



Confédération des industries agro-alimentaires de l'UE  
Confederation of the food and drink industries of the EU

TCO/017/08E-Final Updated

Brussels, 13 March 2008

## CIAA reaction to the Commission's Communication on the "Health Check" of the CAP

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### 1. The food industry and the Health Check of the CAP

The food and drink industry welcomes the Commission's Communication on the Health Check, which is a fair result of consultations undertaken since several months. For CIAA, the Health Check must: consolidate the CAP reform, provide the necessary modifications in view of current trends, and prepare the sector for changes after 2013.

The primary role of agriculture is, and should remain, the **production of agricultural raw materials for food and feed**. Based on an adequate balance between the first and second pillar, the CAP has to pursue its role of supporting the sustainable production of agricultural raw materials in the single market and thus contributing to the competitiveness of the food and drink industries. Indeed, industry needs raw materials supply that corresponds to specific quality criteria, be in sufficient quantity and competitively priced.

The successive CAP reforms have led to a more market-oriented agricultural policy. CIAA has welcomed this. It enables farmers to take decisions according to market developments and their subsequent expected returns. Agricultural markets are currently facing **important price increases**, which completely change future demand and supply assessment in agriculture. The reasons for the surge of agricultural raw materials' prices are multi-factorial and include both short-term temporary as well as long-term structural changes in supply and demand. These factors lead to availability concerns for food production. The review of the CAP reform has to take this situation into account in view of preventing major market imbalances and disruptions.

CIAA encourages the Commission to **monitor market situation closely**. Beyond this already existing process, DG Agri should improve, formalise such mechanisms and, develop, for example, an **observatory** looking regularly at availability and price of agricultural materials. Finally, it should assess distinctly the impact of structural change and conjuncture on markets.

Finally, in preparing the CAP for upcoming challenges, it is crucial to take account of the necessary **coherence between European policy objectives**, such as agricultural production, environment protection, bio-fuels' promotion, food safety requirements, the use of GMOs and trade. Measures and instruments developed under these policies should prevent major market imbalances and disruptions that would prove damaging for the EU food and drink industry.

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## 2. Simplification in the areas of direct payments and cross-compliance

The EU food and drink industries' competitiveness relies upon a European agriculture that is competitive and market-oriented. Instruments of CAP's first pillar, direct payments in particular, provide the framework for the sustainable production of agricultural raw materials. CIAA supports the **Single Payment Scheme** moving towards a more equal treatment between farmers and welcomes the Commission proposal to allow Member States to adjust their chosen model **towards a flatter rate** in the context of the Health Check. This will help to:

- Move the justification of direct payments away from compensation payments for decreased price support towards cross-compliance enforcement tools;
- Decrease the competitive distortion between farmers by reducing differences between payment entitlements based on production decisions taken 10 years earlier;
- Reduce administrative costs; and
- Enhance sustainable fruit and vegetable production.

Progressive separation of direct payments from historical reference values goes in the right direction. In particular, flatter payment rates should go hand in hand with the distribution of entitlements to vegetables producers.

CIAA supports the review of the remaining coupled payments and shares Commission's views that total decoupling provides increased production flexibility, favours market orientation and, finally, simplifies the CAP. CIAA wishes decisions on this matter to be taken on a sectorial basis. Exceptions to full **decoupling** should be as few as possible: some sectors continue to fear that full decoupling does not secure appropriate supply for the industry (potato starch, durum wheat, beef) and, in these cases, partial coupling can be more appropriate.

Specific support measures that Member States would be allowed to grant under a revised **Article 69** of R.1782/2003 can respond to some sectorial concerns, notably as regards local supplies. However, conditions attached to this provision must lead to a limited and well-defined use of this instrument, in order to ensure fair treatment of farmers across the EU territory and at, the same time, to avoid market distortions between Member States.

CIAA fully supports cross-compliance's principles aimed at promoting the respect of specified standards as it reinforces consumer confidence for agricultural production. The Commission wishes to adapt the **scope of cross-compliance** in response to new environmental challenges. Targeting cross-compliance measures in view of enhancing sustainable agriculture is appropriate. In parallel to this process, CIAA would like some problem areas, notably regarding duplication of checks and audits, to be addressed.

## 3. Reviewing market instruments

CIAA welcomes the proposed review of the remaining market instruments, on a sector basis, and has assessed the different market instruments according to both, their ability to improve the response to demand from the market and prevent situations of crisis, and, to remedy to temporary imbalance of the market.

CIAA supports the Commission's approach regarding set-aside and energy crop premium:

- A large majority of CIAA members welcome a permanent ending of the **set-aside scheme**. This tool is no longer appropriate considering that support is no more linked to production and its elimination would provide more flexibility to farmers.
- CIAA supports the elimination the energy crop premium in the light of the new incentives for biomass production.

Moreover, measures such as the temporary suspension of customs duties, recently approved for certain cereals, can contribute to providing relief to the supply problem of the food and drink industries.

Other tools that are not addressed in the Communication could be considered in view of limiting price volatility of raw materials.

- Storage is a traditional response to price variability throughout the year. CIAA welcomes Community **support for private storage**.
- Setting up "**strategic stocks**" of certain raw materials, notably cereals, should be envisaged as one of the options to be further analysed. It needs to be ensured that the way in which this option would be managed will not cause unintended distortions of the market flows in the detriment of European supply and demand.

In parallel to the instruments based on the EU legislation, **various degrees of vertical integration**, from production contracts between industries and farmers to full vertical integration, are already used in a number of sectors and can play an active role in preventing market crises or mitigating their effects. Such organisations of the food chain could be further developed with the support of public authorities but, in a majority of cases where industries buy raw materials from traders, it is not an option.

The problem of low-level presence (LLP) in the EU of **GM events** authorized outside the EU but not yet EU approved needs to be addressed in an open discussion on the enforceability of the European GMO regulatory system. Moreover, asynchronous approvals of GMOs lead to increasingly supply problem. These issues are not market instruments, but they need to be looked at in Europe.

Finally, as long as gaps between EU and world market prices remain and in the absence of other workable alternatives, **export refunds** are essential to ensuring the competitiveness of EU food and drink products on non-EU markets. The phasing out of refunds has to be linked with internal agricultural reforms and its timetable has to enable sectors to adapt.

#### 4. Meeting new challenges

Globally speaking, CIAA supports **a balance between first and second pillars**. The first pillar must provide the framework for a competitive, market-oriented and sustainable agricultural sector. The second pillar should not detract from these first pillar's objectives and should complement it by providing rural development measures supporting innovation capacity, diffusion of information technology, product quality and safety, marketing of foodstuffs.

To finance the strengthening of the 2<sup>nd</sup> pillar, CIAA favours compulsory modulation as opposed to voluntary modulation that could lead to distortions between Member States. The extension of **compulsory modulation** should be linked to an assessment of the effectiveness of second pillar measures with regard to the food supply chain competitiveness and to the effects of increased co-financing. A common market for agricultural products must remain a guiding principle for the EU agricultural policy.

With respect to **price and production risks** management, CIAA supports the Commission's cautious approach regarding a EU-wide tool. Some systems, such as **insurance systems or future markets**, can help operators to manage a wide range of yield, price and revenue risks. Operators could be encouraged to develop them and use more of them.

Among the proposed possibilities to deal with the new challenges, CIAA in particular welcomes the support for **research and innovation** that are indeed crucial to address new environmental and productivity challenges, including second-generation bio-fuels.

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