CAP Reform 2014-2020: Reaching Agreement

Standard Note: SN 06693
Last updated: 14 August 2013
Author: Emma Downing
Section Science and Environment

The EU Council of Ministers, European Parliament and Commission came to a political agreement on the future rules for the Common Agricultural Policy (CAP) at the end of June 2013. This agreement follows two years of negotiation since the Commission published detailed reform proposals in 2011.

The new agreement includes: a new Basic Payment scheme which will represent 70% of a Member State's Direct Payments to farmers, a requirement to use 30% of their allocation to give a 'greening payment' to farmers for required farming practices supporting environmental improvements, and an end to sugar beet production quotas in 2017. Most Direct Payment (Pillar 1) reforms will come into play in January 2015 with 2014 acting as a transitional year.

The Government has said that the package agreed is an acceptable outcome for the UK but is not the genuine reform that it had been hoping for. However, the UK Government did secure a great deal of flexibility within the package for Member States to tailor their national approaches to their own particular needs. This should be a potential benefit for UK farmers but it means that implementation details are still being developed in-country and regionally and hence the exact impacts of the new arrangements for UK farmers are still not completely clear.

The National Farmers Union is concerned that the UK will use the considerable flexibility within the agreement to reduce Direct Payments to farmers and to "goldplate" the environmental requirements. Meanwhile, the greening element of the agreement has been criticised by some environmental organisations as a missed opportunity by not going far enough.

Some parts of the agreement are still under discussion as they were dependent on the overall agreement of the EU budget. Negotiations regarding transfers of funding between Pillars 1 and 2, external convergence and restrictions on the highest subsidies are now being overseen by the Lithuanian Presidency and are expected to be finalised in December 2013.

This note will be developed over the next few months to include emerging implementation details and stakeholder comment across the UK, as well as more statistical information.

Contents

1 CAP reform 2014-2020

1.1 Reaching political agreement

The EU Council of Ministers, European Parliament and Commission came to a political agreement on the future rules for the Common Agricultural Policy (CAP) at the end of June 2013 meeting the Irish Presidency's ambitious goals for a reform timetable.

This agreement follows two years of negotiation since the Commission first published its original reform proposals in 2011. House of Commons Library Standard Note 03680 *CAP reforms* (June 2012) analysed the initial proposals and stakeholder comment at that time.

The previous reform reduced direct subsidies for specific crops and increased rural development funding. In this reform, the Commission set out to move towards a more standardised direct payment scheme (subsidy) and away from the different approaches to the Single Farm Payment Scheme which allowed payment based on either historical references or area (by hectare) or a hybrid of the two.

The European Parliament had a co-decision role in CAP reform for the first time as a result of the Lisbon Treaty and more than 40 “trilogue” discussions took place between the Council, Commission and Parliament between April and June 2013.

The EU Council, Parliament and Commission negotiators reached a deal on most of the proposed reforms for the 2014-2020 CAP after a final trilogue meeting in Brussels on 27th June 2013.[1] This “political agreement” was then backed by most of the Parliament’s political groups.

Implementing rules for the reformed CAP will now need to be drawn up, while formal approval of the Parliament and Council on the legislative texts is also required. The package is due to be formally approved in autumn 2013.[2]

The agreement relates to four basic European Parliament and Council regulations for the CAP on:

- Direct Payments

[1] Updated: Most CAP reforms for 2014-2020 agreed, *Agra Europe*, 27 June 2013
[2] Letter from Rt Hon Owen Paterson MP, Secretary of State for Environment, Food and Rural Affairs to MPs and Peers, 4 July 2013

- The Single Common Market Mechanism
- Rural Development
- Horizontal Regulation for financing, managing and monitoring the CAP

Details of the progress of the particular regulations is charted in Library Standard Note SN 06554, *EU Bibliographies: Proposed reform of the Common Agricultural Policy* (May 20130).

Political agreement was reached on many of the controversial issues but some are still under discussion following European Parliament approval of the overall budget- the Multi-Annual Financial Framework (MMF) for 2014-2020. There was somewhat of a stale-mate between Ministers and the European Parliament as the former would not change the position agreed by their heads of government on the budget deal during the CAP negotiations. The Irish Presidency felt that Governments should have the final say on prices.

The MFF was agreed by heads of government in February 2013 but only approved by the European Parliament in July 2013 after talks with Member States (see section 2). A number of issues will now be dealt with separately within the negotiations on the Multi-Annual Financial Framework (MMF) for 2014-2020. These include:[3]

- Flexibility to transfer funds between Pillar 1 (Direct Payment) and Pillar 2 (Rural Development)
- Capping the largest subsidies
- External Convergence
- Transitional arrangements for 2014

Decisions on these outstanding CAP elements and implementing rules for the reforms are now being overseen by the Lithuanian Presidency. The discussions began on 1 July 2013 and will run until the end of December 2013.[4]

1.1 Key elements of the Agreement

Full details of the agreement have been provided in the Commission Press Release MEMO/13/621, CAP reform – *An Explanation of the main elements*, 26 June 2013. The key elements are highlighted below for easy reference and discussed in more detail in the rest of this note.

- **Direct Payments**
  - **The Basic Payment Scheme*:*** BPS - the main subsidy which will represent 70% of a Member State's Direct Payments.
  - **Internal Convergence**: Member States that currently have direct payment allocations based on historic references must move towards area payments per hectare. A range of options for achieving this are available.

[3] Europa Press Release MEMO/13/621, *CAP reform – an explanation of the main elements*, 26 June 2013
[4] EU budget approval clears path for 2014-2020 CAP reform resolution, *Agra Europe*, 9 July 2013, p.1

- **Greening**: In addition to the BPS, Member States will have to use 30% of their allocation to give each holding a payment per hectare for respecting certain agricultural practices beneficial for the climate and the environment.

- **Greening Equivalency:** A system is allowed where existing beneficial practices already in place, e.g. organic production or agri-environment schemes can be considered to replace the basic requirements for greening payments.

- **Young Farmers**: Encouragement for young farmers to set up business with an additional 25% top up for new entrants under 40 for the first 5 years in addition to the existing investment measures aimed at young famers.[5]

- **Small Farmers Scheme**: An option for Member States to use 10% of their allocation to provide additional annual payments for farmers in such a scheme.

- **Coupled option*:*** An option to provide limited amounts of payments linked to a specific product to address the potentially adverse effects of internal convergence for particular sectors. E.g. beef in Scotland)

- **Areas with Natural Constraints (ANCs)/Less Favoured Areas (LFAs):** Member States or regions may grant an additional payment, up to 5% of their allocation, for areas with specific natural constraints based on 8 biophysical criteria (as defined under Rural Development rules).

- **Financial Discipline:** Subject to MFF approval, it is proposed that if payment estimates are higher than the available budget for Pillar 1 annual direct payments will be reduced (above a threshold of the first EUR 2000 of each farmer's Direct Payments).

- **Active Farmers**: The agreement seeks to close existing legal loopholes to ensure that only those engaged in genuine farming activity receive Direct Payments. A new negative list of professional business activities.

- **Eligible Hectares**: It is intended that 2014 will be a new reference year for land area but there will be a link to beneficiaries of the 2013 direct payments system to avoid speculation.

- **Market Management Mechanisms**

    - End of the sugar quota regime on 30 September 2017

    - System of authorisations for new vine planting from 2016

    - Revision of current systems of public intervention and private storage aid to be more responsive and efficient

    - New safeguard clauses for all sectors and a EUR 400m crisis reserve to enable the Commission to respond to general market disturbances. This will be financed by

[5] Europa Press Release IP/13/613 *Political agreement on new direction for Common Agricultural Policy*, 26 June 2013

annually reducing direct payments. If funds are not used they will be returned to farmers in the following year.

- School Fruit Scheme and the School Milk Scheme to be extended

- Extension of the recognition of Producer Organisations (POs) and inter-branch organisations (professional organisations) to all sectors with the potential for farmers to collectively negotiate contracts for the sale of olive oil, beef, cereals and other arable crops as a result of specific regulations on competition law.

- Abolition of a number of minor or unused schemes e.g. aid for the use of skimmed milk and skimmed milk powder in animal feed and casein and coupled aid for silkworms.

- **Rural Development**

  - Member States will be required to spend at least 30% of their rural development funding from the EU budget on certain measures related to land management and the fight against climate change and at least 5% on the EU LEADER programme approach (Links between the Rural Economy and Development Actions).[6]

  - A more flexible approach allowing Member States/regions to decide which measures they use and how rather than having spending requirements in particular areas (per axis). Member States will continue to design their own multi-annual programmes on the basis of the menu of measures available at EU level in response to the needs of their own rural areas.

  - Targets will be set against six broad priorities (and their sub- priorities or "focus areas"):

    i) Fostering knowledge transfer and innovation

    ii) Enhancing competitiveness of all types of agriculture and the sustainable management of forests

    iii) Promoting food chain organisation including processing and marketing

    iv) Restoring, preserving and enhancing ecosystems

    v) Promoting resource efficiency and the transition to a low-carbon economy

    vi) Promoting social inclusion, poverty reduction and economic development in rural areas

  - A streamlined menu of potential measures that can be employed to achieve these priorities include: business start-up grants for young famers (up to EUR 70,000), small farms (EUR 15,000 per farm) and micro and small non-agricultural businesses, insurance and mutual funds e.g. for crop and weather insurance, agri-environment climate payments, investments in larger scale broadband infrastructure and strengthened support for forestry and organic farming.

---

[6] The LEADER programme is one of the four axis of the Rural Development Programme for 2007-2013.

- **Horizontal Regulation**

  This includes elements such as cross-compliance (the statutory criteria linked to all direct payments and certain rural development payments), monitoring and evaluation of the CAP and a wider range of issues on which Member States will have to offer advice to farmers.

- **Transitional arrangements**

  All new Regulations are expected to enter into force from 1 January 2014. However, this does not give Member States sufficient time to introduce a new direct payments system.

  The Commission is therefore proposing a transition year for Direct Payments in 2014 with most new elements of the Pillar 1 reforms such as Greening and the Young Farmers' top-up applying from January 2015.

1.2 Reactions to the emerging new CAP

The CAP agreement has so many elements and is applied to so many different farming communities across the European Union that it will never please everyone. On the whole, this reform seems to be viewed as quite conservative, complicated, and watered down with compromises -something for everyone. The EU agricultural bulletin, *Agra Europe* has observed that it does not continue in the vein of the Fisher reforms ten years ago which reduced direct subsidies for specific crops and increased rural development funding.

The publication comments:

> It preserves and reinforces all the essential elements of the existing CAP, not only halting the trend towards liberalisation which was beginning to take hold in the mid-2000s - but putting it, in some aspects, into reverse.

However, the agreement does continue to use the CAP to support good agri-environment practice and although not drastically moving away from subsidies, does seek to make them fairer across EU Member States and within national boundaries.

There is a great deal of flexibility within the agreement for Member States to tailor their national approaches to their particular needs. This work is still underway and hence the exact impacts of the new arrangements for UK farmers are still not completely clear. The House of Commons Environment, Food and Rural Affairs Committee launched a new inquiry in June 2013 exploring how the Government might implement the CAP reforms.[7]

European Policy makers

The Irish Agriculture Minister, Simon Coveney negotiated on behalf of governments under the Irish Council Presidency. He has described the final package as "very balanced" despite frictions and heated discussions between decision-makers.

EU Agriculture and Rural Development Commissioner, Dacian Ciolos has said that the agreement takes the CAP in a "new direction" and will lead to "far reaching changes, making

[7] House of Commons Environment, Food and Rural Affairs Committee Press Release, *New inquiry launched on CAP implementation 2014-2020*, 18 July 2013

direct payments fairer and greener, strengthening the position of farmers within the food production chain and making the CAP more efficient and more transparent." He also said that the reform represents the "EU's strong response to the challenges of food safety, climate change, growth and jobs in rural areas" as well as playing a "key part in achieving the overall objective of promoting smart, sustainable and inclusive growth."[8]

UK Government

In a letter to MPs and Peers, Owen Paterson explained the outcome of the agreement and the UK's current position. He said:[9]

> Overall it is an acceptable outcome for the UK, even though it is not the genuine reform we had hoped for. We have fought to secure a CAP package that is much better than the original proposals. It is thanks to the UK working with its allies that we have stopped a whole raft of regressive proposals being adopted that would harm UK farmers.

He also set the tone for the UK's overall approach to farming policy:

> I want to see a competitive and sustainable farming industry, one that suffers less red-tape, takes advantage of new export opportunities and is less reliant on subsidy.
>
> We have fought hard to maintain the direction of reform, and to resist market distortions being introduced into the CAP through production-linked payments or protectionist measures in other Member States, Farming in the UK has generally supported the move away from payments coupled to production over the last decade, and we will be vigilant in ensuring that it benefits from export opportunities across the EU single market. We will continue to resist unnecessary interference in farm business decisions.

The Secretary of State has also acknowledged that some aspects of the new CAP are more complicated than those that they replace. He has said that where the UK has domestic implementation choices it will consider "simplicity, affordability and effectiveness".[10] He has indicated that he will seek views on how best to implement CAP reform so that it is simple for farmers as part of the new red tape challenge review for the farming and forestry sector.[11]

Stakeholders

The key UK disappointment for many is the reduced budget negotiated by the UK Government and the low rate the Government agreed to for coupled payments. There is concern among farmers and the Scottish Government that farmers will lose out financially compared to farmers in other countries.[12]

---

[8] Europa Press Release IP/13/613 *Political agreement on new direction for Common Agricultural Policy*, 26 June 2013

[9] Letter from Rt Hon Owen Paterson MP, Secretary of State for Environment, Food and Rural Affairs to MPs and Peers, 4 July 2013

[10] Letter from Rt Hon Owen Paterson MP, Secretary of State for Environment, Food and Rural Affairs to MPs and Peers, 4 July 2013

[11] Defra launches fresh red-tape drive, *Farmers Weekly*, 17 July 2013

[12] Scottish Government website, News page, *EU CAP Mandate Agreed by Council*, 26 June 2013

The NFU has been disappointed with the final deal. As the final deal was being negotiated NFU President said:[13]

> "...the Government is set upon a road which will penalise English farmers. Why would any government want to make it harder for its country to produce its own food while governments in the rest of Europe are doing the reverse?
>
> "This round of CAP reform has been disappointing from the outset. Last night, ministers agreed that the future CAP will be less common, less market orientated, more complicated and will deliver nothing in terms of achieving a more level playing field. But for the NFU, the greatest disappointment is that the biggest threats to English farmers lies ahead and that's how our own Government will seek to implement the new regime back here at home.

Defra Secretary of State, Owen Paterson hopes that he can win round the farming unions. He has said:[14]

> I hope that when the detail is worked out with the representatives of the farming unions, they will see that we stood by British farming and stopped a lot of really bad things coming through this reform.

The new greening element of the CAP (see section 3) has been much heralded by the Commission. However, it is seen as a missed opportunity by many, watered down from the Commission's initial aspirations to make environmental requirements central to CAP payments.

The Institute for European Environmental Policy believes that the environment elements of the agreement have suffered from the political compromises commenting on too many "deals at the expense of the environment", "short term thinking and vested interests" and has said:[15]

> "...Combined with a reduction in cross compliance requirements a disproportionate reduction in the rural development budget compared to that for Pillar 1 and the option for governments to shift a large proportion of their rural development budget to shore up direct payments to farmers, there have been too many deals at the expense of the environment"

Devolved reaction

Scotland

The Scottish Government has summed up the agreement as one which "rewards activity, supports production and encourages greener choices" and which "should see new entrants benefit while slipper farmers lose out".[16] The Commission talks about supporting farmers to be "reliable participants in the food production chain".[17]

Scotland's Rural Affairs Minister, Richard Lochhead said that the political agreement

[13] NFU Bulletin, *Defra CAP plans will damage English farming*, 26 June 2013
[14] HC Deb 4 July 2013 c.1044
[15] IEEP, *Environment undermined in CAP deal*, 26 June 2013
[16] Scottish Government website, News page, *EU CAP Mandate Agreed by Council*, 26 June 2013
[17] Europa Press Release MEMO/13/621, *CAP reform – an explanation of the main elements*, 26 June 2013

> "...should mean a better CAP policy for Scotland than the one we currently have, albeit like with all negotiations such as these, we didn't get everything we would have liked.[18]"

The National Farmers Union Scotland (NFUS) has welcomed the reformed CAP's provisions to bring new entrants and developing business into the direct payments scheme as a "considerable win" along with the assurance of a flexible national reserve and the option to top-up new entrants' low value entitlements. It also views the potential retention of the current less-favoured areas and the provision of support through the Less Favoured Areas Support Scheme (LFASS) until 2018 as "wholly positive" providing some stability as Scotland moves from historic-based payments to area based payments (in line with the CAP convergence requirements).[19]

However, the Union has highlighted that businesses operating post-2009 (the LFASS base year) are operating without vital LFASS payments and are facing an "extreme challenge given ongoing economic uncertainty and the weather pressures of the past year". The Union wants to see this anomaly addressed so that new and developing businesses are eligible for Pillar 1 and Pillar 2 support like their established counterparts. They are concerned that as new Pillar 2 Areas of Natural Constraint payments may not be fully operational until 2018, some businesses could be frozen out of a fully fair support system for up to nine years.[20]

Wales

Welsh Minister, Alun Davies AM, has said that he is 'deeply unhappy' that the overall CAP budget has been cut but he welcomed the fact that there was agreement on key issues such as: area based payments, greening and the ability for Devolved Administrations to develop and operate their own schemes. [21] The Minister launched a consultation on the main elements of the Direct Payments System and the specific decisions he intends to make on 23 July 2013.[22] This will run until 15th October 2013.

The Farmers Union of Wales has branded the reform deal as an 'own-goal' which will have adverse impacts for Welsh farmers although the union acknowledges that the deal was a "massive improvement" on what was originally proposed by the Commission in 2011.

The FUW is concerned that the UK has given away more of its Pillar 2 allocation than any other Member State despite the UK being entitled to a significant increase in its allocation and like the NFU they are concerned about the UK implementation flexibility within the deal.[23]

Northern Ireland

Agriculture Minister, Michelle O'Neill said that she was "delighted" that the final position in Council was "very similar in many respects" to the position that she had set out. Like the other devolved administrations she welcomed the ability to take implementation decisions at a regional level and heralded it as "a very important achievement". She also said:[24]

---

[18] Scottish Government website, News page, *EU CAP Mandate Agreed by Council*, 26 June 2013

[19] NFU Scotland, *LFASS anomalies must be corrected under 'fair CAP'*, 10 July 2013

[20] NFU Scotland, *LFASS anomalies must be corrected under 'fair CAP'*, 10 July 2013

[21] Welsh Government news, *New CAP system must help farmers succeed for the future*, 9 July 2013

[22] Welsh Government, *The Common Agricultural Policy reform: Welsh Government's proposals for direct payments to farmers,* 23 July 2013

[23] FUW brands CAP reform deal an 'own goal', *Farmers Guardian,* 2 July 2013

[24] Northern Ireland Executive, *CAP reform deal struck in Luxembourg*, 26 June 2013

> "In terms of the transition of support towards a flat rate regime, the agreement will allow us to plot an orderly movement towards flat rate support which balances the various sectoral interests. The greening arrangements are much more suited to the needs of grass based agriculture. The ability to monitor permanent grassland at regional level rather than at individual farmer level as originally proposed, avoids an unnecessary bureaucratic burden for both farmers and administrators. The thresholds for crop diversification and Ecological Focus Areas have been raised and again, are much more suited to the circumstances of grassland agriculture.
>
> "One disappointment was on the issue of active farmers. I wanted the ability to confine agricultural support to genuine farmers. I know that I had the support of the Presidency and the European Parliament on this issue and I pushed this matter very hard right up to the very end. Unfortunately the Commission was completely immovable on this issue and the logic of its opposition completely escapes me. The battle now moves to Brussels and we have been working very hard to ensure that MEPs have all the necessary information and arguments to make one final push on this issue."

Michelle O'Neil has also launched a consultation on proposals for the next Rural Development Programme.[25]

More stakeholder comment is included on particular aspects of the CAP below.

2 Emerging implementation details in England

The UK Government has started to set out its initial thinking on CAP reform implementation (see below). In terms of the overall approach, the UK Government has stressed that it wants this CAP implementation to be a model of the partnership approach set out by the Farming Regulation Task Force with early engagement and co-design with stakeholders and a no 'surprises' culture.[26]

2.1 Direct Payments

The UK Government has published an explanation of the reforms for England setting out the options available to the Government and the principles it will use in deciding on those options. The paper, *CAP Reform in England – Status report on Direct Payments* (Defra, 12 August 2013) also offers an initial view, where one has been formed, of how the future system might work.

Some of the Government's initial thinking on the new system so far includes:

- Maintaining the three current Single Payment Scheme regions as currently defined so as to avoid costly and complex mapping of new regions but considering to what extent the proportion of funds allocated to each region should be changed.
- Moving some basic payments 'uphill' from the lowland region to the Severely Disadvantaged Area (SDA) and moorland regions.
- Setting a minimum claim threshold (as required) by area at 5ha (excluding around 15% of claimants, 605 of whom do not farm primarily for business purposes)

[25] Northern Ireland Executive, *O'Neill launches consultation on next rural development programme*, 1 July 2013
[26] Defra, *CAP reform in England: Status report on the new Rural Development Programme*, 12 August 2013 and Defra, *CAP reform in England: Status report on Direct Payments*, 13 August 2013

- Not using the option to add to the list of operations not eligible for direct payments

- No re-introduction of any coupled support schemes (a proportion of direct payment funding can be used to maintain levels of production in certain sectors). The Government supports a more market-orientated farm sector.

- No Small Farmers' Scheme (SFS) on the basis that it would add complexity to the direct payments system for little benefit. If England had a minimum claim size of 5ha the related payment would be approximately equivalent to the SFS payment cap and nearly all claimants would receive a smaller payment by opting in to the scheme.

2.2 Rural Development Programme

The UK Government has also published an update on developments on the Rural Development Programme (RDP). The update, *CAP reform in England: Status report on the new Rural Development Programme* (Defra, 12 August 2013), sets out what England's RDP should cover, an update on the next RDP programme for England and plans for transition to the new programme and next steps.

The Government has said that the next RDP programme will need to support Defra's priorities i.e. to grow the rural economy, improve the environment and safeguard animal and plant health as well as "secure substantial environmental benefits as well as increasing agricultural competitiveness and productivity and supporting rural economic growth."[27] The Government anticipates a "continued major focus on the environment and land-based industries."[28]

2014 transition period

The UK Government has already announced a package of rural development support in the 2014 transition period to offer some clarity to farmers. This support reflects the likely targets for funding in the new programme (subject to agreeing detailed rules at EU level):[29]

- New Higher Level Stewardship (HLS) agri-environment agreements costing about £26m per year

- Uplands and Organic Entry Level Stewardship (ELS) and offering ELS for land coming out of 'classic' schemes in 2014 that does not qualify for HLS (costing around £4m per year). This is intended to ensure a smooth transition for areas that have been under environmental management for a long time.[30]

- Catchment sensitive farming capital projects and advice of up to £14 million

- Up to £0.5 million to fund essential one-off capital investments for forestry grants

- Up to £1m to potentially continue some existing strategic projects

- Up to £3 million in 2014 to help maintain LEADER local delivery capacity and expertise from the current programme.

---

[27] Defra, *CAP reform in England: Status report on the new Rural Development Programme*, 12 August 2013
[28] Ibid, p.4
[29] Letter from Rt Hon Owen Paterson MP, Secretary of State for Environment, Food and Rural Affairs to MPs and Peers, 4 July 2013, p.4

[30] Defra, *CAP reform in England: Status report on the new Rural Development Programme*, 12 August 2013, p.5

- Continued support through the Campaign for the Farmed Environment
- No Energy Crops Scheme. Ministers do not wish to incentivise energy crops through the RDP, favouring a greater use of waste in bioenergy (particularly in anaerobic digestion).[31]

3 The CAP Budget

The Multiannual Financial Framework (MFF) sets out the overall European Union budget including the CAP budget. The MFF was agreed by heads of government in February 2013 but only approved by the European Parliament in July 2013 after talks with Member States. The European Parliament secured a review of the budget in 2016 that could lead to more funds but these will not be made available for the CAP. The overall budget has been cut across all Member States as part of necessary austerity measures. This translates to fall in the CAP budget (2014-20) of EUR 55 billion across all Member States.[32]

This agreement now allows the final elements of the CAP agreement to be negotiated including: external convergence, capping the largest subsidies and flexibility to transfer funds between the two pillars.

Table 1: Multiannual Financial Framework 2014-2020 and CAP allocation

Allocation of MFF (2014-2020)	**EUR/bn**	
Total Commitments	960	
Total Payments	908	
CAP Budget –total *Pillar 1 (Direct Payments and Market Intervention tools)* *Pillar 2* *(Rural Development)*	362.79 (in 2011 prices) *277.85* 84.9	The overall CAP budget will be 13% less than allocated for 2007-2013.

Source: Agra Europe[33]

The distribution of the CAP budget will ensure that no single Member State receives less than 75% of the Community average by 2019. This is discussed below in the external convergence section.[34]

Subject to confirmation, in the next seven years of the CAP, the UK will receive £17.8 billion in Pillar 1 for direct support for farmers and £1.84 billion to spend in Pillar 2 on the environment and rural development.[35]

[31] Ibid p.5
[32] Welsh Government news, *New CAP system must help farmers succeed for the future*, 9 July 2013
[33] EU budget approval clears path for 2014-2020 CAP reform resolution, Agra Europe, 9 July 2013, p.1
[34] Commission press release

A briefing by the Northern Irish Department for Agriculture and Rural Development to the Assembly's Committee for Agriculture and Rural Development noted that:

> The news is not good for pillar 2. The UK is likely to see its allocation reduced compared with 2013 by 22% in real terms, which translates to 14% or 15% in cash terms. In pillar 1, the reduction is 13% in real terms and between 2% and 3% in cash terms. That is what we are working with. That is what was agreed by the EU heads of government. They agreed to reduce the budget overall, and those are the budgetary impacts on the CAP.[36]

Owen Paterson has sought to counter concerns (mainly expressed by the NFU) that UK farmers might be disadvantaged in competition with their European counterparts. He denies that this is the case and cites the fact that there are widely differing payment rates to farmers across the EU and within any country. UK farmers receive less per hectare than some of their EU counterparts bit they receive more per farm.

4 Direct Payments

For many, this round of CAP reform has failed to get to grips with the whole rationale for direct aid for farmers and be clear what the aid is actually for. *Agra Europe* has pointed to some "messy" arrangements in the final agreement because of the failure to address this fundamental question. The bulletin asks:

> Is it an income support? Is it a payment from society to the agricultural community for environmental services rendered? Or is it a simple 'entitlement' for those privileged enough to hold them whose existence needs no further examination? Nearly two years of debate over the details of the new aid schemes have brought us no closer to a coherent answer to those questions.[37]

Member States have a "huge" number of options in the way that the new direct aid payment will be implemented. *Agra Europe* also notes that it is "almost impossible" at this stage for any individual farmer to know, with any accuracy, how much direct aid they will receive over the next seven years. It all depends on what formula the national authorities use to achieve internal convergence (where this has not already happened) and whether they:[38]

-choose to create special payments for small farmers

-set up a special Pillar One aid payment regime for farmers in Less Favoured Areas/Areas facing Natural Constraints,

-create aid payments 'coupled' to specific sectors,

-make redistributive top-up payments on farmers' first hectares.

---

[35] Letter from Rt Hon Owen Paterson MP, Secretary of State for Environment, Food and Rural Affairs to MPs and Peers, 4 July 2013

[36] Assembly business, Office Report, Committee minutes of Evidence, 2 July 2013,CAP reform: DARD briefing

[37] Agra Europe Analysis: CAP deal is one step forward, two steps back, *Agra Europe*, 27 June 2013

[38] Agra Europe Analysis: CAP deal is one step forward, two steps back, *Agra Europe*, 27 June 2013

4.1 Greening the CAP

One of the key elements of the current CAP reform is that environmental management and the delivery of public goods should become increasingly one of the core purposes of agricultural support. 'Sustainable management of natural resources and climate action' is one of three general objectives of the proposed CAP for 2014 to 2020. It is proposed that this will be achieved through changes to a range of policy instruments within both Pillars of the CAP.

The new agreement links basic payments (Pillar 1) to greening requirements and introduces higher environmental standards for agri-environment schemes (Pillar 2). The European Commission estimates that between 2014 and 2020 over EUR 100 billion will be invested to help farming meet the challenges of soil and water quality, biodiversity and climate change. [39]

The introduction of a new greening element in Pillar 1 support alongside long-standing support for agri-environment schemes in Pillar 2 has been contentious. Not because of the overall aims of the support but because it is confusing.

Some environmental commentators feel that the final agreement contains too many compromises whilst the Government welcomes the flexibility which has been secured in meeting the criteria moving from "three strict and blunt requirements" for all EU farmers to an additional option allowing the recognition of schemes which deliver "equivalent" environmental benefits.[40]

The National Farmers Union meanwhile remains suspicious that this flexibility will allow the UK to "gold plate" the environmental requirements making UK farmers uncompetitive with other Member States.

Linking direct payments to green criteria[41]

Under the new agreement 30% of direct payments, from each country's CAP allocation (known as the national envelope) will be linked to three "environmentally-friendly" farming practices:

-***Crop diversification***

Farmers must cultivate at least 2 crops when their arable land exceeds 10ha and at least 3 crops when their arable land exceeds 30 ha. The main crop may cover a maximum of 75% of arable land and the two main crops at least 95% of the arable area.

Holdings with more than 75% of their area under grass are exempted (provided the area not covered by grassland does not exceed 30ha), as are holdings with less than 15ha sown to arable crops. [Is this still applicable?]

-***Maintaining permanent grassland***

[39] Europa Press Release IP/13/613 *Political agreement on new direction for Common Agricultural Policy*, 26 June 2013

[40] Letter from Rt Hon Owen Paterson MP, Secretary of State for Environment, Food and Rural Affairs to MPs and Peers, 4 July 2013

[41] Europa Press Release MEMO/13/621, *CAP reform – an explanation of the main elements*, 26 June 2013

Farmers may convert no more than 5% of their permanent grassland to cropland, although they need not apply this at farm level if there is less than 5% conversion at national level.

-***Maintaining an "ecological focus area" of at least 5% of the arable area of the holding (and later 7% from 2018)***

This requirement is for farms with an area larger than 15ha (excluding permanent grassland). The focus area would include features such as: field margins, hedges, trees, fallow land, landscape features, biotopes, buffer strips, afforested area. This figure will rise to 7% after a Commission report in 2017 and a legislative proposal.

- ***Measures considered to have at least equivalent environmental benefits***

To avoid penalising those that already address environmental and sustainability issues, it is proposed that there will be a "Greening equivalency" system where these existing practices can be recognised as equivalent to meeting the specific greening criteria. The Commission offers the example of organic producers who will have no additional requirements to meet as their practices are shown to provide a clear ecologic benefit.[42] Agri-environment schemes may also incorporate measures that are considered equivalent. The new regulation contains a list of these equivalent measures and provision is made for the Commission to add to these. However, as these schemes are funded under Pillar 2 allocations, the payments through the rural development programmes must take account of the basic greening requirements.

Allocation of rural development programme budget to more stringent agri-environment measures

At least 30% of the rural development programmes' budget will have to be allocated to agri-environmental measures support for organic farming or projects associated with environmentally friendly investment or innovation measures. This measure has been welcomed by the Institute of European Environmental Policy (IEEP).[43]

Avoiding double funding

Agri-environmental measures will be stepped up to complement the required greening practices. These programmes will have to set and meet higher environmental protection targets. This is aimed at avoiding potential double funding of agri-environment measures. i.e. farmers being paid twice for the same action. This double-finding issue has been a key source of contention in the negotiations.

Agra Europe reports that a technical solution is set to be adopted to avoid double funding whereby a reduction rate will be applied to Pillar 2 payments for certain measures that are not deemed to "go beyond" the greening requirements. i.e. not delivering a greater environmental benefit. A percentage of the P" payments for these measures will be deducted in order to avoid some CAP beneficiaries being paid twice for one thing under the equivalence system.

[42] Europa Press Release MEMO/13/621, *CAP reform – an explanation of the main elements*, 26 June 2013
[43] IEEP, *Environment undermined in CAP deal*, 26 June 2013

Greening penalties

Farmers who fail to comply with their greening commitments will lose the 30% greening part of their subsidy and an additional penalty. However, this will not apply until 2017 so will not be in force for payments in 2015 or 2016.

Stakeholder reaction

The **Institute for European Environmental Policy** believe that the new measures deliver "very little additional environmental value" and the measures have been comprehensively watered down compared to the Commission's initial aspirations. Overall they declare them to be a "far cry from what is needed to address the serious environmental deficit facing Europe over the coming decades." Although the Institute welcomes the principle that 30% of core spending on the CAP should be focussed on the environment, the IEEP believes that this principle has been "undermined by a sea of compromises":

> One of the boldest and potentially most effective elements of the reform was the introduction of three greening measures in Pillar 1. Of these, the Ecological Focus Areas (EFA) could have represented a real change for the sustainability of arable farming. However, this will now apply only to a minority of arable land many parts of Europe. This is a real missed opportunity. [44]

The IIEP believes that there have been "too many deals at the expense of the environment" with a reduction in cross-compliance requirements, a disproportionate reduction in the rural development budget compared to that for Pillar 1 and the option for governments to shift a large proportion of their rural development budget to shore up direct payments to farmers.

The **UK Government** argued strongly for the flexibility to deliver the greening requirements to recognise the diverse range of farming practices and environmental challenges across the EU and within the UK. Defra Minister, Owen Paterson has said that he is "determined that we use the freedom we secured to design our own greening implementation system to make sure that it is as simple as possible".[45]

However, this freedom is of great concern to the NFU who are concerned that the UK will 'goldplate' the greening requirements. The NFU does not want to see greening measures impose higher standards or compliance costs on English farmers than those in other UK regions or EU Member States, and wants the measures to be implemented in a way that does not require land to be taken out of production.[46]

Farmers Weekly has reported Mr Paterson as being surprised by the criticism, stating that he has "no intention of gold-plating anything", wants to ensure that the greening measures are adapted to the UK's local circumstances, and that better value for money would be delivered by creating a greening scheme built on the UK's current agri-environment arrangements, computer systems and staff. He argues that his motive is to ensure that the scheme is easy to administer and understand and delivers the outcomes requested by the Commission. He feels that it would be unworkable to allow farmers to choose between a Defra –based

[44] IEEP, *Environment undermined in CAP deal*, 26 June 2013

[45] Letter from Rt Hon Owen Paterson MP, Secretary of State for Environment, Food and Rural Affairs to MPs and Peers, 4 July 2013

[46] Paterson pledges fair CAP greening scheme, *Farmers Weekly*, 19 March 2013

[46] Ibid

scheme or measures proposed by Brussels so the UK would have a scheme instead of (not alongside) such measures to avoid "a right old mess".[47]

4.2 Internal convergence

Internal convergence is the partial equalisation of subsidies within countries or regions.

Member States that currently allocate payments on the basic of historic references now have to move towards a more uniform payment per hectare approach from 2015. England already operates payments on an area basis but Wales, Scotland, and Northern Ireland still use historic references The Welsh Assembly Government have indicated that they will consult on plans that will set out a timescale for a move towards payments that are wholly land-based.[48]

Member States can take a national approach or a regional approach based on administrative or agronomic criteria. They can choose to achieve a national/regional rate by 2019 or to ensure that those farms getting less than 90% of the regional/national average rate see a gradual increase. There will be the additional guarantee that every farmer reaches a minimum payment of 60% of the national/regional average by 2019. The amounts available to farmers receiving more than the regional/national average will be adjusted proportionally, with an option for Member States to limit any "losses" to 30%.

Member States also have the right to use a redistributive payment for the 'first hectares' (i.e. allocating higher levels of aid for those hectares which increases the support for small and medium-sized farms). They can take up to 30% of the national envelope (the country's allocated CAP budget) and redistribute it to farmers on their first 30ha (or up to the average farm size if higher than 30ha). Another possible option is to apply a maximum payment per hectare.

For new Member States, the Simplified Area Payments Scheme (SAPS) which provides for a single payment per hectare may now be extended until 2020.

4.3 Definition of active farmer

Only farmers that are currently "active" can benefit from income-support schemes. There is a list of excluded activities. These include airports, railway services and permanent sports and recreation grounds.

Defra Minister, Owen Paterson has said that the UK successfully lobbied to "reduce dramatically" the complexity of the original "horrendously complicated" proposals which would have required detailed information on each farm's income to prove that agriculture was the main source of profit. The UK Government feels that the short list of business types that will now be submitted to this test is far more proportionate.[49]

---

[47] Ibid

[48] Welsh Government news, *New CAP system must help farmers succeed for the future*, 9 July 2013

[49] Letter from Rt Hon Owen Paterson MP, Secretary of State for Environment, Food and Rural Affairs to MPs and Peers, 4 July 2013

5 Market support and management measures

The European Parliament initiated proposals for and pressed for an agreement to reinforce market support measures, in the dairy sector in particular. Neither the Commission nor the Council had called for these.

The Commission describes these new measures as "new crisis management tools". These include:[50]

- Ability for the Commission to temporarily authorise producers to manage the volumes placed on the market
- Provision of a crisis reserve (including a general emergency clause)
- Under rural development programmes, Member States will be able to encourage farmers to take part in risk prevention mechanisms (income support schemes or mutual funds) and to devise sub-programmes deployed for sectors facing specific problems.

5.1 End of sugar quotas

The UK lobbied for an end to sugar quotas and Owen Patterson reported that due to pressure from the UK there had been "significant progress to improve measures for the UK sugar industry but not enough."[51] He said:

> Sugar quotas are bad for business and bad for consumers, driving up the wholesale price of sugar by 35% and adding 1% on our food bills. We have battled successfully and secured an agreement that beet quotas will end in 2017, despite the efforts of many to push this back to 2020. The case for better access to cane sugar is still being negotiated thanks to our efforts.[52]

The Agriculture Council has proposed that EU sugar production quotas will cease on 30 September 2017. This is a compromise between the Commission's wish for an end on 2015 and the Parliament which wanted a 2020 end date. The end of the sugar quota regime has been long debated because all sides cannot agree.

Existing provisions for agreements between sugar factories and growers are to be maintained whilst white sugar will remain eligible for private storage aid after 2017.

The Commission notes that "organisation of the sugar sector will be strengthened on the basis of contracts and mandatory inter-professional agreements."[53]

5.2 New vine planting

From 2016, the planting rights system for vines will be replaced by what the Commission is describing as "a dynamic planting-authorisation management mechanism" in which

[50] Europa Press Release IP/13/613 *Political agreement on new direction for Common Agricultural Policy*, 26 June 2013

[51] Defra News, *UK votes on CAP reform*, 28 June 2013

[52] Defra News, *UK votes on CAP reform*, 28 June 2013

[53] Europa Press Release IP/13/613 *Political agreement on new direction for Common Agricultural Policy*, 26 June 2013

professionals will be involved to a greater extent. It will be applicable until 2030 with a fixed planting limit of 1% for vines per year.

This is in line with previously agreed wine production reforms and the recommendation of the High Level Group on Wine in December 2012.[54]

5.3 Coupled support

The new agreement retains and expands the options for coupled aid payments i.e. subsidy linked to production. This is contrary to the last round of CAP reform which sought to move towards phasing out such support which had previously led farmers to continuously produce particular products whether there was demand or not.

The UK sought to limit attempts by many EU countries to increase coupled support payments significantly and expand the list of products that they can apply to (e.g. by including tobacco). Although some EU countries now have the option to increase coupled support moderately, Defra Minister, Owen Paterson has said that without UK intervention this backward step would have been far worse. He has noted that:

> "...Not only do these subsidies create market distortions, but they can also result in over production leading to negative environmental impacts. We will be working with the European Commission to ensure that coupled support in other Member States does not cause disruption to markets across the EU".[55]

The introduction of new coupled aid regimes for milk or sugar beet, for example are both valid options under the new rules and could largely negate the beneficial restructuring effect which would otherwise flow from the ending of quotas in 2015 and 2017 respectively.[56]

6 Issues still under discussion

A number of areas are still under discussion because of their interdependence with the agreement on the Multi-Annual Financial Framework which will be formally approved by the European Parliament in autumn 2013 (see section 1 above).

6.1 External Convergence

External convergence refers to the partial distribution of direct payments between Member States.

6.2 Limiting the largest subsidies

The Commission's original proposals contained a measure to limit the amount that any individual farm could receive from the Basic Payment Scheme to EUR 300,000 per year. A scale was suggested whereby payments would be reduced by 70% for the part of the payment from EUR250,000-300,000, by 40% from EUR 200,000-250,000 and by 20% for EUR 150,000-200,000. It was envisaged that the funds "saved" under this mechanism would stay in the Member State concerned and transfer to the Rural Development envelope for use

---

[54] [54]Europa Press Release MEMO/13/621, *CAP reform – an explanation of the main elements*, 26 June 2013

[55] Letter from Rt Hon Owen Paterson MP, Secretary of State for Environment, Food and Rural Affairs to MPs and Peers, 4 July 2013

[56] CAP deal is one step forward, two steps back, *Agra Europe*, 27 June 2013

as innovation and investment by farmers and European Innovation Partnership operational groups.[57]

This capping plan is not supported by national governments who have proposed a mandatory, flat rate "tax" (5%) on the biggest direct payments (over EUR 150,000) - an alternative "degressivity" plan. There is also a proposal to redirect subsidies to farmers' first hectares.[58] Agra Europe notes that “a new option of paying farmers higher rates of aid on the first 30ha, or a number equivalent to a country’s average farm size, could end up doing a lot more to redistribute aid from larger to smaller holdings.[59]

6.3 Transfer of funds between Pillar 1 and Pillar 2

A key issue in the latest CAP reform negotiations is how much funding will be available to each Member State in Pillar 1 (Direct Payments) and Pillar 2 (Rural Development) and the proportion of the funds that can be switched between the two. The movement of funds from one budget to another is called modulation.

Modulation

Modulation is the term used to describe the movement of funds from one budget to the other. Voluntary modulation allows Member States the opportunity to impose national modulation up to 20%.

In relation to CAP, rates of modulation are set at EU and national levels, as a percentage of direct payments made to farmers. Since 2005, there has been compulsory modulation reducing direct farm payments by 5% per year but compulsory EU modulation deductions do not apply to the first €5,000 of direct payments. This exemption does not apply to national modulation.

In March 2007, the UK (with Portugal) secured agreement enabling an additional (voluntary) rate of modulation, over and above the compulsory EU rate. This was in order to fund UK Environmental Stewardship schemes.[60] In England, total modulation, including EU and national modulation, is currently 19% (10% compulsory and 9% voluntary).[61] The Devolved Administrations have different voluntary rates.

Current Proposal

It is currently proposed that Pillar 2 funds for rural development make up 23.4% of the total CAP funds and all countries will be allowed to move up to 15% of their Pillar 1 allocation over to Pillar 2 and also in reverse i.e. 15% of the Pillar 2 allocation can also be moved to Pillar 1.[62] The latter is a new feature of the reformed CAP often referred to as ‘reverse modulation’. However, MEPs want to limit reverse modulation to 10%.[63]

---

[57] Europa Press Release, *The European Commission's CAP reform - an explanation of the main elements*, 12 October 2011 as referred to in House of Commons Library Standard Note SN03680, Agriculture - CAP reforms, 18 June 2012

[58] EU budget approval clears path for 2014-2020 CAP reform resolution, *Agra Europe*, 9 July 2013, p.1

[59] CAP deal is one step forward, two steps back, *Agra Europe*, 27 June 2013

[60] Defra archive, Defra web page on *Single Payment Scheme – Modulation: Questions and Answers* as on 7 August 2013

[61] GOV.UK, *The Single Payment Scheme: Detailed guidance*, as on 7 August 2013

[62] EU budget approval clears path for 2014-2020 CAP reform resolution, *Agra Europe*, 9 July 2013, p.1

[63] 2014-2020 CAP rural development distribution revealed, *Agra Europe*, 3 June 2013

UK government position

The UK Government takes the view that rewarding farmers for the environmental goods which they provide is a "much better use of taxpayers' money than providing income support". Secretary of State, Owen Paterson is aware that farmers unions are concerned that this will put them at a competitive disadvantage with their EU counterparts but he does not agree. He has argued that "support for UK farming should be focused on the sector becoming more efficient and productive than its global rivals".

He has also indicated that he sees the case for supporting upland farmers through rural development funding of agri-environment schemes:

> I confirm again my belief that because in parts of the UK, such as upland areas, it is tough to make a living purely from food production, there is a significant role for taxpayers' money to be spent on environmental schemes supporting the valuable work upland farmers do to protect and improve the environment, upon which sits a tourism industry worth £33 billion.[64]

However, he has sought to reassure farming bodies that they will be consulted on the potential impact of the transfer of funds from Pillar 1 to Pillar 2 as part of the ongoing discussions on the new Rural Development Programme.[65]

Stakeholder reactions

The NFU is concerned that UK farmers will be disadvantaged by any moves by the UK government to increase voluntary modulation from Pillar 1 to Pillar 2. However, many environmental organisations have come out strongly in favour of transfers from P1 to P2 including the RSPB.

The RSPB has welcomed the Government's commitment to maximise the funding available for rural development in England as "great news for the environment and the long term sustainability and competitiveness of farming".[66] This commitment goes someway to making up for what the RSPB describes as the "disastrous" EU deals on budget and the environmental conditions attached to P1 direct payments (greening measures). The RSPB is now urging Ministers in the Devolved Administrations to make similar commitments.

A coalition of 18 farming and environmental organisations, including the Scottish Crofters Federation, South West Uplands Federation and Foundation for Common Land, have also argued that the UK's CAP budget should prioritise spending on targeted Rural Development Programmes in order to support High Nature Value farming systems.[67]

Environmental stakeholders, such as the members of Wildlife and Countryside Link (which include Greenpeace, Friends of the Earth and the Council for the Protection of Rural England), do not support reverse modulation arguing that it goes against the trajectory of

[64] HC Deb 4 July 2013 c.1041

[65] Letter from Rt Hon Owen Paterson MP, Secretary of State for Environment, Food and Rural Affairs to MPs and Peers, 4 July 2013

[66] RSPB Press Release, *Secretary of State makes the right decision on crisis facing English farmland wildlife*, 19 July 2013

[67] Federation of Cumbria Commoners press release, *New Coalition to campaign for High Nature Value Farming*, 6 June 2013

previous CAP reforms and would allow certain Member States to further undermine already depleted funding levels for Pillar 2.[68]

The April 2013 NFU Council discussed the issue of transfers of funding between the pillars and related concerns:[69]

- CAP budget is to be cut at European level for the next seven years (the NFU accepts that the CAP cannot be immune from necessary spending cuts but wants to ensure that UK farmers are treated equally with their main competitors in Europe)
- NFU has reiterated its commitment to continuing improvement of the farmed environment, as well as increasing agricultural production. However, it feels that the amount of money transferred from the single farm payment (Pillar 1) to rural development measures (Pillar 2) must be kept to an absolute minimum, based on the funds available.
- The NFU reports that a number of upland farmers made the point at their Council that they would prefer to rely on the single farm payment in future rather than rural development programmes. (A chunk of the UK rural development funding is allocated to support schemes for upland farmers).
- The NFU believes that the impacts of the recent winter weather underline the importance of the single farm payment for many farmers and its contribution to the resilience of the UK agricultural sector.
- NFU Council has stressed that it would be "intolerable" if the government acquiesced to the largest Pillar 2 cut in Europe then sought to mitigate it by transferring money out from the Single Farm Payment.
- NFU Council has agreed that there needs to be a fundamental review of rural development programmes in the light of the funds available and concentrating on those measures that deliver real value to farming.

6.4 EU co-financing rates for rural development

It is still being discussed whether money taken from direct support to fund rural development must be matched by funds from Member States.

Agra Europe reports that the EU Agriculture Council is insisting on the formula agreed by EU heads of government earlier this year on the 'multiannual financial framework' (MFF) - namely that aid payment national ceilings will be adjusted such that the gap between a country's average rate of aid per hectare and 90% of the EU average will be closed by one-third by 2019.[70] However, the European Parliament wants to be able to negotiate on this as part of its co-decision role in these reforms.

[68] Wildlife and Countryside Link, *Defra discussion paper on the impact in England of EU Commission regulatory proposals for Common Agricultural Policy reform, post 2013: A response by Wildlife and Countryside Link*, March 2012

[69] NFU online, *CAP fund rethink on spending needed*, 24 April 2013

[70] CAP Reform – The Political Agreement, *Agra Europe*, 27 June 2013