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FEFAC preliminary opinion on EU Commission proposals for CAP towards 2020 COM(2011) 625, 626 and 627

Feed is the most important production factor for livestock producers. The EU livestock sector is the most important customer of cereals and by-products from crop processing for food and biofuels use. For these reasons, animal feed must be regarded as an essential link between vegetable and animal production. FEFAC representing the EU compound feed industry is committed to contribute to the debate on the legal proposals for the new CAP. This document reflects FEFAC overall opinion on Commission legal proposals as well as concrete suggestions on selected issues of key importance for an efficient EU livestock sector.

FEFAC shares the analysis of the EU Commission of the challenges for agriculture. The EU agriculture should produce more, more efficiently, everywhere and at an affordable price. FEFAC also shares the objectives assigned to the new CAP i.e. viable food production, sustainable management of natural resources and climate change action, balanced territorial development.

To meet these objectives, the new CAP should rely on a sufficient budget which should at least remain the same as what is currently available.

FEFAC main comments on the legislative proposals are

- Directs payments regulation [COM(2011) 625]
 - Resource efficiency being key, support should be granted according to efficiency criteria based on sound scientific methodology. Land based support, i.e. the more land one uses, the more money one gets, is clearly the wrong policy.
 - As basic income support, directs payments should aim at offsetting distortion for farmers vis-à-vis third countries. They should therefore be rebalanced in favor of livestock producers who do not directly use as much land as arable crop farmers in order to avoid that the “EU livestock sector is exported”
- Single CMO regulation [COM(2011) 626]
 - FEFAC welcomes the proposal to make it possible for the legislator to react more rapidly to market crisis situation through measures against market disturbance (article 154 of Single CMO Regulation)
 - FEFAC calls for more efforts towards market transparency, for financial markets as well as for physical markets. Following G20 initiative, FEFAC would like to express its commitment to contribute to these efforts. Market transparency being a key element to control extreme price volatility resulting from speculation and to ensure a better functioning of the food chain, FEFAC asks for a better representation of the agro supply chain sector, and in particular feed, in the EU Commission advisory groups.

- Rural development regulation [COM(2011) 627]
 - FEFAC shares the priorities as set in the EU Commission proposals and in particular the need to foster knowledge and technology transfer as well as innovation to the farm sector and to promote resource efficiency. Consistency in that regard with other EU policies (e.g. on pesticides or safety) would be necessary.
 - FEFAC considers the risk management measures as a step in the right direction but would recommend to move the income stabilization tool under the first pillar

In addition to these general comments FEFAC would like to insist on the following specific key issues:

- Market disturbance clause, in order to improve the measure towards more predictability and better access to feed materials on the global market in case of shortages
- Risk management, to facilitate the income stabilization role of the CAP
- Greening measures, to refocus on the efficiency of production systems
- Functioning of the food chain, for a better representation of the feed industry in interbranch organization
- Flexibility offered to Member States, as it is important to avoid a “renationalization” of the CAP

For these five issues, more detailed analysis and proposals are given in the following pages.

Market disturbance clause

The proposal for a regulation establishing a common organization of the markets in agricultural products (single CMO Regulation) includes a market disturbance clause (article 154 of COM(2011) 626).

FEFAC analysis of the current proposal

FEFAC members share the view that it is necessary to be able to be more reactive. When it comes to market crisis, taking decision at an early stage can help minimizing market disturbance costs. It is anticipated that the EU will in the future face more often shortages situations on most vegetable commodities. Market access to competitive raw materials for use in animal feed is then key to maintain a viable and sustainable livestock production in the EU. The traditional market management tools in case of deficit having virtually disappeared due to the zero public stocks policy, being able to suspend rapidly import duties for feed materials becomes the only market management tool that can have a direct effect on the competitiveness of the feed industry and the livestock sector. FEFAC members welcome the proposal of the Commission in that sense.

FEFAC recommendations

FEFAC members believe that it is however possible to improve the proposal. Starting from the commonly acknowledged principle that the CAP should play a role in stabilizing market and prices, FEFAC experts recommend to ensure that such measure is predictable. Decision to suspend import duties should therefore be taken on the basis of the price gap between the EU and the global market. Reaching that difference for a certain period of time should automatically trigger the suspension of import duties for feed materials. This mechanism would facilitate supply for the feed and livestock sector without harming EU arable crops farmers.

In addition, FEFAC experts call for an increased market transparency on financial markets as well as on physical commodity markets and would advise EU authorities to associate the private sector both regarding exchange on market information on production and stocks as well as during the management of crisis situations. FEFAC members are ready to play their full role in this collaboration. As acknowledged in a recent report of the European Parliament, farm inputs are a key element of farmers' competitiveness. A better representation of the feed industry in the Commission consultation process (advisory group for example) would therefore be very sensible.

Risk Management

The proposal for a regulation on support for rural development introduces new instruments for risk management (article 37 to 41 of COM(2011) 627). As it is commonly acknowledged that agricultural markets will in the coming years face increased volatility, such instruments will play a crucial role in stabilizing prices and farmers income, which is one of the objectives of the CAP.

FEFAC analysis of the current proposal

The current proposal includes support for

- Premiums insurance against economic losses caused by adverse climatic events and animal or plant diseases or pest infestation
- Mutual funds to pay financial compensation to farmers for economic losses caused by outbreak of an animal or plant disease or an environmental incident
- Income stabilization tool, in the form of financial contributions to mutual funds providing compensation to farmers who experience a severe drop in their income.

With anticipated high agricultural prices, FEFAC members welcome the shift from an automatic price support towards an insurance approach. It is FEFAC understanding that the money put by farmers in the mutual fund will play the cofinancing role in this measure meaning that financial support from Member State will not be necessary even though this is a rural development measure.

FEFAC recommendations

In order to improve the proposed risk management instruments, FEFAC would like to draw attention on the following suggestions:

- Premium insurance against economic losses due to market conditions should also be eligible for support. This is necessary to avoid distortion of competition since it will not be possible for all farmers to have access to mutual funds. Since costs are higher for this kind of insurance due to systemic risk – compared to insurance against animal disease or environmental incident – the support could be envisaged at a lower rate for good budget management reasons (support rate for insurance premium against animal disease or environmental incident is set at 65% in the current proposal)
- Whereas insurance is an individual approach, mutual funds may concern a great number of farmers. The strengthening of producers organizations which is another proposal of the EU Commission could indeed stimulate the creation of mutual funds. This will jeopardize the level playing field with farmers who cannot have access to these funds. With such a great potential impact on market FEFAC experts would recommend to include the support for the income stabilization tool under the first Pillar.

Greening

The challenge for the EU agriculture is to produce more with less, in order to help meeting the global growing demand for agricultural products whilst preserving the resources and the environment. This diagnosis is widely shared and legitimates the adoption of measures to meet this challenge.

FEFAC analysis of the current proposal

In the Commission proposals (articles 29 to 33 of COM(2011) 625), 30% of direct payments to farmers are linked to agricultural practices beneficial for the environment:

- crop diversification
- permanent grassland
- ecological focus areas

In FEFAC view, the problem is a bit more complex since reduction of the impact on the environment should be achieved without harming the production potential and even whilst increasing it. To focus on the environmental pillar of sustainability is not enough and resource efficiency is the right objective

FEFAC recommendations

Resource efficiency can be achieved in many different ways and the diversity of farming systems across Europe should be taken into account. This is why FEFAC members believe that the one-size-fits-all solution proposed by the Commission is not appropriate. Sustainability criteria, rather than greening measures, would be more relevant. To assess if these criteria are met, an output based assessment system, relying on sound scientific methodology would be more effective than imposing production means which are not necessarily adapted to all farming systems. With this kind of benchmark, farmers will be able to set sustainability objectives and to demonstrate that they can reach them, no exception being granted for any kind of farming system. This is consistent with the EU Commission strategy adopted in other sectors such as animal welfare , where performance against animal welfare criteria is preferred to prescriptive measures.

In addition to this general principle:

- crop diversification : FEFAC calls for a comprehensive impact assessment of the measure including indirect effects outside Europe. Whilst respecting basic agronomic rules, efficiency and market demand should be the criteria for farmers to select the crop they grow. Crop diversification should not lead to less efficient cropping system that would need to be compensated by an increase in production outside EU borders
- ecological focus areas: it seems difficult to conciliate this measure with the need to produce more. An option would be to have protein crops eligible under these ecological focus areas, taking into account their positive impact on the environment. This would help reducing the EU protein deficit

Functioning of the food chain

With an anticipated higher volatility for agricultural prices in the coming years, the functioning of the food chain becomes a key element for the viability and the competitiveness of EU agriculture and related activities. It is proposed by the Commission to expand the product scope for recognition of producer organizations as well as interbranch organizations by Member States (chapter III of COM(2011) 626).

FEFAC analysis of the current proposal

FEFAC members share the opinion that interbranch organizations should be further developed and would like to highlight some of their positive functions:

- improving knowledge and transparency of production and the market
- helping to better coordinate the way products are placed on the market
- promoting and carrying out research within the limit of precompetitive area.

FEFAC recommendations

Being one of the major outlet for EU arable crops production, as well as for byproducts of the food and biofuels industry, and being one major element of competitiveness for EU livestock farmers, the feed industry should be considered as a legitimate member of interbranch organizations linked to these activities. FEFAC members are ready to contribute to the common effort towards a better functioning of the food chain. Better mechanisms should be identified in order to pass on price fluctuations along the food chain down to the final consumer. Forward contracts may be an interesting option that would require the involvement of the whole chain, including retail, to be effective.

FEFAC also welcomes the greater clarity for competition rules in the current proposal. This is necessary to compensate the current imbalance of bargaining power along the chain but FEFAC would like to stress that the adaptation of competition rules should be limited to cases where this imbalance is clearly demonstrated by the current market observatories.

Preserving the C (Common) of CAP

The CAP is a truly common policy. As stated in the Commission proposals it is an area of shared competence between the EU and the Member States that is being handled at EU level. This is a very important criteria to ensure harmonization and a level playing among EU farmers and related activities.

FEFAC analysis of the current proposal

It is the FEFAC opinion that the Commission proposals offer a greater flexibility to Member States compared to the current legislation. Although flexibility could be useful to address the diversity of EU agriculture and to reach an agreement on the proposals with Member States with opposite interests, it should not be at the expense of the level playing field between countries.

FEFAC recommendations

- voluntary coupled support : although coupled support could be legitimate for certain productions it should not be done on a voluntary basis. This kind of measure has a strong impact on markets and should therefore be accessible to all farmers across EU competing on the same market, in order to avoid distortion of competition
- the possibility for Member States to transfer funds between pillars will also have impact on markets and should be further limited
- contracts in the dairy sector : offering the possibility to Member States to sign written contracts for delivery of raw milk will lead to distortion of competition between member states. In a common market, same rules should apply everywhere.
- Income stabilization tool should be moved to first Pillar