

## **Common Agriculture Policy Task and Finish Group CAP(4)-2-11 Paper 1**

### **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.

#### **Introduction**

The Welsh Government has moved agriculture and food into the mainstream of economic policy-and recognised the contribution of agriculture and food to Wales's economic output, particularly in the context of the rural economy. Sustaining the agriculture industry means treating it on the same basis as other key sectors in the economy-profit and prosperity is the way forward for the industry. A successful industry will also deliver food for all parts of Wales and beyond, provide social stability across rural Wales, present an obvious contribution to protecting the countryside so-loved by our urban communities and visitors to Wales and benefit in sustaining our culture and language.

A strong CAP is essential to the future of rural Wales. Farming needs the CAP which makes up to 80 to 90 % of farm income in Wales. Of course we must work towards an industry with greatly reduced dependency on subsidy and many of the support mechanisms already in place through the Rural Development programme are doing just that. Radically changing the CAP would pull the rug from under farming and would place the viability of business in jeopardy. I believe firmly in more gradual change, or evolution, of CAP. CAP must change because the world has changed, farming has changed and the challenges that all of society faces have changed. It is right therefore to reform CAP but these reforms must ensure that the necessary changes are made without undermining its foundations and compromising the future of rural Wales.

In addition, it is not realistic to expect land managers to undertake environmental enhancement when it will cost them money. Farming in environmentally responsible way is not too much to ask and indeed that is why cross compliance is a condition of Single Payment. The environmental challenges are mounting with the need to improve water quality; to reduce flooding; to reduce carbon dioxide and nitrous oxide emissions and to sink carbon in our soils. We will not make progress unless we can work with farmers to undertake the necessary action to do so we have to compensate them for sometimes significant costs involved.

I cautiously welcome the publication of the formal legislative proposals for the reform of the CAP which were published by the Commission on 12 October. These provide the basis for debate and negotiation. We have begun a detailed analysis of these extensive documents. However, the evidence that I present in this paper must be based on our initial assessment of the Commission's proposals. I must stress that the final agreement that is

reached on CAP reform might look significantly different to the current proposals.

The Government will continue to help to facilitate this group's inquiry into the CAP proposals. I will make regular written and oral statements to ensure that all Assembly Members are informed as the process unfolds over the coming years and have sought a plenary debate in good time at the end of November.

The key areas for discussion are likely to revolve around the size of the CAP budget, its distribution among Member states, the future basis of payments to farmers, greening of Pillar 1, regional flexibility and simplification.

The proposals keep the structure of the CAP around two pillars that use complimentary instruments in pursuit of the same objectives. Pillar 1 will continue to cover direct payments and market measures providing a basic annual income support to farmers and support in case of specific market disturbances. Pillar 2 covers rural development supporting multi-annual programmes under a common framework.

**For Pillar 1** The key elements of the proposals are as follows:

### **Direct Payments**

- The Single Payment Scheme is now known as Direct Payment and comprise of; the Basic Payment Scheme, Greening payment, and top-ups for natural constraints and young farmers. There is also a Small Farmer's scheme and Coupled Support which is optional. A key criterion governing the value of individual payments from 2014 will be Wales's financial ceiling and we will not have any certainty on this until there is agreement on the overall EU budget 2014-2020.

### **The Basic Payment Scheme**

- Only farmers who activated entitlements in 2011 will be able to receive payment in 2014, except in cases of National Reserve or private contract.
- Wales will have to move from the current historic Single Payment Scheme and to reach 100% area-based payments by 2019. The Regulation sets out a transitional period of 5 years. To ease transition in Wales we would like a 7-10 year transitional period to ensure farmers have sufficient time to modify their businesses.
- The Regulations show a compulsory split of 40% area based and 60% historic based payments in the first year. I will press for flexibility to determine the pace of change to 100% area payment in order to ease the transition for those farmers who will incur large losses.
- Modelling work undertaken has shown that approximately 30% of farms will gain 50% more than they currently do although a significant number will lose at least 30%. The dairy sector will suffer the most in Wales with almost half losing at least 30%. A more detailed analysis of the impact of the switch to area payments is presented in Annex 1.

## **Capping**

- The basic payment will be subject to capping where the claim is over €150,000 and then progressively withdrawn so that no more than €300,000 can be claimed. In practice, the maximum payment would be restricted to €235,000 and the impact can be mitigated to the extent that the business paid salaries, although contractors, casual or seasonal staff are not included and these are regularly used in Wales. The potential impact for Wales is minimal but initial assessments find this approach very bureaucratic and difficult to administer for both the Welsh Government and farmers in Wales.

## **Greening**

- In order to qualify for the greening payment farmers must be in receipt of the basic payment and need to observe those of the three practices (crop rotation, permanent grassland and ecological focus area) that are relevant to them.
- Greening will be 30% of Wales's financial ceiling. Organic land automatically qualifies for a greening payment Wales would like to extend this provision to include all farmers who have achieved environment gains as result of being in an Agri-environment scheme (such as Glastir). If we are unable to convince the Commission to make this change, farmers within Glastir would need to set aside a further 7% for maintaining an ecological focus area.
- It is not possible to fully assess the impact of greening proposals until the Commission makes available draft implementing regulations for consideration. Indicative analysis of the introduction of greening suggests that there will be no more than minimum adjustment required to the Glastir scheme.

## **National Reserve**

- Current published draft regulations shall use the National Reserve as a priority for young farmers (up to 3% of the ceiling of the basic payment).

## **Small Farmers Scheme**

- Any farmer claiming support in 2014 may decide by October 15, 2014 to participate in the Small Farmers Scheme and thereby receive an annual payment fixed by the Member State of between 500 € and 1000 €, regardless of the farm's size (the figure will either be linked to the average payment per beneficiary, or the national average payment per hectare for 3 ha). This would be simplification for the farmer as they will face less stringent cross-compliance requirements and be exempt from greening.

### **Coupled Support (National Envelope)**

- Coupled Support can be used to provide additional support in specific circumstances. Currently Wales does not operate Coupled Support and within the UK only Scotland uses it for its Scottish Beef Calf Scheme. Funding for this will be taken from the National Ceiling (up to 5%). Although unions in Wales have been opposed to Coupled Support we are considering whether it can be used for intensive beef and dairy producers given that they are likely to be the main losers in the move to area payments.

### **Flexibility between Pillars**

- Member states may transfer up to 10% of their annual national ceilings to support rural development activity delivered under Pillar 2. Under the current rural development plan (2006-2013) the equivalent figure (through various forms of modulation) was about 9% per year, on average.
- Several Member States, including the UK, would have the discretion to transfer to Pillar 1 up to 5% of the EAFRD amount allocated under Pillar 2.
- A key concern for Wales will be to ensure that such flexibility is voluntary and may be applied regionally rather than at the UK level.

### **Active Farmer**

- The definition of Active farmers has been changed. Payments may not be made where the annual amount of direct payments is less than 5% of the total receipts they (farmers) obtained from non-agricultural activities in the most recent fiscal year; or where they cannot demonstrate that they have carried out a minimum level of agricultural activity. This will be difficult to administer and modelling is taking place to determine how this affects Wales.

### **Natural Constraints**

- As currently drafted the nature of natural constraints would need to be agreed on a UK level but can be administered regionally. We would like this changed so the nature of the natural constraints can be agreed regionally.
- Discretionary support for LFA will remain under Pillar 2. In Wales Tir Mynydd, a dedicated LFA support will end in 2012. The Commission refers to a payment for 'natural constraints' within Pillar 1 and this had led the farming unions to see this element as an LFA top-up. Whereas the Commission describes this as a supplementary payment for areas where, for example, topography and climate place particular difficulties for farming economically but where such farming has environmental benefits or avoids land abandonment. Any payment would be funded by top-slicing the UK's Direct Payment gross ceiling. Wales could consider this option on improved and semi-improved land as a marker or handicap as not all of this land is currently LFA. However this would be difficult to map and administratively complex.

## **LFA Redesignation Exercise**

The Commission has sought to develop a consistent, EU- wide methodology for identifying a Member States' future LFA /ANC boundary. The LFA boundary will be known as: Areas with Natural Constraints (ANC) .

This is a stand alone mapping exercise and in essence is not part of CAP reform. But its aim is to develop in synergy with the CAP reform timetable.

My key priority in this area is to ensure that any change in the boundary that may become necessary is kept to the absolute minimum. Further detail on the exercise can be found at Annex 2.

**Turning to Pillar 2** The draft regulations prepare the ground for the Commission to be able to insist upon a sharper focus by Member States on interventions aimed at delivering the 'Europe 2020' objectives of smart, sustainable and inclusive growth.

The focus of future Rural development delivery will be on the Commission's three key objectives:

- The competitiveness of agriculture;
- The sustainable management of natural resources and climate action;
- A balanced territorial development of rural areas.

This is to be welcomed as it as it complements many of our own policies and actions, as set out in our recently published "Programme for Government".

A key consideration for Wales will be the extent to which actions under the next Rural Development Plan might be used to mitigate the impact of the move from the historic Single Payment Scheme to area-based payments under the Pillar 1 reforms referred to earlier.

The importance of agri-environment actions is highlighted within the regulations; it remains as a compulsory element which Member States must include in their Rural Development Programmes. From initial assessment of the draft proposals it appears that as a minor change, the measure will now be referred to as the agri-environment-climate measure and more significantly organic farming is set out as a measure in its own right. This recognises the important role farmers have in climate change mitigation and adaption, and the importance the Commission gives to organic farming as a sustainable farming system. In Wales this action will be taken forward under Glastir, which has been designed with the key aim of delivering against the CAP Health Check Priorities. The scheme will also act as our major defence against infraction under the Water Framework Directive and Habitats Directives, and builds on the considerable investments farmers have made

under existing agri-environment schemes. Whilst initial applications to the All-Wales Element may have been considered disappointing by some; it is important to take into account that around 7,000 existing agri-environment agreement holders had accepted extensions to their current agreements until the end of 2013. Despite the fact that these extensions reduced the demand to join the scheme in its first year the numbers that applied for the All-Wales Element still comfortably exceed the amount of annual applications ever received for any previous agri-environment scheme, in its first year.

My recent announcements are set to see Glastir grow further, we have re-worked the All-Wales Element costings, resulting in an increased payment approaching £40 per hectare, compared to £24 or £28.50 per hectare in the Tir Mynydd scheme.

At this early stage in the negotiations it is envisaged that the changes will have minimal impact on Glastir, however it is not possible to carry out a full assessment of the impact until the draft greening and rural development implementing regulations are made available.

I particularly welcome the Commission's emphasis on better integration of the Structural Funds (ESF, ERDF, Cohesion Fund) with the rural (EAFRD) and fisheries (EMFF) funds through a Common Strategic Framework. If done well, this will offer opportunities to simplify access to funding and also to enhance the delivery of programmes, through closer collaboration and cooperation. The Commission's proposals also offer some encouraging signs in terms of simplification and the harmonisation of eligibility rules. In turn, more proportionate management and control systems will help promote more flexible delivery mechanisms. I am also particularly interested in, and am encouraged by the Commission's drive towards the increased use of 'Financial Engineering Instruments' and I look forward to exploring how we can maximise the value of such repayable investments – a couple of which we have successfully pioneered in Wales over the past few years.

Two of my key priorities for future programmes remain seeking maximum flexibility, to allow us to tailor programmes to our specific needs in Wales, and also greater programme simplification: on simplification, whilst the Commission has proposed new measures aimed fairly and squarely at simplifying current arrangements and processes, these are counterbalanced by a number of additional requirements where I am yet to be convinced that added-value will result. For example, Commission proposals for a 'performance framework' could lead to some regions implementing programmes that focus on "easy wins" rather than programmes that address the most serious issues faced in those regions. Additionally, it is not clear how the Commission's proposed macro-economic conditionalities would improve performance, with a risk that they could penalise those regions and Member States that need the funding the most.

A particular concern is that the Commission appears to be bringing more complexity on the administration of the CAP. This presents additional burdens for the Welsh Government and on farmers too. I will be seeking that the UK negotiating position presses hard to bring greater simplification to the reform package than currently appears to be the case.

Partnership working across Europe, the UK, and within Wales will be key to the successful development and delivery of future programmes. Therefore, in addition to working closely with key players at EU and UK level, I have also established a European Programmes Partnership Forum, through which our key strategic partners in Wales will help us to consider the future direction and content of any new programmes in Wales. It has already held its inaugural meeting and in November I will be launching a reflection exercise to provide all of our Welsh partners with an opportunity to have their say on the future strategy and the most important priorities for Wales. I will also be listening to the views of Assembly Members.

Once both Members and our Partners have helped fashion the future strategic direction for European programmes, we will need to develop new draft programmes, and it is proposed that these will be the subject of full public consultation towards the end of 2012 before we commence negotiations on the detail with the Commission

**Key issues for consideration in developing the delivery plans for the new E.U Programmes including the next Rural Development Plan for Wales are;**

- Identifying the **core priorities** for funding support under future EU programmes, including the need to make choices and to concentrate resources to maximise impact;
- The extent of geographical and spatial targeting, considering how the needs and opportunities of **urban and rural areas** can best be supported and how we might exploit the benefits they offer.
- Identifying the best ways of contributing towards the goals of **smart, sustainable and inclusive growth**, including use of innovative financial investment instruments;
- Considering the balance and scope for **integration** of the various EU funds in Wales whilst maximising the impact of these investments; and
- Reviewing **delivery approaches** with the aim of facilitating easier access to funds, while still ensuring high quality projects.

**Conclusion**

It is a matter of public record that the Welsh Government does not share the UK Government's view on reducing the size of the EU budget overall, nor their respective budgetary stances on the Structural Funds or the CAP. Despite this difference, I am committed to working constructively with Ministers in London and my counterparts in Scotland and Northern Ireland to deliver a viable outcome for the UK – and for Wales. I will ensure that Wales will play a positive and constructive role in shaping the overall UK position and approach. I have already made it clear to UK Government Ministers that Wales's ambition is to be a UK team player.

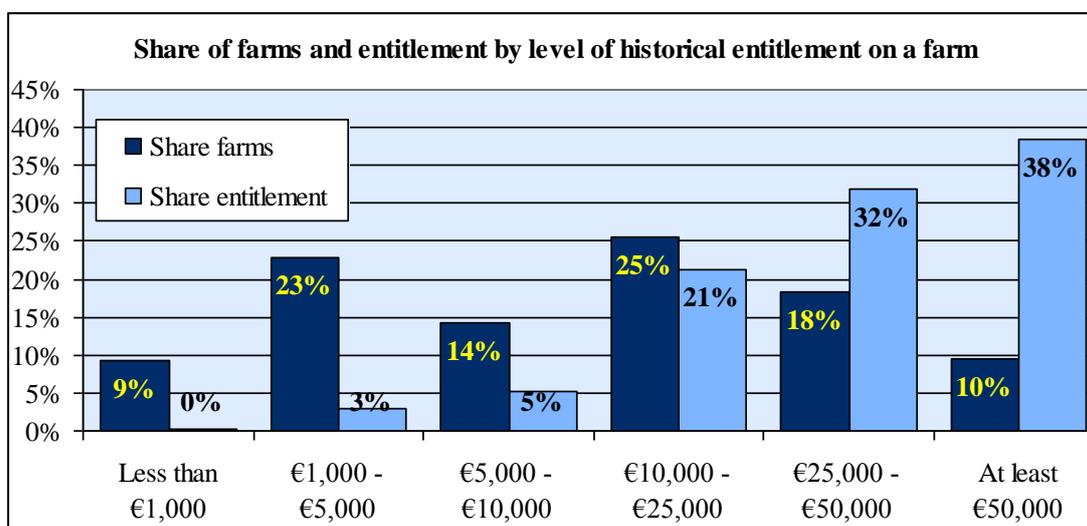
I have outlined my views on each of the key elements of the CAP reform proposals. It is on this basis that I will be negotiating. My first meeting took place on 19 October with the devolved administrations and Defra prior to the Agriculture Council meeting in Luxembourg on the 20 October. I met them again at the Joint Devolved Administration Ministers meeting on 25 October, and I will be meeting with Dacian Cioloș, European Commissioner for agriculture and rural development, on 14<sup>th</sup> November .

**Changing agricultural payments from a historical to land based system**

This note considers only one aspect of the current round of reform of the Common Agricultural Policy. This is the change from the existing system of payments based on historical entitlement to one based on the area of land claimed. To show just the effect of this change in system three key assumptions are made:

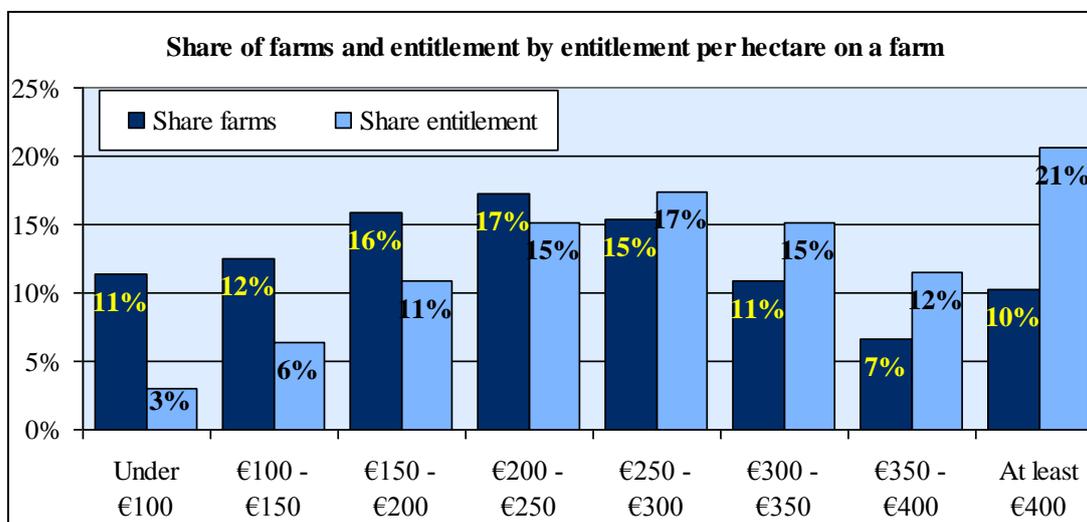
- This is the only change made. Other elements of reform are not considered,
- All currently claiming farms will continue to claim with the same area of land,
- There are no new claimants and no new claimed land.

**Distribution of historical entitlement for the payment year 2010/11**



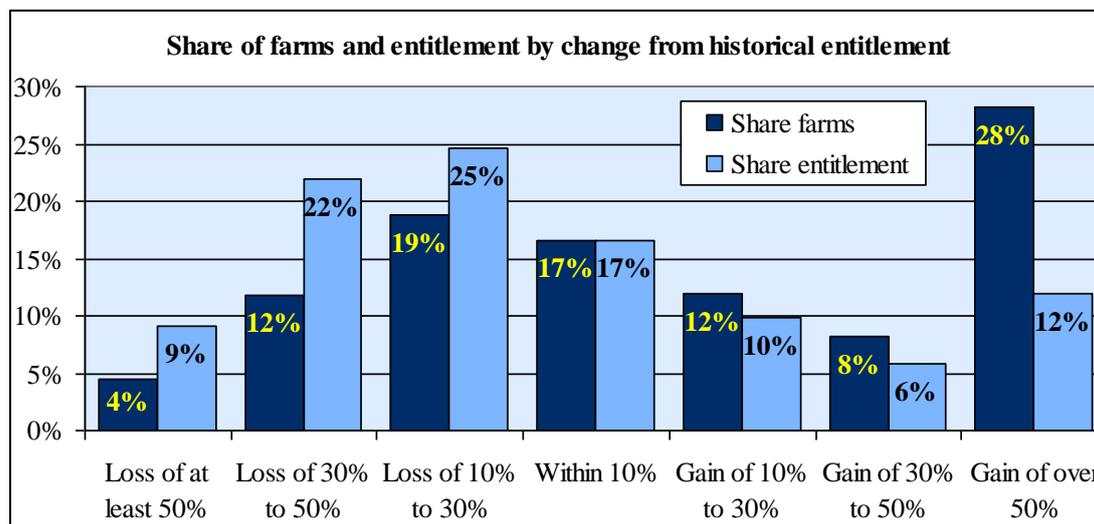
The above chart shows the current distribution of payments. The key point is that the distribution is heavily skewed towards farms receiving larger payments. Just over half the claiming farms receive just over 90 percent of the money. Therefore we need to be careful about just counting the number of farms who gain or lose under the change.

**Distribution of historical entitlement per hectare for payment year 2010/11**



If there had been a flat rate payment in 2010/11 it would have been €248 per hectare. Any farm currently receiving more than €248 per hectare would lose under the new system and any currently receiving less would gain. The chart above shows that there is great variation in the payments per hectare under the historically based system. Therefore, we can expect significant levels of change when moving to a land based system.

### Distribution of changes from an historical to land based system



The total payment available is assumed to remain the same. Therefore any extra money given to a gaining farm must have come from money taken off a losing farm.

The key point from the chart is that there are relatively few farms (about 17 percent) that will stay within 10 percent of their current payment. This stresses the amount of change that the sector will undergo because of the change in funding method.

Nearly half the farms will gain by at least 10 percent of their current payment with around 28 percent of these farms gaining at least half their current payment. To pay for these gains around 16 percent of farms will lose at least 30 percent of their current payment.

Further analyses have shown that the gaining farms tend to be those with smaller claims and less agricultural activity. The farms that lose tend to be the larger claimants, particularly in the dairy sector.

## **Less Favoured Area (LFA) Redesignation Exercise – Current Position in Wales**

### **Background**

There are over 1.6 million hectares of agricultural land in Wales, including common and rough grazing land, of which approximately 80 percent, equivalent to approximately 1.28 million ha is designated as Less Favoured Area (LFA).

The European Commission has sought to develop a consistent, EU-wide methodology for identifying a Member States' future LFA boundary. The LFA is renamed Areas with Natural Constraints (ANC) in the draft Rural Development Regulation, Previously the LFA boundary was identified using socio economic criteria as part of the selection process,

The redesignation exercise is based on a methodology that uses a set of primary bio-physical criteria with thresholds for soil, slope and climate and will be applied across the 27 member states of the EU. The introduction of such a methodology based on biophysical criteria will introduce greater consistency whilst avoiding socio-economic influences.

### **Current Position:**

Extensive mapping simulations have been carried out in Wales based on the Commissions' initial set of primary criteria. However these initial criteria failed to recognise soil wetness found in countries like Wales that have a western maritime climate. .

Rural Affairs officials successfully negotiated with the Commission for the inclusion of Field Capacity days (FCD) as a primary mapping criterion to address the issue of measuring soil wetness. Acceptance by the Commission of the concept of FCD as a primary mapping criterion is crucial for giving Wales the positive outcome we are looking for from the redesignation process.

Field Capacity Days (FCD) is essentially the number of days per year that soils are too wet to support agricultural activity. This is a considerable constraint in many parts of Wales.

A mapping exercise has been carried out in Wales using the biophysical criteria methodology, that includes FCD . Initial results indicate that the new ANC boundary for Wales will be similar to the current LFA boundary., and that there will be minimum changes.. However, further modelling work needs to be completed before any final conclusions can be reached. This further modelling work is scheduled to take place?

The boundary of the ANC designation in Wales, which will be finalised at the conclusion of the redesignation exercise would be used to define areas that might be eligible for any additional support for upland areas that might be developed under the next Rural Development Plan..

**Wales /UK's Indicative timeframe for the LFA Redesignation Exercise.**

<b>April 2011</b>	First mapping simulations based on biophysical criteria for delimiting areas with natural handicaps from all 27 Member States submitted to Commission and announced in Rural Development Committee (RDC) in April 2011.
<b>June 2011</b>	Proposed adjustments to biophysical criteria announced by Commission in RDC June 2011 suggesting additional modelling and proposed methodology for mapping simulations across all Member States.
<b>July 7 2011</b>	UK bilateral with Commission. Resulting in acceptance of Field Capacity Days (FCD) as a primary criterion and acceptance of regional flexibility for applying fine-tuning criteria.
<b>July 2011</b>	Factsheet issued by Commission on mapping simulation methodology for FCD.
<b>July 2011</b>	Commission communication to DEFRA stating that further modelling using revised criteria is voluntary but strongly advisable in anticipation of the proposals on rural development policy 2014-2020
<b>Aug- to date</b>	Welsh Government officials are mapping using the methodology proposed by the Commission, but further information is required on soil data before final modelling can be completed. This information has been requested from the National Soils Research Institute (NSRI), Cranfield.
<b>Early 2012</b>	No timeframe from the Commission has been imposed on this process, but Defra's suggested timescale for UK countries is that all should complete re-modelling by early 2012
<b>Jan – Feb 2012</b>	Defra will share the further mapping simulations with the Commission when all devolved administrations have completed the exercise.

Indicative End date is 2014 for the EU exercise to be completed, but no formal time frame as been given by the Commission