



# **ULSTER FARMERS' UNION (UFU)**

## **RESPONSE TO**

### **EU COMMISSION'S 1<sup>ST</sup> PUBLIC CONSULTATION ON THE CAP 'HEALTH CHECK'**

#### **- STAKEHOLDERS' QUESTIONNAIRE**

**15 January 2008**

# EUROPEAN COMMISSION - STAKEHOLDERS' QUESTIONNAIRE

## 1. TAKING STOCK OF THE IMPLEMENTATION AND SIMPLIFYING THE SINGLE PAYMENT SCHEME

### 1.1 Simplifying the Single Payment Scheme

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

*The UFU welcomes the proposals already being considered in relation to 'technical simplification' of the Single Payment scheme (SPS). In particular, the removal of the '10-month rule' is essential as it is unnecessary given that 'cross-compliance' requirements already cover a 12-month calendar year period and its implementation only added to the practical complexity of what was intended to be a much more simple means of providing EU CAP financial support to farmers.*

*In addition, we would also request a re-examination of issues such as:*

- notification of cross-compliance inspections;*
- the setting of an 'exchange rate' for non-euro zone countries,*
- the rationalisation of different entitlement types.*

**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?**

*The Model selected by Northern Ireland at the time of SPS introduction was a 'static vertical hybrid' which included both 'historic' and 'area' elements. This was generally supported by the farming community in Northern Ireland as the SPS model which best suited the requirements of the NI industry. This situation has not changed and the UFU therefore continues to support the operation of this SPS model for Northern Ireland.*

*We do, however, agree that Member States should be given the option of adjusting their SPS model towards a flatter rate of support at either national or regional level although this is something which we would oppose for Northern Ireland.*

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

*Northern Ireland, like a large number of other EU regions and Member States, implemented a 'fully decoupled' SPS system in 2005. Since then, farmers and growers are now in the process of adapting to the much more direct impacts of market forces. The move towards a flatter rate SPS system would entail enormous redistribution of SPS funds not only within the farming industry itself but also, in a Northern Ireland context, to 'non-producing land owners'. The SPS system has only been operative at farm level for three years and when it was introduced in 2005, large numbers of future business decisions were made on the basis of this system remaining unchanged until 2013. It is against this background that the over-riding objective of this 'Health Check' must be to maintain stability within the farming industry as it seeks to adjust to the much more direct impact of market forces.*

## 1.2 Cross- Compliance

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

*There is recognition amongst the farming community that cross-compliance is an integral part of the SPS system, however, there are two major issues which must be addressed:*

- *the complexity and cost which this places on the farming community must be reduced. Not only has this constantly changed over the last three-year period with new requirements being added but it is also perceived primarily as a means of penalising farmers rather than ensuring that EU requirements are satisfied;*
- *more importantly however is the need to clarify the real purpose or cross-compliance. It is our understanding that its key function is to ensure that EU standards are respected. If this is indeed the situation, then it is the 'outcome' of adhering to these standards on which the administrative functioning of the SPS system should be placed rather than the 'process' as to how this outcome is to be achieved for which more flexibility must be given. In particular, much more emphasis should be placed on educating the farming community about these standards and giving them the opportunity to rectify minor breaches rather than expending so much resource on an inspection and penalty system which only serves to displace the focus from the delivery of the necessary standards which are at the centre of cross-compliance in the first place.*

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

*This question has largely been addressed in our answer to the previous question. We would stress again that the cross-compliance system must become less complex. The addition of certain legal requirements or GAEC standards would only serve to further complicate and add cost to an already burdensome bureaucratic system. Indeed, there is already evidence of a reluctance from 'landlords' receiving SPS payments to lease their land to active farmers so as to minimise the risk of having their SPS payment penalised for possible cross-compliance breaches.*

*While it is recognised that GAEC in particular provides flexibility to regions and Member States to meet their particular circumstances, the 'interpretation' of these legal and GAEC standards across regions and Member States must also be consistent.*

## 1.3 Partially coupled support

**Should decoupling be applied in full extent to all sectors? Would there be specific impacts with this option?**

*In Northern Ireland all of the major agricultural sectors have fully decoupled. There are some smaller sectors e.g. energy crops, proteins for which coupled payments remain. We recognise that some other Member States also retained partially coupled support.*

*In principle we do not support the continuation of partially coupled payments, particularly in an unprofitable market for farmers. However, regions and Member States should be given flexibility to either continue, change, or remove partially coupled support depending on their circumstances which must be justified.*

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

*If the market does not provide a sufficient return to the farmer for his production then alternative measures could be used. It is essential that the rationale for these measures is environmentally or socially based.*

*In particular, the possible extension of Article 69 as such an option could be both beneficial but also counterproductive. The UFU supports the option of 'alternative flanking measures' being made available but the finer detail will be very important.*

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

*The option should be made available.*

#### **1.4 Upper and lower limits in support levels**

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

*The UFU does not support the introduction of 'capping'. Larger farms justify their higher payments because of greater labour units and farm activities involved in their farm businesses. If a 'capping' system were to be introduced it would only encourage the creation of conditions to avoid its impact and would, certainly in a Northern Ireland context, generate very limited amounts of additional funding for redistribution unless it were to be applied at much lower levels of SPS payment whereby it would begin to adversely impact many medium sized 'sole trader' or 'family' farm businesses.*

**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?**

*The UFU are opposed to the introduction of all forms of capping for the SPS.*

**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?**

*The issue here is not the small size of the SPS payment made but rather the issue of active versus inactive 'farmers'. In principle, we support an increase in the level of minimum payment but recognise that, from both an administrative and also from an agricultural production standpoint, this is not straightforward. We do, however, support the introduction of 'flexibility' to address this particular issue and this should be made possible at a 'regional' level.*

## **2. GRASPING NEW OPPORTUNITIES AND IMPROVING MARKET ORIENTATION**

### **2.1 Cereals Intervention**

**What do you think is the best way to maintain the safety-net role of intervention for cereals?**

*The UFU supports the maintenance of 'intervention' for cereals. This is a mechanism of reducing price risk for both producers and consumers and provides for better market stability.*

**What would be the impacts of the extension of the 'maize' model to the other feed grains?**

*The model of 'intervention' used must be one that is effective. The 'maize model' does not meet this requirement as its limit is at 'zero'.*

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

*The establishment of a 'market safety net' for the highest quality product in any market should also result in the creation of minimum prices for the other products in that market. However, this is not as effective in establishing minimum prices for these other products as the extension of the same mechanism to other products within that market.*

*Additionally, the impact on the overall market of a mechanism targeted at one specific product is very dependent on the levels of supply of that product within that market. Within the cereals sector, the quantity of 'high quality bread wheat' is not constant and therefore a satisfactory level of support for the other cereal types is unlikely to be provided by a safety net for this cereal alone.*

*The UFU therefore supports the maintenance of the existing intervention system within the cereals sector.*

### **2.2 Cereal Set-aside**

**Do you consider that abolition of set-aside in the current context of market and policy developments is appropriate?**

*Under current circumstances within the world cereals market, the UFU supports the abolition of compulsory set-aside. This will also greatly simplify the operation of the SPS system.*

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

*The environmental benefits which have been delivered by compulsory set-aside are more than offset by those which have resulted from specifically targeted agri-environment schemes under Axis 2 of the EU's Rural Development Regulation.*

## **2.3 Dairy Quota**

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

*The UFU accepts that the EU has already taken the decision not to renew the milk quota system from 2015. It is, however, essential that a clear and stable position is established on which dairy farmers can plan the future of their businesses. It is against this background that the situation beyond 2015 is as important as that in the period until then to provide this necessary 'predictability'.*

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

*It is essential that the scope for volatility within the dairy sector is minimised in the period until 2015. The transition towards the abolition of quotas by then must be properly managed and done so on an annual basis in accordance with the prevailing market conditions at the time.*

**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?**

*A range of measures are available such as increasing quota levels or reducing the superlevy rate. These must be used in a manner that best suits the market conditions while still moving towards the ultimate removal of the dairy quota system in the least disruptive manner by 2015.,*

*The possible use of Article 69 as a transitional measure has already been addressed in our response to Section 1.3 of the Questionnaire.*

## **2.4 Other Measures of Supply Control**

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

*The UFU's response to this question has already been covered in our comments on Section 1.3 of the Questionnaire.*

**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?**

*This has also been dealt with in our position on Section 1.3 of the Questionnaire but we would again stress that this must only be used for environmental or social reasons.*

### **3. RESPONDING TO NEW CHALLENGES**

#### **3.1 Managing Risk**

**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?**

*A clear distinction must be made between the managing of 'price' risks and those associated with 'disease' or 'weather'. For 'price' risk, the EU must provide a framework of support which will ensure adequate protection from price volatility across all farming sectors for both producers and consumers. For 'disease' and 'weather' risks, these are issues which do require further consideration but can only be done in the context of longer-term policy development from 2013 and not within the current CAP 'Health Check'*

**Do you consider that currently available 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 UFU's position on this question has been addressed in response to the first question in this Section (3.1).*

**Do you see scope for the application of EU-wide measures to better addressing price and production related risks, or should such measures be applied more at the MS and regional level?**

*It is essential that if additional measures to address risk are to be introduced in the future, there should be a framework at an EU level but there must be flexibility to implement any such measures at regional or Member State level*

#### **3.2 Climate Change, Bio-energy, Water Management and Biodiversity**

**Do you consider that existing instruments under both pillars of the CAP are sufficient to respond to these challenges.**

*There is already sufficient scope within these existing instruments to address these new challenges.*

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

*Not applicable given the UFU position outlined in our response to the first question in this Section (3.2).*

#### **3.3 Strengthening Rural Development**

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

*In the first instance, the UFU wishes to again record that it is completely opposed to the operation of any form of modulation within the SPS.*

*We would also take this opportunity to highlight that the UK's existing share of EU 'Pillar 2' funding is completely inadequate. The allocation of these funds in the next EU Budgetary Review must be done on a more objective and equitable basis to ensure that the UK is better positioned to address these 'new challenges'.*

*In Northern Ireland, additional voluntary modulation is already being removed from farmers SPS payments. This rises from 6% in 2008 to 9% by 2011. A further 5% EU compulsory modulation is also taken. The additional funding which this generates is already committed to the Northern Ireland Rural Development Programme (2007-13). Given this situation, the UFU will not accept any further increase in modulation. If EU compulsory modulation is to be increased, not only must there be guarantees of co-financing by Member State Governments, but there must also be an equivalent reduction in the level of additional voluntary modulation in Northern Ireland. There should therefore be no increase in the level of funding for these 'new challenges'. Indeed, even if this is achieved, unless the existing rules governing EU compulsory modulation are amended, the total budget for the current Northern Ireland Rural Development Programme will be reduced unless yet more additional voluntary modulation is applied to make up the shortfall.*

*It has been estimated by the Department of Agriculture and Rural Development for Northern Ireland that the continued application of the existing rules for compulsory EU modulation i.e. the retention by the region/Member State of only 80% of the compulsory modulation fund generated and the €5,000 franchise would necessitate an additional 5.3% voluntary modulation beyond the proposed EU compulsory 13% i.e. a total of 18.3%, simply to fund the existing Northern Ireland Rural Development Programme (2007-13). This compares to the present 14% total of both EU compulsory modulation (5%) and additional NI voluntary modulation (9%). In order to avoid this already distortive situation from worsening, it is imperative that:*

- (i) the €5,000 franchise is made optional for any new EU compulsory modulation agreed (as it is for existing additional voluntary modulation) and*
- (ii) that 100% of the additional funds generated by this increased percentage of EU compulsory modulation is retained within the region or Member State (again as it is for existing additional voluntary modulation).*

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

*The UFU's position to this question has been addressed in the first question in this Section (3.3)*