

Consultation on Review of CAP Coupled Support Options

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Department of
**Agriculture and
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GLOSSARY/LIST OF ABBREVIATIONS

AFBI	Agri-Food and Biosciences Institute
Agricultural Activity	The production, rearing or growing of agricultural products including harvesting, milking, breeding animals and keeping animals for farming purposes or maintaining land in good agricultural and environmental condition
ANC	Area(s) of Natural Constraint
BSE	Bovine Spongiform Encephalopathy - commonly known as mad cow disease, is a fatal neurodegenerative disease in cattle that causes a spongy degeneration of the brain and spinal cord
CAP	Common Agricultural Policy
Conacre	A system of short-term lettings, not exceeding 364 days
EU	European Union
Farmer	A natural or legal person whose holding is situated within EU Community territory and who exercises an agricultural activity
Ha	Hectare
LU	Livestock Unit
SDA	Severely Disadvantaged Areas – areas of land designated under Directive 75/268/EEC and a subset of the LFA

CONSULTATION ON REVIEW OF CAP COUPLED SUPPORT OPTIONS

SECTION 1 INTRODUCTION

1.1 Purpose of the consultation

The purpose of this document is to seek the views of stakeholders on the possible use of coupled support in Northern Ireland.

1.2 Structure of the consultation document

This consultation document is structured to set out the background to the review of coupled support options under the Common Agricultural Policy (CAP) and to seek the views of stakeholders as to whether this option should be deployed during the 2017–2019 period.

Section 2 presents a consideration of the issues and the evidence base.

Section 3 poses questions to stakeholders seeking views on the possible use of coupled support.

Section 4 explains how you can respond to the consultation questions we have asked and the date by which you need to send us your views.

1.3 Background

Regulation (EU) No 1307/2013¹ permits the option of providing limited amounts of CAP coupled support to farmers, i.e. a payment directly linked to the volume of output of a specific agricultural product. This support is confined to a finite list of sectors which includes cereals, oilseeds, protein crops, starch potatoes, milk and milk products, sheepmeat, beef, sugar beet and fruit and vegetables. Coupled support may only be granted in circumstances where a qualifying sector is undergoing certain difficulties and it is particularly important for economic, social or environmental reasons. The coupled payments may only be granted to the extent necessary to maintain current levels of production in the sectors or regions

¹ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:347:0608:0670:en:PDF>

concerned and, as such, will be subject to defined quantitative limits and based on fixed areas and yields or on a fixed number of animals. Therefore, coupled support is not meant to be used as a mechanism to boost output from the supported sector.

Coupled support in Scotland for the beef and sheep sectors operates under a UK Scheme approved by the EU Commission. In order for coupled support to be introduced in Northern Ireland, this UK scheme would need to be amended. This would require discussions with the UK Government and other devolved administrations and would need objective justification as to why particular coupled schemes should apply in Northern Ireland and not in other UK regions. The deadline for notifying amendments to the Commission is 1 August 2016 for implementation in the 2017–2019 scheme years. If no notification is made by 1 August 2016, it would not be possible to implement coupled support prior to 2020.

The budget to fund any coupled support measure would come from re-directing part of the direct payments regional ceiling which is currently paid to farmers in the form of the Basic Payment Scheme, Greening Payment and Young Farmers' Payment. Therefore, the introduction of a coupled support option would not alter the total amount of CAP payments to Northern Ireland farmers but would simply redistribute this support between farmers.

Up to 8% of the regional ceiling (i.e. approximately €26m per annum in the case of Northern Ireland) can be spent on coupled support. It may be possible, subject to agreement from Defra and the devolved administrations in Scotland and Wales, to increase the amount of funds beyond 8% of the ceiling and up to 13% of the regional ceiling (i.e. approximately €43m per annum). A further 2% of the ceiling may be used to provide coupled support for protein crops.

The Department consulted widely on the *Policy Options arising from the Reform of Common Agricultural Policy (Pillar I Direct Payments)*² during late 2013/early 2014, which included coupled support. At that time, it was decided not to introduce coupled support on the basis that:

² <https://www.dardni.gov.uk/consultations/consultation-policy-options-arising-reform-common-agricultural-policy-pillar-1-direct>

- i) There had been, to date, no long term pattern of substantial decline in suckler cow numbers (or production levels in other sectors) since the introduction of decoupling in 2005;
- ii) The impact of a coupled support payment on production (given the restricted budget available) was likely to be limited;
- iii) To the extent that coupled support had any effect on production, the consequential impact on incomes would be negative as a result of lower producer prices; and
- iv) Most responses to the consultation opposed coupled support.

However, the decision not to introduce coupled support stated that the option would be kept under review and this consultation forms part of that review.

SECTION 2 CONSIDERATION OF THE ISSUES

2.1. Sectors which could be supported

The requirements that coupled support may only be granted in circumstances where a qualifying sector is undergoing certain difficulties and it is particularly important for economic, social or environmental reasons has tended to focus discussion of this option on the beef and sheep sectors. There are concerns that suckler cow numbers and ewe numbers may decline significantly over the longer term in the absence of such support. Therefore, this consultation document examines the beef and sheep sectors in more detail, including the situation within the SDA region where the availability of alternative farming enterprises is limited.

2.2. Beef Sector

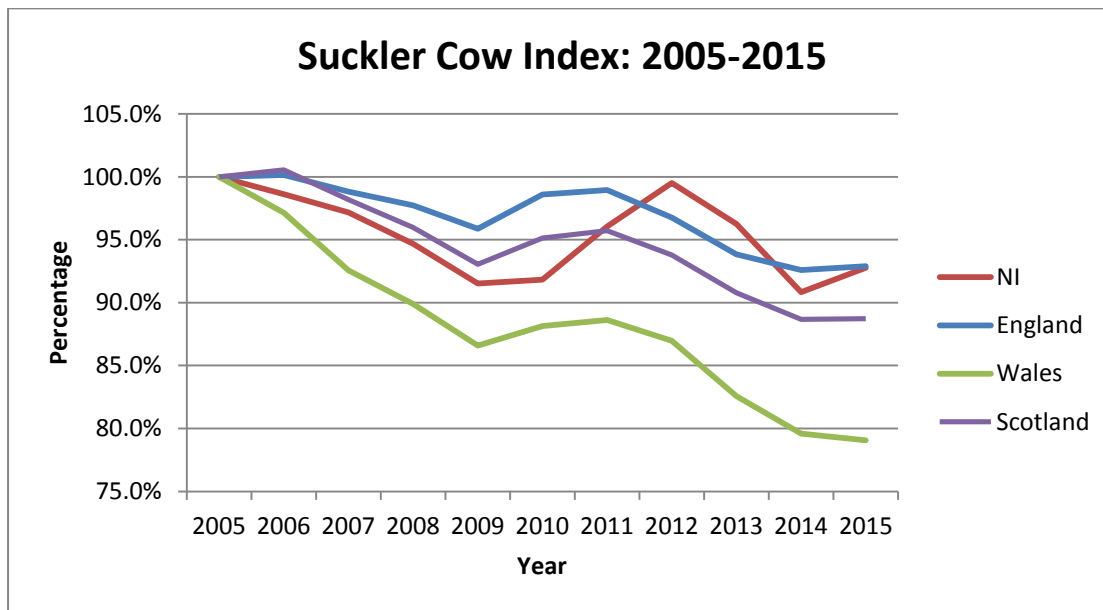
The Agri-Food Strategy Board Report (Going for Growth³) published on 16 May 2013 recommended that 'support to the red meat sector must be maximised by securing a meaningful level of coupled support'. This report suggested that there was a risk of a decline in suckler cow and sheep numbers.

If 8% of the Pillar I budget was allocated to suckler cows this would amount to a payment of around €101 or £74 per head per annum. This would increase to €164 or £120 per head if 13% of the Pillar I budget was used.

Full decoupling took place in Northern Ireland in 2005. At that time, it was expected that the suckler cow herd would reduce substantially as producers took advantage of the decoupled support regime to scale back on loss making activities while still retaining agricultural support (under the previous coupled support regime, a scaling back of cow numbers would have reduced levels of support). Indeed, there was an initial fall in line with expectations.

³ <https://www.dardni.gov.uk/sites/default/files/publications/dard/going-for-growth.pdf>

Figure 1. Suckler Cow Index 2005 – 2015



As illustrated in **Figure 1**, following decoupling of support in 2005, the suckler cow population in Northern Ireland fell by 8.5% from 280,600 to 256,800 by 2009. Suckler cow numbers had already fallen from a historic high of 344,700 in 1998 in response to the effects of the BSE crisis, exchange rate movements and the global downturn in beef markets. Between 2009 and 2012 suckler cow numbers recovered almost back to 2005 levels. Suckler cow numbers declined again in 2013 and 2014, with a small recovery in 2015. Therefore, after the initial and expected drop in the suckler cow population immediately after the introduction of decoupled support, cow numbers in Northern Ireland have not exhibited a sustained pattern of decline.

Comparing 2015 with 2005, the net reduction in suckler cow numbers in Northern Ireland has been similar to that in England, but less than that in Scotland and Wales. The difference with Scotland is particularly notable given that Scotland operated a coupled Beef Calf Scheme during that period. Although it could be argued that suckler cow numbers in Scotland may have been lower still without that coupled support, the data demonstrate that there are many factors influencing production levels and that it can be difficult to distil out the particular influence of the support regime.

The evidence from the movements in suckler cow numbers in Northern Ireland does not suggest that coupled support is needed to arrest a long term decline in the sector.

Modelling carried out by Agri-Food and Biosciences Institute (AFBI) economists⁴ showed that when 5% of the direct payments ceiling was applied in the form of a coupled payment to the beef cow sector, the projected Northern Ireland suckler cow numbers increased by only 2.1%. However, this was accompanied by a projected fall in beef prices, which resulted in an overall 3.4% reduction in net market receipts. In other words, given the limits applied to coupled support, the impact on production would be marginal and the effect on prices and incomes would if, anything, be negative.

While the research was based on a 5% limit for coupled support (i.e. the initial CAP Reform proposals from the Commission), the net impact of an 8% limit or even a 13% limit would broadly be similar, i.e. slightly increased production offset by a fall in beef prices.

This highlights the fundamental question when it comes to the rationale for implementing coupled support – is the objective to support production, or to support incomes?

In the context of the decoupled regime that now exists in Northern Ireland, introducing coupled support could help deliver the former, i.e. support production (although the extent to which it could do this would be modest given the budgetary limit, as well as the fact that coupled support should be subject to defined quantitative limits based on a fixed number of animals), but would be of more questionable value in terms of its ability to support incomes. Decoupled support is more efficient at supporting incomes as it allows producers to step away from unprofitable production activities without impacting the level of decoupled support that they will receive. Strategically, if production is to expand in Northern Ireland, it should be built on a platform of profitability, not subsidy.

⁴ Patton, M., Feng, S., Binfield, J. And Davis, J. (2013) Impact of CAP Post 2013 Reforms on Agriculture in the UK Agri-Food and Biosciences Institute: FAPRI-UK Project Report February 2013.

Given that movements in suckler cow numbers have not exhibited a consistent trend since 2008, and it is questionable as to what positive effects coupled support would bring (especially in terms of enhanced producer returns), the introduction of coupled support for the beef sector does not appear to be justified.

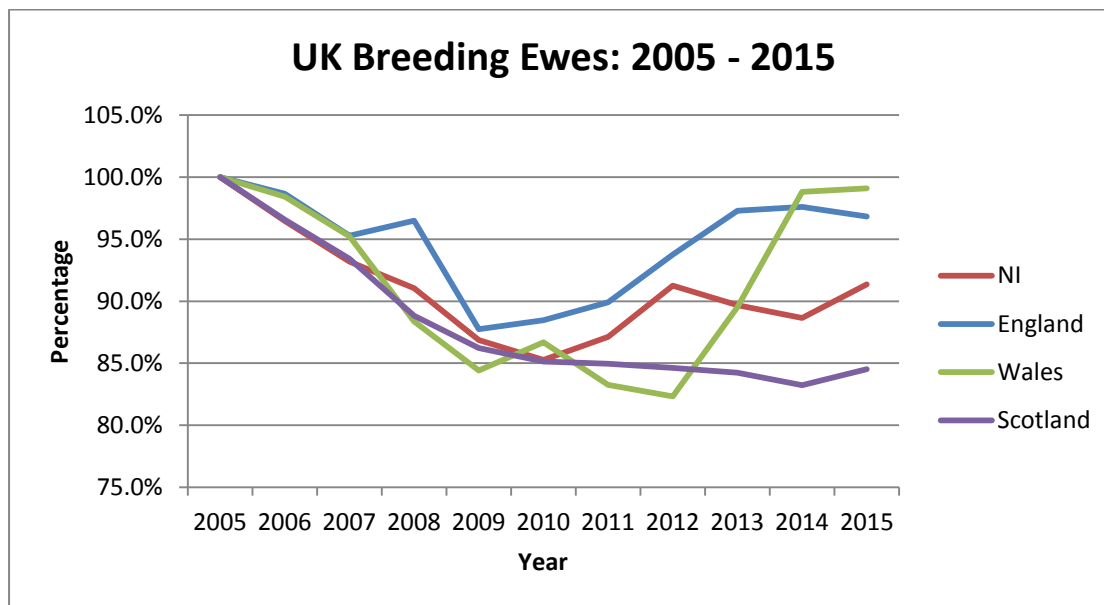
Of course, it must be recognised that Northern Ireland is currently in transition towards a flat rate Pillar I support regime and there are concerns that this may have a negative effect on the beef sector given the redistribution of support away from that sector as a whole (although the position for individual farmers will depend on individual circumstances). However, as Pillar I support is decoupled from production, the impact on production levels should be limited as a result of this redistribution. The slight increase in suckler cow numbers in 2015 does not suggest any immediate concerns, but it is much too early in the transition period to reach any definitive conclusion on this. However, it must be remembered that even if coupled support were introduced, the vast majority of the CAP support budget would still be delivered through the decoupled regime and this would continue its transition towards flat rate support. The impact of coupled support would, therefore, simply be in addition to any underlying effect of the transition to flat rate decoupled support, and as has been demonstrated above, this additional effect of itself is unlikely to be beneficial in terms of income.

2.3. Sheep Sector

If 8% of the Pillar I budget was allocated towards a breeding ewe payment, this would amount to a payment of around €28 or £20 per ewe per annum. This would increase to €45 or £33 per ewe if 13% of the Pillar I budget was used.

As with the suckler cow herd, it was anticipated that the breeding ewe flock would reduce substantially after the decoupling of Pillar I support in 2005.

Figure 2. Breeding Ewe Index 2005 – 2015



As illustrated in **Figure 2**, the breeding ewe population in Northern Ireland fell by 14.7% from 1,027,000 in 2005 to 876,000 by 2010. Ewe numbers had already fallen from a historic high of 1,450,000 in 1998 in response to a downturn in global markets and exchange rate movements. After 2010, ewe numbers stabilised before increasing slightly by 2015. In comparison with other UK regions (none of which had coupled sheep support during the 2005–2014 period), the net reduction in Northern Ireland ewe numbers between 2005 and 2015 was greater than that in England and Wales but less than that in Scotland.

While no specific modelling on the impact of re-introducing a coupled payment for the sheep sector has been carried out it would be expected to exhibit a broadly similar outcome to that for the beef sector, i.e. the number of breeding ewes would increase slightly, prompting a lower price and a resulting overall decrease in producer returns. Therefore, the conclusions on the effectiveness of coupled support in the beef sector also apply to the sheep sector.

As ewe numbers have been relatively stable since 2010, there does not appear to be any immediate argument in favour of coupled support for the sheep sector in order to maintain production at current levels. In terms of income, the sheep sector in

general will gain from the transition to flat rate Pillar I payments over the 2015–2021 period.

2.4. SDA Region

There has been particular concern about future levels of agricultural activity in the Severely Disadvantaged Area (SDA), especially in the beef and sheep sector where the profitability of production is particularly marginal.

Figure 3 shows that the decline in suckler cows over the 2005–2008 period was particularly pronounced in the SDA. Fifty one per cent of suckler cows in Northern Ireland were located in the SDA in 2005 but by 2008, this had declined to 45%. Since 2008, the position has stabilised and the percentage of Northern Ireland suckler cows in the SDA had increased to 47% in 2015.

As illustrated in **Figure 4**, the changes in breeding ewe numbers in the SDA region have mirrored that of Northern Ireland as a whole, with the percentage of Northern Ireland breeding ewes in the SDA region remaining constant at around 58% over the 2005–2015 period. Since 2009, breeding ewe numbers in the SDA have stabilised.

The evidence outlined above does not suggest that beef and sheep production in the SDA region is at particular risk from a major decline at present. It should also be recalled that the SDA region as a whole will gain significantly from the move towards flat rate Pillar I payments by 2021, although this will not be the case for specialist beef and dairy farms in this region who had previously received high levels of support per hectare and will now see their Pillar I support payments fall during the transition to a flat rate payment.

Figure 3. Northern Ireland Suckler Cows by LFA Category 2005 – 2015

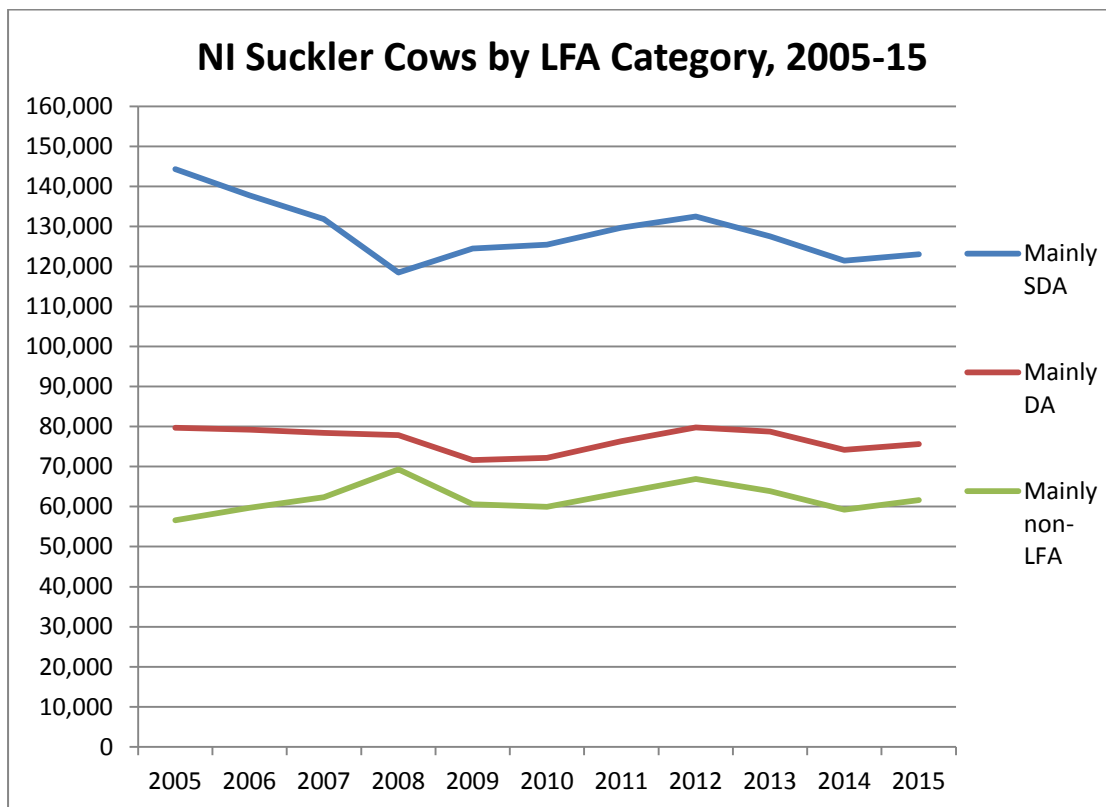
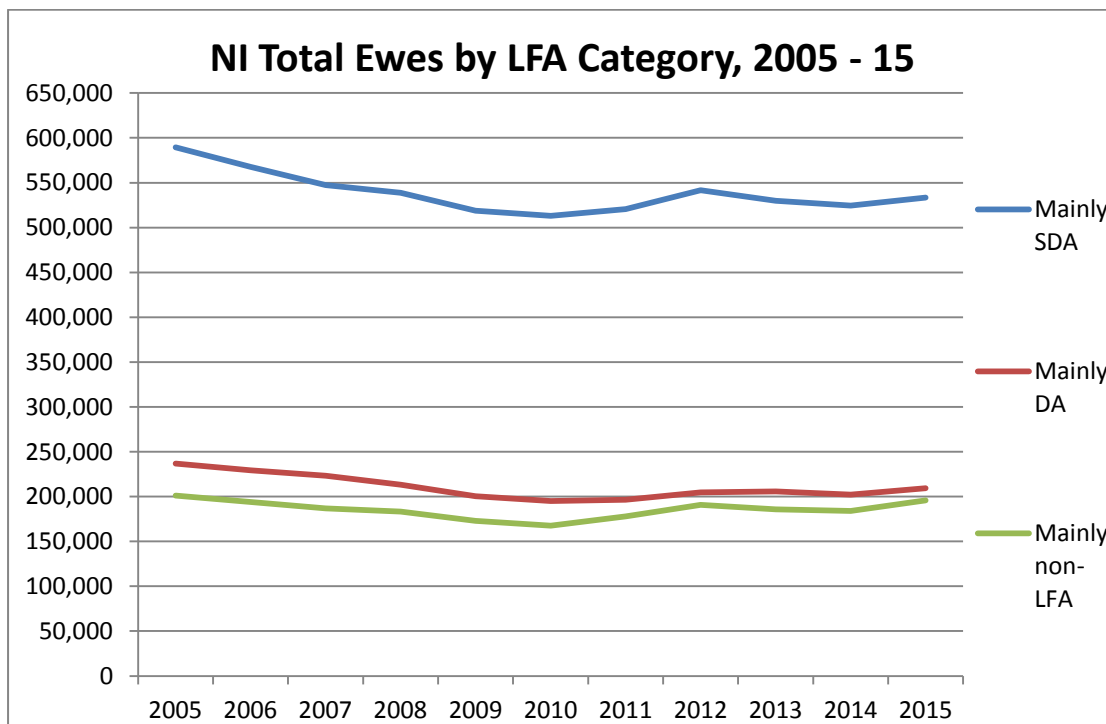


Figure 4. Northern Ireland Total Breeding Ewes by LFA Category 2005 – 2015



It should also be pointed out that introducing coupled support in one region of Northern Ireland would likely lead to market distortions that would further diminish the effectiveness of such support. For example, it could be expected that suckler cows or ewes would be temporarily transferred to the SDA region expressly for the purpose of obtaining the coupled payment. This would result in a 'leaking' of coupled support out of the SDA region to producers in other regions. Another impact might be to increase the demand for conacre land in the SDA as farmers outside of the SDA attempted to qualify for the coupled payment. This would increase land rents for farmers already operating in the SDA and, in effect, transfer some of the coupled support to landowners.

Particular caution should be exercised around any suggestion of substituting the Area of Natural Constraint (ANC) payment for coupled support as this is not comparing like with like. The ANC payment is essentially decoupled from production and, therefore, does not require farmers to keep a particular number of suckler cows or ewes (providing the minimum stocking density of 0.2LU/ha is met) in order to qualify for a given level of support. This is not the case with coupled support. Requiring farmers to keep animals which are not otherwise profitable as a condition of receiving a support payment is of questionable benefit or policy rationale. As outlined earlier, coupled payments are likely to induce a small production response which, in turn, reduces producer prices and net returns.

2.5. Administration

The introduction of coupled payments would, of course, bring significant additional administrative burdens for both farmers and the Department, and these may be challenging. For example, if a suckler cow scheme were to be introduced, a similar level of inspection and restriction as with the scheme prior to 2005 would be required, even though the payment levels would be much lower.

2.6 Equality, rural proofing, regulatory and environmental impact assessments

The Department has not proposed any options within this Review of CAP Coupled Support Options. Following this consultation, should options be considered for

implementation, the relevant equality, rural proofing, regulatory and environmental impact assessments will be carried out.

2.7. Conclusion

The DARD Minister decided on 26 June 2014 not to use the option to introduce coupled support. Subsequent evidence as outlined in this consultation document does not suggest that coupled support should now be introduced. Nevertheless, the Department invites consultees to provide views on the coupled support option to inform the outcome of the review.

SECTION 3 CONSULTATION QUESTIONS

For ease of response to the consultation these questions are also provided in a separate pro forma, which is available from the relevant consultation page on the DARD website [www.dardni.gov.uk/consultations].

- Q1. Please outline your views on whether or not coupled support should be introduced over the 2017–2019 period.**

- Q2. If you believe coupled support should be introduced, please state your reasons why this is needed, the sectors/animal types/crops that should be supported, and the proportion of the Pillar I budget that should be used for this purpose. (1% of the CAP Pillar I Budget equates to approximately €3.275m in 2017).**

- Q3. Please provide any other comments you wish to make on the coupled support option.**

SECTION 4 RESPONDING TO THIS CONSULTATION

Responses

Responses to this consultation should be sent to:

Policy and Economics Division
Department of Agriculture and Rural Development
Room 361A
Dundonald House
Upper Newtownards Road
Ballymiscaw
Belfast
BT4 3SB

Or, alternatively by:

E-mail: policy.development@dardni.gov.uk

Timetable

Responses to the consultation paper should be sent to the postal or e-mail address above and should arrive **no later than 5 pm on Friday 29 April 2016**. It may not be possible to consider responses received after this date. An acknowledgement will be sent to confirm receipt of each response.

Publication of Responses

The Department will publish a summary of responses following the closing date for receipt of comments. Your response, and all other responses to this publication, may be disclosed on request. The Department can only refuse to disclose information in exceptional circumstances. Before you submit your response, please read the paragraphs below on the confidentiality of responses and they will give you guidance on the legal position about any information given by you in response to this publication. Any confidentiality disclaimer generated by your IT system in e-mail responses will not be treated as such a request.

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