



Inra contribution to the consultation of the European Commission on modernising and simplifying the CAP



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Five Priorities for the Common Agricultural Policy (CAP)

Now more than half a century old, the CAP has regularly evolved in a series of steps aiming to adapt to changing contexts and new challenges. The CAP must continue to evolve despite the reform “fatigue” exhibited not only by many farmers, but also by public organisations (national and regional authorities) and private stakeholders (companies that are upstream and downstream of farms). Further change is needed because the CAP is insufficiently adapted to some issues which are far more acute now than previously:

- i) Instability of markets, prices and farm incomes;
- ii) Environmental protection, still inadequate in terms of soil, air, water, landscapes, and most importantly biodiversity preservation and the fight against climate change;
- iii) Insufficient economic, environmental and social performances of agricultural and food systems in a context of flourishing innovation which still requires qualification (agro-ecology, information and communication technology (ICT), big data and precision agriculture);
- iv) Dynamism of rural areas still considered too much to be backwaters where the most urgent needs would continue to be those of agriculture and forestry; and
- v) The increasing distance between agriculture and farmers on the one hand, and food, consumers and citizens on the other.

This contribution addresses each of these five points in turn, each following the same pattern: first describing the current situation, then proposing ways to make progress, or at least solutions which should be experimented. These five points should be tackled simultaneously to maintain consistency in direct and indirect public policies for agriculture and beyond (environment, food, nutrition, health, bioeconomy...). We begin with more general considerations which concern the five points in function of their respective specific features.

The inadequacy of the CAP’s instruments may be described at three levels by order of importance: the technical adjustment of instruments that are already in place; the choice of instruments that are the best adapted to deal with this or that challenge, taking into account intentional or unintentional impacts on other challenges; and finally the incompleteness of the toolbox available to deal with the issues. The present contribution only deals with the last two aspects, even if there is significant room for progress with the first, for example improving the effectiveness of greening measures in the first pillar. It assumes a CAP budget kept at high level, even though uncertainties about this budget and its distribution between countries, objectives and actions are considerable. A strong CAP, endowed with a substantial budget, can only be defended and considered legitimate if its objectives are better defined and the instruments explicitly and efficiently made to serve agricultural needs as well as the general interest of European people.

Comparison of the CAP budget (408bn euros over the period 2014-2020 in current prices, more than two thirds being allocated to the first pillar) with the challenges facing European agriculture has two consequences: the first is that increasing the resources allocated to one instrument can only be envisaged if there is concomitant reduction in the resources made available for other measures; the second is that it is necessary to develop, in addition to non-market instruments financed by the taxpayer, individual and/or collective market solutions financed by the intermediate and/or final user. The two sources of funding are complementary.

The complexity of current CAP instruments has made it unintelligible. This lack of clarity is a threat to the CAP and more importantly to EU agriculture. The modernisation and simplification of the CAP thus appear to be desirable objectives. Nevertheless, the CAP will remain complex given the diversity of the issues and the objectives which have produced a wide variety of

instruments, given also the range of national and regional situations to which the CAP has responded by way of increased subsidiarity as reforms have succeeded one another. From this point of view, the current structure of the CAP in two pillars, today obsolete because their rationality is not respected (a single objective is often targeted by measures from both pillars), should be replaced by a new architecture, essentially based on the global versus local nature of a given objective which should determine the origin of budgetary resources, EU alone versus EU, national and regional.

Finally, the CAP will not recover all its legitimacy in the eyes of the taxpayer, consumer and European citizen unless it better meets their expectations, which leads to recommend putting additional emphasis on the transition from an obligation of means to an obligation of results, however difficult the concrete implementation of the latter might be. Giving additional weight to results offers the further advantage of making farmers more aware of their responsibilities (within the meaning of better encourage). It also responds to their understandable rejection of the increase of command and control measures, moreover implemented in different ways depending on the country, which leads to possible competitive distortions. This strengthening is not, however, without disadvantages linked, for example, to the choice of indicators, the cost of verification and possible legal challenges to the measures. This is why we recommend a pragmatic approach with the development of pilot experiments on a trial and error basis.

1- More than just supporting farm incomes, ensure their stability

There is increasing instability in world and European agricultural markets and prices and, as a result, an increasing number of farm income crises in the EU, albeit to varying degrees depending on the Member state, the product and the production system. The range of tools for ex-post risk management in EU agriculture is, however, very wide today. Targeted tools mainly belong to the second pillar (grant-aid to mutual funds and insurance premiums, financial support for investments aimed at preventing disasters and adaptation to such events), but the so-called crisis reserve fund belongs to the first pillar. To these EU specific schemes usually co-funded, must be added essentially national fiscal tools encouraging precautionary savings, smoothing of incomes over time, etc. To these must also be added the securing of incomes provided by direct aids from the two pillars in a context where such aids (but more particularly those in the first pillar) represent, for many farms, but nevertheless to a variable extent depending on the type of production, a significant proportion of agricultural income. Finally, we must include market regulation instruments such as public storage or aid for private storage which are certainly much lower today than they were three decades ago, but which can always be activated further and for longer. One-off interventions are also possible (public assistance for loan repayment...), as occurred in the context of the livestock breeding crises of 2015 and 2016.

In a context where the risk factors are likely to grow and where the risk management tools, diverse as they may be, have not proved themselves to be fully efficient, it is necessary to rethink the way in which European farmers can limit the impacts of risks (ex-ante measures) and better withstand the negative consequences of these risks (ex-post measures). The ex-ante measures include technical prevention instruments, such as nets to protect against hail and frost protection systems. They also include greater consideration of resilience, as long as this involves promoting more sustainable agricultural practices and systems, including making support conditional upon changes towards practices and systems that are more hazard-resilient (cf. point 3 infra). Diversification of crop rotation and more generally of agricultural productions can also be given support in this respect of increasing resilience, as well as in respect of environmental gains. Ex-post risk management measures would be improved by more clearly distinguishing between i) rare, unforeseeable and large-scale risks that require intervention

from European authorities; ii) the commoner, more predictable and of smaller-scale risks which the farmer can deal with through private risk markets which will benefit from EU support in such a way as to ensure the completeness of the risk markets and allow each farmer to benefit; and iii) frequent and small-scale risks that do not require public support. In such a clarified framework, it would be possible to assess the effects, intentional and unintentional, of introducing a degree of contra-cyclicity in direct aids from the first pillar, necessarily adjusted downwards in order to provide sufficient funds for the completed and optimised system of tools available for managing *ex-post* risks, as well as for other measures targeted to the environment (cf. point 2), sustainable practices and investments (cf. point 3), the compensation of natural handicaps or the support of young farmers. It would be useful to learn from the experiences, positive and negative, of non-European countries which, like the United States, have explicitly chosen to target the objective of agricultural income stability. The CAP should also encourage vertical solidarity within industries and horizontal solidarity within territories, for example via contributions to the mutual funds from the different stakeholders in these industries and territories. In a more general way, it is necessary to consider risk management in a holistic fashion, taking into account all the schemes, public and private, those that are specifically devoted to risk management and those that have indirect impacts on risks or their consequences, particularly to avoid exclusion effects (low attractiveness of one instrument because of the simple fact that another exists) and duplication between public and private instruments. From this point of view, the use of modelling and simulation is required.

2- Afford even greater protection to environmental goods by developing payments for environmental services and by discouraging agricultural negative externalities

Environmental protection of agro-ecosystems is still inadequate in the EU, particularly in terms of biodiversity conservation and reduction in agricultural greenhouse gas (GHG) emissions, despite the environment receiving greater consideration in CAP objectives and instruments, and also despite farmers' efforts in this direction. Certain technical inadequacies can be corrected within the framework of the existing CAP, without such correction necessarily having a negative impact on farm incomes: for example, the greening measure relating to Ecological Focus Areas (EFAs) could be implemented at a scale greater than that of the individual farm, with compensation for producers constrained to have larger EFAs because of the environmental relevance coming from those who establish smaller EFAs. Nevertheless, environmental protection requires clarification and completion of the range of tools available today. Generally speaking, it is necessary to encourage virtuous changes that will lead to an increase in the provision of environmental services and to discourage practices and systems that produce environmental disservices. This should be done as far as possible through incentives rather than obligations, and in the framework of enhanced solidarity within food chains and rural areas.

From this point of view, the scheme of Agri-Environmental and Climatic Measures (AECMs) should be adjusted making it possible to remunerate the agricultural producer beyond the compensation of supplementary costs or loss of profit (the EU's room for manoeuvre within the World Trade Organisation (WTO) would allow this change). It is also necessary to implement AECMs over longer time periods and to encourage their geographical continuity, for example by offering an agglomeration bonus to neighbouring farmers who commit to a scheme collectively. The budgetary constraint leads to encourage the development of market-based Payments for Environmental Services (PES), financed by the intermediate and/or final user, as soon as the creation of environmental services markets is possible. This will not always be the case, and certainly not immediately, thus requiring such market payments to be completed by non-market payments from the taxpayer, at the EU level when the environmental good is global

(biodiversity, carbon storage, etc.), and at the EU, national and regional level when it is local (water quality, open landscapes, etc.).

Applying the Polluter-Pays Principle (PPP) recommends taxation of agriculturally-generated negative externalities so that farmers' choices are based on all costs, private and public. In order to avoid reducing their competitiveness, the taxation scheme should be implemented at the European scale and the product of the taxation conserved within the agricultural industry in order to finance other measures (decoupled aids, risk management schemes, aids granted to farmers to compensate for natural handicaps, or support to young farmers), and to encourage virtuous practices while discouraging bad ones via, for example, a bonus-malus system.

These developments aim to make the environmental component of the CAP more complete and more coherent. They do not question the necessity of simplifying the CAP. They will be facilitated by the transition from an obligation of means to an obligation of results, taking into account the whole range of positive and negative services, including the identification of compromises between services, and linking the provision of these to their determinants. Progress in research into the related fields of knowledge of ecosystem services and the possibilities for promoting them may help with the implementation of pilot experiments. It would also be appropriate to increase the solidarity of stakeholders in the various industries and regions, for example through budget support targeted to the development of outlets for diversification products or through the development of systems of efficiency and saving certificates for fossil fuel and synthetic inputs allowing to link the farming sector to upstream and possibly downstream industries (fertilisers, pesticides, drugs for livestock production, etc.).

3- Ensure innovation serves the multi-performance of all types of agriculture

The first observation concerns the large degree of heterogeneity in competitiveness of the European agriculture and food industry in the different Member States, for part a backdrop of the dismantling of market regulation measures and commercial agricultural policy instruments. The consequence of this dismantling is increased competition between the national agricultures for the internal European market, which is big but saturated. In addition, too many agricultural and food practices and systems are not sustainable from the environmental (cf. point 2 above) and social (beyond the incomes and living conditions on the farm, there is a definite feeling of incomprehension of the realities of the farmer's job, and of a lack of recognition by the rest of European society of farmers' efforts and the ever-increasing constraints placed upon them) point of view. At the same time, there are more and more promises of progress through a proliferation of innovations of all kinds (biological, agronomic, zootechnical, technological, digital, organisational, product-related) and from a wide variety of origins (top-down and bottom-up, from generalist agricultural stakeholders and pure players, but also from outside the agricultural world). These innovations must be made to serve the multi-performance of the different types of agricultural and food systems. They should be better identified and qualified (proof of their efficiency and conditions for their widespread dissemination). More generally, the transition of the different types of agricultural and food systems to the multi-performance will be easier if it is better recognized and fostered by the CAP.

The support of fundamental, targeted and applied researches on multi-performance has to be maintained. In particular, it is necessary to increase experimentation and modelling works aiming at assessing the productive, economic, environmental, health and social performances of practices and system changes. Public-private partnerships and identifying innovations from the field have to be supported following the positive developments initiated by the CAP 2014-2020, and using first feedback to simplify the existing situation and qualify the identified knowledge in order to characterise that which can be applied generically as opposed to that which is more

specific to a given set of biophysical and socio-economic conditions. The risk-taking inherent in any change is worth supporting (cf. point 1 above), all the more so due to the transition from an obligation of means to an obligation of results. The transition towards multi-performance, more specifically the agro-ecology transition, require not only changes in practices but also, very often, investments. Today, these two dimensions are dealt with in a too disjointed fashion, particularly in the framework of the AECMs and the Agricultural Competitiveness and Adaptation Plan (ACAP) which should be better integrated and more importantly funded. On the other hand, the benefit of direct aids, risk management measures, compensation aids for natural handicaps or specific support for young farmers, like the right to benefit from public aids for payment for non-market services, would be conditional on an undertaking by the farmer to implement a multi-annual transition plan towards multi-performance.

Within this general framework, the diversification of agricultural production, and in particular the recoupling of animal and plant production within the same territory, must be given greater support. This is a promising avenue for improving environmental performance (the promise merits, however, better qualification), but diversification and recoupling meet economic, technical and organisational impediments at the three scales of individual farms, industries and regions. In addition to the measures defined above, it is useful to bring the stakeholders together by mutualising risk-taking, giving financial support for the construction of new value chains and industries in order to promote products from diversification (using the logic of support to an “infant industry”), favouring exchanges between neighbouring farmers and developing open innovation organisational arrangements systems such as living-labs which associate all the stakeholders directly or indirectly concerned by a set of innovations.

4- Clarify what is covered by the CAP and what is covered by the European cohesion policy

The rural development policy of the CAP's second pillar is mainly targeted on agricultural, forestry and, to a lesser extent, food-related activities, because of their impacts on landscapes and territories. Then, rural areas essentially equate to primary economic activities that use the soil as a production factor. These activities should be supported because of their knock-on effects on rural development (multifunctionality of agriculture and forestry). However, these knock-on effects are difficult to assess, as well as to estimate if measures from the second pillar have acted to reduce spatial disparities within the UE and to increase rural population welfare. The spectrum of measures covered through the second pillar is both narrow in relation to the preferred target, and wide in terms of its objectives concerning agriculture and forestry: knowledge transfer and innovation; viability and competitiveness of all types of agriculture; food chain organisation, including processing and marketing of agricultural product, risk management and animal welfare; protection of ecosystems related to agricultural and forestry; resource efficiency and shift towards a low carbon and climate resilient economy in agriculture, food and forestry sectors. Although the second pillar has been able to demonstrate a certain degree of effectiveness in relation to assigned objectives, its efficiency as regard budgetary support could be improved.

This agricultural and forestry bias of the second pillar leads us to question first its wording – incorrectly qualified as rural development – but above all its objectives, which are based on an out-of-date understanding of the rural development process excessively thought as a development based on primary production activities. Agricultural objectives like the compensation for natural handicaps or the specific support to young farmers should continue to be addressed through the CAP. But the insufficient consideration given to the other activities present in the rural areas impedes integrated conception of rural development and provides

only an imperfect means of dealing with the main challenges these areas face, more specifically value creation and setting, provision of and access to services and equipment for the rural population. In that perspective, the Leader program and the European Rural Network are assets to be better harnessed to increasingly address non-agricultural and forestry issues. The legitimacy of supporting the economic and social development of rural areas is not questioned. This support would grow in consistency and would be clearer if it were given within the framework of the European cohesion policy, targeting transversal objectives with a strong knock-on effect on economic development and/or a strong impact on the living conditions of populations, for example digital access in rural areas or maximised access to public and private services. These are common goods that legitimise public intervention at the scale of the EU, completed by national and regional funds to better take into account particular local needs and opportunities. The risk of this evolution of the rural development policy of the second pillar towards the Cohesion policy is that of an excessive dilution with the result that agriculture and forestry go out excessively losing.

5- An agricultural policy integrating food and bioeconomy issues

Beyond technical details, the continual process of CAP reform implemented since 1992 follows the same guiding principle, i.e. a reduction in support for farm-gate prices, export subsidies and import taxes, and partial compensation for the resulting decrease in farm incomes by direct aids largely independent of product choices made by farmers (decoupling) and conditional on increasingly environmental requirements (cross-compliance and greening). The objectives in the environmental field are also targeted by multi-annual contractual measures (AECMs). Environmental protection should be increased within the framework of the CAP, a condition necessary for better acceptance of this policy by the rest of European society (cf. points 2 and 3 above).

This condition is necessary but insufficient. This development in favour of the environment should be completed by strengthening the consideration given to animal welfare, as well as to food and nutritional aspects in the context of a growing gap between the consumer and what she/he eats on the one hand, and farmers and farming on the other. This distance is spatial (via international trade), temporal (increase in the time between the date when the agricultural good is produced and that at which it is consumed as food) and technological (food products are increasingly transformed). The refusal of this three-pronged distancing explains, at least in part, very recent changes in food consumption habits observed in several European countries (less fat and sugar, fewer meat products), the development of organic farming as well suburban and urban agriculture, the progressive return of food outlets to town centres, and the enthusiasm for local distribution networks, origin-linked products, etc. Moreover, the negative consequences of diets that are too rich and unbalanced in relation to energy expended are well established (overweight and obese individuals, cardiovascular diseases, certain cancers, etc.). Today, these negative effects are being fought with policies based mainly on education and information, very little by way of actions on consumer prices and in any case without any significant link to policies that act on the supply of agricultural products. Better integrating food and nutritional dimensions into the CAP is a desirable change as part of a Common Agricultural and Food Policy. The idea is to encourage changes towards more sustainable and healthier diets, without such changes being regressive (i.e. not first penalise the poorest consumers who spend a greater proportion of their income on food) and weakening the competitiveness of European agriculture. The lever of public procurement (schools, hospitals, barracks, etc.) can be better mobilised to this end. We also recommend that greater use be made of pilot experiments and modelling exercises, from which both positive and negative lessons would be learned. From this point of view, it would no doubt be useful to distinguish basic agricultural products, relatively

homogenous and subject to strong competition on international markets, and more heterogeneous and transformed food products that can be more easily differentiated and as a result, can benefit from market recognition through public, collective or private quality labels.

Greater consideration of demand aspects should be extended to non-food uses as part of a development of the CAP towards, ultimately, a Common Bioeconomy Policy which will certainly give priority to food (“food first”) but will also include non-food uses because these enable outlets to be diversified and market risks to be reduced, use of fossil fuels to be limited through the development of bioenergy and biomaterials (on condition that the latter are incontestably recognised as enabling fossil fuel consumption to be reduced, including direct and indirect changes in land use), etc. Bioeconomy is a mean for increasing the dynamism and resilience of the EU agricultural sector. It offers new positive perspectives that European farmers call for.

Agronomic research can encourage the changes described above through work on i) risks, particularly climatic and epidemiological, their impacts and management (efficiency and complementarity of public and private instruments); ii) the identification, quantification and promotion of ecosystem services, no longer service by service, but in the context of joint consideration of all services and disservices in order to identify synergies and compromises; iii) agro-ecology, digital agriculture and precision agriculture; iv) the identification and qualification of more sustainable agricultural and food practices, chains and systems; v) the positive and negative consequences of innovations (through experimentation and modelling); vi) the economic and social development factors in rural areas; and viii) the agriculture – environment – food – human, animal and plant health nexus. Agronomic research should also encourage innovation and contribute to the creation of favourable partnership-based ecosystems, including by associating consumers and citizens.