

CONSULTATION PAPER ON PROPOSALS RELATING TO THE OPERATION OF THE NATIONAL ENVELOPE UNDER THE SHEEP ANNUAL PREMIUM SCHEME FROM JANUARY 2003

Purpose

This consultation paper seeks views on the operation in Wales from 2003 of the national envelope provisions that are included in the revised EU Sheepmeat regime that came into effect on 1 January 2002. Comments are sought by [June 2002].

Background

1. Following a review of the sheep and goatmeat regime, EU Agriculture Ministers agreed a reform package and associated payment rates last December (Council Regulation (EC) No. 2529/2001 and Commission Regulation (EC) No. 2550/2001).
2. The reforms, which came into effect on 1 January 2002, introduce a fixed rate Sheep Annual Premium (SAP) payment rate of €21 per eligible animal - around £13 at current exchange rates. A fixed rate supplement of €7 (around £4.30) will also be paid to farmers in the Less Favoured Areas. These rates represent an increase on the 2001 payment regime and will be paid in one lump sum between 16 October and the following 31 March. Payments, totalling an estimated £81 million, will be made in Wales as soon as possible after 16 October. This equates to an average payment of £5,012 (non LFA) and £6,535 in the Less Favoured Areas.
3. The move to a flat rate payment will simplify the regime and enable producers to plan ahead knowing the premium rates.
4. The reform package also introduces national envelopes - extra funding allocated to member states to provide more flexibility in how they support the sheep sector. The total amount available on an annual basis in the UK is €20.16 million (around £12.5 million at current exchange rates), of which the Welsh share is estimated to be €5.64 million (£3.5 million). Member states can operate the envelope at the regional level.
5. The Welsh Assembly's Minister for Rural Affairs, Carwyn Jones, has indicated that for the SAPS 2002 scheme year, the national envelope resources for Wales should be distributed to producers as an additional payment to the flat premium of €21 ie the payments due from 16 October 2002. The CAP Working Group established by the Welsh Assembly Government to examine support for the sheep sector, as recommended in the report from the Assembly's Farming for the Future Advisory Group, considered the options for use of the national envelope under SAPS 2002. **The Group unanimously**

supports the Minister's preferred approach for this year only, in recognition of the difficulties faced by the sheep sector in 2001 as a consequence to the FMD outbreak. Following this endorsement, SAPS claimants will receive an estimated additional €1.2 (0.75 pence) per eligible animal, net of modulation, on top of the flat rate premium *for this year only*, (SAPS 2002). Payments from the national envelope will be made at the same time as the flat rate payment. *The purpose of this paper is to seek views on how the national envelope should be used in 2003 and subsequent years.*

Council Regulation Options for use of the National Envelope

6. Funds from national envelopes can be used to make additional payments to producers or to assist the sheep sector in other ways. Options include:

- making payments to producers engaged in specific types of production, in particular those related to quality, which are important to the local economy or to the protection of the environment;
- encouraging the restructuring of producers' holdings or the development of producers' organisations;
- making area payments;
- supporting the improvement of the processing and marketing of sheepmeat; or
- purchasing quota from producers.
- increasing premium payments, either as additions to the basic premium or as extensification payments linked to lower stocking levels;

7. Extracts from Council Regulation 2529/20021 relating to national envelopes are at annex 1.

Payments

8. Payments from the national envelope could take the form either of annual payments to producers, in the form of extra headage payments linked to specific environmental targets or area payments, or one-off or time limited contributions to such things as start-up costs, pilot projects and feasibility studies. The use of the national envelope must be supported by objective criteria and these must be reported to the European Commission. Annex 2 sets out such criteria for SAPS 2002. For the SAPS 2003 scheme year, and beyond, simply using the envelope resources as an additional headage payment is not a realistic option unless such payments are clearly linked to environmental gain.

9. The Council Regulation (Article 11) also includes provision for the basic premium payment (€21) to be reduced by €1 so as to increase the size of the national envelope. If this approach is taken forward for Wales, the national envelope would be some £7 million.

Options for Wales

10. The Welsh Assembly Government has to decide how the national envelope should be used and to develop the necessary schemes in good time for payments to be made for the SAPS 2003 scheme year. Having regard to the Council Regulation, views are invited on the following options that are not set out in any priority and are not exhaustive.

11. As European Community legislation prohibits double funding of common market organisation schemes, such as SAPS, and Rural Development Regulation measures, such as Tir Mynydd, it may be necessary to phase in some of the environmental measures proposed below (e.g. paragraphs (c) and (d)), so they are not available in more than one scheme at any one time.

(a) Support for sheep systems with particular employment and environmental benefits

Support for pilot schemes relating to grazing on commons. In such areas claimants in graziers associations could either receive additional payments in return for delivering environmental management plans that, for example, involve reduced stocking rates or the development of shepherding skills. Support could also be made available to agricultural colleges and other appropriate providers in Wales offering training on shepherding skills, including establishing hefted flocks.

(b) Increase the basic premium

Provide additional support where the producer satisfies a lower stocking density or other measures which benefit the environment. At present there is the Extensification Premium Scheme for beef producers but there is nothing similar for sheep producers. This could address that gap. It could take the form of an overall stocking rate of 1.2 Lu/ha. The necessary information could be collected as part of the IACS and SAPS claim process.

(c) Promotion of mixed farming systems

Provide additional support for sheep producers who keep other animals and also grow fodder crops, to assist them in becoming more self sufficient in their livestock feeding requirements. At present there is an enhancement for mixed farming within the scheme for the Less Favoured Areas, Tir Mynydd. By including a mixed farming top-up within the SAPS national envelope, sheep producers throughout the whole of Wales could potentially benefit. This could be offered in SAPS 2004, when the current Tir Mynydd scheme ends and the new scheme commences. Because of the need to draw data from sources that could satisfy inspection and audit requirements, such a scheme would probably be restricted to beef and dairy cattle and relate to land that is not eligible for Arable Area Payments.

(d) Assistance to encourage farm assurance, producer co-operation and better marketing of sheepmeat

Encourage producers to re-connect with the market by providing additional support if, for example, they are a member of a farm assurance scheme. Again, at present the Tir Mynydd scheme includes an enhancement for membership of a farm assurance scheme. Its inclusion within the SAPS national envelope would enable more sheep farmers to potentially benefit. To avoid double funding issues, if farm assurance membership was within the national envelope, this would have to be dropped from the current (and successor) Tir Mynydd scheme. A move in this direction would mean that farm assurance would be introduced as part of the SAPS 2004 package. The necessary information could be collected as part of the new SAPS claim process.

(e) Promotion of traditional breeds of sheep, to safeguard genetic resources, or to improve the genetic composition of the national flock

Encourage sheep producers to improve the genetic scrapie resistance of their flocks by complementing the UK National Scrapie Plan (NSP), and the Welsh Assembly Government's strategy. The first phase of the former is aimed at the voluntary genotyping of rams, whereas the Assembly is considering measures to increase genotyping of breeding ewes in Wales. One possibility might be an additional payment where rams with a scrapie resistant genotype and above average performance indicators have been purchased. Documentary proof of any such genotypes would be necessary for inspection and audit purposes; these could be built into the new SAPS claims process.

(f) To purchase quota rights that would not be re-allocated

Encourage lower stocking densities through a tendering process whereby a percentage of the envelope monies is identified to be used to purchase quota rights. Such rights would NOT enter the national reserve for re-allocation.

Views sought

12. To assist analysis of the responses received it would be helpful if you addressed the following questions.

- *Which of the six options outlined in paragraph 11 do you favour and why?*
- *If you had to rank them in order of priority how would you do so? [Using number 1 as top priority, number 6 as lowest.]*
- *How many options should sheep farmers be offered, one, two or more?*

- *Would you prefer the environmental measures to be funded via the SAPS national envelope or not?*
- *Do you think the basic premium rate should be reduced to increase national envelope funding for other measures or to purchase quota?*
- *Should the national envelope payments be made on a headage basis linked to specific environmental targets; on an area basis; and/or as an on-off or time limited contribution to start up costs or pilot projects?*
- *Are there other options which should be considered, consistent with Council Regulation 2529/2001? Please provide as much detail as possible to explain your alternative option(s)*
- *How often do you think that the national envelope scheme/s should be reviewed? Every 3 years or less frequently?*

Next Steps

13. The consultation period is eight weeks and the closing date for responses is [June 2002]. A copy of this document is available on the National Assembly's website [details].

14. An analysis of the responses to the consultation exercise will be the subject of a report from the Minister for Rural Affairs to the National Assembly's Agriculture and Rural Development Committee. In working up the scheme careful consideration will be given to ensuring that it satisfies Commission regulations, particularly those relating to EU State Aid rules, claim validation and double funding. Detailed work on securing the secondary legislation and developing administration of the scheme will proceed this year so that the new scheme arrangements will be in place for January 2003.

Consultation Responses

15. It is the Welsh Assembly Government's policy to make publicly available all replies to the consultation. These will be placed in the Library of the National Assembly. If you do not wish your comments to be made available you should let Miss Maria Farr know when you submit your comments.

Please send any comments by [June] to:

Miss Maria Farr,

Agriculture and Fisheries Policy Division

Welsh Assembly Government,

Cathays Park,

Cardiff,

CF10 3NQ.

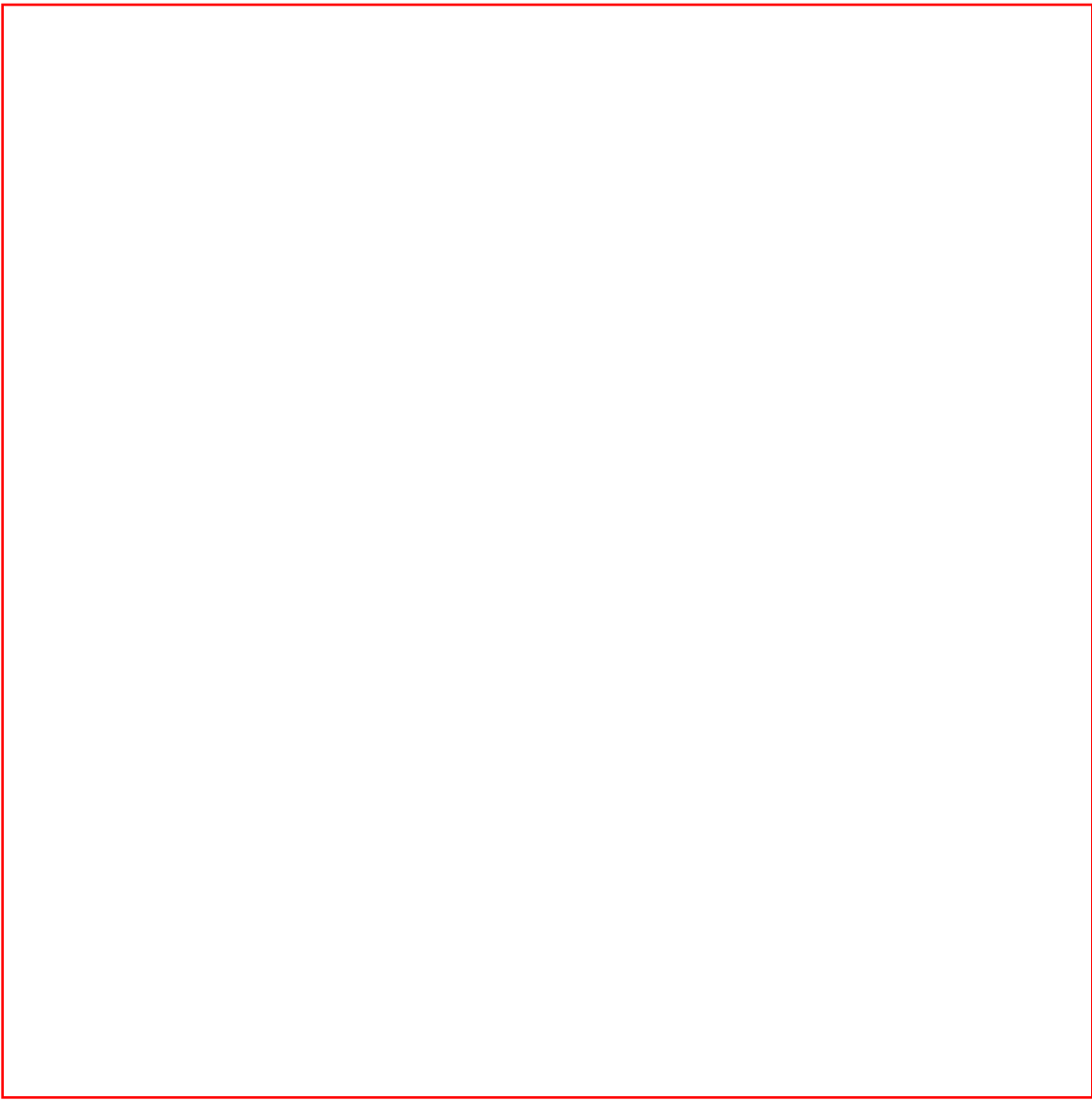
e-mail address maria.farr@wales.gsi.gov.uk

tel 029 2082 3740

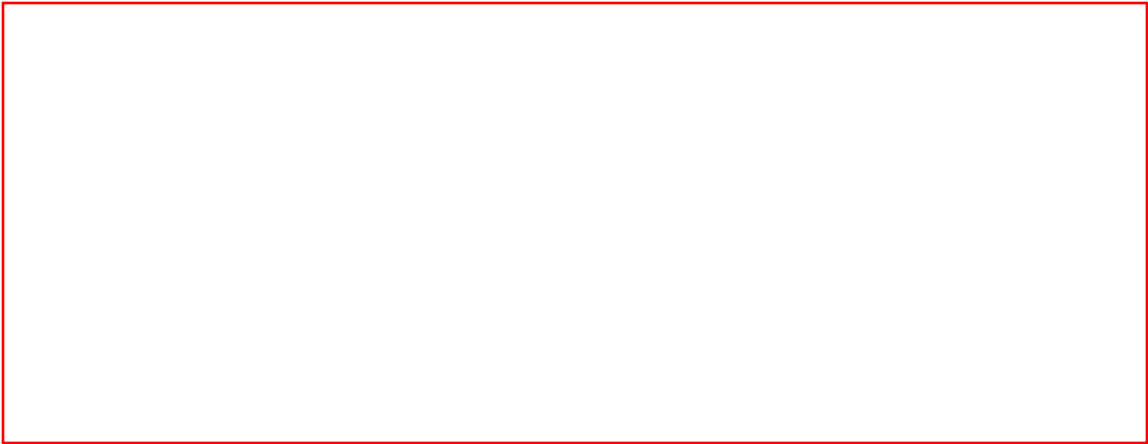
fax 029 2082 3562

ANNEX 1: EXTRACT FROM COUNCIL REGULATION (EC) NO. 2529/2001









**SAPS 2002: APPLICATION OF NATIONAL ENVELOPE IN WALES
OBJECTIVE CRITERIA**

EU Council Regulation 2519/2001 makes provision, under Article 11, for additional payments annually to sheep producers (the national envelope). These payments can be made on a regional basis. Annex 2 to the Regulation sets out an annual amount to the UK of €20.162 million for operation of the national envelope. For Wales, this would equate to an annual sum of £3.5 million.

The Regulations also require that the operation of the national envelope should be subject to "objective criteria, including the relevant production structures and conditions".

The SAPS national envelope in Wales for 2002 will take the form of an additional payment to the flat rate basic premium. The £3.5 million available will be distributed evenly as an extra headage payment to eligible animals claimed under the SAP's 2002 scheme. Farming and environmental interests in Wales have endorsed this approach. It is without prejudice to planned consultation exercise in Wales on the operation of the envelope in 2003 and thereafter. In reaching this decision on the approach for 2002, the Welsh Assembly Government has had regard to the following objective criteria:

- The continuing trend of low farm incomes for sheep producers (estimated net farm incomes for 2001-2002 at £2,900).
- The difficult market conditions facing producers in Wales as a consequence to FMD: re-establishing market outlets (home and abroad) with trading and husbandry patterns subject to continuing controls.
- The (low) rate of SAP payments in 2001 to UK producers was affected by high prices for sheepmeat within EU 14.
- The additional costs incurred by sheep producers in Wales in respect of feed, transport and biosecurity measures post-FMD.
- The need to minimise additional bureaucratic burdens on the sheep sector in Wales. A straightforward additional payment in 2002 will channel additional funds to farmers quickly; avoid the need for them to complete additional claim forms, and mean less administration in distributing the envelope funds.