

THE SIMPLIFICATION OF THE CAP AND THE HEALTH CHECK

In November 2007, the European Commission unveiled its Communication on the Health Check of the CAP. The so-called 'Health Check' is built on the approach which began with the FISCHLER reforms, and seeks to improve the way rural policy operates, based on the experience gathered since 2003, and to make it fit for the new challenges and opportunities in EU 27.

The Communication examined the possibility of further policy adjustments to take account of market and other developments in focusing in particular on the Single Payment Scheme, market support instruments and new challenges. The Communication was designed to kick off a wide-ranging six-month consultation which took the form of a questionnaire to which ELO responded. Also part of this broad stakeholders' consultation, the DG AGRI organised on 6 December 2007 a conference in Brussels which dealt with all the topics covered by the Health Check. It brought together experts, including ELO, representing the various social and economic interests (producers and cooperatives, trade, industry, workers, consumers, environmentalists, animal welfare interests) as well as Members of the European Parliament, the Economic and Social Committee, the Committee of the Regions and the Court of Auditors. Another special seminar on the future of the dairy sector, to which ELO also participated, took place in Brussels on 11 January 2008.

In its answer to the Health Check questionnaire, ELO constantly recalled that it did not consider that the Health Check should introduce new reforms, stressing the need for stability. It accepted the Health Check could and should bring simplification and streamlining, but not fundamental reform. Both Pillars of the CAP have been radically reformed since 2004 and many of these reforms, including the new Rural Development Programmes, have just been approved by the Commission for implementation, while some remain to be approved.

ELO stressed that whilst it was right to discuss the correct balance between the two Pillars and the mechanisms for changing this balance, it was very hard to see how the outcome of such discussions could be implemented before 2013.

In responding to the consultation, ELO was willing to insist on the fact that ELO members were expecting more clarity about the way the CAP will evolve in the longer run and

particularly on the future financing of measures dealing with long term market failures.

The questionnaire dealt with a couple of issues such as:

- On simplifying the Single Payment Scheme (SPS), ELO's answer was that the elimination of the Fruit, Vegetable and Potato authorised entitlements was already a sensible simplification. Provided set-asides were abolished for good, the removal of set-aside entitlements would be another welcome simplification of the Single Payment System. Likewise the simplification of the 10 months rule already underway was a welcome move. Set-aside have no place in the 'decoupled' CAP, however for those Member States who wish to have voluntary set-aside, this should be possible and implemented under an EU-wide voluntary arrangement, paid-for and arranged by amending Pillar 2 agri-environmental schemes.

ELO indicated that it believed in decoupling payments from production and recoupling them to the delivery of environmental and cultural landscape services, and this should apply to all products and in all regions. Retained product-specific coupled payments seemed unfair competition to other producers within the single market.

- As regards the **adjustment of the Members States' Single Payment Scheme model towards a more flat rate of support, at national or regional level**, ELO thought that Member States should be allowed to make these adjustments, but it should be an optional, not compulsory move. Besides, ELO supported a close relationship between the payments and the land, this was the best way to ensure the land was kept in Good Agricultural and Environmental Condition.

- **On cross-compliance**, ELO made it clear that if there were to be an enduring case for substantial payments to private land managers for their delivery of public environmental and cultural landscape services, then the real debate was in which form and through which instruments to make these payments. What mix of Pillar 2 payments, for example in Agri-environment and Less Favoured Area schemes, and Pillar 1 payments for respecting tough EU standards would be optimal? ELO had no clarity on this but if tougher EU standards – e.g. for water management – would be applied then this would provide further justification for farm payment. Simplification may lighten the administrative burden but should not undermine the effectiveness of the Cross-Compliance measures in delivering high standards.

- **On capping**, the Organization firmly said that if the payments are to move towards a flat-rate or Regional Average Payment, then it makes no sense to counter this simplification with a complication to differentiate payments per hectare and digressivity of payments according to farm payment size, and urged the Commission to drop it.

- **On price intervention**, ELO believed that the best way to maintain the safety-net role of intervention was to maintain it as a measure of last resort in extreme conditions, i.e. as a true safety net. The Commission should not use the current high grain and oilseed prices to remove the legislative basis of intervention. Agricultural markets could collapse as well as boom and in such circumstances it would be wise to have tools at the rural world's disposal which may be modified to suit the circumstances but do not have to be reinvented from scratch.

- **On milk quotas**, ELO answered that it was a thing of the past, and had no place since the introduction of decoupled payments. There is no need for the EU to decide how much milk should be produced, even though ELO acknowledged that certain marginal regions (e.g. mountainous regions) may face difficulties when the protection offered by milk quotas is removed. If there were environmental and cultural landscape problems in certain regions associated with livestock agriculture, then these would be best dealt with Pillar 2 measures.

- **On risk management**, ELO had been saying for some time that coping with the extra volatility in markets, the international economy (i.e. exchange rates and interest rates), coupled with physical factors affecting food production, animal and plant disease spread and evolving climatic conditions (drought, flood, fire), would require more attention. ELO did not consider the Commission's current stance that dealing with volatility should be left to the Member States and dealt with in Pillar 2 was an adequate position. Although as an Organisation it did not have a prepared tool-box of measures to offer to deal with this problem, ELO stressed that more discussion was required about the development of crop insurance and revenue insurance and on who would pay for it.

- **As regards new challenges** such as climate change, bio-energy, water management and biodiversity, ELO's position was that as these challenges were relatively new areas, with many policy instruments impacting on these, especially renewable energy; it was hence not clear what specific role the CAP should play. It was too soon to pronounce on the correct adaptation of the CAP to the new challenges but it is not too soon to start debating on how the major part of the current CAP which is concerned with the delivery of public environmental services should adjust to strong changes in market conditions.

- **On increased modulation**, the answer was that given the challenges already manifest, it may well be necessary to shift more CAP resources to ensure the appropriate delivery of the public goods and services. ELO was currently debating whether this was best done in Pillar 1, for example using a suitably amended Article 69 (now 58) of Regulation (EC) No 1782/2003, or whether it should be done in Pillar 2. There were many questions which had to be answered about the operation of Pillar 2 as many Member States found the co-financing impossible while in some of them the scarcity of resources had forced them to limit the eligibility of Pillar 2 schemes to farms below a certain threshold... This would surely preclude larger farms from delivering the public services society expected from them.

ELO nonetheless pointed out that there must be a stronger debate in the context of the Health Check about the problems of moving funds towards dealing with market failures – which was generally accepted as the right way for the CAP to evolve. Many MS were thoroughly disenchanted with Pillar 2. There were concerns that getting the funds through Pillar 2 measures were too bureaucratic and too much was thought to leak out away from private sector land managers.



ELO has been thoroughly advocating for years during various meetings with EU representatives and national senior officials that it was not too soon to start reflecting on the future adaptations which may be required for Pillar 2. Whilst there was a general acceptance that Pillar 2 measures for rural development and for paying for public environmental and cultural landscape services were the right general direction, there were many problems surrounding the present arrangements, such as the financing of Pillar 2, the complexity and administrative costs of some of the schemes, the accessibility of the measures for all farmers and potential beneficiaries, measures to deal with the continuing flight from the land, and the current problem of the rising opportunity cost of environmental delivery as commodity prices rise.

These are complex matters that will not be quickly resolved. This is why the Commission should be encouraging debate on these matters during the next two years. The ELO is very keen to participate in this debate and will be submitting its own thoughts in the near future.