

CAP Reform Team  
Welsh Government  
First Floor  
West Wing CP2  
Crown Buildings  
Cathays  
Cardiff  
CF10 3NQ

01 May 2013

Dear Sir/Madam

### **Common Agricultural Policy Reform – Direct Payments to Farmers: Next Steps**

Thank you for consulting Natural Resources Wales (NRW) on the approach to the provision of direct payments under the CAP.

Natural Resources Wales works as a regulator, partner and advisor to businesses, non-governmental organisations, Local Authorities and communities to help deliver Welsh Government and European Union policies and priorities. We take an ecosystem approach to promoting sustainable development that delivers social, economic and environmental benefits to the people of Wales.

Our full response to the consultation questions is set out in Annex 1. The main points we cover are:

#### Change to area-based direct payments

The forthcoming change to area-based direct payments appears likely to have a negative impact on the incomes of many farm businesses post 2015. Reduced levels of income support may drive further agricultural intensification in some localities whilst other farms may abandon less productive areas of land or may go out of business entirely. Both types of response would have significant environmental consequences.

#### Delivering agreed environmental outcomes

Area based direct payments (especially the greening element) should be integrated with the RDP and the EU Structural funds to help meet the full range of environmental objectives already identified by the Welsh Government and the EU, whilst recognising the contribution the environment makes to jobs and growth.

Key environmental targets include:

- Restoring all water bodies which are failing to meet Good Ecological Status as a result of poor rural land management practices by 2021;
- Bringing all SSSI's into favourable condition by 2026;
- Achieving an annual 3% reduction in GHG emissions in areas of devolved competence.

Many of the environmental benefits currently provided by the Glastir Entry scheme could be delivered as part of the direct payments system using the proposed greening element. In our recent response to the accompanying RDP consultation, we advocated that at least 75% of the RDP budget should be allocated to agri-environment-climate and associated forestry measures. Using the new greening element to provide a free standing environmental certification scheme<sup>1</sup> would ensure that limited RDP funds could then be focussed more effectively on the key environmental priorities described above.

#### Transferring funds into the Rural Development Plan

The current CAP reform proposal allowing for up to 10% of the direct payments budget to be transferred into the RDP is similar to the modulation provisions existing within the current EC Regulations.

The advantage of increasing the reach of the RDP is that this is the only part of the land management budget that emphasises knowledge transfer, co-operation, investment, innovation and a broader approach to integrated land management including forestry. Continuing to prioritise income support under the direct payments regime will result in a much more uneven trajectory of rural development. Some farmers will use the payments in order to improve their competitive position through a more sustainable approach that reduces costs and improves market access. Other farmers will use the payments simply in order to underpin current practices, regardless of whether or not these practices are sustainable in the long term.

Please do not hesitate to contact either of the following NRW staff if you would like to discuss any aspect of our response in more detail:

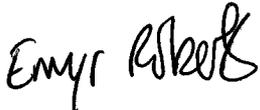
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<sup>1</sup> Council of the European Union (2013) Proposal for a Regulation of the European Parliament and of the Council establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy (CAP Reform) - [Presidency consolidated draft Regulation, 12 March 2013, 7183/13 and compromise amendments from 19 March](#) (document 7539/13).

Yours sincerely,

A handwritten signature in black ink that reads "Emyr Roberts". The signature is written in a cursive, slightly slanted style.

**EMYR ROBERTS**

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## Annexe 1

### Common Agricultural Policy Reform – Direct Payments to Farmers: Next Steps.

#### Response by Cyfoeth Naturiol Cymru/Natural Resources Wales

##### Direct Payments

##### ***1. Do you have a view on what sort of combination of rates should be used? Why?***

The forthcoming shift to area-based direct payments appears likely to have a negative impact on many farm businesses post 2015. Reduced levels of income support may drive further agricultural intensification in some localities whilst other farms may abandon less productive areas of land or could even go out of business entirely. Both types of response would have significant environmental consequences. Minimising the degree of disruption to the industry will reduce the risk of perverse environmental outcomes, especially since the absolute value of many receipts seems likely to decline over the period 2014-20<sup>2</sup>.

Natural Resources Wales would prefer to see a system based on four separate payment rates i.e. Moorland, Severely Disadvantaged Area (SDA), Disadvantaged Area (DA) and Lowland. According to the report of the CAP Reform Modelling Group (as described in the recent consultation document) such an approach would provide the best fit between historic entitlement values and the new system of area payments; so minimising the amount of disruption to the industry. The inclusion of moorland may involve slightly more administrative complexity than a three rate model, but presents an opportunity to set the SDA and moorland rates at levels that will preclude the need for separate Area of Natural Constraint (ANC) schemes under the Rural Development Plan (RDP) and/or the Direct Payments regime.

An ANC scheme based solely on income support will divert substantial resources away from other parts of the RDP. This will have adverse consequences for overarching social, economic and environmental objectives across Wales. An integrated approach to the re-structuring of direct payments, the introduction of the new greening element, the use of RDP measures and EU Structural funds is therefore going to be necessary over the next seven years.

##### Transition Period

##### ***2. Do you think that the transition period should be for 5 years, 10 years or an alternative? Why?***

A seven year transition (in line with the next EU financial perspective) appears reasonable. This would allow farmers to make the necessary business adjustments on a gradual basis. A ten year period would extend the transition to the point that it overlaps with subsequent rounds of CAP reform.

##### Change to 100% area payments

##### ***3. Do you think that the change in year 1 should be 40%? Why?***

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<sup>2</sup> Whilst the scale of the funding available to Wales remains to be determined, the recent decision of the European Council to reduce the size of the EU budget, coupled with the need to achieve a greater degree of convergence in payment rates between different Member States seems almost certain to reduce the size of the direct payment received by many farms.

No.

Substantially front loading the first year of the shift to area payments has the potential to cause significant disruption to those farms standing to lose the most under the new system. The social, economic and environmental implications of any front loading are likely to vary from farm to farm. In the absence of detailed modelling, it seems reasonable to suggest that the risk of perverse effects will be reduced if a similar step change is applied during each year of the transition.

A set of individual case studies might assist with making the case for a smoother transition process at European Level.

### **National Reserve**

#### ***4. Do you agree that new entrants should be able to access entitlements through the National Reserve?***

Yes – and some other categories of farmer should also be prioritised.

All new entrants should be able to access entitlements via the National Reserve. In a competitive market, the provision of income support to some farms and not others means that the latter are more likely to resort to unsustainable forms of agricultural intensification. For instance, farms without Income support will not be subject to cross compliance. This increases the risk of damage to the environment.

Where funds are limited, the National Reserve should also be used to prioritise those farmers previously engaged in SSSI management agreements. Such agreements are voluntary and previous participants should not be disadvantaged as a result of business decisions made well in advance of the current round of CAP reform.

### **Entitlements**

#### ***5. Do you agree that there should be two or three reference years to access entitlements?***

Three reference years would be preferable.

Such an approach will reduce the risk that some farms will be excluded from the direct payments regime as a result of exceptional circumstances lasting up to two years.

#### ***6. Do you think that farmers who have not exercised entitlements in the reference years should be allowed to apply for entitlements, if they can demonstrate active farming activity?***

Yes.

The purpose of direct payments is to provide income support. Excluding those who are actively engaged in farming (as defined on the basis of a minimum level of agricultural activity) would seem to run counter to the purpose of the direct payments system.

### **Active Farmer**

**7. Do you think that the “negative list” approach is a good one? What sort of characteristics or business types should be in a ‘negative list’?**

An “active farmer” test will help to ensure that income support can be targeted more effectively. There is the potential to reduce administrative complexity by using a “negative list” to identify those businesses where more rigorous assessment is needed to establish a minimum level of farming activity/ a minimum proportion of income is being derived from direct payments.

In creating a negative list, it will be important to avoid disadvantaging those who have diversified their businesses in line with Government policy. Similar arguments apply to those institutions and charitable organisations providing significant quantities of public goods as a result of their participation in agri-environment schemes and/or other forms of voluntary management agreement.

NRW recommends that any definition of active farmer (together with the associated requirements for a minimum level of agricultural activity) should not preclude agri-environment participants and the holders of SSSI management agreements from continuing to claim under the Direct Payments regime. For instance, the financial component of the proposed active farmer test could be based on a minimum percentage of income being obtained from agricultural subsidies rather than from direct payments per se i.e. businesses could be allowed to count payments from agri-environment schemes and other management agreements alongside any income from Direct Payments as part of the qualifying percentage.

Under the rules applying to schemes currently notified as falling within the World Trade Organisation (WTO) Green Box, the EC Direct Payments regime should no longer be exerting a significant impact on production levels. As a result, any “minimum farming requirement” based on purely agricultural criteria could well fall foul of WTO requirements. Any minimum farming requirement should therefore take into account the role of land managers in supporting the provision of a wider range of ecosystem services.

**Greening**

**8. Do you agree that a proportion of the direct payment should be dependent on environmental actions?**

Yes. Ideally all of the direct payment should be conditional on compliance with the greening element.

The greening of direct payments is intended by the European Commission to legitimise the WTO Green Box status of the Direct Payments Regime, so reducing the risk that the EU system of income support will be subject to legal challenge in future.

Greening will also complement the role of the WRDP in delivering against the wide range of environmental targets already identified by the Welsh Government and the EU. These include:

- Restoring all water bodies which are failing to meet Good Ecological Status as a result of poor rural land management practices by 2021;
- Bringing all SSSI's into favourable condition by 2026;

- Achieving an annual 3% reduction in GHG emissions in areas of devolved competence.

The scale of land management action needed to meet the Welsh Government's environmental policy objectives for biodiversity, climate change mitigation, cultural landscapes, flood risk management, resource protection, soil health and water quality has previously been estimated at £165M per annum<sup>3</sup>. Despite not having been adjusted for inflation, this figure is still almost twice as great as the amount allocated to the current agri-environment programme.

Under the current architecture of the CAP, all RDP measures require co-financing by Member States. This is not the case with the proposed new greening element. Ensuring that greening can contribute effectively to the Welsh Government's agreed environmental objectives will make best use of a limited RDP budget.

### **9. What percentage should be governed this way?**

Allocating a specific percentage of the direct payments budget to greening only makes sense if farmers are then allowed to opt out of the greening requirements. The Commission's original proposals included the stipulation that all farmers in receipt of the basic payment should also comply with greening. By contrast, the EU Agriculture Council is now proposing that those farmers failing to comply with the greening measures should lose at least 125% of the relevant payment<sup>4</sup>.

In the event that participation in greening is rendered optional then the proportion of the budget devoted to this part of the direct payments regime needs to be large enough to provide an adequate incentive for participation. The Commission's original proposals suggested that the new Green Payments should account for 30% of each national envelope. NRW considers that a similar approach to individual farmer's direct payments (under which a minimum of 30% of total receipts are dependent on the greening measures) would ensure an adequate level of take up.

### **10. What do you think of the alternative practices being proposed for greening?**

Whilst not providing quite as much flexibility as desired, the recent EU Council decision on environmental certification holds out the possibility of using the new green payment in a way that can provide measurable benefits to Wales<sup>5</sup>. Participation in a recognised environmental scheme such as Glastir Entry Level

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<sup>3</sup> "Estimating the Scale of Future Environmental Land Management Requirements for the UK". Cao, Y., Elliott, J., McCracken, D., Rowe, K., Whitehead, J. and Wilson L. Report to Land Use Policy Group by ADAS & Scottish Agricultural College. December 2009.

<sup>4</sup> Council of the European Union (2013) Proposal for a Regulation of the European Parliament and of the Council establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy (CAP Reform) - [Presidency consolidated draft Regulation, 12 March 2013, 7183/13 and compromise amendments from 19 March](#) (document 7539/13).

<sup>5</sup> Council of the European Union (2013). *Op cit*

(adapted as necessary) could be deemed as equivalent to the new greening requirement, so allowing for a more targeted approach to meeting key environmental outcomes under the RDP. Such a separation between the functions of a green Pillar 1 and the agri-environment schemes available under Pillar 2, would also reduce the risk of double funding. This continues to remain unacceptable under the provisions of Article 111 of EC Regulation 1605/2002<sup>6</sup>, although some form of transitional approach should be agreed with the Commission so as to protect those farmers who have already signed a Glastir contract.

The Commission's original greening measures were designed to be applicable across the whole of the EU. As a result of this 'one size fits all' approach, relatively few of the proposals would have delivered significant environmental benefits within Wales. Conversely, the risk of perverse effects was relatively high. For example, the original provisions for crop diversification could have led to a reduction in environmentally beneficial small scale arable cropping, whilst the permanent grassland requirements would have restricted the capacity of farmers to convert areas of improved grassland to woodland in line with the Welsh Government's climate change strategy.

The current proposals for crop diversification, permanent pasture and Ecological Focus Areas (EFA) are much more flexible and the risk of perverse effects seems to have been substantially reduced. At the same time, however, there is a significant risk that the new greening measures will accomplish relatively little in terms of climate change, Water Framework and Habitats Directive objectives. For example, the vast majority of Welsh farms are likely to meet the greening requirement by virtue of having more than 75% permanent pasture. The EFA measure has the greatest potential to deliver against existing environmental targets, but seems unlikely to be used to any significant extent in Wales owing to the fact that most of the eligible agricultural area is already under grass. A separate environmental certification scheme could provide considerably more by way of environmental benefits.

More thought needs to be given to the relationship between farm woodland, the direct payments regime and the Welsh Government's woodland planting target. Farmers are currently able to claim direct payments on existing woodlands entered into agri-environment schemes, as well as on newly planted woods, provided they can demonstrate that the land was under agricultural production in the reference year (2008). Creating a choice between the continued availability of income support and the various woodland support measures available under the RDP would undermine incentives for actively manage existing woodlands as well as for creating new ones.

A Pillar 1 certification scheme could be used to ensure that certain Glastir Entry woodland management actions were made available to all farmers in Wales without a separate requirement to participate in the agri-environment programme. A certification scheme could be administered at relatively low cost whilst safeguarding significant areas of woodland. For example, stock excluded woodland could be used as one of the qualifying options.

### **Small Farmer Scheme**

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<sup>6</sup> . Principles of Double Funding. Report to UK Land Use Policy Group by Institute of European Environmental Policy. Accessible at: <http://www.ieep.eu/work-areas/agriculture-and-land-management/2013/01/principles-of-double-funding>

**11. Do you think the Welsh Government should run a Small Farmer Scheme? Why?**

No.

Establishing a separate Small Farmer Scheme will require significant administrative resources which could be better deployed elsewhere. Farms of any size appear to be able to apply, depending on whether they feel the standard payments are sufficiently attractive. Size is not a good indicator of environmental impact and the implications of any Small Farmer Scheme could be significant; especially if those participating were to be exempted from the new greening provisions as well as from the cross-compliance regime.

**12. What do you think should be the minimum farm size to be eligible to claim direct payment? Why?**

Under an area based approach, it is possible that the number of new claimants will increase (as previously happened in England). A minimum farm size will reduce the risk of using substantial administrative resources to deliver large numbers of small payments - whilst at the same time providing only limited benefits in terms of income support.

Applying a minimum threshold under the direct payments regime would reduce administrative costs, but NRW is not aware of any additional evidence that would help to determine the exact point at which the threshold should be set. The threshold for entry into the Glastir scheme is currently set at 3ha and there may be some benefits in terms of simplification through using the same area threshold (regardless of whether this is set at 3ha or 5ha) under both Pillar 1 and Pillar 2 of the CAP.

Experience with Tir Gofal suggests that increasing the size threshold for the provision of annual management payments under the RDP could improve the way in which limited resources are deployed. The very smallest holdings could then be granted access to a more focused combination of investment measures, advice and networked support programmes. Using the available funds in this way would be more effective than continuing to provide a steady stream of small annual payments to the very smallest holdings.

**Capping**

**13. Do you think the Welsh Government should make payments of over €300,000 to individual businesses? Is €300,000 the right level for capping?**

The Welsh Government is right to consider the implications of making very large income support payments to individual businesses. However, NRW is not in possession of any evidence that will assist with identifying the level at which any such capping should be applied.

It has been suggested that capping may place an artificial barrier on the growth of market responsive businesses, but other issues also need to be taken into account:

- It is not clear whether the same level of income support per hectare is required on very large farms as is the case on smaller and medium sized holdings with fewer economies of scale. A degressive approach (under which payments per

ha are scaled back as farm size increases) has already been used in the case of Tir Mynydd.

- Whilst capping appears to create an artificial barrier to growth, the nature of the obstruction appears to be relatively elastic. Where a business is already of substantial size, it would seem unlikely to need the same level of income support per hectare as it continues to expand.
- Ongoing financial pressures mean that the provision of very large payments under the direct payments regime will continue to attract substantial public criticism. This brings the entire policy into disrepute and strengthens the political arguments for continuing to reduce the scale of the entire CAP budget, including the rural development element.

Any progressive reduction/ capping of basic support payments seems unlikely affect very many businesses in Wales, although the process of verification by the Rural Payments Division could be very demanding. According to the consultation paper, the introduction of capping could yield approximately £1M per annum for other Welsh Government priorities. At least some of those businesses most affected are likely to engage in restructuring so as to avoid any reduction in direct payments. Raising the threshold at which progressive reductions in payments per ha are applied would appear to be a pragmatic way of reducing the administrative complexity of the capping process.

### **Young Farmers**

***14. Do you think that enhanced compulsory income support is a good way to support young farmers?***

No.

The most recent EU budget negotiations have signalled that income support levels remain on a declining trajectory. All farmers will need to use the period spanned by the next RDP to ensure their businesses are placed on a sound financial footing. Providing increased levels of income support to young farmers at the expense of other farmers will run counter to the overarching policy objective of creating a more competitive and environmentally sustainable industry.

***15. Would it be better to support young farmers through other measures, such as skills improvements, mentoring or capital grants? Why?***

Yes.

Since the introduction of the Single Payment Scheme, farmers have had more flexibility to determine the direction of their businesses. Younger people tend to be more innovative, with those within existing businesses well placed to assist with the re-adjustments likely to be necessary in the near future, provided they receive the right kind of support. In addition, significant barriers remain to be overcome before a young entrant can establish a successful agricultural enterprise.

The advantage of providing support in the form of skills improvements, mentoring, capital grants and co-operative ventures is that these kinds of mechanisms are more likely to result in the kinds of innovative businesses now

required. By contrast, an emphasis on income support will result in a much more uneven trajectory of development. Some farmers may choose to use such payments in order to improve their competitive position through adopting sustainable intensification<sup>7</sup>. At the same time, other farmers may opt to use income support in order to underpin existing practice, regardless of whether such management is sustainable in the longer term.

NRW believes that the provision of training, advice and financial support to young farmers must be underpinned by a reciprocal commitment to sustainable land management practices. In many cases, the most vulnerable time from an environmental perspective is when a change of business ownership takes place and completely new management practices are adopted. Environmental awareness and suitable skills should be incorporated into all training and advice programmes, the point being that sustainable land management and long term business performance are inextricably linked.

NRW would also like to see the current CAP reform proposals amended in such a way that training, advice and financial support can be provided to all new entrants to agriculture, irrespective of age.

### **Coupled Payments**

#### ***16. What coupled support schemes would be good for agriculture in Wales? Why?***

During previous rounds of CAP reform, the environmental sector suggested that coupled payments could be used to support suckler cow producers, arguing that this sector has a key role in managing biodiversity, especially in the uplands. The proposal was rejected by the Welsh Government on the grounds that it would involve reducing direct payments to all farmers, whilst at the same time providing very limited benefits to those in the suckler beef sector itself.

Using coupled payments to shelter dairy and intensive beef sectors from the effects of the move to area payments would appear to suffer from the same problem. The maximum budget for coupled payments is currently set at 5% of the national ceiling. Increasing this figure would enhance the size of any individual coupled payment, but would reduce the support available for those farmers who are eligible for the basic payment only.

In the event that the Welsh Government decides to adopt a coupled support scheme aimed at the dairy and intensive beef sectors, NRW believes that such payments should be conditional on the recipients taking further steps to reduce greenhouse gas emissions, enhance water quality and promote animal health. Linking any additional funding to a set of specific environmental undertakings (either through participation in the Glastir Entry Scheme/ Energy Efficiency scheme or via membership of an appropriate assurance scheme) would reinforce the ecosystems services approach currently being promoted as part of Sustaining a Living Wales.

Given the Welsh Government's commitment to reducing GHG emissions by 3% in areas of devolved competence, it may also be worth considering whether the number of animals/stocking rates on land deemed eligible for coupled support

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<sup>7</sup> Exploring the Concept of Sustainable Intensification. Report for the UK Land Use Policy Group by ADAS and Les Firbank Ecosystems. January 2013. Accessible at:  
<http://aplus.adas.co.uk/Services/sustainability/Exploring-the-Concept-of-Sustainable-Intensification.aspx>

should be limited in some way. Alternatively, such support could be made conditional on a commitment to collect methane from slurry storage and/or engage in the process of Nutrient Management Planning.

### **Area of Natural Constraint Scheme**

#### ***17. Is there a case for an Area of Natural Constraint scheme in Wales?***

Natural Resources Wales has responded to the parallel Welsh Government consultation on the Wales RDP by stating that *“An ANC scheme based solely on income support would divert substantial resources away from other parts of the RDP, with adverse consequences for overarching social, economic and environmental objectives across Wales”*.

Depending on the ANC designation criteria, any parallel scheme set up under the Direct Payments regime could end up applying to a very high proportion of the agricultural land in Wales. In addition, all payments would be created by top slicing a maximum of 5% from the national ceiling for Direct Payments. Assuming that the national ceiling remained at circa £260M pa, the maximum budget for an ANC scheme would then be in the order of £13M. Applied to the existing LFA boundary this would produce an annual payment of around £9.50 ha, but all farmers would also experience a simultaneous reduction of around £7.50 ha in their Basic Payment. In other words, the net gain to ANC farmers could be around £2ha only.

This initial analysis suggest that any ANC scheme developed under the Direct Payments regime should be targeted on the land which is subject to the greatest management constraints i.e. the current SDA/the agriculturally unimproved land lying within the moorland line.

#### ***18. What would be the economic arguments for such a scheme?***

The economic arguments for creating a separate ANC scheme under the Direct Payments regime do not appear to be particularly strong. An alternative solution would be to adopt a four rate model for direct payments (i.e. Moorland, SDA, DA and Lowland). Within such a system, the moorland and/or the SDA rates could be set at levels which preclude the need for a separate ANC scheme. This would simplify administration for farmers as well as reducing the costs falling on the Welsh Government.

Establishing an ANC scheme that provides income support under Pillar 2 will divert substantial resources away from other parts of the RDP. This would have adverse consequences for businesses competitiveness, ecosystems management and social inclusion across Wales.

Natural Resources Wales believes that income support for agriculture should be provided through the system of Direct Payments. Any new ANC scheme that might be developed under an uplands sub-theme needs to be focussed on enabling farmers to derive an economic benefit from improving the management of carbon rich soils, water resources and biodiversity.

### **Transfer of funds to RDP**

#### ***19. Do you think that transferring funds to the RDP is a good use of the funds?***

Yes.

The proposal to allow up to 10% of the Direct Payments budget to be transferred into the RDP is similar to the modulation provisions that exist within the current EC Regulations<sup>8</sup>.

The advantage of increasing the scale of the RDP allocation is that this is only part of the land management budget devoted to promoting a more sustainable industry via knowledge transfer, co-operation, investment and innovation. Continuing to prioritise income support will result in a much more uneven trajectory of development, with some farmers using the payments in order to improve their competitive position through a more sustainable approach that reduces costs and improves market share, whilst others use them simply in order to underpin current practices, regardless of whether or not these are sustainable in the long term. The RDP is also sufficiently flexible to support the economic, environmental and social aspects of woodland management as well as advice and knowledge transfer.

Tackling ongoing challenges such as climate change, water management and reversing declines in biodiversity over the period of the next WRDP will reduce the need to develop more expensive solutions in the future. For instance, the Stern Review found that investing 1% of GDP in dealing with climate change now will help avoid an expenditure of some three times that amount in future<sup>9</sup>. Similar points have recently been made by the House of Lords regarding the need for an increased emphasis on research and development into climate change alongside a well supported Rural Business Advisory Service capable of providing practical advice to farmers and foresters as well as other sectors<sup>10</sup>.

Spending under the RDP also contributes to the wider rural economy. For example, between 2000 and 2003, capital payments plus farmer contributions under Tir Gofal totalled £14.25M. Some 94% of this stayed within the Welsh economy, with c.40% of spending taking place within ten miles of the farm concerned. Accounting for indirect effects, the overall impact of this spending on the Welsh economy was over £21M, supporting in turn some 385 Full Time Job Equivalent (FTE). Many of these jobs were created in relatively remote areas where traditional job creation schemes have struggled to make an impact<sup>11</sup>.

### **Other Comments**

#### ***EC Horizontal Regulation & the Scope of Cross Compliance.***

The European Commission's original CAP reform proposals included the extension of the list of Statutory Management Requirements (SMR's) to include

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<sup>8</sup> The current rate within Wales is made up of 5% Compulsory Modulation (CM) and 4% Voluntary Modulation (VM) with all receipts used to underpin participation in existing WRDP schemes.

<sup>9</sup> The Stern Review on the Economics of Climate Change, 30<sup>th</sup> October 2006: [http://www.hm-treasury.gov.uk/stern\\_review\\_report.htm](http://www.hm-treasury.gov.uk/stern_review_report.htm)

<sup>10</sup> House of Lords European Union Committee. Adapting to climate Change: EU Agriculture and Forestry. 8th Report of Session 2009-10

<sup>11</sup> Agra-CEAS Consulting (2005). Socio Economic Analysis of Tir Gofal. Report to CCW & Welsh Government.

both the Water Framework Directive and the Pesticides Directive. A proposed new GAEC standard would also have protected wetlands and carbon rich soils.

The EU Agriculture Council has now agreed that all of the above proposals should be excluded from the draft Horizontal Regulation<sup>12</sup>. This is a very disappointing development as the proposed new standards would have contributed to meeting existing EU and national targets in relation to biodiversity, climate change and water quality. Avoidance of environmental damage should be a fundamental principle governing the provision of income support under the CAP.

### ***Cyfoeth Naturiol Cymru/Natural Resources Wales***

***April 2013***

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<sup>12</sup> Council of the European Union (2013) Proposal for a Regulation of the European Parliament and of the Council establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy (CAP Reform) - [Presidency consolidated draft Regulation, 12 March 2013, 7183/13 and compromise amendments from 19 March](#) (document 7539/13).