



## Beyond the Immediate Horizon - A CAP Fit for 2020?

### IEEP CAP2020 Policy Briefing

No. 6 - October 2009

The new Commissioner for agriculture and rural development preparing to shape DG Agri's stance on a post 2013 CAP will have plenty of reading matter. As well as the internal Commission analysis, there is an expanding library of offerings from independent institutions and academics, the leading lobbies and Member States. The flow will increase further as the time approaches for DG Agri to put its first proposals on the table in 2010. These will shape the ensuing debate, if not the final outcome. For those outside the Commission now is the time to float fresh and well argued ideas about where agricultural policy should be going and how the CAP needs to be shaped, now and in the longer term.

A Commission green paper on the future of the CAP is pencilled in for the autumn of 2010. Thus far, rather few Member States have elaborated their thinking in any detail, although some have proffered initial views in the course of the consultation on the EU budget in 2008. Efforts to move towards a consensus between agriculture ministers under the Czech Presidency and the French Presidency before it did not bear fruit. On direct payments, the primary focus under the Czechs, divergent perspectives were apparent, with at least three groupings. One sympathetic to the status quo, a second looking for more focus on supporting the provision of public goods and probably less expenditure, and a third, comprising many new Member States, arguing for a uniform flat rate version of the single farm payment. The Swedish Presidency is focussing discussion more on the Second Pillar of the CAP and "simplification" than the combustible topic of the future of direct payments.

The European Parliament and its new Agriculture Committee has yet to define its view, although it is being seen as a significant player in the post 2013 debate, assuming the Lisbon Treaty is adopted. Thus far, the Committee has been preoccupied with the dairy crisis, maintaining a fairly traditional stance on supporting the sector.

Both defenders of the CAP and those less attached to the policy but concerned to retain the sums available to rural areas are acutely aware that the pressure for cuts is likely to be ratcheted up with the next stage of the EU Budget review process. A Commission paper is still expected before Christmas. DG Agri's political room for manoeuvre will be circumscribed to some degree by judgements about the scale of budget that it might be expedient to put forward, which makes this an even more difficult call in a year's time. In all the European institutions the temptation to address immediate concerns and pragmatic variations on the present formula is strong.

## The New Perspectives

A range of papers on the CAP is emerging from a community of stakeholders, analysts and academics covering a wide spectrum of perspectives on the future of agriculture, from close to the status quo to the virtual abolition of income support, and restriction of mainstream spending to the provision of environmental public goods. Many see research and development as a new priority for a future CAP. The more reformist papers emanating from both academics and less dispassionate stakeholders are of particular interest as they are bolder in conception and many of them do attempt to frame the issues and policy responses in a forward looking way. A selection is offered on the Bibliography. Amongst those in circulation there are some common threads although considerable variations too. The common ground appears to be that:

- There is little appetite for renationalising the CAP and a broad acceptance that a common European policy is appropriate, if it is respectful of the need for some national flexibility;
- The objectives of the CAP, at present firmly rooted in the Treaty of Rome, need to be updated with more reference to current concerns such as environmental sustainability, food security, food safety and quality, cohesion and equity. Bureau and Mahé for example, have set out fourteen objectives for a revised CAP but most others focus on a much smaller number of additions to the current set;
- Substantial, if not universal, acceptance that cohesion objectives are relevant to the CAP and the way in which it is funded and that more parity of treatment is required between the “new” (as of 2004) and the “old” Member States, notably regarding direct payments;
- The majority, but not all, the proposals seek to provide some kind of basic level of support for farmers, in the vein of the current decoupled direct payments but potentially more targeted, less generous and perhaps recoupled to more precise and current objectives;
- A concern that public payments should be for the purchase of public goods and these need to be specified more precisely, without engendering large ‘transaction’ costs;
- Support in principle for improving the transparency and efficiency of CAP payments, with some scope for simplification; although this term has a variety of different interpretations.

There are also differences in view, for example about the extent of farm income support required in future, the emphasis to be given to pursuing food security in Europe and the scale of the budget required for the CAP.

There is an emerging set of models for future payments arranged in a series of tiers, with the foundation consisting of a payment available to almost all farmers with limited conditions attached to it and the upper tier comparable to an agri-environment payment based on a contract, with relatively sophisticated conditions. Between the two there may be one or perhaps more intermediate tiers, for example aimed at farmers facing

natural handicaps or those managing land so as to contribute High Nature Value (HNV). This architecture can be varied in several different ways, arranged into one or two “pillars” and subject to complete, partial or variable levels of funding from the EU budget. Views on co-financing differ considerably.

Most contributions seek to build on a refashioned rationale for supporting agriculture at a time when the general principle of doing so as well as the current purpose increasingly is being questioned. They reflect a sense that the agricultural policy agenda is expanding rather than contracting, with many traditional objectives remaining relevant, if less pressing, and new ones emerging but still in the process of crystallising. Are we witnessing the birth of a powerful agenda for reform or is the debate moving too fast to focus on specific policy mechanisms without sufficient investment in fresh thinking?

## Challenges for a Future CAP

Historically the progress of the CAP has been marked by a series of set piece reforms but underneath this the sensitivities of economic adjustment within farming generally inhibit policy from changing very quickly. A new model for 2014 - 2020 will need to include transitional measures to ease the path from where we are today with the result that any new assembly of measures may not be fully operational until nearly 2020. So a new version of the CAP ideally should be confronting the challenges of the period to 2025 or beyond, not only the more immediate future. Predicting these is hazardous. Nonetheless, it is perhaps helpful to be explicit about the assumptions being made when considering what will be expected of a future policy, especially when we are trying to define the realm of “public goods” in a changing European context. In this spirit some of the impressions arising in the course of the Institute’s own work in recent years may illustrate the type of issues that need further debate as new challenges are being defined. These include:

*Dimensions of the EU:* The Union seems likely to expand further, with several candidate countries waiting in the wings. This will bring even greater variety to agricultural conditions and more national preoccupations to negotiations. Many of the countries concerned have a small farm structure but their governments do not necessarily provide a high level of support for farmers. This suggests that even with greater convergence between the current Member States there will be a continuing need for national flexibility, as expressed in the principle of subsidiarity. There will be regions where severe rural poverty and a lack of viable farm structures are major concerns which will need to be confronted but not necessarily through the CAP or Pillar 1 type measures.

*Greater Convergence between Old and New Member States:* The present policy distinctions between old and new (post 2004) Member States are being reduced and beyond 2013 any attempt to justify lower payments for new Member States would rest on an historic compensation logic rather than

the provision of environmental public goods or enhanced food security. Indeed the provision of environmental public goods might be more concentrated in parts of the new Member States, such as central Romania, than in much of the EU-15. However, there are some specific issues to address in parts of Central and Eastern Europe. The social and environmental dilemmas posed by the significant if declining number of small subsistence farms in some Member States call for more thought. Current measures within the CAP are not attuned to local circumstances and new approaches to rural development in this context may be needed.

*Commodity Prices:* There is much debate about the structural and more transient factors influencing world markets for food and bioenergy commodities. On balance the increasing demands from a growing and more affluent population, the pressure to devote a larger proportion of the global agricultural area to energy production, the supply side constraints such as water shortages in regions as varied as China and California, and the slowdown in productivity growth of agricultural crops in Europe suggest that there will be an upward movement in prices, punctuated by downswings and greater volatility. Recent work by IFPRI on the impact of climate change on global food production gives more weight to this scenario (IFPRI 2009). The linkage between oil and agricultural commodity prices, demonstrated in 2007/2008, seems likely to be sustained. If this is so, then over time farm incomes will benefit from increased market prices and the case for routine rather than safety net support will in turn diminish. On the other hand, a range of input prices will rise, some farms will cease to be viable and some land will move out of farming. The cost of maintaining low intensity systems will increase as the income foregone by refraining from higher levels of output grows. Assumptions on commodity prices and farm viability are particularly sensitive in the policy debate and whilst some consensus may be possible, future price levels will remain uncertain and policy design needs to be resilient to a range of scenarios.

*Structural and Landscape Change:* On present trends the number of individual farms will continue to shrink, specialisation will develop further and linkages between farmers and the food supply chain will intensify. Furthermore, the logic of regional specialisation within Europe will in principle lead progressively to more geographically polarised patterns of production of the kind much more evident on a continental scale in the US. Liberalisation measures, such as the phasing out of milk quotas, will accentuate this process. This is likely to be accompanied by a more corporate culture in sections of European agriculture as farms become larger and more closely governed by the demands of processors and retailers in a competitive market. Landscapes will change to reflect these shifts in farm management, which may well include a growth in arable production at the expense of grassland, given the low returns to livestock producers which could be worsened by market liberalisation, a web of tightening standards and regulations and changing consumer behaviour. Yet while the economic tide appears to be turning against them, it is grazing livestock that are critical to the maintenance of a large proportion of the most valued landscapes and species rich agricultural habitats in Europe. The least

productive patches of land may continue to be abandoned or converted into woodland or for recreational purposes. In this scenario the pressures on cultural landscapes, grassland of conservation value, small scale farming systems, traditional orchards and grazing systems and many other public goods associated with agriculture increases, and so does the scale of effort and expenditure required to retain these benefits.

*Climate Change and the environmental agenda:* Climate change will affect agriculture in Europe in many different ways beyond the direct impact of changes in temperature, rainfall and water availability. Policy measures aimed at adaptation are likely to address several aspects of land management including flood control, water management and biodiversity protection. There is a growing debate about the need for greater landscape resilience to climate change and more connectivity between key wildlife sites. Mitigation measures could focus increased effort on maintaining and increasing soil carbon, improved efficiency in the nitrogen cycle, protection of permanent grassland, greater energy efficiency, the curtailment of irrigation and enhanced monitoring requirements, and on the carbon footprint of ruminant producers. Consumer habits will change, not necessarily in predictable ways, evolving with new conceptions of social responsibility about meat consumption and local seasonal food for example. In doing so they will be influenced by the marketing strategies of food processors, retailers and caterers. There are many interpretations of climate friendly food.

In addition to the traditional focus on food supply chains, the global pattern of land use will be a matter of concern both for policy makers and for those in the food supply chain. There will be consequences for trade relations as foreshadowed by the current debate on setting European sustainability criteria for biofuels which apply within and beyond the EU. Demand for renewable sources of energy will increase, not only for biomass and biofuels but also for other supply technologies that can be located on farmland. The relevant incentives for farmers are likely to come from new markets and from energy policy rather than the CAP. Some farms may come to participate in an emissions trading system, although the small scale of agricultural businesses and difficulties in verifying the precise action that is taken will remain impediments to this approach, as is evident in the current debate in New Zealand.

The climate debate opens the door to a new approach to resource management in the countryside that considers land use, carbon and nitrogen management in a more holistic way and gives rise to difficult trade-offs between different objectives. Highly intensive livestock systems may be more carbon efficient than extensive grazing for example, while the latter is critical for the maintenance of valued habitats. Solutions that appear desirable for European purposes may be in conflict with globally optimal patterns of land management.

In effect the environment and climate agenda will expand and become more complex, with a more pronounced international and trade dimension. Policy in the two fields will overlap and need to work together more closely and

explicitly. Some issues can and should be addressed through agriculture policy, such as the provision of incentives for supplying some types of public good associated with farming, some of them climate related. Others require interventions from environment or energy policy; a new willingness to consider strategic land use planning at a European as well as more local level, greater integration of agriculture with forestry and a more ambitious approach to stakeholder engagement. There are arguments for prioritising research in high yielding, low environmental impact, production systems, alongside the CAP if not within it.

If the sketch presented here is all credible, there is an emerging matrix of issues within which agriculture will play a critical role and one which needs to be addressed partly if not exclusively at the European level.

### **Implications for a future CAP**

The more forward looking proposals referred to earlier pick up many of these themes to different degrees. Most are sceptical about the need for continued income support, although it has a place in some proposals, such as those from Bureau and Mahé. Support for the provision of public goods is a central theme, particularly amongst environmental stakeholders such as Birdlife. However, the interpretation of this convenient term is rather varied. For the ELO it clearly includes food security, and within this the retention of a dynamic production sector in Europe aiming to increase yields over time. Swinnen, by contrast argues that the route to food security is through enhanced research and development and higher productivity at the European and global scale and that direct payments of the present kind can be discarded. If public goods are primarily environmental then the case for targeting support on their provision is particularly strong, but there remains a range of views about how far farming systems that are broadly compatible with good land management require underpinning by a base level of support to secure their viability as well as more precise policy interventions aimed at specific objectives.

Even if the papers reviewed here are not always very clear in setting out how public goods are to be defined and identified climate and environmental priorities are seen to be central. Traditional concerns with food supply, farm incomes and price stability will remain but should not dominate the CAP as in the past. This implies accepting a new set of objectives for agriculture policy in Europe. This is not a trivial task, especially as it does not seem credible to tamper with the Treaty at this stage. A more manageable political process is required. Perhaps the revised Sustainable Development Strategy for example could play a part. Probably more important than codified new objectives is the need to conceptualise the shape and mechanisms of a new CAP alongside a vision of where European policy is moving in regional and cohesion objectives, climate, energy and environment policy. It is increasingly inappropriate to view it as a separate edifice of its own. This is quite a challenge for the Agriculture Council and the Parliament's Agriculture Committee, neither of which traditionally has been strong in looking across the horizon in this way.

If the provision of public goods associated with agriculture and particularly with land management becomes a central goal of the CAP, and expenditure in particular. There will be a dynamic process of determining precisely what activities fall into this category beyond the provision of environmental goods and services. Agriculture's contribution to global food security is a particularly contentious area. If, for example, it was decided that holding a higher level of stocks of certain food commodities in Europe was a valuable and cost-effective means of contributing to food security on the supply side, then this should be financed from the CAP budget. Providing support for a particular level of European commodity output, however, is not an effective or desirable means of achieving food security, or it would appear, a public good.

Then there is the question of the budget. The CAP is, of course, deeply enmeshed in the politics of the EU budget and the pursuit of *juste retour* whereby Member States seek to balance their receipts and contributions to the EU budget. This can be a formidable impediment to the evolution of a policy that is tailored to contemporary and changing needs, which will require a willingness to accept a significant redistribution of expenditure. This cannot be compensated simply by adjustments within agricultural policy, if at all. Pious calls for the suspension of national interest are unrealistic but it would be helpful if the burden of budgetary horse trading could be spread more evenly over other areas of European policy. Within the CAP more use could be made of differentiated rates of EU budgetary contribution according to cohesion criteria, with a smaller proportion of interventions funded 100 per cent by the Community. Indeed it is logical for the Community funding to be focused primarily on those measures with objectives most clearly relating to the collective Community interest, whether in the field of public goods or cohesion. This is the direction in which the CAP budget should be moving. In this spirit some already are arguing for 100 per cent EU funding for second pillar measures. However, despite the attractions in principle, this has dangers in practice; experience suggests that it might well reduce the incentive for Member States to target and manage expenditure efficiently.

In principle, the CAP budget should be determined according to need and not fixed in advance according to an arbitrary political judgement. The major sources of expenditure are likely to be in the realms of paying for public goods and supporting farm incomes to some degree, particularly during a transition phase. Since the level of expenditure required for both these priorities is uncertain and in the latter case highly dependent on commodity price levels, considerable elasticity is required. This is extremely inconvenient in budgetary terms, where a fixed ceiling is preferred for obvious reasons. However, it is possible to envisage a core CAP budget based on central assumptions about agricultural markets, with the capacity to draw on additional sums in exceptional circumstances along with accompanying expenditure from the Member States. Whilst this would be less predictable in budgeting terms it would reflect the realities of a sector exposed to greater market fluctuations than in the past.

Finally, policy instruments need to be designed to meet current objectives. Most of the papers discussed here agree that this is a test that the single farm payment, with its roots in compensation for past losses in support, fails to pass. Where the actual goal is income support this should be explicit and targeted insofar as it is necessary. The proposal for uniform, flat rate, single farm payments may seem attractive as it would put old and new Member States on the same footing. However, it would be a step away from linking payments to clear objectives and contribute to a rights based approach to agricultural support that needs to be jettisoned. More useful would be the development of proposals on the best means of targeting measures in pursuit of new objectives, initially in a transitional phase, for example using proxies instead of precise outcomes and balancing precision with manageable transaction costs. The architecture of the CAP in future, however, is a topic to return to in another article.

© IEEP, 2009

---

#### About CAP2020

CAP2020 is an entirely web based platform with two core goals: to *inform* and to *facilitate* a debate on CAP reform in the context of the Health Check, the EU Budget Review and an anticipated fundamental reform of the policy in 2013. The content of CAP2020 is driven by the publication of short opinion led articles and think-pieces, written by a growing network of commentators from across Europe. Visit CAP2020 at: <http://cap2020.ieep.eu/>

#### About IEEP

CAP2020 is edited and administered by the Agriculture and Rural Development Team at the Institute for European Environmental Policy (IEEP). IEEP is a leading centre for the analysis and development of environmental and related policies in Europe. An independent, not for profit organisation, the Institute has offices in London and Brussels. We are a registered charity.

#### References

- BirdLife International; (2007) *New Challenges, New Cap: BirdLife International's vision for the future of the EU Common Agricultural Policy*, BirdLife International: Brussels
- Brady, M; Hoggard, S; Kaspersson, E; Rabinowicz, E; (2009) *The CAP and Future Challenges*, SIEPS: European Policy Analysis (11): Stockholm
- Bureau, J.C; Mahé, L.P; (2008) *CAP Reform Beyond 2013: An idea for a longer view*, Notre Europe (online), <http://www.notre-europe.eu/>
- European Landowners' Organisation (ELO); (2008). *The 21<sup>st</sup> Century Land Use Challenge*, ELO: Brussels
- Heißenhuber, A; Hebauer, C; Hülsbergen, K; (2008) *Wanted: A new agricultural policy!* *AgriFuture*, Summer/08
- Land Use Policy Group (LUPG); (2009) *Securing our Common Future through Environmentally Sustainable Land Management: The land Use Policy Group Vision for the Future of the CAP post 2013*, LUPG (online), [www.lupg.org.uk](http://www.lupg.org.uk)
- Nelson, G.C; Rosegrant, M.W; Koo, J; Robertson, R; Sulser, T; Zhu, T; Ringler, C; Msangi, S; Palazzo, A; Batka, M; Magalhaes, M; Valmonte-Santos, R; Ewing, M; Lee, D; (2009) *Climate*

*Change: Impact on agriculture and costs of adaptation*, International Food Policy Research  
<http://www.ifpri.org/sites/default/files/publications/pr21.pdf>

Swinnen, J.M.F; (2009) *The Future of Direct Payments: Better targeting, phasing-out, new objectives...or a time for a "Green Deal" for EU agriculture?* BEPA Workshop on "Reflections on the Common Agricultural Policy from a long-run perspective", 26 February 2009: Brussels