Cynulliad Cenedlaethol Cymru | National Assembly for Wales

EU Policy Update (EU2013.03):

Reform of the Common Agricultural Policy (CAP)

Updated: June 2013

Summary of main points in proposals

Introduction

On 12 October 2011 the European Commission published its package of legislative proposals for the **reform of the Common Agriculture Policy(CAP).**

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 **COM(2011)626**

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 2012 as part of the package of legislative proposals for the EU Cohesion Policy (EU Structural Funds) for 2014-2020[1].

[1] See **EU Policy Update (EU2011.04)**

Transitional Measures

It was initially hoped that the reform package on the CAP would be agreed in time for Member States to implement the 'new' CAP regulations from January 2014 but this is now unlikely to happen. The Commission has therefore published proposals for transitional measures for 2014.[2] The 'new' CAP regulations would then be in force from 1 January 2015.[3]

Direct Payments Regulation Commission Proposals

- **Basic Farm Payment:** The Basic Farm Payment would replace the Single Farm Payment. Member States currently allocating the farm payments on a historic basis would be required to move towards distribution on an area basis by 2019. At least 40 per cent of the Basic Farm Payment would have to be paid on an area basis in the first year.
- **Allocation of Payments:** Payment entitlements would be allocated on the basis that farmers activated at least one payment in 2011.
- **"Greening" payment** to account for at least 30% of annual national ceilings used for direct payments. All farmers, with the exception of organic farmers, would have to undertake three greening options on their land in so far as they are applicable. They are
    - **Crop diversification**
    - The maintenance of **permanent grassland**
    - The establishment of **ecological focus areas** on farm.

[2] **COM(2013) 226**

[3] It is important to note that agreement will be need to reach between the EU institutions on these regulations in addition to the main CAP reform proposals.

- **Young Farmers Scheme:** Member States would be required to provide a top up payment for young farmers. Young farmers are defined as those setting up an agricultural holding for the first time or within five years of submitting an application for the Basic Farm Payment. Young Farmers must be under 40 years old.
- **Small Farmers Scheme:** Member States would be required to establish a small farmers scheme. Farmers would be able to decide whether they wished to opt-in to the Scheme. Under the scheme the minimum amount a farmer could receive would be €500 and the maximum €1000. Farmers in the scheme would not be subject to cross-compliance or greening measures.
- **Active Farmers:** To address the problem of 'sofa farmers' all recipient of the Basic Farm Payment would have to fit with an active farmer definition. The Commission's definition proposes that an active farmer would be defined by the percentage of their income derived from agricultural activities.
- **Progressive capping of payments** would be applied to direct payments between €150,000 and €300,000 with no business receiving more than this upper limit. Farm Business would be allowed to make deductions for salaries (including taxes and social contributions).
- **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.
- **Flexibility between pillars:** The Commission allow Member States to transfer of up to **10% of their 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 (the UK falls within this category).

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.

Member States can select from a list of measures to deliver these priorities and have more freedom than the current RDP to decide how to split their funding between the measures.

- **Distribution of the RDP Budget:** The Budget will be distributed between Member States on the basis of past performance and 'objective criteria'.

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

Any farmer failing to meet the requirements of the greening measures under Pillar 1 would be penalised on the whole of their direct payments. Effectively making the greening element compulsory.

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 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

On 8 February 2013 the Council of Ministers agreed a deal on the Multi-annual Financial Framework (MFF) for the EU post-2013.[4] The proposals would give the CAP a total budget of **€417 billion with €319 billion** being spent on direct payments and market measures and **€98 billion on rural development.**

The European Parliament voted in favour of a resolution on 13 March 2013 to reject the Council's proposals for the MFF.[5] A dispute between the Parliament and Council on how the shortfall in the 2013 budget will be met has also led to a delay in the negotiations between the two institutions on the MFF. Some stakeholders have speculated that this could mean that a final agreement on the MFF isn't reached until autumn 2013 but believe that this should not hinder the on-going negotiations on CAP Reform significantly.[6] Even if a final agreement is not signed until the autumn the Irish Presidency of the Council hopes to have reached a political agreement on the MFF by the end of June 2013.

Timeline and process

Trilateral negotiations between the Council, the Parliament and the Commission began on 11 April 2013. It is hoped that an agreement can be reached on the content of the four legislative texts by the end of Irish Presidency of the Council in June 2013.

Transitional Measures

As stated previously Member States will not be in a position to implement the new rules from January 2014.Therefore transitional measures will be introduced for twelve months before the commencement of the CAP regulations in January 2015.

Background context to proposal

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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4 **EUCO 37/13**
5 EU Parliament Resolution **B7-0129/2013**
6 AGRAFACTS No.36-13

Relevance to Wales

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

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

UK Government position

The UK Government published Explanatory Memoranda on the different elements of the Commission's proposals on 29 October 2012. In the direct payments Memorandum the UK Government states that over time it wants to see a reduction in the Pillar 1 direct payments budget with an increasing amount of the budget being delivered through Pillar 2 schemes.[7]

In relation to direct payments the UK Government has supported the devolved administrations calls for a more gradual transition from historic to area based payments.

The UK Government has supported the view that farmers already in agri-environment schemes should automatically receive the greening payment if they are delivering greater environmental benefit than the proposed greening measures. It has however strongly opposed proposals by some Member States to allow farmers to receive 'double funding' for the same greening measures under Pillar 1 and Pillar 2.

In recent negotiations in the Council of Ministers the UK Government has called for Member States to be given the freedom to decide whether or not it wishes to apply an active farmer definition within its territory.

In relation to the small farmers scheme and young farmers scheme the UK Government has argued that these schemes should be voluntary for Member States. The UK Government is also opposed to the proposals to have progressive mandatory capping of payments.

The UK Government has expressed disappointment at the proposals to retain coupled payments and has stated that it will seek a low common rate of coupled support across Member States.

In relation to the Rural Development Budget both the UK Government and the devolved administrations have called for an increase to the UK's historically low allocation of this Budget.

Welsh Government position

The Welsh Government published a consultation on outline proposals for the next RDP (2014-2020) in January 2013[8] and a consultation on the proposals for Pillar 1 direct payments in February 2013[9].

The Welsh Government has previously stated that it opposes budget cuts to Pillar 1 payments and that it would like a fairer allocation of Rural Development funding.

[7] Copies of UK EU Explanatory Memoranda published before April 2012 have been archived and are no longer available online. For archived copies contact the **Cabinet Office** with the legislation reference number e.g. COM(2011)625

[8] Welsh Government, ***Rural Development Plan 2014-2020: The next steps,*** January 2013 [accessed 16 May 2013]
[9] Welsh Government, ***CAP Reform: Direct Payments to Farmers: The next steps,*** February 2013 [accessed 16 May 2013]

The Welsh Government has called for the transition period for area based payments to be extended to ten years for Member States and Regions to only be required to pay 10 per cent on an area basis in 2014. In its consultation on direct payments it has set out proposals for utilising different payment rates for different land types across Wales.

It has expressed support for Member States and Regions to be given greater flexibility to decide the reference year for the allocation of new entitlements and for all new entrants to have priority access to the National Reserve.

The Welsh Government has supported the principle of Member States and Regions being given greater flexibility to implement the greening requirements but has opposed double payments under Pillar 1 and Pillar 2 for the same measures. It has outlined the amendments to the proposed greening requirements that it would like to see.

Like the UK Government, the Welsh Government has supported the principle of only providing payments to active farmers but has argued that the income test will be complex to administer. The Welsh Government has supported the principle of having a 'negative list' of activities that would be ineligible for support but not a 'negative list' based on types of claimant.

The Welsh Government has called for the small farmers scheme and the young farmers scheme to be voluntary and has expressed concern that those farmers entering a small farmers scheme will be exempt from cross-compliance. It has argued that support for young farmers could be better supported by domestic or rural development funds.

In relation to Rural Development the Welsh Government has consulted on its proposed strategy and priorities for the next rural development plan (2014-2020). Some of the proposed interventions for the next plan include:

- Considering the use of new financial instruments such as loans to support on-farm investments and non-agricultural diversification;
- Investments in product processing, supply chain mechanisms knowledge transfer;
- On-farm and community based renewable energy; and a
- Forestry scheme to support the sustainable development of commercial and private forestry.

Progress of dossier in EU Institutions

This section will be updated as the negotiations take place in Brussels.

Trilogue Negotiations

Both the European Parliament and the Council of Ministers have adopted their respective negotiation positions on the Commission's proposals. All three EU institutions, the Parliament, the Council and the Commission have entered into trilogue negotiations to reach a final agreement on the regulations. To date 12 trilateral meetings have been held between the institutions to negotiate on the proposals with a further 20 scheduled before the end of the Irish Presidency in June 2013.A summary of the most contentious issues that will need to be agreed are outlined below.

Distribution of direct payments

Both the Parliament and the Council support a more gradual transition from historic to area based payments. However, while the Parliament and the Commission support the inclusion of an end date for the transition to be made, the Council has supported proposals to allow Member States to decide on their own timeframe.

Greening of direct payments

Both the Council and the Parliament have supported similar amendments to the three greening requirements originally proposed by the Commission. However, while the Council believe that farmers in existing agri-environment scheme should automatically receive greening payments both the Parliament and Commission have opposed any amendment that could lead to the double funding of greening measures.

Young Farmers and Small Farmers Scheme

The Parliament and the Commission believe that these schemes should be mandatory for Member States but the Council wants them to be voluntary.

Active Farmer

Whilst the Council and the Parliament agree that the Commission's proposed definition of active farmer is overly complex and that some version of a negative list should be used there is disagreement as to whether it should be compulsory for Member States to apply this definition.

Market Intervention

The Council has supported the Commission's view that in general market intervention mechanisms should be limited to specific sectors and the CAP should become more market orientated. The Parliament has supported amendments that would expand and strengthen the Commission's proposals for market intervention.

Rural Development

The key area for contention within the rural development regulation relates to Areas of Natural Constraint (ANC). The ANC definition is set to replace the Less Favoured Area (LFA) definition used under the current CAP regulations. The European Parliament has called for the application of this new definition to be delayed while the Council supports the Commission's view that it should be adopted when the new regulations come into force but would like to see it amended.

Further information

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