

## PAPER

**Title** ELO Response to certain aspects of the Commission's proposals on: A Long term Perspective for Sustainable Agriculture (*4th Draft*)  
**Date** 31 March 2003  
**Place** London  
**Present (if necessary)**  
**Key words** CAP – Reform – CLA

### Overview:

1. The ELO represents organisations for land ownership and management and rural businesses in fourteen of the present EU Member States and is gradually expanding to include in membership, organisations from the candidate countries. Core principles of our organisations are the private ownership of property, sustainable land management, and a business approach to farming, food and rural affairs. The conduct of agricultural and rural policy under the CAP has a large impact on these objectives and on our members' interests. We are therefore eager to explain our reactions to the proposals of the Commission and to discuss them with officials.
2. The detailed proposals for the next stage of reforms of the CAP published on 22<sup>nd</sup> January 2003, are a follow-up to the Communication published in July 2002. The essence of the proposals is the same as the earlier paper, namely to decouple payments from production, reduce them progressively over a seven year period, switching some of these funds to the dairy sector, and also some more funds to the Rural Development, second pillar. However, because of the budget settlement agreed by the Brussels European Council in October 2002, which restricted the growth of Pillar I funds, we note the Commission's ambitions to switch funds to the second pillar have been severely reduced. This is understandable, but to the ELO, disappointing. Our approach, communicated to the Commission in several papers in the last few years, has been to support the switch in emphasis in policy from agricultural production support towards a more integrated rural policy emphasising environmental payments and rural development.
3. The main aspects of the proposals of concern to land owners and managers are those dealing with payment decoupling and payment reductions. This note focuses on these issues, and especially the link between entitlements in the Single Payment Scheme and land. There are of course a great number of other detailed aspects of the proposals which our members will take up with national officials. The ELO may also make further representations to the Commission.

### Payment decoupling in principle

4. Broadly, the ELO supports decoupling. However, for the time being, this support must be conditional. Decoupling is a radical departure from the status quo. Fundamentally, it represents a completely new contract between society and land managers. We cannot be sure that society's new demands will be enduring – this requires trust to be established. Furthermore, decoupling involves some highly complex and technical issues which cannot

be resolved immediately, but will take a lot of discussion. In the absence of agreement on these details it is extremely difficult to anticipate the effects of decoupling. There will be benefits, and these explain our support for the measure in principle. However, unless avoiding action is taken, there are also reasons to expect some highly undesirable effects of decoupling. The most serious of these is land abandonment in some marginal and peripheral regions. There are also strongly voiced concerns about a spill-over effect of spoiling of markets for unsupported products in some other regions. These concerns are especially felt in some Member States. The likelihood of these problems occurring and the magnitude of the difficulties they may cause cannot be judged with any certainty. These features make decoupling a very risky enterprise. The higher risk associated with decoupled payments necessitates further discussion of the appropriate provision of safety nets for European farmers and land managers. This issue is scarcely mentioned in the current proposals.

5. **It is for these reasons that the ELO support for decoupling is conditional on reaching an understanding of how the decoupling will be implemented and how the main problems will be addressed.**
6. The rest of this paper is in four sections.
  - I. ELO's vision of benefits from decoupling.
  - II. Two anticipated problems from decoupling.
  - III. Concerns about the proposed method of decoupling.
  - IV. Comments on more detailed aspects of the proposals.

## **I ELO's vision of benefits from decoupling**

7. The ELO has supported the general principle of payment decoupling, for three reasons.
  - First, as a business organisation we believe that where markets exist, and can function, they should be allowed to work. The commodity regimes of the CAP have become so entrenched they have distracted farmers from the consumers of their produce and focussed their attention on the subsidies. Decoupling supports from production and thus production decisions will therefore assist a move to more market-oriented agriculture, which we support. We note that there will be situations in most Member States where releasing farmers from the obligation to maximise the areas of crops or numbers of animals simply to collect direct payments can result in a welcome increase in their income from farming.
  - Second, the ELO also accepts that production linked payments are likely to be trade distorting. They encourage more output than would otherwise be the case and, other things being equal, this reduces imports and increases exports. Decoupled payments would reduce incentives for overproduction for the domestic market, and consequently reduce trade distortions. We recognise that this is potentially a key part of easing the tensions between the EU and its trading partners. We support this strategy.
  - Third, the existence of production linked subsidies has given ammunition to environmentalists to attack farmers. They argue that the generally higher prices brought about by domestic production linked support has encouraged a greater intensification of agriculture than would otherwise

occur and that some of this intensification is environmentally damaging<sup>1</sup>. Removing the link between subsidies and production decisions will reduce any such encouragement for over-intensive production.

8. Thus decoupling payments can, in principle, diminish several negative aspects of the CAP and therefore remove the basis of some of the most trenchant criticisms of this policy in Europe and abroad. We are not so naïve to suggest that this will eliminate all criticism of the CAP. Compared to previous and existing policy, decoupled payments will be less distorting of production and trade, and they will directly stimulate less environmental damage. But the sector will still be heavily subsidised compared to other production sectors in the European economy and compared to agriculture in most countries in the rest of the world. This policy will also still absorb the biggest portion of the EU budget of any EU policies. The absence, or reduction, of harmful aspects of the policy is a great benefit. But it does not, in itself, provide a sound or sustainable justification for the policy for the longer run. The question will be asked, what are the decoupled payments for? The ELO maintains that there are strong and sensible answers to this question, provided that the decoupling is done in the appropriate way.
9. This is why the ELO has consistently argued that the act of decoupling payments from production can only be half the story. Unless the payments are re-coupled to a worthwhile and socially accepted target, they will be vulnerable, and, some will argue, deserve to be cut. The two main justifications for public payments to farmers and land managers are first that they supply a large quantum of worthwhile and highly-valued environmental and cultural landscape services. Second, these payments must be partly interpreted as compensation for the additional costs of the higher food and feed safety standards and higher environmental and animal welfare standards which European farmers are required to meet compared to those required of many of their competitors. This second argument is a dynamic one; the standards are continually changing and farmers' technology has to change with them, payments are partly to assist this adjustment process.
10. A large part of the European landscape is semi-natural habitat, created and maintained by farmers simultaneously growing crops for food and other human needs. The creation and protection of biodiversity, landscape and heritage are essentially public services for which private land managers are not directly paid. As the supports for their marketed goods are reduced, we argue that this must be replaced by payments for these non-market goods. If this is not done, then the provision of these services will diminish, to the detriment of nature, landscape and heritage. This would be a serious social loss in itself. Given the sensitivity of many habitats and species interactions in nature, once lost some of these processes are irreversible. These environmental losses would also have powerful knock-on effects to other parts of the rural economy – particularly leisure and tourism which critically depend on them.
11. Ideally the payment for these public environmental services would be arranged in purpose-built agri-environment schemes. It is rational that such schemes are operated in multi-annual, programming-based, regionally-defined Rural Development Programmes as are found in the second Pillar. However, we can deduce from the Commission's action in reducing the

---

<sup>1</sup> This argument is consistently exaggerated by environmentalists as it is clear that price supports are just one of a more complex group of explanations for agricultural intensification. Indeed the most intensive agricultural enterprises (horticulture, pigs and poultry) have been least supported, and some highly supported sectors like sheep are relatively un-intensive.

ambition for fund switching from 20% last July to 6%<sup>2</sup>, that the political willingness, and perhaps administrative capacity, to switch funds between pillars is limited. In this situation, it makes sense, in the meantime, to decouple payments from production, but then to re-couple, or link them, to a number of conditions ensuring the proper care of the environment and rural resources, the proper treatment of animals and other aspects of safety of farming and food. In this way we can speak of decoupled payments as 'environmental payments in waiting'<sup>3</sup>.

12. The other principal benefit of decoupling payments from crop and animal production is the simplification of the CAP. The present system of direct payments is extremely complicated. Replacing the individual direct payment schemes for cereals, oilseeds, proteins, beef, sheep, and (soon to be introduced) dairy production, with a single payment scheme offers a large and highly welcome simplification both for farmers and national administrations. Whether such simplification materialises depends a great deal on the way the decoupling is carried out and the definition and administration of the cross compliance conditions.

## II Two anticipated problems of decoupling.

### Abandonment of high nature value farming

13. There are many areas of farm land, particularly in the periphery of Europe, and in marginal areas of all Member States, where farmers are operating at very low income levels. Analysis of farm accounts reveals that such farmers are receiving total (LFA, environmental and commodity) payments considerably in excess of their family income levels. In such situations if the farmers are given decoupled payments with no requirement to produce agricultural output, then their economically rational decision may be to reduce production drastically or even cease production altogether. They will, of course, have to maintain the land in good agricultural condition. It may be argued that in the context of gradual trade liberalisation, this loss of production, *per se*, is not a major concern. There will be no shortage of food supplies on the EU market. However, there are strong social and environmental reasons why this reaction of farmers to decoupling would not be the correct solution for the regions concerned or the EU as a whole.
14. Many of these areas at risk of abandonment of farming are practising high nature value farming systems. They are often mostly livestock, or mixed, farming systems which are closely integrated with nature: they perfectly exemplify true joint production between agriculture and nature. Over long periods, they have created the landscape and semi-natural habitats of their regions. They are often in areas designated under Natura 2000. They are practising low intensity farming systems, and have been subject to the maximum stocking densities in extensification schemes. The point is that they have little scope to react to decoupled payments by reducing inputs or livestock production levels below the well-adjusted levels they are currently practicing, because if they do so the environmental benefits will be lost. If

---

<sup>2</sup> These figures are of course the *maximum* switch of funds at the margin. From the data supplied in the Financial Statement Annex of the proposals, the expected fund switch in 2013 is \_1.48b out of \_36.1b, ie 4%.

<sup>3</sup> We note that the conditions to be attached to the payments involve more than environmental conditions, they include food safety, occupational safety and animal welfare conditions too.

decoupling offers them little or no scope to reduce their production costs because they have to continue more or less with their current production patterns, then they are left with apparently no option but to quit farming altogether. They would then do the minimum to maintain land in good *agricultural* condition. The environmental and landscape loss could be immense, with knock-on social and economic impacts for tourism and leisure activities in these regions. In short, in these high nature value farming systems the environmental output is already well above the minimum levels required for cross compliance. Society is evidently getting its environmental services on the cheap, and if offered the decoupled payment alternative the suppliers may quit.

15. Such situations indicate a classic problem of the inadequacy of current environmental payments. The fact that, given the chance of decoupled payments, many farmers will quit farming and this is accompanied by loss of valued habitat and landscape management, indicates that the current payments do not reflect the true opportunity cost of their labour, management and capital. The correct solution to this problem is that payment decoupling should be accompanied by an increase in environmental payments for these high nature value systems. Ideally this should be achieved by switching funds to Pillar 2, either to enhance LFA payments or to arrange appropriate agri-environment schemes. This solution itself causes problems for poorer regions if such schemes have a strong element of regional or national co-financing. The resolutions of these problems must be found either in fund switching to Pillar 2 accompanied by adjustment of co-financing rates to enable this to happen in the poorer peripheral regions, or in new additional resources for Pillar 2 especially for land management in designated Natura 2000 areas. If these options are not available, then solution must be found in the ideas for Greening Pillar 1 which the ELO shared with the Commission during 2002.

### **The problem for unsupported crops**

16. Representations have been made to all the ELO member organisations about a problem for the producers of unsupported crops. The producers of supported crops may decide to exploit their freedom to farm, once payments are decoupled, by moving into fruit, vegetables, potatoes, intensive livestock or venison, for example. This could lead to oversupply and depression of the markets for the unsupported crops to the detriment of existing producers. The ELO recognises that this is a real issue for some producers and some production. The magnitude of the problem is difficult to assess. Most unsupported crops require specialised skills, knowledge, equipment and marketing arrangements. The newcomers may consider they have what is necessary to successfully enter these enterprises and only belatedly discover they were wrong, spoiling the markets in the process.
17. Two solutions have been discussed to deal with this problem; both have difficulties. The first is to *regionalise decoupled payments*. That is to offer the same entitlements per hectare to all land in a region, including the land of unsupported products. This will involve a significant redistribution of payments – and many losers, perhaps more than the solution sets out to help. It also involves introducing payments for producers who were formerly not receiving, or seeking them. The second is to *extend the list of forbidden crops* for recipients of single payments. The Commission's proposals are that payment recipients cannot enter the production of permanent crops (e.g.

vines or orchards) on land associated with decoupled payments. This list could be extended to cover these unsupported crops. However this 'solution' contradicts the main idea of decoupling which is to free farmers to choose their own cropping according to market conditions. Also it would be difficult to monitor and to administer.

### III Concerns about the proposed method of decoupling.

18. In the light of our perception of the benefits from decoupling explained in section I above, it is important that the decoupling is implemented in the correct way. The ELO is extremely concerned with certain provisions for the treatment of the proposed, decoupled, Entitlements in the Single Payment Scheme. In particular the ELO objects to the proposal in article 49(2) Transfer of Entitlements, that "Entitlements may be transferred by sale with or without land". As far as leasing is concerned we object to the concept of transferring "an equivalent number of eligible hectares". Our suggestion is to replace this paragraph with (words to the effect of):

***"Entitlements may be transferred by sale or by lease, but only with a corresponding number of the eligible hectares which gave right to the entitlement".***

### 19. The reasons for this are as follows.

- I. The principal argument is that developed above. In the ELO view, the main long-term, socially-acceptable justification for continuing payments to farmers and land managers is that they are supplying a stream of environmental and cultural landscape services which society values, and which would not be supplied without the encouragement and support of appropriate rural policy. These services are highly related to land management, therefore payments for the services, naturally, should relate to the qualitative aspects of the land and its area. If this link is cut there are real dangers to resource protection and the maintenance of biodiversity and landscape.
- II. It can be deduced that the Commission accepts this logic because many of the statutory management requirements in Article 4 and Annex III 'Statutory Management Requirements', all aspects of Article 5 and Annex IV, 'good agricultural conditions', the set-aside requirement and the retention of permanent pasture, are *all* directly related to environmental aspects of land management. Those statutory management requirements which are not directly land based are related to animal treatment and food processing and handling. ***Therefore as many of the key cross-compliance conditions for receipt of the Single Payment are land related, the payments should be linked directly to the land which gave right to the payments.***
- III. The motivation for creating separate markets for Entitlements and Land seems to be the hope that this will provide greater flexibility. We submit that, in practice, the extent of any such flexibility so gained will be small, and furthermore that many of the moves it permits will be counter to the desired policy direction, of paying for better environmental land management. It will also serve to disrupt the long established division of

responsibilities of land owner and tenant and threaten the future of rented land. The justification for these assertions is as follows.

- **Lack of entitlement-free land and delays.** First, the provisions of Article 46, determination of entitlements based on areas, clearly require that *all* forage area (and of course all payment-related areas devoted to crops) are included in the 'average number of all hectares which gave right to direct payments'. This will ensure, and in our view rightly, that the area on which any payments sold without land could be subsequently attached, is limited. Any purchaser of the entitlements sold by a tenant, or land owner, without land, would have to track down an equivalent number of hectares, which are free of payment entitlement in order to qualify for payments. There will only be limited opportunities to find such land and there will be few opportunities for it to be conveniently located to allow coherent farming structures. Because of this, the transfer of entitlement rights between land is unlikely to be an immediate and seamless process. There could be a significant period of time before the tenant, or owner, finds the requisite land during which environmental deterioration could occur. Chains of complexity will arise as 'payment entitlements' seek out the cheapest, most easily managed land. Such manoeuvring, and no doubt swapping and reparcelling of entitlements simply to find the least-cost home for them is completely at odds with the prime aim of decoupling which is to focus farmers' minds on consumers rather than subsidies.
- **The uncertain nature of entitlements.** The duration of payment entitlements, and their level, is politically determined and highly uncertain. This is signalled from the very fact that these radical reform proposals, which turn upside-down the Agenda 2000 reform, are being discussed before this package reached its half-way stage. None of the proposed measures are immune from future changes in political priorities in Europe. The only certainty about the decoupled payments is that they will be cut from 2004 to 2012, and they come with environmental constraints. Thereafter there are no certainties. This means that the price of entitlements (if they are independently tradable) will be heavily discounted from their face value at commercial discount rates. This might be good news for buyers of entitlement, but it severely undermines the cost effectiveness of using entitlements as a way of funding early retirement or other restructuring.
- **Entitlements bring stronger expectation of environmental monitoring.** Added to this uncertainty of the duration and value of payments, is the fact that a purchaser of entitlement buys with it a detailed list of obligations on the management of the land, including 10% set-aside<sup>4</sup>. The statutory management requirements are, of course already applicable to all land. However the farm advisory service obligation will, and compliance monitoring activities are likely to, concentrate on 'entitlement' land. To respect these requirements and the good agricultural conditions will take varying degrees of effort and cost. It is rational to expect that one of the motivating forces behind movement of entitlements without land will be to shift it from situations of difficult compliance to easier compliance. Put another

---

4

Although the rules for the transfer of set aside are not yet known

way, entitlements sold without land may seek to move from the arable areas or the main ruminant livestock areas to more extensively farmed land. To the extent this happens it will diminish the leverage available to raise standards in the mainstream farming areas of the Union. These moves are not consistent with the aims of the policy change.

- **Environmental management and investment are generally the tasks of the land owner.** An important part of the rationale for separating land ownership and its occupation is to clarify the different objectives of land management. The tenant strives to run the most efficient farming and food production business, and devotes his investment and managerial skills to this task. Of course good, long term tenant farmers are also well aware of the techniques of environmentally sensitive farming practices. However it is the land owner who has the pride of ownership, the continuity of interest, and thus the long run sustainability of the land and its natural and built assets in mind. It is he who is highly conscious, in his investment and management, of environmental capital and amenity. It is he who is concerned with the woodland, hedgerows, ponds and parkland, and their contribution to the landscape and biodiversity. This is all well-established in tenancy agreements. Building up this environmental capital can be a long-term process, for example it takes many years to establish minimum thresholds for breeding of bird species. This could be put at risk if short term management decisions driven by rules for payment entitlements interfere in such processes. Thus the relationship in land management between land owner and tenant is a classic separation and specialisation of function. Within the appropriate policy and economic circumstances, it works extremely well to achieve social aims for sustainable agriculture. Allowing decoupled payments which, we have argued, are fundamentally justified as payments for public environmental goods, to be separated from the land threatens to upset this long-accepted division of responsibilities.
  - The prime concern about this from the ELO perspective is that proposals will destroy confidence in long-established tenure systems. To allow tenants, or in some countries licence holders, to strip away the support the public offers for sound environmental management from the land, will reduce the area of land available for letting. This would be a retrograde step for the balance of land management which has evolved over a long period in Europe. We look to the Commission to ensure that EU regulation does not override or undermine national land tenure systems.
- IV. In short, the market for entitlements is likely to be thin, involving stress sales, and more to do with avoidance of environmental constraints than positive business restructuring. The ELO rejects this aspect of the proposals and prefers that entitlement moves only with the land which gave right to it. To repeat, our preferred formulation is that: ***Payment entitlements should, where possible, be linked to the land which gave right to them, they should be paid to the occupant of the land, and only transfer with that land.*** We point out that another virtue of this formulation is that it represents the least disturbance of the status quo for both landowner and tenant.
- V. The ELO accepts that in certain cases, for example some large specialist dairy or beef operations, or mobile sheep flocks, there may be

little land in relation to the livestock based payments. We accept the solution proposed for these situations under the Article 50 Special Payment Entitlements, it is for these situations that our formulation above indicates the link to land 'where possible'.

#### **Current paralysis of the land market.**

- VI. There is another extremely important reason for attaching the decoupled payment entitlement to the land which gave right to it and paying it to whoever farms it, which concerns the transitional arrangements until the new regulation is in place and entitlements have been satisfactorily allocated. A very large number of cases have already been notified to ELO member organisations where land transactions, and business restructuring, have occurred since the start of the reference period (January 2000) and the new owner or occupant of the land is extremely concerned about his payment rights. There will be many cases of what appear to be gross injustices where people have bought or rented land at the 'full market price' with the clear intention of buyer *and seller* that supports will transfer with the land, to discover that if the Commission's proposals go through, they are denied payment entitlements. Given the large uncertainties about the size of the National Reserve and delays likely before it can be allocated because of the five year window for Entitlement claims, it is a completely inadequate remedy to suggest that these transitional problems can be dealt with by the reserve.
- VII. These uncertainties for current transactions have resulted in the land sale and rental market being severely disrupted. Transactions are now being put on ice, or set up as very short-term temporary arrangements, because buyers and new tenants are uncertain what rights they are purchasing or leasing. Land and rental markets cannot efficiently adapt without legal clarity about entitlement rights. Participants in these markets have real reason for doubts given that the regulations indicate that entitlements will accrue to the claimants during the reference period. It will be extremely disruptive if the land sale and leasing market is frozen for many months. An advantage of the proposed ELO formulation is that it indicates clearly that the payments go with the land whoever is farming it.
- VIII. ***To deal with the specific issue of allocating the initial entitlements we advocate that, without prejudice to the proposal in paragraphs 17 and 18(IV) above, that it be announced that entitlements will accrue to the occupant of the land at the commencement of the new scheme (proposed as 1/1/04).***
- IX. It is vital that early signals on the resolution of this problem are given to calm the entirely understandable nervousness which has now appeared in the land sales and leasing market.

#### **IV More detailed aspects of the proposals.**

##### **Decoupling and payment entitlements**

19. Apart from the points made in Part III above the ELO accepts the broad thrust of the details of decoupling. It has to be based on an historic reference period. Three years is right; they have to be a recent period.

**National reserve**

20. It is right to have a national reserve for hardship and other cases. We are far from convinced that 1% is sufficient. We do not have complete evidence on the magnitude of land sales and transactions during the reference period, but what we do have indicates that it involves considerably more than 1% of land. In view of the gross injustice discussed above in the proposed allocation of entitlements, there will be a large number of challenges which cannot be resolved by a reserve of only 1%. Even if the ELO proposal for allocation of entitlement is accepted a 1% reserve may still be too small. This is because we suspect that natural justice will not be seen to be done if the grounds for hardship are restricted to those listed in Article 43 which exclude business restructuring. We are aware of some deep injustices which will arise if more discretion is not given to allow some cases of business restructuring to be included under hardship.

**5-year claim period**

21. A related issue is the long period, 5 years, suggested for entitlement claims to lie fallow (A48). We are not convinced it should be this long. The longer it is the longer people will have to wait for full allocations from the National Reserve.

**Short term grazing lets**

22. We are concerned about the definition of forage area in Article 46(3). In many parts of Europe there is a common practice in which livestock producers have restricted areas of land in their occupation “throughout the calendar year”. These producers rely heavily on short term grazing agreements and grass lets, typically for six months in the spring and summer. If a significant part of the forage used by these producers is not included in their “average number of all hectares” then their entitlement rates per hectare will be high – but seldom as high as the threshold (10,000) to tip them into Article 50 Special Entitlements. Because there will be highly uneven outcomes in the Entitlement rates, there will be distortive effects on grazing rents. In addition, there will be a significant area of apparently entitlement free grassland over which there will be no leverage of cross compliance. The ELO advocates removing the phrase “throughout the year” from A46(3), this is consistent with our approach that entitlements should be linked to the land which gave right to them.

**Conditions for receipt of payments**

23. The **statutory management requirements** of A3 and Annex III should be restricted solely to actions it is reasonable to apply to farmers as farmers, and for which it is reasonable to expect that farmers can affect the outcome. This does not seem to be the case for some of the public health, plant health and environment directives cited.
24. The **good agricultural conditions** (A3, A5 and annex IV) proposed are a sensible balance of important and achievable aspects of land management. The workability of these conditions will depend to a great extent on their detailed definition, the way they are communicated to farmers, and the way the monitoring is conducted. Due attention must be paid to the appropriate recognition of regional variations in topography, hydrology and climate in defining these conditions. The ELO is ready to help with these issues. The active promotion of

the conditions to all farmers once they have been agreed will be vitally important for the success of these conditions.

#### **Permanent crops and permanent pasture**

25. The proposals are unnecessarily dirigiste in their provisions on permanent crops (A56) and permanent pasture (A5). In a decoupled support system there is no justification for imposing negative coupling – thou shall not use land for certain crops. We do not advocate going down the route of defining products farmers with entitlements cannot go into or expand. This is precisely the supply management route which has been discredited. The ELO would remove this constraint, especially if this prevents some land going into trees, whether for timber production, amenity, recreation, multi-purpose woodland or for biomass. These decisions are completely inappropriate to be decided at EU level, at the very least they should be devolved to Member States or below, and are actually best left to individual land owners within the land use systems applied at regional level. Similar remarks apply to the requirement that permanent pasture as of 31/12/02 should remain for all time. Permanent pasture means different things in different regions, its botanical quality and value varies widely, and in any case, is protected by the Environmental Impact Assessment process. This is another undesirable, over-centralising proposal and should be rejected.

#### **Set Aside**

26. The ELO is opposed to the proposed 'long-term set aside'. This is a muddled proposal which continues to mix supply control objectives with environmental provision. It is also incoherent with the strategy of decoupling payments to move them into WTO Green Box. If they are no longer Blue box, then the rationale for production limiting measures is eliminated. We recognise that there is a reasonable concern that if set aside were released in a single step, and at the same time significant other changes in policy were implemented, this could result in an undesirable surge in production and depression of prices. This suggests that the set aside should be reduced steadily as market conditions permit. It makes no sense at all for a decision on the area and the duration of land which ought to be taken out of production to be made by diktat from Brussels. The decoupling of payments will precipitate part of this decision making, at the level it is best done - on the farm. If, in addition to land taken out of production voluntarily by farmers, Member States or regions wish to pay for further land to move out of commercial production and into some long-term environmental management regime, then it is for them to set up the appropriate Pillar 2 agri-environment schemes to do this.

#### **Energy crops**

27. The ELO is not satisfied with the proposals on energy crops. In our view it makes no sense to disallow biomass crops on set- aside (if that is to continue), neither should land managers be prevented from growing these crops on their former cropped land – as appears to be the case in the ban on permanent crops. We are also concerned about the allocation of the proposed 'carbon credit'. These elements of the 2003 reform proposals do not represent a coherent approach to the important issue of the proper place for renewable energy in agricultural policy.

#### **Degression and Modulation**

28. The ELO strongly supports the view that cuts in payments should be on a fair, simple to operate and understand, flat rate basis. In principle, this should apply to all commodity based direct payments.
29. On modulated payment cuts, the first best outcome we seek is to have no franchise or threshold (proposed at \_5k and \_50k respectively). If this is not achievable, then the second best outcome is a lower franchise. We would not

AB-62P-2003-EN  
URGENT INFO

support a lower threshold, nor additional steps in the modulation. The ELO supports the decision to drop the idea of a payment ceiling, and we would not wish this idea to be resurrected.

A0842625

**26<sup>th</sup> March 2003**

**European Landowners Organisation**  
**23 Avenue Pasteur B-1300 Wavre – Belgique**  
**Tel: (0) 10 23 29 02 Fax: (0) 10 23 29 09**