

## EU Policy Update (EU2011.05):

### Reform of the Common Agricultural Policy (CAP)

Updated: 17 October 2011

#### Summary of main points in proposals

##### Introduction

On 12 October the European Commission published its package of legislative proposals for the **reform of the Common Agriculture Policy (CAP)**<sup>1</sup>, which it says aims:

...to strengthen the competitiveness and the sustainability of agriculture and maintain its presence in all regions, in order to guarantee European citizens healthy and quality food production, to preserve the environment and to help develop rural areas

##### The Legislative Package

The legislative package comprises seven regulations, of which four in particular are of relevance to Wales:

- Direct Payments regulation COM(2011)625
- Rural Development regulation COM(2011)627
- Financing, Management and Monitoring of the CAP ("Horizontal Regulation") COM(2011)628
- Common Market Organisation (CMO) Regulation

In addition to this the Rural Development funding instrument (EAFRD) is brought under the framework of the new **Common Provisions Regulation**, published on 6 October as part of the package of legislative proposals for the EU Cohesion Policy (EU Structural

<sup>1</sup> See [European Commission web-site](#) for the legislative proposals

Funds) for 2014-2020<sup>2</sup>. This places Rural Development programmes within a **Common Strategic Framework** focused on delivering core priorities of the **Europe 2020 Strategy**.

The inclusion of explicit measures to support **sustainable urban development** within the Structural Funds regulations (and lack of specific references to rural areas) poses the question as to whether Rural Development funding will be viewed as the primary route through which wider development of the rural economy is to be funded. Rural Development will also be subject to a number of new "**conditionalities**" introduced in the Common Provision Regulation, with the threat of suspension or cancellation of funding if these conditionalities are not met.

Finally, the CAP reform legislative package makes extensive reference to Delegated Acts and Implementing Acts that will be brought forward by the Commission. Some of these will be of particular importance in terms of determining how articles in the legislative package are to be implemented in practice, and will merit consideration when they are published.

##### Direct Payments Regulation

- **New "tiered system" of Direct Payments**  
replaces the Single Farm Payment (and Single Area Payment) introduced by the 2003 reforms. Direct Payments will be made up of the following components:
- **Basic Farm Payment:** The Basic Farm Payment will make up approximately 48-69 % of the direct payment. It will be paid to all eligible farmers on the basis of new "entitlements" that will apply from 2014 onwards. These will be based on land holdings in 2011.
- **Historical allocation of Basic Farm payment to**

<sup>2</sup> See [EU Policy Update \(EU2011.04\)](#)

- be phased out:** a uniform value to apply to national or regional allocations by 2019. Scope to pay maximum of 60% basic payments on historic basis in 2014 but progressively phased out.
- **“Greening” payment** to account for at least 30% of annual national ceilings used for direct payments. Organic farmers are automatically entitled to this. Non-organic farmers qualify where they undertake “practises beneficial for climate and environment” defined as:
    - **Crop diversification:** cultivation of at least 3 crops on arable land on farms larger than 3 hectares (ha) and which is not left entirely fallow or cultivated with crops under water
    - **Permanent grassland to be maintained** (but scope for up to maximum of 5% of such land to be converted to other uses)
    - **Ecological focus areas** : minimum of 7% of farmers eligible land (permanent grassland is excluded)
  - **Areas under natural constraints:** scope to use up to 5% of the national ceiling to make additional voluntary payments to farmers in these areas (which are defined on the basis of objective criteria set out in regulation) . This does not replace support for these areas under Pillar 2.
  - **Young Farmers top up payment: required top up payment for young farmers with a** maximum of 2% of annual national ceiling provided for payments. Young farmers are defined as those setting up agricultural holding for the first time or within five years of submitting an application for the Basic Farm Payment and who are younger than 40 years old
  - **National reserve** of up to 3% of national basic payments ceiling.
- **Capping and progressive reduction** of payments to large farmers. Affects annual payments in a scale from €150,000 up to €300,000 (maximum payment). Includes provision for deductions of salaries (including taxes and social contributions). The money generated from application of this action will be retained by Member States and used to finance “innovative” activities undertaken by farm businesses under the Rural Development Fund .
  - **Fairer distribution of funding between Member States:** the Commission has proposed increasing the allocation to new Member States and addressing the bias of historical allocations of CAP between Member States. It includes a commitment to close the gap between Member States receiving 90% of the EU average payments under Pillar 1 by one third. The Commission also proposes to move to flat allocation (per EU hectare) during the next MFF period (2021-2028)
  - **Introduction of new definition of active farmers:** to address problem of “sofa farmers”. (i) value of direct payments must be above 5% of total receipts from non-agricultural activities (ii) or the “minimum activity” as determined by Member States (national governments) is carried out on the land area in question.
  - **Small farmers scheme:** farmers opting to enter the scheme would be exempt from having to implement the “Greening” requirements outlined above. However they would only be eligible to receive a payment of between€500-€1,000 from CAP. Farmers must apply by no later than 15 October 2014 to participate in this scheme. Up to 10 % of direct payments must be allocated for such schemes.
  - **Flexibility between pillars (i.e. voluntary modulation):** provides for transfer of up to **10% of funding from Pillar 1 to Pillar 2 AND** up to **5% of Pillar 2 funding to Pillar 1** for countries receiving less than 90% of the average EU allocation to Pillar

1 (UK is within this category)

- **Voluntary coupling of support (Articles 38-41):** scope for Member States to use **up to 5% of their annual national ceiling** (and in some cases it could exceed 10%) to provide support to certain sectors (this includes milk and milk products, sheepmeat and beef) undergoing “certain difficulties” and which are “particularly important for economic and/or social and/or environmental reasons”

## Rural Development Regulation

Rural Development is re-focused around **six priorities** that are in line with the Europe 2020 strategy, covering knowledge and innovation, competitiveness of rural areas, developing food chain and risk management, protecting ecosystems, resource efficiency, and addressing social exclusion, poverty and economic development.

There is a strong emphasis on developing the **economic potential and competitiveness** of the agriculture sector and rural economy, and the rural advisory services and business development support will be available to SMEs in the rural economy not directly involved in agriculture or farm-related activity.

There are **no pre-set minimum allocations** between priorities and Member States can select from a list of measures to deliver these priorities. There are two exceptions to this:

- **climate change mitigation and adaptation**, with a requirement that 25% of the overall budget goes to activities in this area, including the agri-environment-climate measure
- at least 5% of the budget to go to **LEADER programmes** (local development partnerships).

The regulation also addresses the question of fairness of distribution of resources between Member States, introducing the need to take account of “objective criteria” as well as historic allocations. The detail of how this will be done will be determined in an Implementing Act.

Co-financing rates will vary depending on the status of a region. For Wales this would mean 85% for West Wales and the Valleys (as a Less Developed Region) and 50% for the rest of Wales. These minimum thresholds can be increased for programmes involving innovation and knowledge transfer, cooperation, establishing producer groups, and support to young farmers.

The Commission has also proposed measures aimed at addressing volatility in agricultural markets through stronger risk management, including insurance mutual funds (for crops and weather) and an income stabilisation tool.

Member States can allocate up to 10% of funding to areas under natural constraints, determined by application of agreed objective bio-physical criteria. A specific measure has been created for organic farming to increase its visibility, and there are also measures aimed at encouraging young farmers.

The regulations also create a **new innovation partnership** for agriculture and **innovation prize**. Both will be funded from the Rural Development budget.

## Horizontal Regulation

**Cross compliance measures** have been placed in a horizontal regulation on finance and monitoring as they will apply to all CAP funds for the first time and not only direct payments.

The Commission has sought to **simplify and adapt these controls to the variety of agricultural holdings across the EU**, whilst also tightening up controls so that checks are increased in regions where there is persistent non-compliance with EU rules and reduced in compliant regions.

The number of **Statutory Management Requirements (SRMs)** have been reduced to 13 and the number of **Good Agricultural and Environmental Conditions (GAEC)** to eight. However farmers will be required to additionally comply with the requirements of the Water Directive and the Pesticides Directive once obligations on farmers enter into force. Details of cross compliance requirements are outlined in Annex II.

The proposals also seek to **widen the scope for imposing penalties on EU Member States** when their paying agencies fail to enforce adequate EU controls on farms, while rewarding those countries that maintain an error rate of below 2% over several years.

The Commission will present a report before the end of 2017 – and every 4 years thereafter – on the **impact of the CAP** on its three main priorities – viable food production, sustainable management of natural resources and balanced territorial development.

## CMO Regulation

This regulation lays down the rules for the **common organisation of agricultural markets**. The regulation outlines the rules governing storage aid, aid for private storage, marketing standards and designations of origin and geographical indicators.

The regulation incorporates the legislative proposals put forward as part of the Commission's **dairy package** which aims to strengthen the negotiation position of milk producers. In addition the regulation provides for the introduction of formalised written contracts for the milk products sector.

In addition, the regulation expands rules related to the **recognition of Producer Organisations (POs)** and inter-branch organisations to cover all sectors. This is an attempt to improve farmers' negotiating position.

## Financial allocation to CAP?

The proposed financial allocation to CAP was set out in the Multi-annual Financial Framework (MFF) published on 30 June<sup>3</sup>, and which is subject to separate and parallel negotiation.

This proposes **€417.4 billion to CAP** (around 40% of total EU budget), of which €317.2bn to Pillar 1 and €101.2bn to Pillar 2 (Rural Development). It also foresees an **additional €17.1bn** from other elements of the EU Budget (including €2.5bn for food safety, €2.8bn in food support for deprived people, €3.9bn in a crises reserve for agriculture).

## Timeline and process

The CAP Reform proposals and the broader MFF proposals will be negotiated during 2012 and potentially into 2013 (and beyond). For the first time CAP will be adopted through "co-decision" procedure, which requires agreement from the European Parliament and the Council of Ministers (with the Commission acting as "broker") before the final legal texts can be agreed.

This represents a major change in the negotiations and introduces an element of uncertainty as to the length and the dynamic of the discussions. See the section **Progress of dossier in EU Institutions** below for more details on this process.

## Background context to proposal

### Ongoing process of reform

Reform has been an ongoing process in CAP over the last two decades in particular. The most recent reforms came in 2003 with the introduction of the single farm payment (and single area payment), aimed at decoupling aid from production, and through the "mid-term" 2008 **CAP Health Check**.

<sup>3</sup> See **EU Policy Update 2011 (EU2011.02)**

## Public debate on post 2013 reform

EU Agriculture Commissioner Daclan Cioloş launched a public debate on reform of the CAP in the first half of 2010. This was followed in November 2010 by publication of a Communication on CAP and the Europe 2020 strategy, including a public consultation (which closed in January 2011).

The Commission held discussions with Agriculture Ministers in the Council and the European Parliament throughout this process, the latter presenting its views in two opinions, the first by Scottish Liberal Democrat MEP George Lyons (in June 2010), the second by German MEP Albert Dess (European People's Party), on Europe 2020 and CAP (adopted in June 2011)<sup>4</sup>.

## Context of crisis and security

This debate has taken place against the backdrop of the financial crisis, Eurozone crisis, a food security crisis during 2009 (in particular), growing concerns over energy security, immigration, as well as the focus on climate change and demographic change.

The Europe 2020 Strategy (focus on Smart, Sustainable and Innovative Growth) and strengthened "Economic Governance" provide the strategic framework in which the Commission is seeking to "modernise" the budget, to meet the new "challenges" facing Europe, and the EU Agriculture Commissioner has sought to reposition CAP as a key element in the EU budget to deliver Europe 2020's objectives.

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<sup>4</sup> George Lyon MEP report. Albert Dess MEP report

## Relevance to Wales

Wales currently benefits from around **€3 billion** of funding from the CAP:

- around **€370 per annum** going to farmers as single farm payments under Pillar 1 of CAP
- around **€340m for the period 2007-2013** under Pillar 2 of CAP for the Rural Development Programme Wales

During the Third Assembly the Rural Development Sub-Committee undertook an **inquiry into the future of CAP**, adopting its report in July 2010.

This was followed by a visit of the Sub-Committee to Brussels in September 2010, where they met with Chair of the Agriculture Committee in the European Parliament, Paolo de Castro MEP (Italian, Socialists and Democrats Group), officials from EU Agriculture Commissioner's Cabinet, the UKREP officials, and officials from a number of regions and member states<sup>5</sup>.

The agricultural sector in Wales predominantly consists of small to medium sized livestock and dairy farms. 80 % of the agricultural land mass of Wales is currently designated as a Less Favoured Area in recognition of the natural handicaps faced by Welsh farmers.

Wales has a long-standing history of successfully implementing agri-environment schemes which is recognised at an EU level but historically has received a relatively small share of the rural development budget. At present direct payments received by Welsh farmers under the CAP are allocated on a historical reference basis.

Wales like the rest of the UK has a large landlord and tenant farm sector. This system is fairly unique to the UK and it not repeated in many places across the EU. In

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<sup>5</sup> EUR(3)-02-11 : Transcript of meeting 1 February 2011

the past the UK has struggled to achieve recognition from the European Commission for the issues that arise as a result of this structure.

Key areas of interest in the CAP negotiations for Wales will be :

- Greening of direct payments;
- The move away from a historical basis for allocations of direct payments to an area basis;
- Capping of direct payments;
- The definition of Active Farmer;
- The small farmers scheme;
- Proposals for agri-environment schemes;
- Support for areas of natural constraint;
- Support for dairy farmers and;
- Changes to cross-compliance requirements
- Impact of the introduction of the CSF and Partnership Contract, and how these will be negotiated in the UK
- Clarifying how development of the wider rural economy will be supported (through Rural Development and EU Structural Funds)

## UK Government position

*The UK Government will publish an Explanatory Memorandum (EM) in the coming weeks setting out its reaction to the Commission's proposals. This section will be updated accordingly. However, the new EM is likely to restate the position of the UK Government set out in its response to the EU Budget Review Paper, which is summarised below. References are also made to other relevant UK Government EMs.*

The UK Government's latest adopted position on CAP reform was set out in its **response to the public consultation in January 2011**:

...The UK therefore sees the top priorities for CAP reform as follows:

- A very substantially reduced and refocused CAP Budget improving value for money
- Pillar 2 measures should be enhanced, particularly for the delivery of agri-environment schemes.
- Measures that enhance competitiveness and reduce reliance on subsidies should be enhanced, without interfering with the EU level playing field
- Increased market orientation, including a reduction in trade distorting subsidies and measures.
- Continued simplification of the CAP, ensuring a reduction in costs and complexity for both farmers and administrations unless benefits outweigh costs...

The UK Government's EM on the MFF (published in July 2011) also identifies the need for a substantial reduction in the CAP budget as part of its broader objective achieve a "real terms" reduction in the future EU budget<sup>6</sup>.

The UK Government issued a **joint declaration with the Polish Government** On 20 September calling for "deep and radical reform" of CAP, with a reduced emphasis on Pillar 1 and strengthening of Pillar 2 viewed as "central" to this.

Following the publication of the reform proposals the UK Government issued a **press release**. The Secretary of State, Caroline Spelman said:

...while some of the Commission's rhetoric is right, overall we're disappointed and the proposals as they stand could actually take us backwards.

## Welsh Government position

In January 2011 the differences between the UK Government position on CAP reform and the Welsh Government and the other Devolved Administrations were demonstrated in a very public way through the publication of a **joint position** signed by the Rural Affairs Ministers of the Devolved Administrations. This

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See **UK Government EM on MFF**. The second objective is to defend the UK rebate.

statement criticised the UK Government's stance on CAP reform, and called for a change in approach based on three priorities:

- securing a fair and proportionate share of the overall CAP budget;
- ensuring regional flexibility in both pillars of CAP; and
- achieving greater simplification of CAP.

The Welsh Government's previous **Rural Affairs Ministers issued a statement** on 17 January 2011 in response to the Commission's consultation on the future of CAP, which identified five key outcomes from the reforms:

- maintain direct support (for farmers);
- provide the basis for sustainable food production;
- strengthen the competitiveness of land based industries;
- recognise the role of farming in safeguarding and enhancing the natural assets of Wales; and
- contribute to the socio-economic development of our rural communities.

On 5 July the Deputy Minister for Agriculture, Food, Fisheries and European Programmes, Alun Davies, made an **oral statement on CAP reform** as part of his response to the publication of the Commission's MFF proposals in June 2011.

In a **statement issued on 12 October** the Deputy Minister gave a "cautious welcome" to the Commission's proposals.

He highlighted the challenges for Wales in moving to area based payments and "greening" of direct payments. He said he will push for an increase in the UKs and Welsh share of the EU Rural Development allocation, and that he is

...continuing to work closely with the UK Government and the other devolved governments to shape the UK's negotiating position and the policy direction for CAP

## Progress of dossier in EU Institutions

*This section will be updated as the negotiations take place in Brussels and the official positions of the EU Institutions become clear.*

### European Parliament:

The lead Committee for CAP reform will be the Agriculture Committee, which is chaired by Italian MEP Paolo de Castro (Socialists and Democrats, S&D), who met with members from the Assembly's Rural Development Sub-Committee in September 2010. The lead rapporteurs for the legislative proposals of most relevance to Wales are:

- Direct Payments Regulation – **Portugese MEP Luis Capoulas Santos** (S&D)
- Rural Development Regulation - **Luis Capoulas Santos MEP**
- Horizontal Regulation – Italian MEP Giovanni La Via (EPP)
- CMO Regulation – **French MEP Michel Dantin** (EPP)

The European Parliament held a first discussion during the presentation of the proposals by the EU Agriculture Commissioner on 12 October. Lead rapporteur on Direct Payments Regulation and Rural Development Regulations, Luis Capoulas Santos MEP, gave a strong critical reaction to the Commission's proposals saying it would need to be greatly improved to get the support of the Parliament, in particular criticising the overly "bureaucratic" nature of the proposals<sup>7</sup>.

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<sup>7</sup> Quoted in **Euractiv**

## Council of Ministers:

The Agriculture Council meets on a monthly basis and will hold its first debate on the reform package on 20 October.

A number of Member States have expressed their initial reactions to the proposals.

The **French Agriculture Minister Bruno Le Maire** said he supported the principle of greening CAP but did not agree with the approach proposed by the Commission, saying a more simplified approach is needed that matches the economic reality of farming.

The **German Agriculture Minister** opposes the “capping” of large farms, something the UK farming unions also oppose.

## Others:

The following provide general links to web-sites containing reactions to the CAP reform proposals:

- **Euractiv**, an online EU press service, has an **excellent summary of the initial reactions** to the proposals, including a **comprehensive list** of links to the views of various EU networks and lobbying organisations
- **EU Observer**: another EU online press service
- **Farmers Weekly Interactive**: Contains links to responses for key industry stakeholders.

See also the following for some specific responses:

- **NFU Cymru**
- **Farmers Union Wales**
- **RSPB Wales**
- **Committee of the Regions**

To give something of the “flavour” of these responses: the reactions have been largely negative, although for differing reasons.

**NFU Cymru president Ed Bailey** said the CAP reform proposals would “hinder not help” farmers, particularly highlighting concerns with the “greening” of Pillar 1, a view shared generally by the farming sector across Europe. FUW said the proposals would “devastate the dairy sector incomes” in Wales.

The **environmental lobby** welcomes the principle of “greening” CAP but has concerns about the way the Commission is proposing to do this. This includes concerns about “reverse modulation” from Pillar 2 to Pillar 1, exclusion of small farmers from cross-compliance and greening measures in Pillar 1, and concerns about proposals to “recouple” aid to production.

RSPB described the proposals as “bad news for wildlife and farmers”.

## Further information

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