



Northern Ireland  
Assembly

## Research and Information Service Briefing Paper

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# The Common Agricultural Policy – background and challenges posed by reform.

## 1 Context

Agriculture remains a critical industry and employer in Northern Ireland with a labour force of 46,948 directly involved in agriculture<sup>1</sup>. Agriculture contributes £378 million gross value added to the local economy, (1.3% overall), more than double the UK average<sup>2</sup>.

70% of the agricultural land within Northern Ireland is recognised as being Less Favoured, meaning that agricultural production is hampered or restricted by factors including lower quality vegetation to support animal grazing and low population densities.

At a time when other business sectors are in decline or stasis, the agri/food sector appears to be growing within Northern Ireland, a situation borne out by the fact that

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<sup>1</sup> [Key Statistics, Northern Ireland Agri-Food Sector, Policy and Economics Division, DARD, June 2011](#)

<sup>2</sup> *ibid*

total income from farming grew by 19% in real terms within Northern Ireland between 2009 and 2010, whilst contracting by 4% for the UK as a whole.<sup>3</sup>

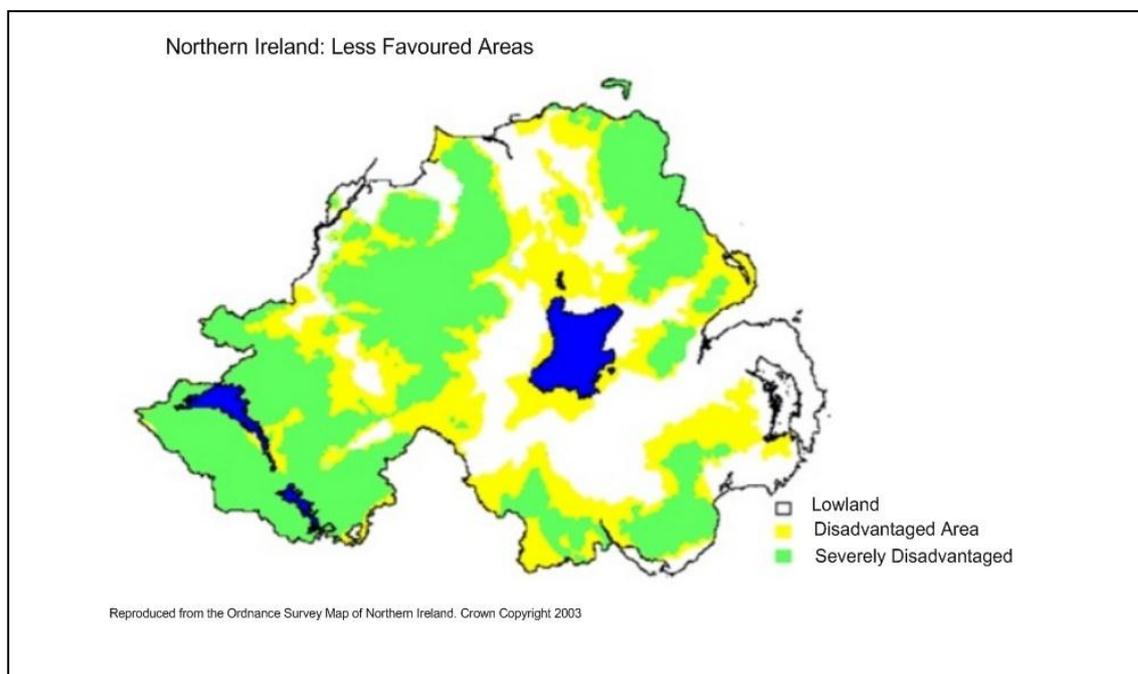


Figure 1: Less Favoured Areas - Northern Ireland<sup>4</sup>.

## 2 Background to the CAP

The principle of supporting agricultural production so that European consumers had access to a stable and affordable supply of food, whilst ensuring that the farmers who produced the food had a viable income and livelihood was one of the primary motivations for the creation of the EEC/EU. This principle was formally enacted and implemented in the form of the Common Agricultural Policy (CAP) in 1962, which has subsequently provided direct and indirect financial support to agriculture and the wider rural economy.

As a result of a number of reforms the focus of the CAP has gradually been moving away from production since the 1980's, with the introduction of milk quotas in 1983 for example, setting the trend for limitations on production and the reduction of food surpluses. Currently the CAP accounts for around 42% of the entire EU budget<sup>5</sup> 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.

<sup>3</sup> *ibid*

<sup>4</sup> [Review of Support Arrangements for Less favoured Areas in Northern Ireland. DARD Consultation Document, March 2009](#)

<sup>5</sup> [EU Budget 2011 explanation. Financial Programme and Budget page. Europa website, 10th October 2011](#)

The EU is currently committed to a further and wide ranging reform of the CAP in 2013. The proposed reforms have 3 key objectives as follows:

- **Viable food production;**
- **Sustainable management of natural resources and climate action;**
- **Balanced territorial development.**

In proposals published in late November 2010 the European Commission set out its broad proposals for CAP reform in the period up to 2020. This paper sets out 3 broad policy options for reform, based upon the continuation of a two pillar CAP as follows;

- **Option 1** - introduce **more equity in the distribution of direct payments between member states**, but **leave the current direct payment system to farmers unchanged**. This option would result in the **least change** from the current system;
- **Option 2** - introduce **more equity in the distribution of direct payments between member states**, and a significant redesign of the **direct payment system to farmers including the creation of a new basic rate, which would be capped, and the creation of additional payments to compensate for issues like natural constraints**. This option would result in **significant change** from the current system;
- **Option 3** – **phase out direct payments in their current form** and instead **provide limited payments for environmental protection and additional natural constraints payments**. This option would result in an **unprecedented and total change** from the current system.

The European Commission is due to publish more detailed proposals for CAP reform on the 12<sup>th</sup> October 2011

### 3 What are the potentially challenging impacts of CAP reform on agriculture in Northern Ireland?

Given that the detailed CAP reform proposals are only being published on the 12<sup>th</sup> of October the effects of proposed reforms on agriculture here are hard to accurately assess at this point. It is however possible to identify potential challenges on the basis of an analysis of how agriculture in Northern Ireland currently benefits from the CAP.

#### 3.1 An overall reduction in the CAP budget.

The last few decades have witnessed a significant reduction in the CAP budget. In 1984 the CAP budget accounted for 71% of the entire EU budget<sup>6</sup> and as mentioned previously in this paper currently stands at around 42%. By 2013 a further reduction in the CAP budget will mean that it will account for an expected 33% of the overall EU budget. The detailed implications for a further cut in the CAP budget are difficult to

<sup>6</sup> [Frequently Asked Questions, Agriculture and Rural Development, European Commission website, 10th October 2011](#)

assess, but in simple terms are likely to mean a reassessment of what can be done and what priorities will be met. Any budgetary reduction will be more likely to have a negative impact on countries or regions more dependent on agriculture, and in this regard Northern Ireland has a lot to lose. As a further complication, a reduced CAP budget allocation to the UK will have to reallocated to each of the UK devolved administrations. The potential challenges presented by this process have already been highlighted by the recent intervention of Scottish MEP, George Lyon who has called for a fairer allocation of CAP funding for Scotland, which in real terms would mean money being taken from farmers in England and Northern Ireland<sup>7</sup>.

### **3.2 The 'UK position' on CAP reform – is it sensitive to the needs of local agriculture?**

The Department for Environment, Food and Rural Affairs (Defra) represents and advocates the 'UK position' on CAP reform within Europe, namely that direct payments and market support should be phased out in favour of increased spending on targeted measures to protect the environment. This view would very much be seen as a minority opinion within the EU and there are also questions as to whether this view sits well with agriculture in the devolved regions of the UK including Northern Ireland.

In relation to this issue the former DARD Minister, Michelle Gildernew stated "*I cannot support calls for significant reductions to the CAP budget and, in particular, to direct support for agriculture*"<sup>8</sup>.

This raises questions relating to the level of influence that Northern Ireland and the other devolved nations have in the creation of the 'UK position'.

### **3.3 Changes to the Single Farm Payment model.**

The Single Farm Payment (SFP) scheme, which came into force in January 2005 is the main agricultural subsidy scheme in the EU. For many farmers and farm families the SFP has become increasingly critical in terms of income and it could be argued that without this provision, many farm businesses in Northern Ireland and across the EU would not be viable.

At present there are three different models being used to determine the level of single farm payment paid out to farmers within the UK as follows:

- England – Dynamic hybrid model – move from historic to regional flat rate per hectare basis over number of years;
  - Scotland and Wales – Historic model – based upon year 2000 production levels;
- and

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<sup>7</sup> [MEP calls for fairer UK CAP share for Scotland . Farmers Guardian, 17th August 2011](#)

<sup>8</sup> [Environment, Food and Rural Affairs Committee - Fifth Report, The Common Agricultural Policy after 2013 , 11 April 2011.](#)

- Northern Ireland – Static hybrid model – composed of a pure historic and an area payment.

The use of these 3 different mechanisms has resulted in different levels of single farm payment across the UK. As shown in figure 1 the average SFP €/hectare values vary across the EU and within the UK.

These figures illustrate that Northern Ireland fares well in relation to other constituent parts of the UK given that the average per hectare values are €125 for Scotland, €263 for Wales; €303 for England; €372 for Northern Ireland; and €247 for the UK as whole.

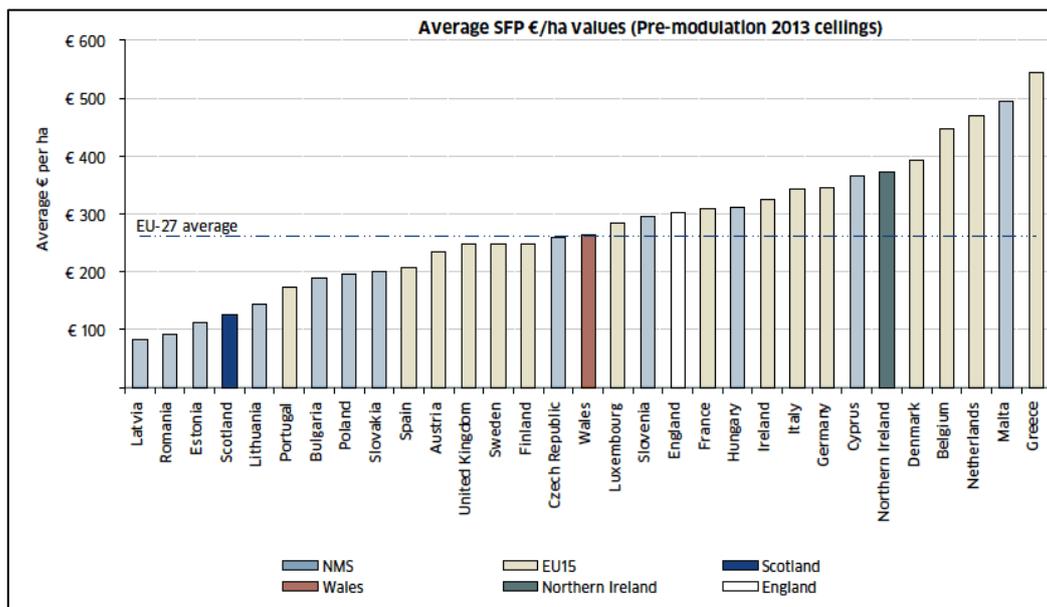


Figure 1: Average SFP €/ha values – EU and within UK comparisons<sup>9</sup>.

The EC proposals for CAP reform include a commitment to adopt an area based payment in relation to the Single Farm Payment that would be uniform within a member state or region. There are no proposals for an EU wide flat rate but it should be recognised that a common rate within the UK would be likely to have a greater adverse impact in the devolved nations. In Northern Ireland’s instance as we have fared better under the current Single Farm Payment model it could be argued that we have more to lose from such changes.

### 3.4 Targeting direct payments to ‘active’ farmers.

A key element of CAP reform involves the targeting of direct payments to ‘active’ farmers. At present however it is unclear how ‘active’ will be defined. As a point of reference the current commonly used definition of a farmer within EU regulation is as follows:

<sup>9</sup> [The road ahead for Scotland. Final report of the Inquiry into future support for agriculture in Scotland. The Scottish Government, November 2010.](#)

*“A natural or legal person who exercises an ‘agricultural activity’, defined to mean the production, rearing or growing of agricultural products including harvesting, milking, breeding animals and keeping animals for farming purposes, or maintaining the land in good agricultural and environmental condition.”<sup>10</sup>*

The lack of direction around how active farmers will be defined within the reformed CAP raises a number of questions such as will there be an EU wide definition of ‘active’ and will this be workable?, and what threat does such a development pose to land owners, charities and tenant farmers in terms of their ability to access direct payments?

### **3.5 Support for Less Favoured Areas (LFA) or Areas of Natural Constraint.**

As stated previously 70% of the agricultural land within Northern Ireland is classified as LFA and farmers working this land currently avail of support equating to £22m per annum under the Less Favoured Areas Compensatory Allowance (LFACA) scheme which is part of the Rural Development Programme (Axis 2).

The CAP reform proposals highlight an intention to provide additional income support to farmers in Areas of Natural Constraint but there is as yet no definition of the criteria that would be used to identify these areas. It also remains unclear as to whether these criteria will be EU wide or will provide scope for individual states to interpret what does and does not qualify.

The challenge linked to this issue is that in line with the current LFACA scheme, any future compensatory scheme may possibly be funded from Rural Development Funds, which require co-financing from member states. Some stakeholders have raised the concern may make it in a member state’s interest to limit the number of farmers who qualify, particularly given the current economic climate and cuts in government spending.

## **4 The way ahead**

In many ways the key challenge for Northern Ireland agriculture is in managing and minimising the potentially negative local impacts of the reform of the Common Agricultural Policy (CAP). In order for this to happen there will be a real and ongoing need to engage effectively, decisively and creatively in the CAP reform process and by so doing bring influence to bear in both Westminster and Brussels that will secure a sustainable future for agriculture in Northern Ireland.

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<sup>10</sup> [COUNCIL REGULATION \(EC\) No 73/2009, establishing common rules for direct support schemes for farmers under the common agricultural policy and establishing certain support schemes for farmers, amending Regulations \(EC\) No 1290/2005, \(EC\) No 247/2006, \(EC\) No 378/2007 and repealing Regulation \(EC\) No 1782/2003, 19th January 2009](#)