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Position paper from Danish agriculture on the communication of the Commission on the “Health Check” of the CAP reform.

I. INTRODUCTION.

On 20th November 2007 the Commission has presented a communication to the Council and the European Parliament named “Preparation for the “Health Check” of the CAP-reform”. In this communication the Commission describes a number of suggestions and questions for consideration and discussion, and on the basis of the conclusions from this process the Commission will in the spring of 2008 present legal proposals for adjustments of the CAP.

Danish agriculture welcomes this initiative, and we will participate in the discussion on adjustments of the CAP in a constructive way. We will do this on the following basis:

- Simplification of the current policy is a priority matter for us. However in line with the Commission we emphasise that simplification should be carried out by means of appropriate adjustments of the current policy and not by new comprehensive reforms.
- When adjustments are decided upon it must be ensured that the CAP is maintained as a real common policy in order to avoid distortion of competition between farmers in the EU. This implies in particular the following:
 - Possibilities for national and/or regional deviations from the common policy must be limited as much as possible. In particular this is important within policies that can influence the level of production.
 - The common financing of the CAP must be maintained.

The Commission has presented its suggestions under three main headings: 1) simplification of the Single Payment Scheme, 2) improving market orientation and 3) suggestions on new challenges. The same structure is applied in the following description of our position on the suggestions. Each point is introduced by a brief description of the suggestions of the Commission.

We will at a later stage present our views on the CAP after 2013.

II. Simplification of the Single Payment Scheme (SPS).

2.1. Adjustment of the SPS model.

The Commission's presentation:

The Commission finds that it will be increasingly difficult to justify the different levels of support under the SPS – in particular where the historic model has been chosen. Consequently it is found appropriate to allow member states to adjust their chosen model towards a flatter rate during the period from 2009 to 2013.

Comments:

We agree that in the long run it could become difficult to justify very different levels of support. However, so far this is not the case as the SPS has only been implemented since 2005 and in several sectors the implementation has taken place in steps and/or after 2005. Moreover it must be stressed that the Danish hybrid model implies some levelling of support and that farmers have a legitimate expectation that the Danish model will at least be maintained until 2013.

On this background we cannot accept an adjustment of the Danish model during the current budgetary period.

2.2. The scope of cross-compliance.

The Commission's presentation:

The Commission stresses that cross-compliance is and will remain an essential element of the CAP. The need for simplification of the system is recognised however. The scope of the system was not addressed in the Commission's report from March 2007. Therefore this question will be addressed in the Health Check in the following areas:

- *Qualify the Statutory Management Requirements (SMR) by excluding provisions which are not directly relevant to the stated objectives of cross-compliance.*
- *Examine, and where appropriate amend, the list of SMR and Good Agricultural and Environmental Conditions in order to improve the achievement of the objectives of cross-compliance.*

Comments:

We do not question the idea of cross-compliance itself but we see great needs to simplify the system and to reduce the uncertainty which farmers are often faced with.

Therefore we strongly recommend that a thorough review is made of the scope of the system. The aim should be to exclude unclear rules as well as less relevant rules. If it is considered to include new rules they should be assessed in the same way.

In connection with the current negotiations, which are based on the Commission's report from March this year, we stress in particular the need to implement thresholds for sanctions in cases of minor infringements plus a simplification of the rules on control.

2.3. Partially coupled support.

The Commission's presentation:

The Commission argues that partially coupled support has become less relevant as more sectors have now been included under the SPS. It is said, however, that partially coupled support may retain some relevance in certain regions where the level of production is small overall. Whether, to which extent, and until when partially coupled support should remain should be seen in a clearly regional context.

Comments:

We take the view that member states should be allowed to maintain partially decoupled support until 2013, and we want the partially coupled support in our country for male animals and sheep to be maintained in that period.

A possible decision to decouple the support after 2013 must be compulsory for all member states, and it should be implemented at the same time for all premiums in a given sector (e.g. slaughter premiums and premiums for suckler cows and male animals).

We need to point out, that we would find it unacceptable if a future decision to decouple support leaves open the possibility to maintain partially coupled support in certain regions.

2.4. Upper and lower limits in support levels.

The Commission's presentation:

The Commission finds it appropriate to look into the possibility of introducing some form of limitation in payments, both at the higher and the lower level:

- *For the higher level of payments the Commission considers that if a solution is to be found it would be in a model where the support level is gradually reduced as overall payments to the individual farmer increase.*
- *For small amounts of payments a minimum level of annual payments can be introduced and/or the minimum area requirement can be set at a higher level.*

Comments:

We cannot accept any kind of ceilings on support. We see no objective reasons for it. The effect on the EU budget would be minimal, but it would lead to a completely unfair treatment of the concerned farmers. Likewise, we are opposed to any form of different treatment of farmers in relation to modulation and/or financial discipline other than the current franchise of €5,000.

A minimum level of annual payments would be acceptable if fixed at EU level.

III. NEW OPPORTUNITIES AND IMPROVING MARKET ORIENTATION.

3.1. Intervention and supply controls.

The Commission's presentation:

The Commission wants to examine the remaining "old CAP" instruments in the light of globalisation and the enlargement of the EU. Moreover the Commission intends to monitor the present market situation and to analyse whether this is a reflection of a short term response to poor 2006/07 harvests or indicative of long term trends.

Comments:

We do recommend that the said analyses are carried out. However, we must warn against drawing drastic conclusions for the future of the remaining old CAP instruments on the basis of a short-lived improvement of the market situation.

3.2. Cereal intervention.

The Commission's presentation:

The Commission argues that the decision to reduce maize intervention was necessary, but this may lead to a relative loss of competitiveness for barley and possibly soft wheat, and may trigger the risk of increasing public stocks for these cereals. The Commission believes that the best solution to this problem would be to extend the maize intervention reform to other feed grains.

Comments:

The current supply and price situation for cereals does not necessitate further restrictions on the intervention system. Moreover this situation has fully illustrated the importance of stable prices for cereals to the whole farming sector.

In our view an efficient safety net for cereals is still needed. This would no longer be the case if the maize intervention reform were to be extended to other feed grains and possibly in combination with a further strengthening of the intervention criteria for wheat. If an adjustment of the intervention system is still found to be necessary we would prefer a limited reduction of the intervention price.

3.3. Abolishment of compulsory set aside.

The Commission's presentation:

The Commission believes that the introduction of the SPS and the current market situation argues for mobilising land which is presently kept out of production through the compulsory set aside scheme. However, the permanent abolition of set aside would require steps to preserve the environmental benefits accrued from the present scheme, and one possibility would be to replace it by locally targeted RD measures.

Comments:

We support the permanent abolition of compulsory set aside. This should have effect from the harvest in 2009.

Moreover we endorse the suggestion to preserve the environmental benefits by means of a strengthening of RD measures.

3.4. Preparing the “soft landing” of the dairy quota expiry.

The Commission’s presentation:

The Commission confirms its long known views that dairy quotas should not be extended beyond 31 March 2015 and that a gradual quota increase could best prepare the ground for a “soft landing” of the sector by the time quotas expire. It is added, however, that certain regions, especially but not exclusively mountainous regions, are expected to face difficulties in keeping a minimum level of production. The Commission intends to propose measures that will mitigate the expected negative impact in specific regions, and one possibility would be to establish specific support measures under a revised Article 69 of Regulation (EC) No 1782/2003.

Comments:

We strongly support the Commission’s view that dairy quotas should not be extended beyond 2015, and we think this should be clearly stated in connection with the Health Check.

Moreover we agree that gradual increases of quotas should be the most important means to ensure a soft landing.

On the other hand we must clearly reject the possibility to allow member states to use a revised Article 69 to finance coupled aid in certain regions, including mountainous regions. In case this is decided it will lead to distortion of competition within member states as well as between member states and this is not acceptable.

3.5. Other measures of supply control

The Commission’s presentation:

The Commission will evaluate the performance of supply control and production linked payments in several other sectors (dried fodder, potato starch, flax and hemp). The aim is to identify the list of measures and the appropriate timing for shifting the remaining production-linked payments to the SPS.

Comments:

Of the said products mainly dried fodder and potato starch are of interest to Danish agriculture. For dried fodder guarantee thresholds are applied whereas the production of potato

starch is controlled by quotas. In both sectors partially coupled support is applied at EU level (50% for dried fodder and 60% for starch).

We recommend that supply control is abolished in both sectors.

For potato starch we can accept a further decoupling of support. We stress, however, that the income of producers is highly influenced by the support. Therefore, further decoupling must be made in steps over a number of years as the sector must have time to adapt to new conditions. Moreover a further decoupling must be implemented in the same way across the EU.

As far as the aid for dried fodder is concerned our position awaits the evaluation, which will be made by “AND-International”.

IV. SUGGESTIONS AND CONSIDERATIONS ON NEW CHALLENGES.

4.1. Risk management.

The Commission's presentation:

The Commission considers that in the Health Check it would be appropriate to:

- *Extend the use of part of modulation savings to allow risk management measures in the framework of RD policy, provided that they meet “green box” criteria.*
- *Examine on a case-by-case basis the need for additional measures in the context of future adjustments in market mechanisms and carry out, at a later stage, a more general examination of risk management for the period after 2013.*

Comments:

We believe the Commission has come up with this suggestion because several member states are advocating that public support to risk management measures should be provided under the CAP. We do not share this view and for a number of reasons we cannot accept this suggestion:

- Firstly, we do not want support for risk management to replace the current stabilising measures in the CMO's.
- Secondly we believe the effect of such arrangements would be limited and disproportionate to the considerable administration which they require.
- Thirdly we want to avoid that support for risk management measures becomes a new source of distortion of competition.
- Finally we stress that under no circumstances will we accept that insurance arrangements in the field of diseases are being used as an excuse for weakening the current programs to combat contagious diseases and their financing through the Veterinary Fund and the CMO's.

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

The Commission's presentation:

The Commission states that three new challenges for EU agriculture lie in the areas of climate change, bio-energy and water management, and that there is a range of possibilities to deal with these challenges in the Health Check. Among these suggestions are, that incentives for mitigation and adaptation to climate change, for better water management and for providing environmental services in the area of bio-energy, and for biodiversity protection could be provided through the strengthening of existing RD measures. Moreover climate change and better water management objectives could be achieved through cross-compliance. – Finally the Commission wants to examine whether the present support scheme for energy crops is still cost effective in the light of new incentives for biomass production (compulsory energy targets and high prices).

Comments:

We share the view of the Commission that climate change, bio-energy and management of water resources are new important challenges and that it would be relevant to encourage an appropriate development through the strengthening of RD measures.

We will consider positively the abolition of the present support scheme for energy crops. Due to administrative costs the net effect of the aid is limited. This has certainly been the case this year as the guarantee threshold was exceeded and the aid reduced proportionally.

4.3. Strengthening the second pillar.

The Commission's presentation:

The Commission states that the new challenges make a further strengthening of the second pillar necessary. With the CAP budget now fixed until 2013, strengthening RD funds can only be achieved through increased co-financed compulsory modulation. The Commission therefore envisages an increase by 2% annually in budget years 2010-2013 of the existing compulsory modulation.

Comments:

We recognise that it will be appropriate to increase the funds available to the RD policy through increased compulsory modulation. However the size of the increase should be considered more carefully.

We stress the Commission's statement that such a decision needs to respect the current distribution of modulation funds and take into account existing rules. Moreover we assume that in our country the increased funds will be distributed between axis 1, 2 and 3 according to the agreed percentage distribution of 30-60-10.

V. FINANCIAL FRAMEWORK.

The Commission's presentation:

In this section the Commission stresses that no additional EU-funding will be available for the first and second pillar of the CAP in the period 2007-2013. Within this framework the ceiling for expenditure will be decreasing in constant prices. This implies that the financial discipline could be applicable for farmers during the period, albeit to a lesser extent than previously foreseen if the current market prices will stay high.

Comments:

The Commission has refrained from stating when and to which extent financial discipline is likely to be applied. However, previously sources in the Commission have told that a reduction of up to 7% could be necessary by the end of the period covered by the financial framework. This plus the proposed increase of modulation could result on a considerable reduction of support before 2014. In member states applying Article 69 in Regulation No 1782/2003 the reduction could be up to 10% higher.