Farmers' Union of Wales' Response to a National Assembly for Wales Environment and Sustainability Committee Inquiry into the Post 2013 Common Agricultural Policy

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Background

The Farmers' Union of Wales

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 let 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, 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 1980s[1].

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 factors[2].

7. The past 18 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.

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[1] National Statistics (2010)
[2] Ensuring the UK's Food Security in a Changing World, DEFRA (2008)

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[3].

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[4].

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%)[5].

12. Around two out of every five rural businesses have been classed as being involved in the farming industry[6]. In 2008, Welsh agriculture employed 57,600 people in full time, part time, and seasonal employment[2]. 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[4].

14. It has been estimated that agriculture supports over 10% of full time employees in Wales[7], 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.*"[8]

16. Aggregate Agricultural Output in Wales in 2010 is estimated to have been £1.2 billion, with the livestock and dairy sectors contributing £562 million (47%) and £369 million (31%) to this figure respectively[9].

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[3] Cline (2007)
[4] Farming Facts and Figures, Welsh Assembly Government (2010)
[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)
[8] Sustainable Farming and Environment: Action Towards 2020 Report, Welsh Assembly Government (2007)
[9] Aggregate Agricultural Output and Income 2010, Welsh Assembly Government (2010)

17. In 2008, 2009 and 2010, total income from farming in Wales is estimated to have been £112 million, £220 million, and £178 million respectively[9].

18. 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[10]. The equivalent figures for Wales are not available.

19. 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[11].

20. For all farm types during the 2010-2011 financial year, the average Welsh lamb producer covered 99 percent of production costs[11].

21. In the 2010-2011 financial year, the average Welsh suckler calf producer covered 63 percent of production costs. For the top third of producers this figure was 96 percent[11].

22. 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[12].

23. 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.

Welsh Agriculture and the CAP

24. A total of £330 million in CAP payments is estimated to have been made to farm businesses in 2010[9].

25. The value of direct payments (Pillar 1 payments) made in Wales annually is around €348 million, with sterling values varying depending upon an exchange rate which is set in September each year.

26. Single Payments made to Welsh farm businesses are generally 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.

27. CAP Pillar 1 payments received during the reference period were effectively based upon the production of each farm, which, in turn, can be considered to be a function of the fertility, size, altitude, and climate of any particular farm.

28. 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.

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[10] Food Matters: Towards a Strategy for the 21st Century, Cabinet Office (2008)
[11] Hybu Cig Cymru (2011)
[12] Farmers Weekly (December 2010)

29. Figures produced by the Farmers' Union of Wales show that average Single Payments made to farms categorised as purely lowland and Severely Disadvantaged Area (SDA) businesses are around €18,500 and €17,500 respectively, despite lowland farms being, on average, 60% the size of SDA farms.

30. Average Welsh Single Payments per hectare on non-LFA, Disadvantaged, Severely Disadvantaged and common land are around: €322, €293, €208 and €168 respectively.

31. 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 (Appendix 1)[13].

32. 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

    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

[13] An Analysis of the Welsh Single Payment Regime and the Impact of Possible Flat-Rate Single Payment Models, Farmers' Union of Wales (2009)

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.

33. 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.

34. 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.

FARM TYPE	NET FARM INCOME		SINGLE PAYMENT		TIR MYNYDD AND AGRI-ENVIRONMENTAL PAYMENTS	
	2008-2009	2009-2010	2008-2009	2009-2010	2008-2009	2009-2010
Hill and Upland Dairy Farms	£49,065	£33,966	£28,337	£31,745	£3,052	£2,967
Lowland Dairy Farms	£69,328	£52,302	£34,248	£39,285	£3,274	£2,914
Hill Sheep Farms	£19,327	£33,121	£34,390	£39,057	£13,151	£13,749
Hill Cattle and Sheep Farms	£21,031	£30,542	£35,160	£39,780	£10,687	£10,395
Upland Cattle and Sheep Farms	£24,067	£27,784	£28,577	£32,343	£7,082	£6,724
Lowland Cattle and Sheep Farms	£30,397	£34,082	£28,398	£31,632	£3,391	£3,895

FARM TYPE	CONTRIBUTION OF SINGLE PAYMENTS TO NET INCOMES		CONTRIBUTION OF TIR MYNYDD AND AGRI ENVIRONMENTAL PAYMENTS TO NET INCOMES		TOTAL CONTRIBUTIONS OF CAP PAYMENTS TO NET INCOMES	
	2008-2009	2009-2010	2008-2009	2009-2010	2008-2009	2009-2010
Hill and Upland Dairy Farms	57.75%	93.46%	6.22%	8.74%	63.97%	102.20%
Lowland Dairy Farms	49.40%	75.11%	4.72%	5.57%	54.12%	80.68%
Hill Sheep Farms	177.94%	117.92%	68.04%	41.51%	245.98%	159.43%
Hill Cattle and Sheep Farms	167.18%	130.25%	50.82%	34.04%	218.00%	164.28%
Upland Cattle and Sheep Farms	118.74%	116.41%	29.43%	24.20%	148.17%	140.61%
Lowland Cattle and Sheep Farms	93.42%	92.81%	11.16%	11.43%	104.58%	104.24%

FARM TYPE	NET INCOMES LESS SINGLE PAYMENTS		NET INCOMES LESS TIR MYNYDD AND AGRI ENVIRONMENTAL PAYMENTS		NET INCOMES LESS ALL CAP PAYMENTS	
	2008-2009	2009-2010	2008-2009	2009-2010	2008-2009	2009-2010
Hill and Upland Dairy Farms	£20,728	£2,221	£46,013	£30,999	£17,676	-£746
Lowland Dairy Farms	£35,080	£13,017	£66,054	£49,388	£31,806	£10,103
Hill Sheep Farms	-£15,063	-£5,936	£6,176	£19,372	-£28,214	-£19,685
Hill Cattle and Sheep Farms	-£14,129	-£9,238	£10,344	£20,147	-£24,816	-£19,633
Upland Cattle and Sheep Farms	-£4,510	-£4,559	£16,985	£21,060	-£11,592	-£11,283
Lowland Cattle and Sheep Farms	£1,999	£2,450	£27,006	£30,187	-£1,392	-£1,445

Tables 1-3: Statistics taken from the Farm Business Survey for the financial years 2008-2009 and 2009-2010

FARM TYPE	NET INCOMES LESS SINGLE PAYMENTS	NET INCOMES LESS TIR MYNYDD AND AGRI ENVIRONMENTAL PAYMENTS	NET INCOMES LESS ALL CAP PAYMENTS
	2007-2008	2007-2008	2007-2008
Hill and Upland Dairy Farms	£18,778	£40,253	£15,150
Lowland Dairy Farms	£18,680	£45,516	£15,719
Hill Sheep Farms	**-£16,874**	**-£3,827**	**-£33,803**
Hill Cattle and Sheep Farms	**-£18,191**	£664	**-£31,208**
Upland Cattle and Sheep Farms	**-£10,401**	£8,738	**-£15,797**
Lowland Cattle and Sheep Farms	**-£7,832**	£13,305	**-£11,890**

Table 4: Statistics taken from the Farm Business Survey for the financial year 2007-2008

HM Treasury and DEFRA's *"Vision for the Common Agricultural Policy"*

35. 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

36. 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[14], and suggest that the policies, as proposed, would have a devastating impact on agriculture and rural communities.

37. The work summarised the impact in Wales for individual sectors as follows:

38. 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.

[14] Impact of HM Treasury/DEFRA's Vision for the Common Agricultural Policy on Agriculture in Wales, Food and Agricultural Policy Research Institute (2009)

iii. Further trade liberalisation has a small negative impact on dairy commodity prices since butter, SMP and WMP EU prices track their world prices.

39. Beef Sector:

i. The extensive over quota tariff cuts results 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.

40. 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.

41. 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."

Conclusions, and the FUW's Broad Priorities in Terms of CAP Reform

42. 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.

43. 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.

44. 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.

45. The majority of these assertions are directly supported, or can be justifiably extrapolated from the conclusions published in Government commissioned research.

46. 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.

47. During the past eighteen 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.

48. 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.

49. 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.

50. Members therefore believe that the Welsh Government 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 moves to link agri-environmental measures, which are currently supported under Pillar 2, to Pillar 1 payments.

v. Oppose any moves to liberalise international trade in a manner which would adversely affect agriculture and UK/EU food security.

vi. 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.

vii. 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.

viii. Press the European Union for a compulsory pan-European scheme to help and encourage young entrants into the industry.

ix. 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.

x. Advocate a revision of CAP Regulations which ensures all penalties are proportionate, and that administrative errors are properly recognised.

xi. 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.

xii. 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.

xiii. Reject calls to renationalise agricultural spending within the EU, in order to ensure a genuine *common* policy across Europe.

xiv. Support the proportionate distribution of Pillar 2 funding and uniform rates of modulation.

xv. Ensure that market instruments are available in order to manage market volatility.

xvi. 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.

xvii. 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.

Background to the Current Reform Proposals

The Lyon Report

51. In July 2010, the European Parliament adopted the first report on the post 2013 Common Agricultural Policy, presented by George Lyon MEP, the then Rapporteur for the European Parliament Agriculture and Rural Development Committee.

52. The report, which received support from across the political spectrum, highlighted four key areas that should be addressed by the post 2013 CAP:

i. The need to produce food in order to maintain food security within the EU, against a background of rising global populations and major challenges in terms of agricultural production.

ii. The need, therefore, for the CAP to be supported by a strong budget.

iii. The need for a fairer distribution of CAP funds between Member States, based upon objective criteria which take into account factors such as relative costs of production.

iv. 'Greening' of the CAP in a way which takes account of an expected doubling of food demand, against a backdrop of less land, less water and major cuts in energy use because of climate change, by encouraging the development of small scale renewable energy production, the promotion of carbon sequestration, and a goal for the majority of European farm land to be covered by agri-environmental schemes.

European Commission Communication: The CAP towards 2020

53. In November 2011 the European Commission published its formal communication to the Parliament, Council, European Economic and Social Committee, and Committee of the Regions entitled *"The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future"*.

54. The communication highlighted three key priorities for the CAP:

i. 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.

ii. To support farming communities that provide European citizens with quality, value and diversity of food, produced sustainably and in a way which reduces biodiversity loss and helps to mitigating climate change.

iii. To maintain vibrant rural communities for which farming is an important economic activity creating employment, and delivering multiple economic, social, environmental and territorial benefits.

The Deß Report

55. In June 2011, the European Parliament adopted a report by Agriculture and Rural Development Committee Rapporteur Albert Deß MEP, which had been heavily amended at committee level.

56. The report made a diverse number of recommendations, including:

i. Imposing a ceiling on Pillar 1 payments, but doing so in a way which takes account of the numbers employed and supported by farm businesses.

ii. 100% EU-funded mandatory green measures, to be selected from a catalogue, including support for low carbon emissions; measures to limit or capture greenhouse gas emissions; buffer strips and field margins; presence of hedges; permanent pastures; crop rotation and crop diversity plans.

iii. Proportionate and risk-based Cross Compliance measures.

iv. CAP payments being brought within a fixed percentage of an EU average.

v. The introduction of suitable policy instruments which support dairy farmers in the light of possible adverse impacts which will accompany the abolition of milk quota in 2015.

European Commission Regulatory proposals

57. On the 12th of October 2011, European Commissioner Dacian Cioloş presented draft Regulatory proposals to the European Parliament, marking the latest and most significant step to date in terms of the negotiations over the future of the CAP after 2013.

58. Given the importance of Pillar 1 payments to Wales' economy and Welsh agriculture, it is the analysis of the Pillar 1 draft Regulation, *"Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL establishing common rules for direct support schemes for farmers under the common agricultural policy and repealing Regulation (EC) No 73/2009"*, that has been the focus of the FUW's policy department, and the following constitutes the Union's current views on pertinent parts of that document.

General Comments

59. While the detailed proposals contain numerous areas of concern, it is notable that a number of the underlying principles which form the basis of the draft Regulations are as anticipated, proposing, as they do, that Pillar 1 payments remain the focus of the CAP; a realignment of Pillar 1 payments between Member States; and a move away from payments based upon historical CAP receipts to regional flat-rate payments.

CAP Priorities

60. While the Union welcomes the proposal to maintain the focus of the CAP on Pillar 1 (direct) payments, it is not believed that the draft Regulation properly recognises the priority of ensuring food security identified by the Commission in November 2010. Moreover, it is believed that the current proposals, if implemented, would serve to undermine EU food security at a time when it is acknowledged that global food shortages are an inevitability.

61. The most concerning proposals in terms of undermining food security are the greening measures referred to in Chapter 2, and while most have been led to believe that 30 % of Pillar 1 payments will only be available to those who undertake greening measures, the first paragraph of Article 29 implies that greening would be a requirement for all those receiving Pillar 1 payments. Moreover, despite being aimed at 'greening', the impact on Wales of the proposed measures is likely to be adverse in terms of the environment, and this view has been reflected by a number of environmental bodies.

Distinguishing between Member States and administrative regions

62. The UK, like many other Member States in the EU, comprises distinct administrative regions (Wales, England, Northern Ireland and Scotland), each of which have autonomy in terms of how they administer the CAP.

63. Areas within the draft Regulation appear to focus on Member States and fail to recognise such administrative regions. For example, the "Flexibility between pillars" referred to under

Article 14 implies that administrative regions would not be able to have differing levels of Pillar 1 or Pillar 2 ‘modulation’, as is currently the case.

The recreation of payment entitlements

64. The proposal to abolish all current payment entitlements held by farmers on the 31st of December 2013, and create new entitlements based upon areas declared on the 15th of May 2014 (albeit with allocations only being allowed for those who received payments in 2011) represents a major threat to areas such as Wales, and the Union strongly believes that alternative options should be made available to administrative regions.

65. The 2014 ‘reference year’ means that, for the first time ever, the EU would have a well publicised future reference year which allows significant speculation and land banking to take place. In fact, there is already growing speculation regarding this date, with many landlords/licensors considering how to gain possession of land they currently rent out in order to declare it themselves in 2014. Proving that businesses did this as part of a move to secure entitlements, rather than as a genuine business move, would be extremely difficult in most cases.

66. The proposal therefore represents a major threat in terms of land banking, increasing rental and land prices, and disruption to the industry as a whole.

67. The proposals would also restrict and complicate entry to the industry by young entrants, by making it necessary to implement a national reserve based upon reducing all other payments and allocating new entitlements to those who are eligible, even after a transition period to flat-rate payments. Under such proposals, if a new entrants’ scheme is to remain open for the duration of the CAP (thereby providing the opportunities to young people that the Commission moots), the level of modulation must rise annually until it reaches the ceiling for the national reserve, after which the scheme would presumably have to close – thereby closing the door to young entrants.

68. The proposal also sets in stone yet another ‘quantifiable’ historic allocation of payment entitlements, and such a scheme would, in time, be subject to the same criticism as the current scheme, since the number of entitlements held will ultimately become based upon activities undertaken many years previously.

69. In light of these concerns, the FUW has proposed an alternative option, which it believes administrative regions and Member States should be able to adopt as an alternative to the entitlement creation proposals given in the draft Regulation. While the applicability of the FUW’s proposals for Wales has yet to be thoroughly investigated, the FUW believes that such a system may well mitigate a number of the problems described above. The details of the proposal are described in Appendix 2.

Specific Comments on Pertinent Articles

Common rules on direct payments

National Ceilings (Article 6)

70. Article 6 of the draft refers to Annex II, which sets out the national ceilings for the sum of all payment entitlements in Member States for the period 2014-2019. For the UK, these figures (in billions of Euros) are:

2014	2015	2016	2017	2018	2019 onwards
€3.5349	€3.5471	€3.5592	€3.5713	€3.5713	€3.5713

71. For the UK, these figures represent an absolute increase of 1% (representing a fall in real terms) between 2014 and 2019. By comparison, during the same period, the Republic of Ireland's allocation would remain almost static; Belgium, Germany and France's allocations would fall by 5%, 2%, and 1% respectively, while Romania and Poland would see increases of 31% and 3% respectively.

72. Under current arrangements, England, Northern Ireland, Scotland and Wales receive approximately 66%, 9%, 16%, and 9% of the UK Pillar 1 allocation respectively, which broadly reflects direct payments made in each region during the years 2000 to 2002. However, there is considerable pressure from the Scottish Government to increase the Scottish share of the budget post 2013 in a manner which reflects the area of, rather than agricultural production in Scotland. Any such change may result in a reduction in Wales' allocation.

73. However, it is clear that, even in the event that Wales' allocation of the UK budget changes, the general patterns of redistribution discussed in detail in the FUW's July 2009 analysis (Appendix 1) would hold, with any significant changes in the Euro-Sterling exchange rate likely to have a more acute impact on the value of Wales' allocation than any minor change in the percentage allocation itself.

Active farmer (Article 9)

74. Article 9 states that only active farmers should be eligible to receive direct payments, with an active farmer being defined as a natural or legal person (or groups thereof) for whom

  i. The annual amount of direct payment is 5% or more of the total receipts they obtained from non-agricultural activities in the most recent financial year

  ii. A minimum level of agricultural activities, as defined by the member state.

75. Under the proposal, a farmer with land and payment entitlements totalling €20,000 (close to the current Welsh average per farm) would not be able to receive that payment if the total receipts obtained from non-agricultural activities were greater than €400,000.

76. These provisions do not apply for those receiving less than €5,000 of direct payment, meaning that those with entitlements valued at €5,000 would not be eligible to receive payment if their total receipts from non-agricultural activities were €100,000 or more.

77. While the proposal raises some concerns regarding the penalisation of those who have diversified their businesses, the Union's initial reaction is that the 5% threshold is set at a low enough level for this not to be a significant concern.

78. However, the Union does have major concerns regarding the practicality of properly interpreting/defining 'non-agricultural' activities, and the substantial increase in bureaucracy associated with implementing and policing such a requirement.

Minimum requirements for receiving direct payments (Article 10)

79. Article 10 sets minimum EU payments at €100, and minimum EU area declarations at 1 hectare, but allows Member States to adjust these thresholds in accordance with figures listed in Annex IV. For the UK, these minimums may be set at €200 and 5 hectares.

80. This provision, if implemented, would reduce administrative costs for the Welsh Government. However, it is questionable whether €200 and 5 hectares is high enough, given the nature of farming in the Wales.

81. The Article also requires Member States which opt to pay animal-related coupled support under Articles 38-41 (i.e. headage payments) to set objective minimum area thresholds for those eligible for such support.

Progressive reduction and capping of the payment (Article 11)

82. Article 11 refers to reducing payments made to each business at the following rates:

By 20% for amounts more than €150,000 and less than €200,000

By 40% for amounts more than €200,000 and less than €250,000

By 70% for amounts more than €250,000 and less than €300,000

By 100% for amounts more than €300,000

83. However, the sums referred to above are based upon direct payment received in the absence of payments linked to greening measures (Articles 29 to 33), less the salaries 'effectively' paid and declared by the farmer the previous year, including taxes, social security contributions etc.

84. All monies derived from progressive reduction and capping would be re-allocated to Pillar 2 within the same Member State.

85. If businesses are deemed to have created artificial circumstances after the date of the original proposal made by the Commission (presumably 18th November 2010) in order to avoid progressive capping, they will not receive any payment.

86. Without taking salaries and other contributions into account, it is understood that less than twenty Welsh businesses would be affected by the proposals. If such payments were taken into account it is likely that this figure would fall significantly.

87. The FUW's initial reaction, based upon successive consultation with members, is that it is supportive of the measure and the recognition of the need to take account of the impact on all those who are supported/employed by the farm.

88. However, the Union believes that all funds associated with such reductions should, under this, and all future Regulations, remain within a region rather than being returned to the EU, and that the proposed rates should not be reduced.

89. While the Union recognises that the Welsh Government may object to capping, it is not believed that efforts to counter the proposals would be worthwhile, given the negligible number of Welsh businesses which would be affected.

Flexibility between pillars (Article 14)

90. Article 14 allows all Member States to introduce voluntary modulation (as it is referred to under the current Regulations), up to a maximum rate of 10%, in order to move money from Pillar 1 to Pillar 2. The level of modulation must be reported to the EU by August 2013 and would be fixed from 2014 to 2019.

91. The FUW objects to such voluntary modulation, as this is likely to reduce funds available for genuine farmers, and could result in significant differences between the levels of direct payment made to farmers in regions which share similar farming types, including neighbouring regions. For example, such flexibility has resulted in modulation rates within the UK which vary between 11.5% and 19%.

92. The Article also allows a limited number of Member States, including the UK, to modulate the amount allocated under the European Agricultural Fund for Rural Development between 2015 and 2020 by up to 5% in order to supplement Pillar 1 payments.

Setting up of the basic payment scheme

Payment entitlements (Article 18)

93. Article 18 states that all current entitlements will be abolished ('expire') on the 31st of December 2013. As already stated, this proposal takes no account of the need to phase out the current entitlement system, and the bureaucracy associated with abandoning current allocations, only to replace them with new allocations based upon declarations made five and a half months later.

Regional allocation of the national ceilings (Article 20)

94. Article 20 allows Member States to define regions between which flat-rate payment rates per hectare can differ, according to objective criteria, and be adjusted in accordance with 'pre-established annual steps'. The Article specifies 'agricultural potential' and 'environmental' 'non-discriminatory' criteria which may be used to define such regions.

95. A similar article exists in the current Regulations, which has allowed regions such as England to pay flat-rates which differ between defined regions. For example, in 2011 England has three payment rates: €289.94/ha for non-Severely Disadvantaged Areas (SDA); €233.95/ha for upland SDA other than moorland; and €40.82/ha for upland SDA moorland.

96. Notwithstanding the failure of the Article to refer to administrative regions, it is the Union's understanding that Article 20 provides sufficient flexibility to ensure that Wales can reflect variations between regions by varying payment rates in a way which would prevent significant damage to farm businesses, and the economics of entire sectors and regions.

96. However, despite repeated calls by the FUW over the past two-and-a-half years, investigations of the impact of possible flat-rate payment models, and ways in which land can be categorised in an objective way which minimises disruption remain at an embryonic stage.

97. Given that the Welsh Government must, before August 2013, notify the EC of the regions between which flat rate payments will differ within Wales, and the objective criteria by which those areas have been defined, it is the Union's belief that significant resources must be devoted towards investigating all possible models.

98. Moreover, in the absence of such work, it is likely that the Welsh Government will be forced to implement an overly simplistic payment model which fails to minimise financial disruption for businesses, and entire sectors and regions within Wales.

First allocation of payment entitlements (Article 21)

99. Under Article 21, those who activated at least one entitlement in 2011 (or those who are otherwise eligible under other sections of the Article – for example, where land has been sold or leased) will be given new allocation of entitlements, based upon the number of hectares declared on the 15^{th} of May 2014.

100. It is the Union's view that the proposal for a future 'reference period' will lead to significant speculation and land banking, as businesses who are in a position to do so seek to maximise future returns by ensuring that as many hectares as possible are declared in 2014, leading to increases in land and rental prices.

101. Similarly, it is highly likely that licensors and landlords will, wherever possible, seek to gain possession of land from licensees and tenants.

102. The proposal will also represent a complex process for those who currently have entitlements which differ in value. For example, under the current system a business can farm 90 hectares, while holding 100 entitlements, 50 of which have a value of €200, and 50 of which are worth €100. By creating new entitlements, the historical element of the value of these will have to be calculated based upon a complex formula which may not necessarily be equitable for all – for example, while the precise method in which new entitlement values would be calculated is not clear, this may lead to consolidation of entitlements for one business in a way which is inequitable for others.

103. It is also the case that the amount of eligible land farmed by an individual can vary from year to year to a not insignificant degree; for example, as land is rented in and then released in subsequent years due to business decisions, or because land has become ineligible due to participation in an agri-environment scheme. The proposals to recreate entitlements take away that flexibility between years 2013 and 2014, meaning that the priority for those who can afford to do so will be to amass as much land as possible in 2014.

104. The system will also necessitate transferring entitlements along with land in order to ensure that the genuine farmer of the land receives a payment; something which would be

complicated and administratively burdensome compared with having a system which gives automatic entitlement to payments to the main occupant of the land (see Appendix 2).

Value of payment entitlements and convergence (Article 22)

105. Article 22 implies that, for those regions implementing a transition from historic to flat rate payments (such as Wales), in 2014 entitlement values would have a unit value of at least 40% of the average payment per hectare for the region, topped up with a value based upon the historic entitlement value. For many farms, this would mean a significant reduction in entitlement value, and the proposal therefore goes completely against the principle of a 'soft landing'/gradual transition, with the sudden fall in incomes for some businesses likely to be devastating.

106. Compounding this problem is the proposal, under Article 33, that a further 30% of payments be based upon average regional payments. When combined with Article 22, this implies that 70% of all payments would be based upon a flat-rate payment in 2014.

107. The possible impact of Articles 22 and 33, over a five year transition period, for a real family-run dairy farm with 50.5 ha (125 acres) of eligible land and currently annually receiving €24,240 in Pillar 1 payments are shown in Figures 1 and 2

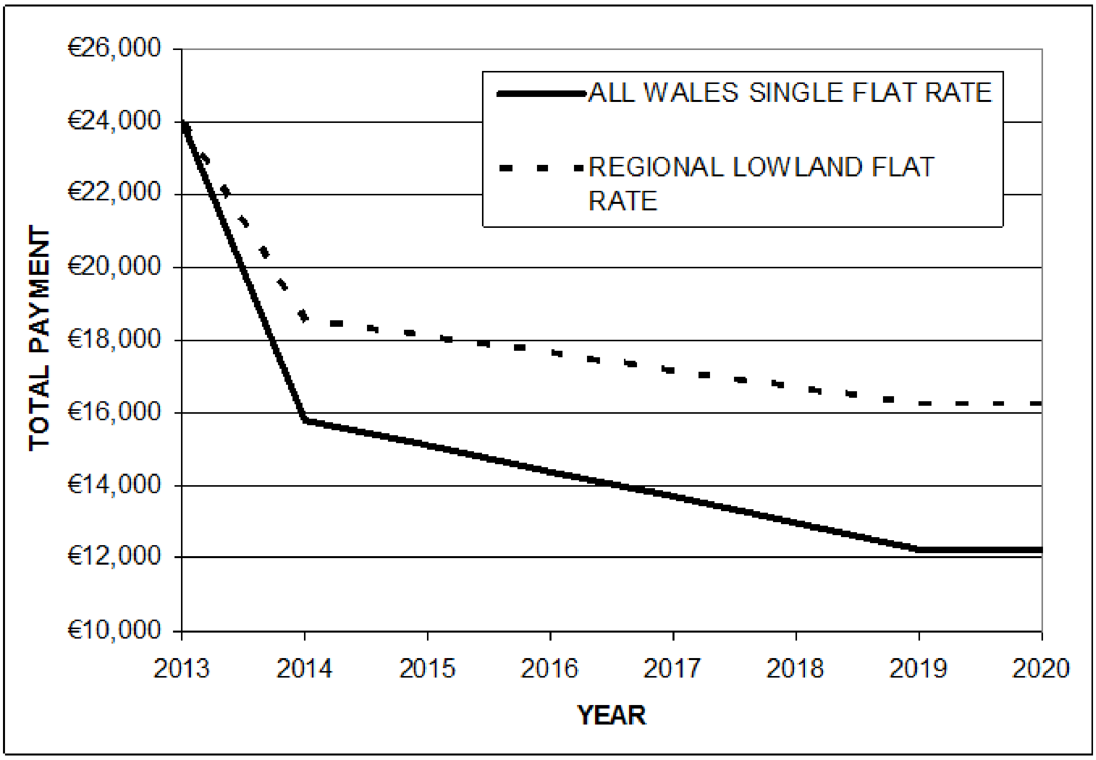


Figure 1: Changes in total direct payments made to a real farm business over a five year transition period, based upon two possible flat rate payment regimes, and assuming that 70% of payments in the first year are made up of the regional flat rate (40% under Article 22, and 30% under Article 33).

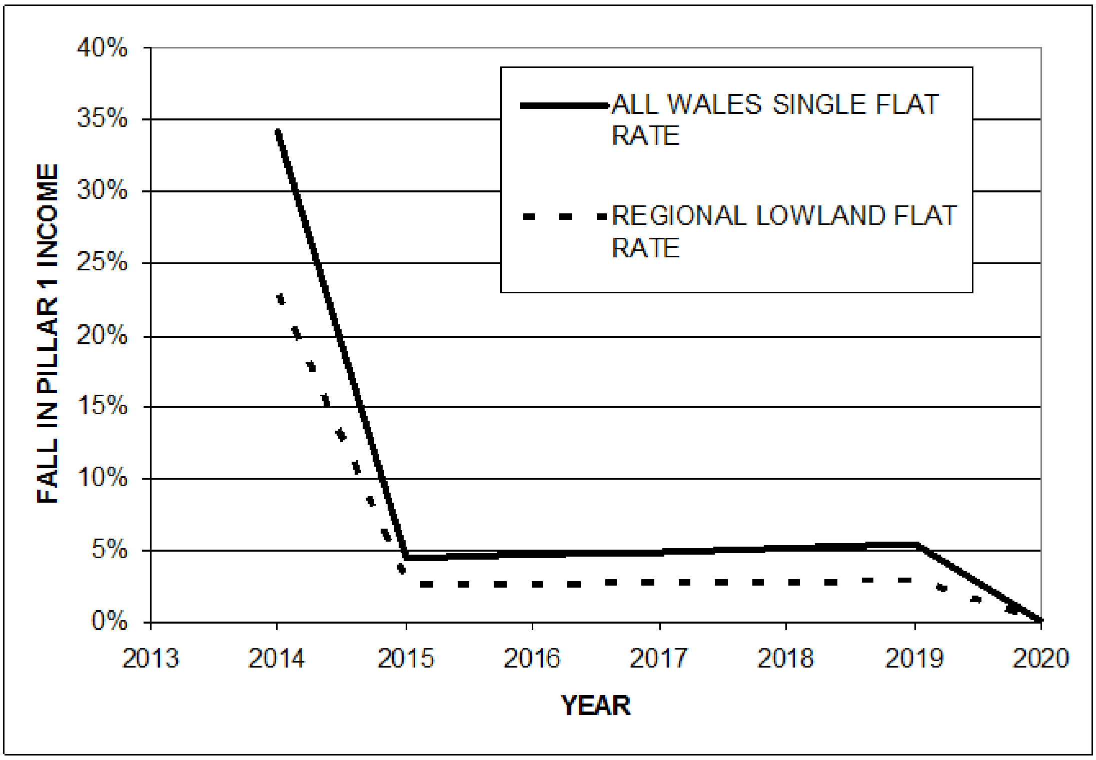


Figure 2: Percentage changes in income from direct payments made to a real farm business over a five year transition period, based upon two possible flat rate payment regimes, and assuming that 70% of payments in the first year are made up of the regional flat rate (40% under Article 22, and 30% under Article 33).

108. The FUW believes that, given the different transitional approaches adopted in regions of the EU previously (for example in England), it should be up to administrations to choose an appropriate transition period, and change payments linearly in accordance with that period until all payments are equal.

109. Article 22 also refers to the complex process of calculating the historical element of the value of a fixed number of 'new' entitlements, based upon the number and value of 'old' entitlements which were abolished in 2013 – of which there may have been significantly more or less than there are new entitlements.

110. Article 22 makes it clear that, by 2019, all payments entitlements within a region must be the same, and that the proposed transition period is therefore five years. The FUW does not believe that such a period is sufficiently long for a smooth transition to occur, due to the nature of farming in Wales and other regions across Europe, and the length of time it takes farm businesses to re-structure, for example due to animal breeding cycles.

National reserve

Establishment and use of the national reserve (Article 23)

111. Article 23 allows Member States to 'modulate' direct payments by up to 3% to create a national reserve. However, this figure can be exceeded in order to cover support for 'young

farmers who commence their agricultural activity', which the Commission describes as a 'matter of priority'.

112. A 'young farmer' is defined as 'natural persons who are setting up for the first time an agricultural holding as head of the holding, or who have already set up such a holding during the five years preceding the first submission of an application to the basic payment scheme…' and 'who are less than 40 years of age at the moment of submitting the application referred to in point'.

113. The National Reserve can also be used to allocate payments to farmers in areas subject to 'restructuring and/or development programmes relating to a form of public intervention in order to prevent land from being abandoned and/or to compensate farmers for specific disadvantages in those areas.'

114. While the FUW has long been an advocate of modulating direct payments in order to help young entrants, it is believed that an overly restrictive definition of 'young farmer' may exclude individuals who have much to contribute to the industry.

115. The Union also believes that alternative payment mechanisms, such as that described in Appendix 2, could mitigate the need for a national reserve scheme based upon modulation after a transition period.

Payment for agricultural practices beneficial for the climate and the environment

116. Articles 29 to 33 link direct payments to three compulsory 'greening' measures, with Article 29 implying that greening would be compulsory for all those receiving Pillar 1 payments.

117. The FUW believes that linking Pillar 1 payments to greening measures undermines the two pillar system which currently provides a clear delineation between agri-environmental measures and agricultural activities.

118. The measures, as proposed, would also be likely to reduce the productivity of land and the area of land available for food production, despite food security having been identified by the European Commission and Parliament as the top priority for the post 2013 CAP.

119. Notwithstanding the Union's objections to greening measures per se, it is believed that any such measures should be targeted at global environmental benefits, such as reducing CO_2 emissions, in a way which lowers environmental impacts without undermining food production and farm profitability, as proposed by the European Parliament.

220. In areas such as Wales, which have a long history of implementing agri-environment schemes, the proposals are likely to undermine agri-environment measures, thereby having an overall negative impact.

221. Notwithstanding the Union's objections to greening, it is notable that the proposals fail to take into account the 'catalogue' of options proposed in the Deß Report. It would therefore be appropriate to allow administrative regions the flexibility to introduce voluntary measures for farmers aimed at tackling global climate change without undermining food production, in line with proposals made in both the Lyon and Deß Reports.

General rules (Article 29)

222. Article 29 states that 'Farmers entitled to a payment under the basic payment scheme…shall observe on their eligible hectares…the following agricultural practices beneficial for the climate.' This line implies that 'greening' measures would be compulsory for all those receiving direct payments – despite Article 33 implying that 'greening' would only be related to 30% of the direct payment, and that that farmers could opt to receive 70% of their payments without undertaking the three greening measures.

223. Organic farmers are not required to undertake greening measures, thus providing an incentive for some to reduce the productivity of their farms by converting to organic, while failing to recognise the contribution made by those who are already in other agri-environmental schemes.

Crop diversification (Article 30)

224. Article 30 states that Farmers with more than three hectares of arable land will have to grow at least three different crops, with no one crop being grown on less than 5% and more than 70% of the land.

225. The low threshold of three hectares represents a major restriction for Welsh farms that is likely to have adverse impacts on farm businesses and the environment by:

i. Reducing the planting of smaller areas of arable by livestock and dairy farmers who wish to diversify and/or make their farms more self-sufficient, since in many areas the number of crops which can be grown is severely restricted by the availability of appropriate land, climate and topography, and factors such as the availability and cost of appropriate machinery.

ii. Reducing the planting of smaller areas of arable which have significant benefits in terms of wildlife and the environment; despite the general view that areas of arable crops have an adverse impact on the environment, such crops have significant benefits, since they add diversity in terms of food availability and habitat. For example, the growing of arable crops is encouraged under agri-environment schemes such as Tir Gofal, and some wildlife charities such as the RSPB encourage and subsidise the growing of arable crops in order to help bird populations.

A three hectare threshold, above which the growing of arable crops becomes impractical, would therefore have a negative environmental impact.

226. Notwithstanding the Union's objections, per se, to greening, the 70% threshold for any one crop takes no account of future needs of the market (including in terms of food production), the need to use land appropriately, or the needs of individual farming systems such as mixed arable and livestock/dairy farms.

Permanent grassland (Article 31)

227. Article 31 states that 'Farmers shall maintain as permanent grassland the areas of their holdings declared as such in…2014', and limits the proportion of such land which can be converted to 5%.

228. For the reasons already stated in relation to Article 30, such restrictions would serve to limit agricultural activities which increase farm self-sufficiency, and thereby reliance upon imported feed, and are beneficial to the environment.

Ecological focus areas (Article 32)

229. Article 32 states that ‘Farmers shall ensure that at least 7% of their eligible hectares…excluding areas under permanent grassland, is ecological focus area such as land left fallow, terraces, landscape features, buffer strips and afforested areas.’

230. It is the FUW’s belief that the proposal effectively means reducing the most agriculturally productive areas of a farm, which is in direct contradiction to the priority identified by both the Parliament and Commission, namely food security.

231. The proposals also raise concerning questions in terms of the agri-environmental schemes envisaged in Wales post 2013, since overlaps between ‘ecological focus areas’ and actions taken to accrue points under the Glastir scheme may well constitute double-funding.

Financial provisions (Article 33)

232. Article 33 allocates 30% of the national ceiling to payments for ‘greening’ measures. However, as pointed out in relation to Article 29, there appears to be some contradiction between Articles 29 and 33. Article 33, when read in conjunction with Article 22, also implies that 70% of all payments made in 2014 would be based upon a regional flat-rate.

Payment for areas with natural constraints

General rules and financial provisions (Articles 34 and 35)

233. Article 34 states that Member States may modulate direct payments by up to 5% in order to grant additional payments to those farming within, or partly within areas with natural constraints.

234. In Wales, 5% of the current budget would represent around €17 million, compared with the previous Tir Mynydd budget of around €29 million (based upon the 2011 exchange rate) – roughly 40% lower than the current LFA budget. However, the payment would be funded by deducting up to 5% from all farmers’ direct payments, then redistributing this among those within the an area with natural constrains (around 80% of Wales), representing nothing more than a redistribution of Pillar 1 funds between farmers, rather than additional funds for those in areas with natural constraints.

235. Given the fact that all of Wales’ main competitors in terms of agricultural output, except England, will continue to make such payments from Pillar 2 funds, the FUW maintains that payments to those in areas with natural constraints should be compulsory, and funded under Pillar 2, in order to ensure commonality between Member States and regions.

Payment for young farmers

General rules (Article 36)

237. Article 36 sets out the general rules for payments for young farmers, with some complex rules with motives which are anything but clear. For example, the article states that ‘The payment shall be granted per farmer for a period of maximum five years. That payment shall be reduced by the number of years elapsed between the setting up and the first submission of the application…Member States shall calculate each year the amount of the payment…by multiplying a figure corresponding to 25% of the average value of the payment entitlements held by the farmer by the number of entitlements he has activated… When applying the first subparagraph, Member States shall respect the following maximum limits in the number of activated payment entitlements that are to be taken into account…’

238. As already stated, the FUW believes that alternative payment models may mitigate the need for such complex and administratively burdensome arrangements (Appendix 2).

Coupled Support (Articles 38 to 41)

238. Articles 38 to 41 propose continuing to allow member states to provide coupled support to farm businesses (current allowed under Article 68). The only region in the UK where the current provision has been applied is Scotland, where the Scottish Beef Calf Scheme provides €29.8 million in order to support the production of Scotch beef and to maintain cattle in the uplands in a manner which is considered to be beneficial to the environment.

239. The article would allow up to 5% of annual Member States’ financial ceilings to be used for coupled support to the extent necessary to ‘create an incentive to maintain current levels of production in the regions concerned’ ‘where specific types of farming or specific agricultural sectors undergo certain difficulties and are particularly important for economic and/or social reasons.’ Subject to strict rules detailed in Article 39, the 5% threshold may be increased up to 10%.

240. The FUW is unaware of the current Welsh Government’s position on the proposals, but is aware that there has previously been opposition to such measures being made available, on the grounds that these go against the principle of decoupling, and can generate what is perceived as unfair competition, including within a Member State.

241. The current view of the Union is that such measures are there for a reason (as is clearly described in the draft Articles), and that situations may arise in Wales in future – for example where certain sectors and supply chains are severely threatened – which make the availability of such measures desirable.

242. The FUW therefore supports the provision of such Articles, provided that all applications for coupled support are carefully scrutinised by the Commission.

Small farmers scheme

General rules (Article 47)

243. Articles 47 to 51 makes it compulsory for all Member States to allow farmers to participate in a simplified scheme, with payments set at either

i. No more than 15% of the national average direct payment or

ii. No more than the national average payment per hectare multiplied by the number of hectares, with a maximum of three (currently around €730 in Wales)

Provided that the amount is no higher than €1,000 (in Wales, 15% of the average payment is €3,000) and no lower than €500.

244. While this section may be aimed at certain Member States, such as those in Eastern Europe where farm units can be small, there seems little doubt that in Wales such a provision would create a new tier for payment recipients which would be administratively burdensome.

245. The scheme would also allow participants to opt out of CAP inspection regimes, creating a loophole for a category of farmers who may be the greatest offenders in terms of complying with animal health requirements etc.

246. It is therefore believed that the small farmer scheme should not be compulsory, given it was designed with particular Eastern European regions in mind.

APPENDIX 1

AN ANALYSIS OF THE WELSH SINGLE PAYMENT REGIME AND THE IMPACT OF POSSIBLE FLAT-RATE SINGLE PAYMENT MODELS

Farmers' Union of Wales

July 2009

SUMMARY

Single Payments made to farm businesses in Wales under Pillar I of the Common Agricultural Policy in 2007 have been analysed in order to investigate the current distribution of payments, and the potential impact that possible future flat-rate Single Payment models could have in terms of the redistribution of monies paid to farm businesses. ***All figures are presented in pounds sterling, based upon a Sterling-Euro exchange rate of £0.6968.***

For all models investigated, the transition to a flat-rate Single Payment regime results in a significant redistribution of monies, with the majority of those currently receiving Single Payments below £16,000 gaining under the payment regimes studied. Businesses that currently receive more than £16,000 are, on average, net losers under all the flat-rate payment regimes studied. This redistribution is attributed to the fact that the average payment per hectare for those currently receiving more than around £16,000 is higher than the average payment per hectare for all Welsh land.

The effects for individual farm businesses are shown to vary significantly, with variance increasing for higher payment bands. Considerable differences are shown to exist between the apparent disruptive effects of the models studied, suggesting further work would identify models that go some way towards minimising disruption for the farming industry. However, the asymmetrical distribution of data relating changes in payment rates highlights the need for careful analyses of the disruptive impact of any model.

INTRODUCTION

In September 2003, the EU Agriculture Council formally adopted the legal texts of the June 2003 Common Agricultural Policy (CAP) Reform agreement, marking the most important changes to the European agricultural support framework since the 1992 MacSharry Reforms.

The most significant element of the reform was the introduction of direct Single Payments per hectare for producers, aimed at shifting the CAP away from the World Trade Organisation (WTO) Blue Box (trade distorting support) to the Green Box (non-trade distorting support).

The Regulations gave Member States and regions significant flexibility in terms of the implementation of the new regime, including the option of allocating Single Payments to individual farm businesses based upon historical CAP Pillar I receipts, and this has resulted in Single Payment frameworks that differ significantly between Member States and regions.

In Wales, following consultation with stakeholders, the Welsh Assembly Government agreed to implement an historically based Single Payment Scheme from 2005, on the grounds that this would minimise financial disruption, and avoid the complete redistribution of payments within the industry.

Welsh Single Payments for farm businesses are therefore largely based the average CAP Pillar I payments received per eligible hectare during the reference years 2000, 2001, and 2002, and upon the amount of Milk Quota held on the 31st of March 2005.

For example, if a farm business declared an average of 100 hectares of eligible area and received average Pillar I payments of €12,000 during 2000, 2001 and 2002, , the business would have been allocated 100 Single Payment Entitlements, each valued at €120. From 2005, the business would have been paid €120 (notwithstanding deductions through modulation etc.) for every hectare of eligible land declared.

While the 2003 reforms provided significant flexibility in terms of the Single Payment models chosen within regions, it was also clear that the ultimate goal of the reforms was the introduction of fixed payments per hectare, or *flat-rate* payments, such that the payment received by any individual business within a region, or sub region, would be directly proportional to the area of eligible area farmed by that business – thus severing any link to past production.

This position was reiterated in the November 2008 CAP Health Check agreement which, while postponing the deadline by which Member States and regions must convert to flat rate payments, confirmed that all Single Payment regimes must be based on flat-rate models within the next decade.

While it is generally recognised that the move towards a flat-rate payment model in Wales is likely to bring about significant financial disruption and a redistribution of payments between farm businesses, relatively little work has been done in terms of investigating how such disruption might be minimised.

Moreover, there appears to be only limited or anecdotal evidence regarding the impact that the move towards flat-rate payments has had in those countries that have opted for flat-rate or flat-rate-hybrid models.

In particular, there is a significant absence of evidence as to impact of the dynamic hybrid model adopted in England in 2005, which combines historic and flat-rate components, with the percentage made up by the former decreasing such that, by 2012, payments will be entirely based on a flat-rate model.

In light of this apparent lack of information, anonymised area and payment data has been used to build upon work already undertaken by the Welsh Assembly Government, in order to examine current payment distributions between land types, and the impact of adopting a number of different payment models in terms of the redistribution of payments to, and therefore disruption for, farm businesses.

METHODS

General Background to Analyses

The data provided by WAG lists 16,940 individual Welsh Single Payment values, and the eligible areas upon which those payments are claimed, with the latter being divided into areas according to the following land categories: Disadvantaged Area (DA), Severely Disadvantaged Area (SDA), non-Less Favoured Area (non-LFA), and common land. No data was made available that could be used to identify individual businesses.

This data was analysed in order to calculate statistics relating to current payments and the land categories used to access such payments, and computer models were developed to investigate four possible flat-rate payment regimes, based upon current land categories. All analyses and models were developed using the FORTRAN computer language.

Models Studied

Four flat-rate models were studied to assess the impact of each on payment distributions. All payment rates were calculated such that the sum of all modelled payments equalled the total Single Payment budget for Wales.

For each model it was assumed that all common land is Less Favoured, as the LFA status of common land areas associated with each payment were not available. While this assumption is likely to introduce some errors into the data, it is unlikely to have a major effect on averages and general trends, since the vast majority of common land, being manorial waste and/or open mountain, is likely to be Less Favoured.

It should also be noted that eligible land not currently entered on IACS forms has not been accounted for; given that it is inevitable that a flat-rate model will attract claims on land not currently claimed against, as happened in England during 2005, all payments and payment rates calculated are slightly larger that would actually be the case. However, the omission of such land is unlikely to have any significant effect on the general trends and analyses presented for the four models.

The models studied were:

Model 1

A flat rate payment of £169.24 for every eligible hectare, irrespective of land category.

Model 2

A model retaining the balance between all monies paid within and outside the LFA, with payment rates of £157.11 per hectare of Less Favoured land, and £224.18 per hectare of non-LFA land.

Model 3

A model retaining the balance between all monies paid within and outside the SDA, where common is assumed to be SDA, with payment rates of £139.74 per hectare of SDA land, and £213.08 per hectare of non-SDA land.

Model 4

A model retaining the balance between all monies paid on SDA, DA, non-LFA, and common land, with payment rates of £145.02 per hectare of SDA land, £204.01 per hectare of DA land, £224.18 per hectare of non-LFA land, and £117.21 per hectare of common land.

Estimating the financial disruption caused for each model

The distribution of data points relating the financial gains or losses for farm businesses compared with current receipts is found to be significantly asymmetrical for all the models considered, making analysis of the impact of each model using more conventional methods (i.e. methods applied for symmetrical/Gaussian distributions) inappropriate (*Figure 1*).

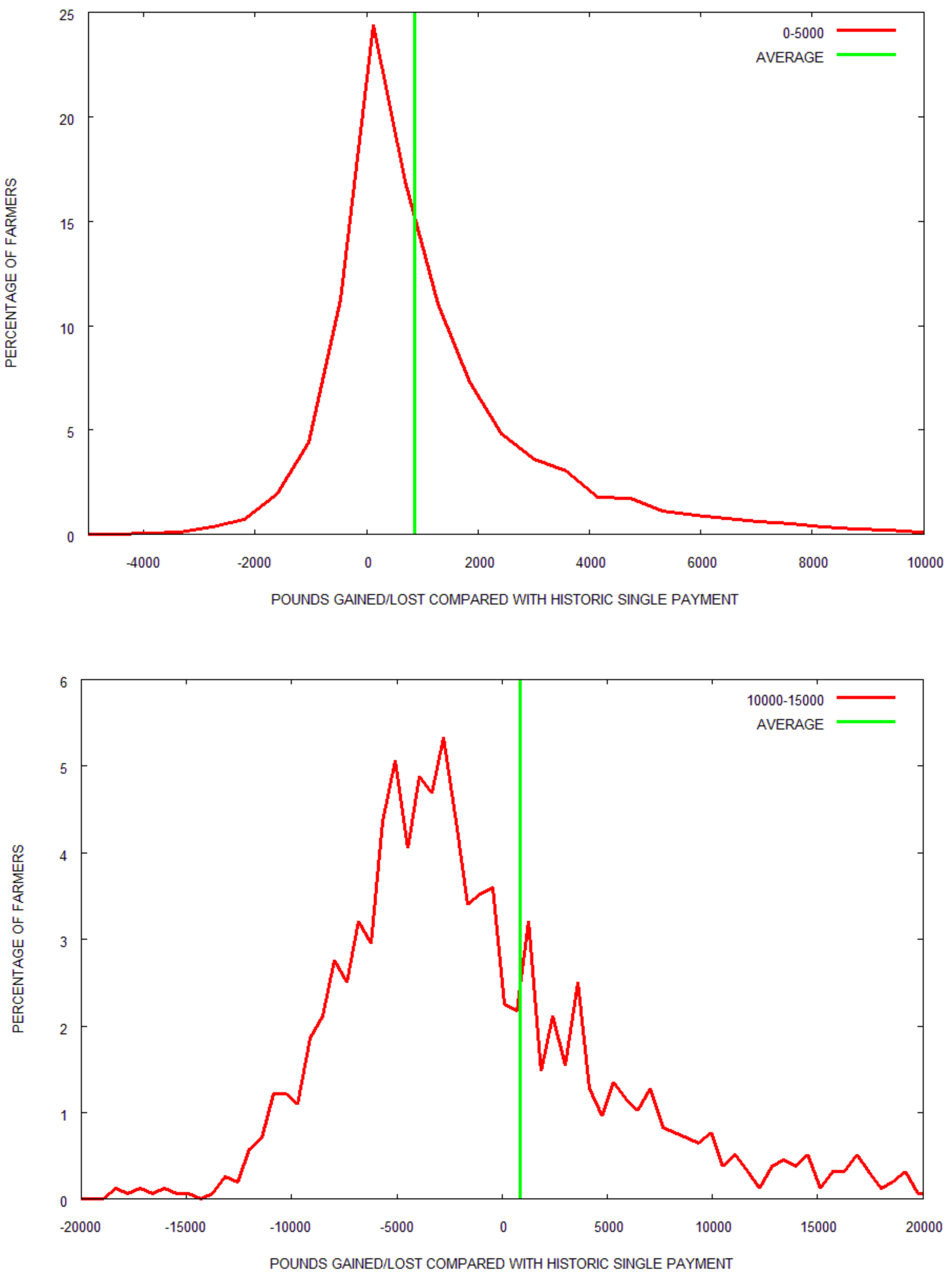


Figure 1*: The percentage of farm businesses currently receiving payments of between £0 and £5,000 (top) and £10,000-£15,000 (bottom) that would gain or lose money under a pure flat-rate model (£169.24 per hectare), plotted against the magnitude of those gains/losses. The difference between the peaks in percentage values and the averages for all points (green vertical lines) demonstrates the asymmetrical distribution of the data.*

Distributions have therefore been analysed iteratively in order to establish a measurement of the ‘disruption’ caused by relative models, using the approach described in the Appendix.

ANALYSIS OF CURRENT PAYMENTS

Tables 1 and 2, and *Figure 2*, show general data associated with the current (historically based) payment regime.

As might be expected, the data shows the clear relationship between quality of land and the payments received for that land, with non-LFA attracting the highest payments per hectare, followed, respectively, by DA, SDA and common land.

This reflects the fact that CAP Pillar I payments received during the reference period were effectively based upon the number of eligible stock/area of crops on each farm, which can, in turn, be considered to be a reflection of the fertility, size, altitude, and climate of any particular farm.

Thus, current payments are, in general terms, a reflection of the production capacity per hectare. However, it should be noted that the way in which the payment rate per hectare for the whole dataset reflects land quality may be understated, since a significant proportion of the land associated with individual businesses is made up of different land types.

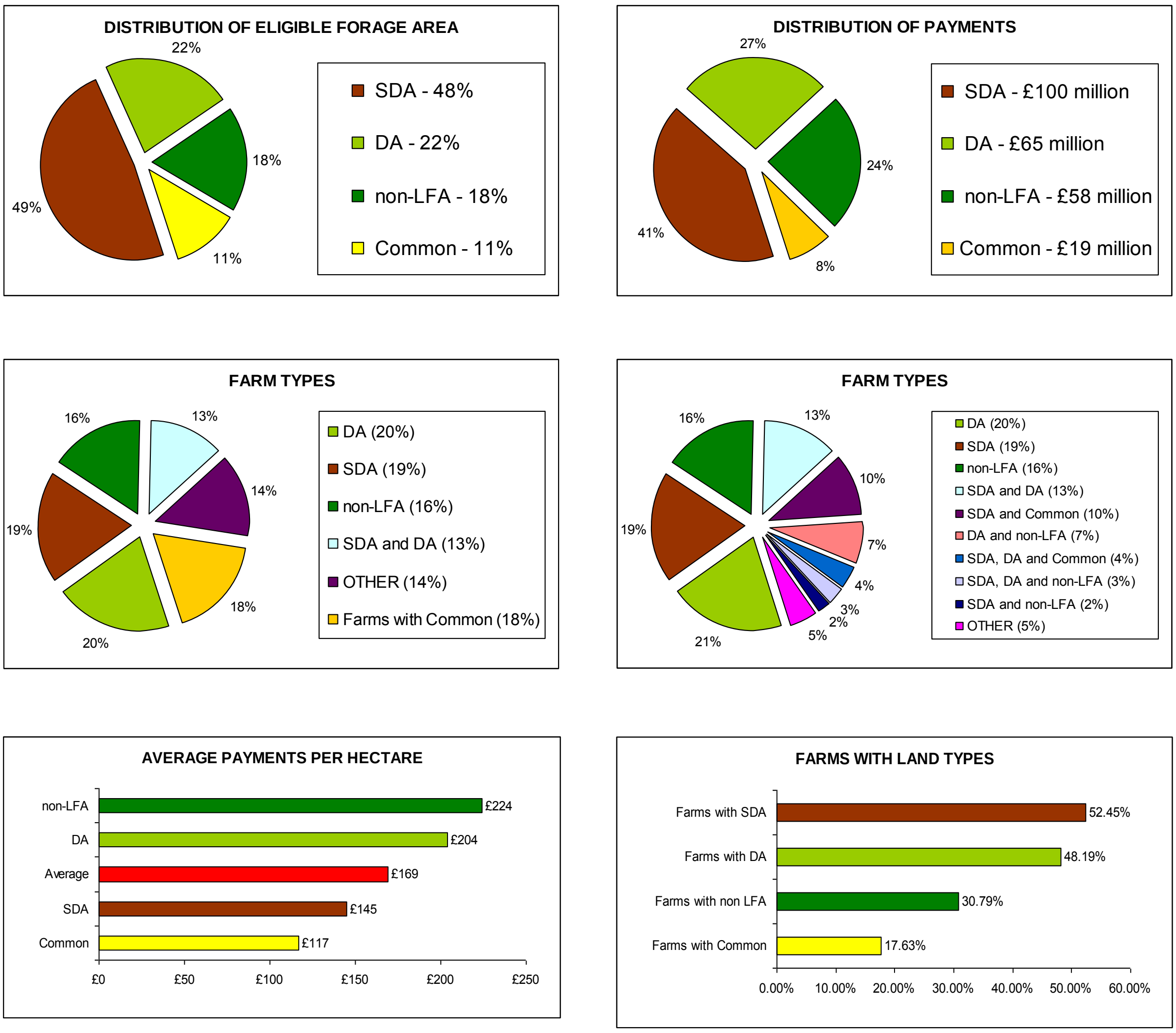


Figure 2

Table 1

Description	*Value*	*Value as %*
Total number of hectares claimed	*1,431,797*	*100%*
Total number of SDA hectares	*693,595*	*48.44%*
Total number of DA hectares	*317,014*	*22.14%*
Total number of non-LFA hectares	*258,820*	*18.08%*
Total number of common land hectares	*162,369*	*11.34%*
Number of holdings without land	*112*	--
Total value of Special Entitlements	*£501,175.31*	--
Average payment per hectare	*£169.24*	*100%*
Average payment per hectare of SDA	*£144.72*	*85.51%*
Average payment per hectare of DA	*£203.59*	*120.30%*
Average payment per hectare of non-LFA	*£223.72*	*132.19%*
Average payment per hectare of Common Land	*£116.97*	*69.11%*
Average payment per hectare of LFA	*£156.79*	*92.64%*
Sum of all Single Payments	*£242.31 million*	*100%*
Total payment on SDA land	*£100.37 million*	*41.42%*
Total payment on DA land	*£64.54 million*	*26.64%*
Total payment on non-LFA land	*£57.90 million*	*23.90%*
Total payment on Common Land	*£18.99 million*	*7.84%*
Total payment in the LFA	*£183.91 million*	*75.90%*

Table 2

Description	*Value as %*
Percentage of farms with just SDA land	*18.98%*
Percentage of farms with just DA land	*20.12%*
Percentage of farms with just non-LFA land	*16.49%*
Percentage of farms with just common land	*0.00%*
Percentage of farms with just SDA and DA land	*12.85%*
Percentage of farms with just SDA and common land	*10.42%*
Percentage of farms with just DA and common land	*0.77%*
Percentage of farms with just DA, non LFA and common land	*0.32%*
Percentage of farms with just SDA and non-LFA land	*2.21%*
Percentage of farms with just SDA, DA and common land	*4.24%*
Percentage of farms with just SDA, non-LFA and common land	*1.12%*
Percentage of farms with just DA and non-LFA land	*7.27%*
Percentage of farms with just non-LFA and common land	*0.75%*
Percentage of farms with just SDA, DA and normal land	*2.62%*
Percentage of farms with all types of land	*1.17%*
Percentage of farms with no land =	*0.66 %*

Figures 3 shows the relationship between current (historical) Single Payment levels and payment values per hectare (average Single Payment entitlement values).

For recipients of Single Payments below around £16,000, the average payment value per hectare increases with payment size, but remains below the average payment rate per hectare for Wales as a whole. For recipients of payments in the range £16,000 to £40,000 there is a general increase in average payment values per hectare, while above £40,000, variances in payment rates increase, but appear to fluctuate around an average.

The average payment per hectare for recipients of Single Payments below £16,000 is £138.08, whereas, for those with payments above £16,000, the average payment per hectare is £184.00. It is therefore clear that, given an average Single Payment rate of £169.24, a uniform flat-rate payment regime would result in a net flow of monies away from those currently receiving Single Payments above £16,000, to those receiving less than that figure.

The differences between payments per hectare on SDA, DA, non-LFA and common land also indicate that a single flat-rate Welsh payment of £169.24 per hectare would result in a major redistribution of monies between land categories, with non-LFA and DA land losing £14m and £11m respectively, while SDA and common land would gain £17m and £8m. If common land is assumed to be SDA, the net result is a movement of £25m to the SDA, and a commensurate loss in the non-LFA and DA.

It can also be concluded that, unless the proportions of land types managed by recipients of less that £16,000 differ greatly from those in the bands above £16,000, all payment models will result in a net flow of payments to what are likely to be smaller businesses.

Figure 4 demonstrates the broad distribution of payment rates per hectare within each historical payment band, with variance increasing for higher Single Payment bands, to the extent that averages become less meaningful for higher payment bands.

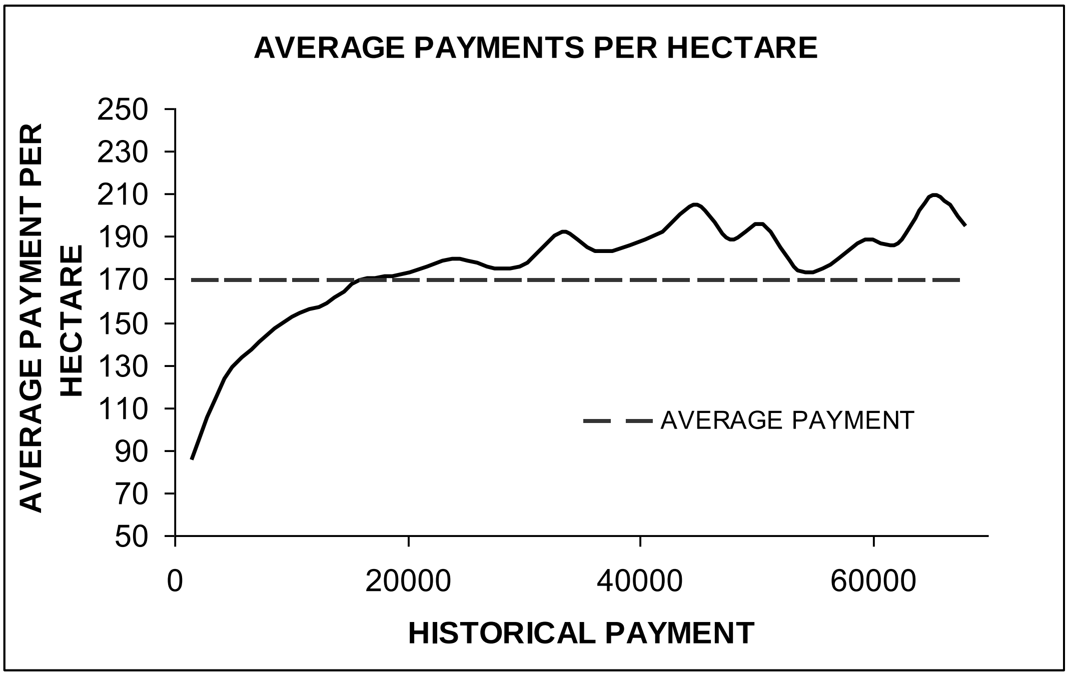


Figure 3

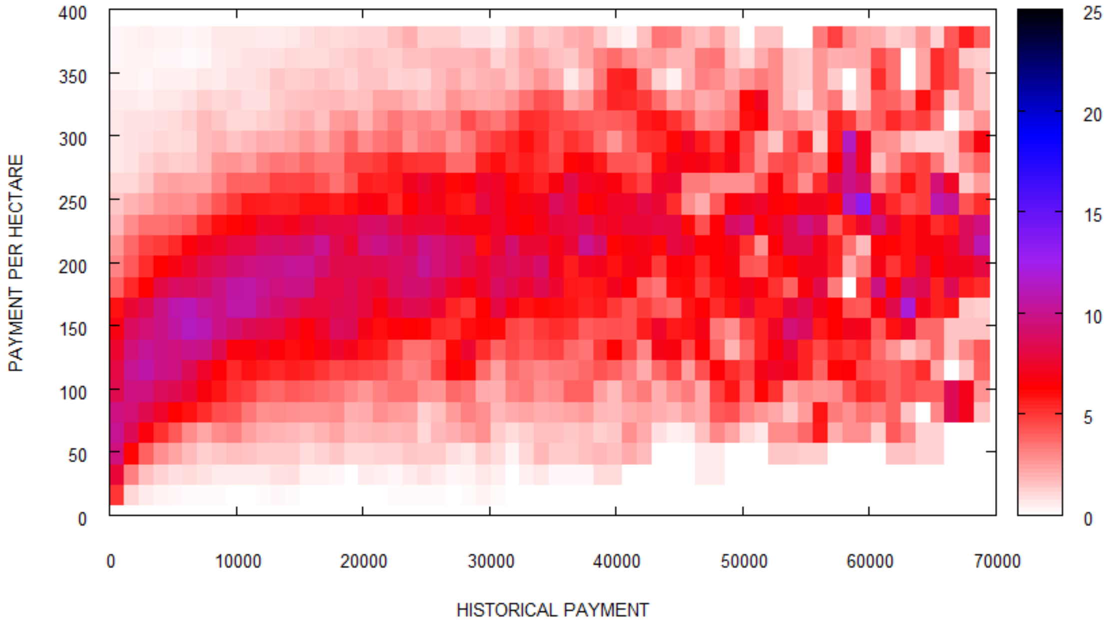


Figure 4: *Percentage of farm businesses, represented by colour, within each historical payment band, mapped against historical payment and payment per hectare.*

While such variance may well be genuine, it should be noted variance increases naturally as the size of the dataset decreases (see *Figure 8)*.

It is nevertheless clear that, for all payment bands, the financial disruption caused for individual businesses would vary significantly, irrespective of the flat-rate payment model used, and that this disruption will increase for those falling within higher payment bands.

Figure 5 provides various breakdowns of the contributions made by the four land types (SDA, DA, non-LFA and common land) to the total average payments per hectare for various Single Payment bands.

For Single Payments up to around £30,000, there is an average increase in the proportion of SDA and common land making up the average claim area, whereas reliance on DA land falls over a similar range. This shows that recipients of larger Single Payments are more likely to rely on SDA and common land, whereas recipients of smaller payments are more likely to rely on DA land.

The data also makes it clear that flat-rate models that allow different payments for different land types will, on average, significantly alter any redistribution of monies between payment bands, including the net flow of payments to businesses that currently receive Single Payments below £16,000.

Figure 6 shows the value of the total payments made within payment bands of £0-£5,000, £5,000-£10,000, £10,000-£15,000 etc., while *Figure 7* shows a summation of the same data expressed as a percentage of the total Welsh Single Payment. The peak in *Figure 5* indicates that the largest proportion of the total Welsh Single Payment (per payment band) is made to recipients of between £10,000 and £20,000, while *Figure 7* shows that around 50% of the total Welsh Single Payment is made to recipients of £25,000 or less.

Plotted in *Figure 8* are the number of farm businesses within payment bands of £0-£5,000, £5,000-£10,000, £10,000-£15,000 etc, showing an exponential fall in the number of Single Payment recipients as payments increase.

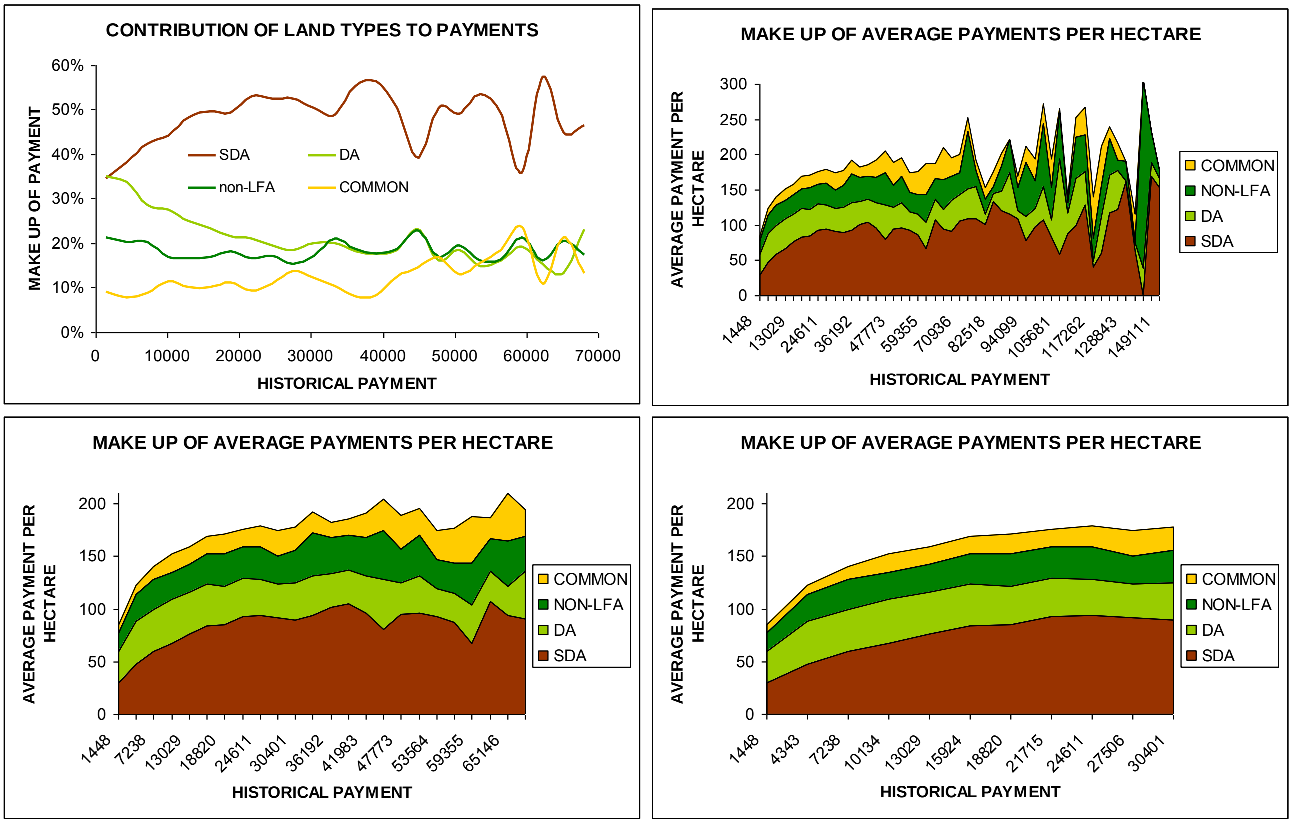


Figure 5

Figure 6: *Value of the total payments made within payment bands of £0-£5000, £5000-£10000, £10000-£15000 etc.*

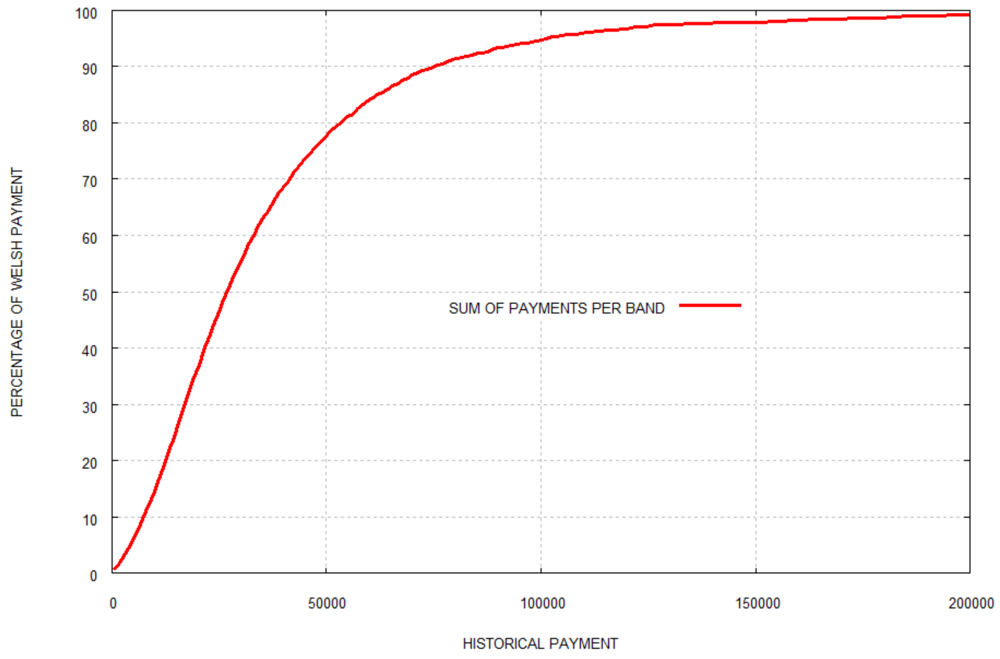


Figure 7: *Summation of the total payments made within payment bands of £0-£5000, £5000-£10000, £10000-£15000 etc., expressed as a percentage of the total Welsh Single Payment.*

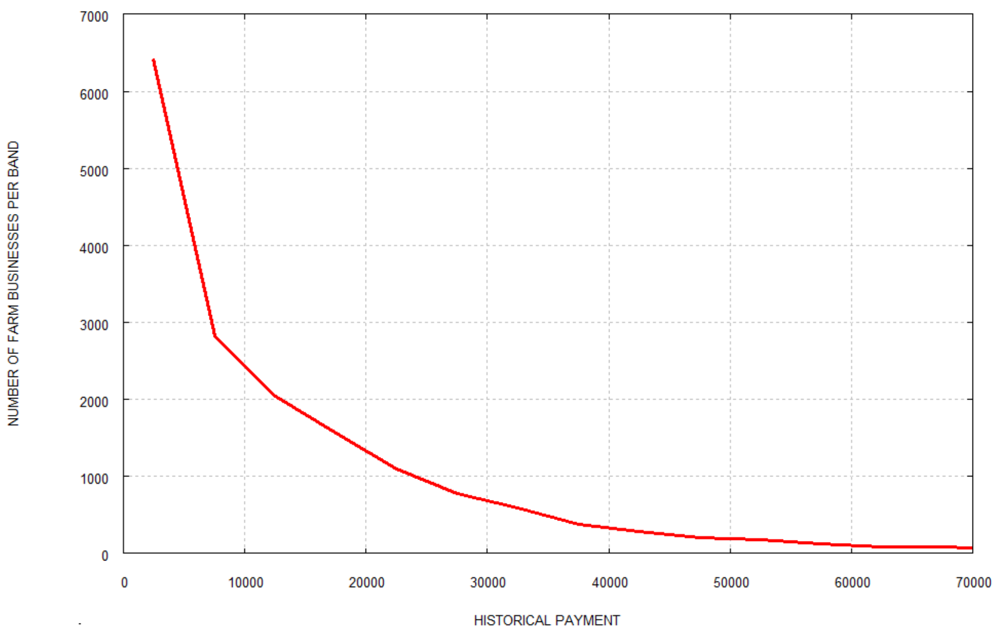


Figure 8: *Number of farm businesses within payment bands of £0-£5,000, £5,000-£10,000, £10,000-£15,000 etc*

ANALYSIS OF THE IMPACT OF FOUR FLAT-RATE PAYMENT MODELS

Payment Models

Model 1

A flat rate payment of £169.24 for every eligible hectare, irrespective of land category.

Model 2

A model retaining the balance between all monies paid within and outside the LFA, with payment rates of £157.11 per hectare of Less Favoured land, and £224.18 per hectare of non-LFA land.

Model 3

A model retaining the balance between all monies paid within and outside the SDA, where common is assumed to be SDA, with payment rates of £139.74 per hectare of SDA land, and £213.08 per hectare of non-SDA land.

Model 4

A model retaining the balance between all monies paid on SDA, DA, non-LFA, and common land, with payment rates of £145.02 per hectare of SDA land, £204.01 per hectare of DA land, £224.18 per hectare of non-LFA land, and £117.21 per hectare of common land.

Changes in Payment Distributions

As anticipated, all of the models studied show a redistribution of monies away from recipients of higher payments (*Figure 9),* resulting in a shift in the total Single Payments paid out per band towards lower payment bands (*Figure 10).*

This movement of monies is particularly evident in *Figure 11,* which indicates that, while around 50% of the total Welsh Single Payment is currently made to recipients of between £0 and £25,000 or less, for the models studied this range is reduced to between £0 and around £22,000.

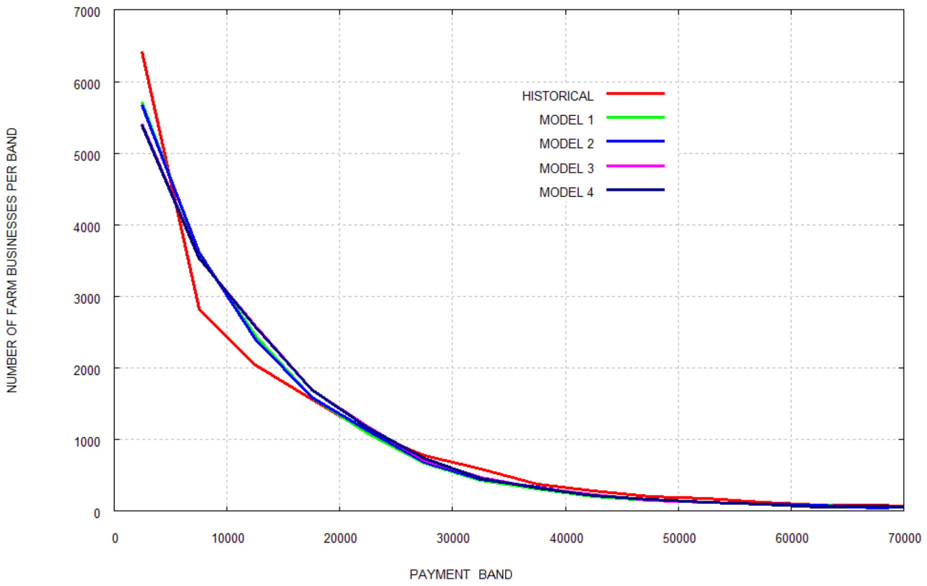


Figure 9: *Plot showing the number of farm businesses falling into payment bands of £0-£5,000, £5,000-£10,000, £10,000-£15,000 etc. under the current historical regime, and for the four models studied.*

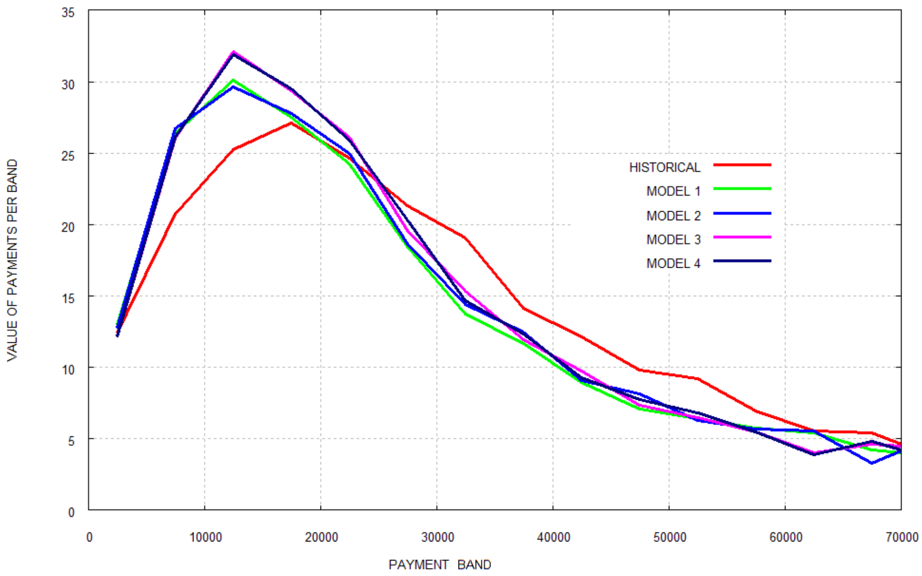


Figure 10: *Plot showing the value of all payments made in payment bands of £0-£5,000, £5,000-£10,000, £10,000-£15,000 etc. under the current historical regime, and for the four models studied.*

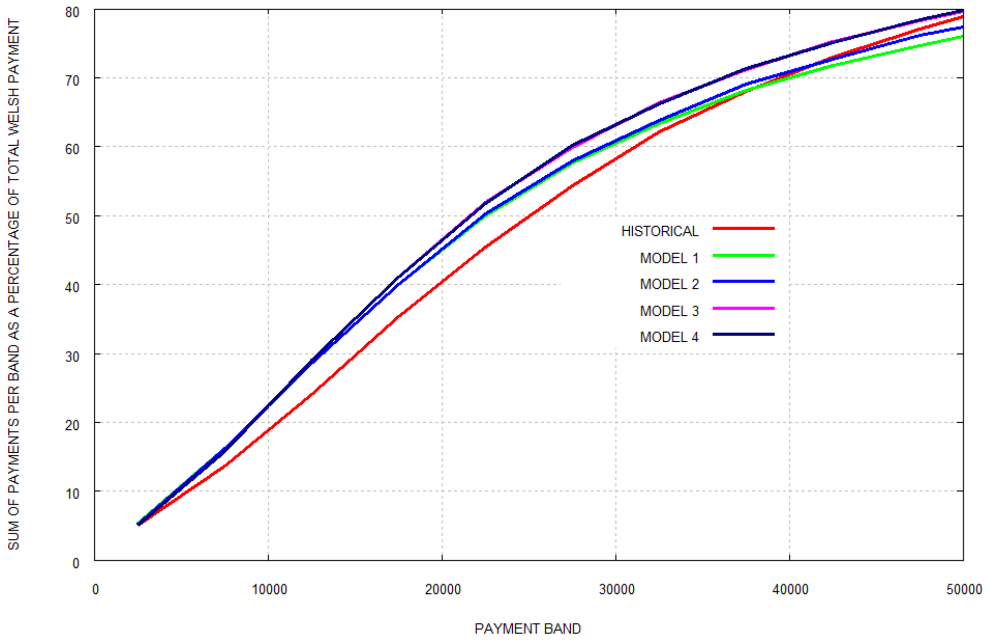


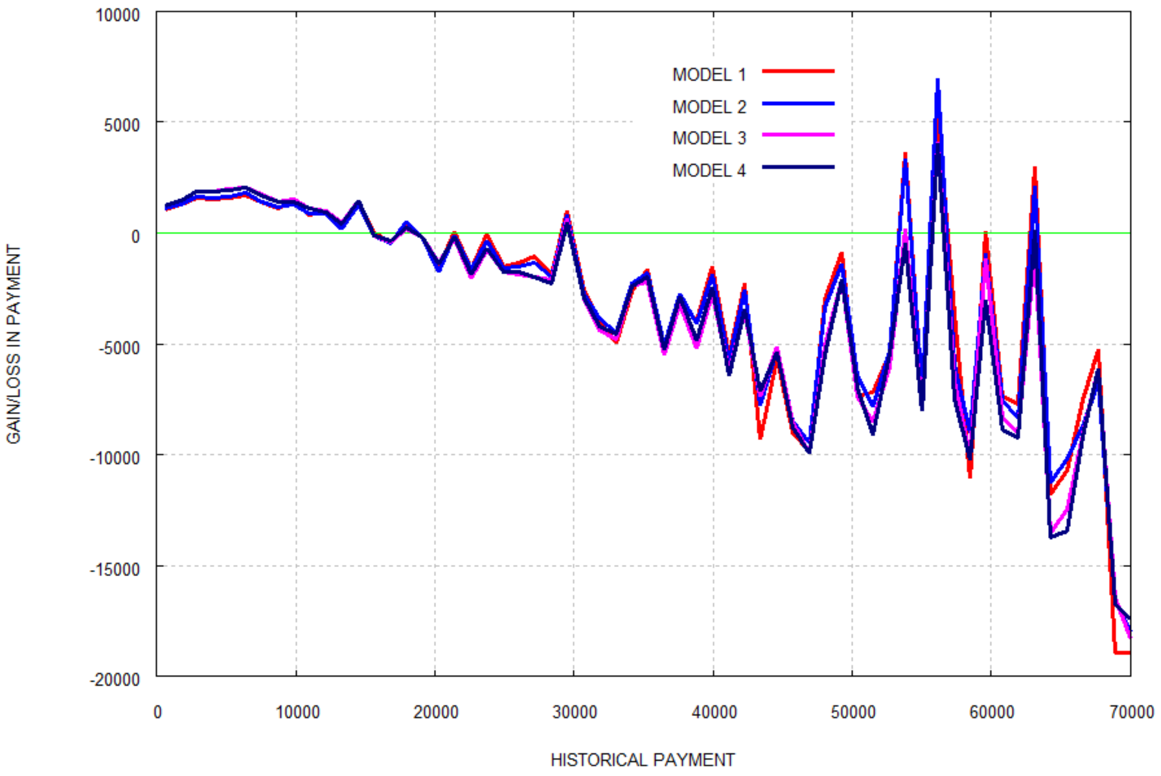
Figure 11: *Summation of the total payments made within payment bands of £0-£5000, £5000-£10000, £10000-£15000 etc., expressed as a percentage of the total Welsh Single Payment, under the current historical regime, and for the four models studied.*

Average Gains and Losses

As already discussed, average payments per hectare for recipients of Single Payments below around £16,000 are significantly below the Welsh average of £169.24, and flat-rate payment models are therefore likely to result, on average, in a movement of monies to businesses currently receiving below £16,000. This supposition is confirmed for the four models studied, as indicated in *Figure 12,* which shows the average gains/losses for businesses, plotted against historical payments for the four payment models studied.

However, *Figure 12* also shows that the average impact of each model differs significantly, with models 3 and 4 resulting in a larger increase in the average payments received by farm businesses that currently receive less than around £16,000, with the converse being true for average payments above the £16,000 threshold.

As already discussed (page 4), while *Figure 12* clearly represents, on average, significant disruption for those in historical payment bands above around £16,000, the distribution of gains/losses within each payment band increase as payments increase, and are significantly asymmetrical, as shown in *Figures 1 and 13.* This means that normal methods of measuring the total disruption caused for businesses within each band are inappropriate, and the method described in the Appendix has therefore been adopted for this purpose.



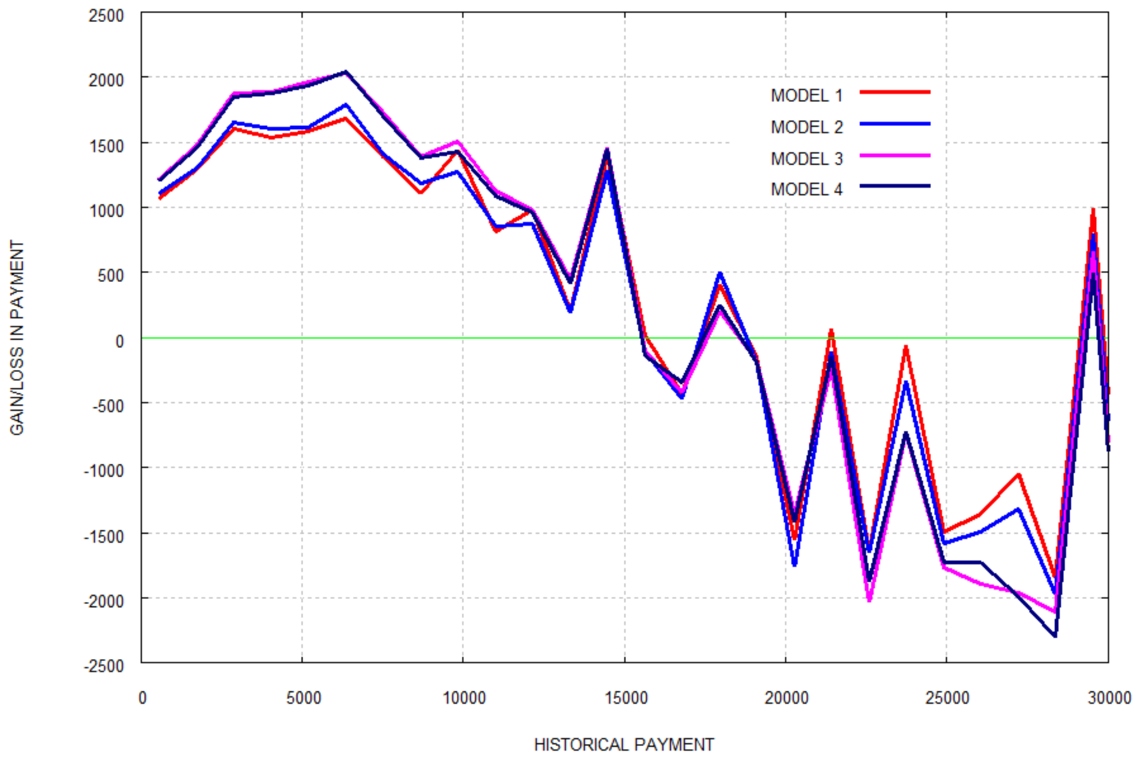


Figure 12: *Plots showing the average gains/losses for farm businesses plotted against historical payment.*

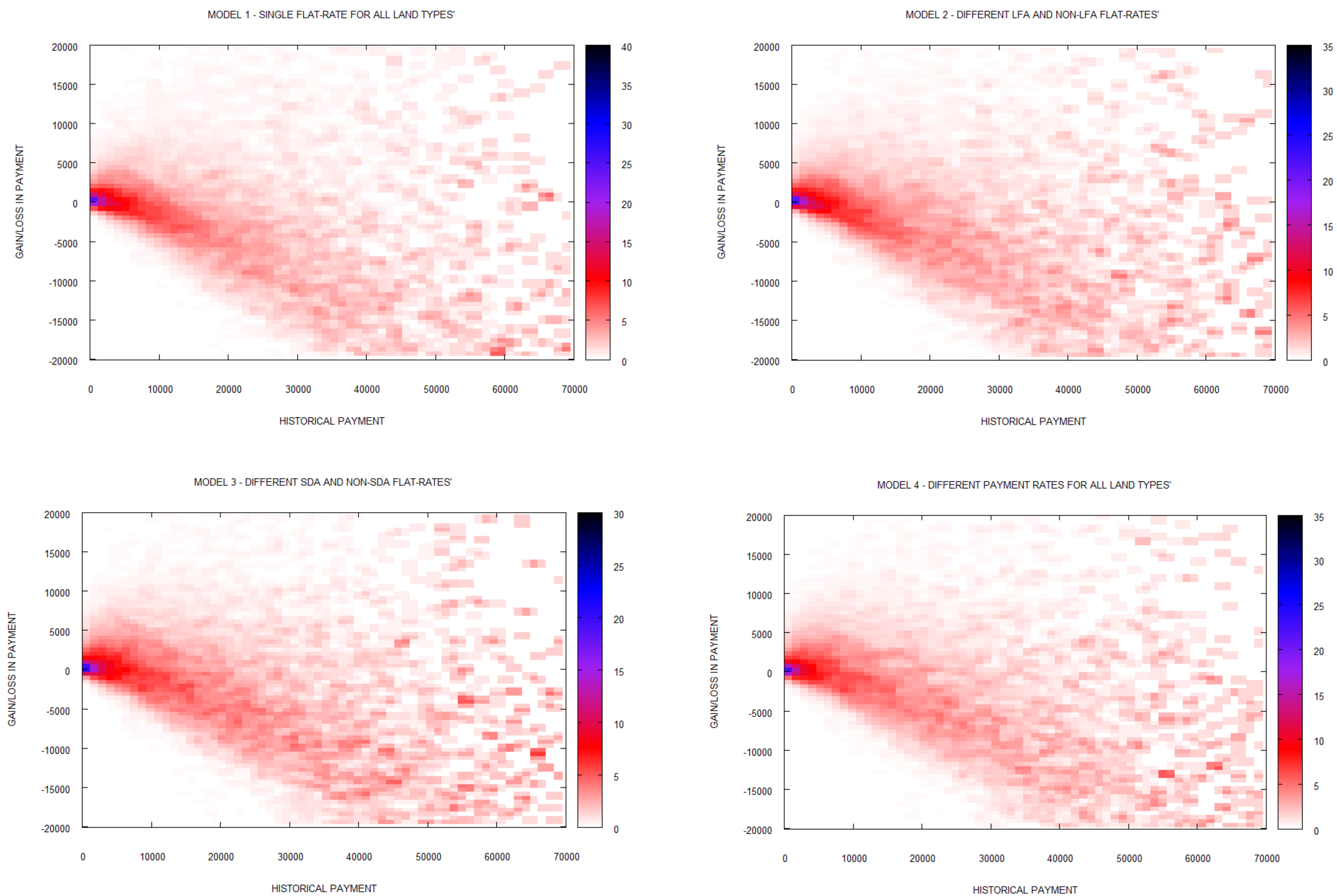


Figure 13: *Percentage of farm businesses, represented by colour, within each historical payment band, mapped against gains/losses resulting from models 1 to 4, and historical payment.*

Estimates of 'Disruption' for each Model

Figure 14 shows the boundaries within which 80% of the gain/loss data, as shown in *Figure 13*, falls, where the distances between the boundaries is a minimum (see Appendix); *i.e.* for any farm business in a particular band, there is an 80% likelihood that the gain/loss incurred will fall between the relevant upper and lower boundaries.

Figure 15 shows the distances between the boundaries plotted in *Figure 14*, which is taken be a measurement of the disruption associated with each particular model, while *Figure 16* shows the minimum distances between boundaries that enclose 60% and 95% of the gain/loss data.

While models 3 and 4 result in more significant changes to farm incomes in terms of *average* gains/losses per payment band, *Figures 14* to *16* suggest that payment models 3 and 4 are the least disruptive for farm businesses as a whole.

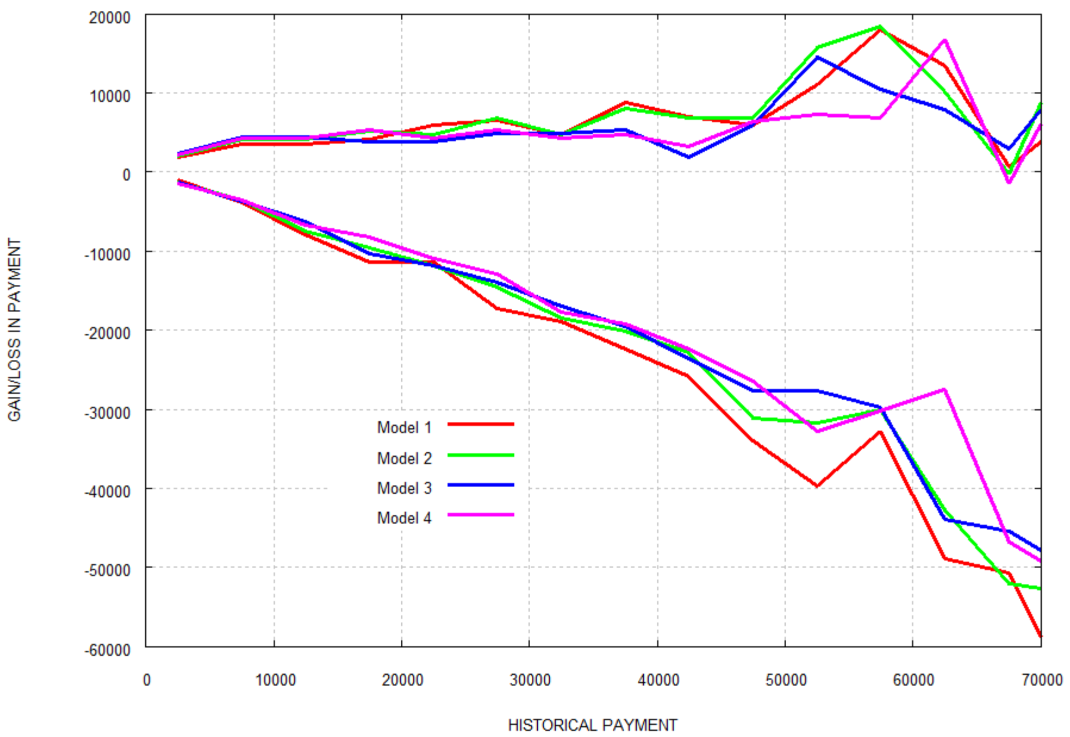


Figure 14: *Plot showing the boundaries within which 80% of all data points relating to farm businesses gains/losses lie for the four models studied.*

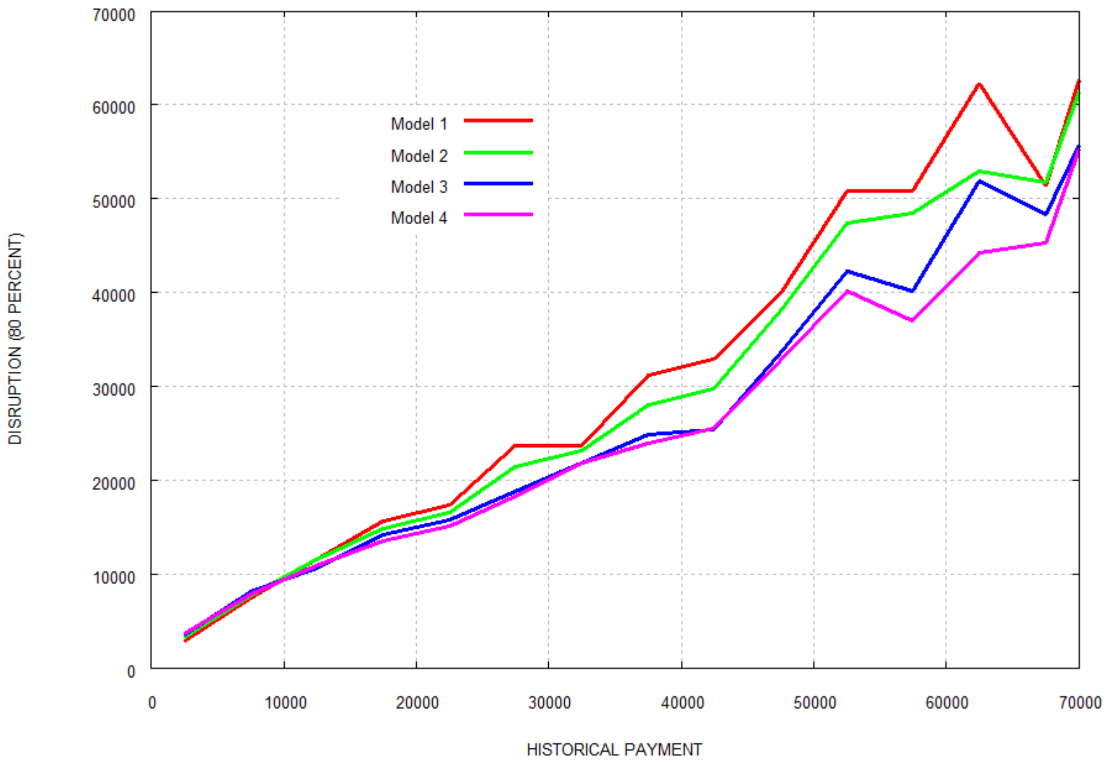


Figure 15: *Plot showing the 'disruption' (the minimum distances between boundaries that enclose 80% of the gain/loss data) caused by Single Payment models 1-4 for historical payment bands of £0-£5000, £5000-£10000, £10000-£15000 etc.*

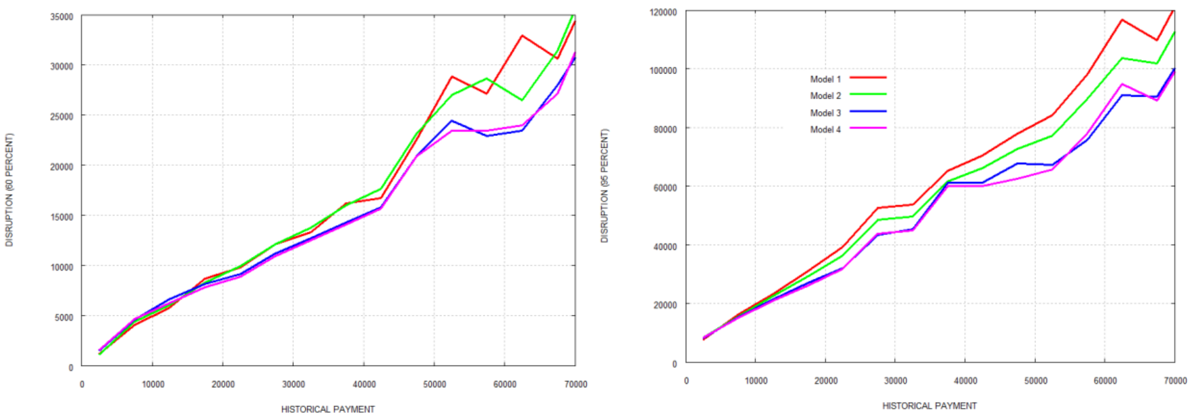


Figure 16: *Plots showing the minimum distances between boundaries that enclose 60% (left) and 95% (right) of the gain/loss data caused by Single Payment models 1-4 for historical payment bands of £0-£5000, £5000-£10000, £10000-£15000 etc.,*

MAIN CONCLUSIONS

- 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.

- Large-scale disruption is likely to result from a transition to *any* flat-rate Single Payment model.

- The work confirms the already widely accepted view that 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.

- The introduction of any flat-rate payment model is likely to result, on average, in an increase in receipts for those currently receiving Single Payments below £16,000, and a loss, on average, for those receiving more than £16,000.

- The effects for individual farm businesses will vary significantly, with variance between farms increasing for those in higher payment bands.

- 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 £25 million away from non-LFA and DA land, to SDA and common land.

- 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.

- 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.

- The work suggests that flat-rate models that ring-fence payments according to current land categories would minimise disruption for the industry.

- 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.

- 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.

APPENDIX

A set of farm businesses (*farm*$_1$, *farm*$_2$, *farm*$_3$...*farm*$_n$) receive historic payments (h_1, h_2, h_3...h_n), all of which lie in the range $\Delta H = H_1 - H_0$, such that $H_0 < h_1, h_2, h_3 ... h_n < H_1$.

If, for any given model, the flat-rate payments calculated for each business are (p_1, p_2, p_3...p_n), the difference between flat-rate and historic payments for each business are ($dp_1, dp_2, dp_3 ... dp_n$), where $dp_i = p_i - h_i$.

The distribution of the points ($dp_1, dp_2, dp_3 ... dp_n$) reflects the disruption for farm businesses whose payments currently fall within the range ΔH, and if these were distributed normally (symmetrically about the average) it would be possible to define the Standard Deviation, σ, as a measurement of disruption, where:

$$\sigma = \sqrt{\frac{\sum_{i=1}^{n} \left(dp_i - \langle dp \rangle\right)^2}{n-1}} \quad \text{and} \quad \langle dp \rangle = \frac{1}{n}\sum_{i=1}^{n} dp_i$$

However, since the data is significantly asymmetrical (see *Figure 1)* this approach is inappropriate, and the disruption is therefore defined as being the shortest range $\Delta p = dp_B - dp_A$ over which the sum of all values of dp_i lying within that range accounts for *x*% of the data, such that:

$$x\% = \frac{1}{n}\sum_{i=1}^{n} a_i \qquad \text{where} \qquad a_i = \left\{ \begin{array}{ll} 1 & dp_A < dp_i < dp_B \\ 0 & dp_A > dp_i \\ 0 & dp_B < dp_i \end{array} \right\}$$

APPENDIX 2

FARMERS' UNION OF WALES PROPOSALS FOR AN ADDITIONAL ALTERNATIVE PAYMENT ENTITLEMENT SYSTEM UNDER THE POST 2013 COMMON AGRICULTURAL POLICY

Background

Under the current Single Payment Scheme, the vast majority of farm businesses have payment entitlements which were awarded in 2005, with the number and value of entitlements being based upon the average number of eligible hectares declared in the years 2000, 2001 and 2002, and the average CAP direct payment received per hectare during those years.

For example, a farm business which received €10,000, €9,000, and €10,500, and declared 110 ha, 90 ha and 100 ha in the years 2000, 2001 and 2002 respectively would have been awarded 100 entitlements, each worth €98.33:

$$100 = \frac{110 + 90 + 100}{3} \qquad 98.33 = \frac{10{,}000 + 9000 + 10500}{110 + 90 + 100}$$

Under the current proposals, these entitlements would be abolished in 2013, and brand new entitlements awarded to businesses based upon the land declared on the IACS form in 2014. In 2014, each of these new entitlements would have a value made up of (a) 40% of the average payment per hectare in the region, and (b) an element of the historic value of the payments per hectare received by the farm business up until 2013.

Between the years 2015 to 2018 the value of the historic element would be reduced, such that by 2019 all payment values per hectare in a region would be equal.

For example, if a farm business, in an area where the average payment is €150/hectare, currently declares 100 eligible hectares, and has 100 entitlements, each worth €250, entitlement values could change as follows (given a regional Pillar 1 ceiling at its current level, and notwithstanding possible forms of modulation):

Year	2014	2015	2016	2017	2018	2019
Entitlement value	€210	€198	€186	€174	€162	€150
Change in income	16%	6%	6%	6%	7%	7%

Problems with the proposal for some regions

While the Commission proposal referred to above may be suitable for some regions or Member States, it is believed that an alternative may be suitable for others.

Specific problems include:

a) The length of the transition period and the 40% 'flat-rate' element in 2014

In the above example, a significant fall in income is seen within the first twelve month period of the new CAP; while this is just an example, for many businesses this fall will be greater than 16%, and is likely to result in extreme disruption with possibly dire consequences for individual businesses and even entire regions. Such falls would naturally have more acute impacts in those areas which, under the final Regulation, receive a smaller share of the budget than was previously the case.

Even in the absence of such an acute change within the first twelve months – for example, under a system where the historical elements of payments were reduced linearly – a transition period of five years will result in significant falls in income for many businesses over what is, in farming terms, an extremely short period, given the very nature of farming (for example, the time it takes to breed replacement animals, etc.). A five year transition period is therefore not sufficient, and the FUW would advocate a ten year transition period.

b) The creation of a future reference year

The creation of a future reference year, albeit linked to activity in 2011, creates an opportunity for landlords and those farmers who can afford to do so to attempt to maximise the number of entitlements awarded to them in 2014 – for example by evicting tenants and 'land banking'.

The creation of such a future reference period is, to the Union's knowledge, unprecedented, and will result in major disruption for the industry and the displacement of genuine farmers in the lead up to 2014.

c) The recreation of an historical entitlement system based upon numbers of hectares declared in one year

The proposal to abolishing currently held entitlements, then allocate a fixed number of entitlements based upon the number of hectares declared in 2014, will result in the recreation of a scenario whereby a fixed number of entitlements held by a farmer relates to the number of hectares declared in a previous year.

While those who declare less eligible area stand to lose their unused entitlements, those who expand their businesses have no straightforward means to access extra entitlements, since their allocations will ultimately become based upon land declared many years previously.

d) Limiting the options available to young farmers

While the Regulation places a welcome emphasis on the need to support young farmers, the proposals to allocate fixed numbers of entitlements based upon land declared in 2014 will limit the options available to young farmers who do not have entitlements: Young farmers who genuinely start farming land would have to apply to a national reserve for a set number of entitlements, or borrow money in order to buy entitlements from the marketplace, thereby having to compete with established farmers.

The creation of a national reserve of this type brings with it other inherent problems: for example, if it is necessary to modulate payments by 1% in one year in order to create sufficient funds to support X new entrants farming Y hectares, then in the following year (notwithstanding other sources of funding such as re-claimed entitlements) modulation must rise to 2% if the reserve is to bring in the same number of new entrants to the scheme, with similar increases in subsequent years.

FUW PROPOSALS

As an additional option for Member States and administrative regions, the FUW would propose the following approach, which it believes would negate the adverse impacts described above:

1. That farmers keep their current allocation of historically established entitlements (notwithstanding usage rules) beyond 2013.

2. That the value of these entitlements be reduced linearly to zero over a lengthy transition period.

3. That farmers who, in 2011, activated at least one payment entitlement, shall receive a single 'claim entitlement' allowing them to claim direct payments in 2014 and thereafter, provided they are entitled to be granted direct payments in accordance with other Articles.

4. A claim entitlement entitles those who declare eligible land in 2014, and each year thereafter, to receive a payment which is proportional to the amount of eligible land claimed during that year, plus an amount based upon the (falling) value of their historic entitlements and the area declared.

5. Those deemed to be genuine farmers, in accordance with other Articles, who were not farming in 2011 (i.e. new entrants/young farmers) (or during the previous five years before making an application) have the right to apply for a claim entitlement, allowing them to declare eligible land, and be paid an amount which is proportional to the area of eligible land declared. During the transition period, those qualifying under this provision would receive payments equivalent to the regional flat rate per hectare, funded, in part, from modulated monies used to establish a National Reserve.

6. Following a transition period, it would not be necessary to modulate money in order to fund a National Reserve, since payments per hectare would all be equal, and all those fulfilling strict criteria allowing them to claim on land – whether they are new entrants or established farmers – would receive a payment proportional to the area declared.

7. While it is recognised that the above proposal may represent problems in administrative regions where there are large areas of land not declared or claimed upon ('naked acres'), the current Commission proposals are not without problems in terms of this issue. For regions in which areas currently not registered are considered to make up a negligible percentage of the total area, linear adjustments to flat rate payments per hectares should be allowed in order to ensure that regions stay within the financial ceiling.

8. It should be noted that the proposal outlined above is analogous in many respects to the 'Tir Mynydd' LFA support system which has operated successfully in Wales for the past decade: Those receiving payments under the scheme have to fulfil strict eligibility criteria, equating to a 'claim entitlement'. Payments are then issued on the basis of the number of hectares of eligible land declared, which could vary from year to year for any individual farmer. Changes to the total LFA area claimed upon in Wales have never, to the FUW's knowledge, resulted in significant changes to the payment received per hectare.

Example

Farmer A currently holds 100 entitlements, each worth €250. Farmer B holds 250 entitlements each worth €120. Farmer C is a new entrant who has successfully applied to the National Reserve for a claim entitlement. The average payment per hectare in the region is €150.

The amount of land farmed by farmers A, B and C changes during the transition period, depending upon business decisions made, with farmers A and C deciding to increase the areas farmed, and farmer B deciding to reduce the area farmed.

Payments available to farmers A, B and C over an arbitrary transition period (9 years), based upon the overall budget available in the region remaining unchanged, are given in the below tables.

FARMER A

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
Entitlement value per hectare	€250.00	€222.22	€194.44	€166.67	€138.89	€111.11	€83.33	€55.56	€27.78	€0.00
Flat rate payment per hectare	€0.00	€16.67	€33.33	€50.00	€66.67	€83.33	€100.00	€116.67	€133.33	€150.00
Area declared	100	100	120	120	125	125	125	125	125	135
Total payment attributable to historical entitlement	€25,000	€22,222	€19,444	€16,667	€13,889	€11,111	€8,333	€5,556	€2,778	€0
Total payment attributable to flat rate	€0	€1,667	€4,000	€6,000	€8,333	€10,417	€12,500	€14,583	€16,667	€20,250
Total payment	€25,000	€23,889	€23,444	€22,667	€22,222	€21,528	€20,833	€20,139	€19,444	€20,250

FARMER B

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
Entitlement value per hectare	€120.00	€106.67	€93.33	€80.00	€66.67	€53.33	€40.00	€26.67	€13.33	€0.00
Flat rate payment per hectare	€0.00	€16.67	€33.33	€50.00	€66.67	€83.33	€100.00	€116.67	€133.33	€150.00
Area declared	250	250	230	231	220	220	200	200	175	170
Total payment attributable to historical entitlement	€30,000	€26,667	€21,467	€18,480	€14,667	€11,733	€8,000	€5,333	€2,333	€0
Total payment attributable to flat rate	€0	€4,167	€7,667	€11,550	€14,667	€18,333	€20,000	€23,333	€23,333	€25,500

Total payment	€30,000	€30,833	€29,133	€30,030	€29,333	€30,067	€28,000	€28,667	€25,667	€25,500

FARMER C

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
Flat rate payment per hectare for new entrants	€150	€150	€150	€150	€150	€150	€150	€150	€150	€150.00
Area declared	0	120	120	124	124	124	124	128	128	128
Total payment	€0	€18,000	€18,000	€18,600	€18,600	€18,600	€18,600	€19,200	€19,200	€19,200