

INTRODUCTION

The subject of Common Agricultural Policy (CAP) reform has moved up farming's agenda with new support proposals emerging from Brussels. This leaflet sets out the main points, but more importantly gives some guidance on what businesses should (or shouldn't) do to prepare for any changes.

Perhaps the most important point is that discussions are still at a very early stage. Businesses should be aware of what is proposed, but they should not be rushed into hasty decisions that might be regretted later.

TIMING

What we have seen is a leak of draft CAP legislation that will only be formally published later in the year (probably October); it may change considerably before then. Even when published, it only starts the negotiation process involving Europe's Farm Ministers and the European Parliament. This could go on into 2013 and could see further large changes being made.

The leaked paper indicates that reform will start from the 1st January 2014. Most commentators believe that this is unrealistic and changes are likely to be implemented for the 2015 calendar year. *This means the present SPS probably has three more years left to run - 2012, 2013 and 2014.*

THE BASIC PAYMENT SCHEME

A new 'Basic Payment Scheme' (BPS) will replace the SPS.

All existing entitlements would be cancelled and a completely new allocation made. This will probably be on the basis of occupation on the 15th May 2015. *Farmers may want to consider their land tenure arrangements if they wish to be in occupation to claim the new entitlements.*

The 'historic basis' for allocating support as used in Scotland and Wales will cease. The draft paper suggests that phasing to a regional rate will be over five years. However, entitlements will only be able to be 50% 'historic' in the first year of the new BPS. *Those*

farmers in Wales and Scotland with high value entitlements may see a sharp drop in subsidy receipts.

Both Wales and Scotland are likely to introduce more than one region for the BPS.

PAYMENT LEVELS

The leaked paper gives no indication of future payment levels. There is not even any indication of how much each country will receive under the BPS.

The plans would end 'modulation' which removes part of the SPS to mainly fund agri-environmental schemes. In England the deductions are currently 19% of the SPS. With this mechanism gone, payment levels in England at the start of the BPS may only be slightly lower than currently, even if overall EU funding drops. *However, those budgeting ahead for the next 3-5 years should be 'conservative' in estimating support levels; particularly in Wales and Scotland where there will be big changes with the move from the historic basis.*

'GREENING'

It is proposed that 30% of support will be conditional on farmers meeting the three 'greening' criteria;

- **Crop Diversification** will require those with over 3 hectares of arable land to grow at least 3 different crops. Each crop must comprise a minimum of 5% and maximum of 70% of the arable area. *It may not be too onerous for large arable farmers but those that only grow a couple of fields of cereals may find it a problem. It may be problematic for those that just grow one 'arable' crop—e.g. maize. It could also cause difficulties where contract-farmed land is block-cropped.*
- **Maintenance of Permanent Pasture** will require the area of grass over 5 years old on the holding to be kept the same. *Detailed rules are awaited, but this looks potentially restrictive for grassland units.*
- **Ecological Areas** must comprise 5% of a holding's farmed area. *However, this does not mean effectively 5% set-aside, as 'landscape features' such as hedges, ponds etc. will count towards the total.*

In addition to the greening, 5% of BPS funds will be

used to top-up payments in Less-Favoured Areas (LFAs). A further 5-10% can be used for coupled (headage) payments. These are unlikely to be used in England, but could be seen in Scotland and Wales.

CAPPING

The proposal is that payments under the BPS would be capped. The system would work like Income Tax with different bands;

Up to €150,000 -	full payment
€150,000 to €200,000 -	20% deduction
€200,000 to €250,000 -	40% deduction
€250,000 to €300,000 -	70% deduction
Above €300,000 -	no payment made

The 'greening' element will be exempt from capping. In addition, salaried labour costs can be deducted before capping is imposed. *Whilst some claimants may be thinking about splitting businesses to avoid any BPS cap, the labour and greening exemptions actually mean the effects could be quite limited. An example may help explain;*

1,400 hectare farm, @ say €250 per Ha - €350,000
less, paid labour (2 staff + casual) say - €80,000
less, greening element at 30% of BPS - €105,000
Net 'cap-able' BPS €165,000
First €150,000 paid in full, remaining €15,000
paid at 80%, therefore capped payment - €162,000
Add back labour and greening elements, total
net BPS of - £347,000
i.e. only €3,000 of aid lost to capping.*

** estimated lowland England BPS including greening top-up*

In many cases, adjusting structures to bring more labour into the 'salaried' category will probably be simpler than splitting businesses (although details on what constitutes labour costs are notably lacking).

ACTIVE FARMER

One issue that is unclear is the limiting of support to 'active' farmers. The EU is keen to do this, but the section in the leaked paper defining an active farmer was left blank. This is likely to reflect the problems in defining who is or isn't 'active' agriculturally.

The rules on active farmers should become clearer over the next couple of months. It is an area that needs watching. Claimants who have the majority of land under contract farming agreements, or grass lets could be excluded. Those with very diversified businesses could be hit. And, if the rules are extremely tightly defined, then even those using contractors for a lot of the farm work might have problems.

STEWARDSHIP SCHEMES

These plans cast serious doubt on the future of the Entry Level Scheme after 2014. If modulation is ended then there is likely to be less money for Stewardship Schemes generally. It is probable that funds would be focussed on the Higher Level Scheme. The greening elements also take away some of the justification for a 'broad and shallow' scheme.

Those already in the ELS will see their agreements honoured for their 5-year term. DEFRA has recently stated that those that enter the ELS before 1st January 2012 will not face any retrospective changes in their agreements as a result of CAP reform. Those that are considering entering the scheme may wish to do so sooner rather than later whilst the opportunity still remains.

HELPING YOUR BUSINESS

As stated at the start of this note, it is still very early days in the next round of CAP reform. For most businesses it is likely to be a case of keeping a watch on developments, and being ready to act when more is known.

The Andersons Centre will be monitoring the reform process over the coming months and years. We are uniquely placed in understanding what is happening at the policy level, but also the practical implications on-farm, and most importantly, how individual businesses can best react to the changes.

If you would like further information, or a FREE initial visit to discuss any of the issues raised in this leaflet please contact us.

The Andersons Centre is part of Andersons the Farm Business Consultants, and together with the rest of the Andersons Businesses is one of the largest independent farm and rural business consultancy providers in the UK.

Your Contacts:

George Cook

Direct: 01664 503207 Mobile: 07836 707360

Oliver Lee

Direct: 01664 503219 Mobile: 07855 282285

The Andersons Centre

Old Bell House
2 Nottingham Street
Melton Mowbray
Leicestershire
LE13 1NW

Tel: 01664 503200

Fax: 01664 503201

enquiries@theandersonscentre.co.uk

www.theandersonscentre.co.uk

CAP Reform Brief is provided in good faith for information purposes. No responsibility is taken by The Andersons Centre for any inaccuracies or omissions it contains. In all practical situations you are advised to take specific professional advice.

ANDERSONS

'Andersons'® is a registered trade-mark of
Andersons the Farm Business Consultants Ltd

ANDERSONS
THE ANDERSONS CENTRE

CAP Reform Brief

September 2011

Business Issues to Consider

ANDERSONS

the
FARM **business**
CONSULTANTS