



**Independent network  
on European Agricultural  
and Rural development policies**

Groupe de Bruges

# A CAP FOR THE FUTURE!?

**Why we need a better CAP that can face the challenges of today and tomorrow**

## *Main challenges for the future*

The proposals of the Commission to reform the Common Agricultural Policy come at a time when the strength, cohesion and political leadership of the European Union are being tested to the very limits.

At the same time we have welcomed the 7<sup>th</sup> billion global inhabitant to the planet. By the year 2050 the world population will have grown to around 9 billion people. The increase will be concentrated in regions that are already among the poorest in the world and that are the most affected by both climate change and 'liberalised' markets. Regions where farmers, often 50% or more of the working population, cannot fall back on any public support.

The growth of the world population in conjunction with the ongoing expansion of economic growth and changing lifestyles in emerging economies with large populations, such as China, India and Brazil, will put further and unprecedented stress on already limited natural resources and could seriously compromise the ability to ensure food security and other basic needs.

We have reached the point where the 'agricultural question' has come full circle: we will have to engage in maximum efforts over the coming decades to maintain and ensure the provision of the most basic of needs: clean, fresh water; clean, fertile soils; sustainable and renewable sources of energy and sufficient, nutritious and healthy food as a basis for our survival and as a pre-condition for global stability.

This will be one of the main challenges for agriculture, the food sector and, indeed, humankind: to increase and ensure the production of and access to sufficient, nutritious and high quality food for a growing world population while at the same time massively improving performance concerning the use and management of scarce natural resources.

And we need policies that are developed and implemented in this context. Nothing more, and surely nothing less.

## ***Our main issues with the CAP proposals***

In this light the Groupe de Bruges has five main issues to raise concerning the CAP reform proposals as presented on October 12 by the Commission.

### **1. Lack of urgency**

Europe is in its biggest crisis since the founding of the European Union over 50 years ago. There are several other extremely urgent matters that need to be addressed now to avoid catastrophic problems in 10 to 20 years time concerning climate change, food security and the management of natural resources. The proposals of the Commission in no way whatsoever reflect this urgency.

We therefore strongly suggest that the Commission, the other European institutions and the MS come up, not only with a Plan B to anticipate a possible disastrous outcome of the current financial, economic and political crisis, but also to develop a contingency plan based on a stress test, concerning the main challenges (climate change, energy, food security, soil, water and bio diversity): what measures will have to be taken if and when we are confronted with an acute natural resources and/or food security crisis?

The lack of urgency is also reflected in the fact that in the Commission's proposals there is no prioritisation of objectives, no hierarchy of goals. All proposals seem to be of equal importance. In the context of the main challenges mentioned on the previous page it is clear that a prioritisation of CAP policy objectives is absolutely necessary.

### **2. Individualistic approach**

The successive reforms of the last two decades have shifted the focus of Pillar I of the CAP from the agro-food chain to the individual farmer. Also Pillar II measures are predominantly aimed at the individual farmer/landowner.

This is completely contrary to what is happening in reality. It has become evident over recent decades that we need a systems approach, both concerning the issue of competitiveness as well as taking into account the notion of sustainability.

A broad range of different types of farmers operate in widely diverse physical environments (territorial axis) as well as in an international food supply chain system (global axis). Lastly, they also function in, again, widely diverse judicial, financial, information and administration systems. All these systems collectively determine the conditions for the operation of farmers and their ability to be or become both (more) competitive and (more) sustainable. Income support in this setting is not the decisive factor, but rather access to markets, services, information, capital and infrastructure as well as the position of farmers in the food supply chain that determine the competitiveness of farmers.

### 3. Competitiveness, sustainability, public goods

Successive CAP reforms have as one of their main objectives to simultaneously increase competitiveness and sustainability of agricultural production as well as the provision of public goods.

Competitiveness, sustainability and public goods are multi-faceted and complex concepts, especially when applied to the agricultural sector.

What is important is to depart from a long term perspective. Family farming has always been more focused on continuity and providing sufficient family income than on maximising profit. As a consequence, viewed from a long term perspective, competitiveness and sustainability (defined in terms of the 3P's: People, Planet, Profit) become one and the same. Competitiveness and sustainability (which in our view is far more than 'greening') are not separate issues but are to be treated in an integrated and holistic way. Groupe de Bruges has coined this as 'ecological modernisation', meaning improving competitiveness of agriculture through increased sustainability of production in conjunction with institutional renewal, multi-disciplinary, innovative approaches and renewal of agro-ecological concepts, education and research.

This new approach would obviously require a paradigm shift and a drastic change in mentality and attitude.

In the CAP proposals such an integrated perspective is, unfortunately, lacking, reducing greening to existing cross-compliance measures and a very limited number of additional 'greening' components without clear ideas, objectives and incentives for farmers to continuously improve performance.

### 4. Lack of international dimension

Since the last major (Fischler) reform of 2003 there have been enormous developments in the economies and agricultural and food sectors in other parts of the world<sup>1</sup>. As Groupe de Bruges we have always advocated the emergence of a multi-polar world. Now this is becoming a reality and Europe and the CAP have to deal with these changes in the international context. One main issue is that of increased price volatility which is caused by a series of both long-term structural factors and short-term developments. The sum of these factors is threatening global stability.

In addition the issue of sustainability is imminent: still a lot of the production and operating cost (protecting soils, water, air, labour, etc.) in the global food supply chains are being externalised to the environment, farmers, farm workers, farm animals or other countries to improve competitiveness.

The CAP proposals, however, are very inward looking lacking any vision to address these issues in a more innovative and holistic manner.

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<sup>1</sup> see for overview for example work done by IAASTD and SCAR

## 5. Not future oriented

The proposals of the Commission certainly contain a number of new elements and attempts to remedy some of the problems with the current CAP.

Nonetheless and on the whole, the proposals will in essence maintain the existing status quo of current beneficiaries. The CAP proposals are an a priori compromise that have been written and will have to be defended in an extremely complex political setting. However, the urgency concerning the nature and impact of current and future challenges, the need for a systems approach in a rapidly changing European and International context call for a far more radical and future oriented policy.

### Our main recommendations for a better CAP

Having discussed and critically analysed the Commission's proposals, we want to conclude by offering four sets of our main recommendations to improve the CAP proposals.

#### 1. What's good, but needs improving

- Eligible hectare: it is good to (gradually) abolish the historic reference systems and to connect direct payments with land, as land is the basis for the provision of public goods. The definition of regions by MS should correctly reflect the substantial sub-regional differences in territories and farming systems and not merely be based on administrative boundaries
- Re-distribution: a better and fairer distribution of direct payments between MS is necessary and the CAP proposals introduce a concrete proposal to achieve this. However, the measure proposed will mean that it will take at least two decades to sufficiently close the gap, giving old MS an advantage for too long a period of time
- Greening: the introduction of a greening component in the direct payment system is a policy innovation and a clear and positive rupture with the past. The proposed greening measures, however, seem random, rigid, ill targeted and lack incentives for farmers to keep on improving their 'green' performance over time. A better system would be to have, at a European level, a 'menu' of greening options from which MS (or regions) and farmers must choose a certain number. This system could be applied both to the greening component of the direct payments as well as to the agro-environmental measures in Pillar II (see annexe 1 for further explanation).
- Capping of direct payments: as proposed by the Commission does make sense from the point of a fairer distribution of income support among different categories of farmers. The opportunity to reduce capping when more people find employment on the farm is good, but will lead to additional paperwork. In addition, capping should not reduce incentives to deliver public goods when using our proposed 'menu' approach
- Pillar II: the new RD regulation is to be considered an important improvement compared to the current one. The measures are tailored and targeted, based on (better) delivery and multi-annual contracts. Some new measures are being introduced that seem promising at first glance, but should be clarified further before

implementation in the context of the proposed Common Strategic Framework. In particular the introduction of Partnership Contracts that cover all support from the CSF Funds concerned is also an interesting policy innovation, whose aim is to come, at regional level, to a better integration of a number of European policy domains. It allows, in theory, to better achieve the objective of integrated territorial development and could close the existing gap between agricultural policies and other economic policies. However, safeguards should be established to guarantee that programming will lead to a real integration of interventions at a territorial-based level, advantaging community-led bottom-up local development, such as through the LEADER Local Action Groups. Furthermore, integration of these policies should also lead to improvement in delivery concerning the social and economic integration of both internal and international rural migrant workers

- Producer organisations should be welcomed as one of the instruments for farmers to strengthen their position in the food supply chain vis-à-vis an ever decreasing number of processors, traders, wholesalers and retailers. It should be noted however that while cooperation is a positive and well accepted notion in most of the old MSs, it still has negative connotations in most of the new MS.

Again, an integrated approach is necessary here to accompany this measure and to help, through education and coaching, the new generation of farmers in these MS to overcome this historically justifiable mindset

- Risk management schemes are welcomed, but should be part of the new CMO regulation instead of the RD Regulation and in that case be eligible for full European funding
- Common Strategic Framework agricultural research and innovation: the introduction of a Common Strategic Framework for agricultural research and innovation and the creation of European Innovation Partnerships is in principle an excellent proposal. However, the proposed budget is minimal compared to the budget for direct payments (only 1.1% of total CAP budget, while direct payments still absorb a massive 72%). A budget of at least 3%, parallel to the percentage that MS are supposed to spend in general on innovation, seems reasonable, justifiable and necessary. Concerning the implementation, safeguards should be established to ensure that all partnerships are multi-actor involving practitioners and that all categories of farmers have full access to these partnerships and to the results of research that is being carried out in this context.

## 2. What's not (so) good and should be changed

- Direct payments system: Direct payments are still not really coupled to the provision of public goods: they are poorly targeted, not tailored and not contractualised. This means that they should be considered a rent rather than an incentive for better performance
- Active farmer: The definition in the proposals is a missed opportunity to exclude land speculators and so called 'sofa farmers' from direct payments. More specifically, the proposed limit of 5,000 euro of annual direct payments below which farmers are by default considered to be active farmers and are subsequently exempted from cross compliance is contrary to the need to legitimise CAP spending.

A large portion of beneficiaries will be able to receive up to 5,000 euro annually without any commitments. Given the wide diversity of types of farms and farmers, it would be better to leave it to the individual MS to (clearly) define what an active farmer is in a way that will ensure that on the one hand 'free riders' will be excluded and that on the other hand all that fall within the definition of active farmers comply with the same rules to protect the environment and natural resources

- Small farms: the proposed small farms measures in Pillar I are not to be considered a small farms policy, but merely an attempt to simplify the CAP. Secondly, a small farm cannot be defined solely by the number of hectares. A two hectare vegetable farm is quite different from a two hectare livestock or arable farm. In the current proposal some types of intensive, small farms are excluded from direct payments, while being important for food security. It would be better to introduce another measure to categorise classes of farmers. What would also help is to allow aggregation, meaning that a group of small farmers can collectively be eligible for direct payments
- Budget: based on our positive assessment of the new RD Regulation, it is clearly a missed opportunity to leave the budget ratio between first and second Pillar unchanged. At the same time, we acknowledge that an increase in the budget ratio in favour of Pillar II will imply increased co-financing by MS under current difficult economic conditions. Although we have to remember that co-financing of European policy is the rule rather than the exception and that Pillar II will give MS more degrees of freedom to tailor budget allocation to the specific needs of certain areas, the Commission is nonetheless recommended to take the current economic and financial situation concerning co-financing into account and allow in specific cases lower co-financing rates or even complete derogation from co-financing.

### 3. What's missing and should be added

- Tax instruments: the current economic and financial crisis will push Europe towards a more federal system. It would make sense in this context and as part of our proposed Plan B, to pro-actively discuss new tax instruments at European level as one more instrument to promote green agricultural production and healthy diets. The introduction of tax or other levy systems has shown to be effective with comparatively low transaction costs
- Criteria: there are no clear criteria to assess and classify sustainability of farming practices. The baseline should undoubtedly be a rigorous application of the 'polluter pays' principle. We should also disallow any payments for farmers or other beneficiaries who do not comply with EU Regulations concerning the protection of water, environment, soils and nature
- Collectives: there should be a key role for territorial collectives of farmers concerning greening measures also as part of the direct payment system.
- Food supply chain: over the few last years political attention has increased concerning the growing power of certain stakeholders, notably the retail industry, but also the processing and trading industry, in the food supply chain and the worsening position of farmers when it comes to the distribution of the value added. Close and ongoing scrutiny at European political and administrative level should be maintained to ascertain that farmers receive a fair share of the value added and that other stakeholders not misuse their position

- Integration with other policy domains concerning Pillar I: for Pillar II concrete and innovative measures have been proposed to come to better integration of policy. No attempts have been made however to integrate Pillar I measures with other policy domains (e.g. Environment, Consumers and Health, Science and Technology, Energy and Natural Resources, etc.)
- Consumers: the lack of integration with other policy domains of Pillar I payments has among others as a consequence that there is no room for measures to promote more sustainable and healthy consumption patterns
- Innovation: it should be stressed here that innovation does not merely concern technological innovation. Social and organisational factors need to be taken into account. Social capital is key to success for innovation. We also need innovation to come to new approaches for the delivery of public goods, innovation in rural development as a whole, at the level of territorial and food supply chain systems and at the level of policy, administration, information and education
- Technology: there are major developments worldwide in biotechnology (including GMO) and nanotechnology that will have massive impacts on the way we develop, produce, process consumer products based on agricultural raw materials. These will greatly affect both producers and consumers and will pose, time and again, questions at ethical, medical, social, economical and political level. The Commission is currently lacking the courage and the vision to develop a much needed integrated and comprehensive strategy and policy to address these developments. One thing is clear though: leaving these decisions to individual MS is the worst solution
- Food waste: currently up to 30% of all food that is being produced and that is still useful for safe consumption is being wasted somewhere along the food supply chain. Collective efforts, from producer to consumer and at all administrative levels are urgently needed to address this issue. The Commission and the MS should come to an agreement with all stakeholders involved to reduce these food wastes by at least 50% by the year 2020. Incentives should be integrated in all relevant policies, among them the CAP, to encourage and if necessary force stakeholders to take responsibility
- Soils: soil fertility is the basis of sustainable farming and one of the main 'capital inputs' for the future of our food provision as well as for the sequestration capacity of carbon dioxide. Over the last decades soil fertility in Europe is decreasing and even more so in other parts of the world. Climate change will further affect soil fertility in a negative way. We also know that improvement of soil fertility necessitates a long term approach. Urgent action is therefore needed to encourage farmers and other landowners to improve their soils. We propose, as part of the greening menu we proposed earlier, that improvement of soil fertility will be one of the main items of this menu. The baseline objective at European level should be that overall soil fertility does not deteriorate any further.  
Furthermore, we should more critically review the imports of raw materials, such as proteins for animal feed and vegetable oils for bio-energy, from the point of view of (loss of) soil fertility in the place of origin
- Biodiversity: what is missing is the role of stakeholders other than farmers in providing and maintaining public goods. Especially hunters (over 7 million in Europe) play an important role in managing wild life and their habitats. They should be deemed, as collectives, eligible under Pillar II measures.

#### 4. What's unclear and should be clarified

- Direct payments: the relation between the basic payment and the greening component seems unclear. If a farmer is not complying with one of the proposed greening measures will he lose only the greening component or also the basic payment?
- Ecological focus area: this new notion seems ill conceived. While it is clear that it will reduce production capacity, it is unclear what public goods will be delivered and to what extent
- Administrative burden: it is unclear whether the proposed measures will lead to a reduction of the administrative burden. The sum of all proposals and the overlap between certain measures in Pillar I and Pillar II would suggest this not to be the case. An ex ante evaluation of the proposals is necessary to make an assessment and if and where necessary to formulate alternatives to reduce bureaucracy. Having said this, we also want to point out that reducing the administrative burden should not be a goal in itself or be prioritised over other more important issues. In some cases farmers and society as a whole need to accept that by ensuring better delivery of public spending based on clear indicators might necessitate more paperwork.

## **Annexe 1: explanation of the green menu system**

The green menu system is based on an incentives approach to continuously improve environmental and public goods performance as an alternative to the proposed greening measures and agro-environmental schemes. It is based on a system that has been in operation in the U.K. since 2005.

The green menu system could be split up into several domains (water management, soil management, energy management, carbon dioxide management, mineral management, bio diversity management, pest control management, etc.). For each domain farmers can achieve a maximum of 100 points. All farmers have to respect a certain minimum level for each domain. This baseline can gradually and step by step be set higher with certain time intervals, giving farmers the opportunity to adjust their farming practices to be able to meet the new baselines.

Furthermore, farmers can, based on their specific situation, attitude, skills and available technology, choose to go beyond the baseline requirements for specific domains and in doing so receive a premium payment that corresponds to the increase in performance points. Premiums can also be given to farmers who apply these measures over a longer period of time on the same area and to farmers who work together in territorial collectives.

This menu and incentives approach should be accompanied by appropriate research agendas and facilities to support farmers to develop better agro-ecological practices and to continuously improve their agro-ecological performance.