



Sustain CAP Briefing CAP Reform in the UK- an overview

March 2004

This briefing has been produced to provide Sustain and UK Food Groups members with some detailed background of the implementation of CAP reforms announced recently in England (other UK plans are also outlined).¹ There are five main sections:

- 1. How the CAP is being implemented**
- 2. How it is expected to affect different sectors**
- 3. Variations between UK Countries**
- 4. Initial reactions from stakeholder groups (comments from representatives)**
- 5. Some initial farmer reactions**

1. Background to CAP reform

On the 12th February 2004, Margaret Becket announced that the ‘most radical reform of the common agricultural policy since it’s inception’². Member states were given some discretion in how they implement these reforms³, and England has chosen to fully decouple the levels of subsidy received, from levels of production. Regional payments will not be fully introduced until 2012. Until this point payments will be based on the level of individual farmers historic subsidy payments. In 2012 there will be two rates of payment: land within severely disadvantaged areas, and all other land [note this is as at 31st March 2004 but may change following representations from upland farmers – see below].

Exact amounts of subsidy received will depend on the Pound: Euro exchange rate, and on deductions for financial discipline (a mechanism which could be introduced by Brussels if the CAP budget appears in danger of being breached)⁴.

Decoupling

In launching the new scheme Margaret Becket stated that:

“The link between the subsidy paid to farmers, and the level of production has been broken”⁵.

The minister then describe that farmers will no longer be compelled to produce what the subsidy system dictates; this will allow farmers to produce what the market desires. She states that decoupling will also reduce environmental impacts by removing the incentive for intensification and over production, and by making the subsidy dependant on compliance with a range of

¹ Many thanks to Emma Hockridge for preparing the information for this briefing.

² www.defra.gov.uk/corporate/ministers/statements/ Statement on CAP reform, 12/02/04

³ DEFRA CAP Reform team, *Some Key Facts*, DEFRA 12/02/04. See also *EU CAP Reform Implementation Plans*, Sustain, March 2004.

⁴ *Farmers Weekly*, 12/03/04

⁵ www.defra.gov.uk/corporate/ministers/statements/ Statement on CAP reform, 12/02/04

standards, which relate to EU standards covering public and animal health and welfare⁶. Moreover, decoupling also reduces the trade distorting nature of common agricultural policy⁷.

England will decouple fully in 2005, which is the earliest opportunity to do so, and will move towards a flat rate single farm payment to farmers. England will not take up any of the options for partial or sectoral recoupling (that is linking subsidies paid to the amount or type of production), as some countries have⁸, partly due to the concerns over the high level of bureaucracy which partial decoupling involves.

Farmers will be able to sell or lease their entitlement to others, who will then receive subsidy if they farm a similar amount of land in compliance with the eligibility criteria⁹.

Cross-compliance

Farmers will be expected to comply to a range of environmental standards, in order to receive their payments. A consultation has started on these cross compliance measures and their enforcement, which ends on 16th June 2004.¹⁰ The specifications have not yet been announced, and there is anxiety from farmers concerning the level of the necessary compliance¹¹. The consultation paper says the cross compliance could cost an average of £1, 000 per farm in England but will result in savings and will be outweighed by SFP payment of around £220 per hectare.

Single Farm Payment (SFP)

This is a flat rate payment, which will apply to two regions: severely disadvantaged (SDA), which will receive £75/ha, and lowland areas, which will receive £220/ha¹². There is a proposal from a consortium representing farming, landowning, and countryside interests, for an additional area to be introduced, thus creating lowland non-SDA, upland SDA top the moorland line, and the moorlands above the line. This is to take account of farmers who fell within SDA lines, yet were efficient producers, and would lose large amounts of money under the proposed scheme¹³. A decision on this will probably be taken in March 2004. Perennial crops (i.e. top fruits) will not be eligible unless grazed.

There will be an eight-year transition to a flat rate. The value of entitlement will mainly be based on historic receipts from existing schemes, but this will reduce incrementally. The flat rate element will be 10% in 2005, 15% in 2006, 30% in 2007, 45% in 2008, 60% in 2009, 75% in 2010, 90% in 2011, and 100% in 2012¹⁴.

Benefits?

DEFRA estimates that economic benefits for the UK will be in the order of £400-550 million per year at present exchange rates (0.6bn – 0.8bn Euros). DEFRA economists have estimated that on average farm incomes could rise by approximately 5%, as compared with 2003 figures¹⁵. Yet *Farmers Weekly* talks of ‘an inevitable fall in income under the SFP’¹⁶.

⁶ Q&A: *General Matters*, DEFRA,2004

⁷ DEFRA Cap Reform team, *Some Key Facts*, DEFRA 12/02/04

⁸ See Briefing on ‘EU MS Implementation of CAP reform’; plus *Farmers Weekly*, 12/03/04.

⁹ Q&A: *General Matters*, DEFRA,2004

¹⁰ see DEFRA ebsite for details

¹¹ *Farmers Weekly*, 12/03/04

¹² *Farmers Weekly*, 12/03/04

¹³ Agra-Europe, 21/03/04

¹⁴ DEFRA Cap Reform team, *Some Key Facts*, DEFRA 12/02/04

¹⁵ Q&A: *General Matters*, DEFRA,2004

¹⁶ *Farmers Weekly*, 12/03/04

Disadvantages?

Farmers on the edge of SDA's have commented that the payment rate will make it very hard for them to reinvest, and some calculate that their income will be halved¹⁷. Campaigning groups have expressed concern that the reforms are not radical enough (see below). The Commission fears that averaging of subsidies between all types of farmers will radically change production decisions and inflate land prices.

National Envelope

This is an instrument that will not be used by England although some groups are still working to reverse that decision. It allows member states to take up to 10% from the sectoral ceilings in order to fund farming practises that either protect or enhance the environment, or improve marketing or quality.¹⁸

National Reserve

A percentage of the payments kept back to be used to cover so called 'hardship cases', but the level at which this will be set is yet to be decided. The commission has specified a maximum level of 3%¹⁹

Modulation

This is the amount of money transferred from subsidies to rural development measures. In the UK it is expected to be at 10% of payments by 2008. Smaller farmers will benefit from the exemption of the first 5,000 Euros of subsidy from modulation²⁰ This will pay for the Rural Development Measures, including

Set aside

Set aside obligations are spread across all arable land, therefore total area of set aside will be the same as under the previous scheme, but an individual's percentage will be lower²¹.

2. Effects on Different Sectors:

Dairy

Comments in the *Farmers Weekly* suggest that farmers may leave the industry if there is not a rise in farm gate milk prices²². An independent report commissioned by the Milk Development Council (MDC), Dairy Industry Association Ltd (DIAL) and the department for environment, food and rural affairs (Defra) calls for CAP aid payments to be made on a historic output, rather than a regional area basis. This is because a regional system would penalise the most efficient and competitive farmers. This is a sector that has been struggling, with 60% of farmers failing to cover costs last year²³

Beef

The impact for beef is complicated by the historic subsidies it has received in the past, including beef special premium, and slaughter premium. The farmers who will lose out the most under the reforms will be those who rear beef intensively, and have little or no land to secure SFP

¹⁷ *Farmers Weekly*, 12/03/04

¹⁸ *Farmers Weekly*, 12/03/04

¹⁹ www.agra-net.com/ 13/02/04

²⁰ *Q&A: General Matters*, DEFRA,2004

²¹ DEFRA Cap Reform team, *Some Key Facts*, DEFRA 12/02/04

²² *Farmers Weekly*, 12/03/04

²³ www.agra-net.com/ 13/02/04

entitlement²⁴. The National Beef association figures suggest a 50-70% fall in income for beef suckler units in SDA's²⁵. They currently receive £250-£400 per hectare in support payments, but these will be reduced to £75/ha within eight years²⁶.

Sheep

For most lowland farmers the introduction of the SFP will be positive. In examples calculated by the *Farmer's Weekly*, sheep farmers were shown to be better off after reforms. The lower the stocking density, the higher the gain.²⁷

Arable

DEFRA's research has shown farmers have cut fixed costs in recent years, in order to remain profitable. Research results suggest that decoupling will encourage arable farmers to cut costs to an even larger extent, and that wheat production cost savings of £5 to £10 per tonne might be possible, which, applied to all cereal output, would generate productivity gains of €100 -300 million for the UK²⁸.

Horticulture

Some have been anxious that the transition period will mean that those not previously engaged in horticulture, will do so whilst supported. For example in a question to Margaret Beckett, the MP Peter Luff stated: "*it could hurt growers who have never received subsidy and who will now have to compete with arable farmers who could switch to growing crops like salad onions and receive a subsidy the original grower never got and can't get now*"²⁹ However, the reforms do mean that for the first time, unsupported sectors will benefit from subsidies, however small. There are concerns that orchards will be grubbed up in 2005, as farmers attempt to maximise the land eligible for the SFP.³⁰

Organic Farming

Soil Association, the UK's largest organic certifier, is concerned that the proposed support payment structure will do little to propagate organic farming in the UK. Under the initial proposal organic farmers will have to wait eight years before feeling the full benefit of the payments. The increased funding for the Rural Development Programme does however mean increased finance for the organic Farming scheme which means organic farmers will receive on-going payments after conversion payments as a reward for the specific environmental benefits they provide as outlined by DEFRA in its research.

3. Variations between UK Countries.

Northern Ireland

A static hybrid model has been favoured, whereby each farmer's aid entitlement will be based on a mix of historic and regional factors. All aids will be fully decoupled from production from 2005. Under this approach, all farmers will receive a basic flat rate, which will be topped up by a supplementary aid lined to each farmers individual 'track-record' of CAP aid receipts. Preliminary estimates suggest these will be at least 68 Euros/ha. A national envelope will not be used³¹.

Scotland

²⁴ *Farmers Weekly*, 12/03/04

²⁵ *Farmers Weekly*, 12/03/04

²⁶ *Agra-Europe Weekly*, N/4 20/02/04

²⁷ *Farmers Weekly*, 12/03/04

²⁸ *Farmers Weekly*, 12/03/04

²⁹ <http://www.peterluff.co.uk/story.asp?sid=9&rid=539> 22/03/04

³⁰ Letter by Sustain to DEFRA 17th March 2004.

³¹ www.agra-net.com/ 13/02/04

Scottish producers have welcomed the historic option, which will be calculated on payments received in 2000-2002, but are concerned about cross-compliance measures. All aids will be fully decoupled from production from 2005.³² There is anxiety that there may be a drop in beef production due to decoupling, the national envelope will be used in this sector in addition to SFP. Modulation will be increased to at least 10% by 2007.³³

Wales

The country will use a historical basis to calculate its farm payments. This has been welcomed by farming unions as they feel it will benefit traditional family farms³⁴. All aids will be fully decoupled from production from 2005³⁵.

4. Initial reactions from stakeholder groups

Environmental:

The RSPB had been campaigning for full decoupling. They feel that it is important to build on the decisions to become a 'framework for sustainable agriculture'. They state that the area payments that shift away from historical receipts are positive, as they do not benefit the more intensive farmers³⁶.

Friends of the Earth stated their dissatisfaction at the CAP reforms. They were: 'very disappointed by the weak reforms proposed today by the European Commission. Commissioner Fischler has significantly weakened the Mid Term Review of the Common Agricultural Policy compared to the proposals that were presented on 10 July 2002. European citizens have made clear that they want something in return for the 45 billion Euros that is being channelled into agriculture every year'. 'Agri-environmental measures will now get lower priority in his proposals. This is very bad news for the many farmers that want to move into more sustainable farming. It is also very bad news for areas of high nature value where farmers act as environmental stewards'³⁷.

Farm Workers

DEFRA estimates that the agreement will have the effect of reducing the labour requirement on farms by some 3-7%, and also some reduction in the labour within industries which are dependant on agriculture, estimated at 1-2%³⁸.

The Transport & General workers union, who represent a large proportion of farm workers, stated that CAP reform had offered huge opportunities for improved safety practises on farms. It called for legislation to make compliance of certain health and safety measures, a requirement of receiving subsidies, though the commission rejected this proposal³⁹.

Consumers

The group Consumers International (CI), which represents consumer groups in 115 countries has criticised the reforms. CI Director General Julian Edwards says: '*It has nothing of substance to offer consumers in the developing world, in the European Union or the accession countries.*' Areas of criticism included the fact that the reform is geared totally to the benefit of European farmers, rather

³² www.agra-net.com/ 13/02/04

³³ www.agra-net.com/ 13/02/04

³⁴ *Farmers Weekly*, 12/03/04

³⁵ www.agra-net.com/ 13/02/04

³⁶ www.rspb.org/image, 22/03/04

³⁷ <http://www.dn.dk/sw2408.asp> http://www.foeurope.org/press/2003/JD_22_Jan_CAPreview.htm/ 22/03/04.

³⁸ *Q&A: General Matters*, DEFRA, 2004.

³⁹ www.tgwu.org.uk/yemplates/journal.asp 22/03/04

than consumers and taxpayers. It will not reduce the cost of aid paid from taxation nor significantly reduce the price of food in the European shopping basket⁴⁰.

This is a view shared by other consumer groups: Deirdre Hutton, chairman of the National Consumer Council, said: *'Reforms are going in the right direction - but at a snail's pace. It's been a case of one-step forward, two steps back....Throughout negotiations, proposals have been watered down every step of the way. These proposals offer very little for consumers.'*

Sheila McKechnie, director of the Consumers' Association, said: *"This is a tragic missed opportunity, and once again it is consumers who will pay the price. ...With crucial WTO trade talks now under way, this is a desperate attempt by the EU to con our trading partners into believing that EU farm subsidies are really rural and environmental policies. In reality, they are little more than the old production subsidies rebranded with green window-dressing"*.

Economically Less developed Countries

Consumers International considers that within WTO negotiations, the deal excludes agricultural products of specific interest to poor developing countries, many of whose farmers depend on these products for their livelihood. For example, keeping high subsidies for cotton and tobacco⁴¹.

The MEP Linda McAven expressed disappointment at the CAP reforms on 10/03/04:

" On the wider European stage too many MEPs love to talk about the EU's commitment to international development, but when it comes to the politics of their own back yards they want to keep dishing out the export subsidies that destroy agriculture in less developed countries".

" It will be the cotton growers in the poorest parts of the world who will suffer if the Parliament's wishes were carried out. Those who voted for such measures should be ashamed"⁴²

Oxfam states that the EU and the USA are both guilty of applying double standards to agricultural trade, by giving large subsidies to their own farmers, whilst also calling for greater liberalisation of trade for poorer countries⁴³.

There is considerable scepticism among the poorer developing states that the mere shunting of subsidies from one 'box' category to another will make any difference to the level of subsidised production which continues to dilute world agricultural commodity markets⁴⁴.

Other Countries

Consumers International believes that without a greater commitment to EU reform, there are no incentives for other countries, including the USA, to tackle tariff barriers and subsidies⁴⁵. This a view shared by farming organisations such as the CLA: *'These member states will be able to lead by example and demonstrate the advantages to those countries who believe that subsidised food production is the only viable way for CAP to function'*⁴⁶.

Farmers Groups:

CLA: Richard Burge, chief executive of the Country landowners association, said: "The reforms are more limited than Franz Fischer's earlier proposals, but provide a method by which nations can

⁴⁰ www.eubusiness.com/imported/2003, 22/03/04

⁴¹ www.eubusiness.com/imported/2003, 22/03/04

⁴² www.lindamcavanmep.org.uk/news 22/03/04

⁴³ www.oxfam.org/eng/pdfs 22/03/04

⁴⁴ www.agra-net.com/ 'Commission takes paradoxical position on SFP payment systems' 02/20/04, 23/03/04.

⁴⁵ www.eubusiness.com/imported/2003, 22/03/04

⁴⁶ www.epolitix.com/EN/forumBriefs 22/03/04

advance away from the idea of production-driven subsidies towards the social, environmental and economic benefits which the single farm payment can lead to⁴⁷.

The NFU has always had significant concerns about modulation as it currently operates. While we understand that it is the only way to put more money into the “2nd pillar” of the CAP (rural development) in the short-term, we are unhappy with the optional national modulation that is now in place. At the moment, only the UK is applying modulation in the European Union, and this gives rise to issues of equality of treatment and distortions of competition⁴⁸.

5. Some farmers’ responses to CAP reform.

Information about CAP reform measures is becoming available, but many of the fine details have yet to emerge. Many farmers are unsure of what impacts the reforms will have for them personally, and are waiting to be told more details before they make firm decisions about their future.

The farmers all stated that they did not feel that they had enough information to make decisions about the future of their farms. They appeared to rely on the Farming press, especially the Farmers Weekly for information.

It was difficult to gauge whether some farmers had made some decisions about their farms, but were perhaps unwilling to discuss them. There appeared to be some level of anxiety regarding the exact implications the reforms would have on their sectors of agriculture.

None of the farmers spoken to overtly criticised the scheme, and appeared resigned to the fact that it was likely that payments would decrease over time.

The following case studies of the farmers are their views and thoughts on CAP reform, taken during telephone conversations with the farmers during March 2004.

a. Mixed farm , Herefordshire.

- Currently farm 40 single suckler cows, 50 ewes, and 50 acres of arable land.
- They Rent out 200 acres of land, which is used for intensive arable production, on a five-year rotation of potatoes, wheat, oil seed rape, and oats.
- The farm was scaled down three years ago, to allow him to return to college.
- Previously the farm had 100 suckler cows, and 1400 breeding ewes, and 200 acres of arable, they have given up some of the land that had previously been tenanted.
- The decision to scale down production was not related to CAP issues.
- The workers on the farm are the father, and son at weekends.
- Information about the CAP reforms was gained by reading Margaret Beckett’s speech online, in order to get the information ‘from the horse’s mouth’. He found this source of information clearer than subsequent articles in the farming press.
- There was quite a high level of understanding, with discussion about historic payments, and when the baseline years would be.
- The son feels that the reforms are positive because ‘they will help the consumer and farmer to reconnect’. He talked about how the reforms would mean that farmers would have to find their own markets, and would encourage farmers to produce for the market more closely. That is, farmers will have to produce things that are required, or they will not be sold. They will not be able to rely on being able to export.

⁴⁷ www.epolitix.com/EN/forumBriefs 22/03/04

⁴⁸ www.nfu.org.uk/stellentdev/groups/public/documents/policypositions/capreform-modulatio 22/03/04

- He feels that there will be more direct competition from other countries.
- He is considering becoming an organic farmer, this is partly due to working in London, and realising that there might be more possibility of direct marketing within this sector.
- He is planning to use Farmers markets to market his produce, with expectations of using supermarkets 'for the excess produce' if required.
- He plans to produce all the components to provide whole meals. The CAP reforms have reinforced in his mind that this would be a good direction to move the farm in.
- He thinks that it will be positive that there will no longer be subsidies, 'to worry about'. He feels that there will be long-term benefits.
- He does have general concerns that the average age of farmers is now 59. Subsidies have been around since 1949, and there is a very strong mindset towards producing for subsidies, rather than the market, and this may cause some farmers great difficulties.
- He states that there has been very little provision so far in terms of assistance for farmers in setting up schemes to help them market goods more directly.
- In terms of what other people are doing in the area, the son says that a lot of people have not yet decided what they are going to do, and are still trying to get to grips with the facts. The issue that the Welsh have a different scheme is important to border counties such as Herefordshire. Welsh farmers will pay English ones to keep their animals in England. There is some discussion as to whether this will mean that there are a smaller number of animals in Wales as a result of this.
- Potatoes are an important part of rotations, especially in the traditional potato-growing region of Herefordshire. There will be benefits for this sector, in terms of some assistance for growers, which has never occurred before.
- In terms of orchards, he describes how it depends what you call an orchard, i.e. could it be classed as grazing, as to whether the orchards will be in danger of being destroyed. There are lots of old orchards in Herefordshire, which have national significance.

b. Organic mixed farm, Herefordshire.

- An organic farm, which, as well as being a commercially run farm, is also part of the 'Project Carrot' Initiative, which aims to promote sustainable rural land use in the West Midlands.

- 600 acres in total
 - 120 acres of woodland (including 12 acres of orchards)
 - Remaining land is roughly half grass, half arable.
 - 40 suckler cows, with total cattle number 80-120 at any one time.
 - 400 breeding ewes.
- He had some understanding of the scheme, talking about how all the payments that had been received previously would now be combined into one.
- Most of the information had been gained from the farming press – *Farmers Weekly*.
 - It is undecided if and how the farm will change as a result of CAP reform. They are waiting for more details to arrive.
 - The farm has been in a transitional period for the last few years, including converting to organic status. This means that they are unsure of what basis the historic payment will be.
 - He thinks that the way people farm will change as a result of the reforms, and that payments will be reduced. He thinks that amounts of beef being produced will fall.
 - Most people he has spoken to are still unsure how they will change their farming, because they feel they do not have enough information yet. They feel that they do not have enough hard facts, but they do have ideas of what they might do.
 - He feels that the information from the government is still changing.
 - In terms orchards, cider apple producers are not being paid the same amount as they have been in previous years. Last year the price dropped by 30% for contract farmers. (the Farm

sells its organic apples to Bulmer's cider company. The company was recently bought out by the brewery Scottish and Newcastle. The reasons for the drop in apple prices include:

- Farmers have previously been encouraged to plant more orchards, as a result of a predicted increase in cider consumption, which did not occur. The company attempted to launch the brand in the USA, but this was not successful. There were also big advertising campaigns for 'Strongbow', which initially improved sales, but this increase did not continue.
- These orchards are now ready to harvest, and there is over supply of apples to the market.
- Scottish and Newcastle uses cider concentrate rather than fresh apples for some of its cider. This can be bought from many countries, including southern Europe, where the apple harvest is earlier than that of the UK.

c. Mixed farm, Devon

400 breeding ewes, approximately 150 beef cattle

400 acres of Wheat, Oats and Barley, also some Linseed, and forage peas.

300 acres of grazing.

-Relatively broad range of knowledge about the reforms: e.g. because the payments on crops will now be historically based, then the payment will be based on your average payment for the base years. You will claim on every acre that you have.

- The farmer states that 'this won't affect us too negatively because we have quite a lot of acres here.

- Went to a government-sponsored meeting at which some consultants described the reforms. There are also going to be a number of training days, at which the consultants will take the necessary details about the farms, and work out how much subsidy they will get. They will also work out how modulation will decrease the payments. The NFU and possibly the CLA are also running similar schemes.
- One part of the reforms which is worrying them, and doesn't appear to have been discussed within the farming press, is that subsidies will not be received through the spring/summer of 2005, this will have a major impact on cash flow of many farms. The subsidy that is usually received is invested back into the business. This will mean that this period will have to be planned for very carefully, though this may have tax benefits.
- In terms of whether the reforms will be a good thing: 'the prices will have to go up for the goods we sell, other wise we will lose money because at the moment we are being subsidised for what we produce'.
- If there is no profit in what we are producing, then it is tempting to take the money, or some people might give up farming altogether. But it is a 'sticky wicket' because the payment you receive in the single farm payment may be reduced, perhaps by 50%, we just don't know yet.
- The big slaughterhouses are worried, because there is already a shortage of meat, they are worried that the supply will be reduced.
- Exmoor relies on beef rearing for a lot of its economy, and they are going to suffer.
- Lots of the details about the reform are still very unclear, for example, does the payment go with the land? For example, if a landlord sells his land, he might be left with land with no payment on it, if the tenant has taken the payment with him.
- There are not enough details yet to make decisions about the future of the farm.
- Each farm has a different set of circumstances that makes it difficult to calculate the changes.

- At the meeting which was attended they made it very clear that you must get all land registered as soon as possible because only this land would receive payment. Some farmers have not bothered to register their land before because they did not receive payments before.
- The business will make further use of a consultant, to assess changes that might need to be made as a result of the reforms.

d. Livestock farm, Lancashire

- 100 milk cows, 60 heifers,
- 150 acres of permanent grassland,
- Recently diversified into developing a shop selling horse and pet supplies.

-States that he is not fully aware of all the details to the scheme. He has read 'bits and pieces' about it in the farming press, for example the Farmer's Guardian. He has not attended any of the meetings concerning the reforms, due to time constraints associated with running a newly developing shop.

- He describes that everyone appears to be quite confused about what the reforms will mean. He does not think that the farm will be worse off, but does not really know where he will stand.
- There will be some payment next year, and then the production in 2005 will be taken as the base year. There was some anxiety that due to a portion of quota being leased out, then it would mean that the farm would receive a lower payment, but the auctioneer stated that this would not affect the payments because the base year would be 2005.
- The reforms will not affect how they farm at all, and they will 'carry on as normal'

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