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Y Gweinidog dros Faterion Gwledig
Minister for Rural Affairs



Llywodraeth Cynulliad Cymru
Welsh Assembly Government

Eich cyf / Your ref:
Ein cyf / Our ref:

Commissioner Dacian Ciolos
European Commission
Rue de la Loi 200
B-1049
Brussels

25 January 2011

Dear Commissioner Ciolos

**THE REFORM OF THE COMMON AGRICULTURE POLICY TOWARDS 2020:
CONSULTATION RESPONSE**

Thank you for the opportunity to respond to your consultation on the future reform of the CAP.

You will separately have received a joint paper from the three UK Devolved Administrations on what we see as the key issues for us moving forward and the three critical areas where we hold a different view to the UK Government.

The key issue is that I cannot support the line on a significant reduction in the CAP budget 2014-2020. Direct payments underpin the financial viability for many in Welsh farming and the reality is that we are some distance away from mechanisms whereby our farmers are able to make a fair and profitable return from the market without the support of taxpayers. Related to this, I remain to be convinced that adequate progress can be secured to truly create global trading conditions from which UK agriculture could benefit.

This aside, I believe that there is sufficient commonality between Wales and the UK Government to provide an effective framework on which we can build a solid foundation that can present common purpose on our respective ambition to deliver a future CAP regime to the benefit of our respective industries.

For the Welsh Assembly Government, we want an outcome that sees the CAP maintained as a viable and relevant instrument that continues to support food production; provides a transparent income base for farming; delivers an effective policy framework for farm-based sustainable land management activities and contributes to the socio-economic cohesion of rural communities.

The response to the consultation on behalf of Wales which is set out in the attached paper sets out our views on the proposals, makes an initial assessment of their likely impact on Welsh agriculture where possible and highlights issues that will need exploring further before I can form a view, whether positive or negative.

I trust you will find this helpful and look forward to working with the Commission as it develops its proposals for the future of the CAP.

A handwritten signature in black ink that reads "Elin Jones". The signature is written in a cursive, flowing style.

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Y Gweinidog dros Faterion Gwledig
Minister for Rural Affairs

WELSH ASSEMBLY GOVERNMENT RESPONSE TO THE COMMISSION COMMUNICATION AND CONSULTATION

“The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future”.

January 2011

Wales has been consistent in making clear that the funding available through the CAP makes a vital contribution in sustaining farming and food production 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 70 per cent and 90 per cent of Farm Business Income in Wales.

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.

Against this background 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.

Crucially, in terms of the next stage in reform to CAP, the Welsh Assembly Government would not expect to see any change from the current position whereby decisions for implementing and managing the CAP are clearly based in Wales and that we will continue to be able to shape arrangements to the needs of Wales and Welsh farming.

Maintaining the CAP and the 2 Pillar structure

Wales is 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.

As the responsible Minister within the Welsh Assembly Government, I 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, I 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, I 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: The issues

Wales is clear 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. We believe that it represents a potential reduction in transparency and falls short in providing the degree of certainty and stability on the value of the Pillar 1 income that will aid future planning business decisions at individual farm level.

Wales can support the long term aspiration to make 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). However, 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 and we support the general principle, however a labour adjustment to capping could be unworkable in Wales where contract and self-employed labour is a regular feature of the farming sector.

A specific issue for Wales in the context of a more equitable distribution on Pillar 1 receipts is 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. Whilst Wales agrees that it is not justifiable to maintain a direct payment regime based on production levels achieved some 10 years ago the Welsh Assembly Government has 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.

Wales does not 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.

For Wales further 'greening' of Pillar 1 payments is 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.

Until such time as we have greater insight from the Commission on the practicalities, we take the view that the "greening" proposals, when seen against the current GAEC requirements in Wales, have the potential to severely undermine the way in which the Welsh Assembly Government has focussed action under Pillar 2 to deliver our ground-breaking Glastir scheme (under Axis 2 of the Wales Rural Development Plan 2007-2013) that also includes the abolition of the dedicated support in the LFA. Glastir represents a radical change in Wales to more effectively deliver clearer outcomes from farming that directly respond to the challenges of climate change, carbon, water, soil and water management and enhancing bio-diversity. We are concerned that the Commission, through its "greening" proposal, is considering a 'one-size-fits-all' approach that fails to recognise the progress made by certain individual countries such as Wales and would not want that progress restricted. We will be looking to the Commission to recognise past performance and initiatives already in place to support environmental action by farmers.

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.

Wales remains 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. We see 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 two 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 and we believe that the definition should ultimately be a matter for Member States and regions to determine.

In terms of Pillar 2 and the rural development the proposals, these will enable Wales 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, Wales has some reservations about the risk management toolkit approach towards addressing both production and income risks through insurance and mutual funds. We will need to see greater detail on the proposals prior to being able to determine its appropriateness to Welsh agriculture.

With regard to market support measures, Wales firmly believes that any safety net should be a measure of last resort and designed to encourage the industry to use private sector instruments to

manage. We support the proposal to simplify and streamline the existing measures and believe that for some commodities all remaining forms of intervention could be abolished, for example, the sugar sector.

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 Rural Development Plan. 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.

Finally, Wales strongly supports the Commission's objective to simplify the CAP. Whilst recognising the good work by the Commission to date to advance the simplification agenda we believe that the forthcoming reform presents an excellent opportunity to make further and significant gains in this area. The CAP must be simplified in order to keep administrative costs for farmers and governments to the minimum necessary to deliver the policy objectives. Therefore, we propose that all policy proposals must be screened against a simplification template with this in mind.

In particular, the current EU audit system needs to be reformed with the aim of achieving controls on CAP payments which are proportionate and which represent value for money. There must be an explicit recognition of the true costs and benefits of control mechanisms and an acknowledgement that eliminating all error involves disproportionate administrative cost and represents poor value for money. The imposition of flat rate percentage corrections on EU receipts is a crude and punitive mechanism which needs to be replaced with a system whereby disallowance is proportionate and targeted.