

CAP REFORM IMPLEMENTATION IN THE UK

Relevant report: The Mid-Term Review of the Common Agricultural Policy (Third Report, Session 2002-03, HC 151, 21 January 2003) (Government Reply: Fourth Special Report, Session 2002-03, HC 615, 8 April 2003)

“The Committee would be grateful for a general update on progress in implementing CAP reform in the UK and more widely across the EU. The Committee would also be interested to hear what further steps are being taken to reduce CAP production-linked support, in accordance with Defra’s PSA target 5.”

Defra response

Process

1. Implementation of the June 2003 CAP reform agreement is being delivered through a CAP Reform Implementation Programme. This is a ‘policy to delivery’ programme which is managed using state of the art project and programme management techniques. As a key Departmental policy, significant resources have been devoted to the programme, which is overseen by the Permanent Secretary and benefits from the close involvement of Ministers. A key element has been partnership working between policy officials and the delivery agent (the Rural Payments Agency, RPA) and close liaison with the devolved administrations to ensure a coherent approach across the UK. Regular discussions with stakeholder groups have also provided invaluable to the process.

Non-Single Payment Schemes

2. While the introduction of the Single Payment Scheme (SPS) formed the heart of the 2003 CAP reform agreement and the UK decided not to take up any of the options for re-coupling aid, one of the first main tasks was to introduce the mandatory coupled aids from 2004. In the UK, this meant:

- Area Payment for Nuts,
- Aid for Energy Crops;
- Protein Crop Premium; and
- Dairy Premium (for 2004 only.)

All four schemes were successfully introduced in 2004 and, in order to provide maximum simplification, a single application form covering the three remaining schemes and the SPS was introduced in 2005.

Single Payment Scheme

3. The June 2003 CAP reform agreement provided a range of discretionary elements for Member States. The main decisions were taken by the UK by the time the Select Committee's report was published and can be summarised as follows:

- the Single Payment Scheme would be implemented at the earliest possible date i.e. 2005;
- the dairy premium would be decoupled at the earliest possible date i.e. 2005
- none of the options to re-couple aids (with the exception of the national envelope provisions in Scotland) would be taken up;
- the 'flat-rate' model of the SPS would be adopted in England, based on three English regions and with a transitional phase through to 2012. A 'static hybrid' model would be adopted in Northern Ireland and the 'historical' model adopted in Scotland and Wales.

Legislation

4. Separate EU Commission Regulations covering the SPS and the Integrated Administration and Control System (IACS) were published in April 2004.¹ As experience of implementing the Scheme has evolved across the EU, those Regulations have subsequently been amended, three² times and twice³ respectively. While the additional clarification in these amendments has proved to be generally helpful in ensuring we have coherent framework for the SPS, some have amounted to a change in requirements for the IT delivery systems which has impacted on the RPA's delivery timetable.

5. At the domestic level, statutory instruments have been introduced across the UK to give effect to policy decisions by Defra and the devolved administrations and provide for necessary enforcement provisions in relation to the SPS, including appeals, IACS, cross-compliance and set-aside⁴.

Further Policy Announcements

¹ Commission Regulation No. 795/2004 of 21 April 2004 laying down the detailed rules for the implementation of the single payment scheme and Commission Regulation No. 796/2004 of 21 April 2004 laying down detailed rules for the implementation of cross-compliance, modulation and the integrated administration and control system.

² Commission Regulations No. 1974/2004, 394/2005 and 606/2005

³ Commission Regulations No. 239/2005 and 436/2005

⁴ SI 2004 No. 2689 The Common Agricultural Policy Single Payment and Support Schemes (Appeals) (England) Regulations 2004, SI 2004 No. 3196 The Common Agricultural Policy Single Payment and Support Schemes (Cross-compliance) (England) Regulations 2004, SI 2004 No. 3385 The Common Agricultural Policy Single Payment Scheme (Set-aside) (England) Regulations 2004, SI 2005 No. 218 The Common Agricultural Policy Single Payment and Support Schemes (Integrated Administration and Control System) Regulations 2005, SI 2005 No. 219 The Common Agricultural Policy Single Payment and Support Schemes (England) Regulations 2005

6. Since the Committee published its report, Defra has made a series of policy announcements affecting implementation of the reforms in England, most significantly:

- in July 2004⁵, covering: the standards for Good Agricultural and Environmental Condition (GAEC) that will apply in 2005; the additional national modulation rates for 2005 (2%) and 2006 (6%); and the set-aside rates that will apply (8% outside the upland Severely Disadvantaged Area (SDA) and 1.3% in the non-Moorland SDA);
- in November 2004⁶, covering: operation of the SPS national reserve; further details on GAEC, eligibility issues related to horses and orchards; and handling of cross-border farms.
- In December 2004⁷, covering the way ahead for commons and further details on operation of the national reserve.

Communications

7. Lord Whitty, then Farming and Food Minister wrote to all farmers in May 2004 to provide an initial explanation of the reforms that were to come into force in 2005. Following policy announcements and development of legislation, a dedicated section of the Defra website was updated regularly and a series of brochures were published in July and September 2004 and February 2005. At the end of 2004, Handbooks were issued on cross-compliance and set-aside, along with two cross-compliance guidance notes on the Management of Habitats and Landscape Features and on Soil Management.

8. Communication efforts were stepped up in 2005, with 32 roadshows attended by 8,500 people; seminars for intermediaries and agents; distribution of 12,000 videos, CD-Roms and DVD and an extensive media campaign, including 'key points and dates' advertisements in the press.

Rural Payments Agency (RPA) preparations

9. Details of the RPA's progress on IT systems over the past year are covered in a separate update that the Committee has requested. In addition, it is worth recording that:

- through the autumn of 2004, the RPA undertook a 'data cleansing' exercise with some 90,000 farmers to determine the value of their historic subsidy which forms part of the calculation of their Single Payment 'entitlements';
- The bulk of the application forms and associated scheme literature were also issued ahead of schedule in March to allow farmers as much time as possible to complete their applications.

⁵ Defra News Release 294/04

⁶ Defra News Releases 439/2004, 441/2004 and 462/2004

⁷ Defra News Release 524/2004

SPS applications received

10. 115,196 applications were received by the 16 May deadline. Late claims, subject to penalties determined by EU legislation, were allowed up to 10 June and the RPA has received approximately 5,000 of these. These figures are in line with RPA projections and indicate that all those who wanted to claim have been able to do so.

Next steps

11. A number of significant challenges remain before the first payments can be made, including removing a backlog of over 30,000 requests for map changes (a plan is being developed that should see this cleared in advance of January 2006) and further releases of the main SPS IT system (RITA), combined with a significant amount of manual work to be done in validating claims and undertaking inspections. The RPA's assessment is that it should be able to start making payments by February 2006.

Update on progress in implementation across the EU

12. Member States vary significantly in respect of the information they have made publicly available on implementation of the reforms. However, the Annex to this Note provides a series of tables summarising information known to date.

Further steps being taken to reduce CAP production linked support, in accordance with Defra' PSA target 5.

13. This Public Service Agreement target was set for the period 2003 to 2006 and carries forward previous Public Service Agreement targets which sought to cut the cost of the CAP to consumers and taxpayers.

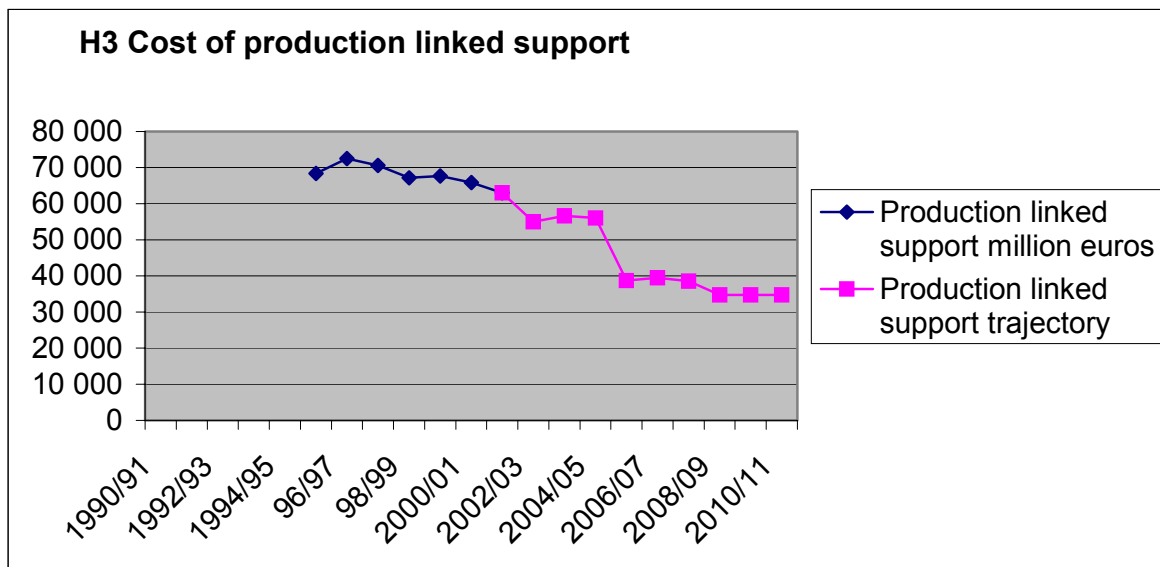
14. Since the target was set, two major reforms of the CAP have been agreed within the EU. The agreement of June 2003 achieves the following:

- decoupling of the bulk of EU subsidy from production;
- cross-compliance to make subsidy dependent on farmers meeting environmental, food safety and animal health and welfare standards;
- EU wide compulsory Modulation, diverting a proportion of subsidy towards environmental and rural development schemes;
- financial discipline, putting an upper limit on the CAP budget until 2013; and
- cuts in price support for some commodities.

15. A further agreement was reached in April 2004 on similar reforms for some of the sectors not covered in 2003. That includes a phasing out of the EU's tobacco subsidy regime, the decoupling of the bulk of subsidy for the cotton, olive oil and hops sectors and the introduction of cross-compliance in those sectors.

16. The combined effect of those two reforms will contribute substantially to the achievement of this Public Service Agreement target. Figure 1 includes actual data up to the 2001-02 marketing year and its projections based on the CAP reforms which have been achieved.

Figure 1: CAP Production-linked support



17. In the context of the EU's future financing negotiations, the Government has called for a fundamental review of the EU budget, including the CAP. More specifically, the Government is working within the EU to take decoupling even further, focussing first of all on the sugar sector, which is currently the subject of negotiation in the EU, and looking forward to the opportunities which may arise from the outcome of the WTO negotiations, an EU review of the dairy regime in 2008 and a review of decoupling in 2008 or 2009.

18. The European Commission published its legislative proposals for sugar reform on 22 June which the Secretary of State has welcomed. The UK will use its Presidency of the EU in the second half of the year to try to reach agreement on reform ahead of the WTO Ministerial meeting in Hong Kong in December. Defra is also working with the Department for International Development to support the European Commission in its proposed action plan to address the potential negative impacts of EU reform in African, Caribbean and Pacific countries which currently have preferential access to the EU market.

19. Defra is working closely with Department of Trade and Industry, Department for International Development, the Foreign and Commonwealth Office and HM Treasury to prepare the ground for significant progress to be made in the Doha Development Round at the WTO ministerial meeting in Hong Kong in December. Defra has been engaging within the EU and with third countries to help pave the way for a liberalising outcome. Some good progress has already been made on agriculture, but there are still difficult hurdles to overcome. The Chair of the Agriculture Special Session is due to produce an assessment paper in July. Defra hopes this will be a stepping stone on the way to ambitious outcome at Hong Kong and that the details of the Round will be completely concluded by the end of 2006.

20. Defra has also been negotiating this year for improvements to the EU's Rural Development Regulation which was agreed unanimously on the 20 June 2005 by Agricultural Ministers in Luxembourg. During 2005 reports are also expected from the European Commission on the CAP regimes for fresh and processed fruit and vegetables, bananas and fibre crops (flax and hemp). The Department will press for reform of these regimes as proposals are presented.

Annex

Summary of implementation decisions across the EU

Table 1 - Timing of Implementation of the SPS

Member States implementing SPS in 2005	Member States implementing SPS in 2006 (and pre-reform coupled aids until then)	Member States implementing SPS in 2007 (and pre-reform coupled aids until then)	Member States implementing the Single Area Payment Scheme (SAPS) in 2005 until further notice
Belgium Denmark Germany Ireland Italy Luxembourg Austria Portugal Sweden UK	Greece Finland France Netherlands Spain	Malta Slovenia	Czech Republic Estonia Hungary Latvia Lithuania Poland Slovak Republic Cyprus

Table 2 – Re-coupling options adopted by those Member States introducing the SPS in 2005*

Schemes	Suckler Cow	Add. Suckler Cow	Beef Special	Slaughter (adult)	Slaughter (calf)	Sheep and goat	Sheep and goat (LFA)	hops	National Envelope
Member States									
<i>Belgium (Wallonia)</i>	X	X							
<i>Belgium (Flanders)</i>					X				
<i>Denmark</i>			X			X			
<i>Germany</i>								X	
<i>Italy</i>									X
<i>Austria</i>	X	X		X	X			X	
<i>Portugal</i>	X	X		X	X	X	X		X
<i>Sweden</i>			X						X
<i>UK (Scotland)</i>									X

Table 3 – Model of SPS adopted for those Member States introducing the Scheme in 2005*

Historical Model	Flat rate or hybrid models
Belgium Ireland Italy Austria UK (Scotland and Wales)	Denmark Germany Luxembourg Sweden UK (England and Northern Ireland)

*Those Member States implementing the SPS in 2006 and 2007 have until 1 August of the year preceding implementation to notify the Commission of their decisions regarding the model of the Scheme to adopt and the options for re-coupling of support.