



RISE Report launch: *“CAP thinking out of the box”* March 27, 2017

CAP: THINKING OUT OF THE BOX

FURTHER MODERNISATION OF THE CAP – WHY, WHAT AND HOW?

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RISE Foundation

with support from

FNPSMS – Maiz ‘EUROP’, Syngenta, and UNIGRAINS



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Further modernisation of the CAP: - why, what and how ?



- RISE Foundation project: a response to Hogan consultation
 - Inspired by Fischler & Poto nik
- **Why, What and How of CAP reform, Overview** – Allan Buckwell
- **Why reform? Challenges for the CAP** - Alan Matthews
- **What reform? Two key areas for further adaptation**
 - **Land Management** – David Baldock
 - **Risk Management** – Erik Mathijs
- **How to improve reform possibilities** – Allan Buckwell



The status quo is unacceptable

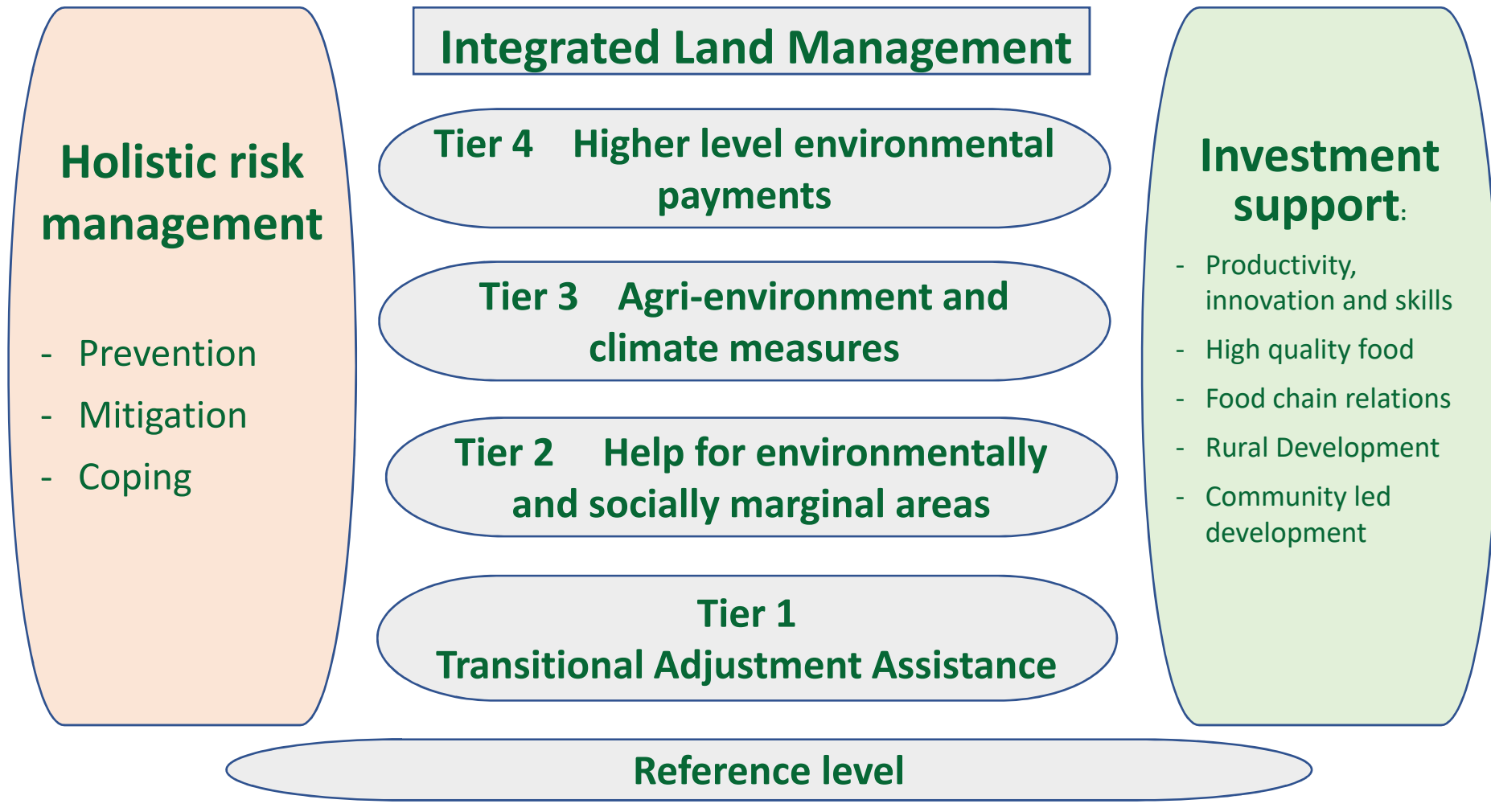
- **The sustainability challenge**
 - Environmental performance of EU agriculture & climate threat
 - Economic vulnerability of many farms, subsidy dependency
- **72% CAP (28% EU budget) is for Pillar 1 Direct Payments (DPs)**
 - Farm income support
 - As a stabilisation measure
 - For food security
 - For delivering environmental services, and higher standards
- **CAP offers poor value for money for a Budget Focused on Results**

The balance and architecture should change



- Three prime elements are required for:
 - Investment support
 - Integrated land management
 - Holistic risk management
- We argue that the existing mostly Pillar 2 investment supports for rural development, including agricultural development, should remain
- And of course there is a continuing need for research, development, knowledge exchange, innovation, training and skills enhancement.
- The principal adjustment is to move away from the poorly targeted, annual, Pillar 1 direct payments

Proposed structure for a modernised CAP





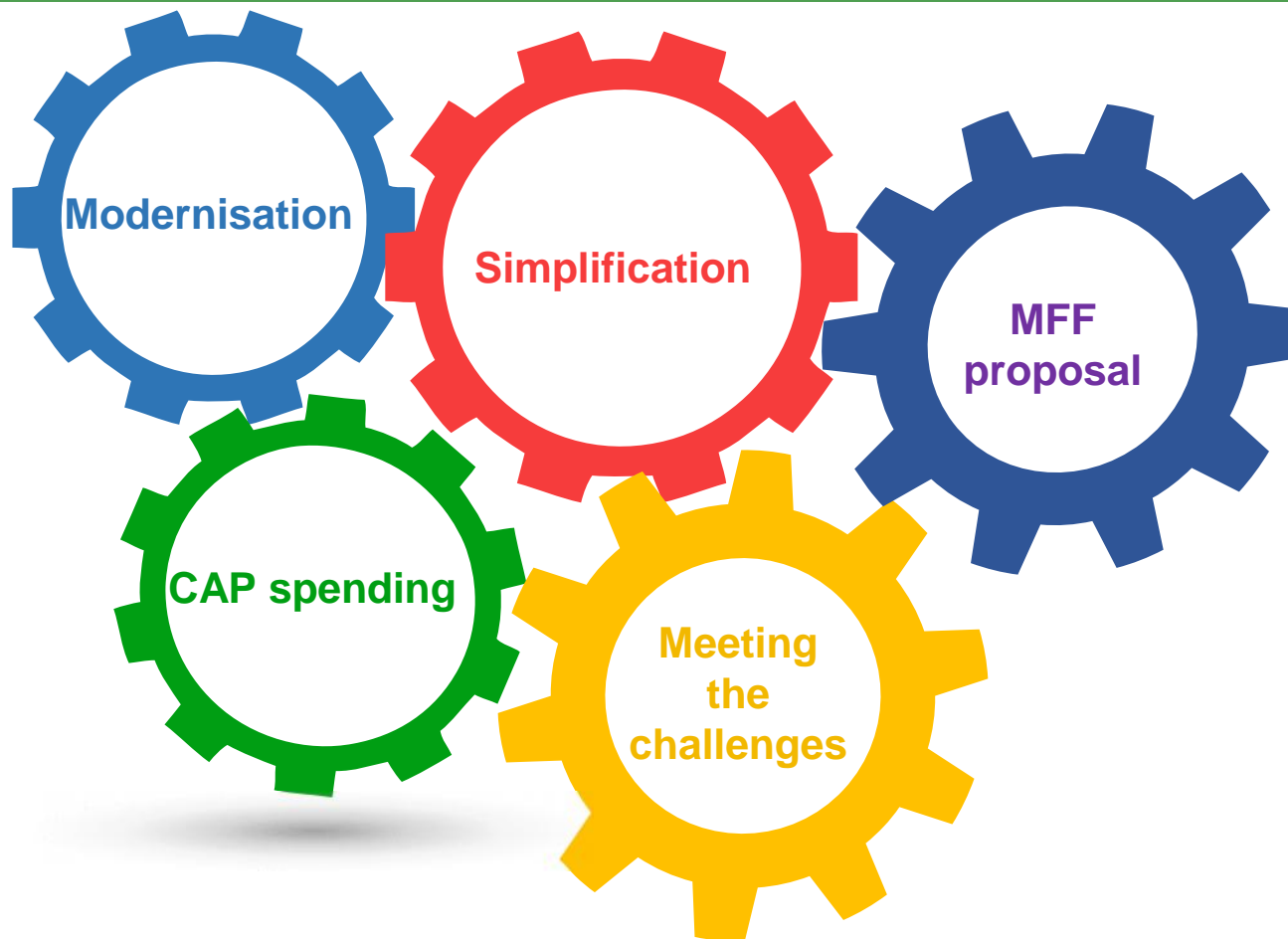
THE NEED FOR FURTHER EVOLUTION OF THE CAP

Alan Matthews
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Modernising and simplifying the CAP



Modernisation of the CAP



- **Building resilience (prices, trade agreements, uncertainty)**
- **Responding to environmental challenges**
- **Generational renewal**
- **Investing in rural vitality and viability**
- **Maintaining a market orientation**
- **Strengthening farmers' position in the food chain**

(Source: Maltese Presidency AGRIFISH Council orientation paper 6 March 2017)

Simplification of the CAP



- **From the farmer's point of view**
 - Administrative burden
 - Compliance cost
 - Inspections and proportionate penalties
 - **From paying agency's point of view**
 - Scheme design including IT systems to make payments
 - Inspection and monitoring of farmers' compliance
 - Audit issues
 - **From the public's point of view**
 - Standards ensure desired objectives are met
 - Are the practices required always relevant and understood by farmers?
 - **What is critical is not simplification *per se*, but the benefit to cost ratio (value for money) of interventions**
-

Significance of the MFF negotiations



- **Commission proposal due by end of this year**
 - Mid-Term Review of 2014-2020 MFF has led to Commission's Omnibus Regulation proposal
 - **Design will be influenced by the 'Budget Focused on Results' initiative**
 - **Commission Communication on the CAP end 2017**
 - “without prejudice to the Commission proposal to revise the Multiannual Financial Framework”
 - **Impact of the Brexit on the MFF – when? how much?**
 - **Negotiating the MFF**
 - Will European Council attempt to red-line particular CAP issues which are the prerogative of co-decision as on last occasion?
 - Impact on European Parliament's willingness to negotiate
-

Why P1 direct payments have to change



- These payments currently account for over 70% of CAP expenditure and nearly 30% of the entire EU budget.
- They do not serve well the purpose of income support of the most needy farmers
- They are inefficient instruments to address food security, risk management, efficiency of resource use, and the delivery of rural environmental services
- While public support to farmers can be justified, the current level of dependence on a general income support payment was never envisaged and cannot be sustained.

Meeting the challenges - thinking out of the box



- P1 direct payments should be systematically reduced and resources switched to provide targeted assistance, including transitional adjustment assistance
- Farmers should be helped rise to the specific challenges of improving productivity, resource efficiency and risk management, and to paid to provide specific environmental public goods.
- Do we need national co-financing for all CAP expenditure, with varying co-financing rates?
- Could the allocation of budget resources between Member States incentivise more ambitious interventions, e.g. basing allocations on performance as well as needs?
- Can budgetary rules which favour conservative, unambitious MS schemes be revised?



NEW APPROACHES TO LAND MANAGEMENT

David Baldock

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Aiming for sustainable land management and environmental integrity



- A key rationale for intervention both in Europe and globally following the SDGs
- Requires improved use of soil, water and other resources; many EU standards for agriculture yet to be met
- Challenges include halting the decline of biodiversity and resolving future of pest management
- The transition to a low carbon agriculture and food chain must be accelerated
- Concerns about environmental outcomes from policy, efficiency, transaction costs, farmer engagement and disconnect from market drivers must be addressed.

Set clear goals for an agricultural transition



- Assemble a strategic EU approach to meeting land management goals by 2030 to inform the next CAP
- Include a Roadmap with pathways to meet low carbon and wider sustainability goals on European farmland
- Address synergies and trade-offs, e.g. with food production, water quality, enhanced carbon sequestration, forests, biodiversity, bioenergy and employment
- EU level perspectives frame and inform national and regional approaches
- A tool to sharpen EU objectives and clarify the dimensions and pace of transition

A transition at two levels



- **At the farm level.**

Management adapted to a potentially more demanding environment agenda, new technological choices and evolving market conditions; farmers working in new networks and with changing relationships

- **Within the wider food system.**

Adjusting to higher farm gate prices reflecting the true cost of sustainable production. Less reliance on public expenditure to meet the costs of higher environmental standards, leading to new market dynamics

Four poles of intervention to achieve transition



- **Regulation and targets**; the baseline
- A **reformed CAP** with incentives tied more closely to delivery of agreed public goods objectives
- **Advice, training, research and development, engagement, institutional capacity building**
- Strong encouragement for transition in the food system with enhanced market opportunities for land managers and a greater role for the **private sector** in offering incentives



An expanded role for the private sector

- Supply chain adjustments enabling the higher production costs of farmers meeting new standards to be recovered through more realistic pricing and fair contract conditions (extending the concepts in the Veerman report)
- Greater use of labelling and certification schemes to support environmental objectives
- Promotion of supply chain initiatives e.g. in Rural Development Programmes
- Private land management contracts for ecological services like clean water
- Compensation schemes to offset damage from development

Addressing four dimensions of the CAP



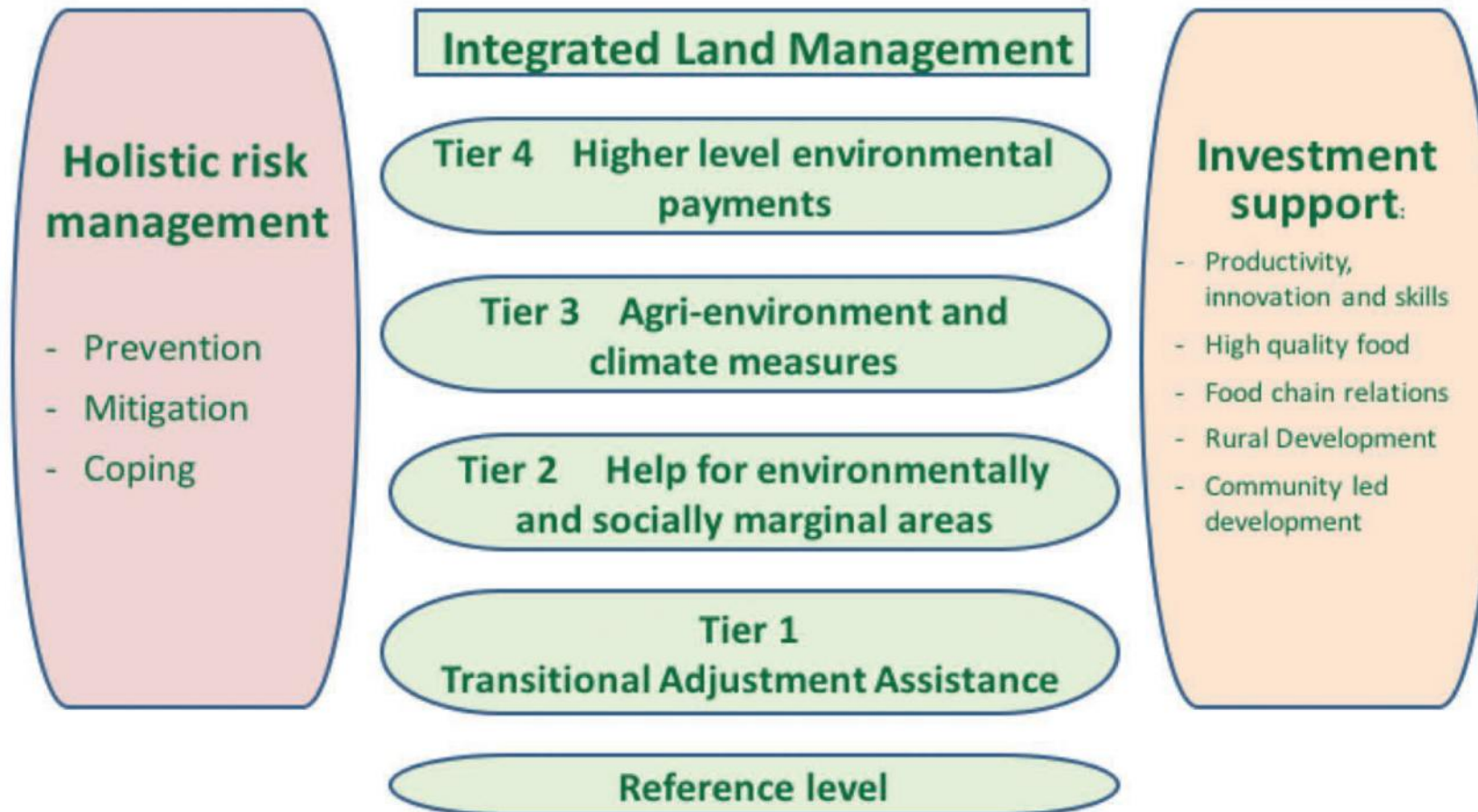
- Utilising appropriate policy tools, with an increase in level of targeting and tailoring and more emphasis on rewarding results
- Balancing precision with a streamlining of administration wherever possible
- Employing more attuned and effective modes of consultation, delivery and implementation, including controls, technologies for monitoring and enforcement: a new culture is required. This should seek to nurture trust.
- Generally adopting a programming approach with defined objectives rather than Pillar I rules
- Securing sufficient budget, accepting a different distribution between farms and regions when this follows new objectives



CAP Support in four layers

- Relatively low transitional payment for meeting more demanding environmental standards: digressive & time limited (to ~ 2030)?
- ANC payment with more rigorous targeting and carbon sequestration element
- New simplified environmental land management scheme applicable to most farming systems, including organics, extensive beef and sheep, horticulture, permanent crops.
- Higher level, well targeted measures, focus on enhanced performance, recovery of nature, ambitious sequestration.
- A predictable and progressive shift in funding towards the higher level schemes

Proposed structure for a modernised CAP





WHAT APPROACH FOR RISK MANAGEMENT?

Erik Mathijs

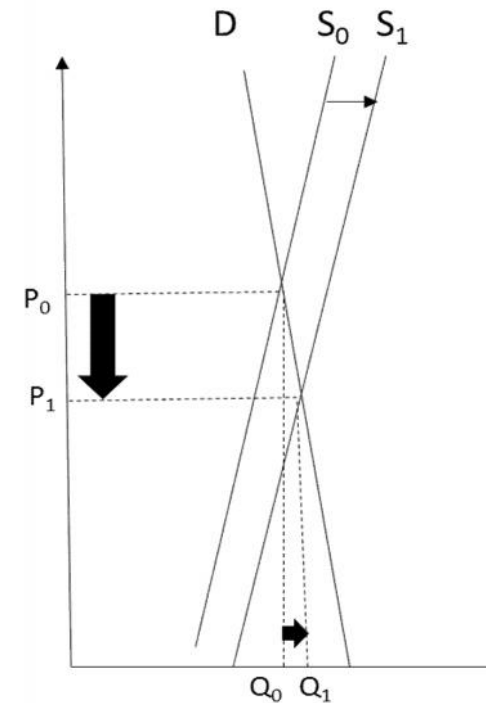
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The risky nature of farming

Agriculture inherently risky due to

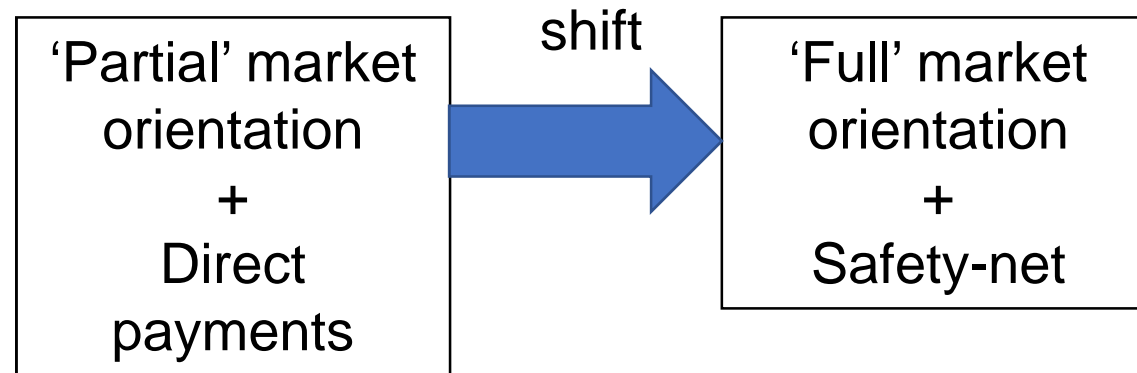
- **biological** nature of production processes
 - exposure to **weather**
- amplified by
- **fragmented** farm structure
 - price **inelastic** supply and demand functions.



Source: own elaboration



Toward a paradigm shift



- Core ideas:
 - Let the market play its signalling role in an undisorted way
 - Remove instruments that distort the market

Risk management instruments and strategies



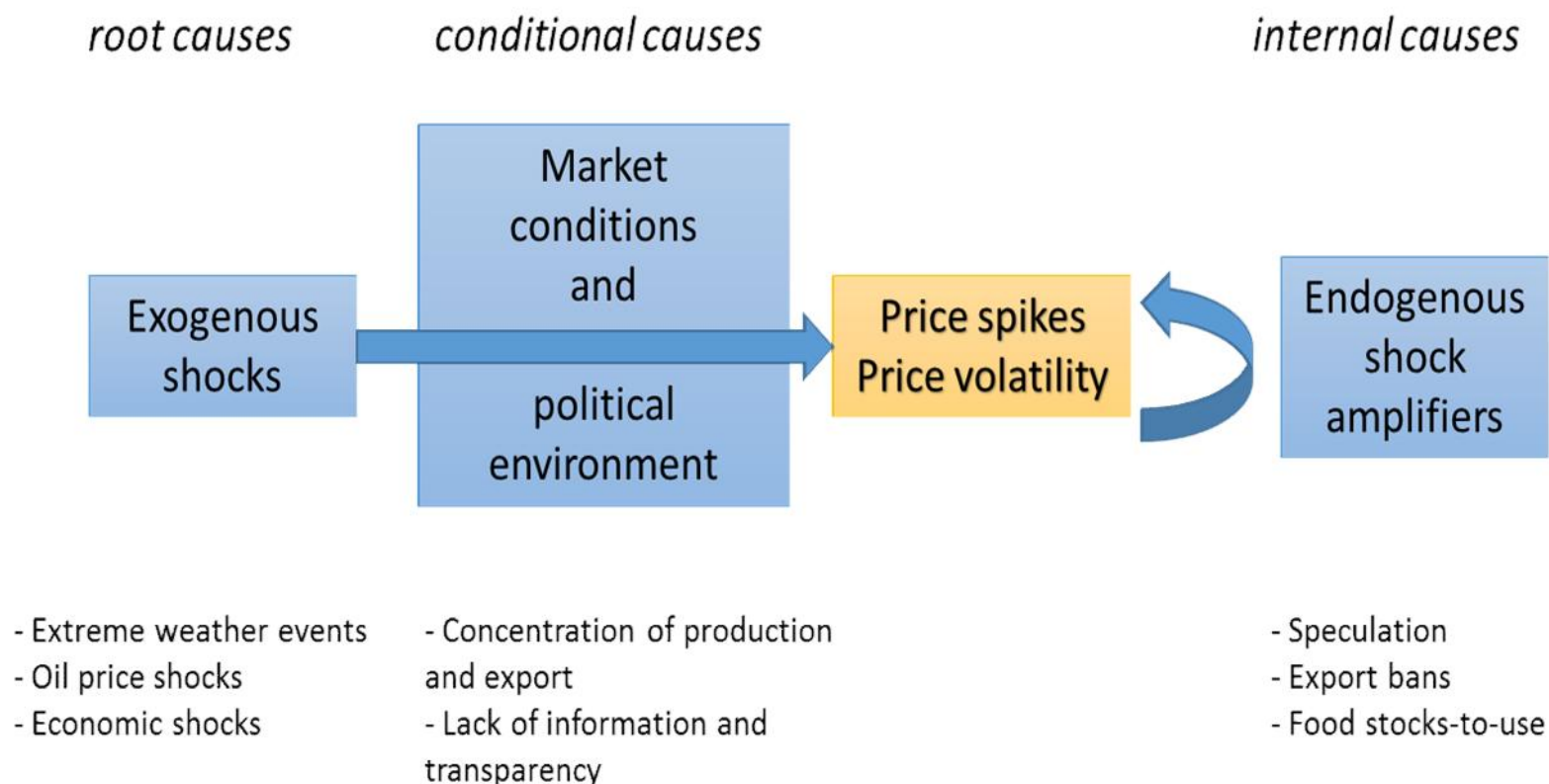
	Farm/household /community	Market	Government
Risk reduction	Technological choice	Training on risk management	Macroeconomic policies Disaster prevention Animal disease prevention
Risk mitigation	Enterprise and output diversification Crop sharing	Futures, options Insurance Vertical coordination Spread sales Diversify investment Off-farm work	Tax system smoothing Counter-cyclical payments Border measures
Risk coping	Borrow from family or neighbours	Selling assets Borrow from banks Off-farm income	Disaster relief Social assistance Agricultural support

Sharing responsibilities for risk management



	Catastrophic risks Rare, high damage and systemic	Marketable risks Middle range	Normal risks Small damage but frequent
On-farm strategies			On-farm strategy - Diversification - Saving
Market tools		Market tools - Forward contract - Insurance	
Ex ante policies	Disaster assistance policies - Ex ante / Ex post payment - Public insurance		
Ex post policies			

Do direct payments lead to more or less risk?



Source : Tadesse, et al., 2014. Drivers and triggers of international food price spikes and volatility. Food Policy 47, 117-128.

Utilise the full canvas of potential measures



	Horizontal coordination	Vertical coordination	Other
Transfer risk		Vertical integration	Hedging
Buffer risk	Cooperative mutual funds	Chain-based mutual funds	Borrowing Fiscal smoothing
Share risk	Insurance	Contracts	
Spread risk	Enterprise and output diversification	Diversification by adding value	

Holistic Risk Management Strategy



- **Axis 1: Risk prevention**

Appropriate technology use, land management, information management and training (investment support, subsidies for ecosystem services)

- **Axis 2: Risk mitigation**

Private risk management measures (framework, temporary support)

- **Axis 3: Risk coping**

Income stabilisation tool to pick up residual risk: premium-based, farmers choose coverage, discounts when appropriate risk management measures taken, index-based triggering mechanism, financed by Crisis Reserve



HOW TO KICK START REFORM ?

Allan Buckwell

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How to kick-start reforms ?



- Procedures attuned to status quo - incremental change
 - Current tensions between key stakeholders
 - Land managers
 - Environmental interests
 - To break the deadlock an idea
 - **Joint initiation** of reform – DGs Agri, Env & Clima.
 - **Joint co-decision**
 - Agricultural and Environment Councils
 - COM Agri + COM Envi in the Parliament
-

Download the report at:
www.risefoundation.eu/publications



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