

UK response to the Commission communication and consultation

“The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future”

January 2011

Introduction

1. This document sets out initial UK Government views on the Commission’s Communication of 18 November 2010 on the future of the Common Agriculture Policy (CAP) for the period 2014-2020. The Devolved Administrations have been consulted on the UK Government’s initial view.
2. The UK notes that the Commission has also released a consultation document to draw evidence for an Impact Assessment. The UK believes that Impact Assessments are an essential component of evidence based policy making, and so we welcome the Commission’s approach. This response therefore aims to offer a general response to the questions posed in the Consultation document, and the UK will continue to work with the Commission to provide evidence that will help inform the Commission’s Impact Assessment.

Context and summary of the UK position

3. The UK welcomes this opportunity to make further reforms to the CAP. This is vital if EU agriculture is going to play its role in delivering the ambitions set out in Europe2020, and to enable farmers to adapt to the many challenges and opportunities of the future. Successive reforms of the CAP have set a direction of travel towards greater market orientation and agricultural competitiveness and a greater focus on the delivery of public benefits in return for CAP expenditure. The UK wants to see the acceleration of this process, promoting greater competitiveness, more efficient use of taxpayer resources and a stronger role for the industry in the effective delivery of public goods particularly by implementing land management uses and practises that mitigate against climate change and protect vital natural resources such as water. We also want to see reform of trade-distorting elements of the CAP, particularly with respect to subsidies – for example, cotton - which are damaging to Least Developed Countries and undermine EU objectives during trade negotiations.
4. The scale of the task should not be underestimated. The UK therefore shares the Commission’s assessment of the many challenges ahead, including a growing global population and climate change, and notes that there may also be many unforeseen challenges beyond 2020. However, we are concerned about the lack

of ambition in the proposed ideas to address these challenges and the lack of recognition in the Communication of the difficult economic situation that is facing the EU. With intense pressure on public finances, the UK Government believes that the Financial Framework for 2014 – 2020 should be smaller. We note that the 2010 Commission Communication on the EU Budget Review reflected on a continuation of the trend that has seen the share of the CAP in the overall budget fall in recent years.

5. The CAP cannot be immune to the hard choices being made elsewhere in the EU. There must therefore be a very substantial cut to the CAP Budget during the next Financial Framework. Remaining spending must be prioritised wisely to ensure that CAP provides best value for taxpayers money, targeting measures effectively to deliver tangible outcomes. The UK believes that farmers do not want to rely on subsidies in perpetuity: Expenditure in a significantly smaller CAP Budget should tackle the key objectives of encouraging a competitive, sustainable EU agriculture sector, reducing reliance on subsidies and focusing resources on the provision of environmental public goods.
6. The UK would like the Commission to be much more ambitious, in order to deliver the reform that will respond to the challenges correctly identified as being ahead. The UK believes that there is scope for Pillar 2 to better reward farmers for the important public goods they provide, and we would strongly support further work by the Commission to develop these proposals further, to meet Nagoya commitments and take forward the aims of the EU2020 flagship initiative 'Resource Efficient Europe'. However, we also need to stimulate a change in behaviour rather than entrench continued reliance on subsidy which it is increasingly difficult for the European taxpayer to afford. Farmers need to find ways to boost their net incomes, reducing costs and increasing their outputs. Whilst some proposals – such as producer organisations and improvements to the supply chain - will start to address these issues, the UK believes much more needs to be done, looking to the aims set out in other EU2020 Flagship initiatives like 'Innovation Union' and an 'Agenda for New Skills and Jobs'.
7. Developing measures that stimulate competitiveness and innovation, significant further simplification, ending coupled payments and removing market distorting mechanisms would all make important contributions to improving both market orientation and the responsiveness of the sector. The UK notes that there are considerable opportunities ahead for farmers, not least due to increased global demand. Farmers need to be in a position to react to these changing business drivers, responding to price movements. Whilst the UK recognises that price volatility can be a threat, we believe it would be best dealt with by encouraging the development of market based solutions, and the risk management tool kit proposed by the Commission is an opportunity to explore. However, the UK is concerned that other proposals - such as capping payments and greening Pillar 1

– would be counterproductive to EU aims to develop a competitive agriculture sector, and risk entrenching continued reliance on subsidies instead of independence.

8. These needs demand a more flexible policy, rather than rigid structures and blanket measures. The UK therefore wants to see a future CAP that focuses on enhanced Pillar 2 measures, delivering environmental public goods. Pillar 1 needs to become a transitional measure, as tools to encourage competitiveness and reduce farmers reliance on subsidies are introduced and take effect.
9. The UK therefore sees the top priorities for CAP reform as follows:
 - A very substantially reduced and refocused CAP Budget improving value for money
 - Pillar 2 measures should be enhanced, particularly for the delivery of agri-environment schemes.
 - Measures that enhance competitiveness and reduce reliance on subsidies should be enhanced, without interfering with the EU level playing field
 - Increased market orientation, including a reduction in trade distorting subsidies and measures.
 - Continued simplification of the CAP, ensuring a reduction in costs and complexity for both farmers and administrations unless benefits outweigh costs

Commission proposals

10. The UK therefore encourages the Commission to bring forward further detail on all of the options outlined in the Communication, ensuring that there is a balanced assessment of the merits of each to guarantee the continuation of the reform direction taken to date. In particular, we would urge the Commission to explore Option 3 more fully in the Impact Assessment: Of the three policy scenarios proposed in the Communication, Option 3 (Re-focus scenario) has the greatest potential for the development of ideas that will deliver changes consistent with the objectives for reform and to meet the challenges ahead. This option should explore ways to foster more strategic, far sighted reform. For example, it could foster a dual approach, considering measures that would increase competitiveness in tandem with a plan for the reduction in subsidies. In particular, Option 3 should have a greater emphasis on the short-term challenges and therefore accompanying measures that would stimulate longer-term improvement in the underlying competitiveness of EU agriculture so that it is better able to thrive in a future without subsidy.
11. This response addresses the details of proposals in the Communication with respect to how they align with the assessment of the challenges and objectives

for reform. The Communication largely sets these out for Option 2 (Integration scenario).

Policy specifics

12. The UK believes that Europe's farmers have bright prospects. Given a clear enough commitment to improving underlying competitiveness, we are confident that they will earn enough from the produce they sell and from payments for the provision of public goods to provide them with a sustainable income, without needing income support from the European taxpayer. The EU's contribution to global food security demands an improvement in the underlying productivity of its agriculture; however the current structure of support, by artificially sheltering EU farming from market pressures, acts against that objective. The UK considers, therefore, that there is an **urgent need to improve the competitiveness and responsiveness of the EU agriculture sector** so that EU agriculture can be internationally competitive and subsidy-free. While direct payments will continue during the next Financial Perspective, they should have a clear downward trajectory and be positioned as part of a programme of managed transition planning for their abolition.
13. The UK would therefore like to see greater focus in the CAP Budget on measures to improve competitiveness, so as to progressively reduce the reliance of farming on subsidy – including over the lifetime of the next Financial Perspective. A competitiveness agenda should aim to work together with, and where possible support pillar 2 measures that reward farmers for the provision of environmental public goods: in many cases, improved competitiveness and improved resource efficiency (the use of resources in the most efficient way possible) are two sides of the same coin. Equally, measures developed outside of the CAP, such as agricultural and environmental research and development under the Framework Programme, should complement these objectives.
14. Consideration needs to be given to the potential for novel financial instruments, including loans, to deliver outputs which are currently grant-aided. This is also important for delivering improved value for money for EU taxpayers. Member States should take the initiative at a national level and progress actions that will underpin the development of the agriculture sector as a whole: for example reviewing farming structures and land market regulations. Broad actions like these support agricultural and rural development as a whole, rather than focussing limited resources on specific sectors. In this respect, the UK has noted with interest the calls from many Member States for restrictions on the use of State Aid in agriculture and would underline the importance of avoiding the risk of counter-productive and distorting subsidies.

15. New emphasis should be placed on equipping farmers and groups of farmers to take ownership of the risks they face. Effective risk management underpins the resilience and competitiveness of farms. Evidence shows for example, that farmers with better business skills, including risk management, tend to have businesses which are more competitive.
16. Improvements in farmers' knowledge and facilitation of the development of private sector risk management instruments (like futures markets or insurance) may be required. This should be the focus of any **risk management toolkit**. Permanent subsidy of risk management instruments would not be efficient, with much of the benefit likely to be captured by the insurance company rather than the producer. Support of this kind should be time-limited, encouraging the development of new forms of insurance (or futures contracts) where necessary but not subsidising their ongoing operation.
17. The UK believes any **safety net** should be clearly understood as a measure of last resort, and should be designed so as not to discourage the development of private sector instruments which enable farmers to manage risk. The current set of **market instruments** is not fit for this purpose. The measures distort international trade and hamper genuine competitiveness in both the EU and international agriculture sectors, whilst being expensive for taxpayers and consumers: The UK strongly advocates the swift resolution of the Doha Development Agenda. The UK therefore supports the Commission's objective of streamlining and simplifying the system of market measures; and considers that this requires fewer measures used less frequently to coincide with times of *genuine* crisis that are not capable of being insured against. In particular, export subsidies should be phased out, and intervention prices for dairy and cereals commodities reduced to levels commensurate with long term lows in market prices so that normal market risk is borne by the market. This should be in tandem with the proposals for WTO compatible, market based solutions through the risk management tool kit, to generate an increase in competitiveness. Market price support implementation and reform should be carried out in ways that are predictable and facilitate the development of private sector mechanisms for the management of price risk.
18. Within a transitional safety net, all remaining forms of intervention for several commodities could be abolished, for example, in the sugar sector, where an equitable and balanced means of abolishing sugar production quotas also needs to be found. Where community purchasing does continue (as a last resort after use of private storage aid), intervention should be limited exclusively to tendering. This is both cheaper for the Community and preserves the incentive for farmers to produce efficiently (rather than for intervention).

19. Genuine moves to build competitiveness in the agriculture sector clearly point to the need to remove distortions that exist elsewhere in the CAP. A UK priority will be to continue the good work undertaken in previous reforms and **phase out the remaining coupled subsidies** during the next Financial Perspective; for example, cotton and headage payments. The UK wholeheartedly supports the **continued market orientation** of the CAP so that farmers can take advantage of the new opportunities arising in the global market and adapt their businesses appropriately.
20. As in many Member States, targeting direct payments on **active farmers** has been an issue in some areas of the UK. However, it has so far proven difficult to find a solution that works in practice, including identifying a definition that can encompass the broad range of farming occupations and practices. The wide variation in Member State experiences demonstrates the complexity of this issue: The UK believes that subsidiarity will therefore be an important principle to maintain, and we should look at existing measures and experience in the first instance. Even if a suitable definition could be found, the problems of continued poor value for money of Direct Payments and their capitalisation into land value (which benefits the landowner, not the farmer) would persist.
21. The UK would also be concerned with any proposals that imposed significant new checks and burdens that would be disproportionate to the benefits, and it will be important for any proposals on “active farmers” not to create significant new uncertainty or audit risk for paying agencies. We would also be concerned with proposals that would effectively reverse the benefits that decoupling has so far achieved.
22. The UK recognises that in some of the New Member States there are large numbers of very small farmers alongside much larger and more competitive units. We are concerned though that the understandable social issues associated with these small farms are blurring the objective of what is right for EU agriculture. The UK believes that the needs of **small farms** are best met through policies to improve their underlying competitiveness and hence their ability to take advantage of market opportunities. **Producer organisations** offer a potential means of extending to smaller farmers some of the economies of scale from which larger farms can benefit. Similarly, the UK also agrees that some rebalancing of **bargaining power** would be welcome. However, a **minimum level of direct payment for small farms** – however defined – would provide a perverse incentive to such farms to remain small and would impede consolidation, which is one potential route to competitiveness – or encourage artificial re-structuring which is administratively burdensome. Again, there is also a risk that additional complexity would outweigh any benefits. The real key to any improvement will be measures which enable such farms to reduce their costs and/or improve revenues, whilst maintaining their distinctive character. Overall,

policy should facilitate processes of agricultural adjustment that allow all farm structures to develop in ways that help secure the competitiveness of the EU's agriculture sector.

23. By the same token, the UK is opposed to the Commission's suggestion that direct payments to large farms should be **capped**. The CAP should encourage greater competitiveness, including by consolidation, which capping would discourage. UK agriculture has undergone much structural change in the development of successful farming businesses. We would be concerned if measures were introduced that would prevent these sorts of natural structural processes from happening, as they make an important contribution to developing economies across EU Member States. The CAP must not incentivise the employment of excess labour, as would happen if large farms employing greater numbers than average were to be exempt from a cap. This too would add another layer of additional administrative complexity with the costs outweighing any benefits and also encourages artificial re-structuring.
24. The UK is sympathetic towards calls from New Member States for fairer treatment, and supports a move away from current historic allocations as part of an objectively designed **future allocation key for both pillars**. But it is imperative not to create new dependencies on direct subsidies where none exist at present. Given the widely varying nature of farming and rural issues across the EU and within Member States, the UK believes that Member States should continue to be given the flexibility to allocate CAP funding in a way that best suits the requirements of their own regions and farming structures, providing it is consistent with the wider objectives of the CAP. A one-size fits all solution will restrict rather than facilitate, as well as adding significant complexity and costs to Member State implementation of the CAP.
25. A stronger Pillar 2 is best placed to support the achievement of the EU2020 goals and help deliver a strong and sustainable rural economy, enabling EU agriculture to respond to current and future challenges. In order to do this there should be an **increasing focus on actions under Pillar 2 which provide the public goods which the market cannot deliver**, and where EU budgetary intervention can add greatest value. Pillar 2 should therefore take a greater share of a smaller CAP budget in order to deliver these objectives, and should be distributed through an objective basis for allocation. The UK therefore welcomes the Commission's proposals for **objective criteria** to be considered.
26. The UK believes that the principle of co-financing is one of the fundamental principles of EU funding, ensuring ownership and providing incentives to deliver effective programmes with sound financial management. This important principle needs to be maintained.

27. The UK believes that there is clear justification for a focus towards the provision of environmental benefits. Pillar 2 is the primary mechanism in achieving this, not least because it allows for resources to be targeted. The UK is therefore be cautious of proposals to **green Pillar 1**, given that it is unlikely to deliver significantly greater or more ambitious environmental benefits than those that are currently delivered through our current combination of targeted Pillar 2 agri-environment schemes backed up by industry-wide voluntary initiatives on the environment. The UK would welcome clarity on the Commission's proposals for 'greening Pillar 1', with a full assessment of how this option could add value and achieve clear, tangible environmental outcomes. Any proposals would also need to be carefully balanced against the risk that such measures would increase complexity and regulatory burdens and move significantly away from an agenda of simplification. The UK considers that environmental outcomes are effectively delivered by longer term targeted interventions through Pillar 2, and the focus should therefore be on increasing the effectiveness and efficiency of Pillar 2. CAP resources should be targeted where they can be most cost effective.
28. In order to deliver this, the structure of Pillar 2 must be designed to ensure that outcomes can be met as effectively and efficiently as possible. We welcome the Commission's proposal to take a more **outcomes based approach** towards EU strategic priorities, and further consideration should be given as to how this can be achieved. For example, the UK supports the Europe 2020 flagship initiative a 'resource efficient Europe', and notes that there is a significant role for the agricultural sector in delivering the sustainable and efficient use of natural resources. However, the current axis structure and scope of measures does not provide the level of flexibility required. Pillar 2 instruments could therefore be modified to deliver better value by enabling **multiple objectives to be met through more flexible mechanisms** than currently possible under the rigid axis based approach.
29. The UK believes that the best way for the CAP to deliver environmental outcomes in the management of land is through well targeted **agri-environment** and agro-forestry schemes under Pillar 2. These should be complemented by a range of flexible measures, such as advice provision and supporting collaborative working, which enable a clearer focus on the outcomes sought rather than process. These schemes have to date been successful in tackling some of our key environmental challenges, such as biodiversity. However a more flexible approach, particularly in terms of delivering against multiple outcomes, could deliver more for EU priorities such as sustainable woodland management and climate change mitigation, as well as helping the EU to deliver on the biodiversity agreement reached at **Nagoya**, to take effective and urgent action to halt the loss of habitats and species.

30. The UK Government also supports an increased focus on **improving the competitiveness** of the farming and forestry sectors as there is considerable potential to stimulate an increase in productivity in tandem with a reduced impact on the environment, by enabling Member States to design schemes that deliver against multiple objectives. This in turn improves value for money.
31. The UK agrees that it is important that the CAP plays a more active part in **reducing Greenhouse Gas emissions from agriculture, land use and land use change** post 2013 including through adequate protection of existing carbon stocks, in particular those maintained in permanent pasture land and organic (peaty) soils. The CAP has a role to play in ensuring that land managers are made aware of the issues, understand how to tackle them and are enabled to take action to adopt best practice for reducing GHG emissions and in supporting development and enabling implementation of innovative technologies and other solutions for tackling GHG emissions, delivery of other environmental goods and improving competitiveness.
32. Existing policy instruments within Pillar 2 provide some potential for Member States to address these objectives, but the UK believes that more could be done to develop this potential. Improvements are required to maximise the synergies between climate change actions and the delivery of other environmental benefits and/or competitiveness, and encourage development and implementation of innovative technologies.
33. The UK notes that the current LFA measure is supported within our regions, as well as by many Member States. We believe that any support for **areas of natural handicap** should be focussed on delivery of public benefits, and therefore that any such measure in future should be retained under Pillar 2. The UK would welcome clarity on how the Commission's proposals for Pillar 1 advocating support for areas with specific constraint would operate or be targeted without overlapping with similar proposals for Pillar 2. In particular, the UK is concerned that it could significantly increase the complexity of the direct payment system without delivering public benefits.
34. The UK supports robust **monitoring and evaluation of rural development programmes** to ensure that support is targeted to EU and Member State objectives, and its effectiveness can be assessed. However the current system, the Common Monitoring and Evaluation Framework (CMEF), does not always produce meaningful and useful data whilst imposing significant costs on the EU, programme authorities and beneficiaries, whilst final results may be too late to feed into the next programming period. The monitoring and evaluation system should ensure that there is a clear focus on the key objectives such as increasing competitiveness and managing the environment and that their contribution to EU strategic outcomes can be assessed. An opportunity exists to simplify the current

system. Indicators and reporting requirements should be decided once the objectives and structure of Pillar 2 have been agreed and reviewed to ensure data reported is meaningful and can aid the management of rural development programmes and ensure they deliver against objectives.

Horizontal issues

35. The UK strongly supports the Commission's objective to **simplify the CAP**. It is vital that we minimise the administrative burdens for farmers and businesses and the administrative costs for national authorities by moving to the simplest possible regulatory framework that is consistent with clarity of intent and good financial management. This can only be ensured by enshrining some overarching principles into the policy-making process, principles which should be used as a test of the value of any new policy option. These principles should include: no additional costs for farmers or administrations in the next Financial Perspective unless they can be fully justified; greater flexibility and discretion for Member States to implement schemes providing that the desired outcomes are delivered (rather than focusing on the process); a risk-based approach to controls that rewards farmers for their track record and administrations for operating robust control systems; greater proportionality of controls and penalties; full transparency and clarity of roles and responsibilities from the outset; and maximising the use of technology.
36. Improvements to the design of the control system are an important part of achieving an effective and efficient regime and complementary to improvements in competitiveness. **Controls under the current system** are disproportionate and often poorly targeted in terms of the risk to environmental outcomes and other public goods. They are also complex and costly for both administrations and beneficiaries, particularly the financial management and audit systems. The UK is keen to work with the Commission on developing more proportionate, risk-based controls.
37. We note separately that the Commission are proposing to amend the tolerable rate of error for Pillar 2. The principle of tolerable error is helpful in understanding the trade-offs involved in achieving more targeted outcomes requiring more complex controls (and which consequently have higher risks of error). However, it is too soon to agree new levels of tolerable risk: recent simplification first needs to take effect, and more importantly, there is scope for further simplification to ensure that more cost-effective and proportionate controls are in place post-2013 – particularly in terms of financial controls (including the audit regime).
38. **Proposals for greater integration between the Structural and Cohesion Funds, the European Fisheries Fund and the European Agricultural Fund**

for Rural Development are worthy of further exploration. This includes a common strategic framework, which has the potential to strengthen the integration of EU policies for the delivery of Europe 2020. Greater strategic alignment across funds will ensure greater coherence of objectives and implementation, more focused outcomes and could facilitate rationalisation of delivery.

39. At the implementation level, there are potentially significant opportunities for greater rationalisation and efficiencies in the delivery of some or all of the Structural and Cohesion Funds; the EFF; and the CAP, through an, integrated system of administration, control and audit. If designed correctly it could deliver major savings to the administration budgets of both the European Commission and Member States. However, there are significant risks associated with such a large structural change in terms of the ability to deliver EU funding to recipients in a cost-effective and efficient way and with minimal disallowance. The UK would only support a change providing the controls for all the funds were more risk-based and proportionate, with reduced administrative burdens for governments and recipients.