Research and Information Service
Briefing Paper

Paper 000/00 | 15th March 2012 | NIAR 386-12

Mark Allen

The Single Farm Payment Scheme – background and application in Northern Ireland

1 Background and context

The Common Agricultural Policy (CAP) has been the primary policy tool for the support of agriculture across Europe since its introduction in 1962.

At present the CAP is organised under two pillars – pillar 1 being focussed on direct payment to farmers largely in the form of the Single Farm Payment (SFP), and Pillar 2 focussing on wider rural development measures including diversification, habitat/environmental conservation, and wider rural sustainability.

The CAP currently accounts for around 42% of the entire EU budget and is currently in the process of being reformed, a move which will see the Single Farm Payment being replaced with a new Basic Payment Scheme.

The aforementioned Single Farm Payment (SFP) system was introduced in 2005 and this paper provides an overview of the origins of the system and how it is operated within Northern Ireland.

For many farmers and farm families across the EU, the SFP has become increasingly critical in terms of income and it could be argued that without this provision, many farm businesses would not be viable.

2 Legislation – EU origins

The concept of the Single Farm Payment model for providing support to farmers first appeared in CAP reform proposals published by the European Commission in 2003. A key aim of these proposals was to make the break between payments to farmers based upon the amount they produced, a process referred to as decoupling.

The finalised reforms which led to the creation of a new decoupled Single Farm Payment where set out in regulation EC1782/2003[1] published on the 29th September 2003.

Regulation EC 1782/2003 sets out the requirements for what the Single Farm Payment system to be applied across the EU should contain, with notable elements including:

- All farmers may apply for direct payments;
- The single payment was to be an annual income payment to farmers based on their entitlement over the 2000-2002 reference period;
- Entitlement to direct payments requires farmers to maintain their land in good agricultural condition and comply with set standards on public health, animal and plant health, the environment and animal welfare – adherence to these measures is completed through a so called cross-compliance check;
- A failure to meet the cross-compliance conditions will lead to a penalty in the form of a reduction to direct payments that a farmer receives;
- Farmers had the freedom to decide what they want to produce in response to market demand without losing their entitlement to support – more flexible approach;
- All existing EU Member States were required to introduce the single payment scheme by 2007 at the latest – new Member States were given until 2009.

The UK government chose to introduce the new Single Farm Payment system in January 2005.

The European Commission undertook a so called CAP Health Check in 2007 which effectively looked at how well the CAP was working. This Health Check led to a number of changes in relation to how the CAP was delivered with notable examples including:

- The removal of cross compliance elements relating to the wild birds and habitats directives due to their lack of relevance to agriculture;

[1] COUNCIL REGULATION (EC) No 1782/2003, establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers and amending Regulations (EEC) No 2019/93, (EC) No 1452/2001, (EC) No 1453/2001, (EC) No 1454/2001, (EC) 1868/94, (EC) No 1251/1999, (EC) No 1254/1999, (EC) No 1673/2000, (EEC) No 2358/71 and (EC) No 2529/2001, 29th September 2003,

- The addition of new cross compliance elements relating to the protection of water resources;
- A commitment to increase modulation – the removal of money from farmers with direct payments in excess of €5,000 to finance rural development measures;
- The shifting of remaining coupled payments to the decoupled single-payment scheme;
- The introduction of a mechanism to enable member states to decide in "*an objective and non-discriminatory manner*" to not issue SFP to companies or firms *"whose principal company's objects do not consist of exercising an agricultural activity."*

In light of these changes Regulation EC 1782/2003 was repealed and replaced by Regulation 73/2009[2], which effectively established the EU wide rules for the CAP's revised direct farm support schemes.

Building upon this base, Regulation EC 1120/2009[3] sets out the specific and detailed rules for the implementation of the revised Single Farm Payment Scheme.

Regulation EC 1122/2009 also provided detail on the requirements under cross compliance, modulation and the Integrated Administration and Control System (IACS)

3 Single Farm Payment process in Northern Ireland

Within Northern Ireland DARD acts as the paying agency for the Single Farm Payment and currently operates a so called Static Vertical Hybrid Model for payment calculation. In effect this means that payments are based upon each farm's average annual payments for the reference period of 2000-2002 plus a flat rate regional rate. Relative weightings for the historic rate and regional rate remain the same through time.

At present there are around 38,000 Single Farm Payment recipients within Northern Ireland and around 750,000 field parcels against which claims are made. The total money paid out through the scheme within Northern Ireland is in the region of £300m. As indicated by these figures, the administration of the SFP is both complex and challenging for applicant and paying agency alike.

Farmers in Northern Ireland can also choose to receive their SFP in either Sterling or Euro. The decision needs to be made by the 15th May (deadline for completed forms in 2012) and is binding until the following year's payment is applied for. The exchange rate at which payments are made, if not in €, is set on the 1st October each year using the European Central Bank exchange rate on that day.

Based upon the 2012 Scheme, in order to be eligible for a Single Farm Payment (SFP) applicants need to meet the following criteria:

[2] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:030:0016:0016:EN:PDF
[3] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:316:0001:0026:EN:PDF

- Be a farmer undertaking agricultural activity and have been issued with a Category 1 Business ID;
- Hold SFP entitlements and have eligible agricultural land;
- Ensure any individual field, or area within a field, you declare to activate SFP entitlements is at least 0.1 hectares. If you have special entitlements you can activate these without any land but you must satisfy the required level of agricultural activity we have told you about;
- The land on which you claim payment must be at your disposal on 15 May in the year of the claim.

Forms can also be submitted online but in order to avail of this provision, farmers must have a Government Gateway ID and associated password.

EU rules require Paying Authorities to pay 95.24% of the value of claims by end of following June. Payments normally commence in early December. In 2011 DARD paid over 85% of claims in December and over 90% by the end of January.

Figure 1 below sets out the actual SFP process as it will be delivered in Northern Ireland during 2012.

4 Single Farm Payment challenges/opportunities

- How will the on-going CAP reform process impact on both the eligibility for and delivery of the Single Farm Payment in Northern Ireland – will an already complex system become more complex? – different payment rates and active farmer definition as examples;
- Will the adoption of Remote Sensing, as a pilot project in 2012, increase the efficiency of SFP administration?
- Disallowance levels - disallowances for Area Aid Corrections include problems with Land Parcel Information System/GIS i.e. how field boundaries are determined to enable drawdown of Single Farm Payments – have been the main cause of disallowance for NI between 2005 and 2011 – are these issues now effectively resolved?

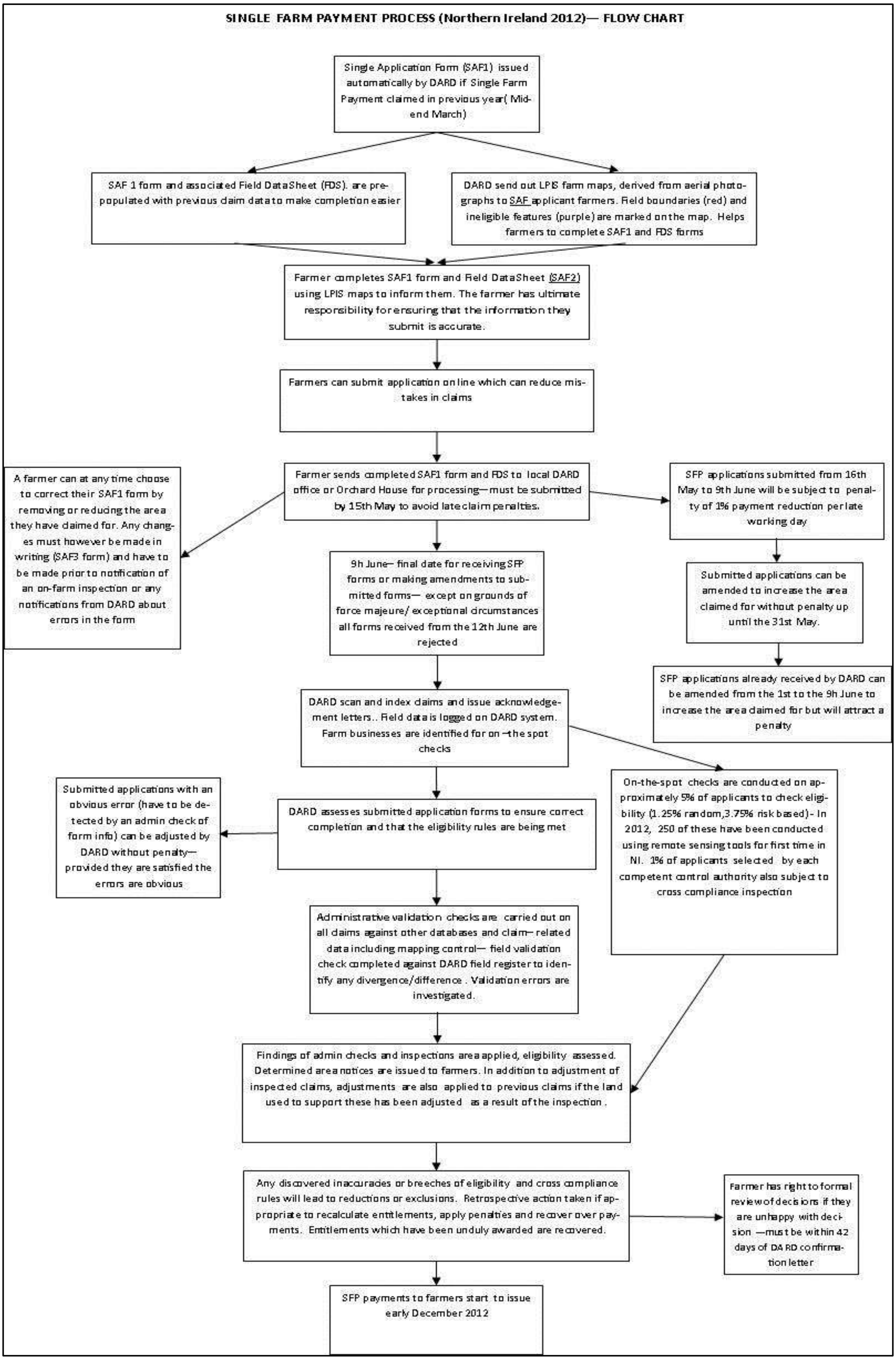

Figure 1: Single Farm Payment Process (Northern Ireland 2012