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## CAP reform and organic farming II

The CAP Reform agreement reached in Luxembourg on 26th June 2003 has significant implications for all producers. This factsheet focuses on those aspects of the reform package of specific interest to organic producers in Wales, and should be read in parallel to Factsheet 16 which gives definitions and provides more detail on other potential affects of the agreement on organic farms and farming in Wales.

Although the major decision in Wales has been made – that the Single Farm Payment (SFP) will be on the ‘historic’ basis – many details of the implementation of the SFP are still being clarified in Brussels. Therefore, this document is for guidance ONLY, on OCW’s current understanding and interpretation of the Regulation, and will be subject to updates as more information becomes available.

### What is the Single Farm Payment, and on what is it based?

Support for farmers will now be in the form of an annual payment (the Single Farm Payment, SFP). Receipt of the payment will be subject to meeting cross-compliance rules, the details of which are not yet agreed in Wales, but cover public, animal and plant health, environment and animal welfare.

In Wales the SFP will be based on the support payments received by a farmer in the 2000-2002 period, for example, if a livestock farmer received £10,000 in headage payments in the base years on an IACS registered forage area of 100 ha, the future support would be based on £100/ha linked to that parcel of land.

### What about dairy farmers?

Dairy farmers have not received livestock headage payments in the past (most of the financial support to the dairy sector has been channelled through butter and skim milk processors, supplemented by the quota system to reduce oversupply and thereby maintain farmgate milk prices, at least in theory). The intention under Agenda 2000 was to cut the support to processors and to convert this into a headage payment per ‘standard’ cow (defined by a fixed number of quota litres held). These cuts in support prices are to go ahead, and the compensation payments, introduced from 2004 as a ‘Dairy Premium Scheme’ will become part of the single farm payment in 2005.

Organic dairy farmers, and dairy farmers converting to organic production will lose out if stock numbers and milk output (hence quota use) are reduced at the time at which the payments are fixed.

### What is cross-compliance?

Cross-compliance is the mechanism to check that recipients of CAP support payments comply with public, animal and plant health, animal welfare, environmental and occupational health and safety laws, and maintain land in a good agricultural and environmental state. Those who do not comply will be subject to penalties, and may lose a proportion or all of the support payment. In theory, organic standards reduce the likelihood of contraventions of these regulations, but do not provide a guarantee of this. Each member state has to set up a system to ensure that 1% of holdings each year are inspected to ensure cross-compliance is achieved. These inspections are likely to be ‘spot’ inspections, with a maximum of 48 hours notice; they may also be carried out using remote sensing, but farmers will have an opportunity to respond if non-compliances are found. Penalties are likely to be levied in proportion to the non-compliance. If a significant number of farms are found to be non-compliant, the member state has to increase the proportion of holdings inspected.

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## **Are there particular issues affecting the payments which organic farmers will receive?**

Yes – the majority of organic producers in Wales started converting in 1999 and 2000, so that the proposed 2000-2002 base period for determining payment levels comes at a point in the conversion process when stocking rates would have been at their lowest and cropping systems in a state of flux, leading to reduced payments which could be set in stone creating a significant disadvantage for these producers. In many cases, this will have been exacerbated by foot and mouth disease.

There is a possibility that the SFP may be based on receipts during the years 1997-1999 for organic farmers and agri-environment scheme participants, which may prove advantageous if stocking rates were higher. The detail of this has yet to be agreed. HOWEVER those organic farmers that took advantage of the alteration of the set-aside rule allowing organic farmers to use their set-aside for forage, may find that this factor means the 2000-2002 period may be better for them.

## **What do I do next?**

For IACS registered farmers The Welsh Assembly government will be distributing Yellow Forms, probably around July 2004, on which the basis for calculation of your Single Farm Payment will be set out. This **will not include payment levels**, but will show the details the Assembly has of your claims during the reference period. You need to check this very carefully – it will have implications for many years and will be difficult to change once agreed. You should return it as soon as possible. This when you have an opportunity to register requests for a different reference period.

Dairy farmers who have not been IACS registered in the past, should receive an IACS pack by 10<sup>th</sup> April. If you do not, contact your Division Office to request a form.

## **What about farmers that converted before 2000?**

The Regulation provides some suggestion that there may be another way of calculating the SFP for those with reduced stocking during both reference period options. Organic Centre Wales is working with the Welsh Assembly Government to attempt to clarify this as soon as possible.

## **What about farmers converting to organic farming in future?**

Farmers converting from 2004 will not face the same problems, and will be able to reduce stocking rates or change cropping patterns without penalty. Therefore they will typically be receiving a higher level of single farm payment than similar farmers who converted previously.

## **When will the reforms come into effect?**

1<sup>st</sup> January 2005, so the current system will continue during 2004.

## **When does this mean for my cash-flow?**

Do note that the Single Farm Payment is what is says – i.e. Single. There will not be the instalments you have been used to, so you need to plan accordingly. Sheep-only farmers in particular, should be aware that they will have to wait after their SAPs payments in Oct/Nov '04 until the SFP payment window of December 2005 to June 2006; unfortunately, due to the enormous administrative task, payments are likely to be towards the end of this period.

## **Will the Organic Farming Scheme be affected?**

Some of the changes will affect the calculation of support levels under the Organic Farming Scheme. However, as OFS payments are being reviewed as part of the proposed integration of the OFS with Tir Gofal and the introduction of a new 'Entry Level' agri-environment scheme.