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Maribor - Brdo

The »Health Check« Reflection Paper

Presidency background paper

In the field of agriculture the Slovenian Presidency is focusing on the priority task of the "Health Check" of the CAP reform. With the thorough debate held at all levels of Council on the Commission Communication "Preparing for the Health Check of the CAP reform" and the adoption of Council Conclusions on that Communication at the Council meeting on 17 March 2008 we concluded the first part of the task. With the presentation of the Commission legislative proposals at the informal meeting of the Agriculture Ministers we are launching the second part of a debate with the goal of their adoption by the end of the year. Today is also an opportunity to hold a debate on placing the "Health Check" in a wider context, concentrating on the ongoing and new challenges which lie before us.

The first phase of the debate on the "Health Check" has been concluded. We agree that a "Health Check" of the 2003/2004 CAP reform should be carried out so that we can assess the results of those reforms and decide how better to adapt the reformed CAP to new circumstances, needs and challenges. We, in Council, consider that the Commission in its Communication correctly analysed the principal evolutions since the reforms agreed in 2003/2004 and identified the main challenges for the CAP in the years ahead. We also support the Commission's intention in the legislative proposals to focus on three main issues : firstly, the effectiveness, efficiency and simplification of the Single Payment Scheme, secondly, the role of market support instruments and improving market orientation and thirdly, responding to new and ongoing challenges in the area of risk management, climate change, biofuels, water management and biodiversity. We consider that in seeking to address these issues it is necessary to find a balance between the imperative of adapting policy responses to new challenges and changing circumstances, while allowing farmers and other operators a clear and stable framework for planning business decisions. Also very important is our conclusion that the "Health Check" should help better to align agricultural policy with the general expectations of society while at the same time preserving the European model of agriculture. The "Health Check" in particular raises questions related to the ongoing and new challenges for agriculture. All Member States stress the importance of ensuring that agriculture adjusts effectively to the changing competitive environment as well as the need for management of the associated risks. On the new and ongoing challenges in the field of climate change, bioenergy, water management and conservation of biodiversity we consider a comprehensive response is required taking account of the effects of European policies other than the CAP, and of policies at national and regional level.

The Commission legislative proposals on the "Health Check" will concern the CAP in the short term within the current financial perspective and will not imply a fundamental reform. Their purpose is to consolidate, improve and modernise some provisions in the CAP reform regulations due to new conditions and challenges that agriculture has been facing since the 2003/2004 CAP reforms were agreed. However, the decisions to be adopted by Council will to some extent also influence the future CAP. This will raise the question whether the "Health Check" will have addressed the new challenges in the field of risk management, climate change, bioenergy, water management and preservation of biodiversity appropriately, since these will undoubtedly be significant factors in the development of the CAP for the future.

Climate change

The fourth assessment report of the Intergovernmental Panel on Climate Change (IPCC) from the fall of 2007 establishes that climate change is increasingly more obvious and a responsibility of humanity. The most significant change is global warming caused by increased greenhouse gas (GHG) emissions and the changing of the planet's surface. According to the IPCC, in the last 150 years global temperature has increased by almost 1°C and will further increase until the end of the century by at least 0.2°C per decade.

Among the specific risks for agriculture, which will influence food production, water scarcity is very important. Risks related to extreme weather events such as storms, floods and droughts will become more frequent. Higher temperatures and increased humidity will lead to more frequent pests and diseases. Climate change will influence the level and variability of crop yields in plant production as well as the number of factors in livestock production. The influence on forests will also be enormous.

An uneven impact of global warming will increase regional disparities in farming conditions and enhance the risk of production abandonment in some parts of the EU. According to the European Commission, agriculture in some parts of Europe, particularly northern Europe, may benefit from certain effects of climate change. However, most effects will probably be negative and will be more intense in the most vulnerable regions of Europe, which already face pressures due to socio-economic and environmental factors like shortage of water. This goes in particular for southern Europe and the Mediterranean basin, mountain regions (especially the Alps) and floodplains.

Agriculture has to respond to climate change in two different ways: contributing to mitigation by reducing its GHG emissions, and at the same time adapting to the impact of climate change. As regards climate change mitigation, some encouraging results have been obtained at the EU level. According to the Commission's data, in 1990 agriculture produced 11% of all GHG emissions in the EU. In 2005, agriculture had reduced its share to 9%, thus making an important contribution to the implementation of the Kyoto Protocol. It is important to sustain this positive trend.

Adaptation to the already unavoidable impact of climate change will be equally important in the coming years. Farmers will have to adjust at the level of farms and the agricultural policy will have to provide appropriate support.

Biofuels

Biofuels development is an important new challenge for the EU, both in the fight against climate change and with a view to ensuring greater energy security. On the other hand, it is important to assess possible consequences of biofuel policy for global food security. At the March European Council, EU leaders pointed out that the key challenge will be ensuring that the transition to a safe and sustainable economy with low emissions of carbon is provided in a way that is consistent with the EU sustainable development, competitiveness, security of supply, food security, sound and sustainable public finance and economic and social cohesion. In this view, further efforts in research and development, which would enable commercial production of second-generation biofuels are very important.

Environment

Further increase in the world's population, rapid economic growth, an increased demand for biofuels and climate change represent an additional pressure on the environment all around the world. The world has never in history been faced with such rapid loss in biodiversity, which can threaten environmental, economic and social goals. The studies show that human activities caused 50 to 1000 times more extinctions in the last 100 years than natural process would. The level of the loss is projected to accelerate 10 times by 2050. The main reasons for the loss of biodiversity are changes in natural habitats due to intensive agricultural production and industry, over-exploitation of forests, water and soil, pollution and global climate change.

Water, air and soil are essential for the life of all living creatures and are also indispensable resources for the economy. Human activities affected strongly the availability and quality of water. The growth of industries and energy production, the burning of fossil fuels and more traffic significantly deteriorate the air quality. We are also facing an accelerated soil degradation, which negatively affects human health, natural ecosystem and climate change as well as economy.

Interaction between agriculture and the environment is very important. EU policies put a growing emphasis on reducing risks for the environment. And so does in particular the CAP, through rural development measures and cross compliance requirements. However the challenges are nowadays greater than in the past, with increasing pressure on the environment due to increasing food demand. It is necessary to ensure a sufficient amount of food for the fast increasing world population in a substantially less harmful way to the environment. Considering the interconnection of factors that influence the condition of the environment, all relevant EU policies should respond, not only the CAP.

Managing risk

Prices of agricultural products are both rising and increasingly volatile. In the past year, registered price increases at EU level amounted to 80% for cereals, 50% for maize, 50% for butter and 80% for skimmed-milk powder.

The prices increases have been a result of various factors. On the supply side, price rises are due to the impacts of climate change (extreme weather events), the gradual reduction of stock levels, especially in cereals, and the rising costs of fuel.

As regards the demand side, increasing world population and the rapid development of big countries like China, India and Brazil have lead to an increasing demand for some agricultural products, especially meat. This has resulted in a greater demand for cereals for animal fodder.

Increasing biofuel demand is another factor that has contributed to rising prices. Here mainly the influence at the global level has to be taken into consideration; for example the USA, which is the largest world exporter of maize has increased the ethanol production to such extent that it uses more maize for this purpose than for the export to world markets.

Increasing prices for agricultural products have varying consequences for agricultural producers. Higher cereal prices, for example, have been positive for the income of crops producers but

caused serious problems to a number of livestock farmers whose production depends on fodder cereals and oil seeds. On the global level, the increase of food prices negatively influences especially those countries, where agriculture products or food represent an important share of imports. Macroeconomic and political effects of high food prices, mainly in some less developed countries, are already visible.

It is expected that the price level will remain high also in the longer term. Moreover, prices for agricultural products will certainly fluctuate more in future than was the case in the past, when CAP measures contributed importantly to stable conditions. The issue of risk management is therefore becoming one of the most important challenges of agricultural policy.

Food security

Due to described challenges the issue of food security is once again becoming an important topic of public discussions, also at the EU level. If we want to resolve the problem of a sufficient food supply for the increasing world population, agricultural production will have to increase substantially. The limitation factors are a slowing down of yields and water and land availability. Climate change will also have an important influence due to a decreased volume of precipitation and a further limitation of water resources, lower yields and other specific risks for agricultural production. A rapid development of biofuel production will also contribute to a reduction of already scarce land, available for food production. Therefore, the question of sufficient food supply has to be addressed very deliberately and with concrete actions in all affected areas.

These challenges are likely to become even more acute in the next half century. *How will agriculture adapt to these challenges? How to ensure more high quality food at reasonable prices for a growing world population, and at the same time enhance biodiversity, preserve cultural landscape and protect natural resources like water, air and soil? To what extent could adjustments of the CAP in the context of the »Health Check«, already contribute to resolving these issues?* We suggest that we use the informal meeting of the Agriculture Ministers to exchange views on these issues.
