

# European and External Affairs Committee

## "EUR(3)-07-08 : (Paper 3) : 25 September 2008"

### Farmers' Union Of Wales' Submission To The European And External Affairs Committee On The Common Agricultural Policy Health Check

#### Introduction

1. The Farmers' Union of Wales was established in 1955 to protect and advance the interests of Welsh families who derive an income from agriculture. In addition to thirty-five Area Officers, the FUW has eleven offices distributed around Wales that provide a broad range of services to members. The FUW is a democratic organisation, with policies being formulated following consultation with its twelve County Executive Committees.

#### Agriculture in Wales

2. Wales has some 37,000 holdings, around 18,000 of which are agriculturally significant. Of these, 61 percent are Less Favoured Area (LFA) cattle and sheep enterprises, 15 percent are dairy enterprises, 15 percent are non LFA cattle and sheep enterprises, 2 percent are arable enterprises, with other crop or mixed enterprises making up the remainder.

3. Agriculture has created the traditional appearance of the Welsh countryside which people find so attractive, whilst socially the family farm defines the character of Welsh rural society and its sense of identity. The numbers directly and indirectly employed in farming make a crucial contribution towards sustaining rural communities, and farming is also, in much of rural Wales, one of the most important areas of life in which the Welsh language remains the natural, every-day means of communication.

4. As highlighted in the Sustainable Farming and Environment: Action Towards 2020 report, farming plays a fundamental part in Welsh life, industry and culture. However, despite this acknowledged role, the report states that ""average farming incomes, compared with the rest of society, continue to be unacceptably low and do not fairly reward farming's contribution of capital, skills and labour". "This conclusion was based upon incomes prior to the 2007 Foot and Mouth and Bluetongue disease outbreaks.

5. In the 2005/2006 financial year the average net farm income in Wales was £12,500, equating to £3/hour<sup>2</sup>. By 2008 this figure had fallen to £11,800.

6. Around two out of every five rural businesses can be classed as being involved in the farming industry. In 2006 Welsh agriculture employed 56,400 people in full time, part time, and seasonal employment<sup>2</sup>. This figure does not include the secondary businesses related to agriculture such as contractors and food processors.

7. In 2007 1.6 million hectares of Welsh land were in agricultural production, equating to 81 percent of the surface area of Wales.

8. The position of Welsh agriculture prior to the adverse affects of the 2007 FMD outbreak was summarised in the 2020 report<sup>2</sup> as follows:

"Most businesses would not be able to survive on the financial returns which the Welsh agricultural industry continues to produce... If production falls below what is referred to as a critical mass the agricultural supply and processing industries will suffer irreparably as a consequence. Farming, with all its diverse effects on the landscape, the economy, communities and social structures, will only be sustainable if it returns to acceptable profitability in the short to medium term.""

9. The current position is that returns are well below the level of acceptable profitability. For example, data for lamb production in the 2006/07 financial year show that, on average, market prices cover just 79 percent of production costs, with the top third of producers achieving returns of 5 percent on their investments. A similar pattern of production costs being well above returns exists for beef enterprises.

10. As such, Welsh farming businesses are wholly reliant upon the payments they receive under the Common Agricultural Policy. Yet the preference of the Welsh farming community would be to be in receipt of economically viable incomes purely from the marketplace, with no need for reliance on support.

11. Single Payments on Welsh farms are currently based upon average CAP Pillar I payments received per hectare during reference years not affected by what the Welsh Assembly Government deemed were exceptional circumstances (predominately the years 2000, 2001, and 2002), and/or the amount of milk quota held on the 31<sup>st</sup> of March 2005.

12. CAP Pillar I Payments received during the reference period were effectively based upon the number of eligible stock held on each farm, which, in turn, can in simplistic terms be considered to be a reflection of the fertility, size, altitude, and climate of any particular farm.

13. Thus, the total payment received by a smaller, fertile, lowland farm can be similar to that received by an extensive, infertile, upland farm, with both payments effectively reflecting the production capacity (but not the production) of each farm.

14. The Farmers' Union of Wales supported the Welsh Assembly Government's implementation of an historically based Single Payment Scheme, on the basis that a flat-rate payment per hectare would result in a complete redistribution of payments away from smaller, more fertile farms, to larger upland farms, rendering many family farms unviable.

15. The removal of direct headage payments has resulted in many farms restructuring their enterprises to more appropriately reflect market demands, as was the intention of the 2003 reforms. However, it must be borne in mind that changes in agricultural practices rely on long term breeding and management strategies, and 2007 is only the third year of the current scheme.

16. Nevertheless, the economic reality of poor returns from the marketplace has resulted in significant falls in livestock numbers, particularly in the Welsh uplands, to the extent that under-grazing is now a major concern for conservationists. Welsh Assembly Government figures show that numbers of both cattle and sheep on Welsh farms fell by 4 percent between 2006 and 2007. Similarly, UK milk supplies have recently hit a 37-year low, and are expected to continue falling in 2009 unless farmgate prices start to more adequately reflect increases in production costs.

17. The competitiveness and eligibility of plants that process Welsh farm produce depend upon economies of scale in terms of throughput, and such falls in agricultural production can therefore result in falls in farmgate prices. Below critical input levels the operation of Wales' key plants would simply become ineligible, resulting in job losses and reduced agricultural income for Wales as a whole, leading to further reductions in agricultural output.

### **The Common Agricultural Policy**

18. The disruption caused by the Second World War to European food production and distribution led to widespread starvation, and severe, often permanent illnesses due to vitamin and mineral deficiencies. For example, in the Netherlands alone many thousands died of starvation, and in Nazi-occupied Jersey children's growth was stunted by two and a half inches due to malnourishment. In the UK, bread rationing continued until 1948, while meat rationing was not abolished until 1954.

19. The recognition of the need for viable agricultural sectors and stable supplies of affordable food led the UK Government to pass the 1947 Agriculture Act, while on the Continent the 1957 "Treaty of Rome" defined the objectives of a common agricultural policy. The Common Agricultural Policy (CAP) came into full force in 1962, and in 1973 the UK support system, established under the 1947 Agriculture Act, was effectively subsumed into the CAP.

20. The food security established by the 1947 Agriculture Act and the Common Agricultural Policy has led to significant complacency regarding the importance of agriculture to Wales and the UK, which has in turn led to increasing reliance upon imported foodstuffs; current UK food self sufficiency is estimated to be of the order of 60 percent, a fall of ten percent since the 1980s.

21. In recent years, concerns regarding rising world populations, global warming, and peak oil production has led to increased concerns regarding domestic and global food security. In 2007 and 2008 these concerns were realised, with scores of countries around the globe suffering conflict and social unrest due to food shortages, acute rises in food and energy prices, and the rationing of certain foodstuffs by major retailers.

22. In July 2008, a discussion paper issued by Defra concluded that "the current global food security situation is a cause for deep concern", listing high energy prices, poor harvests, rising demand, biofuels and export bans in some countries as main factors.

23. With the world population estimated to rise to between nine and ten billion by 2050, and predicted reductions in global agricultural productivity per hectare of between 3 and 16 percent by 2080, the FUW believes that food security should be a priority in terms of both domestic and European policy.

24. The Common Agricultural Policy, by design, provides a framework that allows Europe to react to the imminent challenges that growing populations, global warming, rising sea levels, and peak oil represent in terms of food security. The FUW is therefore extremely concerned that communications from the European Commission regarding the CAP Health Check consistently fail to address the issue of food security at what is a critical time. For example, in the legislative proposals published by the Commission on the 20<sup>th</sup> of May 2008, the word food is used only a handful of times, and never in the context of food security.

### **FUW Reaction to the Health Check proposals**

#### **Historical Model Single Payments**

25. For the reasons detailed in paragraphs 11 to 14, the FUW had objected to original proposals that Member States implement a transition to flat-rate area payments during the period 2009 to 2013.

26. In the absence of a lengthy transition period, and tapering mechanisms relating to farm types and specific disadvantages, a flat-rate Single Payment would result in the complete redistribution of payments, in many cases away from those whose need is greatest, resulting in many family businesses being no longer able to operate.

27. The FUW therefore welcomed the Commission's retraction of original proposals that would have accelerated the move towards flat-rate Single Payments. Nevertheless, major concerns remain regarding the ultimate transition to such a system, particularly in light of the problems experienced in England, where a transitional model was adopted in 2005.

28. The FUW maintains that it is an anomaly to review historical allocations made on a farm by farm basis, without similarly scrutinising other historically based allocations made to Member States and their regions. This is particularly the case given Wales' disproportionately

low "European Agricultural Fund for Rural Development" allocation.

29. It is notable that most Welsh Single Payments are paid on eligible forage area, but that no account is taken of the quality of such forage area. The historical model goes a significant way towards correcting this anomaly, whereas a flat rate would take no account of the fact that Wales has a diverse range of environments and soil types, or that the viability of any particular farm is directly related to the quality of its forage area.

30. It is therefore essential that, if a flat rate SPS model is to be made mandatory during the next EU financial perspective (2014-2020), the Welsh Assembly Government and stakeholders work closely together in order to assess which SPS models allowed by the legislation would minimise financial disruption for farm businesses.

31. It is also emphasised that changes to farm management practices and business models must be made over long periods in order to allow for breeding seasons, gestation periods, etc.

32. A period of three years, as has been mooted by the commission, would not therefore provide sufficient time for appropriate changes to farm business models to be made, particularly given the outside influences that can be experienced by the industry over such short periods.

33. Given that England are already in the process of implementing a flat rate Single Payment, and that DEFRA, as a consequence, may be indifferent, or opposed to increasing the maximum length of such a transition period, the FUW believes that the Welsh Assembly Government should work alongside other devolved administrations to lobby for the adoption of a more appropriate maximum transition period.

## **Modulation**

34. In addition to Compulsory Modulation, which represents a 5 percent reduction of payments over a €5,000 threshold, Wales operates a system of Voluntary Modulation, which is co-funded by the Welsh Assembly Government at a rate of 90p for every £1 deducted from Single Payments. This money is retained in Wales to fund Rural Development programmes, whereas receipts from Compulsory Modulation are sent to Brussels, and 80 percent are returned to Wales.

35. The Commission proposes introducing increases in Compulsory Modulation of 2 percent a year for payments between €5,000 and €100,000, with further reductions of 3 percent for payments between €200 000 and €300 000, and 6 percent for payments above €300 000. It is proposed that all payments for modulation over 5 percent be retained by the Member State for use in the key areas of climate change, water management, bio-diversify and bio-energy.

36. The FUW believes that the benefits of the proposals in terms of the Rural Development fund is negligible, whereas for some large businesses the exaggerated increase in modulation may have an adverse impact on employees, relatives, and the wider community.

37. While the Union recognises the importance of the key areas identified - namely climate change, water management, bio-diversify and bio-energy - it is suggested that, if the Commission was truly dedicated to actions in these areas, it would make proper budgetary provisions to do so, rather than siphoning monies away from much needed Pillar I payments.

38. The FUW maintains that all those whose payments are reduced by modulation should have access to modulated monies, and, in this context, it is particularly concerning that Pillar II payments are increasingly being targeted at non-agricultural concerns, such as measures available under Axis 3 and 4 of the Rural Development Plan, in order to make up deficits in domestic funding.

39. The Union notes that, while the Commission believes the overall modulation package would have a budget-neutral impact on the UK, in Wales, the proposed Compulsory Modulation rate of 13 percent in 2012 applied between €5,000 and €100,000 is 0.5 percent higher than the total rate that would have been applied under existing plans.

40. The Commission has provided limited information regarding how the proposals will affect co-funding and budgetary rules relating to the distribution of funds among the four Axes of Pillar II. This makes it extremely difficult to speculate about specific impacts that might differ from those already anticipated under current plans, and it seems unreasonable that the Commission expects Member States to comment or make informed decisions regarding the proposals given this lack of clarity. This is particularly the case for Wales, as it is part of one of only two Member States that implement Voluntary Modulation.

## **Single Payment Dates**

41. The Commission propose allowing member states to make Single Payments in two instalments. While the introduction of any such flexibility must be welcomed, it is understood that other measures in the regulations may actually delay the release of payments due to new bureaucratic requirements.

42. The FUW has long argued that the Commission should allow regions and Member states to operate a more pragmatic system that allows part-payments to be released prior to data cross-checks, allowing any necessary deductions to be made from follow-up payments. Any proposals that move away from such pragmatism and increase bureaucracy for all concerned are naturally regarded as a retrograde step, and contradict the EU's own objectives in terms of reducing bureaucracy.

## **EU Set-Aside**

43. The FUW welcomes the Commission's proposal that the mandatory EU set-aside scheme for arable crops be abolished from 2009 to

2013. The decoupling of payments in 2005 significantly diminished the perceived need for set-aside, and its continuation would constrain the arable sector's ability to meet growing market needs, and benefit from increased world market prices.

44. While the impact of the proposal is likely to be significant for some farmers, it should be noted that just 0.2 percent of Welsh land is set aside.

### **Cross Compliance**

45. The Commission has proposed reducing certain Cross Compliance requirements as they are no longer regarded as necessary, while also introducing new measures to counteract the perceived impact of the abolition of set-aside.

46. The FUW has no objections to the removal and consolidation of unnecessary requirements in order to reduce bureaucracy. However, it objects wholeheartedly to further requirements being introduced to what is already a robust and comprehensive set of rules.

47. While it may be appropriate to ensure uniform requirements across the EU as regards issues that do not vary between environments, such as rules relating to animal traceability, it is wholly inappropriate for such requirements to extend to most environmental issues, since environments between Member States and regions differ significantly.

48. For example, the blanket EU implementation of rules designed to make up for the abolition of set aside would disproportionately burden Welsh farmers, as Wales is not, in essence, an arable farming country. In fact, less than 10 percent of Wales' agricultural land is used for arable production, and the abolition of set aside represents a maximum change in land use on around 0.2 percent of Welsh land.

49. The European Union comprises a diverse range of countries, climates, and environments. Land height ranges from 23 feet (7 metres) below sea level to 15,771 feet (4807 metres) above sea level. The most southerly point of the European Union within continental Europe is Limassol in Cyprus, at 34° 39' N, while the northernmost point is Nuorgam, in Lapland, at 70° 5' 30" N.

50. Thus, climates within the EU vary significantly, from Arctic, to hemiboreal, to tropical, rendering averages for the EU as a whole meaningless. These extreme differences are also reflected in the diversity of environments and farming types across Europe. As a consequence, variations can occur in matters as diverse as field sizes, numbers of watercourses per square mile, etc., meaning that overly simplistic blanket rules can have disproportional impacts, and could, in many cases, have adversely affect environments.

51. The FUW therefore believes that the proposed enhancement of Cross Compliance rules is disproportionate and unnecessary, and that regions should be given more liberty to implement Cross Compliance requirements that are appropriate for those regions.

52. It is also the case that domestic legislation can exist that is replicated in Cross Compliance requirements. Where such legislation exists the FUW believes there should be no need for Cross Compliance to duplicate it, and farmers should not be subject to the risk of being penalised under separate legislation for single actions.

53. For many years the FUW has, on behalf of members, fought cases where farmers have been penalised for what all parties have acknowledged were genuine errors. Such penalties have nevertheless been applied due to the rigid nature of the EC regulations, with the Welsh Assembly Government refusing to take what it knows to be the morally correct course of action due to fear of disallowance. Such rigidity in clear-cut cases of genuine error is clearly unacceptable, as is such rigidity in other cases such as exceptional circumstances.

54. The rate of penalisation in such cases is often draconian, with multipliers to initial penalties being applied that result in catastrophic losses of income that are completely disproportionate to the errors or transgressions made.

55. Where errors have occurred, fines are imposed under an outdated bureaucratic system based upon an assumption that almost all errors are the result of attempted fraud.

56. The FUW therefore believes that penalties should become more proportionate, and that a presumption of innocence should be made where rules have been breached, with the burden of proof being placed upon the authorities where any suspicion of genuine fraud exists.

57. The current rules can see farmers suffering numerous financial penalties for single actions that are genuine mistakes; for example, a single inadvertent or negligible action could result in prosecution and fines under domestic legislation, cuts or loss of the Single Payment under EC rules relating to Pillar I payments, and cuts or the loss of Pillar II environmental scheme payments, also under EC rules.

58. The FUW believes that to subject farmers to such multiple-jeopardy is morally indefensible, and that moves should be made to allow Member States to use their own discretion to prevent such multiple fines.

### **Milk quota increases**

59. The Commission has proposed that there be five annual increases in milk quota of 1 percent each between 2009 and 2013, as a way of creating a 'soft landing' for its planned abolition of milk quotas on April the 1<sup>st</sup> 2015.

60. The FUW believes that milk quota should be continued as a means by which to manage market supply and minimise price volatility, and therefore objects to the proposals to abolish milk quota in 2015.

61. The FUW would favour a gradual reduction of the superlevy rate to 0%, which would have the same effect as the abolition of quota, without resulting in the loss of a production control system that may well be needed in the future.

62. While the FUW accepts that the world market for milk is undergoing major changes, it is believed that any changes to the milk regime should take the form of a more flexible framework, rather than the complete abolition of quotas.

63. The FUW believes that acceptable prices sustained over a prolonged period must be observed before any increase, let alone the abolition, of quotas is considered.

64. This is particularly the case given that 1.9 million tonnes of EU quota have not been taken up in 2007, and that dairy imports to China, which have been one of the main driving forces behind price rises, fell by almost 20 percent during the first 8 months of 2007 compared with the same period in 2006. The same period also saw a 34.6 percent drop in milk powder imports to China.

65. The FUW therefore believes that the proposal represents a move towards a more volatile market over which the EC will have no control. It is also believed that the proposals will have an adverse effect on smaller producers, as their possession of quota currently allows them to compete with larger producers.

66. The increase, and ultimate abolition of quota, will also result in the devaluation and, ultimately, loss of assets held by farms in the form of quota, which is likely to have significant consequences, particularly for tenant farmers.

### **Extended National Envelope Provision**

67. The Commission propose extending current provisions to allow 10 percent of the Pillar I budget to be diverted towards specific areas, such as addressing disadvantages in certain sectors or improving the quality and marketing of agricultural products in a sector.

68. The FUW does not currently support the introduction of a National Envelope, and believe that the current Welsh financial ceiling means that such a provision could have major consequences, particularly when added to the burden of modulation.

69. However, we would emphasise the need for flexibility as regards future plans, since a reduction in livestock numbers could necessitate the introduction of a National Envelope in order to protect industries that require a critical mass to be eligible.

Welsh Assembly Government Farming Facts and Figures 2007

2 [http://new.wales.gov.uk/topics/environmentcountryside/countryside\\_policy/farming/sustainablefarming2020/?lang=en](http://new.wales.gov.uk/topics/environmentcountryside/countryside_policy/farming/sustainablefarming2020/?lang=en)

"3"<http://new.wales.gov.uk/docrepos/40382/40382313/statistics/compendia/comp-2001/sb49-2001-focus-rural/sb49-2001-econ.pdf?lang=en>

4 <http://new.wales.gov.uk/docrepos/40382/40382313/statistics/agriculture/1270792/sdr143-2007?lang=en>

### **5 Cline (2007)**

FUW - NAW European and External Affairs Committee Evidence - CAP Health Check - NIDF - 17<sup>th</sup> September 2008