

CAP Reform In England

Update - November 2005

- The Euro / Sterling exchange rate that will be used to calculate payments for 2005 has been confirmed as £0.68195=€
- Based on the announced exchange rate, the dairy premium (which is now incorporated into the Single Farm Payment) before any deductions will equal 1.65ppl for 2005.
- Farmers can now choose up to two different start dates for parcels of land under the 10-month rule.
- The deadline for application for the National Reserve was 4th November 2005. No announcement has yet been made regarding the deduction from the Single Farm Payment that will be made to finance the National Reserve.
- Annual inspections for both eligibility and cross compliance are being carried out by the RPA. However the RPA will not complete all the cross compliance inspections for 2005, before the end of the year.
- Farmers participating in the ELS can receive annual payments of up to £30/hectare. There are monthly start dates for the scheme and Defra's target is to provide farmers with an agreement start date within 3 months of a valid application being made.
- The RPA has announced that it expects to commence payment of the full Single Farm Payment in February 2006.

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How is the Single Farm Payment formulated for England?

From 2005 the dairy premium - which is a compensation payment for the intervention price cuts - will be included in the new Single Farm Payment (SFP). Over a seven year period, there will be a transition from a predominantly individual historic farm basis to a regional flat-rate basis with three separate regions for England (see below).

Over this time period individual farmers' payments will move from being based predominantly on the support that a farmer received historically, to a flat rate payment per hectare of land. In 2005 the payment a farmer receives will be made up of 90% of the payment due on an individual farm basis ("historic basis") and 10% on a regional flat rate. By 2012 this will move to 100% on a regional flat rate basis.

The annual ratio of historic and regional area payment is:

	2005	2006	2007	2008	2009	2010	2011	2012
Proportion historic basis	90%	85%	70%	55%	40%	25%	10%	0%
Proportion regional flat rate basis	10%	15%	30%	45%	60%	75%	90%	100%

Historic Payments

A part of a farmer's Single Farm Payment will be calculated based on subsidies received by that business in the past. The average level of payment received in the three years between 2000 and 2002 will be used as the basis for calculating the historic portion of a farmer's support under the new regime. For the dairy sector, the dairy premium received in the future will be based on the amount of quota held on 31 March 2005. The overall dairy direct payment before deductions, based on an exchange rate of £0.68=€, will be 1.65ppl for 2005. From 2006 onwards, assuming an exchange rate of £0.7=€, the dairy premium will be worth 2.56ppl.

The historic part of the payment will be based on the average payments received between 2000-2002 in the following schemes: Arable Area Payment Scheme, Beef Slaughter Premium, Beef Special Premium, Suckler Cow Premium, Sheep Annual Premium, Extensification Payment and LFA Sheep Supplement Payment.

Regional Payments

The payment rate per hectare will not be fully known until all registered eligible hectares have been registered by farmers in their IACS form. At the time of publication no announcement has been made regarding payment rates. In England there will be three different payment regions: Severely Disadvantaged Area (SDA) moorland, SDA non-moorland and non-SDA (lowland agricultural land).

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The final area payment rates in each region will reflect the average amount of support claimed per hectare in those regions.

Defra has made initial estimates of the final payment rates in 2012, before any deductions and based on an exchange rate of £0.7=€

SDA Moorland = £20- 40/ha
SDA non-moorland = £110 - 130/ha
Other agricultural land = £210 - 230/ha

However, the European Central Bank has announced the exchange to be used to calculate Payments in 2005 as £0.68195=€. Therefore Defra's estimates for 2005 can be revised to:

SDA Moorland = £19- 39/ha
SDA non-moorland = £107 - 111/ha
Other agricultural land = £204 - 223/ha

To illustrate the practical impact of the review an example farm has been set out below. This will be used throughout the document to clarify various implications of the SFP.

Example Farm:

- 100 hectare dairy farm (all permanent pasture) = 100 entitlements
- 1 million litres of quota; average subsidy income 2000-02 = £5,000
- Farm is not in a severely disadvantaged area or moorland.

Year	Area Payment*		Historic Payment*				Single Farm Payment	
	Area Payment Rate £/ha**	Total Area Payment (100ha)	Dairy Payment ppl	Total Dairy payment (1 million litres)	Other historic subsidies	Total Historic Payment	Total SFP basis	Actual SFP (gross)
2005	£214	£21,400	1.65ppl	£16,500	£5,000	£21,500	10% area: 90% historic	£21,490
2006	£220	£22,000	2.56ppl	£25,600	£5,000	£30,600	15% area: 85% historic	£29,310
2007	£220	£22,000	2.56ppl	£25,600	£5,000	£30,600	30% area: 70% historic	£28,020
2008	£220	£22,000	2.56ppl	£25,600	£5,000	£30,600	45% area: 55% historic	£26,730
2009	£220	£22,000	2.56ppl	£25,600	£5,000	£30,600	60% area: 40% historic	£25,440
2010	£220	£22,000	2.56ppl	£25,600	£5,000	£30,600	75% area: 25% historic	£24,150
2011	£220	£22,000	2.56ppl	£25,600	£5,000	£30,600	90% area: 10% historic	£22,860
2012	£220	£22,000	2.56ppl	£25,600	£5,000	£30,600	100% area: 0% historic	£22,000

*Calculations of amounts due are based on the confirmed exchange rate for 2005 of £0.68195 = € and assuming an exchange rate of £0.7=€ for all other years

**Area payments are the mid-point for the gross payments per hectare quoted by Defra for non-SDA and adjusted to reflect confirmed exchange rates in 2005.

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How are payments allocated?

Individual farms will be allocated 'entitlements' based on the number of eligible hectares they have at their disposal in 2005, as registered in the IACS form. Once the actual gross SFP has been worked out, dividing this by the confirmed number of eligible entitlements will equal what each entitlement is worth before any deductions.

Each entitlement is activated on an annual basis by matching it with a hectare of eligible land. Any entitlement that is not claimed on within three years will be confiscated into the National Reserve.

What is eligible land?

Eligible land, is defined by Defra as any agricultural area of a holding taken up by arable land and permanent pasture except areas under permanent crops, forests or used for non agricultural activities. For more information on non-agricultural activities see Defra's October 2005 update of *Single Payment Scheme, Information for farmers and growers in England* <http://www.defra.gov.uk/farm/capreform/pubs/pdf/spsup15112005.pdf>

Each hectare of land claimed against must be at the disposal of the farmer for a defined 10 month period each year. Farmers can specify the start date of the 10 month period as any date between 1 October and 30 April. In addition, farmers can, starting in the 2006 payment year, choose up to two different start dates for 10 month periods relating to different parcels of land which they farm. If the farmer does not specify a start date, the 10 month window will start on 1 February. Different start dates can be specified in each year. However, start dates for a particular parcel of land must not overlap. Therefore if a parcel of land has a 10 month period ending on 31 October, in year 1, the 10 month period in year 2 must not start before 1 November.

What other rules must be abided by?

- **CROSS COMPLIANCE**

Cross compliance regulations relate to a series of standards that farmers will need to meet in order to receive the full amount of payment. There are two main elements; Statutory Management Requirements (SMRs) and Good Agricultural and Environmental Condition (GAEC) standards.

Statutory Management Requirements require compliance with a small number of articles from a number of EC directives and regulations regarding public, animal and plant health and animal welfare. The majority of these directives and regulations are already existing requirements in English Law.

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Good Agricultural and Environmental Condition standards cover topics including protection and maintenance of soil, overgrazing, hedgerows and rights of way. For more information on cross compliance please see <http://www.defra.gov.uk/farm/capreform/singlepay/crosscomply/index.htm>.

- **SET ASIDE**

Set aside obligations apply to all arable land, including temporary grassland. However, farms that have previously recorded land as temporary grassland but do not have arable crops in their rotation are exempt from set aside obligations. Set aside rates for 2005 have been set at 8% outside SDA areas, 1.3% within the SDA area and 0% within moorland. For further information regarding set aside please refer to:

<http://www.defra.gov.uk/farm/capreform/singlepay/setaside/index.htm>

- **INSPECTIONS**

Farmers who are registered for the Single Farm Payment should be aware that they might be subject to an inspection to ensure details given in the declaration are correct, commitments are met and legal and administrative rules are followed. Under EU regulations, a minimum of 1% of applications will be inspected for cross compliance purposes and a minimum of 5% will be inspected for general Single Payment Scheme eligibility. For more information please contact the NFU.

DEDUCTIONS

- **NATIONAL RESERVE**

A National Reserve will be set up with aim of allowing farmers who faced exceptional circumstances in or after the reference period (2000-2002) to obtain subsidy entitlements. Farmers that have faced exceptional circumstances, and therefore may be eligible for the National Reserve, include those that have started new businesses, those who have changed sector, those who have ineligible areas of land due to participation in agri-environmental schemes and dairy farmers who due to hardship circumstances were forced to lease out milk quota during 2004-05.

The closing date for applying for the national reserve was 4 November 2005. UK government ministers have agreed that the initial deduction should be set at 3%, however this is set to be reviewed when demand on the national reserve is known.

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Year	Gross SFP due	National Reserve Rate*	National Reserve Deduction
2005	£21,490	3%	£645
2006	£29,310	3%	£879
2007	£28,020	3%	£841
2008	£26,730	3%	£802
2009	£25,440	3%	£763
2010	£24,150	3%	3725
2011	£22,860	3%	£686
2012	£22,000	3%	£660

Please note that the actual deduction for the national reserve may not equal 3% depending on demand

• MODULATION

Modulation is a deduction from the SFP that is made to fund rural development measures both in the UK and throughout Europe.

The modulation rate set by the EU is 3% for 2005, 4% for 2006 and 5% from 2007 to 2012. The national modulation amount for England is expected to be 2% for 2005 and 6% for 2006. However this may change by the time payments are made. No announcement has been made regarding the national modulation amount for 2007 onwards and much will depend on the uptake of schemes such as Entry Level Stewardship (ELS) that the deducted monies will be used to fund.

Therefore based on the information available the total modulation is likely to consist of the following:

Year	EU Modulation Rate (%)	National Modulation Rate (%)*	Total Modulation (%)
2005	3	2	5
2006	4	6	10
2007 onwards	5	6	11

* National modulation rates used in the table above are based on the expected rates previously published by Defra, however these have the potential to change.

The first €5000 of the gross SFP due to a farmer is exempt from modulation (for 2005 this equates to £3,400)

Year	Gross SFP due	Amount exempt from modulation*	Modulated amount	Modulation Rate**	National Reserve Deduction
2005	£21,490	£3,400	£18,090	5%	£905
2006	£29,310	£3,500	£25,810	10%	£2,581
2007	£28,020	£3,500	£24,520	11%	£2,697
2008	£26,730	£3,500	£23,230	11%	£2,555
2009	£25,440	£3,500	£21,940	11%	£2,413
2010	£24,150	£3,500	£20,650	11%	£2,272
2011	£22,860	£3,500	£19,360	11%	£2,130
2012	£22,000	£3,500	£18,500	11%	£2,035

*As for previous tables: the confirmed exchange rate for 2005 of £0.68195 = € has been used for calculation of 2005 payments. An assumed exchange rate of £0.7 = € has been used for all other years.

** Actual Modulation rates may vary, please see above

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- **ADDITIONAL DEDUCTIONS**

It is possible that additional deductions, other than those mentioned above, could be applied to the Single Farm Payment in the future. The EU has introduced the concept of Financial Discipline to protect EU taxpayers from budget increases that may otherwise occur if the costs of implementing the CAP reforms exceed the budget set. If costs do exceed the set budget, subsidies will be reduced in order to remain within budget.

NET PAYMENT

Based on the example farm used throughout this document, and combining the assumed deductions as detailed in the National Reserve and Modulation sections above, the following table details what SFP could potentially be received. However, this is based on a number of assumptions and should only be used as a guide to how payments are formulated.

Year	Gross SFP	National Reserve Deduction	Modulation	Total Deduction	Net SFP received	% deduction
2005	£21,490	£645	£905	£1,550	£19,940	7.2%
2006	£29,310	£879	£2,581	£3,460	£25,850	11.8%
2007	£28,020	£841	£2,697	£3,538	£24,482	12.6%
2008	£26,730	£802	£2,555	£3,357	£23,373	12.6%
2009	£25,440	£763	£2,413	£3,176	£22,264	12.5%
2010	£24,150	£725	£2,272	£2,997	£21,153	12.4%
2011	£22,860	£686	£2,130	£2,816	£20,044	12.3%
2012	£22,000	£660	£2,035	£2,695	£19,305	12.3%

ENTRY LEVEL SCHEME

One of the schemes funded by the national modulation reduction is the Entry Level Scheme (ELS). The ELS involves farmers committing to certain environmental management measures for a five year period. Participants choose which measures to participate in from over 50 options, all of which have points allocated to them. If participants average 30 points per hectare, they will receive £30/ha payment per year. Participants that farm land in Less Favoured Areas (LFA) need to achieve an average of 8 points/ha to receive payment of £8/ha (providing the area farmed is over 15ha).

In the example farm used throughout this document, assuming that all hectares are eligible and not classified as LFA, an additional annual payment of £3,000 would be received from participating in the scheme.

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In addition, many of the options that can be chosen under the ELS scheme include measures that all farmers will have to meet to comply with the new cross compliance regulations. Therefore participation in the ELS scheme may lead to farmers receiving payment for implementing statutory environmental management regulation. For more information on the ELS please see

<http://www.defra.gov.uk/erdp/schemes/els/default.htm>

Defra has introduced monthly agreement start dates, with the target that farmers will be provided with an agreement start date within 3 months of a valid application being made. For more information on the ELS please see

<http://www.defra.gov.uk/erdp/schemes/els/default.htm>

The Milk Development Council has, in conjunction with the NFU and the Environment Agency, produced a leaflet detailing the benefits of the ELS for dairy farmers. To obtain a copy please contact Jacqui Squires on 01285 646510 or email jacqui.squires@mdc.org.uk.

QUOTA

As part of the reforms, total milk quota in the UK (approximately 14.2 billion litres) will increase by 1.5%. This will be phased in over three years, at 0.5% each year between 2006 and 2008. A consultation paper regarding the best way to allocate the additional quota was published by Defra in 2005. The options highlighted in previous consultations include:

- Allocation on the base of permanent or net quota held at the end of the year preceding the increases.
- The additional quota should be placed in the national reserve for eventual distribution to new entrants/young farmers/use in the Temporary Reallocation of Quota Scheme.
- On the basis of actual production at the end of the year.
- Allocated to participants of the ELS.

According to Defra, the decision on how to allocate the additional quota will be announced by ministers soon.

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PAYMENT DATE

The Rural Payments Agency expects to commence payments of the full Single Farm Payment for England in February 2006.

TRANSFER OF ENTITLEMENTS

- Entitlements that are allocated to you under the Single Farm Payment Scheme can be transferred. However, this is subject to a number of conditions being met:
- The number of entitlements allocated to you must be definitively established, including set-aside entitlements and entitlements subject to special conditions.
- Entitlements can only be transferred between farmers; a farmer is defined under the scheme as *'a natural or legal person or group of persons...who exercise an agricultural activity.'* As yet there has been no decision from the EU regarding whether individuals who have been allocated entitlements, but have since ceased agricultural activity, can transfer entitlements. For more information see: www.defra.gov.uk/farm/capreform/singlepay/entitlement/pdf/transfer.pdf
- Entitlements can only be transferred by:
 - **Sale or gift with land**

To qualify for this type of transfer, the transfer of an equivalent number of eligible hectares must accompany the transfer of entitlements. If the receiver of the land and the entitlements intends to activate the entitlements in the next SPS year, the receiver must inform the RPA at least six weeks prior to the deadline for submitting an application for the SPS. For 2006 this is the 15 May 2006.
 - **Lease with land**

To qualify for this type of transfer the lease of entitlements must be accompanied by the corresponding area of eligible land. The lease for both the land and the entitlements must be for the same period of time and must have the same start and end dates.
 - **Sale of gift without land**

Unless you have been affected by events qualifying as force majeure (cases that will be recognised by the designated authorities as exceptional circumstances) you can only transfer entitlements without land if one of the following applies:

 - 1) You have already claimed payment against 80% of your total number of entitlements
 - 2) You have voluntarily given up to the National Reserve all the entitlements you have not used in the first year of application of the SPS. For more information see <http://www.defra.gov.uk/farm/capreform/singlepay/entitlement/index.htm>

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- **Through inheritance**

- If entitlements have authorisations attached, such as horticultural authorisations, these must be transferred with the associated entitlement.
- Set-aside entitlements can be transferred in the same way as other entitlements.
- Special entitlements can also be transferred; however they can only retain their special status if all of the special entitlements held by the farmer are transferred at the same time to a single purchaser.
- UK based farmers can own or lease entitlements anywhere in the UK but entitlements established in Northern Ireland, Scotland and Wales or in any of the three English areas can only be used to claim payment in that region or area.
- Transferring the entitlement does not alter the value of the entitlement.
- If you wish to transfer entitlements you must notify the RPA of your intention to do so at least six weeks before the transfer is due to take place. This can be done on the RLE1 form. The form will be pre-printed with the details of the entitlements that you hold and therefore will not be available until all entitlements have been defined. Please contact the RPA for more details.
- In order to claim payment on an entitlement, a farmer must hold it on 15 May in the scheme year.

Please note that throughout this document all future monetary values are nominal and do not take into account inflation. In addition, this document does not take into account any possible future changes in rates of deduction, changes in land area payments. Due to the degree of uncertainty that remains regarding the Single Farm Payment, a number of assumptions have been made for the purpose of this document. Where this is the case, this has been clearly indicated.

Information for this document has come from the following sources:

Defra www.defra.gov.uk

NFU www.nfuonline.com

RPA www.rpa.gov.uk

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