A premium shall be added to payments to producers for all sheep meat meeting requirements on farm animal welfare, sustainable land use, the wholesomeness of produce, and any other conditions laid down in the Regulation on quality assurance in sheep production as applicable at the relevant time. Applying specific coefficients, different premiums may be paid for individual categories of lamb and ewe meat, or at different slaughter times within or out of the traditional slaughtering season. The Lamb Marketing Board will annually submit a proposal to the Committee for the Implementation of National Agricultural Agreements, which decides whether to make use of the authorisation to apply coefficients and, if so, in what manner. If the provision is applied, a decision on the coefficients to be used in a specific year must be reached no later than 1 November of the preceding year.

Article 5

Headage payments

- 5.1 Headage payments will be introduced for winter-fed sheep from 1 January 2020. Applying special coefficients, higher payments may be made to new entrants. The Committee for the Implementation of National Agricultural Agreements decides whether to make use of the authorisation to apply coefficients and, if so, in what manner. In the context of the 2019 revision of the agreement, a decision should be made on whether to make headage payments conditional on participation in a quality-assurance programme for sheep production.

Article 6

Farm support

- 6.1 Beginning in 2018, producers will receive farm support payments. The purpose of these payments is to strengthen local communities and support family-run farms.
- 6.2 A fixed sum will be paid to producers based on farm size category, determined by the number of sheep kept, see Table 2 in Annex I. To be eligible for payments, each producer must be the owner of over 100 winter-fed sheep. Producers who own over 800 winter-fed sheep will each receive the same amount of farm support.

Article 7

Utilisation of wool

- 7.1 Support will be paid for the production of wool during the term of the agreement. Payments should be based on the quantities produced, although part of the support may also be used to subsidise the cost of collecting the wool. Applying specific coefficients, different premiums may be paid for individual categories of wool. The National Association of Sheep Farmers will annually submit a proposal to the Committee for the Implementation of National Agricultural Agreements, which decides whether to make use of the authorisation to apply coefficients and, if so, in what manner.

Article 8

Regional support

- 8.1 During the term of the agreement, special regional support will be paid to producers in certain regions which are particularly dependent on sheep farming. The parties to the agreement agree to seek proposals from the Icelandic Regional Development Institute regarding the definition of regions eligible for such support. The Institute's proposal on the award of the support will also be sought. The definition of eligible regions shall be set out in a Regulation after obtaining the proposal of the Regional Development Institute. The final arrangements for the award of support shall also be set out in a Regulation after obtaining the Institute's proposal and the opinion of the Committee for the Implementation of National Agricultural Agreements.

Article 9

Investment aid

- 9.1 Investment aid will be paid as outlined in Table 1 in Annex I. The purpose of the aid is to promote better living conditions for sheep and more cost-effective farming practices. Contributions will be available for new constructions and the refurbishment of existing buildings, the purpose of which is to improve the working environment and the living conditions and welfare of the animals. To be eligible, each project must have a cost of at least ISK 1 million. Contributions may cover up to 20% of the capital costs; however, no individual producer may receive contributions exceeding 10% of the total annual funds available for investment aid.

Article 10

Higher-value sheep products

- 10.1 During the term of the agreement, support will be provided for an action conducted for the purpose of increasing the value of sheep products and improve farmers' financial situation, see Table 1 in Annex I. The objective of the action is to implement the branding of Icelandic sheep products, increase their economic value, boost sales to foreign visitors to Iceland, and generate higher net income from exports.

Article 11

Reallocation and payment ceilings

- 11.1 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 direct payments made on the basis of support entitlements pursuant to Article 3.

- 11.2 No producer may receive contributions exceeding 0.4% of the total annual contribution available under this agreement.

Article 12

Disruption of the conditions of production

- 12.1 Where a producer experiences serious setbacks for reasons such as animal diseases, natural disasters, climatic events, or other reasons negatively affecting the producer's possibilities to produce and create income, the decision may be made not to reduce payments under this agreement even where the general requirements regarding the number of sheep and production levels are temporarily not met. Producers who consider themselves to have suffered setbacks must apply to receive payments under this Article to the Icelandic Food and Veterinary Authority, which determines whether the relevant conditions are fulfilled.

Article 13

Pricing

- 13.1 The National Association of Sheep Farmers may issue reference prices for sheep products. Reference prices are not binding upon the buyers of the products. Pricing of sheep products is free at every level of the market.

Article 14

Price indexation

- 14.1 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 15

Revision

- 15.1 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 of sheep products and the financial situation in the sector have developed, any progress achieved to increase exports, and the extent to which the agreement's objectives have been reached. Other factors to be considered are the evolution of herd sizes, the number of farms in each region, and the total number of sheep kept in Iceland.
- 15.2 In the period leading up to the 2019 revision, the aim is to increase the income from the export of sheep products sufficiently to raise farmers' share in the total value created in the sector by at least 7.5%. This presupposes an unchanged total number of sheep at a national level and inflation-corrected prices. If this objective is not achieved, the phasing out of direct payments shall be revised.
- 15.3 If the number of sheep kept nationally increases by more than 10% from the date of commencement of the agreement to the date of its first revision in 2019, both the amounts and the categories of farm support shall be revised. In the context of any such revision, particular attention must be paid to the objective of supporting rural communities in all regions of the country.

- 15.4 The second revision is to take place in 2023 and be conducted with regard to the same factors as the first revision. 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 16

Reservation

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

Article 17

Term and implementation

- 17.1 This agreement shall apply between 1 January 2017 and 31 December 2026 inclusive.
- 17.2 The Minister of Fisheries and Agriculture will issue a Regulation providing for the detailed implementation of projects under this agreement.
- 17.3 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.
- 17.4 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 sheep farmers must be sought.
- 17.5 This agreement is made in four identical copies. Of these, one shall be kept by the Farmers' Association of Iceland, one by the National Association of Sheep Farmers, one by the Minister of Fisheries and Agriculture, and one by the Minister of Finance and Economic Affairs.
- 17.6 The parties to the agreement agree to declare null and void, on the date of commencement of this agreement, the agreement on the operating environment for the sheep sector of 27 January 2007, as amended; however, the rules on the termination of operations contained in transitional provision T of the Agricultural Products Act, No 99/1993, shall remain in force until 31 December 2017. Newly established farmers who receive grants to purchase farm animals on or before 31 December 2016 in accordance with the procedure foreseen in Annex IV of Regulation No 1221/2015 on the support entitlements of registered farms in 2016 may apply for continued support in 2017 in accordance with the same procedure.

Reykjavik, 19 February 2016

For the Government of Iceland

For the Farmers' Association of Iceland

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Annex I

Table 1 – Amounts in ISK millions

Sheep	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Direct payments – Support entitlements – Article 3	2,506	2,267	2,205	1,944	1,635	1,319	1,046	777	422	
Quality assurance – Premiums – Article 4	1,714	1,679	1,674	1,652	1,816	1,970	2,120	2,268	2,504	2,482
Headage payments – Article 5				95	225	355	445	534	621	1,033
Residual effects of the previous agreement – Article 17	20									
Farm support – Article 6		194	242	239	238	235	233	231	229	227
Utilisation of wool – Article 7	446	437	436	430	428	424	420	417	413	409
Investment aid – Article 9		48	48	95	95	94	93	93	92	91
Regional support – Article 8	99	145	145	143	143	141	140	139	138	136
Higher-value sheep products – Article 10	148	145	145	95	95	94	93	93	92	91
Sheep production agreement total	4,932	4,916	4,896	4,694	4,675	4,633	4,591	4,550	4,510	4,470

Table 2 – Farm support

Categories based on the number of sheep	Payments per farm according to category (Icelandic króna level)
101 to 120	20,000
121 to 140	40,000
141 to 160	60,000
161 to 180	80,000
181 to 200	100,000
201 to 220	120,000
221 to 240	140,000
241 to 260	160,000
261 to 280	180,000
281 to 300	200,000
301 to 350	220,000
351 to 400	240,000
401 to 500	260,000
501 to 600	280,000
601 to 800	300,000
≥801	320,000