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NOTE

From: General Secretariat of the Council
To: Delegations
Subject: Rethinking Crisis Management in the Agricultural Sector

Delegations will find attached a non-paper from the Cyprus delegation on the above-mentioned subject.

Cyprus Non Paper
Rethinking Crisis Management in the Agricultural Sector

Although the fundamental objectives of CAP enshrined in the Treaty of Rome “to ensure a fair standard of living for the agricultural community and the availability of food supplies to the community population at reasonable prices”, remain all the same relevant 60 years after their inception, one has to admit that certain qualifications need to be made under today’s conditions. Ensuring a fair standard of living has certainly gained much more in importance over time, especially in the context of an enlarged EU which is characterized by considerable variation in production and other conditions between and within MS and regions. Still, the enlarged EU seems to be stuck in the philosophy and instruments of times past when people thought a single price would be relevant for the whole Union and that market intervention could provide a remedy for all evil. Market measures are supposed to provide a safety net that would benefit all affected farmers. But we all know that this is possible only in an ideal situation where the internal market works perfectly with prices of inputs and outputs being more or less the same all over the Union. In fact this is far from being true.

Instead of concentrating on income as the ultimate criterion of viability and for motivating people to stay in business, we are still trying to invent more and more complicated instruments to deal with crisis situations on the market, without much success in most cases.

One could draw attention to a number of issues that came up in the course of this action:

Despite the wide spread nature of the continuing crisis which affected a large part of the Union’s farm population, both the extent of the crisis and the reasons behind it varied substantially between MS and from one region to the other. What was a crisis for some MS, say in the dairy sector, was seen as an opportunity by others, though a few ones. Many MS were concerned with crises in the livestock sector, milk and pig meat especially, others were faced with serious problems in the crop and fruit and vegetable sectors. The Commission did its best to come up with a tray containing something for everybody but only when the tray contained income support, was there wide-spread acceptance.

Paradoxically, even for state aid top ups and additional or earlier direct payments, the Commission insisted on using the legal framework and indicators of the Single CMO as a means of defining what constitutes an EU-wide crisis and what were its extent and effects in each MS. But even for more classical market measures proposed, there was considerable doubt whether the, mainly priced-based, indicators used, were relevant in all cases.

We also observed another paradox: Drought was for once viewed as a problem worth of attention under the markets portfolio, while in the past MS affected were having difficulty even to pay out state aid.

Arguably, the recent experience concerning the management of crisis situations in various agricultural markets, has demonstrated the need to rethink the way these crises are being tackled in an effort to maximize the efficiency and effectiveness of utilizing the available resources to the benefit of all the Union's regions.

In the remaining 4 years of the current financial framework we are faced with the prospect of lower financial resources due to the abolition of the milk levy and, perhaps, less financial corrections while competition from third countries is expected to increase due to the finalization of the EU bilateral trade agreements. The more so it will be important and relevant to continue asking ourselves whether what we do is the most efficient and effective way to put the limited resources available to us to good use.

We cannot ignore, for example, that, out of the very substantial amount budgeted each year for market measures of the Single CMO, on average, is in fact utilized for the proposed measures.

Obviously there are no easy solutions to the problems. They are too complicated and multifaceted to allow that. But it is perhaps time to start taking seriously the idea of an alternative safety net system to address crisis situations when and where they occur, at the European, national or regional level. Rather than market indicators, a new system would inevitably have to emphasize income indicators such as agreed normative per hectare income.

Agricultural economists have worked for years with norm input-output data for crop and livestock and it would not be difficult at all to define some typical farm models at the appropriate geographical level. In fact, the instrument required to monitor the development of the main cost and revenue indicators by country and region and to verify the faithful and correct application of the system already exists. It is the FADN, the Farm Accountancy Data Network. Not only that. The Commission and Member States avail of historical time series that could be used to define the baselines and to implement the system in a sound manner.

Clearly, a widely applied income safety-net system of this kind would have to observe the conditions and restrictions of paragraph 7 of the Green Box of WTO's Agriculture Agreement. But we are not concerned here with small changes in farm income. We are aiming to set up a crisis management tool to reduce grave variations in income due to unforeseen circumstances which affect the prices of both inputs and outputs. Conceivably, market distortion would be lower than in conventional market and price-based safety-net systems and structural adjustment in response to long term market developments would not be hindered. In addition, the system would somehow work automatically allowing early action to contain local and regional crises before they affect the whole internal market.

The financial resources for this system should come primarily from savings in the Single CMO budget. Use of the crisis management fund should be envisaged only as a means of last resort and only when the majority of the member states have so requested.