

## European and External Affairs Committee

### EUR(3)-08-08 (p3) Annex: 9 October 2008

## Draft Report – Inquiry into the CAP Health Check

### 1. Background

On 20 May the European Commission published proposals to amend the delivery of the Common Agricultural Policy (CAP) for the period 2009-2013 as part of the Health Check of the CAP<sup>1</sup>. The aim of the Health Check is to examine the success of the 2003 reform<sup>2</sup> of the CAP in light of the challenges and market conditions facing rural Europe and the agricultural sector, and propose minor changes to take account of these new conditions, and build on the experiences gained since 2003, particularly in terms of simplification.

The Welsh Assembly Government has sought views as part of this process.

At its meeting on the 17 April 2008, the Members of the European and External Affairs Committee indicated that they wished to undertake a short inquiry into the CAP health check. The aim of the inquiry was to:

- Assess the potential impact of the Commission's proposals on agriculture and land management in Wales;
- Gain the views of stakeholders on the proposals;
- Make recommendations to the Welsh Assembly Government for their negotiations with the other UK administrations and Member States.

The Committee took evidence from:

19 June 2008

- Dr Klaus Dieter Borchardt – European Commission, DG Agriculture and Rural Development
- Jeff Davies and Michelle Aitchison – Wales Environment Link (WEL)

17 July 2008

- Elin Jones AM, Minister for Rural Affairs

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<sup>1</sup> European Commission, [Health Check of the Common Agricultural Policy](#) 20 May 2008

<sup>2</sup> The 2003 reform were instrumental in removing the link between production and payments by introducing the Single Payment Scheme. Rural Development was also strengthened.

25 September 2008

- Rod Williams and Brian Pawson – Countryside Council for Wales (CCW)
- Gareth Vaughan and Dr Nick Fenwick – Farmers' Union of Wales (FUW)
- Dai Davies and Mary James – National Farmers' Union Cymru (NFU Cymru)

## 2. CAP Health Check and future reform of CAP

Both Dr Klaus Dieter Borchardt and the Minister for Rural Affairs emphasised the fact that the Health Check is not a comprehensive review of the CAP.

The Committee heard from WEL and CCW that whilst the purpose of the Health Check was to tweak the CAP rather than radically reform the Policy, there had been a missed opportunity to move towards a CAP where the receipt of public money is linked to the delivery of public and environmental benefits.

In the context of the future of the CAP (from 2014 onwards), CCW and WEL emphasised the need for a CAP which develops a stronger alignment between agriculture, sustainable land management and the environmental challenges Wales and the wider EU face. They felt that the CAP should reward sustainable land management that delivers a public good. In the future, these organisations would like to see payments geared towards a more proportionate delivery of public benefits.

CCW's vision involves a fundamental shift in emphasis, ensuring the CAP is transformed into a policy capable of supporting the delivery of a wide range of public benefits such as clean air and water, healthy soils, biodiversity, cultural landscapes and public access.

NFU Cymru were of the view that following substantial reform of the CAP in 2003, the Health Check should only be seen as an opportunity to fine tune the future direction of the CAP. Both farming unions felt that the industry needed a period of stability, and expressed concerns over introducing more radical changes before 2013.

### Food security

Many witnesses agreed that the CAP should retain its capacity to produce food. FUW were of the view that food security was not a high enough priority within the Health Check proposals.

The farming unions expressed concerns that whilst the EU had been moving towards the liberalisation of food production, there was an unwillingness to put measures in place that would enable producers to respond to the market. They argued that not enough had been done to stop retailers from driving down prices. As a result, they believed a source of revenue was necessary to support the agricultural industry, and, as the market was unable to provide this it was essential that the CAP played this role.

CCW suggested that a future CAP should integrate food production as well as the delivery of environmental benefits as a public good. NFU Cymru argued that food should be considered a public good, given that food production has shaped our landscapes.

Draft recommendation 1:

The Committee supports the principle that the CAP Health Check is intended as a fine-tuning exercise on the 2003 Reforms, and looks forward to contributing to the wider debate on reforms. To this end it supports the view that proposals having a fundamental impact on the 2003 reform should be left for discussion as part of the future review of CAP for post 2013.

Draft recommendation 2:

The Committee believes that recognition should be given to the benefits that agriculture provides in terms of both environmental stewardship and food production. The Committee supports the view that food security is a growing concern on the EU agenda, and urges the Minister to ensure that recognition is given to the important role played by agriculture in providing this public benefit.

### **3. Response to the Commission's Proposals**

#### **3.1 Single Payment Scheme (SPS)**

##### *Historic Payments Vs Area Based Payments*

The Minister for Rural Affairs has indicated throughout this process that she intends to maintain the system of historic payments in Wales. The Minister believes that it is important to maintain the right for Wales, at a regional level, to make decisions over whether or not to continue to make historic payments.

NFU Cymru quoted Welsh Assembly Government figures demonstrating that the average farm income level in Wales is £23,300, whilst the Single Farm Payment (SFP) provides an average payment of £24,400. They argued that without the SFP, the position of these farms would be economically unviable.

Some witnesses believed that it would become increasingly difficult to justify paying farmers on historical levels of production over the coming years, particularly given that the SPS in Wales has been decoupled (separated from food production) since the 2003 reform.

WEL and CCW were concerned that the money being paid to farmers under the current SPS regime does not go to those delivering public goods. They argued that the system rewards farmers that farmed intensively during the period 2000 – 2002 whilst those who aren't farming in an intensive way but are delivering a larger amount of public benefit are not receiving as much from the SPS.

These organisations would see a move towards Area Payments as a fairer way of distributing money.

CCW supports the proposal whereby historic SPS models can be adjusted to deliver flatter rates per entitlement.

[...]

CCW believes that it is in the long-term interests of both Welsh agriculture and the environment to move towards a system in which all subsidy payments are proportional to the level of public benefit produced

According to NFU Cymru, smaller farms often need to farm more intensively to be viable, therefore an area payment would damage those farms.

Both the FUW and NFU Cymru expressed concern about Area Based payments, with both unions explaining that this was based on the fact that an area based payment system would redistribute funding with a potentially detrimental impact on smaller or family run farms and according to NFU Cymru “without any objective basis for doing this”.

NFU Cymru argued that food production has changed dramatically in recent years, and that it is too early to decide on any structure for the period from 2014. They believe that any firm decisions should wait until after the EU’s budget review, which will take place in 2009.

### *Transitional Arrangements*

WEL did not propose a particular area based system, calling instead for an evaluation of different options before such an approach was introduced to replace the historic model. They did not specify a timeframe by when this should happen.

CCW indicated that they would not want to see any changes introduced as part of the CAP Health Check, but would like to see a transitional model implemented from 2013 onwards based on a system that supports food production as well as the delivery of environmental benefit, based on an evaluation of the most appropriate approach. They advocated a more coherent use of the SPS, which addresses the fundamental objectives of public goods, though a transition period would need to be spread over a number of years.

Should there be a move towards Area Based payments, the need for lengthy transitional arrangements was also advocated by both farming unions. The FUW referred to the experience in England, which has shown that smaller farms are being penalised. They believe that if a transitional system is established, this should be flexible to make up for any imbalances to ensure that small, fertile farms were not penalised in favour of larger, less fertile upland farms.

#### Draft Recommendation 3:

The Committee notes there is a difference of views in Wales regarding the need to move away from the historic model of SPS payments in the longer term. The Committee supports the Minister’s intention to retain historic payments until 2013 and the need to retain the power to make this decision at a Wales level.

The Committee recommends to the Minister that further work be undertaken during 2009-2013 to look at the best model/approach for Wales, including options for a transitional model post 2013.

### **3.2 Cross Compliance and the abolition of Set-Aside**

On the issue of the abolition of set-aside, the Welsh Assembly Government indicated that they would prefer to use activity under Pillar 2 to make up for abolition of set-aside, rather than try to introduce new statutory requirements within the SPS.

FUW welcomed the abolition of set-aside, indicating that they believe its continuation would “constrain the arable sector’s ability to meet growing market needs, and benefit from increased world market prices”. CCW suggested that, even though there is a small arable sector in Wales, there are creative

ways of creating areas on arable farms that, from the point of view of biodiversity could replace set-aside.

The Minister was concerned that more cross-compliance requirements could mean more on farm checking and bureaucracy. CCW highlighted the fact that cross compliance covers more than environmental issues, but from an environmental perspective the regime is about stopping damage from happening. Cross compliance is the floor level, or absolute minimum, and farmers are encouraged to go beyond this through agri-environment schemes.

NFU Cymru believed that additional Cross Compliance requirements would lead to an even more complex regime.

The farming unions felt that the Statutory Management Requirements commanded by the regime ensure that farmers deliver to regulatory standards, for example animal welfare and quality standards. They believed that these impose additional costs on the industry which should result in some reward. Failure to meet the standards required by Cross Compliance result in non-payment of the SFP, therefore farmers aren't rewarded.

In contrast, both CCW and WEL highlighted the need for Cross Compliance to deliver on Water Framework Directive targets. CCW's submission highlights a number of targets which the introduction of new requirements under cross compliance would help to achieve, for example targets under the Water Framework Directive and within the Environment Strategy for Wales. Their written submission states:

CCW supports the proposed addition of buffer strips along watercourses.

Draft recommendation 4:

The Committee believes the Minister should welcome the proposed abolition of set-aside but calls for assurances from the Assembly Government that the environmental benefits of this approach will be preserved through Axis 2 of the Rural Development Plan.

Draft Recommendation 5:

The Committee notes the concerns raised regarding the bureaucratic burden and costs of cross compliance. However, the Committee recommends that measures that will enable the Welsh Assembly Government to meet existing European commitments should be supported.

### **3.5 Modulation**

Both the FUW and NFU Cymru disagree with the proposal to limit payment to larger farms. They argue that larger farms in Wales tend to be run by more than one family, and that limiting their payments will only result in these farms being forced to split. This proposal is not likely to lead to significant savings in Wales, but will add costs to larger farms.

WEL did not support capping of payments to large farms through progressive modulation, seeing farm size as irrelevant in terms of determining the level of support a farm should receive, which they believe should be based on the level of public benefit provided by the farm.

The FUW believe the benefits of the proposed increases in Compulsory Modulation would be negligible. In addition, the FUW believes that those whose payments are reduced by modulation should automatically have access to these modulated monies, and they raised concern that some activities funded under the RDP (Axes 3 and 4) through modulation seemed to be making up deficits in domestic funding.

NFU Cymru were eager to highlight the need for a more objective and equitable basis for the allocation of funding for Pillar 2 during the next budget round.

CCW and WEL were both in favour of the principle signalled by Compulsory Modulation. According to WEL:

A gradual increase in modulation sets the right course for a future when public spend is directly linked to delivery of public benefits.

The Committee heard from the Minister that the replacement of Voluntary Modulation with Compulsory Modulation may present some problems in the requirement to match the proposals within the Rural Development Plan for Wales 2007 – 2013. The Minister stated:

One of the issues that we are discussing, within the UK, and with the UK influencing the European position, is that the Compulsory Modulation will bring additional funding to a number of RDPs in Europe, but will not bring significant additional funding to our RDP.

Witnesses were eager to highlight the lack of clarity over how the issue of increased Compulsory Modulation will affect the UK and Wales, where Voluntary Modulation currently applies. Witnesses were concerned that it was essential to ensure that those countries currently applying Voluntary Modulation did not end up generating less funds through increased Compulsory Modulation (a reform designed to deliver more money for Pillar 2) than those that are generated under the present system, particularly given Compulsory Modulation requires national co-financing, which is not the case with funding generated from Voluntary Modulation.

Witnesses were also keen to stress the need for the total receipts from Compulsory Modulation to be retained by the country in which they originate:

CCW's support for increases in the compulsory modulation rate is conditional on other aspects of the Commission's proposals, in particular the retention of all compulsory modulation receipts within the country from which they operate. In addition, the proposed trade off between increased compulsory modulation and corresponding reductions in voluntary modulation must be applied in such way as to ensure no net loss of financial resources in Wales.

#### Draft Recommendation 6:

The Committee recommends that the Welsh Assembly Government should not support the proposal to introduce progressive modulation as a limit to payments to large farms.

Draft Recommendation 7:

The Committee urges the Minister to seek urgent clarification on the implications of changes in Compulsory Modulation for the application of Voluntary Modulation in Wales.

Draft Recommendation 8:

The Committee urges the Assembly Government to ensure that any changes in the Compulsory Modulation regime should not result in reductions in Single Farm Payments or financial penalties that would not have occurred should the status quo have remained until 2013.

### **3.6 Rural Development Plan and the Challenge Agenda**

The FUW's written submission recognised the importance of the areas identified under the 'challenge agenda', namely climate change, biodiversity and water management. However, the Union suggested that if the Commission was truly dedicated to action in these areas, it would make proper budgetary provisions to do so, rather than taking monies away from Pillar I payments through modulation.

WEL highlighted the role played by agri-environment schemes funded by the Rural Development Plan in meeting challenges such as the ongoing decline in biodiversity. However, they were eager to see a stronger, better funded set of agri-environment schemes which address the 'challenge agenda', along with a higher tier scheme that enables catchment area and landscape scale operations to be undertaken including cooperative activities such as water management, upland and common land improvements for biodiversity.

CCW stated that they would prioritise actions under the 'challenge agenda' towards those that integrated climate change, biodiversity and water management issues.

Draft recommendation 9:

The Committee agrees that the challenges presented in the Commission's proposals, namely climate change, water management and biodiversity, must be addressed as a matter of urgency and calls on the Minister to use any additional funds that would be made available to the RDP budget in an integrated manner.

The Committee recommends that appropriate budgetary provisions should be made within the future EU budget post 2013 to meet these challenges whilst also ensuring including food security.

### **3.7 Article 68 (formerly Article 69) – National Envelopes**

CCW believes there is potential to use National Envelopes to target payments on the production of specified public benefits. However, they do not think the timing is right for introducing such a mechanism into Wales. They also expressed concerns that Article 68 could be used by certain Member States to support risk management measures that encourage production on land which should not be used for crop production.

With regard to risk management schemes, CCW expressed concerns about the approach being proposed by a number of Member States to finance risk management measures (such as state

funded crop insurance schemes). They suggested an alternative rationale for financing risk through the CAP which would use the CAP to reduce risks to society as a whole. They provided the following example:

[...] Land management measures relating to the restoration of upland peatlands and natural flood plains can help to reduce the risk of flooding in urban areas, whilst at the same time also providing other benefits in terms of enhanced biodiversity and reductions in greenhouse gas emissions.

FUW does not support National Envelopes at this stage, viewing it as potentially adding another financial burden to farmers on top of modulation. However, they call for flexibility over use of this mechanism in the future, to address for example a reduction in livestock numbers impacting on critical mass within the sector.

NFU Cymru rejects National Envelopes, which it sees as analogous to modulation and inconsistent with the principle of decoupling support from production.

#### Draft Recommendation 10:

The Committee considers that the Minister should express caution about the proposed changes to Article 69 at this stage, and question whether such a measure would bring benefits to Wales at this present time.

### 3.8 Milk Quotas

The Minister supports the proposed soft landing through phasing out of quotas:

It is an opportunity for dairy farmers to connect more strongly with the market, and I think that, on the whole, this is to be welcomed

NFU Cymru agreed that a soft landing approach was to be welcomed but were concerned that any market volatility might necessitate a review of the transitional process.

The FUW rejects abolition of quotas, which it believes would have an adverse effect on smaller producers and their ability to compete in the market:

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.

#### Draft Recommendation 11:

The Committee supports the Minister's view of the need for the abolition of dairy quotas, and also supports the proposed approach for a soft landing.