



Cynulliad Cenedlaethol Cymru The National Assembly for Wales

Y Pwyllgor Amgylchedd a Chynaliadwyedd: Grŵp Gorchwyl a Gorffen ar y Polisi Amaethyddol Cyffredin

The Environment and Sustainability Committee: Common Agriculture Policy Task and Finish Group

**Dydd Mercher, 5 Hydref 2011
Wednesday, 5 October 2011**

Cynnwys Contents

Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introductions, Apologies and Substitutions

Y Polisi Amaethyddol Cyffredin: Papur Briffio gan y Sefydliad Polisi Amgylcheddol
Ewropeaidd
Common Agricultural Policy: Briefing from the Institute for European Environmental Policy

Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal,
cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg.

These proceedings are reported in the language in which they were spoken in the committee.
In addition, an English translation of Welsh speeches is included.

Aelodau'r pwyllgor yn bresennol**Committee members in attendance**

Vaughan Gething	Llafur (Cadeirydd y Pwyllgor) Labour (Committee Chair)
Yr Arglwydd/Lord Dafydd Elis-Thomas	Plaid Cymru The Party of Wales
Rebecca Evans	Llafur Labour
Llyr Huws Gruffydd	Plaid Cymru The Party of Wales
William Powell	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Antoinette Sandbach	Ceidwadwyr Cymreig Welsh Conservatives

Eraill yn bresennol**Others in attendance**

Kaley Hart	Pennaeth y Rhaglen Amaeth a Rheoli Tir, Sefydliad Polisi Amgylcheddol Ewropeaidd Head of Agriculture and Land Management Programme, Institute for European Environmental Policy
------------	--

Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol**National Assembly for Wales officials in attendance**

Catherine Hunt	Dirprwy Glerc Deputy Clerk
Lisa Salkeld	Cynghorydd Cyfreithiol Legal Adviser
Nia Seaton	Ymchwilydd Researcher
Naomi Stocks	Clerc Clerk

*Dechreuodd y cyfarfod am 10.42 a.m.
The meeting began at 10.42 a.m.*

Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introductions, Apologies and Substitutions

[1] **Vaughan Gething:** I welcome Members to the meeting. We are the task and finish group on the common agricultural policy and the proposals for reform that we are expecting in the next week. The remit of the group is to consider the impact of the European Commission's proposals for the reform of the CAP on Wales, to make recommendations to the Welsh Government on priorities in negotiations and to influence the wider CAP reform debate. The meeting is bilingual. Headphones are available, with translation on channel 1. I ask people to turn off their mobile phones. This is a public meeting, so you do not need to touch the microphones. If you hear the fire alarm, it is not a test so we will need to exit the building. I will not stand up and be a trolley dolly and start pointing to exits. Everybody is here, so it is up to Members to declare their own interests.

- [2] **Antoinette Sandbach:** I should declare an interest in farming, as I have farmland.
- [3] **William Powell:** Similarly, I am a partner in a farming business in receipt of some payments under the CAP.
- [4] **Lord Elis-Thomas:** Not enough, clearly. [*Laughter.*]
- [5] **Antoinette Sandbach:** I should perhaps add forestry to that, as it covers farming and forestry.
- [6] **Vaughan Gething:** Okay. We will send off a freedom of information request later to see exactly what it is, but do not worry. I am being flippant, of course.

10.45 a.m.

**Y Polisi Amaethyddol Cyffredin: Papur Briffio gan y Sefydliad Polisi
Amgylcheddol Ewropeaidd
Common Agricultural Policy: Briefing from the Institute for European
Environmental Policy**

[7] **Vaughan Gething:** I am delighted to welcome Kaley Hart from the Institute for European Environmental Policy. Kaley is going to give a presentation. Thank you for coming today and for providing, in advance, the slides, which I think are helpful for all Members to have. You are going to give your presentation, and I understand that you are happy to take questions as we go along from Members.

[8] **Ms Hart:** I am, because some of it is quite technical. If there are questions as we go along, it is perhaps easier to answer them in sequence.

[9] **Vaughan Gething:** Okay. If Members have questions, if you could indicate to me, I will try to bring people in, so that there is not a free-for-all. I think that is pretty much it: we can get on with the presentation, take questions as we go, we will wrap up at the end, and then we will have a session for members of the committee.

[10] **Ms Hart:** As you have said, I am head of the agriculture and land management programme at the Institute for European Environmental Policy. We work on a range of environmental issues, but agriculture is one of our core areas of expertise. I have worked on agricultural policy for the past 15 or 16 years, so I have seen a number of these reforms come and go. Some of what I will be saying and commenting on will reflect some of that history.

[11] I want to provide a little bit of context to the reform, then talk through some of the key proposals—there are a lot of these, so I do not want to go into an immense amount of detail, but I will flag up the main changes from what we have now to what is proposed in the future. I should stress that the information that I have on what is proposed is all from leaked documents. They are widely available leaked documents, but, nonetheless, they may not contain the same detail as the formal proposals, which we are expecting to see launched on 12 October. I will talk a little about the current debate in Brussels and the timescale for negotiations and next steps.

[12] Just to start with a bit of context, this common agricultural policy reform is billed as a fundamental reform, and one of the reasons for that is that it is set within the context of the next budget, for 2014-20—that is, the multi-annual financial framework that is set at the European level. As you all will be aware, there is immense pressure to try to reduce that budget and, as the CAP has a significant proportion of that, around 40 per cent, there is

pressure to reduce the proportion of the budget going to agricultural policy. Linked to that argument are questions such as, ‘What are these payments for?’ and ‘How legitimate is it to spend these vast amounts of public money on support to farmers?’ There has been quite a lot of debate, because of the budget review, about giving real legitimacy to future payments under agricultural policy. As part of that, there has been an increased emphasis on the delivery of public goods, particularly the environment. Equally, there has been discussion and pressure to make sure that we also meet food security objectives in the future. Food security and public goods have been two key drivers of the reform package.

[13] Into this mix also comes the fact that, as of a year and a half ago, we have a new agricultural and rural development commissioner, Dacian Cioloş, who is Romanian. He is Romanian by birth and has a French education. He is bringing his own character to these reforms. He is supportive of collaboration and partnership working, and we can see that in the way that he is trying to engage stakeholders in the reform. Equally, because he comes from a new member state, he understands the issues that face new member states, and some of the proposals have a flavour of trying to address some of the problems that we see in those countries. I think that is worth flagging up.

[14] The other issue, which is not on this slide, is the EU 2020 strategy, which is the big overarching strategy at a European level for sustainable economic growth. All policies that are being revised or reformed over the coming years need to demonstrate that they meet the objectives of the EU 2020 strategy—the three principles of smart, sustainable, and inclusive growth. That is where we see a lot of the focus on innovation and competitiveness coming from in the proposals.

[15] Just to give a brief overview of where we have come from, the last significant reforms for pillar 1 of the agricultural policy—direct payments to farmers—were in 2003, when we had the big mid-term review and we moved to decouple payments. For pillar 2, it was in 2005, when we introduced the European agricultural fund for rural development and the current rural development regulation, under which rural development programmes are structured and implemented. In 2008, we had a sort of mini reform, the CAP health check, which took some of those reforms a bit further and made some minor changes, but nothing too significant.

[16] So, this is the first time for quite a number of years—probably since 2000—that we have had a big reform of the agricultural policy, where the whole of the agricultural policy has been looked at together at the same time. The debate on the reforms started back in 2010. There was a big stakeholder conference to gather everyone’s views in June last year. That informed the Commission’s communication on the future of the CAP in November 2010, where it put forward three scenarios for reform. There was an adjustment scenario, which represented minimal changes; an integration scenario, which is effectively what we are seeing coming through the proposals; and a refocus scenario, which encompassed major change and which was all about getting rid of direct support to farmers and moving support towards rural development-type funding.

[17] So, the Commission’s communication was launched in November 2010, and that is the most recent piece of published information that we have on the reforms. We have since had stakeholder consultations and there has been a process of developing the legislative proposals and carrying out impact assessments. The process that has just taken place is the inter-service consultation at the Brussels level between all of the directorate generals. So, they have all now given their opinion on the proposals, and there is now a process of redrafting, or not, taking place at the commission level. We are now expecting the draft proposals to be launched next week. The details I will talk about today are from the proposals that we understand went into inter-service consultation.

[18] This slide illustrates the range of different issues that a future CAP will try to address. Not only will it try to address issues to do with farm incomes, but it is trying to look at competitiveness, international acceptability of the payments, rural development and public goods provision. So, there are a number of different issues that are trying to feed into the reform. Often, some of these issues are competing.

[19] The information we have so far in terms of formal proposals relates to the budget. The Commission released its proposals for the budget for the next multi-annual financial framework at the end of June this year. It set out an indicative budget for the CAP. The figures are there. Effectively, it maintains the budget in actual terms into the next programming period. In real terms, that is likely to be a reduction. Added to the usual budget for pillar 1 and pillar 2, additional funding has been made available for agriculture through a number of different funds that are outside the CAP. Those are listed on this slide.

[20] There has been quite a challenge, particularly to the pillar 2 budget. There has been a challenge to the CAP budget overall, but, equally, there are those who have argued that, if negotiations are such that the CAP budget should shrink, that shrinkage should happen on pillar 2, which is the rural development funding, and not on pillar 1. Just before these proposals came out at the end of June, there was a rumour that there was a real risk that the pillar 2 budget was going to be slashed and that the numbers we now see here were going to be significantly lower. In the end, there was a great deal of activity behind the scenes that stressed the importance of this pillar 2 budget and that it needed to stay. A number of key commissioners made public statements that they were supportive of the pillar 2 budget. So, we can hope that the budget that is there will be maintained through the negotiations, but there is still a risk.

[21] **Antoinette Sandbach:** Wales has historically accessed quite limited funds from the pillar 2 budget. Is that right, and is there a way for us to improve that access?

[22] **Ms Hart:** The UK as a whole traditionally receives quite a low proportion, which is then divided between the four UK countries. It is unclear what that breakdown between member states is going to be this time around, because the allocation is based on objective criteria and past performance. Exactly what those objective criteria are and how past performance will be measured is, as yet, unclear. So, we hope that the UK might do marginally better this time than in previous times, but that is certainly not a foregone conclusion and it therefore needs to be negotiated for over the coming year.

[23] With regard to what we currently know, the only budget that we are aware of is the UK budget for pillar 1, which has been set out in an annex to the pillar 1 proposed regulations, and that shows a marginal increase in the national ceiling. That is obviously a UK budget for the period 2014-20. How that is then broken up and divided within the UK will be likely to differ this time around because of the change in the way that the eligibility for payments is to be determined. However, we will come on to that in a moment.

[24] The reforms are based on four legal instruments. I do not necessarily want to go into the detail, but, effectively, we have: rules for direct payment schemes, which are set out under pillar 1 regulations; the support for rural development, which is under pillar 2 regulations; the horizontal regulation, which sets out all the information about financing, controls and enforcement, but which this time also includes all the cross-compliance rules and regulations, the information on the farm advisory system and information on monitoring and evaluation—and that is worth flagging up because that information is in a different regulation to last time; and, finally, there is the single common market organisation regulation. So, to stress again, the details that I am about to come on to may change.

[25] So, what we are looking at in relation to the proposals is quite a significant difference

to what we have had before, and that is true of both pillars. That is true for direct payments and for rural development objectives. You can now see my attempt to explain this in a diagram, which I hope is simple to understand, although I do not necessarily think it is. What I want this diagram to demonstrate is what I am going to talk about in this presentation. So, if we look at the left-hand side of the slide, we can see the pillar 1 proposals. In the past, we have had direct payments as a block of money that has been underpinned by cross-compliance. However, this time, we have a basic payment scheme, and on top of that, we have a whole range of different top ups or payments that may or may not be utilised to different extents. So, there is quite a lot of variation possible in different member states, which is quite different from what has happened before. The two things in red are voluntary for member states, as we currently understand it, and the sections in green, from what we understand from our interpretation of the text, are compulsory for member states.

11.00 a.m.

[26] **Antoinette Sandbach:** What is the EU defining as being specific natural constraints? Would that apply, for example, to less favoured areas?

[27] **Ms Hart:** Yes. 'Specific natural constraints' is a new term that is taking over from the term 'less favoured areas'. The definition of 'less favoured areas' is changing. The delineation of less favoured areas is changing, and work would already have been done in Wales to set out what that will mean.

[28] **Antoinette Sandbach:** I will, therefore, move on to that. About 80 per cent of Welsh farmland is currently in LFA. Would that then fall under specific natural constraints?

[29] **Ms Hart:** It depends what the new criteria mean in Wales with regard to your current LFA. They are not currently publicly available, so I am not aware whether they will shrink your LFA or even expand it. The majority of the existing LFA is likely to be covered in Wales by the new criteria, but I am afraid that I do not know the details.

[30] **William Powell:** I know that elsewhere in the document, young farmers are referred to as those who are aged 40 or below, which is quite a generously high definition of youth. [*Laughter.*] Given the nature of Welsh holdings, it would be interesting to have the definition of small farmers, to see how that would impact upon Wales.

[31] **Ms Hart:** I will come on to each of these separate bands shortly, but there is no definition of a 'small farmer'. It is more of a definition of what the payment would be to someone who wanted to apply as a small farmer, which is different. It is unclear from the text whether that is what they mean or not.

[32] **William Powell:** Would it be up to the member state to interpret that, at a national level?

[33] **Ms Hart:** From the text that we have at the moment, we understand that member states will offer a payment to farmers who wish to apply as small farmers. That payment can be in a band of between €500 and €1,000. The calculation of that payment is based on an average direct payment per hectare multiplied by three. However, it does not say that a small farmer has to be of 3 ha to apply. Technically, from reading the proposals, it could be any size; it could be 10 ha and the farmer could think that it would be more beneficial for them to take €1,000. Some of the things that they do not have to do in the small farmer scheme may make that more attractive, because they do not have to adhere to cross-compliance requirements and the greening options; I will come on to that. The way that it is currently written implies that there will be a business decision to be made by an individual farmer on whether or not it is in his or her best interest to opt in to this.

[34] To continue with this slide, we will move to the right-hand side and look at pillar 2. I will give a brief overview, and come on to this in more detail shortly. We no longer have any axes, as we do within the current regulation. Instead of that, we have a set of three overarching objectives and six core priorities, and the measures are bundled together. You can use measures in any combination to meet these six priorities.

[35] The other thing that is worth noting is that you can transfer money in both directions under the current proposals, so there is still the possibility of transferring 5 per cent of pillar 1 into the rural development regulation, which we currently term modulation, but which is just the basic 5 per cent level. Also—and this slide should read ‘12 member states’, not nine, so sorry for that—at the moment, 5 per cent is allowed to go back from pillar 2 into pillar 1, and these 12 member states have been identified as member states with average direct payments that are still below 90 per cent of the EU average. If they wanted to bring their direct payments back up, they could move money to pillar 1 from their rural development budget. The other point to note on this slide is that monitoring and evaluation requirements, which are currently just for rural development policy, are now being extended to cover pillar 1 as well—cross-compliance direct payments. So, all the monitoring and evaluation that member states currently have to carry out will be extended.

[36] I have set down here some of the details that are in the proposals. I do not know how much detail you want to go into, but I will skim through these slides, and if you want to go into any more detail, please do.

[37] **Antoinette Sandbach:** In relation to active farmers, obviously there are very different land tenure systems here. We operate a common law system with leases, farm business tenancies, Agricultural Holdings Act 1986 tenancies and so on. Will the definition of ‘active farmer’ potentially impact on that? How well do you think the EU understands our different land tenure system?

[38] **Ms Hart:** I have not looked at the detail of exactly how this current definition is going to impact on those sorts of tenure issues, but clearly it could, and I know that there are a number of concerns that have been put to the agriculture Commissioner and his cabinet about this definition. It is certainly not the intention to exclude people who are actively farming the land. The reason for attempting to form a new definition is to try to avoid money going to golf courses, for example—land that is clearly not farming land, but has somehow got through a loophole. I expect that this may change through the negotiations, because they need to ensure that they do not exclude land that is actively farmed. But, they certainly do not intend to exclude such land, if that makes sense.

[39] There is another issue with this, which is how on earth you will actually check that over 5 per cent of someone’s income comes from farming. I do not think that that has been thought through in terms of the implementation and checking controls. This definition will potentially change, but they are keen to make sure that the money goes to the right people.

[40] In terms of the other common rules that apply to all direct payments, there are limits, as now, on the minimum size of payment that goes out to farmers. That is no different to now. As for capping payments, that is new, but I do not think that it will affect Wales significantly, although there may be some farmers who have receipts in excess of €150,000. These capping proposals will affect some member states more than others. Those receipts are to be funnelled into pillar 2 within the member state in which they are generated, to fund innovation projects.

[41] Moving on to the basic payments scheme, which is the new name for the single farm payment, there are significant changes. There is a move away from a historical reference for payments towards a basic area payment. That will take place over a period of time—there will

be a transitional period for that. As the rules currently stand, by 2019, all payment entitlements should have a uniform value. So, it should have moved to that transition point by 2019.

[42] It says in the rules that the basic payment scheme can be applied at a regional level, but it is unclear as to what they mean by that. What the rules say is what I have noted in the last bullet point, namely that regions should be defined according to objective, non-discriminatory criteria such as agronomic economic characteristics, their regional agricultural potential or their institutional or administrative structure. Some have asked what that means for the UK—does it mean that you can only redistribute at the Wales, England, Scotland or Northern Ireland level, or does it mean, as is the current situation in England, that you can separate LFA from lowland areas? From that definition, I would say that the criteria that they suggest mean that you could go to a lower level than the regional level, if you call Wales a region. However, that is not clear, and it is something that needs clarification, because it has huge implications for what that means for the redistribution of payments at a Welsh level.

[43] It is worth flagging here that this is something that will lead to quite a significant change. Some redistribution will be inevitable. It is very difficult to move from a historic situation to a regionalised situation without creating some winners and some losers. There will have to be discussions and decisions on how that is done. Before that, clarity will be needed on what exactly is meant by a region.

[44] One of the most talked about elements of this new package are what have been called the greening measures. This has been quite a fundamental part of the reform in the sense that this is the main attempt to legitimise pillar 1 payments, to show that they are delivering for the environment and that they are delivering public goods. So, the proposal is that all farmers who want to receive their basic payment are obliged to carry out a number of measures on their land if they apply to that land. There are three of those measures. One is crop diversification, which only applies to arable land over 3 ha. There is a permanent grassland requirement, which is about requiring the proportion of permanent grassland on the holding to be kept as such for as long as the basic payment is received. There is a clause there that says that, in exceptional circumstances, a reduction of up to 5 per cent may be allowable.

[45] There is also what is now being termed ecological focus areas, which is effectively that 7 per cent of the eligible area of the farm, which is the land excluding permanent grassland, must be managed as an ecological focus area, and an ecological focus area includes lands such as fallow land, buffer strips and field corners that are out of production; it effectively means land that is no longer cultivated. It can also include landscape features such as hedgerows, stone walls and trees. So, it is likely that the majority of farms will have at least a proportion of this type of land already on their holding.

[46] Thirty per cent of the—

[47] **Antoinette Sandbach:** You mentioned trees. Does that include single trees, or is that small areas of forestry that are perhaps not big enough to be included in the Better Woodlands for Wales scheme? Can you explain how that is being looked at?

11.15 a.m.

[48] **Ms Hart:** As yet, it is unclear. The proposals list a number of different types of management, and they say ‘for example’. One of the characteristics of these proposals is that the Commission has a lot of delegated acts, which, effectively, means that the Commission, once the regulations are approved, can work up in more detail exactly what will be possible within that. So, the definition is not yet finalised.

[49] **William Powell:** In your view, would species-rich grassland—hay meadows and so on—come under the ecological focus? It is also permanent grassland, but it is a particularly ecologically interesting and important one. Do you think that that would be eligible?

[50] **Ms Hart:** No. At the moment, that would be protected through the permanent grassland option. The ecological focus areas would only apply to those areas of a farm that were not permanent grassland. So, it would only be your arable areas or your temporary grassland areas.

[51] **William Powell:** So it would be safeguarded elsewhere.

[52] **Ms Hart:** It would be safeguarded through the permanent grassland option.

[53] **Llyr Huws Gruffydd:** Mae gennyf gwestiwn syml iawn, sef: o ble mae'r 7 y cant wedi dod? A yw'r ffigur wedi'i bigo allan o'r awyr neu a oes unrhyw sail iddo? **Llyr Huws Gruffydd:** I have a very simple question, namely: where has the 7 per cent come from? Has that figure been plucked out of the air or is there any basis to it?

[54] **Ms Hart:** The figure is, to a certain extent, based on scientific evidence. It is largely as a result of the abolition of set-aside. The environmental impact and benefits that came from set-aside have been looked at in terms of, if you are trying to deliberately achieve environmental benefit through taking some land out of production, what sort of proportion of land delivers you those positive benefits for biodiversity, water quality, soil quality and so on. So, there is no firm figure. You cannot say that it is precisely 7 per cent everywhere in Europe, so it is a ballpark figure. At the moment, 30 per cent of the budget is foreseen to cover these payments. All organic farmers will automatically receive a payment—they will not have to prove that they have done these actions. Farmers in Natura areas have to comply with these types of requirements, unless they are not in keeping with their specific management requirements on their site, in which case they will not have to; they can amend the requirements to ensure that they are fit for their site.

[55] Then we come to the areas with natural constraints, which we have talked a bit about already. We do not necessarily need to go into this in too much detail, just to say that these are optional for member states to operate. Once the redistribution of direct payments has happened, from a historic basis, it may be another way of reallocating money back to these sorts of areas, such as the LFA, if they are missing out in terms of the reallocation of the basic payment.

[56] **Llyr Huws Gruffydd:** Gwnaethom gyffwrdd ar hyn gynnau. Beth fydd y meini prawf o ran sut fydd yr ardaloedd sydd â chyfyngiadau naturiol yn cael eu penderfynu yn y trafodaethau hyn? Hynny yw, a fydd ffocws ar elfennau cymdeithasol ac economaidd yn ogystal ag ystyriaethau daearyddol ac ecolegol? **Llyr Huws Gruffydd:** We touched on this earlier. What will the criteria be for how the areas with natural constraints are determined in these discussions? That is, will there be a focus on social and economic elements as well as geographical and ecological considerations?

[57] **Ms Hart:** That has already been decided. There has been a debate over the past three or four years, which all member states have been involved with, in terms of determining the criteria upon which areas of natural constraints will be decided. They are largely physical, so they are climatic and ecological. There are productive elements in there, but the social elements have disappeared.

[58] **Antoinette Sandbach:** Will that be tied to the area payment? Will it be tied to the hectares and land rather than—

[59] **Ms Hart:** Yes. It will be a top-up payment. At the moment, it seems that member states could decide to allocate a top-up payment to a certain proportion of farmers within those areas. You would not have to offer the payment everywhere within the areas of natural constraints. You could set eligibility criteria to narrow it down. It is a little unclear in the text, but that is the implication. This is a flexible option, should it wish to be used. It does not replace the support provided through pillar 2. If you want to look at natural constraints payments in pillar 2 again, then you could use both. There is some debate in Europe at the moment as to whether that is sensible or not. So, that may not be what transpires in the final proposals.

[60] On the young farmers option, at the moment, it appears to be compulsory, which some are surprised at. Whether it will remain compulsory, I do not know. Some are arguing that it should not, and that it should become optional. As I said, a young farmer is defined as a farmer under the age of 40, and this would require an additional payment to be made to young farmers for five years. There are a whole set of criteria as to there having to be a suitable business plan and so on; I will not go into the detail on that, but it is something new. We have not had to provide money to young farmers in the past.

[61] **Antoinette Sandbach:** That may help to encourage new people to enter the industry. The average age of farmers in the UK is around 65 or 70. Support for young farmers would help to encourage new entrants who perhaps face constraints in terms of purchasing or renting agricultural land. It has the potential to have a significant impact in Wales.

[62] **Lord Elis-Thomas:** The longer paper that you co-authored with colleagues for the European Parliament was hugely useful material. Is it convenient for you to talk a bit about the concept of rural vitality now? To me, it seems to provide a way to repackage most of the socio-economic issues that we have discussed in the context of agricultural policy in the past, unless I have misread it.

[63] **Ms Hart:** Rural vitality may be more relevant, certainly in terms of the focus, to some of the measures that we will look at under pillar 2 and rural development policy. However, one of the core objectives underpinning the whole of the CAP is viable agriculture and territorial cohesion, or vibrancy if you like. So, one reason why we are seeing some of these proposals such as those on small farmers and young farmers is to try to ensure that we encourage vibrancy within rural areas, including the agricultural sector.

[64] **Lord Elis-Thomas:** What excites me about this is that it puts rural vitality in the same bracket as all the other listed public goods, including environmental benefits. It is the first time that the conflict between the socio-economic and production side and the environmental side seems to have been resolved, because of the way that the policy is articulated. Is that a fair summary, or is that too optimistic?

[65] **Ms Hart:** There is certainly a desire to try to work out how the two could work side by side. Rural vitality is critical, and agriculture and other rural land use can play a role in the vitality of rural areas. Agriculture is still a key focus of these proposals, and the rural vitality measures still sit primarily in pillar 2 of the CAP. However, there is a certainly desire to see the whole range of public goods, environmental and rural, sitting together and working together in synergy.

[66] **Lord Elis-Thomas:** What I want to say is that the areas in which I live and work are culturally valued agricultural landscapes, which must have rural vitality. That is a very nice new argument for us. We may pursue that in this committee—or we may not.

[67] **Ms Hart:** I think that I covered the small farmers' scheme in my previous comments.

So I will move on from there. The other optional measure is voluntary coupled support. Member states are already able to introduce coupled support under so-called article 68 measures, and this carries that through. Five per cent of member states' national ceilings can be used to target specific farming sectors or regions, particularly where they are undergoing particular difficulties or are important for economic or social reasons. The environment is not listed here at the moment, but a whole range of sectors is mentioned. From reading through the list, I am not sure whether any are actually excluded. At the moment, it includes the ability to provide coupled support for energy crops and arable crops, as well as for sheep, goats and beef, as we are currently able to do. It extends this option quite significantly, and there will be a large debate about the final content of this measure, but I just wanted to flag up the fact that this option remains and is likely to remain in the proposals.

[68] As I said, cross-compliance is covered in a different regulation this time. You do not need to know that for the purposes of this presentation, but you do need to know that the requirements have been streamlined, and there are reasons for this. First, it is a bid for simplification—there have been calls to simplify cross-compliance requirements—and, secondly, they have to avoid overlap with the greening measures that have been proposed. Those measures that are currently proposed as greening—crop diversification, permanent pasture and so on—have been taken out of cross-compliance. The statutory management requirements have been reduced as well. From an environmental point of view, only two have disappeared—the sewage sludge directive and the groundwater directive. However, the groundwater directive has been recast as a good agricultural environmental conditions standard, so it has not actually disappeared. Perhaps more importantly from an environmental point of view, there are two new standards. One of them is about maintaining soil organic matter level. One is about protecting wetland and carbon-rich soils.

[69] **Antoinette Sandbach:** From a UK perspective, cross-compliance is quite complex. Although you have stated that the requirements have been streamlined, if there is going to be greening of pillar 1, are they really going to be streamlined or are we just going to find that we are importing a whole load of additional cross-compliance and SMRs into the basic support payment? What is the real impact of that likely to be on the ground in the UK, where it seems that cross-compliance and the SMRs are actually quite complex, involve a huge amount of documentation and are sometimes quite difficult for farmers to understand or implement?

[70] **Ms Hart:** That message has been going back to the UK Government. Certain evaluations of cross-compliance have reinforced the perceived complexity of the standards. From the European regulations, it looks as though some simplification of that will be possible. Equally, however, these standards will still exist in one form or another. Having to introduce new standards, which will require some process of definition, will also be important. One other thing to stress is that there is much more of a focus on advice in these regulations. One of the messages that has come through from evaluations of cross-compliance is that the advisory system and the advisory services to farmers are important in helping to understand what the requirements are and why they are important. So, hopefully, that re-emphasis—I know that the UK does a lot with farm advice, as you do in Wales as well—will be important.

11.30 a.m.

[71] **Antoinette Sandbach:** I am particularly concerned given that a number of different inspections take place, for example, under cross-compliance headings. So, given the Macdonald report and its recommendations, which are being considered for implementation in Wales, are there real opportunities for simplifying it, perhaps to have automatic on-farm certification if you are a member of something like the red tractor assurance scheme or the farm assurance scheme?

[72] **Ms Hart:** Those things will have to be worked through at a national and regional level. The exact detail of what control and enforcement requirements will be imposed by the EU will be worked through at a subsequent phase, because those will come through in implementing regulations. There are two elements to that; there will be EU-level requirements, as well as ways of working that through at a national level.

[73] **William Powell:** Is there anything in the pillar 1 proposals relevant to commoners and common land, because that is one area that might have appeared but is not in these notes?

[74] **Ms Hart:** No, there is nothing specific about common land. Clearly, all of these proposals will have an impact on common land and commoners. How the basic payment is allocated and the top-ups operated will need to be done in a way that takes those issues into consideration. However, there is nothing specific at the EU level in these proposals that states how it would or would not affect those areas. That would need to be worked through in the subsequent detail.

[75] On pillar 2, there will be a new common strategic framework that will set out objectives for a number of different funds that are the shared responsibility of member states and the Commission. Those are structural funds, cohesion policy, rural development and fisheries policy. So, there will be an overarching set of objectives that will apply to all those funds, and those will feed through into partnership contracts that member states will have to develop, which will set out an overarching strategy, principles of co-ordination and coherence with regard to how they are going to operate the different funds, the different objectives that are to be achieved through each of the different funds and how that will feed through into practice.

[76] The rural development plan, the plan for structural funds and so on will sit underneath these partnership contracts, and those funds will have a new performance framework, which will have milestones within them. There will be SMART milestones, if you like, set over a period of time that a member state will be expected to deliver against. Of the total fund for rural development, 5 per cent will be kept back by the Commission to be used as a performance reserve. Member states will have to demonstrate how they are performing against these milestones and, in 2019, the Commission will decide how to allocate that performance bonus back to different member states.

[77] On the overall structure of rural development, as I said before, the axes have disappeared and there are six objectives, against which the whole range of measures that still exist will need to be justified. These objectives can be seen here; we are talking about knowledge transfer, advice and so on and competitiveness. Risk management is new, and then we have the environmental objectives, ecosystems, resource efficiency, and moving to a low-carbon economy, and then we have the rural vitality objective at the end there, which is about jobs potential and the development of rural areas. These were all written in the language of the Europe 2020 strategy.

[78] The regulation at the moment also says that it is possible to develop thematic sub-programmes, and a number of themes are given around which those could be developed. Those are young farmers, small farms, mountain areas, and short supply chains. You can see these themes coming through again through both pillars.

[79] In terms of what is different in pillar 2, the structure is very different, but most of the measures are still there, in one form or another. They might have changed slightly in content, but effectively, they are still there, repackaged into fewer measures. The only one that is not there is the one on small farmers, because it is now in pillar 1; early retirement may also have gone, I think. The agri-environment measure remains compulsory, and as before, it is the only

compulsory measure. Organic farming has been taken out of agri-environment, and is now separate—it sits on its own as a separate measure.

[80] Other new measures worth noting include, as I said before, risk management—things like paying insurance premiums, contributions to mutual funds relating to climate risks, and so on, which could take up quite a bit of money if member states decide to use it. Equally, setting up producer groups is another new measure. Unlike last time, there is no earmarking of funding for different measures, so there is no requirement to spend a minimum amount of money on anything. That may change, but at the moment, that is as it is. The only requirement is to spend 5 per cent on the LEADER approach, which is the same as currently.

[81] As I mentioned at the beginning, there has not been a decision on exactly how to share that allocation of funding between member states. Rural development allocations will take place, but they will be based on objective criteria and past performance.

[82] The other key new element of the rural development policy is the European innovation partnership for agricultural productivity and sustainability. This comes directly out of the EU 2020 strategy and the focus on innovation and the resource efficiency road map. The idea behind this is to look at how to take agriculture forward in the future so that it is a productive sector, but also a sustainable one. It is recognising that, in trying to achieve environmental objectives, we cannot always be looking at extensive farming; sometimes, we have to look at productive farming and how to make that more sustainable as well. One of the key ways of doing that is through innovation and research, with scientists and policy-makers coming together. This partnership is intended to achieve that. There will be a partnership at the European level and that will lead through into operational groups that are organised at member state level. There is not much more detail than what I have put on this slide, but that is something that will need to be developed further.

[83] Briefly, if we look at what is happening at the EU level, although it is not yet in the public domain, we have had the inter-service consultation between a number of different parts of the Commission, and we know that some of them have come back and given negative opinions and want changes made. Some of those have been on process issues, and some more significant ones on content. The more significant objections have come from DG Environment and DG Climate Action. We do not have very clear positions from member state at the moment, because obviously the negotiations have not started, as the legislative proposals have not yet been published. However, the initial positioning is taking place, and we can start to see some of that in the press. There are no big surprises, I do not think, at the moment.

[84] In terms of the European Parliament, obviously it will play an important role this time in the negotiations, because it has as important a role as the Council in making decisions on the CAP reform proposals. Again, it is not very clear where they will position themselves, but the June report by Albert Dess is the latest report to come out of the Parliament on the CAP reform proposals, and that gives its latest public position. That is not too different from the proposals on the table from the Commission. Its views are very much based on wanting simplification, fairer distribution of funds between member states—they are particularly keen on making sure that small farms are funded and that money goes to active farmers. I suspect that those are some of the key issues that it will be pushing.

[85] There has been a lot of criticisms from the environmental NGOs, and they have actively lobbied on the extent to which the proposals will deliver on the legitimisation of the CAP's green credentials, and whether or not it will be what they are calling 'a greenwash', rather than a real greening. On the other side of the coin—this is a bit black and white; it is obviously not quite like that—we have farmers' organisations, particularly the National Farmers Union and Copa-Cogeca at a European level, which have been very critical of the

greening options in pillar 1. They say that the proposals are anti-competitive, particularly the ecological focus areas, where a proportion of land needs to be taken out of production.

[86] Finally, the next steps are the publication of the legislative text next week, then a series of agricultural councils between now and December that will discuss the proposals in more depth. We expect the negotiation process will start after that, and there will have to be a co-decision process between the European Parliament and the European Council between the spring and summer of 2012; no-one knows how long that will take. At the same time, implementing rules and delegated acts will be developed in parallel.

[87] None of the decisions on the legislative proposals can take place before the budget is agreed, and we do not know when that will happen except that we expect it to be during the very last part of 2012. Once that has happened, decisions on the CAP regulations can take place in spring 2013, at which point member states will have to start the process of developing partnership contracts, rural development programmes and work out the practicalities of delivering the pillar 1 requirements. Obviously, the preparation for that will take place in advance, but the actual doing on the basis of what we know is in the regulations will not be finalised until early 2013. As we all know, there is then a six-month process of approval for rural development programmes by the Commission.

[88] The point that I am trying to make here is that it is going to be quite tight in 2013 to get decisions made on the regulations and the partnership contracts drawn up, delivered and approved by the Commission, after which the subsequent rural development programmes will be drawn up and go through an approval process. Everything is supposed to come into force on 1 January 2014—whether or not that is realistic is a moot point.

[89] **Antoinette Sandbach:** How do you see the potential for greening under pillar 1 to impact on Glastir?

[90] **Ms Hart:** That is a big issue. Inevitably, it will impact on Glastir. If the proposals remain as they currently stand, the basic elements of Glastir will potentially no longer be able to sit there and would need to sit as part of the greening elements of pillar 1, which means that those elements will no longer be able to be in Glastir. That will have implications for payments and for all sorts of other things.

[91] **Antoinette Sandbach:** So, there is potential that that impact means that the scheme will have to be looked at again, as would the entry level scheme in England.

[92] **Ms Hart:** Yes, this is going to be an issue for all member states; every country in Europe will need to look at their agri-environment schemes and redesign them to different degrees, because, although some of these greening options have been in cross-compliance, many of them have been in agri-environment. So, working out how these new greening options in pillar 1 work, not just with agri-environment but with cross-compliance, is going to be an area for some discussion. It could be quite a minefield in terms of trying to redesign this.

11.45 a.m.

[93] **Antoinette Sandbach:** What is that going to mean for Wales's or the UK's ability to draw down from pillar 2, which has traditionally been the area in which we have least been able to access funding?

[94] **Ms Hart:** In theory, this greening will free up pillar 2 funds to be used for more demanding options. So, it could be used for much more targeted action, for which there is often less money available. That has certainly been an issue in England with its higher level

stewardship scheme, for example. So, there are opportunities to free up money to be used for more targeted measures, which are often more expensive as well.

[95] **Antoinette Sandbach:** Could that apply to the forestry sector as well as the agricultural sector?

[96] **Ms Hart:** It could free up money within pillar 2 to be used for any of the other measures within pillar 2, which include forestry measures.

[97] **Vaughan Gething:** Is there anything else that you would like to add at this point?

[98] **Ms Hart:** No, thank you.

[99] **Vaughan Gething:** We will now conclude our meeting. Thank you for attending and for your presentation. We will send you a copy of the transcript to check for factual inaccuracies. That will then be published as the public record.

[100] **Ms Hart:** Thank you.

[101] **Vaughan Gething:** I thank Members for their contributions. As you know, the CAP proposal will come out on 12 October. Hard copies will go to all committee members. At our next formal meeting on 9 November we need to try to sort out our own timetable. That concludes our meeting.

Daeth y cyfarfod i ben am 11.47 a.m.
The meeting ended at 11.47 a.m.