



The Future of the Common Agricultural Policy post-2013

- Copa-Cogeca's reaction to the European Commission's Communication



SUMMARY

Copa-Cogeca welcomes the Commission's recognition of the overwhelming public support for a strong Common Agricultural Policy (CAP) post-2013. But we are seriously concerned by the lack of concrete proposals to ensure that the EU agricultural sector can fulfil society's expectations in an increasingly uncertain world and contribute positively to the EU's 2020 goals of growth and jobs.

The past four major reforms of the CAP have all concentrated on ensuring that EU farmers meet the highest standards in the world on food traceability, environmental protection and animal welfare. This has led to a serious deterioration in their competitive position vis-à-vis imports which are not required to meet these standards. On top of this, farmers have suffered from a very weak bargaining position faced with a handful of very large food processors and retailers.

As a result farmers' income today is only 50% of average earnings and two-thirds of this income is directly dependent on budgetary support.

This is not a sound situation for farmers. Nor is it a sound situation if we are to ensure consumers with secure and stable supplies of food in the face of growing world market volatility and climate change.

Yet the Commission's main new proposal in its communication is to require farmers to provide additional environmental services (greening). This will further increase farmers' costs and weaken their competitive position.

Copa-Cogeca believes that, given the challenges ahead, the priority must be to ensure a competitive and dynamic agricultural sector with emphasis on the following measures:

- ◆ new tools to deal with increased market volatility and risk and to strengthen the competitive position of farmers (e.g. safety nets, market intelligence, futures, promotion, risk insurance)
- ◆ the reinforcement of farmers' position in the food chain including strengthening of the economic organisation of farmers and measures to combat abusive practices
- ◆ the maintenance of direct payments under pillar one of the CAP but with a review of modalities to ensure fair and equitable treatment of all farmers taking into account difference in conditions
- ◆ the targeting of direct payments to active farmers
- ◆ the maintenance of the rural development pillar of the CAP, including LFA payments, and more emphasis on improving farm profitability by encouraging innovation and knowledge transfer
- ◆ incentives to enable farmers to provide more in the way of environmental and other public services (further greening) on a voluntary basis under the second pillar of the CAP
- ◆ climate change to be a cross-cutting theme with the emphasis on win-win solutions which improve the farmers' productivity as well as providing environmental benefits
- ◆ more consistency between the objectives of the CAP for sustainable agriculture and both EU trade policy and EU competition policy.

A CAP shaped in this way is the best guarantee to European citizens of ensuring food security, stability, the protection of the EU's valuable natural resources and maximising agriculture's contribution to growth and jobs.

Finally, to ensure a CAP which can deliver it will be essential to maintain the CAP budget and the principle of financial solidarity.

¹ Commission's communication "The CAP towards 2020" COM(2010)672 final

Copa-Cogeca's reaction to the European Commission's Communication on the Future of the CAP post-2013

■ General remarks

- Copa-Cogeca welcome the overwhelming support shown in the extensive public debate held earlier in 2010 that the future CAP should remain a strong common policy structured around its two pillars.
- Copa-Cogeca also agrees with the Commission that the three main objectives of the CAP will, in future, continue to be:
 - ◆ viable food production, in particular to ensure food security both in quantity and quality
 - ◆ sustainable management of natural resources and
 - ◆ balanced territorial development, in particular to support rural employment and maintain the social fabric of rural areas.

These objectives cannot be achieved without farmers and their farms. Farmers are the ones who produce the food. Farmers, together with foresters, look after nearly three-quarters of the EU's most important natural resource – land. And, as the Commission recognises, agriculture remains an essential driver of the rural economy: farms provide employment for 28 million people in rural areas and are the mainstay of cooperatives, input providers and the agri-food businesses, most of which are based in rural areas.

- This highlights the importance of ensuring a sound future for agricultural production throughout the EU and one that attracts young farmers into farming. This is why Copa-Cogeca is very surprised and concerned that the Commission's communication lacks any concrete measures to ensure a competitive and dynamic agricultural sector, ready to meet the challenges of food security, market volatility and climate change. It is even more surprising in the light of the Commission's budget review which emphasises the important contribution which a sustainable, productive and competitive agricultural sector could make to the Europe 2020 strategy.

Instead, the Commission's main proposal is to require farmers to provide additional mandatory environmental services with no indication that additional funding will be available to cover the additional costs this will cause. The result will therefore simply be a further weakening of farmers' competitive position vis-à-vis third country imports and on the world market.





- The Commission fails to mention that a series of reforms to the CAP (1992 McSharry, Agenda 2000 reform, 2003 reform, Health Check reform of 2008) have led to a substantial reinforcement of the environmental protection role of farmers (through both the introduction of a swathe of new environmental regulations and requirements under cross compliance, as well as agri-environmental measures under pillar 2). These reforms have been extremely challenging for farmers entailing significant changes to the production systems, requiring substantial new investment and causing increased annual costs.
- Farmers have also responded positively to calls for them to be more market orientated by adapting to new market conditions. Yet nothing has been done during these reforms to ensure that they obtain a fair return from the market for their production. On the contrary, EU trade policy has led to the opening up of the EU market to more and more imports which are not even required to meet EU traceability, environmental or animal welfare standards and often use products such as types of pesticides which are banned in the EU. This has meant significantly higher costs for EU farmers resulting in a loss in market share both on the domestic market and the world market in recent years.

The facts speak for themselves. Farmers' income, even in moderately good years, is only some 50% of average earnings and two-thirds of this income is directly dependent upon budgetary support.

- Farmers want to obtain more of their income from the market, Finance Ministers and taxpayers want farmers to be less dependent on budgetary support and consumers are increasingly concerned about food security and stability in a very uncertain and volatile world.

In its proposals published in May 2010, Copa-Cogeca called for specific concrete measures which will move the CAP in this direction: for example, measures to ensure more market stability, measures to improve farmers' position in the food chain and measures to improve the competitiveness of agriculture and to assist them to make a positive contribution to the challenge of climate change. There is a total absence in the Commission's communication of anything more than vague words on all these aspects, while its proposals on reinforcing the environmental aspect of the CAP are far-reaching and specific.

- Farmers are very willing to respond to the environmental and climate change challenges ahead by providing more in the way of public services (further greening) but this must be on a voluntary basis under the second pillar of the CAP and, to be successful, there must be real incentives for farmers to undertake the additional work and bear the costs.
- In sum, Copa-Cogeca calls upon the EU institutions to take a more balanced approach. The concerns of citizens for food security and stability, as well as the concerns of farmers to obtain more income from the market and to make a real contribution to the EU's 2020 goals for growth, must be taken as seriously as the concerns of environmentalists.



- Finally, it is impossible to make a full assessment of the Commission's communication until some of the ideas put forward by the Commission have been fleshed out in more detail and the Commission's specific proposals for the budget are known.

It will be particularly important to ensure that:

- ◆ the CAP budget and the principle of financial solidarity is maintained with no widening of co-financing
 - ◆ the CAP remains a common policy without distortions to competition
 - ◆ there is a fair and equitable treatment of all farmers taking into account differences in conditions
 - ◆ all adjustments to the CAP pass the farmers' 'simplification' test and
 - ◆ there is more consistency between the CAP and other EU policies, notably trade and competition policy, with greater EU harmonisation of the latter.
- Copa-Cogeca's preliminary reaction to the more detailed suggestions in the Commission's communication is outlined below.





Copa-Cogeca's more detailed comments on the Commission's favoured CAP Reform Orientation

■ The two-pillar structure of the CAP

- Copa-Cogeca supports the maintenance of the two-pillar structure but the Commission fails to make a clear distinction between their roles. The distinction should reflect policy objectives and not simply accounting distinctions as suggested by the Commission for the first pillar (*“the first pillar would contain the support paid to all farmers on a yearly basis”*) and ensure that they are complementary.

Pillar 1 should be primarily directed at the economic production role of agriculture, namely: ensuring food security, market stability, sustainable production, employment and the economic viability of rural areas. Since these public benefits are provided jointly by all farming activity across the EU, it follows that measures under pillar 1 should, in principle, be measures applied across the EU, be open to all active farmers who meet the eligibility requirements and be EU funded. Market management tools and direct payments to farmers necessary to achieve these public benefits should be the main components of pillar 1.

- Pillar 2 should be directed at additional measures to achieve the three main CAP objectives but which require flexibility to enable Member States to respond to specific national or regional conditions.

■ Direct payments

- The Commission proposes that the future direct payment to farmers under pillar one should be composed of a basic income support payment linked to cross compliance, a payment coupled to mandatory environmental actions, together with an additional income support to farmers in areas with specific natural constraints and limited coupled payments.

Proposed 'basic income support' under pillar 1

- Copa-Cogeca, like the Commission, considers it to be extremely important that the general public fully understands the importance and need for the provision of direct payments. However, justifying direct payments as an income aid to farmers is not adequate. The justification for pillar 1 payments is that this is the only way to achieve the type of agriculture European citizens want: not only food security and stability but also sustainable production and the maintenance of agriculture's vital contribution to employment and the economic prosperity of rural areas throughout the EU.

As recognised by the Commission, without these payments there would be concentration of production, more intensification, land abandonment leading to increased environmental pressures, the loss of habitats and an irreversible deterioration of European production capacity. This is why pillar 1 payments must be maintained.

- Copa-Cogeca supports the need to ensure a ***fair and equitable treatment of all farmers*** taking into account differences in conditions. More details are required before it can be assessed whether the Commission's proposal will achieve this and in a way which does not put the survival of farmers at risk.
- Since direct payments ensure the provision of public benefits accruing jointly from all farming activity, Copa-Cogeca welcomes the proposal of the Commission of targeting support to ***active farmers***.
- For the same reason (the benefits relate to farming activity), there is no justification for applying an ***upper ceiling*** on direct payments received by individual farms (capping). What is more it would be counter to one of the Commission's aims of restructuring by imposing a penalty on farms which were trying to become more competitive through economies of scale.
- Copa-Cogeca also supports the move towards a ***harmonised payment system based on transferable entitlements that need to be matched by eligible agricultural land*** in all Member States but, bearing in mind this will involve a costly adjustment of the SAPS applied in new Member States, the decision to change should be voluntary.



Cross compliance

- Copa-Cogeca agrees with the Commission that there is a need to simplify cross compliance rules. But, there is also a need to ensure that rules which do not have an objective means of measurement, including optional measures, are eliminated and that penalties take into account the specific problems faced in some sectors (e.g. ear-tagging). Furthermore, many farmers find themselves called upon to meet good environmental conditions which are totally contradictory with good agricultural conditions. This problem must also be resolved.
- Given the continued opening up of the EU market to imports which do not meet equivalent standards to those imposed on EU farmers under cross compliance, as well as the precarious income situation of farmers, it would be totally unacceptable to add new requirements to cross compliance or 'enhance' certain elements of GAEC standards in order to receive a basic payment, as suggested by the Commission. With reference to the Water Framework Directive it should be noted first that water is already covered under cross compliance (buffer strips and water metering) and secondly, that the WFD is geared to measures at river basin level and not farmers.

Mandatory 'greening' component of direct payments

- The public is already assured that products produced by EU farmers meet higher standards of sustainability (not only environmental standards but also traceability and animal welfare standards) than in the rest of the world through the application of cross compliance.

Current EU trade policy of opening the EU market to imports which do not have to meet EU standards, is already undermining EU farmers' competitive position both on the domestic and world market. At a time when the EU's priority in its 2020 strategy is to secure growth and jobs, it is more essential than ever to reverse this trend and improve the EU's market share on both the domestic and world market. The Commission's proposal to impose additional, mandatory, environmental requirements on farmers under pillar 1, which would increase the cost burden of EU farmers vis-à-vis their competitors still further, is therefore unacceptable. It would also penalise farmers who had already made additional efforts to provide environmental benefits which go further than EU regulations.

Farmers are very willing to provide additional public goods (not only environmental protection and animal welfare which go beyond the EU's already high standards but also land and water management services), but this must be on a voluntary basis under pillar 2 and, to be successful, there must be real financial incentives for farmers to undertake the additional work and bear the costs.

- Copa-Cogeca are also willing to consider new types of measures which would result in a win-win situation providing they are simple and easy to administer. For example, measures which increase productivity but which also have environmental benefits or mitigate climate change. Copa-Cogeca would also be willing to consider the possibility of a grassland payment which would not only ensure the maintenance of grassland's important benefits for biodiversity





and the maintenance of natural habitats, but would also contribute to carbon sequestration.

Payment in areas with specific natural constraints

- The Commission proposes providing additional income support to farmers in areas with specific natural constraints under pillar 1 as a complement to support under pillar 2. It is far from clear from the Commission's communication how this would be financed and how this would affect the current LFA scheme and this needs to be clarified.
- However, Copa-Cogeca considers that the LFA payment system should remain, as at present, under pillar 2. Furthermore, Copa-Cogeca is extremely concerned by the new delimitation for LFA areas recently presented by the Commission.

Coupled payments

- Copa-Cogeca supports the Commission proposal that voluntary coupled support may continue to be granted provided it is within clearly defined limits (i.e. suckler cow and sheep premium and continued possibility for other limited coupled payments as currently under art. 68).

Small farmers

- The Commission proposes introducing a specific support scheme for small farmers. Copa-Cogeca fully support the maintenance of active family farms while ensuring that farms are also encouraged to become more viable through structural improvement.





■ Market measures

- Copa-Cogeca consider the Commission's proposals on market measures to be much too vague. If the agricultural sector is to contribute to economic stability and to be a competitive and dynamic sector there must be an updating of market management tools. Increasing market volatility and risk requires the strengthening of safety nets, risk management tools and stabilising mechanisms through cooperatives and producer organisations. The position of EU products vis-à-vis imports and on third country markets must also be strengthened through the reinforcement of quality, labelling and promotion. Copa-Cogeca more specific proposals for strengthening market measures are outlined below.

Safety nets

- Copa-Cogeca call for the ***maintenance of existing mechanisms in all sectors and their strengthening*** so that they provide effective safety nets in the face of increasing market volatility:
 - ◆ trigger prices (intervention/reference prices) should be updated to reflect the development of production costs, without encouraging production for intervention (e.g. beef, rice, olive oil). In the case of cereals the introduction of a floor price equal to 95% of the reference price for the tendering system should be considered or the introduction of private storage.
 - ◆ consideration should be given to the extension of the intervention period in certain sectors (e.g. dairy)
 - ◆ there should be a review of the products covered e.g. extension of private storage to products such as cheese, flax & hemp, dried fodder and table olives.
- The Commission must be required to take prompt action in order to prevent, or alleviate, market crises. In this respect the maintenance of article 44 (animal disease), article 45 (loss in consumer confidence due to public health), article 47 (special measures for cereals), article 186 (price disturbance) and article 191 (emergency measures) is essential. Article 45, 186 and 191 should be extended to cover all products.
- Farmers and cooperatives should be provided with ***up-to-date market intelligence including margin and price transmission in the food chain and forecasts***. A warning system should be introduced to alert operators and the authorities of deteriorating cost-price trends. These should be related to realistic and up-dated cost-price benchmarks. The Commission could draw inspiration from the support provided by the USDA to US farmers in terms of both market intelligence and encouragement of exports.
- The Commission should look at new ways of encouraging EU exports, including the provision of export credits, as well as promotion and greater labelling protection (see also sections on quality and promotion below). The ***export refund mechanism must be maintained*** until trading partners agree to eliminate their own export support mechanisms.



- **EU trade policy must be consistent with the aims of the CAP.** This requires adequate tariff protection and the requirement that all imports meet equivalent standards of traceability, environmental protection and animal welfare as applied to EU production. Without this it will be impossible to maintain the type of agriculture citizens want in Europe. For these reasons Copa-Cogeca is opposed to the current negotiations with Mercosur since these objectives are very unlikely to be upheld.

Risk Management tools

- As recognised by the Commission, public risk management tools should be available to farmers to deal with market volatility but they are only a complement to market management, not an alternative, and do not in themselves assure a fair return to farmers.
- Copa-Cogeca welcome the Commission proposal to enable Member States to introduce an income stabilisation tool, thereby strengthening the insurance instruments introduced under the Health Check (articles 70 & 71). These measures should be voluntary for both Member States and farmers. However, so far very few Member States have made use of these possibilities partly due to practical problems and these should be resolved.
- Commodity futures offer the possibility for farmers and cooperatives to manage risk but currently they only operate effectively for bread-making wheat and colza. They also need to be developed for maize, barley, durum wheat and sunflowers and to be accompanied by information and training. The potential of the futures market in the dairy sector should also be explored. Farmers and cooperatives should not be considered as financial operators in the revision of the MiFID directive.

Stabilising mechanisms through cooperatives and producer organisations

- The Commission makes no mention of the important potential of cooperatives and other types of producer organisations to contribute to a better functioning of markets by concentrating supplies, by providing joint storage facilities, by planning production and adapting it, both in quantity and quality, to market demands and optimising production costs and stabilising producer prices (in some sectors measures are already in place to achieve this and must be continued e.g. measures linked to fruit & vegetable producer organisations). Farmers producing GI labelled products should also have the possibility to ensure market stability by controlling quantities produced.
- This requires better coordination and implementation of competition law. While competition policy lies outside the remit of the CAP, the Commission should make reference to the need for coherence between the objectives of the CAP and competition policy, with greater EU harmonisation of the latter, and call for the extension of exemptions to other agricultural sectors (see Copa-Cogeca's position of May 2010 on competition policy).
(see also section below on *Reinforcement of the position of farmers in the food supply chain*)

Quality

- Meeting consumer demands for quality is one of the central concerns of farmers and cooperatives. This requires a strong EU quality policy which enables EU farmers to reinforce their competitive position vis-à-vis imports and provides consumers with a wide diversity of products and clear product information.

A proposal for a revised quality policy will be presented by the Commission by the end of 2010 which will, hopefully, meet these objectives.

In particular, Copa-Cogeca calls for:

- ◆ measures which ensure recognition of both the high statutory requirements that EU farmers have to meet as well as ensuring the development of quality products with characteristics which go beyond statutory requirements, to the benefit of both farmers and consumers
- ◆ better consistency in marketing standards, which should remain under the control of public authorities, with voluntary optional standards in specific instances (e.g. mountain areas)
- ◆ the requirement that private quality schemes should clearly distinguish between EU statutory requirements which their products meet (including cross compliance and EU marketing standards) and requirements which go beyond these statutory requirements
- ◆ protection of geographical indications when negotiating trade agreements with third countries.

Promotion

- The Commission makes only passing mention of promotion in its communication despite the fact that it is reviewing current policy. There are problems in the current promotion programme which must be analysed and improved: in particular, there must be simplification of procedures for submitting and managing programmes and more coordination with Member States.
- The increased opening of the EU market to imports, and the fact that most EU produce is marketed within the EU, reinforces the importance of promotion of EU products on the domestic market.





■ Reinforcement of the position of farmers in the food supply chain

- The Commission recognises that farmers' steadily declining share of value added in the food chain must be reversed but fails to propose any measures to achieve this. There must be an overall policy aimed at reinforcing the position of farmers in all sectors.

In this particular aspect, agricultural cooperatives and other types of producer organisations are a relevant tool in facilitating the concentration of supply by farmers and the increase of added-value to their production in collaboration with other partners in the food chain.

Copa-Cogeca have put forward very specific proposals calling, in particular for:

- ◆ the promotion of the economic organisation of farmers
- ◆ a change in competition law to facilitate mergers of farmers' economic organisations
- ◆ a regulatory framework to combat unfair and abusive practices (e.g. late payments) and ensure transparency in the food supply chain
- ◆ codes of conduct and interbranch agreements
- ◆ the establishment of a European ombudsman and
- ◆ the high level forum for a better functioning of the food supply chain.

Furthermore, in order to strengthen farmers' bargaining power in the food chain, support should be given to encourage farmers' management of local short food chains which, by reducing intermediaries and being transparent and efficient, provide consumers with fair prices, quality and product information as well as having a low environmental impact.

Many farmers' survival depends upon their obtaining a fairer share of the food value chain. This is an urgent matter and the process of rebalancing should therefore be started immediately.

(see also section above on *Stabilising mechanisms through cooperatives and producer organisations* and Copa-Cogeca's detailed position FC(10)902).



■ Rural development

- Copa-Cogeca does not consider that there should be major changes to rural development policy. The existing measures are an extremely important complement to measures under pillar 1, enabling Member States to take account of differing regional circumstances and challenges. The main elements covered by the current axes and Leader should therefore remain in pillar 2, including LFAs.
- Copa-Cogeca agrees that it is important to ensure coherence and complementarity between rural development policy and other EU policies. The contribution under CAP on **rural development should be refocused on agriculture and its related sector forestry.**
- Copa-Cogeca agrees with the Commission that innovation, climate change and the environment should be guiding themes within the second pillar that steer the policy more than in the past.

However, there is a fourth theme which is fundamental if the EU agricultural sector is to meet the three main objectives set out by the Commission, namely the **promotion of more competitive and profitable farm businesses and producer organisations with improved returns from the market.**

Climate change should be a cross-cutting theme which is taken into account in measures to promote profitable farm businesses as well as in measures to promote innovation and provide environmental services. Encouraging forestry production also enables this sector to play an important role in this respect given its potential to produce renewable energy and reduce CO₂ emissions.

The Commission rightly points out the need to unlock the potential of rural areas but some farms are found in urban areas and their specific constraints should not be forgotten.

- The promotion of sustainable and profitable farm businesses requires the strengthening of existing measures to improve farm competitiveness (axis 1 type measures, in particular modernisation) supplemented by further measures which reinforce farmers' position in the food chain:
 - ◆ the emphasis should be on **win-win solutions which contribute to greater productivity and the development of new outlets** as well as meeting the climate change challenge (e.g. bio-energy, carbon storage and the further development of organic production).
 - ◆ **farmers position in the food chain should be reinforced** through the development of their economic organisations and business networks and bringing farmers closer to the consumer. For example, by providing instruments to develop local/farmers' markets as an additional outlet which brings them into more direct contact with consumers, reduces intermediaries, increases transparency and reduces transport costs and emissions.
 - ◆ Copa-Cogeca also calls for an ambitious setting-up policy for young farmers in order to attract them into the sector and ensure generation renewal.



- **Innovation** is extremely important, and as the Commission points out, the emphasis should be on investments which improve both the economic and environmental performance of farms. Climate change adaptation/mitigation should be an underlying motif.

One obstacle to new developments on farms is the current very restrictive advisory services and training which is available to farmers. A **reinforcement of advisory services and training** would enable a much greater and more rapid transfer of existing knowledge and research to farm level. There should also be support for on-farm experimental projects.

- The current **agri-environmental measures under pillar 2 should be strengthened to cover a wider range of public services** which are valued by society and which farmers and foresters can provide. For example, climate change will bring about a much greater need for efficient water management (flood control, groundwater storage...) and fire resistance. In addition there is increasing demand for landscaping which is particularly important for the tourist industry.

However, the **provision of these services must voluntary and be treated as an entrepreneurial activity** and rewarded accordingly, which is not the case at the moment.

COPA AND COGECA:

THE VOICE OF EUROPEAN FARMERS AND EUROPEAN AGRICULTURAL COOPERATIVES

Copa-Cogeca is the united voice of farmers and agri-cooperatives in the EU. Together, they ensure that EU agriculture is sustainable, innovative and competitive, guaranteeing food security to half a billion people throughout Europe. Copa represents over 13 million farmers and their families whilst Cogeca represents the interests of 38,000 agricultural cooperatives. They have 77 member organisations from the EU member states.



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