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DIRECTORATE-GENERAL FOR AGRICULTURE AND RURAL DEVELOPMENT

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1ST PUBLIC CONSULTATION ON THE CAP “HEALTH CHECK”

The European Commission presented its Communication on the “Health Check” of the Common Agricultural Policy (CAP) on 20 November 2007 [COM(2007)722]. The aim of the Communication is to identify the necessary steps to ensure that the Common Agricultural Policy is working in line with the guidelines set out in the 2003 reform. To meet this aim, the Communication addresses three policy questions related to the Common Agricultural Policy:

- How to simplify the Single Payment Scheme (SPS)?
- How to adjust market instruments to new market opportunities?
- How to respond to new challenges facing EU agriculture?

In keeping with its commitment to better legislation, the Commission will present its legislative proposals in the spring of 2008, accompanied by an analysis of the economic, social and environmental aspects of the above policy questions linked to the CAP and of the impact, the advantages and drawbacks of different options to respond to the issues stemming from these questions.

The Commission has planned a first series of hearings with experts and stakeholders. Two wide stakeholders' seminars are foreseen for the 6 of December 2007 and 11 January 2008.

The aim of this consultation is to let interested parties be better informed about the specific issues that Commission services wish to address during the Health Check exercise and to ask for their contributions.

The Commission services, aware of the full range of political choices that could be offered to the Commission, wish to explore in this exercise these options and choices that are pertinent to the scope of the Health Check Communication. Some wider options will, nonetheless, be used as reference options.

In their contributions, interested parties could enrich these options and help assess their feasibility and possible impact. However, proposals and comments will be easier to take into account in the analysis if they contain verifiable factual elements that make them possible to assess. Please be sure to specify clearly if any elements provided are to remain confidential.

The attached questionnaire aims at identifying an extensive, but not exclusive list of issues that are relevant to the "Health Check" that could contribute in this consultation. Contributions received by 15 January 2008 – the closing date of the consultation – will be taken into account in the Impact Assessment Report.

Contributions should be sent to the following address:

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Stakeholders' Questionnaire

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

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?
- Do you agree that Member States should be allowed to adjust their SPS model towards a more flat rate of support, at national or regional level?
- What type of impacts would you expect with the introduction of flatter rates of support for farmers?

1.2. Cross-Compliance:

By creating a link between CAP payments and the respect of existing legislation related to the environment, public, animal and plant health and animal welfare, and of good agricultural and environmental conditions (GAEC), cross-compliance aims to contribute to the development of sustainable agriculture and to render the CAP more compatible with the expectations of the society. This has been shown to make a significant contribution in increasing farmers' awareness about already existing obligations and to better ensuring compliance with them. The Commission has committed itself to address the scope of cross-compliance in the Health Check to improve its acceptance by all actors and the achievement of its objectives, taking into account the need for simplification and the need to meet “new challenges”.

- What would be the potential outcome of maintaining the cross-compliance at its existing standards?
- What impacts do you see emerging with the possible addition/deletion of certain legal requirements or GAEC standards?

1.3. Partially coupled support

The extent of recent reforms renders partially coupled support less relevant from the point of view of producers, as more sectors are integrated into the SPS. On the other hand, partially coupled support may retain some relevance, at least for the time being, in certain regions where the level of production is small overall, but important economically or environmentally.

- Should decoupling be applied in full extent to all sectors? Would there be specific impacts with this option?
- Should decoupling be applied in full extension but negative impacts mitigated by alternative flanking measures? In this case, what kind of measures?
- Are there any sectors where targeted, partially coupled support should remain and which problems do you consider this support to mitigate?

1.4. Upper and lower limits in support levels

The implementation of the SPS added to the already existing questions about the justification of large payments to a small number of recipients, new questions about the justification of small payments to a sometimes large number of recipients. Capping constitutes a potential means of addressing the first issue by introducing thresholds in high payment levels, beyond which support could either be reduced or curtailed. Minimum thresholds in the level of payment to at least guarantee that they cover their administrative costs and are granted to real farmers have also been suggested.

- How effective do you think capping will be in addressing the problem of the uneven distribution of payments between the farmers?
- What would be in your opinion the advantages and disadvantages between the application of an absolute or progressive way in the introduction upper thresholds in payments?
- In the context that a large number of farmers receive significantly low amount of payments, in many cases even below the administrative costs, what potential impacts do you see in the option of adopting a minimum level in payments?

2. GRASPING NEW OPPORTUNITIES AND IMPROVING MARKET ORIENTATION

2.1. Cereals Intervention

The scope of intervention is to ensure, in cases of market disruption, that internal market prices do not drop far below the safety-net intervention price. In June 2007, following difficulties associated to the accumulation of high stocks of maize, the intervention was reformed, and the phasing out of maize from intervention was introduced. However the intervention system needs an overall adjustment.

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

- What would be the impacts of the extension of the "maize" model to the other feed grains?
- What kind of impacts do you see with the creation of an intervention system available only to high quality bread wheat?

2.2. Cereals set-aside

Set-aside as a mandatory obligation for cereal support was introduced as a supply control measure at a time when downward pressures on cereal prices were present. Nowadays market developments rather point to the need for supply growth. In addition, the introduction of the SPS and the consequent possibility of transferring set-aside entitlements significantly diminished the efficiency of the measure in limiting supply. On the other hand, environmental benefits have been associated with set-aside, and therefore its potential abolition has raised questions about the impact on such benefits.

- Do you consider that abolition of set-aside in the current context of market and policy developments is appropriate?
- What measures do you consider appropriate in order to maintain environmental benefits associated with set-aside?

2.3. Dairy Quota

Originally the introduction of the dairy quota regime aimed at limiting the surplus production effects of price-support policy in the context of the depressed world prices. In recent years, however, the dairy sector is facing strong internal and external demand and high prices, instead of high supply and depressed prices. In this context it becomes clear that the quota system, which is scheduled to expire by 2015, is acting more as a constraint to the sector by limiting its capacity to benefit from market opportunities and improving its competitiveness.

- In the light of new market opportunities, do you consider that the quota system is still fulfilling its stated objectives?
- What benefits and what risks do you see from doing nothing and simply letting the quota regime expire in 2015??
- What kind of effects do you see emerging in the case of a gradual phasing-out of quotas through increasing their annual level? What would you propose as an alternative or accompanying transition measure?

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?
- 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?

3. RESPONDING TO NEW CHALLENGES

3.1. Managing risk

Decoupled producer support allows farmers to adjust better to expected price risks by rendering their production decisions responsive to market price signals in a flexible way. In addition, unexpected risks are also best mitigated by the provision of a fixed level of support.

On the other hand, the rather long list of potential risks and their variable extent across MS, together with the various changes in traditional market instruments and the shift towards direct support, have prompted calls for more measures on risk management and more specifically in regard to price risk (supply management tools, income stabilization tools) and production risk (natural disasters and catastrophic events, sanitary crises).

- Do you consider that currently available policy instruments provide adequate coverage to manage price risks? Do you see the need for additional measures you envisage, and if so which ones?
- Do you consider that currently available policy instruments provide adequate coverage to manage weather-related or disease-related risks? Do you see the need for additional measures you envisage, and if so which ones?
- Do you see scope for the application of EU-wide measures to better address price and production related risks, or should such measures be applied more at the MS and regional level?

3.2. Climate change, bio-energy, water management and biodiversity

Agriculture is highly exposed to climate changes and its after-effects such as water scarcity and extreme weather conditions. Furthermore, halting biodiversity decline remains a major challenge increased by climate change and water demand. Given this interdependence, pressures for more contribution on the field are inevitable. In addition the need for new renewable forms of energy offers new opportunities, in the form of new outlets for agricultural production. Consequently there is a dual need for further adjustments to improve adaptation practices and to find the appropriate instruments in order to be ready to integrate these new challenges.

- Do you consider that existing instruments under both pillars of the CAP are sufficient to respond to these challenges?
- If you consider that strengthening Rural Development instruments is needed, what would be your proposal in better addressing these new challenges?

3.3. Strengthening rural development

In the scope of responding more efficient to the current societal expectations, modulation has been proved a useful policy instrument through which a percentage reduction is applied to farmer direct payments (Pillar1) transferring accordingly the budgetary resources released to rural development measures (Pillar 2). However, in the context of the cut in the expected Rural Development support following the 2005 decision on the Financial Perspectives, the constraints that Member States are facing in the realisation of Pillar II objectives, in the current budgetary period, present an obstacle to this development

- Do you think the proposed increase in modulation will help in achieving RD objectives, especially those linked to new challenges?
- How do you think the extra funds should be allocated to better respond to those new challenges?