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The National Assembly for Wales  
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18 December 2013

## COMMON AGRICULTURAL POLICY – TRANSFER OF BUDGETS BETWEEN PILLARS

I will be making a statement to the National Assembly on 14 January 2014 about decisions I will be taking over the next few weeks on the Common Agricultural Policy (CAP). On 23 January I will be meeting the Committee to discuss the same subject.

In advance of my statement and our meeting I thought it would be helpful if I wrote to you about the transfer of budgets between the two CAP funding Pillars. The CAP regulations provide for the transfer of budgets between the Pillars and, should Member States wish to do this, they are required to inform the European Commission by 31 December 2013.

The main CAP regulatory framework is now finalised, and we recently had confirmation of the allocation of the UK budget for the period 2014-20. I am considering the responses to my consultation on CAP Pillar 1 (direct payments to farmers), as well as the emerging findings of the review of resilience in the farming industry which Kevin Roberts is undertaking. Peter Davies has also reported to me the views of the Rural Development Plan (RDP) Advisory Group in relation to the future of Pillar 2 in Wales. I will publish both these reviews early in the New Year.

I have been clear from the outset of CAP reform that I regard both Pillars as crucial to the future development of Welsh agriculture, and that they should be taken together as a single package. Alongside direct payments, the RDP provides essential business support for farming; it underpins vital programmes for people living and working in rural Wales, and the majority of activity and expenditure is of direct benefit for our farmers, principally through advice and training, and through the provision of agri-environment schemes. In the current Plan over 80% of all the available funding has gone to recipients of Pillar 1 subsidy. Not only am I committed to ensuring that this level of support under Pillar 2 continues, my ambition has been to build on it and make further investments in the future of our agricultural industry and the wider economy of rural Wales.

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There is another key reason for developing Pillar 2 effectively. I believe that the reduction of the CAP budget for 2014-20 agreed last spring, while regrettable, is the first step in a real terms – and perhaps absolute - decline in direct payment support for farming as the EU shifts the balance of its spending and adjusts to tougher economic circumstances. It is very important that Wales uses the coming period to 2019 to put its farming industry on the best possible footing to face further public funding reductions from 2020. As a policy tool, Pillar 2 allows for effective targeting of interventions and more tailored support to agriculture and our rural communities - in that sense it provides a better return for public expenditure than Pillar 1, where outcomes can be less easily determined or secured. I recognise only too well that Pillar 1 provides income support which is important for an industry that faces risks from a range of sources, but Pillar 1 cannot be a never-ending subsidy, and I believe it also serves to stifle the modernisation and innovation that are crucial for the future competitiveness of our industry in Wales. As the latest Farm Business Survey data indicate, there remains a wide gap in performance between the top and bottom quartile of farms across nearly all the sectors.

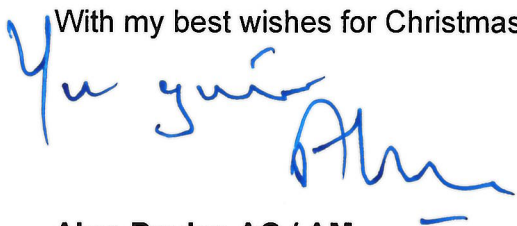
For the above reasons I have concluded that I will not transfer any money from Pillar 2 into Pillar 1. I have also decided that I will transfer 15% from Pillar 1 to 2, which is the maximum permitted level, providing £286m over the lifetime of the new Wales Rural Development Programme (WRDP). Alongside the EU contribution and domestic co-financing - about which I shall say more on 14 January – this transfer will underpin a rural development fund large enough to help the farming industry in a sustainable and meaningful way. I shall begin consultation on my proposed new RDP measures in February, but my intention is to offer a multi-faceted, integrated and properly resourced package to encourage and support a wide range of farm improvements. This is within the context of the clear need for improved productivity, better environmental practice and actions that respond to the challenge of climate change and its risks, and to exploit opportunities for increased profitability through green growth.

In light of our experience of recent years, Welsh farming must also become better able to withstand setbacks from price volatility or natural causes. Investing in businesses and people to improve efficiency, strengthen supply chains, and open up a diverse range of market-rewarded opportunities, must be the long-term answer to these challenges. The dairy sector has helped lead the way in using the latest knowledge and techniques to improve efficiency and effectiveness, but other sectors have not made as much progress in these areas. The new Rural Development Programme support package will improve uptake of best practice and learning across all the livestock sectors. I am particularly mindful of the greater challenges facing upland farming, and determined that the new RDP will provide particular and targeted support for this sector.

This is a time of significant change for Welsh agriculture, but also one of considerable opportunity. I am optimistic about the future for Welsh agriculture and determined that these CAP measures should put our industry on the best possible footing for the future.

I look forward to discussing these matters further with the Committee on 23 January.

With my best wishes for Christmas and the New Year.



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