

Rural Development Sub-committee

RDC(3)-06-10 (p9, Paper to Note): 25 March 2010

Inquiry into Reform of the Common Agricultural Policy

Terms of Reference

Purpose

1. This paper sets out the terms of reference for the Sub-committee's scrutiny inquiry into Reform of the Common Agricultural Policy, as agreed at its meeting on 4 March 2010.

Background

2. Background information on the Reform of the Common Agricultural Policy is set out in the accompanying scoping paper at Annex A.

Terms of Reference

3. The following terms of reference are proposed for the inquiry:

- To assess the possible impact of reform of the CAP on Wales, and what outcomes would be most beneficial to Wales.
- To make recommendations to the Welsh Assembly Government regarding which policies it should advocate during the negotiation process.
- To influence the debate on CAP reform within the European institutions.

4. The inquiry will consider:

- What should the Welsh Government's priorities be in its negotiations on CAP reform;
- What should the balance be between Pillar 1 and Pillar 2 of the CAP;
- What should the CAP's central objectives be post 2013;
- To what extent should the CAP be a community policy and whether some renationalisation is desirable;

- To what extent is the Welsh Government's farming strategy, *Farming, Food and Countryside*, aligned with future CAP priorities;
- How should the Welsh Government engage with stakeholders as it prepares its position on reform of the CAP.

Annex A

Scoping Paper

The Common Agricultural Policy

The Common Agricultural Policy (CAP) is a system of EU agricultural and rural development subsidies and programmes. Funding under the Common Agricultural Policy is delivered via two Pillars. Pillar One, otherwise known as the Single Payment Scheme, provides income support to farmers who must keep their land in Good Agricultural and Environmental Condition (GAEC). Pillar Two, otherwise known as the Rural Development Pillar, provides support to farmers and land managers to deliver environmental goods and support to rural economies and communities.

The annual budget for CAP is currently €55 billion annually and accounts for 40 per cent of the total EU Budget.¹ According to the European Commission this equates to each citizen in the European Union contributing €2 per week to finance the CAP.² However, the CAP share of the budget has declined significantly since its creation in the 1960s when it represented two-thirds of the EU budget. Since the 1980s the CAP share of EU public expenditure has declined rapidly.

Wales receives approximately €330 million under Pillar One³ annually and has received €376.7 million for the Rural Development Plan⁴ under Pillar Two for the period 2007-13. For the majority of Welsh farmers the CAP continues to account for the largest proportion of farm profitability.⁵

History of CAP Reform

When the CAP was originally established in the early 1960s the aim of the policy was to encourage farmers to produce more by offering them subsidies and putting systems in place that would guarantee farmers a

¹ European Commission 'The Common Agricultural Policy Explained' Website

² *ibid.*

³ Figure based on the exchange of the Welsh Government's estimation of total amount of Single Payment received in Wales annually (approximately £292 million) at euro exchange rate of €1.14 to £1 on 11 February 2010.

⁴ European Commission Press Release, *Rural Development Plan for Wales*, 20 February 2008

⁵ Welsh Assembly Government, *Farming, Food and Countryside: Building a secure future Annex1: Industry Challenges*, May 2009

high price for their produce. However, by the 1980s this has led to large surpluses of products and calls for reform. As a consequence several minor reform and adjustments of the CAP took place in the 1990s culminating in 1999 with the introduction of 2000 Reform Agenda. This led to the last major reform of the CAP in 2003.

The main aspect of the 2003 reform was the replacement of numerous income and production subsidy schemes with the Single Payment Scheme. This meant that payments to farmers under Pillar One were no longer linked to production or the number of animals kept. Instead a form of basic income support is given to farmers who maintain their land according to agricultural and environmental compliance requirements.

In 2008 the Commission decided to undertake a 'Health Check' of the 2003 reforms to assess whether they had been successful or whether further reforms were required. Some further adjustments were made to the scheme although these were not fundamental reforms of the CAP. Some of the most important adjustments were:

- A move from the historic model for the calculating payments under the Single Payment Scheme (SPS) to payment on an area basis;
- Amendments to the good agricultural and environmental standards that farmers have to meet to receive payments from the Single Payment Scheme;
- Setting of upper and lower limits on support that farmers are able to access under the Single Payment Scheme;
- Increases in the amount of funding for Pillar Two Rural Development schemes by increases in the rates of 'compulsory modulation', which is a mechanism for shifting funds from Pillar One to Pillar Two and;
- Establishment of a new 'challenge agenda' focussing on issues such as climate change, soil protection and water conservation for programmes under Pillar Two.

CAP Reform Post 2013: Key Issues

The Post-2013 reform of the CAP is expected to result in more fundamental changes of policy than the 2008 adjustments. Negotiations on the reform will be influenced by discussions on the EU Budget Review which will determine the budget for CAP for the period 2013-2020. Unlike past reforms of the CAP, both the Council and the Parliament will have to reach joint-agreement on any legislative proposals for reform.

The key debating points that are likely to form the basis of discussions on proposals for reform are:

- **Convergence between 'old' and 'new' Member States:** There is likely to be some debate about the current distribution of payments between Member States. New Member States in particular have called for a Single Payment mechanism which is more uniform across all Member States.
- **Maintenance of direct income support:** There is some debate about the extent to which farmers should continue to receive direct income support under Pillar One with some arguing that funds should be coupled to the delivery of public goods and more funding being delivered via Pillar Two.
- **Updating the objectives of the CAP:** The new 'challenge agenda' focussing on issues such as climate change, renewable energy and soil and water protection put forward in 2008 indicated that discussions on reform will include a focus on the development of new objectives for CAP. How CAP should address the issues of food security and food safety in the context of climate change are also likely to be key debating points.
- **Globalisation and Food Market volatility:** Discussions on CAP Reform Post-2013 are likely to be influenced by ongoing trade negotiations about the liberalisation of markets at the World Trade Organisation (WTO). In addition expectations that food markets and prices will become more volatile with the further globalisation of agriculture and agricultural commodities may influence discussions.
- **Re-nationalisation Vs a Community Framework:** While there is general acceptance of the continued need for a European Community policy for agriculture and rural development, there is some debate about which elements of the policy should be funded on a Community scale and which elements should be dealt with at a Member State level.

The Welsh and UK Government positions on CAP Reform

The Welsh Government has not yet published a position on the CAP Reform Post-2013 but has made reference to its likely impact in relevant policy documents and announcements. In the Welsh Government's strategy for farming, *Farming, Food and Countryside: Building a Secure Future*, the Government states:

“Following the 2003 reforms there is an increased impetus towards rural development support rather than direct payments to farmers. It is likely after 2013 the pace of this change will accelerate. Welsh farmers will have to adapt their production systems to the realities of the marketplace while at the same time exploiting opportunities supported by rural development measures.”⁶

The Welsh Government is currently introducing a new agri-environment scheme under Pillar Two of the CAP. The new Glastir scheme will be in operation from 2012 and is intended to be aligned with the ‘challenge agenda’ identified as part of the 2008 Health Check.

The UK Government has published a Vision for the Common Agricultural Policy which sets out the reforms and changes that it would like to see over the next ten to fifteen years.⁷ The Vision states that the CAP in its current form is inefficient and increasingly out of step with the need to respond to the challenges of globalisation. It calls for the integration of agriculture into EU competition policy and for a considerable reduction in Pillar One activities and market interventions and a significant reduction in the CAP budget in general. Instead the UK Government would like to see a CAP that is focused on Pillar Two measures which centre on maintaining the environment and promoting sustainable rural development.

Timetable for discussions on CAP Reform Post-2013

An anticipated timetable for discussion on CAP Reform Post-2013 is outlined below:

- February 2010: New Commission elected 9 February. Spanish Presidency of European Council discussion document on future of market elements of CAP.
- March 2010: Vote by the European Parliament’s Agriculture and Rural Development Committee on an own initiative report on EU agriculture and climate change.
- May-June 2010: Spanish Presidency of European Council to hold informal discussions on CAP Reform Post 2013.
- Autumn 2010: Consultation on first Commission Communication on proposals for reform of CAP.
- Summer 2011: Publication of legislative proposals for reform of CAP by the Commission.

⁶ Welsh Assembly Government, Farming, Food and Countryside: Building a secure future Annex1: Industry Challenges, May 2009

⁷ Defra and HM Treasury, A Vision for the Common Agricultural Policy, December 2005

- Autumn 2011- December 2012: Negotiations on the legislative proposals between the Council, Parliament and Commission with a view to reaching an agreement by the end of 2012.

The role of the European Institutions

- Commission: The Commission will be responsible for the drafting of the First Communication and completing the consultation on this Communication. It will also be responsible for the drafting of the legislative proposals and play a conciliatory role in the negotiations.
- Council of the European Union: Member State discussion on the proposals for CAP Reform Post 2013 will be led by the countries holding the rotating Presidency of the Council. The countries that will hold the presidency during the development and agreement on the Reform proposals are: Spain, Belgium, Hungary and Poland. The majority of the formal and informal discussions between farm and agriculture Ministers will take place through the Agriculture and Fisheries Council.
- European Parliament: Following the ratification of the Lisbon Treaty the Parliament will have equal status with the Council in the negotiations on reform. The Parliament's Agriculture and Rural Development Committee will lead on the development of the European Parliament's position.
- Co-decision procedure: Any legislative proposals on the Reform of the CAP Post 2013 will be subject to co-decision procedure where the Council and the Parliament will have to come to an agreed position. The Commission will send the legislative proposals to the Council and the Parliament who will hold two successive readings each. If they cannot reach an agreement after two readings then a Conciliation Committee will be established with an equal number of representatives from both institutions. Once this Committee has reached an agreement then the text returns to both the Parliament and the Council for a third reading for it to be adopted as a legislative text.