



Committee of Professional Agricultural Organisations in the EU
General Confederation of Agricultural Co-operatives in the EU

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COPA and COGECA's reaction to the
communication on the
"Health Check"
of the 2003 Reform of the CAP

1. COPA and COGECA consider that there are signs of fundamental changes occurring in world agriculture which will require decision-makers to pay more attention to the strategic importance of European agriculture than they have done in the past.
2. For example, there are indications that the era of abundant supplies of agricultural commodities is changing and we are moving into a period of not only rapidly increasing food demand, but also much greater market volatility for agricultural commodities. If so, the CAP of the future may need to place more emphasis than in recent years on ensuring that Europe's agricultural production capacity is optimised so that its 500 million citizens are ensured stable and secure supplies of food, produced to the highest standards of safety and sustainability, and that the EU plays its role in meeting world demand.
3. COPA and COGECA consider it would be precipitous to make major changes at this early stage before the changing global environment and the impact of the 2003 reform can reliably be assessed. However, it will be coming forward with a preliminary assessment of the priorities for future agricultural policy post-2013 later in 2008.
4. In the meantime, COPA and COGECA call upon the Commission, Council and European Parliament to underline the importance they attach to European agriculture by re-affirming the European model of agriculture and the maintenance of the agriculture budget to 2013.
5. COPA and COGECA recall that the Heads of State and government have confirmed the objectives of the CAP by maintaining Article 39 of the Treaty of Rome in the new EU Lisbon Treaty which was signed on 13 December 2007. And, as the European Council has said on a number of occasions, the over-riding objective must be an agriculture which is multifunctional, sustainable, competitive and spread throughout Europe, including regions with specific problems. It must be capable of responding to consumer concerns and demands as regards food safety, quality, environmental protection and animal welfare as well as maintaining the countryside, conserving nature and making a key contribution to rural life.
6. It is also important to ensure that the 'common' element of the CAP is strengthened: in particular to ensure that there is no further renationalisation of the CAP, especially by changes in financing, which would jeopardise the single market.
7. Farmers, for their part, are keen to seize the opportunity offered by the 2003 reform to become more responsive both to market needs as well as to fulfil their role as the principal driving force for the development of rural areas throughout the EU. But it must not be forgotten that the 2003 reform of the CAP requires farmers to make substantial adjustments to the way they operate. Furthermore, since most of the 2003 reform measures were not introduced at farm level until 2005/6, this process of adjustment is on-going and further reforms are still in the pipeline (fruit & vegetables in 2007, milk premium in 2007, wine and cotton still under discussion and the restructuring process in the sugar sector continuing until the end of 2009).
8. The over-riding priority now is to provide farmers and their cooperatives with a period of stability - both in policy and the rules and regulations farmers have to meet - and ensure that the process of integration of the 12 recently acceded Member States moves forward in a positive way for farmers and citizens in those countries. The main objective of the "Health Check" should therefore be to ensure that the 2003 reform of the CAP is working as intended by the Council of Ministers and is fulfilling the objectives of the European model of agriculture.
9. In particular, COPA and COGECA fully support the Commission's intention to achieve further technical simplification and reductions in red tape. This will improve the effectiveness of the CAP and enable farmers to concentrate on adapting more rapidly to changing market developments and shifts in demand.
10. COPA and COGECA's specific proposals on the Health Check are outlined below.

1. Market intervention mechanisms

11. The purpose of market intervention mechanisms is to reduce market instability to the benefit of both consumers and producers. The current mechanisms which can be called upon (public intervention, private storage, export refunds) must therefore be maintained.
12. However, over coming months, COPA and COGECA will be carrying out an assessment of whether these mechanisms are likely to remain effective and sufficient under future world market conditions or whether, in some cases, new EU or adapted instruments would be more appropriate (see also section 8).

1a Cereals intervention

13. Cereals intervention provides an important safety net at times of serious disruption on the world market and must therefore be maintained. Furthermore, the current market situation and prospects do not in any way call for adjustments to the system: public stocks of cereals are currently near to zero and forecasts of world demand indicate that there will in fact be little recourse to intervention in the foreseeable future.
14. With the prospect of greater volatility in prices and supply in the future, particularly as a result of the opening of markets and climate change, COPA and COGECA will be looking at alternative risk management instruments to see if they might be more effective under these new conditions.

2. Supply Controls

2a Compulsory Set-aside

15. COPA and COGECA called for the application of set-aside at 0% for the 2008/9 marketing year, which has now been decided by the Council. This gives producers the freedom to farm and thereby respond to market signals. COPA and COGECA also consider that it would be advantageous to simplify farm payments by converting set-aside entitlements into "ordinary" rights. This would meet with farmers' and the authorities' concern to reduce administrative complications within the Single Farm Payment. However, given the current market volatility and uncertainty, combined with the recent weakening of other mechanisms to stabilise the market (e.g. intervention for maize), COPA and

COGECA consider it would be premature to abolish the possibility of using supply controls for cereals altogether at this stage.

16. Given the administrative disadvantages of set-aside, and the fact that it would have to be extended to the EU27 in order to be effective in future, it is urgent to find a more effective way of preventing market crises in the cereal sector in future - one which will not impose additional administrative burdens on farmers and will enable them to participate fully in growth in world demand for cereals, thereby increasing their contribution to the rural economy (see also sections 1 and 7).

2b Dairy quota

17. The milk quota will expire in 2015. As COPA and COGECA have already stated, the three main long-term objectives in the milk sector must be stability, predictability and regional balance, to be achieved in a way which ensures EU producers' long-term competitive position. It is extremely important to introduce measures which will improve the competitive position of farmers between now and 2015. The development of the quota in coming years should be made on the basis of the market situation.

3. Payments coupled to production

18. Producers welcome the "freedom to farm" offered by the 2003 reform and, thereby, to become more responsive to market needs.
- 19¹. At the same time, there are real concerns that in some cases decoupling could lead to the complete disappearance of production in certain regions or certain types of production with severe consequences for the environment, the local farm economy and employment (cooperatives, farm suppliers and processors, tourism....) as well as infrastructure. It could also make the EU completely dependent upon imports for supplies of certain products.
- 20². COPA and COGECA are not convinced that the alternative way of dealing with these problems suggested by the Commission, namely through specific support measures under a revised Art. 69

¹ Reserve of ASAJA

² Reserve of ASAJA

of R 1782/2003, is the most effective or adequate solution, except on a limited basis.

21. For these reasons COPA and COGECA consider a case-by case approach is required.

3.1 EU-wide coupled payments

22. COPA and COGECA consider it to be essential to maintain EU-wide coupled payments currently applied in a series of sectors until 2013 and in particular for protein crops, rice, durum wheat, dried fodder, seeds, flax and hemp and nuts.

3.2³ Partially coupled payments applied in certain Member States

23. In the 2003 and subsequent reforms Member States were given the possibility to opt for the maintenance of partially coupled payments in certain sectors: cereals, suckler cow premium, slaughter premium - beef/calves, special male bovine premium, sheep & goat premium, olive oil, tobacco, citrus fruits, pears and peaches in syrup, prunes and hops.
24. COPA and COGECA consider that Member States should be given the flexibility to further decouple these payments on a sector basis (i.e. to be applied to all producers within that sector in the Member State concerned) prior to 2013 providing it can be clearly shown, on the basis of an assessment, that this will not lead to serious loss of production and/or have serious agri-environmental consequences in certain regions.
25. If further decoupling is undertaken, the coupled payment received by farmers during a *recent period* must be used as the reference for establishing the amount of the new decoupled payment.

3.3 Energy Crop payments

26. In the case of the energy hectare payment COPA and COGECA consider that this must be reviewed since the approach (originally to pay a €45/ha premium up to 2 million hectares)⁴ is no longer sufficiently coherent with the targets for biomass set by the Council (which would require substantially more than 2 million hectares).

³ Reserve of ASAJA

⁴ In 2007 the area under energy crops reached 2.84m ha and the aid has been reduced by 30% to keep within the budget limit of €90m. With current high cereal prices and 0% set-aside, this means that producers will have little incentive to produce non-food crops.

27. However, if cereal prices remain high and given the current elimination of the incentive for non-food production on set-aside land, producers may shift out of non-food production. This could be damaging to an emerging industry which requires, above all, a steadily increasing supply of raw materials if the EU targets are to be met.

28. COPA and COGECA therefore call for the energy payment to be maintained at €45/ha in 2008 but to be reviewed for the following year.

29. The longer-term aim should be to ensure that the EU targets are met in a way which guarantees that EU citizens, including farmers, obtain the economic and employment benefits of this important emerging market. Applying a sound analysis of the contribution to CO₂ reductions, as well as adequate tariff protection and the non-discriminatory application of sustainability criteria to both imports and EU production will be important in this respect.

4. Single Payment - simplification and limits⁵

30. COPA and COGECA do not consider that it is appropriate to make any adjustments to the systems of single payment other than technical simplification as part of the Health Check.

31. The current systems which Member States have adopted were only introduced from 2005/6 onwards and more sectors have still to be brought into SPS. Thus, while COPA and COGECA will be examining the implications of encouraging Member States to move towards a flatter rate of payment, this will be in the context of agricultural policy post-2013.

32. The Commission has proposed that there should be an upper limit (or reductions linked to size) and that a lower limit should be applied to the Single Payment.

33. COPA and COGECA recognise that in the case of very small payments the administrative cost can exceed the payment. However, limits would be very detrimental to farms contributing to employment and quality production in many vulnerable regions. The solution therefore is to reduce the administrative costs, not the payment itself. For example, by making a demand for payment which is valid for more than one year.

⁵ Reserve of Coldiretti

34.⁶In the case of the upper limits proposed, the Commission has given no justification as to why a penalty should be applied to farms because they are large. The purpose of agricultural policy is not to redistribute income but to apply policy in a fair and non-distortive way. Furthermore the proposal of the Commission flies in the face of both simplification and the modernisation of farms through economies of scale. The proposal will penalise farmers who have made efforts to modernise and discourage further progress.

5. Cross compliance

35. Farmers have made great efforts to meet cross compliance requirements. It is essential to make this policy much less bureaucratic and less complex, without of course endangering production standards.

36. The process of simplification of the system of cross compliance has already begun. However, there is still much to be done. In particular the rules on control are not clear and must be clarified. Farmers wish to comply with the rules but at present they are hindered, rather than helped, from doing so. COPA and COGECA have presented a detailed series of proposals already (see PR(07)19F1). Furthermore, there is still no impact study of the implementation of the Good Agricultural and Environmental Conditions (GAEC).

37. Bearing in mind these problems which still have to be rectified, and the fact that Member States are still in the process of implementing the necessary instruments (they have until 2008 to do so), it is certainly not acceptable to introduce further EU legislation to cross compliance.

6. Modulation⁷

38. The Commission has proposed that there be further cuts in the single payment to farmers, via compulsory modulation, in order to fund rural development under the second pillar. The Commission's proposals would mean a total 13% cut in payments by 2013.

39. COPA and COGECA reaffirm the importance of rural development but this should not be achieved at the expense of the first pillar of the CAP. COPA and COGECA oppose the increase in modulation proposed by the Commission for the following reasons:

➤ modulation means a cut in farmers' single payment yet the Commission has given no justification whatsoever for this cut. Nor does the Commission have a clear idea how the money will be spent under rural development. Member States have already drawn up their rural development programmes for the period up to 2013

➤ according to the decisions of the fruit & vegetable reform, land used for fruit & vegetables, orchards, nurseries and potatoes will be eligible for the decoupled single farm payment by 01/01/2011 at the latest. Bearing in mind that there will be no additional budget to cover payments for a large part of this area, Member States will have to make difficult adjustments in order to incorporate these sectors into the farm payment. This could mean further cuts in payments for other producers, particularly those under the historic system⁸

➤ EU farmers cannot maintain their competitive position in the face of EU policy to open markets up to imports, and at the same time meet high EU standards of sustainability, if their direct payments are constantly being cut

➤ the Commission indicates that further modulation is necessary to offset the Council decision on financial perspectives in 2005 which led to a cut in support for rural development. COPA and COGECA do not consider that it is up to farmers to compensate for cuts decided by the Council

40. In fact the arguments presented by the Commission for an increase in modulation are so weak, it can only be assumed that their main motivation is to bring an end to the situation whereby two Member States have been allowed to increase the level of modulation applied to their farmers by up to 20%, and to derogate from the normal requirement of compulsory co-financing.

41. COPA and COGECA share the concern of the Commission to bring an end to this distortion of competition amongst farmers. However, it is

⁶ Reserve of CIA, UPA and COAG

⁷ Reserve of Coldiretti

⁸ while national budgetary ceilings for the farm payment have been increased corresponding to previous budget expenditure for processed fruit & vegetables, expenditure on fresh fruit & vegetables was maintained under the Producer Organisations. Member States can use the national reserve to incorporate these sectors into the single farm payment but there is no guarantee that this will be sufficient to avoid cuts in existing payments.

totally unacceptable that the position taken by two Member States should lead to yet further payment cuts for all farmers.

7. The treatment of climate change, water management and bio-energy under rural development

42. COPA and COGECA support the Commission's concern to address new challenges and agree that climate change, water management and bio-energy are priorities. However, COPA and COGECA do not accept the Commission's approach of conditioning the treatment of these new challenges to the acceptance of further cuts in farmers' decoupled payments. These are challenges which face the EU as a whole and must be treated as such. Nor do COPA and COGECA accept that new legislation be introduced to cross compliance (see section 5 para. 37)

7.1 Climate change and water management

43. COPA and COGECA welcome the Commission's recognition that EU agriculture has contributed more than other sectors to curbing green house gas emissions. For example, through measures to avoid erosion, maintaining land cover, prohibition of straw burning, many of which are covered by the rules on Good Agricultural and Environmental Conditions (GAEC). The Commission also recognises that agriculture is highly exposed to climate change.
44. The most urgent priority now is research in order to better understand the implications of climate change and to see to what extent the effects can be mitigated and to what extent farmers can help in this process. This type of research is being financed under the 7th EU Research Programme but more research work is required.
45. COPA and COGECA concur with the Commission that the most pressing problems concern water - both scarcity and quality - but this will affect regions of the EU in very different ways. COPA and COGECA therefore believe that Member States should take advantage of the 2010 interim review of current rural development programmes, which run for the period up to 2013, to ensure that they are giving sufficient priority to water management incentives (including measures to develop water storage capacity) under axis 2. This review should also enable an assessment of whether the EU is on track to meet the objectives of the Water Framework Directive. Under no circumstances

can elements of the WFD be brought in under cross compliance (see section 5 above).

7.2 Bio-energy

46. The Commission considers that increased funds, via modulation, are needed in order to provide incentives for developing second generation biofuels under the rural development. Yet at the same time, the Commission is proposing to cut the incentive (€45/ha premium to energy crops) given to promoting first generation before it has hardly got off the ground - less than 2% of cereals area and less than 8% of sugar beets area is currently used for biofuels.
47. It is first important that the Commission recognise the need to develop all forms of bioenergy, not only biofuels (e.g. biomass for biogas, heating and electricity). Secondly, incentives to ensure that the EU targets for biofuels are met should treat first and second generation biofuels in an equal way. In this respect the method used to evaluate the contribution of first and second generation biofuels, and their energy efficiency, should be the same. Priority should be given to the energy supply chain working at local level.
48. The development of second generation biofuels depends on the capacity of research (optimising production systems, conversion processes and fermentation, and obtaining value-added from co-products) to find the technology to enable wood, leaves and other forms of biomass to be used in at least an equally efficient way as first generation biofuels. This research is being financed under 7th EU Research Programme and other research programmes.

8. Managing Risk

49. COPA and COGECA see clear evidence that the risk element in agricultural production is increasingly strongly. First there is greater risk of market volatility which affects prices, supplies and farmers' incomes. For example, the EU is becoming increasingly vulnerable to the normal fluctuations on the world commodity markets as it opens its borders through the many trade agreements it is undertaking - multilateral, bilateral and regional. Farmers also face climatic and disease/sanitary risks. There are clear signs of climate change and increased risk of the spread of diseases globally. Certainly the USA considers this to be the case since the Administration has only recently proposed re-conduction and reinforcement of their production and price-linked countercyclical payments and marketing

loans for a further five years in their new Farm Bill.

50. With increased risk, the role of the CAP in assuring the EU's nearly 500 million consumers secure and stable supplies of food and energy, produced in a sustainable way, will become much more important than it has been over the past years of abundant food supplies and Community preference.
51. This is why it is so important that there is no further weakening in existing EU market management mechanisms in the Health Check (see section 1). COPA and COGECA do not agree

with the Commission that the management of risk is a question of rural development. This is a question of the EU's food and energy strategy and security. Over the coming months COPA and COGECA will be carrying out an assessment of whether existing mechanisms are likely to remain effective and sufficient under future world market conditions or whether, in some cases, new EU or adapted instruments would be more appropriate.
