

CAP reform and organic farming I

The CAP Reform agreement reached in Luxembourg on 26th June 2003 has significant implications for all producers. This factsheet concentrates on aspects of the reform package of specific interest to organic producers in Wales – for further details of the full agreement and subsequent developments, see the following websites: www.wales.gov.uk and http://www.europa.eu.int/comm/agriculture/index_en.htm.

As indicated below, the agreement gave significant freedom to member states and regions as to how it is implemented, so the information contained in this factsheet can only be indicative of current thinking – the Welsh Assembly Government will be consulting on specific remaining implementation proposals in due course. In general, the proposals are welcome and should be helpful for the organic sector. Organic Centre Wales is participating in the Assembly's main CAP reform steering committee as part of this process.

What is decoupling and the single farm payment?

Decoupling means breaking the link between arable area and livestock headage support payments and the specific crops or livestock produced. Instead, a single farm payment based on previous receipts will be made (subject to meeting cross-compliance rules - see below). This means that changes to cropping patterns (with the exception of horticulture, potatoes and protein crops – see below) and changes to stock types and numbers, will no longer affect support payment receipts, freeing farmers up to respond to market signals and husbandry/environmental considerations. The Tir Mynydd payments, which are part of the rural development programme, are not affected directly by this change.

Will all crop payments be decoupled?

No - a €55.57/ha supplement for protein crops (field beans, peas and sweet lupins) will be retained. This will be helpful to organic producers both in terms of rotation design and in meeting the need of livestock producers for 100% organic rations after 2005, where access to suitable protein sources remains a major issue. There are also supplements for a range of other crops such as starch potatoes and energy crops that are currently not widely grown on organic holdings.

Will organic arable farmers still need to set land aside?

The agreement exempts organic farmers who manage **the entirety** of their holding organically from the 10% set-aside requirement that will apply to other arable producers (organic arable farmers already have permission to grow legumes for feeding to livestock on set-aside land). This exemption recognises the lower output and market focus of organic farming, but the organic sector will need to ensure that the potential environmental benefits of 10% set-aside are achieved in other ways. Farmers who manage only part of their holding organically will still need to set-aside land as normal, but under the new agreement they will now have the option to rotate set-aside, which has proved valuable to organic producers in the past, and to grow non-food crops on set-aside land.

Will all producers get the payment?

No – specialist pig, poultry and horticultural producers have traditionally not received support, and therefore will not qualify for decoupled payments. In order to prevent unfair competition by recipients of the single farm payment moving into some of these enterprises, the agreement specifies that land used for fruit, vegetables or table (not starch) potatoes will not receive the single farm payment that it might otherwise be eligible for. This mechanism has not been applied to pigs and poultry, so in theory a single

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farm payment recipient could move into pig or poultry production at a competitive advantage compared with existing producers who will not receive the payment.

What is the Farm Advisory System?

This is a combination of farm audit and advice in order to enhance the performance of all farms with respect to environmental, animal welfare, food safety and occupational health and safety. Member states are given the option of introducing this on a voluntary basis until 2006, from 2007 all states must have systems established and available to farmers, but with farmer participation on a voluntary basis – this will be reviewed in 2010 to see if participation should be made compulsory.

There is a need to ensure that any new farm audits and management plans are closely integrated with organic certification, farm assurance, organic stewardship and sustainability benchmarking initiatives, to avoid multiple inspections and excessive bureaucracy for similar requirements. In Wales, Farming Connect is already established as a potential mechanism to deliver the advisory service, although no specific proposals have yet been developed for this. OCW is already working to ensure that advice currently available under Farming Connect, and the farm management plans envisaged under the Welsh agri-environmental scheme reforms, meet the specific requirements of organic and converting producers and will seek to ensure that similar joined-up thinking is achieved with the implementation of the new agreement, especially as the agreement potentially provides a mechanism for part-funding advice that is already available.

Can payment entitlements be transferred?

The issue of land and payment right transfers, including the operation of a national reserve scheme to deal with problem cases, is very complex and the administrative issues are not yet fully resolved – it is essential that appropriate authorities are consulted before land transfer decisions are taken that might affect payment rights.

What is modulation?

Modulation is the process by which the current arable area and headage payments, and the future single farm payments, are reduced and the resources transferred to fund other activities including the rural development programme. The UK has operated a 'voluntary' modulation system since 2001/02 to provide additional funding for the agri-environmental schemes including the organic farming scheme.

Under the agreement, modulation will become compulsory at the level of 3% in 2005, 4% in 2006, and 5% in 2007, with farms receiving less than €5,000 per year in support payments exempt from modulation. Member states will retain at least 80% of these funds for use at home. The UK has also secured agreement that additional voluntary modulation can be applied, in order to fund additional reforms to agri-environmental schemes and other rural development initiatives, although with modulation under the agreement coming in at higher rates earlier than envisaged, it is not yet clear what the level of this additional modulation will need to be in order to make up the funding shortfall.

There are also complex arrangements for financial discipline to ensure the overall CAP budgets are not exceeded – expenditure levels will be reviewed annually by the Commission and additional payment reductions may be imposed to limit potential overspend.

What about new entrants and young farmers?

The agreement envisages increasing the level of priority and investment aids given to young farmers, including a higher setting-up grant for young farmers if they participate in advisory services linked to the setting-up of their activity. The issue of new entrants to agriculture, many of which choose organic farming, also needs to be considered, as they may often find themselves with no entitlement to the single farm payment and therefore be at a disadvantage compared with other producers – however, linking entitlement very closely to land transfer will end up in the value of the payment being absorbed by higher land prices so an alternative mechanism needs to be found. The national reserve mechanism might provide a solution to this if organic farming and new entrants are seen as high priorities.