

FDF Response to EC's Questionnaire on the CAP "Health Check" Communication

The Food and Drink Federation (FDF) is the voice of the UK food and drink manufacturing industry, the largest manufacturing sector in the country. In representing our members' interests, FDF is focussing upon three core priorities: food safety and science; health and wellbeing; and sustainability and competitiveness. The European Commission's CAP "Health Check" falls under the latter.

Our comments on the CAP Health Check have two recurrent themes running through them. First, further CAP reform is necessary in order to achieve greater market orientation and improved competitiveness for EU agriculture vis a vis third countries. Second, a level playing field within the EU is necessary to avoid market distortions between Member States.

1. TAKING STOCK OF THE IMPLEMENTATION AND SIMPLIFYING 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?

FDF has no wish to comment on how the SPS could be simplified as we feel that there are many better qualified individuals and organisations able to do so. However, we do support and encourage the notion of simplification of the SPS wherever possible to avoid unnecessary costs to EU farmers which can adversely impact on their profitability and, in turn, their competitiveness. We support unreservedly Member States being allowed to adjust their SPS model towards a flatter rate of support at national level. Indeed, our preference is for all differences in support rates to be eliminated. The results we would expect are a more level playing field across the EU and avoidance of market distortions.

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

FDF supports the need for environmental standards as embodied in the notion of cross compliance. The extent to which they are maintained, added to or detracted from, however, is a matter for careful judgement. It should be based upon the need for environmental protection balanced against the need for EU farmers to remain internationally competitive. If EU standards are imposed far above those faced by international competitors, then this would risk reducing the international competitiveness of EU agriculture. Benchmarking with EU farmers' main international competitors is, therefore, essential to ensure a level playing field is achieved as far as possible.

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

EU food and drink manufacturers support open and competitive international markets. Whilst successive rounds of CAP reform are moving EU agriculture towards market orientation, further reform is required to safeguard the long-term competitiveness of EU farmers upon whom food and drink manufacturers largely depend for adequate supplies of agricultural raw materials which are safe, of a high quality and competitively priced. FDF therefore supports the full decoupling of all direct payments as a means of encouraging EU farmers to readily respond to market signals and to safeguard the long term competitiveness of downstream value adding sectors.

All farm sectors should have their subsidies fully decoupled. It is essential that the temptation to prop up inefficient sectors is resisted and that trade liberalisation is fully embraced for the long term benefit of farming, manufacturers and consumers alike.

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?

FDF does not support capping of direct payments for large farms as it would discriminate against large, efficient, farms by providing them with a lower rate of support per hectare. It would also discourage further farm consolidation and the efficiency gains that can be brought about as a result. Furthermore, capping could easily be circumvented by breaking up large farms into smaller units, as has happened in the US, thereby encouraging new inefficiencies and loss of competitiveness.

Furthermore, FDF does not support a minimum threshold in the level of payment to ensure that farmers' administrative costs are covered. If the cost of applying for direct payments is greater than the benefit received, then this suggests that farmers, in such a situation, would be better off without them.

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?

The intervention system inhibits market fluidity and contributes to the maintenance of uncompetitive commodity prices in the EU. Therefore, while limiting intervention only to wheat for high quality bread would be a move in the right direction, FDF would rather the whole system were phased-out. Our preference is for market based systems to be explored as a way of providing a safety net for farmers, e.g. greater use of privately funded risk insurance, physical delivery contracts for longer time periods, and the use of futures markets.

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?

FDF supports the permanent abolition of compulsory set-aside as it runs counter to a market-oriented CAP. This is all the more imperative, given the growing pressures on land use arising from increased demand for food from emerging economies, vagaries in supply due to climatic factors, dwindling world stocks and new demand created by the encouragement of biofuels.

Environmental benefits accrued from investment in set-aside should not be thrown away. FDF would like to see them maintained using Pillar II of the CAP, but applied evenly across the EU to ensure a level playing field between Member States.

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?

FDF supports the phasing-out of dairy production quotas as early as possible to encourage industry restructuring and increased competitiveness. The European Commission's market outlook for the dairy sector predicts that milk supply will need to grow by 8 million tonnes by 2014 in order to meet the expected growth in domestic consumption. If milk quotas are not phased-out as early as possible, shortages in skimmed milk powder and other dairy products will continue to arise with adverse consequences for the competitiveness of EU food and drink manufacturers - who need access to adequate supplies of raw materials that are safe, of high quality and competitively priced.

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 the case of 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?

FDF supports an end to the EU energy crop scheme as it encourages market distortions in the supply of agricultural raw materials between food and feed on the one hand and biofuels on the other. The pressure on land use is proving significant as it is not able to meet all the demands on it: from the state encouraged growth in biofuels; the increased demand for food by emerging economies; increased vagaries in weather patterns coupled with dwindling world stocks. All of this is resulting in tightness in supplies and, in turn, higher food and feed prices and ultimately higher consumer prices.

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?

FDF supports trade liberalisation and is willing to accept both the risks and opportunities this brings. We agree that as the European Commission withdraws from market intervention, there is a likelihood of increased agricultural price volatility. This could be limited, at least to an extent, through market-based risk management tools. Such measures could include farmers taking out unsubsidised insurance against crop failures or price slumps, food manufacturers contracting to buy bulk commodities forward at fixed prices for delivery at later dates and greater use of futures markets.

FDF does not see the application of EU-wide measures to address production or price risks as the way forward, particularly through Pillar I of the CAP. To achieve a more market-orientated CAP, production and price risks should be limited through unsubsidised means.

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?

FDF agrees that that climate change is a ‘pivotal challenge’. There is growing pressure to reduce the impact of the food chain on climate change given its significant global warming potential. This includes not only measuring and acting to reduce green house gas emissions, but communication with consumers to inform their spending patterns and behaviour. UK agriculture accounts for 46% of the food chain’s green house gas emissions¹. As such, it has a significant role to play if the chain as a whole is to significantly reduce its global warming potential.

FDF therefore supports the idea of increasing incentives to farmers under Pillar II of the CAP to encourage mitigation of, and adaptation to, climate change. However, FDF does not support a blanket approach to biofuels policy as there can be no presumption that all biofuels will mitigate against climate change once wider considerations are taken in account such as fertiliser inputs, and wider impacts on biodiversity and water use.

FDF therefore supports the caveats agreed at the European Spring Council on 8 March 2007 that with regard to the 10% binding minimum target for bio-fuel , that it must be introduced in a cost efficient way and be subject to production being sustainable and second generation bio-fuels becoming commercially available. We would therefore like the Commission to undertake robust economic analysis and feasibility studies of land use to demonstrate the sustainability of the target in its broadest sense - economic, social and environmental - given the concerns that are being raised by research (such that by OECD) before proceeding to set the political agreement for mandatory targets into law.

¹ Department of Environment, Food and Rural Affairs (Defra), March 2007

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

FDF agrees that an increase in modulation to tackle new challenges, such as climate change, bio-energy, water management and biodiversity, could help achieve the EU's Rural Development objectives. However, much would depend upon the environmental conditions that are linked to production. They would have to be fit for purpose, not to mention sustainable.

In the case of bio-energy, it is difficult to see how strengthening Pillar II of the CAP can directly benefit second generation bio-fuels as suggested in the Communication. Growth of the biofuels sector will require large volumes of raw materials for first generation biofuels, not to mention demand for land. Therefore, rather than encouraging bio-energy under Pillar II of the CAP, FDF would support more funding for the research and infrastructure that is necessary to deliver the introduction of second generation biofuels on a commercial scale.