

(08) INST 4 Annex

15.01.2008

## Stakeholders' Questionnaire

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

#### FEFAC ANSWER

#### 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?

FEFAC supports the objective of administrative simplification of the SPS but has no specific recommendation to give.

- 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?

No opinion

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

No opinion

## 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?

We regard cross-compliance as an important tool to ensure implementation of EU standards in particular as regards feed & food safety. Promotion of good agricultural practices may be an effective tool to reach this objective. However, on the moment we consider these standards as an essential element of the EU consumers' demand for agriculture products, an essential condition to allow EU livestock producers to meet this EU demand is to restore a level playing field with third country suppliers who are not required to meet all these EU standards. Otherwise, the trend to “export” of our livestock production capacity that started 10 years ago will accelerate, to the expense of both the EU livestock chain and the EU consumers, who will be misled by low price products imported from third countries not meeting the EU standards. A clear illustration of this is the absence of any restriction to the import of animal products from animals fed in third countries with non-EU authorised GMOs, whereas, at the same time, the EU livestock production and the feed industry has to comply with a 0-tolerance policy which, alone has already cost the EU livestock sector more than 2 bio. € in 2007, a figure that may rise to 3.6 bio. € in 2008 according to first estimates. Exporting our livestock production in third countries would also have a detrimental impact on environment and animal welfare from a global perspective, the standards for environment and animal welfare being often far lower in Third Countries than in the EU.

We would therefore request that the EU Commission undertakes a study to evaluate how much cross-compliance costs to the EU livestock chain vs. third country operators, considering that these extra-costs cannot be passed onto EU consumers who have the choice between EU products meeting EU standards and imported products not meeting these standards. Such a study should cover at least the following standards:

- Animal welfare and animal health;
  - Animal nutrition (0-tolerance policy for import of GM feed not yet approved in the EU, antibiotic growth promoters, ban on animal proteins);
  - Environment protection.
- What impacts do you see emerging with the possible addition/deletion of certain legal requirements or GAEC standards?

See above.

### 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?

As a matter of principle, FEFAC can support decoupling. However, certain types of productions would still require specific coupled support, in particular the veal sector (see below).

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

FEFAC has no specific alternative to coupling considering the argumentation below in favour of coupled aid for the veal sector.

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

The veal sector had to invest heavily over the last years in order to implement increasing EU standards, in particular as regards the welfare of calves. The maintenance of a coupled support for veal production via the calf slaughter premium is essential to allow for amortisation of these investments and also to allow the veal chain to adapt to the structural changes in feed costs. We noted that the EU Commission acknowledged the necessity, in certain conditions, to maintain some form of coupling and we ask it to extend its reasoning to the specific case of veal.

### 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?

No FEFAC opinion.

- 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?

No FEFAC opinion.

- 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?

No FEFAC opinion.

## 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?

We welcome the EU Commission suggestion to reform the EU intervention system for grains, in the form of a safety net that would be accessible for high quality wheat only. However, whatever the incentives of the EU policy, the EU cereals producers are also dependant on agronomic conditions to meet the market demand. The EU Commission suggests in its paper to encourage the development of risk management tools for producers to face such events. However, the EU Commission should also consider such scenarios from the point of view of the customers of cereals, in particular the largest customer which is the EU livestock sector. We therefore request that the present intervention system, initially designed to absorb surpluses, is redesigned as food and feed security stocks management system in case the demand on the EU market could not be met by the free market.

- What would be the impacts of the extension of the "maize" model to the other feed grains?

Should all feed grains be no longer eligible to intervention, the question for the feed industry and therefore the livestock sector would be to face the challenge of scarcity, see shortage of cereals in the absence of any security stocks for feed cereals.

- What kind of impacts do you see with the creation of an intervention system available only to high quality bread wheat?

See above.

### 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?

We think the EU citizen is no longer prepared to pay twice, as tax-payer to encourage farmers for not producing cereals (set aside), and as consumer of animal products whose price would increase due to limited availability of cereals in case of a crop failure; we therefore welcome the EU Commission suggestion to withdraw the set aside on a permanent basis.

- What measures do you consider appropriate in order to maintain environmental benefits associated with set-aside?

No opinion.

### 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?

Feed materials of dairy origin (skimmed milk powder, whey powder, whey derivatives) are an essential part of the diet of veal calves. This sector provided for many years an essential outlet for surplus of such products in a subsidized way. The market situation has dramatically changed over the last years: the surpluses have been used up, the aid regime is not working anymore and the feed demand is not met, as illustrated in 2007. As the purpose of the CAP is to ensure that farmers (i.e. in this case veal producers) meet the market demand, then they should have access to sufficient feed materials to do so, either on the EU market, which supposes a higher EU production and therefore an elimination of dairy quotas, and, as quota elimination may not be sufficient, access to dairy feed materials on the world market with affordable import duties.

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

We can anticipate a reiteration of the 2007 scenario, i.e. shortage in feed materials of dairy origin and price escalation, with dramatic effects on veal farmers' income and therefore on the ability of a sector to survive in the long run.

- 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?

We see a merit in the EU Commission soft landing approach and approve it. However, as mentioned above, it should also be completed by a mechanism

enabling to remove or suspend import duties for feed materials of dairy origin (skimmed milk powder, whey powder and whey derivatives) that can be activated quickly.

## 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?

We welcome the EU Commission statement that the primary vocation of EU agriculture will continue to be the production of food and feed. However, in practice, FEFAC notes that the biofuel sector benefits from too numerous discriminative financial advantages via national supports, tax deduction schemes and the energy crop scheme. We therefore request that the CAP reestablishes a level playing field between all users of grains and in particular:

- removing preferential access conditions to cereals for the biofuel sector: the biofuel sector should not benefit from special conditions for the resale of intervention stocks of grain that would go beyond the conditions for feed or food destinations; a first attempt of the EU Commission to provide such exemption was strongly opposed by the EU feed & food industry and traders as well as by the farmers themselves;
- require the establishment of sustainable criteria for eligibility of biofuel production systems to subsidies;
- eliminating the energy crop payments which have removed a significant proportion of the EU oilseed production from the traditional feed & food destination with no perspective of “re-injection” into the feed&food market in case of shortage.

We would also stress that, in certain countries, aids are granted for burning highly valuable protein sources usually used for feed purposes, such as rapeseed meal, in order to produce electricity. This is in our views not sustainable as it is clearly a waste of precious resources, considering the EU dependence on the global market for its supply in proteins (78%). Such distortive aids should likewise be evaluated against sustainability criteria based on full Life Cycle Assessment integrating the feed use and eventually prohibited.

- 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?

We fear that full decoupling would definitively affect some productions such as dried fodder or protein crops, which are important sources of proteins for the

feed sector. This is in particular true considering the expected increase in the demand for biofuels, which creates already today a competition for land which is not in favour of these specific productions.

### **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?

From the point of view of the livestock sector price risks are both on the input price and the output price. These variations cannot be afforded by the livestock producers in the longer run and the risk is serious that the EU livestock sector is exported to third countries, should the EU CAP not provide this activity with the instruments enabling not only to compensate for price variations, but also to provide an equivalent income as other farming activities.

At present, we believe that price volatility is a risk that cannot be properly managed with the existing risk management tools. The EU Commission should therefore encourage the development of futures markets to provide operators with the necessary tools to cover their financial risks with regard to increasing price volatility. This is valid both for grains and animal products, considering the impact of high feed price volatility on production costs of animal products.

In addition, considering the announced elimination of export refunds, safety nets in the meat sector are essential to maintain and even develop.

In addition, import/export conditions for cereals with third countries should be used as a tool to balance the EU market. The decision to suspend import duties for cereals during the first half 2008 is an illustration of good management practice. However, this is a temporary measure, whereas we would expect from the Health Check a more long term approach. We therefore would require the elimination of the TRQs which are typically a kind of rigid tool, which goes against the interest of the market, in the sense that fixed volumes are imported, whether we need them or not. We acknowledge that this very sensitive issue must be considered in the wider perspective of international trade agreements on market access but we are convinced that it is essential to rethink the EU trade policy on cereals in a customer-oriented way.

- 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?

Considering the impact of weather related risks on prices, see answer above.

- 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?

Any future market should best be functioning EU-wide to ensure effective support to operators.

### **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?

An efficient agriculture production is the only solution to meet the future challenges, i.e. meeting the increasing demand for agriculture products worldwide, while controlling the impact of agriculture on the environment. This statement is supported by an increasing number of studies investigating the sustainability of food consumption and production, using the life cycle assessment approach. These studies conclude in particular that intensification in certain areas of agriculture is the most efficient and environmental friendly way to meet consumers demand. This is in particular valid for cereals. It is high time to rehabilitate intensive farming and to acknowledge the huge achievements over the last years in terms of reduction of environmental impact, which still improve. We believe therefore that, when considering the eligibility criteria for specific supports, in particular through the 2<sup>nd</sup> pillar, the ability to meet quantitatively the demand of consumers for agricultural products should be taken also into account, in order to make the best use of the available resources, in particular land.

- If you consider that strengthening Rural Development instruments is needed, what would be your proposal in better addressing these new challenges?

FEFAC would request that the objectives of the second pillar are reconsidered in order to integrate the new market orientations that suggest meeting an increasing demand both at national and global level, which may only be achieved through encouragement to better productivity and more efficient use of natural resources while complying with environmental standards. We in particular request decision makers to rehabilitate intensive, modern livestock production systems and to no longer discriminate them vs. so-called extensive systems under the rural development policy.

### 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?

No opinion

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

As indicated above, we think the objective of the second pillar should be reconsidered, in order to integrate the new market orientations that suggest meeting an increasing demand both at national and global level, which may only be achieved through encouragement to better productivity and more efficient use of natural resources while complying with environmental standards.

In addition, considering the extremely good market perspectives for grain producers, we believe that the challenge for the EU policy makers is now to maintain livestock production activity in the EU. This means that extra funds should be preferentially granted to producers of livestock products, in particular meat and eggs and thereby re-establishing a balance between livestock production and arable crop production.

Finally, considering that the EU standards are imposed on EU producers and not on third country suppliers to the EU, it is therefore impossible for the EU farming sector, in particular the livestock sector, to invest to meet the EU standards while at the same time, ensure that their products remain competitive on the global but also on the EU level, vis-à-vis animal products imported from third countries not bound to meet EU standards (environment, animal welfare, etc.). Extra-founds should therefore be reallocated in preference to livestock producers to help them meeting the EU standards, in particular on animal welfare and environment protection. It is worth reminding in this context that pig and poultry farmers are not by far the most important beneficiaries of the SPS.