

Written Response by Elin Jones, Minister for Rural Affairs, to the Rural Development Sub-Committee's Report on Inquiry into the Reform of the Common Agricultural Policy

26 August 2010

I welcome the Rural Development Sub-Committee's report following their inquiry into the reform of the Common Agricultural Policy (CAP). The future direction of the CAP will be influenced by the outcome to the EU budget review relating to the 2014-2020 financial perspective. The European Commission is expected to release the budget review proposals in October. More detailed proposals on CAP reform will be published by the Commission towards the end of this calendar year.

I read your recommendations with interest and my response to the Report's individual recommendations is outlined below.

Detailed Responses to the report's recommendations are set out below:

The Committee recommends that:

Recommendation 1. The Welsh Government should ensure that ensuring food security and an adequate income for farmers remains at the core of the CAP.

Response: Accept

As made clear in evidence to the sub-Committee, the Welsh Assembly Government is of the firm view that there must not be any fundamental change in the underpinning purpose of direct payments within the CAP to provide income support for farmers and to sustain food production within EU 27. In addition, the CAP should continue to support sustainable land management actions that improve the environment and increase competitiveness.

Support under the CAP is vital towards sustaining farming and food production in Wales; the Single Payment Scheme typically contributes between 80 per cent and 90 per cent of Farm Business Income. The support also plays a significant role in solidifying Welsh Assembly Government strategic aims for sustainable agriculture in Wales (*Farming, Food & Countryside*) and actions to improve the efficiency and profitability for primary food producers. In addition, the Government is consulting on a new food strategy for Wales "*Food from Wales 2010:2020 - Consultation on a Food Strategy for Wales*". The consultation seeks views on the Government's proposed approach for an integrated approach to food policy in Wales.

Financial implications: None over and above the cost of the current strategy.

Recommendation 2. So as to make the CAP's aims more relevant to current challenges, and to secure new sources of income for Welsh farmers for the provision of public goods, the Welsh Government should lobby for environmental security to become a new key objective of the CAP.

Response: Accept

Environmental sustainability is already an integral component of the CAP. Receipt of direct payments in Wales under the Single Payment Scheme is subject to meeting a range of minimum standards relating to the environment, food safety and animal health.

Beyond these minimum standards, specific land management activities as part of agri-environment schemes provide an existing basis for farmers to generate additional income streams. In Wales, via the Rural Development Plan (RDP), such schemes include Tir Gofal, Tir Cynnal and support for organic farming. At the EU level, the CAP health-check process, agreed in November 2008, broadened the framework by which financial support could be provided to enable farming to address the challenges of climate change, carbon, soil, water and habitat management and bio-diversity.

Under the Wales RDP, some 80 per cent of the budget is directed towards supporting farm-based agri-environment activity. This will continue to be the case with Glastir, the new sustainable land management scheme for Wales that will be operational from January 2012. Glastir will provide an enhanced delivery platform covering all of Wales and enable many more farmers than is currently the case under the existing agri-environment schemes to deliver tangible and measureable environmental outcomes addressing key priorities relating to climate change mitigation, carbon capture, water management and bio-diversity. Glastir will provide greater access for farmers to become more engaged in sustainable land management activities.

Financial implications: The current RDP budget is largely funded from Welsh Assembly Government 'domestic' resources, including provision for Glastir, through to end 2013.

Recommendation 3. The Committee urges the Welsh Government to make protecting the CAP budget a priority for its negotiating strategy. The Government should ensure that the reform process does not result in a reduction in the sum of CAP monies coming to Wales after 2013.

Response: Accept

In the context of the overall EU budget, the resources allocated to the CAP have decreased very sharply over the past 20 years from almost 75 per cent to around 40 per cent at the current time. In its evidence to the sub-Committee, the European Commission suggested that the EU budget review was unlikely to see any change in this downward trend.

For the Welsh Assembly Government, it will be important to maximise the overall level of CAP receipts for Wales as a consequence to the outcome to the EU budget review and final decisions on the future shape of the CAP post-2013.

Financial implications: In advance of decisions on the EU financial perspective 2014-2020, and the future direction of the CAP, the financial implications cannot be quantified at this time.

Recommendation 4. The Welsh Government should support the principle of the CAP becoming one integrated policy in the long term, bringing to an end the artificial and unhelpful distinction between Pillar 1 and Pillar 2.

Response: Reject

The Welsh Assembly Government would not accept that the current distinction between the two pillars of the CAP is artificial.

Under the current arrangements, direct payments to farmers and market support measures are provided under Pillar 1 and can be summarised as an income support instrument to also support delivery on food production. Pillar 1 support is fully funded by the Commission.

The Pillar 2 activities, delivered under the RDP arrangements, allows Wales the flexibility to shape support to the needs of Wales under the broad headings of improving the competitiveness of farming and forestry, enhancing the countryside and improving the quality of life in rural areas. The predominant financial support for the Wales RDP is provided directly by the Welsh Assembly Government.

Pillar 1 and Pillar 2 are funded through different EU budget envelopes with different rules; Pillar 1 is solely funded by the EU budget on the basis of an annual allocation while most of Pillar 2 is based on multi-annual programming and co-financing at a domestic level. It would be simplistic to presume, in advance of the EU budget proposals and those relating to the CAP post-2013, that moving activity from Pillar 2 to Pillar 1 would automatically attract 100 per cent funding from the EU.

The initial focus for the Welsh Assembly Government will be on the totality of the proposals from the Commission on the future direction of the CAP, and the budgetary position, and their impact on Wales and Welsh farming rather than the internal structures relating to the CAP.

The Commission has indicated that future policy options for CAP post-2013 will be published towards the end of 2010, followed by a formal public consultation. Legislative proposals from the Commission are expected in June/July 2011. Indications suggest that the Commission's preference is to maintain the current pillar structure: with Pillar 1 as the instrument to deliver and reconcile economic, environmental, social and territorial dimensions; and

Pillar 2 to enable farmers to modernise, innovate, diversify, and respond to market volatility and the challenges of climate change.

Against that potential background, the Welsh Assembly Government takes a cautious approach on the structure of the CAP until such time that there is greater clarity on the direction of the Commission's proposals. Experience indicates clearly the importance of understanding the detail associated with changes to the CAP

Financial implications: None at this stage

Recommendation 5. In the short term, the Welsh Government should lobby for agri-environmental schemes and support for less favoured areas / high nature value farming to be brought within the ambit of Pillar 1 after-2013 and for a realignment of Community funds to fund them.

Response: Reject

The Welsh Assembly Government would require clarity on the financial implications from moving activity currently funded under pillar 2 to the pillar 1 arrangements that would apply post-2013. That clarity is not currently available. Furthermore, there would need to be greater understanding that any such move to Pillar 1 would not undermine the progress in Wales to date, and in the future, through farm-based agri-environment actions contributing to wider Government strategies relating to environmental sustainability.

As explained above (recommendation 4), Pillar 1 payments are essentially an income support mechanism. That is not the case with Pillar 2 payments for agri-environment activity and Less Favoured Area support. The latter are effectively compensatory payments, not income support mechanisms.

Pillar 1 is fully funded by the Commission. For Pillar 2, activities are funded through co-financing arrangements between a direct allocation from the Commission and domestic resources.

For the Wales RDP, agri-environment payments and LFA support are delivered under axis 2. For this axis, the current co-financing rate results in some 74 per cent of the funding being provided from Welsh Assembly Government resources and within this, Tir Mynydd (the LFA scheme), is 100 per cent funded by the Government under national top-up arrangements. Furthermore, for technical reasons, the Commission regards receipts from modulation (generated by "top-slicing" from the Single Payment Scheme) as integral to the EU funding element.

Presuming that post-2013, Pillar 1 payments remained fully funded by the Commission, transferring the current level of EU axis 2 support would appear to present a potential and immediate funding shortfall relative to current total

costs associated with the agri-environment and LFA activity and the projected funding for the new Glastir scheme.

Decisions whether to participate in agri-environment activity is a matter for the individual farmer, having regard to how he/she wishes to shape the direction of their business. This voluntary approach would appear to sit uneasily in Pillar1 arrangements where, post-2013, there will be a more universal policy approach across EU 27. That approach potentially might restrict the current flexibility under the RDP arrangements where, in respect of agri-environment activity, the Welsh Assembly Government can shape support to the needs of Wales and the environment of Wales.

In similar vein, the provision of dedicated LFA support is a discretionary decision under the existing RDP arrangements. It is likely that such discretion might be removed if LFA support was moved to Pillar1. Furthermore, this might result in a comparable LFA support mechanism across the EU that could also have significant implications on the current level of Pillar 1 funding for Wales.

There are other related issues. At the current time, the Single Payment Scheme (SPS) in Wales is based on payment entitlement per hectare whereas the agri-environment and LFA schemes rely on a payment rate calculated on income foregone /cost incurred.

Whereas the SPS post-2013 is likely to move to an area or flatter rate basis, it is likely that the link to entitlement will remain, even within transitional arrangements. There would need to be absolute understanding on how the differing payment regimes might be re-aligned. For example, it might be argued that a common approach applies to all pillar 1 payments and not necessarily continuing rolling forward the area based regime under the existing agri-environment and LFA schemes.

2011 will be the final year for mainstream payments under the Tir Mynydd scheme with lower "exit payments" applying in in 2012 and 2013.

The Tir Mynydd scheme only applies to cattle and sheep producers in the LFA. It is difficult to see how that position could be maintained if support was to be encompassed within Pillar 1. A potential scenario under the recommendation is that from 2014 all LFA producers could be eligible for that element under a refocused pillar1. That then leads to the question whether bringing LFA support within pillar 1 might result in a 2-tier payment regime between LFA and non-LFA producers with more claiming LFA support than is the case with Tir Mynydd. Potentially, that would further exacerbate re-distributional issues associated with moving to an area or flatter payment under the SPS and generates more difficulty if the CAP resource available to Wales is reduced.

At face value, given that Pillar 1 payments are currently 100 per cent funded by the Commission, there might appear to be attraction in agri-environment and LFA payments moving to Pillar 1. On the other hand, there can be no

certainty at this stage about the level of EU resource for Wales under Pillar 1 and Pillar 2 from 2014. There needs to be full understanding of the overall package for CAP reform, and the financial implications, before making any commitment on what, if any, changes might be introduced between the two pillars of the CAP.

The Welsh Assembly Government has reformed agri-environment policy in Wales so that more farmers could deliver tangible and measureable outcomes to benefit wildlife, water quality, carbon capture, landscape, historic environment and to mitigate climate change. The new approach under Glastir is equally relevant to both Less Favoured Area and lowland farmers and contrasts with previous LFA support which produced no measureable environmental benefits. The Glastir scheme does acknowledge the additional constraints experienced by LFA farmers through provision of higher area payments to scheme participants. Glastir has been recognised by the Commission as adequately addressing the high nature value agenda and priorities. The Commission appears increasingly committed to the two pillar structure.

Financial implications: None

Recommendation 6. The Committee calls on the Welsh Government to make securing a maximum possible transition period for implementing the area-based payment a priority in its negotiations on CAP.

Response: Accept

There have been repeated signals from the Commission that the historical reference for direct payments to farmers under Pillar 1 is not an option in the future. It is reasonable to expect that there will be a move towards an area or flatter based payment regime from 2014.

The Committee is aware of the modelling work undertaken by the Welsh Assembly Government to assess the impact of moving to an area/flatter regime on farmers in Wales. The analyses revealed a significant re-distribution of CAP receipts compared to the current pattern under the historic Single Payment Scheme that applies in Wales. The effects of this re-distribution can be reduced in the shorter-term, and provide farmers with a reasonable period in which to adjust their businesses, through transitional arrangements. It will be a priority for the Welsh Assembly Government to seek the maximum period for these transitional arrangements. In advance of the Commission's proposals on the CAP, the Government's initial view is that transition should, as a minimum, run through to 2020.

Financial implications: None

Recommendation 7. The Committee urges the Welsh Government to be fully engaged in discussions on the distribution of payments so as to ensure that the criteria used to determine the distribution of the area-based payment are favourable to Wales.

Response: Accept

It is too early to speculate in advance of formal proposals from the Commission how future CAP resources will be allocated across EU 27 and within the UK from 2014. A key negotiating objective for the Welsh Assembly Government will be to maximise the overall level of receipts for Wales from what emerges under the forthcoming CAP reform process. Critical in this process will be to ensure that the current flexibility for the Welsh Assembly Government to shape the implementation of the CAP to the needs of Wales and Welsh farming is maintained.

As part of the 2003 CAP reform process, the EU agreed the key criteria for the allocation of Pillar 1 resources to Member States. For the UK there was further agreement between the 4 Administrations on how that UK allocation would be distributed.

At an EU level, there is wide variance between “old” EU 15 and the “new” EU 12 (the newer Member States) on average payments made under Pillar 1 arrangements. EU 12 is seeking greater parity. It remains to be seen what proposals will emerge from the Commission on change to the current criteria for the allocation of Pillar 1 resources. When proposals are forthcoming, the Welsh Assembly Government will fully test the options in terms of impact for Wales, as well as with the other UK Administrations, in terms of the UK’s overall allocation position.

Financial implications: Unknown in the absence of further detail

Recommendation 8. The Committee calls on the Welsh Government to work with its UK partners to ensure that the historically low allocation of RDP funds to the UK is addressed during this reform process.

Response: Accept

The Welsh Assembly Government will be working to negotiate the maximum funding provision for Wales under the forthcoming CAP reform process, in particular to address the inequitable allocation of EU funding for the Wales RDP – a position shared by the other UK Administrations.

Financial implications: Unknown in the absence of further detail

Recommendation 9. The Committee urges the Welsh Government to press for payments under agri-environment schemes in future to be based on the true market value of goods rather than income foregone in farming.

Response: Accept.

The Welsh Assembly Government can support the direction proposed in the recommendation. A payment rate that reflected the societal value of the outcomes provided through agri-environment activity would be more consistent with the “public goods” delivery argument. A key issue is the mechanism by which to identify the societal value and whether the basis should be at EU, Member State or regional level. Indeed, there is a case that in certain circumstances, such values might apply sub-regionally.

The delivery of public goods is financially compensated on the basis of costs incurred and income foregone and this is enshrined in EU and WTO regulation. The Welsh Assembly Government’s negotiation position on CAP reform will include consideration of incentivising delivery of public goods instead of pure compensatory payments.

Current evidence available to the Welsh Assembly Government is inadequate to prepare an indicative comparison between current payment rates from the cost incurred/income foregone basis to that of a fiscal measurement of public goods and services / ecosystem services derived from agri-environment scheme activity. Work is ongoing to develop this evidence and the monitoring programme being developed for the Glastir scheme is aimed to inform understanding of ecosystem services and their associated values. The way forward to developing a more refined payment basis may be to include multiple environmental outputs in a single payment but to do so would require accurately calculating the fiscal value of biodiversity, soil quality and water quality especially during restoration process.

There can be no assumption that moving payments to a societal value would automatically result in higher receipts for farmers. Even if this was the case, regard would need to be had to the overall budgetary impact in the event that the resources under the CAP are reduced as a consequence to decisions emerging from the EU budget review process. A further difficulty could arise if payment for dedicated agri-environment activity was to transfer to Pillar 1 and to be included within a revised single payment regime. That would imply a standardised payment approach.

Financial implications: See response to recommendation 2.

Recommendation 10. The Welsh Government should push for reform of the food supply chain to be a priority under the new CAP so that farmers get a fair price for the food they produce from the market, thereby reducing the need in the long term for food production subsidies.

Response: Accept in principle

The Welsh Assembly Government will seek to influence a range of policy frameworks initiated at the EU level that impact on the long-term sustainability and profitability of Welsh farming.

The future of the CAP post-2013 is clearly a key consideration but as the Committee's report the CAP should not be viewed in isolation from other policy developments aspects that also impact on farming. Operation of the supply chain at the EU level, food labelling and providing the basis for EU agricultural to be truly competitive on a global stage are other key issues.

There are also developments at the UK level to ensure that there is fair practice in the food supply chain, and more specifically that new Groceries Supply Code of Practice (GSCOP) should be enforced by a strong and independent body. The UK Government has accepted this stance and announced that they are to set up a Groceries Code Adjudicator (GCA) to enforce the GSCOP. It will be beneficial for all concerned in the supply chain to see clear and fair practice. The GCA will have the power to receive complaints about the way supermarkets interact with their primary suppliers from anyone in the supply chain at home or overseas, and deal with them anonymously. This includes farmers who may not always directly supply the large supermarkets. The Welsh Assembly Government aims to provide the right market conditions to enable fair and free competition.

Financial implications: None

Recommendation 11. The Committee urges the Welsh Government to continue working towards ensuring that there are minimum changes to the Welsh LFA area. In the meantime, the Minister should prepare transitional support for any areas that do lose out as a result of the boundary changes.

Response: Accept

Whereas the new Glastir scheme will replace, among others the Tir Mynydd scheme, the Welsh Assembly Government objective remains to maximise the LFA coverage within Wales under the Commission's current work-stream for re-designating LFA boundaries across the EU. Under Glastir, scheme participants from within the LFA will benefit from a higher level of payment per hectare than non-LFA participants (and at a higher rate than those payable under Tir Mynydd).

LFA re-designation proposals have been the subject of discussion between Member States and the Commission for more than 2 years. Welsh Assembly Government officials have mapped a wide range of biophysical criteria including climatic (low temperature), soil wetness / water balance, stoniness, texture, rooting depth, and slope. The priority for the Government throughout has been to retain the current LFA designated area as far as possible and officials have negotiated with the Joint Research Centre to include the criteria of most relevance to Wales.

Within this re-designation work, the Commission has indicated that those farmers who may be affected by a change in the current LFA designation, transitional arrangements will be made over a three year period where a dedicated LFA scheme operates. The Welsh Assembly Government will

consider such transitional arrangements and their applicability to the Glastir scheme.

Financial implications: None

Recommendation 12. The Welsh Government should lobby for continued support for sustainable food production in difficult to farm areas such as the Welsh uplands.

Response: Accept

Welsh Assembly Government remains committed to securing a CAP outcome relevant to the needs of Wales and the Welsh farming community, including the Welsh uplands.

The Government's policies aim to achieve economic, environmental and social sustainable for all citizens and areas including the Welsh uplands. The overarching strategy, *Farming, Food & Countryside* includes actions to sustain and improve the profitability of food production for all producers in Wales. The approach within Glastir for sustainable land management strategy is designed to complement, rather than substitute for food production.

The draft Food Strategy for Wales reflects our wider food "system" approach to food, and seeks to set a long term, ambitious, and proactive agenda to address the challenges ahead for the wider food sector; it includes cross-cutting strategic issues such as health and well being, food security, sustainability and rural development, and ties in with other key Welsh Assembly Government strategies and action plans; and includes as a key element the role of industry in delivery.

Financial implications: None, existing budgetary provision

Recommendation 13. The Committee calls on the Welsh Government to investigate the benefits to Wales of a less favoured area scheme which incorporates support for high nature value farming.

Response: Reject

The Glastir scheme will be operational from 1 January 2012. The scheme will support sustainable land management activities by farmers on an all-Wales basis. Those activities would incorporate management of natural assets wholly consistent with retaining high nature value farming that in itself is not necessarily confined to the Welsh LFA.

The payment rate per hectare under Glastir for participants from the LFA will be higher than those currently paid under Tir Mynydd – and higher than the rate for non-LFA participants. "Exit" payments via Tir Mynydd would be payable in 2012 and 2013.

Financial implications: none; existing budgetary provision

Recommendation 14. Maintenance of the CAP as a common policy should be a priority for the Welsh Government. Consequently, the Welsh Government should oppose by all means possible any attempts by the UK Government and/or others, to renationalise the CAP either in part or in its entirety.

Response: Accept

The maintenance of CAP is a priority for the Welsh Assembly Government. CAP support is vital towards sustaining farming and food production in Wales; Single Payment alone typically contributes between 80 and 90% of Farm Business Income. The Assembly Government could not support any proposal that would undermine the EU single policy approach that is currently provided for in the CAP.

Financial implications: None

Recommendation 15. The Committee calls on the Welsh Government to reconvene the CAP Stakeholder Group immediately.

Response: Accept

The CAP Stakeholder group met on 20 October. The Minister for Rural Affairs will meet the group to discuss the future direction of the CAP when the Commission's proposals have been formally released.

Financial implications: None

Recommendation 16. The Committee calls on the Welsh Government to take on board the views of stakeholders as expressed to the Committee, and to integrate the Committee's findings into its eventual response to the Commission's proposals.

Response: Accept in part

The views of all stakeholders from Wales are valuable in helping to shape the Welsh Assembly Government's position as it works with the other UK Administrations to set down the parameters for the UK Member State overall approach, both in terms of the Commission's initial proposals and as the debate unfolds towards an outcome at the EU level. As Minister, I would want there to be full engagement with the Committee as that decision making process moves forward over the next couple of years.

Financial implications: None

Recommendation 17. The Welsh Government should play a full role in the negotiations on the future of CAP, and should maintain a direct dialogue with the European Commission and the UK Government. The Welsh Government should have a presence at the Agriculture Council and Special Agriculture

Committee, as well as other meetings of the Council of Ministers (and its working groups) where CAP is discussed.

Response: Accept

It is the clear intention of the Welsh Assembly Government to fully engage in the development of the UK negotiating position and, subsequently, including attendance at key EU-based meetings, both at Ministerial and at official levels. This has been the case previously with the 2003 CAP reform outcome and with the 2008 CAP Health Check agreement.

Financial implications: None

Recommendation 18. The Welsh Government should build alliances with other regions and states with whom it has a commonality of interest on CAP reform so as to maximise its influence and bargaining power. The Government should also make maximum use of the influence of Welsh MEPs under the new co-decision procedure.

Response: Accept

The Welsh Assembly Government has built a considerable network of key contacts within the EU Institutions over more than ten years and uses this to influence policy development and promote Welsh interests.

Financial implications: None