

Address given by Franz Fischler on the mid-term review of the CAP (Brussels, 10 July 2002)

Caption: On 10 July 2002, in Brussels, Franz Fischler, Member of the European Commission with special responsibility for Agriculture, Rural Development and Fisheries, sets out the aims of the common agricultural policy (CAP) at the mid-term review of its reform.

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Address given by Dr. Franz FISCHLER, Member of the European Commission responsible for Agriculture, Rural Development and Fisheries, European Parliament – Agriculture Committee (Brussels, 10 July 2002)

Towards sustainable farming – Presentation of the CAP mid-term review

Ladies and gentlemen,

Today the Commission has adopted a mid-term review intended to bring the common agricultural policy even closer to the farmers, consumers and taxpayers it serves. This cannot be achieved by dint of a few minor cosmetic changes, however - restoring the credibility of the common agricultural policy will require a wholesale makeover. The Commission has come to the conclusion that the CAP must be changed, not only to make it more in tune with modern-day society, but just as importantly to better meet the needs of European farmers. By makeover, I mean that the intention is not to call into question the fundamentals of the CAP - we will continue to need a strong common agricultural policy at EU level, which has the support of the public and underpins the single market, well into the future.

A support regime characterised by production-distorting incentives that encourage farmers to use the most intensive methods possible and smothered in red tape, with production directed by the straitjacket of subsidies rather than market demand, is one that risks losing the support of European taxpayers. Such a scenario would certainly not be in our best interests and most definitely not in the interests of our farmers.

Consumers want to see agricultural policy encouraging farmers to produce the goods they want rather than those that attract the highest subsidies. And what they want above all is healthy, good-quality food, together with a healthy environment and viably managed farming land.

In Berlin in 1999 the Commission was given the specific task of reviewing agricultural policy. Over and above the Berlin decisions, we also have a duty to take seriously the conclusions of the Gothenburg summit, at which the EU unanimously committed itself to sustainable development as an objective of agricultural policy.

The goals that we set ourselves for agricultural policy in 1999 are still valid today. The EU needs a competitive farming sector that is kind to the environment, provides consumers with safe, high-quality food products and guarantees farmers a fair income. As it stands, however, the common agricultural policy cannot meet these goals. So we cannot afford to take a "wait-and-see" approach - we must take action now to reform policy.

So much for the background to today's proposals. The Commission is convinced it is in the interest of all parties to move agricultural policy forwards - indeed to break a number of taboos - rather than keeping farmers happy with a series of anodyne measures that in the end turn out to be a poisoned chalice.

So what are our proposals intended to accomplish for European farmers?

We want farmers to resume their role as businessmen, producing for their customers rather than for the intervention stocks.

We want to guarantee farmers a fair income. No more, no less: our farmers deserve to be duly rewarded for the quality products they supply, the environmental services they perform and their role in conserving country landscapes.

We want to free farmers from the red tape imposed by the CAP. They should be able to spend their day working their farm, not wasting it on paperwork.

We want to give farmers the financial assistance they need to meet the high standards of production expected by the public. Quality should be rewarded.

We also want to help farmers promote their products more effectively.

We want to pay farmers not for overproducing, but for providing what society wants: safe food, a living countryside and a healthy environment.

We want to make farming subsidies more justifiable, in line with the principle of "payment for services rendered". EU farmers are responsible for the production of many public goods, from the environment and upkeep of the landscape to animal welfare. Though expected by society, these services are not rewarded by the market - hence the need for the CAP to fill the gap.

In this way we intend to give consumers and taxpayers a recognisable service in return for the tax they pay.

To achieve all of this two things above all are essential:

1. removing from direct payments the incentive to overproduce;
2. expanding rural development policy.

In future, farmers will receive direct support without having to produce cereals or beef. Of course, in return they will be expected to provide, to satisfactory standards, the public goods demanded by society - the services the market has no way of rewarding. This implies not only huge cuts in red tape, but also guarantees that subsidies will not generate production incentives divorced from market conditions.

At the same time, however, we also want to cut direct income payments to farmers who fail to comply with the requirement on the environment, food safety and animal welfare. For this purpose, we need an EU framework within which the specifics can be laid down by the Member States.

The public must of course be able to see as clearly as possible that these standards are being adhered to. We therefore propose to introduce a farm audit to verify compliance with standards.

Since audits of this type will clearly impose costs on the farmers themselves, we are proposing that they be financed from rural development funds.

If we want to successfully channel agricultural subsidies more towards compensating farmers for the additional services they perform, we must also make modulation obligatory in all Member States. As discussed in Agenda 2000, the goal is to withhold an extra 3% of direct payments every year. An exemption will be granted for the first €5 000 of each direct payment, plus an additional €3 000 for every worker above two on the farm. This money will not be lost to farming, however - it will be redistributed among the Member States according to an objective scale, for them to put into rural development measures. Ultimately we expect the expansion of the second pillar to result in the transfer of 20% of the funding from direct payments into rural development over seven years. This would lead to massive increases in EU funding for rural development.

The amount of direct payments subject to modulation should be capped at €300 000 per holding. The funds freed up in this way will stay in the budget of the respective Member State, which will be free to decide whether and how to plough them back into rural development.

However, the changes are not solely about providing greater financial support for rural development. We also want to give Member States the chance to implement new schemes to help farmers respond to market demand and meet the expected production standards. This is why we are proposing new programmes to improve product quality. These will include certification schemes for products and measures to promote quality products, products with geographical designations of origin and organic products. Likewise, farmers who practice ethologically-sound animal husbandry over and above the standard required by law will in future be eligible for direct compensation for their extra costs.

Now to the market organisations:

- * For cereals, particularly after the recent US Farm Bill, we have to prepare ourselves for greater market fluctuations. Intervention should therefore be re-established as a real safety net, and hence we should carry out the final 5% reduction of the intervention price with appropriate compensation that we did not agree on in Berlin. This should ensure that the EU can continue to get by in future even without export refunds for cereals.
- * We should also be thinking about abolishing the monthly increments. This would greatly simplify market management and help to improve market fluidity over the year.
- * Since external protection is no longer fully assured, the Community must negotiate a new, more efficient system in the WTO to respond to low-price exports from the Black Sea region in particular.
- * In the rye sector, three quarters of production is sold into intervention. This does not make sense, and intervention for rye should therefore be abolished so as to restore market balance.
- * As for durum wheat, approximately 1 million ton is used as animal feed instead of in speciality pastas. The Court of Auditors has also criticised the size of the specific supplementary payment, deeming it overcompensation. We therefore propose reducing the current specific supplementary payment in traditional areas to 250 euros per hectare and abolishing the special payments entirely in other areas, while granting a quality premium of 15 euros per tonne to producers who undertake to sell durum wheat to the processing industry.
- * The dried fodder regime, criticised by the Court of Auditors in view of the way in which dried fodder is produced and the high energy consumption involved, is to be replaced by direct payments based on historical reference periods.
- * Given that the Council of Ministers and the European Parliament have been extending the ad-hoc arrangements for nuts for years, the Commission believes it best to replace the existing annual arrangements by a flat-rate payment of 100 euros per hectare.

For the beef sector, we are proposing decoupling per-head payments from production, replacing them with a single income payment per farm, based on its historical level of premiums. As regards export refunds for live animals - a matter of great public interest - we propose tightening up the conditions and controls.

For the dairy sector, we have been examining the following four options:

continuing the Agenda 2000 measures until 2015;

repeating the Agenda 2000 approach after the first wave of reform;

introducing a two-tier quota regime as in the sugar market, and

abolishing the quota system as recommended by the Court of Auditors in its Special Report last year.

Unfortunately, given the decision taken in Berlin to postpone the decisions on reform, expert opinion is almost unanimous that the benefits of the reform will not start to come through until after 2008. This begs the question, whether the reform of the dairy sector should not after all be brought forward, in particular to better take advantage of the opportunities currently available on world markets.

I would like to address one last market organisation regime, that of rice. The progressive reduction in import tariffs for rice under the "Everything But Arms" initiative will lead to a dramatic deterioration of conditions on the EU rice market. To my mind, simply to sit and watch as the situation gets steadily worse would be to abdicate our responsibility to the EU's rice farmers. We must therefore act now to reduce the intervention price for rice to world-market levels. In line with the Agenda principles, producers will receive compensation equivalent to 88% of these cuts, including a crop-specific subsidy to reflect the role of rice production in traditional wetlands.

Finally, the Commission proposals respect the cap on the agriculture budget set by the heads of government, which will be in force until 2006.

They will also have two positive side effects:

1. they will make enlargement easier and
2. they will strengthen our hand in the WTO negotiations.

The new system of production-neutral income support does not distort trade, with all the negative impact this has on developing countries. Unlike in the Uruguay-Round, the EU would be in a position to actively shape the negotiations on the WTO agriculture chapter under the "Doha Development Round", with a strong negotiating hand and enjoying a level of credibility forfeited by the USA as soon as it introduced its Farm Bill.

It would be fundamentally wrong to use the deplorable Farm Bill as a pretext for following the American lead in returning to stone-age, trade-distorting agricultural policies. Policy of this type helps nobody - not farmers, not taxpayers, not consumers, not enlargement and not even the WTO.

I am firmly convinced that our approach is without doubt the more sensible - reconciling agricultural policy with social expectations and clearly establishing the rewards for additional services, thereby justifying budget outlay - these are all messages the public will understand. This approach will mean farmers no longer have to present themselves as a charity case - instead, as commercially-minded businessmen working for a healthier environment and countryside, they can request their due from the European taxpayer with heads held high.

Thank you very much.