

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT
POLICY

Voluntary Public

Date: 10/23/2017

GAIN Report Number: E17071

EU-28

Post: Brussels USEU

CAP deal could strengthen EU farming sector's role in supply chain

Report Categories:

Trade Policy Monitoring

Policy and Program Announcements

Approved By:

Mary Ellen Smith

Prepared By:

J. Barrie Williams

Report Highlights:

On Monday, October 16, 2017, a comfortable majority of Member State (MS) representatives at the Special Committee of Agriculture agreed the text outlining changes to EU farm policy set out in the so called Omnibus Regulation. The Regulation relates to 15 economic sectors in the EU including agriculture, and is subject to approval by the Parliament and Council when negotiations on the remaining sectors have been completed.

General Information:

Omnibus Regulation

On Monday, October 16, 2017 a majority of Member State (MS) representatives at the Special Committee of Agriculture agreed the text outlining changes to EU farm policy set out in the Omnibus Regulation.

The Omnibus Regulation amends the financial regulation governing the implementation of the EU budget as well as 15 sectoral legislative acts including agriculture. The agreement makes amendments to the four regulations governing the Common Agricultural Policy (CAP): direct payments, rural development, common market organization and horizontal regulation.

Details of the Measure

The new measures are part of a joint institutional effort to simplify the current CAP in light of the experience acquired through its implementation, and offer MS additional leeway to act in line with specific national or regional needs.

Although the text of the deal has yet to be made public, post understands that the agreement would:

- Allow for the possibility of collectively negotiating value-sharing terms inside contracts. The European Commission's DG Competition as well as food manufacturers and retailers are reportedly angered by this as they fear it will lock in competitiveness and hike consumer prices. Post understands that safeguards were added to the text to ensure that competition is not excluded. Collective negotiations have so far been allowed only for milk, olive oil, beef, cereals and arable crop producers.
- Allow MS more flexibility in how to define an "active farmer";
- Allow MS more discretion in how they implement rules on permanent grasslands;
- increase the number of land types that can be considered as ecological focus areas (EFAs) under the "greening" rules;
- Allow MS to increase young farmers' payments by up to 50 percent;
- Ensure that general income support (income stabilization) for farmers will be activated in specific sectors when a farmer's income drops by more than 20 percent of his average income instead of 30 percent. Compensation would also be increased to 70 percent from 65 percent for those who lost more than 20 percent of their annual production or income.
- Make no significant change to crisis management. This debate will continue within the framework of the post-2020 CAP Reform framework.

Reactions to the deal

Council

Marko Gorban, Chief Negotiator in the Estonian Presidency of the Council asserted that he was glad to announce the agreement "...that reflects the position and priorities of the Council: simplification in continuity. In order to thrive, our farmers need to have a set of rules that are simple, effective and workable. Today we agreed on improvements that will make their life and the work of national administrations easier".

Parliament

Paolo De Castro MEP, Head of the European Parliament's Agriculture Committee negotiators was quoted as saying "Thanks to the Parliament's ambitious position we managed to use this Omnibus proposal to respond to various difficulties our farmers have been facing. Most of Parliament's ideas on simplification, risk management and market measures are now included in the final text".

Commission

For some time, EU Agriculture Commissioner Phil Hogan has been aware of a structural problem resulting in the farmer's share of what EU consumers spend on food being squeezed due to "...the clear imbalance of power between producers and other links of the food supply chain". Hogan asserted in his speech at the Food Safety Authority of Ireland's Conference in Dublin on October 6, 2017 that: "...supermarkets in particular now enjoy super-power due to the twin effect of increased globalization and a high level of concentration within Europe. This gives them disproportionate leverage over primary producers." Farmers consequently fear retailers engaging in unfair trading practices resulting in commercial retaliation and late payments. Hogan set up an Agricultural Markets Task Force in January 2016 to confront this problem. One of the Task Force's recommendations in its report published in November 2016 is that contracts: "...especially of the long-term and forward kind, can help farmers manage their cash flow and risk, afford them planning security and facilitate risk... Longer term tripartite contracts between farmers, processors and retail provide farmers with a reasonable income and allow retailers to market products according to quality specifications..." As such, this agreement would seem to coincide with Commissioner Hogan's aspirations for the new post-2020 CAP, the legislative proposals for which are scheduled to be published in the first part of 2018. On the other hand, the Commission's DG Competition's view on producer co-operation underlines that it: "... notes with concern that some of the new provisions in favor of producers' organizations might have the effect of endangering the viability and wellbeing of small farmers and the interests of consumers... Furthermore: "...the Commission notes that the amendments agreed by the co-legislators foresee only a very limited role for both the Commission and the national competition authorities to act to preserve effective competition..." More fundamentally, the Commission stresses that its agreement on the Omnibus proposal: "... is without prejudice to any future proposals the Commission may make in these areas in the context of the reform of the common agricultural policy for the post-2020 period..."

Farm lobby

COPA and COGEA, representing the EU farm sector, welcomed the deal. Secretary General Pekka

Pesonen particularly welcomed the income stabilization measures, the definition of “active farmer”, and the changes to EFAs.

Food manufacturers and retailers

Food manufacturers and supermarket groups are reported to be concerned that farmers’ cartels will lead to anti-competitiveness – in some cases they fear that they will have to deal with unfairly powerful business partners in the future.

Next Steps

The deal concludes the negotiations between the Parliament, the Council and the Commission on the agricultural component of the Omnibus law. Following the final deal on all aspects of the Omnibus Regulation, the agreed text must be approved by the Parliament and the Council. As all other aspects of the draft financial regulation are still to be negotiated, when exactly the new rules could come into effect is still up in the air.

Possible impact on U.S. Agricultural Trade

If the Omnibus Regulation were to be adopted, the most significant impact on U.S. agricultural trade would be made by the provisions allowing the possibility of collectively negotiating value-sharing terms inside contracts. Strengthening the bargaining position of the EU farming sector in the supply chain could lead to higher farm-gate prices for processors, wholesalers, retailers and possibly consumers.

This would logically make U.S. agricultural produce and processed products relatively more competitive *ceteris paribus*.