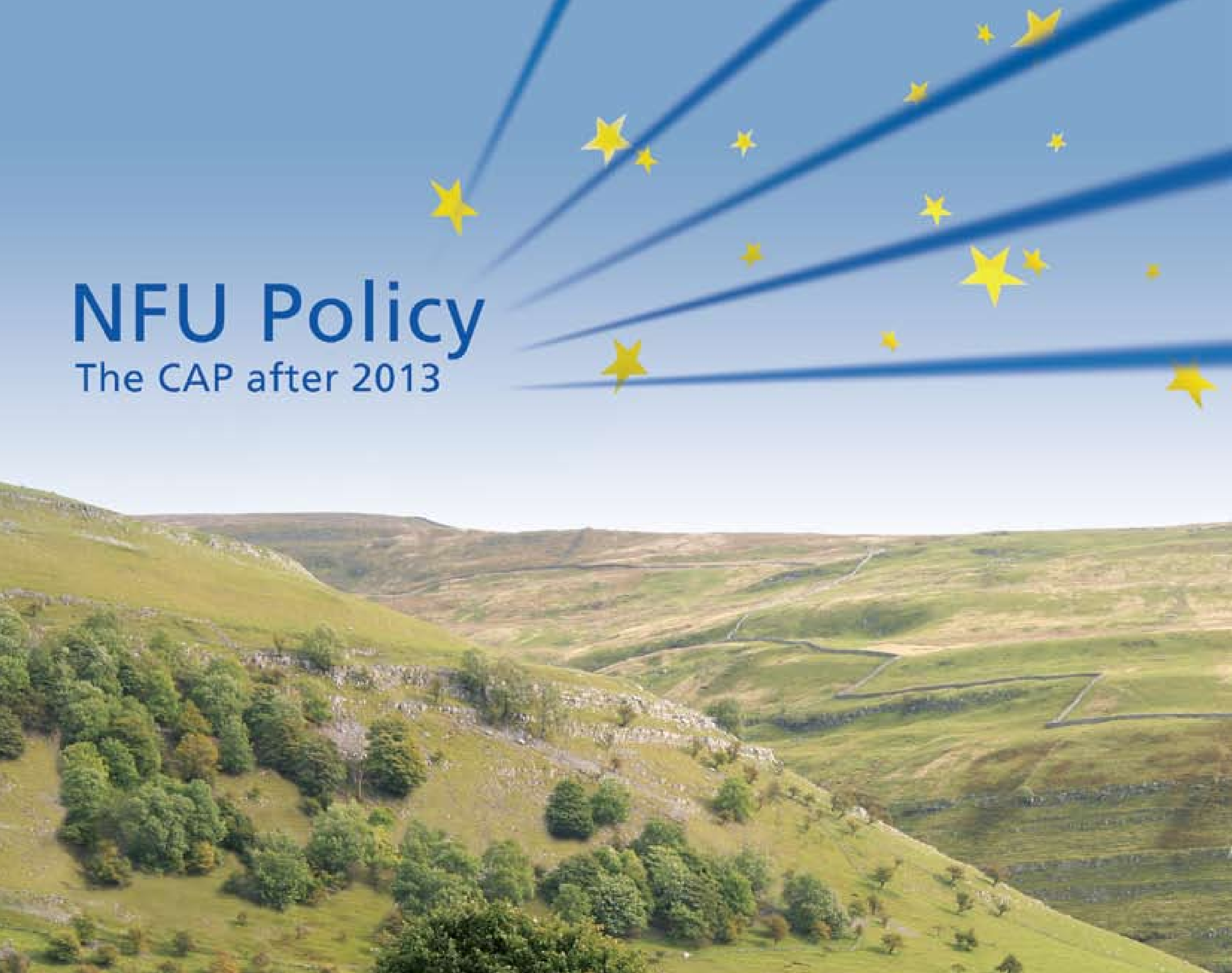
NFU Policy
The CAP after 2013



NFU

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The Challenges for European Agriculture

The farming sector has faced numerous challenges over the 50 years since the CAP began, ranging from the pressures to scale up production to meet growing demands for affordable food to the impact of BSE, animal disease outbreaks and greater market liberalisation. The industry has proved to be remarkably resilient and responsive in the face of these challenges and the CAP has played a role in assisting the sector in meeting them.

The challenges for the next 50 years are likely to be of an even greater magnitude.

- The world's farmers will need to produce considerably more food by 2050 to meet the demands of a growing population. Whilst much of this growth will occur in developing countries, Europe's farmers should be capable of playing an important part in meeting this demand.

- Farmers will need to adapt to the varying impacts of climate change and seek to reduce greenhouse gas emissions.

- Whilst long-term demand for food will increase, Europe's farmers will be exposed to more volatile agricultural markets and more competition as a result of likely further reductions in trade barriers.

- The continued growth of a small number of increasingly global food retail chains, exercising considerable bargaining power will impact on the functioning of food markets.

- Agricultural inputs will experience volatility linked to oil and energy prices. In some cases, they may become scarcer.

- Natural resources, especially soil and water and biodiversity, will need to be safeguarded.

Put simply, farmers across the world will be required to produce considerably more food, from finite and precious resources, amid a changing climate and at the same time as impacting less on the environment.

In the short term, these challenges will be compounded by several factors:

- The effects of the economic downturn on public spending and growth. These are likely to place additional pressure on the size and distribution of the EU Budget and consequently the CAP.
- A legacy of underinvestment on farms, which is undermining the long-term economic performance of EU farming, leading to a loss of competitiveness vis a vis other major agricultural producers. This is compounded by a lack of competitiveness in the food manufacturing and processing sectors.
- Access to and affordability of external sources of credit to support farm investments is likely to become more constrained, especially for those farmers with a small asset base such as new entrants and tenant farmers.
- Increasing regulatory burdens impinge on the competitiveness of EU agriculture at a time when trade barriers are likely to be reduced.
- Ageing farm populations and shortages of key skills suggest that whilst farming had proved remarkably adaptable and resilient to previous challenges, it may not be as well placed to deal with those to come.

The recent Europe 2020 strategy describes a vision for smart, sustainable and inclusive growth. Some people interpret that this strategy marginalises agriculture since it barely features within the document. In fact, the opposite is true. Agriculture is central to the transformation of Europe's economy.

Many farmers are embracing new technologies. Europe already possess significant expertise in agricultural research and development, but greater investment is required to support agriculture in Europe and beyond in contributing to the global climate and food production challenges. It is therefore a major part of the 'smart growth' agenda.

Farmers are already taking steps to increase resource efficiency and contribute to producing renewable energy. Yet much greater potential exists for agriculture to become a major source of 'sustainable growth'.

Finally, agriculture provides 40 million jobs across the EU, often in economically marginal regions. Many farmers depend on migrant and seasonal labour, which in turn facilitates the social development of the EU. What is more, it underpins one of Europe's largest manufacturing sectors, the food industry. It is perhaps the biggest contributor to 'inclusive growth'.

Why the CAP remains important

For many EU politicians, the importance of the CAP is self-evident. Yet it is right to question why agriculture is somewhat unique in benefitting from a substantial and integrated EU policy.

The CAP is important of course to farmers. In a recent survey of NFU members, 90% indicated their support for retaining a common EU agricultural policy with 88% indicating that the CAP was important to their businesses. But if the economic importance of the CAP is evident, some other benefits are less so.

- As the recent Eurobarometer report demonstrates, it ensures that farmers can meet the expectations of EU consumers for high quality, healthy and safe food that is produced to exacting environmental and welfare standards. These expectations manifest themselves in higher regulatory costs which do not always apply to third country imports. The policy helps farmers meet these higher costs.

- It plays a key role in ensuring the EU's long-term food security by ensuring the stability of supply of food to consumers at affordable prices.

- Agriculture plays an important role in terms of territorial cohesion by allowing farming activity to be spread throughout the EU. It also underpins rural employment and thereby provides a more stable platform for jobs in rural areas.

- The policy helps to ensure that agricultural production is environmentally sustainable, through a combination of underpinning regulatory compliance and providing incentives to further improve environmental performance.

- It helps to maintain some of our most important landscapes and environments such as the uplands and grassland.

- Without a 'common' EU policy, many member states would simply put in place their own policy measures that could distort the single market in agricultural goods. This in turn has been one of the major successes of the EU.

Fundamentally, the CAP helps to address the failure of agricultural markets to deliver fair and profitable returns to farmers. Without it, farm incomes would be unsustainable and many would cease production. Although a recent report from the European Commission suggests this would have very limited consequences on total food production, it would have massive consequences in terms of the public benefits that agriculture provides across the EU.

NFU Vision for the CAP

The CAP has undergone substantial and radical reform, especially in the last decade with the major reforms of 2003. Furthermore, it is important to underline the extent to which farmers within the UK have experienced even more radical reform through the full decoupling of direct support payments and through voluntary modulation, which has shifted more resources into rural development programmes. The extent of transformation in England has been taken further with the progressive move towards area-based payments by 2012.

Farmers in the UK and across Europe share the aspiration of reducing their reliance on public support. This is a long-term goal that cannot be met by arbitrarily setting deadlines for the removal of support, as advocated in the UK Government's 2005 *Vision for the Future of the CAP*. Moreover, it cannot be achieved by simply assuming that market forces alone will deliver the sort of agricultural sector that EU society expects.

To achieve this vision of a world in which the farming sector requires considerably less public support requires a clear, long-term strategy that takes account of the conditions under which support could gradually be unravelled. This includes:

- Ensuring that the process of unravelling takes place around the world. Most OECD and many developing countries operate under subsidised and protected agricultural markets. Unilateral reform in the EU could further undermine our competitive performance without altering the scale of public intervention across agricultural markets worldwide.

- The expectations of European legislators and society in terms of higher production standards are not always matched by our competitors. This often means that imports have a price advantage. As long as this situation persists then there will be a justification for some element of direct payments.

- Maintaining a mechanism for delivering the non-marketable public benefits that society expects of farmers.

- Functioning markets so that farmers can derive more sustainable returns from the market. This will require political intervention to avoid the risk of market collapse under extreme volatility and to ensure more balanced relationships within the supply chain.

Until these conditions can be met, substantial CAP support cannot be removed without serious damage to European agriculture.

Objectives for the 2013 reforms

The NFU believes that the original Treaty objectives for the CAP are no less valid today namely:

- To increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour.
- Thus to ensure a fair standard of living for the agricultural community in particular by increasing the individual earnings of persons engaged in agriculture.
- To stabilise markets.
- To ensure availability of supplies.
- To ensure that supplies reach consumers at reasonable prices.

Although these objectives have stood the test of time, we also believe that further reform is both inevitable and desirable. Overall, the primary aim of the CAP should be *economic* and should be focused on *farmers*.

The focus of the CAP after 2013 should be to:

- Maintain productive capacity across the European Union in terms of agricultural land, skills and wider infrastructure so that Europe's farmers are able to respond to growing food demand in the years to come. We believe that European agriculture will need to play an even greater role in global food security, bearing in mind its established position as a major food producer, the importance of EU food manufacturing and the possible effects of climate change on agricultural productivity in many parts of the world.
- Provide a buffer against the threat of market volatility undermining much-needed investments on farms and ensure that the industry is resilient to economic and other shocks. This requires measures to prevent excessive volatility from leading to market collapse and income support to farmers to provide a degree of stability.
- Support efforts to make farmers more competitive and productive. This includes seeking out added value markets as well as reducing production costs (including regulatory burdens) and permitting greater economies of scale.
- Provide incentives to farmers to improve resource management, adapt to climate change and improve their environmental performance.
- The most important challenge of all however is to facilitate the creation of fairer and better functioning agricultural markets so that ultimately farmers can become less reliant on public support.

Key policy principles

Whatever the design of the next policy, the NFU believes that it is important to set some guiding principles. These must underpin any future policy and should be used as tests against which any policy instrument must be judged. In our view there are four key principles:

- Simplicity
  The policy must be simple to operate and implement for national governments and farmers alike. It should not be overly burdened by bureaucracy.

- Market orientation
  The policy should allow market signals to drive production decisions and give farmers the freedom to farm. It must not revert to supply controls or coupled supports that confuse market signals. Indeed any policy should seek to make markets function better so that they can deliver fairer returns to producers.

- Competitiveness & productivity
  The EU farming sector must increase its competitiveness and become more productive to meet the major environmental and food challenges ahead. The policy should not impede the competitiveness of the farming sector and should encourage greater productivity.

- Commonality
  Within a single European market, the objectives can only be served by a 'common' EU policy which seeks to treat farmers as equally and fairly as possible. Without a common approach, there is a risk of competitive distortions emerging between Member States that undermine the viability of the farming sector in some parts of the EU.

The threat of renationalisation

The greatest threat to the principle of commonality would come through a renationalisation of agricultural policy. This could take a number of forms: by giving Member States excessive flexibility to implement the CAP in different ways; by relaxation of state aid rules or by allowing them to provide additional national support to producers on top of EU direct aids (i.e through top-ups to direct aid or by co-financing direct support).

The threat of renationalisation is very real given the budgetary pressures faced by the European Union. It must be avoided at all costs, since it would exacerbate to an unacceptable degree any competitive distortions in the single market and herald the end of the CAP.

The NFU insists that the CAP must remain a centrally-funded policy. It must continue to be based on the principle of financial solidarity across the EU and further co-financing must be resisted.

The architecture of the CAP after 2013

The NFU believes that the policy should continue to be based on the current two pillar approach because it provides a useful separation between two distinct elements of the policy. Whilst the regime is not perfect and some of the lines have been blurred (for example through the creation of national envelopes), this structure has served the policy well.

Pillar One should embrace the main *economic* components of the CAP that are, in essence, determined at the Community level. These should include:

- The residual market support instruments that should remain after 2013 operated at EU level.
- Additional measures to improve the functioning of agricultural markets.
- Decoupled direct aids to producers (single farm payment).

The instruments deployed under Pillar One should operate throughout the EU.

Pillar Two should be focused on the *resilience, competitiveness and environmental* performance of the farming sector in meeting future challenges, specifically:

- Adjustment to more open (and volatile) agricultural markets.
- Greater resilience to climate change.
- Rewarding and encouraging further improvements in environmental performance.

The delivery of Pillar Two should cater for specific needs of different Member States, however there is a need to simplify the regulatory basis for rural development programmes, bring about greater commonality in respect of funding priorities, review the current Axis-based approach and radically overhaul its funding.

Funding

The funding of Pillar Two is a critical issue to address after 2013. The growth of rural development in recent years has depended entirely on the First Pillar as a result of the modulation of direct payments. This is divisive because it does not apply evenly across the EU and so is not a sustainable basis for financing agricultural development programmes. Moreover, it dissuades farmers of the value of rural development programmes since they consider that the funding amounts to a tax on direct payments. Allocations from core funding are historical and do not reflect the important role that Pillar Two has come to play in all Member States. Finally, voluntary modulation which operates in the UK and Portugal amounts to a competitive distortion to the single market.

Modulation should be phased out as soon as possible and replaced by a permanent budgetary transfer from Pillar One to provide adequate funds in the European Fund for Rural Development to support rural development activities across the EU. At the same time, the allocation key used to determine support available to Member States must be revised on the basis of objective criteria. This could reflect the same basis as Pillar One, allocations, or could be re-based on Member States' recent expenditure under rural development programmes (i.e including expenditure raised through compulsory and voluntary modulation).

Research and Development and a Third Pillar

The NFU has argued that a significant increase in agricultural research and development funding is required to meet the challenges ahead. This should focus on applied science to deliver greater productivity, allowing the industry to produce more and impact less. There has been some suggestion that the CAP could play a complementary role in supporting production R&D, potentially through the creation of a Third Pillar. Investment in the knowledge-based economy and targets for research and development funding form a key part of the Europe 2020 Vision. We believe that the case for EU-led R&D is strong since the return on investment is substantial and the ability to work through the EU would allow national efforts to be combined through joint-funding initiatives and greater collaboration between EU scientists and research establishments.

Opportunities already exist within the framework of rural development programmes to support innovation and, importantly, knowledge transfer. The extent to which the CAP should play a greater role in supporting R&D depends on two things. The first is to take account of the Community research Framework Programme and the extent to which the next programme after 2013 could do more to assist production R&D. The second is that any financial resources that are devoted through the CAP for R&D must be genuinely new money and must not simply substitute for existing European or national programmes.

Securing better functioning markets

Successive reforms of the CAP since 1992 have sought to reduce the interference of the European Union in managing agricultural markets. Whilst the NFU believes that agricultural markets have specific and unique characteristics, we also believe that the direction of travel has been correct, i.e to reduce agricultural support prices, move away from production-orientated support and to introduce direct income support to producers.

The likelihood is that agricultural markets will become more volatile in future and farmers' exposure to commodity market volatility will increase. Whilst a degree of market risk encourages entrepreneurship, excessive market risk would undermine confidence and investment.

Existing market instruments

There is a case for retaining some EU measures to provide safety-net support:

- **Intervention**
  The experience of the dairy crisis in 2009 has shown that intervention can continue to play a role in limiting the effects of extreme volatility. This suggests that intervention mechanisms should remain in place to be deployed as a last-resort instrument, designed to prevent market collapse in the event of a serious deterioration in prices. They should not create price incentives under 'normal' market conditions and quantitative limits should remain to prevent the build up of surplus stocks that can overhang markets and suppress price recovery. Current intervention arrangements and prices are proportionate to the risks posed.

- **Import tariffs**
  In the event of a WTO Doha Round deal, substantial cuts to the highest agricultural tariffs in the EU can be expected. However tariff protection remains important to many agricultural sectors in order to ensure balanced agricultural markets and to prevent unfair competition from imports that do not meet EU standards.

- **Export subsidies**
  The NFU believes that the EU should phase-out export subsidies. We believe that they do not encourage EU manufacturers and traders to focus on genuine market opportunities and give a negative image of the CAP.

- **Promotional support**
  Existing promotional support measures should be maintained.

Other supports such as private storage aid should be retained as possible instruments through the Single CMO but should only be deployed as a means of dealing with crises or major declines in agricultural markets.

Additional measures

The major challenge for the next reform is to continue the process of adjustment towards market orientation by addressing the failure of EU markets to deliver profitable returns to farmers. These result from a lack of price discovery mechanisms, short-termism in trading practices, imbalances in the supply chain and abuse of market power by those in dominant market positions such as major supermarket chains. The following measures should be introduced:

- A legally enforceable EU code of conduct aimed at grocery chains and food manufacturers that prevents abusive practices such as over-riders, back-margins, slotting fees, preferred supplier restrictions and other arrangements specified outside of agreed contracts. The voluntary approach has been attempted in the UK but has failed to prevent the abuse of power and given the consolidation of grocery retailers and manufacturers across the EU it is appropriate to take action at a Community level. Eliminating abusive practices would not only be beneficial for producers but also consumers who stand to gain in the long-term from greater choice.
- An EU-wide legislative framework covering supply contracts between farmers and buyers (e.g. food manufacturers) to ensure that the contractual rights and obligations between both parties are specified, balanced and fair. Unfortunately most supply contracts are one-sided, conferring significant and undue power to purchasers. Contracts should specify core elements such as duration, volume and pricing arrangements. The work of the Dairy High Level Group in this area could provide a useful template for other agricultural sectors.
- An examination into agricultural futures markets should be undertaken, including the prospects for extending futures to other agricultural sectors, consideration of their possible role in terms of inputs as well as outputs and barriers to take-up of futures as risk management tools by producers. Futures markets offer no panacea to farmers and must be commercially driven. However their availability is sparse in many sectors, which inhibits long-term price discovery.
- Extending the provisions pertaining to producer organisations (POs) in the horticultural sector to foster greater focus on market management and professional development by producer groups in other sectors. Thus far, discussion on POs has focused on competition policy aspects. Yet the potential benefit lies not only in their ability to allow farmers to negotiate collectively, but to improve the professionalism of marketing, undertake risk-management activities and improve the transmission of market signals to producers. They may also offer opportunities for joint financing in improving environmental performance.
- Where monopolistic and oligopolistic situations arise in specific sectors, producers must be able to exercise countervailing power. An obvious example in the UK and increasingly across the EU is the sugar sector where the maintenance of an inter-professional bargaining agreement remains a vital component of the regime. Indeed, these provisions could be extended to other sectors that find themselves in a similar situation in future.

Direct payments to farmers

Decoupled direct payments to farmers must remain the core of the CAP after 2013. Despite the best efforts of farmers to become less reliant on public support, direct payments still remain an important component of net farm income. They fulfil several objectives:

- They provide some compensation for farmers in the EU who meet higher production standards and who operate at higher social costs than those in many third countries.
- They provide a degree of income stability to farmers which enables them to maintain productive capacity despite volatile agricultural markets.
- They provide security against which farmers can invest and leverage additional private investment from banks.
- They ensure the maintenance of agricultural activity across the EU, especially in more marginal areas of the EU where production decisions are more limited and costs often higher.
- They provide an anchor point that ensures that farmers meet regulatory requirements that are relevant to food production and the management of farm land.
- They allow farmers to deliver a range of wider public benefits that flow from the management of agricultural land such as the maintenance of landscape features, habitats and the maintenance of soil, including as a carbon sink. These come as an addition to the basic public benefit of a secure supply of safe, high quality food.
- As decoupled payments they encourage farmers to respond to long-term market signals thereby assisting in the better functioning of agricultural markets.

Allocations and entitlements

There are likely to be pressures to redistribute direct support envelopes and to move away from historic support references both for Member States and for individual farmers. There is a strong logic behind this move, although further work is needed to determine the fairest and most objective scenario under which allocations should be made.Work is also needed to appreciate the impact of these scenarios on farmers and farming systems, for example the financial balance of risk and responsibility between landlord and farming tenant and the impact of longstanding tenure systems like common land and shared grazing. The negative effects of redistribution will need to be minimised, which calls for a lengthy transitional period.

Again, it is important to underline the transformation that has already been undertaken in England in moving towards area payments. This offers important lessons for the rest of the EU. We believe that it is important that payments continue to be made to farmers on the basis of payment entitlements held. Although a move towards a basic area payment scheme without the need for corresponding entitlements would be attractive from the point of view of simplification, we accept that the whole thrust of decoupling is based on a fixed entitlement reference rather than an annual land use declaration. In addition, moving towards area payments would lead to even greater capitalisation of direct support payments in land values than is already the case under a regional flat-rate SPS model.

Even in England (where payment entitlements exist), an unfortunate consequence of the move towards area payments has been to see a dramatic increase in the number of eligible claimants as well as a tendency for support to gravitate towards landowners rather than farmers. The Commission should assess the scale of this issue and consider ways of ensuring that decoupled payments reach those who are actively farming the land.

The system after 2013 must also take better account of different land tenure arrangements across the EU, especially the presence of 'common land' in Member States such as Britain and Ireland. This reinforces the call for an entitlement system in which entitlements are held and activated by the farmer rather than the landowner.

The NFU remains opposed to the principle of capping or scaling back direct payments to larger recipients. We believe this would discriminate against increasing competitiveness through scale.

Decoupling of support

The NFU has consistently advocated the principle of decoupling of support payments. We believe that decoupling can bring considerable benefits to producers in terms of simplification and greater freedom to produce according to market signals. It allows farmers to stand back from the market when prices are unsustainable and help to secure better functioning markets by requiring the supply chain to invest in profitable prices in order to secure supply. In our recent survey of NFU members, a very strong majority voiced its support for decoupling.

It is too early to judge the impact of decoupling across the EU in part because the process has not yet been completed across the Community. We believe that the EU should move to decouple all remaining coupled supports, especially those in the livestock sector.

Member States have been granted a degree of additional flexibility to target support to specific groups of farmers under Article 68 of the current direct payments regulation. Whilst the NFU has expressed strong reservations about this instrument, we accept that the diversity of agriculture is likely to lead to calls to maintain some degree of national flexibility in terms of targeting support. Where Member States choose to deploy national envelopes, these must be limited in scope and scale to prevent them being used to gain unfair competitive advantage within specific sectors.

Certain aspects of Article 68, notably support for specific types of farming that are deemed important for the environment bear the hallmarks of rural development programmes and should not form part of the direct payments regime after 2013.

Risk management

The European Commission has intimated that it would like to develop further risk management tools in the CAP, such as through extending some of the existing provisions under Article 68 for mutual funds and insurance schemes. There may be a logic to this, but such schemes are likely to be complex and may undermine the value of decoupled payments themselves as essential risk management tools. It is important that these tools are optional rather than compulsory.

Reframing the Second Pillar

Successive agricultural policy reforms have placed ever-greater emphasis on rural development under the CAP's Second Pillar across the EU. This has had success in supporting greater competitiveness, improved skills and training, farm diversification and especially, environmental improvements through agri-environment schemes. At the same time, the policy has experienced some 'drift' away from agriculture towards wider rural concerns.

We believe there is a need to redefine the boundaries of these programmes to focus them on *agricultural* rather than *rural* development. There is a danger in seeing Pillar Two as a dumping ground for policy aspirations in different areas without providing the necessary funding and consequently losing vital focus in this pillar. Ultimately, the overall characteristics that we expect from a future CAP should also be inherent in rural development. A common and consistent approach to rural development policy and delivery across Member States is a pre-requisite as is ensuring that the policy benefits farmers.

Priorities

The focus of Pillar Two should be on addressing strategic issues in the farming sector. It should complement rather than replace Pillar One. We believe that the key priorities should be:

- Assisting the process of structural adjustment towards the market and greater competitiveness and productivity amongst farmers.
- Securing farm modernisation and innovation.
- Improving agricultural skills and training.
- Rewarding environmental provision and encouraging environmental enhancement of farmed land in a targeted fashion beyond the regulatory baseline.
- Adaptation by farmers to climate change and encouraging practices which help to mitigate its effects.

The measures that are currently available to Member States in the existing regulation appear to be sufficient to tackle the priorities listed above. Indeed, some consolidation of the measures might be helpful.

It is right to consider whether the place in the policy that is currently occupied by Axis 3 and the LEADER approach are valuable. The objectives of improving quality of life in rural areas and encouraging diversification are difficult to evaluate, with the linking of outcomes to programme spend a particular challenge. Given this situation, Axis 3 measures that do not directly impact on the economic wellbeing of farming businesses are better suited to becoming part of the structural funds. These should be ring-fenced for the Member State in which they were previously paid as part of rural development programmes.

The axis-based approach

The separation of rural development programmes into different 'axes' provokes some debate. A key benefit of the axis-based approach is that it ensures that Member States have to offer balanced programmes, thus avoiding the risk that all funds are allocated to a single priority. There is a sense however in looking at whether a more thematic approach, based on the priorities above, would offer the same benefits. The focus should be more on securing effective delivery and outcomes at a farm level, rather than regulatory confusion as appears to be the case at the moment with different measures overlaying the four axes.

The funding allocated to the different priorities will inevitably vary between Member States. However under the current programme the variance leads to quite significant differences, notably between those Member States that focus activity on Axis 1 and those that emphasise Axis 2. Greater commonality is needed to ensure that the deployment of Pillar Two does not become more distortive. This suggests that minimum spending under the different priorities should be raised to secure more even application.

Income foregone

The concept of income foregone hampers the development of agri-environmental programmes. Under WTO rules, payments under environmental programmes must reflect the additional cost or income foregone by the recipients in undertaking the measures. Income foregone requires a complex methodology which does not permit real incentives for producers to improve their environmental performance. The value of 'income' differs from farm to farm, region to region, country to country and therefore payment rates can be dramatically divergent. Moreover, as food commodity prices are set to rise in the medium term, so too would the income foregone.

There is an urgent need to review income foregone calculations to enable agri-environmental payments to offer genuine incentives to farmers and to take account of the benefits delivered rather than the income foregone.

Delivery

Whilst policy should be considered separately from delivery, it is difficult to separate the two when reviewing rural development. Rural development funds are essential to underpin the competitiveness of the sector, focusing on turnkey projects and benefiting many.

Agri-environment schemes have proved a worthwhile instrument in encouraging farmers to adopt environmentally beneficial practices. However, further modifications may be desirable to increase the attractiveness of the programmes, such as through extending capital works that can be funded, introducing intermediate tiers and, especially, reviewing income foregone calculations. The broad and shallow approach appears to extend both the greatest possibilities to farmers and the greatest benefit to the environment at the lowest administrative cost.

Delivery should seek out 'win wins' that deliver against one or more of the key priorities. Examples of this include measures to support energy efficiency, nutrient planning and bio-digestion.

The experiences of current and previous programmes invariably shape our views on the ability of the current Axis 1 and 3 to make a widespread difference to the farming industry. Establishing future policy should look to the outcomes and experience of all Member States in delivering rural development.

Less Favoured Areas

The revision of LFA designations across the EU is ongoing, with the objective of establishing more consistent EU–wide physical criteria for the delineation of LFA areas.

The case for providing additional support to farmers in more marginal parts of the EU is well made, however there has been a tendency to see the value of LFA food production primarily through the production of environmental goods and services. NFU believes that the value of agricultural activity in LFAs goes way beyond the provision of environmental goods. First and foremost, farmers in LFAs are food producers. Though some are able to make viable returns, many are subject to disadvantages that result from farming in areas of natural handicap. These impact on the ability to be competitive in LFAs and marginal areas. Secondly, the maintenance of productive activity in LFAs underpins wider rural economic activity upstream and downstream.

Whilst it is important to maintain support that is currently available for the LFAs, we do not believe that the current approach, that incorporates the payment within Axis 2 of the Rural Development Regulation (and that delivers a payment that is based on income foregone), is an appropriate way of recognising the natural handicaps associated with farming in upland areas.

Simplification

Simplification is an agenda that should be pursued across the development and operation of the entire CAP.

Ensuring that the legislative framework is clear, easy to understand and administer should be an express aim during the upcoming negotiation and adoption process, rather than an exercise which follows adoption. In other words, European lawmakers should aim to 'get it right first time', in order to avoid implementation difficulties and disputes over interpretation that have been a characteristic of the 2003 Luxembourg reforms. The imposition of an area limit on the allocation of horticultural 'authorisations' under regional SPS models is an example in point; so poorly conceived were the rules that they did not even survive until the 2008 Health Check. But in the interim they caused significant difficulties for producers and competent authorities (in England, those difficulties are still being resolved).

We believe that terms should be clearly defined in legislation, and in a way that provides consistency across all elements of the CAP package. By way of example, there should be a single definition of 'farmer' that applies across both direct payment and rural development legislation. This will help to avoid confusion about who is eligible for what type of payment and what conditions are required in order to qualify.

Conclusion

The CAP is likely to face considerable financial and political pressures after 2013, yet it is important to reflect on the success of the policy, its adaptability to changing circumstances and especially the importance of farming to the strategic agenda of the EU.

The intensifying debates in both the UK and across the EU are already marking out the territory for the next reform. For the NFU, the CAP will need to adapt, building on the direction that was set out in the 2003 reforms towards simplicity, greater market orientation, more commonality, greater competitiveness and productivity. The most important thing is that the CAP helps farmers to prosper in the market, maintaining the EU's productive capacity, providing farming businesses with a cushion against volatility and allowing farmers to respond to society's expectations. Above all, the next reform must start to address some of the fundamental problems of agricultural markets so that farmers, ultimately, can become less reliant on public support.

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