

CAP Reform post 2013

Defra discussion paper on the impact in England of EU Commission regulatory proposals for Common Agricultural Policy reform, post 2013

December 2011

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www.defra.gov.uk/consult/2011/12/12/cap-reform-1112/

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Scope of the discussion paper

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| Topic of this discussion paper: | The European Commission launched its Common Agricultural Policy (CAP) regulatory proposals on the 12 th October 2011, the proposals concern reform of the CAP for the period 2014-2020. |
| Scope of this discussion paper: | This discussion paper is aimed at all farmers, rural communities, environmental groups, non-governmental organisations and others potentially or directly affected by the CAP reform proposals. We are seeking views from all interested parties to help inform the UK negotiating positions. |
| Geographical scope: | We are particularly interested in hearing from UK-wide and England based individuals and organisations. Scotland, Wales and Northern Ireland are each undertaking their own consultation activities on the CAP proposals in line with their devolved responsibilities. |
| Impact Assessment: | At this stage we have not prepared an Impact Assessment of the CAP reform proposals as they are still subject to negotiation and may change significantly before implementation. Further consultation activity and impact assessment will be carried out prior decisions being taken on how any discretionary elements of the regulations are implemented. The European Commission have produced an Impact Assessment of the proposals which can be used as a guide to the potential impacts of these proposals. |

Basic Information

| | |
|----------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| To: | <ol style="list-style-type: none"> 1. Stakeholders listed in the list at annex A. 2. Individuals and other organisations affected by the CAP reform proposals. |
| Body/bodies responsible for the discussion paper: | Agriculture and Budget Strategy Team |
| Duration: | 12 th December 2011 – 5 th March 2012 |
| Enquiries: | <p>Email: cap.reform@defra.gsi.gov.uk</p> <p>EU Agriculture and Budget Strategy Team Defra Area 5D, 9 Millbank C/O Nobel House, 17 Smith Square London, SW1P 3JR</p> |
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| | |
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| | EU Agriculture and Budget Strategy Team Defra Area 5D, 9 Millbank C/O Nobel House, 17 Smith Square London, SW1P 3JR |
| Additional ways to become involved: | N/A |
| After the discussion paper: | The responses to this discussion paper will be kept confidential and assessed by the CAP Reform Team; they will be used to inform the development of the UK negotiating position. |
| Compliance with the Code of Practice on Consultation: | This is not a formal consultation, however, this discussion document and accompanying questionnaire comply with the general principles of the Government's Code of Practice on Consultation |

Background

| | |
|-------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Getting to this stage: | <p>The European Commission issued its CAP reform communication in November 2010. The UK government published its response in January 2011.</p> <p>Following this, the related Multi-annual Financial Framework proposals were release by the European Commission in June 2011 and negotiation of these continues.</p> |
| Previous engagement: | The UK government consulted on the Commission's CAP reform communication, prior to publishing its response document in January 2011. Informal discussions have already taken place with a number of stakeholder organisations. |

Part 1 - Introduction

Purpose and scope of the discussion paper

This discussion paper invites views on the European Commission's recently published Common Agricultural Policy (CAP) Regulatory proposals for the period 2014 – 2020, that were released on 12 October 2011.

Defra is seeking views from farmers, environmental groups, rural communities, non-governmental organisations and other interested parties on how these proposals may impact those directly affected by the CAP. We are particularly seeking views from English stakeholders, as Scotland, Wales and Northern Ireland are each undertaking their own consultation activity on how the proposals may affect those in their regions, in line with their devolved administrative responsibilities.

The proposals may have significant potential impacts for English stakeholders and include a proposed replacement for the Single Payment Scheme, revised rules which will guide the next Rural Development Programme in England, and new initiatives such as 'greening', 'capping' and a dedicated 'small farmers' scheme. A reduction in the number and detail of the current Good Agricultural and Environmental Conditions and Statutory Management Requirements are also proposed.

Negotiations have now commenced between all 27 member states of the European Union to discuss the detail of the regulatory proposals and the European Parliament have started consideration of the proposals. Defra is seeking the views of interested parties to help inform the UK negotiating position, which also takes account of Scotland, Wales and Northern Ireland interests.

It will be some time before the proposals are finalised and for the first time, in relation to CAP reform proposals, agreement between the European Commission and the European Parliament is required under the 'co-decision' terms of the Lisbon treaty. The Commission and Council have an ambition to secure agreement by the end of 2012 to allow implementation on 1 January 2014. However, as with all other elements of the proposals, this will form part of the negotiation. Further consultation and assessment of the impact of implementation will be carried out at the appropriate time.

Background and further information

The European Commission published its CAP reform communication on 18 November 2010 and the UK government published a formal response on 28 January 2011.

The Commission's communication can be found at:

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52010DC0672:EN:HTML>

The UK Government response can be found at:

<http://archive.defra.gov.uk/foodfarm/policy/capreform/documents/110128-uk-cap-response.pdf>

The Commission's CAP reform regulatory proposals were published on 12 October 2011 as a package consisting of seven regulatory proposals:

- Direct Payments Regulation
- Single Common Market Organisation (SCMO) Regulation
- Rural Development Regulation
- Regulation on the Financing, Management and Monitoring of the CAP (The Horizontal Regulation)
- Transitional Measures for Direct Payments in 2013 Regulation
- Regulation on Fixing Certain Aids and Refunds
- Regulation on Support for Vine Growers

An impact assessment and several supporting and explanatory documents produced by the European Commission accompanied the regulatory proposals. You may find it useful to refer to these documents and the regulatory proposals themselves in responding to this discussion paper, they can be found at: http://ec.europa.eu/agriculture/cap-post-2013/legal-proposals/index_en.htm

In parallel with the CAP proposals, the European Union's future budget (from which the CAP is funded) is also being negotiated. Details of the proposals related to the next Multi-annual Financial Framework for the period 2014-2020 can be found at:

http://ec.europa.eu/budget/biblio/documents/fin_fwk1420/fin_fwk1420_en.cfm#doc1

Information relating to the CAP schemes currently run in England can be found at:

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Defra CAP Reform: www.defra.gov.uk/food-farm/farm-manage/cap-reform/

Rural Payments Agency: <http://rpa.defra.gov.uk/rpa/index.nsf/home>

Natural England: www.naturalengland.gov.uk/

Forestry Commission: www.forestry.gov.uk/

Defra Rural Development Program for England: www.defra.gov.uk/rural/rdpe/

Rural Development Network: <http://rdpenetwork.defra.gov.uk/>

Part 2 – The Commission’s CAP Proposals

1. Direct Payments Regulation

Basic Payment Scheme

The Single Payment Scheme (SPS) was introduced in 2005 and is administered by the Rural Payments Agency (RPA). Under the current proposals, the SPS would be replaced by a new Basic Payment Scheme (BPS).

To be able to claim under the BPS, the applicant must be an ‘active farmer’ undertaking an ‘agricultural activity’. There is a requirement to exclude from the Scheme anyone whose BPS payment is greater than €5,000 but which amounts to less than 5% of their total income received from non-agricultural activities.

Under the SPS, an ‘agricultural activity’ currently means keeping animals, cultivating crops or maintaining land in Good Agricultural and Environmental Condition (GAEC). The proposal removes the GAEC requirement in favour of a requirement to keep animals, cultivate crops and/or maintain land in a condition suitable to be farmed without any preparation beyond traditional methods.

The UK would also be able to set minimum requirements defining what counts as agricultural activity on areas which are naturally suitable for grazing or cultivation. In addition and similarly to the SPS, under BPS, minimum claim value and claim size conditions would also be set.

The SPS replaced many coupled support schemes and introduced entitlements. This proposal would **cancel** all existing SPS entitlements and would require the establishment of new BPS entitlements. One BPS entitlement would be allocated for each hectare of eligible land declared in 2014 and (with some limited exceptions) only those who claimed at least one SPS entitlement in 2011 would be allowed to establish these new entitlements.

The proposals require all Member States to either immediately, or through a short period of transition, move to a single flat rate payment value for all entitlements in a particular region. Under existing arrangements all English entitlements within each of the three SPS regions will already be the same value by 2012: this will not be the case in Scotland, Wales or Northern Ireland.

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Capping of the Basic Payment Scheme is also proposed with the amount of money the farmer receives reduced progressively based on the value of the claim, starting at a 20% reduction for claims over €150,000 and rising to 100% for claims over €300,000:

| Basic Payment Scheme Value (€) | Percentage Reduction | Maximum Reduction (€) in band |
|--------------------------------|----------------------|-------------------------------|
| < 150,000 | 0 | 0 |
| 150,000 - 200,000 | 20 | 10,000 |
| 200,000 – 250,000 | 40 | 20,000 |
| 250,000 – 300,000 | 70 | 35,000 |
| > 300,000 | 100 | unlimited |

The proposals allow the cost of salaries, including taxes and social contributions to be taken into account and deducted from the total BPS value prior to the calculation of the reduction (note – the additional greening payment – see below – is excluded from capping which applies solely to the BPS payment value). Monies recovered would be moved to England's Pillar 2 to fund innovation. Large businesses found to have 'artificially' split up solely to reduce the total BPS payment each receives to minimise the capping reduction, would be excluded from claiming BPS.

Compulsory Additional Greening Payment

In addition to the Basic Payment Scheme, farmers will also be required to fulfil certain 'greening' requirements. In return for doing so, their capped BPS payment amount would be topped up by a set amount per entitled hectare claimed (a total of 30% of the direct payment budget would be used to determine this per hectare rate).

Crop Diversification – for farms with an arable area greater than 3 hectares where that area is not used exclusively for grass production, at least 3 different crops would have to be grown, each covering no less than 5% and no more than 70% of land.

- Permanent Grassland – where this exists on a holding, the farmer would be required to maintain it.

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- Ecological Focus Area – at least 7% of land, excluding permanent grassland, would have to be devoted to this. The land could include hedge rows, terraces, buffer strips, landscape features and afforested areas or land left fallow.

Farmers who are in certified organic schemes would not be required to carry out the above greening requirements and would be automatically eligible for the payment.

Farmers in Natura 2000 areas would have to comply with the relevant greening requirements to the extent that they are consistent with the Natura 2000 legislation.

Young Farmers Additional Payment

To support and encourage new entrants to farming, the proposal also includes a compulsory top up payment for 'young farmers'. To qualify for the additional payment, the farmer must be:

- Setting up as the head of a holding for the first time, or having done so within the last five years.
- Less than 40 years in age at the time they submit their first BPS application

The additional young farmer payment would be payable for a maximum of five years, calculated from the first year the farmer becomes head of holding to an amount that equals 25% of the farmer's average payment multiplied by the number of hectares held (within set limits).

Coupled Support and Areas of Natural Constraint

The proposals also include voluntary provisions that would allow the UK to use some of its Pillar 1 funds to provide an additional top-up payment per hectare for farmers whose land lies wholly or partly in 'areas of natural constraint' (as defined in the Rural Development Regulation).

There is also the option for the UK to use some of its Pillar 1 funds to provide support linked directly to the crops produced or livestock reared. These would only be permitted where the sector in question is undergoing difficulties and is particularly important for economic, social or environmental reasons. The amount of coupled support would be limited to a level that provided an incentive to maintain current levels of production.

Crop Specific Payment for Cotton

The regulation also contains a provision to continue coupled crop payments for cotton in Spain, Portugal, Greece and Bulgaria. The amount will be set by multiplying the yields for each of these countries by the reference amounts assigned to each country (as stated in the regulation). Cotton farmers who are members of approved inter-branch organisations will be able to receive a small increase in their payment.

Small Farmers Scheme

The proposals also set out an alternative to the Basic Payment Scheme which it is mandatory for Member states to offer. Any farmer who meets the requirements for participation in the BPS (including the minimum claim area/value conditions) may in the first year, opt to enter the Small Farmers Scheme (SFS). Entrants to the SFS will not be required to carry out the compulsory 'greening' or cross-compliance requirements.

The SFS would provide a set payment common to all entrants in the scheme, most likely somewhere between €500 and €1000. Farmers would be required to opt into the scheme in the first year. They would remain eligible for the payment provided they continue to hold an area of land sufficient to activate the entitlements they established under the BPS and remain in the scheme. Farmers would be able to opt out of the scheme at any point, but could not then re-enter the scheme at a later date.

In a manner similar to the capping of BPS payment values, farmers found to have artificially split their business to qualify for entry to the SFS would be excluded from claiming under that scheme.

2. Single Common Market Organisation (SCMO) Regulation

The Single CMO Regulation provides a horizontal framework for the classic areas of EU market policy – public intervention, private storage, marketing and quality standards, import and export rules, crisis measures, and competition and state aid rules.

The Commission's main policy goals are to:

- Provide an effective safety net for farmers at times of serious market disruption;

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- Achieve a more competitive and balanced food chain; and,
- Simplify the overall system of market measures, and make it more responsive and efficient.

Safety Net

Existing systems of public intervention and private storage aid will continue to be available as safety net mechanisms to help producers. However, these will be revised to be more responsive and more efficient. The Commission is also proposing a new 'Crisis Reserve' to enable it to react to crisis situations (which could result from a food safety problem or sudden market developments) and provide immediate support to farmers through a fast-track procedure.

Competitive food chain

To strengthen the position of farmers in the food chain, the Commission is proposing that rules related to the recognition of Producer Organisations and Inter-Branch Organisations should be expanded to cover all commodity sectors. Beet sugar production quotas are not proposed to be extended beyond 2015.

Simplification

The Commission plans to abolish a number of minor aid schemes covered by the existing SCMO framework; for example, aid for incorporating Milk Powder into animal feed, and coupled aid for silkworms. The arrangements for public intervention would have a clearer common structure, and a number of obsolete or duplicate provisions are proposed to be weeded out.

3. Rural Development Regulation

Strategic Objectives

The proposal sets out the scope for rural development programmes, the European Union priorities they should deliver, and how they should be delivered in Member States. It identifies three strategic objectives:

- To contribute to agricultural competitiveness
- The sustainable management of natural resources and climate action

- To balance territorial development of rural areas

EU Priorities

This proposal departs from the current Rural Development Regulation as thematic “axes” (which currently group together measures), have been abolished to allow greater flexibility. The majority of minimum spend limits associated with these axes have also been abolished. There is a stronger focus on competitiveness and innovation. The axes have been replaced by six priorities and there is a new focus on the reduced number of measures working together to deliver these priorities more efficiently. Rural Development as well as forming part of the package of CAP draft regulations, is also covered by the new Common Strategic Framework, along with the Structural and Cohesion Funds and the European Maritime and Fisheries Fund. The six rural development priorities sit under the eleven thematic objectives in the Common Strategic Framework.

The six priorities are:

- Fostering knowledge transfer and innovation in agriculture, forestry and rural areas;
- Enhancing competitiveness of all types of agriculture and enhancing farm viability;
- Promoting food chain organisation and risk management in agriculture;
- Restoring, preserving and enhancing ecosystems depending on agriculture and forestry;
- Promoting resource efficiency and supporting the shift towards a low carbon and climate resilient economy in agriculture, food and forestry sectors;
- Promoting social inclusion, poverty reduction and economic development in rural areas.

The regulation sets out the proposed measures (articles 15-40 of the Rural Development regulatory proposal) from which we will be able to design the next rural development programme for England. These include, amongst others, a cooperation measure, a measure for investments in physical assets, support for agri-environment schemes and afforestation and the creation of woodland. We will be able to choose those that are most relevant to England’s specific needs against the 6 priorities identified above, and in line with other national policies.

Innovation and Competitiveness

The proposed measures include provisions for increasing innovation and the transfer of knowledge and best practice between businesses. A European Innovation Partnership for agricultural productivity is also proposed to increase the link between research and the agriculture sector. This aims to expedite the transfer of technology and research onto farms. There is also support proposed for an Innovation Prize, aimed at encouraging innovative local cooperation, and the setting up of producer organisations.

Agri-environmental schemes

The proposals continue to place a strong emphasis on achieving the strategic objectives and delivering on the priorities through the continued provision of agri-environment schemes. The agri-environment-climate measure must be available within a rural development programme, and contains an additional focus on climate change mitigation and adaptation. There is also a new organics measure, to support the conversion and maintenance of organic land.

Areas facing Natural Constraints

The Commission has proposed replacing the current Less Favoured Areas with a new, more consistent approach to designating areas facing natural constraints. These would be designated according to a set of objective biophysical criteria.

Risk Management

The proposal creates new risk management tools under Rural Development. Some of these are similar to the current Article 68 provisions which allow subsidies to agricultural insurance and mutual funds for production related risks. A new provision is to allow income stabilisation mutual funds for compensating farmers who suffer significant drops in their income. Agriculture is also to become eligible for drawing funds from the European Globalisation Fund when changes in trade agreements adversely impact on the sector.

4. Regulation on the Financing, Management and Monitoring of the CAP

The Horizontal Regulation

The proposal lays down the legal framework for financing the CAP through the two funds for Pillar 1 and Pillar 2, and the Commission's and Member States' roles and responsibilities for shared management. It lays down the systems for controls and penalties and provides for the continuation of the Integrated Administration and Control System (IACS) for direct payments and its extension to rural development programmes. Additionally it also sets the rules on cross compliance (a range of standards covering public, animal and plant health, and environmental and animal welfare) and the Farm Advisory Service, both previously found in the Direct Payments regulation.

Cross Compliance

Cross compliance would continue to apply to the vast majority of direct payments, with the exception of applicants to the Small Farmer's Scheme. Payments would still be dependent on meeting a number of requirements relating to the environment, plant and animal health and welfare standards. 5 of the 18 current GAEC standards and 3 Statutory Management Requirements (SMRs) currently under cross compliance would be removed or revised – these include those on the reporting of diseases.

Requirements under the Water Framework and the Sustainable Use of Pesticides Directives would also be added once they have been implemented by all Member States.

The Farm Advisory Service

The service would be substantially expanded to offer advice on the activities farmers must undertake as part of the additional greening payment component of direct payments, as well as additional requirements relating to climate change mitigation and adaptation, biodiversity, water protection, animal and plant disease notification, innovation, and the sustainable development of small farms.

5. Regulation on Fixing Certain Aids and Refunds

This proposal is largely technical in nature and is directly linked to the SCMO. It will enable the Commission to fix aid amounts for the supply of milk products to children, export refunds, and to make specific provisions on export refunds for cereals and rice.

6. Transitional Measures for Direct Payments in 2013 Regulation

There are certain financial provisions within the current regulation for direct payments (including the SPS) which only run until 2012, leaving a 'gap year' between the current provisions and those planned to come into force on 1 January 2014. The proposed transitional regulation deals with these financial provisions for 2013.

7. Regulation on Support for Vine Growers

This proposal sets out the conditions for Member States to provide decoupled aid to vine growers under the Single Payment Scheme as has already happened in the UK.

Part 3 – Responding to the Discussion Paper

Responses to this discussion paper should be sent to:

EU Agriculture and Budget Strategy Team
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