

# Stakeholders' Questionnaire

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

#### 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?

In order to limit as much as possible the negative environmental impact agriculture can have, better methods must be adopted by farmers and cross-compliance is a tool to assist in achieving this objective. Organic farming should also be better rewarded.

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

A minimum level of GAEC is necessary to ensure that farmers receive a payment in exchange of keeping the land in good state. However, a good balance has to be found: farmers should not have to support the burden of too high and elaborated standards, and extra requirements concerning environment should still be rewarded through agro-environmental measure.

### 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?

Full decoupling has had a devastating effect in the sheep and goat sector in mountain areas of Scotland<sup>1</sup>. There is no reason to doubt the implementation of full decoupling of sheep and goat premium and of suckler cows premium would have the same effect in other mountain areas of Europe where the sector has been so far maintained thanks to coupled subsidies.

For mountain areas, animal production is vital and the consequences of decoupling could be very negative, with several effects:

- Direct economic consequences: less agricultural activities means first of all **less economic activity** in the area: farmers and their families leaving the region, with impact on local shops, schools...
- Consequences on the production of food and of quality products:
- Environmental consequences: alpine pastures and open landscapes are maintained thanks to the grazing of animals and hay-production. If animal production activities that currently use those meadows and pastures are to stop, there is a strong risk that some pastures and meadows will not be maintained, leaving the path open to the growing of weeds and bushes. Since meadows and pastures are natural habitats for diverse and rare fauna and flora, this will result in a **loss of biodiversity**.

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<sup>1</sup> Trends in Agriculture and Supporting Infrastructure within the HIE area 2001 – 2006; Report for Highlands and Islands Enterprise. March 2007: “The number of ewes within the HIE area has declined by 18% between 2001 and 2006. The strong decline in the sheep sector, accelerated by de-coupling and the LFASS cattle incentive, greatly exceeds the Scottish rate; indeed most of the Scottish decline (248,575 head) can be attributed to the loss of ewes from the Highlands (213,814).” p. 4.

- Indirect economic consequences: open landscapes are highly valued by tourists. As forests grow on former meadows and pastures, the landscapes will become less attractive for tourists. The full decoupling of animal premium may thus have **negative consequences on other economic sectors**, such as tourism.
- Natural hazard: well maintained pastures and meadows are a first natural barrier to avalanches, floods, land slides and land erosion. As an indirect consequence, stopping the management of pastures and meadows could have **adverse effect on natural risk management**.

Currently, animal premiums are necessary to maintain a production in mountain areas. Since those production, and especially ovine production that is often the last activity before land abandonment, are necessary, coupled animal premiums should be maintained. Ovine production and dairy production in mountain areas, based on the use of pastures, are particularly fragile and premium to support them should be better targeted.

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

It is necessary to maintain incentives for farmers to continue their activities in mountain areas. Incentives could take the form of keeping the current animal premiums coupled or alternative solutions could include:

- “grass payment” (a support to animal production based on pastures and meadows) per hectare with a minimal number of animals per hectare.
- Increase LFA payments, especially for mountain areas.

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

Given the importance of animal production in mountains and its role in the production of positive externalities, as explained in the previous paragraphs, it is important to maintain partially coupled support for animal sector, especially for extensive animal production.

A special attention should also be given to encouraging specific production (local races, small ruminants, small fruits, dry fruits, species threatened with extinction...), that play an important role in keeping the socio-economical tissue of rural areas alive, as well as maintaining landscape and preventing natural hazards.

#### **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?
- 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?

Farmers may receive a low amount of support because farming can be a part-time activity. However, they do contribute in the same way as other farmers to the production of food and of positive externalities. Consequently, especially since payments are also a reward for the production of positive externalities, it is not fair to exclude them from receiving payments because they have a small scale production. If a minimum level in payment is adopted, it would have to be low enough to include as many small scale farmers as possible.

## **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?

The objectives for which the milk quota system was been created might have to be discussed again due to the current market situation favourable to milk production. However, we have to keep in mind that the market situation can change and come back to a situation similar to before 1984, and secondly, that the quota system now plays an essential role as a tool to guarantee the territorial balance of the milk production in EU and maintaining milk production in remote and mountain areas. Although its roles have changed, the quota system has proven to bring benefit to the dairy sector and it is regrettable that no alternative but the abolition of the system is proposed.

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

Given the extra-costs farmers have to face, there is a real risk that milk production will finish in mountain areas, especially in regions hard to access.

The consequences of stopping milk production are the same as for other animal production: less economic activity for the region, loss of biodiversity, negative consequences on other economic sectors, adverse effect on natural risk management (see question 1.3).

Another risk for mountain areas is loosing some traditional and cultural products, essential in maintaining Europe's edge in quality niche markets. Currently, there are some scale economies made because the dairy sector is important in mountain areas and consequently the cost of collecting milk and maintaining dairy industries are reasonable. However, letting the quota regime stop would lead to a vicious circle that would end with the dying out of dairy sector in mountain regions. That might be the case as well for some products (cheeses, dairy specialities) that are currently very well established. If the dairy infrastructure vanishes, it may be too difficult to continue even with the products that are currently profitable, because costs will become too high. Loosing these products

does not only mean losing agro-food specialities, but also losing a part of the regional identities.

Finally, once the production is stopped, it will be very difficult to establish it again later because the necessary infrastructure will not be available anymore. From a market point of view, this means that stopping milk production in mountain areas is equivalent to depriving ourselves of the possibility to have mountains as dairy regions if the milk market expands.

- 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?

Although some farmers may have time to adapt to a gradual phasing-out of quotas, it is very likely that farmers in mountain areas may in any case not survive abolishing the quota system, notably because milk processors may withdraw from mountain regions and stop collecting the milk there. Moreover, it will be easier for intensive farmers in flat areas (where problems of pollution are already concentrating) to increase even more their production and to take advantage of an increase of quotas. A quota increase should thus be done so that mountain areas are not excluded from it. It appears then clear that whether quotas stop gradually or not, there is a need to set up special support measures to enable farmers and dairy industry in mountain to stay in business. That measure could take the form of a direct payment for milk production and for milk collect in mountain areas.

Among the measures that could be proposed, a larger use of article 69 is often mentioned. If it is to be used, some balancing tools should be set up so that very mountainous regions and country can receive support from flat regions and countries.

Finally, in order to secure long-term production and to enable farmer to invest in a safe economic environment, tools reducing price volatility should be envisaged. Contracts between producers and dairy industries could be encouraged.

#### **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?

As mentioned earlier, in the case of the abolition of milk quotas, tools against prices' volatility should be set up.

- 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?

The importance of extensive breeding to manage weather related risk (fire, floods, and avalanches) has to be correctly measured and valued. The CAP should better acknowledge the production of positive externalities, and better reward them by setting up more AE measures in that direction.

- 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?

#### 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?

CAP should support farmers who already use practices favourable to the environment. Currently existing good environmental practices are not rewarded to the same extent as extension to more polluting, industrial activities, which are supported then again in almost a double payment to convert to become more environmentally friendly.

Concerning biodiversity and water management, the positive role of organic farming should be better recognised. Organic farming should receive a better support, for farmers who have such practices and for research to improve yield and methods.

Given the importance of agriculture in mountain area and its benefits on biodiversity, natural hazards prevention, and to better compensate the handicaps agriculture has to face in those territory, a reinforcement of LFA payment should be envisaged.

- If you consider that strengthening Rural Development instruments is needed, what would be your proposal in better addressing these new challenges?
- new agro-environmental measures aiming to recognise the role of agriculture in fire/avalanche prevention
- AE grass payment to better support extensive production
- revalue of LFA payment

### **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?

An increase in modulation is very likely to have a positive effect in RD. It is necessary to go further in that direction.

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

The extra funds should be allocated as a reward for farmers who have the best environmental practices. This will correspond to a payment for positive externalities produced.

European agriculture has a comparative advantage in diversity and quality products. Euromontana has been working since 1998 on a European Charter on Mountain Quality Products. We would promote these kinds of approaches that add value to quality production.