

Country Land and Business Association
Response to the Commission's Health Check Questionnaire

The CLA represent over 35,000 land owners and country businesses, accounting for nearly half to rural area of England and Wales. We have a very close interest in the evolution of the CAP, being early advocates of moves to an area based system for the single farm payment. We believe that the future of payments should be directed to addressing the main challenges that farmers and other land managers will face over the coming years – the emerging global food and environmental security problems, exacerbated by climate change.

The Commission has issued a questionnaire and asked for responses by 15th January. This is an inadequate time in which to get full discussion and agreement by CLA so this response has been kept brief and addressed specifically to the questions asked.

We provide the Commission with a fuller response later, and in particular we will put our answers into the context of the way we see the CAP evolving in the longer term beyond the current financial perspective.

The text in italics is from the Commission's questionnaire, and the CLA answers are in a normal text.

Before answering the questions we wish to make a broad comment on the relationship between the Health Check and the longer term review of the CAP mandated by the December 2005 European Council. The CLA does not consider that the Health Check can introduce new reforms. In our earlier submissions we have stressed the need for stability. We accept the Health Check can and should bring simplification and streamlining but not fundamental reform. Both Pillars of the CAP have been radically reformed since 2004 and many of these reforms especially the new Rural Development Programmes have just been approved by the Commission (some remain to be approved) for implementation this year.

Therefore whilst it is right to be discussing the correct balance between the two Pillars to the CAP and mechanisms for changing this balance, it is very hard to see how the outcome of such discussions can be implemented before 2013. In particular before we, or any stakeholders, can fully respond to questions about whether Article 69 of the Single Payment regulation should be made more flexible, or whether there should be a higher rate of Compulsory Modulation, we have to be clearer about the way we expect the CAP to evolve in the longer run. To explain we offer below two examples of where we must debate the longer run vision before we can sensibly decide how to proceed.

1 If Article 69 is to be used to deliver some environmental services in relation to specific types of farming (e.g. livestock farming in mountainous regions) then are the payments under this provision to be subject to modulation, financial discipline and possible future digressivity applied to Pillar 1 payments? If so, considering that Pillar I payments are expected to decline, these measures will turn out to be temporary, yet the environmental problems they are dealing with are likely to be enduring.

2 If there is to be more compulsory modulation it will matter a great deal to Member States how these funds may be used and other conditions: (i) Will the minimum

expenditure weights apply to new funds? (ii) How will the receipts from Compulsory Modulation be distributed? (iii) What will be the co-financing rules applied? Can the more flexible co-financing introduced for Voluntary Modulation be applied? (iv) Will the Commission recognise that 1% Compulsory Modulation (CM) does not provide the same receipts as 1% Voluntary Modulation (VM) in any new rules to diminish VM as CM increases?

Without clarity on these sorts of questions, and particularly on the future financing of measures dealing with long term market failures, it is impossible for us to come to firm conclusions.

1. TAKING STOCK OF THE IMPLEMENTATION AND SYMPLIFYING THE SINGLE PAYMENT SCHEME:

1.1. Simplifying the Single Payment Scheme

In the implementation of the Single Payment Scheme, Member States (MS) had the flexibility to choose between two broad models, one based on historical and the other based on regional references, with combinations of the two approaches also possible. The SPS has made direct support to farmers substantially more efficient and simple. Nevertheless, two areas of improvement have been identified.

Firstly, experience with the implementation shows that in the case of all implemented models, some of the rules of the current SPS have proven unnecessarily rigid and complex. Furthermore, as we move away from the reference period, differences in the support to individual farmers, especially in the historic model, may become harder to justify, yet MS lack the possibility to adjust their chosen model.

Q: With respect to which rules could the SPS be further simplified without negatively affecting the functioning of the system?

Proposed response: The elimination of the Fruit, Vegetable and Potato authorised entitlements is already a sensible simplification. Provided Set Aside is abolished for good, the removal of Set Aside entitlements would be another welcome simplification of the Single Payment System. Likewise the simplification of the 10 month rule already underway is a welcome move.

Q. Do you agree that Member States should be allowed to adjust their SPS model towards a more flat rate of support, at national or regional level?

Proposed response: Yes, and this is the right way to express it. Member States should be allowed to make these adjustments; it should be an optional not compulsory move. Likewise it should be their choice whether to move to a national or regional average payment system. Furthermore, we understand that this is a pure redistribution within Member States or regions and not between Member States, and that the transition from historic to Regional Average Payment (RAP) may be done over a number of years.

Part of the point of moving to a flat-rate Single Payment System is to have a system that can more convincingly be related to keeping land in Good Agricultural and Environmental Condition for food and environmental security reasons. This is because the payments are further divorced from the history of supporting particular lines of agricultural production, and more clearly linked to the Cross Compliance conditions. The CLA has consistently argued that these

payments are environment payments in waiting, this move takes us further in this direction

Q. What type of impacts would you expect with the introduction of flatter rates of support for farmers?

Proposed response: Any such redistribution of the payments inevitably creates winners and losers. The losers cannot be expected to be happy about this, they simply have to adjust. The losers will be farms which had a high proportion of highly supported activities in the predecessor schemes. These will particularly be farms with housed, yard-fed beef enterprises and dairy cattle, and those arable farms which only produced supported crops. They will find their average payments expressed per hectare of eligible agricultural area falling if payments are redistributed from a Historic basis to a Regional Average Payment (RAP) system. Such farmers – especially those reliant on large payments – will need to become much closer to the market and/or to payments for environmental services. The winners are those more extensive farms, especially those with much low-intensity grazing land and with much land devoted to the less supported crops (e.g. horticulture). The extent of this redistribution is not too difficult to anticipate from statistics of livestock and cropping patterns for each country. There are few arguments to persuade the losers to accept this move than the fact that the overall scheme is more explainable to the public.

1.2. Cross-Compliance:

By creating a link between CAP payments and the respect of existing legislation related to the environment, public, animal and plant health and animal welfare, and of good agricultural and environmental conditions (GAEC), cross-compliance aims to contribute to the development of sustainable agriculture and to render the CAP more compatible with the expectations of the society. This has been shown to make a significant contribution in increasing farmers' awareness about already existing obligations and to better ensuring compliance with them. The Commission has committed itself to address the scope of cross-compliance in the Health Check to improve its acceptance by all actors and the achievement of its objectives, taking into account the need for simplification and the need to meet "new challenges".

Q. What would be the potential outcome of maintaining the cross-compliance at its existing standards?

Proposed response: Because the SPS has only been in place for two or three years, and because the full details of the many difference in Cross Compliance conditions from one MS and region to another are only slowly coming to light, it is hard to predict the adjustments in production which result from all this. It may well be the case that tougher rules and tougher implementation of the rules in some regions will result in displacement of some production from such regions to other regions where rules are more lax. If this occurs it would represent an overall fall in environmental production standards. This is an important lesson for the Commission: land management, and especially its environmental impacts, is a complex long-term business. Thus constant change in cross compliance rules and regulations should be avoided and it is the duty of the Commission to maintain vigilance to guard against rule-induced falls in environmental standards.

Q. What impacts do you see emerging with the possible addition/deletion of certain legal requirements or GAEC standards?

Proposed response: This question can only be answered in relation to the longer term vision for the CAP on which the Commission has, so far, been silent.

If, as the CLA firmly believes, there is an enduring case for substantial payments to private land managers for their delivery of public environmental and cultural landscape services, then the real debate is in which form and through which instruments, to make these payments. What mix of Pillar 2 payments for example in Agri-environment and Less Favoured Area schemes, and Pillar 1 payments for respecting tough EU standards is optimal? We do not have clarity on this.

At present we interpret part of the justification for the single payment is that the public demand their agricultural producers meet environmental and animal welfare standards, not required of producers in competing countries and are constrained in their use of certain technologies available to their competitors. There is every sign with the Water Framework and Soils Directives that these processes are going further in the future. This is especially true if the 'new challenges' facing land managers in water management and climate change mitigation are to be embraced.

The question asked about potential impacts of higher standards. The answer is that if the standards expected of farmers are to be raised, and along with it the costs of production, and if the corresponding conditions are not imposed on international competitors, and further there is also no way of requiring consumers to pay for the standards they demand, then without appropriate payments in one form or another the result is a systematic run-down of domestic EU production in favour of products produced in lower cost, less environmentally secure, systems elsewhere. If the motivating environmental concerns are the global problems of biodiversity loss and climate change then this would be irrational.

1.3. Partially coupled support

The extent of recent reforms renders partially coupled support less relevant from the point of view of producers, as more sectors are integrated into the SPS. On the other hand, partially coupled support may retain some relevance, at least for the time being, in certain regions where the level of production is small overall, but important economically or environmentally.

Q.Should decoupling be applied in full extent to all sectors? Would there be specific impacts with this option?

Proposed response: Yes. If we believe in decoupling payments from production and recoupling them to the delivery of environmental and cultural landscape services, then this applies to all products and in all regions. Retained product-specific coupled payments seems unfair competition to other producers within the single market.

Q.Should decoupling be applied in full extension but negative impacts mitigated by alternative flanking measures? In this case, what kind of measures?

Proposed response: Yes, the real motives for such payments 'in certain regions' is environmental and social. It cannot be the specific products. If these products truly are regionally distinctive, specialist, traditional, from rare breeds or whatever, then the market should pay for them by appropriate marketing and pricing. If such price premia are insufficient then this tells us about the real

demand. If, even with strong marketing efforts, the produce cannot attract a premium to keep production in being, then this again tells us that the consumer does not consider them to be so very distinct after all. The remaining real enduring motive for being concerned about the disappearance of such production must therefore be the environmental and cultural landscape services these farming systems provide. In which case this should be dealt with by Agri-environment and LFA payments.

Q.Are there any sectors where targeted, partially coupled support should remain and which problems do you consider this support to mitigate?

Proposed response: No. This is a contradiction of the whole reform logic of the last fifteen years. As soon as this logic is allowed for one product or region which considers itself 'special', then wait for the queue of other regions who will claim they too have special reasons for product related supports.

1.4. Upper and lower limits in support levels

The implementation of the SPS added to the already existing questions about the justification of large payments to a small number of recipients, new questions about the justification of small payments to a sometimes large number of recipients. Capping constitutes a potential means of addressing the first issue by introducing thresholds in high payment levels, beyond which support could either be reduced or curtailed. Minimum thresholds in the level of payment to at least guarantee that they cover their administrative costs and are granted to real farmers have also been suggested.

Q.How effective do you think capping will be in addressing the problem of the uneven distribution of payments between the farmers?

Proposed response: If the payments are to move towards a flat-rate or Regional Average Payment, then it makes no sense to counter this simplification with a complication to differentiate payments per hectare according to farm payment size. The Health Check document makes no reference to any payment "cap", it talks instead about a scheme of progressive cuts in payment as the payments increase in size. No principles are offered for why this should be done or the criteria for the cuts. Merely keeping it on the agenda and under discussion will ensure that Europe's largest farming businesses, which are threatened with seeing a significant part of their revenues disappearing from one year to the next, taking evasive actions. This will involve them in significant legal and professional costs and furthermore it will then involve national administrations in senseless waste of resources trying to define ways to distinguish the motives for farm restructuring. This would not be a simplification of the CAP and reduction of bureaucracy but an increase.

There is indeed a very uneven distribution of payments between farmers. This occurs between farmers within regions and Member States. It occurs between the EU15 and between farmers in the 12 new Member States. It is especially so between the EU15 and the EU12. But these enormous disparities – which result from the complex story of how the CAP has evolved over the last 5 decades, will not be touched at all by the progressive payment limitation mentioned in the Health Check which explicitly suggests that there is no redistribution between Member States.

Until the Commission or anyone else spells out what “the problem of uneven distribution of payments is” then this scheme of payment limits at the upper end is a senseless idea. We urge the Commission to drop it.

Q. What would be in your opinion the advantages and disadvantages between the application of an absolute or progressive way in the introduction upper thresholds in payments?

Proposed response: An absolute cap would be the most brutal, and would give the clearest signal that EU bureaucrats have taken it upon themselves to decide the maximum effective size of farm operation. No rational business would wait for such a cap to appear. Thus the measure would have little or no impact in redistributing payment to other purposes, because little or no money would be ‘saved’ by this instrument. It will serve only to fragment businesses and ensure no farm ever grew above the centrally planned threshold. The employment impacts of such a measure would be dire. We trust the Commission would have a good explanation to offer the farm workers made redundant by this move.

Progressive cuts in payments would have a less dramatic effect on the largest businesses, but spread the pain of this unprincipled measure to many more of the larger farms in the EU. If there was an objective criterion against which to judge this measure it might be possible to offer some rational analysis of its benefits – but no motive has been offered by the Commission. The one thing that is sure is that the calculation of individual farmers’ entitlement payments will be made much more complicated and keeping track of these as they are traded over the years will become more and more difficult. What on earth is the point of this?

Q. In the context that a large number of farmers receive significantly low amount of payments, in many cases even below the administrative costs, what potential impacts do you see in the option of adopting a minimum level in payments?

Proposed response: This makes a great deal of sense, and especially if the move to RAPs is taken and a wider group of claimants is admitted to the scheme. However the lower limit should be left to Member States. A micro business in one Member State might be a moderate sized holding in another whilst there is such a wide range of development levels and farming structures around the EU.

2. GRASPING NEW OPPORTUNITIES AND IMPROVING MARKET ORIENTATION

2.1. Cereals Intervention

The scope of intervention is to ensure, in cases of market disruption, that internal market prices do not drop far below the safety-net intervention price. In June 2007, following difficulties associated to the accumulation of high stocks of maize, the intervention was reformed, and the phasing out of maize from intervention was introduced. However the intervention system needs an overall adjustment.

Q. What do you think is the best way to maintain the safety-net role of intervention for cereals?

Proposed response: CLA has no comment.

Q.What would be the impacts of the extension of the "maize" model to the other feed grains?

Proposed response: CLA has no comment.

Q.What kind of impacts do you see with the creation of an intervention system available only to high quality bread wheat?

Proposed response: CLA has no comment.

2.2. Cereals set-aside

Set-aside, as a mandatory obligation for cereal support, was introduced as a supply control measure at a time when downward pressures on cereal prices were present. Nowadays market developments rather point to the need for supply growth. In addition, the introduction of the SPS and the consequent possibility of transferring set-aside entitlements significantly diminished the efficiency of the measure in limiting supply. On the other hand, environmental benefits have been associated with set-aside, and therefore its potential abolition has raised questions about the impact on such benefits.

Q.Do you consider that abolition of set-aside in the current context of market and policy developments is appropriate?

Proposed response: Yes, it has no place in the 'decoupled' CAP. It should be abolished. This is a big and welcome simplification.

Q.What measures do you consider appropriate in order to maintain environmental benefits associated with set-aside?

Proposed response: First, the introduction of any measures must be based on clear, systematic and thorough evidence and not on casual association between set-aside rates and a simple environmental indicator that takes no account of the many economic and technical changes in the decade of operation of set aside.

Second, any justified measures should be implemented under an EU-wide arrangement, be financed under Pillar 2, carry a presumption in favour of a voluntary approach, be targeted specifically at providing habitat for wildlife, and recognise the opportunity cost to farmers of meeting those objectives.

2.3. Dairy Quota

Originally the introduction of the dairy quota regime aimed at limiting the surplus production effects of price-support policy in the context of the depressed world prices. In recent years, however, the dairy sector is facing strong internal and external demand and high prices, instead of high supply and depressed prices. In this context it becomes clear that the quota system, which is scheduled to expire by 2015, is acting more as a constraint to the sector by limiting its capacity to benefit from market opportunities and improving its competitiveness.

Q.In the light of new market opportunities, do you consider that the quota system is still fulfilling its stated objectives?

Proposed response: No, it is a thing of the past, and has no place since the introduction of decoupled payments.

Q. What benefits and what risks do you see from doing nothing and simply letting the quota regime expire in 2015??

Proposed response: The main benefit is simplicity, and market orientation. There is no need for the EU to decide how much milk should be produced.

Q. What kind of effects do you see emerging in the case of a gradual phasing-out of quotas through increasing their annual level? What would you propose as an alternative or accompanying transition measure?

Proposed response: As soon as the decision to phase out milk quota is announced, and given that the message is signalled by the quota increase in the meantime, then these are sufficient signals to milk producers about the future market situation they face. There is no need to complicate the market response by introducing more milk-related accompanying measures. These will simply delay market adjustments. If there are environmental and cultural landscape problems in certain regions associated with livestock agriculture, then these would be best dealt with by agri-environment and other rural development measures.

2.4. Other measures of Supply Control

In many specialised sectors measures of supply control and production linked payments (either through direct support to farmers or through industry aid) are still present. Although of different origin and justification, all these measures provide support to sectors of limited contribution to the total value-added of EU agriculture, but whose regional importance could be significant. It is the case of the sectors of flax and hemp, starch, dried fodder, protein crops, energy crops, rice or nuts.

Within the context of the 2003 reform orientation, which moved support from the product to the producer in order to increase the competitiveness and market orientation of the sector while preserving income support, these supply control measures seem rather outdated, and the question of whether these sectors be integrated into the overall scheme of decoupled support pertinent.

Q. _____ What would be in your opinion the implications from the application of decoupling in those sectors?

Proposed response: Decoupling of support enables businesses to focus more on market demand, which supports enhanced profitability and competitiveness.

Q. Are there any cases where you consider coupled support essential in order to retain regional or economic benefits? If so, how can it be made more efficient and better targeted?

Proposed response: No comments.

3. RESPONDING TO NEW CHALLENGES

3.1. Managing risk

Decoupled producer support allows farmers to adjust better to expected price risks by rendering their production decisions responsive to market price signals in a

flexible way. In addition, unexpected risks are also best mitigated by the provision of a fixed level of support.

On the other hand, the rather long list of potential risks and their variable extent across MS, together with the various changes in traditional market instruments and the shift towards direct support, have prompted calls for more measures on risk management and more specifically in regard to price risk (supply management tools, income stabilization tools) and production risk (natural disasters and catastrophic events, sanitary crises).

Q.Do you consider that currently available policy instruments provide adequate coverage to manage price risks? Do you see the need for additional measures you envisage, and if so which ones?

Proposed response: CLA has been saying for some time that coping with the extra volatility in markets, the international economy, and in physical factors affecting food production, animal and plant disease spread, and increasingly in climatic conditions (drought, flood, fire) requires more attention. In the last decade there has been a systematic policy to dismantle the previous market management tools – which were partly used as instruments of stabilisation. We understand the reasons for this and do not propose going back to such instruments. However we do not consider the Commission’s current stance that dealing with volatility should be left to the Member States and dealt with in Pillar 2 is an adequate position. The CLA does not have a prepared tool-box of measures to offer to deal with this problem. We suggest that discussion must continue, led by the Commission, to debate legitimate purposes for an EU stabilisation policy and the mix of market led and publicly supported measures that should be deployed.

Q.Do you consider that currently available policy instruments provide adequate coverage to manage weather-related or disease-related risks? Do you see the need for additional measures you envisage, and if so which ones?

Proposed response: No. The current arrangements are not adequate. There is a large debate taking place on sharing costs and responsibilities in animal disease control and the appropriate sharing of costs. The CLA is not ready to conclude on this matter.

Q.Do you see scope for the application of EU-wide measures to better address price and production related risks, or should such measures be applied more at the MS and regional level?

Proposed response: Because the EU operates in a single internal market we would be very worried if price and production stabilisation measures were operated at Member State or regional level, this would all-too-easily distort the markets in favour of Member States whose governments were more interventionist, and who could afford to do so.

3.2. Climate change, bio-energy, water management and biodiversity

Agriculture is highly exposed to climate changes and its after-effects such as water scarcity and extreme weather conditions. Furthermore, halting biodiversity decline remains a major challenge increased by climate change and water demand. Given this interdependence, pressures for more contribution on the field are inevitable. In addition the need for new renewable forms of energy offers new opportunities, in the form of new outlets for agricultural production. Consequently there is a dual need for further adjustments to improve adaptation practices and to find the appropriate instruments in order to be ready to integrate these new challenges.

Q.Do you consider that existing instruments under both pillars of the CAP are sufficient to respond to these challenges?

Proposed response: These (climate change especially) are relatively new areas. There are many policy instruments impacting on these, especially renewable energy, so it is not clear what specific role the CAP should play in these.

Q.If you consider that strengthening Rural Development instruments is needed, what would be your proposal in better addressing these new challenges?

Proposed response: It is far from clear what new measures are needed for water management and for climate change adaptation and mitigation. Until this become clearer, and also until the longer run future of the whole CAP and its budget is clearer, it is difficult to say in which Pillar of the CAP or indeed whether it is the CAP or some other EU policy measures or Member State measures which are required.

However what is already clear given the market responses to existing climate change impacts (e.g. water scarcity in Australia), and existing renewable energy policy (e.g. the rush to bioethanol in the USA) is that the relative profitability of agricultural commodity production compared to environmental delivery has shifted towards the former. The environmental fears surrounding the current zero set aside is another manifestation of this shifted balance. This challenge of the changing relative prices of food and environment which is already with us must be addressed by adjustments in existing Pillar 2 Rural Development schemes.

In short it is too soon to pronounce on the correct adaptation of the CAP to the new challenges. But it is not too soon to start debating how the major part of the current CAP which is concerned with the delivery of public environmental services adjusts to strong changes in market conditions.

3.3. Strengthening rural development

In the scope of responding more efficient to the current societal expectations, modulation has been proved a useful policy instrument through which a percentage reduction is applied to farmer direct payments (Pillar 1) transferring accordingly the budgetary resources released to rural development measures (Pillar 2). However, in the context of the cut in the expected Rural Development support following the 2005 decision on the Financial Perspectives, the constraints that Member States are facing in the realisation of Pillar II objectives, in the current budgetary period, present an obstacle to this development

Q.Do you think the proposed increase in modulation will help in achieving RD objectives, especially those linked to new challenges?

Proposed response: Given the challenges already manifest - see the paragraph above – it may well be necessary to shift more CAP resources to ensure the appropriate delivery of the environment. The CLA is currently debating the extent and rate at which this might be done.

We are surprised in this questionnaire that the issue of redeploying funds within Pillar 1 by a more flexible Article 69 has not been raised as a question. We think it is worth debating.

But equally there must be a stronger debate in the context of the Health Check about the problems of moving funds for dealing with market failures – which is generally accepted as the right way for the CAP to evolve. The fact is that many MS are thoroughly disenchanted with Pillar 2. There are concerns that getting the funds through Pillar 2 measures are too bureaucratic. Too much is thought to leak out away from private sector land managers.

The CLA suggests that the Commission leads debate on these matters. This is essential to ensure that any changes in the Health Check move the policy in the correct direction for the longer term. The introduction of the new challenges is too vague, and a distraction. The policy has further to evolve for the challenges already with us and the obstacles to this necessary evolution demand urgent discussion and then decision.

Q.How do you think the extra funds should be allocated to better respond to those new challenges?

Proposed response: The CLA considers that, given that the projected budget for the RDR for 2007-2013 was significantly cut by the decision of the European Council in December 2005, any extra funds which can be found for RDR this period must be deployed to existing measures for existing challenges. More resources are required for helping agriculture to meet higher environmental standards; more resources are required to maintain the attractiveness of agri-environment schemes, many part of the EU livestock sector are in difficulty given the huge rises in feed, energy and other costs, especially in disadvantaged areas. The Health Check must therefore confine itself to dealing with these known existing challenges and not responding to as-yet unclear 'new challenges'.

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Country Land and Business Association