

**BRIEFING NOTE ON CAP REFORM
YORKSHIRE & HUMBER RURAL AFFAIRS FORUM
8TH SEPTEMBER 2003**

This briefing note has been prepared to aid discussion at the Rural Affairs Forum meeting on 8th September. It is structured as follows:

- A synopsis of the EU agreement reached on 26th June 2003.
- Confirmation of the decisions that have already been made by Defra Ministers.
- A short summary of the main issues Defra are currently consulting upon. The Defra consultation paper will be discussed in more detail at the YHRAF meeting.

A. The EU CAP Reform Agreement – 26th June 2003

On the 26th June the EU Agriculture Council agreed a deal for the reform of the Common Agricultural Policy (CAP). The deal represents a real shift in EU agricultural policy and will form the basis of the EU's negotiating position at the World Trade Organisation (WTO) talks due to be held this month (September) at Cancun, Mexico. The main points of the deal are:

1. The Single Payment Scheme – 'Decoupling'

- In principle all major farm **subsidies** will be replaced by a **single farm payment (SFP)**.
- This will greatly simplify the CAP and **breaks the link (decoupling) between subsidies and production.**
- The SFP will be **introduced in 2005** but can be deferred until 2007.
- The single payment will be **based on historic direct payment receipts** for the period 2000-2002.
- For farmers who took up occupation of land during this period or up to 31/05/03 special provisions have been established with funds held in a **national reserve** established by a levy.
- Payments will be based on land use (2001-2002) but **transferable by sale separate** from the land.

NB. This last point is contentious and has received widespread criticism. Many organisations believe that applications to the National Reserve will take time to resolve and will sow discord in Landlord - Tenant relations. Instead they believe that payments should be linked to land rather than the producer.

- The deal allows a number of **options**, which may be taken up by member states concerned at the prospect of land abandonment or trade distortion. The options are:
 - Maintain arable area aid payments at up to 25% **or** Durum payments at up to 40%.
 - Maintain coupled sheep premia at up to 50%.
 - Maintain suckler cow premium at up to 100% **or** beef slaughter premium at up to 40%.
 - Maintain beef slaughter premium at up to 100% **or** maintain the special male premium at up to 75%.
 - Member states can make **additional payments** at national or regional level to encourage certain types of farming which are important for the **protection or enhancement of the environment**. States can top-slice up to 10% of their overall national aid entitlement into a **national envelope**.
- Member states can pay the SFP at a flat-rate regional level and also separate aid rates in each region for arable and permanent pasture land.
- The **benefits** of full decoupling are:
 - Free farmers from complying with subsidy rules and allow them to **gear production to the market**.
 - It will **cut over-production** of subsidised food, which will help farmers in the poorest countries.
 - **Reduce the incentive** to intensify production and damage top the environment.
 - Will put the EU in **stronger negotiating position** at the WTO talks.

2. Cross Compliance

- Farmers receiving CAP payments will have to **comply with EU standards** covering the environment, public and animal health, and animal welfare.
- **Farmland** will have to be maintained in **good agricultural and environmental condition**.
- Member states will **inspect** a sample of farms every year to ensure standards are adhered to.

3. Modulation

- There will be a **reduction (known as modulation) in direct payments** (so called Pillar 1) with transfers to Rural Development expenditure (Pillar 2).
- For countries other than the UK – which already operates voluntary modulation – the modulation rate will be 3% in 2005, 4% in 2006 and 5% from 2007 onwards.

NB. The UK will be allowed to modulate at 4.5% for 2005 and 2006 as previously proposed, to enable funding of planned expenditure for the England Rural Development Programme. Defra may modulate further to a higher level than the EU agreement to cover future expenditure on the ‘Strategy for Sustainable Farming & Food’ proposals including the Entry Level Scheme.

- **Modulated receipts will be collected by the EC and redistributed to member states on a criteria basis.**
- Member states are **guaranteed** to get back a **minimum of 80%** of modulated funds (90% in Germany).
- The first **€5,000** of direct payments received will be **exempt** from modulation.
- The **€5,000** exemption favours countries with a high percentage of small farms and leads to a net flow of money away from member states like UK, France & Germany. The **UK** will pay in about 13.8% (of total EU modulated funds) and get back **11%** (the EC proposals announced in January 2003 would only have meant a UK return of 9.8%).

NB. The UK will receive nearly 3 times as much funding for Rural Development when compared to current resources (2000 – 2006).

4. Financial Discipline

- The original European Commission proposals put in place measures to further reduce direct payments by a process known as **degressivity** and would have disadvantaged UK farmers more than most member states. **This will no longer happen.**
- Instead, there will be a mechanism to reduce direct payments to fund policy changes and restrain expenditure within agreed limits.
- The mechanism will not apply until 2007 and **only** if CAP expenditure is within €300 m of the agreed ceiling.

5. Farm Advisory Service

- By 2007 all member states will be required to establish a farm advisory service to help farmers meet their cross-compliance obligations.
- It is not yet known how the UK will implement this aspect of the agreement.

6. Set-aside and Land Use

NB. In order to qualify for EU arable aid payments, most farmers have had to ‘set-aside’ some of their land. The compulsory rate is currently 10%.

- Set-aside is maintained at the amount in compulsory set-aside during **2000-2002 (10%)**.
- Set-aside land must be farmed in accordance with the **cross-compliance rules**.
- Set-aside land **cannot be used** for permanent crops **except energy crops**, nor for growing fresh fruit and vegetables.
- There is some **flexibility** to allow ways, which deliver environmental objectives (e.g. 5m wide conservation field margins will be allowed to count towards set-aside).

7. Milk

- **Reductions** in support prices for butter at 25% over 4 years and 15% for skimmed milk powder over 3 years.
- **Quota** (the amount of milk that dairy farmers are allowed to produce) increases agreed in Agenda 2000 have been **deferred** 1 year (2005 to 2006).
- As previously agreed the quota regime will be maintained until **2014**.

8. Rural Development Regulation

- Proposed additions to the RDR (how Pillar 2 can be spent) are **optional**. UK may want to examine the option of animal welfare payments and payments to local groups setting rural development strategies.
- The overall % of **EU co-financing** has been **increased**. To draw down €3 of EU funding member states will only need to contribute €2.

NB. Defra are checking that this only applies to new modulation funding. Proposed ERDP expenditure assumes match funding of €1 European to €1 National.

9. Other Proposals

- There are a number of other detailed proposals for cereals, Durum wheat, protein crops, rice, nuts, energy crops (€45/ha except on set-aside land), starch, dried fodder and drying aid (applicable to crops grown for fibre).
- Of importance to the Y&H region there are **currently no proposals** in the CAP reform text to reform the **sugar** regime.

B. Decisions Already Made by Defra Ministers

Defra Ministers have already taken the necessary strategic decisions on three major points:

- The Single Farm Payment will be made on a **regionalised basis**, namely the Agricultural Departments in England, Scotland, Wales and Northern Ireland will make their own arrangements.
- The Single Farm Payment will be introduced in the UK from **1st January 2005**.
- The **options** to reduce the extent of decoupling in the livestock and arable sectors (listed at A. 1. above) in England **will not be taken up**.

C. Defra Consultation Issues

The various CAP agreement issues that Defra are currently consulting stakeholders on, will be discussed in more detail at the 8th September meeting. In summary they are:

- In England should the Single Farm Payments be made on a **flat rate regional basis** rather than on historical entitlement basis?
- Should direct payments on **seeds** be decoupled?
- Should the **decoupling of dairy premia** be brought forward to 2005 (as opposed to remaining linked to quotas until reform of the dairy sector is completed)?
- How should Defra introduce the **national envelope**?
- Should the options for the management of **set-aside land**, in particular the option for allowing 5m wide conservation field margins be taken up?
- Should Defra take up the new options added to the **Rural Development Regulation**?

David Shaw
GOYH Rural Team
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