

# CAP Reform In Wales

## 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 Welsh Assembly has announced that it plans to make an interim payment of 80% of the Single Farm Payment (after modulation) from December.
- Farmers participating in the Tir Cynnal entry level agri-environment scheme can secure annual payments per hectare of land farmed for committing to various agri-environmental measures.
- The recent Welsh Assembly consultation paper on how to allocate the increase in Milk Quota has resulted in the decision to allocate additional quota based on the amount of quota held (owned and leased) in the year preceding the increase.

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## How is the Single Farm Payment formulated for Wales?

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). The SFP in Wales will be formulated on the basis of historical receipts i.e, the average subsidy payments received in the three year reference period from 2000 to 2002.

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=€ (confirmed for 2005 payments), will be 1.65ppl for 2005. From 2006 onwards, assuming an exchange rate of £0.7=€, the dairy premium will be worth 2.56ppl.

**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

Year	Dairy Payment ppl	Total Dairy Payment	Other Historic Subsidies	Single Farm Payment (Gross)
2005	1.65ppl	£16,500	£5,000	£21,500
2006	2.56ppl	£25,600	£5,000	£30,600
2007	2.56ppl	£25,600	£5,000	£30,600
2008	2.56ppl	£25,600	£5,000	£30,600
2009	2.56ppl	£25,600	£5,000	£30,600
2010	2.56ppl	£25,600	£5,000	£30,600
2011	2.56ppl	£25,600	£5,000	£30,600
2012	2.56ppl	£25,600	£5,000	£30,600

\*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

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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.

For example: Using the example farm detailed above with 100 entitlements  
Each entitlement is worth £215 in 2005 (£21,500/100) before deductions.

Each entitlement is activated on an annual basis by matching it with a hectare on 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, as defined by the Welsh Assembly, is arable land and all forage area. It excludes land under permanent crops including forestry, horticultural crops and land used for non - agricultural activities. For more information on non-agricultural activities please refer to <http://www.countryside.wales.gov.uk/fe/master.asp?n1=408&n2=792>

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.

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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 legal requirements.

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.countryside.wales.gov.uk/fe/master.asp?n1=408&n2=489>

- **SET ASIDE**

The number of set-aside entitlements that will be allocated will be based on 10% of the average number of total eligible hectares determined under the AAPS during 2000 to 2002. For more information please see [http://www.countryside.wales.gov.uk/fe/fileupload\\_getfile.asp?filePathPrefix=3563&fileLanguage=e.rtf](http://www.countryside.wales.gov.uk/fe/fileupload_getfile.asp?filePathPrefix=3563&fileLanguage=e.rtf)

- **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 Welsh Assembly.

## **DEDUCTIONS**

- **NATIONAL RESERVE**

EU regulations require each member state to set up a National Reserve to provide for farmers, in certain situations, whose businesses would be disadvantaged by a switch from a coupled to a decoupled subsidy system. Farmers who may be eligible include new-entrants, dairy farmers who have faced hardship circumstances and those who have invested heavily in land or to increase production capacity.

The deadline for applications to the National Reserve was 16 May 2005. The National Assembly has stated that successful applicants to the scheme will have already been advised of the number of entitlements they have been allocated

UK government ministers have agreed that the initial deduction should be set at 3%. However it is possible that the total deduction may differ from 3%, depending on demand on the National Reserve.

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Year	Gross SFP due	National Reserve Rate*	National Reserve Deduction
2005	£21,500	3%	£645
2006	£30,600	3%	£918
2007	£30,600	3%	£918
2008	£30,600	3%	£918
2009	£30,600	3%	£918
2010	£30,600	3%	£918
2011	£30,600	3%	£918
2012	£30,600	3%	£918

\*Please note that the actual deduction for the national reserve may not equal 3%

## • 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 Wales has been confirmed as 1.5% for 2005. No announcement has been made regarding the national modulation amount for 2006 onwards and much will depend on the uptake of schemes such as the Tir Cynnal entry level agri-environment scheme that the deducted monies will be used to fund. However, it is expected that the total modulation rate will equal 10% by 2007.

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	1.5	4.5
2006	4	5	9
2007 onwards	5	6	10

\* National modulation rates used in the table above are based on the information made available by the Welsh Assembly for 2005. No announcement has been made regarding the rate of national modulation from 2006 onwards.

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**	Modulation Deduction
2005	£21,500	£3,400	£18,100	6.5%	£815
2006	£30,600	£3,500	£27,100	9%	£2,439
2007	£30,600	£3,500	£27,100	10%	£2,710
2008	£30,600	£3,500	£27,100	10%	£2,710
2009	£30,600	£3,500	£27,100	10%	£2,710
2010	£30,600	£3,500	£27,100	10%	£2,710
2011	£30,600	£3,500	£27,100	10%	£2,710
2012	£30,600	£3,500	£27,100	10%	£2,710

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\*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

## • 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	£21,500	£645	£815	£1,460	£20,040	6.8%
2006	£30,600	£918	£2,439	£3,357	£26,972	11.9%
2007	£30,600	£918	£2,710	£3,628	£26,701	12.7%
2008	£30,600	£918	£2,710	£3,628	£26,701	12.7%
2009	£30,600	£918	£2,710	£3,628	£26,701	12.7%
2010	£30,600	£918	£2,710	£3,628	£26,701	12.7%
2011	£30,600	£918	£2,710	£3,628	£26,701	12.7%
2012	£30,600	£918	£2,710	£3,628	£26,701	12.7%

## AGRI-ENVIRONMENT SCHEMES

The modulation deduction from the Single Farm Payment will be used to fund Tir Cynnal entry level agri-environment scheme and other existing agri-environment and rural schemes.

Tir Cynnal requires farmers to; follow conditions to protect areas and features of environmental importance; ensure that at least 5% of the area farmed is a wildlife habitat and prepare a resource management plan for the farm.

Payments are tiered as follows:

- First 20 hectares £45/ha
- Next 21-50 hectares £30/ha
- Next 51-100 hectares £25/ha
- Next 101-200 hectares £5/ha
- Over 200 hectares £2/ha

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Therefore, using the example farm described above, participation in the scheme could mean an additional payment to the farmer of £3,050/year.

In addition, many of the requirements set out in Tir Cynnal are compatible with cross compliance regulations. Therefore participation in Tir Cynnal may lead to farmers receiving payment for implementing statutory environmental management regulations.

Applications for Tir Cynnal are integrated with the application for the SFP and the window for 2006 applications will open from late March until 15<sup>th</sup> May 2006. Agreements between the farmer and the Welsh Assembly are legally binding contracts, committing farmers to the scheme for a minimum of 5 years

For more information on Tir Cynnal please see

<http://www.countryside.wales.gov.uk/fe/master.asp?n1=4&n2=628>

For more information on other agri-environmental schemes in Wales please see:

<http://www.countryside.wales.gov.uk/fe/master.asp?n1=4>

## 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. The consultation exercise undertaken by the Welsh Assembly has resulted in the decision to allocate the additional quota on a top-up basis e.g, allocated on the basis on quota held (owned and leased) in the year preceding the increase.

## PAYMENT DATE

The Welsh Assembly has announced that farmers will receive an interim payment of 80% of their Single Farm Payment entitlement (after modulation) and that the payment process will start in December. However this only applies to claims that have been approved by the assembly. Farmers with outstanding queries will have to wait until these have been resolved before they can expect payment. Payment of the full amount cannot proceed until the final demand on the National Reserve is known and other funding issues have been resolved.

## 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.

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- 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:  
<http://www.countryside.wales.gov.uk/fe/master.asp?n1=408&n2=867>
- 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 Welsh Assembly Government 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.countryside.wales.gov.uk/fe/master.asp?n1=408&n2=867>
  - **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.

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- Transferring the entitlement does not alter the value of the entitlement.
- If you wish to transfer entitlements you must notify the Welsh Assembly Government of your intention to do so at least six weeks before the transfer is due to take place.
- 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](http://www.defra.gov.uk)

NFU [www.nfuonline.com](http://www.nfuonline.com)

NFU-Cymru <http://www.nfu-cymru.org.uk/>

Countryside Wales <http://www.countryside.wales.gov.uk/index.asp>

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