



Alun Davies AM
Deputy Minister for Agriculture, Food,
Fisheries and European Programmes
Welsh Government

30 January 2012

Dear Alun,

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

As you are aware, the CAP Task and Finish Group are looking at the impact on Wales of the proposed CAP reforms. We are now writing with our initial findings, and recommendations.

This is merely the first stage of our inquiry, and outlines our initial views. We will continue to monitor progress throughout the negotiation process, seeking every opportunity to influence the final outcome. This will include taking evidence from the UK Minister in the Spring term and visiting the European Parliament to discuss our findings and help maximise the opportunities to influence the negotiation process.

We are also writing to the European Parliament to highlight the areas where we would like to see specific amendments to the legislative proposals. A copy of this correspondence is enclosed. Additionally, we will be sharing findings with other interested parties including, devolved legislatures in the UK, Westminster, CALRE, other EU networks and other interested groups.

Our key priorities are ensuring:

- Adequate and fair transitional arrangements as countries move to area based payments;
- Greening proposals are suitably flexible to take into account individual Member State / Region's environmental and agricultural context;
- A fair distribution of Rural Development funding; and
- The Welsh Government undertakes adequate modelling to inform your negotiating position, and the development of implementation of the proposals.

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Caerdydd
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Cardiff Bay
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We trust that you find our findings helpful to the CAP negotiating process and we look forward to hearing your views on our initial findings and recommendations.

Yours sincerely

A handwritten signature in cursive script that reads "Vaughan Gething".

Vaughan Gething
Cadeirydd / Chair

Key Findings of the National Assembly for Wales Common Agriculture Policy Task and Finish Group

DIRECT PAYMENT REGULATION

CRITICAL AREAS OF CONCERN:

Basic payment scheme (Articles 18-22)

We share your concerns about the impact in Wales of transitional arrangements for a move towards moves to area based payments. These concerns were shared by those who gave us written and / or oral evidence.

We thank you for the additional information on modelling work which is being carried out by the Welsh Government. We would ask that you continue this work, and that your findings are shared with us and stakeholders in a timely manner.

We are proposing to the European Parliament that the legislative proposals are amended to provide for a seven year transitional period. We are also highlighting that the legislative proposals should not state a specified year, as currently drafted, but provide an agreed and common number of years for the transition to be completed. We are concerned that if a specified date remains in the proposals any delays to approving the legislative proposals could then shorten the period of time that is available for Member States / Regions to move towards area based payments.

Additionally, we are also seeking changes to the transitional rate of change. We feel that altering 40% of the basic payment in the first year is too high a rate of change. We believe this would cause significant disruption to the industry. Therefore we recommend that individual Member States / Regions be given the flexibility to decide upon the transitional rate of change most appropriate to their needs. All Member States/Regions would still be required to complete the move to area based payments within our suggested seven year transition.

We are aware that the current legislative proposals are not clear on whether Regions will have the power to develop sub-regional area based payments. We heard from some witnesses that this could be a useful option to help support businesses through the transitional period although there was some concern expressed by others about the implications of using such a model. It therefore seems that this is an area which the Welsh Government should explore further in modelling. Given that Member States will be required to inform the European Commission by 1 August 2013 of any intentions to make payments on a sub-regional basis we urge the Welsh Government to undertake this modelling as a matter of urgency.

We recommend that the Welsh Government seeks urgent clarity from the European Commission as to whether regional administrations will have the power to develop sub-regional payments.

We recommend that if the Welsh Government does have the power to develop sub-regional based payments, that modelling work should be completed on whether the use of sub-regional payments could be a cost effective and efficient tool to help mitigate the impact of the transition to area based payments. We recommend that this modelling is shared with both the Task and Finish Group and other CAP stakeholders by December 2012.

Entitlements (Articles 21-22)

We have heard concerns from the farming unions and representative bodies, such as the NFU Cymru, FUW, CLA and the YFC about the proposals to allocate new payment entitlements. They all expressed specific concerns about elements of the proposals including the future reference date of 2014, with some arguing that this may lead to land banking. Additionally, there were also concerns that new entrants to farming will be unfairly disadvantaged by the stipulation that to be eligible entrants will need to have activated at least one entitlement in 2011.

We are aware that Article 23 states that the national reserve must be used as matter of priority to allocate payment entitlements to young farmers. However, we heard concerns from a range of stakeholders, which we share, that this will disadvantage genuine new entrants who are over the age of 40. We look at this further when considering the young farmer proposals.

We heard some very compelling and interesting evidence on a range of different options for entitlements from organisations such as the CLA, FUW and YFC. Given that any alternative option for entitlements would lead to potentially significant changes for the industry we are not in a position to recommend any particular scheme at this stage. However we feel that the proposals and alternatives for entitlements would benefit from further investigation by the Welsh Government.

We recommend that the Welsh Government undertake modelling on the impacts of the entitlement proposals currently contained in the proposals and the different entitlement options put forward. We recommend that the Welsh Government make this modelling publically available to stakeholders and the Task and Finish Group by December 2012.

Greening (Articles 29-33)

In the evidence that we heard there was a clear divide between those who were supportive of greening in principle and those who were more sceptical. However, nearly all respondents were dissatisfied with the proposals as they have been drafted, and wish to see significant changes. This is a key priority for the Task & Finish Group.

We share the serious concerns of all respondents that the current proposals as drafted are unworkable. Our key concerns relate to the level of prescription on;

- the definition of permanent pasture;
- crop rotation requirements; and
- requirement for a 7% Ecological Focus Area (EFA)

We do not feel that they take into account fully the different environmental climate and agricultural context of individual Member States and Regions.

The CCW told us that the current requirements could lead to 'potential perverse effects' in Wales. This view was shared by a number of witnesses. For example, the definition of the Ecological Focus Area (EFA) wouldn't include some land in Wales which delivers environmental benefit, such as non-productive farm areas.

In light of the evidence we have heard, we feel that there is strong argument for the greening options to be broadened, with greater flexibility offered for individual farmers so that they are able to select the greening options which best suit their farm, and the environmental context in which they operate. It is therefore vital that Member States and Regions have greater flexibility than the current proposals to ensure that the greening requirements are appropriate for the specific environmental and agricultural needs of their area. Given that commonality across Member States is important within the Common Agricultural Policy we recommend that the European Commission should set an overarching framework of priorities within which Member States/Regions can frame a menu of greening options of relevance to them.

We welcome your proposal that consideration be given to exempting farmers participating in agri-environment schemes from greening requirements, in a similar manner to the exemption that is being proposed for organic farmers. We understand that there would need to be an objective level of environmental benefit. Whilst acknowledging some stakeholder concerns that this could create problems of double funding we think this suggestion deserves further consideration and urge the Welsh Government to explore this proposal further with the European Commission. Additionally, we will be proposing it as a possible amendment.

We recommend that the Welsh Government pursues the need for greater Member State / Regional flexibility to deliver greening requirements as a clear negotiating priority. Greening requirements should be delivered in a manner that is suited to local environmental and agricultural needs within an overarching framework of consistent European priorities.

OTHER AREAS:

Flexibility between pillars (Article 14)

We heard diverging views about the option for Member States to transfer money from Pillar 1 to Pillar 2, and for eligible Member States, including the UK, to transfer money from Pillar 2 to Pillar 1.

We feel that it is of critical importance that the power to transfer funds between pillars should be available to Regions, as well as Member States. We feel that the proposals must make it clear that this flexibility is available to Regions. We note that the ability to transfer funds between Pillar 1 to Pillar 2 has been a vital tool for the UK and Welsh Governments to ensure sufficient rural development funding, because of historically low level of allocations for Rural Development Funding to the UK (which we will return to later).

Almost all the evidence we heard stated the flexibility to transfer monies should remain a voluntary option and we share that view.

We recommend that the Welsh Government seek clarity from the European Commission on whether Regions will be given the power to transfer funds between pillars.

Support for Areas with Natural Constraint (Articles 34-35)

There was a broad consensus in the evidence that we received, that this could prove to be a useful tool, but that it should remain as a voluntary option and not be made mandatory. We will be highlighting this to the European Parliament.

Young Farmers (Articles 36-37)

Respondents warmly welcomed the support to encourage new entrants into farming. However, we heard that the current proposals which define young farmers as those under 40 could disadvantage genuine new entrants over the age of 40. We feel that all new entrants should be supported and encouraged into entering agriculture. We share the concerns of organisations such as the YFC who call for this support to be refocused so that it helps all new entrants into the sector, regardless of age. We will be suggesting to the European Parliament, that they consider removing Article 36.2(b) so that the scheme provides support to all new entrants.

Coupled Support (Articles 38-39)

We are aware that the Welsh Government may consider using coupled support to help those producers who may be adversely affected by the move to area based payments. The evidence that we heard supported the retention of coupled support, as a potential tool to mitigate this. We will be highlighting to the European Parliament that we support the retention of coupled support, as long as it remains a voluntary option.

Small Farmers Scheme (Articles 47, 48, 49 & 51)

Environmentally focussed groups and farming unions both expressed concerns to us about the proposals for a small farmer's scheme. Both were concerned that small farms would not be subject to cross-compliance, and that this could have a significant impact on the environment particularly as no threshold is placed on the size of farm that is eligible to apply. Additionally, farming unions were concerned that it could penalise larger farmers who have to adhere to cross-compliance. The NFU Cymru also raised concerns that as the active farmer definition does not apply it could lead to a flux of new claimants for whom farming is not their main income.

We are recommending to the European Parliament that the Small Farmers Scheme is made voluntary for Member States and Regions. Additionally, we will be recommending that amendments are made to Article 92 in the 'Horizontal Regulation' to ensure that small farmers are made subject to cross-compliance requirements.

RURAL DEVELOPMENT REGULATION

Rural Development Budget

A wide range of respondents, including the NFU Cymru, National Trust, WLGA and EAW all expressed concerns about the levels of rural development funding which the UK and Wales have historically received. There was a very clear call from those who gave us evidence that the allocation criteria which is included in the implementing regulation should be based on all past monies spent on Rural Development by a Member State / Region, and that this must include any modulated funds. We fully support this proposal and feel it should be a key negotiation priority for the Welsh Government.

We recommend that a key negotiation priority for the Welsh Government should be ensuring a fair allocation of Rural Development funding. The Welsh and UK Governments must ensure that the UK and Wales do not continue to receive the lowest level of rural development support per hectare across the EU.

Minimum Spend on Agri-Environment

We have noted that the pre-amble to the Rural Development Regulation states that there should be a minimum of 25% spent on agri-environment schemes, but that this isn't included within the legislative texts. We will be recommending to the European Parliament, that this is brought into the legislative proposals, to ensure commonality across the EU.

Financing, management and monitoring of CAP [Horizontal] Regulation

Simplification

We are aware that one of the European Commission's core aims with the new proposals is to simplify CAP. We heard frustrations from a number of key

stakeholders that this opportunity has not been sufficiently progressed with the proposals in their current form. The amendments that we are suggesting have taken into account the simplification agenda, and we hope would help contribute to this.

We agree with the evidence that we have heard that further work is needed to simplify the regulations. We would ask that the Welsh Government works to ensure that there isn't unnecessary bureaucracy and barriers for Welsh farmers.

We heard concerns from the CLA about the implementation of penalties and control systems in Wales. They stated that that the Welsh Government's interpretation of these should not lead to 'platinum plating'. As an example, they told us about the European Regulation on the movement of livestock, which state that cattle movements are to be reported within three to seven days, but that Wales requires farmers to report movement within three days. They emphasised that the bar should not be set so high that Welsh farmers are bound to fail.

Witnesses such as FWAG and the Soil Association said that current assurance schemes could be a vehicle to introduce a risk based and proportionate control system. We feel there is merit in further consideration given to this. We believe the Welsh Government should ensure that in the implementation of CAP there is a sensible and proportionate approach to controls and penalties.

We recommend that the Welsh Government ensures in the interpretation and implementation of the control systems and penalties linked to CAP funding, that they take a risk based and proportionate approach.

Cross – compliance (Articles 91-95) and Annex II Rules on Cross-Compliance

As noted earlier, we will be suggesting to the European Parliament that an amendment is made to cross-compliance regulations so that farmers participating in the small farmers scheme are subject to cross-compliance.

In addition, the NFU Cymru raised concerns about the impact of the definition in the proposals of Carbon Rich Soils on Welsh farmers. They are concerned that the proposed ban on first ploughing could seriously limit opportunities for livestock and dairy farmers, and that because much of land in Wales is not defined as arable, this would have a huge impact on Welsh farmers.

We recommend that the Welsh Government seeks clarification from the European Commission on the definition of Carbon Rich Soils and whether the definition would lead to a ploughing ban on land not defined as arable.

At this initial stage, we are supportive of the UK Government's view as outlined in their recently published Explanatory Memorandum that the Statutory Management Requirements for the protection of birds and plants should be reinstated. However, we intend to hear further evidence in the next stage of our inquiry, and may reconsider our view following this.