

Brussels, 10 January 2008

## **PUBLIC CONSULTATION ON THE CAP HEALTH CHECK**

### **Stakeholders' Questionnaire**

#### **Cereals intervention**

- What do you think is the best way to maintain the safety-net role of intervention for cereals?
- What would be the impacts of the extension of the “maize” model to the other feed grains?
- What kind of impacts do you see with the creation of an intervention system available only to high quality bread wheat?

Intervention of grains played a major role in the EU grain market over the last decades. In times of overproduction and limited export opportunities, intervention might have been justifiable as a safety net for farmers and grain merchants. Times have changed and intervention stocks of grain are nearly gone.

The demand for food and feed is expected to double during the next 20 years. In addition, an increasing amount of grain, oilseeds and vegetable oil will be used as feedstock for the production of bioenergy as new biofuels technologies based on other biomass feedstuffs will not be economically available before at least 10 years. In view of this higher demand surpluses will in all likelihood only emerge again during a period of several years of record grain production. As a consequence, domestic grain prices can be expected to stay above the intervention price level in the years to come. Accordingly, intervention may no longer be needed as a safety net.

Nevertheless, experiences gained over the last decades clearly show that the sale of intervention grain to the world market and/or to the EU domestic market frequently lead to even stronger market disruptions, .

Therefore, the EU grain trade supports the need to deeply review the existing cereals support schemes such as intervention, adapting it to the new world market conditions and modern market risk management existing tools. Such a reform should, in all case, include minimum safeguards measures, at least for high quality milling wheat, and a sufficient transitional adaptation period to the EU cereals market players.

## **Cereals set aside**

- Do you consider that abolition of set-aside in the current context of market and policy developments is appropriate?
- What measures do you consider appropriate in order to maintain environmental benefits associated with set-aside?

In the light of the expected increase in demand and the current low level of stocks, the European grain trade fully supports the proposed abolition of the mandatory set-aside program. The end to set-aside will allow EU farmers to plant an additional 2 to 2.3 million ha with arable crops, first of all with grains and oilseeds. The additional production from this acreage could result in an increase in the EU's grain production by 8 to 10 million tons. Such an additional amount would allow the EU to increase production of bioethanol significantly while continuing to serve EU food and feed markets and export grain to the growing world market.

Market instrument measures and environmental measures should not be mixed up. As indicated above, the end to set aside will allow for the needed extra production. Environmental measures have to be covered by cross-compliance measures, which should not apply only to arable crops.

## **Other measures of supply control**

- What would be in your opinion the implication from the application of decoupling in the sectors of flax and hemp, starch, dried fodder, protein crops, energy crops, rice or nuts ?
- 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?

Full decoupling will contribute to simplification and a more timely reaction to market signals. The demand, and not specific aids, should secure the necessary supply of goods. Specific support should especially be avoided when a same crop is used for different purposes: this can only lead to distortion. This is the reason why the grain trade is not in favour of the energy crop premium. Moreover food and feed production need to be given priority both in the EU and worldwide. There is a growing risk that too high support for biofuels and other forms of renewable energy could lead to increased food insecurity.

## Managing risk

- Do you consider that currently available policy instruments provide adequate coverage to manage price risks? Do you see the need for additional measures?
- 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?
- 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?

With the anticipated end to intervention, alternative methods to manage risks will gain importance. The trade agrees with the suggestion of the EU Commission to consider the implementation of crop insurance and revenue insurance programs. The trade favours revenue insurance programs instead of programs for specific crops. Experience gained with crop insurance programs in the USA demonstrates that crop specific insurance programs tend to distort farmers' planting decisions and that farmers start to ignore market signals again. Also with the expected move towards more and more decoupled support, crop specific insurance programs seem inappropriate.

Furthermore the trade questions the Commission suggestion to fund risk management measures with budgetary savings achieved via modulation. Lost revenue is very closely related to market disruptions caused by adverse weather conditions or diseases and should not be mixed with rural development programs and goals.

The expected doubling of demand for agricultural commodities for food, feed and renewable energy over the next 20 to 25 years will be accompanied by increased price volatility. Adequate management of this volatility will be a challenge for all operators and new ways to manage risks resulting from volatility have to be elaborated. At the same time, access to farmers' products will become more important for traders and processors of agricultural commodities. Contract farming could become an important risk management tool to deal with increased volatility of production and prices.

## Upper and lower limits in support levels

- How effective do you think capping will be in addressing the problem of the uneven distribution of payments between farmers?
- What would be in your opinion the advantages and disadvantages between the application of an absolute or progressive way in the introduction of upper thresholds in payments?
- In the context that a large number of farmers receive significantly low amount of payments, in many cases below the administrative costs, what

potential impacts do you see in the option of adopting a minimum level in payments?

Although these questions affect the farmers and not the traders, we would like to emphasize that the all farms are essential to secure the volume of crops needed for the food, feed and non-food purposes. Capping the aids to big farmers would hit very effective, productive and sustainable farmers Holding sizes would as a consequence be reduced, which would add administrative costs and would be ineffective.