

EU Policy Update (EU2013.04): Reform of Common Agricultural Policy (CAP)

Updated: October 2013

Introduction

A political agreement on the reform of the Common Agricultural Policy (CAP) was reached between the EU institutions in June 2013. This followed an intensive negotiation process which took place over forty negotiation sessions.

Although agreement was reached between the institutions on a majority of the CAP reform package some key clauses were not agreed until a further trilogue on 24 September 2013.¹

Transitional Measures

As set out in previous versions of this update delays in the negotiations process mean that the new CAP will now not come into force until January 2015. The European Commission have therefore proposed transitional measures for 2014 which are currently being debated by both the Council of Ministers and the European Parliament.²

Budget

The budget for pillar one direct payments has been set at €277.8 billion for the period 2014-2020 this is a cut of 11 per cent as compared to 2007-13. The budget for Pillar 2 rural development programmes will be €84.9 billion for the period 2014-2020; this is a cut of 12 per cent compared to 2007-13.

¹ European Commission Press Release, *Reform of the CAP: political agreement reached on last remaining points*, 24 September 2013 [accessed 25 September 2013]

² COM 2013(0226) [accessed 25 September 2013]

The UK allocations of the budget have not yet been finally confirmed but is expected to be €17.8³ billion for pillar one direct payments for 2014-2020 and €1.84 billion for pillar two rural development programmes.⁴ Discussions are currently on-going on the division of the UK allocation between Wales, England, Northern Ireland and Scotland.

Regional Implementation

The UK Government and devolved administrations were able to secure an amendment that will allow for regional governments within Member States to take their own approach to implementation of the CAP. Where the term Member State appears in this note this also covers “regional” governments (including the Welsh Government). They will have the power to decide for themselves what they wish to do.

Summary of Main CAP Reforms Agreed

Direct Payments

A significant amount of flexibility has been provided to Member States within the agreed regulation to decide upon how they will implement these requirements within their territories.

- **Convergence between Member States:** Member States who currently receive below 90 per cent of the EU average will move towards an increase in their CAP budget by one third of a difference between their current rate and 90 per cent of the EU average. This will take place between 2015 and 2020. Member States will be guaranteed to receive a minimum level by 2019.

³ Defra, *CAP Reform in England Status report on direct payments*, August 2013 [accessed 27 September 2013]

⁴ Defra, *CAP Reform in England: Status Report on the new Rural Development Programme*, August 2013 [accessed 27 September 2013]

- **Basic Farm Payment:** All Member States will be required to move towards the distribution of payments on an area basis. By 2019 all farmers within a Member State will receive a minimum of 60 per cent of the average basic farm payment for their Member State. Member States currently using a historic payment method will decide the pace at which they wish to complete move towards area based payments.

As the move from one payment method to another will cause the redistribution of payments between farms Member States can opt to limit the losses of any individual farm to 30 per cent.

- **Greening:** 30 per cent of the pillar one budget will be distributed on the basis of farmers complying with three greening requirements where applicable.
- **Crop Diversification:** Farmers with between 15 and 30 hectares (ha) of arable land will be required to grow at least two crops with no crop constituting more than 75 per cent of the total area. Farmers with more than 30 ha of arable land must grow three crops with no one crop constituting more than 75 per cent of the total area and the two main crops together not more than 95 per cent.
- **Permanent Grassland or Pasture:** No more than 5 per cent of permanent pasture or grassland will be allowed to be converted. Member States can decide whether this requirement will apply at a national or farm level.
- **Ecological Focus Areas:** Farmers with more than 15 ha of arable land will be required to dedicate 5 per cent of their farmland in 2015 to the creation of ecological focus areas. This could rise to 7 per cent by 2017 depending on the outcome of a review into their effectiveness. Field margins, hedges, woodland, fallow land, landscape features, buffers strips and ponds can be counted as Ecological Focus Areas.

- **Certified organic farmers** will automatically receive the payment. Member States can opt to allow farmers in existing agri-environment schemes to receive the greening payment automatically. They must however ensure the requirements of the scheme deliver environmental benefits over and above those delivered by greening. **No double funding of actions via greening payments** and existing agri-environment schemes will be allowed.
- **Young Farmers Scheme:** A top-up scheme for young farmers will be compulsory for all Member States. Two per cent of the national pillar one budget will have to be spent on this measure. Farmers under the age of 40 receiving the payment for the first time will be eligible for a top-up on 25 per cent of their payment for the first five years (or until they turn 40) up to a maximum of 90 ha.
- **Small Farmers Scheme:** Member States can choose to introduce a small farmers scheme for farmers who receive up to €1,250 a year. Participants in this scheme will be exempt from the greening and cross compliance requirements. Up to 10 per cent of the national budget can be spent on this measure.
- **Active Farmer:** The EU institutions have agreed that only those farmers defined as 'active' will be eligible to receive direct payments under the CAP. An EU wide list of businesses ineligible to receive payments has been agreed. This includes airports, railway services, water works, real estate and sports grounds. Member States can opt to add businesses to this list.
- **First Hectares Top-up:** Member States or Regions will be able to opt to use up to 30 per cent of their national budget to provide a top-up on the first 30 hectares of all farms. Payments per hectare can be any amount up to 65 per cent of the national average payment per hectare.

■ **Capping of Payments and ‘Degressivity’:**

Excluding greening payments, sums of more than €150,000 paid to individual farm businesses will be reduced by 5 per cent. Member States may allow for salary costs to be deducted before the total amount a farm receives is calculated. For example if a holding received €170,000 but its salary costs were €25,000 a Member State could opt not to impose the 5 per cent reduction. Any amounts deducted via this mechanism must be spent on rural development measures.

An exemption is provided for Member States who use the option to issue first hectares top-up.

■ **Areas of Natural Constraint (Less Favoured Areas):** Member States can opt to use up to 5 per cent of their payments to make additional payments to farmers in Areas of Natural Constraint (ANCs). Provision for ANCs is also included in the Rural Development Regulation.

■ **Transfer of Funds between Pillars:** Member States will be able to transfer up to 15 per cent of their pillar one budget for direct payments to pillar two for rural development. Member States will not be required to co-finance any amounts transferred. All Member States will also have an option to transfer up to 15 per cent of their national envelope from pillar two to pillar one and Member States currently receiving less than 90 per cent of the EU average can transfer up to 25 per cent from pillar two to pillar one.

Rural Development Regulation

Member States will be required to develop new rural development plans on the basis of six priorities. They are:

- Knowledge and innovation;
- Competitiveness of rural areas;
- Developing food chains and risk management;
- Protecting ecosystems;
- Resource efficiency and addressing social exclusion; and
- Poverty and economic development.

Provision can be made within the plans to provide support for Areas of Natural Constraint (formerly Less Favoured Areas). Areas of Natural Constraint will be defined according to eight bio-physical criteria and at least 60 per cent of a farm’s area will have to meet one of these criteria to be included within the definition. Member States must introduce this new definition by 2018 but can choose to introduce it sooner.

At least 30 per cent of pillar two budgets will have to be spent on a combination of agri-environment, climate, forestry, protected sites or areas of natural constraint measures.

Horizontal Regulation

This regulation contains the provision which set out the requirements for the management and administration of CAP funds by Member States.

Cross-compliance measures are included within this regulation and will apply to all direct payments, certain rural development payments and certain vine payments.

This regulation also includes the provisions in relation to the penalties that farmers will face for failing to comply with greening requirements. In addition to losing the 30 per cent greening payment, farmers could be fined 6 per cent of their basic payment rising to 7.5 per cent in 2018.

Relevance to Wales

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

- approximately **€370 million per annum** going to farmers as single farm payment under Pillar 1 of CAP; and
- approximately **€340 million for the period 2007-2013 under Pillar 2 of CAP** for the Rural Development Plan for Wales.

As indicated in the introductory section the budget available to Wales in 2014-2020 will be less than has been available previously due to the reduction in the overall EU-wide budget for CAP.

Welsh Government Position

In July 2013 the Welsh Government issued a consultation document which outlined the Minister for Natural Resources and Food's intentions for the implementation of pillar one direct payments in Wales.⁵

The Minister has outlined his preference for a move towards a two category land area system for the distribution of direct payments in Wales by 2019. The Minister has stated that he is not inclined to limit the losses experienced by individual farm business due to the transition to area payments to 30 per cent and doesn't intend to offer a top-up payment on the first hectares of a farm.

The Welsh Government's current preference is to implement the three greening options as set out in the regulation without the use of any equivalence options.

The Welsh Government is not minded to introduce a small farmers scheme, a less favoured areas scheme under pillar 1, coupled support nor to add to the list of business deemed ineligible for direct payments.

⁵ Welsh Government, *The CAP Reform: Welsh Government proposals for direct payments for farmers*, July 2013 [accessed 25 September 2013]

In relation to the transfer of funds between pillar one and pillar two the Minister has stated that he will wait for confirmation of the Welsh allocation before reaching a final decision.

On Rural Development the Welsh Government published a consultation outlining proposals for the next RDP (2014-2020) in January 2013.⁶ 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 and knowledge transfer;
- On-farm and community based renewable energy; and a
- Forestry scheme to support the sustainable development of commercial and private forestry.

UK Government Position

The UK Secretary of State, Owen Patterson, has stated that the outcome of the negotiations on the reform are 'acceptable' but that more could have been done to reform the CAP.⁷ The Secretary of State has outlined his belief that the proposals agreed are better than those originally tabled by the European Commission.

The UK Government has issued update documents setting out its initial views and options being considered for the implementation of the reforms in England. Its direct payment paper can be found [here](#) and its rural development paper [here](#).

In general the UK Government has stated that it will use the flexibility available to it to implement the proposals in England in a simple, effective and affordable way.

⁶ Welsh Government, *Rural Development Plan 2014-2020: The next steps*, January 2013 [accessed 25 September 2013]

⁷ GOV.UK, Policy: *Reforming the Common Agricultural Policy to ensure a fair deal for farmers, consumers and tax payers*, updated on 12 August 2013, [accessed 24 September 2013]

Devolved Administration Response

The Cabinet Secretary for Rural Affairs and the Environment in the Scottish Government, Richard Lochhead MSP has welcomed the agreement.⁸ He has stated that the new CAP would be better and fairer, although it would continue to be complex.

The Scottish Government has argued strongly for Scotland to receive an increased proportion of the UK's CAP budget. The Scottish Government does not intend to hold a full consultation on the implementation of the CAP until autumn 2014.

Michelle O'Neill the Minister for Agricultural and Rural Development in Northern Ireland has welcomed the outcome of the negotiations and the agreement to allow regional implementation.⁹ The Minister has stated that she is pleased that greater flexibility has been provided on the transition to area payments and the introduction of greening requirements.

A consultation on the Northern Ireland Executive's proposals for its next rural development plan has been launched.¹⁰

⁸ Scottish Government Press Release, *CAP deal sealed*, 26 June 2013 [accessed 25 September 2013]

⁹ Northern Ireland Executive Press Release, *CAP Reform Deal Struck in Luxembourg*, 26 June 2013 [accessed 25 September 2013]

¹⁰ Northern Ireland Executive, *Consultation on the Rural Development Programme 2014-2020*, July 2013 [accessed 25 September 2013]

Progress of dossiers in EU institutions

A political agreement which resolved all outstanding issues on the CAP reform proposals was reached on 24 September 2013. Formal adoption of the regulations by the Parliament is expected to take place in November 2013 and the Council in December 2013.

In relation to the transitional measures the European Parliament's Agriculture Committee is adopted its position on 30 September. This position will be confirmed by the European Parliament by a full vote in plenary. This vote is expected to take place in November 2013.

Discussions on the transitional measures within the Council are on-going.

Further information

For further information on the **CAP Reform process** please contact **Nia Seaton** (Nia.Seaton@wales.gov.uk)