

The prospects for CAP reform after 2013



Full version

12th October 2011

CAP reform post 2013 – a summary of the Commission proposals

On 12th October 2011, Dacian Cioloș Commissioner for Agriculture and Rural Development, launched his legislative proposals at a meeting in the European Parliament ¹. In his speech, he called it “a new partnership between Europe and farmers”.

As the Commission’s explanatory paper ² puts it, ‘Agriculture is at a crossroads... a common theme is emerging: sustainability is at the core of solutions... the overarching objective for the future CAP should be sustainable competitiveness to achieve an economically viable food production sector, in tandem with sustainable management... The future CAP ... is of strategic importance for food security and safety, the environment, climate change and territorial balance’.

The Commission set out its broad thinking on the form of the Common Agricultural Policy (CAP) for the next framework period (2014 – 2020) in November 2010 ³. The detailed legislative proposals now published are very similar to the leaks which have been circulating in Brussels since mid-August, with few apparent changes in response to either lobbying or inter-service consultation.

The **Eurinco** analysis (see *below*) remains largely unchanged. They are, as the NFU and CLA have said in their joint response, a missed opportunity. But they contain some potentially damaging for British agriculture, particularly on larger farms.

Footnotes: detail and sources

¹ See European Parliament press release:
<http://www.europarl.europa.eu/en/pressroom/content/20111010IPR28832/html/EU-farm-policy-after-2013-Commission-proposals-welcomed-with-reservations>

² Impact assessment, a staff working paper accompanying all five proposed new Regulations.

The draft legislation includes proposals for a Regulation establishing rules for direct payments to farmers under support schemes and establishing a common organisation of the markets in agricultural products (the Single CMO Regulation);

A Regulation on support for rural development by the European Agricultural Fund for Rural Development (EAFRD); and

A regulation on the financing, management and monitoring of the common agricultural policy a Council Regulation on fixing certain aids and refunds related to the common organisation of the markets in agricultural products.

See http://ec.europa.eu/agriculture/analysis/perspec/cap-2020/impact-assessment/summary_en.pdf

³ Communication on “The CAP towards 2020”, published 18th November 2010.

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Extracts from the draft regulations published by the Commission, 12th October '11:

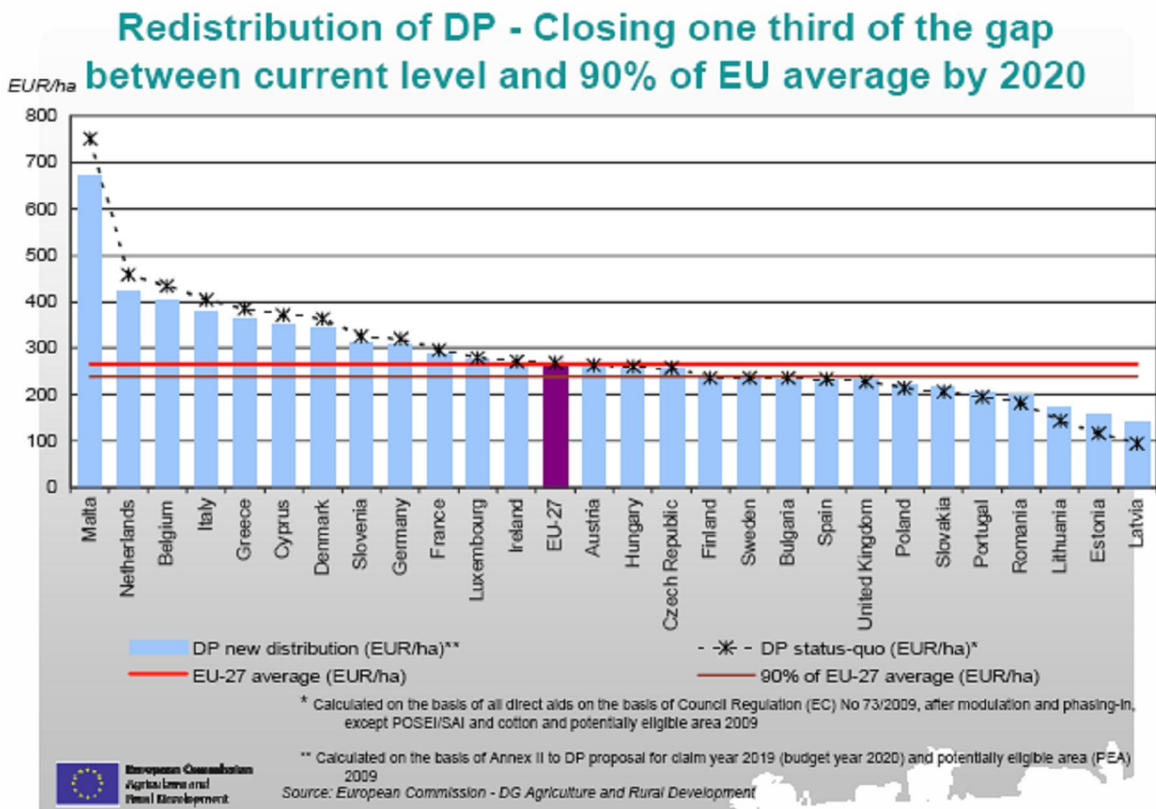
Proposal 1 – the Basic payment scheme

(‘rules for direct payments to farmers under support schemes’⁴)

A single scheme across the EU, the **basic payment scheme**, is to replace the Single Payment Scheme (SPS) and the Single Area Payment Scheme as from 2014; payment entitlements are to be allocated at national or regional level to all farmers according to their eligible hectares in the first year of application.

This means existing entitlements will have to be re-established, and the SPS or single farm payment formally replaced.

The value of entitlements should ‘converge at national or regional level towards a uniform value’. That is the gap between rates of payment in different member states will be narrowed slightly, but not closed until at least 2019. The level of convergence has been limited to 1 / 3 of the difference between current payments and 90% of the EU average during the period.



⁴ http://ec.europa.eu/agriculture/cap-post-2013/legal-proposals/proposal1_en.pdf

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Greening of direct payments:

The proposals set out 'agricultural practices beneficial to the climate and the environment that all farmers will have to follow, which go beyond cross compliance and are in turn the basis for pillar II measures'⁵.

The Basic payment will be supplemented by **additional payments**:

- A 'green payment' (taking up 30% of annual national ceiling) for farmers following agricultural practices beneficial for the climate and the environment: in particular, **crop diversification** (Article 30⁶), maintenance of **permanent pastures** and **ecological focus areas** (Article 32⁷ - effectively the restoration of set-aside) These measures may effectively become compulsory in order to qualify for the basic payment. Organic farming automatically benefits from this additional green payment;
- a voluntary payment (up to 5% of annual national ceiling) for **farmers in areas facing specific natural constraints**; this payment recognizes the need for income support to maintain farming presence in areas facing specific natural constraints, and complements existing support under rural development;
- a payment (up to 2% of annual national ceiling) for **young farmer installation**, which may be complemented by 'setting up aid' under rural development; and
- a **simplified scheme for small farmers** (up to 10% of annual national ceiling), who may receive a lump sum payment replacing all direct payments, so as to simplify administrative simplification, with reduced obligations related to greening, cross compliance and controls.

A voluntary '**coupled support scheme**' is available for specific types of farming or specific agricultural systems which are particularly important for economic and/or social reasons, with support provided to the extent necessary to maintain current levels of production (up to 5% of annual national in most cases).

Complementary 'National Direct Payments' are provided for Bulgaria and Romania, to include a specific payment for cotton.

⁵ While on the face of it the introduction of greening measures going beyond cross-compliance would seem bound to lead to additional complexity, the Commission argues that this will be offset by reduction and better streamlining of the obligations (13 SMRs instead of 18 and 8 GAEC instead of 15), follow-up checks to minor infringements repealed; and provisions for farmers using certification systems to be subject to fewer controls.

⁶ Article 30 'Crop diversification':
Where the arable land of the farmer covers more than 3 hectares ..., cultivation on the arable land shall consist of at least three different crops. None of those three crops shall cover less than 5 % of the arable land and the main one shall not exceed 70 % of the arable land.

⁷ Article 32 – Ecological focus areas:
Farmers shall ensure that at least 7 % of their eligible hectares as defined ... excluding areas under permanent grassland, is ecological focus area such as land left fallow, terraces, landscape features, buffer strips and afforested areas.

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The effect of the supplementary and green payments:

As the NFU has pointed out, basic direct payments received by farmers could end up at around half their current levels⁸. This is because the overall UK 'ceiling' of payments will remain largely unchanged after 2014.

However, 30 per cent of the direct payment budget under the proposals will be linked to 'greening' measures, and some of the remaining funds will be allocated to schemes for young farmers, small farmers and areas of natural constraint, as well as rural development measures under Pillar Two.

Active farmers, and reduction and capping of support:

The European Parliament Agriculture Committee has supported the Commission's suggestion that there should be a ceiling on direct payments per farmer, adjusted to take account of the size of the farm, the number of employees and the extent of environmental protection measures being adopted. The report suggests they would favour a gradual reduction in payments above a certain level rather than an absolute cap.

The proposals include 'progressive reduction and **capping of support** for large beneficiaries - while taking due account of employment (levels)'⁹.

The committee also supported the call for direct payments to be reserved for "active farmers", i.e. those who use land for production. The report presses the Commission to provide a clear definition.

The definition of '**active farmer**' ie those 'genuinely engaged in agricultural activities' to whom payments would in future be confined is set out at Article 9¹⁰.

⁸ **NFU view:** <http://www.farmersguardian.com/home/business/cap-payments-could-be-slashed-warns-nfu/42176.article>

⁹ **Article 11 - Progressive reduction and capping of the payment**

1. The amount of direct payments to be granted to a farmer under this Regulation in a given calendar year shall be reduced as follows:
 - by 20 % for the tranche of more than EUR 150 000 and up to EUR 200 000;
 - by 40 % for the tranche of more than EUR 200 000 and up to EUR 250 000;
 - by 70 % for the tranche of more than EUR 250 000 and up to EUR 300 000; and
 - by 100 % for the tranche of more than EUR 300 000.
2. The amount ... shall be calculated by subtracting the salaries effectively paid and declared by the farmer in the previous year, including taxes and social contributions related to employment, from the total amount of direct payments... without taking into account the payments to be granted pursuant to Chapter 2 of Title III of this Regulation (rural development).
3. Member States shall ensure that no payment is made to farmers for whom it is established that, as from the date of publication of the Commission proposal for this Regulation, they artificially created the conditions to avoid the effects of this Article.

'In order to make capping effective, Member States should establish some criteria in order to avoid abusive operations by farmers seeking to evade its effects. The proceeds of the reduction and capping of payments to large beneficiaries should remain in the Member States where they were generated and should be used for financing projects with a contribution to innovation and on support for rural development' (Preamble, para 15).

¹⁰ Article 9 "Active Farmer"

No direct payments shall be granted to natural or legal persons, or to groups of natural or legal persons, where one of the following applies:

- (a) the annual amount of direct payments is less than 5 % of the total receipts they obtained from non-agricultural activities in the most recent fiscal year; or
- (b) their agricultural areas are mainly areas naturally kept in a state suitable for grazing or cultivation and they do not carry out on those areas the minimum activity established by Member States in accordance with Article 4(1)(c).

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Budgetary implications:

It is proposed that the CAP should focus on its core activities, with EUR 317.2 billion allocated to Pillar I and EUR 101.2 billion (24.1%) to Pillar II over the 2014-2020 period. To this will be added funding of EUR 17.1 billion, including EUR 5.1 billion for research and innovation and EUR 2.5 billion for food safety.

- [Commission proposals on Multi-Annual Financial Framework for 2014-2020 to maintain CAP spending at 2013 levels in nominal terms](#)

<i>in billion EUR</i>	<i>Current prices</i>
- Pillar I - Direct payments and market-related expenditure	317.2
- Pillar II - Rural development	101.2
Total Pillar I and II	418.4
- Food safety	2.5
- Most deprived persons	2.8
- Reserve for crises in the agricultural sector	3.9
- European Globalisation Fund	Up to 2.8
- Research and innovation on food security, the bio-economy and sustainable agriculture	5.1
Total additional amounts	Up to 17.1
Total proposed amounts for the period 2014-2020	Up to 435.5

Source: Commission Communication 'A budget for Europe 2020' – COM(2011) 500 final, part II.

Rural development payments:

The distribution of rural development support is to be based on 'objective criteria linked to the policy objectives' – but taking into account the current distribution, and with less developed regions continuing to benefit from higher co-financing rates. It is not clear in advance of the negotiations to what extent UK might, if it wishes, secure a more proportionate share of rural development support under this provision.

Some flexibility for transfers between pillars is introduced – of up to 5% of direct payments from Pillar I to Pillar II to allow Member States to reinforce their rural development policy ¹¹, and also from Pillar II to Pillar I for those Member States where the level of direct payments remains below 90% of the EU average.

It is proposed that all Member States with direct payments below 90% of the EU average will see one third of this gap closed.

¹¹ This level could be as high as 10% in some cases. Similar provisions exist under Article 68 of the current Regulation, though this has not been taken up in England, and the uses to which such funds could be applied are now more restricted and coupled to production in the sectors concerned.

Commission proposal 2:

Regulation on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) ¹²:

Overview:

The list of individual rural development measures has been streamlined and individual measures have been reviewed, with a number of adjustments introduced in the current period. With most of the measures potentially serving more than one objective or priority, it is no longer deemed appropriate to group them into axes; it is felt that programming on the basis of priorities should ensure balanced programmes.

Rural development policy will retain the strategic objectives of contributing to the competitiveness of agriculture, the sustainable management of natural resources and climate action and the balanced territorial development of rural areas, in line with the Europe 2020 strategy ¹³.

Rural development objectives:

These broad objectives of rural development support for 2014-2020 are expressed in terms of **six EU-wide priorities**:

1. fostering **knowledge transfer and innovation** in agriculture, forestry and rural areas;
2. enhancing **competitiveness** of all types of agriculture and enhancing farm viability;
3. promoting **food chain organisation** and **risk management** in agriculture;
4. restoring, preserving and **enhancing ecosystems** dependent on agriculture and forestry;
5. promoting **resource efficiency** and supporting the shift towards a low-carbon and climate-resilient economy in the agriculture, food and forestry sectors; and
6. promoting social inclusion, poverty reduction and economic development in rural areas.

These priorities ¹⁴ should now be the basis of programming in the member states.

¹² See http://ec.europa.eu/agriculture/cap-post-2013/legal-proposals/proposal3_en.pdf for draft Rural Development Regulation. This would replace Regulation (EC) No 1698/2005.

¹³ See Articles 4 and 5 of the draft Regulation. Rural development policy should also integrate the major policy objectives spelled out in the Communication from the Commission of 3 March 2010 "Europe 2020 - A strategy for smart, sustainable and inclusive growth" (COM(2010) 2020 final, referred to as the "Europe 2020 Strategy").

¹⁴ As set out on page 7 of the draft Regulation, as well as Article 4 and 5. All of the priorities should contribute to the cross-cutting objectives of innovation, environment and climate change mitigation and adaptation.

Training and information for small businesses:

There should be greater focus in all RD programmes on the challenges faced by SMEs (small and medium enterprises) in rural areas, with provision of technical and economic training and diffusion of best agricultural and forestry production practices.

This should take the form not only of traditional training courses but also workshops, coaching, demonstration activities, even short-term farm exchange or visit schemes ¹⁵.

There is provision also for aid to establish **Producer Groups**, akin to those established under the Fruit and Vegetable regime ¹⁶. Support should be offered to small operators to organise joint working arrangements and share resources, including by horizontal and vertical co-operation in the supply chain, local markets and local food chains ¹⁷.

Rural Development programmes should also include a range of support for village services, including fast rural broadband ¹⁸ and support for sustainable forestry ¹⁹.

¹⁵ See preamble 14, draft Rural Development Regulation. These programmes should be designed to enhance farmers' competitiveness and resource efficiency, improve environmental performance and contribute to the sustainability of the rural economy.

Farm advisory services, as already provided for in the current Regulation, should go further than anything currently established in England, and help farmers to assess the performance of their agricultural holdings as well as identify necessary improvements as regards the statutory management requirements, good agricultural and environmental conditions, climate-friendly agricultural practices, climate change mitigation and adaptation, biodiversity, protection of water, and animal disease notification. Advice may also cover issues linked to the economic, agricultural and environmental performance of the holding and may include support for farm management and farm relief services.

The Commission may specify the minimum qualifications of the bodies providing advice.

A farm and business development measure should facilitate the initial establishment of young farmers and the structural adjustment of their holdings after initial setting up, diversification of farmers into non-agricultural activities and the setting up and development of non-agricultural SMEs in rural areas.

¹⁶ Preamble 27: the setting up of producer groups should be encouraged, though only SMEs should benefit from support. Business plans should be submitted as a condition for the recognition of a producer group, and aid should be limited to five years' duration. This may not be good news to those who have seen the way that established Pos have been de-recognised recently.

¹⁷ Preamble 36. In the current 2007-2013 programming period, the only type of co-operation explicitly supported under rural development policy is co-operation for the development of new products, processes and technologies. Support for this type of co-operation is to be retained, but projects by a single operator may also be financed under this measure in future, on condition that the results obtained are disseminated.

¹⁸ Support should be granted to operations with the aim of developing local infrastructure and basic services in rural areas, including leisure and culture, village renewal, and renewable energy infrastructure (Article 21). The aim should be to realise the growth potential and promote the sustainability of rural areas. This should include the access to Information and Communication Technologies and the development of fast and ultra-fast broadband. These services should be delivered in line with 'plans for rural communes', effectively neighbourhood plans as specified in the Localism Bill in England. See Preamble 24.

¹⁹ Preamble 25: 'Forestry is an integral part of rural development and support for sustainable and climate friendly land use should encompass forest area development and sustainable management of forests. A single measure should cover all types of support for forestry investments and management, including afforestation of land and creation of agro-forestry and investments in new forestry technologies and in the processing and marketing of forest products aimed at improving the economic and environmental performance of forests.'

Climate change:

Climate-friendly agricultural practices should be supported under the new Rural Development Regulation ²⁰, and a minimum of 25% of the total contribution from the EAFRD to each rural development programme should be devoted to **climate change mitigation and adaptation** and associated land management practices ²¹.

Pilot projects to test the commercial applicability of technologies and practices should be supported, and support given to establish 'operational groups' as a pivotal element in **European Innovation Partnerships** ("EIPs") to enhance agricultural productivity and sustainability. An EIP network should be set up in order to network operational groups, advisory services and researchers involved in actions targeting innovation in agriculture.

Future of LEADER:

Local development strategies will be encouraged, including outside the framework of **LEADER local development** strategies, and with partners from urban as well as rural areas. The LEADER programme should be continued, its application should remain compulsory for all rural development programmes, and to enable partners in rural areas not yet applying LEADER to prepare a local development strategy, a "LEADER start-up kit" should also be financed..

Risk Management:

Risk management measures should be supported, and should help farmers to cover the premiums they pay for crop, animal and plant insurance as well as the setting up of mutual funds to cover losses suffered due to outbreaks of animal or plant diseases. Programmes should cover **income stabilisation** tools, in the form of mutual funds to support farmers facing a severe drop in their income.

Innovation:

Funds released in Member States as a result of the application of the upper ceiling to direct payments received under the first pillar of the CAP should be used to fund projects related to **innovation**. These should be designed to help farms, including large farms, to increase their competitiveness. Projects should be

²⁰ Preamble 28: 'Agri-environment-climate payments' should play a prominent role and should encourage farmers and land managers to apply agricultural practices contributing to climate change mitigation and adaptation. As the introduction to the Regulation states, "Farmers, who are together with foresters the main land managers, will need to be supported in adopting and maintaining farming systems and practices that are particularly favourable to environmental and climate objectives because market prices do not reflect the provision of such public goods (p. 3).

²¹ Mitigation action should relate to limiting emissions in agriculture and forestry from key activities such as livestock production, fertilizer use and to preserving the carbon sinks and enhancing carbon sequestration with regard to land use, land use change and the forestry sector (Preamble 5). Member states will be required to show that support for climate change objectives is in line with the ambition to devote at least 20% of the Union budget to this end.

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initiated by farmers, EIP operational groups or local action groups²². Renewable energy investments should also be supported²³.

Eurinco summary of the position

Reactions to the report:

Defra Secretary of State Caroline Spelman said at the NFU AGM in February that the Ciolos approach to the future of CAP 'lacks ambition and falls far short of an answer to the Foresight challenge'. Jim Paice, speaking to RABI last month, said that the EU budget must be smaller, and that the CAP can't be immune to the hard choices being made elsewhere in the EU.

The UK assessment on the budgetary case for CAP reform is not widely shared in the European Parliament. Last month the Budgets committee endorsed a report which concluded that freezing future budgets at the 2013 level as demanded by UK and other Member States is "not a viable option". The committee called for an increase of at least 5% over the 2013 level for the next long-term budget, advocating new income sources and calling for an end to all rebates such as that of the UK.

In their joint response to these "unhelpful" proposals²⁴, the NFU and CLA, say they will do everything possible to improve them and remove some of the worst aspects; 'to avoid discrimination against English farmers, remove the excessive complexity in the current proposals and help farmers become more competitive.'

They have called for a fair allocation of the budget to the UK, in both pillars, so that there is no necessity subsequently to move money between the two pillars - in either direction. They want to see greening measures which can be easily administered and monitored.

In terms of competitiveness they would want the obligation to take up to seven per cent of a farm's area out of production significantly reduced.

Eurinco analysis:

The Commission has won the support of the Parliament to **green pillar 1**, rather than confining additional measures to pillar 2 as Albert Dess had initially proposed. Those who want to ensure this does not lead to additional conditions on single farm payments, with all the cost and complexity that would bring, need now to consider alternative methods of greening pillar 1.

One such option, as favoured by Albert Dess would be to make use of the 'national envelopes' of support for beneficial farming systems set out in **Article 69** of the current Regulation. These measures were originally designed as a means of using pillar 1 funds to meet UK conditions. However, the measures as amended

²² Preamble 55.

²³ Preamble 22.

²⁴ <http://www.nfuonline.com/News/CAP-reform-plans-a-missed-opportunity-/?email12>

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have not been implemented in England to date, and may now be lost unless Defra joins the fight to retain them.

The **redistribution of aid** between member states need not have a major impact on farmers in UK, as direct payment levels are not far from the EU average. There will, however, be a battle with the Scottish Nationalist government seeking to shift more of the budget North of the border, where payments are generally lower.

The proposals to **cap payments** have been around for a long time, and it is tempting to assume that UK, with support from Germany and some other governments, can see them off again. That would be a mistake: now that the ceiling has been supported by the Parliament, the momentum may be irresistible.

The proposal to limit payments to **'active farmers'** sounds innocuous, but it could have serious implications for landowners claiming agri-environment payments, even for direct payments to those whose land is farmed on a contractual basis unless they can prove they are actively involved in decision-making.

The Commission, like the European Parliament, has assumed that the **budget for agriculture** can be maintained at broadly current levels. The Dess report called for the agriculture budget to remain unchanged 'to enable farmers to meet the challenge of producing enough food while contributing to environmental protection'.

The report does not make much attempt to explain how direct payments, specifically decoupled from production so as to ensure they do not artificially increase it, can truly contribute to this objective. It is hard to avoid the conclusion that the term **'food security'** has effectively been used to justify a budget which some look for a reason to maintain unchanged.

The UK has called for the **EU budget** to be frozen, a position which has significant support from France and Germany and increasingly from other member states faced with pressure to reduce their budget deficits. The UK budget rebate will again be a distraction, but the battle to contain the budget is far from lost.

Even if the overall budget is maintained as the Commission has proposed, there will be pressure from the Budgets commissioner and others to reduce the **proportion of the budget spent on agriculture** from the current 40% to more like one third of the total. France, Poland and the Netherlands have also called for the CAP budget to be kept at its present level, while the UK and Sweden want to see significant cuts in farm spending.

Whatever the outcome on the EU budget negotiations, when **redistribution of the remaining budget** to the newer member states is taken into account, it is likely that budgetary restrictions could yet have a significant impact on the future of the CAP.

The Parliament has made it clear that it intends to use its new powers under the Lisbon Treaty to **steer the direction of CAP reform** post 2013. In practice, the position as set out by the latest Dess report is not in any case very different from that taken by the Commission last November.

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There is little difference now between the position of the European Parliament on the future of CAP and the Presidency compromise agreed by most members of the Farm Council in the spring.

Although it usually takes at least 18 months to reach a common position on legislation under the procedures which now apply, it seems likely that **political agreement may be reached quite quickly**, possibly even in time for the new system to come into effect in January 2014.

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References:

European Parliament press release (committee decision, 25th May):
<http://www.europarl.europa.eu/sides/getDoc.do?jsessionid=E5A66FE66D17995DBBA7FA75983E7782.node2?pubRef=-//EP//TEXT+IM-PRESS+20110523IPR19949+0+DOC+XML+V0//EN&language=EN>

"CAP: Setting the course for a successful agricultural policy" (Dess report):
<http://www.eppgroup.eu/press/showpr.asp?prcontroldoctypeid=1&prcontrolid=10364&prcontentid=17521&prcontentlg=en>

Scotsman: <http://business.scotsman.com/business/Welcome-for-Euro-parliament39s-backing.6775048.jp>

UK government position on the reforms (January '11):
<http://archive.defra.gov.uk/foodfarm/policy/capreform/documents/110128-uk-cap-response.pdf>

"Presidency conclusions on the communication from the Commission: The CAP towards 2020: meeting the food, natural resources and territorial challenges of the future":
http://consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/agricult/120009.pdf

Farm Council 30th and 31st May '11: <http://www.europolitics.info/cap-reform-principles-have-strong-support-art305637.html>

Welsh industry welcomes CAP changes" (Farmers' Guardian, 31st May):
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Jim Paice MP – speech to RABI (May '11):
<http://www.defra.gov.uk/news/2011/05/11/paice-speech-rabi/>

Cameron announces EU budget freeze pact (Dec '10): <http://www.bbc.co.uk/news/uk-politics-12017053>

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George Lyon MEP: <http://www.alde.eu/press/press-and-release-news/press-release/article/cap-reform-we-need-bold-reform-not-timid-status-quo-37424/>