



Cyngor Cefn Gwlad Cymru Countryside Council for Wales

CADEIRYDD/CHAIRMAN: MORGAN PARRY • PRIF WEITHREDWR/CHIEF EXECUTIVE: ROGER THOMAS

Anfonwch eich ateb at/Please reply to: Dr David Parker
Cyfeiriad Isod/Address Below
Llinell Union/Direct Dial: (01248) 387399; Ffacs/Fax: (01248) 385500
Ebostr/Email: d.parker@ccw.gov.uk

Mr Vaughan Gething AM
Chair – Common Agricultural Policy Task and Finish Group
Environment & Sustainability Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

25 September 2012

Dear Mr Gething

COMMON AGRICULTURAL POLICY – DRAFT REPORTS BY RAPPORTEURS FROM THE AGRICULTURE COMMITTEE OF THE EUROPEAN PARLIAMENT.

Thank you for your letter of 24th July together with the accompanying paper in which you helpfully summarised some of the key issues arising from the above reports.

Whilst these documents plainly form a key part of the process by which the European Parliament formulates its views on the Commission's CAP reform proposals, the amendments suggested by the rapporteurs from the Agriculture Committee constitute only a small proportion of the more than 7000 amendments submitted over the summer by other Committees and individual MEP's. We understand that it will now be up to the rapporteurs /shadow rapporteurs to consolidate all of these proposals into a smaller number of critical amendments on which the Agriculture Committee can vote.

The sheer volume of amendments means that the necessary consolidation work is now expected to take up much of the early autumn. At the same time, the outcome of recent bilateral meetings on the EU Multiannual Financial Framework (MFF) as organised by the Cyprus Presidency, suggests that the total level of EU expenditure over the period 2014-2020 will have to be *adjusted downwards*¹. Any such adjustment seems likely to result in a proportionate reduction in the overall CAP budget; triggering further debate on the most appropriate balance of spending between Pillar 1 and Pillar 2, as well as on the proposed greening of Pillar 1 and the relationship between the greening requirements and the agri-environment and climate measures under the new Rural Development Regulation.

The attached paper sets out CCW's views on a number of the amendments suggested by the European Parliament's rapporteurs and subsequently highlighted by the NAW Task and Finish Group. In particular, we have focussed on the greening of Pillar 1 and the draft Regulation on Rural Development.

¹ Cyprus Presidency of the Council of the European Union (2012) [Multiannual Financial Framework 2014-2020, Presidency Issues Paper for the Informal Meeting of Ministers and Secretaries of State for European Affairs](#), 30.08.2012, Nicosia

In relation to greening, CCW is supportive of extending the definition of farms that are regarded as “Green by Definition” (GBR) as well as the principle of ensuring that members of existing agri-environment schemes should benefit from their early adoption of these types of voluntary measures. In order to avoid double funding, however, the proposed amendments in respect of the Direct Payments and Rural Development Regulations would appear to require that any new schemes launched at the start of the RDP will need to reflect the existence of the Pillar 1 greening measures within the baseline used for calculating the scale of the payments available under Pillar 2. In addition, existing agri-environment contracts would have to be adjusted to ensure that any potential double funding is removed from the Pillar 2 payment.

The main advantage of the approach set out in the draft EP reports is that it will provide an opportunity for the administrative arrangements applied to such farms to be simplified. In particular, it should be possible to ensure that the agri-environment contract takes account of the existence of the greening measures – and that any necessary checks on a farmer’s compliance with the Pillar 1 requirements can be rationalised into the agri-environment inspection regime.

Despite the above, the principle of “no double funding” will still need to be applied. This partly in order to avoid the risk of challenges to the nature of the WTO green box and the way in which it is being used within the EU, but also because the scale of the CAP seems likely to be substantially reduced in future, making it increasingly important to ensure that all EC funds are used to ensure maximum public benefit.

In relation to the draft Rural Development Regulation, CCW strongly supports the requirement under Amendment 68 that Member States should spend at least 30 per cent of their rural development funds on agri-environment-climate measures. This would help to create a level playing field across all Member States and Regions, ensuring that the efforts of countries such as Wales to tackle the challenges of climate change and biodiversity decline are not undermined by a lack of action elsewhere.

I hope these comments will be of assistance to you and please do not hesitate to contact our Senior Agriculture Advisor via b.pawson@ccw.gov.uk if you would like us to provide any additional information.

Yours sincerely



Dr David Parker
Director Evidence & Advice



Gofalu am natur Cymru - ar y tir ac yn y môr • Caring for our natural heritage - on land and in the sea

Prif Swyddfa/Headquarters
MAES-Y-FFYNNON, PENRHOSGARNEDD, BANGOR LL57 2DW; FFÔN/TEL: 01248 385500; FFACS/FAX: 01248 355782
<http://www.ccw.gov.uk>

EC CAP Reform Proposals & Draft Reports from the Agriculture Committee of the European Parliament - CCW Response to Consultation by the NAW Task & Finish Group

1. Draft Report on EC Regulation Establishing Rules for Direct Payments

(i) Distribution of direct payments

In his draft report (**Amendment 53**) the European Parliament's rapporteur suggests that Member States should only be required to redistribute 20 per cent of payments on an area basis in 2014 and that in 2019 (**Amendment 55**) Member States would have leeway to allow up to a 20 per cent difference to average unit payments within their territory.

In our previous advice to the Welsh Government, CCW advised that a substantial front loading during the first year of the change to area payments appears to have the potential to cause significant disruption to the industry, with a resulting knock-on effect on the management of ecosystem services². The social, economic and environmental implications of the proposed front loading are likely to vary from farm to farm and modelling the impacts of a range of step changes on a sample of Welsh farms should help in making a case to the European Commission. In the absence of any modelling, it seems reasonable to suggest that the risk of any perverse effects would be reduced if the step change was set at the same level in each year of the transition.

CCW is therefore supportive of the Task and Finish Group's intention to continue to call for greater flexibility for Member States.

Amendment 56 of the Draft Report suggests that in moving towards an area based system of direct payments Member States could take measures to ensure that in 2019 no farm's entitlements are reduced by more than 30 per cent as compared to 2014. Given the social economic and environmental implications of the shift to area payments, CCW agrees with the Task and Finish Group that this amendment is worth supporting.

(ii). Entitlements

Amendments 50 and 51 of the Draft Report suggest that the initial allocation of entitlements should be widened to include those farmers who activated entitlement between 2009 and 2011. This would avoid excluding farmers who may due to particular circumstances have been unable to claim their entitlement in 2011.

CCW shares the concern of the Task and Finish Group regarding the possibility that the use of a 2011 reference period might prevent new entrants from joining the industry. **Amendment 59** of the Draft Report states that Member States should be allowed to use the national reserve proposed under Article 23 to allocate entitlements to farmers who began their agricultural activity after 2011 and who operate in sectors identified by the Member State.

The application of a reference year that pre-dates the start of the new system will ensure that support is focussed on those already engaged in agriculture whilst reducing the chances of claims being submitted by other land managers not currently claiming under the SPS. There are a large number of extremely small holdings in Wales and a sudden increase in the numbers of such claimants might well cause administrative difficulties (as was the case when the SPS shifted to an area basis in England).

² CCW response to Welsh Government Consultation on "CAP Reform: Conversation on the Way Forward for Wales".
March 2012

Such holdings are also less likely to rely on income support in order to maintain their current level of activity.

CCW therefore recommends that Amendments 50, 51 and 59 are supported.

(iii). Greening

Amendment 69 of the Draft Report on Direct Payments suggests that where farmers in existing agri-environment scheme are undertaking measures which go beyond the greening requirements under Pillar 1 then they should automatically receive the greening payment. **Amendment 72** will allow for the Commission to adopted delegated acts further defining the conditions under which organic farmers and those in agri-environment schemes can automatically qualify for greening payments under Pillar 1.

Amendment 69 on Direct Payments needs to be read in conjunction with Amendment 43 in respect of the draft Rural Development Regulation. In particular, the latter states that “No support from EARDF shall be granted for commitments covered by Chapter 2 of Title III of Regulations No DP/2012 [*the Draft Regulation on Direct Payments*]”. This amendment appears to have been inserted in order to ensure compliance with Article 111 of the EU Financial Regulation which explicitly states “in no circumstances shall the same costs be financed twice by the same budget”.

CCW is supportive of Amendment 69 and the principle of ensuring that members of existing agri-environment schemes should benefit from their early adoption of these types of voluntary measures, but it is important to recognise that new schemes launched at the start of the next round of RDP’s would still need to reflect the existence of the Pillar 1 greening measures in the baseline used for calculating the scale of the payments available under Pillar 2 – and existing contracts would have to be adjusted to ensure that any potential double funding was removed from the Pillar 2 payment.

The main advantage of the approach set out in the draft EP reports is that it provides an opportunity for the administrative arrangements applied to such farms to be simplified. In particular, it should possible to ensure that the agri-environment contract takes account of the existence of the greening measures – and that any necessary checks on a farmer’s compliance with the Pillar 1 requirements can be rationalised into the agri-environment inspection regime.

Despite the above, the principle of “no double funding” will still need to be applied. This partly in order to avoid the risk of challenges to the nature of the WTO green box and the way in which it is being used within the EU, but also because the scale of the CAP seems likely to be substantially reduced in future³, making it increasingly important to ensure that all EC funds are used to ensure maximum public benefit.

The Draft Report on Direct Payments suggests a number of amendments to the three greening requirements as proposed by the Commission in relation to crop rotation, permanent pasture and ecological focus areas. Some of these amendments would appear to improve on the Commission’s proposals (such as Amendment 73 which provides for an increase in the minimum area to which the crop diversification measure applies) but others (such as the suggestion that land planted with nitrogen fixing crops should qualify for inclusion in Environmental Focus Areas) would appear unlikely to generate significant environmental benefit. A number of the proposals in the draft report would also

³ Cyprus Presidency of the Council of the European Union (2012) [Multiannual Financial Framework 2014-2020, Presidency Issues Paper for the Informal Meeting of Ministers and Secretaries of State for European Affairs](#), 30.08.2012, Nicosia

seem to have been overtaken by the Commission's recent concept paper on greening as well as by other amendments submitted over the summer period.

CCW supports the view of the Task and Finish Group that it is necessary to avoid the risk of perverse consequences arising from the application of the greening measures. We therefore support the proposal that a wider menu of greening options ought to be contained within the final regulation, subject to each of these options being judged on scientific grounds as likely to deliver a significant improvement in the environmental performance of those farms choosing to adopt them.

(iv). Small Farmers Scheme

CCW is supportive of the view of the Task and Finish Group that the Small Farmers Scheme should be voluntary on Member States as well as being subject to cross compliance. Whilst **Amendment 18** would appear to provide some benefits through making reference to the voluntary nature of the SFS, this amendment would appear to require further clarification. For example, if a farmer decides to apply, the relevant Member State/Region will need to provide a payment of between 500 and 1000 euros per farm per annum. The administrative costs could be substantial and CCW believes that Member States should be allowed to operate such schemes on a discretionary basis.

Amendment 104 increases the amounts of funding that farmers could receive under the Small Farmers Scheme from 1000 to 1500 Euros. This would only appear to be an issue if it mandatory for such a scheme to be made available in every Region/ Member State.

(v). Young Farmers

Amendments 86 and 87 recommend that Member States should be required to develop objective and non-discriminatory criteria to set out who under the age of 40 will be eligible for funding. CCW supports the intention of the Task and Finish Group to seek amendment which ensures support can be provided to all new entrants to agriculture, irrespective of age.

(vi). Active Farmer

CCW previously welcomed the proposal to introduce an "active farmer" test on the basis this should enable income support to be targeted more effectively and could even be used to avoid the need for a reference year.

The Commission's proposed definition presents a number of difficulties, however, not least in establishing whether it applies only to the farm accounts or whether it relates to all of the businesses based at that address. In this context, it will be important to avoid disadvantaging those farming families who have diversified their activity in line with Government policy.

The requirement that at least 5% of income should come from Direct Payments suggests that 95% of income can come from market sources, WRDP schemes or activities unrelated to agriculture. In the event that the proposed active farmer test is based on income, farmers should be allowed to count income from P2 alongside income from P1. To do otherwise will disadvantage those with a small SPS entitlement relative to significant engagement with WRDP Schemes.

In the event that Member States are allowed to exercise their discretion (subject to Commission approval) it might be possible develop a specifically Welsh (or UK) active farmer test. This could be based on the CRN's of those claiming historic subsidy, farmers with dairy and other commercial supply contracts as well as those defined as new entrants etc. Alternatively, Article 9 of the Direct Payments Regulation could be broadened to identify a wider range of land management situations/business models where income support should not be provided.

CCW therefore supports **Amendment 32** which would introduce a negative list of activities and businesses would not be eligible to receive direct payments.

Amendment 31 would amend the definition of Active Farmer under Article 9 so that natural or legal persons who ‘were not engaged in an agricultural production activity in 2011’ could not receive single farm payment. CCW supports the view of the Task and Finish Group that any such amendment will need to be clarified in terms of its potential impact on new entrants.

(vii). Flexibility between Pillars

Amendment 39 would allow several Member States (including the UK) to increase the amount they are able to transfer from Pillar 1 to Pillar 2 by an additional 10 per cent. **Amendment 40** would enable those Member States who decide not to use Pillar 1 funds to support Areas of Natural Constraint to transfer up to five per cent of these funds to Pillar II whilst **Amendment 43** would allow Member States to transfer any unallocated funds under the Pillar 1 greening regime to the agri-environment-climate measures under Pillar 2. **Amendment 41** would ensure that, in transferring a combination of these funds, Member States could not transfer more than 20 per cent in total from Pillar 1 to Pillar 2.

CCW supports the use of modulation (transfers from P1 to P2) rather than the use of “reverse modulation” (transfers from P2 to P1). In order to ensure that the Welsh Government can deliver against its environmental commitments and the propositions set out in Sustaining a Living Wales, it will be necessary to secure an improved Pillar 2 budget at EU level as well as an increased Pillar 2 allocation in relation to both the UK and Wales¹³. At the same time the Welsh Government will need to maintain its existing commitments in terms of its own resources whilst making maximum use of the capacity to transfer funds from Pillar 1 into Pillar 2.

The proposal to allow up to 10% of the P1 allocation to be transferred into P2 is very similar to the existing modulation rate within Wales. This is currently made up of 5% Compulsory Modulation (CM) and 4% Voluntary Modulation (VM) with all receipts used to underpin participation in existing WRDP schemes.

The advantage of increasing the P2 allocation over time lies in the fact that this is only part of the agricultural budget devoted to promoting a more sustainable industry via knowledge transfer, co-operation, investment and innovation. Continuing to provide P1 payments at the current scale will result in a much more uneven trajectory of development, with some farmers using the payments in order to improve their competitive position and others using them simply in order to underpin current practices, whether or not these are sustainable in the long term. Furthermore, in the event that EU-level agreement is reached on the proposition that all AES participants should be exempt from the greening requirements under P1, it is likely that an additional allocation will be needed within the WRDP in order to support an increased uptake of Glastir contracts.

Tackling ongoing challenges such as climate change, water management and reversing declines in biodiversity over the period of the next WRDP will reduce the need to develop more expensive solutions in the future. For instance, the Stern Review⁴ found that investing 1% of GDP in dealing with climate change now will help avoid an expenditure of some three times that amount in future. Similar points have recently been made by the House of Lords regarding the need for an increased emphasis on research and development in to climate change as well as a well supported Farm Advisory Service capable of providing practical advice to both farmers and foresters⁵.

⁴ The Stern Review on the Economics of Climate Change, 30th October 2006:
http://www.hm-treasury.gov.uk/stern_review_report.htm

⁵ House of Lords European Union Committee. Adapting to climate Change: EU Agriculture and Forestry. 8th Report of Session 2009-10

Spending under Pillar 2 schemes also contributes to the wider rural economy. For example, between 2000 and 2003, capital payments plus farmer contributions under Tir Gofal totalled £14.25 million. Some 94% of this stayed within the Welsh economy, with c.40% of spending taking place within ten miles of the farm concerned. Accounting for indirect effects, the overall impact of this spending on the Welsh economy was over £21 million, supporting in turn some 385 Full Time Job Equivalents (FTE)⁶. Many of these jobs were created in relatively remote areas where traditional job creation schemes have struggled to make an impact.

CCW therefore supports amendments 39, 40 and 43.

2. Draft EC Regulation on Rural Development

(i) Objectives and Priorities of Rural Development

Amendment 9 of the Draft EP Report on the rural development regulation would add the **competitiveness of forestry** as an objective and **Amendment 10** would add the competitiveness of forestry as a union priority for rural development. Since the Regulation covers both the agricultural and forestry industries there appears to be no reason for not referring to the competitiveness of forestry as an objective and priority for rural development funds

(ii) Agri-environment Climate

Amendments 41 and 42 of the Draft Report seek to ensure that in the event of an amendment to Pillar 1 which would enable farmers in existing agri-environment schemes to automatically receive greening payments there would be no double funding between the pillars. The amendments would require all agri-environment schemes to go beyond the minimum greening requirements.

Amendment 42 appears to have been inserted in order to ensure compliance with Article 111 of the EU Financial Regulation which explicitly states “in no circumstances shall the same costs be financed twice by the same budget”.

CCW is supportive of Amendment 69 to the Direct Payments Regulation and the principle of ensuring that members of existing agri-environment schemes should benefit from their early adoption of these types of voluntary measures, but it is important to recognise that new schemes launched at the start of the next round of RDP’s would still need to reflect the existence of the Pillar 1 greening measures in the baseline used for calculating the scale of the payments available under pillar 2 – and existing contracts would have to be adjusted to ensure that any potential double funding was removed from the Pillar 2 payment.

The main advantage of the approach set out in the draft EP reports is that it provides an opportunity for the administrative arrangements applied to such farms to be simplified. In particular, it should be possible to ensure that the agri-environment contract takes account of the existence of the greening measures – and that any necessary checks on a farmer’s compliance with the Pillar 1 requirements can be rationalised into the agri-environment inspection regime.

Despite the above, the principle of “no double funding” will still need to be applied. This partly in order to avoid the risk of challenges to the nature of the WTO green box and the way in which it is being used within the EU, but also because the scale of the CAP seems likely to be substantially reduced in future⁷, making it increasingly important to ensure that all EC funds are used to ensure maximum public benefit.

⁶ Agra-CEAS Consulting (2005). Socio Economic Analysis of Tir Gofal. Report to CCW & Welsh Government.

⁷ Cyprus Presidency of the Council of the European Union (2012) [Multiannual Financial Framework 2014-2020, Presidency Issues Paper for the Informal Meeting of Ministers and Secretaries of State for European Affairs](#), 30.08.2012,

Amendment 66 of the Draft Report would allow for co-financing rates of 60% for all agri-environment-climate measures and a 90% co-financing rate within the programmes of less developed regions. The Draft Report states that many Member States currently make use of increased co-financing rates to support their existing agri-environment schemes and that this should continue in future. **Amendment 68** of the Draft Report would require Member States to spend at least 30 per cent of their rural development funds on agri-environment-climate schemes.

Increased co-financing rates are beneficial in those Regions where own resources are so limited in extent that there is a risk of EU funds being underspent. A number of Member States across the EU are currently unable to resource their existing RDP's in full. There are often benefits to other Member States in ensuring that measures designed to reduce the incidence of undesirable cross border effects can still be implemented, for example, the conservation of migratory bird populations⁸. Amendment 66 therefore appears worthy of support.

The existing RDR requires that at least 25% of the spending within each rural development plan is devoted to land management measures under 'Axis 2'. This requirement no longer appears in the main body of the new draft RDR, although in relation to the agri-environment-climate measure, paragraph 28 of the preamble states that: "*Member States should maintain the level of effort made during the 2007-2013 programming period and spend a minimum of 25% of the total contribution from EAFRD to each rural development programme through the agri-environment climate, organic farming and payments to areas facing natural constraints measures*".

CCW therefore supports the requirement under Amendment 68 that Member States should spend at least 30 per cent of their rural development funds on agri-environment-climate measures. This would help to create a level playing field across all Member States and Regions, ensuring that the efforts of countries such as Wales to tackle the challenges of climate change and biodiversity decline are not undermined by a lack of action elsewhere.

(iii) Areas of Natural Constraint

As currently drafted, the Annex 2 of the draft rural development regulation in sets out proposals for biophysical criteria that should be used to define areas of natural constraint. **Amendment 46** of the Draft Report suggests that the criteria listed in Annex 2 should only be indicative at this point and that the Commission should, by 31 December 2015, present a legislative proposal for mandatory criteria to define areas of natural constraint. The Draft Report states that this would allow the Commission more time to complete a full impact assessment on the criteria.

CCW has no specific views on this Amendment. Further information is needed in order to clearly establish the pros and cons of each course of action.

3. Draft Regulation on financing, management and monitoring of the Common Agricultural Policy

(i) Cross compliance - Statutory Management Requirements

Nicosia

⁸ Adelle, C. Hart, K. Farmer, A. Tucker, G. Pallemmaerts, M. Van der Bossche, K. Valsecchi, C and Bartley, J (2009). Research to explore EU Transboundary Environmental Issues. Report to Land Use Policy Group.

Article 91 of the draft Horizontal Regulation as put forward by the Commission would ensure that the requirements of the Pesticides Directive and Water Framework Directives would become cross compliance requirements once the last Member State has adopted the relevant Directives.

Amendment 88 and 89 of the Draft EP Report would remove this part of Article 91 in a way that runs counter to the objective of ensuring that all recipients of public funding should at the very least respect minimum environmental standards established under legislation.

(ii) Cross compliance - Good Agricultural and Environmental Condition (GAEC)

Amendment 102 of the draft EP report would amend GAEC 8 on landscape by removing the reference made in the Commission's proposals to measures for dealing with invasive alien species and pests. The draft report states that whilst the control of invasive alien species should be eligible for support under the rural development measures, the well planned, multi-annual approach required to address the problems caused by these species would be very costly to individual farmers. The counter argument is that the recipients of public funding should at least take reasonable steps to ensure that neighbouring landowners are not disadvantaged by the spread of invasive species – and that the costs of controlling such species on all farms are likely to rise sharply in the event that action to control them is delayed.

(iii) Other comments

Changes to Habitats and Birds SMR's may affect the application of the cross compliance regime in relation to the poisoning of protected bird species. CCW recommends that income support should continue to be reduced and/or withheld in any such poisoning cases.

New GAEC standards have been added in order to protect soil and minimise greenhouse gas emissions. CCW supports the introduction of these new standards as they require the maintenance of soil organic matter and the protection of wetlands and carbon rich soils.

CCW supports the Commission's proposed extension of the role of common monitoring and evaluation framework (CMEF) under Article 110 so that it covers the performance of the direct payments regime (including cross compliance) and the operation of the market measures as well as the Rural Development measures.

Countryside Council for Wales

September 2012