

CLA CAP REFORM GUIDANCE NOTE

HOW SHOULD THE SINGLE FARM PAYMENT BE ALLOCATED II INDIVIDUAL HISTORIC ENTITLEMENTS OR REGIONALISED AVERAGE PAYMENT?

INTRODUCTION

1. The CAP reform 2003 was settled at the Luxembourg Agriculture Council on 26th June after a protracted negotiation spanning several weeks. A draft horizontal Regulation covering the decoupling of payments and related issues was published on 7th July, an amended version appeared on the 12TH September and the final version is expected to be agreed at the Council on 29th September. The Commission implementing regulations (seventeen sets of which are flagged in Article 145 of the Draft regulation) will be produced by the end of this year.
2. There was great disagreement about the nature and timing of the radical proposals at the core of the reform, to decouple payments. The resolution of this disagreement, unusually, was to allow considerable Member State flexibility in the implementation of the regulation. On the basis of this draft regulation DEFRA have been very fast to start consultations on the main options provided. DEFRA envisage the following timetable. They issued their first consultation on the main options and principles of decoupling on 22/7/03 and responses are due by 10/10/03. In the light of this consultation, Ministers will decide which route is to be followed, and later this year or early in 2004 there will be a second phase of consultation on the proposed details of the decoupling. Formal notification of the Member States decisions to the Commission has to be done by 1/8/04. **This response is mostly about England**, although some decisions relate to the UK. A separate consultation exercise is being conducted by the Welsh Assembly Agriculture Department.
3. There has been much publicity surrounding the proposals. A very brief summary prepared by DEFRA is in paragraph 6 below. The full Regulation can be found on the DG Agri website www.europa.eu.int/agriculture. A fuller CLA briefing note on the agreement is available on the CLA website or upon request.
4. An initial discussion of the decoupling options took place at the CLA Executive meeting on 29/7/03. A longer and more detailed discussion took place at a meeting of Agriculture and Land Use Committee on 10th September. There was no attempt to come to a conclusion at these meetings. The issues are complex and there is a desire to consult as many members as possible before coming to a conclusion. The note in the October Magazine and these notes on our Website are part of that wider consultation.
5. The remainder of this note is focussed on what we consider is the most urgent and important of the questions posed by DEFRA in implementing the decoupling of payments..

DEFRA'S SUMMARY OF THE AGREEMENT:

6. "The key points of the agreement were set out in our summary document of 26 June:

- decoupling: breaking the link between farm subsidies and production in order to reconnect farmers to their markets, reduce damaging environmental impacts and reduce bureaucracy;
- optional national envelopes enabling Member States to introduce schemes that, for example, promote sustainable farming;
- cross compliance to make subsidies dependent on meeting standards in key areas such as environment, and animal health and welfare;
- for the first time, modulation to apply on an EU-wide basis, switching support from production subsidies to targeted support for environmental and rural development objectives across the EU;
- support price cuts for butter and rice;
- a new financial discipline to trigger action to reduce subsidies if CAP expenditure is in danger of exceeding the agreed budget ceilings.

The new Single Payment Scheme can be used to replace a number of existing direct payment schemes. Farmers will no longer be obliged to keep specific numbers of animals or plant a specific acreage of crops to qualify. It can thus enable farmers to produce in response to market needs rather than to maximise output of particular products to generate subsidies.

The arrangements for modulation, starting at 3% in 2005 and building up to 5% in 2007, with at least 80% of the proceeds to be spent within the Member State, would not in themselves be sufficient to finance the roll-out of the entry level agri-environment scheme which is currently being piloted in England. The Commission have however given a clear undertaking to those Member States, including the UK, which have been operating schemes financed by voluntary modulation that transitional regulations will enable them to continue to operate those schemes; any shortfall on funding could be made good through the continuation of a higher level of modulation in that Member State on a transitional basis. Proposals on implementation and funding of an entry-level scheme will be brought forward in the light of evidence from the current pilots."

DEFRA MINISTERS HAVE ALREADY TAKEN STRATEGIC DECISIONS ON THREE POINTS:

- "First, implementation of the Single Payment Scheme in the UK will be on a regionalised basis in the sense that the Agriculture Departments in England, Scotland, Wales and Northern Ireland will make their own arrangements for their farmers.
- Second, the new Single Payment Scheme will be introduced in the UK from the earliest date permitted under the agreement, namely 1 January 2005.
- Third, the options for reducing the extent of decoupling in England in the arable and livestock sectors will not be taken up.

These decisions are in line with the approach taken by the UK throughout the negotiation, which in turn reflected the clear majority of views expressed in response to our earlier consultations."

THE CLA IS NOT CONTESTING THESE DECISIONS.

SHOULD WE ADOPT AN AREA PAYMENT APPROACH IN ENGLAND?

7. This is the biggest, and most difficult decision we have to make. Most comment on the CAP Reform 2003 has taken place as though it is pre-ordained that payments are based on the Individual Historic Entitlements (IHE) earned in the reference period. In fact, all along there has been an alternative (German inspired) approach to offer the possibility of allocating payments across a region on a flat rate basis over all land. In this approach the reference period has (almost) no relevance at all, what matters is who is occupying land in 2005, and thereafter. We refer to this as the Regionalised Average Payment, or RAP approach¹.
8. The full explanation and arguments on this approach are spelled out in an earlier paper (available on request), they will not be repeated. The table below is an attempt to summarise the pros and cons of each approach.

Table 1 Summary of advantages and disadvantages of two methods of allocating Single Farm Payments

	Pros	Cons
RAP	<ul style="list-style-type: none"> • Much simpler for farmers • Much simpler and cheaper to administer • More transparent and 'fairer' distribution. • Eliminates problems for farms in transition. • Much smaller National Reserve. • Avoids transferable entitlements which permit avoidance of cross compliance and stresses landowner: tenant relations. • Spreads cross compliance over all land. • More explainable to the public. • Avoids discrimination against unsupported crop growers. 	<ul style="list-style-type: none"> • Most farmers' payments will change • Some will lose considerably, threatening business viability for some • Some will gain considerably, perhaps undeservedly • Unfair to redistribute 'new' compensation, e.g. dairy premia.
IHE	<ul style="list-style-type: none"> • Preserves the past and current distribution of payments • Correctly compensates for recent policy change • It seems to be what most people are expecting to happen. 	<ul style="list-style-type: none"> • Wide variation of payment rates based on distant past cropping patterns • Gaps of no support and no Cross Compliance • More complex to administer, with ongoing requirement to track movement of entitlement • Huge problem of initial allocations for farms 'in transition' since 2000. • Entitlement transfers threaten land owner : tenant relations

9. It is important to note that there is no option available which does bring about *some* redistribution between farmers, compared to claims in the past and the present. The IHE option will hurt all those landowners and farmers who have changed their land ownership, occupancy, and farming systems and structures

¹ To call it an area payment approach, as DEFRA does, is not very helpful as payments based on IHE are also paid as an area payment per hectare. Also, as there are options to have more than one RAP, 'flat rate' is not very descriptive either.

since the beginning of the reference period². Because the Single Farm Payments will not be available until the middle of 2005, and may not be transferable until even later³, under the IHE option there is a period of immense uncertainty in the land sale and let markets and for contract farming arrangements coming to an end over the next two years. If it were known now that the RAP approach is to be introduced these uncertainties and the associated costs, evaporate. On the other hand, if all English occupiers of agricultural land receive the same rate per hectare (single RAP) or the same rate for their crop land and grassland (double-RAP), then there will be a clear redistribution in which all those currently getting more than the English average(s) lose and all those getting less will gain.

10. To take this further it is useful to separate the individual assessment each farmer will make to assess which gives more support, from considerations of the industry as a whole. The first is a zero-sum game, we are discussing the distribution of the national cake, one person's gain is someone else's loss. This is what makes the decision so difficult for member organisations.

Individual farm assessment of IHE versus RAP

11. For each land owner or occupier the correct comparison is, for the year 2005, how much the IHE approach will yield compared to the payment arising from the RAP approach. The former requires detailed information on the areas of IACS crops grown and animals claimed in the three reference years, times the 2002 payment rates. This enables calculation of the number of eligible hectares and the payment rate per hectare. The IHE-based payment is then this payment rate times the area of eligible land held in 2005. The RAP in 2005 will be the England RAP per hectare times the number of hectares of eligible agricultural area occupied in that year⁴. Unless this calculation is done carefully it is impossible to judge which system leaves the farmer better off. Many farms have quite different claims from year to year, so simply taking the most recent total claim amount (2002) and comparing this to the RAP per hectare times current area may not give the right answer.
12. An important part of the assessment for producers of unsupported crops, that is fruit, vegetables and potatoes, is to know if the RAP applies to the land used for these crops. The regulation as of 7/7 applied the so-called (Article 51) negative list to regionalised payments. The version of the regulation as of 12/9 offers a derogation for the negative list if the RAP option is chosen.
13. It was hoped that by now there would be clear information available to educate this choice – not least the average payment rate(s) under the RAP scheme(s). However as with most agricultural data, reality is always more complex than the simple concepts. Different observers using the same agricultural statistics from DEFRA have come up with an alarmingly wide range of values, even for the single RAP for England.
14. These figures are calculated by dividing a figure for DEFRA total payment amounts in England by the total eligible agricultural area. The differences arise because there are many different ways of calculating each of these numbers, and we have no clear indication on DEFRA's interpretation of the legal text.

² Or more precisely, since the first IACS application date in the year 2000.

³ Until we have the implementing regulations we do not know for how long SFP has to be 'used' before they can be transferred.

⁴ Or if the double RAP is used, the 2005 payment will be the respective areas of grassland and all other land times the grassland and cropland RAPs for the region. (It is not completely clear if 2002 or current grass/crop areas are used.)

Differences in Payments arise because of currency: pounds or Euros? Conversion rate? Actual payments (which year or years) or payments ceiling? Which categories of payments are included or excluded (e.g. Dairy payments? OTMS payments?). **The differences in areas** arise because of the treatment of unsupported crops (in or out). Sugar beet area (in or out). Exclusion of permanent crops or not? Treatment of rough grazing and common land, in or not. Does one hectare of rough grazing equal one hectare of other land or is it 1:5? Is the area of roads, buildings and non-agricultural crops included or not?

15. Table 2 below summarises estimates of regionalised payments for England. These have been reconciled between the CLA and NFU as our best interpretation of the regulations, but there is no guarantee that this will be DEFRA's interpretation. Also these figures are **before** any payment cuts for modulation, national reserve, national envelope or financial discipline.

Table 2 RAP calculations for England

NFU/CLA agreed figures £/ha (£/ac)	Single RAP	Double Cropland	RAP Grassland
Including dairy premia	£223 (£91)	£243 (£100)	£204 (£84)
Excluding dairy premia	£195 (£81)	£243 (£100)	£148 (£74)

15. In order to assess the effect of choosing one or other method of allocating payments requires considerably more analysis. This really must be a task for DEFRA, although it is too late now for any such analysis to help organisations respond to the consultation. A preliminary analysis conducted last Autumn by DEFRA on the FBS sample of 2000 English farms showed the scale and pattern of redistribution of payments. This indicated there were gainers and losers within *all* sizes and types of farms. This analysis was done with just 2001 payments. The study should be done preferably with a larger sample, for all three reference years, and for both a single and double RAP. DEFRA continually claim the importance of evidence-based based policy making⁵, here is a golden opportunity to use this approach to inform sensible decisions. Representations have already been made to this effect and are being followed up.

The national interest – back to principles

16. In the absence of more reliable information, for the moment we have to come back to a decision in principle. We really seem to be invited to answer the question: here is £1.7b for English farmers, how would you like to share it out? The answer presumably should have something to do with the purpose of giving farmers this money? If this could be agreed then it will become clearer on what principles the payments should be allocated. The main purposes offered to justify the payments are: compensation for changes to previous policy; income support; looking after the countryside; keeping people on the land.
17. CLA policy over many years now has been to accept that the 1950s-1980s style production-related farm income support arguments have had their day. In the

⁵ As opposed to policy-based evidence making, otherwise known as 'spin'!

context of the enlarging EU which sits as the biggest global economic power, liberalised trade was clearly in the general interest of the EU economy, and the price for this is liberalised agricultural trade and reductions in trade-distorting domestic supports to farmers. However it has equally been grasped by the CLA that freer commodity markets combined with the highly developed, and growing, regulatory standards for every aspect of the environment; public, animal, and occupational health; animal welfare; and heritage conservation, does not work.

18. Essentially we are asking our farmers to deliver a huge range of public goods and services which cost real resources to deliver. Thus freer movement for the traded commodities must be matched with support for the real resource costs of the non-traded, non-market services. This is increasingly the prime justification for support. The public wants the high standards; they must pay for them; they are willing to pay for them; but the payments must then be more closely related to the delivery of these services. These are the arguments surrounding the prime justification for decoupled payments being provision of these public goods, or in simple terms 'looking after the countryside'. These arguments lend themselves to more uniform regionalised payments. The cross compliance conditions are the same within each region so, broadly, should be the payments for respecting them.
19. Against this, it is equally clear that the origins and the continuation of the direct payments, coupled and decoupled, lie in farm income support, and in compensation for change in policy. These motives lead to the IHE approach.
20. The difficulty is that we are switching policy for different sectors at different times. It is easier to accept the change in purpose of payments which have been in existence since the mid-1990s, much harder to argue this for dairy payments which have yet to start, or sugar payments which are now in prospect. This means that it is unavoidable that the motive for the payments is and will remain an indeterminate mixture of the above objectives. Unfortunately, no overwhelmingly clear argument emerges by looking at objectives.

Scope for ameliorating the problems of each method

21. It may help make the decision if we examine the opportunities to remedy the problems each causes.
22. **For IHE**, it is difficult to see how the problems can be avoided. They are built-in features of this method of distributing support. Perhaps the most that can be offered is a determination to efficiently administer the payments to deal with these problems as fairly and quickly as possible. This particularly refers to the resolution of the problems of farmers in transition since the beginning of the reference period.
23. **For RAPs**, there are several ways in which the undesirable effects could be delayed, reduced or avoided. First the pain of adjustment for losers could be delayed by phasing-in the payments over a period of years. The regulations appear to permit this. Second, the regulation permits separate RAPs for grassland (ie livestock payments) and cropland payments. It also permits 'partial' regionalisation, in that not all of the regional payment ceiling has to be averaged out, some could remain as decoupled payments paid on the basis of individual historic entitlements. This could, be utilised in a number of ways. There could be RAPs for crop payments but leave the livestock payments based on historic entitlements. Alternatively, particular sensitive sectors could be omitted from the RAP, for example, the dairy premia or some of the beef payments. Third, there may still be scope within the draft regulation or even by further agreed changes to

the regulation, to apply the regionalisation in such a way as to reduce unacceptable redistribution. For example the payment rates per hectare for a single RAP or the grassland RAP are massively affected by the treatment of rough grazing. It does not seem reasonable that those with very large areas of low-grade grazing supporting few livestock and payments in the past should suddenly receive very large support. This can be dealt with by apportioning say, five or six hectares of rough grazing per hectare or other grassland.

24. It must be acknowledged that most of these adjustments to the simplest, single-RAP have the capacity to diminish, and in some cases practically eliminate for a time, one of the main benefits of RAPs, their simplicity. In particular, if the RAP is phased-in this requires a calculation of what the IHE would have been in order to scale the gradually reducing payment. However this additional overhead of administration is only required for the adjustment period – and in any case the scaling back of administration is not likely to be achieved in one fell swoop.

Conclusions on the Regionalisation of payments

25. What decision should the CLA take on this issue? It is notoriously difficult for a member organisation to advocate a policy which might make a significant number of its members financially worse off in the short run, even if this can be defended as preserving more support, for the majority of members, over the long run. We have several alternatives in this situation.
- a. **Ask for delay.** We could argue there is insufficient information for our members, indeed all farmers, to make an informed choice on this critical issue.
 - b. **Take no decision,** simply report the CLA is divided on this issue and let DEFRA Ministers decide.
 - c. **Provide the case for both approaches.** As an organisation, the CLA could assist the supporters amongst its members of each of the two approaches to make their case, again handing the decision to DEFRA.
 - d. **Support the IHE approach:** in which case we have to fight hard to get resolutions for the paralysis of the land market at present and the massive uncertainties for farms in transition. We would also push for measures such as the right of first option to buy, for landowners if tenants wish to sell entitlements.
 - e. **Support the RAP approach** and push for workable methods of ameliorating the pain for losers from the resulting redistribution.
26. **The recommendation which went to Agriculture and Land Use Committee was as below. This is offered to provoke debate and has not yet been accepted or rejected. There are powerful arguments on both sides.**
27. **“We are fundamentally a land based, property rights organisation. We have campaigned vigorously for these rights during the debate of the last 12 months. In this campaign we elevated the two issues to the top of our priorities: the initial allocation of payments to the active farmer/occupier in 2005 and the attachment of payments to land. RAPs offer both, IHE offers neither. Thus the recommendation is option E above.**
28. **The decision will be taken by CLA Executive Committee at its October meeting and we would like to hear from as many members as possible on their views.**

A0867080

23rd September 2003
Country Land and Business Association
16 Belgrave Square, London, SW1X 8PQ