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Department
for Environment
Food & Rural Affairs

# Implementation of CAP Reform in England

## Consultation Summary

October 2013

This document and the full consultation paper is also available on our website at:

https://www.gov.uk/government/publications?keywords=&publication_filter_option=consultations&topics%5B%5D=all&departments

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# Introduction

The reform of the Common Agricultural Policy (CAP) is in the final stages of EU negotiation.  Ahead of that, it is important that we consider what the new CAP means for England.  This will ensure we are well prepared for implementation in 2015.  It will also ensure we have a CAP that supports English farming and helps deliver the Government's priorities.  The current direct payments scheme will continue throughout 2014, and Defra has also already set out its transition plan for Rural Development in England for next year.

Many scheme rules are set out in the European regulations and we have no choice other than to follow them.  However there are aspects where we have options on how we implement elements of CAP nationally.  On some of these the Government already has a clear view on the way forward, or has already had to make decisions.  In these cases the document sets out what we have decided.  In other areas we are seeking views in order to make the best informed choices.

Many elements of the new CAP will be similar to the current arrangements.  The CAP will retain its two pillar structure:  Pillar 1 for direct payments to farmers and market control measures and Pillar 2 to promote rural development.  A new Basic Payment Scheme (BPS) will replace the current Single Payment Scheme (SPS) as the main element of Pillar 1 direct payments.  Payment under this scheme will still require farmers to hold eligible land and entitlements and to meet the rules for cross compliance.  There will be changes to how we will administer payments through the Rural Development Programme under Pillar 2.

We want to see a competitive farming industry that faces less red tape, takes advantage of export opportunities and is less reliant on public subsidy.  Over the next seven years the UK will receive £17.8 billion in Pillar 1 on direct subsidies and £1.84 billion in Pillar 2 on the environment and rural development (subject to confirmation).  Whatever decisions we take on the implementation of the CAP and the potential transfer of money from Pillar 1 to Pillar 2, the vast majority of CAP payments will still be to farmers through Pillar 1 direct payments.  Where we have greater discretion on how CAP money is spent, we need to make sure it is spent efficiently, in the right places and where it adds greatest public value.

The Government regards Pillar 2 as the best mechanism to fund environmental outcomes from farmland and woodland in England.   We also want the new CAP to make a significant contribution to rural economic growth and the quality of life in rural communities.  Agri-environmental schemes have some wider economic benefits and also create the conditions for growth in the rural economy, not least through attracting tourism.  The Rural Development Programme will help farming, forestry and other land-based businesses to become more productive, efficient and resilient.  Farming industry, rural businesses, and communities will also benefit from investments in broadband, micro-enterprise support, skills development, tourism support and community-scale renewables.  The funds invested through LEADER Local Action Groups will make a strengthened contribution to rural growth and jobs.

Alongside this consultation we have released a number of supporting evidence documents.  These include an evidence paper on the overall impact of some of the main elements of CAP implementation, such as direct payments (including greening) and Pillar 1 to Pillar 2 transfer, as well as a more detailed impact assessment for the new Rural Development Programme.

# Direct payments: changes in the new regime

At present, most farmers receive area-related subsidies under the Single Payment Scheme (SPS).  Farmers will continue to qualify to receive similar subsidies, described as direct payments, comprising a basic payment and one or more additional payments.

**Number of basic payment regions**: Under the SPS, there are three regions within England — land in non-severely disadvantaged areas (SDAs) (ie 'the lowlands'); land in SDAs other than moorland (ie the uplands below the moorland line); and moorland.  Under CAP reform, we can revisit the number and definition of regions.  However, to avoid adding unnecessary costs and complexity Ministers have decided that we should not create any new regions nor amend the existing regional boundaries.

**Regional distribution of direct payments**: We also need to decide whether to change the proportion of the funds allocated to each region.  Most upland farms operate on a relatively marginal basis when considering agricultural production in isolation.  We are consulting on options which could see the proportion of the SDA's share of direct payments increased so that the SDA rate would be similar to that in lowland England, and with the possibility of an uplift to the moorland rate.

**Areas facing natural constraints (ANCs)**: ANC designation, if adopted, could replace current Less Favoured Areas and SDA designations, and confer a facility to top-up basic payments in Pillar 1 or to deliver an additional discretionary payment under Pillar 2, or both, in the ANCs but at the expense of other areas.  We believe that the SDA regions are robust in reflecting difficult hill farming conditions and therefore remain valid.  Ministers have decided that we will not be introducing payments linked to an ANC designation at the present time but will reconsider the position in respect of ANC designation in 2015.

**Reductions and the redistributive payment**: We are required either to reduce payments going to those claimants receiving the largest payments, or to make redistributive payments (through which payments on a claimant's first tier of hectares are topped up).  The Government opposes these measures because they add administrative complexity for farmers and paying agencies and runs counter to the development of a competitive agriculture sector by providing an incentive for farms to remain small.  We are consulting on options for reductions, but also explore the alternative of redistributive payments.  Ministers have decided that we will not implement both progressive reductions and redistributive payments.

**Coupled support**: We are allowed to use a proportion of the money available for direct payments to fund schemes under which payments are linked to production in certain sectors, known as 'coupled support'.  By their very nature, coupled payments distort the market as they encourage a level of supply that outstrips demand.  Ministers have decided that a coupled support scheme should not be reintroduced in England.

**Minimum claim size**: We must set a minimum claim for direct payments, determined by area or by value.  The current minimum claim size for the SPS in England is one hectare. Ministers have decided that in order to achieve the best value for money, the minimum claim size for the new scheme should be fixed at five hectares.

**Entitlements and national reserve**: We must decide whether to roll forward the existing SPS entitlements or cancel the existing entitlements and make a new allocation at the start of the new scheme.  Farmers will want to know as early as possible whether we will be rolling forward entitlements or making a new allocation.   To avoid unnecessary upheaval for farmers and additional burdens for RPA, Ministers have decided to roll forward Single Payment Scheme entitlements into the new scheme.

**Active farmer test**: There is a new two part 'active farmer test'.  One part addresses minimum activity criteria for farmers for whom the majority of their land is naturally kept in a state suitable for grazing or agriculture.  We will discuss these criteria with stakeholders. The other part introduces a so-called 'negative list' of business types which will be ineligible to apply for direct payments.  Ministers have decided to set a threshold of €5,000 for the negative list, so that if a farmer's annual direct payment falls below this threshold, the negative list will not apply.

We are also allowed to extend the negative list to add further ineligible business types. Ministers are consulting on the preferred option not to extend the list.

**Young farmers scheme**: We must implement a Young Farmers Scheme (YFS).  Those eligible to participate in the YFS will receive an additional payment that is broadly equivalent to 25% of their payment under the basic payments scheme for each of the first five years of the operation of their holding.

Ministers are consulting on how we set a limit on the number of entitlements or hectares for which the additional payment can be made, which must be between 25 and 90. Ministers are also consulting on the option to set criteria which would require the young farmers applying to demonstrate that they have particular skills or training requirements in order to qualify.

# Direct payments: greening

There are three elements to the new greening requirements: crop diversification, the maintenance of permanent grassland and the need to establish Ecological Focus Areas (EFA) on 5% of arable land.  Each measure brings different implementation challenges and different scales of potential environmental benefit.

The Government has decided that the broad approach to greening in England should be to adhere to the measures set out in the direct payments Regulation.  We have looked at the option to implement greening through a National Certification Scheme (NCS) containing additional, equivalent measures and have concluded that the additional potential benefits that could be derived are likely to be outweighed by additional delivery risks and complexity for both farmers and enforcement agencies. This overall approach to greening is consistent with our view that it is Pillar 2 of the CAP which provides the optimum mechanism to fund the majority of outcomes from English farmland.

We also believe that implementing greening through an NCS approach brings with it an increased risk of disallowance. It is important that greening is implemented in a way that is achievable and manageable. We are not therefore minded to take up the option to implement greening through an NCS containing additional, equivalent measures. The consultation asks whether respondents agree with this approach or see a case for a NCS and, if so, on what grounds.

The consultation also asks if there are any practical EFA options which could be easily adopted, have a high likelihood of uptake and which would be particularly beneficial for pollinators.

# Cross compliance

The term 'cross compliance' refers to the requirement for farmers to comply with a set of Statutory Management Requirements (SMRs) and keep their land in Good Agricultural and Environmental Condition (GAEC) in order to qualify for the full single payment and other direct payments.

Under the new CAP cross compliance requirements have not changed significantly. Cross compliance GAEC standards under the new CAP aim to protect soils, water and maintain the landscape. The consultation is seeking views on how GAEC requirements might be framed in England.

# Rural Development Programme

The new Rural Development Programme provides a major opportunity to invest in the rural economy, the environment and the farming and land-based sectors. We aim to build on the successes of the previous English rural development programmes.

The Government’s objectives for the new programme are to:

- Promote strong rural economic growth;
- Improve the environment — this includes helping to ensure that by 2021 the natural environment is improved as set out in the Natural Environment White Paper; and
- Increase the productivity and efficiency of farming and forestry businesses, in order to improve their competitiveness and reduce the reliance of farmers and land managers on subsidies.

The new Rural Development Programme needs to focus on those areas where there is a real need for Government to act and provide good value for money to the UK taxpayer. We have identified three main areas for support. These are:

- Growth: Delivering rural economic growth;
- Environment: Restoring, preserving and enhancing our natural environment; and
- Productivity: Increasing the productivity and efficiency of our farming, forestry and land-based sectors.

We also see two other themes as important in supporting delivery of these areas:

- Innovation: Promoting knowledge transfer, cooperation and sharing of best practice; and
- Advice and skills: Promoting growth, productivity and improving environmental performance

We propose to offer programme funding for a range of objectives. We have proposed a more targeted new environmental land management scheme to address the environment priority. This would be a single scheme that builds on and enhances current Environmental Stewardship, the English Woodland Grant Scheme and the Catchment Sensitive Farming scheme. We also invite views on proposals to enable farming, forestry and other land-based sectors to become more productive, efficient and resilient. This could cover: supporting innovative practice, knowledge transfer and cooperation; improving business performance and practice within the farming and forestry sectors; and supporting improved environmental performance, resilience and efficiency.

We also plan to make available an element of the programme budget to benefit the wider rural economy and community through local approaches: through the Local Enterprise Partnership led 'EU Structural Investment Funds Growth Programme' and the 'LEADER' community-led local development approach.

We are also keen to explore ways in which we might promote innovation, provide advice to customers, develop skills and potentially use loans or other financial instruments. We have yet to finalise in detail how the programme is to be administered, but we are looking to reduce bureaucracy while ensuring the European and domestic resources are used efficiently and to best effect. .

The consultation invites responses on the shape and focus of the new programme. We would particularly welcome responses on:

- How best we can target investment to gain the maximum value for money for UK taxpayers; and
- How we can build on the lessons from the current Rural Development programme.

The consultation also invites responses on:

- Our proposed new environmental land management scheme and more detailed questions on how we might deliver this;
- How to support productivity of our farming, forestry and land based sectors;
- How we might support advice and skills across the programme and ensure it fits with other advice offered by Government and industry;

- How we might promote innovation through the programme;
- How we can strengthen LEADER's contribution to delivering jobs and growth in rural areas;
- Whether or not we should use loans or other financial instruments; and
- How we might make the processes for applying for funding simpler while protecting public money.

# Inter-Pillar transfer

Under the next CAP regulations we have the flexibility to transfer up to 15% of the direct payment funds (Pillar 1) and invest them instead through our Rural Development Programme (Pillar 2).

The Government believes that rewarding farmers for the environmental goods they provide is a much better use of taxpayers' money than providing direct subsidy. It regards Pillar 2 as the best mechanism to fund environmental outcomes from farmland in England. This allows for longer term land management agreements and more flexible interventions that are adjusted to the specific potential of any given area of land. Transferring funding to Pillar 2 would also increase our ability to deliver improvements in the productivity and longer term competitiveness of UK agriculture and to help grow the rural economy in England. The Government considers that there is a strong case to take full advantage of the flexibility to transfer funds from Pillar 1 to Pillar 2 (15%).

The consultation invites views on the level of this transfer and the proportion of funding that should support each part of the next Rural Development Programme. This includes the proportion that Local Enterprise Partnerships would use to help deliver rural economic growth in their areas.

# Market management

The Single Common Market Organisation (sCMO) regulation lays down rules for the common organisation of agricultural markets. Market measures set out in the Single CMO regulation include the tools used to provide a safety net at times of market crisis, trade and competition rules, the quota systems for the sugar and wine sectors, marketing standards that apply to certain sectors and/or products, aid schemes, and the promotion of producer organisations and inter-branch organisations. In most cases, the new sCMO regulation updates existing provisions rather than representing a radical reform.

The sCMO regulation is directly applicable in the UK. However, there are 2 key provisions covered in the consultation where Member States can decide what approach they wish to take. The first of these is whether to formally recognise producer organisations in new sectors (producer organisations already have the right to be formally recognised in the fruit and vegetables, dairy, olive oil and table olives, silkworm, and hops sectors). The consultation sets out the Government's intention not to formally recognise producer organisations in other sectors, as there are forms of cooperation already available to producers without the administrative burden that formal recognition would bring. The second area is whether to make it compulsory for farmers to have written contracts with processors or distributors. Again, the Government is not minded to implement this requirement as the vast majority of domestic farmers already have a written contract with the processing company or distributor that buys their produce.

**The deadline for responses is set out on the consultation website. Responses can be made:**

- **On-line at https://www.gov.uk/government/publications?keywords=&publication_filter_option=consultations&topics%5B%5D=all&departments**
- **By e-mail at: Capconsultation@defra.gsi.gov.uk**
- **By Post: CAP Consultation, Area 1D, Defra, Nobel House, 17 Smith Square, London, SW1P 3JR**