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OCTOBER 2008

OPINION OF THE CPMR *

(Approved by the CPMR General Assembly, 1-3 October 2008 - Bayonne - FR)

CPMR CONTRIBUTION ON THE REFORM OF THE COMMON AGRICULTURAL POLICY (CAP)

During this exercise, the CPMR would as far as possible like to avoid focusing on short-term scenarios in order to look ahead to the possible shape of a future Common Agricultural Policy that aims to develop:

- improved territorial distribution of aid allocated under what is now called the First Pillar of the CAP;
- a role for the regions in delivery that is commensurate with their responsibilities vis-à-vis citizens, whether they be rural people, farmers or employees in the agri-food industry, or “just” consumers of products or users of places and services.

It is impossible to be unaware that the European Commission published a Health Check on 20 November 2007, translated into legislative proposals issued 20 May 2008, that is presented as being a preparatory action for the budget reform that must take place in 2008-2009. This Health Check is evidently more than just a technical adjustment exercise, and its proposals already constitute a blueprint for the future CAP. This contribution by the CPMR thus focuses both on the Health Check and the long term. Before any detailed comment on the proposals of the Health Check, the CPMR considers that any important evolution of the CAP should be based on a genuine strategy. Such an approach does not seem sufficiently present in the Commission’s arguments and proposals.

* *Approved by the CPMR Political Bureau held in Rhodes (GR) on 27 June 2008: 1 vote against (Västra Götaland, Sweden) and one abstention.*

1 - THE FOUNDATIONS FOR A CPMR REFLECTION ON AGRICULTURAL AND RURAL ISSUES

1.1 - From the global to the regional level: producing while balancing territories' assets

1.1.1 - Feeding Europe - food security and safety - helping to balance the world's food supply

We are familiar with the fundamental changes in the agricultural economy at global level. Demand for agricultural commodities is growing faster than supply, which increases the strategic importance of European agriculture. The CAP should guarantee a safe and stable supply of foodstuffs for European consumers that have been produced in compliance with the strictest security and sustainability standards.

In every reform of the CAP, the CPMR urges that great care should be taken regarding the legitimate expectations of both farmers and the society at large. Moreover, the CAP needs to take into account changes in the world's food situation, without hindering the capacity of developing countries to secure their independence in terms of food supply.

1.1.2 - A balanced CAP: Taking on board the regional dimension to maintain the diversity within the European farming industry and promote a high standard European model

In 2007, the CPMR conducted an analysis of the regional breakdown of funds spent under the First Pillar, concerning both direct payments and market price support. It has noted the extremely wide variety of degrees of dependence from one region to another within the CPMR network.

The CPMR does not take this to mean that there is a need for total standardisation of First Pillar support from one region to another or from one production sector to another. But it does emphasise the need to anticipate the territorial consequences of changes to the First Pillar, such as those proposed in the Health Check. With forward-study exercises like Scenar 2020, the Commission is limiting itself too much to sectoral and macro-economic assessments, whereas territorial scenarios should also be developed. From this point of view, there ought to be a readjustment between sectors and between territories.

Diversity within the European farming industry constitutes a decisive comparative advantage for the EU. The CAP needs to ensure that all the elements that make up this diversity are maintained: biodiversity (wild and cultivated), diversity of products and methods of production (especially organic, GM-free or traditional farming). A quality model complying with EU guidelines and recognised by consumers throughout the European territory needs to be consolidated in order to use this diversity to its best advantage. A unified system like this will give all farmers the chance to give value to their produce while avoiding distortions of competition, both within the EU as well as with third countries, particularly within the WTO.

1.1.3 - Using the CAP to ensure fair payments to farmers, secure food supplies and regulate prices

The CPMR's member regions continue to believe in the need for a Common Agricultural Policy focused on the production of food products, taking into account the necessary adaptation to climate change. One of the objectives of the CAP is that it should support farmers as economic actors. The 2003 reform increased the competitiveness of the agricultural sector by showing that the European farming industry can be competitive on the world market. Nevertheless, the CAP needs to be able to intervene to guarantee the income of farmers in the case of market failures.

In the current context of rocketing prices and historically low stocks there are serious risks of shortages, the impact of which at global level has been seriously underestimated. Security of supplies therefore remains a priority and strategic objective for the EU. Consequently, the instruments designed to regulate markets remain indispensable. They need to be able to alleviate the biggest variations in prices, to the benefit of farmers where prices are too low and to the benefit of consumers where prices are too high. However, they also need to be able

to compensate for natural handicaps. This does not mean that the CPMR recommends maintaining all the current tools used to manage the markets, but it does want them to evolve in line with the context.

Conclusion on points 1.1.1 to 1.1.3:

In light of the strategic importance of the farming and food industries for Europe, of the need to maintain a territorial balance of production and the vital importance of compensating for market failures, the CPMR believes that agricultural and food policy must remain a common policy.

1.2 -Rurality/Agriculture, the Second Pillar of the EU's CAP/regional policies: setting the objectives and making consequent changes to community instruments

1.2.1 – Using the CAP to protect ecosystems and maintain landscapes, soil and water resources in a sustainable manner

Bearing in mind the key role farmers play in tending the countryside and the environmental quality of rural areas, the CAP must continue to play the societal role currently fulfilled by Axis 2 of the EAFRD.

The CPMR considers that thought should be given to the status of this type of support in order to better define the services that farmers render to society. How can farmers be paid for this task? How can a contractual relationship between society and farmers be brought about in practice? Farmers keep the land in a good agricultural and environmental state, in accordance with the principle of cross-compliance, but their commitment goes further than this because they also contribute to the overall maintenance of territory and landscapes.

Furthermore, an agricultural model that is more environmentally friendly and respects biological cycles could contribute towards mitigating the effects of climate change. The single industrialised model has shown its limits and contributed towards accelerating climate instability. Consequently the CAP should be oriented towards a more environmentally friendly system. This will benefit both the farming industry and society as a whole.

1.2.2 – Using the CAP to promote competitiveness in the agricultural and agri-food sectors

Aside from providing direct support for generating farmers' incomes, the CAP must also concern itself with the survival and development of agri-food industries that are either higher up or lower down in the agricultural production chain. This means balancing a productive system that ensures regular supply with a competitive processing industry to guarantee the future of farming activities, particularly in vulnerable territories. A reformed CAP must accord a high degree of priority to supporting these industries.

1.2.3 – Territorial cohesion policy for the development of rural areas

The issue of development in rural areas, towards greater innovation and quality of services for all the inhabitants and economic stakeholders, goes far beyond just the framework of agricultural development. The CPMR is currently developing an analysis according to which rural development must become a priority for EU regional policies. After 2013, we consider that all regions must be covered by a territorial excellence objective, which would have a priority focusing on rural development.

The mechanisms of regional policy governance, which can of course be improved upon but already give the regions scope for manoeuvre and significant responsibilities, would thus be applied to rural territorial development. Besides being commonsense, such a reorganisation would have the advantage of removing the current grey area in which the EAFRD and the ERDF intervene simultaneously, in the field of Axis 3 of the EAFRD (improvement of the quality of life and diversification of the economy) and of the LEADER programme. This would probably lead to an improvement in the services offered to rural people and increased attractiveness of these territories for people and businesses.

Conclusion on points 1.2.1 to 1.2.3

The CPMR proposes that rural development policy, currently constituted by axes 3 and 4 of the EAFRD, should be integrated into an overhauled territorial development policy independent from the CAP. This would mean reviewing the current distinction between the First and Second Pillars. The general idea behind the new CAP should then be based on contractual agreements with farmers, producers' organisations and the different sectors.

In this context, national funding (co-financing and also state aid) will have to be limited in order to avoid excessive variations in support leading to the risk of distortion of competition between Member States and European regions.

1.3 - Governance of the development of agriculture and the agri-food industry: giving regions resources that are commensurate with their responsibilities

As an organisation representing the regions, the CPMR lobbies for their involvement in EU policies¹, especially when these have an impact on the territory, which is evidently the case with agricultural and rural policies. Aside from this position of principle, which is legitimised by the progress made in the Reform Treaty, the following arguments underpin this approach:

- Even though the CAP is determined at EU level, it none the less has a local impact: the regional level is best placed to avoid a mismatch between big objectives and local implementation.
- If the respective fields of intervention of the First and Second Pillar evolve in 2013 in a way similar to that proposed above, it will also be necessary to provide for the organisation of coordinated delivery at the appropriate territorial level: support for the agri-food sectors, disadvantaged areas, quality policies that are partly based on geographical criteria, a bigger role for farmers in spatial management, etc. In decentralised member states, the regions are in practice already organising these different aspects. It would be worthwhile to gather information on these experiences and evaluate them in order to learn the lessons in order to organise future regional agricultural governance.
- It is also at the regional level that efforts should be undertaken to promote complementarity between a rethought agricultural development policy (reformed Second Pillar) and regional policy applied to rural areas (ERDF);
- The CPMR supports the roll-out of a regionalised model for calculating direct subsidies, although it wants Article 59 of Regulation 1782/2003 to be revised, which would make it possible to ensure greater equity in intraregional implementation: see point 2.1;
- The current EARDF Regulation (Articles 6 and 7) lets the member states organise the partnership with regions regarding the preparation and implementation of rural development plans as they think fit. This regulation must be urgently revised in order to ensure its conformity with the Treaty, and the mid-term review of rural development programmes will provide an opportunity to put the new provisions into practice.

¹ Extract from a recent publication by the Groupe Saint Germain, an agricultural think tank: "On the basis of the new issues – those related to the environment, food and energy – European strategy should thus incorporate the principle of subsidiarity in each country towards the regions, which constitutes the right level of management for agricultural policy. A pragmatic plan based on regionalisation would be a good position based on the issues: environment, quality, energy, techniques, occupations ... while not forgetting the whole cultural dimension of food – from the basic ingredient to the processed product."

2 – INITIAL APPLICATION OF THESE PRINCIPLES: RESPONSE TO THE HEALTH CHECK

Not all of the chapters of the Health Check are covered below, only those that merit an interregional position and correspond to the CPMR's fields of work.

Drawing on the principles outlined above, the analysis and proposals are designed to be set within the context of the debate on the post-2013 CAP.

2.1 – “Simplifying the Single Payment Scheme”

The current systems adopted by the member states were only introduced from 2005/2006, and the arrangements chosen (with or without prior consultation of the regions) vary from one state to another, and sometimes even from one region to another within particular countries (the UK for example).

Before 2013, the CPMR proposes:

- that the Commission develops its knowledge of the advantages and drawbacks of the various systems concerning: their impact on the sectors, regions, categories of farmers, with particular attention given to territorial equity.
- that, in collaboration with their regions, those states that so wish adjust their models between 2010 and 2013, by drawing on the work of the Commission and all the experts that have already worked on these issues. As already demonstrated in the study published by the CPMR in September 2007 (*Europe's Peripheral Maritime Regions and Changes to the CAP - Elements of analysis and discussion concerning the First Pillar*), the 2003 reform already gives interested states the possibility to establish direct support equalisation mechanisms to promote cohesion between and within regions.

The tools have already been available since 2003. They now have to be fine-tuned and above all improved in terms of **governance**, in order to promote **equity**.

Regarding **governance**, the following principles must be respected and introduced into legislation (Regulation No. 1782/2003):

- consultation of the regions on the choice of model: this consultation should become compulsory, whereas certain states only consult farmers' unions
- this consultation must be undertaken on the basis of a comprehensive presentation on the impact of each of the options.

Regarding **equity**, the CPMR is in favour of mutualising direct support through the setting of payments at regional level. This system has been in place since the Luxembourg reform, in the five member states that opted for the calculation of direct subsidies based on the regionalised model. Regionalisation of the calculation of direct subsidies is undoubtedly a more redistributive system than taking into account historical references. Farmers that in the past have had a single payment amount per hectare lower than the regional average, or even none at all (because they do not have any “eligible” hectares) thus benefit from a readjustment in their favour.

However, this system may prove difficult to introduce in regions with a wide range of agricultural production systems because it would lead to extensive redistribution of support, running the risk of provoking intense confrontation between different categories of farmers. This is why the CPMR recommends that Article 59 of Regulation No. 1782/2003 should be revised, as this would help to introduce more equity in its subregional application.

Furthermore, the setting of a payment at regional level (indeed no more than at national level) does not break the link between the amount of decoupled direct payments received by a farm and its size in hectares; the biggest units still receive the biggest grants. The introduction of **progressive modulation** could be undoubtedly a valid option here.

Regionalisation should in fact be conceived not as a redistribution mechanism, but as a optimum way of using financial resources to support development and investments in the regions.

2.2 - “Partially coupled support”

The CPMR entirely shares the Health Check’s analysis which states that *“Whether, to which extent, and until when partially coupled support should remain should be seen in a clearly regional context. The Commission proposes a case-by-case analysis to identify the potential risks from a move into full decoupling and the possible alternatives.”*

Such an approach will safeguard the future of agriculture and processing industries in vulnerable areas. It also appears in the chapter of the Health Check devoted to preparing the “soft landing” of the dairy quota expiry.

The CPMR understands that when the Commission talks of a “clearly regional context”, it is committing itself to ensuring regional authorities’ participation in the selection of the best options.

2.3 - “Upper and lower limits in support levels”

Regarding the **lower support limit**, the Commission is proposing to avoid situations where recipients receive such small payments that they are lower than the administrative cost of managing them. The CPMR considers this analysis to be commonsense as long as it is really implemented “in such a way that would not affect farmers.”

Regarding the **upper support limit**, the Commission is not proposing the introduction of ceilings, but the gradual increase in modulation for bigger farms (**progressive modulation**). Introducing ceilings understandably provokes an attitude of rejection on the part of the regions most concerned, which perceive this measure as being discriminatory.

In order to take on board the wide diversity within the European farming industry with regard to farm structures and production intensiveness, if progressive modulation is applied, the CPMR proposes to use the criterion of employment (AWU). This is the one best able to take fairly into account labour-intensiveness on each farm.

Furthermore, the Commission proposes an initial progressive modulation limit of 100,000 euros per holding. In this respect, the CPMR proposes that this proportional modulation be applied as at present. Moreover, the resources thus made available within a member state should remain within the same member state, and the decision on how they are redistributed should be made in agreement with the regions.

To promote equity, transparency and consistency, the CPMR would like, as proposed by the Commission, the amounts freed up by the progressive modulation effect applied until 2013 to remain at the disposal of the member state concerned, so that it can be redistributed to other farms and producers. During this period, the use of Article 69 should be further encouraged in order to help redirect support from the First Pillar to “types of farming which are important for the protection or enhancement of the environment or for improving quality”.

The scope of action of Article 69 should also be extended during the current period in order to help farmers in disadvantaged areas, notably those affected by a possible ultimate removal of milk quotas. Furthermore it would be preferable for the resources made available through application of Article 69 to also be used to support collective systems for quality and promotion beyond individual aid. It is the only instrument that can currently allow the allocation of payments to all types of agriculture, in countries that have opted for the purely historical model.

2.4 - "Preparing the 'soft landing' of the dairy quota expiry"

If these quotas are to be effectively scrapped, then the CPMR approves of the Commission's wish to "propose measures that would mitigate the expected negative impact in specific regions." It recognises that mountainous regions must be given particular consideration, but believes that criteria other than relief and climate should be taken into account. Island regions and outermost regions are among those that "are expected to face difficulties in keeping a minimum level of production," and whose processing industries are therefore likely to be weakened, although they are not the only ones. A more detailed approach therefore ought to be implemented.

2.5 - "Managing risk"

The CPMR does not question the need to improve EU instruments for managing market risks or those related to climate variations, which are made necessary due to the reduction in the level of products' price guarantees. Farmers must have a safety net.

However, on this point it agrees with COPA and COGECA that, "This is a question of the EU's food and energy strategy and security," and not at all a rural development matter. Risk management can only therefore be implemented within the First Pillar.

2.6 - "Climate change, bio-energy, water management and biodiversity"

The Commission's proposals in this area are still unclear. They aim to tackle issues related in particular to the EU's international commitments on climate change. Here again, the Commission believes that the solution lies in "the strengthening of existing RD measures."

To tackle these legitimate concerns, the CPMR believes that the new measures to be adopted should be divided into three categories:

- those that come under the heading of farming activities, which could be integrated into a reformed First Pillar;
- those that fall under collective initiatives of the farming profession, which would be eligible under a reformed Second Pillar;
- those that more generally come under the heading of public action in the general interest, and which are not intended to be covered by the CAP. As far as it can be considered that they provide community added value, these actions would thus be eligible under EU regional policies (reformed ERDF).

On the whole, the CPMR believes that the CAP should give greater consideration to the environmental benefits.

2.7 - "Strengthening the Second Pillar" and increasing compulsory modulation

The Commission is proposing to increase existing compulsory modulation by 8% over the 2009-2012 period. For farmers, the amount of direct support they receive per hectare would therefore decrease by 13% by 2012 (5% as a result of the 2003 reform, on top of the extra 8%). This will be coupled with implementation of progressive modulation for those that receive over €100,000 in direct payments.

This is how the Commission wants to increase the budget of the Second Pillar, which it wants to use for new purposes (which, as indicated above, do not come under the field traditionally attributed to rural development). However, the Commission does not mention the consequent need to find more national and regional co-finance, which is scarce, as everyone knows. (This is already a major constraint preventing progress on the 2007-2013 rural development plans).

As the first pillar of the CAP is changed in a more market oriented direction, more attention should be put on those regions that due to climatic or logistical reasons have natural disadvantages. Resources gained by modulation should be used to offset these disadvantages by increasing the funds for LFA-support (Less Favoured Areas) and raising the upper limit allowed per hectare within the LFA-scheme.

The CPMR is in favour of compulsory modulation to strengthen the measures funded through the Second Pillar, insofar as solidarity between regions from the same member state is ensured.

The CPMR has doubts about whether this 8% increase is justified.

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