SPEECH/03/427

Dr. Franz FISCHLER

Member of the European Commission responsible for Agriculture, Rural Development and Fisheries

CAP Reform: the Second Package

Committee for Agriculture of the European Parliament

Strasbourg, 23 September 2003

Ladies and Gentlemen,

The CAP Reform agreed in Luxembourg in June marked a major step: we made it clear that our chosen course of decoupling should also be followed in future reforms. It is clear that the more sectors included in the single farm payment, the greater the economic gains and administrative benefits will be.

Today the Commission is meeting these commitments by presenting a communication on the reform of the common market organisations for olive oil, tobacco and cotton.

As in the first package of reforms, it is our intention to follow up soon with proposals for Regulations, this time in November.

Secondly, the Commission is also meeting its commitment to report to the Council in 2003 on the EU sugar regime and its prospects. We have described three reform policy options and the potential impact of those various options in the accompanying Extended Impact Assessment.

But why a different approach for the sugar sector?

The sugar sector is a sensitive and also complicated sector, which has never, until now, been fundamentally reformed.

As a result, the Council and Parliament have not been given the opportunity to conduct a political debate on sugar.

Taking the same successful approach used for the milk sector in the first package, options have now been put on the table in order to launch a debate on the future direction of the sugar sector, a debate the Commission feels has to take place before a final proposal can be made.

Before moving on to the proposals themselves, I would just like to say a word about the accompanying Extended Impact Assessments for the tobacco and sugar sectors. I would say that these documents are absolutely necessary for understanding the background to our tobacco proposal and the complex issues at stake in the sugar sector.

The assessments have been carried out over the last nine months by Commission inter-service working groups, basing themselves on the best information available and in direct consultation with stakeholders.

They come to you as the fruit of the Commission’s “better regulation” package and Sustainable Development Strategy, which arose from the conclusions of the European Councils in Göteborg and Laeken and formed part of the Commission’s Legislative and Work Programme for 2003. They also take account of the fact that these are two sectors which are particularly significant in their impacts both socially and politically.

Turning to the proposals for the olive oil, tobacco and cotton sectors, you will see that the common aim in all three sectors is to support sustainable development. This is to be achieved on the one hand by reorienting the support to reward healthy, high-quality products and practices, and on the other by developing alternative sources of income and economic activity.

To do so, the largest part of current support for the three sectors is to be decoupled and integrated into the legal framework of the single farm payment.

In developing its proposals, the Commission also had to take account of the fact that the production of tobacco, olive oil and cotton is often concentrated in regions which are lagging behind.

We hope to counter this problem by a reinforcement of rural development policy.

For tobacco, the existing tobacco premium is to be gradually decoupled in full over a three year period, accompanied by a phasing out of the Tobacco Fund. During this transition phase, it is proposed that a financial envelope will be set up, within the second pillar of the CAP, for restructuring tobacco-producing areas. At the end of the reform process, more than 70% of the current tobacco premium will have been converted into the single farm payment and at least 20% into restructuring assistance.

For olive oil, on the other hand, I am concerned that a complete conversion of current production-linked payments in the olive sector to the single farm payment could bring problems to certain traditional producer regions in particular.

There is also a risk of abandonment of olive groves in many regions, with its associated negative impact on the environment, landscape and the social fabric.

For these reasons, I propose that 40% of the production-linked payments in the olive oil sector be retained as national envelopes, out of which producers could be granted a premium calculated on a per hectare or per tree basis.

This would help us to ensure the maintenance of low-output olive groves. Member States will determine the areas concerned, according to objective sustainable development criteria, within a common EU framework.

As for the cotton sector, the Cancun meeting drew the attention of the world to the issues at stake. The fact that the EU does not have a significant international role in cotton production implies that the impact of EU production on the evolution of world market prices has been negligible. The main factor contributing to the price decline is more a result of increased competition with synthetics in the fibre market.

Be that as it may, the Commission reached the conclusion that, on balance, a reform based on the June 2003 Reform approach, would also bring considerable advantages to the cotton sector in terms of greater market orientation, improved environmental protection and stabilised incomes.

For that reason, the Commission proposes to incorporate part of the current support for cotton production into the single farm payment scheme and to transform the rest into a new production aid, granted as an area payment.

These area premiums are also in line with the objectives set out in the Cotton Protocols of the Acts of Accession of Greece, Spain and Portugal.

For this reason, Member States will retain 40% of the producer-support expenditure as national envelopes for the new area payment.

Finally, in the sugar sector, just as for milk, we have carried out an analysis of the implications of the various policy approaches available.

We first looked into what would happen to the sector if we were to keep intact the current common market organisation, based on flexible quotas and price intervention. This would mean opening the EU market to the various import quantities already agreed or agreed in future under the EBA or other international agreements, reducing custom duties and then adapting production quotas in the light of market evolution.

The second scenario we looked at was the impact of reducing internal EU prices. Once levels of imports and production stabilised, production quotas could then be phased out. In this scenario, the internal market price would adjust itself to the price of those imports. To cushion the effects of the reduction in EU sugar prices, this scenario also looked at the possibility of introducing the single farm payment into the sugar sector.

The third option for reform represents a complete liberalisation of the current regime. This would mean abolishing the domestic EU price support system, abandoning production quotas and completely removing import tariffs and quantitative restrictions on imports. Here too, there would be a need to ensure income support for beet growers.

One thing must be clear: any reform of the sugar market will have to bridge the gap between domestic and world market prices. Support has to be decoupled from production, and the pros and cons of a policy based on quotas need to be carefully weighed up. Given the complexity of the world sugar market, reform would also need to keep a close eye on its effect in the international context, especially with respect to the impact it may have on ACP countries.

I believe we now need to discuss these proposals in depth not only here in Parliament, but also in the Member States and the sectors concerned.

I look forward to hearing your initial comments here today.