

Eurogroup for Animals reply to the European Commission **Stakeholders' Questionnaire – 10 January 2008**

**Questions on the Issues Addressed in the "Health Check" Communication**

**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.

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

Eurogroup for Animals agrees that the level of subsidies should not be based on past levels of production – payments should be calculated so that there is a fairer repartition of subsidies. In our paper (attached) we propose that for livestock farmers, subsidies should be linked to the land in relation to its carrying capacity so that environmental conditions are safeguarded. This would prevent subsidies going to very intensive indoor livestock farming systems with little land linked to it. Some NGOs are also proposing to grant subsidies in relation to the number of active people working on the farm. We completely agree with it.

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

If no conditions are linked to area payments, this would not change very much the current picture of unequal distribution.

**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”.

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

Eurogroup welcomes the statement in the Communication on the Health Check that cross-compliance is and will remain an essential element of the CAP.

The European Commission published at the end of November a report which concludes that a substantial part of the administrative burden from the CAP is related to understanding changes in the system but is expected to disappear or substantially reduce over time. About cross-compliance, the study concludes: *“It should also be noted that the administrative costs related to cross compliance included in the scope of the study are relatively low. This is mainly explained by the relatively small number of farmers that is subject to cross compliance controls”*. Because administrative costs are low and only few animal welfare standards exist we believe that all existing standards should be included in cross-compliance. This means that the laying hens directive and the broilers directive should be added to the list of SMR.

Eurogroup believes that keeping the list of SMR as it is would mean a missed opportunity to make the CAP more acceptable to EU citizens and to fulfil its objective of improving animal welfare. For that reason we are also calling on the Commission to include in the cross-compliance rules a provision allowing a revision of the animal welfare SMR list whenever new animal welfare standards are adopted.

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

Because the structure for implementing cross-compliance should already be in place in Member States, including additional SMR should only have a minimal impact on administrative costs.

If standards were to be deleted, the level of acceptance of the CAP to EU taxpayers would go down, as one of the few tools for improving animal welfare would be considerably weakened.

### **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.

- Should decoupling be applied in full extent to all sectors? Would there be specific impacts with this option?
- Should decoupling be applied in full extension but negative impacts mitigated by alternative flanking measures? In this case, what kind of measures?

This would probably be the best solution, with special measures put in place to support farming methods which present particularly high environmental and/or animal welfare standards. Extensive farming with good environmental and animal welfare records must particularly be targeted. If no measures are put in place there is a risk that good farming systems will disappear because they are simply not profitable.

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

#### **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.

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

Eurogroup believes there needs to be a mechanism preventing the highly unbalanced repartition of subsidies that occurs currently. Because it will only slightly mitigate the present problem we do not think the proposal included in the communication to progressively reduce payments is the right solution. We believe that if payments are distributed according to land area used and the number of active people on the farm there will be a fairer repartition of the payments.

- 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?
- 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?

## **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.

- 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?

### **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.

- 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?

### **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.

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

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

Eurogroup believes dairy quotas have promoted high milk production in single individual cows, with negative impacts on the animal's welfare, and welcomes the abolition of dairy quotas providing there is a soft landing and the European Commission commits itself to adopt good welfare standards for dairy cattle before quotas are removed. Indeed the abandonment of quotas could lead to a rapid intensification of a sector that is still composed of a majority of family farms with relatively extensive methods of production and access to pasture for dairy cows. The EU milk production potential is very high and the abandonment of quotas will lead to increased production. As a consequence prices risk dropping and the more extensive farmers, which are generally also the less competitive ones, could be forced out of business, leading to a drastic intensification of the sector, with negative consequences for animal welfare and the environment.

The European Food Safety Authority is currently preparing a report on the welfare of dairy cows which should be adopted in March 2009. Eurogroup believes that good EU standards on the welfare of dairy cows should be a priority and a pre-requisite to the removal of quotas. In addition export refunds should be abolished at the same time for milk and all milk products and farmers should be encouraged through targeted rural development support to apply environmentally and animal welfare friendly methods of production by entering quality schemes. In brief Eurogroup believes that a number of safeguard mechanisms need to be in place to ensure that any change in policies doesn't have drastic negative consequences for the environment and the welfare of dairy cattle.

#### **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.

- What would be in your opinion the implications from the application of decoupling in those sectors?

- 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?

### **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).

- 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?
- 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?
- 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?

Independently from the fact that potential risks might increase, Eurogroup believes that it is not the role of rural development to address these risks. Rural development has been allocated a budget which is much smaller than previously planned and more countries must be covered. The range of measures Member States can offer has increased considerably as compared to the previous programming period, and is already too high for the money available. We believe that the European Commission must tackle price and production risks through prevention rather than compensatory payments under the CAP, and that rural development should be used primarily to improve the protection of the environment and animal welfare.

#### **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.

- Do you consider that existing instruments under both pillars of the CAP are sufficient to respond to these challenges?
- If you consider that strengthening Rural Development instruments is needed, what would be your proposal in better addressing these new challenges?

Eurogroup believes that re-orientating agricultural production in the EU would allow tackling and mitigating climate change problems. We do not believe that including a few additional measures under rural development will be the solution to climate change. Environmental and animal welfare friendly measures already exist in rural development and the European Commission should concentrate on their correct implementation and on assessing that they really have the impact they are intended for on the environment and on animal welfare. In particular Eurogroup believes that climate change brings changes in disease patterns (e.g. the northward migration in EU of bluetongue) and the CAP should reflect this by promoting veterinary assistance and especially Veterinary Health Plans under the NRDPs, as proposed in Eurogroup's report "Into the fold – creating incentives for improved animal welfare under the rural development Regulation" available at:

<http://www.eurogroupforanimals.org/policy/pdf/intothefold.pdf> (see p.16)

We also believe that the European Commission should put in place a mechanism to assess that any CAP payment has no detrimental effect on the environment or on animal welfare. We believe this would be a positive step to prevent detrimental practices which have the potential to contribute to climate change.

### **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 (Pillar1) 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

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

Eurogroup welcomes the proposal to transfer further funds to the Rural Development pillar but we believe that 2% per year from 2010 is not enough. We are calling on the Commission to increase modulation to 20% by 2013, and we believe that these extra funds will only allow current measures to be more correctly funded. If Member States want to include

measures to tackle new challenges we think that additional funding (on top of modulation) will be needed.

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

Eurogroup believes the additional modulated funds should be allocated to existing measures to protect animal welfare and the environment. In particular a given amount should be devoted to animal welfare, making it obligatory for Member States to include animal welfare in their RDP. At present very few Member States have included animal welfare measures in their 2007-2013 RDP which makes questionable that the 2003 CAP objective to improve animal welfare will be reached.

For more information please contact:

Véronique Schmit

[v.schmit@eurogroupforanimals.org](mailto:v.schmit@eurogroupforanimals.org)

Tel: +32 2 740 08 24