

CONTRIBUTION FROM THE CEREAL, OILSEED AND PROTEIN SECTOR TO THE DEBATE ON THE FUTURE OF THE COMMON AGRICULTURAL POLICY

Introduction

1. In accordance with the mandate granted to the Working Parties by the Praesidium, this document forms the contribution from the arable crops sector to the debate held by COPA and COGECA about the future of the Common Agricultural Policy (CAP). The aim of this document is not to identify and analyse the constraints (international, Community, national, etc) which weigh upon the sector. This has already been done in other documents. The aim of this document is to attempt to define the agricultural policy which should be implemented during the next 5 to 10 years in these sectors, taking these constraints into account.
2. In order to draft this document, the discussions and guidance from the Praesidium have been taken into account, as well as the long term future of the CAP, the various documents which the Working Parties on Cereals and Oilseeds/Protein have been debating throughout the course of 2006 and the opinions expressed by the experts of these groups¹.

Priorities

3. *Raising the awareness of citizens, consumers and decision-makers that grain production is an economic activity and is important enough to merit in-depth treatment.*
 - Arable crops are the primary converters of solar energy into raw materials. This allows humans and animals to be fed and also allows for non-food uses to be developed, such as biofuels, in a manner which is renewable and sustainable.
 - Depending on climatic hazards, grain production is inevitably subject to strong fluctuations which make the need for stabilised production all the more pertinent.
4. *Responding to qualitative demands of consumers and to increasing worldwide environmental constraints.*
 - The activity of agricultural production fills a multifunctional role which has much to do with sustainability. Sustainable production provides producers with future prospects. This fastidious model ensures that the EU remains an area with the safest products in the world. This model involves a regulatory cost which must be realistic for producers who must simultaneously respond to consumer demand as well as cope with competition from products in countries where the same requirements do not exist.

¹For more details on the sector, please see the following documents: "Observations from the Working Party on Cereals on the evaluation report on the CMO for Cereals" [CER(06)103S3], dated 31 May 2006, follow-up to a letter sent to the Director General of DG AGRI on 14 July 2006 [CER(06)132L1], the working document "Which Common Agricultural Policy for Arable Crops post-2013?" from 21 November 2006 [CER(06)181S1] as well as a "draft position paper of the Working Party on Cereals, Oilseeds and Protein Crops on the Health Check of the CAP" dated March 2007 [CER(07)63S1].

- Climate change represents a major challenge for the sector as it introduces an additional volatility factor and highlights the instability of the situation in which grain producers find themselves. The consequences of this in terms of food security and management, especially the availability of water, must be foreseen. Within this context, it is essential that the research sector puts in place the tools which would allow a response to these challenges (varieties resistant to water stress, mycotoxins, managing input and improving yields also with the aim of improving the sector's energy efficiency...).
5. *Having the best possible knowledge of changes in the world markets, anticipating the structural changes in order to adapt to them more effectively and defining a clear and offensive long-term EU strategy.*
- What are the specialists saying about the changes in markets in the mid to long term?
 - The demand for food worldwide is expected to double in the next 25 years, especially in Asia. During the same time, predicted consumption of meat in the EU – for the record, animal feed is by far the number one customer of EU cereal producers – is moving towards stagnation due to an aging population and the population's low renewal level. At the same time, the demand for energy production is expected to increase sharply².
 - We can conclude from this that the global context will be more competitive and also more volatile because of the combined effect of an increase in the demand for food, the emergence of new non-food markets and climate change.
 - Consequently, producers on a global scale must be prepared to supply more cereals and oilseeds to respond to market demand. In order to do this, it is essential that market prices grant producers the possibility of responding to demand in the long term. In this context, EU producers must continue to play a full role in the EU as well as in the wider context.
 - This certainly involves adapting the current instruments and access to technological progress. This also involves changes at all levels of the food chain, in particular the distribution of added value down to the consumer³. In particular, producers are looking for more added value to reflect their work in a fairer way. It is even more necessary for us to pursue efforts in productivity gains, discounts and managing costs. It is crucial for the cereals sector to remain largely open to global competition and this is a genuine challenge.
6. In this context, cereal, oilseed and protein producers have no choice but to improve their competitiveness by increasing their income generated by the market. In the first part (I), we are attempting to determine how and which are the most appropriate tools for achieving this aim. In the second part (II), we will ask ourselves questions on the best way of distributing agricultural aid.

² In this regard, see COPA-COGECA's specific proposals (BI(07)10) for the promotion of biofuels in the EU.

³ We give an example displayed in annex 1, drawn from calculations carried out in France on the price of bread, chicken and pork in order to demonstrate the weak impact of increases in wheat prices on the product's final value.

I – INSTRUMENTS FOR IMPROVING COMPETITIVENESS AND INCOME GENERATED FROM THE MARKET

10% obligatory land set-aside: a constraint to be lifted as soon as possible

7. Originally, the introduction of land set-aside came from the need to integrate, at international level, a tool for managing supply, classed by the WTO as a blue box. This constraint has lost its *raison d'être* and instead now constitutes a handicap for European producers. The Reform of 2003 introduced the notion of freedom of choice for crops in contradiction with the idea of obligatory set-aside.
8. We recall that obligatory set-aside was never designed as an instrument for preserving the environment and its withdrawal does not mean that producers no longer respect the environment and biodiversity. The CAP provides a system of cross compliance which demands strict adherence to standards, notably environmental standards. With this in mind, land set aside for environmental purposes certainly makes sense within the targeted programmes and specific measures which belong to rural development activity. Furthermore, producers will always have the choice to set land aside on a voluntary basis, as was the case in the past.
9. In the context of the current market, the cereals sector sees many advantages in removing the 10% obligatory set-aside thereby:
 - eliminating a tool which is a source for distorting competition for European farmers. Why would they be the only ones in the world to put outside production their land while their competitors do not have this constraint? The LMC report carried out by the Commission on the CMO for Cereals is particularly clear on this point. It rightly states that the main beneficiaries of the set-aside instrument have been cereal producers outside the EU, in particular the American producers and consequently, the American Government.
 - freeing up surface area to respond to the growth in demand including non-food purposes, principally for the production of biofuels, recognised by the EU Heads of State and Government as a priority political objective in reducing the EU's energy dependency and responding to combating the greenhouse effect.
 - simplifying the lives of farmers by eliminating ineffective administrative complications which generate additional costs and are not reimbursed by the market.
10. On the basis of this clear analysis COPA and COGECA took the initiative in June of asking the Council and the Commission to set the rate of compulsory set-aside at 0% for the 2007/2008 marketing year. This requires a rapid decision from the Agriculture Council so that producers are capable of incorporating it into their rotations. Set-aside rights should be activated in the same way as normal rights without obligatory priority activation. Producers will always have the choice to set aside land on a voluntary basis depending on the market and their crop choices, crop rotations in particular.
11. On the occasion of the Health Check and on the basis of a preliminary impact study, the long-term effects of the elimination of compulsory set-aside and industrial set-aside will have to be discussed. In particular, the relevance for farmers of having tools for managing supply in periods of very low prices has to be kept in mind. It is essential to evaluate properly all of the implications of such a decision.

Retaining safety nets

12. The sector needs to respond to the following questions: are the tools adapted to the current and future contexts? Are changes necessary and sufficient? If not, are any other tools necessary and if so, which? How can incomes be protected in the event of a drop in prices and limiting losses?
13. The intervention system has been a cost-effective tool for stabilising markets throughout the chain. Consequently, there is a need to look at the intervention system in the context of supply rather than support. Intervention is a safety net and must be used as such. Compared to harvest levels in the EU, the levels of intervention stocks since the creation of the CMO for cereals have been low until now. Dramatic fluctuations in stocks collated in annex 2 of this document demonstrate that intervention has played its part in adapting to temporary situations. The current context of high demand worldwide leads one to think that intervention will not be used as much in future years. Consequently, there is neither the need nor any haste to make changes.
14. In these conditions and even on the assumption of a drastic drop in customs duty following the Doha Round, the 'intervention' tool could conceivably be retained while at the same time re-examining if necessary its means of functioning, including the level of the safety net.
15. We do not want to question the intervention system whilst we are not, at Community level, providing trustworthy, alternative and less-costly "insurance" type tools and certainly not before the Doha negotiations reach an end. 'Insurance' schemes in particular introduce both costs and new administrative burdens.
16. On the other hand, in the longer term, work must continue on these questions as well as on the idea of risk management, and tools to assist producers with the decision. Futures contracts are tending to develop and are undoubtedly becoming an important element in price trends but they are also very susceptible to the dangers of speculation.
17. We are also in favour of maintaining refunds for starch and sugar production in the chemicals industry as long as there are differentials between internal and external prices, with a need to develop a stable base for renewables in that industry..

To achieve the objectives set by the EU on energy policy and biofuels, the policies to be implemented must be efficient and consistent⁴

18. Currently, during the 2006 harvest and according to the declarations of Member States, 833,521 hectares of oilseeds form the object of the so-called industrial set-aside. Furthermore, 1,247,630 hectares, of mixed crops will be the object of aid for energy crops (AEC) in 2006. In total, more than 2 million hectares are affected, which is more than the maximum guaranteed surface area of AEC. This figure does not account for land used outside of industrial set-aside and outside of AEC, such as in Germany, for example.
19. As such, in the short term, and in the foreseeable absence of compulsory set-aside which includes an industrial set-aside regime, it is in keeping with the logic of the current system, taking into account the will of Member States to promote biofuels, to increase significantly the guaranteed AEC maximum surface area, as soon as possible, thus reducing administrative constraints as well as avoiding creating distortions of competition.

⁴ For more information on these topics and on COPA-COGECA's position on more technical elements, please refer to the work completed by the "Biotechnology" group.

20. That being said, AEC has received certain criticisms which cannot be ignored. This considerably reduces the attraction and the efficiency of such a measure which nevertheless deserves to exist, and even if part of it constitutes aid to industry, it has just been extended to include the New Member States. Moreover, the efficiency and attraction of this aid for farmers is further diluted by between 4% and 17% modulation of the payment.
21. In the longer term, it will certainly be necessary to consider other ways of using this money more effectively in light of the EU's goals to encourage biomass production for heating, cooling and transport purposes. However, other elements come into play as well as agricultural policy: energy policy, taxation policy, etc and the impact of all of these areas combined is important for the development of biofuels. A decision is expected to be made when the EU and the Member States have stabilised the global regulatory framework for biofuels, including the result of the trade negotiations at international (Doha), regional (MERCOSUR) and bilateral level.

A dynamic marketing policy for serving the EU's offensive export interests.

22. Regarding international trade tools, we must cast our minds back to our insistence upon the fact that any concession made by Europeans must have a tangible counterpart. This is currently not the case. For the record, export refunds in the cereal sector have been declining for some time now. They remain important for the processing industries since there is a difference in price between the EU and outside of the EU.
23. We recall our demands regarding the subject of food, in particular those from America, the "single desks" and export credit. If these demands are met then we will be prepared to abandon our refunds.
24. We also require European negotiators, be they at multilateral or bilateral level, to take into account the EU's potential in opening up new markets for European cereals and they must also be aware of the non-tariff barriers implemented by third countries to close their markets. Currently, with the EU easily being the largest world importer, it would be unreasonable only to be able to export to certain areas of the world experiencing malnutrition (13% of the world's population, 800 million people) or famine.
25. Within a bilateral framework, concessions granted to the EU should be balanced in comparison with concessions granted to other third countries. For example, concessions to Morocco on durum wheat are not balanced for the EU compared with those granted to the Americans.
26. The EU's cereals could be promoted through campaigns and targeted programmes both within the EU and further afield. The competitiveness of the EU's cereal sector is an important element of the ongoing process of improving competitiveness of the EU's meat sectors.
27. Regarding market access, we reiterate our strong opposition to concessions which undermine the balance of the internal market, particularly by excessive reductions in customs duties. As it stands at the moment, we consider that the current system of calculating import duties on maize should not be questioned as it allows customs duties to be adapted in terms of world reference prices.
28. Finally, currency exchange rate is an element which could distort competition and must be taken into account by the WTO.

Improving research and allowing producers to benefit from the latest and most competitive technological advances.

29. Research has always been a driving force behind agriculture and should remain so. COPA-COGECA's arable crops sector is involved in various technology platforms, in particular one called 'Plants for the future', launched in June 2004 by the EU. On 25 June 2007, the strategic research agenda was made public. We subscribe to 3 objectives propagated by agriculture:

- improving the productivity and quality of plants,
- reducing and optimising the impact of agriculture on the environment,
- promoting biodiversity.

In the future, it will be essential to supply producers with the most efficient varieties in terms of water use, fertiliser and those the most resistant towards disease.

30. Improved yields will be more important than ever given the global situation in the mid term. To cite an example, wheat is often named as the archetypal European cereal. European yields are often the highest in the world (5.7 t/ha in 2004 an average of 7.8 t/ha and 7.6 t/ha for the United Kingdom and France). This is attributable to investments in research in these two countries, although given the low market returns and reduced investments over the last ten years, the pace of technological advancement has begun to decline even in these two countries.

31. By way of illustration, it seems relevant to mention⁵ here that if wheat had been continued to be produced in France for the past 50 years with the yields of the 1950s, the same volume today would have to be produced over 14 million additional hectares, which is the equivalent of the surface area of France's forests! Efficient use of farmland helps to preserve habitats.

GMO: competitive factor

32. Faced with the fears of those who think that the widespread introduction of GMO's in the EU will be detrimental to EU production, we cannot ignore reality, i.e. the existence and increasing production of genetically-modified crops worldwide and within the EU:

- Many countries consider that they do not carry any dangers for health and the environment and they are grown on a large scale in certain areas of the world.
- Our main competitors⁶ view them as having an economic interest which has a strong bearing on their competitiveness and therefore on that of European farmers.
- Our maize producers see a certain interest in them in the fight against the development of mycotoxins, the presence of which has been strictly limited in the food sector by Community guidelines in the interests of protecting consumers.

⁵ This example is taken from the remarks of Arthur RIEDACKER, Director of Research at INRA, at a conference held by COPA-COGECA on 24 May 2007. In contrast to this, the example of Africa was given whereby if Africans want to feed the population themselves, given that they do not have the tools available to intensify their farming, they have to clear all of their forests, creating serious environmental problems which is precisely what we want to avoid.

⁶ Argentinian example: an Argentinian study indicated that in the case of BT maize during the period 1998-2005, 39% of profits generated were allocated to producers, 20% to the State and 41% to breeders, from an overall total of approximately 482 million dollars.

- Our strong dependence on vegetable proteins coming from these countries, i.e. mainly GMO, weakens our supply and results in our animal products sector being highly dependent⁷. Interrupted supply due to a phase difference between authorised entry to the market for GMO in the EU and further afield could have irreversible consequences for certain products.

- 33.** The incomplete existing EU regulatory system for GMOs – we still lack legislation on the adventitious presence of GMOs in seeds - acts as a barrier to the production of new crops such as these. EU producers' competitiveness is undermined by the fact that GMOs which are authorised in the EU are practically all solely for imports and processing, not for crops. At the same time, with access to this technology, producers from other continents are able to reduce their costs, sell more cheaply, lower prices and make gains in some areas of the market. This distorts competition for producers in the EU.
- 34.** Finally, it is important to recall our adherence to the system of new plant varieties (UPOV Convention) which guarantees producer privileges. Any leeway⁸ which would entail patenting inventions which arise from the plant variety certificate must be avoided.

Coupled payments for maintaining production potential and the diversity of crops in the EU.

- 35.** For some, coupled payments are a source of administrative complications and should be withdrawn in order to simplify the lives of producers. The main justification for their withdrawal is administrative simplification. As far as AEC is concerned, administration introduces significant costs to producers. Another reason given for their inclusion in a single decoupled payment is that these payments encourage production in an artificial manner without considering market demand.
- 36.** For others, coupled payments are the only way of maintaining a direct link with agricultural production and maintaining human activity and employment in certain areas. They are also a way of stabilising production of some plant species and varieties in comparison with more dominant cereals. This allows biodiversity and diversifying sources of different raw materials to continue and also invests in sustainability (potato starch, dried fodder, flax and hemp for example) whereas some crops play a pivotal role in the environment, fauna and flora (in the case of rice), which justifies additional aid.
- 37.** Whichever aid system comes into force in agriculture, it is important to allow a tool to be retained which allows additional aid to be allocated to certain crops for the reasons outlined above without this aid becoming a source of competition distortion within the sector core or in artificial markets.

⁷ See recent DG AGRI analysis: "Economic impact of non-approved GMO's on EU feed imports and livestock production"

⁸ Example of the broccoli patent EP 106 9819

II – RETAINING AGRICULTURAL FINANCIAL SUPPORT

38. The need for this is plain to see: production stability comes at a cost which can only be supported by public authorities. The costs associated with managing landscape, protecting the environment, applying EU regulations, the strictest in the world, are both a help and a hindrance even for a sector as competitive as arable crops which justifies agricultural financial aid. In the light of this, the question of the future and changes to aid is particularly crucial for this sector.

Does decoupling in its present form only have advantages?

39. To address this, it would be useful to look at the state of play arising from the impact of the 2003 Reform on producers' choice of crops.

40. It is intellectually sound to state that for the arable crop sector, total decoupling is in keeping with the logic of the reform. However, is the reform's logic sustainable in the long term?

41. In order to respond to this question, it is important that in the future the Member States cut through the ambiguities and see the inconsistencies introduced by the 2003 Reform on the nature of allocated aid.

42. Is there a need to issue a reminder that across the Atlantic, the principle of freedom to produce introduced with FAIR ACT was revealed as a costly failure⁹ and that following this experience, the support system for American producers has taken on a completely different direction, i.e. towards aid linked individually to production (deficiency payments)? When it comes to competition, European producers want to be on equal footing with their American counterparts.

43. It is clear that the so-called aid from the first pillar should not become aid for income and remain a tool of agricultural policy. The existence of aid must be justified by the individual nature of agricultural activity, recalled at the beginning of the document as a priority for the sector. This aid is therefore even more justified, as farmers play an equally important role such as in protecting the environment and providing services for society through their economic activity of production.

Guarantee that modulation funds remain in the sector

44. Modulation funds taken from the arable sector should be available to producers so as to organise the sector, create and improve the good practice guides, facilitate communication, and encourage research and development and technological advancements etc.. The modulation mechanism and the transfer between pillars is perceived as a complex mechanism which increases the number intermediaries, a source of administrative complications and this includes the subject of inspections.

45. What is important for the producer is overall visibility of the different forms of aid and existing measures in order to assist with decision-making at farm level and with the different activities carried out.

46. Optional modulation must be eliminated as the system introduces differential treatment between EU producers.

47. Modulation should not be applied to the "coupled" elements as, in certain cases, due to the applied reductions and the amounts of aid, the amounts paid would mean that these measures would lose their desired effect as they would be too reduced in scope. Applying modulation to these relatively small payments reduces their impact, particularly with AEC and where Member States apply their own rates of national modulation.

⁹ Congress had to authorise urgent payments to the tune of 20 billion dollars.

ANNEX 1

RISE IN CEREAL PRICES: LITTLE IMPACT ON THE RETAIL PRICE OF BREAD, CHICKEN AND PORK (SOURCE AGPB- FRENCH ASSOCIATION OF MAIZE GROWERS)

- I. In order to evaluate the impact of a rise in cereal prices on the price of bread – and also of chicken and pig meat (animals whose feed requires a significant amount of cereals), the cost of ‘cereals’ raw material must be measured in the price of these products as sold to consumers.

The table below displays the average data for the second half of 2006 collected by the studies and economic forecasts service of Unigrains (financial establishment of cereal growers in France).

	For one baguette	For 1kg of standard chicken, ready to cook (*)	For 1kg of pork loin (*)
1) Weight of cereals needed	0.290 kg	2 kg	3.38 kg
2) Price of cereals (paid to producer)	0.034 €	0.25 €	0.44 €
3) Price of final product to the consumer (**)	0.8 €	2.6 €	6.6 €
4) Percentage of cereals in the final price	4.2 %	9.8 %	6.6 %

(*) according to data from Unigrains; results may vary depending on the economic climate

(**) baguette from a local bakery, large supermarket chain for the chicken, all types of butchers for the pork loin

- II. **The increase in wheat prices to producers at the beginning of July 2007 is 30% in comparison with the average price of the second half of 2006. Taking this table into account, the impact that this has on the price of bread is an increase of 1.2%, all things being equal elsewhere.**

Effectively, the cost of cereals in the baguette ought to rise from 0.034 € to 0.044 € (+30%). In comparison with the reference price of 0.8 € mentioned in the table, this additional cost of 0.01 € equates to an increase of 1.25%.

- III. **All things being equal elsewhere too, a price increase of 30% of cereals used in chicken rearing (wheat + maize) and in pig rearing (wheat + barley + maize)**

- leads to an increase of 0.075 €/kg, or +2.8%, of the price of standard, ready-to-cook chicken, and
- an increase of 0.132 €/kg, or +2%, of the price of pork loin.

CEREAL STOCKS AT THE BEGINNING OF THE MARKETING YEAR: x 1000, in T

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Marketing year	Soft wheat	rye	barley	Durum wheat	maize	sorghum	total
1968/69	1.531	153	445	98	0	0	2.227
1969/70	4.757	507	1.137	26	0	0	6.427
1970/71	775	811	209	17	0	0	1.812
1971/72	343	558	377	2	0	0	1.280
1972/73	1.721	716	266	97	0	0	2.800
1973/74	696	377	407	15	0	0	1.495
1974/75	1.245	178	577	0	0	0	2.000
1975/76	2.424	285	579	1	0	0	3.289
1976/77	1.272	192	257	402	0	0	2.123
1977/78	824	186	53	231	0	0	1.294
1978/79	580	328	126	19	0	0	1.053
1979/80	1.008	422	60	151	0	0	1.641
1981/82	2.040	358	181	130	0	0	2.709
1982/83	2.529	292	477	186	0	0	3.484
1983/84	1.583	286	120	578	0	0	2.567
1984/85	5.834	308	126	19	0	0	6.287
1985/86	3.318	242	222	553	0	0	4.335
1986/87	10.256	833	2.013	825	0	0	13.927
1987/88	10.312	1.161	5.296	887	392	0	18.048
1988/89	7.319	1.151	4.235	1.537	22	0	14.264
1989/90	4.567	911	3.916	2.325	19	0	11.738
1990/91	2.907	1.095	3.242	1.122	778	0	9.144
1991/92	5.521	1.555	3.320	616	759	0	11.771
1992/93	8.520	3.162	5.538	1.528	1	0	18.749
1993/94	10.977	3.564	7.322	4.165	488	0	26.516
1994/95	15.041	2.446	8.812	3.398	3.580	152	33.429
1995/96	6.442	2.550	6.480	1.165	1.113	160	17.910
1996/97	1.993	1.208	3.276	399	8	0	6.884
1997/98	325	532	679	0	0	0	1.536
1998/99	496	1.049	796	0	10	0	2.351
1999/2000	6.377	3.672	7.791	0	115	49	18.004
2000/01	3.080	3.270	2.316	0	25	5	8.696
2001/02	734	3.812	2.228	0	12	5	6.792
2002/03	457	5.088	2.396	0	15	4	7.961
2003/04	1.182	5.093	936	0	17	14	7.241
2004/05	194	3.332	111	0	0	0	3.637
2005/06	8.869	2.307	1.472	0	2.832	2	15.483
2006/07	5.537	638	2.180	0	5.614	3	13.971
2007/08	171	39	18	0	2.210	0	2.438

