

DP 1287 / 07 - 11

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Elin Jones AM/AC
Y Gweinidog dros Faterion Gwledig
Minister for Rural Affairs



Llywodraeth Cynulliad Cymru
Welsh Assembly Government

Ein cyf/Our ref
OAQ(3)0974

Kirsty Williams AM
National Assembly for Wales
Cardiff bay
CARDIFF

CF99 1NA

3 March 2010

Dear Kirsty,

As promised during our exchanges at Rural Affairs Questions on 10 February, I enclose a copy of the paper setting out the basis of the proposed payment uplift for farmers within the Less Favoured Area (LFA) who enter the all-Wales element of the Glastir scheme.

As I explained at the time, this information had been shared with the farming interests.

The paper explains briefly the requirements set by the European Commission for determining payments for schemes provided under axis 2 of the Wales Rural Development Plan, as will be the case for Glastir when it becomes operational on 1 January 2012. You need to appreciate that the Commission will scrutinise in detail the costing assumptions underpinning the payments rates for the individual prescriptions within the all-Wales element of Glastir. This will include the 20 per cent up-lift for LFA participants. I would add that, on a confidential basis, the costing assumptions have been shared with the farming interests and they have also seen the report from ADAS providing an independent validation of those costing. In respect of the latter, such validation is a further requirement set by the Commission.

For the avoidance of doubt, Glastir cannot be regarded as an income support mechanism for farmers. Rather, the Commission requires that the Glastir payment rates do not over-compensate ie to avoid payments that exceed the sum of income foregone and additional costs incurred in implementing the scheme on a farm. The advice from my officials is that the 20 per cent uplift for the LFA is justified when also taking into account the Farm Business Income differentials between LFA and non-LFA livestock grazing farms, as shown in tables 1 and 2 in the enclosed paper. The key point is that the up-lift is intended to recognise the income differential as opposed to covering the differential, an approach wholly consistent with the payment regime that has always applied to the Tir Mynydd scheme.

By way of information, my officials are now taking forward discussions with the farming and countryside interests about the detail for the targeted element of the Glastir scheme that will apply on a pan-Wales basis. The proposals are available on the Welsh Assembly Government's web-site, together with the prescriptions for the all-Wales element, the associated Whole Farm Code requirements and the report on the Glastir Field Trials to which I referred in my response to one of your supplementary questions on 10 February.

Subject to agreement of the RDP's Programme Monitoring Committee, the intention is to submit the detail on the all-Wales element of Glastir to the Commission in March for formal approval. This will initiate a detailed negotiating process with the Commission, following up on the extensive and informal discussions that have taken place over several months with the Commission as my officials have worked through the detail on Glastir.

I am placing a copy of this letter, and enclosure, in the Library.

A handwritten signature in black ink, appearing to read "Huw Irranca-Davies".

WORKING DRAFT: INTERNAL USE ONLY

GLASTIR: LFA UPLIFT PAYMENT

WORKING ASSUMPTION PAPER: FARM BUSINESS INCOME POSITION

Introduction

The purpose of this paper is to set out a basis for the LFA 20 per cent uplift on the payment within the all-Wales element of the Glastir scheme. It does not attempt to demonstrate a justification for the up-lift; rather that the planned payment rate does not over-compensate LFA producers who participate in Glastir.

Commission Regulation 1698/2005 (the Rural Development Regulation) stipulates that payment rates for schemes provided under axis 2 of the RDP must reflect cost incurred/income foregone (ie the payment cannot include a "profit" element). Thus, scheme payments in themselves cannot be regarded simply as an income support mechanism. It is important also to separate the LFA uplift from any connection to a dedicated LFA payment. This is to avoid any read across to the LFA provisions within Regulation 1698/2005; in particular that the minimum LFA support payment is set at €25.

The current Tir Mynydd scheme provides payment at £24 for the DA and £28 for the SDA. The DA rate is at the minimum rate set down by Regulation 1698/2005. If the calculated rate was below the €25 minimum, the RD regulation would not permit any payment within the DA.

For the purposes of Glastir, the proposed payment thresholds, including the LFA uplift, will be scrutinised by Commission for assurance that the rates are consistent with the cost incurred/income foregone regime. There are a number of ways in which costs/income can be presented. The information below sets out cost comparisons relating to Farm Business Income.

Table 1: Components of Farm Business Income on LFA & Lowland Grazing Livestock farms, 2005-06 – 2007/08

| | 2005/06 | | 2006/07 | | 2007/08 | |
|---|-----------------------|---------------------------|-----------------------|---------------------------|-----------------------|---------------------------|
| | LFA Grazing Livestock | Lowland Grazing Livestock | LFA Grazing Livestock | Lowland Grazing Livestock | LFA Grazing Livestock | Lowland Grazing Livestock |
| Income from agricultural production (excl. all subsidies) | -18,400 | -12,600 | -18,200 | -8,300 | -17,400 | -7,600 |
| Income from Single Farm Payment | 23,800 | 18,300 | 25,000 | 24,700 | 24,700 | 20,200 |
| Income from Tir Mynydd & agri-environment scheme payments | 9,100 | 2,800 | 8,400 | 4,100 | 10,700 | 2,900 |
| Income from diversified activities | 1,400 | 600 | 1,300 | 1,400 | 1,200 | 2,400 |
| Subsidies and payments to agriculture ¹ | 1,900 | 800 | 1,000 | 200 | 700 | 1,200 |
| Farm Business Income | 17,800 | 10,000 | 17,500 | 21,900 | 19,800 | 19,000 |
| FBI excluding TM and agri-environment payments | 8,700 | 7,200 | 9,100 | 17,800 | 9,100 | 16,100 |

Source: Farm Business Survey (figures are rounded to the nearest £100, total may not sum due to rounding).

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Table 1 shows a breakdown of Farm Business Income (FBI) on LFA grazing livestock farms and Lowland Grazing Livestock farms for the period 2005/06 to 2007/08. Throughout the period, income from agricultural production is negative on both farm types but the loss is significantly greater on LFA grazing livestock farms reflecting the higher costs and lower returns associated with farming in less favoured areas.

Although FBI was higher on LFA grazing livestock farms than lowland grazing livestock farms in 2005/06 and 2007/08 (albeit marginally), a significant part of the reason for this was the higher Tir Mynydd TM and agri-environment payment received. When TM and agri-environment payments are excluded from the calculations, much of the difference in FBI between LFA and lowland farms disappears in 2005/06 and the differential is completely reversed in 2007/08.

Table 2. Agri-environment payment and Farm Business Income based on proposed all-Wales element payment rate

| | 2007/08 | |
|--|--------------------------|------------------------------|
| | LFA Grazing Livestock | Lowland Grazing Livestock |
| Agri-environment payment based on tier 1 payment rate (including 20% LFA supplement) | 5,300 | 2,700 |
| Farm Business Income | 14,400 | 18,800 |

Source: Farm Business Survey and Assembly calculations

Table 2 shows the average agri-environment payment that would have been received in 2007/08, based on the average farm size in the Farm Business Survey and the proposed all-Wales payment rate (including the 20% LFA supplement). The average payment is higher on LFA grazing livestock farms than lowland farms reflecting both the supplement and the fact that LFA farms are larger on average. In spite of this, Farm Business Income on LFA grazing livestock farms would have been considerably lower than on lowland farms. On this basis, the 20 per cent uplift under Glastir would not over-compensate LFA Grazing Livestock farms.