A NEW GUIDANCE FOR EUROPE: CAP REFORM –WHERE IS THE VISION?

Forum for the Future of Agriculture, Paris, October 18th, 2011

Speech by Corrado Pirzio-Biroli, Vice Chairman of RISE

The Commission Communication of 18 November 2010 "The CAP towards 2020" calls for a well-funded, strong common policy retaining both Pillars and further evolving towards a balanced goal of Food Security and Environmental Security. This means maintaining Europe's capacity to produce food, and ensuring that farmers and land managers can stay in business while providing more sustainable, healthy food as well as more public, notably ecological goods.

Thisapproach correspond to the intermediate option of "redistribution, redesign and better targeting of support".

The legislative proposal submitted on October 12, 2011 contains a number of good points such as:

- an extended and simplified support for small farmers,
- increased support for young farmers,
- inclusion of the WFD and the Sustainable Use of Pesticides Directive in cross-compliance rules among the basic rules that farmers receiving subsidies must respect
- streamlining of controls (reducing Statutory Mandatory Requirements from 18 to 13 and GAEC from 15 to 8, with less controls for farmers using certification systems),
- exclusion of environmentally-friendly practices from capping,
- co-financing ratios adapted to contributive capacity,
- shortening of the food chain
- a strengthened Leader approach, and
- innovation partnerships.

The proposed reform does also start a necessary direct payment redistribution in three phases. However, I fear that the redesign and better targeting of support will prove insufficient to produce the outcomes aimed at. Some measures such as a new risk management toolkit remain so vague that one wonders what the Commission, who has asked for competence to manage them, has a concept as to how to apply them in specific circumstances.

In the short term one can expect COPA and land managers to be relieved about the moderation of the proposal compared to what could be expected, but in the longer term, if it does not help to increase the sustainability of farm production, they may be haunted by the growing criticism against the CAP and the related risk of further reductions in public support for farm policies and payments.

The European Parliament set out its goals for the CAP reform in the Lyon and Dess reports and will be furious about the legislative proposal that would seem to ingore the sense of Parliament that is reflected in those reports. Similar reactions can be expected from some member states such as The Netherlands and Poland. But others such as France and even Germany may feel relieved by a proposal closer to the status quo than they had expected. This promises a lively debate.

To sum up, I would argue that this reform proposal goes in the right direction, but does not contain the incentives, both in terms of measures and finance, that are necessary to substantially green the

CAP and reward farmers for the delivery of public goods. If there is no sustainable farming witout sustainable practices, and no increase in sustainable practices without a greener CAP, one cannot expect to improve resource efficiency on the farm without sufficient incentives in both Pillars of the CAP. Expanding CAP objectives to make it more environmentally friendly and relevant to combat climate change cannot succeed without additional financial means, if not public, than private..

The public incentives proposed are insufficient for the task. At a minimum, they need to be complemented by finance from para-statal and private sources. There are at least five reasons why the incentives are insufficient:

1. The 30% green top up to direct payments – for crop diversification, permanent grassland and ecological focus area (7% of farmland)- is unlikely to boost what many farmers (except the small ones) are already doing anyway, except increasing the bureaucracy to obtain it. Quite a few of the others may feel that the cost/benefit of greening is not worth the top-up because of the additional bureaucracy.
2. The expected reduction in CAP support due to inflation, aggravated by the payment reductions in countries above average payments, and in combination with high food prices, will tend to boost their production that pays as compared to the ecology that doesn't.
3. Farmers alone would carry the costs of conforming to GAEC, which are not shared with beneficiaries. The failure to implement several environmental directives, for instance the Water Framework Directive, is explained also by a lack of cost sharing.
4. While obligatory modulation of support from Pillar 1 to P.2 is being discontinued, the Commission offers the option of "reverse modulation" whereby countries obtaining less than 90% of average direct payments and consider P. 1 support insufficient may use up to 5% of P. 2 for direct payments under P. 1.
5. While the common strategic framework for all structural funds is a good thing, the abolition of the three axes under P. 2 with an increase af the objectives of rural developments involves risks detrimental to environmental goals. Fortunately, the College decided at the last minute to ring fence again 25% of the RD national envelope for environmental and climate action, but if such action is to be strengthened, this is not enough.

In substance, the proposal is found wanting to meet the two biggest challenges of the next CAP, which are to achieve a balance, on the one hand between competitiveness and sustainability, and on the other between targeting of support and the simplification of regulation. If anything, competitiveness and targeting are being strengthened much more than sustainability and simplification (except for small farmers).

The balance between competitiveness and sustainability depends on what one does with P. 1 as well as P. 2, because both pillars serve both objectives. Neither can be achieved without Pillar 1 continuing to offer freedom to farm as well as the necessary basic income to produce also public goods (other than food). It is clear that Direct Payments that may support a freedom to farm may be reduced by up to two-thirds (apart from the effects of inflation) because of:

- The conditional top-up of 30% of the DP envelope for green payments
- The option of member states to devote up to 5% or 10% of DP envelope to coupled support, up to 5% to natural constraint support, up to 2% to Young Farmers (under 40), up to 10% to the Small Farmers Scheme
- The option to shift up to 10% of the DP envelope to P2

Sustainability as well as competitiveness will fall short without a massive increase of, and improvement in extension services advising farmers on how to adapt. There is no guarantee that this will happen. If green targeting penalizes farmer income, it will fail. As to the balance between targeting and regulatory simplicity, it is difficult to achieve because targeting inevitably leads to more controls and hence complexity.

With a diminishing budget, the Commission's call for "a well-funded, strong common policy… further evolving towards a balanced goal of Food Security and Environmental Security" appears more a laudable desire than a realistic goal. One should not be surprised to see even more farmers leaving the land, and further environmental degradation.