

## Common Agricultural Policy Task and Finish Group

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Meeting Venue:  
**Young Farmers' Building, Royal Welsh  
Winter Fair**

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Meeting date:  
**28 November 2011**

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Meeting time:  
**10:30**

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Cynulliad  
Cenedlaethol  
Cymru

National  
Assembly for  
Wales



For further information please contact:

**Naomi Stocks**  
Committee Clerk  
029 2089 8164

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### Agenda

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#### **1. Introductions, apologies and substitutions**

#### **2. Inquiry into proposed reforms to the Common Agricultural Policy: Evidence from the National Farmers' Union Cymru (NFU) and the Farmers' Union of Wales (FUW) (10:30–11:30) (Pages 1 – 66)**

CAP(4)–04–11 Paper 1: National Farmers' Union (NFU)

Ed Bailey, President  
Mary James, Director  
Dylan Morgan, Deputy Director

CAP(4)–04–11 Paper 2: Farmers' Union of Wales

Emyr Jones, President  
Nick Fenwick, Director of Agricultural Policy  
Rhian Nowell-Phillips, Deputy Director of Agricultural Policy

#### **3. Inquiry into proposed reforms to the Common Agricultural Policy: Evidence from the Country Land and Business Association (CLA) and Wales Young Farmers Clubs (11:30–12:30) (Pages 67 – 75)**

CAP(4)–04–11 Paper 3: Country Land and Business Association (CLA)

Sue Evans, Policy Director

CAP(4)–04–11 Paper 4: Wales Young Farmers Clubs (Wales YFC)

Dylan Jones, Chairman  
Marc Jones, Rural Affairs Committee Chairman  
Kay Lewis, Development Officer

**4. Inquiry into proposed reforms to the Common Agricultural Policy: 'Open Mic' Session for members of the public to give their views on the CAP proposals (12:30–13:00)**

## **5. Papers to Note**

**Inquiry into proposed reforms to the Common Agricultural Policy: Additional Evidence from the Soil Association** (Pages 76 – 106)

Paper 1: Food for Life Evaluation

Paper 2: Soil Carbon Report Overview

Paper 3: Response from the Deputy Minister for Agriculture, Food, Fisheries and European Programmes on the Horizontal Regulation on financing, management and monitoring of the CAP.

## NFU Cymru Consultation Response

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### NATIONAL ASSEMBLY FOR WALES' ENVIRONMENT AND SUSTAINABILITY COMMITTEE'S TASK AND FINISH GROUP INQUIRY INTO PROPOSED REFORMS TO THE CAP

#### Introduction

NFU Cymru welcomes the opportunity to submit written evidence to the Environment and Sustainability Committee's task and finish group inquiry into the proposed reforms of the CAP. We look forward to supporting this written evidence orally at a meeting of the group on the 28<sup>th</sup> November. NFU Cymru represents 22,380 farmers, managers and partners in agricultural businesses including those with an interest in farming and the countryside.

1. We wish to stress, at the outset, that we are presently at the very beginning of what will probably be a protracted negotiating process involving, for the first time in the context of CAP reform, co-decision with the European Parliament. At the time of writing the proposals have only recently been released, not only is considerable clarification and detail required to interpret them but impact assessment and modelling work needs also to be undertaken to evaluate the impact of the proposals before firm positions can be taken on the various elements of the proposals. As an organisation we are at the very early stages of interpretation and have just begun to inform and canvass the views of our membership through a series of CAP roadshows across the whole of Wales.
2. The views contained in this evidence must therefore be regarded very much as preliminary and provisional and will be subject to review and amendment as we obtain clarity from the EC and Welsh Government, as we continue to evaluate and consult our members and as the negotiating process evolves.
3. As a backdrop to the consideration of the latest CAP reform proposals we should point out that the CAP as it applies to Wales has already undergone substantial reform, especially in the last decade with the major reform of 2003 and the Health Check in 2008. It is important to recognise the extent to which farmers in Wales have experienced even more radical reform than some other parts of the EU through the full decoupling of direct payments and through voluntary modulation running currently at 2.5% over and above the EU compulsory rate of 9%.
4. Before addressing the considerations identified by the task and finish group, NFU Cymru would, as a backdrop want to outline the key principles against which we are measuring the proposals that were published by the European Commission on 12<sup>th</sup> October 2011.

#### **Key Principles against which the proposals should be measured**

## NFU Cymru Consultation Response

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5. In our view there are 4 guiding principles against which the commissioner's proposals should be assessed. These are;
- (i) **Simplicity** – the policy must be simple to operate and implement for member states /devolved governments and farmers alike. It should not be overly burdened by bureaucracy.
  - (ii) **Market orientation** – the policy should allow market signals to drive production decisions and give farmers freedom to farm. It must not revert to supply controls that confuse market signals. Indeed any policy should seek to make markets function better so that they can deliver fairer returns to producers.
  - (iii) **Competitiveness and productivity** – the EU farming sector must increase its competitiveness and become more productive to meet the major food and environmental challenges ahead. The Policy should not impede the competitiveness of the farming sector and should encourage greater productivity whilst being sustainable.
  - (iv) **Commonality** – within a single European market, the objectives can only be served by a 'common' EU policy which seeks to treat farmers as equally and fairly as possible. Without a common approach, there is a risk of competitive distortions emerging between member states/devolved governments that undermine the viability of the farming sector in some parts of the EU.

### **What the European Commission proposals could mean for Wales**

#### **The basic payment scheme:**

6. It is proposed to introduce a mandatory single payment scheme across the EU known as the "basic payment scheme". The scheme will operate on the basis of payment entitlements allocated at national and devolved levels i.e. in our context at a Wales level. Currently, Wales receives around 9% of the UK financial ceiling approximately €353m in 2010. The Welsh Government must ensure that Wales continues to maintain at least 9% of the UK financial ceiling for the next programme period.
7. At present Wales operates a historic payment system but will be required to move to a 'uniform area payment' by 2019. This can be effected immediately in 2014 or in 2014 at least 40% of the basic payment must be regionally based with progressive linear steps to translate the remaining 60% to a regional average payment by 2019. A flat-rate area payment on the basis of the area claimed and budget available to Wales in 2010 would have produced a flat rate payment of €248/ha according to Welsh Government figures.
8. There is concern in Wales that the shift away from a historic payment system to one based on a flat-rate area payment will result in a significant redistribution of resources.

## NFU Cymru Consultation Response

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9. Initial analysis by Welsh Government on the basis of a move from a purely historic to purely flat rate system suggests only 17% of farmers would remain within 10% of their current entitlement. 48% would gain and 35% would lose at least 10% of the support.
10. With Single Farm Payments comprising some 80% of net farm income in Wales NFU Cymru is concerned at the potential to undermine the viability of some farm businesses by such a shift in policy.
11. From initial analysis completed by Welsh Government dairy farms and intensive livestock look to be the most badly affected. Those with large historic entitlements tend to lose in favour of those with low value entitlements although there is a significant amount of variation between and within sectors.
12. The legislative texts, as currently tabled, provide for devolved administrations such as Wales to refine the flat-rate area payment and split Wales into regions on the basis of objective and non-discriminatory criteria such as agronomic/economic characteristics, regional agricultural potential or the institutional/administrative structure.
13. NFU Cymru 's initial view is that there needs to be further modelling work undertaken to establish how excessive resource redistribution can be mitigated within the parameters laid down by the EC but which does not make the scheme overly complicated for both farmers and Welsh Government to implement. This modelling work needs to be completed as a matter of urgency to help inform both Government and Industry as to potential ways to mitigate re-distributive effects.
14. We are concerned that the proposals state that transition to an area payment model has to be completed over a 5 year period given the long-term nature of farm management decisions, many businesses will not be able to adapt to this speed of change. We are concerned also that only 60% of the budget set aside for the basic payment could be used as a top up to provide for a share of the difference between the value of a farmers previous single farm payment and his new total entitlement value.
15. In the post 2014 CAP scenario it is envisaged that there will be a number of additional payments that Welsh Government would have to make provision for in addition to the basic payment from the Wales financial ceiling. These include Greening at 30% of Wales' ceiling (compulsory); Young Farmers payments, up to 2% (compulsory); a simplified scheme for small farmers, up to 10% (compulsory); Areas of Natural Constraint up to 5% (voluntary); coupled support up to 5% (voluntary). A national reserve would have to be created by reducing the basic payment scheme by up to 3% (compulsory) in the first year of operation. This paper will return in more detail to these 'additional payments'. Whilst the elements

## NFU Cymru Consultation Response

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above will find their way back to the industry in Wales it is clear that the basic payment i.e. what today is known as the Single farm payment could potentially be just 45% of the totality once provision has been made for these areas of additionality. This additionality will add to the complexities of the regime running counter to both NFU Cymru and the EC's purported commitment to simplification:

### Greening:

16. Farmers entitled to a payment under the basic payment **shall** observe on their eligible hectares agricultural practices deemed beneficial for the environment and climate. This payment will be additional to the basic payment and paid annually per eligible hectare. The value of the additional payment will be calculated by dividing 30% of the Welsh financial ceiling by the number of eligible hectares. We calculate that on the basis of 2010 budgetary figures and if paid as a single rate across the whole of Wales a rate of approximately €68/ha. It appears from statements made by the Commissioner at the launch of the legislative proposals that penalties for non-compliance may go beyond 30%. Farmers whose holdings are fully or partly in Natura 2000 sites (e.g. SSSI's) will be exempted from the greening payment provided they observe the practices to the extent that they are compatible on the holding concerned within the objectives of the designated sites. We are not aware as yet of any SSSI's in Wales that would fit into this category. Organic farmers will automatically be entitled to the greening payment on those hectares being farmed organically. Those hectares subject to agri-environment schemes/agreement such as Glastir are not automatically entitled to the greening payment and in NFU Cymru's view there is an inconsistency in the way in which scheme participants are being treated vis a vis participants in the organic scheme.
17. In order to fulfil the greening requirements farmers with more than 3 hectares of arable land will be required to cultivate at least 3 different crops. However, none of these crops may cover less than 5% of the arable land and the main one shall not exceed 70% of the arable land.
18. Farmers with permanent grassland declared on their 2014 aid application will not be able to reduce this by more than 5% at farmer level. Permanent grassland is defined as land used to grow grass or other herbaceous forage naturally (self-seeded) or through cultivation (sown) and that is not included in the crop rotation of the holding for 5 years or longer.
19. Where the arable land of the farmer covers more than 3 hectares farmers will also be required to devote 7% of their eligible hectares, excluding areas under permanent grassland, to ecological focus area such as land left fallow, terraces, landscape features, buffer strips and afforested areas.

## NFU Cymru Consultation Response

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20. NFU Cymru believes the greening principle entirely compromises two of our key principles of simplicity and competitiveness and productivity and in addition confuses the role of Pillar 1 and Pillar 2 payments. In our view the greening element is already fulfilled by the Statutory Management Requirements and Good Agricultural and environmental conditions that currently apply and adding to them through Greening merely adds to the bureaucratic burden on farmers, adds to the burden of administrative controls on Welsh Government and impinges on the competitiveness of the industry and its ability to fulfil the EC's challenge of providing greater food security.
21. NFU Cymru has long contended that Pillar 1 should continue to provide income support for farmers because of market failure whilst Pillar 2 measures should be used to deliver 'green' objectives under a devolved and multi-annual framework. The legislative texts as currently tabled confuse these elements. In its impact assessment the EC suggests that Wales would be one of the countries least impacted by the greening measures, calculated at €0.9/ha, but this fails to recognise the serious impact in Wales on some sectors such as milk and arable. Recent work by AHDB has suggested that Wales could be one of the areas of the UK most severely affected by some of the current greening prescriptions.
22. Members at our road shows throughout Wales have clearly highlighted to us the impact that the 3 elements of Greening as currently proposed will have on the ability to efficiently produce food, they highlight that this will limit the ability to produce food on farms in Wales, this could impact downstream on the Welsh food industry, Wales's largest employer. There remains much uncertainty within the proposals, for example over crucial definitions such as what is crop, what areas can be included under ecological focus areas and over what methods can be used to improve permanent pasture.
23. NFU Cymru is also concerned at how Greening may impact on the All Wales element of Glastir. That is, if Greening actions are similar to elements of the AWE prescriptions there may be an issue of double funding. This could therefore mean that Glastir contracts may need to be amended potentially to the detriment and increased cost of the applicant. NFU Cymru seeks urgent clarification as to how Greening could impact on agri –environment agreements and what the implications could be for farmers in Wales.
24. Of immediate concern to NFU Cymru is the position with regards to farmers on the verge of signing contracts for entry to Glastir from the 1<sup>st</sup> January 2012, they need to know what their position is in the context of the commission proposals for Greening. They need to know whether from 2014 they will be able to count their Glastir prescriptions towards their obligations under Greening or whether they face the double whammy of having to comply with Greening on top of Glastir We feel that farmers who are entering Glastir in good faith on 1<sup>st</sup> January 2012 should have their contracts honoured on the basis of the prescriptions they have signed up to but if Greening means that farmers may be forced to amend Glastir

## NFU Cymru Consultation Response

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contracts in 'mid term' farmers should be allowed to leave the scheme without being forced to pay back monies received. The Welsh Government needs as a matter of urgency a clear undertaking from the European Commission that if a reformed CAP in any way alters the terms of five year contracts farmers must be given the right to withdraw without penalty.

### **(ii) Payment for areas with natural constraints (ANC)**

25. Under the proposals there is scope for member States and regional Governments on a voluntary basis to make an additional payment of up to 5% in respect of land fully or partially in areas with natural constraints as designated by the member states/devolved government. This payment could be further targeted down to specific areas within the ANC.
26. There is considerable concern in Wales that farmers in the LFA will by 2014 be left in a situation where there is no dedicated support scheme unlike other parts of the UK and other Member States under the Pillar 2 measure, to reflect that they are farming in areas of permanent disadvantage and handicap. Our initial view is that this option is unlikely to make up for the loss of Pillar 2 LFA support scheme because the value of the additional payment per hectare would be calculated by dividing up to 5% of the Wales financial ceiling by the number of eligible hectares within the designated area. Since some 80% of Wales would probably be regarded as an ANC the scope for redressing this deficiency is very limited. Also the support could well be funded by reducing payment to some of the very businesses most badly affected by the shift from a historic to an area based payment scheme. Whilst NFU Cymru believes that an ANC payment should for now be kept as a possible "tool in the box" if it is found necessary to use to mitigate some redistributive effects of a move from the historic to area based payments system, our current view is that measures to address the issue of ANC should be provided under the second pillar of the CAP.

### **(iii) Payment for young farmers**

27. Under current proposals Wales would be required to use up to 2% of the annual financial ceiling to provide additional support payment for young farmers. NFU Cymru supports in principle assistance for young farmers and we would want to establish how this payment could be built in to complement current provisions under the Young Entrants Support Scheme (YESS) in Wales.

### **(iv) Small farmers scheme**

28. It is compulsory for Member states / regions to introduce a simplified scheme of payments for small-scale farmers with up to 10% of the financial ceiling being earmarked for this scheme. Farmers holding payment entitlements allocated in 2014 and complying with the minimum threshold would be permitted to apply for the scheme by 15<sup>th</sup> October 2014. NFU Cymru is concerned that this scheme has the potential to introduce a large influx of new claimants into the system, claimants who in the main would have the bulk of their income "off

## NFU Cymru Consultation Response

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farm” particularly given that the active farmer provision does not apply to this scheme. We believe it is important to learn the lessons from England when in 2005 many thousands of new claimants entered the system creating essentially a “pony paddock payment”. To prevent this situation arising NFU Cymru would like to see the Welsh Government consider increasing the minimum claim threshold from the minimum of €100 or 1ha allowed by the commission to possibly the maximum allowed of 5 ha or €200 given the administrative costs associated with the payment process.

29. NFU Cymru is also concerned that cross compliance sanctions would not apply to these beneficiaries given that claimants to the basic payment element of the scheme will continue to face the full range of sanctions and penalties currently in existence.
30. Without prejudice to the comments above the introduction of a small farmers scheme appears to be one of the few genuine areas of simplification identified in the EC’s proposals.

### **(v) Voluntary coupled support**

31. Up to 5% of the Welsh national ceiling could be provided as coupled support i.e. linked to production, where specified types of farming or specific agricultural sectors undergo difficulty but where they are important for economic/and or social reasons.
32. In the last round of CAP reform NFU Cymru took the view that we should move away from coupled support and that the market place should drive farmers’ decision as to whether or not to produce. This remains a key principal. However, NFU Cymru is deeply concerned at the potential for support redistribution as we move to area payments and the impact that this may have on some vulnerable sectors. We thus feel, at this juncture, that it may be premature to seek to negotiate away a tool that may ultimately be used to soften the worst excesses of resource redistribution albeit that they are confined to a maximum of 5% of the Wales financial ceiling. Our reservations about ‘coupled’ support remain, but until our fears are allayed NFU Cymru feels that we need to retain some flexibility of approach.

### **(vi) National Reserve**

33. It is mandatory for member states to establish a National Reserve; the reserve is created by reducing the basic payment scheme ceiling by up to 3% in the first year of operation. The National Reserve can be administered at a regional level. Priority will be given to young farmers. It has become clear from our initial discussions with members that there will be a number of ‘genuine’ situations where farmers over 40 years of age ‘active’ in 2014 will not be eligible for the basic payment scheme because they had not made a claim in 2011. NFU Cymru believes that there should also be provision within the National Reserve to cater for such cases.

## NFU Cymru Consultation Response

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### **(vii) First Allocation of Payment Entitlements**

34. Payment entitlements shall be allocated to farmers if they apply for allocation of payment entitlements under the basic payment scheme by 15<sup>th</sup> May 2014. Entitlements will be on the basis of eligible hectares declared in 2014. It is proposed that a farmer will only be allocated entitlements in 2014, if they activated at least one entitlement under the SPS in 2011. NFU Cymru would suggest that further discussion needs to take place to determine whether this is the most appropriate way to ensure that payment entitlements do accurately reflect the current farming activity of the claimant but at the same time prevent disruption in the land market.

### **General provisions**

#### **(i) Active Farmers**

35. NFU Cymru, in principle, welcomes the intention to confine direct payments to 'active' farmers. At present it is proposed that only those reclaiming in excess of €5000 in direct payments and who carry out a level of activity to be established by the Member State and where direct payments also equal at least 5% of total receipts obtained from non-agricultural activities in the most recent fiscal year, would be eligible for support.
36. Whilst supporting this general provision in principle NFU Cymru is concerned to ensure that this provision does not become over bureaucratic and thus burdensome for both farmers striving to prove their activity and in terms of the validation verification process for Welsh Government. We do not believe that the current definition is one that is suitable for the Welsh agricultural industry.

#### **(ii) Capping of payments**

37. It is proposed to CAP the basic payments (i.e. excluding greening) made to farmers by 20% from the tranche €150k – 200k, by 40% for the tranche €200k – 250k, by 70% for the tranche €250k – 300k, by 100% for the tranche over €300K salaries effectively paid and declared are to be deducted before calculating reductions.
38. In Wales the impact of capping is not expected to be great, NFU Cymru believes that the focus of Welsh Government should be to concentrate on those areas of greatest impact to farmers in Wales. If capping is introduced in Wales we have concern over the additional administrative implications for farmers and government.

#### **(iii) Cross-compliance**

39. Under the proposal legislative texts beneficiaries of direct payments and land based rural development support will continue to be subject to both statutory management requirements (SMRS) and to Good Agricultural and Environmental Conclusions (GAEC).

## NFU Cymru Consultation Response

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40. NFU Cymru is concerned that despite the EC's commitment to simplification this does not appear to be reflected in the proposals.
41. NFU Cymru has a particular concern about changes to the GAECs including the protection of Carbon rich soils, with a ban on 1<sup>st</sup> ploughing which could seriously limit opportunities for livestock and dairy farmers. Much of the land in Wales not defined as arable (i.e. permanent grassland) could face a ploughing ban, which would be intolerable. The definition of Carbon rich soils is a crucial one to Welsh farmers.

### **(iv) Penalties and Sanctions**

42. Penalties and Sanctions will continue to apply taking account of the severity, extent permanence and reoccurrence of the non-compliance found but the draft regulation is not explicit about the consequences of non-compliance with regards to the greening element in terms of whether non-compliance will result in additional penalties on the full amount of support a farmer receives or the greening element alone.
43. NFU Cymru is desperate to see a more transparent, less complicated and more proportional approach to the penalties and sanctions applied particularly for minor and inadvertent errors. This reform process must be used as an opportunity to deliver a more proportionate and risk based inspection system.

### **(v) Flexibility between pillars**

44. By 1<sup>st</sup> August 2013 Member States may decide to transfer up to 10% of their annual national ceilings for direct payments to their rural development funds. The same percentage transfer would have to apply for the duration of the period.
45. There is provision too for "reverse modulation" by August 2013 in those Member States where the direct payments budget ceilings fall below 90% of the EU average. This would include the UK and presumably Welsh Government where different rates of modulation currently prevail. This measure would permit up to 5% of the rural development resources to be transferred in to the direct payment envelope.
46. In Wales, at present, the compulsory EU modulation rate is 9% and this is "topped up" by the application of a further 2.5% voluntary modulation applied by Welsh Government (voluntary, in terms of Government's ability to raise but compulsorily applied to SFP recipients). Those resources are used to fund Wales's agri-environment measures under pillar 2 axis 2.
47. At this juncture it is impossible to predict with any accuracy the number of farmers who are likely to contract next year to the new and controversial agri-environment scheme 'Glastir' and thus the size of the financial envelope required to support it.

## NFU Cymru Consultation Response

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48. If, as we fear, uptake is more limited then Welsh Government could use the flexibility to 'reverse modulate' resources back into pillar 1 which would in NFU Cymru's view be welcome.
49. NFU Cymru is concerned that the flexibility highlighted above goes against NFU Cymru's core principles of commonality and has the potential to create distortion between member states / regions, just as is currently the case with regards to voluntary modulation. Ideally we would like to see this flexibility removed from the legislative texts with Welsh Government arguing strongly for a fairer allocation of rural development funds from the EU budget. Without prejudice to the comments above if flexibility is maintained it is important that Welsh Government has the ability to decide on this flexibility and not the member state as the text is currently drafted.

### **Rural Development**

50. Whilst NFU Cymru welcomes the proposal to continue to have a second rural development pillar to the CAP regime, we have always felt that the two pillars should complement one another.
51. As currently drafted we see that there are areas that overlap the proposed Direct Payments and EAFRD regulations, for example support for areas of natural constraint, top ups for young farmers and support for small farmers.

### **Priority Themes**

52. It is proposed to continue the rural development regulation or pillar 2 of the CAP post 2013 but it is intended to change the architecture of the regulation with the removal of the current four axes approach and their replacement by 6 priority themes which rural development programmes, including that of Wales, will be required to address.
53. The priority themes identified are:
1. Knowledge transfer and innovation in agriculture
  2. Competitiveness of agriculture and farm viability
  3. Food chain organisation and risk management in agriculture
  4. Restoring, preserving and enhancing ecosystems dependant on agriculture and forestry
  5. Resource efficiency and transition to low carbon economy
  6. Promoting social inclusion poverty reduction and economic development in rural areas
54. With regard to the minimum spends the EC proposes that member States/devolved Governments should maintain the level of efforts made during the 2007-2013 programming period with regards to environmental and land management payments. In Wales of the order of 75% of the Rural Development budget has hitherto been on agri-environment type

## NFU Cymru Consultation Response

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measures and NFU Cymru is keen to see this level of support at least maintained. There is provision to make payments to organic farming and to areas facing natural or other specific constraints under this measure.

55. NFU Cymru is deeply concerned that the constraints and disadvantages of LFA farmers in Wales are not now being properly recognised by Welsh Government at a time when other UK countries and EU Member States are continuing to recognise the permanent physical handicaps farmers face in managing these areas. NFU Cymru would exhort Welsh Government to revisit this in the context of these new proposals.
56. It is proposed in addition to an obligation to spend at least 25% of the rural development funds on land management activities that at least 5% of the funds should be ring fenced for LEADER projects; we do not see the need to ring fence funding for LEADER.
57. Removal of the axis approach should provide for greater flexibility in the future for the delivery of the RDP Wales and this we welcome.

### **LFA reclassification - areas of natural constraint**

The EC proposes to change the way in which the LFA land is designated as of 1<sup>st</sup> January 2014. Areas of Natural Constraint (ANC) will be designated if at least 66% of the utilisable agricultural area (UAA) meets at least 1 of 8 biophysical criteria; NFU Cymru believes that the ANC areas should be calculated on the basis of 50% of the UAA meeting the ANC criteria.

58. As things currently stand in Wales, with the demise of the Tir Mynydd scheme in 2012, there will no longer be any additional support for LFAs/ANCs unless this is revisited in the next programming period and thus the boundary review could be perceived as being of academic interest only in Wales. NFU Cymru believes Welsh Governments failure to recognise the difficulties of farming in Wales' LFA (some 80% of Wales) leaves it in an unsustainable position and hence our concern at how ANC's will be designated from 2014.
59. NFU Cymru has lobbied for field capacity days to be included as a measure of natural constraints. However in many cases it is not the existence of one factor which limits agricultural productivity in these areas but a combination of factors. In our view the Regulations needs to reflect that in some cases an area may not meet the threshold for that factor, but in combination with other factors the cumulative effect results in disadvantage. In the UK, including Wales, designation is intended at ward level but we feel that the MS /devolved government should have discretion to apply at a finer scale based for e.g. on a parish basis.

### **Financing**

## NFU Cymru Consultation Response

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60. The amount of money available for EAFRD and its annual breakdown between Member States is to be fixed by a separate proposal in accordance with the Multi-annual Financial Framework. The allocations between Member States will be made on the basis of objective criteria and past performance.
61. It is intended that a single EAFRD contribution rate will apply to all measures. Less developed areas will be eligible for a higher rate of 85% but other areas will qualify for a maximum EAFRD contribution of 50%. By way of derogation measures relating to knowledge transfers, the establishment of producer groups, co-operation, LEADER groups and business start-up aid for young farmers may be up to 80%.
62. The money recycled as a result of capping under pillar 1 is likely to be marginal in Wales, this is reserved for projects which provide a significant contribution to innovation relevant to agricultural productivity and sustainability including climate change mitigation or adaption but there is no requirement for member states to co-fund this money.
63. Member states/devolved governments are expected to submit regional programmes within 6 months of adoption of the EAFRD texts. It is critical that a new programme is approved and is operational from the envisaged start date of 1<sup>st</sup> January 2014 so that support under the various RD measures get out to the industry in a timely manner, without delays and without funding vacuums.
64. NFU Cymru is disappointed that there is no clear indication of how funding will be allocated to Member States under the proposed EAFRD. The UK allocation, of which Wales receives a proportional amount, represents the lowest level of support per hectare across Europe and there is an urgent need to redress this. We are concerned that an element of allocation will be based on past performance. UK past performance and that of Wales has been artificially inflated by the existence and utilisation of “voluntary” modulation to increase the funds available for UK RDP’s.
65. NFU Cymru is firmly of the view that the allocation between Member States of the EAFRD in the 2014 – 2020 programming period must reflect past performance on the basis of the total money available to previous programmes and not simply upon past core EAFRD allocations.

What should the Welsh Government’s priorities be in its negotiations on CAP Reform to ensure a beneficial outcome for Wales

66. The CAP has already undergone substantial and radical reform especially in the last decade with the major reforms of 2003 and the Health Check in 2008. It is important to underline the

## NFU Cymru Consultation Response

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extent to which farmers in Wales have experienced even more radical reform than some other parts of the EU through the full decoupling of support payments and through voluntary modulation which has shifted more resources into rural development programmes.

67. NFU Cymru believes the Welsh Government's fundamental objective in this further reform process should be to drive forward the best "deal" for the farming industry in Wales. This will be achieved by basing negotiations on the guiding principles NFU Cymru has already identified these as simplicity/ reducing the burden of bureaucracy; of market orientation and addressing market failure; of increasing competitiveness and productivity and ensuring commonality so that Wales is not disadvantaged by competitive distortions.
68. It is important that Wales, as a devolved Government, is given the discretion to implement the regulations in a way that is most appropriate to Wales whilst recognising the principle of commonality applies across all Member States/Regions.
69. Wales and the rest of the UK have been significantly disadvantaged over successive years in the allocation it receives from the EAFRD and this needs to be redressed through a review of the key allocation criteria. Welsh Government should support UK ministers to this end in negotiations at an EU level.
70. Welsh Government must ensure that it receives a fair and equitable allocation from the UK Government when the UK's financial ceilings for both direct payments and rural development are being allocated to devolved administrations.
71. The move away from a historic basis for making direct support payments to an area basis could potentially result in a huge redistribution of resources that could threaten the viability of some farm businesses given the important contribution that direct support makes to net farm income.
72. Welsh Government needs to undertake detailed modelling of the proposals with a view to informing the development of an area payment system in Wales that mitigates the significant redistribution of direct payments. Welsh Government should also seek to negotiate a lower start point for conversion to area payments than the proposed 40% and a transition period that extends beyond 2019 particularly if agreement on the reformed CAP extends beyond the envisaged timetable.
73. The proposals provide for support in areas of natural disadvantage (ANC's) such as Wales' LFA's. NFU Cymru is bitterly disappointed that post 2012 the Welsh Government will have no policies to compensate for the disadvantage of farming these areas unlike other parts of

## NFU Cymru Consultation Response

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the UK and other EU Member States and we feel that WG need to reconsider its position in light of the scope provided by the draft regulations on Pillar 2.

74. Notwithstanding our total opposition in principle to further greening of direct payments. Welsh Government needs to explore how Glastir can automatically fulfil the greening requirement under Pillar 1 as proposed in the draft regulations for those farming organically.
75. Welsh farmers need to know what their position with is regards to the potential impact of Greening on commitments entered to under a Glastir 5 year agreement.
76. As currently drafted Greening is a compulsory action for farmers wishing to receive the basic payment, in our view it is therefore no more than 'super cross compliance' which will lead to restrictions and limitations on production, a reduction in the ability to respond to market signals as well as significant additional bureaucracy. The Greening element of the proposals are extremely complex and this is compounded by a lack of clarity on a number of key issues e.g. the definition of a crop, exactly what tillage will be permitted to improve permanent pasture and a full list of what can be included as ecological focus areas.
77. If Greening is to be implemented then the amount of resource allocated needs to be reduced and the prescriptions need to be more flexible to take into account the environmental diversity already apparent across the Welsh Countryside.
78. NFU Cymru continues to be frustrated at the requirement to base payment for agri-environment measures on income forgone rather than to properly reward farmers for the positive contribution their actions make to society. This is one of the features continuing to hamper uptake of agri environment schemes in Wales.

### How can Wales ensure that its views inform the negotiation process

79. Whilst NFU Cymru regards it as Welsh Governments primary responsibility to progress the best interest of farmers in Wales during the negotiation process we acknowledge that the UK lead Minister will sit at the negotiating table at the EU Council of Ministers and that the final outcome will inevitably represent a compromise at an EU level.
80. We feel that it is incumbent upon Welsh Government to work closely with the UK administration to progress Welsh interests and UK Government has a responsibility to take these forward at a Brussels level. It is also important to establish in what areas we have a shared agenda with other devolved Governments in seeking to influence the UK position. Given that the CAP negotiations will this time be subject to co-decision with the European parliament it is also important that Welsh Government works closely with Wales' MEP's and seeks to influence the proceedings of relevant committees.

## NFU Cymru Consultation Response

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81. We are cognisant of the fact that the UK Government is on record as wishing to see a reduction in the size of the EU budget and that in respect of the CAP we are concerned that the UK's position on the budget has the potential to undermine the UK's negotiating position with some other Member States. We feel that Welsh Government must impress on the European scene its opposition to this UK Governments approach, in this context it will be important for Welsh Government to be seen and heard in the corridors of power in Brussels/Strasbourg.
82. Whilst it is important that Welsh Government is at the centre of the debate/negotiations we recognise too the important role that NFU Cymru has in this regard in seeking to influence the negotiating process at Wales, UK Government and EU levels. As the only farming organisation in Wales to have a permanent office and permanent representation in Brussels we are in a prime position on a daily basis to lobby the EC, the EP, Welsh Government representation in Brussels etc.. In addition to this the President of NFU Cymru regularly attends meetings of the COPA Presidium in Brussels building bridges with other EU farming unions to find common ground and to jointly seek to influence both the EC and the EP. We will work closely with EP agriculture committee representatives seeking to amend and improve detailed proposals.
83. Both Welsh Government and NFU Cymru will be active on the European scene and we believe it is important that there is a consistent message emanating from Wales on the various issues that will arise if we are to materially influence the decision making process and thus the outcome. With 27 Member States at the negotiating table the need to build bridges and to make alliances with like interests is of paramount importance and this can be achieved only by having a permanent presence in the centre of activity i.e. Brussels

### Conclusion

The outcome of the CAP Reform negotiations will be key to determining the future of the agriculture industry in Wales.

Wales has an important part to play in ensuring an increased supply of sustainably produced primary production to which value can be added. Agriculture has a very significant contribution to make to the economy of Wales provided the right conditions are set and a fair and equitable outcome is achieved as a result of CAP Reform.

We do not feel that the proposals as currently tabled fit well with the 4 guiding principles of NFU Cymru for the CAP reform process i.e. a simple, common policy that allows farmers to concentrate on improving their competitiveness and focussing decision making on the needs of the market rather than regulation.

\*\*\*ENDS\*\*\*

**Farmers' Union of Wales' Response to a National Assembly  
for Wales Environment and Sustainability Committee  
Inquiry into the Post 2013 Common Agricultural Policy**

**3<sup>rd</sup> November 2011**

## CONTENTS

<b>Background</b>	3
<b>The Farmers' Union of Wales</b>	3
<b>The Common Agricultural Policy and Food Security</b>	3
<b>Agriculture in Wales</b>	4
<b>Welsh Agriculture and the CAP</b>	5
<b>HM Treasury and DEFRA's "Vision for the Common Agricultural Policy"</b>	8
<b>Conclusions, and the FUW's broad Priorities in Terms of CAP Reform</b>	10
<b>Background to the Current Reform Proposals</b>	12
<b>The Lyon Report</b>	12
<b>European Commission Communication: The CAP towards 2020</b>	13
<b>The Deß Report</b>	13
<b>European Commission Regulatory proposals</b>	14
<b>General Comments</b>	14
<b>CAP Priorities</b>	14
<b>Distinguishing between Member States and administrative regions</b>	14
<b>The recreation of payment entitlements</b>	15
<b>Specific Comments on Pertinent Articles</b>	16
<b>Common rules on direct payments</b>	16
<b>National Ceilings (Article 6)</b>	16
<b>Active farmer (Article 9)</b>	16
<b>Minimum requirements for receiving direct payments (Article 10)</b>	17
<b>Progressive reduction and capping of the payment (Article 11)</b>	17
<b>Flexibility between pillars (Article 14)</b>	18
<b>Setting up of the basic payment scheme</b>	18
<b>Payment entitlements (Article 18)</b>	18

<b>Regional allocation of the national ceilings (Article 20)</b>	18
<b>First allocation of payment entitlements (Article 21)</b>	19
<b>Value of payment entitlements and convergence (Article 22)</b>	20
<b>National reserve</b>	21
<b>Establishment and use of the national reserve (Article 23)</b>	21
<b>Payment for agricultural practices beneficial for the     climate and the environment</b>	22
<b>General rules (Article 29)</b>	23
<b>Crop diversification (Article 30)</b>	23
<b>Permanent grassland</b>	23
<b>Ecological focus areas</b>	24
<b>Financial provisions</b>	24
<b>Payment for areas with natural constraints</b>	24
<b>General rules and financial provisions (Articles 34 and 35)</b>	24
<b>Payment for young farmers</b>	25
<b>General rules (Article 36)</b>	25
<b>Coupled Support (Articles 38 to 41)</b>	25
<b>Small farmers scheme</b>	25
<b>General rules (Article 47)</b>	25

## Background

### The Farmers' Union of Wales

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 its Head Office, which has twenty-six full-time members of staff, the Union has thirty-five Area Officers and eleven offices distributed around Wales which provide a broad range of services for members. The FUW is a democratic organisation, with policies being formulated following consultation with its twelve County Executive Committees and nine Standing Committees.

### The Common Agricultural Policy and Food Security

2. 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.
3. 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 European agricultural policy. The Common Agricultural Policy (CAP) came into full force in 1962, and from 1973 the UK support system, established under the 1947 Agriculture Act, was progressively subsumed into the CAP.
4. The food security established by the 1947 Agriculture Act and the CAP has led to significant complacency regarding the importance of agriculture to Wales, which has, in turn, led to increasing reliance upon imported foodstuffs; in 2010 UK food self sufficiency was estimated to be 59 percent, representing a fall of 20 percent since the 1980s<sup>1</sup>.
5. In recent years, concerns regarding rising world populations, global warming, and peak oil production has rekindled awareness of the importance of global food security. In 2007 and 2008 shortages in global food supplies became a reality, with scores of countries around the globe suffering conflict and social unrest due to food shortages, acute rises in food and energy prices, the rationing of certain foodstuffs by major retailers, and some countries introducing food export bans.
6. 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<sup>2</sup>.
7. The past 18 months have seen a range of factors, most notable severe weather conditions, leading again to major food shortages, export bans, food inflation and civil unrest around the globe.

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<sup>1</sup> National Statistics (2010)

<sup>2</sup> Ensuring the UK's Food Security in a Changing World, DEFRA (2008)

8. It is estimated that World populations will rise to between nine and ten billion by 2050, while global agricultural productivity per hectare is expected to fall by between 3 and 16 percent by 2080<sup>3</sup>.
9. The CAP, by design, provides a framework which allows Europe to react to the imminent challenges that growing populations, global warming, rising sea levels, and peak oil production represent in terms of food security.

### **Agriculture in Wales**

10. Wales has some 39,000 holdings, around 17,000 of which receive CAP payments. Of those holdings considered to be agriculturally significant, 66% percent are Less Favoured Area (LFA) cattle and sheep enterprises; 12% are dairy enterprises; 13% are non LFA cattle and sheep enterprises; and 2 percent are arable enterprises, with other crop or mixed enterprises making up the remainder<sup>4</sup>.
11. In 2010, 1.7 million hectares of Wales was categorised as agricultural land, equating to 84 percent of the country. This comprised arable land (9.9%), permanent grassland (61.0%), rough grazing (12.8%), common land (11.0%), woodland (4.1%), and other land (1.2%)<sup>5</sup>.
12. Around two out of every five rural businesses have been classed as being involved in the farming industry<sup>6</sup>. In 2008, Welsh agriculture employed 57,600 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, feed merchants, and food processors.
13. The proportion of the working age population in rural Wales who are working and who are self-employed is estimated to be 7% higher than in Wales as a whole, which reflects the fact that rural businesses have a high dependency on the agricultural sector<sup>4</sup>.
14. It has been estimated that agriculture supports over 10% of full time employees in Wales<sup>7</sup>, and the numbers directly and indirectly employed in farming therefore make a crucial contribution towards sustaining rural businesses and communities.
15. In 2007 the Sustainable Farming and Environment: Action Towards 2020 Report stated that: *“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.”*<sup>8</sup>
16. Aggregate Agricultural Output in Wales in 2010 is estimated to have been £1.2 billion, with the livestock and dairy sectors contributing £562 million (47%) and £369 million (31%) to this figure respectively<sup>9</sup>.

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<sup>3</sup> Cline (2007)

<sup>4</sup> Farming Facts and Figures, Welsh Assembly Government (2010)

<sup>5</sup> June 2010 Survey of Agriculture and Horticulture: Results for Wales, Welsh Assembly Government (2010)

<sup>6</sup> A Statistical Focus on Rural Wales, Welsh Assembly Government (2001)

<sup>7</sup> The Economic Potential of Plants and Animals Not Currently Fully Exploited by the Welsh Agricultural Sector, Central Science Laboratories (2003)

<sup>8</sup> Sustainable Farming and Environment: Action Towards 2020 Report, Welsh Assembly Government (2007)

<sup>9</sup> Aggregate Agricultural Output and Income 2010, Welsh Assembly Government (2010)

17. In 2008, 2009 and 2010, total income from farming in Wales is estimated to have been £112 million, £220 million, and £178 million respectively<sup>9</sup>.
18. In 2008, the food and drink supply chain was the UK's single largest manufacturing sector, accounting for 7 percent of GDP, employing 3.7 million people, and worth £80 billion per annum<sup>10</sup>. The equivalent figures for Wales are not available.
19. During the 2009-2010 financial year, the average Welsh hill farm covered 97 percent of their lamb production costs. The figures for upland and lowland farms were 99 and 107 percent respectively. This compares with 84 per cent, 88 per cent and 95 per cent respectively for the previous financial year<sup>11</sup>.
20. For all farm types during the 2010-2011 financial year, the average Welsh lamb producer covered 99 percent of production costs<sup>11</sup>.
21. In the 2010-2011 financial year, the average Welsh suckler calf producer covered 63 percent of production costs. For the top third of producers this figure was 96 percent<sup>11</sup>.
22. Farm business consultants Andersons have predicted that the average total cost of milk production for a 150-cow herd averaging 7500 litres a cow will be more than 28 pence per litre for the 2010-2011 and 2011-2012 seasons, which is 3 pence below the average UK farm-gate price<sup>12</sup>.
23. Average Welsh milk farm-gate prices are not routinely collected. However, data collected from FUW members in 2010 shows that the average price received by those members was 22.6 pence per litre, with the payments received by individuals during any one month being between 14 and 29 pence per litre.

### **Welsh Agriculture and the CAP**

24. A total of £330 million in CAP payments is estimated to have been made to farm businesses in 2010<sup>9</sup>.
25. The value of direct payments (Pillar 1 payments) made in Wales annually is around €348 million, with sterling values varying depending upon an exchange rate which is set in September each year.
26. Single Payments made to Welsh farm businesses are generally based upon average CAP Pillar 1 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.
27. CAP Pillar 1 payments received during the reference period were effectively based upon the production of each farm, which, in turn, can be considered to be a function of the fertility, size, altitude, and climate of any particular farm.
28. 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 current production) of each farm.

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<sup>10</sup> Food Matters: Towards a Strategy for the 21st Century, Cabinet Office (2008)

<sup>11</sup> Hybu Cig Cymru (2011)

<sup>12</sup> Farmers Weekly (December 2010)

29. Figures produced by the Farmers' Union of Wales show that average Single Payments made to farms categorised as purely lowland and Severely Disadvantaged Area (SDA) businesses are around €18,500 and €17,500 respectively, despite lowland farms being, on average, 60% the size of SDA farms.
30. Average Welsh Single Payments per hectare on non-LFA, Disadvantaged, Severely Disadvantaged and common land are around: €322, €293, €208 and €168 respectively.
31. However, there exist significant variations in terms of payments made per hectare for all farm types, and a modelling undertaken by the FUW in 2009 demonstrated that transition to a simplistic flat-rate payment per hectare model would represent significant disruption for Welsh farm businesses (Appendix 1)<sup>13</sup>.
32. Specifically, the work concluded that:
  - i. A sudden transition from the current historically based Single Payment Scheme to a flat-rate model based upon current land categorisation criteria will result in major financial disruption for the farming community
  - ii. Large-scale disruption is likely to result from a transition to *any* flat-rate Single Payment model
  - iii. A transition to any flat-rate model should occur over as long a period as possible, in order to reduce annual financial disruption to farm businesses
  - iv. The introduction of any flat-rate payment model is likely to result, on average, in an increase in receipts for those who received Single Payments below around €23,000, and a loss, on average, for those receiving more than €23,000
  - v. The effects for individual farm businesses will vary significantly, with variance between farms increasing for those in higher payment bands
  - vi. The most simplistic model, a single flat-rate payment per hectare for all Welsh land, could result in a net flow of as much as €36 million away from non-LFA and DA land, to SDA and common land.
  - vii. Significant differences exist between the apparent disruptive effects of the models studied, suggesting further modelling will reveal flat-rate models that go some way towards minimising disruption for the farming industry. However, the financial disruption for many individual businesses will be acute, irrespective of the model chosen.
  - viii. The calculation of average gains/losses for individual historical payment bands does not necessarily represent the best method of interpreting the data from individual models, and may be misleading.
  - ix. Flat-rate models that ring-fence payments according to current land categories may minimise disruption for the industry

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<sup>13</sup> An Analysis of the Welsh Single Payment Regime and the Impact of Possible Flat-Rate Single Payment Models, Farmers' Union of Wales (2009)

- x. Significant further work is required in order to assess a greater range of flat-rate payment models, and their impact on particular sectors and regions, before any decision is made regarding the model that should be adopted in Wales.
- xi. Any such further work should, where possible, take into account the implications of changes such as the forthcoming CAP and EU budgetary reviews, changes to the eligibility criteria for Less Favoured Areas, and the impact of the new Glastir scheme.
33. Figures produced by the Welsh Farm Business Survey (*Tables 1 to 4*) show that the majority of Welsh farms continue to be significantly or wholly reliant upon payments received under the CAP.
34. Moreover, those figures demonstrate that major increases in returns from the marketplace would be required to make up for the deficits which would occur if CAP payments were abandoned.

FARM TYPE	NET FARM INCOME		SINGLE PAYMENT		TIR MYNYDD AND AGRI-ENVIRONMENTAL PAYMENTS	
	2008-2009	2009-2010	2008-2009	2009-2010	2008-2009	2009-2010
Hill and Upland Dairy Farms	£49,065	£33,966	£28,337	£31,745	£3,052	£2,967
Lowland Dairy Farms	£69,328	£52,302	£34,248	£39,285	£3,274	£2,914
Hill Sheep Farms	£19,327	£33,121	£34,390	£39,057	£13,151	£13,749
Hill Cattle and Sheep Farms	£21,031	£30,542	£35,160	£39,780	£10,687	£10,395
Upland Cattle and Sheep Farms	£24,067	£27,784	£28,577	£32,343	£7,082	£6,724
Lowland Cattle and Sheep Farms	£30,397	£34,082	£28,398	£31,632	£3,391	£3,895

FARM TYPE	CONTRIBUTION OF SINGLE PAYMENTS TO NET INCOMES		CONTRIBUTION OF TIR MYNYDD AND AGRI ENVIRONMENTAL PAYMENTS TO NET INCOMES		TOTAL CONTRIBUTIONS OF CAP PAYMENTS TO NET INCOMES	
	2008-2009	2009-2010	2008-2009	2009-2010	2008-2009	2009-2010
Hill and Upland Dairy Farms	57.75%	93.46%	6.22%	8.74%	63.97%	<b>102.20%</b>
Lowland Dairy Farms	49.40%	75.11%	4.72%	5.57%	54.12%	80.68%
Hill Sheep Farms	<b>177.94%</b>	<b>117.92%</b>	68.04%	41.51%	<b>245.98%</b>	<b>159.43%</b>
Hill Cattle and Sheep Farms	<b>167.18%</b>	<b>130.25%</b>	50.82%	34.04%	<b>218.00%</b>	<b>164.28%</b>
Upland Cattle and Sheep Farms	<b>118.74%</b>	<b>116.41%</b>	29.43%	24.20%	<b>148.17%</b>	<b>140.61%</b>
Lowland Cattle and Sheep Farms	93.42%	92.81%	11.16%	11.43%	<b>104.58%</b>	<b>104.24%</b>

FARM TYPE	NET INCOMES LESS SINGLE PAYMENTS		NET INCOMES LESS TIR MYNYDD AND AGRI ENVIRONMENTAL PAYMENTS		NET INCOMES LESS ALL CAP PAYMENTS	
	2008-2009	2009-2010	2008-2009	2009-2010	2008-2009	2009-2010
Hill and Upland Dairy Farms	£20,728	£2,221	£46,013	£30,999	£17,676	<b>-£746</b>
Lowland Dairy Farms	£35,080	£13,017	£66,054	£49,388	£31,806	£10,103
Hill Sheep Farms	<b>-£15,063</b>	<b>-£5,936</b>	£6,176	£19,372	<b>-£28,214</b>	<b>-£19,685</b>
Hill Cattle and Sheep Farms	<b>-£14,129</b>	<b>-£9,238</b>	£10,344	£20,147	<b>-£24,816</b>	<b>-£19,633</b>
Upland Cattle and Sheep Farms	<b>-£4,510</b>	<b>-£4,559</b>	£16,985	£21,060	<b>-£11,592</b>	<b>-£11,283</b>
Lowland Cattle and Sheep Farms	£1,999	£2,450	£27,006	£30,187	<b>-£1,392</b>	<b>-£1,445</b>

Tables 1-3: Statistics taken from the Farm Business Survey for the financial years 2008-2009 and 2009-2010

FARM TYPE	NET INCOMES LESS SINGLE PAYMENTS	NET INCOMES LESS TIR MYNYDD AND AGRI ENVIRONMENTAL PAYMENTS	NET INCOMES LESS ALL CAP PAYMENTS
	2007-2008	2007-2008	2007-2008
Hill and Upland Dairy Farms	£18,778	£40,253	£15,150
Lowland Dairy Farms	£18,680	£45,516	£15,719
Hill Sheep Farms	<b>-£16,874</b>	<b>-£3,827</b>	<b>-£33,803</b>
Hill Cattle and Sheep Farms	<b>-£18,191</b>	£664	<b>-£31,208</b>
Upland Cattle and Sheep Farms	<b>-£10,401</b>	£8,738	<b>-£15,797</b>
Lowland Cattle and Sheep Farms	<b>-£7,832</b>	£13,305	<b>-£11,890</b>

Table 4: Statistics taken from the Farm Business Survey for the financial year 2007-2008

### HM Treasury and DEFRA's "Vision for the Common Agricultural Policy"

35. In 2005, HM Treasury and DEFRA published "A Vision for the Common Agricultural Policy", setting out the then UK Government's vision for EU agricultural policy to 2020. The key policy reforms proposed included:
- i. The alignment of import tariffs for all agricultural sectors with other sectors of the economy
  - ii. The abolition of production subsidies
  - iii. The abolition of price and direct income support measures
  - iv. The abolition of export subsidies
  - v. A movement of funding from Pillar 1 to Pillar 2
36. Following the publication of the policy, the Food and Agricultural Policy Research Institute (FAPRI) was commissioned by the UK administrations to analyse the impact of these key policy reform proposals on agriculture in the UK, using the FAPRI-UK project modelling system. The results of the modelling were published in July 2009<sup>14</sup>, and suggest that the policies, as proposed, would have a devastating impact on agriculture and rural communities.
37. The work summarised the impact in Wales for individual sectors as follows:
38. Dairy Sector:
- i. The phased increase and eventual abolition of milk quotas under the Health Check reforms has a depressing impact on the projected producer milk price and production in Wales.
  - ii. Cheese and, to a greater extent, butter prices decline further in response to Doha WTO reforms. The decline in the prices of these commodities exerts a further downward impact on the Welsh producer milk price.

<sup>14</sup> Impact of HM Treasury/DEFRA's Vision for the Common Agricultural Policy on Agriculture in Wales, Food and Agricultural Policy Research Institute (2009)

- iii. Further trade liberalisation has a small negative impact on dairy commodity prices since butter, SMP and WMP EU prices track their world prices.

39. Beef Sector:

- i. The extensive over quota tariff cuts results in a significant increase in projected non-EU beef imports.
- ii. EU beef prices, including those in Wales, decline markedly in response to this large increase in imports.
- iii. By the end of the projection period, the Welsh price of finished beef animals is 26% lower.
- iv. The phased elimination of the SFP has a significant negative impact on suckler cow numbers and beef production in Wales.

40. Sheep Sector:

- i. The full reduction in over-quota import tariffs under the WTO reform scenario leads to higher non-EU imports and, consequently, lower sheepmeat prices.
- ii. Projected Welsh ewe numbers and sheepmeat production fall in response to the decline in price.
- iii. Trade liberalisation leads to a further substantial increase in non-EU sheepmeat imports. The increase in non-EU imports has a depressing impact on sheepmeat prices. The projected average Welsh price of finished sheep and lambs is 12 per cent lower in 2018.
- iv. The decline in price reduces sheepmeat economic returns and depresses ewe numbers and production in Wales.
- v. Phasing out the SFP on top of further trade liberalisation has a significant negative impact on Welsh sheepmeat production.

41. The FAPRI report concludes that:

*“Reductions in cattle and sheep numbers may have a positive or adverse impact on biodiversity depending on existing grazing levels. Moreover, it is likely that the impact would be spatially uneven, with more marginal producers in upland areas experiencing greater contractions in output. As a result, undergrazing is likely to be more problematic in the uplands.”*

*“Reductions in livestock numbers will not only hasten the decline in agricultural employment but also employment within the wider rural economy. Agricultural employment supports both upstream (e.g. feed companies and machinery suppliers) and downstream employment (e.g. abattoirs and food suppliers) (Institute for European Environmental Policy et al., 2004).*

*“Furthermore, farmers play an active social role within local communities through participating on school boards, running local activities etc. Reducing the viability of farming may undermine the positive contribution played by farmers within local communities.*

*“Any decline in numbers engaged in agriculture may also have a direct impact on migration out of the remoter areas, hence undermining the viability of the rural population in these areas.”*

*“The proposed ‘Vision’ reforms also have important implications on price volatility. Export subsidies and import tariffs have protected the EU market from the consequences of world price volatility. Following extensive trade liberalisation, it is projected that EU commodity prices are more closely linked to world prices. As a result, EU producers and processors will tend to face more uncertainty due to increased volatility as a result of external shocks, such as those due to poor weather conditions. Increased uncertainty has a negative impact on efficient production in the agricultural sectors through discouraging investment and threatening the long-term survival of producers.”*

*“...should the ‘Vision’ proposal be implemented the consequences for the Welsh beef and sheep sectors, in particular, would be dramatic.”*

### **Conclusions, and the FUW’s Broad Priorities in Terms of CAP Reform**

42. The figures and information provided herein demonstrate that Wales’s environment, economy, and culture are significantly reliant on the agricultural industry, which is, in turn, reliant on payments made to farm businesses under the CAP.
43. Specifically, figures produced annually by the Welsh Farm Business Survey and Hybu Cig Cymru confirm that, under current trading conditions, the majority of farm businesses would not be viable were it not for CAP payments, and that, if returns from the marketplace were to replace CAP payments, this would require sharp increases in farm-gate prices.
44. Given the current dominance by supermarkets of the supply chain, and the absence of a mechanism which ensures equitable farm-gate prices for farmers, the FUW believes that abandoning the CAP in a manner similar to that formally proposed by the previous UK Government would:
  - i. Have a catastrophic impact on UK food security.
  - ii. Undermine the UK’s food industry, leading to increased unemployment.
  - iii. Result in significant price volatility for manufacturers and the general public.
  - iv. Lead to land abandonment and an exodus of people from rural communities.
  - v. Have a significant adverse impact on the UK’s flora and fauna.
  - vi. Drastically reduce numbers of owner-occupier and tenant farmers.
  - vii. Result in a move towards ‘factory farming’.
  - viii. Lead to significantly more food being produced in countries which have lower animal welfare standards.
  - ix. Accelerate deforestation in some of the world’s most endangered habitats, due to UK food production being displaced by increased production in third countries.

- x. Undermine the accountability of the agriculture industry in terms of minimising its carbon footprint and other important environmental impacts.
45. The majority of these assertions are directly supported, or can be justifiably extrapolated from the conclusions published in Government commissioned research.
46. The research conducted and published by the FUW demonstrates that, in the absence of counter-mechanisms, a movement to a basic flat-rate CAP payment per hectare model would result in significant disruption for Welsh agriculture, and that a proportion of this disruption is likely to be inevitable.
47. During the past eighteen months, the Farmers Union of Wales has undertaken a number of internal consultations with members regarding the future of the Common Agricultural Policy, and the following views are based upon the outcome of those consultations.
48. Given current scientific opinion regarding population growth and global warming, mitigating climate change without compromising food security is one of the most significant long term challenges facing mankind.
49. In order to address this challenge, joined up policies between Governments are required, and the CAP post 2013 has the potential to provide a coherent policy framework which 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.
50. Members therefore believe that the Welsh Government should
- i. Oppose the CAP reform policies advocated by the previous UK Government, or any similar policies, which FAPRI has shown are likely to have a broad range of negative impacts across the UK.
  - ii. Support the CAP and its core objectives, with a particular emphasis on ensuring the availability of agricultural produce to EU citizens and a fair standard of living for the agricultural community, as described under Article 39 of the Treaty of Rome.
  - iii. Ensure that direct Pillar 1 payments continue to make up the bulk of CAP support for agriculture.
  - iv. Oppose moves to link agri-environmental measures, which are currently supported under Pillar 2, to Pillar 1 payments.
  - v. Oppose any moves to liberalise international trade in a manner which would adversely affect agriculture and UK/EU food security.
  - vi. Recognise the central importance of the CAP as a mechanism by which the major environmental and food production challenges of our age can be addressed, and support the provision of a CAP budget that properly reflects this importance.
  - vii. Ensure that any changes to the balance of funding between new and old Member States does not impact on UK agriculture and that, where necessary, the CAP budget reflects this.

- viii. Press the European Union for a compulsory pan-European scheme to help and encourage young entrants into the industry.
- ix. Support a compulsory Less Favoured Area scheme which requires all Member States and regions to recognise the socio-economic and environmental handicaps faced by farmers in many areas, in order to ensure commonality between regions and Member States.
- x. Advocate a revision of CAP Regulations which ensures all penalties are proportionate, and that administrative errors are properly recognised.
- xi. Support a policy which proactively supports family farms, and recognises their central role in terms of food production and the protection of our natural environment and rural communities.
- xii. Recognise the importance of Milk Quotas as a mechanism which supports milk production within the UK, and by which supply can be properly controlled and monitored.
- xiii. Reject calls to renationalise agricultural spending within the EU, in order to ensure a genuine *common* policy across Europe.
- xiv. Support the proportionate distribution of Pillar 2 funding and uniform rates of modulation.
- xv. Ensure that market instruments are available in order to manage market volatility.
- xvi. Support a maximum transition period for the introduction of flat-rate Single Payments, and a flexible approach which favours family farms in order to minimise disruption for the industry.
- xvii. Ensure that any reduction in CAP payments are balanced by the introduction of market measures which ensure farmers receive equitable returns for their produce in order to ensure that food production is maintained and rural communities protected.

## **Background to the Current Reform Proposals**

### **The Lyon Report**

51. In July 2010, the European Parliament adopted the first report on the post 2013 Common Agricultural Policy, presented by George Lyon MEP, the then Rapporteur for the European Parliament Agriculture and Rural Development Committee.
52. The report, which received support from across the political spectrum, highlighted four key areas that should be addressed by the post 2013 CAP:
  - i. The need to produce food in order to maintain food security within the EU, against a background of rising global populations and major challenges in terms of agricultural production.
  - ii. The need, therefore, for the CAP to be supported by a strong budget.

- iii. The need for a fairer distribution of CAP funds between Member States, based upon objective criteria which take into account factors such as relative costs of production.
- iv. ‘Greening’ of the CAP in a way which takes account of an expected doubling of food demand, against a backdrop of less land, less water and major cuts in energy use because of climate change, by encouraging the development of small scale renewable energy production, the promotion of carbon sequestration, and a goal for the majority of European farm land to be covered by agri-environmental schemes.

### **European Commission Communication: The CAP towards 2020**

- 53. In November 2011 the European Commission published its formal communication to the Parliament, Council, European Economic and Social Committee, and Committee of the Regions entitled “*The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future*”.
- 54. The communication highlighted three key priorities for the CAP:
  - i. To preserve the food production potential on a sustainable basis throughout the EU, so as to guarantee long-term food security for European citizens and to contribute to growing world food demand.
  - ii. To support farming communities that provide European citizens with quality, value and diversity of food, produced sustainably and in a way which reduces biodiversity loss and helps to mitigating climate change.
  - iii. To maintain vibrant rural communities for which farming is an important economic activity creating employment, and delivering multiple economic, social, environmental and territorial benefits.

### **The Deß Report**

- 55. In June 2011, the European Parliament adopted a report by Agriculture and Rural Development Committee Rapporteur Albert Deß MEP, which had been heavily amended at committee level.
- 56. The report made a diverse number of recommendations, including:
  - i. Imposing a ceiling on Pillar 1 payments, but doing so in a way which takes account of the numbers employed and supported by farm businesses.
  - ii. 100% EU-funded mandatory green measures, to be selected from a catalogue, including support for low carbon emissions; measures to limit or capture greenhouse gas emissions; buffer strips and field margins; presence of hedges; permanent pastures; crop rotation and crop diversity plans.
  - iii. Proportionate and risk-based Cross Compliance measures.
  - iv. CAP payments being brought within a fixed percentage of an EU average.

- v. The introduction of suitable policy instruments which support dairy farmers in the light of possible adverse impacts which will accompany the abolition of milk quota in 2015.

### **European Commission Regulatory proposals**

57. On the 12<sup>th</sup> of October 2011, European Commissioner Dacian Cioloş presented draft Regulatory proposals to the European Parliament, marking the latest and most significant step to date in terms of the negotiations over the future of the CAP after 2013.
58. Given the importance of Pillar 1 payments to Wales' economy and Welsh agriculture, it is the analysis of the Pillar 1 draft Regulation, "*Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL establishing common rules for direct support schemes for farmers under the common agricultural policy and repealing Regulation (EC) No 73/2009*", that has been the focus of the FUW's policy department, and the following constitutes the Union's current views on pertinent parts of that document.

### **General Comments**

59. While the detailed proposals contain numerous areas of concern, it is notable that a number of the underlying principles which form the basis of the draft Regulations are as anticipated, proposing, as they do, that Pillar 1 payments remain the focus of the CAP; a realignment of Pillar 1 payments between Member States; and a move away from payments based upon historical CAP receipts to regional flat-rate payments.

### **CAP Priorities**

60. While the Union welcomes the proposal to maintain the focus of the CAP on Pillar 1 (direct) payments, it is not believed that the draft Regulation properly recognises the priority of ensuring food security identified by the Commission in November 2010. Moreover, it is believed that the current proposals, if implemented, would serve to undermine EU food security at a time when it is acknowledged that global food shortages are an inevitability.
61. The most concerning proposals in terms of undermining food security are the greening measures referred to in Chapter 2, and while most have been led to believe that 30 % of Pillar 1 payments will only be available to those who undertake greening measures, the first paragraph of Article 29 implies that greening would be a requirement for all those receiving Pillar 1 payments. Moreover, despite being aimed at 'greening', the impact on Wales of the proposed measures is likely to be adverse in terms of the environment, and this view has been reflected by a number of environmental bodies.

### **Distinguishing between Member States and administrative regions**

62. The UK, like many other Member States in the EU, comprises distinct administrative regions (Wales, England, Northern Ireland and Scotland), each of which have autonomy in terms of how they administer the CAP.
63. Areas within the draft Regulation appear to focus on Member States and fail to recognise such administrative regions. For example, the "Flexibility between pillars" referred to under

Article 14 implies that administrative regions would not be able to have differing levels of Pillar 1 or Pillar 2 ‘modulation’, as is currently the case.

### **The recreation of payment entitlements**

64. The proposal to abolish all current payment entitlements held by farmers on the 31<sup>st</sup> of December 2013, and create new entitlements based upon areas declared on the 15<sup>th</sup> of May 2014 (albeit with allocations only being allowed for those who received payments in 2011) represents a major threat to areas such as Wales, and the Union strongly believes that alternative options should be made available to administrative regions.
65. The 2014 ‘reference year’ means that, for the first time ever, the EU would have a well publicised future reference year which allows significant speculation and land banking to take place. In fact, there is already growing speculation regarding this date, with many landlords/licensors considering how to gain possession of land they currently rent out in order to declare it themselves in 2014. Proving that businesses did this as part of a move to secure entitlements, rather than as a genuine business move, would be extremely difficult in most cases.
66. The proposal therefore represents a major threat in terms of land banking, increasing rental and land prices, and disruption to the industry as a whole.
67. The proposals would also restrict and complicate entry to the industry by young entrants, by making it necessary to implement a national reserve based upon reducing all other payments and allocating new entitlements to those who are eligible, even after a transition period to flat-rate payments. Under such proposals, if a new entrants’ scheme is to remain open for the duration of the CAP (thereby providing the opportunities to young people that the Commission moots), the level of modulation must rise annually until it reaches the ceiling for the national reserve, after which the scheme would presumably have to close – thereby closing the door to young entrants.
68. The proposal also sets in stone yet another ‘quantifiable’ historic allocation of payment entitlements, and such a scheme would, in time, be subject to the same criticism as the current scheme, since the number of entitlements held will ultimately become based upon activities undertaken many years previously.
69. **In light of these concerns, the FFW has proposed an alternative option, which it believes administrative regions and Member States should be able to adopt as an alternative to the entitlement creation proposals given in the draft Regulation. While the applicability of the FFW’s proposals for Wales has yet to be thoroughly investigated, the FFW believes that such a system may well mitigate a number of the problems described above. The details of the proposal are described in Appendix 2.**

## Specific Comments on Pertinent Articles

### Common rules on direct payments

#### National Ceilings (Article 6)

70. Article 6 of the draft refers to Annex II, which sets out the national ceilings for the sum of all payment entitlements in Member States for the period 2014-2019. For the UK, these figures (in billions of Euros) are:

2014	2015	2016	2017	2018	2019 onwards
€3.5349	€3.5471	€3.5592	€3.5713	€3.5713	€3.5713

71. For the UK, these figures represent an absolute increase of 1% (representing a fall in real terms) between 2014 and 2019. By comparison, during the same period, the Republic of Ireland's allocation would remain almost static; Belgium, Germany and France's allocations would fall by 5%, 2%, and 1% respectively, while Romania and Poland would see increases of 31% and 3% respectively.
72. Under current arrangements, England, Northern Ireland, Scotland and Wales receive approximately 66%, 9%, 16%, and 9% of the UK Pillar 1 allocation respectively, which broadly reflects direct payments made in each region during the years 2000 to 2002. However, there is considerable pressure from the Scottish Government to increase the Scottish share of the budget post 2013 in a manner which reflects the area of, rather than agricultural production in Scotland. Any such change may result in a reduction in Wales' allocation.
73. However, it is clear that, even in the event that Wales' allocation of the UK budget changes, the general patterns of redistribution discussed in detail in the FUW's July 2009 analysis (Appendix 1) would hold, with any significant changes in the Euro-Sterling exchange rate likely to have a more acute impact on the value of Wales' allocation than any minor change in the percentage allocation itself.

#### Active farmer (Article 9)

74. Article 9 states that only active farmers should be eligible to receive direct payments, with an active farmer being defined as a natural or legal person (or groups thereof) for whom
- i. The annual amount of direct payment is 5% or more of the total receipts they obtained from non-agricultural activities in the most recent financial year
  - ii. A minimum level of agricultural activities, as defined by the member state.
75. Under the proposal, a farmer with land and payment entitlements totalling €20,000 (close to the current Welsh average per farm) would not be able to receive that payment if the total receipts obtained from non-agricultural activities were greater than €400,000.
76. These provisions do not apply for those receiving less than €5,000 of direct payment, meaning that those with entitlements valued at €5,000 would not be eligible to receive payment if their total receipts from non-agricultural activities were €100,000 or more.

77. While the proposal raises some concerns regarding the penalisation of those who have diversified their businesses, the Union's initial reaction is that the 5% threshold is set at a low enough level for this not to be a significant concern.
78. However, the Union does have major concerns regarding the practicality of properly interpreting/defining 'non-agricultural' activities, and the substantial increase in bureaucracy associated with implementing and policing such a requirement.

#### **Minimum requirements for receiving direct payments (Article 10)**

79. Article 10 sets minimum EU payments at €100, and minimum EU area declarations at 1 hectare, but allows Member States to adjust these thresholds in accordance with figures listed in Annex IV. For the UK, these minimums may be set at €200 and 5 hectares.
80. This provision, if implemented, would reduce administrative costs for the Welsh Government. However, it is questionable whether €200 and 5 hectares is high enough, given the nature of farming in the Wales.
81. The Article also requires Member States which opt to pay animal-related coupled support under Articles 38-41 (i.e. headage payments) to set objective minimum area thresholds for those eligible for such support.

#### **Progressive reduction and capping of the payment (Article 11)**

82. Article 11 refers to reducing payments made to each business at the following rates:  
  
By 20% for amounts more than €150,000 and less than €200,000  
  
By 40% for amounts more than €200,000 and less than €250,000  
  
By 70% for amounts more than €250,000 and less than €300,000  
  
By 100% for amounts more than €300,000
83. However, the sums referred to above are based upon direct payment received in the absence of payments linked to greening measures (Articles 29 to 33), less the salaries 'effectively' paid and declared by the farmer the previous year, including taxes, social security contributions etc.
84. All monies derived from progressive reduction and capping would be re-allocated to Pillar 2 within the same Member State.
85. If businesses are deemed to have created artificial circumstances after the date of the original proposal made by the Commission (presumably 18<sup>th</sup> November 2010) in order to avoid progressive capping, they will not receive any payment.
86. Without taking salaries and other contributions into account, it is understood that less than twenty Welsh businesses would be affected by the proposals. If such payments were taken into account it is likely that this figure would fall significantly.

87. The FUW's initial reaction, based upon successive consultation with members, is that it is supportive of the measure and the recognition of the need to take account of the impact on all those who are supported/employed by the farm.
88. However, the Union believes that all funds associated with such reductions should, under this, and all future Regulations, remain within a region rather than being returned to the EU, and that the proposed rates should not be reduced.
89. While the Union recognises that the Welsh Government may object to capping, it is not believed that efforts to counter the proposals would be worthwhile, given the negligible number of Welsh businesses which would be affected.

#### **Flexibility between pillars (Article 14)**

90. Article 14 allows all Member States to introduce voluntary modulation (as it is referred to under the current Regulations), up to a maximum rate of 10%, in order to move money from Pillar 1 to Pillar 2. The level of modulation must be reported to the EU by August 2013 and would be fixed from 2014 to 2019.
91. The FUW objects to such voluntary modulation, as this is likely to reduce funds available for genuine farmers, and could result in significant differences between the levels of direct payment made to farmers in regions which share similar farming types, including neighbouring regions. For example, such flexibility has resulted in modulation rates within the UK which vary between 11.5% and 19%.
92. The Article also allows a limited number of Member States, including the UK, to modulate the amount allocated under the European Agricultural Fund for Rural Development between 2015 and 2020 by up to 5% in order to supplement Pillar 1 payments.

#### **Setting up of the basic payment scheme**

##### **Payment entitlements (Article 18)**

93. Article 18 states that all current entitlements will be abolished ('expire') on the 31<sup>st</sup> of December 2013. As already stated, this proposal takes no account of the need to phase out the current entitlement system, and the bureaucracy associated with abandoning current allocations, only to replace them with new allocations based upon declarations made five and a half months later.

##### **Regional allocation of the national ceilings (Article 20)**

94. Article 20 allows Member States to define regions between which flat-rate payment rates per hectare can differ, according to objective criteria, and be adjusted in accordance with 'pre-established annual steps'. The Article specifies 'agricultural potential' and 'environmental' 'non-discriminatory' criteria which may be used to define such regions.
95. A similar article exists in the current Regulations, which has allowed regions such as England to pay flat-rates which differ between defined regions. For example, in 2011 England has three payment rates: €289.94/ha for non-Severely Disadvantaged Areas (SDA); €233.95/ha for upland SDA other than moorland; and €40.82/ha for upland SDA moorland.

96. Notwithstanding the failure of the Article to refer to administrative regions, it is the Union's understanding that Article 20 provides sufficient flexibility to ensure that Wales can reflect variations between regions by varying payment rates in a way which would prevent significant damage to farm businesses, and the economics of entire sectors and regions.
96. However, despite repeated calls by the FUW over the past two-and-a-half years, investigations of the impact of possible flat-rate payment models, and ways in which land can be categorised in an objective way which minimises disruption remain at an embryonic stage.
97. Given that the Welsh Government must, before August 2013, notify the EC of the regions between which flat rate payments will differ within Wales, and the objective criteria by which those areas have been defined, it is the Union's belief that significant resources must be devoted towards investigating all possible models.
98. Moreover, in the absence of such work, it is likely that the Welsh Government will be forced to implement an overly simplistic payment model which fails to minimise financial disruption for businesses, and entire sectors and regions within Wales.

#### **First allocation of payment entitlements (Article 21)**

99. Under Article 21, those who activated at least one entitlement in 2011 (or those who are otherwise eligible under other sections of the Article – for example, where land has been sold or leased) will be given new allocation of entitlements, based upon the number of hectares declared on the 15<sup>th</sup> of May 2014.
100. It is the Union's view that the proposal for a future 'reference period' will lead to significant speculation and land banking, as businesses who are in a position to do so seek to maximise future returns by ensuring that as many hectares as possible are declared in 2014, leading to increases in land and rental prices.
101. Similarly, it is highly likely that licensors and landlords will, wherever possible, seek to gain possession of land from licensees and tenants.
102. The proposal will also represent a complex process for those who currently have entitlements which differ in value. For example, under the current system a business can farm 90 hectares, while holding 100 entitlements, 50 of which have a value of €200, and 50 of which are worth €100. By creating new entitlements, the historical element of the value of these will have to be calculated based upon a complex formula which may not necessarily be equitable for all – for example, while the precise method in which new entitlement values would be calculated is not clear, this may lead to consolidation of entitlements for one business in a way which is inequitable for others.
103. It is also the case that the amount of eligible land farmed by an individual can vary from year to year to a not insignificant degree; for example, as land is rented in and then released in subsequent years due to business decisions, or because land has become ineligible due to participation in an agri-environment scheme. The proposals to recreate entitlements take away that flexibility between years 2013 and 2014, meaning that the priority for those who can afford to do so will be to amass as much land as possible in 2014.
104. The system will also necessitate transferring entitlements along with land in order to ensure that the genuine farmer of the land receives a payment; something which would be

complicated and administratively burdensome compared with having a system which gives automatic entitlement to payments to the main occupant of the land (see Appendix 2).

### Value of payment entitlements and convergence (Article 22)

105. Article 22 implies that, for those regions implementing a transition from historic to flat rate payments (such as Wales), in 2014 entitlement values would have a unit value of at least 40% of the average payment per hectare for the region, topped up with a value based upon the historic entitlement value. For many farms, this would mean a significant reduction in entitlement value, and the proposal therefore goes completely against the principle of a ‘soft landing’/gradual transition, with the sudden fall in incomes for some businesses likely to be devastating.
106. Compounding this problem is the proposal, under Article 33, that a further 30% of payments be based upon average regional payments. When combined with Article 22, this implies that 70% of all payments would be based upon a flat-rate payment in 2014.
107. The possible impact of Articles 22 and 33, over a five year transition period, for a real family-run dairy farm with 50.5 ha (125 acres) of eligible land and currently annually receiving €24,240 in Pillar 1 payments are shown in Figures 1 and 2

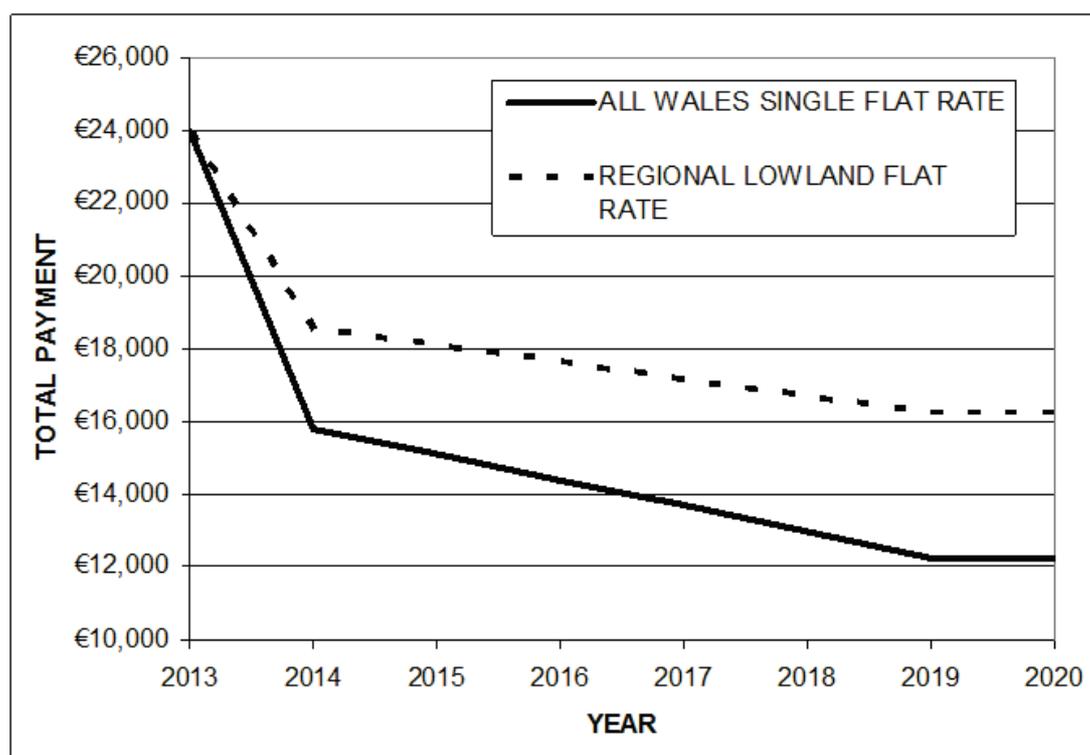


Figure 1: Changes in total direct payments made to a real farm business over a five year transition period, based upon two possible flat rate payment regimes, and assuming that 70% of payments in the first year are made up of the regional flat rate (40% under Article 22, and 30% under Article 33).

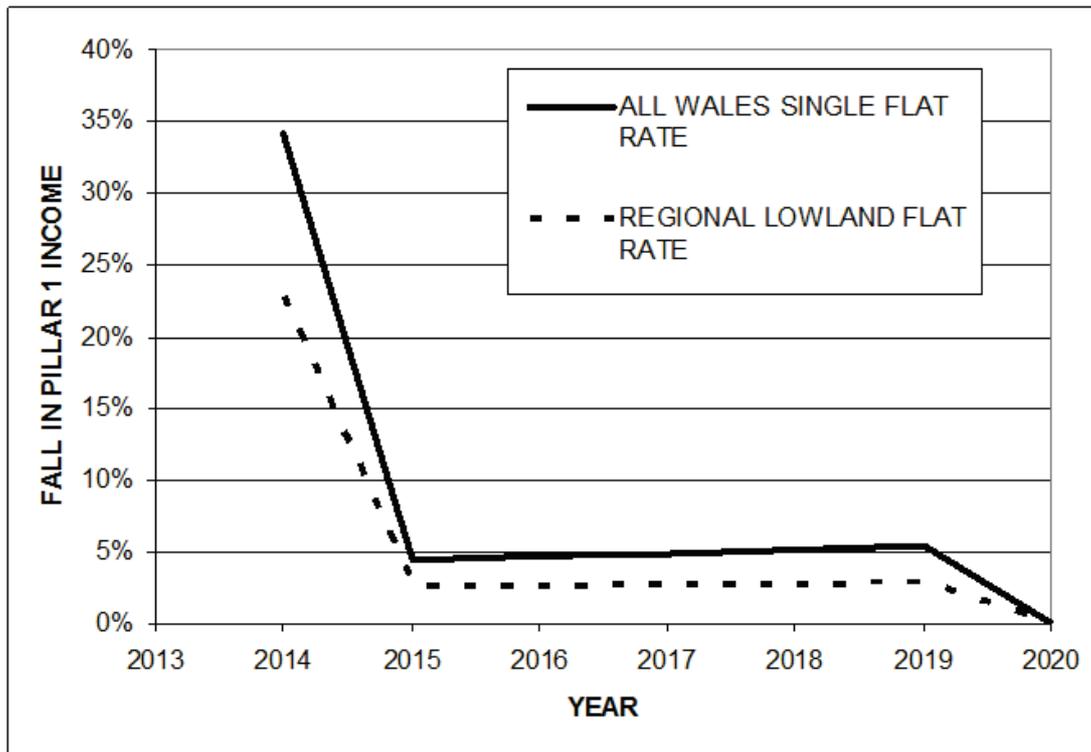


Figure 2: Percentage changes in income from direct payments made to a real farm business over a five year transition period, based upon two possible flat rate payment regimes, and assuming that 70% of payments in the first year are made up of the regional flat rate (40% under Article 22, and 30% under Article 33).

108. The FUW believes that, given the different transitional approaches adopted in regions of the EU previously (for example in England), it should be up to administrations to choose an appropriate transition period, and change payments linearly in accordance with that period until all payments are equal.
109. Article 22 also refers to the complex process of calculating the historical element of the value of a fixed number of ‘new’ entitlements, based upon the number and value of ‘old’ entitlements which were abolished in 2013 – of which there may have been significantly more or less than there are new entitlements.
110. Article 22 makes it clear that, by 2019, all payments entitlements within a region must be the same, and that the proposed transition period is therefore five years. The FUW does not believe that such a period is sufficiently long for a smooth transition to occur, due to the nature of farming in Wales and other regions across Europe, and the length of time it takes farm businesses to re-structure, for example due to animal breeding cycles.

### National reserve

#### Establishment and use of the national reserve (Article 23)

111. Article 23 allows Member States to ‘modulate’ direct payments by up to 3% to create a national reserve. However, this figure can be exceeded in order to cover support for ‘young

farmers who commence their agricultural activity’, which the Commission describes as a ‘matter of priority’.

112. A ‘young farmer’ is defined as ‘natural persons who are setting up for the first time an agricultural holding as head of the holding, or who have already set up such a holding during the five years preceding the first submission of an application to the basic payment scheme...’ and ‘who are less than 40 years of age at the moment of submitting the application referred to in point’.
113. The National Reserve can also be used to allocate payments to farmers in areas subject to ‘restructuring and/or development programmes relating to a form of public intervention in order to prevent land from being abandoned and/or to compensate farmers for specific disadvantages in those areas.’
114. While the FUW has long been an advocate of modulating direct payments in order to help young entrants, it is believed that an overly restrictive definition of ‘young farmer’ may exclude individuals who have much to contribute to the industry.
115. The Union also believes that alternative payment mechanisms, such as that described in Appendix 2, could mitigate the need for a national reserve scheme based upon modulation after a transition period.

#### **Payment for agricultural practices beneficial for the climate and the environment**

116. Articles 29 to 33 link direct payments to three compulsory ‘greening’ measures, with Article 29 implying that greening would be compulsory for all those receiving Pillar 1 payments.
117. The FUW believes that linking Pillar 1 payments to greening measures undermines the two pillar system which currently provides a clear delineation between agri-environmental measures and agricultural activities.
118. The measures, as proposed, would also be likely to reduce the productivity of land and the area of land available for food production, despite food security having been identified by the European Commission and Parliament as the top priority for the post 2013 CAP.
119. Notwithstanding the Union’s objections to greening measures per se, it is believed that any such measures should be targeted at global environmental benefits, such as reducing CO<sub>2</sub> emissions, in a way which lowers environmental impacts without undermining food production and farm profitability, as proposed by the European Parliament.
220. In areas such as Wales, which have a long history of implementing agri-environment schemes, the proposals are likely to undermine agri-environment measures, thereby having an overall negative impact.
221. Notwithstanding the Union’s objections to greening, it is notable that the proposals fail to take into account the ‘catalogue’ of options proposed in the Deß Report. It would therefore be appropriate to allow administrative regions the flexibility to introduce voluntary measures for farmers aimed at tackling global climate change without undermining food production, in line with proposals made in both the Lyon and Deß Reports.

### **General rules (Article 29)**

222. Article 29 states that ‘Farmers entitled to a payment under the basic payment scheme...shall observe on their eligible hectares...the following agricultural practices beneficial for the climate.’ This line implies that ‘greening’ measures would be compulsory for all those receiving direct payments – despite Article 33 implying that ‘greening’ would only be related to 30% of the direct payment, and that that farmers could opt to receive 70% of their payments without undertaking the three greening measures.
223. Organic farmers are not required to undertake greening measures, thus providing an incentive for some to reduce the productivity of their farms by converting to organic, while failing to recognise the contribution made by those who are already in other agri-environmental schemes.

### **Crop diversification (Article 30)**

224. Article 30 states that Farmers with more than three hectares of arable land will have to grow at least three different crops, with no one crop being grown on less than 5% and more than 70% of the land.
225. The low threshold of three hectares represents a major restriction for Welsh farms that is likely to have adverse impacts on farm businesses and the environment by:
- i. Reducing the planting of smaller areas of arable by livestock and dairy farmers who wish to diversify and/or make their farms more self-sufficient, since in many areas the number of crops which can be grown is severely restricted by the availability of appropriate land, climate and topography, and factors such as the availability and cost of appropriate machinery.
  - ii. Reducing the planting of smaller areas of arable which have significant benefits in terms of wildlife and the environment; despite the general view that areas of arable crops have an adverse impact on the environment, such crops have significant benefits, since they add diversity in terms of food availability and habitat. For example, the growing of arable crops is encouraged under agri-environment schemes such as Tir Gofal, and some wildlife charities such as the RSPB encourage and subsidise the growing of arable crops in order to help bird populations.

A three hectare threshold, above which the growing of arable crops becomes impractical, would therefore have a negative environmental impact.

226. Notwithstanding the Union’s objections, per se, to greening, the 70% threshold for any one crop takes no account of future needs of the market (including in terms of food production), the need to use land appropriately, or the needs of individual farming systems such as mixed arable and livestock/dairy farms.

### **Permanent grassland (Article 31)**

227. Article 31 states that ‘Farmers shall maintain as permanent grassland the areas of their holdings declared as such in...2014’, and limits the proportion of such land which can be converted to 5%.

228. For the reasons already stated in relation to Article 30, such restrictions would serve to limit agricultural activities which increase farm self-sufficiency, and thereby reliance upon imported feed, and are beneficial to the environment.

### **Ecological focus areas (Article 32)**

229. Article 32 states that ‘Farmers shall ensure that at least 7% of their eligible hectares...excluding areas under permanent grassland, is ecological focus area such as land left fallow, terraces, landscape features, buffer strips and afforested areas.’
230. It is the FUW’s belief that the proposal effectively means reducing the most agriculturally productive areas of a farm, which is in direct contradiction to the priority identified by both the Parliament and Commission, namely food security.
231. The proposals also raise concerning questions in terms of the agri-environmental schemes envisaged in Wales post 2013, since overlaps between ‘ecological focus areas’ and actions taken to accrue points under the Glastir scheme may well constitute double-funding.

### **Financial provisions (Article 33)**

232. Article 33 allocates 30% of the national ceiling to payments for ‘greening’ measures. However, as pointed out in relation to Article 29, there appears to be some contradiction between Articles 29 and 33. Article 33, when read in conjunction with Article 22, also implies that 70% of all payments made in 2014 would be based upon a regional flat-rate.

## **Payment for areas with natural constraints**

### **General rules and financial provisions (Articles 34 and 35)**

233. Article 34 states that Member States may modulate direct payments by up to 5% in order to grant additional payments to those farming within, or partly within areas with natural constraints.
234. In Wales, 5% of the current budget would represent around €17 million, compared with the previous Tir Mynydd budget of around €29 million (based upon the 2011 exchange rate) – roughly 40% lower than the current LFA budget. However, the payment would be funded by deducting up to 5% from all farmers’ direct payments, then redistributing this among those within the an area with natural constrains (around 80% of Wales), representing nothing more than a redistribution of Pillar 1 funds between farmers, rather than additional funds for those in areas with natural constraints.
235. Given the fact that all of Wales’ main competitors in terms of agricultural output, except England, will continue to make such payments from Pillar 2 funds, the FUW maintains that payments to those in areas with natural constraints should be compulsory, and funded under Pillar 2, in order to ensure commonality between Member States and regions.

## **Payment for young farmers**

### **General rules (Article 36)**

237. Article 36 sets out the general rules for payments for young farmers, with some complex rules with motives which are anything but clear. For example, the article states that ‘The payment shall be granted per farmer for a period of maximum five years. That payment shall be reduced by the number of years elapsed between the setting up and the first submission of the application...Member States shall calculate each year the amount of the payment...by multiplying a figure corresponding to 25% of the average value of the payment entitlements held by the farmer by the number of entitlements he has activated... When applying the first subparagraph, Member States shall respect the following maximum limits in the number of activated payment entitlements that are to be taken into account...’
238. As already stated, the FUW believes that alternative payment models may mitigate the need for such complex and administratively burdensome arrangements (Appendix 2).

### **Coupled Support (Articles 38 to 41)**

238. Articles 38 to 41 propose continuing to allow member states to provide coupled support to farm businesses (current allowed under Article 68). The only region in the UK where the current provision has been applied is Scotland, where the Scottish Beef Calf Scheme provides €29.8 million in order to support the production of Scotch beef and to maintain cattle in the uplands in a manner which is considered to be beneficial to the environment.
239. The article would allow up to 5% of annual Member States’ financial ceilings to be used for coupled support to the extent necessary to ‘create an incentive to maintain current levels of production in the regions concerned’ ‘where specific types of farming or specific agricultural sectors undergo certain difficulties and are particularly important for economic and/or social reasons.’ Subject to strict rules detailed in Article 39, the 5% threshold may be increased up to 10%.
240. The FUW is unaware of the current Welsh Government’s position on the proposals, but is aware that there has previously been opposition to such measures being made available, on the grounds that these go against the principle of decoupling, and can generate what is perceived as unfair competition, including within a Member State.
241. The current view of the Union is that such measures are there for a reason (as is clearly described in the draft Articles), and that situations may arise in Wales in future – for example where certain sectors and supply chains are severely threatened – which make the availability of such measures desirable.
242. The FUW therefore supports the provision of such Articles, provided that all applications for coupled support are carefully scrutinised by the Commission.

## **Small farmers scheme**

### **General rules (Article 47)**

243. Articles 47 to 51 makes it compulsory for all Member States to allow farmers to participate in a simplified scheme, with payments set at either

- i. No more than 15% of the national average direct payment or
- ii. No more than the national average payment per hectare multiplied by the number of hectares, with a maximum of three (currently around €730 in Wales)

Provided that the amount is no higher than €1,000 (in Wales, 15% of the average payment is €3,000) and no lower than €500.

244. While this section may be aimed at certain Member States, such as those in Eastern Europe where farm units can be small, there seems little doubt that in Wales such a provision would create a new tier for payment recipients which would be administratively burdensome.
245. The scheme would also allow participants to opt out of CAP inspection regimes, creating a loophole for a category of farmers who may be the greatest offenders in terms of complying with animal health requirements etc.
246. It is therefore believed that the small farmer scheme should not be compulsory, given it was designed with particular Eastern European regions in mind.

## APPENDIX 1

# AN ANALYSIS OF THE WELSH SINGLE PAYMENT REGIME AND THE IMPACT OF POSSIBLE FLAT-RATE SINGLE PAYMENT MODELS

Farmers' Union of Wales

July 2009

## SUMMARY

*Single Payments made to farm businesses in Wales under Pillar I of the Common Agricultural Policy in 2007 have been analysed in order to investigate the current distribution of payments, and the potential impact that possible future flat-rate Single Payment models could have in terms of the redistribution of monies paid to farm businesses. All figures are presented in pounds sterling, based upon a Sterling-Euro exchange rate of £0.6968.*

*For all models investigated, the transition to a flat-rate Single Payment regime results in a significant redistribution of monies, with the majority of those currently receiving Single Payments below £16,000 gaining under the payment regimes studied. Businesses that currently receive more than £16,000 are, on average, net losers under all the flat-rate payment regimes studied. This redistribution is attributed to the fact that the average payment per hectare for those currently receiving more than around £16,000 is higher than the average payment per hectare for all Welsh land.*

*The effects for individual farm businesses are shown to vary significantly, with variance increasing for higher payment bands. Considerable differences are shown to exist between the apparent disruptive effects of the models studied, suggesting further work would identify models that go some way towards minimising disruption for the farming industry. However, the asymmetrical distribution of data relating changes in payment rates highlights the need for careful analyses of the disruptive impact of any model.*

## INTRODUCTION

In September 2003, the EU Agriculture Council formally adopted the legal texts of the June 2003 Common Agricultural Policy (CAP) Reform agreement, marking the most important changes to the European agricultural support framework since the 1992 MacSharry Reforms.

The most significant element of the reform was the introduction of direct Single Payments per hectare for producers, aimed at shifting the CAP away from the World Trade Organisation (WTO) Blue Box (trade distorting support) to the Green Box (non-trade distorting support).

The Regulations gave Member States and regions significant flexibility in terms of the implementation of the new regime, including the option of allocating Single Payments to individual farm businesses based upon historical CAP Pillar I receipts, and this has resulted in Single Payment frameworks that differ significantly between Member States and regions.

In Wales, following consultation with stakeholders, the Welsh Assembly Government agreed to implement an historically based Single Payment Scheme from 2005, on the grounds that this would minimise financial disruption, and avoid the complete redistribution of payments within the industry.

Welsh Single Payments for farm businesses are therefore largely based the average CAP Pillar I payments received per eligible hectare during the reference years 2000, 2001, and 2002, and upon the amount of Milk Quota held on the 31<sup>st</sup> of March 2005.

For example, if a farm business declared an average of 100 hectares of eligible area and received average Pillar I payments of €12,000 during 2000, 2001 and 2002, , the business would have been allocated 100 Single Payment Entitlements, each valued at €120. From 2005, the business would have been paid €120 (notwithstanding deductions through modulation etc.) for every hectare of eligible land declared.

While the 2003 reforms provided significant flexibility in terms of the Single Payment models chosen within regions, it was also clear that the ultimate goal of the reforms was the introduction of fixed payments per hectare, or *flat-rate* payments, such that the payment received by any individual business within a region, or sub region, would be directly proportional to the area of eligible area farmed by that business – thus severing any link to past production.

This position was reiterated in the November 2008 CAP Health Check agreement which, while postponing the deadline by which Member States and regions must convert to flat rate payments, confirmed that all Single Payment regimes must be based on flat-rate models within the next decade.

While it is generally recognised that the move towards a flat-rate payment model in Wales is likely to bring about significant financial disruption and a redistribution of payments between farm businesses, relatively little work has been done in terms of investigating how such disruption might be minimised.

Moreover, there appears to be only limited or anecdotal evidence regarding the impact that the move towards flat-rate payments has had in those countries that have opted for flat-rate or flat-rate-hybrid models.

In particular, there is a significant absence of evidence as to impact of the dynamic hybrid model adopted in England in 2005, which combines historic and flat-rate components, with the percentage made up by the former decreasing such that, by 2012, payments will be entirely based on a flat-rate model.

In light of this apparent lack of information, anonymised area and payment data has been used to build upon work already undertaken by the Welsh Assembly Government, in order to examine current payment distributions between land types, and the impact of adopting a number of different payment models in terms of the redistribution of payments to, and therefore disruption for, farm businesses.

## **METHODS**

### **General Background to Analyses**

The data provided by WAG lists 16,940 individual Welsh Single Payment values, and the eligible areas upon which those payments are claimed, with the latter being divided into areas according to the following land categories: Disadvantaged Area (DA), Severely Disadvantaged Area (SDA), non-Less Favoured Area (non-LFA), and common land. No data was made available that could be used to identify individual businesses.

This data was analysed in order to calculate statistics relating to current payments and the land categories used to access such payments, and computer models were developed to investigate four possible flat-rate payment regimes, based upon current land categories. All analyses and models were developed using the FORTRAN computer language.

## **Models Studied**

Four flat-rate models were studied to assess the impact of each on payment distributions. All payment rates were calculated such that the sum of all modelled payments equalled the total Single Payment budget for Wales.

For each model it was assumed that all common land is Less Favoured, as the LFA status of common land areas associated with each payment were not available. While this assumption is likely to introduce some errors into the data, it is unlikely to have a major effect on averages and general trends, since the vast majority of common land, being manorial waste and/or open mountain, is likely to be Less Favoured.

It should also be noted that eligible land not currently entered on IACS forms has not been accounted for; given that it is inevitable that a flat-rate model will attract claims on land not currently claimed against, as happened in England during 2005, all payments and payment rates calculated are slightly larger than would actually be the case. However, the omission of such land is unlikely to have any significant effect on the general trends and analyses presented for the four models.

The models studied were:

### ***Model 1***

*A flat rate payment of £169.24 for every eligible hectare, irrespective of land category.*

### ***Model 2***

*A model retaining the balance between all monies paid within and outside the LFA, with payment rates of £157.11 per hectare of Less Favoured land, and £224.18 per hectare of non-LFA land.*

### ***Model 3***

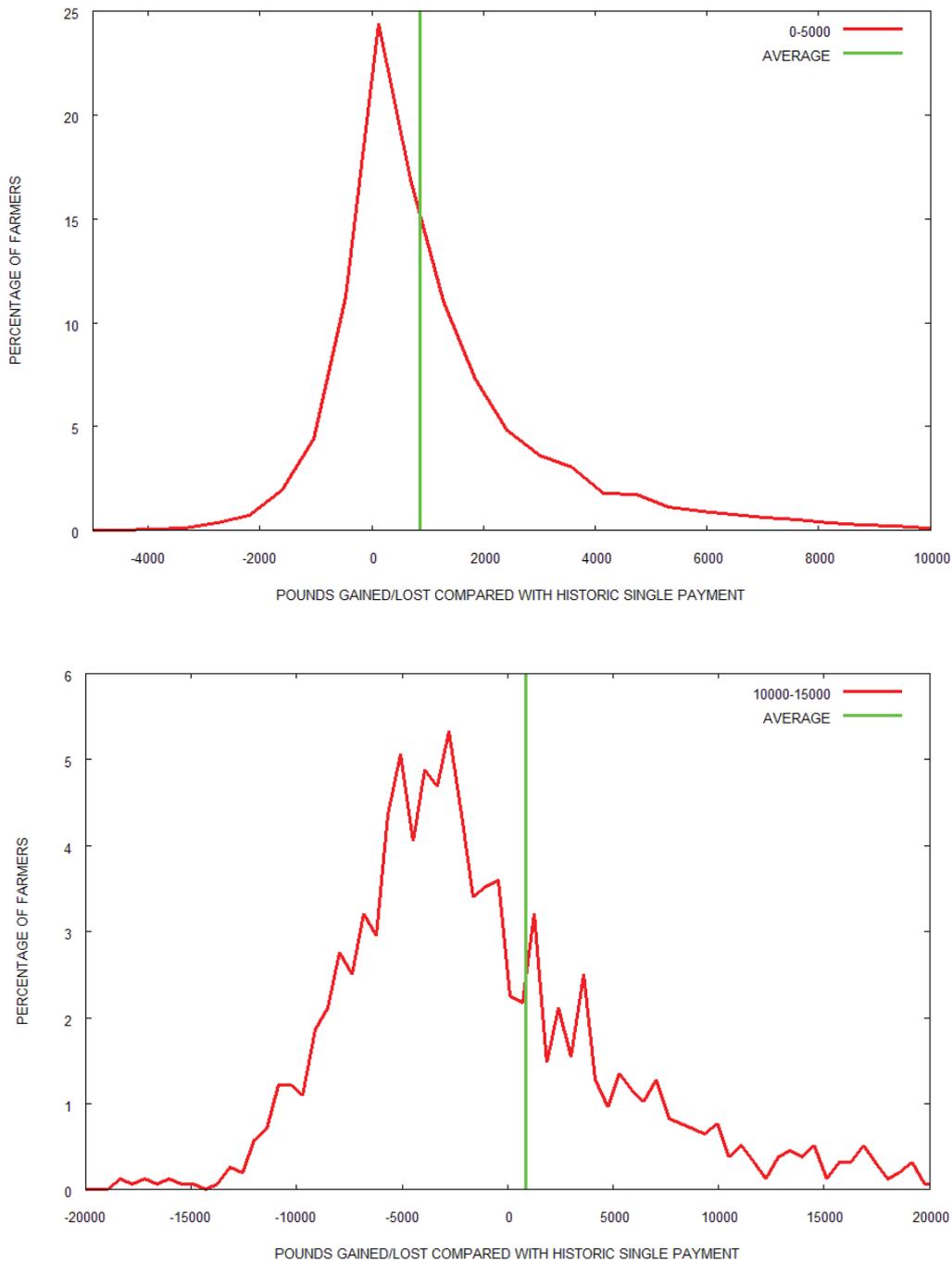
*A model retaining the balance between all monies paid within and outside the SDA, where common is assumed to be SDA, with payment rates of £139.74 per hectare of SDA land, and £213.08 per hectare of non-SDA land.*

### ***Model 4***

*A model retaining the balance between all monies paid on SDA, DA, non-LFA, and common land, with payment rates of £145.02 per hectare of SDA land, £204.01 per hectare of DA land, £224.18 per hectare of non-LFA land, and £117.21 per hectare of common land.*

## Estimating the financial disruption caused for each model

The distribution of data points relating the financial gains or losses for farm businesses compared with current receipts is found to be significantly asymmetrical for all the models considered, making analysis of the impact of each model using more conventional methods (i.e. methods applied for symmetrical/Gaussian distributions) inappropriate (*Figure 1*).



**Figure 1:** The percentage of farm businesses currently receiving payments of between £0 and £5,000 (top) and £10,000-£15,000 (bottom) that would gain or lose money under a pure flat-rate model (£169.24 per hectare), plotted against the magnitude of those gains/losses. The difference between the peaks in percentage values and the averages for all points (green vertical lines) demonstrates the asymmetrical distribution of the data.

Distributions have therefore been analysed iteratively in order to establish a measurement of the ‘disruption’ caused by relative models, using the approach described in the Appendix.

## ANALYSIS OF CURRENT PAYMENTS

Tables 1 and 2, and Figure 2, show general data associated with the current (historically based) payment regime.

As might be expected, the data shows the clear relationship between quality of land and the payments received for that land, with non-LFA attracting the highest payments per hectare, followed, respectively, by DA, SDA and common land.

This reflects the fact that CAP Pillar I payments received during the reference period were effectively based upon the number of eligible stock/area of crops on each farm, which can, in turn, be considered to be a reflection of the fertility, size, altitude, and climate of any particular farm.

Thus, current payments are, in general terms, a reflection of the production capacity per hectare. However, it should be noted that the way in which the payment rate per hectare for the whole dataset reflects land quality may be understated, since a significant proportion of the land associated with individual businesses is made up of different land types.

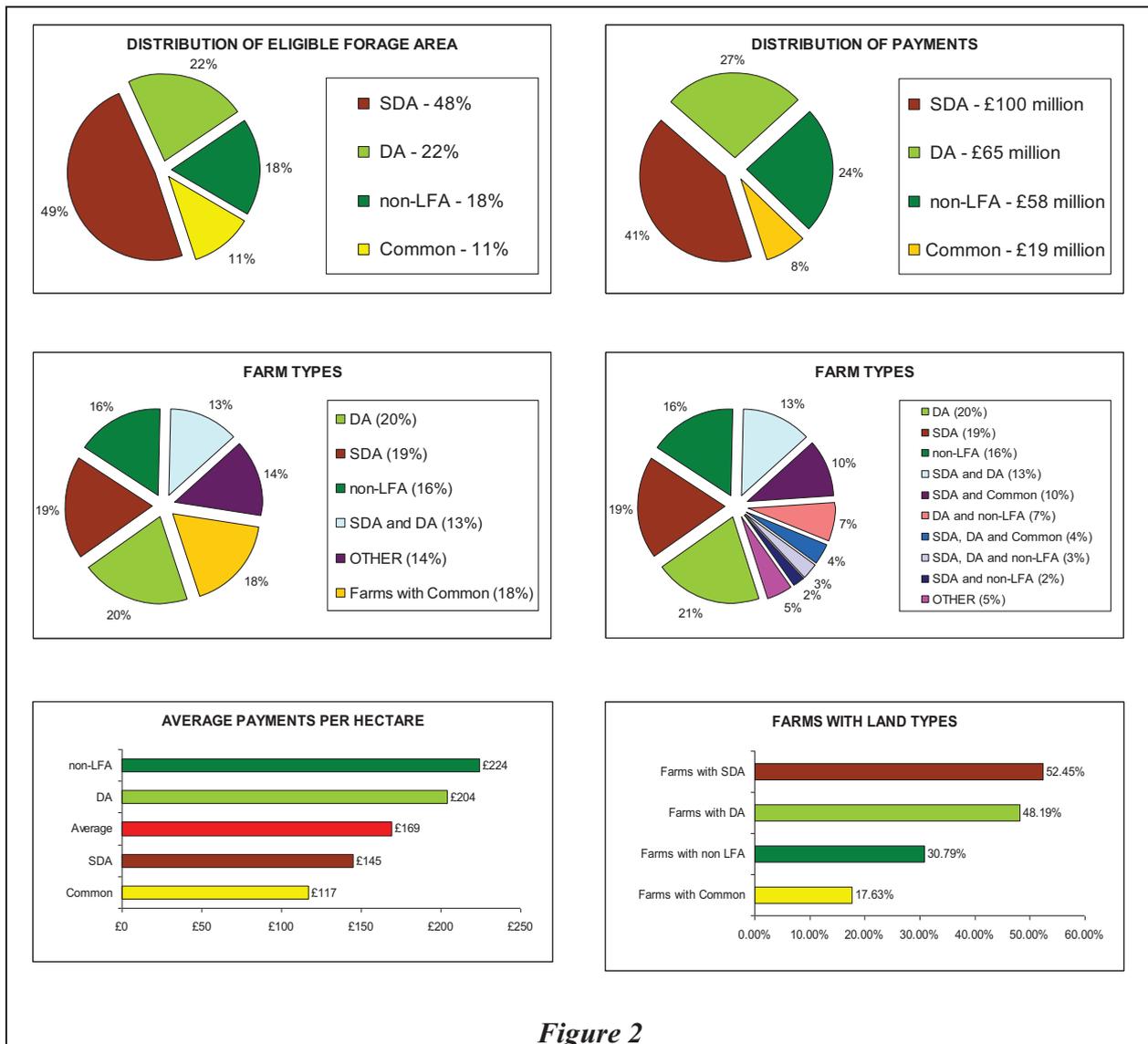


Figure 2

**Table 1**

<b>Description</b>	<b>Value</b>	<b>Value as %</b>
<i>Total number of hectares claimed</i>	1,431,797	100%
<i>Total number of SDA hectares</i>	693,595	48.44%
<i>Total number of DA hectares</i>	317,014	22.14%
<i>Total number of non-LFA hectares</i>	258,820	18.08%
<i>Total number of common land hectares</i>	162,369	11.34%
<i>Number of holdings without land</i>	112	--
<i>Total value of Special Entitlements</i>	£501,175.31	--
<i>Average payment per hectare</i>	£169.24	100%
<i>Average payment per hectare of SDA</i>	£144.72	85.51%
<i>Average payment per hectare of DA</i>	£203.59	120.30%
<i>Average payment per hectare of non-LFA</i>	£223.72	132.19%
<i>Average payment per hectare of Common Land</i>	£116.97	69.11%
<i>Average payment per hectare of LFA</i>	£156.79	92.64%
<i>Sum of all Single Payments</i>	£242.31 million	100%
<i>Total payment on SDA land</i>	£100.37 million	41.42%
<i>Total payment on DA land</i>	£64.54 million	26.64%
<i>Total payment on non-LFA land</i>	£57.90 million	23.90%
<i>Total payment on Common Land</i>	£18.99 million	7.84%
<i>Total payment in the LFA</i>	£183.91 million	75.90%

**Table 2**

<b>Description</b>	<b>Value as %</b>
<i>Percentage of farms with just SDA land</i>	18.98%
<i>Percentage of farms with just DA land</i>	20.12%
<i>Percentage of farms with just non-LFA land</i>	16.49%
<i>Percentage of farms with just common land</i>	0.00%
<i>Percentage of farms with just SDA and DA land</i>	12.85%
<i>Percentage of farms with just SDA and common land</i>	10.42%
<i>Percentage of farms with just DA and common land</i>	0.77%
<i>Percentage of farms with just DA, non LFA and common land</i>	0.32%
<i>Percentage of farms with just SDA and non-LFA land</i>	2.21%
<i>Percentage of farms with just SDA, DA and common land</i>	4.24%
<i>Percentage of farms with just SDA, non-LFA and common land</i>	1.12%
<i>Percentage of farms with just DA and non-LFA land</i>	7.27%
<i>Percentage of farms with just non-LFA and common land</i>	0.75%
<i>Percentage of farms with just SDA, DA and normal land</i>	2.62%
<i>Percentage of farms with all types of land</i>	1.17%
<i>Percentage of farms with no land =</i>	0.66 %

Figure 3 shows the relationship between current (historical) Single Payment levels and payment values per hectare (average Single Payment entitlement values).

For recipients of Single Payments below around £16,000, the average payment value per hectare increases with payment size, but remains below the average payment rate per hectare for Wales as a whole. For recipients of payments in the range £16,000 to £40,000 there is a general increase in average payment values per hectare, while above £40,000, variances in payment rates increase, but appear to fluctuate around an average.

The average payment per hectare for recipients of Single Payments below £16,000 is £138.08, whereas, for those with payments above £16,000, the average payment per hectare is £184.00. It is therefore clear that, given an average Single Payment rate of £169.24, a uniform flat-rate payment regime would result in a net flow of monies away from those currently receiving Single Payments above £16,000, to those receiving less than that figure.

The differences between payments per hectare on SDA, DA, non-LFA and common land also indicate that a single flat-rate Welsh payment of £169.24 per hectare would result in a major redistribution of monies between land categories, with non-LFA and DA land losing £14m and £11m respectively, while SDA and common land would gain £17m and £8m. If common land is assumed to be SDA, the net result is a movement of £25m to the SDA, and a commensurate loss in the non-LFA and DA.

It can also be concluded that, unless the proportions of land types managed by recipients of less than £16,000 differ greatly from those in the bands above £16,000, all payment models will result in a net flow of payments to what are likely to be smaller businesses.

Figure 4 demonstrates the broad distribution of payment rates per hectare within each historical payment band, with variance increasing for higher Single Payment bands, to the extent that averages become less meaningful for higher payment bands.

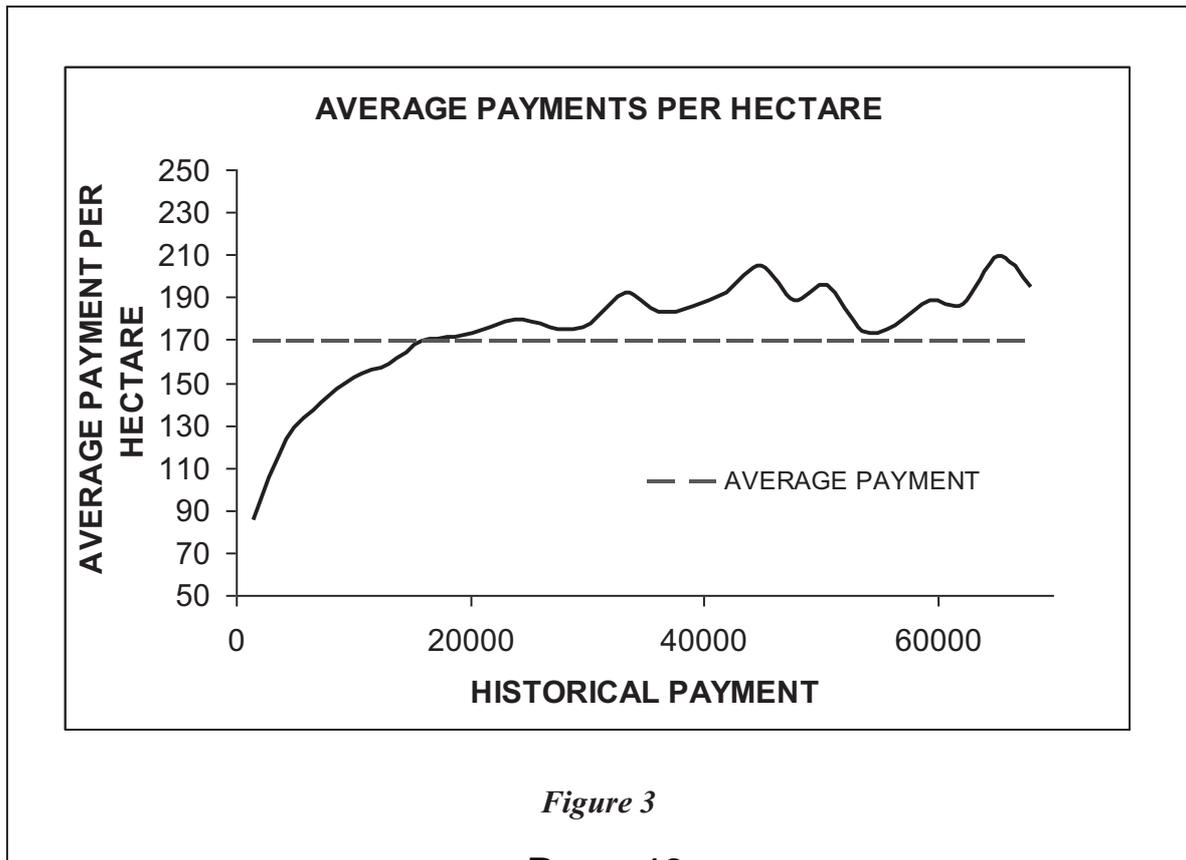
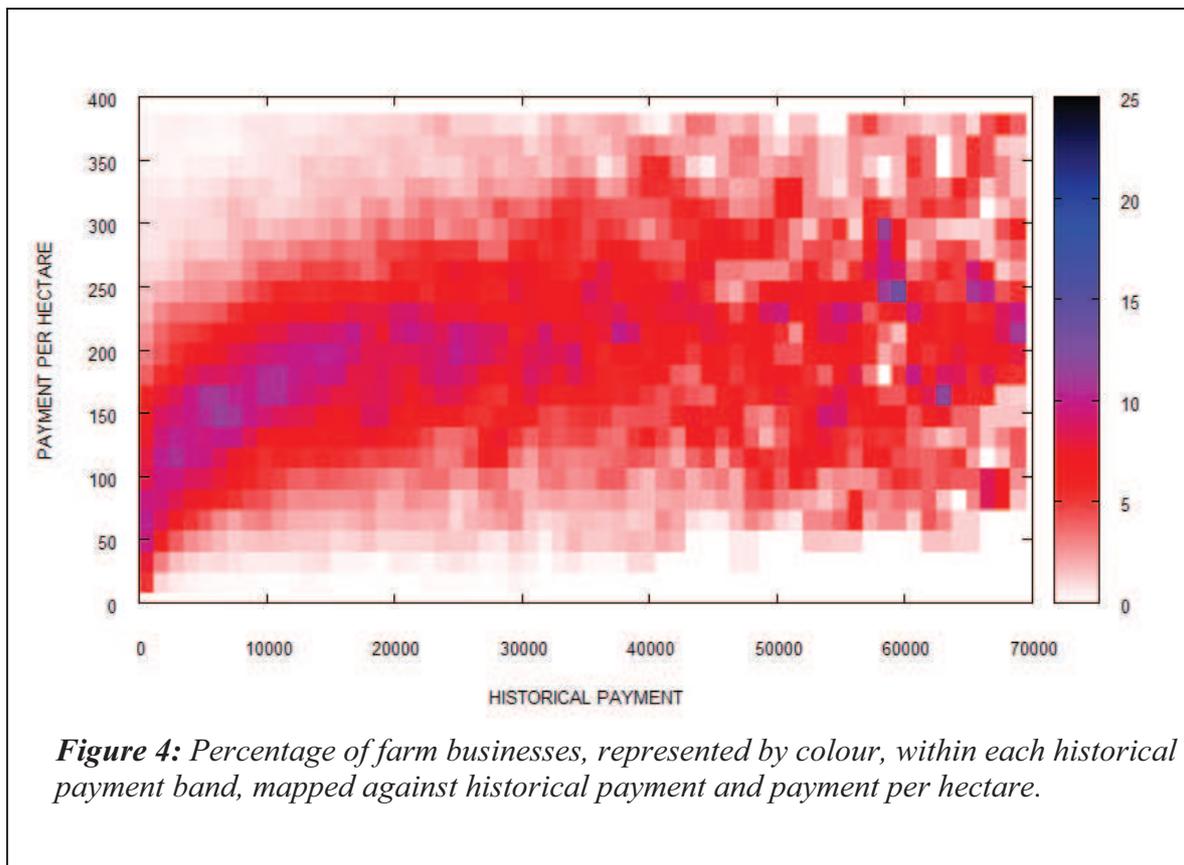


Figure 3



While such variance may well be genuine, it should be noted variance increases naturally as the size of the dataset decreases (see *Figure 8*).

It is nevertheless clear that, for all payment bands, the financial disruption caused for individual businesses would vary significantly, irrespective of the flat-rate payment model used, and that this disruption will increase for those falling within higher payment bands.

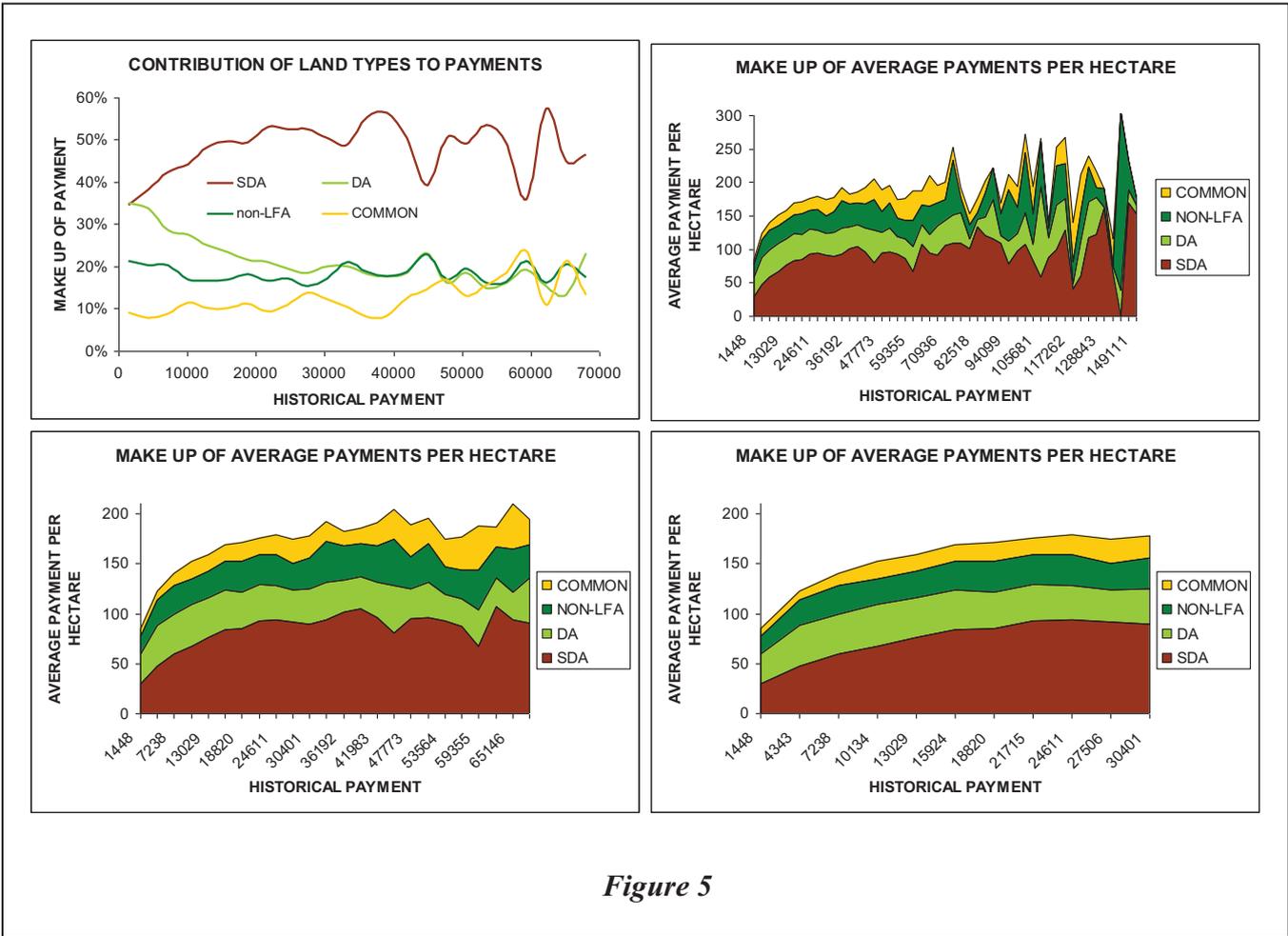
*Figure 5* provides various breakdowns of the contributions made by the four land types (SDA, DA, non-LFA and common land) to the total average payments per hectare for various Single Payment bands.

For Single Payments up to around £30,000, there is an average increase in the proportion of SDA and common land making up the average claim area, whereas reliance on DA land falls over a similar range. This shows that recipients of larger Single Payments are more likely to rely on SDA and common land, whereas recipients of smaller payments are more likely to rely on DA land.

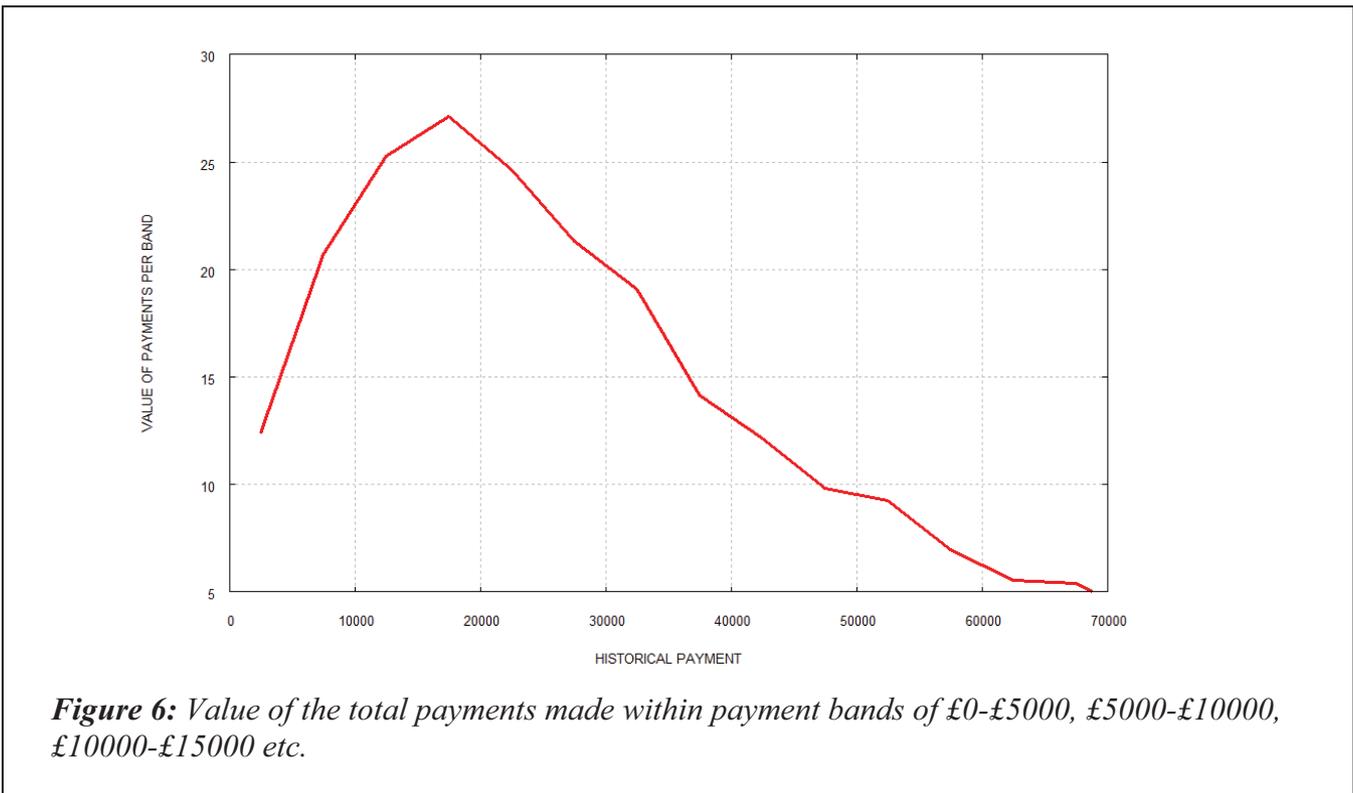
The data also makes it clear that flat-rate models that allow different payments for different land types will, on average, significantly alter any redistribution of monies between payment bands, including the net flow of payments to businesses that currently receive Single Payments below £16,000.

*Figure 6* shows the value of the total payments made within payment bands of £0-£5,000, £5,000-£10,000, £10,000-£15,000 etc., while *Figure 7* shows a summation of the same data expressed as a percentage of the total Welsh Single Payment. The peak in *Figure 5* indicates that the largest proportion of the total Welsh Single Payment (per payment band) is made to recipients of between £10,000 and £20,000, while *Figure 7* shows that around 50% of the total Welsh Single Payment is made to recipients of £25,000 or less.

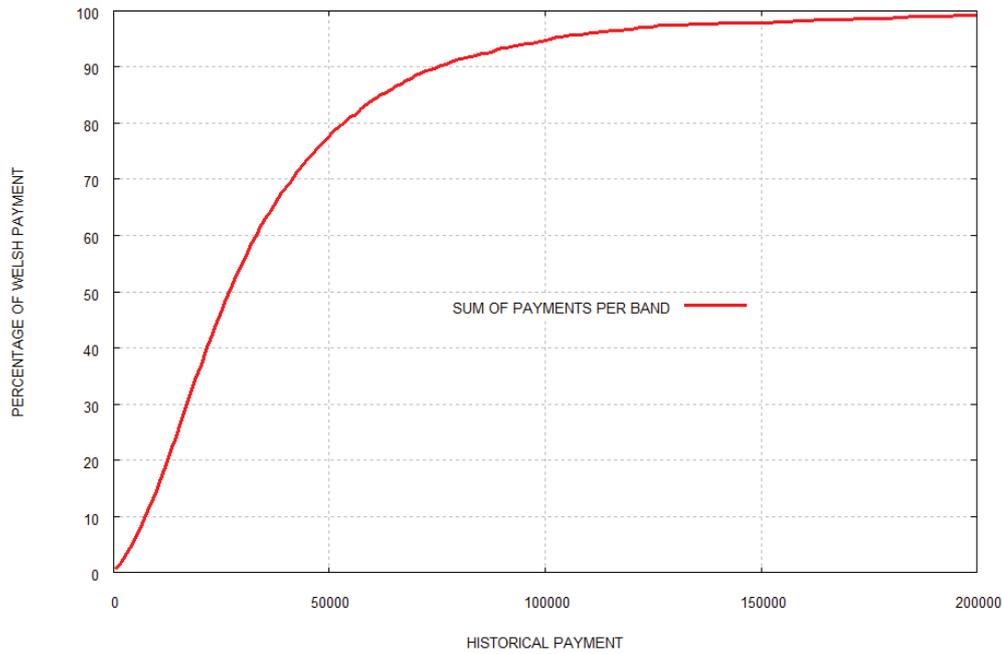
Plotted in *Figure 8* are the number of farm businesses within payment bands of £0-£5,000, £5,000-£10,000, £10,000-£15,000 etc, showing an exponential fall in the number of Single Payment recipients as payments increase.



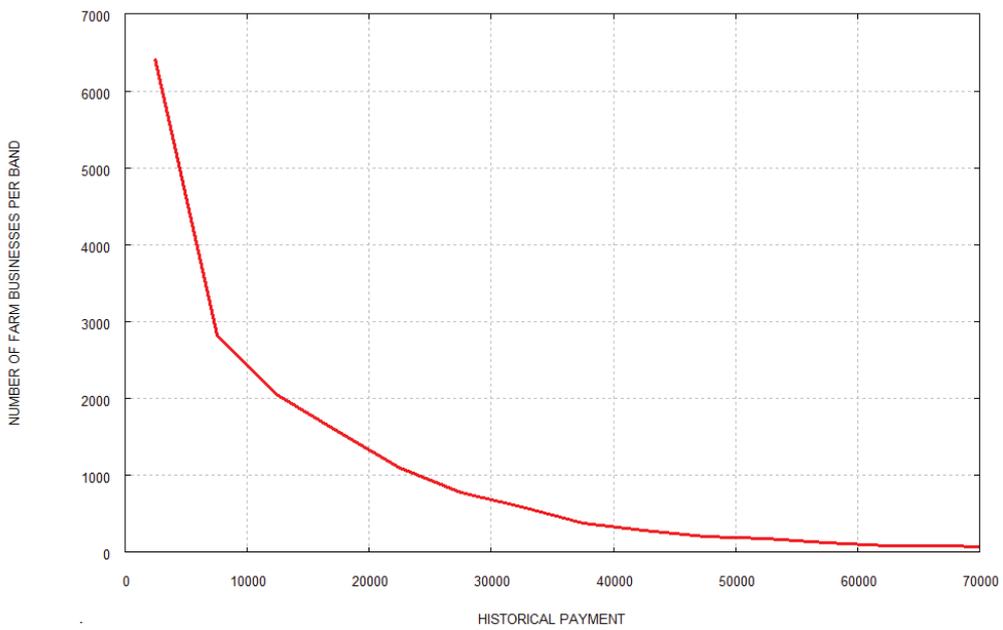
*Figure 5*



*Figure 6: Value of the total payments made within payment bands of £0-£5000, £5000-£10000, £10000-£15000 etc.*



**Figure 7:** Summation of the total payments made within payment bands of £0-£5000, £5000-£10000, £10000-£15000 etc., expressed as a percentage of the total Welsh Single Payment.



**Figure 8:** Number of farm businesses within payment bands of £0-£5,000, £5,000-£10,000, £10,000-£15,000 etc

## ANALYSIS OF THE IMPACT OF FOUR FLAT-RATE PAYMENT MODELS

### Payment Models

#### *Model 1*

*A flat rate payment of £169.24 for every eligible hectare, irrespective of land category.*

#### *Model 2*

*A model retaining the balance between all monies paid within and outside the LFA, with payment rates of £157.11 per hectare of Less Favoured land, and £224.18 per hectare of non-LFA land.*

#### *Model 3*

*A model retaining the balance between all monies paid within and outside the SDA, where common is assumed to be SDA, with payment rates of £139.74 per hectare of SDA land, and £213.08 per hectare of non-SDA land.*

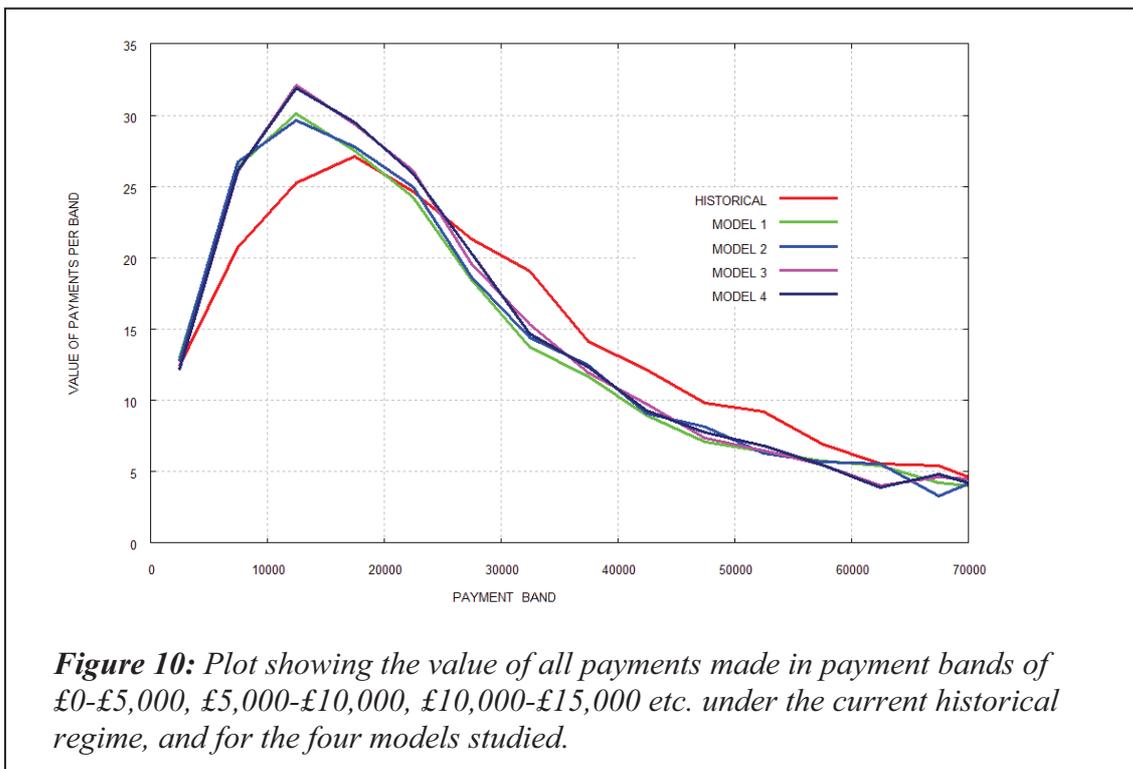
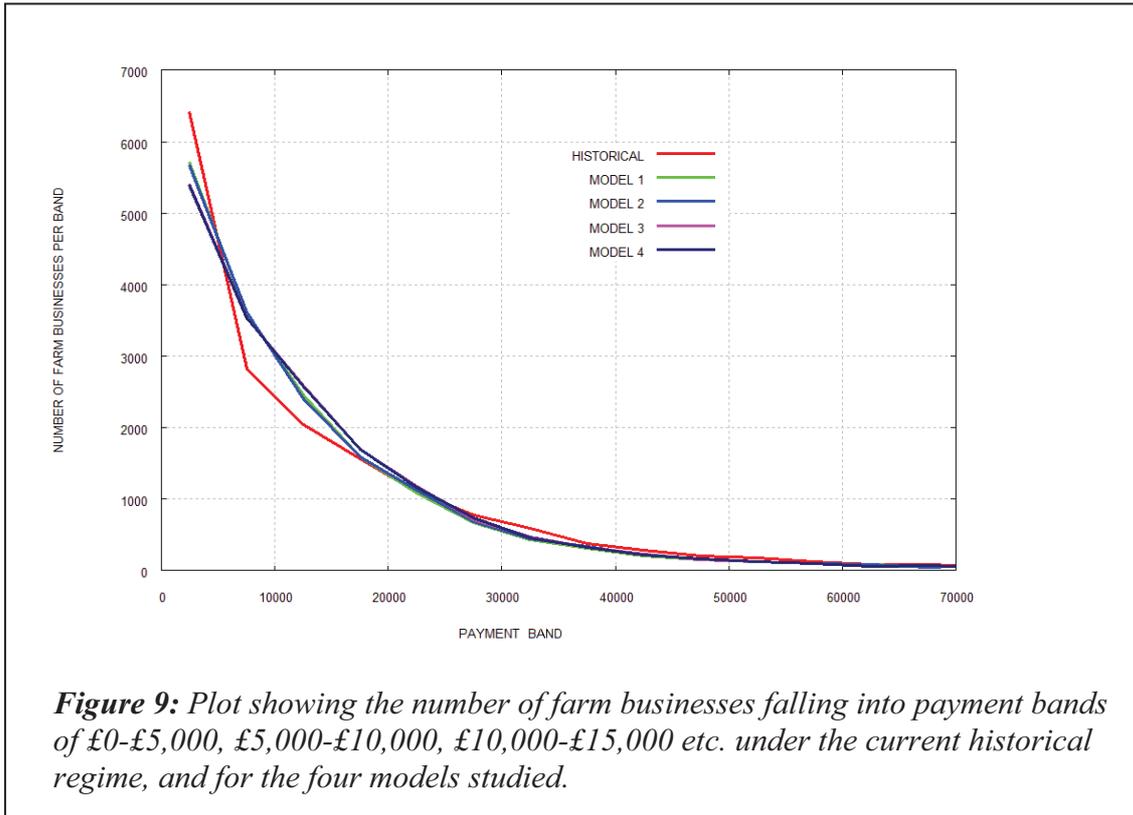
#### *Model 4*

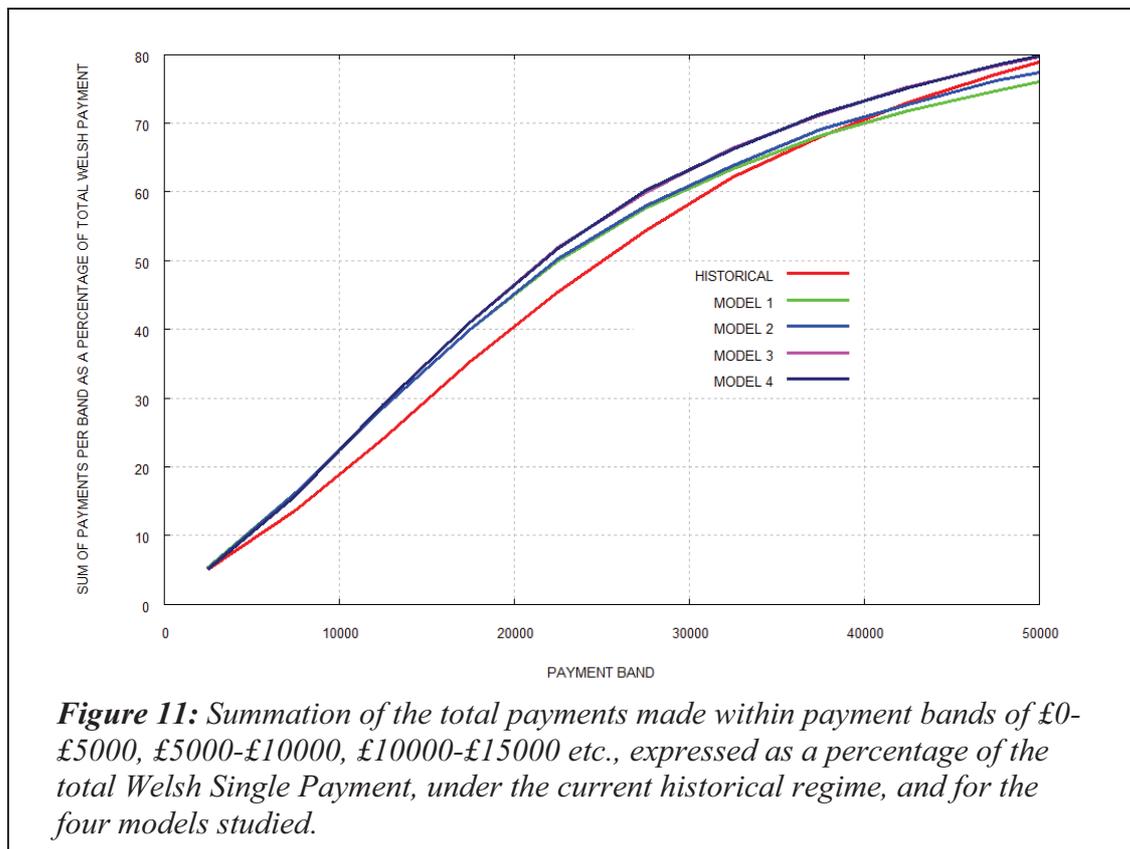
*A model retaining the balance between all monies paid on SDA, DA, non-LFA, and common land, with payment rates of £145.02 per hectare of SDA land, £204.01 per hectare of DA land, £224.18 per hectare of non-LFA land, and £117.21 per hectare of common land.*

### Changes in Payment Distributions

As anticipated, all of the models studied show a redistribution of monies away from recipients of higher payments (*Figure 9*), resulting in a shift in the total Single Payments paid out per band towards lower payment bands (*Figure 10*).

This movement of monies is particularly evident in *Figure 11*, which indicates that, while around 50% of the total Welsh Single Payment is currently made to recipients of between £0 and £25,000 or less, for the models studied this range is reduced to between £0 and around £22,000.



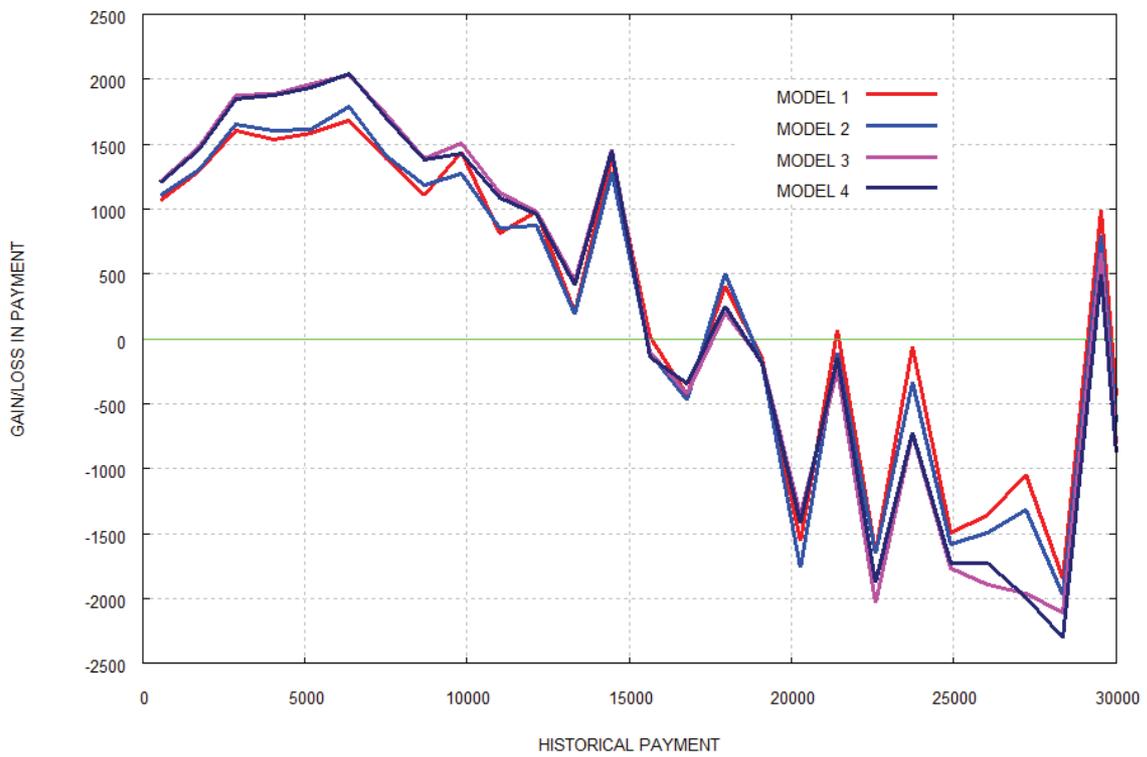
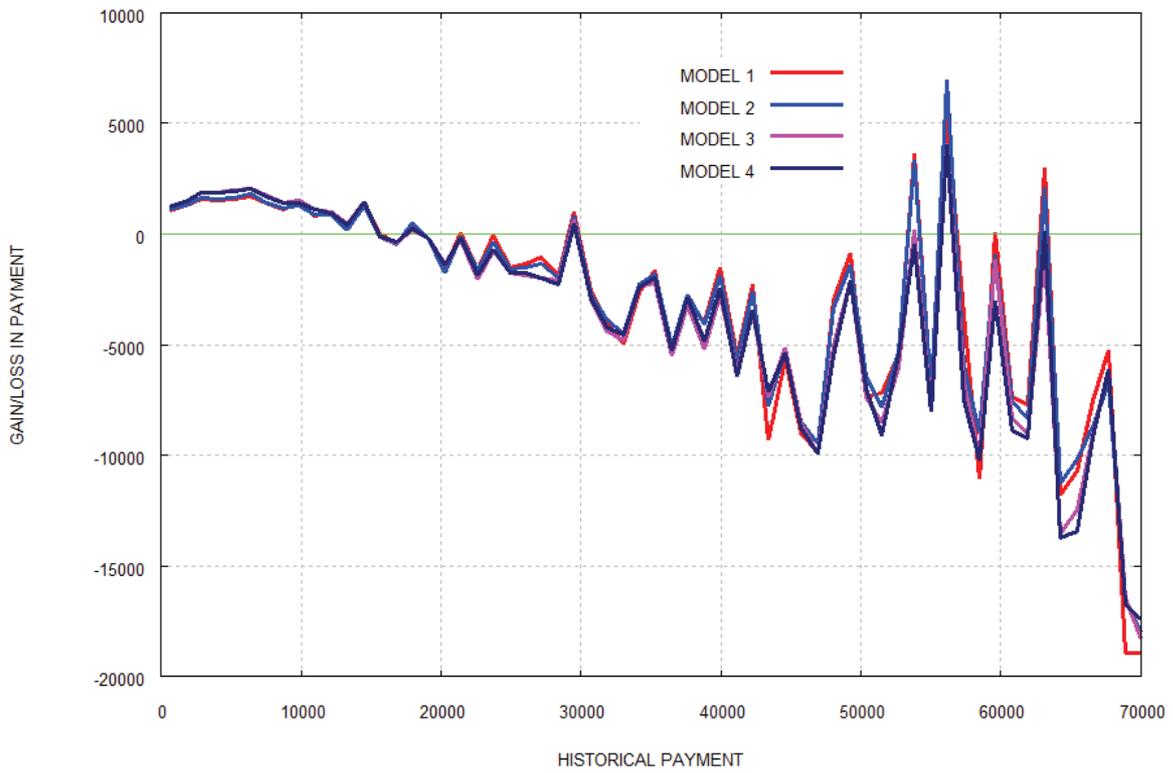


### Average Gains and Losses

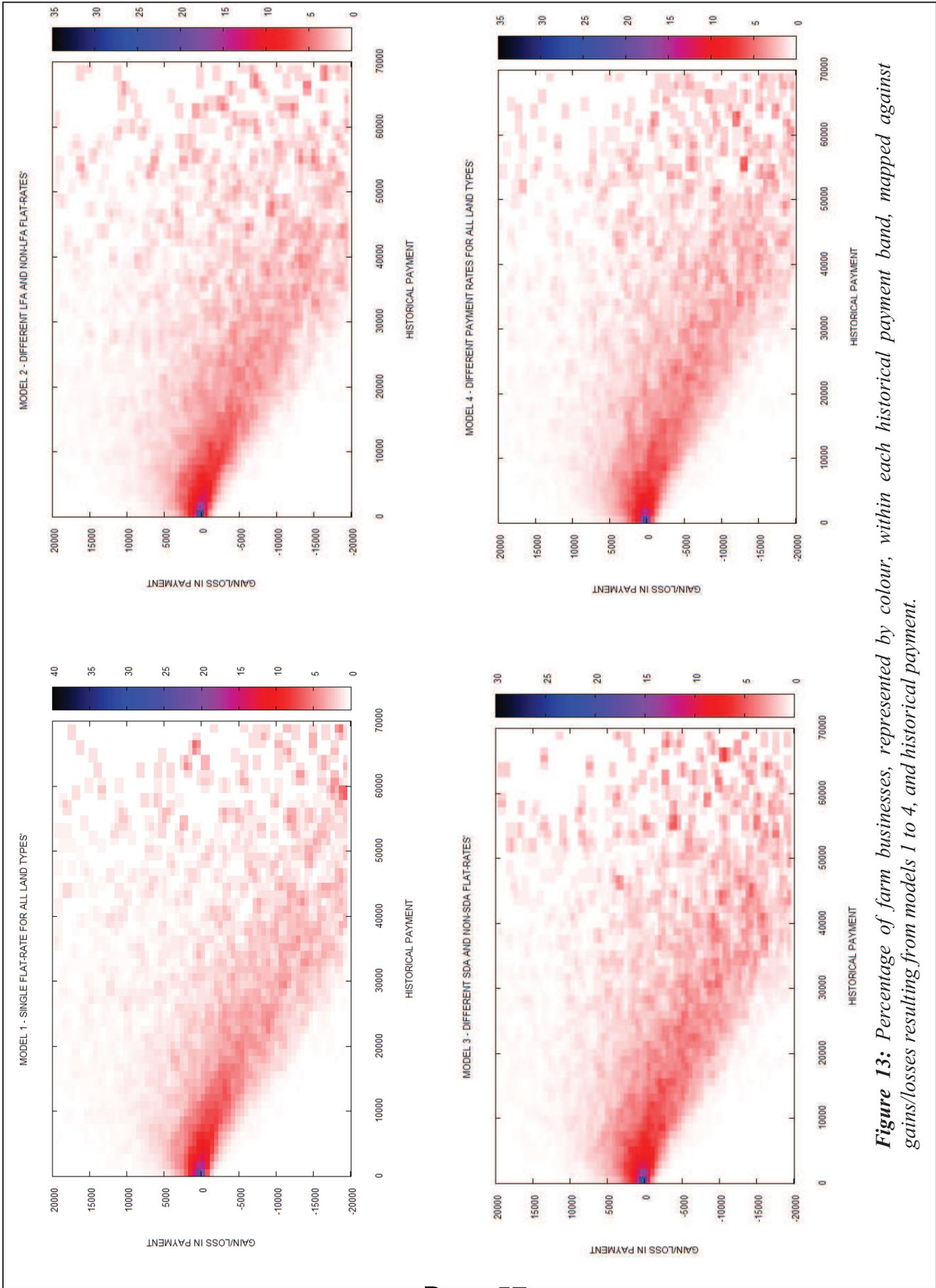
As already discussed, average payments per hectare for recipients of Single Payments below around £16,000 are significantly below the Welsh average of £169.24, and flat-rate payment models are therefore likely to result, on average, in a movement of monies to businesses currently receiving below £16,000. This supposition is confirmed for the four models studied, as indicated in *Figure 12*, which shows the average gains/losses for businesses, plotted against historical payments for the four payment models studied.

However, *Figure 12* also shows that the average impact of each model differs significantly, with models 3 and 4 resulting in a larger increase in the average payments received by farm businesses that currently receive less than around £16,000, with the converse being true for average payments above the £16,000 threshold.

As already discussed (page 4), while *Figure 12* clearly represents, on average, significant disruption for those in historical payment bands above around £16,000, the distribution of gains/losses within each payment band increase as payments increase, and are significantly asymmetrical, as shown in *Figures 1 and 13*. This means that normal methods of measuring the total disruption caused for businesses within each band are inappropriate, and the method described in the Appendix has therefore been adopted for this purpose.



**Figure 12:** Plots showing the average gains/losses for farm businesses plotted against historical payment.



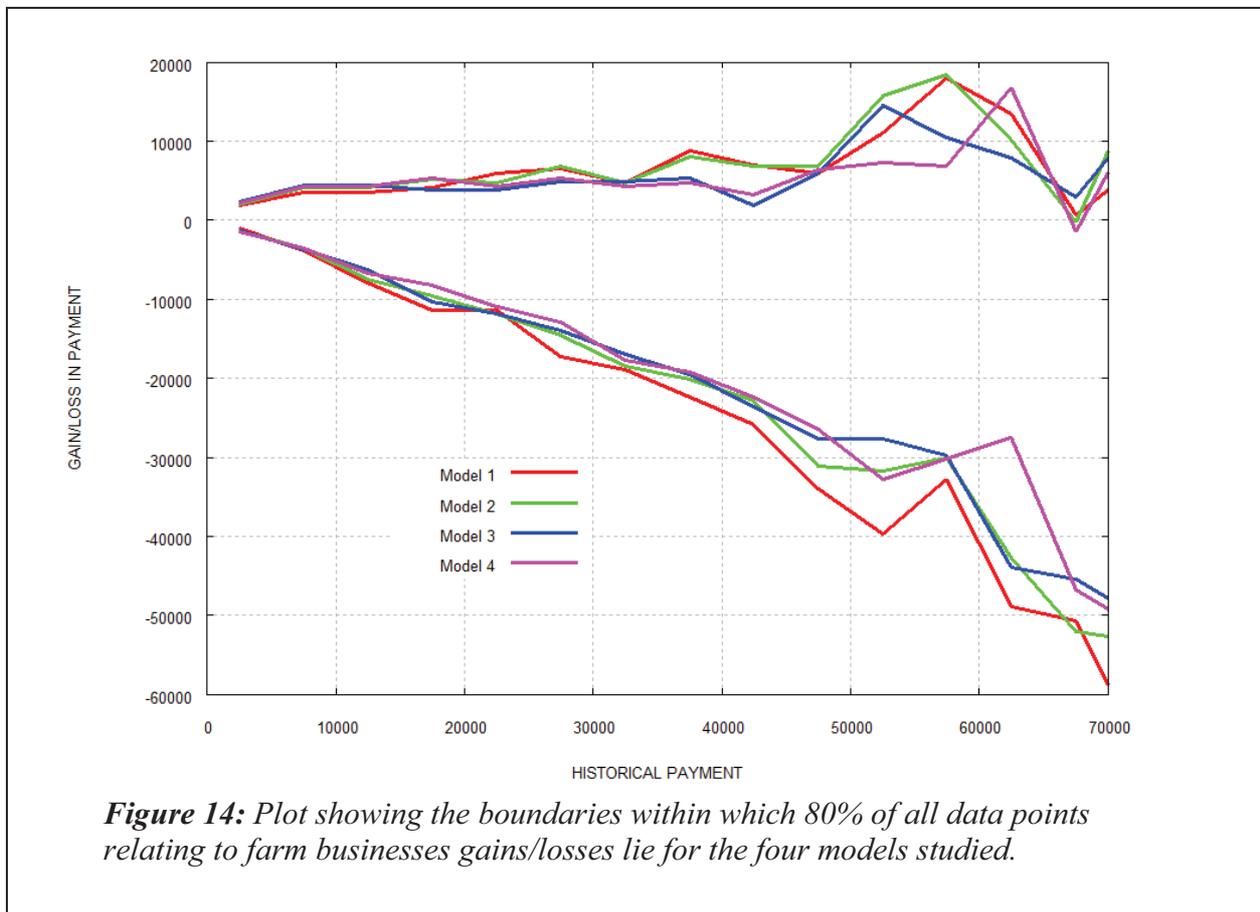
**Figure 13:** Percentage of farm businesses, represented by colour, within each historical payment band, mapped against gains/losses resulting from models 1 to 4, and historical payment.

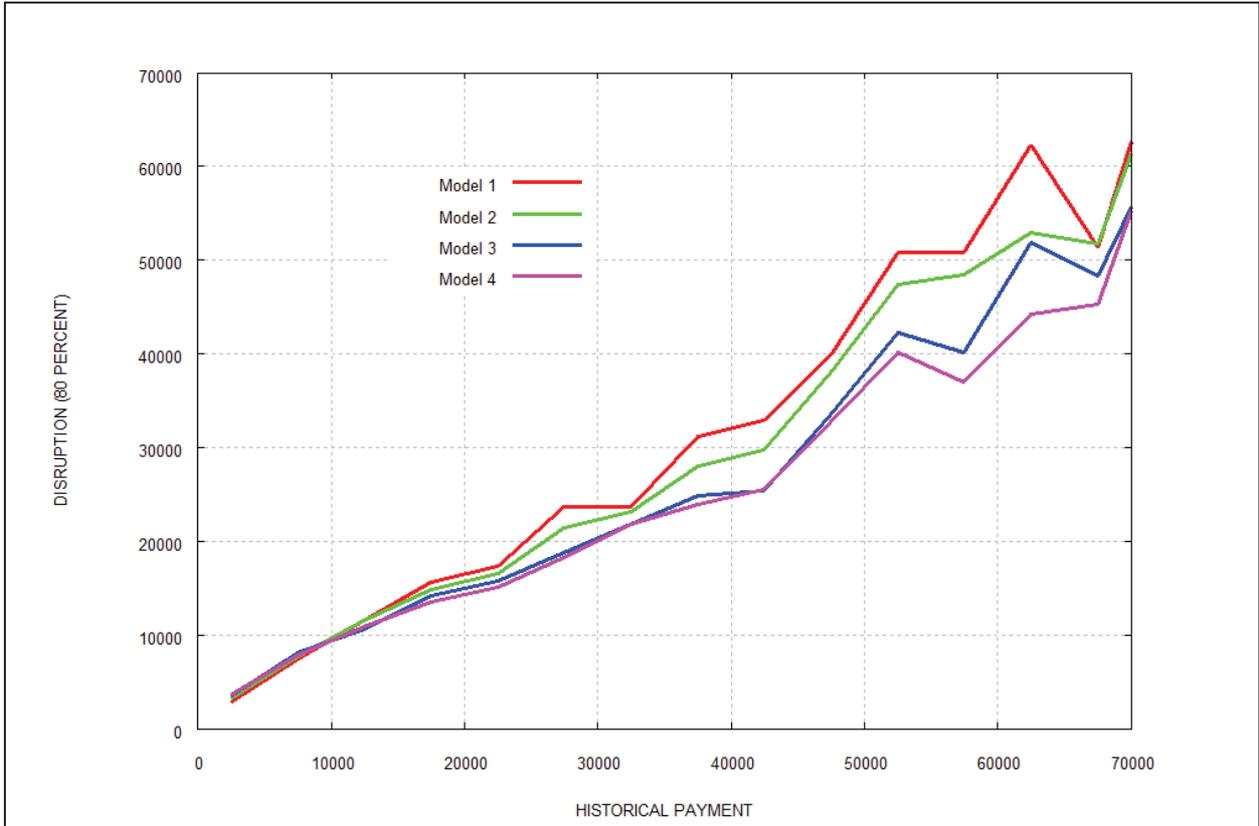
## Estimates of ‘Disruption’ for each Model

Figure 14 shows the boundaries within which 80% of the gain/loss data, as shown in Figure 13, falls, where the distances between the boundaries is a minimum (see Appendix); i.e. for any farm business in a particular band, there is an 80% likelihood that the gain/loss incurred will fall between the relevant upper and lower boundaries.

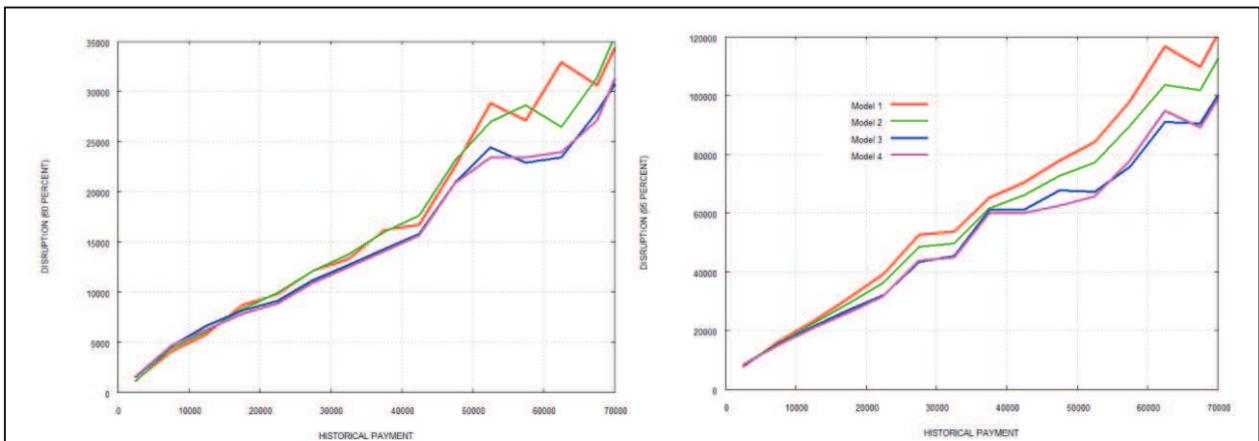
Figure 15 shows the distances between the boundaries plotted in Figure 14, which is taken to be a measurement of the disruption associated with each particular model, while Figure 16 shows the minimum distances between boundaries that enclose 60% and 95% of the gain/loss data.

While models 3 and 4 result in more significant changes to farm incomes in terms of average gains/losses per payment band, Figures 14 to 16 suggest that payment models 3 and 4 are the least disruptive for farm businesses as a whole.





**Figure 15:** Plot showing the ‘disruption’ (the minimum distances between boundaries that enclose 80% of the gain/loss data) caused by Single Payment models 1-4 for historical payment bands of £0-£5000, £5000-£10000, £10000-£15000 etc.



**Figure 16:** Plots showing the minimum distances between boundaries that enclose 60% (left) and 95% (right) of the gain/loss data caused by Single Payment models 1-4 for historical payment bands of £0-£5000, £5000-£10000, £10000-£15000 etc.,

## MAIN CONCLUSIONS

- A sudden transition from the current historically based Single Payment Scheme to a flat-rate model based upon current land categorisation criteria will result in major financial disruption for the farming community.
- Large-scale disruption is likely to result from a transition to *any* flat-rate Single Payment model.
- The work confirms the already widely accepted view that a transition to any flat-rate model should occur over as long a period as possible, in order to reduce annual financial disruption to farm businesses.
- The introduction of any flat-rate payment model is likely to result, on average, in an increase in receipts for those currently receiving Single Payments below £16,000, and a loss, on average, for those receiving more than £16,000.
- The effects for individual farm businesses will vary significantly, with variance between farms increasing for those in higher payment bands.
- The most simplistic model, a single flat-rate payment per hectare for all Welsh land, could result in a net flow of as much as £25 million away from non-LFA and DA land, to SDA and common land.
- Significant differences exist between the apparent disruptive effects of the models studied, suggesting further modelling will reveal flat-rate models that go some way towards minimising disruption for the farming industry. However, the financial disruption for many individual businesses will be acute, irrespective of the model chosen.
- The calculation of average gains/losses for individual historical payment bands does not necessarily represent the best method of interpreting the data from individual models, and may be misleading.
- The work suggests that flat-rate models that ring-fence payments according to current land categories would minimise disruption for the industry.
- Significant further work is required in order to assess a greater range of flat-rate payment models, and their impact on particular sectors and regions, before any decision is made regarding the model that should be adopted in Wales.
- Any such further work should, where possible, take into account the implications of changes such as the forthcoming CAP and EU budgetary reviews, changes to the eligibility criteria for Less Favoured Areas, and the impact of the new Glastir scheme.

## APPENDIX

A set of farm businesses ( $farm_1, farm_2, farm_3 \dots farm_n$ ) receive historic payments ( $h_1, h_2, h_3 \dots h_n$ ), all of which lie in the range  $\Delta H = H_1 - H_0$ , such that  $H_0 < h_1, h_2, h_3 \dots h_n < H_1$ .

If, for any given model, the flat-rate payments calculated for each business are ( $p_1, p_2, p_3 \dots p_n$ ), the difference between flat-rate and historic payments for each business are ( $dp_1, dp_2, dp_3 \dots dp_n$ ), where  $dp_i = p_i - h_i$ .

The distribution of the points ( $dp_1, dp_2, dp_3 \dots dp_n$ ) reflects the disruption for farm businesses whose payments currently fall within the range  $\Delta H$ , and if these were distributed normally (symmetrically about the average) it would be possible to define the Standard Deviation,  $\sigma$ , as a measurement of disruption, where:

$$\sigma = \sqrt{\frac{\sum_{i=1}^n (dp_i - \langle dp \rangle)^2}{n-1}} \quad \text{and} \quad \langle dp \rangle = \frac{1}{n} \sum_{i=1}^n dp_i$$

However, since the data is significantly asymmetrical (see *Figure 1*) this approach is inappropriate, and the disruption is therefore defined as being the shortest range  $\Delta p = dp_B - dp_A$  over which the sum of all values of  $dp_i$  lying within that range accounts for  $x\%$  of the data, such that:

$$x\% = \frac{1}{n} \sum_{i=1}^n a_i \quad \text{where} \quad a_i = \left. \begin{array}{l} 1 \quad dp_A < dp_i < dp_B \\ 0 \quad dp_A > dp_i \\ 0 \quad dp_B < dp_i \end{array} \right\}$$

## APPENDIX 2

### **FARMERS' UNION OF WALES PROPOSALS FOR AN ADDITIONAL ALTERNATIVE PAYMENT ENTITLEMENT SYSTEM UNDER THE POST 2013 COMMON AGRICULTURAL POLICY**

#### **Background**

Under the current Single Payment Scheme, the vast majority of farm businesses have payment entitlements which were awarded in 2005, with the number and value of entitlements being based upon the average number of eligible hectares declared in the years 2000, 2001 and 2002, and the average CAP direct payment received per hectare during those years.

For example, a farm business which received €10,000, €9,000, and €10,500, and declared 110 ha, 90 ha and 100 ha in the years 2000, 2001 and 2002 respectively would have been awarded 100 entitlements, each worth €98.33:

$$100 = \frac{110 + 90 + 100}{3} \qquad 98.33 = \frac{10,000 + 9000 + 10500}{110 + 90 + 100}$$

Under the current proposals, these entitlements would be abolished in 2013, and brand new entitlements awarded to businesses based upon the land declared on the IACS form in 2014. In 2014, each of these new entitlements would have a value made up of (a) 40% of the average payment per hectare in the region, and (b) an element of the historic value of the payments per hectare received by the farm business up until 2013.

Between the years 2015 to 2018 the value of the historic element would be reduced, such that by 2019 all payment values per hectare in a region would be equal.

For example, if a farm business, in an area where the average payment is €150/hectare, currently declares 100 eligible hectares, and has 100 entitlements, each worth €250, entitlement values could change as follows (given a regional Pillar 1 ceiling at its current level, and notwithstanding possible forms of modulation):

<b>Year</b>	2014	2015	2016	2017	2018	2019
<b>Entitlement value</b>	€210	€198	€186	€174	€162	€150
<b>Change in income</b>	16%	6%	6%	6%	7%	7%

#### **Problems with the proposal for some regions**

While the Commission proposal referred to above may be suitable for some regions or Member States, it is believed that an alternative may be suitable for others.

Specific problems include:

- a) **The length of the transition period and the 40% 'flat-rate' element in 2014**

In the above example, a significant fall in income is seen within the first twelve month period of the new CAP; while this is just an example, for many businesses this fall will be greater than 16%, and is likely to result in extreme disruption with possibly dire consequences for individual businesses and even entire regions. Such falls would naturally have more acute impacts in those areas which, under the final Regulation, receive a smaller share of the budget than was previously the case.

Even in the absence of such an acute change within the first twelve months – for example, under a system where the historical elements of payments were reduced linearly – a transition period of five years will result in significant falls in income for many businesses over what is, in farming terms, an extremely short period, given the very nature of farming (for example, the time it takes to breed replacement animals, etc.). A five year transition period is therefore not sufficient, and the FUW would advocate a ten year transition period.

**b) The creation of a future reference year**

The creation of a future reference year, albeit linked to activity in 2011, creates an opportunity for landlords and those farmers who can afford to do so to attempt to maximise the number of entitlements awarded to them in 2014 – for example by evicting tenants and ‘land banking’.

The creation of such a future reference period is, to the Union’s knowledge, unprecedented, and will result in major disruption for the industry and the displacement of genuine farmers in the lead up to 2014.

**c) The recreation of an historical entitlement system based upon numbers of hectares declared in one year**

The proposal to abolishing currently held entitlements, then allocate a fixed number of entitlements based upon the number of hectares declared in 2014, will result in the recreation of a scenario whereby a fixed number of entitlements held by a farmer relates to the number of hectares declared in a previous year.

While those who declare less eligible area stand to lose their unused entitlements, those who expand their businesses have no straightforward means to access extra entitlements, since their allocations will ultimately become based upon land declared many years previously.

**d) Limiting the options available to young farmers**

While the Regulation places a welcome emphasis on the need to support young farmers, the proposals to allocate fixed numbers of entitlements based upon land declared in 2014 will limit the options available to young farmers who do not have entitlements: Young farmers who genuinely start farming land would have to apply to a national reserve for a set number of entitlements, or borrow money in order to buy entitlements from the marketplace, thereby having to compete with established farmers.

The creation of a national reserve of this type brings with it other inherent problems: for example, if it is necessary to modulate payments by 1% in one year in order to create sufficient funds to support X new entrants farming Y hectares, then in the following year (notwithstanding other sources of funding such as re-claimed entitlements) modulation must rise to 2% if the reserve is to bring in the same number of new entrants to the scheme, with similar increases in subsequent years.

## FUW PROPOSALS

As an additional option for Member States and administrative regions, the FUW would propose the following approach, which it believes would negate the adverse impacts described above:

1. That farmers keep their current allocation of historically established entitlements (notwithstanding usage rules) beyond 2013.
2. That the value of these entitlements be reduced linearly to zero over a lengthy transition period.
3. That farmers who, in 2011, activated at least one payment entitlement, shall receive a single 'claim entitlement' allowing them to claim direct payments in 2014 and thereafter, provided they are entitled to be granted direct payments in accordance with other Articles.
4. A claim entitlement entitles those who declare eligible land in 2014, and each year thereafter, to receive a payment which is proportional to the amount of eligible land claimed during that year, plus an amount based upon the (falling) value of their historic entitlements and the area declared.
5. Those deemed to be genuine farmers, in accordance with other Articles, who were not farming in 2011 (i.e. new entrants/young farmers) (or during the previous five years before making an application) have the right to apply for a claim entitlement, allowing them to declare eligible land, and be paid an amount which is proportional to the area of eligible land declared. During the transition period, those qualifying under this provision would receive payments equivalent to the regional flat rate per hectare, funded, in part, from modulated monies used to establish a National Reserve.
6. Following a transition period, it would not be necessary to modulate money in order to fund a National Reserve, since payments per hectare would all be equal, and all those fulfilling strict criteria allowing them to claim on land – whether they are new entrants or established farmers – would receive a payment proportional to the area declared.
7. While it is recognised that the above proposal may represent problems in administrative regions where there are large areas of land not declared or claimed upon ('naked acres'), the current Commission proposals are not without problems in terms of this issue. For regions in which areas currently not registered are considered to make up a negligible percentage of the total area, linear adjustments to flat rate payments per hectares should be allowed in order to ensure that regions stay within the financial ceiling.
8. It should be noted that the proposal outlined above is analogous in many respects to the 'Tir Mynydd' LFA support system which has operated successfully in Wales for the past decade: Those receiving payments under the scheme have to fulfil strict eligibility criteria, equating to a 'claim entitlement'. Payments are then issued on the basis of the number of hectares of eligible land declared, which could vary from year to year for any individual farmer. Changes to the total LFA area claimed upon in Wales have never, to the FUW's knowledge, resulted in significant changes to the payment received per hectare.

## Example

Farmer A currently holds 100 entitlements, each worth €250. Farmer B holds 250 entitlements each worth €120. Farmer C is a new entrant who has successfully applied to the National Reserve for a claim entitlement. The average payment per hectare in the region is €150.

The amount of land farmed by farmers A, B and C changes during the transition period, depending upon business decisions made, with farmers A and C deciding to increase the areas farmed, and farmer B deciding to reduce the area farmed.

Payments available to farmers A, B and C over an arbitrary transition period (9 years), based upon the overall budget available in the region remaining unchanged, are given in the below tables.

### FARMER A

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
Entitlement value per hectare	€250.00	€222.22	€194.44	€166.67	€138.89	€111.11	€83.33	€55.56	€27.78	€0.00
Flat rate payment per hectare	€0.00	€16.67	€33.33	€50.00	€66.67	€83.33	€100.00	€116.67	€133.33	€150.00
Area declared	100	100	120	120	125	125	125	125	125	135
Total payment attributable to historical entitlement	€25,000	€22,222	€19,444	€16,667	€13,889	€11,111	€8,333	€5,556	€2,778	€0
Total payment attributable to flat rate	€0	€1,667	€4,000	€6,000	€8,333	€10,417	€12,500	€14,583	€16,667	€20,250
Total payment	€25,000	€23,889	€23,444	€22,667	€22,222	€21,528	€20,833	€20,139	€19,444	€20,250

### FARMER B

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
Entitlement value per hectare	€120.00	€106.67	€93.33	€80.00	€66.67	€53.33	€40.00	€26.67	€13.33	€0.00
Flat rate payment per hectare	€0.00	€16.67	€33.33	€50.00	€66.67	€83.33	€100.00	€116.67	€133.33	€150.00
Area declared	250	250	230	231	220	220	200	200	175	170
Total payment attributable to historical entitlement	€30,000	€26,667	€21,467	€18,480	€14,667	€11,733	€8,000	€5,333	€2,333	€0
Total payment attributable to flat rate	€0	€4,167	€7,667	€11,550	€14,667	€18,333	€20,000	€23,333	€23,333	€25,500

<b>Total payment</b>	€30,000	€30,833	€29,133	€30,030	€29,333	€30,067	€28,000	€28,667	€25,667	€25,500
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### FARMER C

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
<b>Flat rate payment per hectare for new entrants</b>	€150	€150	€150	€150	€150	€150	€150	€150	€150	€150.00
<b>Area declared</b>	0	120	120	124	124	124	124	128	128	128
<b>Total payment</b>	€0	€18,000	€18,000	€18,600	€18,600	€18,600	€18,600	€19,200	€19,200	€19,200

## Common Agriculture Policy Task and Finish Group CAP(4)-04-11 Paper 3



## Common Agriculture Policy Task and Finish Group CAP 5 - Country Land & Business Association

### **CLA response to the proposed reforms to the Common Agricultural Policy**

#### **Introduction**

Most of the 4,000 members of the Country Land & Business Association (CLA) in Wales are by definition rural landowners. Between them they own and/or manage half of the rural land mass and the CAP plays a key role in ensuring food and environmental security in Wales. This submission summarises the elements of the proposals of greatest concern to the CLA and constructive actions are suggested. We welcome the opportunity to give oral evidence at the Winter Fair and at any other time.

#### **The Proposed Reforms to the Common Agricultural Policy**

##### **Mandatory Greening of pillar 1**

The key Welsh issue with this is the interface with Glastir. There is a real danger that Glastir will have to be completely redefined and new contracts arranged as a result. One of our principal aims therefore is to try and minimise the extent of these changes.

The CLA would like agri environment agreement holders be treated the same way in the regulation (Article 29.4) as Organic by being exempt from having to carry out greening activities. The EU will argue that there is an issue of double funding however, this is also the case with Organic so there needs to be consistency.

The proposals state that 30% of any pillar 1 payment would be conditional to mandatory greening. However, EU officers have indicated that penalties will exceed 30% if claimants should continually fail to carry out greening measures. Therefore, 30% seems meaningless other than to claimants subject to capping who will be able to claim 30% greening element over and above their capped payment for their total eligible area. Therefore, if this is a purely political figure with no real effect on Welsh claimants then the CLA believe we should concentrate on getting the detail of mandatory greening correct rather than lobbying to have this percentage reduced. Further clarity is needed.

UNIT 8 BROADAXE BUSINESS PARK, PRESTEIGNE, POWYS, LD8 2LA

TEL: 01547 317085. FAX: 01544 260023. EMAIL: [SUE.EVANS@CLA.ORG.UK](mailto:SUE.EVANS@CLA.ORG.UK)



There are a number of proposals for what mandatory greening may entail. The key areas of concern are:

**Ecological focus areas** – The CLA are lobbying for a lower % and particularly that the wording is changed from % of “eligible area” to % of “holding area”. Most Welsh Farmers have areas of hedges, trees, gorse, and ponds etc which are not included in eligible area for their SFP.

The CLA intend to provide a list of features to the EU that should be included in the ecological focus areas to help ensure that those features relevant to Wales are not left out. We will lobby WG to do the same.

**Requirement for three different crops** – We have made it very clear to the Welsh Government and to officials in Europe that this would be unfeasible in Wales where many small mixed farms grow 10 ha of barley for their own use. If there were to be a requirement to have three crops it would mean having to get a contractor with combine to visit three times which would not be feasible. The EU have told us that this measure has been put into the policy in order to avoid huge areas of mono cropping and therefore we are lobbying for the 3ha de minimis to be increased to avoid a disproportionate impact on smaller mixed farms in Wales.

**Permanent pasture** - The CLA have made it very clear that this proposal would remove Wales’ ability to follow market forces so that if feed grain prices continue to increase more farmers in Wales would choose to go back to mixed farming. Officials from the Welsh Government EU office explained that the reason for the rule is to stop the eastern EU countries ploughing up thousands of acres of grassland – they could see that there was an issue to address in Wales and we are lobbying for more flexibility in area or percentage.

#### **Definition of active farmer**

We are deeply unhappy about the proposed definition of Active Farmer. The conditions are:-

9.1(a) that his direct payment amounts to at least 5% of his receipts from his non-agricultural activities,

UNIT 8 BROADAXE BUSINESS PARK, PRESTEIGNE, POWYS, LD8 2LA

TEL: 01547 317085. FAX: 01544 260023. EMAIL: [SUE.EVANS@CLA.ORG.UK](mailto:SUE.EVANS@CLA.ORG.UK)



Where farmers have successfully diversified and kept the farming business as part of the diversified business they are likely to find that they cannot claim SFP. However, their neighbour who has diversified and separated the businesses will be able to claim. EU have said that it will be down to Regions to decide how this is implemented and that they are happy for reorganisation of businesses to ensure that they can continue to claim SFP. We will be lobbying WG to ensure that they will not obstruct the reorganisation of businesses in this case.

And 9.1(b) that his land is “mainly areas naturally kept in a state suitable for grazing and cultivation” and he is not carrying out minimum activity to be defined by the Member State. Again, WG interpretation will be crucial to ensure that unjust situations are not created.

### **Small Farmers payments**

The CLA support a minimum claim area of 5ha. The transition from historical to area based payments in England caused huge administrative problems with a disproportionate amount of time spent on small claims.

### **First Allocation of Entitlements**

The other eligibility criteria that we are very concerned about is Article 21.2 on First Allocation of Entitlements. This is supposedly to stop ‘speculation’ in land to get people in a position to claim in 2014. The Article requires that only farmers who activated at least one entitlement in May 2011 can establish *any* entitlements in 2014. This will present problems to some, especially those who set up tenancies with an end point in 2012 or 2013, specifically to allow a review of the new system as the old system expired or anyone who has been farming without entitlements or starting up in the period after 15<sup>th</sup> May 2011. The CLA have strongly argued against this proposal and we are asking it to be removed completely.

### **Transition of historical payments to regional**

The proposals require all regions to switch to flat-rate regional average payments by 2019. This hurts in Wales where it will involve a big redistribution of funds between claimants. The starting point is that the historic element of payments cannot be more than 60% in 2014. It seems reasonable to argue that the convergence should be able to start at 90% historic and take a full seven years as was done in England to diminish the fierceness and speed of the redistribution. However, we recognise that

UNIT 8 BROADAXE BUSINESS PARK, PRESTEIGNE, POWYS, LD8 2LA

TEL: 01547 317085. FAX: 01544 260023. EMAIL: [SUE.EVANS@CLA.ORG.UK](mailto:SUE.EVANS@CLA.ORG.UK)



there will be winners and losers both of which are our members many of which would prefer the shortest possible transition period.

### **Land tenure issues and dual claims**

The CLA have long since highlighted the need for Dual Claims (two people claiming EU schemes on once parcel of land) and as yet it seems the EU has not come to any conclusion and in fact have stated that they see no reason why this should not be possible. We believe that as graziers and short term Farm Business Tenancy agreement holders will still be claiming the SFP, in order for this land to potentially be bought into an agri environment scheme, the practice of Dual Claims must continue.

### **Capping**

The CLA are lobbying for this article to be dropped completely due to the size of the cuts and the disincentive it gives for restructuring and the bureaucracy for the largest farms. At a minimum we want to see an increase in the thresholds and reduce the cut rates. We suggest a maximum cut rate of 50%. If we cannot get rid of the article altogether then we must retain the 100% wage allowance.

Two voluntary elements of the proposed new direct payment scheme are:-

### **Payments for Areas with Natural Constraints (5%)**

### **Voluntary coupled payments (5% - exceptionally 10%)**

If WG pursue a single rate of Single Farm Payment over the whole of Wales then the uplands will benefit greatly from higher payments, therefore it should not be necessary to use the payments for Areas with Natural Constraints provision available. However, the lowland farmers will lose out greatly and we would support Voluntary Coupled Payments being made to higher production areas. Top slicing could occur with payments made to those keeping cattle for example, however this is something which we need to explore further with WG.



**MUDIAD FFERMWYR IFANC CYMRU / WALES YFC**

**Introduction**

Wales YFC would like to thank the National Assembly for Wales Environment and sustainability Committee Task and Finish group for the opportunity to put across their points of view. As a movement we are committed to maximising the opportunities available to the rural youth in Wales

**Wales YFC**

The Wales Federation of Young Farmers Clubs consists of approximately 6000 young people aged between 10 -26 in 160 clubs pan Wales, representing a membership of forward thinking Young People who have a willingness to embrace change to ensure a viable future for agriculture and rural Wales.

**PROPOSED REFORMS TO THE COMMON AGRICULTURE POLICY**

**YOUNG FARMERS**

Wales YFC has welcomed the call for more policy measures for young farmers from the Common Agricultural Policy reform post 2013. The organisation supports the idea of national reserves being geared towards young farmers and a future fund as well as investment in education and training to help deliver the aims of a competitive but resource-sensitive industry of the future. It is well acknowledged that a better profitability and greater stability will bring new entrants into the industry. Recent statistics provided by Lantra research identifies that Welsh businesses must recruit almost 26,000 new land-based and environmental entrants at all qualification levels over the next decade just to maintain current workforce levels, all of whom will want to see a strong industry. The statistic for the average age of farmers in Europe under the age of 35 is 6% but in the UK is 2.8%.

YFC and Lantra's research project demonstrated that 83% of YFC members surveyed were considering a career in farming in the future and that 57% of those surveyed aspired to be farm owners at some point in the next 15 years of their career. Young farmers are keen for education and training opportunities,

farm advisory services and exchange of best practice in order to modernise agriculture and encourage innovation. Concerns and issues that surrounded young farmers as they entered into farming included barriers such as financial and business constraints.

Wales YFC feels strongly that young farmers play a significant part in sustainable farming and that with an ever-increasing emphasis on improving the environment and increasing agricultural production, there should be measures to encourage future farmers and land managers into the industry. This will contribute both to increased production and environmentally-sensitive food production.

The organisation believes that there should be a huge importance on the Local Authority farm structure as a crucial entry point for newcomers, which will in the long run encourage and help newcomers to the agricultural industry to ensure its long-term health and viability; encourage those within the industry to plan ahead and explore new opportunities and options. There is support for young farmers once they are in the industry in the proposed reforms; however, Wales YFC believes that agriculture should be promoted as a career and young entrants should be supported, encouraged and provided with the skills that's necessary to enter the industry. We think that future business structure needs to be looked at, e.g Share Farming, ensuring that starter farms / Local Authority farms are viable and modern units for young entrants.

To date, YFC members have contributed suggestions and opinions to both the European Council for Young Farmers (CEJA) and Welsh Government Stakeholder groups. YFC representatives have supported CEJA's call for a combination of policy measures which include:

- Top-up payments in Pillar 1 during the first years of installation
- National reserves of entitlements - priority for young farmers
- Stronger investment in education and training

### **ISSUES RELATING TO THE 'YOUNG FARMERS PAYMENT'**

There is a plea for the new entrants' EU policy to be mandatory. Wales YFC believes that the 'up to 2% annual national ceiling' in support for young farmers should be mandatory and not optional - the 2% should be a minimum.

- Will the young farmer have to farm a certain amount of land apart from the Minimum Requirements for receiving Direct Payments before getting a top up?
- Wales YFC would expect Welsh Government to negotiate with the UK that the minimum requirement for receiving direct payments is €200 or 5Ha.
- How much of a share in the business will the Young Farmer have to have?
- Members expressed their concern for the position of new entrants who start up their business before 2014/15. The question was raised if they would be at an increased disadvantage as they could be out-competed by

current farmers during that time period as well as new entrants with increased subsidies. As this could be the case, would they also be allowed access to funds?

### **AREA BASED PAYMENT**

The proposed payment system was queried giving the following possible scenarios which could act as a barrier:

- The SFP is claimed by the land owner whilst the new entrant is using the land for grazing initially to build up his herd or business.
- Alternatively, if the landowner allowed the new entrant to have the entitlement in order to claim the top up payment, how would this affect rent value?

Wales YFC would like to see a payment system which will cause least disruption to the current farming community as many of our members are involved in these businesses, but we also agree with the E.U policy of creating a complete area based system by 2019. Generally the traditional idea of having an area based system on the following is supported by members; A simple payment model where there will be a moorland and commons payment and a payment for everyone else. If a complete flat rate system is included across the whole of Wales every Ha will receive 235 euro. If it is split between the moorland and everyone else, with a smaller rate for the moorland, this will then allow for a bigger payment to be received by the more productive farms, therefore reducing the losses of these farms post 2014.

However, members of Wales YFC would like to see additional modeling work being carried out on the impact of how different rates of payment would impact the on the agricultural industry.

**SPECIAL NOTE:** During very recent conversations with members, it came apparent that there is support for the following method of payment, whether it is considered for this reform or the next reform post 2019.

The suggestion is that a calculation is put in place to work out the "size" of the business (rather than the amount of land or the number of animals, which has been the basis of payments in the past).

You could use the tables the WG have produced for FC and YESS to work out the size of the business in man hours and then distribute payments accordingly (with whatever clauses deemed necessary).

By going down this route we can see that there may be a few positives, but the most important one for us is that you more or less nullify the active farmer debate - a farmer who just rents out his land will accrue far less hours than somebody who "farms" (keeps sheep or cows etc on it) the land, so will receive far less payment.

So, for someone to get the most out of that land they will have to have it in full production. So either rent it out completely (and not claim on it) or sell the land.

There may be an argument here that this is "paying for production", which is against WTO rules, however we would argue that by essentially converting the production of the business in to man hours you are creating a measurable index

whereby you can more fairly compare businesses throughout Wales the UK and even the EU. Although increasing production does increase payments, you show here that it also increases the number of man hours required, which may lead to more employment in rural economies, so more money in rural economies etc.

### **ACTIVE FARMER**

Wales YFC feels that the current definition of 'Active Farmer' is unworkable and complicated. One of the major problems young entrants face is the ability to take on land at reasonable rents on a long term basis. Currently we feel that many farmers are claiming subsidy and then renting out their ground on a 11 month let. We believe this reduces the amount of ground becoming available on longer term lets and increases the age of farmers in Wales dramatically, due to the farmers usually being towards the end of their careers. It also puts young entrants a big disadvantage as this ground is competed for by several farms who just need summer or winter keep, young entrants cannot afford these rents.

If the single farm payment was claimed similarly to the current Tir Mynydd payments the active farmer would receive the subsidy and then this would allow them if they are a young entrant to compete for rented ground on a level playing field. The ground would then be more likely to be rented on a longer term basis which would give the young entrant some stability.

### **GREENING**

Members have raised concern of the following areas:

- That the Greening element under the Basic Payment Scheme should not be compulsory, rather a voluntary measure. It is a very inflexible and strict element that restricts farmers and adds complexity to the '**Basic** Payment Scheme'. The 'Greening' element impairs on productivity.
- If 'greening' does go ahead as a compulsory element, framers who are in an Environment Scheme should be exempt. If they are not in an Environmental Scheme, there should also be a menu of options for measurers farmers can select from.
- Ecological focus Area- members felt that devoting a minimum of 7% of eligible hectares is extremely high! For every 100 hectares, farmers will have 7 hectares of unusable land, which will lead to massive losses of productive ground.

The world's population is set to top a staggering 7 billion people this year, with one in five of these people presently over 60. By 2050 one in three of the world's population will be over 60 and to make matters worse the world's population will continue to rise with the UN's medium population forecast predicting a global population of around 9 billion people. Whilst there are fragile habitats requiring protection surely we also have a huge social responsibility to ensure a secure and safe food supply system for future generations both in Wales and beyond? Surely it is therefore important that growers with productive farmland are given the tools and support to confidently produce food for an ever increasing ageing world population, not just focus purely on environmental protection.

### **CONCLUSION**

In conclusion, Wales YFC is giving a warm welcome to the emphasis on young farmers within the proposals; it is excellent to see that the importance of the next generation of young farmers has finally been recognised. However, as there has been a strong emphasis on simplification throughout previous consultations and discussions, there is some frustration amongst our members on the appearance that the Commission appears to be bringing more complexity on the administration of the CAP. This presents additional burdens for the Welsh farmers.

Having maintained support for good environmental practice and competitive food production, the emphasis of current proposals is to encourage future agri-entrepreneurs and those considering entering the industry. A strong CAP supports jobs in the wider rural and urban communities of Wales, maintaining social cohesion, preserving indigenous cultures, traditions and language. Any significant movement away from direct support to food producers would result in detrimental and irreversible social, demographic and political upheaval. It is vital that young people have viable long term employment opportunities if communities and their cultures and language are to continue to thrive in rural Wales.

# Agenda Item 5a



**food**  
for **life**  
PARTNERSHIP

## Good food for all

The impact of the Food for Life Partnership



LOTTERY FUNDED

# The impact of the Food for Life Partnership

"Jamie Oliver deserves credit for putting school food back on the political agenda. However, the most ambitious programme in the UK to date has been the Food for Life Partnership, which champions a whole-school approach and is working with 3,800 schools in England to enable children to eat good food, learn where it comes from, how it is produced and how to grow it and cook it themselves."

Kevin Morgan, professor of governance and development, Cardiff University, April 2011

This report describes the impact of the Food for Life Partnership in its first five years of funding by the BIG Lottery. The report summarises the evidence from three independent research studies. It focuses in particular on the four main areas of impact: children's health, tackling inequalities, improving education, and local enterprise and sustainability.

## How the Partnership works

The Food for Life Partnership is far more than a school meals programme. It harnesses the expertise of the four partner organisations (Soil Association, Health Education Trust, Garden Organic and The Focus on Food Campaign) and uses food as a way to improve the whole school experience – making lunchtimes a more positive feature of the day and enriching classroom learning with farm visits and practical cooking and growing. Some schools use the programme as a vehicle to boost attainment or tackle inequalities. Some value the impact it has on encouraging positive health and well being. Others have mobilised the programme to build links with their community. In all schools, the focus on 'pupil voice' means that pupils take ownership and decide their own priorities.

The Food for Life Partnership has this transformational impact in the schools and communities it works with because it gives pupils, teachers and community groups the confidence, resources and training they need to lead the change themselves. It has succeeded where many similar programmes have failed to make long-term changes. The achievements of schools are recognised in an award scheme that gives them a motivational framework for continuous improvement. The achievements of caterers are recognised by the Food for Life Catering Mark, a Soil Association accreditation scheme for all caterers that put quality first (see p10).

## The independent evaluation team

### University of the West of England (UWE) and Cardiff University

Food for Life Partnership Evaluation, Orme J et al, 2011

This evaluation consisted of a range of data collection strategies including a pre- and post-cross-sectional study with 111 FFLP Flagship Schools over a 24 month period.



University of the  
West of England



### National Foundation for Educational Research (NFER)

Qualitative Impact Evaluation of the Food for Life Programme, Teeman D et al, 2011  
NFER evaluators systematically selected 15 schools, reflecting a range of FFLP and school contexts, in order to provide a qualitative insight into the implementation and outcomes of FFLP.



### new economics foundation (nef)

The Benefits of Procuring School Meals through the Food for Life Partnership: An economic analysis for FFLP, Kersley H, 2011

nef looked at the Social Return on Investment (SROI) of the Food for Life Partnership in two areas (Nottinghamshire and Plymouth).



Read the full reports online: [www.foodforlife.org.uk/evaluation](http://www.foodforlife.org.uk/evaluation)

# The evidence

"I am massively encouraged by the success of the Food for Life Partnership. This evidence proves what the best teachers know – that food education and school meals doesn't just have a big impact on kids' health, it also helps them to concentrate and succeed in school. The FFLP is doing an amazing job making sure that no kid leaves school unable to cook and unsure where their food comes from."  
Jamie Oliver, June 2011



## Good for children's health

### Our challenge:

- 1 in 4 children age 2-10 are overweight or obese, and eating habits form at an early age

### Our impact:

- 28% increase in primary school-age children reporting eating 5-a-day
- 45% of parents report eating more vegetables

## Good for tackling inequalities

### Our challenge:

- 20% of children entitled to free healthy school meals don't eat them due to a range of issues including stigma and the temptation of local food outlets

### Our impact:

- Free school meal take-up went up by 13 percentage points in FFLP schools over two years and by 20 percentage points in secondary schools
- "Evidence points towards the FFLP's potential to contribute to helping 'close the gap' for disadvantaged children in terms of their health and academic attainment." (Teeman et al, 2011)

## Good for improving education

### Our challenge:

- Schools have to show that a focus on wellbeing doesn't distract from achievement and results

### Our impact:

- Twice as many primary schools received an Ofsted rating of Outstanding following their participation in FFLP
- Participating schools saw greater increases in attainment than national figures. Secondary schools started with average attainment levels 3.3% below the national average and managed to close this gap to 0.6%

## Good for local enterprise and sustainability

### Our challenge:

- Healthy & sustainable school meals are under pressure from local authority cuts

### Our impact:

- School meal take-up rose by 5 percentage points over two years, making them more cost effective
- Over £3 in social, economic and environmental value was created for every £1 spent on Food for Life menus, mostly in the form of new jobs in the local economy

# Good for children's health

"Analyses of student characteristics show statistically significant associations between healthy eating and FFLP related behaviours – such as participation in cooking and growing at school or at home; participation in farm and sustainable food learning; and attitudes to school food. This suggests that the FFLP model for changing behaviour has an empirical evidence base."

(Orme et al, 2011, p.107)

## Healthy eating

- Pupils had healthier eating habits following their participation in FFLP, with a 28% increase in the proportion of primary school-age children reporting eating five portions of fruit or vegetables<sup>i</sup>, and the proportion reporting eating four or more portions increasing by 30% (Orme et al, 2011, p.114).<sup>ii</sup>
- "The findings show statistically significant associations between higher participation in cooking, growing, sustainable food education and farm-based activities – and positive healthy eating behaviours" (Orme et al, 2011, p.109).
- The Partnership's strong focus on community participation has also led to healthy behaviours travelling home, with 45% of parents reporting eating more fruit and vegetables as a result of FFLP and 43% changing their food buying habits (Orme et al, 2011, p.141).<sup>iii</sup>
- These findings fit with other studies which have shown that children involved in growing food, and those in schools with strong farm links, have higher fruit and vegetable consumption.<sup>1</sup>



## Emotional health and wellbeing

- "All of the schools commented on the contribution the FFLP made to helping them better plan, develop further and more effectively focus health-related activity ... FFLP helped initiate, develop and maintain momentum on health-related activity" (Teeman et al, 2011, p.28).
- FFLP promotes emotional health and wellbeing by giving children a positive lunch-time experience and more access to nature and active time outdoors via growing activities and farm visits. Research by the School Food Trust concluded that lunch time was the key period that governed whether or not a child felt 'happy' in school.<sup>2</sup>
- Other research has highlighted the benefits of outdoor activities to children with behavioural difficulties: Faber Taylor et al (2001) found that such activities improved symptoms of ADHD by 30%.<sup>3</sup> Further research suggests that contact with nature can help children who experience stress – lowering stress levels and increasing self worth.<sup>4</sup>



<sup>i</sup> 5-a-day reported consumption increased by 5 percentage points from 16% to 21%, and 4-a-day by 12 percentage points from 37% to 49%.

<sup>ii</sup> Pupils were surveyed at enrolment (baseline) and after 18-24 months (follow up) of the programme. For matched school and year groups, over 2,500 primary and 2,000 secondary school students took part.

<sup>iii</sup> 740 parents completed a five point Likert scale against a number of statements about family behaviours.

# Good for tackling inequalities

**"Evidence points towards the FFLP's potential to contribute to ... helping 'close the gap' for disadvantaged children in terms of their health and academic attainment."**

(Teeman et al, 2011, p.52)

## Effective in areas of high deprivation

- "FFLP schools tended to be situated in areas with high levels of deprivation. In particular almost half the FFLP Flagship primary schools were in wards in the top two quintiles for deprivation. With an average increase of 13 percentage points after two years, free school meal take-up has markedly increased for FFLP Flagship Schools. This is reflected in primary schools with high free school meal eligibility (top FSM quintile, n=8) where overall take-up increased by 6.6%, from 49.5% to 56.1%. These trends suggest that participation in the FFLP Flagship programme has been effective for schools within areas of high social deprivation" (Orme et al, 2011, p.94).

## Parental engagement

- "Activities associated with FFLP attracted high levels of parent engagement and acted as a basis for involving a wide range of parents in school life. This is important given the recognised challenges schools face particularly within deprived communities in successfully engaging and retaining parental involvement" (Orme et al, 2011, p.169).



## School meals for all

- FFLP interventions may be of greatest significance to the most disadvantaged children: "Children from lower socio-economic groups or disadvantaged communities are particularly vulnerable to obesity and more likely to experience poor diets" (Orme et al, 2011, p.8).
- The FFLP model has given a powerful boost to attempts to increase take-up of free school meals in disadvantaged communities. Nationally over the two-year period of evaluation (2007/8–2009/10) free school meal take-up went up by an average of 13 percentage points in FFLP schools (Orme et al, 2011, p.93). For comparison, national background figures available for the year 2008/9–2009/10 show that free school meal take-up was fairly static in primary schools (79.3%–79.5%) and increased slightly in secondary schools (65.7%–68.4%).<sup>5</sup>
- The strongest increases in free school meal take-up occurred in FFLP secondary schools (20.9%) and in schools achieving FFLP's Silver or Gold award (21%) (Orme et al, 2011, p.100).

## Good for improving education

**"Pupils are healthier, therefore they are happier, therefore they are achieving more in the classroom and in exams. After lunchtime we used to have around 10 to 12 call outs for challenging behaviour in an hour. We did a survey two years ago after joining the FFLP and we were down to four. I think there is a correlation there between improved food provision in school and better behaviour after lunchtime."**

Seamus O'Donnell, headteacher, Archbishop Ilsley Catholic Technology College

## Learning and attainment

- FFLP schools saw a greater increase in pupil attainment compared to the national average. Pre-FFLP, the Flagship secondary schools had a below average attainment figure (-3.3%), but managed to close the gap to -0.6%. FFLP primary schools had higher than average pupil attainment prior to the scheme, and increased this difference from 4.3% to 7.3% (Orme et al, 2011, p.151).
- UWE's evaluation found that more than twice as many FFLP primary schools received an Ofsted rating of Outstanding following their participation (37.2% compared to 17.3% outstanding pre-enrolment) (Orme et al, 2011, p.152).
- According to the evaluation by NFER, "interviewees consistently reported that FFLP had contributed to their school improvement agendas, helping improve attainment, behaviour and school environments" (Teeman et al, 2011, p.45). The UWE research found similar results: 80% of senior teaching staff in FFLP Flagship Schools reported that the initiative had been effective across a range of school development priorities, with 56% stating that FFLP had been either effective or very effective in helping the school to improve pupil behaviour, attention and attainment (Orme et al, 2011, p.157).
- In addition, NFER found that the opportunities for experiential learning through the FFLP were "particularly effective at helping engage or re-engage pupils with learning issues and challenges" (Teeman et al, 2011, p.47).
- Other research has shown that in schools where improvements were made to the food and dining room, pupils were more likely to concentrate in afternoon lessons.<sup>6</sup> Similarly, in Greenwich – the London borough where Jamie Oliver's Feed Me Better school food campaign began – test results among 11 year-olds in English and Science have shot up and absenteeism owing to sickness has fallen. Researchers from Oxford University and the University of Essex say the positive effects on educational attainment are comparable in magnitude to those seen after the introduction of the literacy hour in the 1990s.<sup>7</sup>
- School Food Trust research found that healthier school food has a positive impact on pupils' academic achievement and therefore on their lifetime earnings, returning the Government's investment tenfold.<sup>8</sup>

## School meal take-up

- The average FFLP school saw school meal take-up rise by 3.7 percentage points in their first year and by 5.0 percentage points over two years. The impact was greatest in secondary schools (+5.7 percentage points), schools achieving our Gold awards (+6.1 percentage points) and the most disadvantaged quintile of schools (+7.1 percentage points) (Orme et al, 2011, p.99).
- These increases mostly occurred from 2007/08–2008/9 when national school meal take-up fell by 3.7 percentage points in primary schools and by 2.6% in secondary schools.<sup>5</sup>

**"The key to a low cost in providing a school meals service is not to reduce the food cost but to increase sales and thus spread staff and other overheads further."**

Ian Crook, business manager,  
Bath and North East  
Somerset Council

**“Ofsted Inspection Reports are twice as likely to rate schools as Outstanding across ten areas of judgement on school performance for the period following FFLP enrolment.”**

Orme et al, 2011, p.165



TERRY ROOK

# Good for local enterprise and sustainability

"The results of both case studies suggest that there are substantial economic and social benefits to be gained from public procurement practices which focus on a sustainable agenda around seasonal and local produce."

(Kersley, 2011, p.29)

## Social and economic benefits

- The new economics foundation's (nef) Social Return on Investment (SROI) research was carried out in Nottinghamshire and Plymouth. They found that the share of ingredient spend on seasonal, local produce had risen dramatically as a result of adopting FFLP practices, by a nominal £1.65 million in Nottinghamshire and £384,000 per year in Plymouth (Kersley, 2011, p.2).
- The SROI calculation found that over £3 in social, economic and environmental value was created for every £1 spent. This does not take account of any of the health, educational or cultural benefits of a whole-school approach to food which are the primary objectives of FFLP. Adding these benefits would result in a substantially higher return on investment (Kersley, 2011, p.2).
- The greatest share of the benefits is experienced by local businesses – wholesale and primary producers – in the form of greater business security and, especially, enhanced local presence which leads to additional contracts and income. Of the total £5 million of benefit generated, around £3.6 million (69%) accrues to local suppliers (Kersley, 2011, p.25).
- Further benefits accrue to local employees through additional jobs, improved job security and enhanced wellbeing (Kersley, 2011, p.25).
- nef also looked at the multiplier effect of procuring a higher share of ingredients for school meals from the local economy. The multiplier calculation, based on the ratio of the initial injection of money to the local economy and the total circulation of that money within it, shows that currently for every £1 spent initially from the Nottinghamshire school meals budget on seasonal, local ingredients, a further £1.19 of economic activity is being generated (Kersley, 2011, p.27).

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## Case studies

**"Our work with the Food for Life Partnership and other healthy schools initiatives has had a great impact on reducing obesity. At Carshalton the percentage of obese pupils fell from 10% in 2002 to just over 2% in 8 years, and exam results increased from 32% 5 GCSE A\*- C to over 90% in the same time period. This really demonstrates how nutrition and healthy life choices play a key part in supporting academic achievement."**

David Hall, assistant headteacher, Carshalton Boys Sports College, London

### The Oval Primary

in Birmingham is a shining example of a school that has fully integrated the Food for Life Partnership across its school curriculum to the benefit of the children. The proportion of pupils eligible for free school meals is twice the national average; over a third of pupils have learning difficulties and almost half are from minority ethnic groups.

The school was judged 'Outstanding' in a 2010 Ofsted survey of its personal, social and health education provision, and it was noted that the school's FFLP activities successfully and actively engaged staff, pupils and parents in "improving the quality of food across the school and beyond".

Headteacher Rachel Chahal says, "Food has such a huge impact on the children. Learning about what they eat – or should eat – is just so important for their physical, personal and intellectual development. Children at The Oval understand where food comes from, not because they've read about it, but because they've actually seen it first-hand."

Rachel adds, "Our school meal take-up has increased 7.8% since joining the Food for Life Partnership because our food is such high quality and the children have a lot of input. Parents appreciate that and so do the children. The result is the children! They're positive, noticeably happy, contented and keen to learn. In the future, when they think back to their time at school, they'll have vivid memories because their learning has been linked to food, from growing to cooking and tasting it."

Following the success of The Oval, Birmingham City Council caterer City Serve has committed to making Food for Life accredited Bronze, Silver or Gold menus available to all of their schools.



### Carshalton Boys Sports College

in the London Borough of Sutton has made the FFLP model central to its drive to transform its food culture and combat obesity in the school and wider community. The school serves a diverse population, with a high percentage of students eligible for free school meals, and also a higher than average proportion identified as having learning difficulties or disabilities, including emotional and behavioural difficulties.

Carshalton has integrated the FFLP programme across the curriculum, with the science department leading on farm visits and FFLP ideals incorporated within work schemes for each department.

David Hall, assistant headteacher, says, "The FFLP has been a catalyst to take our work forward in ensuring pupils feel safe and are happy and understand the connections between food and feeling good and being healthy. We have many awards but the FFLP has pushed us further and given us clear support and guidance to reach the next step in our School Development Plan."

The college is particularly keen to involve parents, who are given regular opportunities to contribute towards the shaping of school policy. Staff look for ways to involve parents in FFLP activities, using a recent school car boot sale as an opportunity to give out salad and herb window boxes.

"We thought it would be a good way to reach out to the wider community, and hopefully success with their window box will inspire some to be more adventurous and have a go at growing other foods. Parents need to be involved as they are the ones who make food decisions within households and are therefore key to improving children's diets," David adds.

Having achieved considerable success in driving down obesity levels, the school is leading training on this issue across the London boroughs. Crucially, the healthy focus has also been accompanied by increased exam success, and this year the school was ranked 42nd in the country for sustained improvement in GCSE results.



TERRY ROOK

# Food for Life Catering Mark



**“Over the last couple of years we’ve noticed an increasing number of tenders are asking for the Food for Life Catering Mark as a contractual pre-requisite, which is a fantastic measure of its recognition and success amongst customers.”**

Penny Richards, Caterlink

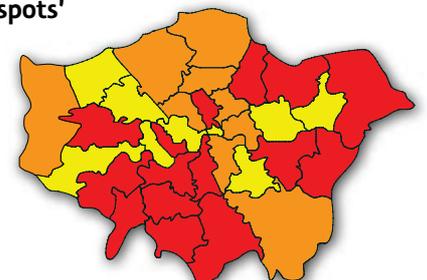
The Food for Life Catering Mark is a Soil Association accreditation scheme that provides a widely recognised benchmark for catering that puts quality first.

Caterers source ethical and environmentally sustainable food, champion local food producers and make it easier for people to eat healthily. The Catering Mark’s Bronze, Silver and Gold awards offer stepping stones for continuous improvement.

For school meal providers, the Catering Mark is a guarantee that they meet the food provenance requirements of the FFLP award for schools. By May 2011, 40 local authority and contract caterers were serving Food for Life menus to more than 290,000 pupils in over 2,800 schools.

School meals in over half of all London boroughs are now Food for Life accredited. In Richmond, local campaigning group School Food Matters has worked to engage schools in FFLP and helped the Borough Council re-tender school meals to secure Food for Life Silver standards at the same time as achieving savings of up to 40p per meal.

### Food for Life Partnership London 'hotspots'



# National framework, local partnerships

The Food for Life Partnership award framework offers schools a great way to benchmark their achievements nationally and helps them to make progress via the whole-school approach that is key to achieving the evaluation outcomes. Schools receive access to the training and resources they need to offer practical food education, engage their community and work with their caterer to raise school meal standards and take-up.

The FFLP approach is open to innovation to meet local needs, and has already been taken up by a wide range of local partnerships to deliver against goals on public health, education and sustainability. For example:

- In Lincolnshire, the local authority has dedicated a full-time post to FFLP, using it as a tool to develop the school meals service during an important transition in which nearly every school has replaced packed lunches with hot school meals. 189 schools and 17 caterers in Lincolnshire are now involved in Food for Life and over 3,000 Food for Life Gold school meals are served each day.
- In Doncaster, FFLP works in conjunction with Doncaster Catering Service and the Doncaster Healthy Schools team to engage pupils in transforming their food culture, with the School Meals team now offering the Food for Life accredited Bronze menu to all primary schools in Doncaster.

- In Oldham, the benefits of FFLP are widely recognised, with Oldham Metropolitan Borough Council providing a Silver menu to 98 schools across the borough. The Director of Children's Services and the Director of Public Health have worked together to deliver a clear message to schools, jointly writing to headteachers to encourage them to engage with FFLP.

**If you would like to explore what value FFLP can bring to the table in your area, or if you are already in a FFLP 'hotspot' and want to keep up the momentum, then we would be delighted to hear from you.**

**E: [fflp@foodforlife.org.uk](mailto:fflp@foodforlife.org.uk)**

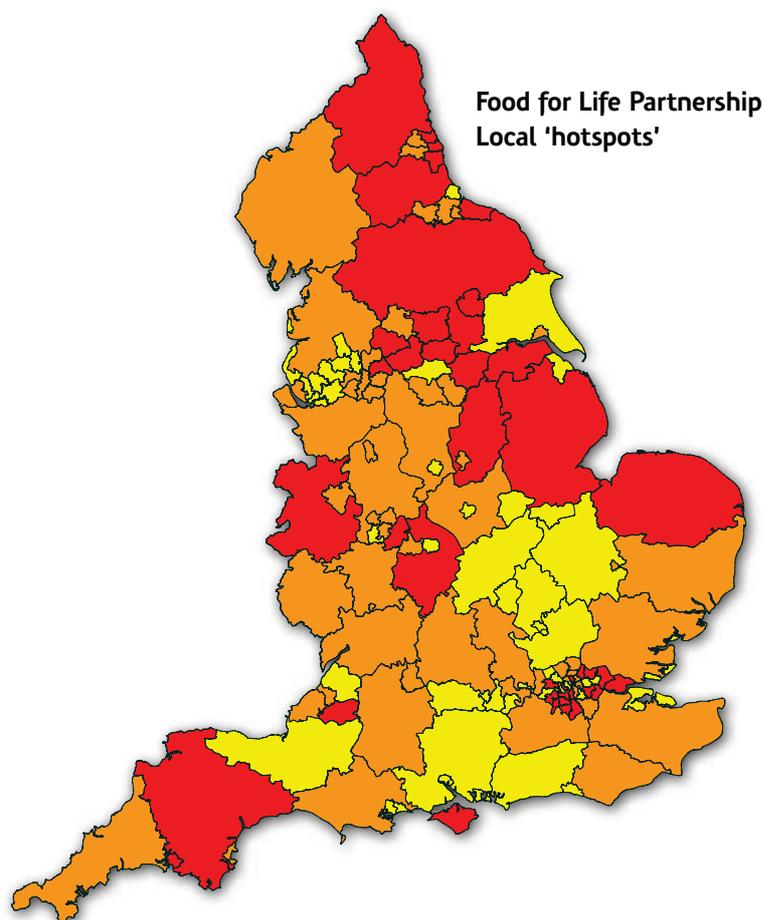
**3,800** schools enrolled on the programme so far

**150,000** people in the wider school community are benefitting

**300,000** children eating Food for Life accredited meals every day

## Key

- A FFLP 'hotspot': Food for Life Catering Mark accredited school meals served in most schools. FFLP actively championed by health and education stakeholders.
- Food for Life Catering Mark school meal standards on the way and stakeholders engaged in the FFLP programme.
- Individual schools engaged in the FFLP programme.



## About us

The Food for Life Partnership brings together the expertise and enthusiasm of four food-focused charities - Soil Association, The Focus on Food Campaign, Health Education Trust and Garden Organic. We hope you will be inspired to join us and the thousands of schools and communities already embracing the opportunity to enjoy food for life. Our grateful thanks to the Big Lottery Fund for their support.

[www.foodforlife.org.uk](http://www.foodforlife.org.uk)

# 45%

of parents report eating more vegetables as a result of the Food for Life Partnership programme

The number of children eating five or more portions of fruit and veg increased by

# 28%

in Food for Life Partnership primary schools

# twice

as many primary schools received an Outstanding Ofsted rating after working with the Food for Life Partnership

Free school meal take-up increased by an average of

# 13%

points in Food for Life Partnership schools

For every £1 invested in Food for Life menus, the social, economic and environmental return on investment for the local authority is

# £3



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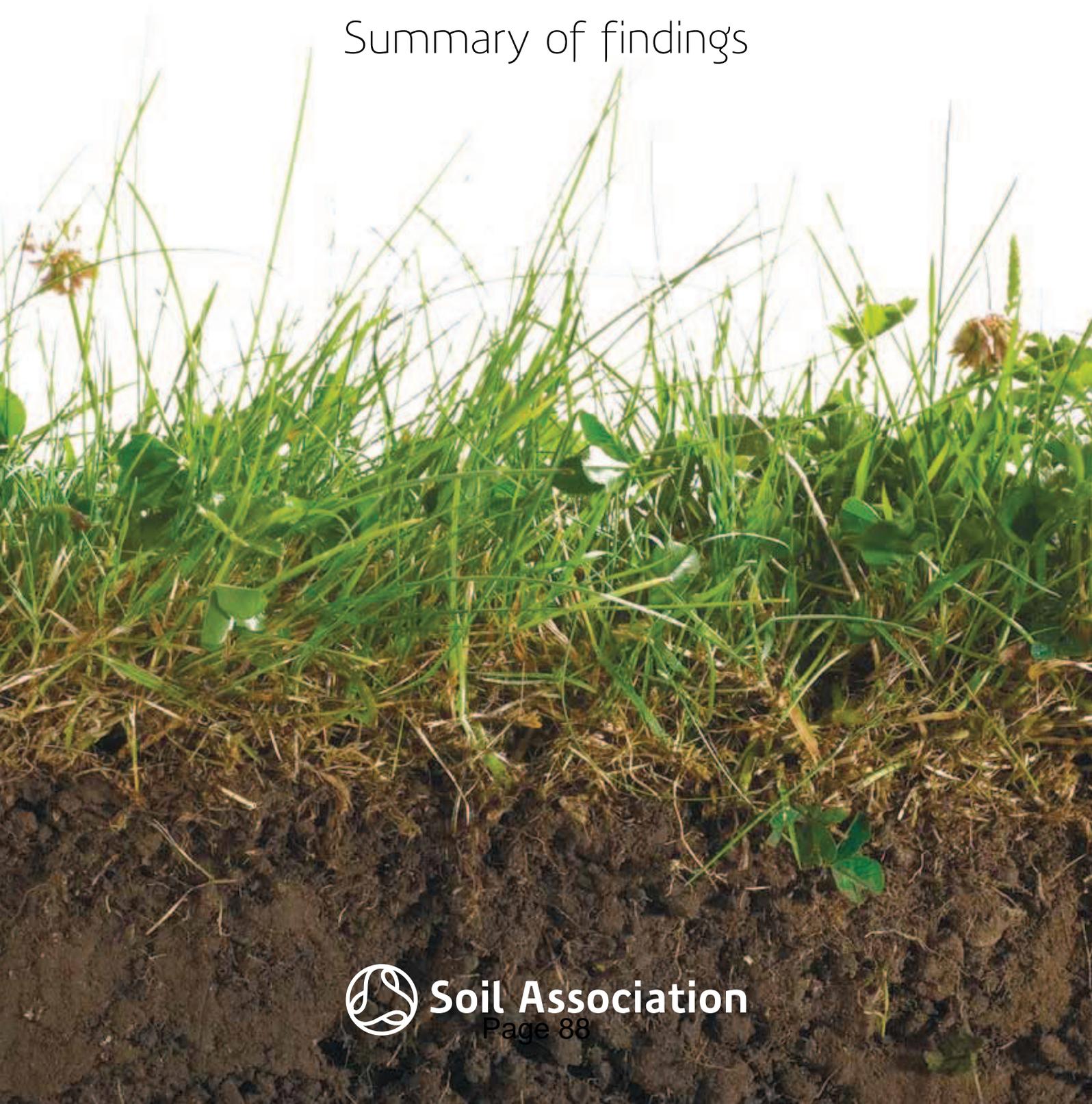
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South Plaza | Marlborough Street | Bristol | BS1 3NX  
T 0117 314 5180 | E [fflp@foodforlife.org.uk](mailto:fflp@foodforlife.org.uk)

# Soil carbon and organic farming

**A review of the evidence of agriculture's potential to combat climate change**

Summary of findings



**Soil Association**

Page 88

# Introduction

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**"A large proportion of the mitigation potential of agriculture (excluding bio-energy) arises from soil carbon sequestration, which has strong synergies with sustainable agriculture and generally reduces vulnerability to climate change"**

Intergovernmental Panel on Climate Change, Working Group III, 2007

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The UK's Climate Change Act commits our Government to delivering an 80% cut in greenhouse gases (GHGs) by 2050. Perhaps more importantly, scientists are calling for policy-makers to focus on what can be delivered over the next two decades, a critical period in which we must stabilise atmospheric carbon dioxide levels below 400 parts per million to limit global temperature rise to 2°C and avert catastrophic climate change.<sup>1</sup>

Commitments on food and farming have not taken centre stage in the lead-up to the Copenhagen COP15 Summit, but there is growing awareness of this sector's significance. Within the EU, the food we eat represents nearly a third of our climate footprint as consumers.<sup>2</sup>

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**One big blind spot remains, both in this country and elsewhere: soil carbon**

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When it comes to tackling farming's footprint, all eyes have been on livestock-related methane emissions and nitrous oxide emissions from fertilised fields, or the potential to generate energy from biofuels and the anaerobic digestion of animal wastes. Aspirations are low. The 2020 target for agriculture in the UK's Low Carbon Transition Plan is a voluntary 6–11% greenhouse gas reduction, compared to mandatory 20–40% targets in all other sectors of the economy.

One big blind spot remains, both in this country and elsewhere: soil carbon. Soil carbon sequestration,

according to the IPCC's scientific advisors on land use, represents 89% of agriculture's greenhouse gas mitigation potential.<sup>3</sup> Soil carbon losses caused by agriculture account for a tenth of total CO<sub>2</sub> emissions attributable to human activity since 1850. However, unlike the carbon released from fossil fuels, the soil carbon store has the potential to be recreated to a substantial degree, if appropriate farming practices are adopted. This would remove large quantities of carbon from the atmosphere every year for the next 20 years at least (until a higher 'equilibrium' soil carbon level is eventually reached). Action to increase soil carbon levels can therefore contribute substantially to the efforts to rapidly cut GHG emissions and avoid dangerous atmospheric CO<sub>2</sub> increases.

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**Important decisions on agricultural and climate policy are being made without consideration for 89% of agriculture's greenhouse gas mitigation potential**

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Furthermore, raising soil carbon levels can make a vital contribution to climate adaptation, by improving soil structure and quality. This will reduce the impacts of flooding, droughts, water shortages and desertification, thereby also improving global food and water security.

So far, soil carbon is largely being ignored by climate policymakers and analysts in the UK, partly due to the inadequacies of the current agricultural GHG accounting systems. Large (1.6 million tonnes a year) ongoing soil carbon losses from the conversion of grassland to arable land are concealed within the 'LULUCF' (Land Use, Land Use Change and Forestry) category of the UK's greenhouse gas inventory, not acknowledged as emissions from agriculture.<sup>4</sup> With the carbon losses from the fenlands also omitted (an additional 260,000tC/yr), this means that the actual figure for UK agriculture's CO<sub>2</sub> emissions is more than

double the official figure of 1.8 million tC/yr, and CO<sub>2</sub> accounts for a quarter of agriculture's current official GHG emissions. In addition, the IPCC guidelines on accounting for soil carbon changes due to agricultural management practices are not being implemented in Europe, which means that all other impacts of farming on soil carbon levels are missing from the GHG accounts. For example, soil carbon losses resulting from the declining proportion of arable farms that use temporary grass leys or livestock manure are not being reported.

There are also major soil carbon impacts of Europe's food and agricultural systems abroad: millions of tonnes of carbon are being emitted from the ongoing conversion of tropical habitats to agriculture in South America to supply soya for the intensive livestock sector and to supply beef in response to the falling UK self-sufficiency in beef (now an annual shortfall of 300,000 tonnes resulting partly from dairy intensification) and from the destruction of high-carbon peatlands in SE Asia to produce palm oil (an ingredient of industrial, processed foods in the UK and other countries).

Soil carbon is also excluded from most 'Life Cycle Analyses' of the climate impacts of farming (such as the 2006 Cranfield University assessment of organic and non-organic farming for the UK Government<sup>5</sup>) and from the current food 'carbon labelling' initiatives.<sup>6</sup> This means that important decisions on agricultural and climate policy are being made without consideration for 89% of agriculture's greenhouse gas mitigation potential.

Critics have been too quick to dismiss soil carbon sequestration on the basis that the rates of sequestration tend to diminish 20 years after a switch to improved practices. But it is the next 20 years that will be critical in policy terms for delivering major greenhouse gas reductions. Moreover, carbon sequestration still continues thereafter, albeit at lower rates, for 100 years or more.

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**Action to raise soil carbon levels – through more widespread adoption of organic farming practices and grass-based and mixed farming systems – can make a significant and immediate contribution to greenhouse gas mitigation**

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Recently there have been encouraging signs of engagement with the issue at the European level. In September 2009, EU Agriculture Commissioner Mariann Fischer Boel called on European farmers to cut agricultural greenhouse gas emissions by at least 20% by 2020, primarily by storing carbon in the soil.<sup>7</sup> Meanwhile, the UK Government's recently published strategy, *Safeguarding our Soils*, has acknowledged that "preventing emissions from soil and exploring how to increase existing stores of soil carbon can make an important contribution to meeting the Government's emission reduction targets and carbon budgets, introduced by the Climate Change Act 2008."<sup>8</sup> However, action on soil carbon was deferred in favour of a call for more research: "We need better evidence on trends in soil carbon levels and cost-effective techniques for protecting or increasing soil carbon."

This report is a response to that challenge. The evidence it presents suggests that action to raise soil carbon levels – through more widespread adoption of organic farming practices and grass-based and mixed farming systems – can make a significant and immediate contribution to greenhouse gas mitigation.

*This document is a summary of the findings. To read the full report, please see the website address on the inside back cover.*

# Headline findings

"With regard to CO<sub>2</sub>-sequestration in soils, organic agriculture can achieve high carbon gains through the use of green and animal manures, soil fertility-conserving crop rotations with intercropping and covering cropping, as well as by using composting techniques. In particular, in Northern European countries, conversion from conventional to organic farming would result in an increase of soil organic matter (from 100 to 400kg/ha/year)."

PICCMAT Consortium of EU soil & agricultural scientists, June 2008<sup>9</sup>

- ▶ Based on a review of the evidence, this report concludes that soil carbon sequestration – achieved through the widespread adoption of organic farming – would substantially reduce greenhouse gas (GHG) emissions and make agriculture more resilient to the effects of climate change.
- ▶ The soil carbon impacts of agriculture are ignored by current GHG accounting systems, which means that the current GHG emissions of agriculture have been greatly under-estimated, the emissions of organic farming greatly over-estimated, and the real potential of soil carbon sequestration overlooked. According to IPCC scientific advisers, 89% of agriculture's GHG mitigation potential resides in improving soil carbon levels.<sup>3</sup>
- ▶ A review of all available comparative studies in this report indicates that, on average, **organic farming practices produce 28% higher soil carbon levels than non-organic farming in Northern Europe, and 20% for all countries studied** (in Europe, North America and Australasia).
- ▶ This represents a soil carbon sequestration rate of approximately 560kgC/year (2tCO<sub>2</sub>/yr) for each hectare of cultivated land converted to organic farming in the UK, for at least the next 20 years. This would represent 64 million tonnes carbon over 20 years across all UK cultivated land, or 3.2 million tC/year, which would be the equivalent of taking nearly a million family cars off the road.
- ▶ On this basis, we conservatively estimate that the **widespread adoption of organic farming practices in the UK would offset at least 23% of UK agriculture's current official GHG emissions.**
- ▶ At a global level, the effects of agricultural soil carbon sequestration are even greater: assuming a higher possible sequestration level of 1tC/ha/year for organic farming best practices (including composting and agro-forestry), we estimate that widespread organic farming could potentially sequester 1.5 billion tC per year, which would **offset about 11% of all anthropogenic global GHG emissions** for at least the next 20 years. (The global impact is greater than in the UK because the ratio of the area of cultivated land to total GHG emissions is much higher).
- ▶ Soil carbon sequestration through organic farming practices also has the lasting benefit of improving soil structure and quality, because the accumulated carbon is in the organic form of humus. This will improve climate adaptation by reducing the impacts of flooding, droughts, water shortages and desertification, thereby also improving global food and water security.
- ▶ A review of the scientific evidence on the factors and biological processes of soil carbon accumulation indicates that organic farming increases soil carbon levels by: producing additional sources of organic matter, creating organic matter in forms that are more effective at producing soil carbon, integrating crop and livestock systems, and by increasing the proportion of vegetation cover which promotes the soil's micro-organisms that stabilise soil carbon.

# Let there be grass

- ▶ Grass-fed livestock has a critical role to play in minimising carbon emissions from farming and this must be set against the methane emissions from cattle and sheep.
- ▶ This is because grasslands for grazing livestock, whether permanent pasture or temporary grass on mixed farms (which accounts for most UK organic cultivated land), represent vitally important soil carbon stores.
- ▶ Each year in the UK, 1.6 million tonnes of carbon (representing a hidden additional 12% of the UK's agricultural GHG emissions) are released into the atmosphere because of the net conversion of permanent grassland to cultivated arable land.
- ▶ According to a recent European Commission report, grasslands have the potential to be sequestering large amounts of carbon on an ongoing basis. In the UK, the potential sequestration is said to be 670kgC/ha/year,<sup>10</sup> which, if true, would offset all the methane emissions of beef cattle and about half those of dairy cattle.<sup>11</sup>
- ▶ Advocates of a shift from red meat to grain-fed white meat to reduce methane emissions could therefore find that this has the perverse effect of exchanging methane emissions for carbon emissions from soils and the destruction of tropical habitats (to produce soya feed), as well as having a far reaching impact on our countryside, wildlife and animal welfare.

# Soil carbon and adaptation to climate change

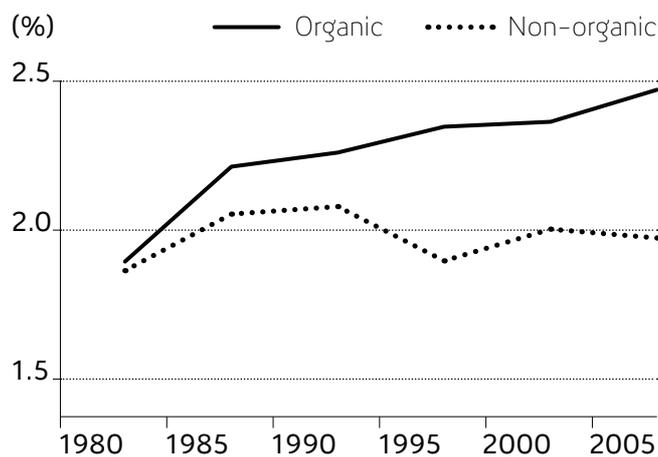
Soil humus levels determine the soil's water-holding capacity<sup>12</sup> and drainage rates. Low soil carbon levels are therefore likely to exacerbate the impacts of climate change, by increasing the risk and severity of droughts, water shortages and surface-water flooding. Conversely, higher soil humus levels should improve all these aspects. For instance:

- ▶ UK research has found that organic farming uses 26% less irrigation water per tonne of potatoes.<sup>13</sup>
- ▶ A long-term trial in the US found that in drought years, organic maize crops yielded 33% more than non-organic maize, and organic soya yielded 78% more than non-organic soya.<sup>14</sup>
- ▶ During torrential rains in 1999, measurements from the same trial found that water capture in the organically managed plots was double that of the non-organic plots.<sup>15</sup>
- ▶ Improvements in the resistance of agricultural crops to droughts will be particularly beneficial for the food security of drought-prone regions of developing countries.<sup>16</sup>

# Research methodology

This is the largest, most comprehensive and most detailed review of the soil carbon effects of organic farming to date. The Soil Association undertook a review of 39 comparative studies of organic farming soil carbon levels (all available soil sampling studies), covering over 100 individual comparisons from many different countries in temperate regions. This included both controlled trials and farm surveys. The objective was to evaluate the real impacts of current organic farming practices, compared to current non-organic farming practices, using the results of studies that sampled organically and non-organically managed land and to be conservative in all assumptions (unless stated otherwise).

## TOTAL SOIL CARBON CONTENT



Results of a long-term US comparative trial by the Rodale Institute

The results of the studies were averaged to produce an average percentage difference for organic farming soil carbon levels compared to non-organic farming, (i) for Northern Europe (+28%), and (ii) all studies (+20%). For accuracy, these averages were calculated from the actual data not the percentage differences. A figure for the annual carbon sequestration potential of organic farming in the UK – 560kgC/ha/yr – was then calculated by applying the average +28%

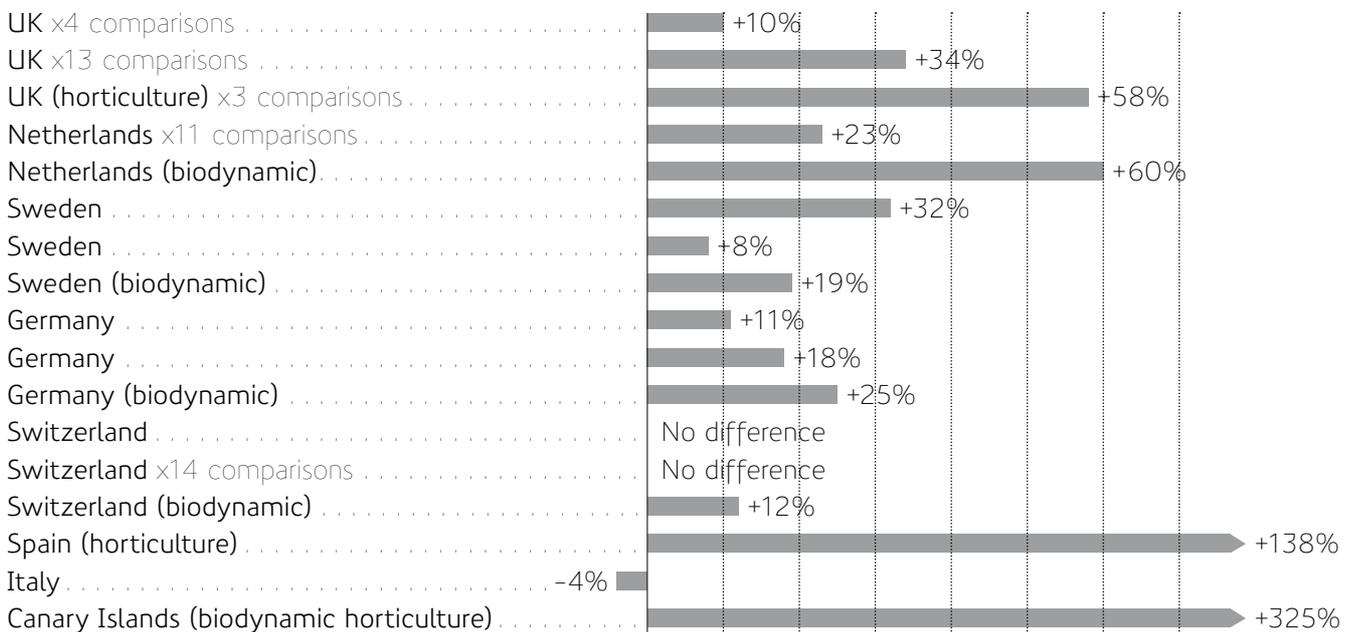
increase to official figures on the soil carbon stocks of UK cropland (tC/ha) and dividing this by 20 years to provide an estimated average annual carbon sequestration rate for the UK for 20 years following organic conversion. To be conservative, the +28% figure for Northern Europe was used (instead of the slightly higher figure for the UK alone); this increase was applied to the soil carbon stock data for England (rather than the higher figures for all UK cropland); the increase was only assumed to apply to the top 18cm of the soil (the estimated average sampling depth of the studies, although the IPCC methodology normally applies differences to the top 30cm); and the increase was assumed to be produced over an average period of 20 years (rather than the estimated 15 year average period of the studies; 20 years was used as it is the standard IPCC accounting period).

To arrive at the global estimated sequestration potential, a much simpler and more speculative approach was taken for illustrative purposes, as comparative data was not available for most countries, and using a single soil carbon stock figure would be inappropriate. A carbon sequestration figure of 1tC/ha/yr was assumed to apply to the total global area of cultivated land to give a total sequestration figure of 1.5 billion tonnes of carbon per year. It is assumed that a higher figure than the UK figure of 560kgC/ha/yr is both realistic and reasonable considering the very wide potential of organic farming practices at a global level (eg. using composting and agro-forestry which sequester particularly high levels of carbon).

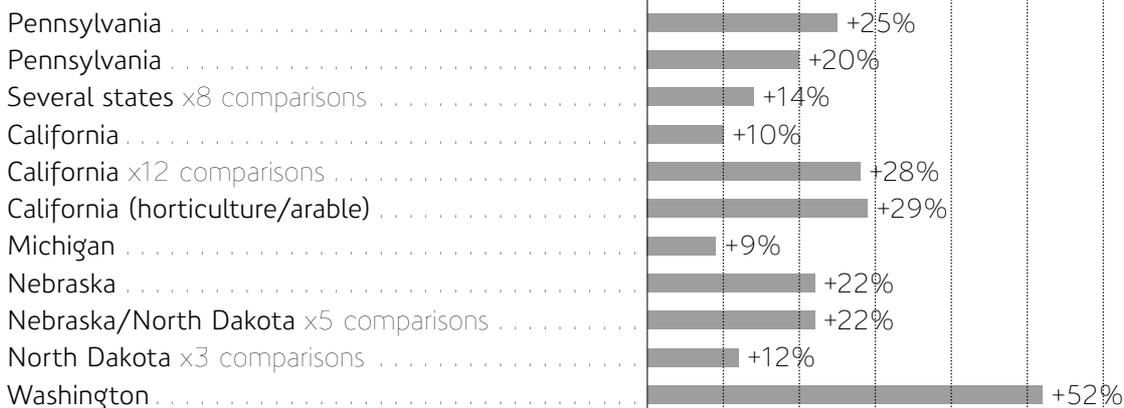
The +28% and +20% for higher soil carbon levels in organic farming and the UK carbon sequestration potential figure of 64 million tonnes are presented as current best estimates of the soil carbon benefits of organic farming based on the current available data. The global estimate is speculative and intended to be illustrative. As further data becomes available, these estimates are expected to be improved.

**SOIL CARBON LEVELS: ORGANIC FARMING COMPARED TO NON-ORGANIC (SUMMARY OF STUDIES)**

**EUROPE**



**USA**



**AUSTRALASIA**



**AVERAGE ORGANIC**

**AVERAGE BIODYNAMIC**



# Soil carbon: the science

We believe the +28% and +20% for higher soil carbon levels in organic farming to be conservative for the following reasons:

- ▶ The averaging was done using only the results of standard organic farming (excluding biodynamic farming) and based on the absolute data not the percentage differences (to avoid any bias from higher differences occurring in lower soil carbon level soils).
- ▶ These figures are only based on the differences in the topsoil carbon content (which is all that most studies measure) and they do not include any increases in topsoil depth or subsoil carbon content with organic farming, although the few studies to have looked at these aspects have found increases in these as well.
- ▶ The UK estimate does not account for any overseas carbon savings of organic food and farming, including an increase in the soil carbon levels of the large area of overseas arable land that provides feed for the UK's livestock sectors and the farmland used to produce imported foods (these are included in the global estimate, but not in the UK estimate), and a reduced destruction of tropical habitats due to greater use of grass as feed, rather than imported soya and other grains.
- ▶ These figures do not account for the increase in agricultural soil carbon storage that would result from the almost certainly greater percentage of farmland that would be in permanent grass with widespread organic farming.
- ▶ They only represent cultivated land, and exclude any higher soil carbon levels of organically managed, than non-organically managed, permanent grassland (as found by the three comparative studies to have looked at grasslands).
- ▶ They exclude the significant potential for further developing organic farming practices in line with its principles to increase its capacity to build soil carbon, such as by the wider use of green manure crops, composting, and the use of non-agricultural organic matter sources, such as food and paper waste.

- ▶ Most fresh organic matter is decomposed in the soil and rapidly releases its carbon as CO<sub>2</sub>, and only a small proportion of the soil carbon input is converted to humus (stable soil carbon).
- ▶ It is often assumed that the main determinant of soil carbon levels is simply the quantity of organic matter inputs to the soil. However, biological factors affect the amount of carbon that is converted to stable soil carbon, and can increase the proportion from a few per cent up to 60%.
- ▶ Key to building the soil carbon store is good soil structure and the process of **soil aggregation**, whereby the soil's mineral particles are clustered into 'aggregates' which stabilises humus by encapsulating part of the humus inside the aggregates so that it is protected from degradation.
- ▶ **Soil micro-organisms** play a major role in soil aggregation: the soil particles are glued together by the polysaccharide gums produced by soil microorganisms,<sup>17</sup> by the networks of fungal hyphae in the soil,<sup>18</sup> and by the activity of earthworms.<sup>19</sup>
- ▶ **Plant roots** are a further key aspect and probably more important than the over-ground part of plants. As well as providing carbon from their biomass,<sup>20</sup> roots supply almost as much carbon to the soil by a continuous release of exudates, root hair turnover and root cell sloughing.<sup>21</sup> Also, the carbon from roots lasts over twice as long in the soil as the carbon from plant stems and leaves.<sup>22</sup>
- ▶ Another factor is the **biochemical composition** of the organic matter: (i) the level of resistant compounds such as lignin, and (ii) the carbon to nitrogen (C:N) ratio.<sup>23</sup> Nearly all of the carbon in residues with a C:N ratio higher than about 32:1, such as straw, is lost by microbial respiration.
- ▶ Different plant types affect the above properties differently: arable crop residues are relatively poor at forming soil carbon, legumes are better, and grass is very good. **Grass** has many characteristics that promote soil carbon levels: a high root density, resistant biochemicals, fine root hairs that promote

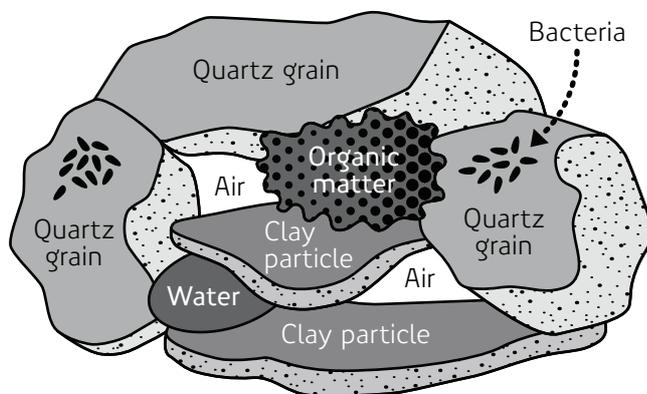
# The impact of current farming practices on soil carbon levels

soil aggregation, and high mycorrhizal fungal levels which increase soil aggregation.

► Organic matter types that have undergone some microbial digestion are also good at producing high, long-term soil carbon accumulation, ie. **farmyard manure (FYM) and compost**.

► The rough proportions of carbon that are converted to soil carbon increases by type as follows: **straw 5–7%; legumes 17%; FYM 23%; compost 50%** (if used without N fertiliser).

## ILLUSTRATION OF SOIL AGGREGATION



The pore space inside the clump of particles holds organic matter, water and air

Arable soils have the lowest soil carbon levels of all major land types in Europe. There have been several developments in agricultural practices that are likely to have reduced soil carbon levels and are keeping levels low. The main ones for the UK are as follows, and are all associated with the intensification and specialisation of agriculture:

- The abandonment of mixed farming systems with temporary grass alternating with arable crops.
- The reduced spreading of animals manure: only 22% of the UK's cultivated area now receives manure of any kind (including sewage sludge).<sup>24</sup>
- The wide production of liquid slurry instead of solid farmyard manure (with straw), which does not have the same qualities, because of the intensification of livestock production.
- The reliance on inorganic fertiliser, which means farmers are no longer dependent on using organic matter for fertility and which reduces the size of crop root systems.
- The introduction of modern short-strawed cereal varieties, which has reduced not just the amount of straw produced but also the size of crop root systems.
- The ploughing-up of permanent grassland which releases from 23 tonnes (in England) to 90 tonnes (in Scotland) of carbon per hectare.<sup>25</sup>
- A high increase in the numbers of grazing cattle and sheep because of earlier government incentives, which caused over-grazing of UK grasslands.
- The move from grass to grain-fed livestock systems which means there is now a large 'ghost' area of low-carbon arable land abroad supporting the UK's livestock sector and major carbon losses occurring from the destruction of tropical habitats to supply soya feed and a shortfall in beef.
- The production of maize silage for winter cattle feed instead of grass (silage or hay), which causes soil degradation.

# Why organic farming?

The soil carbon benefit of organic farming results from the fact that the system is based on inputs of organic matter to the soil and the decomposition of this by soil microbial activity for releasing nutrients for crop production, instead of using inorganic fertilisers. This process at the same time produces humus (stable soil carbon) and thereby raises the soil's carbon levels.

A review of the scientific evidence on the factors and biological processes of soil carbon accumulation indicates that the key aspects of organic farming that produce these higher soil carbon levels are:

- ▶ The production of **additional organic matter sources** on farmland (grass leys, green manure crops), normally without reducing the area of farmland that is in food production.
- ▶ The production of more organic matter in **forms that are more effective** at producing humus and raising soil carbon levels (grass, legumes, root systems, composting and farmyard manure instead of slurry and straw), instead of just arable crop residues which tend to be rapidly mineralised.
- ▶ The common **integration of crop and livestock production (mixed farming)** which ensures the use of temporary grass in the rotations. It also ensures that much more of the livestock waste is produced in farmyard manure (FYM) form (with straw) instead of slurry, and that much more of the collected manures are applied to the cultivated land.
- ▶ The **greater vegetation cover** and less bare soil (use of grass leys, more weeds, green manure/cover crops), which provides a greater and more continuous supply of the root exudates that support the soil's micro-organisms which build the soil carbon store.

# Concerns about soil carbon and organic farming

The full report addresses in detail a number of concerns that have been raised about agricultural soil carbon sequestration and about the soil carbon impacts of organic farming.

▶ **Reaching equilibrium:** Critics have been too quick to dismiss soil carbon sequestration on the basis that the rates of sequestration tend to diminish 20 years after a switch to improved practices. But it is the next 20 years that are critical in policy terms for delivering major GHG reductions. Moreover, carbon sequestration still continues thereafter, albeit at lower rates, for 100 years or more.

▶ **Security of soil carbon sequestration:** There is also a concern that any soil carbon gains are insecure and may be lost rapidly if the positive practices are abandoned. This is not a key issue, as the focus should be on improving agricultural soil quality indefinitely. Nevertheless, soil carbon gains seem sufficiently secure: if the practices are abandoned, the half-life of accumulated soil carbon ranges from 10 to 130 years, and if organic farming builds carbon in the subsoil, the gains are even more secure.

▶ **Additionality:** One concern is whether organic farming produces additional soil carbon or whether the higher levels are largely a result of organic farmers using organic materials from non-organic farms, such as manure. In fact there is relatively little use of non-organic farming materials by organic farmers in the UK, and factors inherent in organic systems explain much or most of the differences in sequestration. Accounting for soil carbon must take account of whether sources of carbon like straw or manure would have been sequestered in any event, as well as of related emissions of GHGs.

▶ **Ploughing:** A concern that the common use of deep cultivation in organic farming could be a weakness are answered by a number of trials in Europe that show that the depth of cultivation has

# Soil carbon facts and figures

no effect on the overall soil carbon levels of organic farming. Ploughing is used to incorporate organic matter into the soil; with sufficient inputs, increases in ploughing depth can even increase topsoil depth.

► **'Min-till' and 'no-till':** Reduced soil cultivation is the main non-organic farming solution commonly put forward for raising soil carbon levels, but its benefits have greatly been exaggerated. According to government scientific advice, the soil carbon benefits are minimal in the UK. Reduced tillage is effective in maintaining soil carbon storage in semi-arid regions where carbon is being lost by erosion and by the use of fallow periods, but otherwise there is no clear scientific evidence that it increases carbon levels over the whole soil profile, and certainly not to the extent of organic farming. Moreover, the carbon is then in a relatively unstable form, and any soil carbon gains may be offset by higher soil N<sub>2</sub>O emissions.

► **Relationship between soil carbon input levels, agricultural yields and soil carbon levels:**

The report challenges a commonly held assumption that agricultural yields are one of the main determinants of soil carbon levels and that the use of inorganic fertiliser increases soil carbon levels (eg. in the US, organic farming yields are similar to non-organic farming, but soil carbon levels are higher). Organic farming produces organic matter sources other than crop residues and also improves the biological conditions for soil carbon accumulation: studies show organic farming can produce two to eight times as much soil carbon per unit of biomass carbon input than non-organic farming.

► **Soil microbial activity:** the higher soil microbial activity of organic farming is a benefit and does not mean that stable soil organic matter is more liable to being broken down. There is a positive association between soil carbon levels and soil microbial levels because it is soil microorganisms that (i) produce the humus, and (ii) protect humus against degradation, by aggregating the soil particles.

► Soil is a major store of carbon, containing three times as much carbon as the atmosphere and five times as much as forests. About 60% of this is in the form of organic matter in the soil (1,500 bn tC).

► The large size of this store means that soil carbon changes can have significant effects on the level of atmospheric CO<sub>2</sub>. Each 1% increase in average soil organic carbon levels could in principle reduce atmospheric CO<sub>2</sub> by up to 2%.<sup>26</sup>

► Soil carbon losses account for a tenth of all the CO<sub>2</sub> emissions by human activity since 1850.<sup>27</sup> However, unlike the losses of carbon from the burning of fossil fuels, the soil carbon store can be recreated.

► The principal component of the soil carbon store is humus, a stable form of organic carbon with an average life-time of hundreds to thousands of years.

# References

- 1 eg. The UK's Stern Review ([www.sternreview.org.uk](http://www.sternreview.org.uk)) warned that unless action is taken within the next 10–20 years, the environmental damage caused by climate change later in the century could cost between 5 and 20% of global GDP every year.
- 2 Environmental Impact of Products (EIPRO): Analysis of the life cycle environmental impacts related to the final consumption of the EU-25, European Commission, 2006
- 3 An estimated 89% of the global potential for agricultural greenhouse gas mitigation would be through carbon sequestration. Smith P *et al*, Greenhouse gas mitigation in agriculture. *Philosophical Transactions of the Royal Society of London Series B Biological Sciences* (2008) 363, 789–813. Published on-line 6 September 2007.
- 4 Soil Association calculation based on data in: Tables 1-1, 1-2 and 1-31, CEH *et al*, July 2008.
- 5 Williams A, Audsley E, & Sandars D, 2006. "Determining the environmental burdens and resource use in the production of agricultural and horticultural commodities." Main Report. Defra Research Project IS0205. Cranfield University and Defra.
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- 7 15 September 2009, speech by EU Agriculture Commissioner, Mariann Fischer Boel, reported on [www.euractiv.com/en/cap/commission-farmers-need-help-cut-carbon/article-185476](http://www.euractiv.com/en/cap/commission-farmers-need-help-cut-carbon/article-185476)
- 8 Safeguarding our Soils: A Strategy for England, Defra, September 2009
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- 10 Janssens *et al*, 2003
- 11 UK methane emissions per dairy cattle per year are 130.8kg from enteric fermentation and from manure. Assuming 2 dairy cattle per ha, this means dairy cattle release:  $2 \times 130.8 \times 21$  (conversion factor for methane to CO<sub>2</sub>)  $\times 12/44$  (conversion to carbon equivalent) = 1,498kgCeq/ha/yr of methane. So, UK grassland would give an offset of  $670/1498 \times 100 = 45\%$  offset. Beef cattle emissions are 39% of those of dairy cattle, per animal. Reference for methane emission data for cattle from page 374 (based on cattle weight 577kg), Annexes of the UK Greenhouse Gas Inventory, 2007: [http://www.airquality.co.uk/reports/cat07/0905131425\\_ukghgi-90-07\\_Annexes\\_Issue2\\_UNFCCC\\_Final.pdf](http://www.airquality.co.uk/reports/cat07/0905131425_ukghgi-90-07_Annexes_Issue2_UNFCCC_Final.pdf)
- 12 Humus can hold the equivalent of 80–90% of its weight in moisture, so higher levels increase the soil's capacity to hold water and withstand drought conditions; Olness A, Archer D, 2005. Effect of organic carbon on available water in soil. *Soil Science* 170:90–101. In addition, the aggregation of the soil particles by humus creates pores throughout the soil, which also holds water.
- 13 "Irrigation management in organic and non-organic potato production – a case study on the East Anglia region, UK," Soil Association, 2008.
- 14 Pimentel D, Hepperly P, Hanson J, Douds D & Seidel R (2005). Environmental, energetic, and economic comparisons of organic and conventional farming systems, *BioScience*.
- 15 Lotter D, Seidel R & Liebhardt W (2003): The Performance of Organic and Conventional Cropping Systems in an Extreme Climate Year. *American Journal of Alternative Agriculture* 18(3): pp146–154.
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- 18 eg. Haynes & Naidu, 1998. Cited in Shepherd *et al*, 2002.
- 19 Swaby, 1950; Scullion & Malik, 2000; and Scullion *et al*, 2002. All cited by Pulleman *et al*, 2003.
- 20 According to this source, the root biomass is generally about 22% of the above-ground biomass for arable crops (ie. 18% of total crop biomass), per unit area (for US conventional cropping systems). The ratio is probably generally higher for organic farming.
- 21 This suggestion of 'as or almost as much' is based on studies to date, but there is still "great uncertainty" over the size of the contribution of this source of carbon. Rasse *et al*, 2005.
- 22 An average 2.4-fold greater residence time for root carbon in the soil compared to shoot carbon, for an average 7.5 months, based on *in situ* studies. Rasse *et al*, 2005.
- 23 "Use of the Carbon:Nitrogen Ratio," SOIL, AGRON 305, [www.agronomy.ksu.edu](http://www.agronomy.ksu.edu)

- 24 Pages 34, 42 and 45, The British Survey of Fertiliser Practice, 2008. <https://statistics.defra.gov.uk/esg/bsfp/2008.pdf>
- 25 Tables 1–23 to 1–26 (note, the units shown should be tC/ha, not kg/m<sup>2</sup>), page 20, CEH *et al*, 2008. [http://www.edinburgh.ceh.ac.uk/ukcarbon/docs/2008/Defra\\_Report\\_2008.pdf](http://www.edinburgh.ceh.ac.uk/ukcarbon/docs/2008/Defra_Report_2008.pdf)
- 26 As the soil organic carbon store is twice the atmospheric carbon level, a 1% increase in the soil organic carbon store equates to 2% of atmospheric C levels. If soil carbon sequestration removes carbon as it is being emitted from other sources, before the sinks have been able to take it up, then presumably the full 2% reduction could occur. This would be far greater than the effect of emissions of carbon, such as by soil carbon losses, because currently the year-on-year atmospheric CO<sub>2</sub> increase is only about 40–50% of the amount of C emitted (see Houghton *et al*, 2003). An increase of 40% × 2% = 0.8%.
- 27 Derived from Marland *et al*, 2006; Houghton, 2003; Houghton, 1999. Other greenhouse gases are not included.

# Policy recommendations

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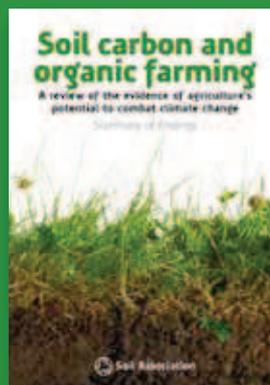
**"Many agricultural mitigation options, particularly those that involve soil carbon sequestration (which is 89% of the technical mitigation potential of agriculture), also benefit adaptation, food security and development, referred to as co-benefits. These options involve increasing the levels of soil organic matter, of which carbon is the main component. This would translate into better plant nutrient content, increased water retention capacity and better structure, eventually leading to higher yields and greater resilience. These agricultural mitigation options can be pursued in the context of, and without adverse affects to, national sustainable development processes."**

*Food Security and Agricultural Mitigation in Developing Countries: Options for Capturing Synergies*, UN Food and Agriculture Organisation, November 2009

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On the basis of these important benefits for GHG mitigation and climate adaptation, soil carbon sequestration should be maximised by agricultural and climate policies in four main ways:

- ▶ Soil carbon impacts should be fully accounted for and considered in climate policy and agricultural GHG accounting systems, in line with IPCC recommendations and including overseas impacts.
- ▶ National and global strategies for large-scale soil carbon sequestration should be adopted based on a major expansion and development of organic farming, with a parallel approach to improve non-organic farming.
- ▶ Work to define a sustainable diet (as is being championed by the Council of Food Policy Advisors and the Sustainable Development Commission) should take account of the importance of grass-fed livestock in conserving existing soil carbon stocks in permanent grasslands and sequestering carbon in cultivated land via temporary grass leys on mixed farms.
- ▶ The major national and global carbon source 'hot-spots' should be also directly addressed. For the UK, this means drastically reducing imports of beef, soya and palm oil, reversing peatland drainage, and returning the cultivated fenlands (lowland peat soils) to rotational arable/grass ley farming.



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[www.soilassociation.org/climate.aspx](http://www.soilassociation.org/climate.aspx)

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The full report is available to download free of charge from the address above

**Author:** Gundula Azeez MA

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## SOIL ASSOCIATION

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The Soil Association is a membership charity campaigning for planet-friendly food and farming. We believe in the importance of the connection between soil, food, the health of people and the health of the planet. You can find out more about our policy, campaigns and programmes at [www.soilassociation.org](http://www.soilassociation.org)



**Soil Association**

South Plaza | Marlborough Street | Bristol BS1 3NX

T 0117 314 5000 | F 0117 314 5001

**[www.soilassociation.org](http://www.soilassociation.org)**

Registered charity no. 206862

**Soil Association Scotland**

Tower Mains | 18c Liberton Brae | Edinburgh EH16 6AE

T 0131 666 2474 | F 0131 666 1684

**[www.soilassociationscotland.org](http://www.soilassociationscotland.org)**

Registered charity no. SC039168

**Alun Davies AC / AM**  
Y Dirprwy Weinidog Amaethyddiaeth, Bwyd, Pysgodfeydd a  
Rhaglenni Ewropeaidd  
Deputy Minister for Agriculture, Food, Fisheries and  
European Programmes



Llywodraeth Cymru  
Welsh Government

Ein cyf/Our ref AD-/05338/11

Vaughan Gething AM

vaughan.gething@wales.gov.uk

Dear Vaughan

23 November 2011

**Common Agricultural Policy Task and Finish Group Inquiry into proposed reforms to the Common Agricultural Policy**

Thank you for your letter of 9 November.

I attach a paper on the three aspects that you raise from the proposed Horizontal regulation on financing, management and monitoring of the CAP. I understand that the Task and Finish Group will consider it at its meeting on 28 November.

At your meeting of 9 November I offered to share with you some papers that my officials had prepared and I have arranged for these to be sent to the Group's secretariat. If you would find it useful to have a private briefing with my officials on those papers then I will be happy to arrange that.

Your sincerely,

**Alun Davies AC / AM**

Y Dirprwy Weinidog Amaethyddiaeth, Bwyd, Pysgodfeydd a Rhaglenni Ewropeaidd  
Deputy Minister for Agriculture, Food, Fisheries and European Programmes

## **Common Agriculture Policy Task and Finish Group Inquiry into proposed reforms of the Common Agriculture Policy**

Paper from the Deputy Minister for Agriculture, Food, Fisheries, and European Programmes.

This is a rather technical regulation and it forms the framework that facilitates the more obvious work of the Pillars 1 and 2 regulations. However, the true level of complexity will only be apparent when we see the delegated acts and implementing acts to be adopted by the Commission. Drafts of these measures are not expected to be published until some time in 2012. We will be giving close attention to these as they develop. As such it is important to appreciate that the views expressed here will probably be subject to change when we have further information.

### Cross compliance

With regard to cross compliance, there is some minor and limited simplification but there is also a reduction in environmental standards and potentially complex and burdensome proposals on permanent pasture.

The removal of some standards from the Statutory Management Requirements (SMRs) on protection of birds and plants, and control over sewerage sludge is of concern. There is the potentially helpful addition of measures under the Water Framework directive, but we have a concern this will not have any practical impact due to the possibility of delays in implementing the directive. Although these changes represent a reduction in the administrative burden, both for the farmer and the Government, they will have direct effects over these environmental areas.

We will need to see the detailed regulations before we are sure of the effect of the changes in respect of permanent pasture. The change seems to shift the focus of management from a national level to the farm, and in our current view this will increase the burden and complexity of controls in Wales without any perceived environmental benefit.

We do share the UK Government's concern at the exemption from cross compliance of the small farmer's scheme, which would diminish the environmental benefits of cross compliance. As currently drafted larger farmers could apply for the small farmer's scheme if they felt that the burden of compliance outweighed the financial benefit of the main direct payment scheme, and we do not think that this should be encouraged.

### Controls and disallowance

There have been no substantive proposals to amend existing rules around disallowance in the current regulation, which is of concern since this gives the Commission significant discretion in the application of disallowance. The implementing regulations will contain the relevant text, but the Government will be seeking to ensure that rates of disallowance reflect the true risk to the fund of non-compliance, rather than the disproportionate flat rate penalty that currently applies.

There is a change in the regulation in respect of Irregularities. Irregular payments that have not been recovered within specified timescales are now to be borne by the Member State in their entirety (previously the EC bore 50%). We do not think that this takes sufficient account of situations beyond our control and we will be seeking to alter the regulation here.

Some of the wording in the regulation speaks encouragingly of proportionality in applying controls. However, in respect of penalties, the detailed regulations will provide the definite answer. Our preliminary view, based on the limited information available in this regulation, is guardedly positive. The Paying Authority seems to be given more discretion to not apply financial penalties in respect of "minor" breaches (i.e. those not resulting in risks to the public or animal health). However, we are as yet unsure to what extent this freedom will be bought at the expense of a higher testing regime. We will be pursuing this further.

### Farm advisory system

On the current assessment we do not see the move of the Farm Advisory System (FAS) to the Horizontal Regulation as an issue. It reflects that fact that the Commission requires FAS to at least cover the requirements and standards of cross-compliance in addition to its role in direct payments, issues around climate change, animal and plant health disease notification and innovation as well as the sustainable development of the economic activity of small farms.

There is a much stronger emphasis in the proposal towards the type of activity currently being delivered in Wales via Farming Connect and the Farm Advisory Service. Although FAS is compulsory for us it remains voluntary to beneficiaries, and it will be open to all eligible beneficiaries whether they receive other support under the CAP or not. We also welcome the emphasis on the quality of the services being delivered.

There is an expansion of what should be covered under FAS in the new regulations, to cover advice on the activities farmers must undertake as part of the “greened” component of direct payments, as well as additional requirements relating to climate change mitigation and adaptation, biodiversity, water protection, animal and plant disease notification, innovation, and the sustainable development of small farms. There is no mention of budgets in the new proposed regulation. The present situation is that 1,500 Euros is available per holding for the duration of the Rural Development Programme (RDP); this limit would not be enough to cover such a broad extension in the scope of FAS.

The UK Government is seeking clarification on the above, and on the text which seems to suggest that advice should be tailored to the “specific situation” of a beneficiary’s holding, which could imply one-to-one advice, which would result in increased financial and administrative burden. We support the UK government’s position.