

4 July 2008

European and External Affairs Committee

EUR(3) 06-08 (p3) : 17 July 2008

Dear Colleague,

EU Common Agricultural Policy: 2008 Health Check

Consultation on legislative proposals from the European Commission

Background

1. On 20 November 2007, the Commission published, for consultation, proposals for change to the operation of the EU Common Agricultural Policy (CAP), more commonly referred to as the 2008 CAP health check. The consultation proposals were based on an assessment of the impact of the 2003, and subsequent, CAP reforms, and were intended to introduce adjustments to further simplify the policy, to encourage a greater focus on the market and to address new challenges such as climate change, water management, biodiversity and bio-energy.

2. The Commission has made clear that the further fundamental reform to the CAP is not the purpose of the health check process.

3. Informed by this consultative approach, the Commission released draft legislation that would give effect to the proposed changes to the CAP. A summary of the legislative package is at annex A. The Commission has also published a web-site guide that can be accessed at:

www.ec.europa.eu/agriculture/healthcheck/guide_en.pdf

4. The Commission is aiming to reach political agreement to the legislative texts at the November meeting of the EU Agriculture and Fisheries Council. These texts will be supported by Implementing Regulations, the drafts of which are expected later this year. The aim is for the re-shaped CAP to be in place for operation from 1 January 2009.

5. The Welsh Assembly Government sought views on the Commission's consultative proposals. The purpose of this consultation exercise is to invite further comment on the health check, focussing on key changes introduced in the Commission's legislative package from those in its consultative proposals from last November as well as some longer term issues.

The Single Payment Scheme

Change from the historic to a flatter/area based model

Existing position:

6. The 2003 CAP reform agreement was implemented in Wales in 2005 and introduced the Single Payment Scheme (SPS) under the historic model. This model avoided significant re-distribution of the CAP resource away from the smaller traditional Welsh family farm that would have been the case if an area-based model had been introduced. The National Reserve mechanism was adapted to provide entitlement to those new to farming after 2002 as well as to cater for specific circumstances that might generate additional entitlement under the SPS. The historic model provided a degree of stability in that a farmer could more accurately predict future year CAP payments, given that the historic model would remain at least until 2013.

Proposal:

7. The draft legislation confirms the Commission's consultative proposals in that an option is provided to move away from the historic SPS model to an area based model. Such change would be made from 2010 with notification to the Commission required by August 2009.

8. This overall position was confirmed when Elin Jones, Minister for Rural Affairs, met Marian Fischer-Boel, the EU Commissioner, in April in that there would be no compulsion to adopt the SPS to an area element before 2013. During this discussion, the Commissioner made clear that after 2013 the SPS would become an area-based payment and it would be for future decision the timing of such change and the scope of transitional arrangements in moving from the historic model.

9. The recent consultation undertaken by the Welsh Assembly Government indicated that there is little groundswell support to move away from the historic SPS model before 2013. On the other hand, consultation responses touched upon the post-2013 position and the need for careful management in the event of the abolition of the historic model as the basis for the SPS.

Question 1

Until such time as it becomes clearer about the future direction of the CAP after 2013, do you agree that the historic SPS model should be retained for Wales until 2013?

Question 2

Anticipating that sometime during 2014-2020, the next EU financial perspective, there is a strong likelihood for the SPS to become an area-based payment, do you agree that transitional arrangements would be required to provide a time-span for farmers in which to adjust to possible change in their CAP receipts?

What period for adjustment would you propose, on the presumption that 3 years might be a maximum? Are there alternative approaches you would propose?

National reserve

10". "Detailed operational rules for the National Reserve are to be covered in Implementing Regulations. Whereas Council Regulation 1782/2003 set out an indication on category of farmer/ circumstance where the reserve might apply, with detail in the Commission Implementing Regulation 795/2004, the draft legislation merely requires there to be a National Reserve with operational detail provided for in forthcoming Implementing Regulations. The cost of entitlement allocated from the National Reserve would be met from within the SPS financial ceiling set for Wales. The ceiling is fully utilised. Thus, any further Reserve allocations would be funded by a scale back on existing entitlements.

Question 3

What category of farmer/circumstance should have access to entitlement through the National Reserve? It would be helpful if you could prioritise, in descending order.

The current regime for the Reserve provided compulsory and discretionary elements. Should this be retained?

Would you consider that the priority category for Wales should be new entrants to farming? If such access applies from 2010, what is your view on dealing with those new to farming since November 2004 (when the NE provision closed under the existing National Reserve provision)?

What views do you have about allocations from the National Reserve being based on the Wales average entitlement value (€267 per hectare)?

Cross compliance

11. The current Cross compliance regime (annex III and annex IV to Council Regulation 1782/2003) brings together a range of existing European legal requirements that apply to farming and to keeping land in "good agricultural and environmental condition" (GAEC). The legal requirements link SPS support to compliance with rules relating to basic standards for environment, food safety, animal and plant health and animal welfare. These requirements are mandatory whereas there is discretion under the GAEC element to shape requirements to the particular circumstances of Wales.

Proposal

12. The draft legislation proposes to delete certain aspects of the legal requirements and to add further requirements:

Deletion of certain articles under the wild birds and habitats directives (SMR 1 and 5) that are not relevant to farming activities.

Updating the requirements relating to the identification and registration of bovine, ovine and caprine animals (SMR7 and SMR 8)

13. Under GAEC, additional issues are to be added covering "protection and management of water" and "protect water against pollution and run-off and manage the use of water". The related new standards are:

"establishment of buffer strips along water courses"

This is aimed to partly retain environment benefits (from set-aside that is to be abolished) and to contribute to water quality.

"respect of authorisation procedures for using water for irrigation"

This would re-enforce approval requirements and meet water quantity concerns.

14. The current standard on retention of landscape features would be extended to cover hedges, ponds, ditches, trees and field margins. The aim is to mitigate the potential environmental deterioration from set-aside abolition.

Question 4

Overall, what views do you have on the changes proposed to the cross compliance regime? Are the Commission's proposals sufficiently balanced? Are there any other changes - additions/deletions - you would suggest and for what reasons?

How should the Welsh Assembly Government approach the changes in the GAEC framework? Do you consider that both elements are relevant to Wales and need addressing under GAEC? What reasons would you advance to support your views?

Minimum limits to the Single Payment

Existing position

15. The Welsh Assembly Government is able to determine the minimum size of agricultural parcels that would be eligible for the SPS although this cannot be lower than 0.3 hectares. This is the minimum level applied in Wales.

Proposal

16. Wales would apply a minimum payment level under the SPS at €250 Euro or a minimum eligible area at 1 hectare. In Wales some 400 SPS recipients could be affected by either the financial or area limitation.

Question 5

Given the structure of farming in Wales, and the aim of the CAP to provide support to those seeking to achieve an economic livelihood from farming, what minimum levels on payment/area would you consider appropriate? Do you consider that Wales should apply a minimum threshold covering both payment and area? What minimum levels might apply and for what reasons?

What views would you have to a minimum payment of € 500 or a minimum area of 5 hectares?

Extended National Envelope Provision

Existing position

17. The National Envelope can be used to protect or enhance the environment or to improve the quality and marketing of agricultural products. A deduction of up to 10 per cent on the SPS financial ceiling that applies to Wales (in effect 10 per cent of the Single Payment total) can be made to provide funding but the deduction is limited to the sector that the National Envelope is intended to support. That is, if the envelope provision was directed at the sheep sector, the deduction would apply to the Sheep Annual Premium (SAPs) component of an individual farmer's Single Payment receipt.

18. The only part of the UK operating the National Envelope is Scotland. Consultation in Wales during 2004 indicated that there was little support for the introduction of a National Envelope.

Proposal

19. The maximum deduction of 10 per cent would apply to the Wales SPS ceiling. The resources can be used to protect or enhance the environment or to improve the quality and marketing of agricultural products in any sector. In addition, the National Envelope can be targeted

in areas subject to restructuring and/or development programs;

to address specific disadvantages for dairy, beef, sheep, goat and rice producers in economically vulnerable or environmentally sensitive areas

to support risk management measures eg crop insurance schemes and mutual funds for animal disease

20. For measures that link payment to production, the funding would be limited to 2.5 per cent of the appropriate financial ceiling.

21. It would be possible to apply the maximum 10 per cent deduction to all Single Payment recipients in Wales and direct the resources to a specific sector. For example, the National Envelope could be used in Wales in a way to support the beef sector with the funding derived by deductions from all Single Payment recipients (sheep, dairy as well as beef producers).

22. A 10 per cent deduction to fund the National Reserve is estimated to generate some €24 million annually.

Question 6

In what ways might the modified National Envelope provision be applied in Wales? How might this be funded from within the Wales financial ceiling? Do you consider that there is a case for introducing support for a specific sector and, if so, which sector and why? Do you consider that it would be equitable for a deduction to apply to all Single Payment recipients and direct the resource to a specific sector?

Compulsory Modulation

Existing Position

23. Modulation is a means to transfer resources from direct payments to farmers under pillar 1 of the CAP to support rural development measures under pillar 2 of the CAP through applying a deduction to the Single Payment receipt. Compulsory modulation has been set at the rate of 5 per cent. In practice, the first €5,000 under the SPS is exempt from compulsory modulation through the operation of the additional payment (franchise) mechanism.

24. For the UK and Wales, 80 per cent of the receipts generated by compulsory modulation are made available for use on rural development measures. These receipts are matched £ for £ by the Welsh Assembly Government.

25. The UK and Portugal are the only Member States also operating national modulation which is additional to compulsory modulation. Within the UK, Wales has applied the lowest rates of national modulation. The receipts generated are used to support rural development measures, given the historic low level of EU funding to support rural development activity in the UK. As the rest of the UK, receipts from modulation - compulsory and national - are focussed on support for agri-environment activity.

Proposal

26. The rate of compulsory modulation would increase by 2 per cent each year from 2009, reaching 13 per cent by 2012 and would only apply to payments above €5,000.

27. Payments at €100,000 and above would be subject to additional compulsory modulation in a progressive way. The table below indicates the rates of compulsory modulation that would apply under the indicated payment thresholds.

Table: proposed rates of compulsory modulation

Payment Thresholds	2009	2010	2011	2012	
€s					
		percentage			
1 - 5,000	0	0	0	0	
5,000 - 99,999	7	9	11	13	
100,000 - 199,999	10	12	14	16	
200,000 - 299,999	13	15	17	19	
Above 300,000	6	18	20	22	

28. There are around 290 SPS claimants in Wales receiving €100,000, or more, who would be affected by the additional rates of compulsory modulation under the progressive element of the Commission's proposals.

29. All of the receipts generated in Wales from the increased rates of compulsory modulation would be retained for use in Wales. The Commission would require these receipts to be used to address, via the Rural Development Plan, challenges related to climate change, water management, biodiversity and bio-energy.

30. As a consequence to the proposed increases in compulsory modulation, the Commission would require reductions in the national rates of modulation that would apply in Wales through to 2012. Consequently, the Commission regards the overall package for modulation to have budget neutral impact on the UK. This raises a number of technical issues for Wales (and the UK) that are being separately pursued with the Commission.

Question 7

What impact might the Commission's modulation proposals have on Welsh farming? What action might be taken to mitigate any negative impacts?

Milk quota

Existing position

31. The milk quota regime is in place until 31 March 2015 (as agreed under the 2003 CAP reform process).

Proposal

32. The milk quota regime would be abolished in 2015. As a transitional measure, milk quotas would be increased by 1 per cent annually from 2009 to 2013. Additional measures (eg changes in the levy rate) will be considered and a report published before June 2011.

Question 8

What effect do you see the 5x 1 per cent increases in quota having on the industry in Wales - or on your enterprise directly?

What additional measures would you suggest for a successful transition and what would be the appropriate timescale?

Changes affecting the arrangements for Rural Development

Existing position

33. Council Regulation 1698/2005 sets out the requirements for actions under the Rural Development Plan. The Wales RDP 2007-2013 was approved by the Commission in February 2008 with activities focussed under 4 main headings (or axes)

improving the competitiveness of agriculture and forestry,

supporting land management and improving the environment

improving the quality of life and encouraging diversification of economic activities in rural areas

promoting the LEADER model for local based actions

Proposal

34. Under the health check process, the EU will not be providing any additional funding for the CAP. Extra resources for use under the RDP will be generated by increases in compulsory modulation. This additional funding is to be directed at activities to address climate change, renewable energy, water management and biodiversity.

35. There will be a requirement to modify existing RDPs, and to seek prior agreement with the Commission for implementation for January 2010, to bring forward a range of operations that address the challenge agenda identified by the Commission. For Wales, much of this additional approach is currently being addressed through the on-going review of axis 2 of the RDP. Separate consultation is likely in the autumn.

Question 9

The Commission has identified climate change, water management, bio-diversify and bio-energy as key issues. What are your views on the four challenges? Do you wish to make specific suggestions for action that could be taken?

Consultation period and next steps

36. The closing date for comments is 5 September. The responses received will be used to inform the Welsh Assembly Government's negotiating position as the debate on the health check progresses at the UK and EU levels.

Consultation responses

37. It is the Welsh Assembly Government's policy to make publicly available all replies to the consultation exercise. These will be placed in the Library of the National Assembly. If you do not wish your comments to be made available, you should indicate this clearly when submitting your comments.

Please send any comments by 5 September to;

by email to CAP[reform@wales.gsi.gov.uk](mailto:CAPreform@wales.gsi.gov.uk)

or by post to

CAP Reform Team
Countryside Policy Division
Welsh Assembly Government
Cathays Park
Cardiff
CF10 3NQ

Yours sincerely

Rory O'Sullivan
Head, Countryside Policy Division
Department for Rural Affairs

Annex A

Common Agriculture Policy (CAP) Health Check: Summary of Draft Legislative Proposals

1. The European Commission's Health Check proposals, published on 20 May, introduce changes which are intended to improve the operation of the CAP. The proposals further encourage farmers to base their business planning on the market rather than being reliant on government support, as well as strengthen the delivery of environmental benefits through farming that were introduced by the significant reform agreed in 2003.

2. In Wales and the rest of the UK some 11 production-related payments were replaced with the Single Payment Scheme in 2005. Welsh Assembly Government used the flexibility allowed to implement the historic model of the scheme, which was considered best suited to the needs of Wales. There are some 17,500 claimants of the Single Payment in Wales.

3. The Commission's Health Check proposals cover three broad themes: improving the Single Payment Scheme; improving market orientation; and responding to four new challenges identified by the Commission - improving water management, taking action against the worst effects of Climate Change, enhancing bio-diversity and addressing the need for bio-energy.

Improving and Simplifying the Single Payment Scheme

4. Further de-coupling

The Health Check proposes to integrate most of the remaining coupled support into the Single Payment Scheme by 2013. These will include schemes for arable crops, durum wheat, hops, seeds, protein crops, olive groves and nuts, dried fodder, rice, beef special premium and slaughter premium (adult and calf), as well as those for long fibre flax, and starch potatoes.

The suckler cow premium and ewe/goat premium, as well as aid for cotton and aids in the fruit and sugar sectors would be retained.

5. The option to move away from the historic basis for the Single Payment towards a 'flatter' or area based model. It is clear that as time passes the historic basis, though appropriate when introduced, will become increasingly difficult to sustain. The current view, informed by consultation responses is that such a move would not be of benefit to Wales if introduced immediately - therefore the intention is to carry out detailed economic modelling and explore the possible options thoroughly with a detailed consultation of the industry and the wider community in 2009.

6. Reducing the number of types of SPS 'entitlements' and greater flexibility in the land eligibility rules.

7. The length of time allowed to claim against an entitlement to the Single Payment will be reduced from 3 to 2 years, to maximise the amount of the total fund to be drawn from Europe into Wales while still preserving the flexibility need to accommodate special circumstances.

8. A proposed minimum payment of either €250 in total and/or a minimum total area per claim of 1 hectare. In Wales latest estimates show that roughly 400 claimants may be effected by either the area or financial limit.

9. Increased flexibility in the rules for "national envelopes" - where up to 10 % of the total available for the Single Payment can be hived off in order to direct support to specific types of farming deemed in need, such as environmental protection, quality and marketing, managing the transition towards broader decoupling and for risk and crisis management measures such as harvest insurance and animal/plant disease compensation.

10. Abolition of compulsory set-aside, and set-aside entitlements, with some measures included in cross compliance to preserve any environmental benefit of set-aside which may otherwise be lost, as appropriate.

11. Abolishing the 45 per hectare premium scheme for energy crops from 2010

12. A re-targeting and simplification of the Cross compliance system in order to begin to focus on more effective measures. Requirements related to certain articles of the Wild Birds Directive and Habitats Directive would be moved and the rules on identification and registration of cattle would be removed - as they are covered by a separate requirement.

Improving market orientation

13. The Health Check proposes a number of changes to the remaining price support measures in the arable, livestock and dairy sectors, including:

The Milk quotas to be phased out completely by 2015, with five 1% increases from 2009 to 2013, and a review in 2011 (which might result in proposals to increase quotas further or reduce the super levy);

Abolition of intervention for rice, durum wheat and pigmeat;

Intervention quantity for barley and sorghum to be set at zero, with the Commission still able to intervene if market circumstances require;

Intervention for common wheat, sugar, beef, butter and skimmed milk powder (SMP) to be maintained but all purchases to be made by tender procedure.

In special circumstances, tendering procedures may be restricted per member state or per region of a member state;

Intervention for common wheat could also be suspended if the market price is higher than the reference price;

Potato starch quotas to be abolished from 2011 and starch production refund from 2009;

Private storage aid for butter to be made discretionary based on certain conditions;

Private storage aid for cheese to be abolished;

Aid for SMP for animal feed and casein to be granted either by fixed price or via a new tendering system, and aid to be removed for cream and butter;

Subsidised use schemes for butter (butter for manufacture, butter for direct consumption and butter for non-profit making organisations) abolished;

Some relaxation on controls for casein in cheese-making if no casein aid is being paid.

Responding to new challenges

14. The Health Check places greater emphasis on addressing four environmental challenges - climate change, bio-energy, water management and biodiversity. This would be achieved by amendment to the current Rural Development Plan for Wales and changes to cross compliance - the protection and management of water would be addressed under the good agricultural and environmental conditions under cross compliance, with additional specific landscape features (including hedges, ditches and trees), and the establishment of buffer strips along water courses as potential standards.

15. Actions would be funded by increases in compulsory modulation from the current levels of 5% by 2% a year from 2009, reaching 13% by 2012. There would also be 'progressive modulation' where higher payments would be subject to additional rates of modulation as follows- an extra 3% for payments of over €100,000, 6% for payments over €200,000 and for those over €300,000 an extra 9%. In Wales there are approximately 290 payments in total that may be effected by such a provision. The total of the additional modulation would remain in the country/region where they were raised - and be used for tackling the new challenges under Pillar 2 of the CAP over the 4 year period to 2013.

16. Welsh Assembly Government will consider the detail of these proposals and responses to consultation also as part of a wider review of Axis 2 in the coming months.

17. Expected Timetable for the Health Check

June-September 2008: Consultation on Health Check proposals - with views needed as soon as possible in order to influence the UK negotiating position.

17-20 November 2008: European Parliament delivers opinion on Health Check

24-25 November 2008: Political agreement at the EU Agriculture Council

December 2008: Adoption of the Health Check legislation