

# European News Round Up Agriculture, Food and Land

February 2011

## Reforming direct CAP payments post 2013

### The issue of the reform of direct payments continues to create widespread debate in Europe in the run up to the 2013 reform of the CAP.

In one of three new three new Agricultural Policy Perspective Briefs from the Commission's DG AGRI released in January, the brief on direct payments concluded there were two main areas of discussion; namely the purpose of direct payment in the future and their design and distribution.

The brief recognised changes to the system would be complex, and that any flat rate system would not necessarily be any fairer, and that a transition from historical to a uniform rate would probably require "an element of adjustment for production conditions".

On the purpose of direct payments, the brief said income support and delivery of public goods should be seen as complementary elements but recognised these varied greatly between member states. It also called for the question of direct payments to be taken in the context of changes to other parts of the CAP.

At a recent public hearing of the Agriculture Committee, there were several questions on whether direct payments should be capped to allow a different distribution of funds. Geneviève Savigny, spokesperson of Via Campesina, representing small farmers, said capping was "vital to justify such a concentration of public resources". Padraig Walshe, president of COPA, the organisation representing European farmers, disagreed and

said that if payments were limited, it would be "impossible to achieve higher standards".

European Agriculture Commissioner Dacian Ciolos, speaking at the Oxford Farming Conference in early January, reassured UK farmers that direct payments (currently 70% of the CAP) would not be phased out but warned they needed to be more efficient and effective. He warned the CAP had to be justifiable to European citizens, and that it would be "simplistic" to limit the CAP solely to food production aims.

The general direction of travel would appear to be a 'greening' of the CAP, and Mr Ciolos underscored delivery of public goods not supported by market returns as one of the main aims of payment to farmers. A small part of Pillar I payments are likely to be linked in this way, with increased flexibility provided via Pillar II, particularly for research and innovation.

## Managing food prices

A Commission Communication on the possible link between the physical commodity market and the financial commodity markets has been delayed after concerns were raised over the conclusions within a draft version.

There has been widespread debate on the influence of activity in the derivatives market and commodity prices. Corrado Pirzio-Biroli, president of the European Landowners Organisation (ELO) has called for the creation of an EU commodity market to "stop relying on Chicago" and a plenary debate earlier in January saw MEPs argue that food commodity derivatives differ from other financial products and should be traded only by those "who have legitimate interests in protecting agricultural merchandise against risks".

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They argued speculative behaviour accounted for up to 50% of recent price hikes, and noted that wheat contract prices rose by 70% in two months. Despite this, the Commission has decided to look further into the links between physical and financial markets and price volatility, and the Communication will now be postponed until April.

The issue was also raised at by Farm Minister Bruno Le Maire in Berlin recently, and the Commission has indicated there is widespread concern among Agriculture Ministers from member states that price volatility and the resulting speculation could have a damaging impact on global food security.

## Importance of biofuels

A new report from the European Expert Group on Future Transport Fuels states alternative fuels could replace fossil fuels in the EU by 2050.

The report, delivered to the Commission, says the expert group has for the first time developed a comprehensive approach covering the whole transport sector. Expected demand from all transport modes could be met, it believes, through a combination of electricity (batteries or hydrogen/fuel cells) and biofuels as the main options, with synthetic fuels (increasingly from renewable resources) as a bridging option. Methane (natural gas and biomethane) could be used as complementary fuel, and LPG as supplement.

It recognises, however, that technical and economic viability, efficient use of primary energy sources and market acceptance will be decisive for a competitive acquisition of market share by the different fuels and vehicle technologies.

The Commission is currently revising existing policies and the report will feed into the initiative on clean transport systems to be launched later this year. The initiative intends to develop a consistent long-term strategy for fully meeting the energy demands of the transport sector from alternative and sustainable sources by 2050.

## Prospects for agricultural markets and income 2010 to 2020

A new outlook on the prospects for agricultural markets and income in the EU from 2010 to 2020 has been issued by DG AGRI. Based on specific economic and policy assumptions, the estimates outline the expected market trends in the coming years and these market forecasts will be used as a baseline reference in the ongoing CAP post-2013 impact assessments.

### Arable

The medium-term prospects for the EU cereal markets depict a relatively positive picture with tight market conditions, low stock levels and prices remaining above long term averages. Supply growth is expected to result mostly from very moderate yield growth (just above 0.5% per year on average) with some reallocation between crops in a stable cereal area.

The domestic use of cereals in the EU is expected to increase, most notably thanks to the growth in the emerging bioethanol and biomass industry in the wake of the initiatives taken by Member States in the framework of the 2008 Renewable Energy Directive

The medium-term prospects for the EU oilseed markets depict a positive picture with strong demand and high oilseed oil prices.

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## Meat

Total meat production is expected to recover over the near term from the decline suffered in the wake of the economic crisis, but longer term growth prospects remain modest at an annual rate of 0.3% on average. The situation differs between ruminant and non-ruminants, as beef/veal and sheep/goat meat production would drop by 7% and 11% respectively while pig and poultry meat production would expand by 7% each.

The potential growth in non-ruminant meat production would remain constrained by the expected increase in production costs. The net trade position of the EU is projected to deteriorate over the outlook driven by a steady increase in meat imports (of beef and poultry meats) and a parallel decline in meat exports (of beef, pig and poultry meats).

## Dairy

Milk production is expected to return to an increasing path, driven by a fairly optimistic demand outlook. The rate of increase will be rather moderate, with EU-27 milk production in 2020 projected to exceed the 2009 level by less than 4%.

The outlook appears favourable for higher value added dairy commodities, driven by growing demand for cheese and fresh dairy products. Production of fresh dairy products (including drinking milk, cream, yoghurts, etc.) is projected to increase by about 8% (from 2009 to 2020) and cheese output is depicted to grow by about 10%.

Prospects for cheese exports are favourable despite the strengthening EUR, with the EU maintaining a steady share in global cheese

exports above 30%. WMP production is expected to fall only marginally below its 2009 level and EU exports would remain firm over the medium term, driven by strong global demand. Nevertheless, the EU is expected to lose market share of global exports that would decline to 21% in 2020 (from 24% in 2009).

The outlook depicts continued market stability for butter, conditional on firm domestic demand around the level of 2 mt. The projected increase in production for 2015 (year of quota abolition) would lead to a temporary increase in EU exports.

SMP export perspectives are less favourable given the assumed strengthening of the EUR and strong supply from other exporters. As EU demand prospects are also fairly weak, the outlook for price growth is rather constrained over most of the projection period. However, supply pressure on the market would be mitigated by reduced EU production.

## News in brief

1/ A strong EU farm policy is essential in the quest to deliver affordable food, the European Parliament has argued. With worldwide demand growing and 16% of EU citizens below the poverty line, access to food is an increasingly important issue.

The future CAP, now being debated by EU institutions, must ensure food security for all citizens, maintain the vitality of rural areas and guarantee food production throughout the EU, MEPs said in a resolution approved in plenary in January.

2/ Farm Minister Bruno Le Maire has warned that greater transparency on grain reserves

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and stocks will be one of the priorities under the French tenure of the G20.

Speaking in Berlin on January 22, Mr Le Maire said the lack of transparency and current information on cereal stocks helped fuel market speculation. A more co-ordinated approach to an early warning system for agriculture, along with WTO instruments to impose sanctions on countries with export restrictions and so-called safety nets for vulnerable sectors would also be high on the priority list, he added.

3/ Young farmers and women in agriculture must be supported if farming and the rural economy are to flourish, according to MEPs. Only 7% of EU farmers are under 35 years old, but 4.5 million EU farmers are to retire in the next 10 years. In light of this, MEPs have asked that measures be stepped up to attract young people into farming, such as installation premiums and subsidised interest rates for loans.

A non-legislative report from German MEP Elisabeth Jeggle, Role of Women in Agriculture and Rural Areas, has called on the Commission to find ways of female farmers and rural workers as a way of encouraging sustainable rural development. A plenary vote will take place in April.

4/ How to make direct payments fairer to farmers, manage food price crises, and improve rural development policies were the key issues debated in a public hearing held by the Agriculture Committee on January 26.

The public hearing in plenary featured experts and stakeholders giving their opinions with a view to forthcoming legislative proposals on which MEPs have full legislative powers. The issues debated included overhauling the

distribution system for financial support, introducing new market management tools and improving rural development policy.

Speaking at the end of the debate, Parliament's CAP 2020 rapporteur Albert Dess said that the new policy must "ensure a good objective distribution of direct payments", cut red tape and possess a "great level of flexibility to take into account differences among Member States" and among EU local and regional markets.

5/ MEPs have called for the "alarming deficit" in protein stocks to be reduced as part of the CAP reform, using measures such as top-up payments to farmers to encourage production.

The EU's domestic protein crop production currently supplies only 30% of that required for animal feed use in the EU, and any move to expand the planting of crops such as peas and beans would reduce the dependence on imported protein from areas such as South America and the US. MEPS argued such a move would also deliver environmental benefits.

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