BRIEFING ON CAPPING AND YOUNG FARMERS FOR ROBIN MORTIMER'S VISIT TO CUMBRIA AND LANCASHIRE ON 6-7 AUGUST 2013

1 Progressive Reductions, and the Redistributive payment (formerly "Capping")

1.1 In the negotiations we sought for Member States to have the option to apply the cap proposed by the European Commission for payments to those with the largest claims. This was the outcome agreed by Heads of Government in the Multi-annual Financial Framework discussions in February. Our concerns were that a mandatory cap could have led to the splitting up of some of our larger farms and discouraged otherwise advantageous rationalisation in the future. It is better for competitiveness to let farmers decide what size their farm should be. Capping could also have penalised charitable organisations, such as the National Trust and RSPB, which have large land holdings but operate specifically to deliver environmental and rural benefits.

1.2 The new CAP package was agreed in principle by Agriculture Ministers in June and is now subject to European Parliament agreement before being finalised in the autumn. We fought hard to secure a CAP package that is much better than the original proposals from the EU. Overall, it is an acceptable outcome for the UK, even though it is not the genuine reform we had hoped for.

1.3 Although Agriculture Ministers have agreed there should not be a mandatory absolute cap, we must nevertheless apply a reduction to payments received by the largest farmers.

1.4 We may choose between two alternatives of progressive reductions or the redistributive payment but we alternatively have the option to use both.

Progressive reductions

1.5 The first option is a system of progressive reductions. If we adopt this option, we must reduce the amount of any direct payment to a farmer over a threshold of €150,000. The minimum rate of reduction has not yet been finally agreed between the European Council and the European Parliament but is expected to be 5%. The European Parliament is known to be unhappy with the removal of an absolute cap and may press for a higher rate. However, the Council have indicated they consider 5% a final concession to the EP in the context of an overall deal and will not change their approach. The minimum rate is expected to be finally confirmed in September. We expect to be able to apply higher rates of reduction at additional higher thresholds. The rate of reduction available to us may reach as high as 100%.

1.6 Progressive reduction reduces the freedom of farmers to arrange their business as they wish by providing an incentive to reduce the size of farms. If we decide to implement this first option of progressive reductions, Ministers’ initial view is not to impose a rate of reduction above the minimum rate allowed to us (currently expected to be 5%).

1.7 We have the option to allow farmers to exclude salaries and related employment taxes linked to their agricultural activity from the amount of their direct payment, before we apply any progressive reduction: this is called salary mitigation. For the purposes of salary mitigation, the salaries and related employment taxes would be those spent in the previous year to your payment. We may also be required to exclude the amount of the greening payment from the amount of the direct payment which we take into account.

1.8 The following table gives an example of progressive reduction with and without salary mitigation:

<table>
<tr><td></td><td>without salary mitigation</td><td>with salary mitigation</td></tr>
<tr><td>direct payment due

eligible agricultural salaries</td><td colspan="2">€180,000

€20,000</td></tr>
<tr><td colspan="3">assume progressive reduction at 5% on a threshold of €150,000</td></tr>
<tr><td>direct payment liable to progressive reduction</td><td>€180,000</td><td>€180,000–€20,000=€160,000</td></tr>
<tr><td>progressive reduction</td><td>(€180,000–€150,000)×5%=€1,500</td><td>(€160,000–€150,000)×5%=€500</td></tr>
<tr><td>direct payment after progressive reduction</td><td>€180,000–€1,500=€178,500</td><td>€180,000–€500=€179,500</td></tr>
</table>

1.9 Any money which is recovered as a result of the progressive reduction scheme must be transferred to the Rural Development programme.

1.10 Ministers’ initial view is that salary mitigation would be too complex to administer, and that if we are forced to reduce your claim we should reduce the gross amount (without allowing for salary mitigation) which will enable more funds to be recycled to rural development as well as saving administration costs.

Redistributive payments

1.11 The second option is a system of redistributive payments. If we adopt this option, we must pay a supplement in respect of the first tranche of hectares in a claim up to a national ceiling. We can set aside up to 30% of the amount available for direct payments in each region for this scheme. The supplement can be up to 65% of the basic payment. The supplement can be flat rate (*i.e*. a fixed rate for a fixed first number of hectares) or graduated (*i.e*. so the supplement would be larger on say the first 20 ha than on the 21^{st} to 40^{th} hectare). We must not make payments above a ceiling on the number of hectares fixed by us, which must not be higher than 54 hectares.

Generally

1.12 Farmers must not seek any advantage by artificially creating circumstances which would avoid the effect of progressive reductions or which would increase the amount paid out as redistributive payments, where the changes take place after 19^{th} October 2011 (the date the European Commission published their proposal for the regulation). RPA will enforce these provisions.

1.13 We are currently evaluating the potential impacts of these alternatives, and discussing these with stakeholders.