

**Date:** Wednesday 22 November 2000  
**Time:** 9.00am to 12.25pm  
**Venue:** Committee Room, National Assembly Building

## **EFFECT OF EUROPEAN LEGISLATION ON THE WORK OF THE COMMITTEE**

### **Purpose**

1. To brief the Committee on European framework relating to agriculture and rural affairs.

### **Summary**

2. This report provides a summary of key aspects of the Common Agriculture Policy (CAP) and the Common Fisheries Policy and their delivery in Wales. It also considers the challenges ahead for the European Union's CAP.

### **Timing**

3. Routine.

### **Background**

4. All Committees were requested to consider the influence of European policies on their work, so that their views can be fed through to the European Affairs Committee. This report has been prepared to satisfy that request.

### **Policy Framework**

5. The CAP accounts for around 50% of the EU's budget and largely determines agricultural policy within member states. The CAP is decided through negotiations at Member State level in Brussels, with MAFF as the lead Agriculture Department in the UK, though all Administrations are actively involved in shaping the UK's policy approach.

6. Looking to the future, the two main engines of change to European policy will be enlargement of the Union and the outcome of the next round of the World Trade Organisation (WTO) negotiations.

7. European Union agriculture policy has been traditionally directed at supporting the agricultural sector,

(‘first’ pillar of the CAP) through a series of subsidies and market support measures. The Agenda 2000 reforms shifted the balance towards a more sustainable agriculture policy, but it is likely that there will be strong pressure for liberalisation, for the sector to become more exposed to world market competition as a consequence of the next WTO agreement. Just as the final details and secondary legislation are being put in place to implement the last WTO round and Common Agriculture Policy (CAP) Agenda 2000 Reforms, preliminary work has started on the next round of WTO negotiations.

8. The incorporation of large farming sectors in many of the Eastern European countries into the Union will also have major implications. The expectation of many Eastern European farmers is that accession will enable them to benefit from the subsidy regimes which western European farmers currently access. However, the CAP already accounts for about 50% of the EU budget so extending it to these new countries would result in severe budgetary pressures. It is likely that enlargement could bring the Union’s existing budgetary pressures to a head.

9. It is against this policy background that the Agriculture Department, in consultation with others, is trying to create a more sustainable future for farming, economically, socially and environmentally using the European funding under the Rural Development Plan (the second, and growing, ‘pillar’ of the CAP) and the Objective 1 SPD. The National Assembly’s agri-food strategy, agri-environment schemes and other initiatives offer long term opportunities for the industry to adapt and develop.

10. A report summarising the current CAP framework within which the National Assembly must operate is appended.

### **Compliance and Financial Implications**

11. There are none arising from this report.

### **Action for the Committee**

12. The Committee is invited to note the:

- comprehensive European policy and legislative framework within which it is necessary to work; and
- the potential implications of enlargement of the European Union and the outcome of the next round of Global Trade Organisation negotiations.

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## EU POLICIES - AGRICULTURE AND FISHERIES

### I. INTRODUCTION

1. The **Common Agriculture Policy (CAP)** accounts for around 50% of the EU's budget and largely determines agricultural policy within Member States. The CAP is decided through negotiations at Member State level in Brussels, and it includes the following :

- A framework of support for farming through *direct* payments to producers and *indirectly* through market support measures. For example, in Wales it is estimated that the average farm benefited from direct subsidies worth £20,700 in 1998/99 and from indirect support worth £16,000 in 1997/98 (the most recent year for which data is available);
- Decisions on import restrictions into the EU eg US hormone - treated beef;
- Regulations on food labelling;
- Animal health issues eg use of antibiotics in animal feed; and
- Restrictions on state aids for agriculture and food processing.

2. The National Assembly has some limited scope to develop a distinctive approach to agriculture in Wales:

- through developing coherent support for economic development of the agri-food sector in Wales, and for diversification as part of the wider action on economic development in rural areas;
- through implementing the discretionary elements of the reformed CAP in ways that meet the needs of Wales.

3. The National Assembly makes the secondary legislation on which CAP direct subsidy schemes are based. Sometimes the EU legislation leaves certain scope for discretion on implementation within Member States; on other occasions Member States have no discretion.

4. The National Assembly can make secondary legislation on animal and plant health matters eg the power to lift the ban on beef on the bone; to compensate farmers for losses due to bovine TB; to set cattle passport charges, and to vary the rate of costs for Specified Risk Material checks. These powers have to be exercised in such a way that they reflect the long land boundary with England and ease of movement across it.

5. All major aspects of fisheries policy are decided by negotiation in Brussels under the **Common Fisheries Policy (CFP)**, see section V below.

### II. AGENDA 2000 CAP REFORM AND ITS IMPLEMENTATION

6. EU Heads of Government reached agreement in Berlin in March 1999 on changes to the major commodity regimes such as the beef, dairy and arable sectors. These impact on all Member States. The reformed CAP is more complex and more costly to administer and is less radical than the UK Government wanted although it does represent a marginal shift towards a more sustainable agriculture policy. The secondary legislation necessary to underpin these changes is gradually making its way through the National Assembly. Where responsibility has been transferred to it the National Assembly is responsible for ensuring that the relevant directives and regulations are implemented in Wales.

7. The commodities of greatest significance in Wales are sheep, beef and milk. The first two involve the payment of direct support; payment on the main schemes is the responsibility of the Agriculture Department. CAP Management Division is responsible for paying around **£200m pa** via 160,000 payment transactions in European Agriculture Guidance and Guarantee Fund (EAGGF) grants and subsidies to farmers for sheep, cattle and arable production. Payments are made through a number of EU approved schemes and within the constraints imposed by a variety of control mechanisms which are also administered by this Division.

8. As an accredited paying agency for EAGGF, the National Assembly for Wales is required to adopt a consistent approach to the way in which these schemes are administered to keep in line with other paying agencies, ie the Intervention Board Executive Agency, MAFF, the Scottish Executive and the Department of Agriculture and Rural Development, Northern Ireland. This is achieved by means of regular formal and informal contact and a framework of working practice with MAFF (as lead Government Department within the UK as Member State of the EU).

## **Schemes**

9. CAPM Division administers the following EU schemes:-

- **Beef Special Premium Scheme (BSPS)** which is payable on male animals only, twice in the life of a steer at 10 and 23 months of age, and once in the life of a bull.
- **Suckler Cow Premium Scheme (SCPS)** which is payable on suckler cows of a beef breed forming part of a breeding herd used for rearing calves for meat.
- **Sheep Annual Premium Scheme (SAPS)** which is payable, with limited exceptions, to sheep producers who, on a permanent basis, assume the risks and/or organise the rearing of at least 10 eligible sheep.
- **Tir Mynydd**, the successor scheme to the Hill Livestock Compensatory Allowances, on which payments should start in March 2001 .
- **Arable Aid Premium Scheme (AAPS)** - a scheme which is payable on certain arable crops to farmers who set aside a proportion of their land, and a second, simplified scheme for producers claiming up to 18.22 hectares (LFA) and 17.79 hectares (non LFA).
- **Extensification Scheme** - payment under the amended scheme is based on the number of animals for which Beef Special premium and Suckler Cow Premium is paid to individual

claimants under those schemes in the 2000 Scheme year.

10. Each of these schemes is payable once or several times per annum, but within an annual cycle such that each scheme year coincides with a particular IACS control period (see below for details).

NOTE: The Slaughter Premium Scheme (SPS) is run by the Intervention Board on behalf of the Department.

## **IACS, Quotas and Inspections**

11. The principal control over the payment of the schemes above is the Integrated Administration and Control System (IACS) which is an annual registration of area and business details by farming businesses in Wales. These details form the basic information about all land holdings, such as size and location of fields as well as producer-related information such as type of business and changes to business composition.

12. Livestock Quotas are also administered by CAPM Division. Since 1993, it has been necessary for all SCPS and SAPS claimants to hold the necessary amounts of quota to be eligible for payment. Transfers and leases of quota, issues from the National Reserves and clawbacks are also handled by CAPM.

13. Field inspections are a major physical control undertaken by the Division. Land and livestock are regularly inspected to check that claims are correct

## **CAP Dairy Sector**

14. The EU's dairy regime is based on national milk quotas. This system is complex with quota traded between those who hold/own it and those milk producers who want to acquire it. As producers are penalised for producing more milk than they have quota for, there is a considerable trade relating to it, particularly towards the end of the quota year - 31March. The milk regime is managed separately on a UK wide basis by the Intervention Board.

## **OTHER COMMODITIES**

### **Eggs/Poultry**

15. The common organisation of the markets in eggs and poultry meat are governed by Council Regulations 2771/75 (eggs) and 2777/75 (poultry meat). They create a single market, introducing a common trading system within the Community. They provide for additional import duties, export refunds and marketing standards. The EC regime is a light one with no price support mechanisms such

as intervention buying. The National Assembly is responsible for implementing EU marketing standards.

## **Pigmeat**

16. The CAP pigmeat regime is a "light" regime in that it does not contain any direct subsidy or intervention measures. EC pig producers are protected by a system of import tariffs and support is provided through export refunds and aid for private storage. Exceptional support measures can also be introduced in areas of member States when orderly marketing is severely disrupted. The National Assembly is responsible for implementing market improvement measures introduced by the Commission.

## **Fruit and Vegetable**

17. Council Regulation 2200/96 governs the common organisation of the market in fruit and vegetable. The arrangements provide for intervention buying, import tariffs and operational aid to recognised producer organisations to improve market orientation. The regulations also set out common marketing standards applicable across the EU. The standards facilitate Community and International trade and prescribe quality and labelling requirements. The National Assembly is responsible for implementing the marketing standards and approving the producer organisations (and their programmes) eligible to receive aid.

## **Wine**

18. The EC wine regime is designed to meet producer needs by means of Intervention price support measures; disposal programme for surplus wine for alternative uses; control on new plantings; private storage aid; and grubbing up schemes. Consumers are protected through imposition of standards on composition and labelling. The National Assembly is responsible for implementing EU obligations on marketing standards and administering market support measures in Wales.

## **HORIZONTAL REGULATION**

19. As the name suggests Council Regulation (EC) No. 1259/1999 cuts across all the commodity measures.

- Member States are required from 2000 to take appropriate environmental measures, but they can decide what is "appropriate";
- Member States are able to reduce subsidy payments to farmers ("modulation") and to use savings to increase funding for the main accompanying measures within the Rural Development Regulation. The National Assembly decided in April to introduce a system of modulated subsidy payments, commencing in 2001.

### **III. RURAL DEVELOPMENT REGULATION**

20. The March 1999 agreement on Agenda 2000 also included a new Rural Development Regulation (Council Regulation (EC) No. 1257/1999) setting out, amongst other things, the accompanying agricultural measures. This is intended to complement reforms in the agricultural market sectors by establishing a more integrated approach to rural development and recognising the broad - based contribution made by farming to rural communities. The Regulation sets out the requirement for a coherent seven year rural development plan drawn up at "the geographical level deemed to be the most appropriate". The Rural Development Plan for Wales (RDPW) was submitted to the Commission in December 1999 and approved in October 2000. The agricultural priorities set out in the Plan include agri-environmental schemes, food marketing and processing, support for Less Favoured Areas and training and advisory services. Funding for these priorities will be augmented by money raised by modulation which will be match funded by the Treasury. Key schemes include:

#### **Tir Gofal**

21. Tir Gofal provides support for agricultural methods designed to protect the environment and to maintain the countryside, contributing to achieving the Community's policy objectives regarding agriculture and the environment. Tir Gofal was re-approved as part of the RDPW. It is administered on behalf of the National Assembly by the Countryside Council for Wales.

22. During the process of developing this all-Wales agri-environment scheme the scope of the programme was expanded to help meet the Government's environmental commitments set out in the UK Biodiversity Action Plan and to assist in the conservation of those species and habitats listed in the EC Habitat and Species Directive.

#### **Tir Mynydd**

23. The Agenda 2000 reforms set down that the long established Hill Livestock Compensatory Allowances (HLCA) scheme, whereby hill and upland farmers have received subsidy for eligible breeding ewes and suckler cows, must be replaced by an area based payment.

24. Following consultation with the industry in 1999 a scheme was submitted to the Commission in December 1999 as part of the Rural Development Plan for Wales. In May 2000 the Commission rejected these proposals because the greater part of the scheme retained links with historic livestock payments.

25. Revised proposals which were truly area based were submitted to the Commission in July and following tough negotiations on a couple of aspects, the Commission approved the scheme as part of the RDPW in October 2000.

26. The Tir Mynydd scheme comprises the following:

**Element 1** : an area payment, with two rates of payment - £23 for Disadvantaged Area (DA) land, and £35 for land in the Severely Disadvantaged Area (SDA).

**Element 2** : comprising a range of indicators of sustainable farming, which will allow farmers to obtain top-ups to their Element 1 payments. These would not overlap with the Tir Gofal agri-environment scheme, but instead reward good, mixed farming practice and animal husbandry, and reflect the objective in the Regulation that compensatory allowances should help to maintain and promote sustainable farming systems.

27. In Wales an immediate switch from headage to area payments would result in a significant redistribution of funds from the traditional, small and medium-sized family farms to the very largest enterprises. That is why the Tir Mynydd scheme incorporates certain refinements: tapering - to curb excessive gains; and a safety net to allow for the phasing-in of the scheme, and the tempering of immediate losses. These will be applied to Element 1 before Element 2 top-up payments are calculated.

### **The Organic Farming Scheme (OFS)**

28. As with Tir Gofal, the Organic Farming Scheme was approved by the EC as part of the RDPW. The OFS offers payments to farmers in Wales to aid them in converting to organic farming and to manage their land in some additional environmentally beneficial ways. The Scheme which seeks to increase the area devoted to organic farming in Wales re-opened for applications on 1 November 2000.

29. For food to be sold as "organic" it is necessary for it to be produced in accordance with certain specified minimum standards. The UK standards for organic crop production reflect the EC Regulation. EC standards for organic livestock production are still being developed, but where necessary, amendments will be made to the OFS Regulations in order to incorporate any revisions required.

30. New regulations are being prepared to reflect EC Regulations concerning importing organic products from third countries, harmonising rules of production, labelling and inspection and prohibiting the use of GMOs and their derivatives.

### **Investment in Agricultural Holdings**

31. These measures allow for support for investment in agricultural holdings to contribute to the improvement of agricultural incomes and of living, working and production conditions. The Objective 1 SPD and RDPW includes scope for actions intended to:

- to improve and re-deploy production; and
- to promote the diversification of farm activities.

### **Training - Farming Adaptation**



32. This covers support for vocational training to contribute to the improvement of occupational skills and competence of farmers and other persons involved in agricultural and forestry activities, and their conversion. Training will in particular be designed:

- to prepare farmers for qualitative reorientation of production, the application of production practices compatible with the maintenance and enhancement of the landscape, the protection of the environment, hygiene standards and animal welfare and acquisition of the skills needed to enable them to manage an economically viable farm; and
- to prepare forestry holders and other persons involved in forestry activities for the application of forest management practices to improve the economic, ecological and social functions of forests.

## Processing and Marketing of Agricultural Products

33. This allows for support to be given for investment to facilitate the improvement and rationalisation of processing and marketing of agricultural products, thereby contributing to increasing competitiveness and added value of such products. Support will contribute to one or more of the following objectives:

- to guide production in line with foreseeable market trends or encourage the to
- development of new outlets for agricultural products;
- improve or rationalise marketing channels or processing procedures;
- to improve the presentation and preparation of products or encourage the better use or elimination of by-products or waste.
- to apply new technologies;
- to favour innovative investments;
- to improve and monitor quality;
- to improve and monitor health conditions; and
- to protect the environment.

## Forestry

34. This allows for support for forestry which will contribute to the maintenance and development of the economic, ecological and social functions of forests in rural areas. Support will promote one or more of the following objectives:-

- sustainable forest management and development of forestry
- maintenance and improvement of forest resources
- extension of woodland areas

## Promoting the Adaptation and Development of Rural Areas

35. This provides a menu of 13 possible measures aimed at promoting the adaptation and development

of rural areas. Priority is given to those measures that aim to:

- increase participation in community life;
- assist in establishing and expanding community led initiatives;
- maximise the contribution to economic, social, environmental and cultural
- regeneration.

### **Setting up of New Entrants to Agriculture**

36. While there is wide agreement on the need for farming in Wales to adapt in order to become a truly sustainable industry, a study commissioned by the National Assembly did not provide conclusive evidence that such a scheme would be the most effective means of supporting young farmers and so provision has not been included for a scheme. However, further work is being done with the intention of identifying specific proposals to assist young farmers.

### **Early Retirement Scheme**

37. The National Assembly considered the arguments for and against the introduction of an early retirement scheme and concluded that, since significant resources could be allocated to a large number of farmers who would retire anyway, thereby significantly reducing the value for money obtained from the limited funds available to support such a scheme, resources should not be provided.

## **IV. EUROPEAN POLICY ON ANIMAL HEALTH AND WELFARE**

38. Many of the policies which are implemented by or under the direction of the Assembly in these areas derive from European Union measures to protect public health and safeguard animal health and welfare. In some areas, additional measures have been imposed under United Kingdom legislation; examples being some farm animal welfare regulations and provisions for the identification and removal of Specified Risk Material under UK BSE legislation. A list of the main provisions which derive from EU legislation follows:-

### **BSE Related issues**

Measures to protect public health:

- animal identification and traceability;
- the Over Thirty Months Scheme operated by the Intervention Board on behalf of all the Agriculture Departments;
- the provision of slaughter for animals exposed to infection of BSE;
- processes in relation to the slaughter of animals;
- the disposal of animal by-products.

Schemes to provide exceptional support measures for the beef market as a result of BSE.

## **Meat Hygiene**

- Measures to protect animal and public health in the production and placing on the market of fresh meat and meat products.

## **Animal health and welfare**

- Responsibility for dealing with animal health, farm animal welfare, imports and exports of animals and animal products under single market and third country conditions, veterinary residues.

## **Bee health**

- Bee health and particularly the European Honey programme covering varroa.

## **Animal Feedingstuffs**

39. The animal feed industry is subject to extensive regulation under EU legislation. Secondary legislation to implement European obligations in this area rests with the National Assembly.

40. The Feeding Stuffs Regulations are the principal legislation covering the marketing and composition of feedingstuffs. They mainly implement harmonised EC measures. Provisions include:

- A list of additives (e.g. vitamins, trace elements) permitted to be incorporated in feedingstuffs and their conditions of use including, where appropriate, maximum permitted levels.
- Controls on undesirable substances (contaminants) in feeds (e.g. lead, arsenic, aflatoxin). These also include maximum permitted levels.
- Information that must or may appear on the label of compound (i.e. mixed) feeds, single feed materials and feed additives.

Since they were last consolidated in 1995, the Regulations have been amended four times. The draft Feeding Stuffs (Wales) Regulations 2000, planned to be made by the end of the year, consolidate these amending Regulations and implement a number of new EC Measures.

## **PLANTS AND SEEDS**

41. The control of genetically modified crops is governed by a range of European and domestic legislation, which cover all stages of the development and use of GM materials. The existing political agreement is set out in Council Directive 90/220/EEC.

42. Key policy considerations, reflected in the recitals to the Directive, include:

- a need to protect human health and the environment from risks that might arise from the release of GMOs;
- the potential for different rules between Member States for controlling releases to create unequal conditions of competition or barriers to trade;
- a need for harmonised assessment procedures, with a case-by-case environmental risk assessment;
- a Member State may not prohibit the use of GMOs when the GMO concerned has been properly authorised for release across the European Union; and
- a safeguard procedure for the Member State should there be evidence of a risk to human health or the environment relating to a crop for which approval exists.

43. Implementation of Directive 90/220/EC into domestic legislation was achieved through Part VI of the Environmental Protection Act 1990 and subordinate legislation made under it.

## **V. FISHERIES**

### **Sea Fisheries**

44.. The Assembly has direct responsibility for all fisheries legislation out to 12 miles from the Welsh coastline.

The framework for this legislation is contained in the EU Common Fisheries Policy (CFP) and covers :

- catch limits (Total Allowable Catches: TACs) for particular stocks, together with an agreed methodology ("relative stability") for dividing the TACs into Member States' quotas;
- technical conservation measures so that all fishermen fishing a particular stock whatever their nationality are competing on the same terms; e.g. using the same mesh size.

45. All sea fisheries legislation passed by the Assembly has to conform with the CFP and with the associated EU Directives, and each piece of legislation has to be submitted to the EU for scrutiny.

46. In addition the sea fishing industry attracts European structural funding support under the EU's Financial Instrument for Fisheries Guidance (FIFG). Most of the Welsh coastline and Welsh fisheries dependent areas will attract Objective 1 funding.

### **Inland Fisheries**

47. The Assembly has overall policy responsibility for Welsh inland fisheries.

48. The day-to-day regulatory responsibility for inland fisheries rests with the Environment Agency which has a statutory responsibility to maintain, improve and develop inland fisheries . The Agency does this by way of byelaws and net limitation Orders and these plus rod and net licence duties are confirmed by the Assembly. The byelaws and net limitation Orders are not directly covered by European legislation, but the Agency and the Assembly have to ensure that the byelaws and the Orders conform with EU Environmental and Habitat Directives.

49. The Assembly has direct responsibility for fish health, fish hygiene and fish transfer and movement policies and these stem directly from EU legislation.