

Consultation on Mid Term Review of Agenda 2000 Draft Legislative Texts

Introduction

The aim of the Mid Term Review of the CAP has to be to prepare British and European farmers to compete on open world markets following agreement of the Doha WTO Round. It is also an essential pre-requisite for enlargement of the EU.

The MTR will stimulate a further restructuring of our farming industry and its service sectors. This is a necessary process and must focus on competitiveness, making productive use of the resources available. This is a significant challenge.

Currently in Britain incomes derived from farming are lower than is economically sustainable. The majority of farm businesses are subsidising food production with income from off-farm employment or diversified businesses. On a positive note farmers are increasingly co-operating with neighbouring farm businesses to aid efficiency and cut costs. To be world competitive a concentration of farming businesses has to be achieved to benefit from economies of scale. As the Curry report identified, primary production does need to be linked to processing and retailing to secure a greater proportion of the final product value.

However, the RASE envisages a multifunctional future in which food is just one of the possible outputs of land each of which is defined and paid for in its own right. The Society continues to be concerned that the CAP is regarded as a method of achieving social stability in rural areas rather than an instrument for economic prosperity.

Comments on MTR proposals of 22nd January 2003

Price support

The Commission's proposals indicate a move towards cutting support prices to a safety net level. This approach is unavoidable. Significant problems will be encountered though during the transitional period.

Reform of the dairy regime has now been brought within the scope of the MTR resulting in less money for other sectors and areas of the CAP. This should not be at the expense of the beef suckler sector which contributes to quality beef production often with environmental benefits.

Set-aside and energy crops

The benefits of non-rotational set-aside over the current system are not clear. The management of the set-aside is just as important as its location in terms of environmental benefit. The requirement to keep a particular area of land in set-aside for 10 years also reduces the flexibility available to businesses. A five year period would be preferable.

Non-food crops fare badly from the MTR proposals. The non-food regime on set-aside is to be abolished and replaced only with a new energy crops scheme. Non-food crops have much potential benefit for farming and the environment and should be incentivised. The Commission's proposals are short-sighted in this respect.

Decoupling of payments

The removal of the link between production and payments is a valuable tool in re-connecting farming with the market and will help the EU meet its WTO commitments.

One disadvantage of the proposals is the impact on farmers and growers of crops that have previously been outside the subsidy system. For instance farmers who have been growing field vegetables over the reference period will be penalised if they wish to revert to combinable crops because they will not receive the decoupled aid. It is iniquitous that those who have drawn less from the public purse in the past should now face drastic falls in land values and be at a disadvantage to farmers receiving decoupled aid.

The situation can be made worse as farmers who have been growing subsidised crops will be able to switch to other previously unsupported crops whilst receiving a possible £250/ha advantage from the decoupled payment. The UK vining pea sector fears it could be wiped out if this change leads to widespread increased

production in continental Europe. This situation also affects farmers who have had significant areas of land in environmental schemes. A solution may be to base the decoupled aid entitlement on AAPS registered land, but exclude land that has attracted aid under any other scheme.

Dynamic Modulation

The philosophy of modulation is fair. However in its detail the proposed system is neither fair nor in the long-term interests of European farming.

To have a higher rate for larger businesses actively discourages sensible development of larger units. It is these units which are likely to be able to secure a foothold further down the food chain in processing and distribution in order to secure a greater share of the final value of food production for the farming industry. These units also tend to make significant investment into the industry.

Furthermore this system of degressivity will have a disproportionately adverse effect on British farming because we have more, larger farms than other member states. For this reason the money collected must be ring fenced for the UK and preferably for farming businesses.

Meanwhile there will be an indefinite continuation of public support for the majority of EU farmers, simply for being farmers. This will discourage change amongst small farm units while penalising larger, often more efficient units. Is it fair to encourage smaller producers to remain in a business which may not be viable in the long-term?

Cross-compliance and rural development

There is no logic in the proposal to impose the Farm Advisory Service criteria only on farms receiving over €15,000 per year, although this does have administrative benefits. Once again this will penalise larger units while removing any incentive for smaller farm units to develop or expand their businesses. The European taxpayer is being led to believe that all farms will have to comply with the cross-compliance system when a large proportion of farms will be exempt.

Farmers are particularly concerned that the Farm Advisory Service will add to their bureaucratic load. As in any industry a small minority will break the rules, it is right to impose fines but it is impossible to legislate to create a watertight system.

The Mid-Term Review proposals infer a vision of multifunctionality for agriculture. The RASE is supports this vision, but believes that Commissioner Fischler's proposals will not help to meet the true costs of the work required. Neither will they help taxpayers appreciate the cost of what is demanded in their name by lobby organisations.

Modulation will divert Pillar 1 funds to Rural Development Regulation measures. This presents an immediate threat to British agriculture as explained above for reasons outwith the realm of agriculture. Over the three years since the RDR has been in place the schemes have been characterised by bureaucracy and uncertainty. It is essential that administrative costs are kept to a minimum and that practical, realistic schemes are put in place.

In addition the new classification of Objective 1 land leaves the UK again with a smaller proportion of funds than before. The combination of these two factors may mean that many livestock farmers will not receive the necessary support to meet the EU's production standards for quality and animal welfare.

Land ownership and value issues

Further clarification is needed about the effect of the MTR proposals on tenant farmers as well as for those businesses that have farmed significant areas of rented land over the reference period.

What happens when land has changed hands during the reference period - who has the right to the single payment entitlement? It seems that the payment will be with the producer rather than the land, but many in the industry are uncertain. This is likely to have a significant impact on the arable sector.

The British system of tenanted farms and Farm Business Tenancies provides a flexibility to farmers and landowners which has enabled our agricultural industry to develop and expand to meet market needs more than any other system in Europe. The Mid-Term Review changes should not hinder this process.

Land values have a strong impact on the viability of the industry. It is likely that land which does not attract the decoupled payment will fall in value. This could affect the economic viability of businesses with loans and mortgages secured on land values.

Conclusions

It is clear that the Mid-Term Review is a radical change to the Agenda 2000 framework. Radical change is needed. However, the current climate of uncertainty for all involved may be worse than whatever is finally agreed. The MTR must not be allowed to drag on beyond the end of the Greek Presidency of the EU.

The MTR review is being publicised to taxpayers as a reform which will induce change throughout Europe's agricultural industry. This is not a realistic assessment. Dynamic Modulation in particular and the Farm Advisory Service to a lesser extent affect only larger units. The impacts will be harsher for UK farming because we have a larger share of larger farms. Dynamic Modulation and the Farm Advisory Service serve to take resources away from more competitive farms and use them to prop up those whose long term existence may be in doubt. A rational response would be the discouragement of investment in UK farming.

The question which still needs to be answered is: Is the CAP of the future an economic policy or a social policy? Whichever, the objective has to be explicit and honest.

Royal Agricultural Society of England
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