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The Midterm Review – Towards a Policy That Pleases Everybody

Dr. Franz Fischler

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SPEECH

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THE MIDTERM REVIEW
TOWARDS A POLICY THAT PLEASES
EVERYBODY

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Chairman,
Dear Members of the International Farm Management Association,
Ladies and Gentlemen,

It is a great pleasure and honour for me to be here, just next to the outstanding agricultural university of Wageningen, to speak about the political view on future oriented farm management. As most of you will know, the European Commission has accepted the midterm review of the Common Agricultural Policy (or CAP) just two days ago, and I therefore have the pleasure to present to you something that is brand new. In fact, your conference is an ideal place to present our ground-breaking proposal for the first time outside Brussels for two reasons.

Firstly, the University of Wageningen, the co-organiser of this conference, is one of the most excellent agricultural research institutions. And research is exactly what we need to base our decisions for the future on a factual basis. And secondly, the title of your conference could be as well the title of our future policy: "farming to please everybody: Feed the world, please the consumer, maintain the environment".

As your title clearly indicates, the days are gone when farming decisions could be based on experience and intuition alone. Today, farmers cannot limit themselves any more on the production of commodities as it was in the days when markets were supply driven. Today, farm management is supposed to please everybody. Now, as a politician, I can assure you that it is hardly ever possible to please everybody. However, as a former researcher, I can tell you that research can provide us with the factual basis which we need to get as close as possible to please everybody.

Ladies and Gentlemen,

What is true on the farm level is equally true on an overall political level. Agricultural policy cannot limit itself any more to fostering production, as it used to be. Our society has manifold expectations towards agriculture, and if we fail to respond to these expectations, our policy is doomed to fail.

But what are the expectations of society? In a recent survey carried out by the European Opinion Research Group (Eurobarometre 57, published in June 2002), citizens were asked what they expect from the Common Agricultural Policy. The answers were clear enough: 90% say that the CAP should take care that the agricultural products are healthy and safe. 88% want us to promote the respect of the environment. 81 % want the CAP to protect medium or small sized farms. 80% want that our policy helps the farmers to adapt their production to consumers' expectations. 77% want us to ensure stable and adequate incomes for farmers. And 77% want our policy to make European agriculture more competitive on the world markets.

As you can see, it is indeed not easy to please everybody. The concerns of European citizens are hard to reconcile. More market orientation may conflict with enhancing farmers incomes. And environmental or animal welfare standards might not be compatible with the need to reduce production costs. But there is not only a contradiction of what people want. In addition to this, there is a contradiction of what they actually do. The same people who speak up for more natural ways of production go to the supermarket the next day and buy battery eggs, just because they are cheaper.

Before this background, it becomes obvious that the market alone would not be able to provide all the services that society expects from agriculture. The question is therefore not if, but how we support our farmers. We have to find ways of support that give the right incentive for a farm management that is in line with the objectives of our society. With our latest reform step of the CAP, we have therefore re-formulated the objectives of our policy. They are:

- a more competitive agriculture that is able to seize the opportunities of both the internal and world markets
- to improve food safety and quality
- fair and stable incomes for those working in agriculture
- the integration of environmental goals.
- the simplification of our agricultural policy,
- and finally, a system that rewards farmers for the services that consumers want them to provide.

The objectives of our CAP are in line with the expectations of society. However, when we look at what our policy has achieved, we can see a gap between our objectives and our achievements. Only 40% of our citizens think that the CAP ensures food that is safe to eat. Just 38% think that our policy guarantees food of good quality. Even fewer people, namely 32% think that we ensure food that is healthy. 24% think that we ensure food that is reasonably priced. And not more than 19% of our citizens think that the CAP ensures that farm animals are fairly treated.

In the light of this gap between objectives and achievements, we have to ask ourselves: Are we doing enough to improve product quality, or is CAP concentrating too much on quantity? Are our budget resources being properly distributed between the various sectors? And should we not shift a bigger part of our budget to support measures that are non-trade distorting, so that they are acceptable in an international context?

These are the questions that we are facing. The Midterm Review is our answer.

Our answer has basically three elements:

Firstly, we propose to carry out adaptations in some market sectors.

Secondly, we want to decouple our direct payments from production.

And thirdly, we want to shift more money to the rural development policy.

As for the necessary market adaptations, we had to carry out a review of some market sectors on request of the European heads of states and governments at the Berlin summit three years ago. In those sectors, where we had to state market imbalances, we suggest to continue the reforms that we have started in Agenda 2000.

However, it is obvious that market adaptations alone will not suffice to fill the gap between the objectives and achievements of our policy. If we want to make our policy sustainable, a piecemeal approach is not enough. What we need is a more innovative approach. This is why we propose secondly the introduction of a support system that is decoupled from production. This major step will significantly increase the freedom to farm.

So far, this freedom was limited. In the past, the support of the CAP was delivered through price support. As a consequence, farmers were increasingly disconnected from signals of the market. To an increasing extent, their products did not go to the market but into milk lakes and on cereal mountains. In 1992 and with Agenda 2000, we have therefore reduced the price support drastically, and compensated the farmers through direct payments. However, even if these payments are not linked to actual production output any more, they limit farming decisions. If farmers want to maximise their income, they have to continue to produce certain crops or keep animals, even if there is no sufficient demand from the market.

It is time to remove this straitjacket. Farmers should be free to make their management decisions on the basis of the demands of the market and the expectations of the society, rather than the value of the subsidy.

We therefore propose that there should be a single decoupled payment per farm. This payment will be based on historical references and cover as many sectors as possible. As a consequence of the decoupling, farmers will not be obliged any more to grow the crops or keep the animals that they got the direct payment for. Instead, they can grow whatever is demanded from the consumers and what is best fit for the local conditions. There is no doubt therefore that the proposed decoupling would strengthen the link between the farmers and the consumers.

In addition to this, the new support system would also simplify life for farmers. We must reduce the administrative the red tape for the farmers. Decoupling would significantly reduce the endless form-filling that our farmers are subject to under the current system.

However, decoupled payments mean in no way that farmers are decoupled from the obligations of good farming practice. Quite on the contrary: The full granting of the decoupled payment will be conditional on the respect of the statutory environmental, animal welfare and food safety standards, as well as occupational safety requirements for farmers. If there are black sheep who do not comply with these standards, the decoupled payment will be reduced proportionally. The relevant standards may differ between member states, since they reflect different regional traditions and environments. However, we will need to create at least a common framework of standards in order to avoid distortion of competition. The Commission will deal with this task in the coming months.

In order to make the cross-compliance with the required standards trustworthy, we propose the introduction of a farm auditing for commercial farms. This would serve two purposes: firstly, it would help the farmers meeting the required standards of modern agriculture. And secondly, it would help to win back the trust of consumers that has been damaged in the past few years. Only transparency of the on-farm processes will help to restore consumer confidence.

Of course, farm auditing will bring about costs for the farmers. This is why we propose to support farm audit through the rural development fund.

Decoupling of direct payments will enhance the flexibility and market orientation of the farmers. However, even if direct payments are decoupled, they will not provide for all the additional services that consumers expect from agriculture. In order to reward farmers for these extra-services, we have introduced the rural development policy over the last ten years. With this policy, we have been supporting environmental protection, farming in less favoured areas, investments in farm businesses, diversification and quality measures. However, only 10% of our budget currently go to these policy instruments. This is certainly not enough to respond to the expectations of society. This is why the midterm review also proposes an increase of the funds for rural development.

There is a way to do so without increasing the overall budget of the CAP: it is called dynamic modulation. Modulation means that we will shift 3% of the direct payments to the rural development budget. Dynamic modulation means that this exercise will be repeated every year, until we reach a shift of 20%. However, there will be a franchise of € 5000

per farm for the first two working units and another € 3000 for each additional work unit. The money that is saved this way will be distributed according to an objective key to the Member States, where it can be used for rural development measures.

In addition to this, money should be shifted to rural development through the introduction of a ceiling for direct payments above the franchise at a level of € 300.000. All payments that currently go beyond this ceiling should remain in the Member State, where it can be used for rural development.

However, rural development should not only be strengthened financially. We also propose to widen the scope of rural development. If we want to make European Agriculture economically sustainable, the current measures are not enough. Competitiveness is not only a matter of quantity, but also a question of quality. It is here where the chances for European farmers are. We therefore want to do more in the future for quality measures. This includes certified quality production and the promotion of regional and special quality labelling. Furthermore, we propose to introduce a measure to reward farmers for animal welfare measures that go beyond the legal obligations.

Ladies and Gentlemen,

The proposal which I have just outlined to you has several advantages. The first and foremost advantage is the fact that it will give back the freedom and flexibility to the farmers which they need to manage their farms in a modern way. The second advantage is that it will help to bring European agriculture more in line with the expectations of society. And the third advantage is that the fact that all this will be achieved without changing the financial framework that Agenda 2000 has created three years ago.

But this is not all yet. The midterm review will also contribute to make the European agricultural policy more acceptable in an international context. In the past, our policy was regularly criticised for being trade distorting. Our proposal, however, is good news for our former critics: the decoupling of our support means that there are no trade distorting production incentives any more. We are aware that the US has unfortunately chosen to go backwards with its new farm bill. But this is by no means a reason for us to follow them on this track. We believe that our farmers have a right to be rewarded for the many services they provide to the whole society. However, we also believe that this support can and should be done in a targeted way which does not distort international trade. Our midterm review is the best evidence that this is possible.

Ladies and Gentlemen,

It was Jean Monnet, one of the founders of the European Union, who said "we cannot stand still if the world around is moving". Our agricultural policy has to follow this motto. European farmers have to please almost everybody: they are competing in a demand oriented market. Therefore they need more flexibility for their management decisions. At the same time, farmers should continue to produce those externalities that citizens want to see. But they have to be rewarded if we want them to continue doing so. I believe that with the help of our proposal, we should be able to combine these two major tasks for the benefit of all: the consumers, the farmers, the environment and our trading partners. In one word: we will get as close as it gets to a agricultural policy that pleases everybody.

Thank you for your attention.