

(11) PR 1
14.01.2011

FEFAC ANSWER TO THE DG AGRI CONSULTATION ON THE COMMUNICATION ON CAP TOWARDS 2020

*(1) Are the **policy scenarios** outlined **consistent with the objectives of the reform**? Could they be improved and how?*

When reviewing the CAP, decision makers should address the key societal challenges of food security, food safety, resources management and climate change linked to Agriculture, while keeping in mind the key objectives of the new Lisbon Treaty, i.e. stabilisation of prices, co-responsibility, the principle of cohesion and financial solidarity (see attached FEFAC position paper on CAP review).

The policy scenarios address most objectives of the reform and therefore can be regarded as consistent. However, the description of the scenarios remains very general, in particular as regards concrete marketing measures to control extreme price volatility and to ensure level playing field with third country operators and resource efficiency. Therefore, the EU Commission communication paper does not as such allow for a proper consistency check against the objectives.

Although identified as a key challenge for the EU agriculture, none of the policy scenarios address the issue of contribution to meet the global increasing demand for food and the management of resources at global level.

In addition, the third scenario which addresses the environmental and climate change objectives misses the other objectives.

*(2) Are there **other problems** apart from those set in the problem definition section of this document that should be analysed when **considering the architecture of the CAP in the post 2013 period**? What causes them? What are their consequences? Can you illustrate?*

- Access to world market: The problem definition section does not address sufficiently the issue of access to world market in case of shortage. For example, the veal sector faced in 2006 a shortage in feed materials from dairy origin. Facilitation of access to world market through an adaptation of the EU custom policy was at the time not regarded by EU authorities as an option due to procedural reasons. This should be considered in the architecture of the CAP.

- Security of supply: The impact of weather conditions was addressed in the problem definition mostly under the angle of farmers' income but not from the perspective of food security. With the increase in the global demand for raw materials, especially for feed or food use, the establishment of security stocks, in particular for raw materials for which the EU is deficient should be considered.

- Role of by-products in food chain competitiveness: The valorization of by-products as a key element of farmers income should also be addressed. As an example, the veal sector provides an output to young dairy calves and by-products from milk processing not used for human consumption. The importance of supporting such sectors through coupled payments to maintain a profitable farming sector and to avoid imbalance on related markets should be pointed out.
- EU policy consistency: The need for a holistic approach between different EU policies, e.g. on GMOs, animal welfare, feed and food safety (mycotoxins) etc. was not sufficiently highlighted in the communication.
- Extreme price volatility: The extreme price volatility, although mentioned in the problem definition section, was not sufficiently addressed from a feed and food chain perspective.
- Level playing field with third countries: High EU standards put in most cases the EU livestock producers at a competitive disadvantage towards non-EU producers. Although the purpose here is not to challenge the relevance of such standards, the potential market distortion they trigger for EU operators has to be taken into account as an essential element hampering the competitiveness of the EU livestock sector and triggering relocation of livestock production in third countries. EU policy should aim at achieving recognition of such EU standards in the framework of the multilateral and bilateral trade agreements.
- Diversification vs. market orientation: It should be questioned whether a diversification-based policy is consistent with market orientation. The market demand itself, organized in accordance with the EU policy on quality standards in the food chain, should be the trigger to diversification and not the other way around.

*(3) Does the **evolution of policy instruments presented in the policy scenarios** seem to you suitable for responding to the problems identified? Are there other options for the evolution of policy instruments or the creation of new ones that you would consider adequate to reach the stated objectives?*

- Contribution to global management of resources and increasing global demand for food products: although identified as an objective of the reform, the policy scenarios do not include any prospect for encouraging the development of the food/feed output and the export capacity of the EU.
- Reaction to crisis: although the ability to react in case of price crisis, the scenario do not provide any indication on the capacity to react rapidly to market disruption, in particular the access to the world market in case of shortage or establishment of food/feed security stocks for products for which the EU is deficient.
- Scientific evidence for promotion of environmental measures: we welcome the greening of the first and second pillar and welcome the recognition of modern production systems to meet climate change and other environmental challenges. However, we find it essential to integrate a scientific basis to policy development, in particular as regards the actual contribution of those systems identified as favorable to environment (extensive systems, organic production) to all the identified objectives of the reform, i.e. food security, sustainable management of natural resources and climate action and balanced territorial development.
- Extreme price volatility: There is limited reference to additional market measures to better face extreme price volatility, e.g. encouragement to the development of futures market and mechanisms to ensure more transparency in the functioning of derivatives market to avoid disconnection from market fundamentals on such organized markets.
- Non-food uses: Although we welcome the recognition of the primary role of agriculture to supply food, we also note that the non-food use of agriculture products is mentioned several times in the EU Commission communication and there is no indication on how priority to the “feed and food” outlet would be granted in case of market imbalance to avoid that the food market, in particular in terms of price, is exposed too much to the volatility of non-food markets.

- Specific coupled support to strategic markets for the sustainability of the feed and food chain: It is essential to identify those strategic sectors that play an essential role for the balance of other markets and their sustainability. The veal sector, as already exemplified above, as such a potential for improving the sustainability of the beef and dairy sectors, taking into account potential impacts on the environment and / or animal welfare if young calves would not be directed to the veal production. Such sectors should benefit from specific coupled supports.

Impacts

(4) *What do you see as the most **significant impacts of the reform scenarios** and the related options for policy instruments? Which actors would be particularly affected if these were put in place?*

Adjustment scenario: this scenario fails to address the key issue of price volatility, which affects all food chain from farmers to consumers. It is unlikely to contribute to the necessary modernization of agriculture and increased competitiveness.

Integration scenario: This scenario may disconnect primary production from market demand in supporting resource inefficient production systems and thereby reducing agriculture output. On the other hand, it would allow maintenance of agriculture activity in the less favored areas.

Re-focus scenario: this scenario would not provide a sufficient long term visibility as regards the possible output of agricultural products, thus discouraging investments throughout the chain, in particular in research and technology transfer.

(5) To what extent will the strengthening of producer and inter-branch organizations and better access to risk management tools help improve farmers' income levels and stability?

Risk management tools are undoubtedly necessary to improve farmers' income and stability, providing they are WTO compatible. As regards producer and inter-branch organizations, they can indeed contribute to improve farmers' position in the food chain, on the moment that they can rely on efficient, recognised market indicators to guide their decisions. The legislator should however pay attention to the risk of distortion between Member States if the decision whether or not to promote producers' organizations would be left to national authorities. Any such measure that would trigger a renationalization of the CAP and related market distortions must be avoided. It must be stressed that the issue of functioning of the food chain cannot be restricted to farmers – industry relations. The issue is much broader and requires tools addressing the entire food chain, within the CAP and under other policies.

(6) What environmental and climate-change benefits would you expect from the environment-targeted payments in the first and the second pillar of the CAP?

We welcome the promotion of environmentally friendly productions (e.g. protein plants) on the moment that it is compatible with the objective of better resource efficient. We are indeed concerns that targeted actions in certain areas could jeopardize the ability of the UE as a whole to make the best use of the available land. Therefore, environmentally sustainable practice should be assessed against their contribution to an overall resource efficient agriculture and in particular not result in a decrease of the EU agricultural output. FEFAC calls for a rehabilitation of environmentally efficient production systems and therefore for a review of the CAP to ensure

that any production system, whether modern / intensive or traditional / extensive / organic, relies on its own market to develop and that any differentiation in public support measures is based on scientific criteria only.

(7) What opportunities and difficulties do you see arising from a significant increase of the rural development budget and a reinforcement of strategic targeting?

Increasing rural development budget might trigger distortions between operators across the EU countries. FEFAC considers that a strong EU common policy for agriculture is essential to guarantee equitable competition conditions within the EU. Maintaining a single market for agricultural products must remain the guiding principle for the future. It would also likely mean a decrease of Pillar 1 budget and in particular the ability to properly react to crisis situations. The CAP has to be based on a balance between Pillars 1 and 2.

(8) What would be the most significant impacts of a "no policy" scenario on the competitiveness of the agricultural sector, agricultural income, environment and territorial balance as well as public health?

A no-policy scenario would mean introducing distortions of competitions at many levels of the chain: between operators from different Member States, between sectors and between operators in different regions/areas. An organised market is needed to ensure a proper supply of food products across the chain, to contribute to modernisation of the agriculture sector, to manage sanitary risks to maintain agriculture activity in unfavoured areas to the benefit of EU citizens.

A no-policy scenario would not allow accompanying properly the development of the farming sector in a sustainable way.

Monitoring and evaluation

(9) What difficulties would the options analysed be likely to encounter if they were implemented, also with regard to control and compliance? What could be the potential administrative costs and burdens?

Most policy options relate to support provided to farmers. In this sense, the difficulties as regards controls could lay in the notion of active vs. hobby farmer. Experience with the implementation of cross-compliance obligations proved how difficult it is to control individual farmers. The proposed greening of first pillar has a potential to further increase administrative burden on farmers.

(10) What indicators would best express the progress towards achieving the objectives of the reform?

A number of indicators may be established at farm level, e.g. the sustainability performance of farms through output/unit (ha, head), GHG emissions, or at macroeconomic level such as the evolution of farmers income, food price formation indicators, EU self sufficiency and land grabbing. Indicators of resource efficiency are also needed, such as the evolution of feed conversion rates in the livestock sector and the amount of by-products vs. virgin products used for animal feeding.

(11) Are there factors or elements of uncertainty that could significantly influence the impact of the scenarios assessed? Which are they? What could be their influence?

Elements of uncertainty are likely to come from the development of other policies within the EU, e.g. sustainable production and consumption policy, feed&food safety (contaminants), animal health, animal welfare and plant health policy (availability of substances, level playing field with third countries as regards high EU standards), GMOs (EU cultivation, imports). Another factor of uncertainty is the international agenda, in particular the WTO round.