

NFU Cymru Consultation Response

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 28th 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 12th October 2011.

Key Principles against which the proposals should be measured

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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.

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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 farmer's 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

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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.

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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 1st 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 1st 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

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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 15th 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

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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.

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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 15th 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).

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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 1st 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 1st 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.

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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

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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 1st 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

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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 1st 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

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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

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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.

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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