

**ELO Submission to the European Commission and Parliament on the
CAP HEALTH CHECK
May 2007**

Introduction

1. The European Landowners Organisation (ELO) represents the interests of 57 Member Organisations from all Member States of the EU27. We have in membership large and small organisations representing farmers, foresters and a very wide range of land-based rural businesses. Our member associations therefore have a strong interest in the development of European agricultural and rural policy. Because so much of the European land mass has been subject to management for so long, our members have a major interest in and impact on the management of Europe's natural resources – the land itself, the soil, the water and atmosphere, biodiversity and landscape and of course a large part of Europe's most important cultural heritage. We are very concerned that European Policy develops to help land managers steward these priceless resources and at the same time helps provide the conditions for them profitably to produce the unrivalled variety and quality of food for Europe's still growing population.
2. The ELO has a long record of thoughtful contributions to the EU debate on rural policy. It produced, in 1995, what at that time was a path-breaking paper on the Future of Rural Policy. This foresaw the developments of the last decade as policy shifted from its emphasis from managing agricultural product markets to a much broader support policy for land managers with increasing emphasis on the delivery by private land managers of public environmental and cultural landscape services and on rural development. The ELO therefore broadly supported the big policy moves of the last decade, to replace market support and market management by direct payments (MacSharry, 1992), to create a new second Pillar in the CAP for agri-environment and rural development (Agenda 2000), and to decouple the direct payments and expand the second Pillar (Fischler 2003).
3. We recognise these developments have further to run. We can not yet claim to have the mature, climax version of Europe's rural policy. We recognise that after five decades of continuous, dramatic and highly successful enlargement and development, Europe's political, economic, social and environmental development approaches another key stage in 2008/2009. In this period the fundamental questions of Europe's constitution and budget are to be debated, and we hope settled, perhaps for the next half-century. The ELO is already considering how to make the case for the longer run development of the CAP beyond 2013 within this big review of the EU. Our ideas on this will be published later this year. The ELO anticipates that the most critical aspect of this longer debate is the way the EU budget is to be discussed and in particular the future for Budget Heading 2, Protection and Management of Natural Resources.
4. In the meantime this paper takes a lead from the Agricultural Commissioner who has styled the imminent review of the CAP mandated by the December 2005 European Council as a 'Health Check'. Given the comprehensive and radical overhaul of the principal support arrangements for farming encapsulated in the Single Payment Scheme, and given the big restructuring of the Rural Development Regulation and its funding, there is more than enough change for farmers and rural businesses (and our public administrations) to cope with for the rest of the current period until the end of 2013. Therefore we fully support the conclusions of the Finnish Informal

Agriculture Council and the Commissioner that the scope of the Health Check is to simplify and tidy up the CAP for the current period and not to introduce further fundamental reforms. The Commissioner has signalled clearly that she understands that rural businesses now require a degree of stability to absorb and adjust to the massive policy changes of the last three years.

5. In any case, also after 2013, the CAP and EU environmental policy, which are currently funded from EU Budget Heading 2 should guarantee two basic needs. The first is to maintain the productive capacity of European Agriculture with a level of cross compliance which keeps land in good agricultural and environmental condition. This seems to the ELO a highly intelligent minimal prerequisite for Europe's contribution to global food security. Basic land maintenance is also a critical element in a very large part of achieving the second basic need, which is for environmental security. This embraces goals for biodiversity, cultural landscape and natural resource protection.

Realistically the resources currently devoted to the CAP are already not sufficient to guarantee the realization of effective and serious Environmental Policy – the ELO fully supported the Commission's criticisms of the cutting of Rural Development budget for the current financial perspective. However these are matters for the longer term future of European policy and the EU budget necessary to realise European objectives

6. The tables below present a number of issues which the ELO believe are likely to be, or should be, discussed as part of the health check. We have classified these issues into four groups:

A CAP simplification Agenda

- Reform and simplify the Common Market Organisations (CMOs)
- Harmonise and simplify the Single Payment System (SPS)

B Further CAP changes could be introduced before 2014

C CAP changes which are fundamental and so could not be introduced during the current period to 2013

D Other CAP related issues ELO suggests should be discussed during the Health Check

7. The Tables show the ELO position on each of the issues identified. For some issues ELO reserves its position. It is not possible to be definitive, particularly on the details of the balance between the two Pillars until there is clearer agreement on the longer run future of the whole rural support system and the funding of environmental policy. This in turn depends on the bigger vision for the development of the EU – its constitution and its budget – for the next financial perspective (2014-2020). ELO is preparing its ideas on these bigger themes and will communicate on them later this year.

18th May 2007

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ELO choices for the 2007/2008 CAP Health Check

A CAP Simplification Agenda		
Reforming and simplifying the Commodity Market Organisations (CMOs)		
	Topic	Issues to be considered & ELO position
A1	Reform the Wine and Fruit and Vegetable regimes	ELO accepts that the support regimes for these sectors have to be reformed. Broadly we expect the reform to take the same pattern as for all other commodities.
A2	Replace all CMOs with a Single Commodity Market Organisation (CMO)	ELO accepts this as a helpful administrative simplification. We suggest that until there is a clearer strategic approach to income stabilisation then the facility for some emergency intervention should be part of the common CMO. On the related but separate issue of the border regime for agricultural commodities, we insist that as export subsidies are reduced and, depending on the outcome of Doha, perhaps eliminated, then export taxes should also be prohibited. phased out. The EU actions on export subsidies are, of course, conditional on parallel actions by other exporting countries on food aid, export credits and state trading enterprises.
A3	Not to renew milk quotas at the end of their current period in 2014	ELO does not oppose this. Supply management mechanisms were part of the old CAP and are no longer necessary. The long notice given by the Commissioner's indication that quotas should not be renewed after 2014 is already setting in train some necessary economic adjustments, but a clear transition period for this change in policy is necessary.

Harmonising and simplifying the Single Payment System (SPS)		
A4	Full decoupling	ELO accepts the case for decoupled payments so remaining links to commodities should be phased out
A5	Move to regional average, ie flat rate per hectare payments.	<p>Many Member States in the EU15 chose to distribute the Single Payment on a historic basis according to payments in the period 2000-2002. Over time it becomes harder to explain and defend this distribution of support.</p> <p>In principle, therefore a move to regional average payments can be seen as a further, and desirable, step in decoupling. At the same time it makes sense to include within the Single Payment Scheme a larger part of the total managed agricultural area, including for example vineyards and orchards and land grazed by any animals including deer and horses. This brings more land within the minimum standards of care defined by the cross compliance rules.</p> <p>However ELO acknowledges that a move from a historic to regionally-based payments may bring about a significant redistribution of support. Such a move is likely to hurt the more intensive dairy and cattle production farms.</p> <p>ELO therefore stands aside from a decision on this at the moment. The decision should only be taken in the knowledge of the longer run future of the Single Payment. If the Single Payment system were to be seen as a transitional arrangement, then there does not seem to be much point in expending time and political effort redistributing it. If, however the SFP has a secure long-term future then in the process of defining its longer term role this will help identify how it should be distributed.</p>
A6	Abolish Set Aside and Set Aside Entitlements	<p>ELO agrees Set aside is no longer necessary in a decoupled payment policy. We acknowledge that there have been environmental gains from Set Aside but propose that these should be dealt with by adjustments to Pillar 2. There is no sense in preserving a production control mechanism to imperfectly deliver environmental services. We also insist that land which has been in Set Aside remains classified as arable area, and in particular that any areas which have been down to grass whilst under Set-Aside, remain classified as arable for a further transitional period from the abolition of set aside.</p> <p>ELO proposes that Set aside Entitlements are immediately redefined as normal entitlements as soon as Set Aside is abolished.</p>
A7	Abolish Fruit , Vegetable and Potato (FVP) Authorised Entitlements	<p>ELO supports the abolition of the separate category of FVP entitlements. The fears which led to their creation have not materialised so they are not necessary, indeed they are an impediment to efficient land management.</p> <p>ELO proposes that FVP Entitlements are immediately redefined as normal entitlements if this category is abolished.</p>

B Further CAP changes which could be introduced before 2013		
B1	More Compulsory Modulation	<p>Starting from the position as agreed by the March 2007 Agriculture Council (which agreed the special voluntary modulation arrangements for the UK and Portugal), the ELO believes that any future further Modulation should be agreed on a common, i.e. compulsory basis across the EU.</p> <p>Any increase in Compulsory Modulation may be offset by a reduction in Voluntary Modulation (VM) in those countries applying VM.</p> <p>The rules for the distribution of modulated funds must be revisited and must take into account the distribution of core Pillar 2 funds. The question of franchises should also be resolved, the ELO sees no reason to have more than one such franchise.</p> <p>ELO reserves its position on the general extent of Modulation until we are clearer about the longer term future for Pillar 1 SFP, but we would chose Modulation in preference to Digressivity (see C1 below). For the current period the ELO insists that any further modulation must be fully co-financed on the same basis as current compulsory modulation.</p>
B2	Simplification and levelling of cross compliance	<p>ELO welcomes the recent proposals to simplify some aspects of cross compliance.</p> <p>However we are concerned that its different application and policing in the Member States can upset fair terms of competition. It is the Commission's responsibility to ensure there is a level playing field for cross compliance rules and implementation across the EU.</p> <p>We are still concerned that the penalty regime can result in unfair and disproportionate penalties as they are taken as a proportion of the total SFP. This can result in widely different penalties being applied for the same environmental misdemeanour: the principle should be 'punishment' proportionate to the 'crime'..</p>
B3	What degree of co-financing is appropriate for the two pillars? Introduce Member State co-financing of Pillar 1, or reduce it for Pillar 2?	<p>The different rates of Member State co-financing of Pillar 1 (zero) and Pillar 2 (45%) is in itself an obstacle to switching funds between the two pillars, because Member States have to find additional match funding from their own resources to make use of modulated funds from Pillar 1.</p> <p>This has been further complicated by the March 2007 agreement that Voluntary Modulation in two Member States can be flexibly co-financed.</p> <p>Whether the best way to resolve this issue is to raise (i.e. introduce) Member States co-financing of Pillar 1 payments, or reduce it for Pillar 2 can be debated. ELO is not ready to take a firm stance on this until we are clearer about the longer term evolution of the SFP.</p>

B Further CAP changes which could be introduced before 2013, continued		
B4	Cap Pillar 1 payments at e.g. €300,000, funds to be saved or recycled to Pillar 2 within the MS.	ELO strongly opposes payment capping in either pillar. There is no objective reason for it. It would penalise those farms which employ most workers, it will reverse the needed concentration and enlargement of farm businesses, and even the threat of a cap will, in and of itself, set in train unnecessary and costly restructuring. ELO and some member organisations have written to the Commissioner asking that she drops this proposed measure.

C CAP changes which could not be introduced during the current period to 2013		
C1	Digressivity of Pillar 1 payments – i.e. an agreed schedule of annual cuts in SFP	ELO opposes this. The budget for the Pillar 1 SFP and other measures was agreed at political level in October 2002, and although the Council partly reneged on this in the EU Budget settlement of December 2005 (as additional Pillar 1 funds for the accession of Romania and Bulgaria was refused) there was a very clear majority view that there should be no further fundamental change in Pillar 1 support before 2013. As a strategic choice, ELO perceives switching funds between Pillars (i.e. B1 above) as something that can be discussed within the current financial perspective, but not the cutting of SFP alone.
C2	Adoption of Bond scheme for all or part of SFP, i.e. complete decoupling of SFP from land	Likewise, ELO opposes those who propose a Bond scheme as an exit route for all or part of the Single Farm Payment. This again would be a novel, or fundamental, change which it has been agreed goes well beyond what can be discussed for the current perspective.

D Other CAP related issues ELO suggests could usefully be discussed during the Health Check		
D1	Increase payment rates in agri-environment schemes as SFP is cut/eroded	ELO suggests that environmental payments will be a central and critical part of longer run rural policy. The appropriate payment levels and how agri-environment, and forest environment schemes can be administered from the point of view of business and administrative simplicity as well as environmental effectiveness are key questions. Payment rates in particular require much discussion and analysis particularly as the fate of the Single Payment is decided. Current payment rates were agreed in the presence of strong agricultural supports; if those supports are radically changed then the environmental payments will have to change too. These payments should be confined to private sector land managers.
D2	More funding for Natura 2000	The funding arrangement for the management of Natura 2000 sites was not resolved in the recent reforms and the budget settlement for 2007-2013. This subject has not gone away. It seems sensible that this should be back on the debating agenda in the context of the budget review and the future of EU rural and environmental policy. Again the payment beneficiaries should be confined to private sector land managers.
D3	Principles for payments in Less Favoured Areas	This is another matter which was not resolved in the recent reforms. ELO generally accepts that these payments are essentially defined for environmental reasons, and a change in concept from being regarded as agriculturally "less Favoured" to environmentally "favoured" offers a more positive future for these important regions. We note that for many of these areas continued agricultural production is critical for maintaining the open landscape. Whether support payments necessary to achieve this are best done as partially coupled SFP, or Pillar 2 landscape payments is n open question. The ELO view is that the resolution of LFA payments is best left to be decided within the larger and longer term vision for EU resource management and protection, i.e. beyond 2013.
D4	Dealing with volatility in markets; climate, pests & disease	There is every indication that the technical and economic conditions in which land managers (farmers and foresters) will find them selves operating will be more volatile in future decades than in the last few decades. The ELO considers that the EU has systematically played down this problem and it should become a clearer component of future policy/
D5	Introducing environmental considerations into international trade rules	The EU sought to raise non-trade matters in the Doha Development Agenda negotiations in the WTO. Little progress was made on these mattes but they are rising in importance, and must be part of the longer term agenda in EU rural policy debates