

Some thoughts on the CAP post 2020

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Conversations about the future of the Common Agricultural Policy (CAP) have started in different parts of Europe as a new Commissioner takes up his post and the implications of the final version of the 2013 reform become more apparent. This short paper draws on some exploratory dialogues in which IEEP's agriculture team has been involved over the last few months. It combines the thoughts of others with some of our own reflections, both on what to expect and what might be most welcome in any future CAP; if there will be another CAP, some might speculate. We suspect there will be.

Why it isn't too early to start thinking about the next reform

It might seem premature to be raising questions now about the future of Europe's Common Agricultural Policy (CAP) beyond 2020. After all, the full implementation of the most recent reform, which runs until the end of 2020, only commences in January 2015. Three reasons are offered for starting to think about the next reform now:

- (i) With full co-decision it now takes three years to conduct a serious reform from a first communication, such as a Green Paper, to full implementation readiness.
- (ii) Experience suggests that genuine reform requires a broad, shared understanding of the purpose and direction of a new policy. It takes several years to prepare the ground and assemble the EU-wide evidence to back sound reform proposals.
- (iii) In any case, the mid-term review of the Multiannual Financial Framework (MFF) during 2016 and the mandated reviews of ecological focus areas, the fruit and vegetable regime and geographical indications will be raising questions potentially central to a new CAP in the next few years. Well worked up proposals from the Commission should be on the table in 2018.

It also seems plain that the Cioloş reform has opened, but by no means completed, several adjustment paths within the policy. Redistribution and better targeting of support payments and further transformation of the policy to confront the pervasive market failures surrounding agricultural land management, especially the delivery of environmental public goods, are launched in the current reform but none is taken more than a third of the way. In the process, the policy has become considerably more complex and there are strong political pressures – notably in the mandate that new Commission President Juncker has given his Agriculture and Rural Development Commissioner Hogan – to simplify the policy.

What challenges will the next reform have to address?

Policy really should emerge from the challenges it tries to address. The prime challenges facing EU agriculture post 2020 will still be to improve productivity to help ensure food security for citizens at a lower resource cost; to respond to growing environmental and sustainability requirements; and to contribute to reasonable living standards for primary producers who will have to cope with volatility in markets, including that arising from the effects of climate change. Yet these challenges themselves partly arise because agriculture continues to undermine its own sustainability by degrading natural capital – pollinators, soil fertility, biodiversity, water and air quality. Making food production more efficient in its use of resources and more viable for the

future whilst at the same time restoring and maintaining natural capital, should be core functions of agriculture beyond 2020 and reflected in the objectives of the CAP.

Simplistic claims about the EU needing to increase production to feed the world should be avoided but Europe's contribution to overall supplies may have to grow in the coming decades and this is an additional reason to build production systems and accompanying skills that are robust and in tune with environmental and social demands in Europe.

There will continue to be difficult questions. A structure based on family farms rather than larger and corporate entities continues to have real political appeal but there is little consensus about how much restructuring, rationalisation and consequent decline in smaller farm employment is acceptable. The CAP's role in slowing the outflow of labour from agriculture should surely be balanced by a more vigorous role in creating viable new jobs in the food system and rural environmental management.

In addition to its prime function of food production, mainstream agriculture will continue to have a wider role in contributing to the EU bioeconomy and the circular economy. This includes renewable energy production, reducing waste, and recovering and recycling biomass and crop nutrients. Getting the right balance between agriculture, forestry and other land uses will be increasingly important, as will be the management of soil and soil carbon. If these are not already a complex enough set of considerations, the policy must also contribute to high standards of food safety and authenticity, improved animal welfare and of course towards healthy and nutritious diets which in turn could change quite significantly. Accompanying these objectives could be a continuation of the current strong emphasis on "jobs and growth" which has been underlined by the incoming Commission President in his letters to new commissioners – including both Hogan (agriculture) and Georgieva (budget).

Perceptions of which are the most important challenges vary but in nearly every case there are strong public interests to pursue which seem unlikely to be met by the market alone. If agriculture and rural development alongside sustainable land management are to be guided through the use of appropriate incentives then a revised version of the CAP and / or a new rural fund will be required to meet this strategic need. This assumes of course that the current drift towards re-nationalisation of agricultural policy measures, if not budgets, does not become a torrent.

However radical, the next CAP reform will have to build upon the existing policy, so its shortcomings and strengths in the eyes of different actors will be a crucial starting point for the debate. Many will point to the continued lack of justification for the current level and distribution of the basic support payments. Others will emphasise the lack of progress in delivering the protection of biodiversity, water, soil, climate and cultural landscapes. Another view point will be that the policy does not do enough to help the industry restructure and innovate or to survive without dependency on public subsidy and without degrading the natural environment.

The proposition which perhaps commands widest agreement on the surface is that levels of complexity in the CAP have become excessive both for farmers and administrations in the Member States. That said, simplicity *per se* can never be a prime purpose of public policy. The structural heterogeneity in EU farming plus the intrinsic jointness of the production of market goods (food) and non-market services (good environmental land management) create a certain

unavoidable complexity. Highly targeted policies have their place and will be needed. Monitoring and evaluation are not a luxury. Many might agree however that the way in which the CAP caters to so many special interests, and often incorporates measures to smooth the sometimes uncomfortable impacts of previous reforms, is itself a driver of complexity.

One lesson is that these issues demand collaborative thinking across organisations, public and private, spanning the full range of issues that should be feeding into the CAP. This list is long and includes food, soil, water, biodiversity, climate, energy, health and safety, forestry, economic growth, competition, and trade.

Lessons learned from past reforms

These are numerous and everyone has their favourites. One is that there must be substantive drivers to create impetus for reform in a domain where the status quo is strongly entrenched. This does not mean that national governments need to be enthusiastic. Few were ready to support Fischler at the time of the Mid-Term Review in 2003, especially at the beginning. In 2010-2013, by contrast, the Commission seemed less confident in its exchanges with the European Parliament and apparently more ready to cede ground, including on points where COMAGRI had advanced proposals that didn't stand much technical scrutiny.

Steering CAP reform needs strong leadership. This is likely to require a determined push from a set of interested Commissioners embracing agricultural, regional, environmental, energy / climate and budget policy. A solo agricultural Commissioner, however brilliant, will struggle to break any moulds. This is even more the case since other DGs will be looking for a slice of the CAP budget and could be pressing their case with some force in a tighter economic climate when a new MFF is sketched out in 2016.

Distributional issues always are critical in CAP debates and it is easier to formulate and negotiate proposals that don't disturb the status quo too much. However, this can be a stifling constraint on new approaches and the capacity to pursue changing objectives. Distributional adjustments can be managed outside the CAP, not only within it.

The context in which the reform debate takes place and in which the next policy will operate

Apart from proximate geopolitical threats (e.g. Ukraine, ISIS), the EU itself is going through a difficult period both economically, with the continuing Eurozone debt and low growth crises, and also politically in holding together the current membership and maintaining the defining principles of the single market. None of these issues will disappear quickly, in particular the current focus on jobs and growth is likely to remain critical in the background to the MFF review. It is hard to escape the conclusion that the share of the CAP beyond the current financial perspective is bound to be under scrutiny – not least because it is not clear how direct payments contribute to EU “jobs and growth”. This could be the defining pressure for future reform. Adjustments to accommodate trade agreements will also figure, although these will not produce the kind of reform pressure that was seen in the late 1980s.

The Transatlantic Trade and Investment Partnership (TTIP), if it is agreed, could put the focus both on vulnerable sectors such as beef producers, and on food and agricultural standards that Europeans broadly support. This would be an argument for focussing the CAP more on the livestock sector but arable producers will look for ways of harnessing any public sympathy flowing forwards farming.

The likely market context in which the post-2020 CAP will be operating will be heightened pressure on land and other critical resources to feed and contribute to renewable energy production for a still growing population. It is difficult to foresee the precise balance (and volatility) of product prices and key costs, (especially energy, and hence fertilisers and feeds). This pressure seems likely to be most acute in arable areas, especially if more food crops are directed into bioenergy supply despite the Commissions signals that this is not appropriate post 2020. Indeed livestock numbers may well fall further and land continue to be abandoned. This would point to further focus on raising arable yields and converting permanent grassland to crop production, accentuating environmental pressures. Gathering evidence on these potential dynamics and their implications will be an important element of the preparations for new policy formation.

What could be the broad elements of the next reform debate?

The following might be some of the key issues of the next reform debate:

- A significantly lower CAP budget.
- Sustainable land management in a European and global context is more clearly defined and becomes more explicitly the principal public good to be pursued through the CAP.
- The politics and mechanics of focussing the support that is available on those who need it, mainly outside the core productive areas, and those genuinely delivering and incurring costs for sustainable land management. The current compensation rationale for Pillar One payments is obsolete in this respect.
- A market safety net apparatus, involving intervention in extremis and also encouragement of farm level insurance, will continue with a small share of budget;

but with risks of more volatile expenditure commitments and pressures for a more common approach than the current one driven by Member States.

☒ Cost effective and administratively feasible environmental land management will be a core issue. This requires much discussion on how to incentivise farmers to manage the environment better, avoiding perverse results and obsessive bureaucracy. This may involve more: collective/cooperative delivery, payments by results, landscape/catchment scale approaches, with greening absorbed into voluntary, programmed, multi-annual schemes.

☒ It should also involve more creative thinking about how to maintain accountability and rigorous auditing of real results on the ground without micro measurement or driving farmers and governments into risk adverse behaviour with easy to measure but not very useful commitments.

☒ Further emphasis on innovation and modernisation of mainstream agriculture so it becomes a sector which can operate within legislative environmental standards without annual subsidy, with the potential for greater emphasis on improving farm uptake of the fruits of research solutions for sustainable gains in productivity and yields.

☒ At the same time there could well be countervailing pressure for addressing more issues by reverting to market regulation (with a less direct cost on the EU budget) rather than through CAP payments. This would be a reversal of the most important reforms of the last 25 years.

☒ The solutions to these challenges may not all be “common” in the sense that producers are treated in the same way. For example, quite different actions may be needed in the prime agricultural producing areas relative to the more economically marginal but environmentally sensitive areas, especially those associated with high nature value farming. The current distribution of funding between farms should not be treated as a sacred cow.

☒ The architecture of the CAP will be under scrutiny with more pressing questions about the value of maintaining two pillars and the associated funding rules for each pillar which have served to constrain the growth of the rural development strand.

☒ If the environmental movement is sufficiently disillusioned with the CAP, as could well occur, they could argue for a large slice of the funding to be transferred to a new environmental fund with different rules and administered by different authorities. The interests of those who support the focus of a significant component of funding on rural areas could diverge.

Achieving a more satisfactory post 2020 CAP will also require different ways of working by the European institutions. The new groupings of Commissioners could mesh in different ways. On a positive reading it could provide a stronger basis for the Commission to work more effectively for reform with more inputs to CAP redesign coming from DGs Agriculture, Environment, Energy, Sanco, Regio and Climate. How to get a parallel broadening of the inputs into the detailed policy formation in the Parliament (where a COMAGRI, with a high level of farming interest representation has dominated the debate) and the Agriculture Council is less clear. Current studies on the political economy of the latest reform could help further innovation in future rural policy formulation. 6

Another vital ingredient will be the assembly of a stronger evidence base on the workings of the current policy – in particular how “greening” delivers on its stated objectives - and the challenges the policy faces in the future. At present there is little recent evidence on the full impacts of many different policy measures, including Article 68 measures, and cross compliance and a lack of certainty about key issues – for example the weight to be given to stronger more focused farm advice and technical support as opposed to subsidies. Preparations for a new reform can’t begin too soon.

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