AGENDA 2000 CAP Reform

A New Direction for Agriculture

December 1999

MAFF

A New Direction for Agriculture

Summary of key issues

- This Government is about reform and modernisation to benefit the whole community. Nowhere is this demonstrated more strongly than in our approach to implementing the Agenda 2000 agreement on the Common Agricultural Policy.
- This Summer, we sought comments on the choices facing us about implementing important elements of the Common Agricultural Policy. This document is the culmination of that consultation process and details a package of measures which radically redirect agricultural spending to serve the wider interests of the public, the environment and the rural economy.
- The Government plans to submit significant proposals to the Commission at the turn of the year on the implementation of the Rural Development Regulation. These will demonstrate clearly the UK's commitment to rural areas and the environment.
- The Rural Development Plan will show a radical shift away from production-related payments to measures aiding industry restructuring and benefiting rural economies and the environment, with every pound recycled matched by a pound from the Government.
- Despite its short-term economic difficulties, farming in this country has a very positive future, given the opportunities to restructure and diversify which these Rural Development measures provide.

Introduction

1. The Agenda 2000 reforms to the Common Agricultural Policy represent a significant opportunity for the future of agriculture in this country.

2. We consulted earlier this year on the European Commission's proposals for reform and on the outcome of the negotiations in Brussels. This was followed up in a further consultation in August, in which the Minister of Agriculture, Fisheries and Food set out the challenges facing agriculture: the hardship caused by the severe fall in farm incomes over recent years; the influence of CAP reform, the World Trade Organisation Round and EU enlargement in stimulating greater competition; the increasing importance that consumers are attaching to quality, safety and traceability of their food, as well as their priorities for the environment and animal welfare. It set out the Government's long term strategy for the future of farming in this country: that the agricultural industry needs to be efficient, forward-looking and modernised to meet these challenges. In particular, it assigned priorities to the options available under Agenda 2000 to help the agricultural industry embark upon a new direction:

- **Competitive, diverse and flexible.**
- **Responsive to consumer wishes.**
- **Environmentally responsible.**
- **An integral part of the rural and wider economy.**

3. Our aim now, in this document, is to explain the Government's decisions on implementing the options available to help realise this vision for agriculture and the wider rural economy for the future. A summary of the economic impact of these decisions is in the annex.

4. *Further copies of this document are available from Wendy Mascoll, Ministry of Agriculture, Fisheries and Food, Room 308, Whitehall Place (East), London SW1A 2HH (fax number 020 7270 8850; e-mail: w.mascoll@eu.maff.gov.uk). It may also be found on the Internet at: http://www.maff.gov.uk/farm/agendtwo/agendtwo.htm.*

Implementing the Agenda 2000 options

Rural Development

5. The Rural Development Regulation, or 'second pillar of the CAP', is the main vehicle for bringing about this new direction. It offers a range of mainly voluntary measures which support sustainable projects for adding value to agricultural production, improving efficiency and skills, diversifying businesses, improving environmental land management and extending woodland, and provides a process for planning the use of these measures in a way which balances national and local needs and priorities. The consultation revealed overwhelming support for full use of the Regulation and, in particular, for expanding environmental schemes, sustaining upland agriculture, aiding marketing initiatives and encouraging wider rural development. Our decisions on the overall balance of measures to be used are based on the results of that consultation, on emerging priorities identified by regional partners and on evaluation evidence. They will be set out in the seven year England Rural Development Plan which we aim to submit to the European Commission by the end of the year, for its approval, following further discussions with rural interests on the detail.

6. Our Plan will show a substantial expansion in the **agri-environment schemes** over the seven year programme to conserve and improve the landscape, wildlife and historic heritage of the countryside and to contribute indirectly to sustaining traditional countryside skills and to extending employment opportunities. Under the Plan, most of this is directed towards the *Countryside Stewardship Scheme* to bring about a significant extension in the area and range of habitats, species, landscapes and historic features covered and will make a major contribution to achieving the UK's Biodiversity Action Plan targets. From 2001, there would also be a significant increase in support for conversion to *Organic Farming*. And support for the *Environmentally Sensitive Areas Scheme* will continue at broadly current levels. The consultation proposal to consider re-shaping and simplifying agri-environment schemes in the medium term was also welcomed and we plan to carry out a **major review** in time for it to feed in to the mid-term evaluation of the England Rural Development Plan in 2003.

7. Consistent with our aim of improving the landscape and wildlife of farmland, and of providing alternative sources of income for farmers, our Plan will include an expansion of support both for the **Farm Woodland Premium Scheme** and for the linked **Woodland Grant Scheme** (run by the Forestry Commission) where it applies to farmland.

8. The achievement of Government's targets for climate change and renewable energy can also be assisted through specific aid to support the development of infant industries. Our Plan will outline a new **Energy Crops Scheme** to provide establishment grants and other support for short rotation coppice and elephant grass (*miscanthus*) in suitable locations.

9. Our Plan will outline continuation of support for the **Less Favoured Areas in England** through a new *Hill Farm Allowance Scheme* for introduction in 2001 to replace the present *Hill Livestock Compensatory Allowances*. Separate schemes are planned for Wales, Scotland and Northern Ireland. The objectives of the new scheme will be to help maintain the social fabric of upland rural communities through support for continued agricultural land use; and to help preserve the farmed upland environment by ensuring that land in the less favoured areas is managed sustainably. The consultation period on proposals for the new scheme ended on 3 December, and responses are currently being studied.

10. In addition, our Plan will show three new measures which will help to encourage enterprise and employment in the countryside and support rural communities.

11. Our Plan will outline a new **Rural Enterprise Scheme** to provide project-based support to assist the adaptation and diversification of the rural economy. The Scheme would cover, for example, projects to develop farm diversification and tourism initiatives, collaboration to improve efficiency, marketing of quality agricultural products and small scale projects to underpin rural economies. The Scheme will be available throughout the country, although there may be some targeting in the new Objective 2 areas. The Rural

Enterprise Scheme will be complemented by the re-opening of the **Processing and Marketing Grant Scheme** to provide capital support for businesses wishing to improve their competitiveness by developing new market opportunities and by improving processing and marketing facilities to add value to the food they produce. Consistent with the approach encouraged by the European Commission, both schemes will be operated at a regional level to reflect regionally assessed priorities and objectives although funding for national marketing initiatives will also be available.

12. Finally, in order to support this programme of measures, and in response to the views expressed in the consultation and by regional groups contributing to the England Rural Development Plan, our Plan will include **targeted skills training activity**. This would be in collaboration with regional partners, taking account of other national and regional programmes, and would be aimed specifically at supporting the delivery of the rural development plan's objectives and measures. For example, support for training could be targeted towards the development of particular skills/knowledge e.g. in environmental land management, marketing and the requirements of the food chain or towards particular groups e.g. young farmers.

13. Through the Rural Development Regulation, and subject to European Commission approval, our Plan will outline how resources available would be used to provide a substantial programme of assistance for the sustainable development of a diversified, competitive and environmentally responsible agriculture integrated with the wider rural economy.

14. The consultation proposal for a scheme to support older people leaving farming attracted mixed views, with some in favour and some against. The consultation also revealed considerable support for the principle of encouraging new entrants to farming, although not necessarily by using the grant scheme available under the Regulation. We have decided to run neither scheme. We believe that the best way to encourage new young enterprising entrants to the industry is to provide the right economic framework and, where necessary, to target support measures e.g. rural enterprise and training towards these people. After detailed consideration we also concluded that the type of early retirement scheme available under the Regulation would be difficult to target effectively towards those who should benefit and that resources available would be better directed towards other measures to assist the development of a diversified, competitive industry.

Horizontal issues

Recycling to fund the Rural Development measures (modulation)

15. The EU legislation permits member states to recycle a proportion of farmers' direct payments under CAP commodity regimes. We consulted on the basis of a form of recycling which fell more or less proportionately on all farmers, on the assumption that it would lead to benefits for farming through the Rural Development Regulation.

16. The consultation revealed overwhelming support for funding many of the measures available under the Rural Development Regulation. However, there were differing views on recycling; with farming organisations generally opposing, and environmental organisations in favour of such an approach.

17. In order to secure a significant increase in funds going into Rural Development measures, recycling at a flat rate to all direct payments to farmers under CAP commodity regimes from 2001 will be introduced. The rate will start at 2.5%, rising gradually to 4.5% in 2005 and 2006; the contribution by farmers will be fully match-funded by the Exchequer (i.e. each pound contributed by farmers matched by a pound from the Government).

Cross compliance

18. Under the Horizontal Regulation, cross-compliance (attaching environmental conditions to agricultural support payments) is one of three mechanisms for member states to consider, along with agri-environment schemes and general environmental legislation.

19. Our Plan will show an expansion of our agri-environment schemes because these actively promote positive management of the countryside and deliver environmental gains. And of course we already have legislation in place to prevent environmental damage arising from e.g. pollution, pesticides, removing valuable hedgerows, etc. We are still considering, in the light of consultation responses, whether new cross-compliance measures would have a role to play alongside these other mechanisms.

20. The consultation revealed numerous suggestions of environmental conditions which might be attached to agricultural support payments. However, these would need to be considered very carefully with regard to whether they would be easily understood, their ease of enforcement, the environmental benefits and the cost to farmers.

21. Further work is being done on this. If we identified possible measures to be applied, we would need to hold a further round of consultation on any detailed proposals before introducing them. Meanwhile we will be retaining two specific cross-compliance measures that we have been applying in the UK for some years, namely the condition in our livestock subsidy schemes to prevent overgrazing and environmentally damaging feeding practices, and the conditions in our arable area payments scheme relating to the management of set-aside land, which help to achieve environmental benefits.

Beef

Use of the national envelope

22. The sum of €21.2 million (approximately £14 million) in 2000, €42.5 million in 2001 and €63.8 million in 2002 and thereafter is available to the UK to be paid out at member states' discretion as:

- headage payments on any or all of steers, bulls, heifers, suckler or dairy cows;
- top-up payments on the slaughter premium on adult cattle;
- area payments on permanent pasture used for cattle rearing.

23. Responding to the consultation document, farming organisations generally favoured using the envelope to top-up suckler cow premium payments. Environmental organisations would prefer to make area payments, although recognising that these would be extremely small in the first year or two. Some special interest groups proposed approaches inconsistent with the Regulation.

24. Ministers have decided that in 2000 the national envelope should be used to top up suckler cow premiums in Great Britain. For future years the position will be reviewed. In particular the possibility of introducing area-based payments for permanent pasture used for low density beef production in England will be considered.

Suckler Cow Premium Quota

25. The UK needs to cut suckler cow premium quota by around 40,000 units (between 3 and 4%). The Regulation requires us to use an objective approach taking account of various factors. Most of these are built into our quota management system, but we need to allow – either by automatic exemption or by an appeals system – for producers who are implementing investment or extensification programmes.

26. Respondents to the consultation favoured running down the reserve and limiting the exempt classes to the minimum, thereby making as small as possible a cut across the board.

27. We have therefore decided to manage the cut in the following way:

- a cut in the region of 4% should be calculated next May (when final figures for 1999 quota are available) to achieve the necessary reduction in quota units, running down the national reserve, but leaving sufficient to cover successful appeals;
- all individual quota allocations would be reduced by this percentage;
- producers who can show that they are committed either to an EU extensification programme or to a development programme could appeal to have their quota restored to its previous level;
- there would be no other exemptions.

28. We also invited views on other possible changes to the quota arrangements. Respondents overwhelmingly favoured no change, although some minority interest groups wanted special treatment for environmentally-friendly farming patterns or for new entrants to farming. We will therefore be making no other changes to the current quota arrangements at present.

Limit on dairy producers' eligibility for Suckler Cow Premium

29. Dairy producers have been able to qualify for suckler cow premium so long as they hold no more than 120,000 kg of milk quota. The Agenda 2000 package allows member states to increase or waive this limit, and we consulted on the basis of raising it to 180,000 kg. This would allow producers to run up to around 40 cows before becoming ineligible for suckler cow premium, an increase which reflects the increasing average size of dairy herds and increasing yields of dairy cattle since the limit was last set in 1992.

Several respondents opposed the increase, at least some on the mistaken assumption that it would lead to suckler cow premium being paid on dairy cows. The farming organisations supported an increase to 180,000 kg. The limit is therefore being increased to 180,000 kg.

Extensification payments

30. Extensification payments are to be made at rates set down in the Regulation to recipients of beef special and suckler cow premiums who meet prescribed stocking limits. The consultation document sought views on:

- whether to operate a single tier system for producers operating at less than 1.4 LU/ha; or whether to have a two-tier system with different rates of payment for those stocking to less than 1.6 LU/ha and between 1.6–2.0 LU/ha (falling in 2003 to 1.4 LU/ha, and 1.4–1.8 LU/ha).

31. A less formal consultation with farming organisations has also been conducted on the following aspects, which member states have also to decide:

- whether to offer a simplified system under which a producer undertakes to maintain his herd below the appropriate stocking limit throughout the year;
- how to operate the standard system: producers must maintain an average stocking rate below the appropriate limit, but member states have to decide whether to measure this across all 365/366 days of the year, or on just six days selected at random and communicated to producers retrospectively.

32. There was overwhelming support for a two tier approach, and for offering a simplified system. Farming organisations in England preferred a 365-day option.

33. In view of the responses, and consideration of the practical difficulties for both farmers and Government of calculating stocking densities on 365 days a year, it has been decided that we should adopt the two-tier option, offer a simplified scheme, and adopt the six-day approach for measuring stocking densities under the standard scheme.

Beef Special Premium

34. Claimants may only claim premium up to 90 animals a year in each age category. The Agenda 2000 decision allows member states to maintain, raise or abolish this limit, and the consultation document invited views. Most farming organisations favoured retaining the 90-head limit, at least for the moment, although a minority would prefer it to be abolished now. The 90-head limit will be retained.

35. The opportunity has also been taken to re-examine the Beef Special Premium (BSP) ceilings. BSP payments are subject to a ceiling; if the number of claims in a year exceed the ceiling, all claims are reduced (scaled back) in proportion. The UK ceiling is 1.42 million units, divided since 1992 into three regional ceilings: 940,000 for England and Wales, 245,000 for Scotland, and 235,000 for NI. To date England has had sufficient spare to transfer units and avoid scaleback, but it has recently become clear that in-year transfers will no longer be acceptable; if a regional ceiling is exceeded scaleback will apply even if other ceilings are undershot. As part of the Agenda 2000 settlement, the UK ceiling is increased by 100,000 until the UK is able to export calves under five months of age.

36. In order to maximise national returns from the BSPS, to allow production to develop in accordance with commercial factors, and to ensure that producers throughout the country are treated equitably, it has been decided to operate a single UK ceiling. The impact of these decisions will be monitored and reviewed in due course.

Slaughter premium

37. The Agenda 2000 decisions also include the introduction of a slaughter premium payable on all slaughtered cattle, including those handled under the Over Thirty Month Scheme. The scheme is tightly defined in Community legislation, and there were no elements of national discretion warranting inclusion in the consultation document. Summaries of the way the scheme will operate have been sent to farmers and slaughterhouses likely to be affected, and full details including claim forms will be distributed shortly.

Dairy

Deadlines for quota leasing and permanent transfers

38. The majority of responses to the consultation supported the extension of the quota leasing deadline to 31 March but raised some concerns over the proposal to advance the deadline for permanent transfer via a lease of land to 1 March. However, the Government has to ensure that all leases and transfers are processed in time to run the superlevy calculation so that the deadline for payment of any superlevy due to Brussels is not put in jeopardy.

39. We have decided to implement this proposal with effect from the next quota year which begins on 1 April 2000. It is worth noting that the permanent transfer of quota with the sale of the associated land; quota transfers due to tenancies coming to an end; and transfers without land for restructuring purposes will continue to be processed up to 31 March. The advancing of the deadline to 1 March will only apply to the permanent transfer of quota via a lease of land. Overall, this change which takes effect in the 2000/01 quota year should provide additional flexibility, enabling producers to manage their quota more effectively.

Siphon on permanent transfers of quota effected by a lease of land

40. There was widespread support for the proposal that a siphon mechanism should not be introduced, and this provision will not be implemented.

Transfers of quota independently of land

41. The majority of consultees were in favour of the proposal to retain the link between quota and land, and we do not intend to implement the discretionary provisions to break this linkage.

Confiscation of under-utilised quota

42. Most consultees supported the proposal not to confiscate all or part of quota unused by producers using less than 70% of their quota within a 12 month period. The provision to confiscate under-utilised quota will not be implemented.

Arable

43. The main Agenda 2000 changes on the arable side relate to decisions on price support, where there is no national discretion. Member states do, however, have some flexibility over arrangements for direct aid under the Arable Area Payments Scheme (AAPS). To comply with the deadline of 1 August laid down in the EU Regulation, and following consultation, UK Ministers decided in July to maintain the existing UK regionalisation plan for AAPS subject to a single regional base area replacing the present two in Scotland. This will, however, be subject to further review in 2000 for the 2001 harvest.

44. At the same time, as autumn planting was imminent, Ministers agreed that the maximum part of any claim that can be set-aside should be maintained at 50%. However, up to 100% of a claim can be set-aside when the land to be set aside is all:

- land which has been set aside since leaving the Five Year Set-aside Scheme;
- land used for the production of multiannual crops for biomass; or
- land taken out of arable production under an agri-environment scheme (e.g. the Nitrate Sensitive Area Scheme) and which has now left that scheme.

45. Further consultation will be held on set-aside management conditions and the introduction of multiannual set-aside in 2001.

The Economic Impact of Rural Development Expenditure and Recycling

Expenditure on Rural Development and its economic impact

1. The Government's Plan would achieve a shift away from production-related payments and towards:

- sustaining valued public goods in the countryside (such as landscapes and habitats);
- opportunities for farmers to diversify their businesses and improve efficiency; and
- environmentally sustainable farming practices.

2. The Rural Development Plan will show indicative expenditure on Rural Development doubling over the next seven years. The Plan will involve joint funding of additional expenditure with a new partnership between Government and the farming community which would mean some of the production-linked payments to farmers being recycled into Rural Development measures and matched with equivalent funding from Government.

3. The levels of recycling and match funding in the Plan will involve about £600 million over the seven-year period, divided equally between recycling receipts and match funding. Indicative match funding amounts for England over the period will be as follows:

£ million

2000/01	2001/02	2002/03	2003/04
—	22	45	50

£ million

2004/05	2005/06	2006/07
54	62	70

4. The Plan will show a widening of the range of options available to farmers, and to the rural economy more generally. The indicative expenditure in the Plan is backed by positive evidence from economic evaluations; for example, the evaluation evidence shows a high cost-benefit return to agri-environment schemes (see Chart 1).

Chart 1: Evaluation evidence on agri-environment schemes

The economic rationale for payments for agri-environment schemes is strong. These schemes sustain and enhance the provision of valued landscapes and habitats in the countryside; however, if left to market forces, these public goods would not be provided on the same scale. Evaluation studies have attempted to compare the costs of these schemes with the wider public benefits which result. For example, some studies have researched the value which residents and visitors attach to the enhancements to the landscape from a particular scheme using 'stated preference' techniques (in particular contingent valuation and choice experiments) in which individuals are asked to choose between, and hence value, different landscape features. Results from a range of studies, for Environmentally Sensitive Areas, indicate that these schemes provide environmental benefits which are significantly greater than the associated costs.

More details of this analysis are contained in a working paper by MAFF's Economics and Statistics Group 'Economic Appraisal of Rural Development Options'; this will be published at the same time as the Rural Development Plan for England and will be available on MAFF's website at *http://www.maff.gov.uk/farm/agendtwo/agendtwo.htm*

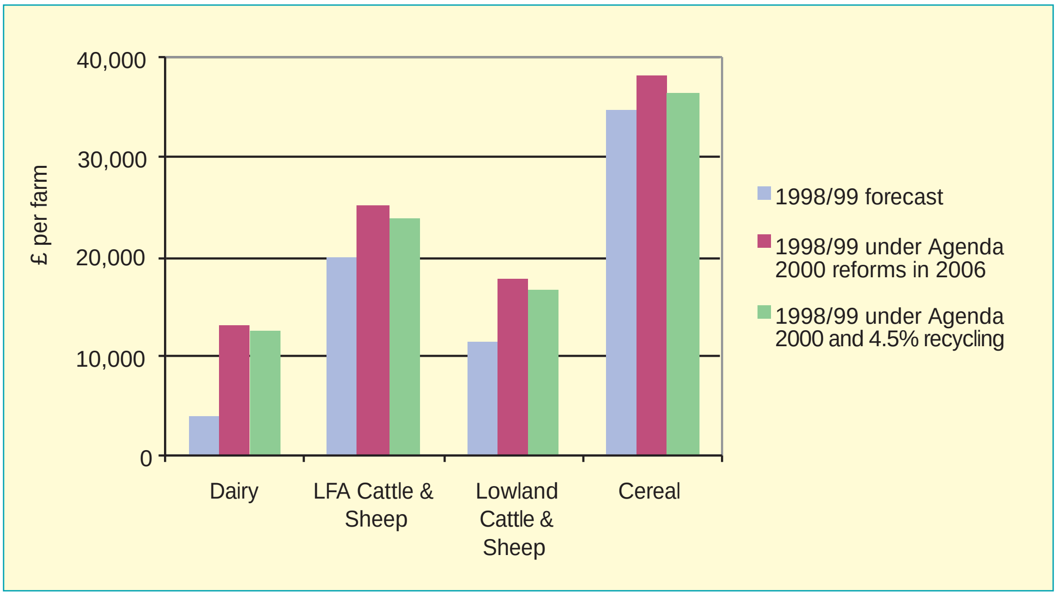
or from Lynda Bulford (fax 020 7270 8558).

Impact upon farm businesses

5. There are two aspects to this. First, the planned reduction in production-linked payments (through recycling) would, by itself, be likely to reduce farm incomes. Second, however, the recycling of this money into Rural Development measures (together with the planned matched equivalent funding from Government) will provide new sources of revenue for farmers. Overall, this means that some farms are likely to see an increase in revenue whilst others will face a reduction. The analysis which follows looks at these two aspects in turn, considering first the reduction in production-linked payments and the impact of this on farm incomes (Charts 2 to 4) before putting this alongside the revenue from Rural Development measures (Chart 5).

6. The projected impact of the planned reduction in production-linked payments on the subsidies received by different types of farm is illustrated in Chart 2. This shows two things; first, it shows the increase in production linked payments which will arise (by 2006) as a result of the Agenda 2000 reforms of the commodity regimes. Second, it shows that the 4½% reduction in production linked payments is considerably smaller than the increases resulting from the Agenda 2000 reforms.

Chart 2: Projected impact of Agenda 2000 and 4.5% reduction in production-linked payments on Direct Subsidy Receipts of full time farms in England



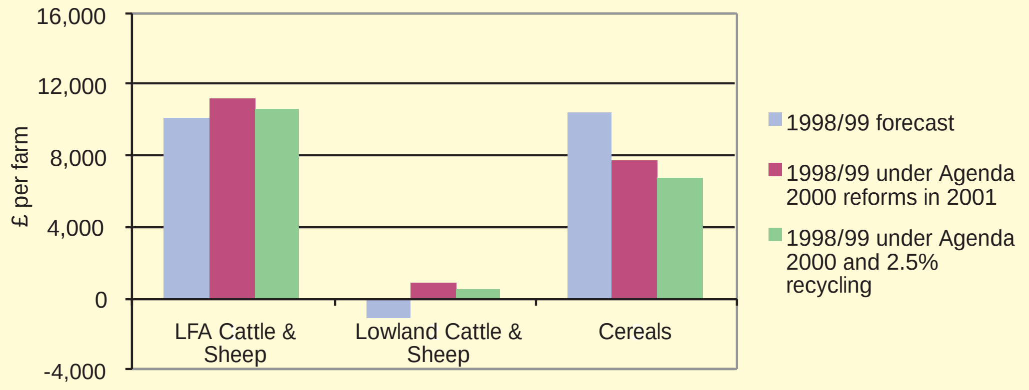
Source: MAFF estimates

7. However, the consequences of this for farm incomes will also be shaped by the reductions in support prices which result from the reforms of the commodity regimes. This is illustrated in Charts 3 and 4. These compare estimated farm incomes in 1998/9 (which was of course during a poor business period) with:

- the projected outcome if the Agenda 2000 reforms of the commodity regimes had been in place (with the reductions in support prices and increases in production-linked payments);
- the projected outcome if, in addition, all production-linked payments were reduced by recycling.

8. Chart 3 shows projections for 2001 (with a recycling rate of 2½%) and Chart 4 shows projections for 2006 (with a recycling rate of 4½%). 2006 is the final year of the Rural Development Plan but it should be noted that the Agenda 2000 dairy reforms will not be fully implemented at that stage.

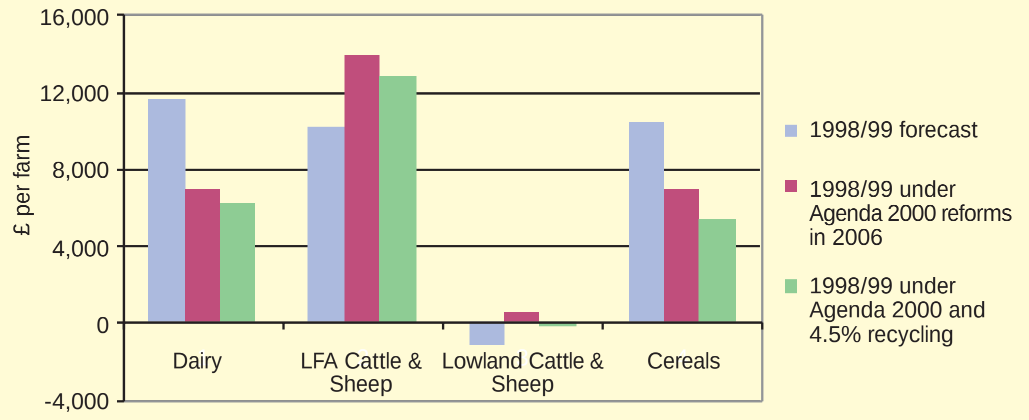
Chart 3: Projected impact in 2001 of Agenda 2000 and 2.5% reduction in production-linked payments on Net Farm Income[1] of full time farms in England



1. Net Farm Income takes account of imputed charges for capital and family labour; cash incomes will be higher (for Lowland Cattle & Sheep farms the cash income forecast for 1998/99 is broadly £11,000).

Note: For the income figures under Agenda 2000, LFA payments have been calculated on the basis of the present rates per head of livestock (in advance of decisions on the new methods of LFA payments). *Source: MAFF estimates*

Chart 4: Projected impact in 2006 of Agenda 2000 and 4.5% reduction in production-linked payments on Net Farm Income[1] of full time farms in England



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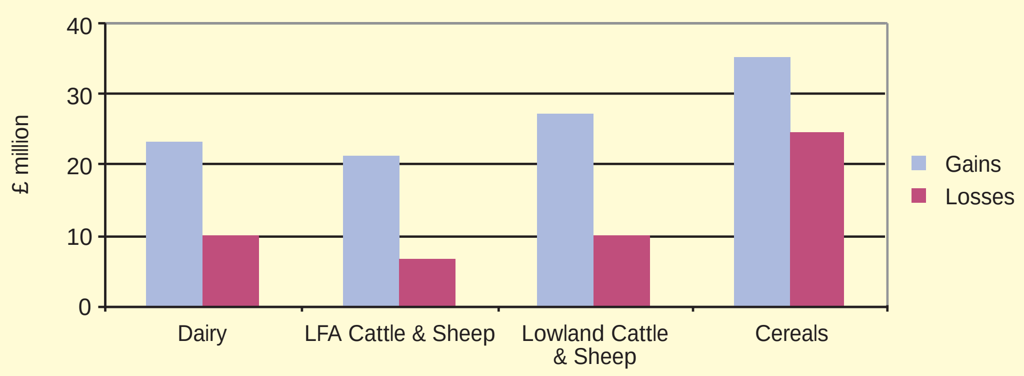
9. This analysis shows that cattle and sheep farms will gain far more, on average, from the Agenda 2000 commodity reforms than they will lose from the recycling reductions in production linked payments. For dairy farms and for cereals farms the reductions in payments from recycling will add to the reductions in incomes which will result from the Agenda 2000 commodity reforms; but the recycling reductions are considerably smaller.

10. However, some of these negative impacts are likely to be off-set – at least in part – by restructuring. The Rural Development measures will help facilitate this restructuring (for example, by supporting diversification or more effective product marketing).

11. But more generally, the measures set out in the Rural Development Plan will provide alternative sources of revenue for farmers. Chart 5 illustrates for different types of farm, the reduction in revenue from modulation and the gain from recycled receipts and match funding.

Chart 5: Indicative gains compared to losses[1] with 4.5% reduction in production-linked payments and measures set out in the Rural Development Plan by farm type, England, 2006



1. Gains and losses in revenue will be determined by the balance of measures in the Rural Development Plan and the take-up of these measures: both aspects are subject to some uncertainty.

Note: A gain or loss in revenue will not lead directly to a corresponding change in farm profits; there will also be adjustments in farm costs. *Source: MAFF estimates*

12. The analysis shows that:

- there is likely to be additional revenue, in aggregate, to cattle and sheep farms (both in the lowlands and in the hills); this is because the Rural Development measures are likely to skew toward these types of farms;
- there are also likely to be gains in revenue to dairy farms and small gains to cereals farmers (in aggregate); some types of farm (e.g. general cropping farms, growing a wider range of arable crops) are likely to lose out, however;
- small farms do relatively well, on average (and large farms correspondingly less well); this essentially reflects the fact that cattle and sheep farms (where there are more small farms) show significant gains in revenues;
- overall, around a half of farms are likely to gain revenue and a half are likely to lose revenue. Modulation will affect many farms whilst the Rural Development measures are likely to benefit fewer farms – because the schemes are targeted on farms which provide public goods in the countryside, or provide more environmentally friendly farming or which are seeking to restructure in various ways.