House of Commons

Environment, Food and Rural Affairs Committee

The impact of Common Agricultural Policy reform on UK agriculture

Written Evidence

Only those submissions written specifically for the Committee and accepted by the Committee as evidence for the inquiry The impact of Common Agricultural Policy reform on UK agriculture are included.
List of written evidence

1. UNITE the Union
2. Valentin Zahrnt
3. The UK Research Councils' Rural Economy and Land Use Programme
4. Agricultural Christian Fellowship
5. Woodland Trust
6. Central Association of Agricultural Valuers
7. Fairtrade Foundation
8. Tenant Farmers Association
9. Professor Alan Swinbank
10. Professor Alan Swinbank supplementary
11. RSPCA
12. Defra
13. Devon County Council
14. CEJA - European Council of Young Farmers
15. RSPB
16. Dairy UK
17. Campaign to Protect Rural England
18. NFU
19. NFU supplementary
20. Country Land and Business Association
21. Country Land and Business Association supplementary
22. Country Land and Business Association further supplementary
23. Society of Biology
24. Food and Drink Federation
25. Food and Drink Federation supplementary
26. National Assembly for Wales Rural Development Sub-Committee
27. Rothamsted Research
28. Agriculture and Horticulture Development Board (AHDB)
29. Agriculture and Horticulture Development Board (AHDB) supplementary
30. The Soil Association
31. The Andersons Centre
32. Department of Agriculture and Rural Development, Northern Ireland Assembly
33. Dr Joan Moss
34. Dr Joan Moss supplementary
35. Dr Joan Moss further supplementary
36. Welsh Assembly Government
37. Welsh Assembly Government further written evidence
38. George Lyon MEP
39. Scottish Agricultural College
<table>
<thead>
<tr>
<th></th>
<th>Organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>40</td>
<td>NFU Scotland</td>
</tr>
<tr>
<td>41</td>
<td>The Scottish Government</td>
</tr>
<tr>
<td>42</td>
<td>British Retail Consortium</td>
</tr>
<tr>
<td>43</td>
<td>British Retail Consortium supplementary</td>
</tr>
<tr>
<td>44</td>
<td>Farmers' Union of Wales</td>
</tr>
</tbody>
</table>
Written evidence submitted by Unite the Union (CAP 01)

Unite the Union, the UK’s largest trade union with members across the private and public sectors. The union’s members work in a range of sectors including manufacturing, financial services, print, media, construction, local government, education, health and agriculture. Unite negotiates on behalf of approximately 250,000 agricultural workers in the UK.

Executive Summary

Unite welcomes the Commission’s proposals as a first step in the right direction despite several of our requirements not being taken into account.

Unite believes that CAP instruments should, first and foremost, address the promotion of employment and the reduction of work-related accidents and illnesses. Training for agricultural workers is one of the answers to sustainable agriculture and thus should be included in the new CAP instruments.

The Union welcomes the preservation of the first and second pillars in the CAP along with the fairer distribution of direct payments between the old and new member states. Additionally a cap on basic income for large farms should only be instigated once sufficient deliberation has been given to paid work through practicable instruments.

Unite believes stakeholders must examine whether or not it would be preferable to keep the promotion of disadvantaged areas in the second pillar as society’s demands on social / ecological cohesion in such areas are very high and voluntary national solutions are difficult to establish. Additionally it welcomes plans to provide basic support for small farmers as a measure to stabilise employment.

The Commission’s proposal raises a number of questions in relation with the planned market measures. Given that the last CAP reform led to hundreds of thousands of agricultural workers losing their jobs Unite still have much to consider. It supports proposals to merge common goals in rural development programmes and set new goals such as climate change alleviation.

1. Introductory Comments

1.1. Unite welcomes the opportunity to provide input into this debate and to provide additional oral evidence if necessary.

1.2. Unite wants to play a part in directing these CAP reforms, just as they have done consistently in the past. Agriculture in Europe needs to be redefined in line with a new model, which must take into consideration society’s demands for high-quality diet, food safety, sustainable agriculture, better coordination of the food chain and development of rural areas. Additionally the financial resources at the agriculture sector’s disposal should be used to boost competitiveness and pave the way for better social cohesion.
1.3. Agricultural workers have been unable to escape the often dramatic effects of political reform decisions on their jobs and working conditions, with the CAP’s inadequately implemented in new Member States failing to stop the destruction of hundreds of thousands of jobs there. Market organisation reforms have destroyed hundreds of thousands of agriculture jobs even in the original Member States.

1.4. We note that, although mechanisation and technological advances have engendered dramatic changes in agriculture in recent decades, the sector is still based on a traditional working model, which leads to more precarious employment and discrimination in areas of social welfare. Additionally, women and migrants, i.e. the most vulnerable workers, are affected by insecure employment and discrimination more than any other group.

1.5. Most importantly Unite sees the CAP has perpetuated social injustices by failing to consider workers as one of the policy’s target groups.

1.6. For these reasons Unite is supporting and demanding CAP reform.

**Key Issues Where Unite is Demanding Reform**

2. **On Worker Protection Unite is Demanding:**

2.1. That agricultural workers be included in Article 33 of the Lisbon Treaty;

2.2. That censuses be conducted and data collected in Member States to provide a more clear view of the services and importance of agricultural workers;

2.3. That a European employment observatory be set up in the Sectorial Social Dialogue Committee for Agriculture;

2.4. That European directives on health and safety at work be incorporated into the cross compliance instruments;

2.5. That measures covering basic and further vocational training for workers be incorporated, enabling the CAP to better achieve its objectives;

2.6. Benefits for workers who have lost their jobs as a direct outcome of CAP reforms being implemented. Compensatory payments should be made not only to employers, but also to workers. To this end, smaller farms should try to find intercompany solutions;

3. **On Boosting Employment Unite is Demanding**

3.1. Better coordination between the CAP and other European policies, especially European employment policy, by checking the effect of CAP measures and instruments on employment together with sectorial social partners;
3.2. That CAP payments be assessed for genuine employment on those farms receiving more than a base payment. In future, decoupled agricultural subsidies should be linked not to changes in the number of hectares per farm but to changes in the number of workers per farm (farm owners and partners should be included as workers);

3.3. That farms whose industrial relations contravene basic European standards be excluded from CAP payments;

3.4. That sustainable and innovative jobs be promoted by the Rural Development policy;

3.5. That new activities be promoted, especially those which play a direct role in improving the welfare of workers and rural populations, e.g. protecting biodiversity, preventing occupational hazards, enhancing the quality and stability of employment, improving social services, etc.;

3.6. That sustainable approaches be mapped out to safeguard key activities, such as cattle farming and milk production, which have a significant impact on employment, land use and regional development.

4. **On Supporting Regions and Regional Development** Unite is Demanding

4.1. The continued unequal handling of new Member States vis-à-vis original Member States, by CAP instruments, must end. The EU has become more rural as it has expanded, but this growth can no longer be managed at the expense of the new Member States. Without equal treatment, social cohesion is at risk in rural areas in many new Member States. Already, the European Commission has predicted the loss of over two million jobs in agriculture over the coming years in Bulgaria and Romania alone. This cannot be tolerated.

5. **On Protecting the Environment** Unite is Demanding

5.1. The social contributions made by agriculture should be recognised by society if they are not already rewarded as part of other services provided. This is particularly true for resource protection and biodiversity. However, any damage caused by agriculture should not be financially rewarded. New social demands such as climate defence must now be included in the reform.

6. **On More Fairness** Unite is Demanding

6.1. The CAP should create a lasting contribution to a fairer world. For instance, agricultural export subsidies should be abandoned immediately as they destroy agriculture jobs in many poor countries.

7. **On Boosting Economic Strength** Unite is Demanding
7.1. Agriculture must be generally multifunctional, competitive and spread over a wide area, not only to protect vital rural areas, but also to make a substantial contribution to employment, the quality and safety of food, and the protection of the environment and animals.

8. **Conclusion**

8.1. Given that we receive around £3 billion / year in CAP payments and that total CAP payments make up around 45% of the European Unions entire budget, Unite see CAP reform as vital to delivering the best outcomes for the agricultural workers it represents in the UK, and most importantly, through this process, seeks to ensure that workers are include as one of the policy’s key target groups.

*December 2010*
Written evidence submitted by Valentin Zahrnt (CAP 02)

Valentin Zahrnt is a Senior Fellow at the European Centre for International Political Economy (ECIPE) and Editor of www.reformthecap.eu.

1. The Commission communication does not address key issues (such as budget size, budget distribution across instruments and co-financing) and it remains vague on most issues it covers. For a detailed examination of the text, see: http://www.reformthecap.eu/blog/commission-communication-cap-examination.

2. The three reform options are particularly underdeveloped. It is clear that the Commission rejects the third, ambitious option, which it criticized heavily in its leaked draft. Prof. Berkeley Hill even argues: 'It is hard to read the Commission’s ‘options’ for the CAP after 2013 without a feeling that there is something rigged about it. The Commission must well know that some of its proposals are non-starters. This concerns especially option 2, the moderate reform scenario. In the leaked version of the communication, the Commission has severely criticized option 3, making clear that this is just a strawman. This implies that the most likely outcome is option 1: to broadly continue the status quo but with some of the details tweaked.' See: http://www.reformthecap.eu/blog/commission-communication-cap-appraisal-hill.

3. The leaked and the final version are equally disappointing. It is an attempt to greenwash direct income support. The crux is a lowering of current cross-compliance standards and the introduction of another layer of eco-conditionality. But the greening of blanket subsidies is not sufficient. What is needed are truly targeted payments that reward farmers’ individual provision of public goods in line with local conditions. See: http://www.reformthecap.eu/blog/leaked-commission-communication.


5. The Commission proposals have been received rather positively by the press/public because of their reform-minded public-goods rhetoric. However, the key points made or implied (maintaining the SFP with full EU-financing, a strong LFA element that partly moves into the first pillar, a large CAP budget that is needed to finance the proposed objectives and instruments etc) are conservative and will appeal to the EP and most member states.

6. The current CAP, and the proposed changes, has only minor impact on the competitiveness of UK agriculture. It is important to avoid that a shift towards increased support for competitiveness leads to more old-style, farm-level measures, such as investment aid, that are
distorting and administratively burdensome. More public investment should instead be undertaken in research and development.

7. It should be kept in mind that competitiveness of any given sector is not a suitable policy objective. The relative strength of different sectors and trade balances should be left to the market. Government should only interfere if its action promises a clear net gain for society. Declining productivity, output, exports or market shares are no valid justifications for governmental interference in markets.

8. The formal structure (e.g. two-pillar) does not matter in itself. The crucial question is whether the non-targeted instruments of the first pillar (market intervention and SFP) are maintained and whether co-financing by member states is enhanced. On the merits of co-financing, see: http://www.reformthecap.eu/blog/co-financing-of-public-goods.

9. If the UK wants to achieve a greener and leaner CAP, it will be essential to signal 1) that the size of the CAP budget will depend on the quality of CAP spending, 2) that reform of the UK rebate is conditional on CAP reform (an issue that will be crucial to win German support for CAP reform) and 3) that the UK is willing to risk another EU crisis if the overall EU financial framework fails to respond to EU priorities.

December 2010
Written evidence submitted by the
UK Research Councils' Rural Economy and Land Use Programme (CAP 03)

Summary:
1 This Paper presents lessons from recent research for the reform and implementation of the Common Agricultural Policy (CAP) of the European Union (EU). It focuses on findings from over 20 projects funded by the UK ‘Rural Economy and Land Use’ programme (Relu). The Rural Economy and Land Use Programme is an interdisciplinary collaboration between the Economic and Social Research Council (ESRC) Biotechnology and Biological Sciences Research Council (BBSRC) and the Natural Environment Research Council (NERC) with additional funding provided by the Scottish Government and Defra. See www.relu.ac.uk for more information about the Relu programme. A full version of the paper "Informing the Reform and Implementation of the Common Agricultural Policy" may be downloaded from the Relu website.

2 Relu projects offer findings of particular relevance to the further development of ‘agri-environment schemes’. These support land managers in delivering a range of ecosystem services which would not otherwise be provided through the market (‘environmental public goods’).

3 The scientific evidence provided by Relu projects will help policy-makers tackle a range of questions about the further development and implementation of agri-environment schemes.

4 It covers:
   - What ecosystem services should be supported by the schemes?
   - What spatial scales are appropriate for planning and management?
   - How should stakeholders be involved in designing and delivering the schemes?
   - How can co-ordinated, collaborative action be obtained across farms?
   - How can long-term environmental benefits be secured?
   - Could providing formal training help to deliver the schemes?
   - How should the benefits of ecosystem services be valued?
   - How should successful land management be measured?
   - Should agri-environment payments change if other support is reduced?

On the basis of the research findings, and taking account of the wider policy context, the following recommendations are offered for consideration by policy-makers:

5 **An ecosystem services framework**: Agri-environment schemes should be retained as a critical delivery mechanism within the CAP. They should be explicitly designed and implemented within the framework provided by the ‘ecosystem services approach’. This embraces services rewarded by the market (e.g. producing food and fibre) and the provision of environmental public goods. The framework will assist in managing the varied demands on land, setting priorities, and identifying and tackling conflicts.

6 **Funding**: The resources made available at EU level to support the schemes should be increased radically, to recognise their critical role in delivering environmental commitments. The schemes should receive a higher proportion of the EU CAP budget and/or be supported at a higher rate of EU co-financing. Payments for scheme options should be increased as
necessary to ensure that desired environmental public goods can continue to be delivered following any reductions in the Single Farm Payment.

7 Developing scheme options: The menu of scheme options, in any one area, should be based on a systematic assessment of all the environmental public goods which could be provided by farms. Management options should be developed at the most appropriate scale (e.g. ‘catchment’ for water quality, or ‘landscape’ for farmland birds). Management prescriptions should be tailored, as far as possible, to local conditions.

8 New priorities: The schemes should include actions to: promote carbon storage, and integrated pest management; reduce risks to public health from livestock waste in water; and respond to new pest and disease threats. The use of the schemes to convert conventional farms in highly-productive EU regions to organic farming systems should be reviewed. An alternative might be to use the schemes to create networks of areas managed primarily for biodiversity around intensively-managed fields on conventional farms, enhancing the benefits by using ‘no-till’ or ‘low-input’ approaches.

9 Promoting collaborative approaches: The scale at which scheme agreements are planned, negotiated, funded and delivered should shift, over time, from the individual farm to the local community of farms. This will help to ensure that: farmers are fairly rewarded for the added benefits of co-ordinated action; farmers outside agreements cannot negate the work of those within agreements; and different environmental public goods are delivered at the most appropriate scale.

10 Involving stakeholders: Advice from local farmers and other stakeholders on scheme options, their delivery, and how to co-ordinate action between farmers, should become far more important in designing and delivering the schemes. More use should be made of tools to support deliberation on objectives and priorities, and to help resolve conflicts. Participatory Geographical Information Systems offer one useful approach.

11 Securing long-term benefits: The schemes should incorporate, or be supplemented by, new contractual mechanisms which will secure the long-term public interest in land management, over periods of decades rather than years. This will be particularly important in managing carbon, and in restoring, re-creating or linking wildlife habitats.

12 Calculating payments: The payments offered under the schemes to secure changes in land management reflect income foregone and additional costs incurred. World trade rules preclude the inclusion of any incentive element. There are some differences between Member States in the approach taken to calculating income foregone. This experience should be shared with the aim of establishing consistent practices which provide appropriate rewards for the provision of environmental public goods.

13 Payment by results: Where scheme outcomes are easy to measure, some element of the payment should be based on results, rather than on mere participation. Prescribing the desired outputs rather than the inputs (e.g. ‘a sward of a certain composition and height’ rather than ‘the timing and density of grazing’) would enable farmers to measure outcomes themselves, and to check and adjust management practices accordingly.
Supporting farmers with training: Investment in formal training, targeted on novel or technically-difficult options, should become an integral part of all schemes, to help improve their effectiveness. This will help farmers to understand scheme objectives, and to support them in exercising their skills to deliver appropriate management.

December 2010
We want to address your last question.

“Can the proposals be implemented simply and cost effectively within a short time scale?”

As previous reports of the EFRA Select Committee have made clear, the answer in respect of the previous reforms depended far more on capacity and management in the UK than on the nature of the proposals. We have recently produced a study of farmer: government relations at the grass root level, based in part on an academic study and in part on the ringside experience of Farm Crisis Network. It is a complex and unhappy story, but an important component and has been the attempt to conduct varied and complex transactions through separate routes, without relationship and at arms length.

The Commission document talks about wanting to “reduce the administrative bureau for recipients”. There is also an emphasis on “Green growth through innovation which involves adopting new technologies”. On past form there is a danger that this will be pursued by further rules and regulations, which, when mediated through the current UK machinery, could be calamitous, especially in England. (In varying degrees the devolved administrations have a more relational approach).

The challenge of climate change, alone, will indeed require big changes in farming – quite possibly not by going further along the routes followed in the last fifty years. This will need clear goals outlined in policy, but it will need flexible partnerships between farmers and governments at all levels. This will assist farmers in change adapted to their own circumstances, facilitate sharing of ideas and experience, and allow this experience to flow back to government and to influence policy. We already have the example of on farm generation of renewable energy, which takes farmers into areas of technologies outside their knowledge and experience, in which powerful bodies push their own agendas. We have to ask ourselves how a well organised advisory system might avoid much misapplied energy and investment, frustration and squandered enthusiasm, while facilitating much useful change.

The objection will be raised that changing the basis of interaction between authority and farmers will cost more. This needs more examination. Why does it cost six times as much to administer current CAP payment to an English farmer as to a Scottish one? Are we aware that in 1971 the entire establishment of the National Agricultural Advisory Service was less than 2000 people? The Select Committee will have its own estimate of the numbers presently engaged in farm related work in Defra agencies.

There are changes afoot, for example, the recovery in the RPA of the principle of a defined “case worker” for each SFP applicant and talk of steering RPA further from catching people in default to supporting them in compliance. Or there is the deliberate conduct, by Animal Health in Wales, of statutory duties in such a way and to build relationships, able to withstand challenges and buffets. In addition, many of the staff of Defra agencies, either intuitively or because of earlier experience, aspire to another way of doing business.

This is a plea for a revised approach to lead and enable change, allowed by Brussels, and applied in the UK - maybe in the first instance in pilot areas.

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1 “An Unsafe Distance”, http://www.agriculture-theology.org.uk
2 “A second progress update on the Administration of the Single Payment Scheme by the Rural Payment Agency” National Audit Office October 2009
3 A History of the National Agricultural Advisory Service 1971, published later and now out of print. ACF has one copy.
* The Agricultural Christian Fellowship is a membership body of people in and connected with farming. Together with the Arthur Rank Centre it was responsible for the creation of the Farm Crisis Network, which is one of the three bodies making up the Farming Help group of charities.

December 2010
Written evidence submitted by the Woodland Trust (CAP 05)

1. The Woodland Trust is the UK's leading woodland conservation charity. We have three aims: to enable the creation of more native woods and places rich in trees; to protect native woods, trees and their wildlife for the future; and to inspire everyone to enjoy and value woods and trees. We own over 1,000 sites, 20,000 ha, of which 20% is farmed. We have 300,000 members and supporters.

Summary
2. The Woodland Trust welcomes the opportunity to submit written evidence to this inquiry.

3. The CAP remains the largest factor in agricultural land-use in the UK and therefore a key issue for woodland conservation. Increased tree cover is recognised as a means of mitigating climate change as well as having a number of benefits for agriculture and agricultural adaptation to future climate changes in addition to delivering a wide range of benefits to society.

4. Current delivery mechanisms for the CAP work against the aim to increase tree cover: the eligible land requirements under the Single Payment Scheme, the lower rates of payment for those involved in agriculture as opposed to forestry and the cultural separation that has occurred over the many years of the CAP.

5. We wish to see a fundamental reform to the role and place of trees within the agricultural landscape.

6. We welcome the potential flexibility of Option 2 within the CAP reform proposals and the increased use of more locally determined schemes

7. Without more information on the size and distribution of the budget it is difficult to predict how these reforms will affect the UK landscape.

Reform Proposals
8. Aims for the reforms are given as viable food production, sustainable management of natural resources and climate change and balanced territorial development. Our concerns remain with the balance between the first two aims and thus the balance and details of the two separate pillars of the CAP.

9. We would wish to see a more integrated land-use policy that views forests and trees as an integral part of all landscapes and thus an integral part of policy and strategy decision-making.

Background
10. The UK is atypical in respect of forest cover when compared with other Member States, having a limited and fragmented resource with just 11.7% woodland cover compared to an average of 37% for the EU.
11. Council regulation 1698/2005 clearly states: “Forestry is an integral part of rural development and support for sustainable land use should encompass the sustainable management of forests and their multifunctional role.” And yet the majority of rural development funding is still used on agricultural lands; continuing and exacerbating the artificial separation of land-uses, and denying the potential benefit to the environment of a more integrated land use policy.

12. Climate resilience models have suggested planting rates of 20,000ha a year or more may be necessary, however planting rates in the UK have fallen by more than half in the last six years from 11,900ha pa to 5,000 ha in 2010 and are now lower than at any time since the mid-1970s. To reach the desired targets for woodland creation will require a fundamental shift in outlook about the role and place of forestry and other wooded land within the landscape.

13. The UK and other poorly-wooded countries are less well placed to take advantage of the many benefits that woodland creation offers in terms of mitigation and adaptation and will need considerable support in order to achieve a wooded landscape that is climate resilient.

Options for reform
14. The reform proposals are presented in strategic terms rather than providing information for detailed analysis, which is a concern when the Commission have already identified that they will produce legislative proposals by June 2011.

Pillar 1 Direct Payments
15. Grazed woodland with fewer than 50 trees per hectare within a Rural Development Plan scheme is classed as agricultural land and therefore must meet the requirements of cross-compliance and yet does not automatically receive money under the Single Payment Scheme.

16. Even when grazed woodland does receive payment, any in-field trees must be individually measured and the area occupied by them removed from the claim. This is counter-productive to some of the agri-environment schemes offered and to good husbandry practice for livestock and crops, where the addition of trees can increase survival rates of young stock and increase available days for spraying amongst other benefits.

17. We would like to see any land with fewer than 50 trees per hectare included within the Single Payment Scheme and full payment paid without the requirement to exclude the area occupied by trees.

18. This would simplify the scheme and remove some of the barriers to tree planting on agricultural land

Greening Pillar 1
19. We welcome the option of an additional aid for greening public goods. Simple measures which could also be transferred to this section include the requirement to transfer at least 50% of all non-roadside hedges to a cutting regime of no more than once every two years, or the use of 2m buffer zones around all existing semi-natural habitats.
20. Without further specific details it is difficult to judge whether the balance on productivity versus sustainability has been met.

**Pillar 2**

21. Pillar 2 remains the junior partner within CAP with less than 10% of the total budget, but aims to deliver many of the key EU aims including biodiversity, climate change mitigation and innovation. Explicit reference to EU-agreed Nagoya biodiversity targets would more clearly indicate commitment to environmental enhancement.

22. The reform options for rural development suggest adjustment to better align with EU priorities, with climate change as one of the key targets. It is difficult to see how the UK can deliver on this aim without delivering more trees. Furthermore, without fundamental reform of Pillar 1 payments, above, there will be limited opportunities to tackle our climate change obligations.

Options for more locally-led rural development schemes, in the style of Leader, could offer the UK a valuable opportunity to address the different conditions within each country, eg England’s south-west uplands versus northern uplands.

December 2010

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The Central Association of Agricultural Valuers (CAP 06)

1. This response works from the Commission’s first formal paper of 18th November, compared with the unofficial document dated 29th September and with the background of earlier papers, to comment on the major practical issues it seems to raise for the UK. This only starts a long process. The first draft legislation, offering some precision as to choices and concepts, will not be available until next summer. While the reform is due for 2014 that is already a tight timetable - the 2003 reforms slipped a year.

**Ability to Implement Reform**

2. A key lesson from the English experience of the last reform is that the government’s negotiating position should take into account the RPA’s ability to implement any changes. Its IT systems are still clearly in trouble over five years after the first Single Payment Scheme applications were made. We do not believe these systems can handle any significant reform without being completely replaced, a task which may be easier when standard area payment values are achieved in 2012.

3. This time, those systems must be designed with the flexibility to handle changes, including:
   - those usually made in the closing negotiations of the main reform affecting implementation
   - those made by the subsequent implementing regions and “Health Checks”
   - government changing its approach to implementation (as in February 2004)
   - the natural and inevitable changes in claimants, entitlements, payment values and other factors. The present IT system was designed on the assumption of a static, unchanging allocation of entitlements.

Lessons must be learned from the last reform. Defra and the RPA must lead on this, not the IT delivery contractor.

**Objectives**

4. The Commission paper has developed a justification for the Single Payment as a stabilising influence in farm accounts in a time of more volatile prices, so helping retain production capacity that might otherwise be lost in the turmoil (though this would not be true for Option 3). We note the emphasis, apparently stronger in the formal paper, on:
   - climate change adaption and mitigation – along with water, perhaps the real focus of developing environmental policy given the challenging targets here.
   - competitiveness, so that the EU can share in supplying the growing world food market – perhaps implying a recognition of continuing downward pressure on costs to be balanced by the Single Payment and a new approach to food market regulation.

“**Active farmer**”

5. Payments are to be targeted on the “active farmer”, a new concept which seems intended to exclude some present claimants. The current Single Payment Scheme legal definition is of a “farmer”: one in agricultural production or keeping land in GAEC. We
assume that the new concept will expect positive management of the claimant but, in a
decoupled scheme, that cannot just be agricultural production. A robust definition will be
needed, preferably based on the claimant’s positive use of land rather than a view of the
claimant overall.

Scale of Funding
6. This will be set by the larger debate about the EU budget and its objectives. If rural
development (including agri-environment) spending is largely maintained (but to an extent
redistributed albeit in conjunction with other non-CAP funds), then reductions in the CAP
budget would mean lower Single Payment levels (before exchange rate changes), weakening
its role as a stabiliser. Option 2’s layered approach (basic level, greening component,
potential LFA supplement) implies both additional complexity and, by dividing a lower
payment into segments, reducing the attraction of SPS with its rules for some businesses.

Phasing of Change in Payments
7. While the Commission paper is about architecture, it is assumed that overall Single
Payment levels will fall in cash terms over the years to 2020. Wales, Scotland, Northern
Ireland and most of the western EU states will also have to move from a historic basis to an
area basis for the payment value of entitlements with the impact that will have on affected
businesses used to current payments. This double shift will require phasing to allow
adaptation – as in England – rather than jeopardising businesses by overnight change. The
potential scale of this issue is shown by analysis of the position in Wales, especially for those
with beef and dairy businesses.

8. There should be the option to phase the values of current entitlements rather than re-
create the system from scratch. With new rules, we cannot assume that this will be painless
even in England as there could easily be some revision to the regime creating issues.

Capping of Payments
9. This is a regular feature of such Commission proposals and should be resisted as it
only encourages distortion of business structures and so the likelihood of releasing less
money than might be thought. If the payment has an environmental or land management
aspect, that is met by covering land not the number of claimants. The proposal to moderate
it by salaried employees fails to recognise how much of UK farming relies on the management
of contractors rather than non-family paid staff.

Modulation
10. This is a distinctive feature in the UK, especially in England helping fund
Environmental Stewardship, but the subject of concern in Brussels. We note the paper does
not mention it. Its loss would be an issue for agri-environment funding.

LFA Funding
11. The paper seems less clear than the earlier unofficial document as to how LFA
funding is to be done. If it were all to move from Pillar 2 to Pillar 1 this could affect the
design of Uplands ELS and Glastir. There will presumably be an interaction here with the Coalition Agreement’s commitment to increase support to hill farming.

**Market Measures**

12. The emphasis on potential measures to affect the distribution of value in the food chain, reviewing the balance between buyers and sellers and regulating contracts, appears an interesting development, requiring some care with competition policy.

**Simplification**

13. We doubt is it realistic to achieve all three of simplification, controllable measures and adding the Water Framework Directive to cross compliance. The Government will have to draw on the work of Defra’s Macdonald Task Force, among others, if there is to be any realistic hope of simplification.

*December 2010*
Written evidence submitted by the Fairtrade Foundation (CAP 07)

1. Executive Summary

- European cotton farmers receive €786m a year in subsidies, or 1.38% of CAP expenditure, equal to Estonia’s entire EU membership contribution.\(^1\) The EU Commission are proposing they continue post-2013.\(^2\)

- Given their sensitivity and importance to certain member states, cotton subsidies are likely to be a bargaining chip in European negotiations, ultimately affecting the final deal the UK and its farmers receive.

- 35% of cotton subsidies are coupled to production, meaning that they distort trade by directly depressing the global price of cotton\(^3\). This has a negative effect on the livelihood of West African Farmers, who are amongst the poorest in the world.

- The Fairtrade Foundation is calling on UK Government to act now to build a coalition of member states and MEPs to end trade distorting cotton subsidies, and to press the Commission to honour its commitment to end cotton subsidies as part of the Doha Development Agenda.\(^4\)

2. What’s wrong with EU cotton subsidies?

2.1 In total, EU farmers currently receive €786m a year in cotton subsidies, of which €280m is spent on subsidising production, depressing the global cotton price. This is to the direct detriment of the seven million people in West Africa who depend heavily on cotton production, and struggle to compete against subsidised cotton.\(^5\)

2.2 Subsidies that undercut West African cotton farmers are undermining UK and EU development aims, as well as bringing into question agricultural and development policy coherence. For example, since 2004 the EU has spent €260m on the EU-Africa Cotton Partnership, whilst simultaneously funding a subsidy that depresses the value of the primary cash crop of West African farmers.

2.3 Whilst the EU accounts for only 2% of global production, EU cotton subsidies represent a significant impasse in WTO negotiations to end trade-distorting cotton subsidies, most notably with the US – the world’s largest exporter of subsided cotton – which can cite European subsidies as justification for its own.

2.4 The EU cotton subsidies policy undermines European trade aims, and hopes of concluding the WTO Doha Development Agreement. As a once every seven years opportunity, failure to address

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cotton subsidies as part of post 2013 negotiations, will cause irrevocable damage to West African cotton farmers’ capacity, based on current rates of decline in production. 6

2.5 Funding EU cotton production undermines the environmental aspirations of CAP policy because European production is water intensive, relying heavily on manmade irrigation 7 which impacts on Europe’s water tables, is grown in monoculture, rapidly depleting soil fertility and is a pesticide intensive crop.

3. Why do cotton subsidies matter to UK farmers?

3.1 EU cotton subsidies represent a significant proportion of the agricultural subsidies of two member states, Greece (€202m) and Spain (€73m), and therefore heavily determines their negotiating position. This, in turn, ultimately influences the final CAP settlement. Cotton subsidies actually form part of these countries EU accession agreements, rather than the CAP agreements, however it is inconceivable that the future of cotton subsidies could be decided outside a wider settlement on CAP. Evidence points to early success of this bloc securing their interests, with the Commission already firmly committing to the future coupled cotton subsidies in its proposals for post 2013.

3.2 Without laying the groundwork now, there is a risk that Defra negotiators could be forced to sacrifice any possibility of ending trade-distorting cotton subsidies for a better deal for UK farmers and/or HM Treasury. We would argue that both should be possible, through the UK indicating a red line on cotton subsidies now, and investing sufficient political capital early on in the process, through coalition building, to prevent this scenario happening.

4. What should UK do about cotton subsidies?

4.1 Defra has already indicated its opposition to trade-distorting cotton subsidies. 8 However, it is yet to demonstrate that it has sought to directly influence the EU Commission’s proposals on the future of cotton subsidies, or begun to build the necessary coalition amongst member states and MEPs to end this subsidy. Other member states are already building coalitions to secure their CAP policy aims, for example, the joint Franco-German policy statement on the future of CAP in September. 9

4.2 We would urge the Committee to explore the Government commitment to ending trade-distorting EU cotton subsidies. In particular, the Committee may wish to pursue the following avenues of inquiry:

- What priority has Defra given to ending EU trade distorting cotton subsidies as part of post 2013 CAP negotiations?

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7 p.11, idem.


• What representations has it made bilaterally to start building a coalition against coupled cotton subsidies?

• What representation has it already made to the Commission about changing its position?

• What efforts have been made to influence UK MEPs, and supporting them to form wider support amongst European Parliament?

• What interdepartmental co-ordination has there been on removal of trade distorting cotton subsidies?

About the Fairtrade Foundation

The Fairtrade Foundation is a registered charity (no. 1043886). It is also a company limited by guarantee, registered in England and Wales (no. 2733136). Our vision is of a world in which justice and sustainable development are at the heart of trade structures and practices so that everyone, through their work, can maintain a decent and dignified livelihood and develop their full potential.

To achieve this vision, Fairtrade seeks to transform trading structures and practices in favour of the poor and disadvantaged. By facilitating trading partnerships based on equity and transparency, Fairtrade contributes to sustainable development for marginalised producers, workers and their communities. Through demonstration of alternatives to conventional trade and other forms of advocacy, the Fairtrade movement empowers citizens to campaign for an international trade system based on justice and fairness.

December 2010
Introduction

The Tenant Farmers Association welcomes the opportunity of providing written evidence to the Select Committee as part of its Inquiry into the impact of Common Agricultural Policy reform on UK agriculture. The TFA believes that this Inquiry is very timely given the publication by the European Commission of its Communication on the CAP towards 2020 published on the 18 November 2010. Earlier in the year the TFA set out its views on the Common Agricultural Policy as part of its 2020 Vision for Agriculture. It is pleasing that there is a great degree of resonance between the Commission’s Communication and the issues set out in the TFA 2020 Vision report. We attach, as an annex to this evidence, the relevant sections of our 2020 Vision document for the benefit of the Select Committee. However, in our main evidence below we seek to answer the questions posed by the Select Committee in its announcement for the Inquiry.

1. **How will the Commission’s proposals affect the ability of UK agriculture to be competitive in a global market?**

1.1 This is a complex and multifaceted question. However, from the TFA’s perspective there are three key issues to consider. Firstly, there is the competitiveness of domestic agriculture within its supply chain, secondly, the competitiveness of domestic agriculture globally and thirdly the ability for agriculture to deal with volatility both in input and output markets. These issues are explored in more detail below.

1.2 The European Commission’s Communication on CAP reform recognises the relatively weak position of agricultural producers in the supply chain. The Commission recognises that agricultural producers have very little power within the supply chain to negotiate input or output prices given the concentration that exists in input supply markets, processing and retailing. The Commission then correctly identifies this as a strong justification for maintaining direct support to agricultural producers through Pillar 1. There is also a recognition that there may need to be some form of regulatory intervention in supply chains to ensure that producers are not unfairly treated in their relationships with processors and retailers. We recognise that the UK Government is also considering introducing a grocery supply chain code of practice adjudicator. The TFA believes that the introduction of such a function is long overdue and whilst it will not in itself solve all the supply chain problems, it will be of significant benefit.

1.3 Turning to the competitiveness of domestic agriculture globally, again the Commission document recognises that domestic producers are not always compensated for the extra costs involved in producing food to high animal welfare and environmental standards. This is due to the competition experienced by domestic producers from third country exports produced to lower standards but at a cheaper price. Once again, the Commission rightly identifies that direct support through Pillar 1 must continue in order to ensure that producers are properly
recompensed for the cost of producing to higher standards since the market is unable to deliver a fair return.

1.4 Finally, agricultural producers are subject to a very high degree of volatility in both input and output markets. Given that production decisions need to be made far in advance of harvest or slaughter this volatility can lead to a boom/bust situation. The TFA is aware of many domestic producers attempting to manage this volatility through use of futures contracts and unfortunately there are many who in so doing have been disadvantaged either because they have locked into a price which turns out to be much lower than the market price at harvest or they experience yield or quality issues at the point of supply which forces them to fulfil their contracts by purchasing the product on the spot market.

1.5 Therefore, the TFA welcomes the Commission’s intention to look at a ‘risk management toolkit’ to consider how volatility can be better managed. Clearly we await the detail of what will be proposed but we envisage it including some form of insurance facility.

1.6 In summary then it is the TFA’s view that in order for domestic agriculture to remain competitive globally, it continues to need direct support under Pillar 1. Removal of this support will inevitably lead to a major reduction in domestic production. We are, however, concerned that the Commission is considering how Pillar 1 could be made ‘greener’. The TFA believes that with the extent of cross compliance conditions imposed on farmers within the UK context that there is no scope for further greening of Pillar 1. Experience has shown elsewhere that if too much conditionality or complexity is added into a scheme then uptake suffers. Uplands ELS in England and Glastir in Wales are cases in point.

2. Do the proposals ensure fair competition for British agricultural products within the European Union?

2.1 The TFA had been concerned prior to the publication of the Commission’s Communication that we would see a greater extent of renationalisation of aspects of the CAP. The TFA believes that such renationalisation would not be in the best interests of UK agricultural producers. We have seen already from the last reform of the CAP in 2003 that there have been differential levels of modulation, differential levels of decoupling and different priorities between Member States using Pillar 2. The TFA recognises that there will need to be some flexibility for individual Member States to manage the CAP according to national interests but the TFA believes that the competitive position of UK agriculture within the context of a European agricultural policy can only be assured where there are strong central rules which apply to all Member States.

2.2 However, a more significant concern for the TFA is the extent to which support accrues to owners of land as opposed to active farmers. A central plank of the Common Agricultural Policy (CAP) over its 50 year history has been to ensure a fair standard of living for “persons engaged in agriculture”. This it did successfully until probably the mid-1980s when a raft of measures were introduced to restrict levels of support and to direct attention towards what we, in today’s parlance, would
call "public goods". Since that time the performance of the CAP in delivering a fair standard of living for farmers has been more variable. A major contributing factor has been the extent to which the benefit of support has accrued to landowners rather than active farmers.

2.3 Therefore, it is pleasing to see the emphasis being given in the European Commission Communication to ensuring that support is better targeted to "active farmers only". The TFA welcomes the intention to tighten these rules at an EU level and we would define the active farmer as the person in day to day management control of the land and who is taking the entrepreneurial or business risk from farming it.

2.4 It is a concern for tenants that CAP payments have become increasingly capitalised into land values through rent and more recently through use of short term tenancy agreements which have allowed landowners to acquire the direct benefit of the Single Payment Scheme (SPS). These issues must be addressed and, as a basic rule, landlords must be prevented from using clauses in tenancy agreements which are coming to an end to claim ownership of SPS entitlements whilst paying little or no compensation in comparison to their value to the tenants concerned. In addition, landlords should be prevented from accessing the SPS by passing on scheme conditions through contracts of tenancy having only ensured that they have the necessary land at their disposal on the required day. The TFA believes that this is contrary to both the spirit and the principles of the CAP and its legitimate emphasis on "active farmers".

2.5 We also need to address those situations where landowners actively farm in hand only a small proportion of their land holding and rent the remainder out. Under current rules these landlords are able to acquire and control SPS entitlements in quantities which far exceed the area of land they are actively farming. They are then able to capitalise on SPS entitlements through contractual clauses in tenancy agreements which require tenants to pass the benefit of any SPS claims to the landlord.

2.6 The development of agri-environment and rural development schemes under the CAP’s second Pillar is also providing an unfair opportunity for landowners to enter those schemes even where the land is being farmed by a tenant. This has been possible through the concept of “management control” which, to a greater extent than the SPS, has allowed landlord’s to participate by actively permitting them to pass scheme conditions to their tenants through clauses in tenancy agreements. As with SPS, only active farmers should be able to participate in such schemes.

3. Will the proposals achieve the correct balance between productivity and sustainability?

3.1 In the discussion about provision of public goods, the TFA has always been concerned that food security is not recognised as a legitimate component of the basket of public goods. As we see the world population increasing, a fundamental part of sustainability must be to ensure that there is sufficient food in terms of both quantity and quality to feed that increased population. The TFA does not believe
that we can leave this to the market alone and that measures do need to be put in place which have food security as its central objective. There is a real danger that in developing the concept of ‘eco-system services’ we overegg the pudding with environmental measures without properly balancing the needs of food security.

3.2 It is imperative that we find the right balance between food and environmental security. In that respect we are pleased to see the emphasis given to food security in the European Commission’s Communication.

4. **Do the proposals place the UK in a good position to help meet future food supply challenges?**

4.1 Inevitably the extent to which the reforms will leave the UK in a good position to contribute to food security will depend on the detail of the proposals. We are not expecting legislative proposals until 2011 with a view to having a reform in place by 01 January 2014. We are encouraged that the Commission document makes the right noises with regard to food security issues. It is also important to bear in mind that it is not just about quantity of food but quality.

4.2 There are a number of areas which we believe need some specific help including uplands, management of volatility, infrastructural and investment needs (particularly where required for meeting wider environmental concerns), protection from unfair competition from cheaper imports of poor quality food, improving the farming ladder and ensuring more flexible rules on EU state aids.

5. **Will the proposals redress the imbalance in support to different sectors created by the historic basis of payment?**

5.1 We do not share the premise of the question that the historic system led to an imbalance in support. What has caused an imbalance in support is the manner in which the different UK authorities have implemented the Single Payment Scheme. In particular, we have been concerned that in England 40,000 new applicants were created by the decision to implement the SPS through a dynamic hybrid model. This increased cost of processing to the Rural Payments Agency and created a whole new category of individuals entitled to support who, in our view, should not have had that access.

5.2 There are also the landlord/tenant concerns that we have referred to above which have created imbalances and need to be corrected in the next reform.

6. **What aspects of the proposals should be made a common policy and which are best left to Member States?**

6.1 The TFA has no further comments to add to those already given in respect of the second question.

7. **Can the proposals be implemented simply and cost effectively within a short timescale?**
7.1 It is certainly the case that the process of reform will be made more complex by the inclusion, on this occasion, of the European Parliament. Previously, although the European Parliament had to be consulted, the Council of Ministers and Commission did not have to take into consideration any of the proposals it made. Now, with the Lisbon Treaty in place, there is full co-decision with the European Parliament and therefore this could lead to a protracted negotiation on this reform. It is hoped that the various institutions are able to come to an early arrangement as to how the negotiation process is to be conducted to avoid unnecessary delays.

7.2 Clearly, all institutions will have an eye to how the reform will be implemented across a European Union of now 27 Member States and possibly rising to as many as 35 over the course of the next reform period.

3 December 2010

Annex

Section 7 of the TFA’s 2020 Vision for Agriculture from the Perspective of the Tenanted Sector of Agriculture

2020 Vision for the Common Agricultural Policy

By 2020 the Common Agricultural Policy should retain a focus for ensuring that it is supporting the livelihoods of working farmers whilst providing a framework for food and environmental security.

7.1 The TFA believes that the fundamental justification for any agricultural policy which supports primary producers should be to correct apparent market failures. In this respect the TFA does not believe that the debate on agricultural policy can be starkly defined on the basis of CAP or no CAP. The issues are far more complex than that. The TFA believes, with all its failings, that the CAP is essentially attempting to address market failures. The question ought to be how the CAP should change to adequately address those failures rather than taking the line that the CAP should be abolished because of its inefficiencies.

7.2 The TFA believes that there are five principal areas of market failure that any agricultural policy should seek to address:

- As economies grow and individuals become more prosperous, they will tend to spend a diminishing proportion of their disposable income on food. This means that those who are responsible for producing food (i.e. farmers) will see a decreasing proportion of national income spent on the products which they make. This is why farmers as a group find it difficult to reap the benefits of economic growth enjoyed by others in society. As incomes rise consumers are also noted to trade up to consume more processed, pre-prepared and restaurant food where the value added goes to parties beyond the farm gate.
• The structure of food marketing, particularly in the UK, has become such that producers face an unfair and wholly unbalanced platform upon which to do business with processors and retailers. For example, in the sugar sector there is one, single, monopoly processor in the UK which has, in the past, used its monopoly position to the disadvantage of sugar growers throughout the whole of England. In the milk sector, there are only a handful of processors and a handful of large retailers purchasing milk from those processors. Evidence produced by the Dairy Co\(^1\) shows that both processors and retailers have managed to maintain or increase their margins over recent years while producers have seen reductions in their margins. Across the whole range of agricultural products, producers face a very small number of large, retail outlets. This unbalanced structure leaves most producers in a very vulnerable position and even with the introduction of a food industry ombudsman these problems are likely to carry on for some time into the future.

• The market cannot deal effectively with issues of long-term food security. The UK is already in a position of only being able to satisfy 70% of its temperate food needs from domestic sources. There has never been any indication provided by previous Governments as to when we should begin to get worried about the level of food security nationally. The TFA is concerned that the current structure of food marketing takes too much of a short-term approach to this issue and feels that there needs to be a more adequate expression of the Government policy towards food security in the long term.

• It is inherently difficult for the market to factor in increased animal welfare and environmental benefits into the pricing structure for food. UK farmers, as noted above, are facing a large degree of regulation in these areas and they are unable to pass the costs of this up the food chain. Many farmers are working hard to meet environmental and animal welfare standards and yet they have to compete for retail space with producers from elsewhere on the globe who often do not have to meet the same standards.

• Connected with the fourth point above, there is a general lack of awareness amongst consumers about the differences in quality of the products which they are purchasing when comparing UK sourced and internationally sourced products. Whilst they might see beef from Ireland, Brazil or Argentina as beef with a different label, it is the case that products from those countries are not perfect substitutes because they have been grown under different conditions and different regulations. More effort needs to be put into making sure that consumers are aware of these differences when purchasing their food.

7.3 The TFA offers the following seven principles for future reform of the CAP.

\(^1\) Dairy Supply Chain Margins 2007, Dairy Co.
• Direct payments through Pillar one must continue to form the principal basis of support through the CAP.

Direct payments through Pillar one continue to be essential to ensure that farmers receive a fair standard of living. It is clear that the marketplace is unable to deliver sufficient profit to the farming community in order to provide for sufficient drawings and reinvestment. Whilst the introduction of a food industry ombudsman in the UK and potentially across the EU will assist, it cannot be seen as a "silver bullet". Recent history has shown clearly that there is a built-in resistance to food price inflation to the extent that it is impossible to ever see a situation where prices in the marketplace will be sufficient to provide an adequate, sustainable return to primary producers.

The support available through Pillar one also recognizes the higher environmental and animal welfare standards to which food is produced within the EU in comparison to those countries outside the EU. These come at a cost to the farming industry. We cannot expect to have these standards maintained and at the same time withdraw the support available through Pillar one. The extra costs faced by the domestic, farming industry are not recoverable from the marketplace and therefore must be recoverable through the public purse.

• Measures must be put in place to ensure that support payments do not become capitalised into land values.

A major concern for the tenanted sector is the extent to which support payments available through Pillar one are becoming capitalised into land values through rent. It is also of concern that land owners, even where they have tenant farmers, are increasingly able to access funding through Pillar one by passing on scheme conditions through contracts of tenancy. We do not believe that this is in the spirit of the CAP nor is it in keeping with the principles of the CAP to provide support to working farmers.

The TFA believes that European rules should make it clear that support payments through Pillar one can only be paid to active farmers. Whilst these rules exist to some extent they are open to significant abuse particularly where large landowners actively farm a small proportion of their land holding in hand and rent the remainder out. In this way they are able to acquire and control entitlements over a larger area of land than they are actively farming. Support payments should not be available to individuals owning land which is being farmed by another individual either as a result of direct claims or through contractual clauses in tenancy agreements requiring tenants to forgo payments which are reserved and claimed by the landlord. Rules must also be put in place to prevent landlords from using clauses in tenancy agreements to claim ownership of single payment scheme (or equivalent) entitlements at the end of the tenant’s period of occupation.

• Rates of modulation should be uniform across the European Union.
The TFA is concerned that farmers in other Member States have a competitive advantage in comparison to farmers in the UK given that they face significantly lower levels of modulation. The TFA appreciates that this is as a result of the UK’s low budget share of funding for agri-environment/Pillar two schemes. However, it is unfair that there should be differing levels of modulation across the EU and they should be standardised at one rate so that there is no competitive distortion between Member States.

- **All Member States should be required to have the same level of decoupling.**

As with rates of modulation, it is unfair that some Member States of the European Union are allowed to continue to provide direct, production related support in certain sectors whereas in other Member States, like the UK, the support has been decoupled. This provides an unfair competitive advantage for producers in those Member States continuing to provide coupled support and must be brought to an end at the next reform.

- **Domestic producers should be protected from imports from non-EU countries using lower environmental and animal welfare standards.**

It is wrong that domestic producers should be required to farm to high animal welfare and environmental standards when imports from other countries are allowed access to the domestic market even though they are produced with lower standards. It is of significant concern that domestic producers are priced out of the market by lower quality products and as a result we simply move to overseas the environmental and animal welfare practices which would not be tolerated at home. We must be allowed to protect our high standards through the use of trade restrictions to block products produced using lower standards.

The EU should argue for globally recognised standards for production of food on the basis of health, welfare and environment. These should be the standards by which every country should be required to produce and those standards need to be audited at national level. Where countries are unable to reach those globally agreed standards, other nations should have the ability to restrict trade from those nations. Once those international standards have been achieved, if the EU or national governments wish to apply higher standards domestically, then producers should have access to direct funding from the state to help them meet those higher standards.

- **Market management instruments should be introduced to assist the industry in managing volatility.**

A consequence of the move away from coupled support has been a major increase in the volatility of returns to primary producers. The TFA is
concerned that the considerable increase in volatility is having a negative impact on our long term food security. Despite its many shortcomings, the Common Agricultural Policy of the past did at least provide a degree of domestic stability to producers which we are now seeing reverse as the market protection the CAP afforded is removed. Whilst the volatility that is now being experienced is leading to the development of ideas for new hedge funds and futures markets, the TFA does not believe that this is a stable framework within which primary producers and their landlords can be expected to invest. The TFA believes that policy solutions need to be developed to minimise the impact of volatility on long term decision making.

The TFA believes that the CAP should create a risk management system which provides an element of insurance against both commodity and input price shocks to smooth out the peaks and troughs in both. We believe that this could be delivered through Pillar one.

- **Measures should be put in place to protect the access of tenant farmers into Pillar two schemes.**

The TFA has become increasingly concerned about the extent to which land owners have been able to access agri-environment schemes even where they have tenant farmers farming their land. The rules on “management control” allow land owners to pass on scheme conditions through contracts of tenancy whilst taking the full benefit of the scheme themselves. As with access to Pillar one funding, we do not believe that this is in the spirit of the schemes created nor in keeping with the principles of the CAP which are aimed at providing compensatory payments to working farmers for the income foregone in participating in Pillar two schemes. These issues must be addressed in any future CAP reform through further European rules to protect the position of tenant farmers. The EU must ensure through an adequate audit trail that the intended beneficiaries of its policies are actually benefiting as opposed to the benefit being siphoned off by others.
Some Misconceptions about Requirements for the Post-2013 CAP

Summary

This submission addresses a number of issues that arise from the European Commission’s latest Communication on the form a reformed CAP should take after 2013. In particular it challenges the presumption that the post-2013 CAP should retain a universal ‘income support’ such as the existing Single Payment Scheme (SPS). The SPS is flawed in that it does not target support on those in need, but instead raises asset (particular land) values; it encourages marginal farmers to remain in business, thus perpetuating the farm income ‘problem’; it is not designed to encourage, and reward, the provision of public goods; and it may be incompatible with the EU’s longer-term commitments in the WTO. In short, it represents poor value for taxpayers’ money and should be phased out.

Global Food Security, particularly in the context of a possible world population of 9 billion by 2050, is one of the critical policy concerns that deserves global attention; but it is best addressed by increasing the earnings (or subsistence food production) of the world’s poor and destitute, whilst ensuring that world food supplies grow to match the increase in overall demand. This is a formidable task, but substantial investment in agricultural R&D (particularly in developing countries), a greater willingness to embrace challenging new technologies, and a more open and liberal trade regime for agricultural products, are likely to be important ingredients in a successful policy mix. Most EU citizens are not food insecure, and although EU agricultural has an important part to play in producing global food supplies it is a fallacy to believe that the CAP has much influence on European food security.

Introduction

1. There have been fundamental changes to the common agricultural policy (CAP) over the last 20 years. A succession of courageous Commissioners for
Agriculture –Ray MacSharry, Franz Fischler, Mariann Fischer Boel– recognised the need for reform and, often facing stiff opposition from the farm lobby, ensured that the CAP became a more rational policy framework in which entrepreneurial and adequately-resourced farm businesses could grow. The CAP now has fewer adverse consequences for the environment, Europe’s taxpayers and consumers, and the international trading community. That process of policy reform must continue. The environmental challenges the world faces –loss of biodiversity, global warming, a human population of 9 billion by 2050, for example– are daunting; many of the EU’s trading partners believe that CAP subsidies still distort world trade; taxpayer costs remain high (although significantly reduced in real terms over the last 20 years); and policy mechanisms hinder the efficient restructuring of the industry. Unfortunately, on the evidence of the Commission’s latest thinking on CAP reform –The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future– the present Commissioner for Agriculture and Rural Development Dacian Cioloș (along with ministries for agriculture in a number of member states, and many members of the Committee on Agriculture and Rural Development in the European Parliament) has yet to recognise the need to follow the lead of his reforming predecessors.

2. This submission focuses on just three aspects of the many issues raised by the Commission’s Communication and recent debates about the future of the CAP: i) justifications for the Single Payment Scheme (SPS), ii) food security, and iii) the compatibility of the EU’s SPS expenditures with its World Trade Organization (WTO) commitments.

What is the Single Payment Scheme (SPS) For?

3. Direct payments form the largest share of EU public expenditure on the CAP (see Table 1). At a time when governments across Europe are scrutinising their national budgets in the wake of the banking and Sovereign Debt crises, it is difficult to understand how the CAP might be excluded from this review. Thus a series of
questions arise, for example: what is the Single Payment Scheme for, and is taxpayer money well spent?

Table 1: CAP Expenditure in the Commission’s Original Draft Budget for 2011

<table>
<thead>
<tr>
<th>Payment Appropriations</th>
<th>€ million</th>
<th>% of total budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPS and SAPS (ex Chapter 05.03)</td>
<td>35,726.0</td>
<td>27.5</td>
</tr>
<tr>
<td>Other direct aids (remainder of Chapter 05.03)</td>
<td>4,185.1</td>
<td>3.2</td>
</tr>
<tr>
<td>'Interventions in Agricultural Markets' (05.02)</td>
<td>3,491.8</td>
<td>2.7</td>
</tr>
<tr>
<td>Rural Development (05.04)</td>
<td>13,401.1</td>
<td>10.3</td>
</tr>
<tr>
<td>Total Draft Budget</td>
<td>130,136.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

SAPS: The Single Area Payment Scheme applied in most of the new Member States
Source: European Commission (2010a)

4. In 1992, when arable area payments (and enhanced headage payments for beef animals) were introduced into the CAP, their purpose was to compensate farm businesses for the implied revenue loss stemming from reductions in the level of market price support (Cunha and Swinbank, 2011: 77). It was these area and headage payments, in the main, that in the 2003 reform formed the core of the SPS; but now relabelled ‘an income support for farmers’ (Article 1, Regulation 1782/2003). This concept of ‘income support’ reappears in the Commission’s Communication (p. 8), where it is stated: ‘The future of direct payments … could be based on the following principles’, including ‘Basic income support through the granting of a basic decoupled direct payment, providing a uniform level of obligatory support for all farmers in a Member State (or in a region).’
5. It is a curious anomaly, stemming back to the original Treaty of Rome in 1957, that agriculture is the only economic sector that qualifies for EU-funded ‘income support’; but also an indictment of the CAP’s failure to redress any real or perceived income gap. Whilst the income situation in the rural areas of the central and eastern European states that joined the EU in 2004 and 2007 warrants concern, it is difficult to accept without qualification the Commission’s claim (p. 5) that agricultural income is ‘significantly lower … than in the rest of the economy’. There are big farms, and small farms, in all Member States, and small farms are often run on a part-time basis, combined for example with other business activities. Comparing like with like is difficult, and generalisations about ‘farm income’ can be misleading. One dimension of the diversity of circumstances in an individual Member State is the distribution of direct payments to farmers in the UK in 2008 (see Table 2).

6. Whilst multiple claims per farm business cannot be excluded, the data does suggest that over 30% of claimants received €2,000 or less, and it is unlikely that most of these were full-time farm businesses relying upon the SPS for income support. On the other hand, nearly 10% of claimants received €50,000 or more, scooping more than 50% of the funds disbursed in the UK in 2008. Despite being called ‘income support’, the income (or wealth) of the recipient is not a criterion in determining payment: there is no targeting of support on low-income households. With the regionalised system of payments, support is instead linked to the area farmed (which is likely to be positively correlated with income). Mindful of such concerns, the Commission (p. 8) has suggested that if basic income support through direct payments is to be maintained, then ‘an upper ceiling for direct payments received by large individual farms (“capping”) should be considered to improve the distribution of payments between farmers’. Capping has been proposed before –for example, by Franz Fischler in 2002, at €300,000 (Cunha and Swinbank, 2011: 132)– and rejected, in part because of opposition from the UK. But a €300,000 cap on ‘income support’ would probably be seen as quite generous by most taxpayers.
Table 2: Direct Aids to Producers in the UK, Financial Year 2008 (All direct payments under Regulation 1782/2003)

<table>
<thead>
<tr>
<th>Payment band (€)</th>
<th>% of Recipients</th>
<th>% of Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>≥ 0 and &lt; 500</td>
<td>12.93</td>
<td>0.17</td>
</tr>
<tr>
<td>≥ 500 and &lt; 1,250</td>
<td>11.54</td>
<td>0.51</td>
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<td>≥ 1,250 and &lt; 2,000</td>
<td>6.84</td>
<td>0.58</td>
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<tr>
<td>≥ 2,000 and &lt; 5,000</td>
<td>14.33</td>
<td>2.53</td>
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<tr>
<td>≥ 5,000 and &lt; 10,000</td>
<td>12.56</td>
<td>4.87</td>
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<tr>
<td>≥ 10,000 and &lt; 20,000</td>
<td>14.12</td>
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<td>≥ 500,000</td>
<td>0.05</td>
<td>2.46</td>
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Excludes net repayments, and so totals do not round to 100%


7. If there is still a farm income ‘problem’ among the generality of European farmers, despite the CAP’s 40-year history, why is this? Throughout this period (and probably well into the future) productivity improvements have meant that an ever decreasing farm population has been capable of delivering the food and other agricultural raw materials that Europe’s population requires. As jobs are shed, and farms enlarged, farm families often experience severe adjustment problems, and marginal farms suffer low incomes. The ‘old’ CAP of market price support, and the
'new' CAP based on direct payments (such as the SPS), were both as incapable of arresting these major economic forces as King Canute was unable to stop the advancing tide. Support has meant that more farm families have been ‘encouraged’ to remain in agriculture, hoping against hope their situation might improve, whilst the bulk of the benefits of farm support have gone to existing landowners. Tenant farmers are unlikely to be long-term beneficiaries; and new entrants certainly do not benefit if they have to pay inflated land prices or rents (as they will) to enter the subsidy treadmill.

To Offset the Cost of Regulation?

8. The SPS is sometimes justified as a reimbursement of the cost of regulation. Thus the Commission’s Communication (p. 7) suggests that ‘European farmers face competition from the world market whilst also having to respect high standards relating to environmental, food safety, quality and animal welfare objectives requested by European citizens’. This comment is overly simplistic and ignores two important facts. First, in high-income economies, most industries are likely to have to respect stiff environmental standards: it is simply the cost of doing business there. But second, unlike most economic sectors which ‘face competition from the world market’, many agricultural products are protected by high tariff barriers which will remain significant even if the sweeping tariff reductions proposed in the Doha Round are implemented. To have both high tariff protection and direct payments to compensate for the cost of regulation seems overly generous.

9. Animal welfare standards can be problematic if citizens as consumers do not show the same concerns they express as voters, and international acceptance of appropriate labelling schemes would be helpful (Swinbank, 2006). But the suggestion that European farmers face import competition because of the lower food safety standards of imported products is a serious charge. Is it suggested that the food industries wilfully and illegally import unsafe food; and if it is not illegal to import unsafe food, why so?
10. Multifunctionality – the notion that farming provides a range of desirable environmental and cultural public goods that are not rewarded by the market – is not a term used in the Commission’s Communication, or other recent documents (probably because of sensitivities in the WTO). Multifunctional agriculture was however praised in the recent Franco-German declaration arguing for a ‘strong common Agricultural Policy beyond 2013’, and the concept still lurks in Commission thinking. Its Communication (p. 4), for example, states that ‘Decoupled payments provide today basic income support and support for basic public goods desired by European society’. Apart from Pillar 2 (Rural Development) measures, there are however no mechanisms in place to ensure that farm businesses deliver public goods (other than the cross compliance and Good Agricultural and Environmental Condition (GAEC) provision of the SPS regulation), or that the SPS payment to any particular farm reflects the cost of provision (a WTO requirement) or the value society places on the public good.

11. The Commission has however suggested that more might be asked of recipients, to enhance ‘the environmental performance of the CAP’ for example ‘through a mandatory “greening” component of direct payments by supporting environmental measures applicable across the whole of the EU territory’. But, as with existing provisions, there is no attempt to link payments to cost of provision, or benefit to society. It would be more efficient to pursue these objectives through targeted policy mechanisms in Pillar 2.

Food Security

12. The Commission reports (p. 2) that one of the concerns expressed in its consultations was the need to ‘preserve the food production potential on a sustainable basis throughout the EU, so as to guarantee long-term food security for European citizens and to contribute to growing world food demand …. Europe’s capacity to deliver food security is an important long term choice for Europe which cannot be
taken for granted’. Although not specifically endorsed, the reader is left with the impression that the Commission believes that a strong CAP, ‘structured around its two pillars’, is important for Europe’s food security. But what is ‘food security’, and can it be promoted by the CAP?

13. Aside from natural disasters, and the breakdown of distribution systems in times of war, civil strife, or financial collapse (for all of which governments need to plan, and make emergency provisions), a household’s food security rests upon its ability to purchase enough food. Thus most (but not necessarily all) of the EU’s citizens are ‘food secure’, because of their purchasing power, and regardless of the volume of food raw materials supplied by Europe’s farmers. If shortages occur, sadly it will be the poor and destitute in much poorer parts of the world who will go hungry. It would require a major increase in retail food prices (and hence much higher increases in farm-gate prices) to convince us to change our diet (eat less meat for example), waste less food, or feed fewer cats and dogs. The only effective way of improving the food security of the poor and destitute is to increase their earnings (or subsistence food production), whilst ensuring that world food supplies grow to match the increase in overall demand. Quite whether and how this can be done through to 2050 is uncertain, but substantial investment in agricultural R&D (particularly in developing countries), a greater willingness to embrace challenging new technologies, and a more open and liberal trade regime for agricultural products, are likely to be important ingredients in the policy mix. Despite the urgent need to combat global warming, promotion of first generation biofuels is probably not a good idea. Europe’s farmers do of course make an important contribution to world food supplies, but it is a delusion to believe that there is a magic level of ‘self sufficiency’ that guarantees our food supplies. It is food in the supermarket that matters, rather than raw materials on farms, and the CAP as we know it plays little role in that.

WTO Commitments
14. An important factor underpinning the CAP reforms of the past two decades has been the pressures and constraints imposed by first the Uruguay Round of GATT (General Agreement on Tariffs and Trade) negotiations, second the new world trade regime with its revised Dispute Settlement procedures under the WTO, and third negotiations in the as yet unfinished Doha Round (Daugbjerg and Swinbank, 2009). The decoupling of support, first with the area and headage payments in 1992, and then with the creation of the SPS in 2003, has been central to this.

15. The EU has claimed that, as a result of the 2003 and subsequent reforms, the bulk of CAP support has been shifted from the so-called amber and blue boxes into the green box. Amber box support is trade distorting, and the amount of amber box support the EU can give its farm sector is limited by the Uruguay Round Agreement on Agriculture. Although this constraint is not binding for the moment, it will bind tightly once the new disciplines envisaged in a Doha Round agreement are applied (Josling and Swinbank, 2011). Green box measures are deemed to have little impact on production and trade, and consequently there are no expenditure constraints on green box support, although tightly defined criteria have to be met (outlined below). Little change is expected as a result of Doha. Blue box support is an in-between category, of partially decoupled payments, which housed the area and headage payments of the MacSharry reforms, and is currently subject to no expenditure limits. A Doha agreement would impose tight, and binding, constraints on blue box support. Thus, although the CAP might have some problems with the envisaged cuts in import tariffs, the Fischler and subsequent reforms appear to have made the CAP more-or-less compatible with the likely constraints on domestic support in a Doha agreement. This has allowed the EU to adopt a far more proactive stance in the Doha Round than was possible in the Uruguay Round.

16. The EU’s claim that expenditure on the SPS sits securely in the green box could, however, be challenged. If the WTO’s Dispute Settlement Body were to rule that the SPS is not a green box policy, then the payments would revert to the amber or blue boxes. For the moment that would not be a problem, but with new amber and
blue box constraints in place after a successful conclusion of the Doha Round such a conclusion would result in the EU being in breach of its domestic support commitments.

17. There are two ways in which the EU’s classification might be challenged in a WTO dispute. First, it might be argued that the scheme does not meet the detailed criteria set out in Annex 2 to the Agreement on Agriculture: this was a problem the United States faced when Brazil challenged its subsidy schemes for Upland Cotton (Daugbjerg and Swinbank, 2009: 117-9). Second it might be argued that the SPS flouts the overarching criterion that green box measures should ‘meet the fundamental requirement that they have no, or at most minimal, trade-distorting effects or effects on production’.

18. The detailed, policy-specific, requirements for decoupled income support in Annex 2 include the requirements: i) that ‘Eligibility for such payments shall be determined by clearly-defined criteria such as income, status as a producer or landowner, factor use or production level in a defined and fixed base period’; ii) ‘The amount of such payments in any given year shall not be related to, or based on, the factors of production employed in any year after the base period’; and iii) ‘No production shall be required in order to receive such payments’.

19. However the SPS is an annual scheme under which SPS entitlements are only activated by matching them with eligible agricultural land at the farmer’s disposal. Thus it might be said that payments are based on ‘factors of production employed’ in particular years after the base period, violating the green box criteria.

20. Furthermore the Commission is caught between the European Court of Auditors and the WTO. SPS recipients must be farmers, and as the Court of Auditors (2009: paragraph 5.47) has pointed out: ‘In order to be eligible for aid, farmers must carry out an agricultural activity. An agricultural activity is defined to mean the
production, rearing or growing of agricultural products including harvesting, milking, breeding animals and keeping animals for farming purposes, or maintaining the land in good agricultural and environmental condition (GAEC).’ However (paragraph 5.49) it ‘found shortcomings concerning the Member States’ definition of what is required to maintain land in GAEC such that certain beneficiaries are paid aid … without doing anything with the land concerned.’ The Commission, in response, pointed out that ‘national criteria should not create an obligation to produce which would not be compatible with the WTO requirements’ (in Court of Auditors, 2009, paragraph 5.49); but in its recent Communication (p. 9) it has suggested that ‘changes in the design of direct payments should go hand in hand with a better definition and targeting of support to active farmers only, responding to the criticism of the European Court of Auditors.’ Quite how this can be done without further compromising the SPS’s green box claims is unclear.

21. The Commission is well aware that it cannot say that direct payments (e.g. the SPS) result in a larger volume of agricultural output in Europe than would otherwise be the case, for it knows that any such statement would flatly contradict the EU’s claim that, as genuine green box payments, they meet ‘the fundamental requirement that they have no, or at most minimal, trade-distorting effects or effects on production’. Its discussion of food security in its Communication, however, comes close to implying that direct payments do result in more EU food production. Furthermore, an earlier –leaked– draft of its Communication¹ had said of reform option 3 (which was there labelled ‘abolished market and income support’; p. 11) that: ‘Those requesting a more radical reform of the CAP advocate moving away from income support and most market measures, and focussing entirely on environmental and climate change objectives. This alternative could have the advantage that it would allow for a clear focus of the policy. However, this would lead to a significant reduction in production levels, farm income, and the number of farmers for the most vulnerable sectors and areas, as well as cause land abandonment in some areas ….’

¹ Available, for example, at: http://dl.dropbox.com/u/11261695/DraftDocumentCAP.pdf (last accessed 30 November 2010).
both versions of the Communication had earlier assured the reader that ‘to a large extent the market measures, which were the main instruments of the CAP in the past, today provide merely a safety net only used in cases of significant price declines’ (p. 4 of the official text, with similar wording on p. 3 of the leaked text), it is difficult to avoid the conclusion that the Commission does believe that direct payments do have some impact on production.

Conclusions

22. Food Security, particularly the global food security of potentially 9 billion humans by 2050, is an important policy concern; but fiddling with the CAP is not an appropriate policy response to this formidable challenge and will do little to change the availability of foods in European supermarkets.

23. A major part of existing CAP expenditure is devoted to direct payments, particularly the Single Payment Scheme (SPS). There is little evidence to suggest that this taxpayers’ money is well spent. It is not targeted ‘income support’; the bulk of the payments are received by larger farm businesses; and it results in inflated asset prices, and complex rental arrangements, discouraging structural adjustment. Whilst multifunctionality might well be a desired attribute of European agriculture, the SPS is an inappropriate policy instrument to cost-effectively deliver public goods. Moreover, the SPS might not be a green box measure within the WTO, and could be challenged in the future. Its antecedents were compensation payments for the 1992 reforms: 20 years later it is time to phase-out the SPS and focus on other, more pressing, priorities.

December 2010

References


Supplementary written evidence submitted by Alan Swinbank (CAP 09A)

Response to the Committee’s Supplementary Questions

Question 1. Your evidence referred to the likely increase in global food prices in future. Is it inevitable that farmers’ profitability will increase as a result of these increases? Or is it likely that prices will rise in line with costs, or that any profits will accrue later down the supply chain?

1.1. There are two sides to the equation. Analysts are concerned about rising costs (for fuel, agrochemicals, labour, etc.), and potential future cost increases associated with global warming. Consequently, simply to stand still, commodity prices need to increase. Not all farmers will be equally affected: those heavily dependent on the inputs with the highest cost pressures will be squeezed; whereas those less dependent on these inputs may see their margins increase.

1.2. The more fundamental issue, however, would appear to be a concern that demand increases—more mouths to feed, changes in diet in China and India in particular, biofuels, etc.—could outstrip the world’s capacity to produce more. This needs to be matched by an increase in supply, which will only be forthcoming if an appropriate price signal is passed back to farmers, and they produce more. If higher prices did not feed back to farmers, and no more was produced, then the price mechanism could only bring demand back into line with available supplies by pricing the poor out of the market.

1.3. Some of the benefit of higher prices will doubtless be captured by trading and processing companies along the food chain. Farm costs will increase: more machinery and agrochemicals will be bought, profit margins for supplying firms will strengthen, and landlords will seek to charge higher rents for new tenants. Long-standing and well established farm businesses stand to gain in this scenario; but many farmers will remain on the profitability margin, dependent upon on a continuation of high farm-gate prices to cover their costs and borrowings, and vulnerable to any future
downturn in profitability. So I suspect the European Commission will find cause to lament about depressed farm incomes well into the future.

1.4. My concern is with the millions of consumers who are pushed into poverty as a result of an increase in food commodity prices. The World Bank has just reported that its ‘Estimates of those who fall into, and move out of, poverty as a result of price rises since June 2010 show there is a net increase in extreme poverty of about 44 million people in low- and middle-income countries’.¹

Question 2. The Jongneel et al. study (2007) looked at the effects of cross-compliance on trade balance. Would it be fair to conclude from this study that the ‘cost’ of cross-compliance is less than the ‘compensation’ from the single farm payment?

2.1. I presume this refers to the report Compliance with mandatory standards in agriculture: A comparative approach of the EU vis-à-vis the United States, Canada and New Zealand published by the Agricultural Economics Research Institute (LEI) in The Hague.² I was not familiar with the study, but I have now glanced at its conclusions.

2.2. The report focuses on the cost of statutory management requirement (SMRs), such as the Nitrates Directive, and the additional costs associated with the good agricultural and environmental condition (GAEC) provisions of cross compliance. The conclusions do not highlight any numbers, but it is reported that: ‘The (additional) costs of cross compliance associated with the GAECs is found to be rather low. A lot of farms (animal holdings) will probably face no costs at all, where others (arable farms) might face some costs, in particular costs associated with maintenance activities (soil cover, erosion control). These will be generally low, and often wholly or partly offset by additional returns’ (p. 112).


2.3. It does report that ‘costs of compliance with the SMRs can be significant. In particular the costs associated with the Nitrate Directive and Animal Welfare requirements could have serious impacts’. It had earlier suggested, however, ‘The SMRs which are part of cross compliance are all pre-existing legislation, and costs associated with complying should be primarily attributed to this legislation and not to cross compliance. (Additional) costs are expected to be minimal unless measures need to be taken to comply with SMR standards that were previously (partly) ignored’ (p. 112). I would agree with this, and thus I do think it is reasonable to conclude from this study that the ‘cost’ of cross-compliance is less than the ‘compensation’ from the single farm payment.

2.4. It might also be pointed out that farmers in nitrate sensitive areas do not receive an enhanced Single Payment because of the extra compliance costs they face.

2.5. Whilst farmers in the New World might not face similar SMRs, this reflects in part the New World’s lower population and farming intensities: ‘Lower regulation intensity however, does not necessarily imply a higher level of environmental degradation, biodiversity loss, or harm to animal welfare’ (p. 113). A country’s comparative advantage can stem from a number of sources: more fertile soil, more reliable rainfall, lower labour costs, or a lower regulation intensity.

Question 3. Would removing the single farm payment mean that food prices would need to go up to pay for the extra environmental and animal welfare standards imposed in the EU?

3.1. This question might be rephrased as: is the single farm payment decoupled?; an issue also addressed in paragraph 5.5 below. If it is fully decoupled then the output of European agriculture should not be affected by its removal; but very few observers appear to believe that.

3.2. Consequently there might be some contraction in supply of products subject to tough environmental and animal welfare standards if the Single Payment Scheme was abolished. This would lead to some (small) increase in world market prices, and
in EU prices where these are effectively linked to the world market. If that price linkage were absent—with import barriers effectively prohibiting imports for example—there would be a more marked (positive) impact on EU prices, helping producers recoup their costs. Furthermore, if the product is sufficiently differentiated in the eyes of consumers, and if this is a preferred product that consumers are willing to pay for, then again the market could deliver the revenues required by EU farmers.

**Question 4.** Which Directorate-Generals in the EU Commission have responsibility for determining how open the EU agricultural market is to world trade? Do you understand the Commission’s Communication to be proposing any specific measures that would affect how open the EU market is to world trade (aside from the overall level of subsidy)?

4.1. All the Commissioners, acting collectively as the College of Commissioners, are jointly responsible for trade policy, and each has the possibility of contributing to the debate. However it is the Commissioner for Trade, Karel De Gucht, and the Directorate-General for Trade over which he presides, that takes the lead and has prime responsibility. During earlier GATT/WTO trade negotiations, former Agriculture Commissioners Ray MacSharry and Franz Fischler took prime responsibility for the agriculture dossier, but that practice seems to have lapsed some years ago.

4.2. The Commission’s Communication, *The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future* (COM(2010)672), makes little mention of world trade, and what it does say is fairly neutral. On page 4 it notes that it is essential that the EU respects its commitments in international trade, and later on the same page it talks about the possible conclusion of the Doha Round and of bilateral and regional trade agreements under negotiation. On page 7 it notes that European farmers face competition from the world market, whilst ‘having to respect high standards relating to environmental, food safety, quality and animal welfare objectives requested by European citizens’ (I presume that the use of the word high,
rather than higher, was intentional). So the direct answer to the question is: No, no specific proposals.

4.3. By contrast, the Commission’s consultation document (*The Reform of the CAP Towards 2020: Consultation Document for Impact Assessment*) issued at about the same time, has a quite different feel (and appears to have been written by different people). In this document the European Commission, to my mind, adopts a more open and positive approach. In particular on page 8 it says: ‘The EU will continue its efforts to seek the conclusion of an ambitious, balanced and comprehensive agreement in the Doha Development Round. As part of an overall package deal, the EU has indicated its readiness to accept a steep reduction in the ceiling on its trade-distorting subsidies, the elimination of its export subsidies and a significant reduction of its border protection. In parallel, the EU will actively pursue its agenda of bilateral or regional trade negotiations, which come as a complement to the multilateral ones. This means that the EU agricultural sector will be exposed to growing pressure and volatility of prices and income and, as a result, production is likely to adjust. At the same time, new trade agreements provide opportunities for EU agricultural exports. And EU role [sic] in world agriculture makes it an important actor in the global standard setting for sustainable agricultural production and consumption’. The last sentence does suggest that the European Commission would like to negotiate new international standards, on animal welfare for example, but gives no hint that it would unilaterally seek to reduce trade access. Would the real European Commission identify itself please!

Question 5. The economist, Josef Stiglitz, said recently that EU agricultural subsidies were responsible for underinvestment in agriculture in developing countries, and therefore for the current high food prices. With the modern structure of the CAP, is this still the case?

5.1. Joseph Stiglitz, formerly chief economist at the World Bank, is an able, and politically astute, economist, whose opinions I respect. On the *Today* programme on Radio 4 on 19 January 2011, talking about the current spikes in food commodity
prices, he did indeed suggest that one of the contributory factors had been underinvestment in agriculture in developing countries, and that one of the reasons for this had been the ‘high subsidies’ to agriculture, particularly in the US and Europe.\(^3\) I would not disagree with his comments in the broadcast. Most of his interventions related to US farm policy.

5.2. The ‘old’ CAP of market price support undoubtedly distorted world markets, leading to underinvestment in agriculture in many developing countries; but they too were capable of pursuing policies that discouraged investment in their domestic farm sectors! The EU policy for sugar was particularly grotesque and Byzantine. Efficient agricultural exporters competed against subsidised EU (and US, and other) production, which reduced their incentive to invest. Net food importers, in the short-term at least, benefited from depressed world market prices, but this discouraged investment in the agricultural sector with a longer-term impact. Because of the EU’s high tariffs, preferential access to the EU’s highly-priced market (for example for sugar and bananas) could be offered to preferred suppliers in the developing world (for example under the old Lomé Convention for the African, Caribbean and Pacific (ACP) states, and more recently under the Everything but Arms initiative for the least-developed countries). This, arguably, encouraged perverse investments in these sectors that could not be sustained in the longer term; and a number of such economies are now facing severe adjustment problems as a consequence of EU policy change.

5.3. But as your question rightly notes, the CAP of 2011 is rather different to that of twenty years ago. Can the same criticisms still be levelled at today’s CAP?

5.4. Inflation and policy reform have reduced not only real but also nominal support prices. Consequently, given today’s buoyant world market prices, export subsidies are no longer relevant; and it is likely that export subsidies will be prohibited in a post-Doha WTO trade regime.

5.5. The bulk of support has switched to the supposedly decoupled Single Payment Scheme. In theory, this (and other Green Box measures pursued by the EU under its Rural Development Programme) has minimal impact on production, and hence on the trading interests of other countries. Many developing countries, non-the-less, are extremely dubious about this claim, and say that they believe EU policy still distorts world trade. Short of abolition of all farm support in the EU, however, it is difficult to see how much more decoupled the policy could be.

5.6. The main element still protecting EU agriculture is the high tariffs that are applied, which in some instances are prohibitively high. These means that efficient exporters elsewhere have difficulty selling into the EU market; and that prices in the protected EU market are often well above those on world markets, thus stimulating EU production. Consequently the charge that the CAP still distorts world trade is still valid—though much less valid than it was—and this may well impact on investment decisions in developing countries. A successful conclusion to the Doha Round would do much to address, but not eliminate, this distortion.

5.7. European policy-makers should perhaps also consider the shadow that the CAP still casts over the world scene. Governments and investors in developing countries will be reluctant to invest in agricultural projects if they remain unsure about the effects of EU (and US, and other) farm policies, or fear that the EU may rescind its current commitment to decoupled support.

18 February 2011
Written evidence submitted by the  
Royal Society for the Prevention of Cruelty to Animals (CAP 10)

Executive summary
The reforms of 1999 and 2003 were important in obtaining measures to achieve animal welfare goods, but the few measures under Pillar II have not been adequately funded, and cross compliance is questionable as to its effectiveness to improve animal welfare. The Commission’s Communication (COM 2010 672/3), whilst advocating that farming communities need to be supported for animal welfare measures, does not contain any specific measures on improving or promoting animal welfare. The RSPCA fears that the proposals will achieve nothing to improve animal welfare under the CAP and may place British farmers at a competitive disadvantage in the EU.

1. The RSPCA welcomes the opportunity to comment on the effects of the CAP reform on British agriculture, as it relates to animal welfare.

2. *How will the Commission’s proposals affect the ability of UK agriculture to be competitive in a global market?*  
Welfare improvements in the way animals are farmed have been made in specific legislation in the pigs, chickens, calves and laying hens sectors. There have been suggestions that these disadvantage the EU against products being more intensively farmed in other countries worldwide. For instance, studies in the laying hens sectors show a production cost difference of 8-10% when moving to the enriched cage system, and 46-59% when moving to a free range system. Economic research on laying hen standards in the third countries expected to export to the EU shows a competitive advantage from the main exporting countries. Economic analysis has also been done in the broiler and pig sector.

3. At present UK farm animal agriculture is not under threat from imports from non EU countries where standards are lower, with the exception of egg products. The beef and chicken imported under retailer own standards are at or above minimum EU standard and if stocking density is taken as an indicator of welfare, chicken is produced at or above the EU. However, liquid and dried egg are being imported at poorer standards than are currently in the UK. The CAP reforms do not contain any real incentives for producers to level this playing field.

4. There is little detailed information in the Communication to show how the reformed CAP payments will assist British farm animal agriculture exports compete globally. Assistance measures, such as marketing grants, have not been widely used in the UK and other measures such as financial assistance to change production systems have not been used at all. In Ireland producers were given incentives in 2010 to change over from battery cage systems to more extensive systems under Pillar II payments. There seems a mismatch

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1. The Case against Cages 2005 RSPCA, Hard boiled Reality 2001 RSPCA  
3. The economic consequences for the broiler industry of legislatively enforced reductions in maximum stocking density. Centre for Rural Research, Exeter University 2005  
between the lack of detail in the proposals and the Commission’s willingness to ensure higher welfare standards are addressed in bilateral trade negotiations.

5. **Do the proposals ensure fair competition for British agricultural products within the European Union?**

Outside of cross compliance, there are no compulsory measures to promote animal welfare in the CAP. The four devolved authorities have tended to take a laissez faire attitude to animal welfare under the CAP with only Scotland introducing a specific measure under Pillar II to promote animal welfare, which did translate into improvements in sheep and dairy cattle.”

6. **Is it difficult to see how the proposals in the Communication, which contain no new compulsory measures, will ensure fair competition for British agricultural products, particularly in those sectors such as chicken and pig production where British standards are above some of the other Member States and competition will be much greater than on a global level?**

7. **There is no incentive in the proposals to ensure that minimum legal standards are complied with, despite the competitive advantage for farmers in Member States where compliance with the legal standards is poor. As their production costs are generally lower, this can lead to trade distortion at intra-community level. Enforcement actions are generally not sufficient and the sanctions that are imposed to producers are not dissuasive or proportionate. The system of penalties and infringement procedures is slow and inefficient.**

8. **The Commission should undertake financial studies on the effects of differences in welfare standards and in enforcement of those standards on competition and this should inform measures that could be proposed under the CAP reform.**

10. **Will the proposals achieve the correct balance between productivity and sustainability?**

No. The biggest part of CAP funding on animals still goes to the larger farms as direct payments, with no other condition than cross-compliance. The only potential measures promoting animal welfare in the first pillar are in Article 68 where member states can use part of their national envelope “for practising enhanced animal welfare standards”. The Netherlands is the only Member State which is planning to use it for animal welfare in 2011. There are no incentives under the proposals that would change this position.

11. **Do the proposals place the UK in a good position to help meet future food supply challenges?**

The Communication contains no specific details on how it will meet consumer demands for animal welfare and ensure a future food supply. The proposals lack the introduction of any specific animal welfare measures, or non contractual actions into Pillar 1 payments, unless these could be introduced via the greening component proposal. The RSPCA would support measures to assist animal welfare under the greening proposal but it is not clear that this is the Commission’s intention. Without these measures it is unclear how

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the CAP can and should respond to the needs for increased and better (ie more humane) food production.

12. Will the proposals redress the inbalance in support to different sectors created by the historic basis of payments?
No, it is difficult to see how the present inbalance in historic payments will be corrected. Most pig, laying hens and meat chicken farms do not receive pillar I payments. The RSPCA has called for a substantial part of agriculture subsidies to be used to promote environmental protection and improvement of animal welfare, so being consistent with the objective of the EU Sustainable Development Strategy. Payments could be incentivized to improve the way animals are treated, for instance by tailoring subsidies only to those who respect the law, but the proposals contains no ideas on such areas unless animal welfare is tacked on to the environmental payment.

13. What aspects of the proposals should be made a common policy and which are best left to member states?
Mandatory policies should be implemented on Pillar I payments by keeping cross compliance measures on animal welfare and introducing an animal welfare measure in to the “greening payment” proposed under Pillar I. Payments under Pillar II, agreed in 2003, have suffered from a lack of funding which has resulted in few measures being proposed by Member States. Even though there are 90 rural development schemes under the 2007-13 programme that have programmes where animal welfare could benefit, only eight countries have taken the two specific animal welfare schemes under 16 different programmes. A common policy so that Member States introduce at least one animal welfare measure under Pillar II payments would rectify this. It would be left to Member State discretion which policy.

December 2010
Introduction
1. The Committee’s inquiry into the impact of Common Agriculture Policy (CAP) reform on UK Agriculture is timely given the European Commission’s publication of its Communication “The CAP towards 2020” on 18 November. The Government is still considering the implications of the Commission’s proposals; some of the responses set out in this response are therefore provisional. The Communication itself is vague on a number of points; the precise nature of what the Commission is proposing may not become clear until it publishes legislative texts next year. Finally, this response presents the Government’s thoughts and does not necessarily reflect the views of the Devolved Administrations, who will, however, continue to play an active role in the development of the UK’s negotiating position.

Reforming the CAP
2. Reforms to the CAP and to other areas of the EU Budget are considered in tandem every 7 years. Whilst previous reforms have helped to correct some of the more significant weaknesses of the CAP, more needs to be done in preparing Europe’s farmers for the challenges to their competitiveness and sustainability which the coming decades will inevitably hold. CAP is the largest single element of the EU’s budget, accounting for 43% of spending in the financial period 2007-2013. Spending on the CAP will need to reduce very materially during the next Financial Perspective: the future CAP must be affordable, and EU spending on agriculture must deliver real value for money for EU citizens.

3. Defra wants to see agricultural policy encouraging farmers to improve their businesses to the point where they are viable and sustainable without subsidies. In future, farmers should be adequately rewarded for their provision of public goods, and should not receive permanent income subsidy.

4. The fundamentals of the global markets for agricultural produce are increasingly favourable to such an approach, with increased demand for the sort of high quality, sustainable and ethically sound produce European farmers are skilled at producing. Yet the CAP in its present form risks jeopardising efforts to open those new markets. The CAP is often cited as an obstacle to greater market orientation and the liberalisation of trade. The UK and the rest of Europe need to move towards more competitive, sustainable, market orientated farming by reducing barriers to trade and incentivising producers to take their own future in a competitive world market, and for providing public goods, addressing climate change and enhancing global food security.

The Commission’s Communication
5. The Communication offers three options for CAP Reform which can be summarised as follows:
i. Enhanced status quo – incremental change, with greater equity for direct payments, risk management tools and streamlined market measures

ii. Restructuring pillars and embedding sustainable support - greening of Pillar 1, providing minimum level of income support with support for specific natural constraints, capped payments and small farm schemes, new risk management toolkit, some improvements to Pillar 2 (including allocation), with retention of the LFA payment in Pillar 2.

iii. Ambitious reform – removal of direct payments and market management tools. Payments for public goods only which are environment and climate change specific.

6. The bulk of the Communication focuses on option ii which seems to be the Commission’s preference, but there is overall a lack of detail on how many of these proposals would or could be put into effect.

7. On Pillar 1, the proposals include: direct payments comprising of a basic income payment (subject to a simplified but not watered down cross compliance regime, and capped for large farms), a compulsory supplementary green payment (requiring simple, annual actions like ecological set-aside), an option for Member States to voluntarily to offer limited payments coupled to production, promoting sustainable agricultural development in areas of specific natural constraint (Less Favoured Areas or LFAs), and an option for introducing a support scheme for small farmers. It specifies that direct support should target “active” farmers only. Other proposals include a new risk management toolkit and streamlining and simplifying market instruments only to be used as a safety net.

8. The Communication proposes maintaining Pillar 2 objectives of competitiveness, management of natural resources, balanced territorial development. It suggests strengthening the tools to implement rural development (including capacity building and support for LFAs) and points to the guiding themes of environment, climate change and innovation.

9. Defra welcomes the Commission’s emphasis on further market orientation of CAP, measures to enhance competitiveness, innovation, the sustainable management of natural resources and climate action. However we are concerned the Communication is overall a missed opportunity, with little convincing clarity on the policy tools necessary to encourage increased competitiveness of EU farming whilst maintaining and improving its sustainability. The EU agriculture sector’s economic future – in line with the Commission’s own EU 2020 economic strategy – depends on European farmers increasing their ability to provide goods the market wants, at the right prices, and in sustainable ways.

10. The Communication does not mention the size of the CAP Budget. It mentions the current fiscal and economic challenges but its proposals do not always appear to factor these in. As we face increasing constraints on public expenditure, we
will need to ensure that EU spending on agriculture is reduced, and focuses on the right areas, delivering clear, visible and measurable outputs that offer real value for money for EU citizens and deliver societal benefits that the market place cannot provide.

11. Defra is also concerned that the proposals could make the CAP more complicated: we will want to ensure that they do not entail greater administrative burdens for producers and Member States’ delivery bodies, but instead deliver a real simplification. In July this year Jim Paice MP, the Minister for Agriculture and Food, set up a task force to look at ways to reduce the regulatory burden on farmers and food processors through a review of relevant regulations and their implementation; we will aim to use the emerging lessons from the Macdonald review to help ensure that the Commission’s proposals make a real contribution to a simpler and more manageable system. Our initial view is that the proposal that direct payments should in future consist not just of an area payment (which will be the case in England by 2012) but also up to two separate top-up payments for environmental performance and for being situated in a Less Favoured Area quite clearly runs counter to the simplification agenda and raises severe risks for implementation.

12. Overall, the Commission’s proposals fall short of proposing the transformational reforms which we believe are necessary to deliver a thriving, sustainable and internationally competitive EU farming sector, and fail to set out a clear vision for the future of CAP expenditure within a reformed EU budget.

13. The draft CAP legislative proposals are due in summer 2011 with negotiations starting shortly after. There is a public consultation on the Communication proposals running from 23 November 2010 to 25 January 2011 and we will encourage all UK stakeholders and interested parties to respond directly. It is important that we give the Commission good evidence of the effect that proposals would have to help inform our discussions moving forward.

14. The committee has asked a number of specific questions, answers to which are set out below.

How will the Commission’s proposals affect the ability of UK agriculture to be competitive in a global market?

15. There has been a long period of decline in the productivity of EU farming compared to its international competitors, for example research shows that the UK has been losing ground against the US in productivity terms by 0.5% per year since 1973¹. The CAP is partly responsible for this, by first guaranteeing prices and then, through compensatory and then decoupled payments, guaranteeing a large slice of farmers’ income and ossifying existing farm structures; this has dampened incentives for investment in greater farm competitiveness.

16. Although the Communication makes references to the enhancement of competitiveness, it suggests no new ideas for how this can be achieved. However, it does make reference to the Commission’s Quality Products Package proposal which aims to “strengthen and simplify quality and promotion policies in order to enhance the competitiveness of the agriculture sector”. The Communication also suggests improving the value added by the farm sector to the food supply chain by addressing the imbalance of bargaining power across the chain to allow farmers to have a greater share. Within this it also talks about improving the level of competitiveness at each stage of the chain, which are measures that could be best addressed through Pillar 2 initiatives.

17. The Communication fails to articulate the ambition needed to promote EU agricultural competitiveness and risks missing an opportunity to put in place reforms to make the progress required by 2020. The Government wants to see a more innovative, self-reliant, profitable and competitive UK and EU farming industry with the ability to mitigate or withstand shocks and to recover quickly from them. Increasing the underlying competitiveness of a farm business is the best safety net. It will be important to develop credible ideas on improving farm competitiveness in order to strengthen the Commission’s approach in this area. However, several of the measures proposed by the Commission would act against increased competitiveness. We are, for example, sceptical about the proposal to cap farm payments, which could simply encourage farmers to divide up their holdings into smaller units.

Do the proposals ensure fair competition for British agricultural products within the European Union?

18. It is important that any common agriculture policy helps open up trade to allow fair global competition. Defra is concerned the Commission’s proposals do not tackle the remaining distortions in the single market. In particular, by mentioning voluntary coupled support under Pillar 1 “to take account of specific problems in certain regions”, the Commission indicates no plans to complete the decoupling begun in 2003. The indication that Member States would still be able to pay out up to 3.5% of their allocation as headage payments therefore needs careful scrutiny (although the Communication does state this has to be within clearly defined limits). This type of payment is particularly damaging to competition and with Article 68 payments running at some €800m, this is an issue which we expected the Commission to tackle.

19. British farming might also potentially suffer from the Commission’s proposal (mentioned above) to cap payments to large farms, and from the idea of a special scheme of support for small farms, if this leads to changes in the way funding is allocated between Member States. No details have been supplied of how the Commission proposes to help smaller farms, but any distortion of subsidy in their favour could lead to economic inefficiency and perverse incentives.
Will the proposals achieve the correct balance between productivity and sustainability?

20. Farmers are responsible for managing over 70% of EU land. Against the backdrop of climate change, there is an important role for a future CAP rewarding farmers for delivering environmental benefits by managing the land effectively to promote long term resilience.

21. The Communication mentions the important themes of the environment, climate change and innovation. However, there are few proposals within it which look at how Pillar 2 will be improved in the next financial perspective. We would like to see a greater emphasis on the effectiveness of providing public benefits through Pillar 2: this is where CAP expenditure provides its clearest added-value at EU level. It ensures that public money is being used to provide the benefits valued by the public, particularly for the environment such as biodiversity and responding to the challenges of climate change. Farming will not be productive in the long-term, if environmental sustainability isn’t prioritised now.

22. Agri-environment schemes have a central role to play in providing these types of benefits. In England approximately £3bn will be spent over the current Programme on these schemes. They have been shown to make a successful contribution to tackling the decline in key farmland bird populations; and a recent Defra commissioned report calculated that current schemes in England would provide around £820m of wildlife and landscape benefits per year by 2013 (assuming original uptake targets are fulfilled). The report did not include other important benefits such as resource protection, or the positive impact of agri-environment schemes on public health. The recently launched ELS Training and Information Programme aims to help farmers maximise the environmental benefits of their individual schemes.

23. The best way for farmers to improve their earning power is to improve their competitiveness and productivity. Well-managed farms are best placed to manage the land sustainably, and provide valued public benefits, for which they should receive compensation from the tax payer through Pillar 2 of the CAP. We must ensure that improving productivity and sustainability are tackled together, including, but not limited to, activities that provide a “win-win” outcome for both. We will work with the Commission on ideas for achieving this, which the Communication currently lacks.

Do the proposals place the UK in a good position to help meet future food supply challenges?

24. The Commission’s Communication notes the importance of food security: “Given that [food] demand worldwide will continue rising in the future...it is essential that EU agriculture maintains its production capacity and improves it”. However, Defra does not consider that the EU’s contribution to global food

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2 Estimating the scale of wildlife and landscape benefits of Environmental Stewardship. Report by the University of Newcastle and FERA in conjunction with TNS and the Countryside and Community Research Institute (CCRI). July 2010.
security is best served by using subsidy to maintain agricultural productions in all areas of Europe, no matter how unfavourable the agricultural conditions facing them may be. While there can be a justification for support in terms of the environmental public goods delivered in areas where agriculture has an important role but is unprofitable in purely market terms, particularly where those areas have high nature value, a range of national and EU instruments exist for this purpose.

25. The argument that future food shortages justify blanket subsidies is weak. Food security does not require self-sufficiency; EU and global food security is best served by rebalancing the environmental and economic objectives of agriculture policies need to be rebalanced and help to deliver broader and deeper international trade.

Will the proposals redress the imbalance in support to different sectors created by the historic basis of payments?

26. The Commission appears to be proposing a complete end to the historic basis of direct payments, and thus an end to the situation in which different types of farms have received widely different amounts of support as a result of historic entitlements during the reference period. However, it is not clear just what the Commission’s proposed new area payment would look like.

27. The Commission’s Communication states that a flat rate system would be “infeasible”, without explaining why, but goes on to describe the proposed payment as “uniform”. The Commission’s proposals for a compulsory supplementary green and a top up for areas of natural constraint have the potential to introduce new distortions in favour of particular types of farmer, although it will not be clear to what extent this is an issue until we see more details.

What aspects of the proposals should be made a common policy, and which are best left to Member States?

28. The recent EU Budget Review White paper stated the EU budget could best add value to Members States through being “used to finance EU public goods, where Members States and regions cannot finance themselves, or where it can secure better results”. The Commission does not appear to have subjected its CAP proposals rigorously to this test.

29. It is important that policies are targeted appropriately at the right level through the principle of subsidiarity. Pillar 2 payments are able to respond to regional specificities while delivering environmental and economic objectives which are of wider European interest; and therefore add the best value. It will, however, be important to ensure that approaches to Pillar 1 and Pillar 2, and wider agricultural legislation, including the ideas trailed by the Commission on rebalancing market power, do not introduce competitive distortions between Member States.
Can the proposals be implemented simply and cost-effectively, within a short timescale?

30. Whilst Defra strongly supports the Commission’s objective to continue simplification of the CAP, we are not convinced that the proposals outlined in the Communication achieve this aim. The Communication makes a number of references to simplifying the CAP, in order to make more efficient use of limited resources (at government level) and to reduce the administrative burdens on farmers. However, in framing their specific proposals, and in particular Option ii, the Commission makes no mention of simplification in the supporting analysis. The Commission has offered no comparison of the three options in terms of how each would impact on the administrative burdens imposed on farmers and national administrations. On the face of it, Option 2 in particular would represent a much more complex system of direct payment support than the current arrangements, and it is therefore hard to see how this option at least could be implemented simply or cost-effectively. It seems highly likely it would impose more administrative burdens on farmers, not fewer.

31. In addition, the Communication says nothing about those aspects of the control system that will remain necessary whatever policies are included in the CAP, in particular the mechanisms by which financial audits are conducted and financial penalties imposed. This is an area where there is considerable scope for simplification and streamlining and it is disappointing that the Commission’s Communication does not acknowledge the opportunities presented by this process to significantly reduce the associated costs and burdens. In this regard, we have specific concerns about the disproportionate nature of some penalties applied at Member State level when audits reveal compliance problems, exemplified by the frequent use of flat-rate penalties, rather than penalties that aim to reflect the actual risk to the fund. The Commission’s approach to audit is unwieldy and outdated and imposes unnecessary costs on all Member States - the cost in England alone for responding to EU audits of the CAP is over £1.6m per year\(^3\). Issues such as this also translate into burdensome inspection and control systems at the farm level and policies such as cross-compliance need to developed alongside a clear analysis of the benefits of rigid and demanding control systems. The design of the CAP post-2013 needs to embody better regulation and simplification as fundamental principles, and not as incidental considerations.

\*December 2010\*

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\(^3\) RPA figures, 2010. This figure excludes any corrective action that arises as a result of audit recommendations. The cost to Defra of the certification audit in England by NAO (to meet EU requirements) is nearly £0.5m pa. It is possible that this could rise considerably after 2013 under the Commission’s guideline for the audit of legality and regularity.
Written evidence submitted by Devon County Council (CAP 12)

1) Summary

1.1) Agriculture is an integral part of the Devon economy and wider community. Agriculture and forestry and the Farming sector accounts for 3% of Devon’s total GVA and Employs 7% of the workforce. However it is the wider benefit of the public goods that agriculture provide, which has a much more significant impact. Tourism is Devon’s single largest industry; it is reliant upon the natural environment and Devon’s rural communities. A competitive and sustainable agricultural industry is essential to underpin the Devon economy and the rural communities.

1.2) Rural Research in Devon has highlighted the dependency of Devon’s agricultural industry on CAP payments (notably the Single Farm Payment and agri-environmental funding) it's estimated that Devon receives in the order of 173 million from CAP funding which equates to approximately a third of agricultural income. Devon farmers are particularly vulnerable to changes in the CAP that could see individual payment levels fall. The dominant agricultural sector is Livestock and the average size of farm is lower than the national average.

1.3) We would encourage the continuation of direct payments, as this is vital to the profitability of farms. We would also encourage the recognition of the public benefits that agriculture provides and the continuation of agri environmental payments. However we are aware of the complex nature of the existing scheme and would not encourage a CAP reform to introduce new measures that would be even more complicated and costly to deliver. Taking into account the nature of Devon’s diverse environment and agricultural industry we would encourage the reform of the CAP in line with option 2.

2) The Committee’s specific questions are addressed below:

2.1) How will the Commission’s proposals affect the ability of UK agriculture to be competitive in a global market? Response: The three options identified in the commission’s proposals will have a differing impact on the competitiveness of the agricultural industry. To enable Devon farmers to be competitive in the global market, we would support the continuation of direct payments. Until the global market is fully decoupled, UK farmers will not be able to compete unless they receive direct payments. Devon is characterised specifically by smaller farmers, to enable these farmers to compete in a global market we would welcome the introduction of a new scheme for small farms as described in option 2. We would also encourage the additional payment to compensate for natural constraints to enable those farmers to compete in a global market.

2.2) Do the proposals ensure fair competition for British agricultural products within the European Union? Response: The introduction of more equity in the distribution of direct payments between member states identified under option 2 would contribute towards fairer competition between British agricultural products and the European Union. However Britain currently has higher animal welfare standards and other legislative requirements that distort competition, particularly in the livestock industry that directly affects Devon. The suggestions outlined in Option 2 could assist a move towards fairer competition across the EU.

2.3) Will the proposals achieve the correct balance between productivity and sustainability? Response: Of the three options identified, Option 3 would promote productivity as this option would support a phasing out of direct payments and a limited payment for environmental and public goods, thus encouraging farmers to generate more income from direct commodity sales. Option 1 and 2 would encourage a better balance
between productivity and sustainability as the farmers would not be as reliant on commodity sales enabling them to address the balance between production and the environment. The current system addresses the environmental aspect but does not necessarily encourage sustainable production as it is based on area and environmental aspects only.

2.4) Do the proposals place the UK in a good position to help meet future food supply challenges? Response: The ability of farmers to receive payments under the current single farm payment and only keep the land in Good Agricultural and Environmental Condition does not necessarily encourage productivity. Therefore option 1 which is the continuation of the existing system does not assist the UK with the future food supply challenges. Options 2 and 3 have the ability to address the future food supply. Devon has a varied topography with great differences of agricultural productivity; we would support a CAP reform that encourages agricultural production of an intensity that is relative to the fertility of the soil and capacity of the environment. The proposed capping of funding to larger farms would encourage farmers not to expand and improve efficiencies and so possibly curb production. We appreciate the consideration of the level of rural employment on the larger holdings however in Devon many farms benefit from family labour which is not all necessarily salaried but contributes to the rural community.

2.5) Will the proposals redress the imbalance in support to different sectors created by the historic basis of payments? Response: Options 2 and 3 have the ability to redress the imbalance in support to different sectors. However in Devon we would prefer option 2 as this provides more recognition and support for public goods and agri environmental which are significant factors in Devon. It also provides an additional payment to compensate for specific natural constraints, which is significantly imbalanced under the current single farm payment system. We do not think that option 3 could address these issues in the same way as option 2.

2.6) What aspects of the proposals should be made a common policy, and which are best left to Member States? Response: If too much discretion is given to the member states there is a risk that the implementation of the CAP across the member states will vary significantly and consequently distort competition, however we appreciate some flexibility is required.

2.7) Can the proposals be implemented simply and cost-effectively, within a short time-scale? Response: If more aspects of the CAP are made common policy, it reduces the risk of member states being able to over complicate and add costs. From a Devon farmers point of view option 1; the continuation of the current system would be the most straightforward option however this does not necessarily address the other issues discussed above.

1 December 2010
Written evidence submitted by the European Council of Young Farmers (CEJA) (CAP 13)

Proposal for a Young Farmers’ Package in the CAP post-2013

Introduction
The Communication of the European Commission on the CAP post-2013 was officially released mid-November 2010. This Communication develops general guidelines upon which the CAP post-2013 will be developed. In that context, CEJA welcomes the explicit references to young farmers in the documents and calls for a strong ‘Young Farmers Package’.

Reference to Young Farmers in the Communication
1. Under the chapter ‘What are the challenges’, the document recognised that the ‘Vitality and potential of many rural areas remain closely linked to the presence of a competitive and dynamic farming sector, attractive to young farmers’.

2. Under the chapter ‘Reform orientation’ and under the heading ‘Rural Development’, the document states that “Addressing the specific needs of Young Farmers and new entrants will be a priority”.

Executive Summary
CEJA calls for an ambitious European policy on generational renewal in the agricultural sector. The demographic context of the agricultural sector demonstrates the urgency and need of an ambitious policy at EU level. Currently only 7% of agricultural holders are under 35 years old in the EU27 and in some Member States, the situation is even more critical. At present, one holder out of three is at least 65 years old in the EU-27 and many will be retiring in the coming years. This amounts to 4.5 million farmers over the age of 651.

Access to land, access to credit, difficult predictability and low profitability are the major barriers to entry for new comers and young farmers.

In that respect, installation policy needs to be designed and implemented at EU level, in parallel to an ambitious European employment policy in the agricultural sector.

CEJA therefore call on decision-makers to introduce in the legislative framework for the CAP-post 2013 a combination of measures under Pillar I and Pillar II supporting renewal of generation in the agricultural sector. In particular:

- Under Pillar I, a top-up payment for young farmers should be added in addition to direct payments;

- Under Pillar II, measures for young farmers should be reinforced and re-balanced. The co-financed budget should be composed of 20% coming from Member States and 80% from EU level. Preferential access to credit should be given for innovative projects and projects from young farmers and new entrants.

Young farmers in the new CAP: Combination of measures under Pillar I and Pillar II
CEJA welcomes the reference made to young farmers in the Commission Communication on the CAP-post 2013. CEJA also welcomes the recent declarations made by Commissioner for Agriculture

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1 Eurostat (2009), 'Agricultural statistics Main results — 2007-08', Agricultural holders under the age of 35
and Rural Development Dacian Ciolos on the need to better target active farmers and to design better policies targeting young farmers and new entrants. CEJA calls for an ambitious European wide policy reinforcing the renewal of generations and supporting new entrants and young farmers in the sector. To achieve such objectives, a combination of measures under Pillar I and Pillar II is needed.

Measures under Pillar I

CEJA notes the proposal of the Commission to re-organise the distribution of direct payments under Pillar I, that would combine a system of basic income payment and various payments linked to the situation of the farmer. Such re-organisation of Pillar I leaves the possibility to include another option, targeting generational renewal. A specific payment should be designed in Pillar I targeting young farmers, in the form of a top-up payment (based on the overall payment) for a limited period of time.

This top-up payment would concretely demonstrate the commitment of decision-makers to support the renewal of the generations in the agricultural sector.

CEJA also proposes under Pillar I that Member States be able to establish at national level reserve which guarantees to young farmers a ‘fair’ access to the future direct payments. The aim of the reserve is to facilitate setting up in agriculture.

Measures under Pillar II

In the Communication, installation policy remains part of Rural Development programmes and under Pillar II. CEJA would like to stress that in many Member States, installation policy is not implemented, due to lack of national budget or difference in national priorities. CEJA regrets that the renewal of generations and young farmers are not considered as a priority by many Member States and urges decision-makers to voice that installation policy is a priority at EU scale. In addition, it should be stressed that installation policy contributes to maintain and develop jobs. Statistics show that one farmer can create up to eight jobs in the agro/environmental and technical areas.

CEJA therefore requests that the current situation be revisited, to guarantee that installation aid is fully used across the EU and specific needs of new entrants and young farmers are taken into consideration. Member States should be bound to accept applications from young farmers for support for investment, provided that the business plan is accepted by local authorities. Should Member States refuse to support and provide installation aid, they should be bound to motivate their choice and report to the Commission and to Young Farmers’ organisations.

CEJA urges decision-makers to introduce a ‘Young Farmers package’ in the proposal. The Young Farmers package should be composed of different elements covering financial support, education and training, support to investment and innovation.

• A strong budget under a revisited co-financing system

A strong budget under the new CAP should be available for measures targeting renewal of generation and young farmers entering the sector. A revised ratio of co-financing should be accepted, so as to give a real opportunity to Member States to prioritise renewal of generation. A ration of 80% coming from EU level and 20% from national level should replace the current 50/50. The capping of installation aid should also cease. In some Member States, only part of the 70 000 euros are made available to young farmers and the amount is capped; this situation is not acceptable and the

\[ \text{Discussions between Commissioner Ciolos and Italian Young Farmers at the Salone Del Gusto, Torino, Italy, 21st October 2010.} \]
amount of aid should be available to all, in the ‘old’ as in the ‘new’ Member States.

Bound Member States to use existing programmes
Member States should be bound to use existing funds available under Rural Development programme. In the latest programme covering the period 2009-2013, financial engineering funds have not been fully used. Concretely it means that some agricultural funds are lost and will not be used to support actions under the various axes of rural development funds. CEJA therefore calls to make mandatory the use of such funds, with a priority for young farmers. In addition, CEJA calls Member States to include installation policy as priority in their national rural development plans they submit to the Commission. These plans should be available to national young farmers’ organisations which should have the possibility to question the validity and relevance of the national programmes.

Strong support to investments for innovation, competitiveness and clusters
Installation aid should include a preferential access for young farmers to investment funds available under Rural Development. Subsidised loans should cover 80% of the investments made by young farmers or new entrants when linked to innovation, investment in production materials and methods as well as 80% of investments associated with buying land (provided that there is a business plan). Subsidised loans should also be made available for young farmers and new entrants entering into cooperation, clusters or network to better market their products.

Accompanying measures for young farmers over a certain period of time
The installation aid could be given when the young farmer starts his business. However, if he/she prefers to receive the aid gradually, over 5 years, this option should also be possible. This option will support the young farmer during the first years of his/her business project.

Education and training vouchers
Installation policy should be seen as far-reaching and comprehensive to support the renewal of generations in agriculture. It should therefore also include ‘knowledge vouchers’, to be used by young farmers, on their own demand and according to their own needs. These vouchers could be used for advisory services including training for new methods of production, diversification on the farms, phytosanitary training, direct selling and marketing training, etc. Advisory services should be implemented as soon as a certain quotas of requests from young farmers have been registered. The ‘Young Farmers’ package should also include a European training programme for young farmers, including the possibility to do a traineeship abroad. This could take the form of a specific ‘Erasmus for Young Farmers’ programme available to young farmers before they take over a farm and enter the business.

Faster and better access to information
Young farmers should have faster and better access to information regarding rural development funds. For example, in steering committees, Young farmers’ organisations should be systematically represented. In addition, applications sent to Member States from young farmers to receive support for investments should be examined as priority cases by the Member States, and young farmers should be able to receive a clear answer in a short time.

Early retirement scheme
The early retirement scheme, linked to installation of young farmer and/or new entrant should continue under the CAP post-2013 as it has proved critical to support farm takeover and transfer of land to young farmer(s).

Conclusion
The demographic situation of the agricultural sector in Europe should give great concerns to decision-
makers. While on the average, only 7% of farmers are under the age of 35 years old, the situation is more dramatic in some Member States. Without a strong ambitious European-wide policy supporting the renewal of generations, the EU runs the risk to confront itself with difficulties to achieve food security, territorial balance and improve the vitality of rural areas, as well as preserving the environment and mitigating climate change.

CEJA therefore calls on decision-makers to introduce a combination of measures under Pillar I and Pillar II for young farmers and new entrants

November 2010
1. The RSPB welcomes the opportunity to respond to the EFRA committee’s enquiry into the European Commission’s proposals for CAP reform after 2013.

Executive summary
2. The current CAP reform round offers a clear opportunity to realign the policy with societal expectations and respond to a suite of environmental challenges.
3. The CAP must build on previous positive reforms to tackle challenges of sustainable land management, long term food-security and farm business competitiveness by evolving into a policy underpinned by a ‘public money for public goods’ approach.
4. The European Commission proposals for reform contain some positive elements but still fail to present a clear vision for the future of the CAP.

Overarching comments
5. The RSPB has a long history of involvement in CAP reform. We have been instrumental in the development of agri-environmental schemes, and Environmental Stewardship in particular, and making the case for a transfer of funds, and policy emphasis, from Pillar 1 to Pillar 2.
6. In run up to the current reform period, we have joined forces with a range of environmental and farming stakeholders to call for a shift to sustainable land management, set out principles for a new policy and make specific proposals for the CAP after 2013.
7. Recent CAP reforms have contained some positive elements, particularly the creation of a second pillar, decoupling of subsidies from production and cross compliance.
8. Many of these changes signalled a shift away from outdated support mechanisms, with decoupling in particular introduced as a transitional process. The destination urgently needs to be spelled out. Without a clear route map, farmers are poorly equipped to make the necessary business adjustments and are less likely to ‘buy-in’ to the reform process.
9. Whilst there is room for simplifying all elements of the policy, both to reduce bureaucratic burden for landowners and to improve the policy’s efficiency, there must be no erosion of principles which improve the accountability of the policy for citizens.
10. To meet future challenges, we propose that the CAP needs to help underpin global food security, enable farmers to run profitable and market-focussed business, propel a rapid transition towards more sustainable land management and reward the provision of environmental public goods where these are underprovided.

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1 Beyond the Pillars: Wildlife and Countryside Link’s policy perspective on the future of the CAP (2008)
11. Direct payments are a wasteful and inefficient way of doing this – indeed, a recent study\(^4\) suggests the Single Payment Scheme is impeding moves in this direction. The SPS does not encourage farmers to take a long term view, it is not linked to public goods nor is it securing sustainable land management – and studies suggest it has little impact on food production. Therefore what is it for?

12. We want to see a phasing out of the current SPS system. This would provide an opportunity to temporarily target a proportion of CAP support toward measures which boost the competitiveness of farming in a non-environmentally damaging way e.g. improving farming’s return from the food chain through added value products, savings through resource efficiency etc; along with the ongoing support to farming for environmental public goods.

13. Improved resources for Rural Development and a re-focussing of support towards environmental and climate change objectives, if implemented soundly, would go a significant way to addressing issues of resource degradation and biodiversity loss in Europe. A retargeting of support towards environmental objectives would also need to address the pressing issue of High Nature Value farming, which is in rapid decline in much of the EU, and the Natura 2000 network of protected sites, many of which depend on sensitive farming methods.

14. Well designed and funded environmental support schemes must form a key component of the CAP after 2013 and the success of agri-environment schemes in the UK needs to be built on in the future CAP. The vast majority of land in England is now in an agri-environment scheme, and by committing to provide public goods in this way farmers can guarantee a basic level of income over 5 years, providing a degree of security against volatility without becoming dependent on income support.

**The Commission options for reform**

15. At present, none of the options presented by the Commission provide a vision for the future of farming and land management in Europe or a clear set of reform objectives for the CAP.

16. Option 1 suggests little more than a further ‘Health Check’ of the CAP and as such would fail to respond to societal expectations for reform or to address the suite of challenges facing the farming sector. The UK government should strive to ensure this limited reform option is rejected during forthcoming negotiations.

17. Option 2 contains some positive steps towards greening of the CAP, particularly the new and compulsory greening payment under Pillar 1, which is conditional on some potentially beneficial management approaches such as crop rotation and fallow land. However, despite some environmental improvements, the majority of payments and support structures proposed under Option 2 have dubious rationale. Four of the five direct payments proposed have no environmental dimension beyond cross compliance and the payments proposed for small

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farmers, marginal areas and coupled support could be implemented across the EU in ways which negatively impact the environment and UK competitiveness.

18. We believe that the Commission’s Option 3 for reform, which is explained in more detail in the Commission’s impact assessment document\(^5\), has considerable, but as yet untapped, potential to provide a clear, justifiable and sustainable vision for CAP reform. This could be achieved through a transitional phase out of the SPS systems with improved support for EU farming competitiveness and a ‘public money for public goods’ approach underpinning all payments.

19. The current reform period offers a golden opportunity to reorient the CAP and clarify its objectives. If this is not grasped, not only will the opportunity to realign the policy with societal expectations be missed, the likely €200bn in CAP payments to 2020 could also be wasted.

The balance between productivity, competitiveness and sustainability

20. At a recent address to the European Parliament\(^6\), Agriculture Commissioner Ciolos made it clear that the concept of agricultural competitiveness must be updated to end the “false conflict” with sustainability. Clear economic signals must be given to farmers to fully integrate the environment into their activities. These words are a positive indication that genuine greening of the CAP is being considered by the Commission as part of the Lisbon agenda.

21. Any CAP reform scenario that is not explicitly linked to environmental public good delivery and improved sustainability would not only represent a missed opportunity to tackle environmental degradation across the EU but could also threaten UK competitiveness by allowing Member States to target support at domestic sectors or re-couple support within their borders. This would run counter to the common aspect of the CAP, erode the level playing field for farmers, and could even produce negative consequences if intensive sectors are targeted for support.

22. Globally, EU agriculture needs to focus on competitive advantage in high value and added value products. The UK, as part of the EU, should further develop this competitive advantage, part of which is the appeal of products from systems with higher environmental standards e.g. organic, LEAF marque and Conservation Grade. The delivery of environmental public goods must be seen as a key part of UK agricultural competitiveness and not a burden or incidental by-product.

The move away from the historic targeting of payments

23. The distribution of the considerable CAP budget must be viewed objectively. We must move beyond the view of many Member States that ‘who gets what’ is the most important issue. Instead, it is the issue of ‘who gets what for what’ that the next CAP must address.

24. There is a clear case for policy intervention, through the CAP, to secure environmental delivery due to the market failure to reward many environmental public goods. The CAP must target

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\(^5\) European Commission. The reform of the CAP towards 2020: Consultation document for impact assessment

\(^6\) Réformer la Politique Agricole Commune, c’est faire un choix de Société. Discours à la Commission de l’Agriculture et du Développement rural du Parlement Européen Bruxelles, le 18 novembre 2010
support at the systems of farming which deliver high levels of environmental benefit (such as High Nature Value farming) and facilitate the uptake of more sustainable farming practices (including agri-environment schemes).

25. A 2009 report⁷ produced for the Land Use Policy Group estimated that £1-3billion would be required each year to meet publicly defined environmental objectives through agri-environment schemes in the UK. This is considerably less than the current Pillar 2 allocation for the UK but comparable to the CAP allocation as a whole.

The role and value of CAP payments in addressing future food supply challenges

26. The 2009 'Scenar 2020' study⁸ identified that in the absence of direct payments, food production in the EU would actually increase. There is no explicit food production link (perhaps unsurprising given the decoupling of payments as part of the 2003 CAP reforms) and therefore any argument that direct payments contribute to EU and global food security by underpinning farming is incorrect.

27. Food security is a critical issue but at core rests upon the long-term productive capability of EU farming through protection and enhancement of natural resources - a sentiment shared by a recent Institute for European Environmental Policy study⁹. This justifies a shift away from untargeted direct payments in the CAP to payments in return for environmental public good delivery.

28. A recent LUPG report¹⁰ highlights the ‘added-value’ of a common EU policy to tackle environment issues and justifies reforming the CAP along such lines.

Time-scale for reform

29. The RSPB is calling for fundamental CAP reform but we recognise there must be a sensible transition period for farmers. Unfortunately, the Commission document fails to articulate a transitional period as there is no clear picture of what the CAP will ultimately evolve into.

30. Farmers and land managers must have a clear direction of travel in order to make the necessary business adjustments and ensure sufficient ‘buy-in’.

31. There is an urgent need for more clarity and ambition from the Commission and for Defra to launch a renewed vision for CAP reform to energise the debate.

December 2010

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Executive Summary

- The CAP should meet the challenge of a globalised market place whilst achieving greater sustainability.
- The Commission’s proposals discriminate against commercial farming, do not create a fair competitive environment and do not enhance the UK’s ability to meet food supply challenges.
- The re-distribution of single farm payments (SFP) between EU members must not distort competition.
- Member State discretionary expenditure should be minimised, but discretion should be given on the environmental obligations attached to the SFP.
- The Commission’s proposal will create a more complex system.
- The CAP has to continue to evolve, but social policy objectives should be separated from the CAP.

Dairy UK

1. Dairy UK is the trade association that represents the dairy industry supply chain in the UK. Members of Dairy UK process around 85% of UK milk supply.

General

2. Dairy UK’s primary concern is that the CAP should help the UK and the EU meet the inescapable challenge of becoming more competitive in an increasingly globalised market place, whilst at the same time meeting the need of achieving greater sustainability.

3. The primary support currently provided by the CAP to assist farmers to be competitive is the single farm payment. The single farm payment provides a degree of income stability which also facilitates investment planning.

4. The thrust of the Commission’s proposals in respect of the SFP is to;
   - Find a mechanism to redistribute SFP funds more equitably between Member States
   - Penalise large farmers through a system of capping.
   - Link agri-environmental criteria to a ‘green’ portion of the SFP payment (i.e.; incorporate pillar II objectives into pillar I).
   - Allocate a portion of SFP funds separately to:
     o support small farmers;
     o maintain production in areas with specific natural constraints, i.e.; areas not naturally suited to agricultural production;
5. Member States would also be given the discretion to provide voluntary coupled support to particular types of farms that are important for economic or social reasons, i.e.; farm types that are not competitive.

6. Collectively these measures seek to broaden the range of justifications behind the SFP by attaching environmental and social criteria. They also compromise the principle of moving the CAP away from coupled payments.

- How will the Commission’s proposals affect the ability of UK agriculture to be competitive in a global market?

7. The proposals discriminate against the type of commercial farming that has developed in the UK. There is a strong risk that they may reduce the value of SFP payments to UK farmers compared to the majority of our European counterparts. This will:

- reduce the income security provided by the SFP to UK farmers resulting in lower levels of investment,
- through the system of capping provide a disincentive to further farm rationalisation.

- Do the proposals ensure fair competition for British agricultural products within the European Union?

8. By discriminating in favour of smaller farms and those located in regions unsuited to agriculture, the proposals will act to maintain production from less competitive EU farms which would not otherwise be sustainable, resulting in increased supply at any given level of price. This will accentuate price volatility and place greater competitive pressure on UK farmers. As such they do not create a fair competitive environment.

9. The Commission’s proposals also hint at a package of measures to address competition at each level of the supply chain and contractual relations. No detail is provided on these proposals but unless they are carefully constructed they could result in the introduction of competitive distortions.

- Will the proposals achieve the correct balance between productivity and sustainability?

10. This is extremely difficult to assess as the impact of greater environmental obligations on competitiveness and environmental sustainability is very much a question of detail. The Commission’s proposal only sketches out the type of additional agri-environment measures it wishes to attach to the ‘green’ component of the SFP. It is difficult to determine whether they will be prejudicial to competitiveness. Improving environmental sustainability does not always equate to improving competitiveness.

- Do the proposals place the UK in a good position to help meet future food supply challenges?

11. The proposals do not enhance the UK’s ability in this respect. The proposals are almost silent on measures designed to support the development of commercial agriculture, i.e.; facilitating farm restructuring and innovation.

- Will the proposals redress the imbalance in support to different sectors created by the historic basis of payments?

12. The proposals will result in the phasing out the historic option but the restructuring of the SFP into several components could result in the creation of a different range of distortions.

- What aspects of the proposals should be made a common policy, and which are best left to Member States?
13. There needs to be a transparent and equitable mechanism for distributing SFP payments between Member States that is minimally distorting to competition. This will be difficult to devise and the Commission has not come forward with any proposals to address this problem.

14. The discretion given to Member States in respect of expenditure should be minimised to reduce the creation of distortions. Voluntary coupled payments would be in flat contradiction to this.

15. Conversely, Member States should be given a degree of discretion in developing the environmental obligations that will be attached to the ‘green’ component of the SFP. It is unlikely the Commission will have the knowledge and expertise to devise a system that can take account of the diversity of environmental circumstances prevailing in each Member States.

- **Can the proposals be implemented simply and cost-effectively, within a short time-scale?**

16. The Commission’s proposal will create a more complex system. The difficulties encountered in introducing payments with both an historic and regional component in England indicates that the Commission’s proposal to both phase-out historic payments whilst also segmenting the SFP could be an immense challenge to all Member States.

- **The Committee also welcomes interested parties’ views on the options outlined in the European Commission’s document and suggestions for how the European Commission should develop these proposals.**

17. The status quo option and the removal of income support are both politically untenable options. The CAP has to continue to evolve, balancing the need for income support to farming against a growing range of other criteria.

18. The problem with option 2 is that the Commission has blurred the objectives that underpinned the twin pillar structure of the CAP. Whilst this meets political concerns over the legitimacy of the CAP, it will not lead to a clear policy framework. In particular social policy objectives have now been spread throughout the CAP. These should be separated entirely from the CAP so the EU can properly evaluate whether it should be the concern of the EU and how they should be addressed.

*3 December 2010*
Written evidence submitted by the Campaign to Protect Rural England (CAP 16)

Executive summary

CPRE would like to raise the following key points in relation to the inquiry:

- **Competitiveness** - CPRE strongly believes that our farming industry is an immensely valuable national asset, which makes strategic, technical, environmental and societal contributions to our wellbeing that go far beyond short term calculations of its economic contribution to national prosperity from food and commodity production.

- **Food security and environmental sustainability** - There is a particular challenge to ensure the Common Agricultural Policy (CAP) and rural development funding supports the maintenance of Europe’s cultural landscapes, both farmed and natural, which are subject to a range of agricultural and non-agricultural land use pressures.

- **The European Commission’s proposed options** - CPRE believes we need a reformed CAP that maintains, enhances and restores the character of our rural landscapes, wildlife habitats and cultural heritage, with a range of related public benefits clearly stated as objectives. The attendant public benefits of competent and responsible agriculture would be accommodated through the creation of a new and properly funded European Sustainable Land Management Policy. The aim of this would be to deliver a range of environmental public goods by supporting environmentally sustainable farming; encouraging and rewarding existing agricultural, horticultural and forestry practices that deliver environmental public goods as well as those that are currently under-valued and under-rewarded, including the protection of soil and water resources.

Competitiveness

1. CPRE recognises the need for the UK’s farming sector to be profitable. The reasons why some sectors are or are not profitable are highly complex and depend not just on changes to production methods or the effects of payments from the CAP but also on how the supply chain operates from the farm gate to the shop till.

2. In production terms, the focus of solutions to improving competitiveness has tended to be on restructuring and technological innovation, so it is unsurprising that the CAP seeks to facilitate these outcomes. This approach leads, however, to an assumption that the future of the industry lies in technologically assisted intensification and consolidation of production. Recent history suggests this could have negative consequences for our agricultural landscapes and habitats.

3. New technological advances and innovation could undoubtedly lead to beneficial environmental outcomes, for example by reducing greenhouse gas emissions. However, CPRE believes the agricultural sector could equally benefit from competing in terms of food quality and environmentally sustainable production which could maintain and enhance landscape character and biodiversity. The problem is that the market does not provide or adequately reward the delivery of these public goods, so policy interventions in the form of agri-environment payments are required. This creates a situation where production and profit appear to be in conflict with the
provision of environmental public goods. The next incarnation of the CAP should enable economic competitiveness and sustainability to work together to deliver complementary outcomes.

Food security

4. CPRE believes the issue of food security is often over-simplified and characterised solely as a need to increase the quantity of food produced to prevent a growing global population from starving. This is often portrayed as both a moral imperative and an economic opportunity for European farmers. This approach fails to give sufficient weight to a number of associated issues beyond providing adequate quantities of food, including diet and nutrition, food quality and safety and long term environmental sustainability.

5. The EU needs to consider to what extent food security should become part of future land management policies and, most importantly, how to ensure there is an appropriate balance between priorities for environmental protection and security of food supplies. The food price roller-coaster of recent years, and the scale of market opportunity presented to European farmers, should not be allowed to obscure the public benefits that arise from environmentally sustainable farming practices. Agri-environment schemes can help to reduce the impacts of volatile commodity markets on farmers by providing additional, guaranteed income streams over set periods of time.

Environment

6. CPRE is a signatory to Wildlife and Countryside Link’s (Link) policy document, *Beyond the Pillars*. This calls for major reform of the CAP to evolve it into a European Sustainable Land Management Policy (ESLMP). This would reward farmers for providing a wide range of environmental public goods, including managing landscape and historic environment features and habitats. It would move away from the two pillar structure of the current CAP, effectively creating a more comprehensive Pillar II with a greatly increased level of funding. This increase would, we believe, be justified by the need to provide high quality environmental public goods, on a large scale, to the citizens of Europe.

7. One example of this is the fact that most of the landscapes, public access and habitats that we value require management which is intimately associated with the productive use of land. CPRE’s joint research with the National Farmers Union illustrates this point very clearly. We estimated that landscape management activity was worth around £412M per year, beyond that directly stimulated or required through agri-environment schemes.

The European Commission’s proposed options

8. CPRE has cautiously welcomed the European Commission’s recently published communication. In simple terms the three options it sets out are for a status quo, a greening of Pillar I or a new policy predominantly focused on environmental outcomes. We were disappointed, however, that the role of agri-environment schemes was omitted from all of the options.

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9. We welcome the inclusion of Option 3 which proposes a radical reform of the CAP, re-orientating it towards environmental outcomes along the lines of Link’s proposal for a ESLMP. It appears, however, that this would be a policy with a much reduced level of funding for land management overall, and Link has stated clearly that the policy it is calling for would need to be adequately funded to ensure the delivery of a wide range of environmental public goods. There remains a need to conduct a comprehensive assessment of both the cost to farmers of managing our countryside and its wildlife, and the value of these public goods, environmentally, socially and economically.

10. CPRE also recognises that there is a need for additional, focused support to those farmers who are vital to maintaining particularly important habitats and landscapes. In this respect some aspects of the proposals set out in Option 2 warrant further consideration and debate.

11. We also welcome the proposal in Option 2 (which we presume would also be included in Option 3) to introduce measures to encourage the storage of carbon in soils. This presents an opportunity to look at soil sustainability issues in a much wider context and to improve the state of many degraded soils in the UK and across Europe. It also chimes well with recommendations made by the recent Commission for Rural Communities inquiry into the future of the uplands\(^3\). This identified new opportunities to reward upland farmers for providing ecosystem services that are currently under-valued, including managing carbon rich peat soils.

*December 2010*

\(^3\) *High ground, high potential – a future for England’s upland communities* - (July 2010)
The NFU
1. The NFU is the leading organisation representing the interests of 55,000 full time, professional farming members in England and Wales.

Executive Summary
2. The reform of the Common Agricultural Policy (CAP) is a significant issue for English and Welsh farmers especially since farmers derive a significant proportion of their income from CAP support. The single most pressing issue for the next reform of the CAP is to help get farming to a place where it can be substantially less reliant on public support at the same time as ensuring the farming activity is environmentally sustainable.
3. This requires a strategic approach to policy making that promotes a more competitive, market orientated agricultural sector at the same time as addressing underlying flaws in the operation of food supply chains that prevent farmers from achieving a fair share of added value. Measures to improve environmental performance and secure delivery of public goods will remain important as part of the CAP but should be delivered through the flexible, targeted instruments operated under the second pillar of the CAP.
4. The proposals, especially those in relation to direct payments, represent a tactical, rather than strategic move that could harm competitiveness, undermine simplification efforts, fail to achieve environmental benefits and entrench direct support rather than helping farmers become more market orientated. As such they largely fail the key policy tests set out in the NFU’s policy document on CAP reform.

How will the Commission’s proposals affect the ability of UK agriculture to be competitive in a global market?
5. Whilst the Commission Communication stresses the importance of EU agriculture becoming more competitive, the measures that it outlines could undermine competitive farming in the UK. Direct support payments, which help EU farmers offset higher production costs, are maintained. However, the proposal to ‘green’ a component of direct payments could result in less market focus. Furthermore, the proposal to cap payments and target more support towards small farmers would discriminate against the UK with its relatively large average farm size as well as discourage businesses from seeking to become more competitive through seeking economies of scale.

Do the proposals ensure fair competition for British agricultural products within the EU?
6. The proposals promote a common policy framework albeit one with a degree of national flexibility. Member states are bound to exercise some discretion in the design of ‘greening’ measures. Furthermore, optional coupled supports could create distortions across the EU. Such schemes must be restricted and very tightly defined. The ambition to strengthen the position of farmers in the supply chain is laudable but it is important to ensure that measures are achievable in all member states and do not distort the single market.

Will the proposals achieve the correct balance between productivity and sustainability?
7. The NFU supports the direction of reform pursued by previous agriculture Commissioners which sought to encourage farmers to become more market orientated whilst sensibly enhancing support for public goods through the second pillar of the CAP. Some proposals, such as introducing knowledge transfer into rural development programmes, could be beneficial. However, we are concerned that these proposals would not
achieve the targeted delivery of environmental benefits that are secured via agri-environment schemes (indeed the proposals could harm the attractiveness of such schemes). Moreover, in driving farmers into more environmental conditionality, the proposals could undermine agricultural productivity.

**Do the proposals place the UK in a good position to help meet future food supply challenges?**

8. The proposals ensure that farmers have a platform to continue to invest in production through the retention of direct payments and through the focus of rural development programmes on innovation and climate change. At the same time, the greening of direct payments may reduce the productivity of agriculture through, for example, forcing farmers to take land out of production for ecological set-aside. This would undermine the UK’s ability to respond to future food supply challenges.

**Will the proposals redress the imbalance in support to different sectors created by the historic basis of payments?**

9. The creation of a basic income support payment that is more uniform within a region or member state should reduce differences in support between sectors. At the same time, the proposals indicate that member states may continue to deploy voluntary coupled payments which may counter-act the benefits that could come from full decoupling in terms of market orientation. Finally the key challenge for aid distribution in the next reform is to achieve a more equitable distribution across the EU. It is not evident from the Communication that the Commission has met this challenge.

**What aspects of the proposals should be made a common policy and which is best left to Member States?**

10. The NFU strongly supports the maintenance of a common EU agricultural policy and funding framework. We believe that the measures that are deployed under the first pillar of the CAP (direct support and market measures) should continue to be determined at EU level, whereas we see some scope for subsidiarity in respect of the second pillar. This can be deployed more flexibly in order to prioritise actions to given member states or regions. However a common framework for rural development programmes is necessary to ensure balanced programming.

**Can the proposals be implemented simply and cost-effectively, within a short time-scale?**

11. Some of the proposals, especially in respect of rural development programmes, offer some opportunity to simplify the operation of the CAP and improve deliverability of EU support. However there are significant problems caused by the proposals in respect of direct payments. Moving towards a tiered approach to payments, combined with additional but variable conditions for greening and the prospect of further GAEC and cross-compliance conditions, suggest that a policy implemented along the lines set out by the Commission would cause significant additional bureaucracy and opportunity costs for farmers and be simply unworkable for many member states.

*December 2010*
Thank you for your letter dates 12 January seeking a response to some additional questions on behalf of the EFRA Committee. I’m very happy to submit the following responses.

1. What is your view on the CLA’s position that the direction of travel of the CAP should be more towards the provision of public goods, particularly environmental?

The NFU believes that the CAP can, should and indeed already does play a role in securing the provision of public goods. In this respect, the NFU agrees with the CLA. However, we believe that it is important that the need to provide additional public goods must be clearly demonstrated and that their cost properly evaluated.

The CLA argues that a well-funded CAP is needed to address food and environmental security, indicating that the environment is being degraded and more resources are needed to address this. Yet in many respects the performance of the farmed environment is improving as a result of to changes in farm management practices and to some extent previous CAP reforms.

We are not therefore convinced that a clear case has been made to prove that agriculture in the UK is systematically under-providing public goods and, therefore, that greater resources are required in respect of the CAP to secure the delivery of environmental public goods. On the other hand, it is clear that farm incomes are still heavily dependent on direct support, that exposure to market volatility is growing and that the CAP also has to ensure that farming can meet other major global challenges, not least of which adapting to climate change and increasing food production sustainably.

Unlike the CLA, we also argue that it is important to maintain a distinction between the two pillars of the CAP and their respective roles. By their nature, environmental public goods tend to be site specific (i.e the type and quantum of good needed differs from location to location). It is for this reason that we believe measures deployed under the second pillar in particular agri-environment schemes represent the best means of ensuring the provision of public goods. We do not support the CLA’s view that pillar one should increasingly deliver public goods. We believe this would lead to poor targeting of delivery, higher transaction (compliance) costs for farmers and member states, an increase in bureaucracy and potentially and undermining of the existing extent of take-up of agri-environment schemes under the second pillar.

It is important to recognise that a consequence of the CLA’s position to some extent would be the continuation of a support system that ultimately benefits landowners since it matters less to a landowner whether land is farmed or managed for the environment, so long as public support is available to underpin the asset value of the land.
For the NFU, the ultimate aspiration is a farming industry that is less reliant on support and more focussed on the market. So we would like to see a reform that helps farmers become more competitive, helps them deal with volatility and addresses the evident problems in the food chain that prevent farmers from making profitable returns. Support will be needed to ensure that non-marketable public goods are rewarded but we would not argue that the CAP needs to move more in this direction.

2. Could you expand on measures that the new CAP could include to enhance knowledge transfer?

The current Rural Development Regulation contains a number of measures that we would wish to see continued after 2013, including several measures that are associated with farm advice (eg measure 114 and 115) and skills and training (measure 111). However, we believe that it would be appropriate to examine the scope for a broader measure that allows for rural development funding to be used to support knowledge transfer activities (i.e translating research findings into farming practice). Although it may be possible under the current suite of measures to find a route to support this activity, it is somewhat convoluted. Furthermore, it I sour understanding that the current definition of ‘beneficiary’ in respect of so-called Axis 1 measures such as those above, is possibly too narrow to allow certain third parties (such as the UK levy boards/ AHDB) to access rural development funding to enable knowledge transfer activities to be successfully carried out.

3. Would strengthening the position of farmers in the supply chain lead to higher prices for consumers? And is there a risk that measures to improve the functioning of the supply chain, such as standard contracts, could make UK farming less competitive by insulating the farmers from the market, rather than more competitive?

We do not believe that these measures would lead to higher consumer prices since any measures to strengthen the position of farmers in the supply chain would not permit hard-line prohibitions under EU competition law such as price fixing or market partitioning. Most agricultural commodities generate low retail price elasticities given the extent of processing, distribution and other input costs that make up retail prices. What is more, it is evident that there is significant value-added within the supply chain that is being retained at processor and especially retail level that could be distributed more equitably without affecting consumer prices if the position of farmers were strengthened. Assuming that the UK grocery market remains competitive, any strengthening of the position of farmers would lead to a modest redistribution of value-added within the chain rather than higher prices. Finally, an important point recognised by the Competition Commission in its review of the UK grocery market was that the excessive bargaining power and its abuse of major grocery chains could risk undermining consumer choice in the long-term by reducing levels of investment and innovation by farmers and food manufacturers alike.

We believe that benefits could come from measures such as standard contracts, not merely in giving farmers a degree of certainty and predictability, but also in a more innovative and competitive processing industry. The dairy sector provides a good example of this. Currently, British dairy contracts exploit the inherent weakness of raw milk production (the
requirement to sell a perishable product) by obliging farmers to sell all their milk to one
buyer, for a minimum period of typically twelve months with no assurance as to the price he/
she will be paid. These conditions allow milk buyers to pass all the risk of weak negotiation to
farmers. More balanced contracts that allowed farmers to sell to other buyers and, especially,
stipulated price conditions, would oblige milk processors to seek out the best markets, invest
more in added value and increase their own competitiveness as they would not be able to
maintain their profitability by paying farmers low prices.

4. On the issue of capping of payments, your evidence refers to farmers splitting their holdings to
avoid a payment cap. Is it not credible that the benefits arising from economies of scale would
outweigh any potential losses due to capping of the SFP? What would the effect be on UK
agricultural competitiveness versus other Member States of including salaried labour as a
mitigating factor in setting the level of the ceiling?

It is impossible to answer this question as the situation would vary from business to business
and depend on the value of individual entitlements to a business, the extent of borrowing
based on asset values and the profitability of the enterprise. It would also depend on the
precise nature of the proposal. For example, a straight cap on payments over, say €150,000
might encourage large businesses to divide whereas a sliding scale of reduction of payment
levels starting over €500,000 may have less of an impact. It is worth bearing in mind that
many large enterprises have sought borrowing to develop the business using single farm
payment to some extent as equity. Loss of entitlement value could jeopardise the repayment
of commercial loans and therefore such businesses would have an incentive to ensure the
maintenance of SFP for cash flow purposes.

The UK has relatively high levels of labour productivity compared to many other EU member
states. Therefore any attempt to include labour intensity within the determination of a
payment cap would discriminate against the UK as well as requiring sophisticated
accountancy work to demonstrate that a business qualified for higher payments owing to
employed labour. This would cause immense strain on member states and inevitably lead to a
significant delay in payments reaching large claimants. It would also work against one of the
key Treaty objectives of the CAP, ‘to increase agricultural productivity…… by ensuring the
optimum utilisation of the factors of production including labour’.

5. Do you understand the Commission’s proposals for greening of pillar 1 to refer to a mandatory
increase in cross-compliance standards, or to a reward payment for carrying out activities with
environmental benefits?

Given the lack of detail and large degree of interpretation taking place, at this present time it
is unclear whether the Commission intends the greening component of future direct support
payments to be an incentive or a mandatory requirement on farmers applying for SFP. The
Commissioner, Dacian Ciolos has referred to the top-up as an ‘incentive’ implying that whilst
member states must apply greening measures as options, farmers themselves can decide to
opt in, depending on their circumstances. However it is believed that this view is not
supported by all Commission Directorates General.
The NFU opposes the greening of pillar one as we believe that it confuses the role of the two pillars, is ill-suited to delivering environmental benefits, could undermine farming competitiveness and harm participation in agri-environment schemes. We believe it is better to ensure that adequate resources are channelled into pillar two across all EU member states to fund targeted, bespoke schemes.

6. Do you think the sort of compulsory environmental activities proposed by the Commission, such as crop rotation or set-aside, will deliver real and demonstrable environmental benefits?

We have concerns about all of the four measures proposed as ‘green’ top ups. Our concerns are illustrated in our response to the recent consultation for impact assessment and are highlighted as follows:

Permanent pasture – This may preserve an important carbon sink and promote biodiversity in arable areas. However the proposal risks reducing the flexibility of farmers to adapt to market conditions, would reduce the opportunity for rotational arable cropping to be introduced into pasture areas, impede the improvement of pasture quality and limit adaptation to climate change, which may favour greater cropping in some areas.

Crop rotation – The benefits of rotation are largely associated with enhancing soil fertility and protecting soil structure. This can be achieved by other means. Depending on the number of crops to be rotated, their frequency and type, this could undermine market signals, limit the competitive potential of specialist enterprises, encourage the production of costly crops that are ill-suited to certain soils or farm types and/or lead to additional administrative burdens for farmers.

Cover crops – In some circumstances, cover-crops can play a role in reducing nitrate leaching to groundwater or run off to watercourses. But to sow cover crops over winter may require field operations to be undertaken on land at a time that is inappropriate, do damage to soil structure, reduce seed sources for farmland birds (over-wintered stubble) and increase greenhouse gas emissions.

Ecological set-aside – Compulsory set-aside was abolished as part of the CAP Health Check decisions in 2008. Evidence from studies conducted in the UK at the time indicated that whilst there had been incidental environmental benefits of set-aside in some instances, these were site-specific and depended on the extent of active management by farmers. There can be no assumption therefore that generalised measures will bring tangible environmental benefits. Thus in England, the industry led Campaign for the Farmed Environment, which seeks to maintain the environmental benefits of set-aside by promoting targeted and voluntary action suited to the environmental priorities and farming situations of local areas is seen as the preferred approach by stakeholders and government.

The impact assessment for the options considered by Defra in 2009 illustrates the possible monetary cost of measures to require farmers to maintain ecological set-aside. This indicated
an annual cost to farmers of over £40m per annum in addition to additional administrative burdens on government. Current higher grain prices necessarily increase opportunity costs thereby increasing the extent of possible impact.

What is more, a mandatory set-aside requirement would undermine the goodwill which the Campaign for the Farmed Environment is based and act as a significant restraint on participation in agri-environment schemes which may be based in part on farmers voluntarily entering some of their land into multi-annual and contractual management agreements.

7. Your evidence was in favour of area-based payments – do you have concerns about the unfair treatment of sectors that use small areas of land, e.g. poultry and pigs?

Our evidence favours a move towards a more common approach to basing support payments after 2013. This inevitably means moving away from historic references and towards support that is area-based. Neither sector has a history of benefitting from direct support and speaking to most pig and poultry farmers, there is little desire to become so-called ‘supported sectors’ in future. Under an area-based payment system, pig and poultry farmers are eligible to receive direct aid if land meets good agricultural and environmental conditions (GAEC). This is not possible under an historic system unless these producers acquire entitlements commercially.

I would be happy to answer any additional questions that you may have or elaborate on the points above.

Tom Hind  
Head of Economics and International Affairs  
28 January 2011
Written evidence submitted by Country Land and Business Association
(CAP 18)

CLA general view of the reform proposals

1. The CLA’s 35,000 members in England and Wales are all directly or indirectly affected by the Common Agricultural Policy. We have been heavily involved in the debates over the last two years leading to the publication of this Communication. As the paper was only published on 18th November we have not been able to consult our members so these comments are provisional.

2. The CLA’s public reaction to the document has been to say that is broadly on the right tracks. The paper suggests three rather sketchily explained options: (i) some adjustment and more equity; (ii) major overhaul of the policy and (iii) far reaching reform to move away from income support and market measures. It seems clear to us that the right option is the middle one and indeed this is the only one on which any ideas are explored by the Commission. The status quo in option 1 does not respond to the real reform pressures, and option 3, what has been describes as the ‘British/Swedish’ vision of eliminating Pillar 1, has plainly commanded no general support despite being on offer for five years.

3. The main indication of the direction of Commission thinking is in the section entitled future instruments. The Commission is adamant that the CAP must retain the two pillar structure but we have suggested not being dogmatic about the character and purpose of the two pillars or talking about good and bad Pillars.

4. A key part of Commission thinking is that the new CAP must do more for public goods, and furthermore that this should be focussed in the next reform by an overhaul of Pillar 1. They are not proposing further shift of resources to Pillar 2. There is no suggestion of more modulation – compulsory or voluntary. This marks a significant change in direction to the strategy since 1999. Second the paper seems to be suggesting that the ‘targeting’ in Pillar 1 should have two components. The first a general approach across the whole territory (perhaps akin to English entry level stewardship, or the Austrian base level of stewardship), and the other is support for farming in what we currently call the Less Favoured Areas.

5. These broad ideas were more or less exactly the approach suggested to the Commission in the CLA response in July through our European organisation. So we naturally applaud that this is the Commission’s suggested direction.

6. This said, the paper is very light on details and there are many very important points with which we have serious difficulty. These concern: payment ceilings, any narrowly defined concept of active farmers; the balance between the proposed new components of the single payment; the obsession with annual payments for multi-annual commitments in Pillar 1; the treatment of LFAs; the lack of detail about any redistribution of funds within and between the pillars and the fate of modulation, and the scope for distorting competition by remaining coupled payments. We also point out that our support for the broad direction of reform and commitments to providing more public eco-system services is conditional on the appropriate resources being available to cover the real costs of their delivery.

Turning to the questions posed

Impact on UK’s agriculture’s capacity for being internationally competitive?
7. The main CAP measures helping competitiveness are in the current axis 1 of pillar 2, there are no new measures spelled out in the document. So the proposals are broadly neutral in this regard. It is of course of concern to farmers that if they are asked to provide non-market environmental or indeed ‘social’ services in addition to being competitive producers of food, fibre and energy, then they must be properly paid for such services or this could indeed impede their international competitiveness in agricultural products. But also see paragraph 10 below.

*Do the proposals ensure fair competition within the single market?*

8. They have to. This is imperative and it is the Commission’s job to ensure that fair competition in the Single Market is maintained. This is one reason why it is right to consider putting the broad-application, basic, stewardship programme into Pillar 1. This ensures it has common rules across the EU as proposed in the mandatory Greening component. But of course the more the CAP is involved in the complex business of paying for environmental co-products of agricultural production the more complex this task inevitably becomes. This is why it is vital that there are common programmes and standards applied within a **common** agricultural policy. Inevitably farmers in each country will always suspect that EU rules are being more rigorously applied in their own territory than in other Member States.

*Will the proposals achieve the right balance between productivity and sustainability?*

9. There is no structural reason to suggest these ideas will prevent this right balance being struck but there is plenty of scope for the negotiation process to push too far in one or other direction. The big underlying proposition in this reform is that the current balance in the CAP is insufficiently weighted in the direction of environment sustainability. However, we must remember that agricultural produce are highly tradable and many other big agricultural producing and exporting regions are seemingly not as concerned with the sustainability agenda as the EU. There is a very real danger that we could overload our producers, impeding their economic competitiveness and thus sustainability. Again it gets back to the appropriate resources for delivering the higher environmental services mandated. The resource question lies outside the CAP reform in the EU Budget debate. Our fear is that the UK will set extremely high ambitions and expect them to be delivered from an unreasonably low budget, which will merely export the unsustainable food production somewhere else.

*Will the proposals redress the imbalance in support to different sectors created by historic supports?*

10. The difficulty in answering this question is that there is no strong consensus about what the ideal balance of support should be. There will be disagreements about the distribution of supports as between the crop and livestock sectors; between the uplands and lowlands; between paying for environmental services and agricultural production. Also the proposals are encouraging further discussion about small versus large farms, and of course the ‘equity’ of the distribution between member states and, by extension, between regions within member states. As a member organisation with members crossing all these divides it is very difficult to be definitive. There is no doubt that these distributional discussions will be at the heart of the discussions of this reform. There will inevitably be losers and gainers from the reforms; that is the nature of redistribution and so differences in view about whether imbalances have been redressed.

*What aspects of the proposals should be common policy and which left to the Member States?*

11. The CLA considers that all aspect of the new proposals in this document must be part of a common policy because repatriation of measures will lead to market distortions. Note that
there is no contradiction between this statement and the present feature of Pillar 2 that the balance of measures adopted from menus of options are selected by regions and member states and adapted to their conditions. The CAP has long developed the capacity to create common frameworks within which local requirements can be fitted.

*Can the proposals be implemented simply and cost-effectively within a short time scale?*

12. They have to be. There is no choice in this. Note that what the CAP is seeking to do is not simple. It is perhaps misguided to elevate simplicity to be a top-level objective. The present Single Payment System at its heart was a simple replacement for a bewildering battery of commodity price supports. The core of new proposals is to better target these payments referring to sustainability. Sustainability is a subtle and complex mix of economic, environmental and social objectives. The environment itself contains some really complex interactions between biodiversity, landscape, heritage, water and soil protection and climate stabilisation. To expect this to be simple is to create false expectations. Regarding timeliness, it is vital that any new legislative proposals are agreed by the end of 2012 because we have learned from bitter experience that the Defra needs plenty of time for the administrative and IT preparations to implement changed regulations.

*December 2010*
1. **Your evidence expresses concerns about payment ceilings. How would you change the negative public perception about landowners who receive very large CAP payouts?**

By explaining and demonstrating with examples how large land managers contribute enormously to UK, EU and global food security and how they also provide large scale environmental management. We can cite the miles of hedgerows, hectares of copses, ponds, field margins and corners devoted to biodiversity and so on for large farms and estates.

2. **Could you expand your statement that the existing EU regulations are sufficient to prevent non-agricultural land, e.g. golf courses, from receiving subsidies - do you mean as applied in the UK, or across all Member States? How does this sit with the EU Court of Auditors (2009) recommendation?**

We attach a note on Active Farmers we are in the course of preparing – that cites the EU regulation and the UK implementing rules which, in our view, very adequately prevent patently non-agricultural land being claimed for single payment. The UK rules based on the EU regulation could in principle be applied everywhere.

Our understanding is that one of the kinds of possible abuse could involve tenants who have stacked historical entitlements onto small areas they own. They may have given up their (usually) livestock business on the original rented land on which their historic claims were based, and may have effectively given up farming. This leaves the formerly grazed land devoid of support payments. The move away from historic entitlements will put a stop to this, so no change in definition of active farmer are necessary.

Another example of possible abuse of the system is from the millions of landowners who have had their land resituated to them in the land privatisation post-communism, but who are living in cities and not farming.

We suggest none of these sorts of cases are likely to apply in England where we are moving to regional payments. In England there has been reference to situations where the landowner makes the Single Payment Claim, yet he is not the owner of the animals grazing his land. This certainly can be the case where short term grazing licensees or people with commoners grazing rights are the keepers of the animals. But in such cases the graziers have the rights *solely* to graze. The roads, fences, drainage, water provision, hedge maintenance, heather burning and other grazing management, and all other environmental management can only be carried out by the active land manager, the owner. Therefore it is perfectly legitimate in principle that he can be the payment claimant. This is why it is important to have the full details of the rights and responsibilities of all parties before jumping to conclusions.

Another situation where some discussion might arise is where there is a contract farming arrangement in place. This is now extremely common in British arable farming. Here the tractor work, cultivations, planting and harvesting may be done by the contractor (who may well be a neighbouring farmer who owns or rents his own land), but the owner of the farm in question is the SPS claimant. This is perfectly sensible specialisation and division of labour involving each party deciding what aspect of his
assets and management skills and interests to deploy in the business. The owner/claimant is actively involved in the management and risk taking in the farming business and he also will generally be ensuring all the farming infrastructure; roads, drains, fences and other needed plant and equipment are in place. He also will be taking care of the environmental land management. Note that the division of the public receipts will then be ‘shared’, as they should be in a market economy, as a result of market negotiations between the parties according to the contributions and risks borne by each. There is absolutely no need or utility in EU regulations getting involved in such arrangements.

3. **You referred to EU level research on the funding needed to support environmental schemes, could you supply the reference and/or report?**

The three main pieces of research we are aware of are detailed below.

(i) An internal Defra project conducted in 2009/10, as part of their Pillar 2 planning, to think through what environmental services we want from UK agriculture, what sort of policy measures would be optimally deployed to deliver such services and the overall cost of delivery. To our knowledge this enlightened and innovative piece of research to which we gave prominent reference (with Defra blessing) in our paper ‘Public Goods from Private Land’, was never published but they may be able to tell you about it.

(ii) A paper, *Estimating the scale of future environmental and land management for the UK*, conducted by ADAS and SAC for the Land Use Policy Group (LUPG) in December 2009 examines the costs of farmers providing the desired environmental services in the UK. The conclusions of this research were that the costs were approximately three times greater than the current UK expenditure on delivering public goods through environment schemes, i.e. about £1.98b compared to about £700m on agri-environment.

(iii) We have informally heard that there is currently a DG Environment project which has similar objectives as the LUPG study but for the EU27. There are no results available from this study which we understand is still underway.

This sort of research is of course very difficult and has to be based on difficult assumptions. But nevertheless we strongly believe that rational decision making should indeed start from the goals society wants; estimates of what it might cost to deliver such goals and then decisions about budgets allocated to different tasks.

4. **Do you think the sort of compulsory environmental activities proposed by the Commission, such as crop rotation or set-aside, will deliver real and demonstrable environmental benefits?**

Across the EU27, certainly they would provide significant and worthwhile environmental benefits. We are in no doubt about this. There are farming systems in operation in a number of parts of the EU where these basic practices are not used so the mechanisms listed under the Mandatory Greening (MG) could improve environmental performance.

Our point is that some Member States – including the UK – especially England – already have well developed entry level stewardship schemes which already do most of these
things and are thus already seeing their benefit. Indeed we would claim ELS goes well beyond what is proposed for mandatory greening, especially if the Campaign for the farmed Environment is then added. We would not want MG therefore to cause difficulties for precisely the countries (UK, Austria and Sweden for example) who are already doing the right thing to have the greatest difficulty. Our view is that this greening’s best done in voluntary, multi-annual contractual arrangements and not as the Communications speaks, of mandatory, annual non-contractual arrangements. There is much to play for here to protect UK interests, but we don’t quarrel with the Commission’s aims.

5. **Your evidence refers to the role of the CAP in paying for the provision of public goods, specifically environmental, by land management. By extension, where do you draw the line between land managers that are not necessarily farming, and other activities that use land and may provide some public goods as well?**

We have tried to address this in our answer above on active farmers. In essence we should let the land manager decide what mix of food production and environmental services he will supply. The market determines the price of food and collectively through the processes of determining the CAP budget and payment rates for environmental public goods the ‘public’ decides how much to incentivise the delivery of the public goods. This is fundamentally no different than the way we decide how much public health or educational services we are going to deliver, except here the environmental public goods are competing for land use and managerial time with food production.

Our point is that there will be some farmers who almost exclusively produce food (e.g. on the very best land or in protected crops) and at the other extreme there will be environmental land managers who almost exclusively provide environmental services (but just have some animals to provide the grazing to maintain grassland swards and the treading function – e.g. to keep bracken down). Most ‘farmers’ lie between these extremes depending on their conditions and mix of land types. The policy and payments can in principle deal with this whole range. But we must not in a decoupled payment system try to dictate the mix to the person who knows best and who is taking the business risks, the land manager.

6. **Do you think that the ‘food security’ (referring to quantity and quality) needs of European citizens are better served through increasing EU production, or enhancing trade networks?**

Both, there is no either / or here. European contribution to global food security demands we protect and develop our food production capacity (not our current production. The latter is decided by the commercial decisions of farmers based on current costs and returns). Our production capacity is based on keeping our agricultural land in good agricultural and environmental conditions (a very intelligent phrase in our view), and keeping our farming infrastructure in good order, plus our knowledge and skills base and the flow of Research and Development. But open trade networks are also an intelligent global food security mechanism. Climate induced food shortages will generally not all happen everywhere in the world at the same time so the more developed is the infrastructure for trade (roads, ports, handling facilities, shipping, insurance) then the faster the global system can react to shortage wherever it occurs.
Of course anything which inhibits trade slows down this response and makes it harder for markets to ration out the available supplies. Note that whereas twenty years ago some of the biggest inhibitions to trade were pernicious import restrictions like variable import levies (long since abolished in the EU), and state trading systems, now the biggest source of trade instability is the use of export restrictions – and potentially land grabs which try to take trade outside conventional international trading systems.

7. **What criteria could be used to allocate national ceilings, both for pillar 1 and pillar 2, more objectively between Member States?**

Because the criteria have to be based on robust data which is available for all 27 Member States we think that the obvious criteria are based on agricultural area (utilised agricultural land), a proxy indicator of costs of living or wage levels like GDP per head, and perhaps if the policy goal is increasingly emphasising the public goods the environmentally designated areas or areas engaged in environment schemes. If greening is to apply more to Pillar 1 in future (it is already in there, and is of course the main part of axis 2 of Pillar 2), then there is little point in using different criteria for the two pillars. Indeed we urge a very pragmatic approach to these structures. They should serve policy goals not inhibit them.

*January 2011*
CLA note on the active farmer

DOCUMENT IN PROCESS

1. The CLA is far from convinced that a new definition of active farmer is needed to specify eligibility to claim CAP payments under the Single Payment Scheme (SPS). The current SPS regulation 1782 (2003) has the following definitions in Article 2:

   (a) a ‘farmer’ means a natural or legal person, or a group of natural or legal persons, whatever legal status is granted to the group and its members by national law, whose holding is situated within Community territory, as referred to in Article 299 of the Treaty, and who exercises an agricultural activity,

   (b) ‘holding’ means all the production units managed by a farmer situated within the territory of the same Member State,

   (c) ‘agricultural activity’ means the production, rearing or growing of agricultural products including harvesting, milking, breeding animals and keeping animals for farming purposes, or maintaining the land in good agricultural and environmental condition as established under Article 5,

2. It is already the case that there are stringent rules on the definition of eligible agricultural land which are designed to prevent spurious claims on land that is patently neither providing agricultural produce nor environmental services. Thus airfields, golf courses, sports fields, and land devoted to non-agricultural activities (e.g. boot fairs, shows, car parking) for more than 28 days per annum are all already excluded in UK implementation of the regulation. If this is not the case throughout the EU, then it could, and should, be made part of the EU regulation. Also the utilisation of the land is already tightly monitored as all land parcels used to activate claims have to be specified, mapped, and a land use code offered. In England there are 37 such land use codes – i.e. it is already defined and controlled in great detail.

3. Any further narrowing of the definition of the activities of the applicant or of the land use will demand further questions on the application forms and further control and inspection procedures to determine each individual case. This is strongly to be resisted. The bureaucracy surrounding the Single Payment System

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1 The 67 paragraphs of section C of the SPS handbook specifies exactly what is eligible land use in colossal detail.
is already excessive and this would add significantly to it. This would especially be so if the administration will have to investigate the details of the contractual obligations entered into by the claimant (contract and share farming agreements), or the ‘farming’ share of business turnover, or earnings, or if farmers will have to provide time sheets for evidence on time devoted to various activities, or if it is to be insisted that claimants live on or close to their land, in order to determine the extent and nature of an applicant’s farming activities. This has the capacity to explode in complexity.

4. But in any case, in principle, a critical aspect of the SPS is the idea of decoupling support payments from agricultural production therefore it is currently not the case, and it should not in future be the case, that claimants are obliged to produce particular, or even any, agricultural outputs.

5. We note that the Commission is proposing (inter alia) that the Single Payment be partitioned into a Basic Income Support and a Mandatory Greening Component. As the delivery of public goods is thus being explicitly incorporated into the SPS then perhaps the only change required in the definition of active farmer is to embrace the new language of provision of public environmental goods. The ‘or’ in the definition in Article 2( c) is vital.

6. Like all other go-ahead innovative businesses, farming is increasingly outsourcing the provision of specialist services. Thus the farmer who deploys his land and other assets for a land-based business based on some mix of agricultural production and environmental public good provision may well outsource or (to use the verb more commonly used in farming) contract, for example, the agronomy, financial accounting, field operations, and even product marketing to a variety of service providers or contractors or cooperatives for such functions. He is no less the farming entrepreneur because he does not sit on a tractor or have dirty fingernails than we would consider and executive of Shell oil not to be an oil producer because he never operates wrenches on an oil rig. ‘Activity’ must not be assumed to mean outdoor physical activity. Indeed as farmers follow the policy advice of decades they increasingly become entrepreneurs managing their resource deployment over a variety of farming and non-farming rural businesses and often working horizontally or vertically with other businesses in the food, tourism and rural recreation chains.

7. A critically important principle is that the share-out of all revenues to the business between the farmer and all those supplying services to the business MUST be left to negotiation between the parties involved. There is no suggestion that there should be state rules to decide the share out of revenues from products and services sold through the market, there is no reason why the revenues from the public purse, i.e. the Single Payment, or environmental payments, should be treated any differently.
8. However, if despite these arguments it is deemed there is still some political necessity to more explicitly define what is meant by and active farmer then it should be a self declaration process based around the following definition for the purposes of claiming CAP payments:

An active farmer is a person with management control of agricultural land appropriate to the purpose of the payment, who is taking business risks in managing it to produce agricultural products or environmental public goods.

9. It may then be necessary to add a definition and illustrative list of these public goods. This can be based on recent publications e.g. the study conducted for DG Agriculture on Public Goods from EU Agriculture or the RISE publication Public Goods from Private land.

10. When questioned about Active Farmers at the Oxford Farming Conference the Commissioner said it was necessary to ensure the CAP is legitimate and he referred to reports from the European Court of Auditors. We are seeking information on the true nature of the Auditors concerns. The Commissioner also hinted that any definition might work from a list of examples of clearly ineligible, i.e. inactive claimants. No such list has yet been seen. It may be no easier clarifying this concept negatively than positively.

11. To make this slightly more concrete for UK conditions, we should make it clear that with UK tenancy law, we would of course expect that in the case of 1986 Act (succession) tenancies the active farmer who has the necessary control and who will be the payment claimant can only be the tenant farmer. For any multi-year FBT, it would also normally be the case that the tenant is the only person in a position to have the land at his disposal for a SPS claim. In all other cases it could in principle be the land owner or another party to whom the land owner has devolved the appropriate authority who can make the SP claim.

2 February 2011
Written evidence submitted by the Society of Biology (CAP 19)

Summary

1. There should be no payments without matching public goods; and a balance of economic, social and environmental benefits.
2. Valuation of ecosystem services and natural capital is essential, so that their protection and management can be properly supported by the policy.
3. Research, knowledge and trained people are vital to develop and deliver sustainable agriculture and effective agricultural policy.
5. An effective CAP will allow Europe to maintain security of food production, viable rural communities, and the resilient ecosystems and natural resources upon which we depend for survival, without damaging economies and environments outside Europe.

Will the proposals achieve the correct balance between productivity and sustainability?

6. Agriculture should supply a wide range of goods and services beyond food and non-food commodities. These include social benefits such as employment and recreation in rural areas, and environmental benefits including landscape management, increased biodiversity, water purification, flood protection, fertile soils and carbon storage.

7. Agriculture should aim to minimise ecosystem dis-services, for example pollution, soil erosion and compaction, loss of habitats for farmland species and degradation of landscapes. It should not compromise animal welfare, nor rely on unsustainable inputs of non-renewable resources.

8. A modern society expects more from its agriculture than unregulated intensification where society pays the price through loss of natural capital.

9. The limits to production vary with geography. For sustainable production and a healthy, resilient environment, these limits must determine policy development.

10. There is no consensus about how to define sustainable or efficient agriculture. We support a definition which involves long term economic, social and environmental viability.

11. It is probably impossible to balance all three factors simultaneously at the farm level while delivering the production and food security that we require. However, it should be possible to balance these factors at regional level.

12. The aim of a CAP should be to achieve a balance between the economic, social and environmental benefits of agriculture across the European Union. Policy must explicitly recognise that these factors
are interrelated.

13. Much of the present CAP supports inefficient practices. A reward system should be designed around simple metrics that demonstrate that desired levels of production have been achieved with decreasing demand on resources.

14. Incentives, including subsidies, harmful to biodiversity should be eliminated, phased out or reformed.¹

**The balance between intensive and extensive production**

15. Maximising food production on a given farm may be economically sustainable in the short term, but provides nothing for wildlife or wild plants. If we want to reverse the decline in biodiversity, we must share resources (nutrients, space, water) and agricultural production with them.

16. The "high nature value" agriculture practised in many of our most remote and beautiful landscapes provides sustainability in environmental and social terms, but is not economically sustainable without public support. Livestock production at appropriate stocking density is often the most efficient way to manage such land.

17. All types of farm should be given incentives to protect and create biodiversity features such as ponds, trees and hedgerows, appropriate to the area.

18. Much of Europe's biodiversity relies on its agricultural land. But its remaining wilderness areas also host important wild species. Europe should aim to achieve food security without bringing additional land of biodiversity value into agricultural production. This will be challenging.

19. We need to achieve a balance, where the most agriculturally productive land is farmed intensively, aiming at improved outputs with lower inputs (with regard to animal welfare, and minimising pollution); and less productive land is managed extensively to provide a greater range of public goods.

**The role of public subsidy**

20. Public subsidy should be for public goods. It should not subsidise production which should be paid for by the market. One aspect of market failure is that the value in agricultural output is largely at the processing and retail end of the chain, not at the farmers' end. This is an issue which European policy should address more vigorously, but not by subsidising the farmer.

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¹ Draft Strategic Plan for Biodiversity 2011-2020, Convention on Biological Diversity: “**Target 3**: By 2020, at the latest, incentives, including subsidies, harmful to biodiversity are eliminated, phased out or reformed in order to minimize or avoid negative impacts, and positive incentives for the conservation and sustainable use of biodiversity are developed and applied, consistent and in harmony with the Convention and other relevant international obligations, taking into account national socio-economic conditions.” [www.cbd.int/nagoya/outcomes](http://www.cbd.int/nagoya/outcomes)
21. The CAP should support an improved valuation² of the public goods and services created by agriculture, including the natural resources which deliver them. This would allow public subsidy to pay the proper price for such goods and services.

22. How can a reformed CAP deliver equitability across member states with the objective of enabling European agriculture to be competitive in a global market? To meet this objective there have to be incentives to invest in innovation, which could include: human capital, equipment, infrastructure.

Research and knowledge base

23. Another important role for public funding through CAP is research and training directed towards sustainable agriculture, and translating that research into improved agricultural policy and practice.

24. We have major technical and scientific challenges to overcome if we are to develop a sustainable CAP that reflects multiple demands for food security and productivity, improved environmental quality and better social health, wealth and welfare. However there is currently inadequate investment in all forms of agricultural training and research, and a dearth of suitably qualified and skilled people, particularly in careers for the younger generation.

25. Establishing, implementing and achieving agricultural policy will be entirely dependent upon skilled and trained people across all sectors from farm workers, agronomists, machinery producers to researchers and policy-makers.

26. There should be a greater emphasis on the transfer of information from research into the policy arena. The current regulatory framework is not wholly evidence-based.

Agri-environment measures

27. The transaction costs for agri-environment measures are high – inspection and administration have cost up to one fifth of some schemes. The way forward would seem to be to pay for results rather than inputs. In Scotland, a single inspection regime has reduced costs to farmers.

28. Although there are examples of successful landscape-scale initiatives, current agri-environment schemes are piecemeal, because take-up is determined at farm scales, leading to weaker outcomes and a lack of additionality. Future schemes should include landscape-wide initiatives.

Do the proposals place the UK in a good position to help meet future food supply challenges?

29. Sustainable, diverse production systems have the potential to provide a long-term resilience to the productive capacity of the UK landscape. Supporting distinctiveness of local means of production and

² The Society of Biology is a partner in the Natural Capital Initiative, which aims to support the development of UK science, policy and practice aligned with the ecosystem approach; a way of looking whole ecosystems in decision making and for valuing the goods and services they provide. www.naturalcapitalinitiative.org.uk
the diversification of local products and services will enhance the competitiveness of UK agricultural products.

30. The UK has much productive capacity on its agricultural land. However, the most productive land is often at risk from housing, commercial and infrastructure developments.

31. CAP reform must take account of the biophysical and socio-economic differences between member states. The Water Framework Directive shows how this can be done.

32. An effective CAP will allow Europe to maintain the security of its food production, the livelihood of its rural communities, and the biodiversity and natural capital upon which we all depend for our ultimate survival, without damaging the economies and environments of countries outside Europe.

The Society of Biology is a single unified voice for biology: advising Government and influencing policy; advancing education and professional development; supporting our members, and engaging and encouraging public interest in the life sciences. The Society of Biology is a charity, created by the unification of the Biosciences Federation and the Institute of Biology, and is building on the heritage and reputation of these two organisations to champion the study and development of biology, and provide expert guidance and opinion. The Society represents a diverse membership of over 80,000 - including practising scientists, students and interested non professionals - as individuals, or through the learned societies and other organisations listed below.

We are committed to ensuring that we provide Government and other policy makers - including funders of biological education and research – with a distinct point of access to authoritative, independent, and evidence-based opinion, representative of the widest range of bioscience disciplines.

The Natural Capital Initiative (NCI) is a partnership between the Society of Biology, Centre for Ecology and Hydrology and the British Ecological Society. The NCI aims to support the development of UK science, policy and practice aligned with the ecosystem approach; a way of looking whole ecosystems in decision making and for valuing the goods and services they provide. www.naturalcapitalinitiative.org.uk

This consultation response was developed through contributions from a task force comprising Fellows and member organisations.

7 December 2010

Member Organisations represented by the Society of Biology
Anatomical Society
Association for the Study of Animal Behaviour
Association of Applied Biologists
Biochemical Society

Breakspear Hospital
British Andrology Society
British Association for Lung Research
British Association for Psychopharmacology
British Bariatric Medical Society
British Biophysical Society
British Crop Production Council
British Ecological Society
British Lichen Society
British Microcirculation Society
British Mycological Society
British Neuroscience Association
British Pharmacological Society
British Phycological Society
British Society for Ecological Medicine
British Society for Immunology
British Society for Matrix Biology
British Society for Medical Mycology
British Society for Neuroendocrinology
British Society for Plant Pathology
British Society for Proteome Research
British Society for Research on Ageing
British Society for Soil Science
British Society of Animal Science
British Toxicology Society
Experimental Psychology Society
Fisheries Society of the British Isles
Genetics Society
Heads of University Biological Sciences
Heads of University Centres of Biomedical Science
Institute of Animal Technology
International Biometric Society
Laboratory Animal Science Association
Linnean Society
Marine Biological Association
Nutrition Society
RNID
Royal Entomological Society
Royal Microscopical Society
Royal Society of Chemistry
Science and Plants for Schools
Scottish Association for Marine Science
Society for Applied Microbiology
Society for Endocrinology
Society for Experimental Biology
Society for General Microbiology
Society for Reproduction and Fertility
Society for the Study of Human Biology
SCI Horticulture Group
The Physiological Society
UK Environmental Mutagen Society
University Bioscience Managers’ Association
Zoological Society of London

Supporting Member Organisations
Association of the British Pharmaceutical Industry (ABPI)
Association of Medical Research Charities
AstraZeneca
BioScientifica Ltd
Biotechnology and Biological Sciences Research Council (BBSRC)
GlaxoSmithKline
Institute of Physics
Lifescan (Johnson and Johnson) Scotland Ltd
Medical Research Council (MRC)
Pfizer UK
Syngenta
The British Library
Wellcome Trust
Wiley Blackwell
The Food and Drink Federation (FDF) represents the UK’s food and drink manufacturing industry, the largest manufacturing sector in the country, with a Gross Value Added of about £21.6 billion. The UK is also the world’s eighth largest exporter of value-added food and non-alcoholic drink products, with nearly £10 billion of overseas sales.

At both a UK and EU level the sector operates in increasingly open and competitive international markets. To succeed, our industries must have access to adequate supplies of raw materials that are safe, of high quality and competitively priced. We are committed customers of UK farmers, purchasing around two-thirds of the country’s agricultural output. But to supplement this supply base, we also import ingredients for further processing.

Although successive rounds of CAP reform are moving EU agriculture towards greater market orientation, further reform is needed to consolidate this progress. We also believe that more needs to be done to protect and enhance UK and EU productive potential to help meet the coming challenges of food security and climate change. This means doing more to safeguard natural resources, such as soil and water and to preserve biodiversity. In short, we need a sustainable food and farming policy, looking at the supply chain as a whole and based on resource efficiency and comparative advantage rather than historical patterns of production.

**How will the Commission’s proposals affect the ability of UK agriculture to be competitive in a global market?**

1. The Commission has suggested three broad options to launch further debate on reform of the CAP, stopping short of offering significant detail as to how these options might be achieved. Given the lack of detail, it is difficult to accurately evaluate the potential impacts of this document.

2. FDF is pleased that the Commission has included the competitiveness of the food supply chain as a key objective for reform of the CAP. Ensuring viable food production, encouraging increased productivity and improving the functioning of the food supply chain will help improve the competitiveness of UK farming and food. But much will depend on the choice of options proposed.

3. In this context, it is disappointing that the Communication sees increased trade liberalisation as a potential threat rather than an opportunity. A more market-oriented CAP, more open to world trade would stimulate export performance and help boost competitiveness. This is essential for us to maintain investment and production within the UK, as companies make new regional or global investment decisions and as the EU enlarges.

**Do the proposals ensure fair competition for British agricultural products within the European Union?**
4. The EU is a very diverse area of agriculture production. The more that CAP tools and mechanisms are adapted to local circumstances, the greater the risks of market distortion and unfair competition. The principle of comparative advantage needs to be reflected in a system which also encourages resource efficiency. Supporting inefficient or unproductive sectors will not help the EU to remain competitive or meet future food security needs. It may also harm UK interests.

5. FDF would therefore like to see less emphasis on potentially market distorting national flexibilities such as those introduced under Article 68 of the CAP Health Check of 2008. Any such aid needs to be directed primarily towards environmental priorities.

Will the proposals achieve the correct balance between productivity and sustainability?

6. FDF is pleased to see that the proposals include an emphasis on productivity and sustainability, with two of their three main objectives for the future CAP being ‘viable food production’ and ‘sustainable management of natural resources and climate action’. However, there is again a real lack of detail regarding measures to achieve this, particularly in the case of productivity.

7. More needs to be done to improve ecological resource efficiency. But this needs to be done in ways which avoid unintended consequences or hamper productivity. Any new measures also need to be simple to administer and monitor.

Do the proposals place the UK in a good position to help meet future food supply challenges?

8. Depending on the options chosen and the detailed mechanisms involved, the proposals have the potential to help the UK in meeting future food security challenges. But it would be preferable to have sustainable food production as a more explicit policy aim to mark a step change in the reform process and to ensure that market distorting measures continue to be phased out and that available resources are used to develop productive potential and preserve natural capital.

9. As an example of this, FDF welcomes the Commission’s continued commitment to the removal of dairy production quotas in 2015. The end of quotas and the forthcoming proposals from the High Level Expert Group on Milk should help to ensure improved market orientation in the dairy sector, enabling long term planning by dairy farmers and increased stability. UK food and drink manufacturers have faced significant shortages in supplies of dairy raw materials in recent years and improvements in the functioning of the dairy market would be welcomed.

Will the proposals redress the imbalance in support to different sectors created by the historic basis of payments?

10. The Commission favours greater equity in the distribution of direct payments between Member States rather than redressing imbalance in support to different sectors of production. FDF welcomes the abolition of historical CAP payments to move towards a fairer and more equitable system that rewards active farmers, however it is unclear which
'objective’ criteria the Commission will base payments on and exactly how this will impact different sectors and UK agriculture in general.

**What aspects of the proposals should be made a common policy, and which are best left to Member States?**

11. A strong EU common policy for farming and food is essential for guaranteeing equitable competition conditions within the EU. Maintaining a single market for agricultural products must remain the guiding principle for the future. It is important to ensure that national flexibilities and exemptions do not create distortion which would harm the single market or the supply of raw materials to the food industry.

**Can the proposals be implemented simply and cost-effectively, within a short time-scale?**

12. The options presented by the Commission are lacking in sufficient detail to adequately evaluate potential costs and difficulties of implementation. The proposed greening of pillar 1 is potentially burdensome and a complicated measure to enforce.

*December 2010*

**The UK Food and Drink Manufacturing Industry**

The Food and Drink Federation (FDF) represents the food and drink manufacturing industry, the largest manufacturing sector in the UK, employing around 440,000 people. The industry has an annual turnover of over £72.8bn accounting for 15% of the total manufacturing sector. Exports amount to almost £10bn of which 79% goes to EU members. The Industry buys two-thirds of all UK’s agricultural produce.

The following Associations are members of the Food and Drink Federation:

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<tr>
<th>Abbreviation</th>
<th>Full Name</th>
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<tr>
<td>ABIM</td>
<td>Association of Bakery Ingredient Manufacturers</td>
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<td>ACFM</td>
<td>Association of Cereal Food Manufacturers</td>
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<td>BCA</td>
<td>British Coffee Association</td>
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<td>BOBMA</td>
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<td>CIMA</td>
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UKAMBY UK Association of Manufacturers of Bakers’ Yeast
UKHIA UK Herbal Infusions Association
UKTC UK Tea Council

Within FDF there are the following sectoral organisations:

BCCC Biscuit, Cake, Chocolate and Confectionery Group
FF Frozen Food Group
MG Meat Group
ORG Organic Food and Drink Manufacturers’ Group
SG Seafood Group
VEG Vegetarian and Meat Free Industry Group
YOG Yoghurt and Chilled Dessert Group
Supplementary written evidence submitted by the Food and Drink Federation (FDF)  
(CAP 20A)

Is it a problem for processors if EU farmers go out of business?

1. In absolute terms, the EU is responsible for around 15% of total global agricultural production – though the relative shares differ significantly according to the commodity concerned. The majority of this output is processed within EU Member States, normally close to source. Widespread farm business failures across the EU would therefore clearly have major implications for food processors, both in terms of the cost and availability of raw materials and the length and resilience of their supply chains. Much would depend on the pace of change and the ability of farmers elsewhere in the world to increase their production to rebalance the market. Given the EU’s relative purchasing power, it ought theoretically to be possible to meet our requirements in volume terms, though there could be less choice. But this would be much more difficult if market conditions led to some potential suppliers imposing export bans to give priority to their own domestic consumption needs. There are examples of this happening at the moment, even without an extreme scenario of the EU no longer being a major producer in its own right.

2. It is also possible that such radical changes would lead to knock-on effects in the processing sector as well, with suppliers in third countries seeking to add value at source, rather than simply exporting raw materials. Apart from the (considerable) economic and employment losses this would involve within the EU, it would potentially pose additional risks to security of supply for consumers, as well as the possibility of further cost increases.

3. In the event that climate change leads to greater world-wide variability in harvests, there would also be potentially serious food security risks in not exploiting the productive potential of large areas of cultivable EU land in what are likely to be relatively more stable temperate conditions. Adding all these risks together, few EU processors would be sanguine about the prospects of EU farmers going out of business on any scale, even though there may currently be alternative sources of supply.

If the income support provided by the CAP were to be removed, what steps would you anticipate processors might take to ensure their security of supply?

4. The critical factor here would be the speed of change and the ability of farmers to adapt. Much would also depend on assumptions made about the price and availability of competing supplies from world markets – and the extent of any continuing tariff protection. Responses are also likely to vary considerably from business to business, depending on their product ranges and pricing strategies. Some might consider paying premia for more local sourcing and continuity of supply. Others might look to longer term contracts to guarantee supply from global commodity markets.

March 2011
Executive Summary

This response summarises the conclusions of the National Assembly for Wales’s Rural Development Sub-Committee inquiry into the reform of the CAP. The Committee made recommendations around the key objectives; budget; and structure of CAP. The Committee would like the future CAP to enable farmers’ primary role to remain as food production, but also fund environmental services which will provide new opportunities and sources of income for farmers.

1. The National Assembly for Wales’s Rural Development Sub-committee undertook an inquiry into the impact of reform of the Common Agricultural Policy in Wales. The Committee took evidence from a range of relevant organisations and stakeholders and published their report in July 2010. The main conclusions from the Committee’s report are summarised in this submission. The Committee’s report, the supporting evidence and the Minister’s response can be read in full at: http://www.assemblywales.org/bus-home/bus-committees/bus-committees-scrutiny-committees/bus-committees-third-rd-home.htm

Key objectives

2. Ensuring food security and providing sufficient income for farmers should remain central to the CAP. However, it should also address new priorities including the challenge of climate change and ensuring environmental security. Integrating new priorities into the CAP is essential to ensure the future policy is fit for purpose and provides value for money.

3. Food production should remain the primary role of farmers, but utilising CAP to fund environmental services will provide new opportunities and sources of income for farmers.

Budget

4. It is essential to protect the CAP budget to meet challenges like climate change, food security, supporting agriculture and environmental security. The CAP is a key means of providing financial incentive for positive environmental behaviour within the EU; therefore it is vital to ensure it is properly resourced.

5. To ensure the budget is maintained or increased, there should be a revision of the CAP’s key objectives, and a refocusing on the policy’s key outcomes.
**Structure of CAP**

6. The current two-pillar structure is a historical construct which results in an artificial distinction between agricultural support and rural development, and has a tendency to polarise opinion and skew the debate.

7. The objectives and outcomes of CAP should form the starting point for any discussion on its reform, and the structure should be built around these.

8. Based on our above conclusions, the Committee believes that CAP should, in the long term, move towards being a single integrated policy incorporating both food production and the providing of environmental services. This could include many of the elements that are already included in the CAP such as: direct payments supporting food production; agri-environment schemes; support for less favoured areas and high nature value farming; research, development and competitiveness funding; and, support for rural communities.

9. An important first step towards rationalising the CAP structure would be moving agri-environmental schemes and support for less favoured areas / high nature value farming from Pillar 2 to Pillar 1, thus integrating all land based payments within the same structure. In addition, this reform would lead to a more coherent Pillar 2 concentrating on developing both the industry and rural communities’ ability to adapt for the future. It could also facilitate any future move to one integrated policy.

**Direct Payments**

10. Direct payments to farmers are important to help maintain the economic viability of farms in Wales and therefore must remain a central part of the CAP. To minimise the disruption to the agricultural industry, the Committee supports the Welsh Government’s position in calling for the longest possible transition period for the move to area-based payments, ideally until 2020.

**Rural Development Plan**

11. The Committee support Welsh Government calls for a fair allocation for RDP funding for Wales, and a simplification of the RDP implementation process.

12. Future priorities for the RDP must include climate change, research and development, supporting new entrants, training, and on-farm energy production. Payments under agri-environment schemes, whether they remain under the RDP or move to Pillar 1, should reflect the true market value of goods rather than income foregone in farming.
**Market Intervention**

13. Given the international market for food and the CAP’s key objective of securing a fair income for farmers, the Committee supports the current ongoing work at a European level in relation to supply chain contracts. Reform of the market to allow farmers to receive a fair price for their products should become an increased priority for the CAP in the coming period. This would enable a greater share of farmers’ income in Wales to come from the market.

**Less Favoured Areas**

14. The CAP should continue to provide support for sustainable food production in areas like the Welsh uplands, which are difficult to farm. A scheme which combines the objective of supporting food production in these areas with that of payment for the important non-market ecosystem services provided by ‘high nature value’ farms would benefit Welsh farmers and could make a significant contribution towards preventing land abandonments in rural communities in Wales.

**A Common Policy**

15. The Committee opposes any move towards re-nationalising the CAP, and is concerned at suggestions in the past by the UK Government that it would seek to use the post-2013 reform process to renationalise many elements of the policy. Re-nationalisation would weaken the ability of the Welsh Government to support Welsh farmers and as a result, Welsh farmers would potentially find themselves at a competitive disadvantage compared to their European neighbours.

**Stakeholder Engagement and Influencing Negotiations**

16. The Welsh Government told the Committee that they intended to engage with stakeholders in Wales to inform its response to the Commission’s proposals. We felt it missed an opportunity by not working with its partners to draw up a Welsh vision for CAP reform prior to the Commission’s announcement.

17. The Committee believes the Welsh Government should use every possible route to influence the negotiations on the reform of the CAP. This should include directly influencing the European Commission and Parliament as well as the UK Government and Welsh MEPs.

*December 2010*
Summary

1. RRes supports the three strategic aims expressed in the CAP reform document (Ref: com2010_0672en01). Whilst agriculture might be a small part of the GDP of developed countries the food industry produces ca 25% of the GDP of the UK and agriculture plays a critical role in ensuring the viability of that industry.

2. We suggest the aims are slightly rephrased to say that an effective CAP should allow Europe to maintain the security of its food production, the livelihood of its rural areas, and the biodiversity and natural capital upon which we all depend for our ultimate survival, without damaging the economies and environments of countries outside Europe. In other words, it must support the delivery of all Ecosystem Services (as defined in the Millennium Ecosystem Assessment). We thus favour Policy Option 3.

3. However, to achieve this objectively and fairly, a scientifically-based valuation of ecosystem services and natural capital that agriculture produces is essential, so that these can be properly supported by the policy.

4. We agree that a sustainable agricultural system must reduce emissions of greenhouse gases and believe that UK agriculture can both mitigate against climate change and adapt to it. However, research, knowledge transfer and trained people are essential to develop and to deliver these evaluations and an effective agricultural policy that facilitates the ‘Sustainable Intensification’ that the Royal Society has identified as essential for a growing world population (see Royal Society report ‘Reaping the Benefits’). Any reformed CAP should be empowered to allocate a substantial budget to R&D; we believe this would enhance the credibility of the CAP, which has had a poor image for some time.

5. In the UK, level funding for science in the current Spending Review and inflation will result in a significant decrease in the value of science funding. In the UK and at RRes the poor status of agricultural research for some twenty years or more means we face the loss of key staff and expertise that is essential to continue the research that underpins sustainable agriculture. Implementation of an objective and fair CAP requires R&D on sustainable farming, climate change and bioenergy production whilst meeting our food security needs. In this context, the CAP needs to take an informed view of the increasing conflict between food and fuel (i.e. the use of land for bioenergy).

6. The challenge of producing more food with fewer inputs and impacts should not be underestimated. Much research is needed to make it possible. There also needs to be a realisation that not all ecosystem services can be delivered everywhere they are needed. For example, wetland ecosystems are not easily interchangeable with florally diverse hay meadows or productive arable fields. We are developing methods to optimise ecosystem services, with a full understanding of the sustainability of any system.

- How will the Commission’s proposals affect the ability of UK agriculture to be competitive in a global market?

7. The aim to preserve food security and to meet growing food production targets by 2050 will require use of all available technologies to boost and protect crop production. The
current restrictions on agrochemicals (Directive 91/414), GM technology, and regulatory/registration constraints on alternative approaches (e.g. biological agents), will inevitably limit the options for future crop improvement and protection.

8. There is an emphasis on the environment and green growth. Recent studies have shown that relatively simple measures might resolve the perceived conflict between intensive production and effective ecosystem services. Unsprayed headlands, green corridors and a modest mosaic of habitats within intensively farmed systems can do much to reverse the decrease in diversity. Even predators at the apex of the food chain (such as Barn owls) can thrive in such systems. Intelligent management of farmland informed by research can simultaneously achieve production and biodiversity goals.

9. The reform document emphasizes competition on the world market. The EU cannot compete with one arm tied behind its back (over-regulation, technology restrictions, loss of agrochemicals etc). The pressing needs of global food security will, eventually, expose the short-sightedness of these policies.

- Do the proposals ensure fair competition for British agricultural products within the European Union?

10. Farming is the foundation of the food supply chain, and any further erosion in the value of primary production will place the whole edifice at risk. Recent increases in the value of commodities will not solve this problem. A more stable and equitable distribution of value (income) across the chain is essential.

11. Volatility in yield and quality, and not just in price, threaten sustainability and UK production. RRRes is pursuing research that aims to reduce volatility, i.e. the variation of food quantity and quality, and so ensure sustainability.

- Will the proposals achieve the correct balance between productivity and sustainability?

12. The Royal Society Report “Reaping the Benefits” argued quite strongly, based on very good scientific evidence, that the way forward on a global agriculture basis was a concept of ‘Sustainable Intensification,’ which must be based on sound, independent research.

13. Photosynthesis is one of the fundamental aspects of plant productivity. Photosynthesis research is an area where we believe that we can intensify production by increasing the capability of crops to fix CO2 and turn it into useful food products.

14. We are going to face a challenge with nutrients and water availability. Many of the nutrients that we apply to plants are in short supply. Every time we apply phosphate to the soil in effect it is lost and costs a lot of energy to recoup it. Consequently, we need to make plants more efficient in the use of nutrients; otherwise we will have a crisis on our hands 20 or 30 years from now, when the cost of the inputs to maintain agriculture will be extremely high.

15. Soil science is an area that has been neglected. Soil erosion, inappropriate agricultural practices and factors such as climate change has caused global reduction in available
arable land. Soil quality is fundamental to any agricultural productivity; soil can become depleted soil due to overproduction in only five years, but it can take 25 years to recover. Soil science is going to be a very important part of our ongoing research.

16. Direct payments now earmarked for pillar 2 of CAP to support the environment, animal welfare, food quality and safety and improvements to agricultural production. RRes and other BBSRC sponsored institutes have scientific expertise in these areas and are well-placed to address these issues in the UK, providing solutions that could also be applied across the EU.

17. CAP reform could ensure that the paybacks that go to farmers are based upon the introduction of innovative approaches to reduce carbon footprints or benefit biodiversity per unit of production. Probably 16-17% of the world’s greenhouse gases are the result of agricultural practice, including methane from livestock and nitrous oxide from fertiliser applications. Industry is eligible for carbon credits in return for positive steps taken to reduce carbon footprints and through CAP this should be extended to farmers, promoting sustainability.

18. The demand for biofuels has triggered an increase in the price of commodities in the EU and as a result some farmers have shifted to biofuel production to improve their income. This has sparked a ‘food versus fuel’ debate. The Gallagher review concluded that feedstock production should avoid land that would otherwise be used for food production. Scientists at RRes are investigating second generation biofuels from willow and miscanthus, which can be grown on marginal land, require reduced inputs and do not compete with food production.

- Do the proposals place the UK in a good position to help meet future food supply challenges?

19. The disjunction between restrictive regulation in the EU and the lack of resources for agricultural research and innovation is probably the biggest threat to the long-term viability and competitiveness of EU agriculture. As we have seen for the last 12 years, the EU regulatory framework on GM technology has resulted in a loss of billions of euros in investment in research and innovation, much of which has moved to the USA and elsewhere (Syngenta, BASF, and Monsanto). This has inevitably caused a loss of highly-skilled personnel from Europe to the US and Canada. Most importantly, European agriculture is still dependent on 20th century methods of agricultural cultivation with stagnant or declining yields, while many parts of the world are enjoying a renaissance in agricultural production and improved farm ecosystems due to no-till agriculture and massive reductions in pesticide use.

The international adoption of various GM technologies is summarized in the following document:
http://www.isaaa.org/resources/publications/briefs/41/executivesummary/default.asp

As the EU moves towards tighter regulation of agricultural chemicals, there has been no counter-initiative to expand research which will find substitute agricultural methods for those which will be lost. This systemic inconsistency between regulation and investment
in innovation is the most serious threat to sustainability and competitiveness of EU-based agriculture.

**Selected links to RRes research that has a direct impact on UK agriculture:**

The Environmental Change Network
- [http://www.rothamsted.bbsrc.ac.uk/aen/ecn/](http://www.rothamsted.bbsrc.ac.uk/aen/ecn/)
- [http://www.rothamsted.bbsrc.ac.uk/Research/Centres/ProjectDetails.php?Centre=SEF&ProjectID=5999](http://www.rothamsted.bbsrc.ac.uk/Research/Centres/ProjectDetails.php?Centre=SEF&ProjectID=5999)

- Disease forecasts
  - [http://www.rothamsted.bbsrc.ac.uk/Research/Centres/Content.php?Section=Leafspot](http://www.rothamsted.bbsrc.ac.uk/Research/Centres/Content.php?Section=Leafspot)

- The insect survey
  - [http://www.rothamsted.bbsrc.ac.uk/insect-survey/](http://www.rothamsted.bbsrc.ac.uk/insect-survey/)

- Water use efficiency
  - [http://www.rothamsted.bbsrc.ac.uk/Research/Centres/ProjectDetails.php?Centre=CGI&ProjectID=5047](http://www.rothamsted.bbsrc.ac.uk/Research/Centres/ProjectDetails.php?Centre=CGI&ProjectID=5047)
  - [http://www.rothamsted.bbsrc.ac.uk/Research/Centres/ProjectDetails.php?Centre=CGI&ProjectID=4875](http://www.rothamsted.bbsrc.ac.uk/Research/Centres/ProjectDetails.php?Centre=CGI&ProjectID=4875)

- Nutrient Use efficiency
  - [http://www.rothamsted.bbsrc.ac.uk/Research/Centres/ProjectDetails.php?Centre=CGI&ProjectID=4955](http://www.rothamsted.bbsrc.ac.uk/Research/Centres/ProjectDetails.php?Centre=CGI&ProjectID=4955)
  - [http://www.rothamsted.bbsrc.ac.uk/aen/nut_dyn/nutdyn.htm](http://www.rothamsted.bbsrc.ac.uk/aen/nut_dyn/nutdyn.htm)
  - [http://www.rothamsted.bbsrc.ac.uk/Research/Centres/ProjectDetails.php?Centre=SEF&ProjectID=4967](http://www.rothamsted.bbsrc.ac.uk/Research/Centres/ProjectDetails.php?Centre=SEF&ProjectID=4967)
  - [http://www.rothamsted.bbsrc.ac.uk/cpi/men/mh1-opt-cer.html](http://www.rothamsted.bbsrc.ac.uk/cpi/men/mh1-opt-cer.html)

- Soil research
  - [http://www.rothamsted.ac.uk/Research/Centres/ProjectDetails.php?ProjectID=9970](http://www.rothamsted.ac.uk/Research/Centres/ProjectDetails.php?ProjectID=9970)

- The Wheat genetic improvement network (WGIN)
  - [http://www.rothamsted.bbsrc.ac.uk/Research/Centres/ProjectDetails.php?Centre=PD&M&ProjectID=5041](http://www.rothamsted.bbsrc.ac.uk/Research/Centres/ProjectDetails.php?Centre=PD&M&ProjectID=5041)
  - [http://www.wgin.org.uk/](http://www.wgin.org.uk/)

- The Oilseed Rape genetic improvement network (OREGIN)
  - [http://www.oregin.info/](http://www.oregin.info/)

*December 2010*
The AHDB is the independent levy board with a pivotal role improving industry efficiency and competitiveness. We are funded by the agriculture and horticulture industries through statutory levies. We represent about 75% of total UK agricultural output. Our statutory functions encompass meat and livestock (cattle, sheep and pigs) in England; horticulture, milk and potatoes in Great Britain; cereals and oilseeds in the UK. AHDB’s role is providing the industry and government with objective analysis on how forthcoming proposals might impact on farmers rather than comment on the policy.

Executive Summary

1. It has been well documented that the EU/world faces some significant challenges over the next few decades. As described by UK Chief Scientist Professor John Beddington this “perfect storm” of increasing population and climate change will lead to an increased need for energy, water and food. This will place significant demands on EU agriculture both to use increasing precious resources efficiently whilst producing food and other crops for a growing population, but also to mitigate any contribution it is making to Climate Change. Therefore if we wish to meet this challenge, as stated by many in the agricultural industry, we should seek to take this opportunity of CAP reform to design a CAP to assist the EU/UK agricultural sector become as competitive and sustainable (economically and environmentally) as possible, producing as much food as the market wants, in an efficient and environmentally sustainable way.

How will the Commission’s proposals affect the ability of UK agriculture to be competitive in a global market?

2. A reformed CAP should ideally support all of the activities listed below. Some of the proposals may help if well designed, but without sufficient detail it is difficult to undertake a full assessment. However, it appears possible that some of the proposals could hamper the ability of the UK agricultural sector to be competitive in both the EU and global market e.g. providing additional support to farmers who have naturally less advantages due to factors such as climate, size etc.

3. Key to continued/increased competitiveness of UK agriculture are:
   a. An incentive to be competitive – i.e. adequate, but not excessive, competitive pressure
   b. Investment: in R&D, in capital projects and in people and skills to improve productivity and sustainability
c. Clear market signals and confidence in those signals to encourage adequate investment through the supply chain
d. Compensation for additional costs (or public goods) imposed by regulation on UK farmers which are not imposed on farmers from other countries who are able to compete with UK farmers through trade
e. No distortion of competition through subsidies for farm types that are naturally less efficient
f. Facilitation of effective risk/volatility management

Do the proposals ensure fair competition for British agricultural products within the EU?

4. It is crucial that a common market has common rules if it is to operate efficiently. If nation states have too much flexibility in implementation of the CAP, there is the potential for distortion of competition. Any support for “small farms”, for “specific regions” or for “specific natural constraints” should be designed in such a way as to not be able to distort competition, or limited in size.

5. However, proposals for rural development to have a more strategic approach, with quantified, outcome based EU targets, with flexibility in how to achieve those targets could be positive in supporting competitiveness, depending on the detail.

Will the proposals achieve the correct balance between productivity and sustainability?

6. To answer this question we have to define what the correct balance is. AHDB would propose that the correct balance should be determined by the market place in terms of food supply, and in terms of sustainability, various standard methodology indicators/outcomes should be identified depending on the policy aims. Much, if not all, the evidence we have is that in terms of Green House Gas (GHG) emissions farms that are more efficient, e.g. produce the most output from a given amount of input have both a lower GHG impact and lower costs i.e. are the most competitive. Therefore promoting competitive farms should often also improve sustainability.

7. However, there may be potential tradeoffs between reducing GHG emissions and biodiversity, e.g. taking high quality agricultural land out of production as set aside may create valuable wildlife habitat in that location, but if a greater amount of less productive land elsewhere has to be used to produce the same amount of food than would have otherwise been produced on the set aside land, this is likely to increase total GHG emissions. In addition, the UK is predicted to be less impacted on by climate change than many other countries meaning that our contribution to total food and crop production
may potentially need to be greater in the future than at present. This means creating the right balance may be challenging.

8. It should be noted that on many areas of environmental science/sustainability there is still some way to go to understand the complex interactions in agriculture. Therefore it is possible that any “greening” of the CAP with prescriptive regulations may actually create perverse and unintended consequences. Again the detail of the proposals are key in this area.

Do the proposals place the UK in a good position to help meet future food supply challenges?

9. Generally speaking exposure to the market place will lead to the greatest efficiency in terms of food production. However, where there are externalities (or public goods) which are not currently priced/valued by the market or through regulation/taxation on a standard basis across the world, UK farmers need to be supported to compete on an equal footing if we are not to merely export food production to countries where welfare or environmental standards are lower. Therefore farmers must be fully compensated for any costs due to higher compliance standards brought in to “green” the CAP if we are to have a competitive food supply.

Will the proposals redress the imbalance in support to different sectors created by the historic basis of payments?

10. A more uniform basic income support payment could reduce differences across the EU. However, if there is significant flexibility for member states in many areas then this could counteract those differences being reduced.

What aspects of the proposals should be made a common policy and which is best left to Member States?

11. If the aim of CAP is to support the development of a competitive and sustainable EU agricultural industry it is important that food is produced in the EU where it can be done so most efficiently. For this to happen as much as possible should be common across the EU to avoid market distortions. There is probably some scope for the second pillar to be more discretionary, but the framework should be the same across the EU. If there are common EU strategic outcome based targets it may be that the most effective way of achieving those targets is best left to member states.

Can the proposals be implemented simply and cost-effectively, within a short time-scale?
12. The key for simple cost effective implementation in a short timescale is to have simple, consistent proposals. Until the detail of the schemes is available it is difficult to comment accurately, but it would appear greater complexity is potentially being proposed.

December 2010
Given that the UK farms tend to be larger than the EU average, how likely is it that any scheme to support “small farmers” will be of benefit to UK farmers?

1. Based on the concept that a small farmer is one who farms a small area, any scheme to support 'small farmers' is likely to only benefit a minority of UK farmers. According to the Farm Structure Survey of 2007¹ (FSS 2007) in the UK only 39% of holdings (of more than one European Size Unit²) were smaller than 20 hectares in size. This compares to 39% in Ireland, 40% in France, 52% in Germany, 69% in Austria, 78% in Spain, 92% in Bulgaria and 97% in Romania.

2. Based on the assumption that 20 hectares is the cut off point for designating a 'small farmer', less than 40% of UK farmers would stand to benefit under any such scheme. Additionally these holdings only account for 4% of the utilised agricultural area of the UK. Many of these small farmers are engaged in livestock farming with over 80% of the land being permanent pasture and meadows. Cereals or forage crops account for most of the very small amount of cropping in this category. So, while such a scheme has the potential to be beneficial to some farmers in the UK, the majority will see little or no benefit.

3. Many small farmers are actually part-time farmers either due to another job outside of the holding or semi-retirement. The FSS 2007 indicates that more than 75% of UK small farmers are considered part-time, with most of these putting in under half of their time to the agricultural business. The survey indicates that small farmers are also more likely to be over 65.

4. As such it is likely that any scheme that supports small farmers will be of little benefit to UK farm businesses as either they will be too large to qualify for the support or they are only engaged in farming on a part time basis. However, small farmers who are engaged in farming in a full time capacity may be able to benefit from such a scheme. In addition, it is possible that the definition of a “small famer” could be set even lower than the assumed level of 20 hectares which would further reduce the benefit to UK farmers. Finally, the support for small farms may distort the market (depending on the approach used) which

¹ Data taken from the Farm Structure Survey in the United Kingdom and from the equivalent surveys for other member states is available from Eurostat (http://epp.eurostat.ec.europa.eu).

² For each activity (‘enterprise’) on a farm (for instance wheat, dairy cow or vineyard), a standard gross margin (SGM) is estimated, based on the area (or the number of heads) and a regional coefficient. The sum of such margins in a farm is its economic size, expressed in European Size Units (ESU) where 1 ESU is a 1200-euro standard gross margin. The ESU can be thought of as a measure of the economic size of a farm business based on the gross margin imputed from standard coefficients for each commodity on the farm. An ESU roughly corresponds to 1.3 hectares of cereals, 1 dairy cow or 25 ewes. In 2007, there were 183,000 enterprises of at least 1ESU recorded in the UK.
potentially could have adverse effects on maximising competitiveness/food production, and minimising Green House Gas emissions.

The Commission has recently published its “Milk Package” including proposals to improve the functioning of the supply chain. In your view, are the sorts of measures in the proposal sufficient to rectify the current imbalances and ensure a fairer return to farmers?

5. The proposals could help to improve market signals to producers which would help make the market work more efficiently. Whilst the use of written contracts between producer and processor is already common place in the UK, there is much debate in the industry about whether the structure of these contracts hinder the market from operating efficiently. The European Commission proposals could address this issue by ensuring certain common elements are included within contracts.

6. The key issues of pricing and notice periods within written contracts still remain as problems in the UK milk market. Firstly, only Tesco’s and one other additional contract we are aware of have a clear pricing structure with market indicators or other factors explicitly linked to setting the price. Secondly, those buying milk are able to change the price at short notice, or even retrospectively, without the option of a farmer ceasing supplies of milk to that buyer without a long notice period in most cases. Finally, many contracts do not specify the monthly volume of milk to be produced and this reduces the predictability of supply for processors.

7. The European Commission proposals will be of greatest benefit to the UK dairy industry if they instigate change in the areas outlined without dictating a one-size-fits-all approach. For example, all contracts must be set up with a core principle that price changes must be agreed, and if there is no agreement, farmers can leave within a reasonable period. However, the mechanisms for setting prices within contracts can be very different and should be left to the commercial world. For example, price setting on a milk-for-cheese contract could be very different to that within a liquid milk contract. Contracts could specify prices in different ways such as:

- xxppl for the next 6 months for a liquid contract possibly with the retailer agreeing an appropriate wholesale price for the same period.
- Price formula of AMPE (Actual Milk Price Equivalent) indefinitely for a commodity processor
- Price formula of MCVE (Milk for Cheese Value Equivalent) + 2ppl indefinitely for a cheese processor

3 AMPE calculates the value of a litre of milk at the factory gate if it is turned in to butter and skimmed milk powder at the prevailing prices for those products and allows for the processors costs.
The exact details of contracts should vary depending on different circumstances and it should be left to commercial organisations to decide on these. However, key principles should be addressed by contracts, so price changes are agreed and producers are able to easily and relatively quickly move to another buyer if this isn’t the case. This would aid clear market signals and an effective supply chain.

The CAP provides a basic income safety net to farmers. One argument for its retention is that it compensates farmers for the poor returns they receive for their products from processors and retailers. If direct income support were abolished, would you anticipate that any action would be taken by retailers and/or processors to secure their supplies?

8. Removal of the income safety net would increase the exposure of farmers to fluctuations in prices and production levels and this may incentivise processors and retailers to provide greater support to their suppliers in order to ensure that the flow of food and inputs they require continues. It is important to note that action along these lines is already occurring in many agricultural supply chains in the face of volatile commodity markets. In the feed compounding sector, for instance, it is common for compounders to enter into forward-buying contracts with producers that cover many months ahead of the current market. This has been crucial to them in recent months, allowing them to secure supplies at set prices when raw material (particularly cereal) values have been highly volatile.

9. Adapting to market volatility is most efficiently achieved using a whole supply chain approach. Hence, an increase in the exposure of farmers to risk requires not just action from processors (and others in the middle of the supply chain) but all those involved in the chain. For instance, if processors are to enter into forward contracts with farmers, they may well seek similar arrangements with end-users (e.g. supermarkets) in order to share the risk burden. However, for such arrangements between different agents in the supply chain to be successful, it is essential that all parties fully understand the risks that they and others face.

10. This has been seen to be very effective in the poultry feed supply chain, for instance, where cereal farmers, integrated poultry units and end-users have been successful in spreading the risks associated with volatile wheat prices across the whole chain. Given that feed wheat prices represent by far the largest part of the costs incurred by the chain,

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*MCVE calculates the value of a litre of milk at the factory gate if it is turned into mild cheddar, whey powder and whey butter at the prevailing prices for those products and allows for the processors costs*
this has been crucial in ensuring the continued profitability of the relevant firms as feed wheat prices have risen over the last 12 months.

11. Other examples of supply chains beginning to work on this include the dairy market, where Tesco have undertaken to pay farmers supplying them with liquid milk a milk price that covers their cost of production. Many other supermarkets have dedicated suppliers, with a premium price which also aids security of supply. As the examples already exist it appears likely that if the need arose more supply chains would become integrated and work better together.

12. However, for those farmers not involved in more integrated supply chains (and the vast majority are not) and are in effect generally competing on the world market, they would probably be fully exposed to market volatility. Their profitability would depend on their competitiveness and how efficiently they used tools such as the futures markets (although these are not available in most sectors). In some production sectors it is clear that there is potential for efficiency to be improved and this lack of a safety net may stimulate improvements. However, it is likely that there might be significant other impacts, such as a drop in production, reduction in the number of farmers, abandonment of marginal land etc.

13. An additional factor which should be considered when deliberating this point is how effective CAP is at providing a safety net in that in many cases subsidy payments get partially or wholly transferred in to the supply chain or capitalised in land costs/rents depending on how the supply chain is working. The amount of the payment that gets lost to farmers depends on factors such as how “decoupled” farmers consider the payment (i.e. do they continue to produce food even though the market price is too low because the subsidy payment allows them to do so), whether the market price is driven by world demand/supply factors or more regional factors, demand for land in a local area, are input costs higher than they otherwise would be without CAP support to farmers etc.

The Commission has recently released new proposals regarding an “income stabilisation” tool to help manage price volatility. What are your views on its utility for UK farmers, impact on competitiveness and budgetary and WTO implications?

14. AHDB would need more details on how the proposed tool may work before being able to provide a full analysis of potential impacts. For instance, how will the scheme be funded – will it come from the rural development or direct payment budget? However, a few
comments can be made based on the content that has been reported in the press and from the Commission.

15. Reports coming out of Europe to date indicate that the tool may be restricted to provide support only where losses of income above 30% of average income occur and will be limited to compensating for a maximum of 70% of the total income loss. This is important for two reasons. It is expected that restricting the scheme to these levels would meet WTO “green box” requirements. Secondly, it shows that income fluctuations are only to be smoothed on the downside and hence the term “income stabilisation tool” could be misleading – as that may imply a system that reduces income fluctuations in both directions, such as Contracts for Difference (CfDs).

16. It has also been suggested that the system will be voluntary since there is a varying appetite for such a tool within member states. Part of the reason for this is that it is seen to be complex from an administration point of view, with difficulties calculating the average income and current income loss for each producer in the member state. Only having the option available in some member states may affect competition within Europe, however restricting usage to situations where very large reductions in income occur should reduce the impact of this.

17. AHDB would need more detail in order to fully analyse the system and compare it to the other systems that exist elsewhere in the world such as in the USA which may be of interest. However, early indications suggest that it is likely that there will be limited appetite for the tool from the UK farming industry given the extra complexity it adds to the CAP, the costs of administering the scheme and the potential erosion to the value of farmer’s direct payments.

*February 2011*
Along with the CLA we are the only food and farming organisation which broadly supports the view of the nature conservation bodies. The Soil Association believes that the CAP post-2013 should support agricultural practices that use natural resources in a rational way, and that food production and environmental protection can go hand in hand, and do not need to compete. Farmers should be adequately remunerated for providing public goods in an effective way.

1) **How will the Commission’s proposals affect the ability of UK agriculture to be competitive in a global market?**

See response to question 3.

2) **Do the proposals ensure fair competition for British agricultural products within the European Union?**

There is nothing we are aware of within the proposals which would prevent unfair competition for British agricultural products.

3) **Will the proposals achieve the correct balance between productivity and sustainability?**

The proposals, quite rightly do not differentiate strongly between sustainability and productivity. Our view is that the two can go hand in hand, and that productive farmland can also be productive from an environmental perspective.

Farmers should be adequately remunerated for the public goods they provide. The current proposals do seem to allow for this, though the detail of how this would occur is not yet clear. Agriculture provides a wide range of recognised public goods, many of which are highly valued by society. These include environmental public goods, such as agricultural landscapes, farmland biodiversity, water and air quality, climate stability, resilience to flooding, as well as social goods, such as food security, health, rural vitality and animal welfare. Indeed, Europe’s biodiversity has co-evolved with traditional farming activities; many species currently depend on specific agricultural management practices, and agriculture has a large impact on a range of environmental issues.

The problem is that many of these public goods and services do not currently have an adequate ‘price’ in the market, so their provision depends on state intervention. These vital public services justify public support and their value is being increasingly recognised in the EU as an important output for the CAP.

The Soil Association believes that the CAP post-2013 should support agricultural practices that use natural resources in a rational way:
• Water: no depletion or pollution of ground water, no use of river water that leaves rivers running low, and no pollution of rivers
• Soil: conservation and improvement, not degradation
• Wildlife on farms: conservation and enhancement, not decline
• Landscape: conservation and positive changes to increase diversity, not destruction of valued landscape features like hedges
• Climate: encourage farming practices that store carbon in soils and that rely on renewable fertility and energy, not fossil-fuel based fertility
• No use of any persistent, bio-accumulative, hormone disrupting pesticides
• Highest standards of farm animal welfare.

We believe that organic farming can play a key role in delivering the numerous public goods which EU citizens expect as part of the farm business. As a system, organic farming can deliver all (or almost all) of the above objectives much more efficiently than an approach which relies on a myriad of policy interventions which attempt to achieve each one separately.

4) Do the proposals place the UK in a good position to help meet future food supply challenges?

We take the phrase ‘future food supply challenges’ to mean the ability to produce food in a world which is contending with climate change, resource depletion and increasing cost of inputs including fossil fuels.

Food security is an extremely important role for the reformed CAP. The key issue is how we define food security. This is not a question of how we produce as much food as possible, but how we can produce food in a sustainable manner, and provide people with a healthy diet.

In much of the current debate, the food security challenge is being cast in terms of the need to maintain agricultural production capacity in the EU and that we are becoming dangerously dependent on food imports. We disagree with this view, and the facts support this.

• The volume of EU agricultural production in 2009 was at its second highest level ever, down only slightly on the record level achieved in 2008. It is simply not the case that EU production capacity was seriously affected by recent volatility in agricultural markets.

• While EU does show a slight deficit on its agricultural trade balance, this has not been growing and in fact the EU emerged as a net food exporter in 2006, albeit the composition of its imports and exports are very different. The deficit in 2008 at $7 billion (compared to the value of imports of around $110 billion) was unusually large, but the gap narrowed to less than $3 billion last year.
5) Will the proposals redress the imbalance in support to different sectors created by the historic basis of payments?

It is currently difficult to tell whether the proposals redress the imbalance in support to different sectors created by the historic basis of payments.

6) What aspects of the proposals should be made a common policy, and which are best left to Member States?

We believe that a large proportion of the policy should be implemented at an EU level in order that a strong element of support for effective agro-ecological production methods such as organic farming is put in place.

7) Can the proposals be implemented simply and cost-effectively, within a short time-scale?

It is difficult to tell whether the proposals can be implemented simply and cost effectively, within a short time-scale because there is currently little detail about what the detail of the mechanisms used to carry out the proposals would be.

December 2010
1. **How will the Commission’s proposals affect the ability of UK agriculture to be competitive in a global market?**

1.1. A competitive agriculture would comprise well-managed businesses operating at efficient scales (not necessarily large scale), within an efficiently-functioning market-place for agricultural products. Such businesses would be using appropriate technology and systems to maximise output whilst minimising the use of inputs, they would also be well-capitalised, financially robust, and applying risk management techniques to enable businesses to weather inevitable fluctuations in farming’s fortunes.

1.2. The Commission’s proposals do little to facilitate this. The focus within the proposals remains on direct payments (the Single Payment Scheme) and the justification for such support, with a complex mix of rationales suggested.

1.3. It is true that direct payments allow individual farm businesses to cope with volatility. However, such support simply allows more (inefficient) businesses to continue. If a farm business ceases operation, its assets (especially land) are taken on by someone else – i.e. overall productivity is not lost and often increases. This consolidation and restructuring has been happening for decades, and the various incarnations of the CAP have tended to just slow the process.

1.4. A policy that valued the competitiveness of agriculture would focus on issues such as farmer training and advice, retirement and new entrant schemes, agricultural research and development (and knowledge transfer), and support for investment in new technologies and enterprises. Although such support is possible under Pillar 2, it is a pale shadow of the funds and focus of Pillar 1 support.

1.5. It is recognised that certain regions and farming systems will require support if society deems it important to retain agriculture in such areas (hill farming being the prime example in the UK). But it is questionable whether a blunt instrument such as the Single Payment is the most effective policy response.
2. **DO THE PROPOSALS ENSURE FAIR COMPETITION FOR BRITISH AGRICULTURAL PRODUCTS WITHIN THE EUROPEAN UNION?**

2.1. Nothing in the proposals appears to prejudice the position of UK producers compared to others in the EU. The important issue is the allocation of EU funds between Member States. This must be done equitably, otherwise producers in one country can effectively use a higher Single Payment to cross-subsidise production and be able to sell at lower prices and remain competitive.

2.2. An important point is not only a fair allocation in Pillar 1 payments, but also that the historical injustice of the Pillar 2 allocation of the UK is addressed.

2.3. ‘Capping’ of support should be resisted as it constrains efficiency gains on farm businesses as they grow. Experience suggests these policies are largely ‘window dressing’; all that happens is that professional fees are incurred as mechanisms are found by recipients to circumvent the restrictions.

3. **WILL THE PROPOSALS ACHIEVE THE CORRECT BALANCE BETWEEN PRODUCTIVITY AND SUSTAINABILITY?**

3.1. It should be recognised that there is not a simple trade-off between productivity and sustainability. The best farm businesses achieve high output whilst minimising the effects on the environment and input use - good management usually applies to *all* aspects of the business.

3.2. The ‘greening’ of Pillar 1 payments proposed under Option 2 looks potentially problematic. It appears to involve the imposition of a one-size-fits-all set of environmental measures on all farmers. This seems to be more about providing a justification for the continuation of Single Payments than the actual environmental benefits such a policy would produce. Existing voluntary measures (e.g. Environmental Stewardship in England) allow far better targeting according to the individual circumstances of the farm.
4. **DO THE PROPOSALS PLACE THE UK IN A GOOD POSITION TO HELP MEET FUTURE FOOD SUPPLY CHALLENGES?**

4.1. Despite the rhetoric about food security, the proposals contain little to achieve a change in EU agricultural productivity; they are more geared towards maintaining the status quo.

4.2. Notwithstanding the above, the proposals are probably broadly neutral in terms of UK farming meeting global foods supply challenges. Farmers’ production decisions are based on market prices - responding to demand for products. A sustained increase in global commodity prices, or a better functioning food supply chain, would encourage a production response. This would have a far greater effect than any policy measures.

5. **WILL THE PROPOSALS ADDRESS THE IMBALANCE IN SUPPORT TO DIFFERENT SECTORS CAUSED BY THE HISTORIC BASIS OF PAYMENTS?**

5.1. In England the move the regional average payment system by 2012 will largely remove the ‘per Hectare’ differences between sectors. As the SPS is a land-based support system, the exceptions to this are sectors that are intensive in their land use – pigs, poultry and some horticultural enterprises. Using very little land, these enterprises receive little support, and the proposals do not change this.

5.2. The situation in other parts of the UK will be different if SP allocation on historic basis ends, creating a redistribution of aid between businesses and sectors (as has occurred already in England). This causes problems for individual businesses, but there seems little justification for its continuation and most farmers accept it will end. A transition period might smooth the change on individual farms.
6. **What Aspects of the Proposals Should be Made a Common Policy and Which are Best Let to Member States?**

6.1. Generally, rules should be set at the EU level that are needed to ensure a ‘level playing field’. This would include the basic structures (entitlement system), and payment basis (historic/regional). EU rules should be maintained on the level of coupled payments allowed. Crucially, funding should be decided (equitably) on an EU basis, with co-financing rejected. Past experience suggests that any voluntary co-financing would place UK farmers at a disadvantage as the UK Treasury would strongly resist providing funds.

6.2. Most other decision such as detailed scheme rules, and even the extent of cross-compliance should, in theory, be best left to Member States to decide so they can tailor them to the country’s specific circumstances. However, UK governments have a record of ‘gold plating’ such requirements. Unless this can be resisted then UK farmers may, in fact, be happier for most rules to be set at the EU level to ensure parity.

7. **Can the Proposals Be Implemented Simply and Cost-Effectively, Within a Short Timescale?**

7.1. The history of the administration of the SPS (particularly the RPA in England) does not fill us with confidence. Option 2 proposals are more complex than the present Single Payment system, which the RPA has singularly failed to come to terms with. It would not appear an insurmountable problem, but the performance of the English paying agency would have to improve measurably from its current level.

29 December 2010
CAP REFORM POST 2013 AND THE IMPORTANCE OF THE CAP TO THE NORTH OF IRELAND

Thank you for the opportunity to provide input to your inquiry on reform of the Common Agricultural Policy (CAP) post 2013.

The recent EU Commission Communication on the future shape of the Common Agricultural Policy (CAP) marks the formal beginning of a reform process that could have far-reaching consequences across a broad spectrum of rural life here in the north of Ireland. Over seventy per cent of our farming land is classified as Less Favoured Areas and the CAP plays a critical role in supporting both local agriculture and the wider rural economy. For example, some £290m was paid through Single Farm Payment (SFP) to local farmers in 2009 and without CAP support, the income of our agricultural sector would have been negative. This has generally been the position since 2005, when the SFP was first introduced.

Our farmers and rural communities, therefore, rely very heavily on CAP support, and the upcoming reform raises a number of issues that are of great concern. As a starting point, while recognising that the budget for the CAP will be influenced by broader fiscal realities, I am committed to maximising the share of the CAP budget that is available to us over the next financial perspective, under both agricultural support and rural development funding. I cannot support calls for significant reductions to the CAP budget and, in particular, to direct support for agriculture.

I agree with the need to improve the competitiveness of EU Agriculture. However, I do not believe that the removal of direct subsidies would lead automatically to an improvement in competitiveness. Competitiveness is a complex issue which goes much further than a measurement of efficiency, and needs to take into account agriculture support regimes in non EU countries whose farmers are in direct competition with EU producers. Furthermore, requirements placed on EU farmers in areas of animal welfare, environment etc, while appropriate and justified, do have an impact on costs of production. Although the impact may seem low when calculated relative to overall production costs, the effect is much more significant in terms of profit margins and, hence, on the ability of EU producers to compete with other global producers. Economic studies show that the removal of direct payments at this time would result in a substantial fall in EU production, particularly in the beef and sheep sectors and in regions where production is marginal. This, in turn, gives rise to well-founded fears about land abandonment and environmental degradation, as well as the knock-on impact on rural communities. Therefore, I take the view that while the next CAP reform should certainly seek to improve the competitiveness of EU agriculture, it cannot be assumed simplistically that an attack on the level of direct support is the way to achieving this.
I would, however, support in principle the imposition of a €100,000 cap on individual payment claims. It is difficult to justify individual claims that are higher than this, and such a mechanism would help reduce any need for reductions to be made to payments received by smaller farmers. However, there would need to be an effective mechanism to prevent farmers from circumventing the cap by splitting their businesses, and such a mechanism must not place undue bureaucratic burdens on the administration of the regime.

I accept that there needs to be a move away from historically based payments. However, I have grave concerns about the potential for huge re-distribution of funds, both at regional and at individual farmer level if there was a move towards a flatter rate payment across the EU. For example, just for illustration, under an EU flat rate system and with the benefit of the current CAP budget, the north of Ireland would lose about 28% of its current Single Payment budget. That would have a major detrimental impact on the industry, given its heavy reliance on this support. Any changes that are made to the Single Payment system should, as a minimum, be phased in over a period of years to allow farmers to adequate time to adjust.

The EU Commission Communication raises the prospect of providing a definition of an active farmer. I can understand the motivation for this. However, if the Commission is to pursue this, then I must emphasise the need for a clear definition of an active farmer which is not open to debate or interpretation. We cannot have a regime that is difficult to administer and open to audit criticism and sanctions.

On the issue of market measures, I want to see the existing market management mechanisms (intervention) retained at the current ‘safety net’ levels (where market distortion is minimised). We have all witnessed the damaging effects of market volatility in recent years, particularly in the dairy market, and we need to retain an ability to respond to the extremes which are beyond the capacity of individual farmers to address.

The CAP is, of course, vitally important to the health of our rural environment, both by sustaining traditional agricultural activity via Pillar I and through targeted environmental interventions under Pillar II. A major theme of the Commission Communication has been the concept of increased environmental requirements for Pillar I payments, with the idea of a ‘green’ top up component. It is difficult to comment on this suggestion at this point in time, given the lack of detail. I can certainly understand the underlying motivation, but the possibility of increased administrative costs both for farmers and Government is clearly a concern. I would also add that it is a mistake to assume that Pillar I is currently devoid of any green credentials, given its underpinning support for traditional agricultural activity and land management.

You will certainly be aware the Britain receives a very low share of rural development funding which compares very unfavourably with that received by the south of Ireland, for example. It is critical that we move towards a more objective and fair means of distributing rural development monies for the next rural development programming period.
It is also important that there is sufficient regional flexibility on how CAP funding is deployed so that local decisions can be taken to reflect local priorities (whilst avoiding market distortions). Pillar II, for example, enables us to pursue an important broader rural agenda, seeking to strengthen the social and economic position of rural communities. The issue of simplification must also be given high priority. The current reform process offers an opportunity to simplify the system both for administrators and beneficiaries. Although lacking in detail, I fear that the direction of travel implied by the EU Communication is likely to have a detrimental impact on simplification. Any new reform proposal should have to pass a minimum threshold with respect to simplification prior to the negotiations end game.

Finally, it is vital that there is positive engagement at the EU Council on the detail of the emerging proposals for CAP reform and that this engagement recognises the valuable role of the CAP. I know that the British Government is focused on the size of the future EU budget, but it must not let this become its sole objective to the point where it finds itself marginalised and isolated in the CAP negotiations.

Michelle Gildernew MP MLA
Minister of Agriculture and Rural Development
January 2011
I wish to state that the views expressed are solely my own.

Background/General Comments

The FAPRI-UK econometric modelling system captures the dynamic interrelationships among the variables affecting supply and demand in the main agricultural sectors of England, Scotland, Wales and Northern Ireland and is fully incorporated within the University of Missouri’s FAPRI EU model which, in turn, is linked to their world model. It thereby yields UK projections (not forecasts) that are consistent with equilibrium in the EU and the rest of the world. The modelling system is re-estimated and validated annually, in conjunction with industry experts, and then simulated under assumptions that current policies remain in place, specific macro economic projections hold and average weather conditions apply. This generates ten year Baseline projections of key variables for each country of the UK and the Baseline in turn provides a benchmark against which projections derived from policy scenarios can be compared and interpreted.

Such a complex mathematical modelling system generates copious results. The policy analysis must, however, be treated with caution. It does not forecast future prices and production levels but provides indications of the likely proportional changes in key variables such as producer prices resulting from specific changes in policy or combinations of new policy measures, when compared against the Baseline Benchmark.

Over the past 13 years, the FAPRI-UK Policy Analysis team at AFBI and Queen’s University Belfast have analysed successive CAP and trade policy proposals including: the impact of the rolling out of the previous CAP Health Check reform; the elimination of dairy quotas; various WTO Doha trade liberalisation scenarios; and the Treasury/Defra’s Vision for the CAP on UK agriculture (similar to the most radical current EU Commission CAP reform proposal embodied in Option 3). The impacts of exchange rates, the EU market for liquid biofuels and greenhouse gas emissions have also been investigated.

The three CAP Reform Options provide ‘something for everyone’ so until the final agreement is reached it is not possible to determine what form the new CAP reform measures will take. Option 3 includes phasing out of the Single Farm Payment (SFP), abolition of all market measures other than in
exceptional circumstances and channelling of CAP funds into climate change and environmental initiatives. In my opinion, this option is unlikely to win sufficient EU support to be adopted, whereas significant elements of Option 2 may secure agreement. Option 1, which entails the most modest reform with more equitable SFP across the EU could, however, be the fallback option if agreement cannot be reached on Option 2 details such as method to determine EU-wide area-based payments, definition of active farmers, simplified market management tools and the greening of the Second Pillar measures.

In addition to the FAPRI-UK sectoral analysis, I have also been engaged over a number of years in farm-level micro analysis using representative farm programming models with colleagues in AFBI and University College Dublin and this work has also influenced my views on policy reform.

**How will the Commission’s proposals affect the ability of UK agriculture to be competitive in a global market?**

- Competitiveness of UK agriculture in a global market is determined by our absolute/relative comparative advantage. This in turn is influenced not just by the efficiency of agricultural systems of production, which is determined by the technology adopted, factor costs and management efficiencies, but also by exchange rates. A strengthening of Sterling can eliminate a previously competitive position at a stroke.

- UK labour and land costs are significantly higher than in many competitor countries, particularly out with the EU, and modern agricultural technologies, other than those associated with Genetically Modified Organisms, often require a scale of production that may incur local resistance (e.g. large scale dairy units) or is not commensurate with current farm structure.

- The ‘stickiness’ of the land market (land owners may be rational retaining ownership even if they no longer wish to farm, as land has proved to be a better repository of a farming family’s wealth than alternatives) may impede the structural change that occurs in other sectors in response to competitive pressures.

- The level of production in a globally competitive UK agriculture would not necessarily even match current levels.

**Do the proposals ensure fair competition for British agricultural products within the European Union?**
• A major policy determinant of UK agriculture’s competitiveness within the EU will be the degree of renationalisation of support measures.
• Many Member States and latterly the EU Commission have expressed the desire to provide significant ‘income support’ to their farmers on social/rural development grounds, especially smaller farmers or those in disadvantaged regions.
• The reintroduction of the term income support, a concept not articulated in the recent CAP reforms, highlights a reversal in the momentum which had been created since the McSharry reforms of the early 1980s.
• Any renationalisation that results in direct or indirect augmentation of the financial flows to farmers in other Member States not received by UK farmers will undermine the competitiveness of UK agriculture within the EU.
• The UK has already fully decoupled so will not be significantly affected by full decoupling, other than by a small positive price impact, compared to those Member States that still have to decouple.

Will the proposals achieve the correct balance between productivity and sustainability?

• Productivity and sustainability do not have to be considered in the context of a trade-off.
• While it is hoped that policy will not hamper the attainment of efficient utilisation of farm resources, as outlined in the following sections, the deployment of a farm’s resources cannot be considered efficient if it results in the long-run degradation of the land or local ecosystem.
• Likewise, if social sustainability e.g. in remote/upland areas, is a political objective then attaining what is essentially multiple objectives may result in production systems/levels of output that would not be regarded as efficient if considered solely with regard to physical output.
• The ‘Multi functional’ European model is driving the current reforms.
• FAPRI-UK analysis of the removal of trade protection indicates a significant reduction in UK production in the dairy, beef and sheep meat sectors.
• Likewise, removal of the SFP would reduce UK production in the beef and sheep meat sectors.
• A reduction in the overall EU agricultural budget would also reduce SFPs and exert a negative impact on production.
• In my opinion any measures designed to enhance the ‘Greening’ of the CAP will require careful environmental specification so that they are not open to the charge that they are disguised income support measures or populist initiatives.

**Do the proposals place the UK in a good position to help meet future food supply challenges?**

• Food supply challenges may arise due to a number of future international developments including global warming, as yet unforeseen international political scenarios and increasing global population. Securing the UK’s food supply is not synonymous with maximising the amount of food that could be physically produced from UK agricultural land in the short term. I believe that it is essential that agricultural production must be environmentally sustainable so that the long-term productive capacity of the UK agricultural sector is maintained.

• Micro farm level analysis indicates that depending on individual circumstances, it may not make best use of the resources at the disposal of a farmer to maximise farm production. Particularly on small farms where off-farm employment is necessary to secure an adequate farm family income, the farmer may be rational in allocating a significant proportion of his labour to off-farm employment or a diversified non-farm enterprise and adopting an extensive farm plan which generates a lower level of agricultural production than if he deployed all of his labour to the farm business.

• Future food supplies must also include imports from a sufficiently wide range of countries so that difficulties arising in one exporting country do not jeopardise UK access to imports.

• International commercial linkages in the food supply chain do not automatically result in the cheapest suppliers swamping local supplies as potential for animal health breakdown means local suppliers will always have to be available to meet local contractual commitments.

• The emphasis placed on innovation in the proposals favours the development of biofuels.

• Land use change may arise from potential conflict between attaining renewable energy targets and food supply. FAPRI-UK analysis of the liquid biofuel sector, however, indicated the existing Renewable Transport Fuel Obligation Order would be met mainly by importation of the majority of the liquid biofuel feedstock; consequently land use change is anticipated to be outside the EU.

• FAPRI-UK analysis of the most radical CAP reform measures indicated that, despite the UK having already decoupled direct payments, the policy proposal which had the most negative impact on UK production was in the beef and sheep sectors where phasing out the SFP, on top
of further trade liberalisation, reduced projected production by over a quarter and almost a fifth respectively. The impact of such a reduction in production would be most keenly felt in the Less Favoured Areas.

- Analysis of the impact of market management tools, such as export subsidies and intervention buying, indicated that if they were removed when international prices were highly volatile, serious difficulties arose for the UK dairy sector. Northern Ireland was particularly vulnerable as a very high proportion of its milk production is converted to dairy commodities which are exported.

Will the proposals redress the imbalance in support to different sectors created by the historic basis of payments?

*The FAPRI-UK modelling system is not methodologically suitable to analyse the introduction of area based payments. The research team has considered the arithmetic consequences of redistributing the SFP among existing farm types in the UK, taking account of the current allocation methods which pay significantly different amounts per Ha in England, Scotland, Wales and Northern Ireland and with only England currently transitioning to an area based system.*

- The introduction of area based determination of SFP will generate significant new distributional issues in addition to the sectoral distribution, whatever the outcome of negotiations. The devil will be in the detail and issues to be addressed include: area based (flat rate) payments EU-wide which may be adjusted according to purchasing power and exchange rates; tiered according to upland/lowland; and eligibility criteria regarding definition of active or perhaps non-active farmers.
- The introduction of flat rate payments in the UK would lead to a large redistribution of payments in Scotland, Wales and Northern Ireland post 2013 but depending on scope for regional discretion, different rates could be introduced in each region to minimise redistribution.
- There is also the issue of significant areas of agricultural land, particularly in Scotland, not currently registered for SFP which may come into play.
- Where the SFP is determined on a historic basis, the main beneficiaries of former direct payments, the beef and sheep producers, have continued to receive the decoupled payments. Those livestock farmers in the uplands usually farm more extensively than lowland farmers, so
while losing out if historic payments are eliminated, they may gain from the relatively larger areas farmed, depending on the tiering between LFA and lowland. The resulting impact on production is unclear as land quality is usually poorer on extensive farms, hence an increase in payments within these areas will not necessarily have an upward impact on production.

- As upland areas are often environmentally and socially vulnerable, sectoral rebalancing of support could impact on environmental and social sustainability.
- The dynamic hybrid model adopted in England will have phased out the historic element by the time the new CAP reforms are implemented. In the remainder of the UK, however, the move to area based payments would lead to significant redistribution of funding, irrespective of the levels of payment agreed at the EU level.
- It should be noted that SFP is not the only support given to the agricultural sector. Trade protection also provides support, albeit less visible, in varying degrees to the different sectors. If income support is reintroduced as a basis for part of the SFP, this could jeopardise its SFP Green Box status with the WTO.

What aspects of the proposals should be made a common policy, and which are best left to Member States?

- In my opinion, measures which impact on the functioning of the markets for agricultural commodities should remain common (renationalising them may run counter to Single Market and State Aid legislation).
- As Member States have widely differing views on e.g. importance of income support measures, UK producers could find themselves at significant market disadvantage vis-à-vis EU producers in receipt of additional national support included in direct payments.
- Measures for environmental protection to ensure sustainable management of natural resources are best determined at the Member State level as they are usually site-specific.
- Rural development measures need to be tailored to local circumstances hence require determination at Member State level, however, they could indirectly impact on the viability of UK farming businesses, particularly in the uplands, as they may influence availability of off-farm employment which could determine whether or not smaller farm business are sustainable.
- I believe CAP measures that address climate change should also remain common across the EU.
Can the proposals be implemented simply and cost-effectively, within a short time-scale?

- I do not feel qualified to comment on the administration of the implementation of policy changes other than to note that significant changes to policies implemented within a short time scale can create difficulties for farmers, particularly in the grazing livestock sectors with 2-3 year breeding cycles.
- Proposals introduced too quickly may not give farmers adequate time to decide on their best course of action regarding rational adjustments whether investments or disinvestments.
- CAP reform measures have traditionally been phased in incrementally to provide the necessary adjustment time e.g. removal of the dairy quota.
- The SFP was introduced as a ‘transitional measure’ to give farmers time to adjust to the phasing out of decoupled direct payments but being denominated in Euros and the strengthening of the Euro Sterling exchange rate up until this year, it has maintained its value despite modulation. Consequently, the SFP is as important a source of funding to the farming sector as when it was first introduced.
- Overly complicated cross compliance and agri-environmental criteria for SFP are also likely to be very bureaucratic and hence costly to administer.

19 January 2011
What is the definition of a public good, and is food production a public good?

Public Good¹ – the strict economic definition is a good whose consumption is non-excludable and non-rival. This means that the consumption of such a good by one individual does not reduce the amount of that good which can be consumed by any other individual (non-rival) and no-one can be excluded from the consumption of the good (non-excludable). Examples of public goods are law enforcement, defence and street lighting. Because of the nature of such goods, there is no market incentive to produce them as consumers cannot be charged (via the market) for their consumption. Consequently, public goods have traditionally been provided by public authorities/government.

In addition to producing food, farming also produces positive externalities such as landscape, habitats and environmental services that can be defined as public goods (and for which farmers are not paid via the market). It can be argued that as society values and benefits from these public goods, society should compensate farmers for their production. It should be noted that farmers may also produce negative externalities e.g. GHG emissions or water pollution and in these cases society incurs costs which are not passed on to the farmers.

I think a lot of confusion has arisen as the term public good has gained common usage. Some people appear to think it has to do with a good everyone consumes or a good that in some way is beneficial to everyone. This may have led to food being considered a public good. Food is definitely not a public good. There are efficient markets which supply food to consumers at market clearing prices and neither the non-rival or non-excludable criterion applies. Arguably, food security could be considered a public good; however, it is not created solely by domestic farmers.

February 2011
¹Useful references:
(Carmel Cahill is a Senior Counsellor in OECD’s Directorate for Trade and Agriculture and her article provides a very good discussion of joint production in agriculture, market failure and the production of public goods).
1. Based on your scenario modelling, will the effects of reducing the single farm payment would be more or less severe in the Devolved Administrations than in England?

Our scenario analysis identified the beef and sheep sectors as most severely affected by reductions in the Single Farm Payment (SFP). These sectors are relatively more important in all three Devolved Administrations consequently, the impact of reducing the SFP is greater in all the Devolved Administrations than in England. Furthermore, the impact of reducing the SFP on beef production varies according to the proportion of beef animals with dairy dams (if the dam is a suckler cow, the negative impact is greater). In England, over 60% of beef cattle are the progeny of the dairy herd, compared to 30% in Scotland. Northern Ireland is also severely affected by reductions in the SFP, not just because of the relatively greater importance of the beef sector, but also due to the lack of alternatives to beef production.

2. Could you explain your comment that restructuring the industry would not necessarily lead to an increase in production? This was in reference to your evidence that a more competitive UK agriculture would not have the same level of production as it does now.

Even if there was an improvement in the competitiveness of the agricultural sector, arising from structural change, that does not guarantee an increased level of production. The level of production is ultimately determined by profitability, which in turn is determined by market conditions. The importance of the market is illustrated by the UK dairy sector, widely regarded as efficient within the EU, however, adverse market conditions have resulted in lower levels of UK milk production in recent years.

3. Are you able to give an estimate (quantitative if possible) of the effects of removing the SFP alone (without changing trade restrictions etc.) on production of food or of the income of UK farms?

We did not analyse the removal of the SFP without the trade liberalising measures that the EU has already agreed to during the WTO Doha negotiations. Together with the four agricultural administrations, we were of the opinion that this level of trade liberalisation was most likely to be in place over the 10 year projection period.

4. Do you understand the Commission’s Communication to be proposing any change to trade barriers and regulations?

I am not aware of any reference in the Commission’s Communication to changes in European agricultural trade protection. The changes in trade protection which we included in our initial analysis consisted of the removal of export subsidies and reductions in import levies that the EU has already committed to under the WTO Doha Round of trade negotiations. While the Doha Round is still not resolved, we made the assumption that the trade agreement was likely to be agreed before the post 2013 CAP Reforms are enacted.
The ‘further’ trade liberalisation scenario that we analysed and which would have had a very significant negative impact on EU, and consequently UK agriculture, was the abolition of agricultural trade protection. This was a key element of the HM Treasury/Defra Vision scenario. In our opinion, that level of reduction in EU agricultural trade protection would not be acceptable to the majority of EU Member States.

5. Are you able to give a quantitative estimate of the effect (on production, farm incomes etc.) of paying farmers through an agri-environment scheme rather than through the single farm payment?

No, the devil will be in the detail, as the nature of the agri-environmental schemes (as yet to be decided) would determine their cost of implementation. These costs would reduce the total income farmers receive. The SFP, however, is a direct supplement to the income farmers earn from the market.

6. The Commission has suggested using salaried labour as a modifying factor for the distribution of area-based payments in the future. Could you comment on how this might affect the UK’s receipts in comparison to other Member States, and also how this might alter the distribution of funds within the UK, compared to a simple area-based flat rate?

I’m afraid this is a question we cannot answer as our research models simulate agricultural production at the sectoral level in the four UK countries. In principle, however, if the proposed cap on the SFP was to be moderated according to the presence of salaried farm labour, this would reduce the impact of the SFP cap on larger farms in all Member States. We do not have data on the distribution of salaried farm labour across the EU, consequently, we cannot say how the UK would fare under this scenario compared to other Member States.

7. Do you agree that capping the single farm payment could reduce farm competitiveness, e.g. by discouraging farmers from increasing their farm size to achieve economies of scale?

The level at which it is envisaged capping could be imposed (€300,000 or even €200,000) would not impact on the vast majority of UK farmers. For those affected, legal measures could be taken to subdivide their farm business, thereby bringing each subdivided element under the relevant SFP cap. We would envisage that difficulties in increasing farm size resulting from e.g. stickiness in the land market and the cost of land, would be more likely to impede the attainment of economies of size and scale rather than the capping of the SFP.

2 March 2011

Unfortunately, the Commission’s proposals lack detail and consequently our paper sets out our initial views only, but the importance of the CAP to Wales cannot be overstated with our farming sector depending on CAP payments and support to trade profitably. In addition to the paper my brief responses to the Committee’s specific questions are as follows:

**How will the Commission’s proposals affect the ability of Wales’ agriculture to be competitive in a global market?**

The proposals suggest an increased focus on innovation which we welcome as we are already encouraging innovation in Wales, underpinned by a greater focus on sound research and advanced by efficient knowledge transfer. Overall we believe that the proposals will support Welsh agriculture and help us achieve our objectives.

**Do the proposals ensure fair competition for British agricultural products within the European Union?**

We see a continuation of voluntary coupled support as an anathema and contrary to fair competition. Coupled payments are divisive and unfair as they do little to encourage farmers to make market based production decisions and also lead to competitive advantages and disadvantages between Member States. Linking direct payments directly to production, whether for specific sectors or regions would be turning back the clock towards a less efficient agricultural industry. Further the ‘top-slicing’ that would be required to fund coupled payments is consistently rejected by our industry.

The emphasis in the document on support for small farmers is understandable, given that the vast majority of EU farmers are very small by British standards, but we need to see the detail of this proposal as well as that on the proposed capping of larger Single Payment recipients.

**Will the proposals achieve the correct balance between productivity and sustainability?**

Maintenance of the 2 Pillar structure is the best strategy to achieve that balance. However in our view increased greening of Pillar 1 is not the best way to go about this. Cross compliance / GAEC has established an important environmental baseline which has been steadily refined following the CAP Health Check. Introducing additional requirements such as maintaining minimum areas of permanent pasture, green cover, crop rotation and ecological set-aside would inevitably add to the complexity of administrative processes for administrators and farmers alike. Where farmers are asked to provide environmental enhancements these more properly belong to actions under Pillar 2 and in Wales the new Glastir scheme has been built on the Commission’s ‘New Challenge’ agenda, to provide funding for farmers’ sustainable land management actions.

**Do the proposals place the UK in a good position to help meet future food supply challenges?**

The communication states an intention to maintain production across all Member States and regions and this is important for Wales. The alternative would be production gravitating to areas of best advantage, whether climatic, closeness to markets or areas with the lowest production costs.
production without CAP support is unprofitable in Wales and while the situation is improving through our policies targeting innovation, business efficiency and knowledge transfer, the support regime remains a lifeline.

**Will the proposals redress the imbalance in support to different sectors created by the historic basis of payments?**

In Wales we can accept that the historic basis to Single Payment is no longer appropriate as it is now some 10 years since the base period and farming then bears little relationship to farming activity in individual farm businesses now. We have modelled the change to a completely area based system and there will be considerable redistribution of payments and an extended transitional period will be essential to avoid whole scale disruption to production and livelihoods.

**What aspects of the proposals should be made a common policy, and which are best left to Member States?**

A common policy across EU 27 is essential for Wales and we do not support renationalisation of the budget in its entirety or in part. However the principle of subsidiarity is essential to us as the diversity of agricultural systems, farming and forestry practices and environmental challenges between Member States and regions necessitates the level of flexibility that is only possible through subsidiarity.

**Can the proposals be implemented simply and cost-effectively, within a short time-scale?**

Based on the detail available the answer to this question has to be ‘extremely unlikely’. The Commission’s proposals, and in particular the apparently favoured Option 2, has the potential to add significant complexity or ‘green tape’ through the greening of Pillar 1 as well as the possibility of capping, the focus on ‘active’ farmers, payments for disadvantaged areas, support for small farmers and coupled payments.

We are hopeful that the Commission’s consultation and impact analysis will provide more detail on the specifics of changes which will in turn enable us to determine impacts and establish the definitive priorities for Wales.

Elin Jones AC/AM
Y Gweinidog dros Faterion Gwledig
Minister for Rural Affairs
17 January 2011
CAP REFORM POST-2013

Introduction

In November 2010, the European Commission published high-level policy proposals for the shape of the CAP 2014-2020. The Commission has initiated also a consultative process. The Welsh Assembly Government welcomes the EFRA Committee’s inquiry into the impact of CAP Reform on UK Agriculture. **The purpose of this paper is to set out the Welsh Assembly Government’s initial views on the proposals from the Commission.**

The Commission’s proposals, and associated consultation paper, lack any form of meaningful detail from which it is possible to reach an informed view at this stage on a range of issues where final decisions will have far reaching consequences for Wales and Welsh farming through to at least 2020.

Background

On the CAP itself, the Welsh Assembly Government has been consistent in making clear that the funding available makes a vital contribution in sustaining farming and food production in Wales as well as enabling the farming community to deliver a range of environmental outcomes that are valued by society. Interaction within food supply chain mechanisms, and the inability of farmers to make profitable returns from the market, results in the CAP Single Payment Scheme (SPS) typically contributing between 80 per cent and 90 per cent of Farm Business Income.

On the latest income figures for 2010, it is evident that all farming sectors in Wales would be non-viable without CAP payments, despite a 16 per cent increase in income compared to 2009 building on an increasing income trend in recent years. The SPS support plays a significant role in solidifying Welsh Assembly Government strategic aims for sustainable agriculture in Wales and actions to improve the efficiency and profitability for primary food producers.

Maintaining the CAP and the 2 Pillar structure

Against that background, we are firm in the view that there must not be any fundamental change in the underpinning purpose of the CAP to provide income support for farmers, to sustain food production and to continue to support sustainable land management action.

The Assembly Government can welcome the Commission’s view that a strong CAP is essential towards ensuring food production within EU 27, providing a stable income
base for the farming industry and ensuring environmental outcomes. Furthermore, we believe it is important to retain the two Pillar structure for the CAP as this offers the basis for maintaining the competitive edge of Welsh farming more widely as well as making a key contribution to the socio-economic and environmental cohesion of rural Wales.

Viable farming and food production also require effective management of our natural resources and responding to the challenges of climate change. Again, we have little difficulty with the Commission’s overall position on linking these complex agenda items. The Glastir scheme is a dedicated response from Wales to recognise the key role that farming can undertake in shaping primary food production activities in a way that also delivers on broader societal outcomes associated with carbon, water, soil, habitat and biodiversity management.

The Commission’s proposals: Wales’ Issues

Our starting position is that the Pillar 1 arrangements under which direct payments are provided should guarantee an effective and transparent level of income support to farmers across EU 27. We are not altogether persuaded that the Commission’s preferred option for providing a basic payment, a mandatory “greening” payment and a discretionary payment for farming in a marginal area is a logical way in which to proceed. It lacks transparency and falls short in providing certainty and stability on the value of the pillar 1 income that will not aid future planning business decisions at individual farm level.

Furthermore, the Commission suggests that there should be a progressive move towards delivering a more equitable distribution in direct payments compared to the current position, in particular to tackle the marked differences in average receipts between the former EU 15 and the newer Member States (EU12).

Whereas we can support this as a long term aspiration, it will be critical for the Commission to spell out in detail how this might work in practice. Agriculture and farming systems across EU 27 are very diverse as are costs of production at farm level and, within very different national economies, there are substantial variations in relative costs of day-to-day living. Capping of payments to larger farms is not a major issue for Wales but I support the general principle. A labour adjustment to capping could be unworkable in Wales where contract and self-employed labour is a regular feature of the farming sector.

We need also to consider this move for a more equitable distribution on Pillar 1 receipts between EU27 in the context of the significant re-distribution of the SPS within Wales consequent to moving from the current historic SPS model in Wales to a flatter or area based payment from 2014. The Welsh Assembly Government is clear that it is not justifiable to maintain a direct payment regime based on production levels achieved some 10 years ago. We have undertaken an impact analysis on this
change that points up starkly that there would be significant redistribution of payments. It is for this reason that we will be arguing for a lengthy transitional period of at least 5 years so that farmers can adapt to an area based payment new system. We cannot see why it would be necessary to retain the complexity of the current entitlement regime under a generalised area-based payment system, particularly if we can ease the difficulties that new or young entrants face under the historic model for the SPS.

Further ‘greening’ of Pillar 1 payments is also a difficult area as approaches such as compliance in relation to permanent pasture, green cover, crop rotation and ecological set-aside would inevitably require more administration or ‘green tape’ which seems counter to the agenda to reduce the bureaucratic impact of the CAP – at farm level and for the Welsh Assembly Government.

We believe that the cross compliance regime should continue to set a minimum baseline and that where farmers are asked to provide environmental enhancements, these more properly belong to actions under Pillar 2 and axis 2 of the Rural Development Plan regime. In Wales we have well established mechanisms under the Wales RDP to provide funding for farmers’ sustainable land management actions. That is the way that the Glastir scheme has been developed. The Commission, through its “greening” proposal, is attempting a one-size-fits-all approach that fails to recognise the progress made by certain individual countries such as Wales. We would not want that progress restricted and will be looking to the Commission to recognise past performance and initiatives already in place to support environmental action by farmers.

In Wales we remain opposed to continuing any form of voluntary coupled support that does little to encourage farmers to make market based production decisions and also leads to competitive advantages and disadvantages between Member States. Wales, as with the rest of the UK, implemented the decoupled SPS in 2005. There is no case for allowing pillar 1 payments that link directly to production. In addition, providing area based payment support for specific sectors and regions (with specific natural constraints) would not represent extra funding; rather such support would in effect be generated by a “top slicing” mechanism, resulting in reduced payments for the majority while at the same time adding a further element of administrative complexity.

There is then the complex matter of who should receive the CAP payment and determining what is meant by “active farmer”. The Commission raises an important issue that actually has 2 intertwined aspects: whether the land is being actively farmed and how we identify who the payment for that land should go to. There is a strong argument that payment should be provided where it can be demonstrated that the farmed land is the principal source of economic livelihood. This also begs the question whether there is a minimum size of farmed land from which an economic living can be made. Circumstances in Wales are different to the rest of the UK and even more
marked where comparison is made at an EU 27 level. Our farmland is a natural and rich resource that should be used to optimise both food production and environmental benefits. Whilst the concept of targeting support to ‘active farmers’ seems wholly appropriate, there is clearly difficulty around how the term is defined and the control measures.

In terms of Pillar 2 and the rural development the proposals, these will enable us to further our advances in improving competitiveness of agriculture and forestry, managing land sustainably, local empowerment and capacity building in rural areas. The Europe 2020 strategy of smart, sustainable and inclusive growth is embraced and the increased emphasis on innovation is to be welcomed, while a less rigid structure would facilitate this and also enable cross-cutting economic and environmental gains. Integration of Natura 2000 and HNV into environmental measures already fits with Glastir. Similarly the emphasis on local production, procurement and market development sits comfortably with our policies.

Although potentially a welcome development, the risk management toolkit approach towards addressing both production and income risks through insurance and mutual funds needs more consideration to determine its appropriateness to Welsh agriculture.

A key issue to resolve under pillar 2 relates to the inequitable share made available historically to Wales and the UK. The current EU funding arrangements significantly disadvantage Wales and place an enormous pressure on the Welsh Assembly Government to make its own resources available to ensure a meaningful programme of actions under the Wales RDP. The current Plan has an overall spend commitment of £795 million between 2007 and 2013, of which some £600 million is provided directly by the Welsh Assembly Government. This domestic funding commitment is wholly disproportionate when comparisons are made elsewhere within EU 27. It is disappointing that the Commission’s public documentation remains silent on future action.

Related to this funding aspect, the Commission’s documents avoid any reference to whether “modulation” will continue under the CAP regime from 2014. Modulation has been the mechanism by which the Welsh Assembly Government has “top-sliced” the SPS receipts to generate funding to advance agri-environment action by our farmers. It is inextricably linked to addressing the historic under-funding for Wales by the EU under the pillar 2 arrangements.

**Conclusion**

To summarise, there are a number of points in the Commission’s documents that fit well with the needs of Wales and our overall position on CAP Reform. It is difficult to reach a starting point for the proposals overall in the absence of real detail. It is also highly relevant that the future funding for the CAP will have a key impact. It is
deliberate on our part to avoid comment on the budgetary position. That is not the purpose of this paper. What we would say is that the absence of detail on the future direction of the CAP from 2014 does not provide the basis for taking a positive view at this time.

Finally the Welsh Assembly Government remains committed to a CAP reform outcome that:

- Maintains direct support
- Provides the basis for sustainable food production,
- Strengthens the competitiveness of our land based industries
- Recognises the role of farming in safeguarding and enhancing the natural assets of Wales; and
- Contributes to the socio-economic development of our rural communities.

*December 2010*
Written evidence submitted by George Lyon MEP (CAP 29)


The European Parliament voted through its first opinion on the reform of the CAP 2013 in July 2010 and since then the Commission have published their communication in November 2010.

Both reports identified the key challenges of a growing worldwide demand for food against a background of real production constraints in the future such as scarcity of land, water and energy making global food security a key issue for the future.

The European parliament report focussed heavily on the need to move away from the old model of agricultural production based on high inputs of cheap energy to a more sustainable model in response to the potential impacts of climate change.

The Parliament report also focussed heavily on a fairer distribution of the budget between Member States and fair trade in the food chain. It also recognised the importance of local food production continuing in those areas with substantial natural disadvantage and the need for fair trade with our highly subsidised trading partners such as the United States, Japan etc.

It also highlighted the dramatic change in the CAP over the last 25 years when in the past the majority of the budget was spent on export subsidies and intervention whereas today it spends less than 1% on export subsidies and hopefully they will be phased out completely by 2013. It also highlights the dramatic reduction in the CAP’s share of the EU budget from over 80% in the past to around 40% today and declining.

The Parliament wants to see a radical reform of the direct payments by introducing the concept of a targeted payment recognising that future budgets will be reduced.

The model outlined in the Parliament report was firstly a basic area payment conditional on meeting X compliance measures including activity criteria, a top up payment linked to delivering climate change action and incentivise a more sustainable and competitive agriculture, and a third top up for the Less Favoured Areas. There would also be the option of limited coupling of payments within WTO rules as allowed under Article 68 in current CAP.

The Commissions favoured option is very similar with the addition of a small farm scheme aimed at the 6million EU farmers who receive less than 2000 Euros/ year.

In Rural Development the 3 main priorities of the Parliament were firstly tackling biodiversity loss with a target to have the majority of EU land covered by Agri -Environment schemes, secondly modernisation, promoting innovation and encouraging green growth through small scale renewable's such as biogas, bio waste, hydro, creating jobs and alternative income sources.
The third Rural Development priority is to improve food quality and add value.

The Parliament is now drawing up its opinion on the Commission communication and it will be published in advance of the Commission’s detailed legislative proposals due in July.

January 2011
Introduction

SAC (Scottish Agricultural College) welcomes the opportunity to contribute to the Environment, Food and Rural Affairs (EFRA) Committee Inquiry into the impact of Common Agricultural Policy (CAP) reform on UK agriculture.

SAC is an innovative, knowledge-based organisation that supports the rural sector through research, education and expert consultancy services. SAC wishes to see, and contribute significantly to delivering, a sustainable agricultural and rural land use sector in Scotland. SAC staff work in a broad range of areas (for more information see www.sac.ac.uk) and our responses to the questions below reflect this broad expertise, but draw on specific research projects where appropriate.

Several SAC staff have contributed to this submission which has been co-ordinated by SAC’s Rural Policy Centre (www.sac.ac.uk/ruralpolicycentre/).

General comments on the Commission’s proposals

The Commission’s Communication proposes three different options for the future of the CAP which can be summarised as: Option 1 which introduces further gradual changes to the current policy framework; Option 2 which captures the opportunity for reform and makes major overhauls of the policy; and Option 3 which involves more far-reaching reform of the CAP with a strong focus on environmental and climate change objectives. The Communication does not offer a great deal of detail on any of the three options, or how they might be implemented. Some initial comments:

Option 1 seems to suggest only minor changes to the current CAP and it is likely that following this approach will simply delay inevitable reform. Farmers across Europe are expecting the 2013 reforms to bring major changes and it seems the Commission could take advantage of that and make some crucial changes in setting the future direction of the CAP, which will help to satisfy the wishes of both producers and consumers.

Option 2 shares some similarities to the recent Pack Inquiry in Scotland (see http://www.scotland.gov.uk/Topics/farmingrural/Agriculture/inquiry).

Option 3 represents a more radical shake-up of the CAP which would create significant economic, environmental and social implications as rural business managers attempt to adapt to the type of regime that would result from implementing this option.

In terms of responses to the Commission’s proposals and to the Committee’s specific questions, SAC would refer the Committee to the recent Pack Inquiry and its Report.
into the future of agricultural support in Scotland. The report includes a large amount of background information about the agricultural industry and current levels of support in Scotland, and sets out one possible approach to tailoring financial support to agriculture and rural development in Scotland post-2013. The Inquiry’s interim, short-term recommendations and final reports, and background evidence papers, are all available via the Inquiry website at: http://www.scotland.gov.uk/Topics/farmingrural/Agriculture/inquiry.

- How will the Commission’s proposals affect the ability of UK agriculture to be competitive in a global market?

All three options imply an underlying requirement for increasing productivity and efficiency on farms. There is a wide variation in performance across farms in the UK within farm type and even within size bands and all three options would help to focus attention on improving resource usage. This is perhaps most explicit in the second option whereby the New Zealand experience suggests that market reform may lead to an improvement of efficiency with little loss of farms (although ancillary industries may suffer). New Zealand is generally considered an exemplar for withdrawal from public funding for agriculture as, since 1987, the farming sector has operated under no public subsidies, aside from money allocated towards supporting research and development. Whereas some structural change occurred after the removal of subsidies, it is notable that agricultural productivity increased by an average of 5.9% per annum since the removal of subsidies, whereas before, gains were around 1% per year¹. This has to be treated with caution, however, as the UK (or Scotland) is not New Zealand, but some residual effect must lead to reducing the variance in performance.

In recent research work on efficiency², SAC found there is a great deal of efficiency to be realised within size bands (i.e. smaller farms could get more efficient without changing size). Hence Option 1 on redistribution may promote this if it were structured to support resource use efficiency.

The recent Pack Inquiry in Scotland argued in favour of maintaining direct payments to enable Scottish farmers to remain competitive in the global market. Until decoupling is adopted across the global agricultural market, Scottish (and indeed UK) farmers will not be able to compete.

Overall, a strategic approach is required to policy-making that promotes a more competitive, market-oriented agricultural sector at the same time as addressing

² This work is currently being finalised. Some of the findings were presented by Dr Andrew Barnes at the Defra-AES conference in December 2010. Dr Barnes’ slides are available online at: http://www.aes.ac.uk/index.php?do=events&sub=events2.
environmental and other concerns, including the operation of food supply chains that often prevent farmers from receiving a fair share of the added value of their products.

- Do the proposals ensure fair competition for British agricultural products within the European Union?

Option 2 outlines the introduction of more equity in the distribution of direct payments between member states. This would contribute towards fairer competition between British agricultural products and the EU. However, market distortions exist between countries as a result of other factors, including variations in animal welfare standards and other legislative requirements.

More broadly, it is essential that across the food supply chain, a more equitable and stable distribution of value is obtained.

- Will the proposals achieve the correct balance between productivity and sustainability?

Option 3 focuses on greening the CAP whereby efficiency and productivity become part of a wider suite of indicators. Option 2 may be the reverse of this as it may encourage farms to become larger which would certainly have an impact on social sustainability. However, Option 1 may provide the opposite, and perhaps redistribution may lead to support for High Nature Value farms (which are usually small by standard criteria) and hence ecological improvements. On the other hand, this approach may undermine the UK's ability to respond to future food security concerns.

Work by SAC staff in collaboration with partners in 2008 explored the environmental impacts of Pillar 1 reform and the potential implications for Pillar 2 funding. The report of this work can be provided on request.

More generally, a competitive and sustainable agricultural industry is important in underpinning rural communities across the UK, but particularly in some of the more remote communities of Scotland where agriculture remains a critically important industry, in both economic and social terms. Taking into account the diversity of the industry across both Scotland and the UK, CAP reform in line with Option 2 (which includes a greater emphasis on targeted measures and encourages the addressing of economic, social and environmental challenges) might be perceived to be the preferred option.

- Do the proposals place the UK in a good position to help meet future food supply challenges?

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Again, the focus on productivity would help this. Future food supply challenges very much depend on what happens elsewhere around the world. However, there is growing consensus that population growth, climate change, diminishing resources (especially water and oil), differential economic development around the globe and interactions between these factors will increase pressures on food supply. This situation will increase market and production risk in agriculture, potentially exacerbating the problems. Agricultural policy has traditionally addressed the particular risk management problems that farmers face, creating a more stable business environment that encourages investment and thus maintains consistent supply. The challenge of increasing risk in future food supply must be competently addressed by policy. There is a danger of this aspect being given inadequate provision in all policy options, arguably more so in those that focus away from food production. Promoting global free trade in agricultural commodities at a time of rapid change without attendant market volatilities and associated crises will be a key objective for future policy. It is therefore essential to expand on the details of the ‘risk management toolkit’ proposed by the Commission, examine all the options involved and ensure that the concept is underpinned by on-going research and development.

The recent Pack Inquiry highlighted the dependence of Scotland’s agricultural industry on direct payments. In broad terms, SAC believes that the principle of decoupling as a means of freeing farmers to react to the market is sound. There may, however, be situations where some form of coupled support is the best and most efficient way to deal with a particular problem and to maintain the profitability and competitiveness of farms. If the working of the market led to the collapse of the livestock sector in an area, coupled payments might be justifiable to ensure food supplies or to support the sector and ancillary industries in a period of transition.

A recent report (2008) by SAC (‘Farming’s Retreat from the Hills’) has highlighted the potential economic, environmental and social impacts of the decline in livestock numbers in the hill and island areas of Scotland. There are potentially negative impacts on local communities of livestock depopulation and while there are a variety of ways for dealing with these problems, one option could be some form of coupled payment.

More broadly, it is critical that funding for science and innovation in universities and other research organisations and institutes is maintained to underpin actions to meet future supply challenges. This research is critical across numerous areas, including the production of crops and livestock but also wider issues such as climate change, biodiversity, water quality etc.

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4 This report is available online at: http://www.sac.ac.uk/ruralpolicycentre/pubs/thrivingcommunitiespublications/retreatfromthehills/.

5 An update of this report is currently being prepared and will be available on the Rural Policy Centre website (www.sac.ac.uk/ruralpolicycentre) by the end of February 2011.
• Will the proposals redress the imbalance in support to different sectors created by the historic basis of payments?

It is unclear if by sectors, the Committee means enterprises. If so, it could be argued that Option 1 aims to achieve this, whilst Option 2 with more market reform could lead to the opposite.

More generally, SAC would reiterate arguments made by others (including the Pack Inquiry) that the further we move away from the reference period that underpins the historic model, the more difficult it is to justify such an approach to direct payments.

• What aspects of the proposals should be made a common policy, and which are best left to Member States?

SAC believes maintaining a common Europe-wide policy is important, as too much discretion to member states risks creating a system in which the design and implementation of the policy across member states becomes hugely variable, thus increasing complexity and potentially distorting competition. This common EU framework is arguably particularly important in terms of direct support and market measures (i.e. Pillar 1).

At the same time, it is important to recognise that some flexibility is required, including in the use of measures such as the national envelope whereby regions within member states have the flexibility to target funds at key issues and areas.

The increased flexibility could potentially be used to provide some form of additional support for livestock farmers and crofters in High Nature Value areas (large parts of Scotland could be classified as High Nature Value farmland). Recent work by SAC has highlighted the decline in livestock numbers and the potential impact on farming, biodiversity and communities. The greatest changes in livestock are taking place in those areas that also have the highest nature value, but which are also vulnerable to wider economic pressures. The degree to which the national envelope should be used to target such problems will depend on the degree to which they are addressed through other mechanisms (e.g. in Pillar 2).

It should also be noted that increased flexibility in the use of the national envelope has potentially redistributive effects with money effectively taken from all Single Farm Payments and redistributed towards specific sectors or areas. Clarity of objectives will be crucial in using the national envelope in the most equitable and transparent way.

• Can the proposals be implemented simply and cost-effectively, within a short time-scale?
Option 3 suggests a requirement for more indicators which are expensive to collect and the present system (e.g. using the Farm Business Survey or Agricultural Census data) is inadequate at capturing these effects. Option 2 may represent the cheapest option, which could be argued to be the main aim of creating a more financially sustainable CAP. Taken at face value, Option 1 which advocates gradual changes to the CAP is likely to be the least costly option.

The existing CAP is a complex policy and it is important that changes to it do not increase the burden of bureaucracy on farmers, nor increase the costs to other stakeholders. Maintaining common elements to the policy ensures that there is lessened risk of costly variations in design and implementation between member states.

More generally, it is important to reiterate that agriculture and land management receive support and are regulated because the sustainable production of food and management of land cannot be left to the market alone. Governments intervene in the sector through the CAP to deal with various forms of market failure, such as situations when the market cannot secure food supplies or when agricultural incomes become very low and threaten the sustainability of food production. The CAP is therefore a tool for dealing with different forms of market failure and, given the importance of ensuring sustainable food production and land management, there will continue to be a role for government intervention in some form.

Historically the majority of CAP funding has been channelled into Pillar 1 although some have argued for a gradual movement of money from Pillar 1 to broader rural development and environmental measures in Pillar 2. As the issue of food security becomes increasingly important, securing food production must continue to be a high priority.

In this context, assuming that all three of the EU options retain the two Pillar structure, SAC believes that the current structure whereby one pillar aims to secure food production and the other aims to support rural development and environmental measures, provides a workable model (notwithstanding criticisms of this as creating an artificial distinction between agricultural support and rural development). Any future policy changes to the structure and objectives of the CAP to pursue any of the three options outlined by the Commission will require a robust and clear evidence base.

January 2011
Written evidence submitted by NFU Scotland (CAP 31)

Thank you for the opportunity to give evidence to the Committee’s inquiry into the Common Agricultural Policy reform. It is undoubtedly one of the most important issues facing Scotland’s rural economy over the next few years. With an output in excess of £2 billion, underpinning one in ten Scottish jobs, it is critical that the support structure for the food and farming industry in this country is appropriate for our particular priorities.

Agriculture in Scotland is distinct from other regions of the UK, certainly England. Approximately 85 per cent of land in Scotland is designated by the European Commission as Less Favoured, compared to around only 15% in England. The dynamics of the industry are very different north and south of the border. Three-quarters of Scotland’s land mass is under agricultural management, however the options for production are limited; mostly they are concentrated on the extensive grazing of suckler cows and sheep.

Scotland currently has one of the lowest average Single Farm Payments in Europe, at just over €100 per hectare, around the same level as in Estonia and Latvia. Our average payment compares to around €300 in England and over €350 in Northern Ireland.\(^1\)

Set out below are some bullet points reflecting NFU Scotland’s priorities for the reform process. However, the figures above demonstrate that the industry in Scotland, and other devolved areas of the UK, is distinct. Hence, one of our most significant concerns at this point in the reform timetable is the apparently flawed process by which the UK Government establishes its position for the EU negotiations on the CAP.

You will be aware that the devolved agriculture ministers of Scotland, Wales and Northern Ireland wrote jointly to the UK Secretary of State Caroline Spelman last week to express their “serious concern” at the position being articulated by the UK Minister. Her view of the future of the Common Agricultural Policy, as articulated so far, has taken no account of the views of the devolved administrations. Irrespective of whether the Committee supports the visions of the future of CAP put forward by the UK Government or that put forward by the devolved governments, the process of forming a united UK position in negotiations is absolutely critical. Given it is a UK Minister that must negotiate on behalf all parts of the UK, to be setting out a vision for the CAP with no discussions with her devolved counterparts is unacceptable in our view.

NFU Scotland made specific recommendations to the Calman Commission to seek to address this problem of the UK Minister seeking to represent both an English view and UK view, when there is a divergence in policy views across different parts of the UK. In our experience, this problem has hung over the devolution settlement, irrespective of which party has been in power either at a UK or devolved level. I would strongly urge the Committee to consider this critical issue of process, to ensure the UK negotiating position represents fairly the views of industry and Governments elsewhere in the UK. The reform of the CAP is too important an issue for the food and farming industry for it to remain unresolved.

\(^1\) The Road Ahead for Scotland – Final report of the inquiry Figure 8 Average SFP €/ha values (Pre-modulation 2013 ceilings)
From a Scottish perspective, we have established a number of key priorities for reform. NFUS represents three quarters of Scotland’s full time farmers, spread across 71 local branches. They have all had the opportunity to input into our future CAP position; which is summarised below:

1. NFU Scotland’s ideal industry scenario is an operating environment from which farm businesses can secure sufficient, stable returns from the market place without requiring a separate system of public expenditure through the CAP in order for businesses to be viable. However, the market place is not sufficiently stable or robust as yet so some form of direct support remains vital to secure farm businesses viability. Research suggests there are significant tracts of Scotland where the economic, social and environmental benefits of agricultural activity would not exist without some form of support.

2. Indeed, price and income volatility in agriculture has increased with the decoupling of payments from production. The considerations in this submission are set against the most likely market scenario where the price obtained from the market does not provide a sufficient and stable return for long-term profitability and viability across all sectors. If anything the situation may deteriorate, particularly if there is a World Trade Organisation (WTO) deal that results in reduced import tariffs and therefore increased import penetration. Even in the absence of a WTO deal, the current trends suggest increasing volatility in farmgate returns.

3. Future changes to the CAP need to deliver the right support in the right areas in order to maintain the benefits delivered by the Scottish agricultural sector. This is unlikely to be achievable through the use of a simple, area-based system alone. A point that has been recognised in the Final report on the Inquiry into Future Support for Agriculture in Scotland. While it may be possible to design an area-based system that addresses the needs of the cropping sector, one that recognises the varied livestock systems that operate in Scotland is unlikely to be achievable. As such, a flexible approach to a long-term future support system may be required.

4. In discussion with our members, there is a strong recognition that under an area-based model, the needs of the livestock sector would not be addressed. Such a blunt policy instrument risks decimating our productive farms. The challenge is therefore to identify a means of targeting future support that supports the individual who is doing the active farming. The European Commission Communication on future support suggests additional payments, often called top-ups, may be possible. This may be a route to recognising the varying level of activity and public benefits that flow from farming in Scotland.

5. Other options for an area-based payment system that we believe need to be considered and modelled are:

- Grazing Categories: Under LFASS each piece of land has been allocated a grazing category (A, B, C or D) based on its stocking rate in a reference period. For grazing
land this is an effective way of showing the capability of the land. If a similar approach were adapted to the area allocation basis of the future SFP for livestock enterprises then this would align SFP and LFASS delivery mechanisms more closely and ensure they were complementary.

• Cropland and Grassland. All land in Scotland could be classified as cropland or different types of grassland. A payment would then be made on the basis of the land use. The value of the payment on grassland could reflect the level of stocking either taking place annually or historically undertaken and should equate to around £200 per livestock unit. The payment for cropland should equate to around £200 per hectare. These very broad figures have been arrived at with due regard to what is possible under the current Scottish SFP budget.

It is critical that the next Common Agricultural Policy delivers a support structure that is transparent and justifiable to the taxpayer. It must be flexible enough to deal with the differing priorities across Europe, and indeed across different parts of the UK. It must focus on supporting active farmers, not simply those who have acquired land which is subject to little human or agricultural intervention. In an era of growing food security concerns, we believe a system which has sustainable food production at its heart, rewarding those directly involved in its production – and thereby securing the wider public benefits that flow from agriculture – will underpin the rural economy and food industry in Scotland.

I am of course happy to provide any further evidence the Committee feel would be useful.

24 January 2011
The Scottish Government welcome this opportunity to present evidence to the Environment, Food and Rural Affairs Committee as part of their Inquiry into the impact of Common Agricultural Policy (CAP) Reform on UK agriculture.

The European Commission’s recent Communication, The CAP Towards 2020, signals the start of a process of discussions and negotiations to reform the CAP for the future. The CAP plays a vital part in supporting Scotland’s agriculture sector where 85% of our agricultural land is classified as Less Favoured Area (LFA) and two-thirds is suitable only for rough grazing. These reforms will therefore have a major impact on Scotland.

The Scottish Government’s purpose is to create a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth. This is underpinned by our National Performance Framework which sets out strategic objectives, targets and outcomes to help us deliver our purpose. As part of the national framework we produced our Vision for Scottish Agriculture which aims to optimise the productive use of our natural resources and achieve the right balance between producing for the market and delivering public goods.

Our vision is underpinned by four principles;

1. Our agriculture sector should be market based, producing in line with consumer choices in an environment of free and fair competition.

2. However, farming also provides a range of public goods for which market mechanisms do not always exist to reward the farmer sufficiently: for example, protecting the environment, sustaining communities in remote areas and maintaining a national food producing capacity. These should be supported by public funds.

3. These public goods should also be delivered with maximum efficiency through a contract between farmers and society.

4. An appropriate level of regulation should continue to play a role in delivering public goods, using as light a touch as possible to generate the desired outcomes.

In order to deliver these policy objectives, the Scottish Government asked Mr Brian Pack OBE, former Chief Executive of ANM Group, to chair an Inquiry looking at all aspects of future support for Scottish agriculture. The Inquiry published its final report “The Road ahead for Scotland” in November 2010. A copy of the report has been sent to the Committee and Mr Pack will also be giving oral evidence to the Committee.

The Scottish Government is working closely with Mr Pack and stakeholders to further develop some of the analysis and recommendations, before taking a formal position on them. We have nonetheless identified certain principles, which we see as flowing from the Pack Inquiry’s Final Report, that are of particular significance.
At the outset it must be recognised that appropriate funding is essential to deliver the objectives of the CAP including its primary purpose of encouraging food production. It is therefore vital that Member States and Regions receive a fair and proportionate share of the CAP budget. The new Member States have made well-publicised demands to improve their low allocations from the Pillar I budget, but it should be noted that the Pillar II budget allocations are also based on historic and arbitrary criteria, leading to unfairly low allocations for the UK as a whole and for Scotland in particular. This unacceptable situation must be redressed in the future CAP, via the adoption of fair and objective allocation criteria for both Pillar I and Pillar II budgets. Fair allocations should remove any need for adjustment mechanisms such as modulation.

Given the special challenges Scotland faces, particularly in our LFA area, we consider there is an ongoing justification for Pillar I Direct Payments, which includes the fact that they underpin the delivery of valuable public goods through active land management on a territory-wide basis. They also help sustain rural economies and enable producers to meet the cost of complying with the higher production standards required by European society.

Direct Payments should however; be reformed to phase out the historic basis for payments which can no longer be justified. Instead they should become more clearly linked to the delivery of public benefits and farming activity. We are therefore open to the European Commission’s idea of “greening” Pillar 1 payments which is worthy of serious consideration, albeit whilst aiming to avoid unjustified increases in complexity.

As previously mentioned, Scotland has a high proportion of land that is LFA. This includes many valuable landscapes and habitats, where farming is characterised by inherent low profitability and, in some areas, the risk of land abandonment. On the other hand farming in lowland Scotland faces other challenges, such as the cost of complying with production standards imposed by Europe, and can contribute significantly to public benefits such as reducing greenhouse gas emissions. We therefore need the future CAP to be sufficiently flexible to enable us to tailor measures to meet Scotland’s needs.

Specifically, the Pack Inquiry report points out that the application of area-based payments in Scotland’s LFA could raise important issues around the effectiveness of payments and the relationship between the level of payment and the public benefits delivered. This is because in those areas, the quality of land varies hugely, as does the level of farming activity which in some cases is very extensive indeed.

For these reasons the inquiry has suggested an alternative model, under which area-based payments in the LFA would be supplemented by a Top-Up Fund which makes payments for public goods using Standard Labour Requirements, rather than land area, as the indicator of the amount of public benefit delivered.

Although we have not yet taken a formal view on the Top-Up Fund proposal, pending further detailed work between Scottish Government and stakeholders, we accept the inquiry’s analysis that area-based payments on their own could have substantial flaws. At this stage we would wish
both the Commission’s “greening” ideas and the Pack report’s Top-Up Fund proposal to be investigated in detail.

We are also keen to pursue other ways of addressing the issue of effectiveness of payments, such as improving the “active farming” conditions. This issue, which is about how the land in question is being managed, is related to but separate from the issue of what nature of businesses should or should not be eligible to receive CAP payments, sometimes called the “active farmer” issue.

In order to guard against undesired outcomes such as land abandonment in the most vulnerable areas, we see the use of limited coupled payments in specific circumstances as necessary. Scotland currently uses the option available under Council Regulation (EC) 1782/2003 Article 69 to provide coupled payments under the Scottish Beef Calf Scheme, with the key objectives to support both the supply of quality Scotch beef and the environment. The Pack Inquiry recommends that this should be retained but in a more targeted manner, and also recommends that a lamb headage scheme be developed. The Inquiry suggests the aim of these coupled payments would be to stabilise cow and ewe numbers on marginal land thereby securing the basis for delivering public goods, recognising the challenges of maintaining livestock production on this land and avoiding the risk of land abandonment.

Changes to the CAP should not undermine the drive to increase market-orientation. Farmers’ business decisions should be increasingly guided by market signals and consumer demand rather than public subsidies. However, given the volatility of agricultural markets, the CAP must remain sufficiently strong and flexible to provide a genuine market safety net provision for dealing with price volatility and collapse. We also support the proposal that further work be done on the ways in which the CAP can support the development of more effective risk management measures for the sector.

A cap on direct payments would be at odds with the justification for the payments and would almost certainly prove ineffective. Businesses likely to be affected would almost certainly be split into multiple businesses, and any attempt to prevent new businesses could have serious repercussions for genuine new entrants.

The future Rural Development regime must continue to support sustainable economic growth, competitiveness and diversification as well as agri-environment and community projects. The balance between these objectives should be at regional discretion and reflect regional priorities.

Administrative costs for farmers and Governments should be kept to the minimum necessary to deliver the policy objectives. The CAP must therefore be simplified in order to reduce the administrative burden and this should be reflected in all future policy proposals.

The current EU audit system needs to be reformed with the aim of achieving controls on CAP payments which are proportionate and represent value for money. The true costs and benefits of control mechanisms must be recognised. The use of flat rate penalties and corrections should be replaced with a system that is proportionate and targeted.
This is a summarised position, detailed analysis of the evidence base and argumentation is set out in the Pack Inquiry’s Report and accompanying documents on the Scottish Government website at  www.scotland.gov.uk/BrianPackInquiry

January 2011
Written evidence submitted by the British Retail Consortium (BRC) (CAP 33)

1.0 Introduction

1.1 The British Retail Consortium (BRC) is the trade association of the retail sector and is the authoritative voice of the industry to policy makers and to the media. The BRC brings together the whole range of retailers across the UK, from independents to large multiples and department stores, selling a wide selection of products through centre of town, out of town, rural and online stores.

1.2 Our membership includes over 90% by turnover of the UK’s grocery retailers, including all the major supermarkets. We are therefore at the forefront of discussions regarding the future of food policy, the way in which consumers buy and consume food and the way in which goods are sourced, packaged and sold in UK stores.

2.0 General View on CAP Reform

2.1 Although the BRC does not have a detailed position on CAP reform we are actively involved in the food debate in the UK and continuing food security. We were involved in the Cabinet Office paper *Food Matters* in July 2008 and continue to work with Defra officials and stakeholders in the supply chain on the relevant points outlined in this report.

2.2 Our general view, considering the major structural changes in global food supplies, is that the reform of CAP is timely but needs to be handled carefully. The overall outlook for farmers is reasonably positive; the UK farming industry is recognised as being innovative and the need to farm sustainably, coupled with increased global demand for meat and dairy products should be beneficial factors in further developing our efficient and advanced farming sector.

2.3 Having said that we recognise that any reform must not prejudice our farming sector, and standards and subsidies must apply equally through Europe. There are also parts of farming for whom subsidies are more integral to their business and care needs to be taken in the transition away from subsidies to a more market focused sector.

2.4 We also believe changes should not ignore the investment in research and development necessary to help farmers meet the challenges of future food production. For example, if we are to increase production sustainably we need to ensure farmers have the acquire tools and knowledge to meet the challenge.

3.0 Retailers’ sourcing policies
3.1 Retailers are pragmatists and want long term, sustainable and reliable supply chains that give consumers what they want. All these reasons make the UK the first choice for sourcing and this is demonstrated by the proportion of food that is sourced here, which is better than other parts of the food sector and even the Government’s own procurement policy.

3.2 In terms of staples, all fresh milk, eggs and fresh chicken sold in major retailers are from the UK. The vast proportion of our pork, lamb and beef also comes from the UK as do indigenous vegetables when in season.

3.3 There will be times when retailers source from abroad due to seasonality, availability, and price. Even where we do source abroad, however, the vast majority of imports come from the EU.

3.4 There is no doubt that price is a key factor for consumers, particularly in the current economic climate, but that doesn’t have a significant impact on retailers’ sourcing policy. Firstly, many of the underlying price factors are global, both in terms of the costs to farmers such as feed prices or oil and the price that the food sector has to pay for commodities such as dairy products. Secondly, consumers buy on value not price and issues such as sourcing and quality are key factors. Thirdly, retailers need long term sustainable supply and chopping and changing suppliers is not a pragmatic approach, particularly with the pressures of maintaining food security.

3.5 Retailers recognise that some consumers want more information about the country of origin of their produce. Retailers have always endeavoured to do this and as a result were able to sign up to the country of origin principles developed with Defra at the end of 2010. The protocol sets out clearly how meat and dairy products should be labelled and has been welcomed by supplier groups. To date, only the major retail companies have committed to the protocol. A copy of these principles is attached as annex one to this evidence.

4.0 Position of the UK in global markets and niche supplies

4.1 The UK is a relatively small player in the global food market and this is reflected in the influence countries such as China and Russia have over commodity prices such as wheat. Commodities such as wheat, rice, sugar and some dairy products are globally traded and those prices dictate our prices in the UK. While retailers have been able to insulate consumers from some of the worst of the price rises, the BRC food inflation figure of 4% year on year is primarily due to global forces.
4.2 Global prices can be beneficial for UK farmers, although we recognise that increased volatility presents a new set of challenges. For example the large rise in demand for dairy and meat products at the end of the 2000s had a positive impact on the price UK farmers received, as have the recent price rises in cereals.

4.3 Although global prices will always underpin the UK market, it is true to say our market is one of the most sophisticated in the world which means there is an opportunity for home producers and continuing product development. For example, the rise in interest in provenance has provided good opportunities for small producers and processors in the UK.

4.4 Our view is there is likely to be continuing pressure on food prices through 2011 and there is likely to be more volatility in food prices beyond that.

4.5 Current food inflation figures do not account for all the increases which we are currently facing which have not worked their way through the chain to the consumer. On top of that future prices for key commodities such as cereals, soya and sugar are high and will need to be factored in. The retail sector has reacted through an unprecedented level of promotions to insulate consumers from the worst of the price increases however, there is further upward pressure.

4.6 In the near future, pressure on food prices will increase as populations increase and become more affluent, increasing the demand not only for food but for meat and dairy products. On top of this more erratic weather will have an impact on harvests, as we have seen recently in Russia and Australia. The combined effect of variable harvests, more livestock production, competition for land from non-food crops and increased population will present major challenges to sustainable food production to avoid further increases in food prices.

4.7 The UK food market is extremely sophisticated; we have well informed consumers who are always looking for new experiences. This means there is a real interest in niche products that offer something new and are perceived to be of a better quality. This is a huge advantage for UK producers who are technically able and adept at meeting changing demand, some of the factors key to changing trends in food, such as local sourcing and improved sustainability also offer opportunities.

5.0 Food Security

5.1 Food security has always been a priority for retailers. As explained previously the need for consistent supply at the quality demanded by discerning
consumers means ensuring food security is a fundamental requirement for food retailers.

5.2 We believe that whilst there are clearer pressures on food security in the future from the threats listed previously, the immediate pressures are in animal feed and world trade. A large proportion of animal feed is imported from outside the EU and the current controls on GM and the risk of cross-contamination are making it increasingly unattractive to countries exporting into the EU. This needs to be resolved quickly to avoid major problems for our livestock industry. Secondly, we need free trade to ensure food stocks are available to the market. We have seen in recent years an increase in the proportion of stocks held by countries such as China, combined with steps taken by countries to limit their exports, has meant less grain available to trade.

5.3 In the longer term, there are global issues which need to be resolved that have been detailed recently in the Foresight report to increase production sustainably. This will be a major challenge.

5.4 UK retailers recognise that closer links with groups of suppliers has many benefits, not least in food security. Much of this is achieved through long standing relationships but increasingly they are setting up dedicated supply chains. Dedicated supply chains ensure consistent supply and also allow the retailer to work closer with the suppliers to deliver advances on sustainability, animal welfare and the environment. A number of these are already operating in liquid milk and proving extremely successful, for the farmer who receives better returns for his milk, the retailer who has closer control of his supply chain and the consumer who receives quality milk produced to the standards important to them.

6.0 Functioning of the supply chain

6.1 The BRC is following the current discussions in Europe closely, not least as they are following on from those in the UK, particularly the Competition Commission’s inquiry into the groceries market.

6.2 It is worth restating that retailers do not usually have a contractual relationship with farmers. Farmers would normally supply a processor or manufacturer who would then supply the retailer.

6.3 In terms of its current work we feel it is important to recognise the steps already taken in the UK ahead of Europe. We already have a supplier code (GSCOP) that covers the 10 biggest retailers and sets minimum standards, enforceable if necessary through independent arbitration, for their dealings with their suppliers. We believe GSCOP has answered the questions that were raised by the Competition Commission and provides the correct balance
between protecting the position of suppliers without compromising negotiations that benefit consumers.

6.4 We also feel the discussions in Europe have not appreciated the progressive approach UK retailers have taken in their dealings with suppliers, and in particular the dedicated supply chains. We have produced a paper that demonstrates this and have attached it to this paper as Annex two.

27 January 2011
Supplementary written evidence submitted by the British Retail Consortium (BRC) (CAP 33A)

Thank you for your letter dated 15 February and please find my response to the questions raised in it.

1. **Is it a problem for retailers if EU farmers go out of business**

Before answering this in detail I would like to clarify that it is inevitable that some EU farmers will go out of business in the future as part of further consolidation in the sector. That in itself is not a problem if it improves efficiency, output and management of farms as was raised by other contributors to the inquiry. My response, therefore, assume the question is asking whether a major reduction in available food produced in the EU would pose a problem for retailers.

UK retailers source the majority of their food from this country with the bulk of imported food coming from EU countries. A reduction in available food from the EU would pose significant problems for retailers.

Firstly, retailers need secure, reliable supply chains where they can work closely with their suppliers to supply food produced to their customers’ requirements. We are fortunate in this country to have a highly skilled, efficient farming sector who can meet the demands of the UK consumers. Production here and in the EU is easy to manage in terms of audits to control safety and quality.

Secondly there are sound financial reasons for sourcing food from the UK and EU. Our climate is well suited to the production of basic commodities which should be able to compete in terms of global pricing, particularly when transport costs are taken into account. Having secure supply chains also avoids the problems of competing to source commodities on the global markets which due to fluctuations in production and trade could lead to increased price volatility for consumers.

Thirdly, sourcing from the UK and EU has advantages in terms of the environmental impact of food production. This will be an increasingly important consideration for consumers and could be reflected in the price of food if it accounted for more of the external costs of environmental impact.

Finally, there is a continuing and growing interest in the origin of food amongst consumers. This is driving demand for more locally produced food. A trend that is likely to continue as awareness of sustainable food production increases.

For all these reasons it makes practical and commercial sense for retailers to source the vast majority of their food from the EU, with the bulk of it from the UK. Anything that forced a change in sourcing policy would affect food security and price.

2. **If the income support provided by the CAP were to be removed, what steps would you anticipate retailers might take to ensure their security of supply?**

Securing food supply is something retailers are always working on for all the pragmatic reasons listed above and a key part of that is working with UK farmers. The removal of income support will not in itself make any difference to that work.
The key issue for retailers is ensuring farmers receive an adequate price for their produce that allows them to reinvest in their business for a sustainable future. They work closely with their supply chains and have a good knowledge of farming costs and will factor that in to their decisions on price. Retailers will pay the necessary market price to secure food to meet their consumers’ demand. We know, for example, that many consumers are interested in UK produce and the retailer will ensure they secure sufficient supply to meet that demand. The UK food retail sector is extremely competitive and all retailers know if they do not meet the expectations of demanding customers they will take their business to one of their competitors.

There are already agriculture sectors that operate without income support, such as fruit and vegetables, and retailers have worked with their producers to secure supply. Potatoes and soft fruit are good examples of how sectors have moved from an interventionist to a market based approach without damaging UK production. The market is key and buyers know if they want secure supply they have to pay the appropriate price. This will put farmers in a strong position in the future as global food production struggles to keep up with increases in population and demand for meat and dairy products.

A good example of how retailers are working with groups of farmers to ensure secure supplies in an uncertain and challenging market is their support for dedicated supply chains, the most prominent in dairy. Retailers working with processors have secured the volume of milk they need for their business with groups of UK farmers paying them a premium price to ensure their long term production. Retailers have taken this step to secure the necessary supply of UK milk for their customers. Of course this will not help all dairy farmers as retailers only require a portion of the milk produced in the UK. Other parts of the food sector, such as catering, manufacturing and government procurement appear less concerned in securing long term UK supplies but retailers are confident their investment is appropriate to meet their customers’ needs.

1 March 2011
Written evidence submitted by the Farmers’ Union of Wales (CAP 34)

Background

1. The Farmers’ Union of Wales was established in 1955 to protect and advance the interests of Welsh families who derive an income from agriculture. In addition to its Head Office, which has twenty-six full-time members of staff, the Union has thirty-five Area Officers and eleven offices distributed around Wales which provide a broad range of services for members. The FUW is a democratic organisation, with policies being formulated following consultation with its twelve County Executive Committees and nine Standing Committees.

The Common Agricultural Policy and Food Security

2. The disruption caused by the Second World War to European food production and distribution led to widespread starvation, and severe, often permanent illnesses due to vitamin and mineral deficiencies. For example, in the Netherlands alone many thousands died of starvation, and in Nazi-occupied Jersey children’s growth was stunted by two and a half inches due to malnourishment. In the UK, bread rationing continued until 1948, while meat rationing was not abolished until 1954.

3. Recognition of the need for viable agricultural sectors and stable supplies of affordable food led the UK Government to pass the 1947 Agriculture Act, while on the Continent the 1957 Treaty of Rome defined the objectives of a common European agricultural policy. The Common Agricultural Policy (CAP) came into full force in 1962, and from 1973 the UK support system, established under the 1947 Agriculture Act, was progressively subsumed into the CAP.

4. The food security established by the 1947 Agriculture Act and the CAP has led to significant complacency regarding the importance of agriculture to Wales and the UK, which has, in turn, led to increasing reliance upon imported foodstuffs; in 2010 UK food self sufficiency was estimated to be 59 percent, representing a fall of 20 percent since the 1980s1.

5. In recent years, concerns regarding rising world populations, global warming, and peak oil production has rekindled awareness of the importance of global food security. In 2007 and 2008 shortages in global food supplies became a reality, with scores of countries around the globe suffering conflict and social unrest due to food shortages, acute rises in food and energy prices, the rationing of certain foodstuffs by major retailers, and some countries introducing food export bans.

6. In July 2008, a discussion paper issued by DEFRA concluded that ‘the current global food security situation is a cause for deep concern’, listing high energy prices, poor harvests, rising demand, biofuels and export bans in some countries as main factors2.

7. The past 12 months have seen a range of factors, most notable severe weather conditions, leading again to major food shortages, export bans, food inflation and civil unrest around the globe.

1 National Statistics (2010)
8. It is estimated that World populations will rise to between nine and ten billion by 2050, while global agricultural productivity per hectare is expected to fall by between 3 and 16 percent by 2080.

9. The CAP, by design, provides a framework which allows Europe to react to the imminent challenges that growing populations, global warming, rising sea levels, and peak oil production represent in terms of food security.

**Agriculture in Wales**

10. Wales has some 39,000 holdings, around 17,000 of which receive CAP payments. Of those holdings considered to be agriculturally significant, 66% percent are Less Favoured Area (LFA) cattle and sheep enterprises; 12% are dairy enterprises; 13% are non LFA cattle and sheep enterprises; and 2 percent are arable enterprises, with other crop or mixed enterprises making up the remainder.

11. In 2010, 1.7 million hectares of Wales was categorised as agricultural land, equating to 84 percent of the country. This comprised arable land (9.9%), permanent grassland (61.0%), rough grazing (12.8%), common land (11.0%), woodland (4.1%), and other land (1.2%).

12. Around two out of every five rural businesses have been classed as being involved in the farming industry. In 2008, Welsh agriculture employed 57,600 people in full time, part time, and seasonal employment. This figure does not include the secondary businesses related to agriculture such as contractors, feed merchants, and food processors.

13. The proportion of the working age population in rural Wales who are working and who are self-employed is estimated to be 7% higher than in Wales as a whole, which reflects the fact that rural businesses have a high dependency on the agricultural sector.

14. It has been estimated that agriculture supports over 10% of full time employees in Wales, and the numbers directly and indirectly employed in farming therefore make a crucial contribution towards sustaining rural businesses and communities.

15. In 2007 the Sustainable Farming and Environment: Action Towards 2020 Report stated that: “Most businesses would not be able to survive on the financial returns which the Welsh agricultural industry continues to produce... If production falls below what is referred to as a critical mass the agricultural supply and processing industries will suffer irreparably as a consequence. Farming, with all its diverse effects on the landscape, the economy, communities and social structures, will only be sustainable if it returns to acceptable profitability in the short to medium term.”

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3 Cline (2007)
5 June 2010 Survey of Agriculture and Horticulture: Results for Wales, Welsh Assembly Government (2010)
6 A Statistical Focus on Rural Wales, Welsh Assembly Government (2001)
7 The Economic Potential of Plants and Animals Not Currently Fully Exploited by the Welsh Agricultural Sector, Central Science Laboratories (2003)
16. Aggregate Agricultural Output in Wales in 2009 is estimated to have been £1.1 billion, with the livestock and dairy sectors contributing £552 million (49%) and £330 million (30%) to this figure respectively.

17. In 2008 and 2009, total income from farming in Wales increased was £107 million and £170 million respectively.

18. By comparison, UK Gross Aggregate Agricultural Outputs in 2008 and 2009 were £20.1 billion and £19.6 billion, while total incomes from farming were £3.6 billion and £4.4 billion respectively.

19. In 2008, the food and drink supply chain was the UK’s single largest manufacturing sector, accounting for 7 percent of GDP, employing 3.7 million people, and worth £80 billion per annum. The equivalent figures for Wales are not available.

20. During the 2009-2010 financial year, the average Welsh hill farm covered 97 percent of their lamb production costs. The figures for upland and lowland farms were 99 and 107 percent respectively. This compares with 84 per cent, 88 per cent and 95 per cent respectively for the previous financial year.

21. For all farm types during the 2009-2010 financial year, Welsh lamb producers covered 101 percent of production costs.

22. In the 2009-2010 financial year, Welsh beef producers covered an average of 68 percent of production costs. For the top third of producers this figure was 99 percent.

23. Farm business consultants Andersons have predicted that the average total cost of milk production for a 150-cow herd averaging 7500 litres a cow will be more than 28 pence per litre for the 2010-2011 and 2011-2012 seasons, which is 3 pence below the average UK farm-gate price.

24. Average Welsh milk farm-gate prices are not routinely collected. However, data collected from FUW members in 2010 shows that the average price received by those members was 22.6 pence per litre, with the payments received by individuals during any one month being between 14 and 29 pence per litre.

25. This range largely reflects the significant differences between the contracts held by individuals and the economies of scale which can be achieved by milk producers compared with livestock producers, due to the ways in which farm-gate milk prices are invariably linked to volume.

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12 Hybu Cig Cymru (2011)
13 Hybu Cig Cymru (2010)
14 Farmers Weekly (December 2010)
26. Thus, while the price received for livestock is likely to be similar for large and small producers alike, volume related bonuses and penalties which are written into milk supply contracts can lead to major differences between the farm-gate prices received by large and small milk producers.

**Welsh Agriculture and the CAP**

27. A total of £357.4 million in CAP payments was made to farm businesses in 2009\(^6\). This comprised:

i. some £275 million in Single Payments, made under Pillar 1 of the CAP (direct payments) (77%), and

ii. Around £82 million in Rural Development (Pillar 2) payments (23%); primarily comprising Axis II payments under agri-environmental schemes such as Tir Gofal, and Less Favoured Area support in the form of Tir Mynydd

28. Single Payments made to Welsh farm businesses are currently based upon average CAP Pillar 1 payments received per hectare during reference years not affected by what the Welsh Assembly Government deemed were exceptional circumstances (predominately the years 2000, 2001, and 2002), and/or the amount of milk quota held on the 31st of March 2005.

29. CAP Pillar 1 payments received during the reference period were effectively based upon the number of eligible stock held on each farm, which, in turn, can be considered to be a function of the fertility, size, altitude, and climate of any particular farm.

30. Thus, the total payment received by a smaller, fertile, lowland farm can be similar to that received by an extensive, infertile, upland farm, with both payments effectively reflecting the production capacity (but not the current production) of each farm.

31. Figures produced by the Farmers’ Union of Wales show that, in 2007, average Single Payments made to farms categorised as purely lowland and Severely Disadvantaged Area businesses were £12,130 and £12,869 respectively, despite lowland farms being, on average, 40% smaller than SDA farms\(^{15}\).

32. However, there exist significant variations in terms of payments made per hectare for all farm types, and a modelling undertaken by the FUW in 2009 demonstrated that transition to a simplistic flat-rate payment per hectare model would represent significant disruption for Welsh farm businesses\(^{16}\).

33. Specifically, the work concluded that:

i. A sudden transition from the current historically based Single Payment Scheme to a flat-rate model based upon current land categorisation criteria will result in major financial disruption for the farming community

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\(^{15}\) Work in progress

\(^{16}\) An Analysis of the Welsh Single Payment Regime and the Impact of Possible Flat-Rate Single Payment Models, Farmers’ Union of Wales (2009)
ii. Large-scale disruption is likely to result from a transition to any flat-rate Single Payment model.

iii. A transition to any flat-rate model should occur over as long a period as possible, in order to reduce annual financial disruption to farm businesses.

iv. The introduction of any flat-rate payment model is likely to result, on average, in an increase in receipts for those who received Single Payments below around €23,000, and a loss, on average, for those receiving more than €23,000.

v. The effects for individual farm businesses will vary significantly, with variance between farms increasing for those in higher payment bands.

vi. The most simplistic model, a single flat-rate payment per hectare for all Welsh land, could result in a net flow of as much as €36 million away from non-LFA and DA land, to SDA and common land.

vii. Significant differences exist between the apparent disruptive effects of the models studied, suggesting further modelling will reveal flat-rate models that go some way towards minimising disruption for the farming industry. However, the financial disruption for many individual businesses will be acute, irrespective of the model chosen.

viii. The calculation of average gains/losses for individual historical payment bands does not necessarily represent the best method of interpreting the data from individual models, and may be misleading.

ix. Flat-rate models that ring-fence payments according to current land categories may minimise disruption for the industry.

x. Significant further work is required in order to assess a greater range of flat-rate payment models, and their impact on particular sectors and regions, before any decision is made regarding the model that should be adopted in Wales.

xi. Any such further work should, where possible, take into account the implications of changes such as the forthcoming CAP and EU budgetary reviews, changes to the eligibility criteria for Less Favoured Areas, and the impact of the new Glastir scheme.

34. Figures produced by the Welsh Farm Business Survey (Tables 1 to 4) show that the majority of Welsh farms continue to be significantly or wholly reliant upon payments received under the CAP.

35. Moreover, those figures demonstrate that major increases in returns from the marketplace would be required to make up for the deficits which would occur if CAP payments were abandoned.
<table>
<thead>
<tr>
<th>FARM TYPE</th>
<th>NET FARM INCOME</th>
<th>SINGLE PAYMENT</th>
<th>TIR MYNYDD AND AGRI-ENVIRONMENTAL PAYMENTS</th>
</tr>
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<tr>
<td></td>
<td>2009-2010</td>
<td>2009-2010</td>
<td>2009-2010</td>
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<tr>
<td>Hill and Upland Dairy Farms</td>
<td>£49,065</td>
<td>£28,337</td>
<td>£3,052</td>
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<td>Lowland Dairy Farms</td>
<td>£69,328</td>
<td>£34,248</td>
<td>£3,274</td>
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<td>Hill Sheep Farms</td>
<td>£19,327</td>
<td>£34,390</td>
<td>£13,151</td>
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<td>Hill Cattle and Sheep Farms</td>
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<td>£35,160</td>
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<td>£30,397</td>
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<table>
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<tr>
<th>FARM TYPE</th>
<th>CONTRIBUTION OF SINGLE PAYMENTS TO NET INCOMES</th>
<th>CONTRIBUTION OF TIR MYNYDD AND AGRI ENVIRONMENTAL PAYMENTS TO NET INCOMES</th>
<th>TOTAL CONTRIBUTIONS OF CAP PAYMENTS TO NET INCOMES</th>
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<tr>
<td>Hill and Upland Dairy Farms</td>
<td>57.75%</td>
<td>93.46%</td>
<td>6.22%</td>
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<td>Lowland Dairy Farms</td>
<td>49.40%</td>
<td>75.11%</td>
<td>4.72%</td>
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<td>Hill Sheep Farms</td>
<td>177.94%</td>
<td>117.92%</td>
<td>68.04%</td>
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<td>Hill Cattle and Sheep Farms</td>
<td>167.18%</td>
<td>130.25%</td>
<td>50.82%</td>
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<td>Upland Cattle and Sheep Farms</td>
<td>118.74%</td>
<td>116.41%</td>
<td>29.43%</td>
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<tr>
<td>Lowland Cattle and Sheep Farms</td>
<td>93.42%</td>
<td>92.81%</td>
<td>11.16%</td>
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</table>

<table>
<thead>
<tr>
<th>FARM TYPE</th>
<th>NET INCOMES LESS SINGLE PAYMENTS</th>
<th>NET INCOMES LESS TIR MYNYDD AND AGRI ENVIRONMENTAL PAYMENTS</th>
<th>NET INCOMES LESS ALL CAP PAYMENTS</th>
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</thead>
<tbody>
<tr>
<td>Hill and Upland Dairy Farms</td>
<td>£20,728</td>
<td>£1,221</td>
<td>£46,013</td>
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<td>Lowland Dairy Farms</td>
<td>£35,080</td>
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<td>Hill Sheep Farms</td>
<td>-£15,063</td>
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<td>-£14,129</td>
<td>-£9,238</td>
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<td>Upland Cattle and Sheep Farms</td>
<td>-£4,510</td>
<td>-£4,559</td>
<td>£16,985</td>
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### Tables 1-3: Statistics taken from the Farm Business Survey for the financial years 2008-2009 and 2009-2010

<table>
<thead>
<tr>
<th>FARM TYPE</th>
<th>NET INCOMES LESS SINGLE PAYMENTS</th>
<th>NET INCOMES LESS TIR MYNYDD AND AGRI ENVIRONMENTAL PAYMENTS</th>
<th>NET INCOMES LESS ALL CAP PAYMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowland Cattle and Sheep Farms</td>
<td>£1,999</td>
<td>£2,450</td>
<td>£27,006</td>
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</table>

Table 4: Statistics taken from the Farm Business Survey for the financial year 2007-2008

36. In 2005, HM Treasury and DEFRA published “A Vision for the Common Agricultural Policy”, setting out the then UK Government’s vision for EU agricultural policy to 2020. The key policy reforms proposed included:

   i. The alignment of import tariffs for all agricultural sectors with other sectors of the economy

   ii. The abolition of production subsidies

   iii. The abolition of price and direct income support measures

   iv. The abolition of export subsidies

   v. A movement of funding from Pillar 1 to Pillar 2

37. Following the publication of the policy, the Food and Agricultural Policy Research Institute (FAPRI) was commissioned by the UK administrations to analyse the impact of these key policy reform proposals on agriculture in the UK, using the FAPRI-UK project modelling system. The results of the modelling were published in July 2009\(^\text{17}\), and suggest that the policies, as proposed, would have a devastating impact on agriculture and rural communities.

38. The work summarised the impact in Wales for individual sectors as follows:

39. Dairy Sector:
   i. The phased increase and eventual abolition of milk quotas under the Health Check reforms has a depressing impact on the projected producer milk price and production in Wales
   ii. Cheese and, to a greater extent, butter prices decline further in response to Doha WTO reforms. The decline in the prices of these commodities exerts a further downward impact on the Welsh producer milk price
   iii. Further trade liberalisation has a small negative impact on dairy commodity prices since butter, SMP and WMP EU prices track their world prices

40. Beef Sector:
   i. The extensive over quota tariff cuts result in a significant increase in projected non-EU beef imports
   ii. EU beef prices, including those in Wales, decline markedly in response to this large increase in imports
   iii. By the end of the projection period, the Welsh price of finished beef animals is 26% lower
   iv. The phased elimination of the SFP has a significant negative impact on suckler cow numbers and beef production in Wales

41. Sheep Sector:
   i. The full reduction in over-quota import tariffs under the WTO reform scenario leads to higher non-EU imports and, consequently, lower sheepmeat prices.
   ii. Projected Welsh ewe numbers and sheepmeat production fall in response to the decline in price.
   iii. Trade liberalisation leads to a further substantial increase in non-EU sheepmeat imports. The increase in non-EU imports has a depressing impact on sheepmeat prices. The projected average Welsh price of finished sheep and lambs is 12 per cent lower in 2018.
   iv. The decline in price reduces sheepmeat economic returns and depresses ewe numbers and production in Wales.
   v. Phasing out the SFP on top of further trade liberalisation has a significant negative impact on Welsh sheepmeat production.

42. The FAPRI report concludes that:
“Reductions in cattle and sheep numbers may have a positive or adverse impact on biodiversity depending on existing grazing levels. Moreover, it is likely that the impact would be spatially uneven, with more marginal producers in upland areas experiencing greater contractions in output. As a result, undergrazing is likely to be more problematic in the uplands.”

“Reductions in livestock numbers will not only hasten the decline in agricultural employment but also employment within the wider rural economy. Agricultural employment supports both upstream (e.g. feed companies and machinery suppliers) and downstream employment (e.g. abattoirs and food suppliers) (Institute for European Environmental Policy et al., 2004).

“Furthermore, farmers play an active social role within local communities through participating on school boards, running local activities etc. Reducing the viability of farming may undermine the positive contribution played by farmers within local communities.

“Any decline in numbers engaged in agriculture may also have a direct impact on migration out of the remoter areas, hence undermining the viability of the rural population in these areas.”

“The proposed ‘Vision’ reforms also have important implications on price volatility. Export subsidies and import tariffs have protected the EU market from the consequences of world price volatility. Following extensive trade liberalisation, it is projected that EU commodity prices are more closely linked to world prices. As a result, EU producers and processors will tend to face more uncertainty due to increased volatility as a result of external shocks, such as those due to poor weather conditions. Increased uncertainty has a negative impact on efficient production in the agricultural sectors through discouraging investment and threatening the long-term survival of producers.”

“…should the ‘Vision’ proposal be implemented the consequences for the Welsh beef and sheep sectors, in particular, would be dramatic.”

43. The publication of the current UK Government’s policy regarding CAP reform is imminent18, and the FUW is not therefore in a position to make detailed comments regarding current UK Government policy. However, a number of comments made by the DEFRA Secretary of State and the Minister of State for Agriculture suggest that there may be relatively little difference between the overarching policies of the current and previous Government.

Conclusions

44. The figures and information provided herein demonstrate that Wales’s environment, economy, and culture are significantly reliant on the agricultural industry, which is, in turn, reliant on payments made to farm businesses under the CAP.

45. Specifically, figures produced annually by the Welsh Farm Business Survey and Hybu Cig Cymru confirm that, under current trading conditions, the majority of farm businesses would not be viable were it not for CAP payments, and that, if returns from the marketplace were to replace CAP payments, this would require sharp increases in farm-gate prices.

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18 Speech given at the FUW’s House of Lords Breakfast event by the Minister of State for Agriculture and Food, 26th March 2010
46. Given the current dominance by supermarkets of the supply chain, and the absence of a mechanism which ensures equitable farm-gate prices for farmers, the FUW believes that abandoning the CAP in a manner similar to that formally proposed by the previous UK Government would:

i. Have a catastrophic impact on UK food security

ii. Undermine the UK’s food industry, leading to increased unemployment

iii. Result in significant price volatility for manufacturers and the general public

iv. Lead to land abandonment and an exodus of people from rural communities

v. Have a significant adverse impact on the UK’s flora and fauna

vi. Drastically reduce numbers of owner-occupier and tenant farmers

vii. Result in a move towards ‘factory farming’

viii. Lead to significantly more food being produced in countries which have lower animal welfare standards

ix. Accelerate deforestation in some of the world’s most endangered habitats, due to UK food production being displaced by increased production in third countries

x. Undermine the accountability of the agriculture industry in terms of minimising its carbon footprint and other important environmental impacts

47. The majority of these assertions are directly supported, or can be justifiably extrapolated from the conclusions published in Government commissioned research.

48. The research conducted and published by the FUW demonstrates that, in the absence of counter-mechanisms, a movement to a basic flat-rate CAP payment per hectare model would result in significant disruption for Welsh agriculture, and that a proportion of this disruption is likely to be inevitable.

**FUW Priorities In Terms of CAP Reform**

49. During the past twelve months, the Farmers Union of Wales has undertaken a number of internal consultations with members regarding the future of the Common Agricultural Policy, and the following views are based upon the outcome of those consultations.

50. Given current scientific opinion regarding population growth and global warming, mitigating climate change without compromising food security is one of the most significant long term challenges facing mankind.
51. In order to address this challenge, joined up policies between Governments are required, and the CAP post 2013 has the potential to provide a coherent policy framework which allows Europe to react to the imminent challenges that growing populations, global warming, rising sea levels, and peak oil represent in terms of food security.

52. Members therefore believe that the UK and devolved Governments should

i. Oppose the CAP reform policies advocated by the previous UK Government, or any similar policies, which FAPRI has shown are likely to have a broad range of negative impacts across the UK

ii. Support the CAP and its core objectives, with a particular emphasis on ensuring the availability of agricultural produce to EU citizens and a fair standard of living for the agricultural community, as described under Article 39 of the Treaty of Rome

iii. Ensure that direct Pillar 1 payments continue to make up the bulk of CAP support for agriculture

iv. Oppose any moves to liberalise international trade in a manner which would adversely affect agriculture and UK food security

v. Recognise the central importance of the CAP as a mechanism by which the major environmental and food production challenges of our age can be addressed, and support the provision of a CAP budget that properly reflects this importance

vi. Ensure that any changes to the balance of funding between new and old Member States does not impact on UK agriculture and that, where necessary, the CAP budget reflects this

vii. Press the European Union for a compulsory pan-European scheme to help and encourage young entrants into the industry

viii. Support a compulsory Less Favoured Area scheme which requires all Member States and regions to recognise the socio-economic and environmental handicaps faced by farmers in many areas, in order to ensure commonality between regions and Member States

ix. Advocate a revision of CAP Regulations which ensures all penalties are proportionate, and that administrative errors are properly recognised

x. Support a policy which proactively supports family farms, and recognises their central role in terms of food production and the protection of our natural environment and rural communities

xi. Recognise the importance of Milk Quotas as a mechanism which supports milk production within the UK, and by which supply can be properly controlled and monitored
xii. Reject calls to renationalise agricultural spending within the EU, in order to ensure a genuine common policy across Europe

xiii. Support the proportionate distribution of Pillar 2 funding and uniform rates of modulation

xiv. Ensure that market instruments are available in order to manage market volatility

xv. Support a maximum transition period for the introduction of flat-rate Single Payments, and a flexible approach which favours family farms in order to minimise disruption for the industry

xvi. Ensure that any reduction in CAP payments are balanced by the introduction of market measures which ensure farmers receive equitable returns for their produce in order to ensure that food production is maintained and rural communities protected

The FUW believes that there will inevitably be areas of common ground regarding which the UK Government, devolved administrations and the Welsh farming industry agree, most notably regarding the need to ensure that future CAP Regulations reduce the burden of bureaucracy for farmers and administrations alike; are flexible enough to allow commonsense to be applied in a range of scenarios; and that all penalties (including those applied to Member States and regions in the form of disallowance) are proportionate.

The Union has therefore urged the UK Government to adopt a position regarding the future of the CAP which does not alienate it from negotiations with the other 26 Member States regarding these important issues.

FUW Reaction to the Communication from the European Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on the Future of the CAP Post 2013

The FUW agrees that the challenges identified by the European Commission in its communication on the future of the CAP\(^\text{19}\) are those which are most pertinent both globally and to the EU, and believes that the Communication correctly identifies the three main Objectives of the CAP post 2013 as being:

i. Viable food production

ii. Sustainable management of natural resources and climate action and

iii. Balanced territorial development

The Union also recognises that many of the Commission’s proposals are broadly aligned with those of the European Parliament\(^\text{20}\).

\(^{19}\) Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future (2010)

However, the Reform Orientation details set out in the Communication are so vague as to make anything other than making broad comments regarding the proposals impossible.

Notwithstanding this, the FUW’s views regarding the proposals are as follows:

Direct payments: Basic income support

The FUW agrees with the principle that the CAP should continue to focus on direct support via Pillar 1. However, in the absence of further details regarding the proposals, and a Welsh impact assessment based upon modelling work, it is not possible to comment further.

Introducing an upper ceiling for direct payments

Given the current range of Single Payment rates in Wales, and suggestions that capping might be introduced for CAP payments over €200,000, it may be the case that capping would only have an impact for a handful of Welsh businesses.

However, during previous internal consultations, FUW members have made it clear that the option of capping payments should not be ruled out, but that the numbers of family members and employees supported by individual farm businesses should be taken into account in order to avoid disruption to businesses and communities.

The FUW is currently consulting with members regarding the latest capping proposals, and whether tapering payments should also be an option, given that such a system already exists for Welsh Less Favoured Area payments, and may be more proportionate and less disruptive than an abrupt cut-off.

Mandatory “greening” component of direct payments

The FUW is opposed to the proposal that the existing objectives of Pillars 1 and 2 of the CAP be further confused by the introduction of ‘greening’ components, believes that such environmental measures should remain within Pillar 2, and that this should be accompanied by the UK receiving a more equitable share of EU Pillar 2 funding.

Voluntary coupled support

While Wales has not taken advantage of the coupled support options available under Article 68 of the current Regulations, FUW members are generally supportive of the retention of such an option, particularly given concerns regarding falling livestock numbers and critical mass.

Simplification of Cross Compliance

The FUW welcomes the proposal to simplify Cross Compliance, and also advocates the introduction of a penalty system which is proportionate to Cross Compliance breaches, and recognises genuine errors and exceptional circumstances.
Targeting of support to active farmers only

65. The FUW supports proposals to target support to active farmers, including tenants.

Market measures

66. The FUW supports proposals to streamline and simplify market measures, and allowing extended intervention periods, the use of disturbance clauses and private storage.

The removal of milk quotas in 2015

67. The FUW’s has long been opposed to the abolition of milk quotas, and has long maintained that the policy will have a destabilising effect on an industry already suffering as a result of market volatility, result in an increase in imports into the UK, and have a particularly adverse impact for family farms.

68. A number of reports indicate that these concerns are well founded\textsuperscript{17, 21, 22}, and the FUW is therefore opposed to the abandonment of milk quotas.

69. Moreover, the Union notes that, at a meeting of the Special Committee on Agriculture (SCA), Member States recently supported a proposed scheme which would pay dairy farmers to voluntarily reduce production in cases of serious market imbalance. The FUW believes that such a scheme would not be necessary, were it not for the anticipated abandonment of a framework designed to reduce volatility and regulate milk supplies, and has advocated variable superlevies as an alternative to abandoning the current regime.

70. The FUW is also concerned that the abandonment of the quota regime will reduce the validity and effectiveness of important market support measures.

Improving the functioning of the food supply chain

71. The FUW is fully supportive of moves at a European level to promote sustainable and market-based relationships between stakeholders in the food supply chain; increase transparency along the supply chain to encourage competition and improve its resilience to price volatility; and foster the integration and competitiveness of the European food supply chain across Member States at a European level to improve the functioning of the food supply chain\textsuperscript{23}.

72. The Union therefore believes that the UK and devolved Governments should fully support proposals to this effect.

Rural Development

\textsuperscript{17} Regional Economic Analysis of Milk Quota Reform in the EU, JRC Scientific and Technical Report, August 2009
\textsuperscript{21} Food Harvest 2020, Ministry for Agriculture, Fisheries & Food, Republic of Ireland (2010)
\textsuperscript{22} Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: A better functioning food supply chain in Europe (2009)
73. The FUW believes that the UK should argue for a more equitable share of Rural Development funds, and that support measures for LFA, environmental and climate change measures should be retained within Pillar 2.

74. The Union is concerned that risk management toolkits could be used by administrations to reduce domestic spending in a way which undermines commonality between Member States.

75. In the absence of more detailed proposals regarding Rural Development, the Union is unable to submit further comments.

26 January 2011