

# Rural Development Sub-Committee

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## Inquiry into Reform of the EU Common Agricultural Policy""

### Submission from the Minister for Rural Affairs

#### Purpose

1. The purpose of this paper is to provide a response to issues raised by the Rural Development sub-Committee on the position that the Welsh Assembly Government might adopt on the shape of the EU Common Agricultural Policy (CAP) post-2013.

#### Introduction

2. At the outset, it must be made clear that the European Commission has not set out any formal proposals for the future direction of the CAP post-2013. What can be said is that the detail for the future operation of the CAP will be informed by the outcome to the EU budget review relating the 2014-2020 financial perspective.

3. The expectation is that, on the budget review, the Commission will publish a paper during summer 2010. The autumn period is when there is likely to be proposals from the Commission relating to the CAP.

4. Currently, the CAP budget is some €42 billion annually. This represents some 40 per cent of the overall EU budget provision.

5. For Wales, the CAP comprises two distinct elements: direct payments to farmers under the Single Payment Scheme (also known as pillar 1 of the CAP); and payments under the Wales Rural Development Plan 2007-2013 (also known as pillar 2 of the CAP). The Single Payment Scheme (SPS) is 100 per cent funded by the Commission. The Wales RDP provides for a total spend of £795 million (2007-2013) of which funding directly from the Welsh Assembly Government is projected at £600 million.

6. In 2009, the SPS delivered some £290 million to Welsh agriculture and the Welsh Assembly Government paid around £75 million on targeted Wales RDP schemes, including those that protect and enhance the environment.

7. Taken together, these payments represent a considerable annual investment in Welsh agriculture and their importance is reflected in the data on farm incomes. The Farm Business Income (FBI) figures, released in November 2008 for 2008-2009 shows the average Farm Business Income was £31,300 of which £27,400 was represented by the receipt under the SPS.

#### Background

8. Significant reform to the CAP was agreed in 2003. This was implemented in Wales in 2005 (and in the rest of the UK). Direct payments were no longer production-based subsidy schemes. Rather the SPS in Wales enabled Welsh farmers to take decisions about their production that reflected market and consumer needs. In return, the SPS required farmers to comply with a range of cross-compliance issues (environmental, food safety, animal and plant health and animal welfare standards) as well as keeping land in good agricultural and environmental condition. This model for the delivery of the SPS in Wales will be maintained until at least 2013.

9. The SPS in Wales was based on the historic model, taking account of agricultural production and land usage in the 2000-2002 CAP period.

10. On the Wales RDP, Council Regulation 1698/2005 set out the statutory provisions within which the Welsh Assembly Government was required to prepare the operational detail, including a high level strategic framework. The Regulation also set out complex arrangements for 4 key areas of action (known as axes) and technical requirements on how the EU funding was distributed across the axes and co-financing rates between the EU resource and that provided by the Welsh Assembly Government.

11. In November 2009, agreement was reached at the EU level, under the CAP Health Check process, that introduced relatively minor changes to the SPS - pillar 1 - arrangements as they applied to Wales. More significant were the requirements under the New Challenge agenda whereby the Wales RDP needed to specifically address climate change mitigation, carbon, soil and water management, habitat and bio-diversity and renewable energy. The Glastir scheme is the response from the Welsh Assembly Government.

12. I now turn to address the issues raised with me by the Rural Development sub-Committee

#### What should be the Welsh Assembly Government's priorities in its negotiations on CAP Reform?

13. I remain fully supportive that the CAP should be maintained. It is clear to me that the SPS regime is important role in providing financial support to farming in Wales as well as the delivery of a baseline package of public goods under the cross-compliance regime. In this respect, I have no difficulty in accepting the under-lying and long-term key principles associated with the CAP; firstly to deliver food for people to eat; and, secondly to provide a reasonable income for farmers. In parallel, the Wales RDP is a mechanism whereby the Welsh Assembly Government is able to shape the EU legal requirements in a way that meets the needs of Wales. In particular, supporting the competitiveness of Welsh agriculture and forestry and enabling our farmers to contribute positively in achieving

sustainable land management activities that bring wider benefits to society.

14. In the context of the wider EU,

Farming occupies 80% of EU land even though farmers make up only 4.7% of the EU workforce.

It maintains environmental diversity. Climate change targets have already been achieved through agriculture and there is much more it can offer.

It provides a dynamic rural economy and is a major presence on the World Market (EU is number 1 exporter and importer of food in the world). Farming is the number 1 employer in the EU.

It provides security of food supply particularly when global food demand is expected to double with the world population expected to grow from 6 billion today to 9 billion by 2050.

15. At the Wales level, farming makes a significant contribution to the rural economy and the industry continues to have a key role in sustaining the socio-economic, environmental and cultural cohesion of rural Wales. Addressing the level of EU funding available for the successor Wales RDP will be an issue that I would want to pursue with the other UK administrations.

16. Further priorities for CAP reform include:

### **EU Budget Review and the CAP**

17. The budget review process is likely to see changed priorities at the EU level. I can appreciate also that changed priorities could result in changed spending priorities. As mentioned above, the CAP currently accounts for some 40 per cent of the total annual budget within the EU. It will be important to ensure that the outcome of the EU budget review does not undermine the ability of the CAP to deliver on its key principles: food production and income support.

### **Single Payment Scheme**

18. There are already clear signals from the Commission that post-2013, the SPS will move to a flatter or area based payment regime.

19. My officials have on-going work to assess the impact of an area based SPS on payment levels; impact on farm income; livestock numbers and production; land management; potential adverse environmental impacts; and wider influences in the agricultural supply and farm products processing sectors. We will soon be in a position to share this work with the Commission which will be important in influencing their thinking.

20. What is already clear is that a move to an area-based SPS in Wales will lead to significant re-distribution of SPS receipts. A key issue for Wales is the extent to which we can mitigate the re-distributional aspects through transitional arrangements that would apply from 2014. I have raised this particular issue with the Commission and it would appear, at least in principle, that there is recognition that specific arrangements will be required to enable a "soft landing" when moving from the historic SPS model to an area payment regime.

### **CAP Simplification**

21. I would want to see real progress from the Commission to reduce the regulatory burden on farming - and on the Welsh Assembly Government - explicit with the current CAP. My Red Tape Review has been doing further work to look at simplifying the administrative burden on Welsh farmers and rationalisation of farm inspections is an early outcome from this work.

### **Market measures**

22. Future reform to the CAP needs to further reduce the gap between EU and world market prices with a move away from trade distorting measures: market intervention measures should be used as a last resort and there is a need to consider how more effective risk management expertise within farming itself can contribute to the stability of farmers' income. In addition, there is the argument that maintaining import tariffs and export subsidies does little to expose EU agriculture to the reality of the working of the global market. And the future direction of the CAP cannot remain isolated on broader global trading issues within the WTO framework.

### **Rural Development**

23. There are issues that a centrally driven EU policy approach can undermine the flexibility to shape the Wales RDP to the needs of Wales, Welsh farming and our rural communities. I envisage the Wales RDP post 2013 as the key mechanism to reward farmers for addressing the complexities of the climate change agenda. I would want to see a focus on the strategic framework as justification for the operational detail in the successor Wales RDP. Additionally, more flexibility is required in that I see little merit in the rigidity of the current axes approach and the distribution on EU funding within those axes.

### **What should be the balance between Pillar 1 and Pillar 2 of the CAP?**

24. As stated above, the view of the Welsh Assembly Government is that the direct payment regime under pillar 1 should provide a transparent basis by which support for sustainable farm incomes is made available in return for the delivery of a basic package of public goods. In other words, the CAP cross-compliance threshold is set at a level to provide a response from farming that meets societal expectation on standards of animal health and welfare, food safety etc. Experience in Wales from 2005 is that farmers are responding to

the market place and producing food to the highest quality, welfare and environmental standards that the consumer demands.

25. Under pillar 2, the Wales RDP currently provides targeted support to improve the competitiveness of agriculture and forestry, support added-value on Welsh farm produce, protect and enhance the natural environment and address quality of life issues within our rural communities. In particular, land management schemes enable farmers to deliver sustainable outcomes that far exceed the cross-compliance requirements under the pillar 1 regime. I do not agree that it is appropriate to seek to raise the cross compliance standards under pillar 1 simply to raise the start point for farm-based land management actions under pillar 2.

26. It has to be recognised that pillar 1 has to provide an EU-wide basis for support for farming that is consistent in meeting requirements on non-discrimination. On the other hand, pillar 2 needs to have the scope to deliver a range of support mechanisms for schemes that are able to directly respond to identified need.

27. There are the obvious funding disparities that currently exist between resources for pillar 1 and for pillar 2. To some extent, the relative funding position leaves the misplaced impression that rural development measures might be somewhat outside of the mainstream CAP. That is not a position held by the Welsh Assembly Government.

### **What should the CAP's central objectives be post-2013**

#### **Pillar 1: Single Payment Scheme**

28. In order to meet the challenges for agriculture post 2013 direct payments will need to continue and must be fair and legitimate, effective, simple to implement, sufficiently flexible and easy to justify and explain. A key consideration also is to strike the right balance in supporting income and rewarding the provision of public goods. It is not a question of either one or the other.

#### **Rural Development**

29. Improving the environment, modernising, restructuring agriculture and improving product marketing and competitiveness are key aims under the Wales RDP together with supporting locally driven initiatives to deliver economic benefit at community level. These have been crucial activities for Wales since the advent of the RDP process in 2000. I would want to see a continuation of this approach.

30. It will also be important to see how the successor Wales RDP is able to respond to the Europe 2020 agenda now being explored by the Commission, particularly for our land based industries in Wales in relation to improving competitiveness and enhancing skills and their transferability.

### **To what extent should the CAP be a community policy and whether some renationalisation is desirable?**

31. CAP as a community policy has advantages and disadvantages. Wales benefits from many elements of community policy such as the recent EU Dairy Fund in which the EU awarded €3.5 million to help the Welsh dairy industry. It also benefits from the EU trade perspective as all farmers in the EU are subject to the same restrictions when producing food. Conversely having strict regulations and restrictions in the EU can put EU farmers at a disadvantage; countries such as Brazil and New Zealand are able to produce lamb and beef more cheaply than Welsh farmers and are then more competitive on price. Also although Wales can, and does, feed into discussions on CAP some policies that could be less beneficial to Wales can be enforced due to Member States voting them through.

32. There is some debate about re-nationalisation of CAP funds. This could take a form whereby the EU provides, within a reduced budget for the CAP, a "safety-net" or minimal direct receipt under a modified SPS and it would be for the Member State to determine whether, and to what extent, additional domestic funding might be provided.

33. My initial reaction to re-nationalisation is a cautious one. The SPS regime in Wales is currently funded 100 per cent by the EU. The reality is that re-nationalisation of the CAP would require the UK Government to provide additional funding for Wales (and the rest of the UK) in order to remove the possibility of competitive disadvantage for UK farmers in the event that the rest of the EU was to move beyond whatever "safety-net" receipt was available under a changed CAP regime. Such additional funding within the UK could prove difficult in the current economic and fiscal climate within the UK.

### **To what extent is the Welsh Assembly Government's farming strategy "Farming, Food and Countryside" aligned with future CAP priorities?.**

34. The Farming, Food and Countryside Strategy (FFC), launched in May 2009, aims to achieve a sustainable and profitable future for farming families and businesses through the production and processing of farm and forestry products while safeguarding the environment, animal health and welfare, adapting to climate change and mitigating its impacts, while contributing to the vitality and prosperity of our rural communities.

35. The Strategy addresses the needs of farming, the food industry and the countryside in an integrated way; they are all closely interwoven and this strategy is therefore overarching in relation to other rural affairs strategies.

36. The CAP Health Check strongly signalled that the historic based Single Payment model would not be sustainable and FFC actioned and implemented whole scale research to assess the impact of moving to an area based payment model, and while the current system will not change until the Commission insists on change we will be better prepared for change following that work.

37. The strategy is closely aligned with CAP reform objectives and proposes many actions to encourage more market orientated

production including extending the scope of branding following the success of Protected Geographical Indication Welsh beef and lamb. Food industry innovation and development will be encouraged through the Rural Development Plan while collective action by farmers will be aided through Farming Connect. Farming must be profitable to be sustainable and the FFC proposes widespread promotion of benchmarking together with technical improvement, supported by Farming Connect, so that more farmers will be 'above average' performers. To assist them to concentrate on business improvement the administrative burden is being reduced which is the basis of the ongoing Red Tape Review and is fitting with the EU's CAP simplification agenda.

38. In the area of animal and plant health FFC aims to protect our industry from exotic diseases such as bluetongue and also endemic diseases like TB while looking at the potential for improved traceability, cost sharing and early warning systems for disease outbreaks.

39. FFC laid the foundations for Glastir which is built around the Commission's 'new challenge' agenda and will deliver on climate change, water management, biodiversity, renewables and innovation.

40. Significant CAP reform will only be possible if the rate of innovation increases in farming. The FFC strategy includes 34 actions to fuel innovation, including actions that emphasise research, education and knowledge transfer. Energy conservation and generation is an active area of research which will be supported with results quickly disseminated to farmers. Diversification will be reinvigorated and farm tourism refocused.

### **How should the Welsh Assembly Government engages with stakeholders as it prepares its position on reform of the CAP?**

41. There are already in place mechanisms for engagement with the farming and wider countryside interests. There has been some useful work on the implications for Wales and Welsh farming about the potential move to an area-based SPS post-2013.

42. When the stage is reached that the Commission puts forward proposals for the future direction of the CAP, the Welsh Assembly Government will move quickly to work alongside our partners in Wales to assess the implications. This process will also help to inform my position in terms of influencing the UK Government, with the other UK Administrations, on the UK negotiating line at the EU level.

43. My officials continue to maintain a dialogue with DEFRA as well as informally at the EU level. It needs to be recognised also that the European Parliament will have a key role in influencing the debate on the future of the CAP. My officials have already established initial contact with the Welsh MEPs.

**ELIN JONES**  
**Minister for Rural Affairs**  
**Welsh Assembly Government**  
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