

STUDY

Requested by the AGRI committee



# Research for AGRI Committee - Towards the CAP post 2020 - Appraisal of the EC Communication on 'The Future of Food and Farming' of 29 November 2017



**Agriculture and Rural Development**





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## **Abstract**

This study assesses the European Commission's plans for CAP reform as set out in November 2017 and subsequently. It discusses the extent to which those plans address the performance of the CAP against its objectives, compares them with the views and ideas of stakeholders and makes recommendations.

This document was requested by the European Parliament's Committee on Agriculture and Rural Development.

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## LIST OF ABBREVIATIONS

<b>AKIS</b>	Agricultural Knowledge and Information System
<b>AGRI</b>	Agriculture and Rural Development Committee
<b>AMTP</b>	Agricultural Markets Task Force
<b>ANC</b>	Areas facing Natural Constraints
<b>AWU</b>	Agricultural Work Unit
<b>CAP</b>	Common Agricultural Policy
<b>CLLD</b>	Community-Led Local Development
<b>CMEF</b>	Common Monitoring and Evaluation Framework
<b>EAFRD</b>	European Agricultural Fund for Rural
<b>ESIF</b>	European Structural and Investment Funds
<b>EC</b>	European Commission
<b>ECA</b>	European Court of Auditors
<b>EIP-AGRI</b>	European Innovation Partnership for Agricultural Productivity and Sustainability
<b>EU</b>	European Union
<b>EFSI</b>	European Fund for Strategic Investment
<b>FADN</b>	Farm Accountancy Data Network
<b>FAO</b>	Food and Agriculture Organisation of the United Nations
<b>FTA</b>	Free Trade Agreement
<b>GAEC</b>	Good Agricultural and Environmental Condition
<b>LEADER</b>	Links between Actions for the Development of the Rural Economy,
<b>GI</b>	Geographical Indication
<b>MFF</b>	Multi-annual Financial Framework
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PPS</b>	Purchasing Power Standards
<b>RDP</b>	Rural Development Programme
<b>R&amp;D</b>	Research and Development
<b>SCAR</b>	Standing Committee on Agricultural Research
<b>SDG</b>	Sustainable Development Goals
<b>SCMO</b>	Single Common Market Organisation
<b>SMR</b>	Statutory Management Requirements



- SPS** Sanitary and Phytosanitary
- TFP** Total factor productivity
- TRQ** Tariff Rate Quotas
- WHO** World Health Organisations
- WTO** World Trade Organisation

## EXECUTIVE SUMMARY

This study was commissioned by the Policy Department of the European Parliament. It examines the CAP Communication *The future of food and farming* published by the European Commission on 29 November 2017, and makes recommendations as to how the Parliament could develop its position on the Commission's legislative proposals when they appear. The main focus of our analysis, is the extent to which the Communication engages with the issues facing EU agriculture in a consistent way, whether there are any gaps, and how the Commission's plans match the views and ideas contributed by others. After the introduction, chapter two examines the performance of the current CAP against its stated objectives of viable food production, sustainable management of environmental resources and climate action, and territorial balance.

Using data from the CAP's Common Monitoring and Evaluation Framework we show that productivity in agriculture remains low in many areas. The impact of CAP instruments on productivity growth is poorly understood. Serious environmental problems remain especially in the case of biodiversity and greenhouse gas emissions from agriculture which have started to rise. CAP instruments to tackle them have been rather ineffective, in the case of greening, or underfunded in the case of Pillar 2 measures. Although payments under the CAP have had an impact, rural poverty remains greater than in urban areas and GDP per head lower. Chapter 3 examines the economic and institutional background to the Communication and its drivers. The legislative proposals will be tabled during a period of strong EU economic performance. However, total EU agricultural income is expected to decrease in real terms up to 2030. The Commission's spending plans for the period 2021-2020 include a reduction in CAP spending, with greater cuts targeted on rural development spending. There are strong demands from within the EU for policy simplification and clear demonstration of EU added value.

The public are increasingly demanding that the CAP responds to wider societal needs. In particular, the public now regards the environment as the most important single justification for CAP spending, just ahead of food supply and investment. Other factors which the coming CAP reform must take into account include technological innovation – which can be either beneficial or disruptive. Further bilateral trade agreements can benefit the agri-food sector as a whole but increase competition for vulnerable sectors. Finally the lack of clarity around the future relationship between the UK and the EU27 after Brexit creates significant uncertainty for agricultural policy.

Chapter 4 analyses the extent to which the Communication addresses the challenges identified in the previous sections. As a response to the concerns on the CAP's performance and results, the Communication proposes a new delivery mechanism which would require Member States to plan all CAP spending against EU objectives, including the details of measure design and spending control at farm level.

For the Commission to manage Member States' plans will require a different sort of engagement with them, for which both parties will need to develop their capacity significantly. The Commission will need to ask Member States to put EU objectives ahead of national priorities when appropriate. The time pressure under which plans will need to be agreed will make this challenging to achieve.

A variety of issues will impinge on the efficacy of strategic plans and the results obtained. There is a risk that expenditure will be dominated by direct payments and that targets for improved economic performance will not be set. EU objectives need to be specific and clear enough, with suitable quantifiable indicators available at the start of the planning process. The existence of co-financing for

some measures but not others will make it difficult for Member States to choose objectively between them.

Concerns have been expressed that the new plans offer Member States too much choice and threaten the integrity of the internal market. These concerns could be partially allayed by a requirement for a minimum environmental spend in Pillar 1 and by the right level of governance. Reversing the recent relaxation of restrictions on coupled payments (Omnibus regulation) would also strengthen the internal market.

In Chapter 5 the correspondence between the views of stakeholders and experts and the proposals themselves is summarised. A wide range of stakeholders has commented on the Communication. The new delivery model has attracted the most attention, with Member States and environmental NGOs especially anxious to know how it will work in practice. Many commentators are sceptical of Member States' willingness to deliver EU objectives at the expense of national priorities, and of the Commission's ability to hold underperformance to account. Stakeholders particularly seek more clarity on the proposed targeting methods for direct payments; the details of the new greening architecture; and procedural elements of the proposed CAP plans.

Improvements in human capital through education, research and extension services are needed but the Commission makes few specific proposals. Generational renewal will help but is not enough by itself. Publicly funded research needs to concentrate on areas the private sector will not fund, with the EIP-AGRI becoming more targeted towards work on public goods and with improved knowledge transfer between Member States. More impartial farm advice is needed but the Commission does not say how this might be achieved. Farm advisory services could be expanded to this end. Member States need to tackle poor connectivity in rural areas and devote a larger share of their Pillar 2 funding to research and knowledge sharing.

The recent dairy crisis has shown the inadequacy of the CAP's crisis instrument but the Commission's interest in measures which could reduce vulnerability to risk is welcome.

The proposed use of capping to target direct payments will have little effect if labour costs must be deducted before applying the cap. It is important that the economic objective for CAP planning is not simply defined as a "fairer" distribution of direct payments. Targets are needed for underlying strength and resilience and they need to reflect the risk inherent in continuing dependence on income support. Member States should be left flexibility in how they design the redistributive payment. On simplification grounds, the option to use the SAPS scheme should be continued and offered to the older Member States that currently make use of entitlements.

The Commission has repeatedly said that the new CAP needs to show a higher level of environmental ambition. It regards direct payments as an environmental as well as an economic measure but has provided no detail of the environmental rules which will be attached to them. The future enhanced conditionality needs to deliver a higher level of protection than current greening and cross compliance combined. The 30% greening payment should be replaced by a minimum spend requirement of at least 30% for the proposed new Pillar 1 eco scheme.

The Commission is right to identify Member State policies as the key to generational renewal. The Pillar 1 top-up payment to young farmers is not an effective measure and more emphasis should be put on encouraging the take-up of installation aid in RDPs. Early retirement schemes have had limited effect in the past. Reducing the incentive provided by direct payments to hang onto land could be more effective.

Finally we conclude that genuine strategic planning which focussed all of the CAP's resources on EU level objectives would be a considerable prize. Its realisation will require the Commission to address the incentives facing Member States. For the new system to work, the Commission needs the power to insist that Member States temper national needs to EU priorities in appropriate cases. Peer pressure alongside financial incentives may help to achieve this. It will be important that Member States' plans reflect the strength of the EU's climate ambitions.

As well as political will, urgent capacity building measures such as data gathering, workshops, simulation exercises and guidance are needed. Developing suitable impact indicators is crucial. Indicators for both direct payments and environmental performance will need careful design. We recommend that the Commission should convene a conference with Member States to discuss a new suite of indicators. Discussions between the Commission and Member States' Paying Agencies are also needed to establish how financial assurance will work and the extent to which real simplification for Member States and farmers will be possible.

We make this report to Parliament in the hope that it will contribute to a successful reform.



## 1 INTRODUCTION AND PURPOSE OF THE STUDY

On 29 November 2017 the European Commission published a Communication on *The Future of Food and Farming* in which it set out broad proposals for the coming reform of the Common Agricultural Policy (CAP). Those proposals are far-reaching. They include plans for greater exploitation of the potential of new technological innovations to improve productivity and environmental outcomes, better targeting of direct payments, a new environmental architecture to replace the complexity of the 2013 reforms, and for a new delivery relationship between the Commission and Member States under which Member States will strategically plan all of their CAP spending against EU level objectives.

The Policy Department of the European Parliament has commissioned this study in order to inform MEPs and others about the Commission's Communication and the background against which the current reform of the CAP is taking place. The report was completed before the publication of the Commission's legislative proposals for the CAP post 2020, which are expected to be announced on 1 June 2018. Thus the report is an evaluation of the proposals in the Communication, and was not able to take into account any new information which may become available once the legislative proposals and the accompanying impact assessment are published.

Our report considers the performance of the CAP to date (Chapter 2), the economic and institutional background to the reform as well as the main drivers of the reform (Chapter 3). We then analyse the extent to which the Communication addresses these factors and how any legislative proposals based on it are likely to perform against the three objectives the Commission has identified for the new CAP:

- **To foster a smart and resilient agriculture sector.**
- **To bolster environmental care and climate action and to contribute to the environmental and climate objectives of the EU.**
- **To strengthen the socio-economic fabric of rural areas.**

We analyse the contributions of stakeholders such as Member States, farmers' groups, environmentalists, think tanks and academics to the debate (Chapter 5). This chapter examines their reactions to the ideas the Commission is considering but also looks for other ideas which might usefully be brought into play once proposals are on the table and the legislative process is underway.

Finally, we draw some conclusions and make recommendations (Chapter 6). These are intended to help the co-legislators to chart a course through the reform process which will maximise the impact of the reform.



## 2 PERFORMANCE OF THE CURRENT CAP TO DATE

### SUMMARY OF KEY POINTS

- **Income from farming expressed per labour unit remains below that in other sectors of the economy. As many farming households have income from other sources it is not possible to form a picture of the total income of farming households**
- **There is scope to improve the economic performance of farming. However the links between CAP instruments and such improvement have received little attention and are not well understood**
- **Despite improvements in some agri-environment indicators the EU is still not achieving the goals that it has set. This is particularly true of biodiversity, with steep declines in farmland birds and insects. Moreover, agriculture's greenhouse gas emissions have begun to rise since 2012.**
- **There are CAP instruments to tackle these environmental problems but they have been either rather ineffective (greening) or insufficiently funded (agri-environment climate measures)**
- **A recent World Bank study showing that CAP payments have been positively associated under certain conditions with reductions in rural poverty and increases in employment. Smaller community-based local development schemes are regarded as effective, but remain a marginal part of the policy.**

This chapter assesses the overall performance of the current CAP vis-à-vis its general objectives and sub-themes including viable food production (agricultural income, agricultural productivity and price stability); sustainable management of natural resources and climate action (greenhouse gas emissions, biodiversity, soil and water); and balanced territorial development (rural employment, growth and poverty in rural areas). As a first step the latest trends pertinent to the achievement of these objectives are explored, based on the available data from the Common Monitoring and Evaluation Framework (CMEF) introduced in 2013. Key CAP instruments relevant to meeting the objectives are then considered based on available information.

The last reform introduced a significant degree of flexibility for Member States to adapt different CAP instruments to their national and regional context (Dwyer et al, 2016; Ecorys, IEEP and Wageningen University & Research, 2016; Henke et al, 2017). Whereas Pillar 2 Rural Development Programmes had given Member States the flexibility to tailor interventions towards national or regional circumstances and conditions for some time, the range of new mandatory<sup>1</sup> and voluntary<sup>2</sup> instruments under Pillar 1 can be considered a significant change, especially in the discretion available to Member States. While the EU is now beginning to debate the future direction of CAP reform, there is still very limited data available under the CMEF (e.g. output, impact, results indicators) to track the success of these new and existing instruments in meeting the CAP objectives for the programming period 2014-2020. Therefore,

<sup>1</sup> Mandatory Pillar 1 instruments include a basic payment, greening payment and young farmers' payment.

<sup>2</sup> Voluntary Pillar 1 instruments include a redistributive payment, payments for areas with natural constraints, voluntary coupled payments (VCS), and a small farmers' scheme.



in addition to exploring a number of key context indicators relevant to each objective, we also consider available reports, studies and evaluations.

## 2.1. Viable food production

The present CAP's first objective is viable food production with a focus on agricultural incomes, agricultural productivity and price stability.

**Agricultural Income:** Two indicators in the CMEF measure the CAP's contribution to viable farm income. The first is the trend in agricultural factor income per Agricultural Work Unit<sup>3</sup> (AWU) over time. This measures the remuneration of all factors of production (land, capital, labour), and allows comparisons between different types of farm. The second is a comparison of agricultural entrepreneurial income (the income accruing to family-owned factors of production) per unpaid AWU with gross wages and salaries in the economy as a whole.

The CAP Communication presents data showing the gap between agricultural entrepreneurial income per AWU and average gross wages and salaries in the total economy for each Member State for the period 2011-2013, distinguishing between CAP support and market income (as a residual) in agricultural entrepreneurial income. These data need careful interpretation. They are best understood as indicating the wide differences in labour productivity between large sections of agriculture and the rest of the economy. They are not an indicator of the need for income support because they do not take into account the total household income of farm and non-farm families. A comparison between the incomes of farming households and other households would need to take account of the fact that farming is often a part time activity, with many farmers having other sources of income. Nevertheless the fact that on many farms the level of farming activity is likely to be less well remunerated than other jobs is significant in highlighting the continuing problems of low productivity. Average productivity figures hide a wide range of variation, with many well-structured farms run by highly skilled farmers yielding a similar income from labour input as is obtainable in other sectors.

Agricultural factor income in real terms has fluctuated within the range €140-150 billion since 2005, with a dip in 2009, and reached a record level of €159 billion in 2017 (preliminary figure) (DG AGRI 2018a). Improvements in agricultural income per worker of 3% per year have been achieved via labour shedding rather than increases in technical performance in most Member States. Farm incomes in EU-15 Member States are more than four times higher than those in the EU-13 on average, although this gap has narrowed since 2013.

**Agricultural productivity:** Total factor productivity (TFP)<sup>4</sup> is also a key measure of the economic performance of agriculture as well as an important driver of farm incomes. It indicates how efficiently the agricultural sector uses the resources available to it to turn inputs into outputs. Productivity in the EU has increased over time, albeit at a slower rate in recent years than in the past.

Labour productivity growth has contributed most to productivity gains, with newer EU Member States having experienced faster TFP growth from a lower base on average so reducing productivity differences between countries. However, what is even more striking is the significant differences between individual countries. Over the period 2006-2016, four countries (Latvia, Lithuania, Belgium and Poland) experienced annual average TFP growth greater than 2.4%, another 11 Member States showed changes between 2% and 1% and 10 - had positive annual TFP growth less of than 1%. Three Member States

<sup>3</sup> An AWU is a full-time equivalent agricultural worker.

<sup>4</sup> CAP Context Indicator C.27 total factor productivity (2016), 2017 update.

(Malta, Germany and Denmark) had negative TFP growth over this period. While there are statistical challenges in deriving these numbers, the overall message is that much could be done to improve the productivity performance of EU agriculture and its contribution to farm incomes.

Agricultural productivity should be seen in the wider context of farmers' position in the food chain. Recent data suggest that the share of value added accruing to agriculture in the whole food chain has remained around 25% in recent years (DG AGRI, 2017b). There is a tendency for farmers' share to decline slowly, reflecting the increasing consumer demand for convenience products, including the food service sector (food eaten outside the home). As a result, the processing and retail stages have added additional features and services to the basic agricultural product and total value added in the food chain has expanded. The value added of agriculture has not increased to the same extent as that of other food chain actors.

**Price Stability:** Despite its obvious political interest, there is no recent formal study that documents changes in EU producer price volatility for agricultural commodities over time. Nor are the result indicators in the CMEF of much help (they refer to the ratio of the volume of product exported with export refunds to total EU production in a period, the ratio of the volume of product bought into public storage to total EU production, and the ratio of the volume of product bought into private storage to total EU production, respectively). Nonetheless, there is a widespread perception, supported by some evidence (Matthews 2010), that producer price variability in the EU has been increasing. This is generally attributed to the gradual opening up of EU markets to world market price signals as a result of successive CAP reforms, the abolition of export subsidies, and the tariffication of import barriers as a result of the Uruguay Round Agreement on Agriculture (Assefa, Meuwissen, and Oude Lansink 2013).

For farmers, it is not so much price variability per se but rather the experience of price drops which drives concern. Since the agreement on the last CAP reform, farmers experienced price drops on specific markets due to the Russian ban on imports of certain EU agrifood products (fruits, vegetables, pigmeat, dairy products) and also for milk prices in 2015-2016 (due mainly to the aggressive supply response to the very high producer milk prices in 2013 combined with the removal of milk quotas in April 2015). More generally, agricultural markets show high price variability because of low supply and demand elasticities and the relatively unorganised position of producers in the food supply chain.

**CAP performance:** In the CAP intervention logic in the current programming period, the objective of **enhanced farm income** is addressed mainly through direct payments. Improved competitiveness is addressed partly through Pillar 1 direct payments (particularly, the Young Farmer Scheme top-up) and Pillar 1 Common Market Organisation (CMO) expenditure (especially producer organisations and promotion policy) but mainly through Priority 2 in Pillar 2 rural development programming aiming at increasing the competitiveness of all types of agriculture and farm viability. In turn, this Priority is divided into two focus areas (FAs): **improving the economic performance** of all farms and facilitating farm restructuring and modernisation notably with a view to increase market participation and orientation, as well as agricultural diversification (FA2A); and facilitating entry of adequately skilled farmers into the agricultural sector and in particular **generational renewal** (FA2B). Finally, **price stability** is addressed through the market measures in the CMO while support for coping with the consequences of price instability (and particularly price troughs) is provided through the crisis reserve mechanism and the risk management measures in Pillar 2.

EU producers are highly dependent on public support (e.g. direct payments, rural development). DG AGRI estimates that the EU average share of direct payments in agricultural factor income in 2011-2015 stood at 27%. However, there are considerable differences between Member States, ranging from 15%

or less in Croatia, Cyprus, Malta and the Netherlands to more than 40% in the Czech Republic, Ireland, Luxembourg, Slovakia and Sweden. There are also significant differences in the importance of support across different farm enterprises. Direct payments are relatively unimportant in the horticultural, wine and pig and poultry sectors, but in some regions can account for the total income from farming for grazing livestock and cereals production. Taking all supports into account, total public support in agricultural income reached 38% of agricultural income on average in the EU during this period.<sup>5</sup> Whether this high dependence of EU farm incomes on direct payments should be taken as a sign of the success of the CAP policy or as a criticism of its lack of success can be debated.

An aspect of direct payments which has attracted criticism – including from the Commission in its Communication – is the way they are distributed between beneficiaries. The data demonstrates that 20% of the beneficiaries receive 80% of the payments (DG AGRI, 2017b). These payments also tend to be highly concentrated amongst beneficiaries with higher farm incomes. Given that direct payments are based on the number of hectares it is unsurprising that they are focused on farmers with more land on which to produce farm income.

The data on total factor productivity, notwithstanding the statistical difficulties in constructing this index, suggest that the CAP has not enabled significant recent productivity gains. Arguments can be made that direct payments have both positive and negative effects on productivity; the lack of functioning farm advisory services may hinder the dissemination and uptake of innovations; there is consumer resistance to certain types of new technologies. The measurement of outputs and inputs may be incomplete, particularly with respect to non-market externalities, so the calculated TFP measure may be misleading.

The age distribution in agriculture remains skewed towards older age groups. In 2013, only around 6% of farm managers were less than 35 years of age, while 56% were 55 years and older.<sup>6</sup> This is not a new phenomenon. It reflects the fact that the farm is also a farmer's home and, particularly for those without successors, they may continue to live there and carry on farm work. It is also the inevitable consequence of the falling numbers engaged in agriculture and thus a lower number of younger entrants compared to older exits. Over time, the age distribution has shifted further towards the older age groups. This trend is not specific to agriculture but reflects general demographic trends in Europe, the fact that younger people are staying longer in education, and that older people are remaining longer in the workforce due to improved health and rising longevity.

There are considerable differences in the extent of the problem between Member States. Using the ratio of older (65 years and above) to younger (less than 35 years of age) farmers as an indicator of the problem of generational renewal, the average value of the ratio for the EU-28 countries is 5.2 (there are 5.2 older farmers for every younger farmer). However, in Cyprus and Portugal, this ratio is 24.0 and 20.3, respectively. On the other end of the scale, the ratio is as low as 0.8 in Austria and Poland, 1.0 in Germany and 1.2 in Finland. The differences between Member States reflect general demographic differences and the significance of emigration in some instances, differences in farm structures, differences in cultural attitudes in the way farm succession is managed, but also differences in national policies with respect to inheritance, taxation and pension entitlements.

Finally, the performance of the CAP with respect to price stability remains controversial. Direct payments contribute to the stability of farm income. However, the innovation of the crisis reserve in the 2013 CAP

<sup>5</sup> [https://ec.europa.eu/agriculture/sites/agriculture/files/cap-post-2013/graphs/graph5\\_en.pdf](https://ec.europa.eu/agriculture/sites/agriculture/files/cap-post-2013/graphs/graph5_en.pdf)

<sup>6</sup> Preliminary figures from the 2016 Farm Structures Survey have been released by Eurostat but the numbers may undergo revision and data is not yet available for all countries.

reform has remained unused. Both the strengths and weaknesses of safety net intervention have been evident during the trough in milk prices in 2015-2016. When skimmed milk powder (SMP) prices fell below the safety net level and intervention purchases began, these purchases supported the market price. However, because trends in butter and SMP prices subsequently diverged, SMP purchases continued even though milk producer prices had significantly recovered. SMP stocks reached 372,000 tonnes in March 2018. The lack of clarity about what will happen to these stocks is putting pressure on the price of SMP and hindering its recovery (Jongeneel et al. 2018). The lesson is that intervention as an instrument of price stabilisation can be a double-edged sword.

## 2.2 Sustainable management of natural resources

The present CAP's second objective is sustainable management of natural resources and climate action, with a focus on greenhouse gas emissions, biodiversity, soil and water.

**Greenhouse gas emissions:** The farming sector accounted for 9.8%<sup>7</sup> of the EU's greenhouse gas (GHG) emissions in 2015. Emissions from agriculture vary considerably across Member States both in absolute (i.e. MtCO<sub>2</sub>e) and relative terms (i.e. proportion of national GHG emissions). In absolute terms, agricultural GHG emissions in 2015 were the highest in France, Germany, and the United Kingdom accounting for around 44% of total EU-28 agriculture emissions. As a proportion of national GHG emissions the agricultural share is highest in Ireland (38.4%) and lowest in Malta (3%).

From 1990-2005 agriculture non-CO<sub>2</sub> GHG emissions fell (mainly due to reductions in livestock numbers and fertilizer use). Although total emissions from EU agriculture are still below their 2005 levels, they have risen since 2012 as a result of higher enteric and soils emissions (Eurostat, 2017).

**Biodiversity:** Biodiversity has declined to a much greater extent on farmland than elsewhere since 1990. The index of farmland birds<sup>8</sup>, as the main indicator of farmland based habitats, fell by 30% between 1990 and 2015 whilst much smaller declines were observed in those for forest bird populations and for birds as a whole. Although these downward trends seem to have slowed down recently compared to the period of 1990-2000, rates vary considerably amongst Member States, with Austria, Belgium and Netherlands and witnessing annual average declines of more than 3% between 2000 and 2013, while Estonia and Latvia were the Member States to record increases. Protected habitats associated with agriculture are also at risk with only 12% of natural and semi-natural grassland in favourable condition according to assessments made by Member States. Significant improvements in the conservation status of grasslands between 2000-2006 and 2007-2012 have been found in Malta, Cyprus, Spain and the Czech Republic, while Germany, Italy, Latvia and Portugal witnessed substantial declines of the share of habitats assessed as "favourable"<sup>9</sup>. The above trends, together with the main findings of the mid-term review of the EU Biodiversity Strategy point out a continuous decline of farmland biodiversity (European Commission, 2015).

**Soil:** Increasing soil organic carbon (SOC) is important for soil health and fertility and helps to mitigate climate change by storing CO<sub>2</sub> in the soil which otherwise is released into the atmosphere. The most recent data (2012) shows the total organic carbon of arable land<sup>10</sup> in the EU-27 amounted to 14,017 megatons. This is largely concentrated in the EU-15, based on a mean value of 75.7 g per kg. This ranges

<sup>7</sup> CAP context indicator C.45 emissions from agriculture (2015), 2017 update.

<sup>8</sup> CAP context indicator C.35 farmland birds index, 2017 update.

<sup>9</sup> CAP context indicator, C.36 conservation status of agricultural grasslands, 2017 update.

<sup>10</sup> CAP context indicator C.41 Soil organic matter in arable land (2012), 2017 update.

from 14.4 g per kg in Spain to 84.9 g per kg in Ireland. Grassland is the land use with the highest organic carbon content in the majority of Member States. The latest figures for erosion of soil by water<sup>11</sup> show a loss of 2.4 tonnes/hectare/year which is well above the long term trend since 2000 of 0.3 tonnes/hectare/year. Erosion is greater in the EU-15 and in Southern Member States than in the EU-13. Southern Member States, including Italy, Greece, Malta and Spain, are especially affected, while low levels of water related soil degradation are registered in Denmark, Estonia, Latvia, Lithuania, the Netherlands, Poland, Finland and Sweden<sup>12</sup>. Considering the longer term trends, there has been a moderate decrease at EU-28 level between 2000 and 2012 (-0.31 tonnes/hectare/year) with no major difference between the EU-15 and the EU-13.

**Water:** Indicators relating to water quality focus on nutrient load (specifically nitrogen and phosphorus) and pesticide contamination. Although the average concentration of nitrate in EU water bodies is below that mandated by the Water Framework Directive (WFD), many rivers in particular are in intermediate or poor state. Water quality is affected by nutrients from fertilisers and livestock. Indicators for nitrogen and phosphorus surplus<sup>13</sup> show the difference between the fertiliser used and that needed by the crops actually grown and thus the amount that can potentially lead to pollution of water bodies. The Commission recently reported (European Commission, 2018) that both nitrogen and phosphate balance slightly increased at EU-28 level from 31.8 to 32.5kg N/ha/year and from 1.8 to 2.0 kg P/ha/year respectively. The Commission concluded that there were more potential losses to the environment than in the previous period. Member States with a high share of rivers or water bodies in a poor or intermediate state include Belgium, Luxemburg, the Netherlands, Denmark and Poland. Longer term trends suggest that nitrate concentration in rivers has been decreasing, while in groundwater it has remained relatively stable across the countries with available data.

**CAP performance:** Both statutory measures requirements (SMRs) and good agricultural and environmental condition (GAEC) standards, under cross compliance, have been found to have a positive impact on climate, biodiversity soil and water (DG Agri, 2017a; Posthumus et al, 2011) For example, modeling studies suggest that the application of relevant GAEC standards (e.g. reduced tillage or soil coverage) can decrease the loss of soil on arable land by approximately 10% in the EU, with SOC increasing at different rates depending on the hectares covered and the agroecosystem conditions (Borrelli et al, 2016; Panagos et al, 2015). However, there are some gaps. Avoiding CO<sub>2</sub> emissions by improving peat soil conservation could be better covered under cross compliance (Peters and von Unger 2017), while key pieces of EU legislation such as the Sustainable Pesticide Use Directive and Water Framework Directive do not come under cross compliance. At the same time, referring specifically to water pollution, a recent European Court of Auditors report points to the fact that the “polluter pays” principle is still not implemented in practice as penalties may lead to a reduction in CAP payments, but there is no liability for damage done (European Court of Auditors, 2014).

The CAP post-2013 reform introduced a greening component representing 30% of the Pillar 1 budget. Although it is relatively early to determine its impact, ex ante and ex post evaluations suggest that it will have limited impact on the climate or the environment as measures generally do not lead to substantial changes in farming practices due to the high flexibility given to Member States, unambitious implementation, exemptions and limited coverage (Alliance Environnement and Thünen-Institut, 2017). The European Court of Auditors (ECA) has also pointed to the significant deadweight effects as the main

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<sup>11</sup> CAP context indicator C.42 Soil erosion by water (2012), 2017 update.

<sup>12</sup> Based on average national values.

<sup>13</sup> CAP context indicator C.40 Water quality (2012), 2017 update.

reasons why greening will deliver only few climate and environmental benefits. (European Court of Auditors, 2017c).

Agri-environmental measures (AECM) have the greatest impact on the sustainable management of natural resources. AECM, for example, have helped to enhance farmland biodiversity at local level, often leading to an increased number of species (Batáry et al, 2015). Many of the most effective schemes are those targeted at specific landscapes or regions, promoting low intensity, low-input farming, and adapting specific management needs to local conditions (Kleijn et al, 2011).

Other Pillar 2 measures such as organic farming, productive and non-productive investments and forestry supported by knowledge transfer and cooperation are the most relevant measures to support environmental and climate action (Ecorys, IEEP and Wageningen University & Research, 2016). At the same time there are concerns that the application of these and the AECM currently are not sufficient to achieve a beneficial reverse of overall trends, the majority of spending being focussed on entry-level rather than more complex but more beneficial high-level schemes. (EEA, 2015; European Court of Auditors, 2011).

Official evaluations carried out for DG AGRI have drawn attention to the fact that cross-compliance, greening and the AECM do not always work together in a synergistic way. (Ecorys, IEEP and Wageningen University & Research, 2016).

## 2.3. Territorial balance

The present CAP's third objective is territorial balance, with a focus on rural employment, growth and poverty in rural areas.

### 2.3.1 Rural employment, growth and poverty

**Rural employment:** Employment trends in rural areas generally follow trends in other areas. The employment rate dropped by around 2% between 2008 and 2009, while urbanised areas (i.e. towns and suburbs as well as cities) registered a lower decline. Since 2010 employment rates recovered from the crisis in all areas at the EU-28 level, but similarly to the pre-crisis period, substantial differences remain between rural and urban regions with generally higher rates in urban regions, although this gap has begun to narrow in 2012. In 2016, the EU-28 unemployment rate in rural areas was 8.3 %, which was somewhat lower than the rate in cities (9.0 %).<sup>14</sup>

At the same time dependence on the agriculture, forestry and fisheries sector in rural areas is very variable between Member States with employment in the primary sector decreasing in all countries apart from Ireland and Spain, where increases have been less than 1 %.

**Growth:** GDP per capita in Purchasing Power Standards (PPS) is one of the indicators used to measure and assess economic growth. In 2016, GDP<sup>15</sup> in PPS per capita amounted, on average, to EUR 29,100 in the EU-28, which represents an 18.8% increase since 2009. As a general trend, rural regions have the lowest GDP per capita levels (i.e. 72.9% of the EU-28 average over the period of 2012-2014), especially in the EU-13. Rural regions recorded faster growth in GDP terms than intermediate or urban ones during

<sup>14</sup> CAP context indicator C.97 unemployment (2016, 2017 update).

<sup>15</sup> CAP context indicator C.8 GDP per capita (2016), 2017 update.

the programming period 2007-14, with the strongest growth in the EU-13, central (Austria, Germany) and Northern (Denmark, Finland, Sweden) Member States .

**Poverty:** 25.5% of EU residents in rural areas in 2016 remained at risk of poverty<sup>16</sup> or exclusion (which is two percent higher than average). There are very large differences between Member States with rural poverty over 50% in parts of Bulgaria, Romania and Malta. However, between 2007 and 2016, the percentage of total population at risk of poverty decreased in rural areas, whereas it increased in cities, towns and suburbs. There are various drivers of rural poverty and social exclusion, including, for example, unfavourable demographics, limited access to education, fewer job opportunities, insufficient infrastructure as well as access to basic services, which remains limited in many regions (Augère-Granier, 2017).

**CAP performance.** In the current CAP intervention logic, balanced territorial development should be achieved due to interventions under both Pillars. Pillar 1 direct payments help to maintain agricultural diversity, specifically through the option to make additional payments to farms in Areas of Natural Constraints but more generally by providing income support for farms. In the Rural Development Programmes financed by Pillar 2, there is a specific priority (Priority 6) to pursue social inclusion, poverty reduction and economic development in rural areas with three focus areas and associated target indicators. These are: facilitating diversification, creation of new small enterprises and job creation outside of LEADER; fostering local development in rural areas through LEADER; and enhancing accessibility to use and quality of information and communication technologies (ICT) in rural areas. Preliminary result indicators for these interventions will not be available until later this year.

The budget for Priority 6 amounts to €15.4 billion which is around 15% of the total RDP budget. Community-led local development (CLLD) through LEADER is considered by Member States to be the most relevant for social aspects of poverty, while rural employment, growth and poverty concerns varies significantly between States in budgetary terms. Furthermore other policy instruments such as the European Social Fund (ESF) and the Fund for European Aid to the Most Deprived (FEAD), have a budget of around €20 billion. Both address poverty but not necessarily specifically reflecting on its rural dimensions, and can support the promotion of social inclusion and the fight against poverty in EU Member States (Augère-Granier, 2017).

A recent World Bank report on supporting agricultural jobs and incomes in the EU concluded that the CAP was associated with the reduction of poverty and the creation of better jobs for farmers across the EU (World Bank 2017). In about one half of Member States (what the World Bank calls 'successful transformers'), agriculture is now a key sector for shared prosperity in rural areas, agriculture is no longer associated with poverty in these countries and agricultural labour productivity is converging to levels comparable with other sectors of the economy. In the remaining Member States ('incomplete transformers'), agriculture still maintains its association with poverty. This may be because a country is just at the start of the agricultural transformation process, or because it started but for some reason became 'stuck', or because its agricultural structure is characterised by a dualism between successful and less successful farming. The study finds that there is a mix of older and newer Member States in both categories.

The World Bank report finds that "Improvements in agricultural productivity and employment go hand in hand, supported by the CAP". Specifically, it finds that the decoupled payments of Pillar I and the Pillar II payments have a positive impact on agricultural productivity growth, but not the coupled payments. Decoupled payments are also associated with a reduction in the outflow of labour: higher

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<sup>16</sup> CAP context indicator C.9 poverty rate (2016), 2017 update.

productivity sustains better jobs in agriculture. It thus rejects the view that there is a trade-off between agricultural employment and supporting increases in agricultural productivity. The report argues that the CAP seems to be effective in increasing farmers' investments in productivity by reducing farmers' incomes exposure to risk and relieving certain credit constraints. It also concludes that the CAP is associated with poverty reduction and a decrease in inequality at the regional (subnational) levels, though with subtle differences in the magnitude of these effects depending on whether a country is a successful or incomplete transformer.





### 3 THE ECONOMIC AND INSTITUTIONAL CONTEXT AND MAIN DRIVERS OF REFORM

#### SUMMARY OF KEY POINTS

- **The CAP legislative proposals will be tabled during a period of strong EU economic performance. However, the DG AGRI market outlook forecasts project that total EU agricultural income will decrease in real terms up to 2030.**
- **Technological innovations can contribute to improving resource efficiency and “climate-smart” agriculture, but some innovations, such as cellular and plant-based meat, also have the potential to lead to market disruption.**
- **The EU is pursuing an ambitious agenda of bilateral free trade agreements. While these have the potential overall to benefit the agri-food sector, they will also increase import competition for specific vulnerable sectors.**
- **The lack of clarity around the future relationship between the UK and the EU27 after Brexit creates significant uncertainty for the future of EU agricultural policy.**
- **The future CAP will be expected to contribute to meeting the EU’s international commitments, including the UN Sustainable Development Agenda, the Paris Agreement on climate change and the Convention on Biological Diversity.**
- **The future CAP must also play a role in helping to meet domestic EU challenges and goals as set out in Commission President Juncker’s ten political priorities.**
- **The Commission MFF proposal for the period 2021-2020 indicates a reduction in CAP spending in nominal and real terms, with greater cuts targeted on rural development spending.**
- **The public are increasingly demanding that the CAP respond to wider societal needs. In particular, the public now regard the environment as the most important single justification for CAP spending, just ahead of food supply and investment**
- **The CAP must respond to EU-wide demands for simplification and for budgets which demonstrate EU-added value.**

This chapter sketches the key economic and institutional parameters that set the background conditions for the forthcoming CAP reform. They include the primary economic challenges facing the EU’s agriculture sector, the relevant international environment, and the budgetary context. It also discusses some of the main drivers of the upcoming reform.

The Communication builds on a number of other recent policy initiatives. The Omnibus Agricultural Provisions Regulation (EU) 2393/2017 which came into effect on 1 January 2018 has already modified various aspects of the basic CAP regulations agreed in 2013.<sup>17</sup> In September 2016 the European

<sup>17</sup> Important changes were made to provide stronger support for farmers in the food chain; to simplify the use of risk management tools; to clarify the rules regarding intervention in markets; to allow greater flexibility to Member States to provide voluntary coupled support to specific sectors of economic, social or environmental importance even where these

Conference on Rural Development organised by the Commission produced the *Cork 2.0 Declaration on a Better Life in Rural Areas* which discussed current and future challenges of farming and rural areas, as well as potential policy responses (Cork 2.0 Declaration 2016). The Commission proposed new legislation in April 2018 on unfair trading practices with the aim of improving farmers' and small and medium sized businesses position in the food supply chain.<sup>18</sup> The Commissioner has also announced his intention to bring forward work on a protein strategy for Europe,<sup>19</sup> an issue on which the Parliament is preparing to give its Opinion.<sup>20</sup> The proposals in the Communication should also be evaluated in the context of these ongoing initiatives.

### 3.1. Economic and institutional context

**Price and income developments.** The EU is currently experiencing a relatively benign economic environment, although there are many downside risks. The European economy has made the transition from recovery to economic expansion, with robust growth in 2017 expected to continue in 2018 and 2019. Unemployment has been falling, although it remains above the pre-crisis rate. Inflation is expected to remain subdued and well below the 2% target of the European Central Bank (DG ECOFIN 2018). The risks to this improved economic outlook include the threat of a slowdown in global trade due to greater resort to protectionist measures in major economies, political instability, bank weaknesses and, in the medium term, unfavourable productivity and demographic trends. A more buoyant EU economy will support consumers' purchasing power for agrifood products, but will also improve the relative attractiveness of employment opportunities in the non-farm sector.

The latest OECD/FAO medium-term outlook for global agricultural markets underlines that, in the coming decade, global demand growth for agricultural commodities is expected to slow considerably (OECD/FAO 2017). The two primary sources of growth in the previous decade – rising demand for meat, fish and dairy products in China leading to rapid growth in feed consumption, and growing use of feedstocks in the global biofuel sector – are not expected to support markets in the same way in the coming decade. No other sources to replace them are foreseen. Diets will continue to evolve in the direction of higher value commodities – sugar and oils as well as meat, fish and dairy products. Given expected supply and demand conditions, real prices for most agricultural commodities are expected to follow a slightly declining trend, although there can be considerable volatility around this trend. The DG AGRI market outlook is somewhat more optimistic, projecting increased prices for cereals and milk, but roughly stable prices for meats in nominal terms (European Commission 2017). Per capita meat consumption in the EU-N13 is expected to continue to grow, but consumption in the EU-15 is slowly decreasing due to growing social and health concerns and an ageing European population.

Projections by DG AGRI in its most recent market outlook 2017-2030 show that total EU agricultural income is expected to decrease considerably in real terms over the outlook period. Real income per labour unit is expected to increase at the beginning of the outlook period, and to stabilise thereafter (current subsidies to farmers are assumed to apply throughout the outlook period), due to continued structural change and the numbers of people leaving agriculture. The fall in real sectoral income is due

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sectors are not in crisis; to give greater flexibility in the definition of active farmers and stronger incentives for young farmers; as well as modifying the rules on crop diversification and ecological focus areas.

<sup>18</sup> European Commission, 'Unfair trading practices in the food chain', available at [https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/market-measures/unfair-trading-practices-food-chain\\_en](https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/market-measures/unfair-trading-practices-food-chain_en)

<sup>19</sup> Hogan, P., 2017, "At @FEFAC\_EU annual conference today, I've announced my intention to bring forward work on a Protein Strategy for Europe", 8 June, available at <https://twitter.com/PhilHoganEU/status/872735055302598656>

<sup>20</sup> European Parliament Own-initiative procedure, *European strategy for the promotion of protein crops - Encouraging the production of protein and leguminous plants in the European agriculture sector*, 2017/2116(INI).

to a stronger increase in intermediate costs compared to the value of production. This is due to a recovery in energy prices after the trough in prices in 2015-2016 (European Commission 2017).

**Technological developments.** Agricultural production practices have radically changed in recent decades due to the introduction of various biological and mechanical innovations. Technical change and innovation will continue to be a profound factor shaping the future of EU agriculture in the coming period. Innovations can make possible big leaps in resource efficiency as well as enhancing environment and climate-smart agriculture. At the same time, some of these technologies have the potential to disrupt agricultural markets (e.g. developments in cellular and plant-based meats) or to create trade-offs. Consumer acceptance – and acceptance by society in general - of some of the new technologies is a further factor of uncertainty.

**Trade agreements.** There has been significant growth of EU agri-food exports over the past decade. Since 2010 the EU agri-food trade balance has been slightly positive.<sup>21</sup> This was a period of considerable growth in global agricultural trade. The value of world exports of agricultural products increased by 70% between 2006 and 2016 (WTO, 2017). Recent announcements on trade policy by the United States, in particular, suggest that the prospects for world trade are more uncertain now than at any time in the recent past. The multilateral trade regime faces severe challenges. The last WTO Ministerial Council in Buenos Aires in December 2017 underlined the paralysis in the rule-making and negotiating functions of that body. Further multilateral disciplines on bound tariffs and domestic support ceilings in agriculture are unlikely to emerge in the near future.

The EU has responded to the stasis in the multilateral negotiations by seeking to conclude deep and ambitious bilateral free trade agreements (FTAs) with a wide range of trade partners, including some that are competitive agricultural exporters (DG TRADE, 2015). Draft negotiating mandates for trade negotiations with Australia and New Zealand have been published by the Commission although still to be approved by the Council. Ex post analysis of some previous FTA agreements shows that they have helped to boost agri-food exports and to support jobs in the agri-food sector (Copenhagen Economics, 2017). However, a Joint Research Centre study of the cumulative impact of existing and prospective agreements showed more mixed results. While opportunities were identified for some sectors (including dairy and pigmeat), vulnerabilities were identified for beef and rice (Boulanger et al, 2016)). Implementation of these agreements will be rolled out over time, and many of the impacts will first occur post 2020. To ensure that the benefits of trade agreements are more evenly distributed, the Commission intends to propose a reform of the European Globalisation Adjustment Fund. It has also suggested that the European Structural and Investment Funds (ESIF) could be used to react more effectively to trade adjustments and technological change.

**Brexit.** The UK notified its intention to withdraw from the EU on 29 March 2017 (Brexit) with effect from 29 March 2019. It has indicated that it does not wish to be in a customs union nor a member of the EU single market in the longer-term. Negotiations on a Withdrawal Agreement under the terms of Article 50 TEU led to provisional agreement between negotiators on substantial parts of the text dealing with separation issues and a transition period until 31 December 2020 in March 2018 (European Union and UK Government, 2017). Following this agreement, the European Council approved guidelines to start negotiations on the framework of future relations which will be attached as a political declaration to the Withdrawal Agreement. Significant issues in these negotiations remain to be resolved. Even if a

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<sup>21</sup> For details of EU agri-food trade see DG AGRI 'Trade statistics', available at [https://ec.europa.eu/agriculture/trade-analysis/statistics\\_en](https://ec.europa.eu/agriculture/trade-analysis/statistics_en)

Withdrawal Agreement is reached, it must be ratified by both parties (UK and the EU) according to their respective legislative procedures.

The immediate consequence of Brexit is seen in the Commission's MFF proposal of 2 May 2018 where it is estimated that the departure of the UK will leave an annual €12 billion gap in the EU budget post-2020. While trade will not be affected during the transition period if the Withdrawal Agreement is ratified, the exact nature of the future trade relationship with the UK remains unclear at the time of writing. The European Council has called for "a balanced, ambitious and wide-ranging free trade agreement (FTA) insofar as there are sufficient guarantees for a level playing field" (European Council, 2017). It aims to cover all sectors and to maintain zero tariffs and no quantitative restrictions with appropriate accompanying rules of origin. The likely consequences for EU agricultural markets will depend on the outcome of these negotiations, which will be finalised and concluded once the UK is no longer a Member State, as well as on future UK agricultural and trade policy which will influence the future degree of competition on the UK market for EU exports. The lack of clarity around the EU's future relationship with the UK is a major source of both political and economic uncertainty affecting future EU agricultural policy.

**International commitments.** The EU has played a leading role in the process that concluded with the adoption of the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals (SDGs) in September 2015. It is now determined to take the lead in its implementation. The Council Conclusions on the EU response to the SDGs emphasised that sustainable development should be an essential guiding principle for all EU policies. It invited the Commission to conduct impact assessments as regards the mainstreaming of the 2030 Agenda and its SDGs as guiding principles in upcoming reviews of major and horizontal policy instruments, tools and strategies, and to define a clear process for consideration of the SDGs and their integration in post-2020 policies (Council of the European Union, 2017).

Many of the SDGs have a direct relevance to agriculture. SDG 2 commits to end hunger, achieve food security and improved nutrition and promote sustainable agriculture. SDG 3 seeks to ensure healthy lives and promote well-being for all at all ages, in part by substantially reducing the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination. SDG 6 highlights the importance of ensuring the availability and sustainable management of water and sanitation for all. SDG 12 commits to ensuring sustainable consumption and production patterns by 2030, including sustainable management and efficient use of natural resources as well as halving global food waste and reducing food losses. SDG 13 undertakes to take urgent action to combat climate change and its impacts, including strengthening resilience and adaptive capacity to climate-related hazards and natural disasters as well as integrating climate change measures into national policies and strategies. SDG 15 calls for urgent and significant action to reduce the degradation of natural habitats and halt the loss of biodiversity. The future CAP will be expected to address and contribute to each of these individual Goals.

Some of these Goals are also covered in more specific commitments under other international agreements. The EU has undertaken commitments under the COP21 Paris Agreement to reduce its greenhouse gas emissions that contribute to climate change. The EU's contribution to the Paris Agreement is set out in the targets included in the 2030 Climate and Energy framework. The farming sector will have to contribute to the economy-wide emission reduction target of -40% by 2030 and also to the EU adaptation strategy. The European Union is also a Party to the United Nations Convention on Biological Diversity (CBD) of 1992, which seeks to ensure the conservation and sustainable use of biodiversity on the planet. In 2010, the CBD adopted a 10-year Strategic Plan to combat biodiversity loss

in the world, as well as 20 concrete targets (the Aichi targets) in order to achieve this overall objective. These commitments are reflected in the EU Biodiversity Strategy (Haughton et al, 2001). For agriculture, the objective is set that by 2020 there should be a measurable improvement, compared to the EU2010 baseline, in the conservation of species and habitats depending on or affected by agriculture and forestry, and in the provision of their ecosystem services.

**Relevant domestic commitments.** The future CAP will also be expected to contribute to realising the Juncker priorities in full coherence with other policies. Ten priorities were set by Commission President Juncker in his political guidelines for the current European Commission presented to the European Parliament in October 2014. Of particular importance for future agricultural policy are the jobs, growth and investment agenda, exploiting the potential for a digital connected market, a forward-looking climate change policy, reasonable and balanced free trade agreements<sup>22</sup>, and a new policy on migration.

**Budgetary pressures and the future Multi-annual Financial Framework (MFF).** The Commission published its proposal for the next MFF to cover the period 2021-2027 on 2 May 2018. It proposed a long-term budget of €1,135 billion in commitments (expressed in 2018 prices) over the period from 2021 to 2027, equivalent to 1.11% of the EU27's gross national income (GNI). The MFF proposal has been drawn up in the light of the gap left by the UK's departure from the EU, as well as the expressed desire to increase spending on specific priorities, including migration, research, security and defence. To reconcile these conflicting demands, the budget proposes to reduce expenditure on the two big expenditure headings in the budget – cohesion policy and the CAP – as well as proposing an increase in Member States' gross contributions to the budget from around 1.0% to 1.11% of GNI annually. The proposed budget for the CAP, in both current and constant price terms, is shown in Table 1.

**Table 1: Proposed agricultural spending in the MFF 2021-2027, € million**

	2021	2022	2023	2024	2025	2026	2027	Total
<i>Current prices</i>								
EAGF	40,300	40,527	40,791	40,931	41,072	41,214	41,357	286,195
EAFRD	11,259	11,259	11,259	11,259	11,259	11,259	11,259	78,811
<i>Constant 2018 prices</i>								
EAGF	37,976	37,441	36,946	36,346	35,756	35,176	34,606	254,247
EAFRD	10,609	10,401	10,197	9,997	9,801	9,609	9,421	70,037

Source: (COM(2018)98)

The Commission's MFF proposal states that the reformed CAP will place a greater emphasis on the environment and climate and will support the transition towards a more sustainable agricultural sector and the development of vibrant rural areas. It continues by adding that direct payment levels per hectare between Member States will be streamlined and better targeted. They will continue to converge towards the EU average. A new crisis reserve will be created to address crises generated by unforeseeable developments in international markets or by specific shocks to the agricultural sector as a result of the actions of non-EU countries.

It is not straightforward to compare the proposed MFF spending on the CAP in the coming MFF period with CAP spending in the current MFF period because of the need to take into account inflation, the modulation of funds between Pillars undertaken by Member States, as well as the departure of the

<sup>22</sup> While President Juncker focused on the EU-US free trade agreement at the time, these principles should also apply to all such agreements.

United Kingdom. Commissioner Hogan has stated that the average reduction in direct payments will be 4% in nominal terms, with a significantly larger cut in the nominal EU budget allocation for rural development. The Commissioner has indicated that the legislative proposals will include an increase in national co-financing rates for Member States' rural development expenditure. He has claimed that the resulting increase in national spending on rural development will keep total public (EU plus Member State) spending on rural development roughly constant. In real terms, the reduction in the agricultural budget will be greater, with priority given to direct payments compared to rural development.

The Commission is pressing for an early agreement on the MFF Regulation by the first quarter of 2019 before the current Parliament rises for elections in May 2019. It points out that early agreement is essential if spending programmes are to start on time in January 2021, as it usually takes 12 to 18 months to agree on the sector-specific legislation for all the multi-annual programmes. This timetable looks ambitious. If a new MFF is not in place by January 2021, then the Article 312 TFEU provides that the ceilings and other provisions corresponding to the last year of the 2014-2020 MFF shall be extended until such time as the new MFF Regulation is adopted.

Many of the economic, institutional and political issues identified in Chapter 3 are inevitably also drivers exerting pressure on the future direction of the CAP. However there are other drivers, including: societal expectations; the desire for simplification and the reduction of administrative cost; the need to “future proof” by responding both positively and defensively to technological change; and pressure on the EU budget as a whole and the CAP in particular to justify the level of expenditure in relation to results. These drivers are discussed in turn below.

### 3.2. Main drivers of the reform

**Societal expectations.** The Commission carried out a public consultation on the CAP between 2 February and 2 May 2017, which attracted over 58,000 individual responses in addition to over 250,000 responses inspired by a campaign called “Living Land” which sought to focus the CAP around issues of sustainability. 64% of farmer respondents and 92% of respondents organisations agreed that agriculture policy should deliver more for the environment and climate change. 80% of farmer respondents and 76% of responding organisations agreed that farmers need direct income support, but the level of agreement fell to 53% (with 40% who did not agree) among non-farmer respondents (Ecorys, 2017). This lack of a clear consensus places pressure on the Commission to demonstrate that the CAP, and direct payments in particular, are helping to fulfil wider societal needs and not simply supporting the incomes of farmers. As we will see in Chapter 4, the Commission has responded by declaring a higher level of environmental and climate ambition and linking the CAP to a variety of wider issues to which it has some relevance including diets, food waste and the growing threat of antimicrobial resistance.

The public consultation also highlighted environment and climate issues as one of the top three challenges most important for the EU and rural areas (41% of all responses). In the most recent Eurobarometer survey about the CAP, respondents identified the most important reason for spending a high proportion of the EU budget on the CAP as ensuring sustainable farming, marginally ahead of guaranteeing food supply and responding to investment needs.<sup>23</sup> As part of a broader EU goal to play a leadership role in the climate and sustainability agenda, the need to ‘move beyond rhetoric and platitudes and focus on reality and action’<sup>24</sup> on environment and climate via the CAP and placing farming

<sup>23</sup> Special Eurobarometer 473 – Europeans, Agriculture and the CAP published February 2018 and available at <http://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/Survey/getSurveyDetail/search/agriculture/surveyKy/2161>

<sup>24</sup> Commissioner Hogan’s speech at the Forum for the Future of Agriculture 2018, 27 March 2018.

and food production 'at the heart of our international commitments on climate and sustainability are stated often as key factors influencing the future direction of the CAP.

Pressure to embed environmental and climate action even more centrally into the CAP has risen up the political agenda because the EU is signed up to, and committed to, action on the COP21 Paris Agreement on climate (translated into EU emission reduction goals for 2030 to which agriculture and the land using sectors must contribute) and the UN Sustainable Development Goals.

**Simplification.** The demand for simplification is a clear driver of the next reform. This is part of a broader agenda at EU level being addressed through the Commission's task force on 'Subsidiarity, Proportionality and 'Doing Less More Efficiently'', set up in November 2017 and chaired by First Vice-President Franz Timmerman<sup>25</sup>. In the case of the CAP the main pressure is from Member States for a reduction in the complexity of the CAP's rules and from farmers for fewer and less intrusive inspections of their compliance.

The current CAP contains rules designed in great detail at European level in primary, implementing and delegated legislation. In order to satisfy its auditors that expenditure on the CAP is being incurred in a legal and regular fashion, the Commission must check directly that all such rules are being met. This has led to a very complex system of controls including EU audit at farm level. Although the Commission is sensitive to the complaints from Member States and farmers about levels of bureaucracy, so long as there are detailed rules at EU level there will also need to be detailed checks of Member State implementation by the Commission.

The 2013 reform made the administration of the CAP even more complex by introducing an unprecedented degree of flexibility for Member States in how they implemented it (Ecorys, IEEP and Wageningen University & Research, 2016; Henke et al, 2017). Both farmers and Member States have complained that it also greatly increased compliance costs and the level of bureaucracy involved in making payments to farmers. Examples of perceived over-regulation have been raised by stakeholders on the REFIT Platform<sup>26</sup>. The greening payment under Pillar 1, which was one of the centrepieces of the 2013 CAP reform, has come in for particular criticism, proving complex to administer and disappointing in its results. Finally, although the principle of programming expenditure to meet identified priorities is seen as positive, rural development programming has also been criticised as too complex and insufficiently focused on results (European Court of Auditors, 2017b).

The risk of penalties associated with non-compliance with complicated and sometimes confusing rules has led to risk averse policy design in many Member States as well as risk averse behaviour by farmers. For example, the recent evaluation of the greening measures showed that for Member States the desire to make the measures relatively straightforward to implement, reducing administrative burden as well as avoiding mapping errors and risks of disallowance were key factors determining the implementation choices made, rather than ambition in seeking results (Alliance Environnement and Thünen-Institut, 2017).

There have been successive waves of simplification of CAP regulations since the 2013 reform. Most recently the Omnibus Agricultural Provisions Regulation (EU 2393/2017) has simplified a number of Pillar

<sup>25</sup> The 'Task force on subsidiarity, proportionality and doing less more efficiently' was established on 14 November 2017 by European Commission President Jean-Claude Juncker. It will: make recommendations on how to better apply the principles of subsidiarity and proportionality; identify policy areas where work could be re-delegated or definitely returned to EU countries; and find ways to better involve regional and local authorities in EU policy making and delivery.

<sup>26</sup> REFIT stakeholder suggestions up to October 2017 have been collated by the Commission and are available at [https://ec.europa.eu/info/files/refit-platform-work-progress-agriculture-and-rural-development\\_en](https://ec.europa.eu/info/files/refit-platform-work-progress-agriculture-and-rural-development_en)



1 measures including voluntary coupled support and the greening measure. However, all simplification activity to date has retained the principle that detailed (if simpler) rules are made at EU level rather than being delegated to Member States.

**Modernising and future-proofing the CAP.** The need for agriculture and other rural sectors to ‘future-proof’ their activities and to ensure that they respond appropriately to technological change is driving the priority given to modernising the CAP, reflecting the wider modernisation agenda of the Juncker Commission.

There are a number of factors at play here:

- Harnessing **innovation** and advances in digital technologies both to improve the accuracy and efficiency of the implementation and monitoring of CAP instruments as well as their practical application in rural areas.
- Reviewing the tools available to address the economic, social, environmental and climate challenges that face rural land and other sectors in rural areas and enable them to increase their resilience to these looking to the future.
- Strengthening the role of **advice**, cooperation and networking to ensure that new technologies and knowledge are shared and put into practice.

The need to place **innovation** at the heart of the future CAP and rural development policy features strongly in many of the speeches given by Commissioner Hogan since the launch of the CAP Communication in November 2017. In December 2017 he spoke of the need for innovation to deepen synergies between agriculture and the bioeconomy. In a speech in March 2018 to the Forum for the Future of Agriculture he declared that agriculture “unlike many other sectors, has huge potential to deliver more added value through innovation”. In a speech to an OECD conference on rural development in April 2018 he highlighted the need for innovation in order to meet the challenges of the “megatrends” of population growth, irregular migration, resource efficiency and mounting climate and environmental pressures, along with the aspiration of people in rural areas to enjoy the same living standards as those elsewhere.

**Justifying the CAP by its results.** Since 2015 and prompted by fiscal constraints across the EU, the Commission has vigorously promoted the concept of an “EU budget focussed on results”. This initiative has four elements:

- **Demonstrating value-added from EU spending**, which should be directed at priorities and spent efficiently and effectively to achieve visible impact.
- **Simplifying** EU funding and making it **accessible** so that it can be combined with other sources of funding such as private finance.
- Focussing on **performance** rather than simply **compliance; and**
- Being more **transparent** and **accountable** in order to increase the trust of EU citizens.

The Commission’s new delivery model clearly responds to some of these drivers of budgetary reform. Asking Member States to plan towards EU level objectives and demonstrate impact is an attempt to demonstrate and increase the EU value-added of CAP spending. Transferring much of the detailed design of CAP measures to Member States whilst attempting to reduce the Commission’s oversight of compliance with detailed rules to the minimum necessary is clearly driven by the simplification agenda. These two drivers of “budgeting by results” are especially strong in the debate on CAP reform.

## 4 KEY ISSUES, GAPS AND INCONSISTENCIES IN THE COMMISSION'S COMMUNICATION

### The objectives the Commission proposes to set for the future CAP

The Communication sets out three main objectives for the future CAP:

- to foster a smart and resilient agriculture;
- to bolster environmental care and climate action and to contribute to the environmental and climate objectives of the EU; and
- to strengthen the socio-economic fabric of rural areas.

Although these objectives are at first sight similar to the CAP's existing objectives of viable food production, sustainable management of environmental resources and climate action, and balanced territorial development, there are some important differences. "Smart and resilient agriculture" suggests an emphasis on the development of capability at farm level which is not implied by "viable food production", whilst the environment is to be "bolstered" – improved – rather than just sustainably managed. The new objective for rural areas also suggests an increased emphasis on the development of capability and capacity. It is appropriate therefore that the Commission declares that to achieve these objectives both the development of human capital and research and innovation will need to be stepped up.

In the following analysis we examine how the Commission plans that the CAP should deliver each of its new objectives.

#### 4.1. Creating a "smart, resilient agriculture"

##### Raising farmers' returns from the market through investment in productivity

###### SUMMARY OF KEY POINTS

- **The combination of lower productivity gains and increased environmental pressure requires improvements in education, research and extension services.**
- **The Communication stresses the need for such improvements in human capital but gives little detail of any new proposals. Generational renewal will help but will not be enough in itself.**
- **Publicly funded research is needed into topics which the private sector will not fund, such as ways to reduce inputs. Budgets need to be sufficient, especially if opportunities created by digital and breeding technologies are to be exploited.**
- **EIP-AGRI is a success, but the Commission remains silent on problems including low participation rates and a lack of transnational activity. Member States should be given incentives to target the work of the EIP towards topics involving public goods.**
- **The Communication fails to suggest ways in which the conflict of interest between advisers who are also suppliers to agriculture might be addressed. Farm advisory services could be expanded to meet this need.**

As indicated in section 0, productivity gains in EU agriculture have been limited over the last decades. Other sources stress that the performance is disappointing compared to foreign competitors (Barath and Imre, 2016; Wijnands and Verhoog, 2016). Almost all gains correspond to a reduction in the labour input, i.e. a decrease in farm employment. As technical change in agriculture seems to be slowing down, environmental pressures are increasing. Innovation is needed to meet the dual challenges of increasing both productivity and sustainability and raising farmers' income. It requires an ambitious policy in terms of education, research and extension.

**Education.** Farmers' education has been shown to be a major determinant of overall economic performance and competitiveness (Giannakis and Bruggeman, 2015). The average level of education of those working in agriculture remains well below the EU average in many Member States. Eurostat data for 2016 shows that while 18% of the total working population in the EU-28 had at most completed a low level of education, the proportion was 41% for people working in agriculture. Among the overall working population 34% have graduated from tertiary education while only 9% of those in agriculture have reached this level. However, the situation is variable across the EU. The percentage of farmers with only a primary education ranges from 4% in the Czech Republic to 90% in Malta. The proportion of tertiary graduates among people working in agriculture ranges from 2% in Romania up to 26% in the UK. Half of the EU farmers with a low level of education are concentrated in five Member States (source: Eurostat)

The Communication states that agriculture and EU rural areas "will need to be better linked to human capital development". Investment in human capital is described as a way to support sustainable and quality employment in rural areas and to help people who live there to fulfil their potential, acquire new skills and access quality education. In the section on generational renewal, the Communication also states that Member States' CAP strategic plans could include specific support for skills development and knowledge innovation for young farmers. Currently, education is mostly a Member State issue. Most Member States that provide start-up grants for young farmers under the CAP's Pillar 1 require some degree of agricultural training to be eligible, but it is not compulsory. Rural development regulations allow for the funding of training under Pillar 2. There is also an obligation to provide specific advice for farmers setting up for the first time. However, the training of young farmers funded under rural development programmes often remains limited to rather basic education while new challenges require more specialized skills (Zagata et al, 2017). In most Member States, adult training of older farmers is not well developed enough to make them able to follow technological developments. Lack of time, the lack of focused training programs, the poor quality or inadequate online information, financial constraints and limited access to internet connections, plus distance and cost for exchange programs are among the most often quoted

**Research.** The Communication emphasises that "research and support for innovation will need to be stepped up". It stresses the need for innovation that encompasses several disciplines, so that technological development reduces the environmental and climate negative effects of farming, increases resilience and soil health, in addition to reducing production costs.

Currently, total EU agricultural R&D is highly concentrated in five MS, with Germany representing the largest share (Chartier et al, 2015). Public research funding has been declining in many Member State since the 2008 economic crisis, according to both OECD and Eurostat data. This has been partially offset by an increase in private R&D in a few Member States over the recent period (Germany, the Netherlands and France). Still, total budgetary appropriations for agricultural R&D have declined in real terms since 2008. By contrast, figures compiled by the International Food Policy Research Institute show the

impressive growth in agricultural R&D that took place in China and India and several other emerging countries<sup>27</sup>.

The Horizon 2020 programme funding accounts for most of the agricultural R&D expenditure at the EU level. Five major challenges (Food and nutrition security and safety, climate change and water and energy use, reducing ecological impacts, healthy diet, inequality) and five major innovation areas (genetics, digitalisation and big data, energy and bio-based transitions, redesigning the food chain, social innovations) were emphasised. The Food 2030 Research and Innovation policy framework will expand these priorities. Overall, annual EU funding for agricultural, biomass, and food research accounts for less than €600 million, if we add all the different programs. Member states contribute the bulk of funding for agricultural R&D, amounting to €3.2 billion in 2016<sup>28</sup>. If one combines research, extension, education and vocational training, the OECD estimate for the "agricultural knowledge" creation and dissemination in the EU amounts to €5.8 billion (an upper range estimate of EU and MS outlays).<sup>29</sup> It is a modest amount compared to the total value of EU agricultural production (€359 billion), or the total value of public transfers to the agricultural sector (€101 billion, as measured by the OECD Total Support Estimate). However in its MFF proposal the Commission plans to increase funding within the Horizon 2020 framework to €10 billion for research in food, agriculture, rural development and the bioeconomy.

**Innovation.** The Communication's stresses the priority of "bringing research and innovation out of the labs and onto the fields and markets". A full subsection is devoted to "using research and innovation to better link what we know to what we grow".

The EU research policy has increasingly emphasized the linkage with potential users so as to foster interactions and feedback, but also adoption and transfer to business and other stakeholders. Hence, among the various programmes that are available under the RTD framework, there are academically oriented research projects but also ERA-Nets and Joint Programming Initiatives that include private companies and non-governmental organizations. Other instruments such as multi-actor projects and thematic networks intend to foster integration of fundamental and applied research and improved adoption in practice.

In the CAP, the so-called "Agricultural Knowledge and Information System" (AKIS) includes not only research programmes, but also dissemination, extension and bottom up approaches for coordination of stakeholders around a problem or a challenge. A central idea is that the classical top-down knowledge transfer system is not adapted to and ready to solve new and complex challenges such as those faced by farmers. The European Innovation Partnership "Agricultural Productivity and Sustainability" (EIP-AGRI) plays a central role in this strategy. The EIP-AGRI focuses on open innovation and on an "interactive innovation model", with a "problem solving approach", and diffusion of solutions ready to implement. In practice, the EIP-AGRI relies on local Operational Groups (OGs) implemented under Member State/regional Rural Development Programmes (and potentially multi-actor projects under Horizon 2020). Networking and information-sharing activities take place at the regional and national level through rural development networks and at EU level through an EIP network. Operational groups are supposed to be linked to the Horizon 2020 programmes, in particular those that focus on multi actors

<sup>27</sup> Agricultural Science and Technology Indicators. See <https://www.ifpri.org/program/agricultural-science-and-technology-indicators-asti>

<sup>28</sup> Source Eurostat for Member states. OECD figures from the Producer Support Estimates dataset are lower, to only €2.2 billion in 2016.

<sup>29</sup> Our calculations using Eurostat data and OECD PSE data (<http://www.oecd.org/tad/agricultural-policies/producerandconsumersupportestimatesdatabase.htm#country>)

and utilising knowledge. In the Communication, the EIP-AGRI is described as functioning well although the AKIS as a whole is described as operating unevenly across Member States.

**Ambitions of the Communication.** The Communication indicates some broad guidelines on the directions that the CAP should encourage regarding innovation. However, there is no clear sign that new programmes will go further than what has already been implemented in the 2013 Regulations.

Regarding education, there is more emphasis on the training of young farmers than is in the current CAP provisions, but no detail on how CAP instruments would be used. Payments to young farmers can already be linked to the Farm advisory service (business plans). Conditionality related to training could be strengthened, but some Member States find that making training compulsory risks limiting the number of beneficiaries to an unacceptable level.

A major challenge for the EU's public research policy is to fill the gaps left by private R&D. The latter focuses almost exclusively on only a few crops but neglects many others of considerable social interest. For example private companies have historically invested considerable amounts in improving soybean varieties but not other nitrogen fixing crops despite their agronomic interest). More generally, private R&D budgets are scanty in considerable areas where innovation could lead to using fewer inputs, or could aid transition to more sustainable techniques. The Communication states that innovation can serve the "multifunctionality of EU agricultural and food systems" and stresses research and innovation as part of the solution for economic, environmental and social challenges. However, public R&D expenditure in agriculture, when combining EU and national budgets, amounts to less than 2% of the value of agricultural sales.

The Communication states that a modern CAP should "support the strengthening of advisory services within the AKIS system". The idea that innovation should no longer be so top down and linear, but more participative, two way, involve multiple disciplines, and focus on specific problems and challenges that farmers face underlies the sections of the Communication on innovation. The role of the EIP-AGRI is given particular emphasis.

The EIP-AGRI has been evaluated in positive terms. An impressive number (3200) of EIP Organisational Groups are planned in the 108 rural development programmes in 2014-2020. Some of them are successful at organizing cooperation in the development of new products or practices. The EIP-AGRI is found useful by participating farmers. However, the number of farmers involved in OGs remains small, compared to the total farm population. The linkages between regional EIPs remain limited. The pan-European exchange of experiences and the linkages with the Horizon 2020 programs (Thematic Networks, Technology platforms) which were envisaged have not developed. More generally, the AKIS remains fragmented and limited in its ability to support a shift towards greater sustainability" (European Court of Auditors, 2015a, b) In some Member States, knowledge flows through the AKIS are still close to non-existing and the first priority remains to establish a linear model of knowledge transfer through advisory" states an evaluation (SCAR, 2017).

The Communication does not make precise proposals to improve the limited transnational cooperation between OGs or the contribution they could make to the greening of the CAP and to LIFE+. Member States could for example be incentivised to use their budget so that the OGs take on a significant role in the transition to a CAP which delivers more public goods – a transition which is sometimes risky and costly.

The dependence of farmers on advice provided by sellers/buyers of agricultural products and suppliers of inputs has been identified as a major obstacle to the adoption of more sustainable practices in several reports on France and Germany in particular (Hervieu, 2014). The Communication does not suggest ways in which the EIP and the Farm Advisory Service could be upscaled so as to provide an alternative to the advisory services provided by input suppliers, or to end the current conflict of interest. While the Standing Committee on Agricultural Research has questioned the role and capacity of farm "advisers" and the fact that they often promote a specific product or technology, it could be worth investigating new initiatives (codes of conduct, guidance, separation of activities) at the EU level.

**Digital agriculture and new breeding technologies.** The Communication mentions several areas where innovation could help the transition to a more sustainable and productive agriculture. These include digital agriculture. Precision farming and the associated spatialized information make it possible to adjust inputs, minimize costs and help agriculture to become more sustainable. Blockchains can help to improve food traceability, animal health and product safety, and potentially enable reductions in the use of inputs and food waste. A role for public institutions is to make sure that the large quantities of data which can now be collected in the course of modern agriculture are made available in a way which supports innovation including innovation by farmers groups, public and non-profit institutions.

So far, the CAP has not devoted significant budget to encouraging innovation in digital agriculture. The EU has invested in satellites through the Copernicus programme, and it contributes to the generation of open data with different bandwidths and sensors at fine spatial and temporal resolution that could foster innovation. However, overall, the public resources devoted to innovation in this area are unlikely to be sufficient to meet new challenges. Increased private ownership of agricultural "big data" could reinforce monopolies and asymmetries in market power. Large rents could be extracted from producers in the future. These problems are, of course, not unique to agriculture.

The Communication also mentions innovation in products and technologies, stressing that the uptake has so far been uneven across Member States. Up to now biotechnologies have often been used to support forms of agriculture that can hardly be considered as sustainable, the emphasis on glyphosate resistant soybeans being a case in point. This needs not to be the case. Genetics, and in particular the so-called New Breeding Technologies, enable acceleration of genetic selection processes. Under the appropriate circumstances they have the potential to provide rapid progress, not only to increase yields, but also in the ability of plants to resist droughts, resist parasites, to store carbon, or to improve nitrogen conversion efficiency. Appropriate biotechnologies used in a sustainable context can help develop plant varieties and animals that are more resistant to biotic and abiotic stresses. Public institutions need to provide a robust but adaptive regulatory framework. The risk is that the rapid developments in third countries condemn the EU to be a passive user of such innovations rather than driving their development in a socially useful and environmentally sound way.

## Dealing with income risk and volatility

### SUMMARY OF KEY POINTS

- **The recent dairy crisis has shown the inadequacy of the CAP's crisis response.**
- **The Commission appears more interested in measures which prevent or minimise risk, as opposed to managing it once it has crystallised. However, this requires a global approach (e.g. diversified output mix and income sources, more flexible cost structures), and no detail is provided on how more resistant production systems would be encouraged.**

There is a strong demand for better risk management and crisis prevention measures from farmers. They consider that uncertainties make it difficult to optimize production and investment decisions (see Bardajj and Garrido, 2016; Mathijs, 2017 for a detailed presentation of the issue). The prospect of greater climatic variation, extreme weather events (droughts, floods) and the related pest damage reinforces this demand. Here, we make a distinction between instruments to prevent or manage large scale crises, and those that are intended for the management of more standard risk and income fluctuations. The border between the two is sometimes blurred (Castaneda-Vera and Garrido, 2017; Cordier, 2014).

**Crisis management.** Crises involving financial stress for a significant proportion of the actors in an economic sector are not specific to agriculture. Some consider that crises are a standard way to reduce excess supply, through changes in output mix, exits, or even bankruptcies. However, there is a rationale for public intervention during crises. This is that production entities that are economically viable "on average" might become bankrupt because of a single adverse event. In such a case, it is a market failure (due for example to incomplete or imperfect credit markets).

The current CAP's anti-crisis "safety net" provides for intervention in the event of market imbalances, in particular private storage aid and public purchases. A "crisis reserve" can also be mobilized, but it is fuelled by a levy on direct payments, which gives rise to strong pressure not to use it from producers. The treatment of crises remains essentially curative and often very expensive because early intervention has not been possible with sufficient force. Criteria that trigger public action, such as "severe imbalance in markets" (Regulation 1308/2013 Article 222) imprecise and decisions have often been taken late and under political and media pressure. In addition, the *ad hoc* mobilization of budgets induces perverse anticipations: the virtual certainty that the rules will be transgressed and that the State will intervene leads to farmers' behaviour that ultimately results in greater exposure to risks and crises.

A recent European Parliament report has investigated in detail the developments of the dairy crisis between 2014-2016 (Mahe and Bureau, 2016). The authors question the decision making process, the responses to the initial drop in price (e.g. waiving the super levy, or providing emergency aids that were taken as incentives to keep producing at a moment when a 1% increase in production resulted in a 3% price decrease) and the free-riding made possible for some Member States at the expense of others. The authors use simulations to suggest that the cost of intervention that led to considerable inventories of milk powder could have been avoided if earlier coordination of supply had been implemented.

The Communication addresses few of the issues raised in the report. It states that "a robust framework is needed" to prevent or deal with risks and crises with the objective of enhancing resilience and "at the same time providing the right incentives to crowd-in private initiatives", but it remains vague on actual instruments. More precise and objective criteria to trigger an advanced intervention, harnessing the benefit of several risk management instruments to supply control programmes when needed, have been suggested as a means of improving the crisis prevention toolkit (Mahe and Bureau, 2016) (European Milk Board, 2017). The Communication does not provide indications that the Commission

intends to consider (or reject) such options. It nevertheless suggests that access to the benefits of market instruments could be linked to precautionary behaviour.

**Risk and income volatility.** The Communication stresses that many instruments are available to Member States, with a need to simplify and improve their functioning (the example of index based instruments is mentioned as a way to reduce bureaucracy). A fixed income is granted by the Pillar 1 payments which is seen as a means of coping with fluctuations in prices and yields. The Commission has shown compelling evidence that, thanks to this layer of direct payments, EU farm incomes vary less over time than US farm incomes even though the United States has developed a considerable set of countercyclical and insurance instruments. The CAP also provides income stabilization instruments under Pillar 2.

Member States can set up insurance programs with contributions from the EU budget. Member States can also contribute to mutual funds which pay financial compensation to farmers for economic loss caused by adverse climatic events or diseases or pest infestations (Regulation 1305/2013 Article 38). An Income Stabilization Tool, in the form of financial contributions to mutual funds can be implemented to provide compensation to farmers for a severe drop in their income (Article 39). The Omnibus regulation, includes new sector-specific measures that allow support to be triggered if average annual income in the sector drops by more than 20%. Support under insurance contracts becomes available when annual production is reduced by more than 20%. Risk prevention can be targeted under other Pillar 2 measures; such as "Knowledge transfer and information actions", "Advisory services", "Investment in physical assets", "Restoring production potential damage by catastrophic events", etc. Finally, in some Member States, domestic insurance programs, tax smoothing instruments and exemptions from social contributions are made available. Overall, the Commission estimates that more than €5 billion has been programmed by Member States to target risk prevention and management over the 2014-20 period.

The Communication announces that "a permanent EU-level platform on risk management will be set up, providing a forum for farmers, public authorities and stakeholders to exchange experiences and best practices, with the objectives of improving implementation of the current tools and informing future policy developments". At this stage it is unclear what this platform will change, but it could facilitate the taking up of existing instruments, which has so far been limited<sup>30</sup>. The flexibility introduced by the Omnibus regulation, which has lowered the thresholds for the triggering of public support and allowed sector specific mutual funds. The combination of both initiatives, could lead to a broader adoption of Pillar 2 instruments in the future.

**Coherence of the different instruments.** The Communication advocates a flexible approach to "further develop an integrated and coherent approach to risk prevention, management and resilience... ". The stress on coherence is welcome, given the contradictory incentives that are currently provided by the CAP. Risk management instruments tend to encourage increased specialisation in a small number of crops<sup>31</sup>. Typically, a risk averse farmer diversifies his/her portfolio or production as a risk minimisation strategy. Should a risk management instrument stabilise his/her income, the same producer might

<sup>30</sup> Currently, risk management instruments (Pillar 2) represent only 2% of the Pillar 2 budget for 2014-2020 (Bardají et al, 2016) Provisions under Article 37 were adopted by only ten MS. Only th4.2.ree Member States (France, Italy, Romania) intend to use the possibility offered by Article 38 to use mutual funds for responding to climatic events. Only Italy, Hungary and some Spanish regions have notified that they will implement the Income Stabilization Tool (Article 39), and none have done it in reality.

<sup>31</sup> (OECD, 2011) suggests that current EU decoupled payments only moderately encourage specialization through both a risk reduction effect and a wealth effect. Subsidised insurance provides more incentive to specialize but this impact can be reduced by appropriate contracts (e.g. reducing premia when producers have diversified output). Countercyclical payments provide stronger incentives and can lead to highly specialised farms, hence the need for even more countercyclical instruments.



specialise in producing a smaller number of those crops providing high average returns. This would result in more risk exposure. Farms which are more highly specialised tend to use shorter crop rotations, leading to greater weed and pest resistance to chemical control along with reductions in biodiversity. In addition, all public instruments for reducing income variations have some crowding out effect on private measures. Their implementation also tends to reduce precautionary behaviour such as income diversification, savings, and individual hedging against price risk. All of this justifies the careful approach of the Commission in the Communication which stresses that "farmers as entrepreneurs, are ultimately responsible for designing their own on farm strategies".

The Communication calls for an integrated approach and for more resilient farm systems, to avoid crowding out private strategies and instruments, as well as for the sharing of information. While there is no detail on what is foreseen in addition to what exists through the EIP-AGRI and other AKIS provisions, the proposed risk management platform could be seen as a way to develop the existing Pillar 2 instruments.

The development of index based instruments is mentioned. In this area, new developments in ICT are enabling the use of massive data to tailor indices to match changes in actual production. Artificial intelligence is enabling more data to be manipulated more quickly, and blockchain technology enables the secure transmission of information about claims and damage. These changes raise the possibility of more effective insurance instruments in which on-field observation of damage becomes unnecessary and moral hazard perhaps reduced.

The Communication makes the recommendation to "explore new avenues", such as stimulating the inflow of private capital to help overcome temporary cash flow shortages, support for re-insurance of mutual funds or incentives for precautionary savings, including through Member States' taxation policy. One issue that is overlooked by the Communication is the way contracts for the provision of public goods could be made part of a risk management strategy. A fundamental result in finance theory is that risk averse agents can maximize their well being when there is a trade-off between high expected returns and higher variance of these returns simply by adjusting the share of risk free assets in their portfolio (Tobin, 1958) This means that a good way to deal with risk is to ensure the availability of a risk free source of income. Long term contracts for conservation could be designed to exclude most if not all market risks and could thus act as risk management instruments.

### Securing a fair share for farmers in the value chain

#### SUMMARY OF KEY POINTS

- **The Communication does not address the lack of transparent pricing in the food chain, which has helped unfair trading practices to flourish**
- **Measures to strengthen farmers' bargaining power through producer associations and other means are a poor substitute for a competition policy which would engage effectively with oligopolistic supply chains**

The Communication calls for a global approach to risk. Spreading the risk between actors along the value chain is one way to do so. It would require rebalancing market power within the food chain. Indeed, agricultural producers are typically "price takers" in the middle of a value chain where the upstream sector (seed, fertilizers, equipment) is dominated by large firms and the downstream sector (retail) is often highly oligopolistic. The atomistic structure of the farm sector makes it prone to absorb a disproportionate share of any price adjustments. As discussed in Chapter 2 other factors also affect

farmers' share of the value chain. For instance, retailers are more likely than farmers to benefit from any value added by new convenience foods.

The Communication acknowledges that "recognised producer organisations can be a useful tool to enable farmers to strengthen their bargaining position in the value chain and to cooperate to reduce costs and to improve their competitiveness to improve market reward." It stresses the importance of such organisations for small farmers.

The coordination of agricultural producers as favoured by the CAP has a long history of conflicting with competition policy<sup>32</sup>. For a long time, the fruit and vegetables sector benefited from specific provisions for producers organisations. The 2013 Regulation on Common Market Organisation expanded the possibilities for collective organisation of contracts on behalf of farmers through recognised producer organisations and their associations. Organised producers can negotiate contracts, including on pricing rules. The Omnibus regulation extended such possibilities. Some of the producer organisations prerogatives such as planning production, optimising production costs, placing on the market and negotiating contracts for the supply of agricultural products on behalf of members were extended to all sectors with a view to improving the position of farmers in the supply chain.

In 2016, the Agricultural Market Task Force (a group of experts gathered by the Commission) recommended a tougher regulation of "unfair trading practices" (AMTF, 2016). They are defined as "practices that deviate from good commercial conduct, are contrary to good faith and fair dealing and are unilaterally imposed by one trading partner on another". There is a concern that unfair practices become more frequent in the food chain due to increasing concentration in the processing and retailing sector; that their use will harm farmers and small-scale marketing firms operating in the food chain, "cause market inefficiencies, curtail investment and, in the most severe cases, cause the exit of otherwise viable enterprises" In a 2014 survey, 96 % of suppliers in the EU food chain reported that they had been subjected to at least one form of unfair practice (European Commission, 2014).

The Communication does not make precise proposals on the issue of market power and trading practices, perhaps because of the ongoing legal developments on unfair practices. Indeed, the Commission set up a High Level Forum for Better Functioning of the Food Supply Chain, which came up with a Code of Conduct for the Supply Chain initiative. In April 2018, the Commission, acknowledging that there was much heterogeneity in unfair practices across MS, proposed a Directive to implement a minimum standard of protection in the EU.

However, the Communication tends to overlook two important issues. First, the CAP has a poor record in terms of promoting market transparency. DG-AGRI manages market observatories, but transparency on prices along the food chain remains protected by secrecy. Those MS that have set up such observatories have also achieved limited success (e.g. France). More traceability and information exchange within the food chain is a prerequisite for fairer contracts. This is particularly the case if public authorities want to provide incentives to include more aspects of climate change, environmental management and price risk management in contracts between farmers and processors (Fresco and Poppe, 2016).

Second, the significant strengthening of the farm sector's bargaining power that took place with the 2013 Regulation and the Omnibus regulations should only be seen as a second best for a much needed effective competition policy all along the food chain. It is not good policy to try solving excess market power from oligopolistic behaviour of purchasers downstream the food chain by installing oligopolistic marketing of farm products. With the current focus on making the farm sector stronger, the risk of double marginalisation with the ensuing costs for consumers could become reality. In sectors where demand is highly elastic, this could be damaging also to producers.

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<sup>32</sup> See Annex B in AMTF (2016) for a review of the EU legislation and agricultural issues with competition policy.

## A continuing role for income support

### SUMMARY OF KEY POINTS

- **Greater targeting of direct payments is desirable. If capping is to be effective, then the deductibility of salaries from the direct payment should be limited.**
- **Member States should be given flexibility in how they design the redistributive payment.**
- **On simplification grounds, the option to use the SAPS scheme should be continued and might be offered to the older Member States that currently make use of entitlements.**
- **Coupled support can have a role to play in supporting vulnerable sectors, but to avoid distortions in the single market and interference with market stabilisation measures the share of direct payments that can be used for this purpose should not be further increased. The circumstances in which such support may be offered should be reduced by strict criteria.**

The Communication identifies three objectives for direct payments. They shore up the economic resilience of seven million farms, covering 90% of farmed land, by contributing 46% on average of their income, with higher proportions in some sectors and regions. They provide relative income stability to farmers in the face of significant price and production volatility. They are also an instrument aiming to encourage a large portion of the EU's actively farmed area to be managed with practices beneficial for the environment.

While noting that "the role of direct payments in stabilising farm income is generally welcomed", it observes that "the fact that 20% of farmers receive 80% of the payments sometimes prompts accusations of "unfairness"", while pointing out that "These numbers are a reflection of a system where payments are linked to land which is concentrated among a minority of farmers". It concludes that "Direct payments will fulfil their mission more effectively and efficiently if they are simplified and better targeted". To this end, it suggests further exploration of mechanisms such as compulsory capping, degressive payments or an enhanced focus on a redistributive payment to be able to provide support in a targeted manner.

**Contribution to income support:** The Treaty sets out that an objective of agricultural policy is to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture. The Communication assumes that this objective should be met by direct transfers to producers. However, the Treaty says that this objective should be achieved by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour.

Direct payments increase the overall income of the agricultural sector in the short-run, though by less than the value of the payments because some of the benefits leak to non-farmers through higher land values and higher input costs. But because they also increase the number of people who share that income relative to the situation without support (by attracting more young people than otherwise to enter the industry, or discouraging existing operators from leaving the industry), the individual earnings of those engaged in agriculture will not be affected by direct payments in the longer term. Low incomes in agriculture reflect the low productivity of those working in the sector. This may reflect a more adverse age structure, a lower stock of human capital, and/or unfavourable farm structures. Raising individual

earnings in agriculture means raising the productivity of agricultural labour, as the Treaty recognises. Decoupled area-based payments are not a very effective instrument for this purpose except in the short and medium term.

The Communication presents data showing that average farm income (without but also with support) lags considerably behind average gross wages and salaries in the total economy. These data are useful to compare relative labour productivity in the farm sector with the overall economy. The fact that average labour productivity in agriculture lags so much behind average productivity in the non-farm sectors points to the fact that further structural consolidation involving a reduction in the numbers in farming will occur. The data do not show evidence of a *need* for income support because they do not take into account the income from all sources of farm families. In 2013, only 42% of all farmers worked full-time. Farm households, like non-farm households, may also be in receipt of capital income and transfer incomes such as pensions and may face different tax burdens. As the European Court of Auditors has observed: "...there is no reliable system to allow comparisons to be made between agricultural incomes and those in other sectors of the economy, which could justify EU income support for farmers" (ECA 2016). The Court concluded that "the Commission's system for measuring the performance of the CAP in relation to farmers' incomes is not sufficiently well designed and the quantity and quality of statistical data used to analyse farmers' incomes has significant limitations".

**Redistribution and fairness:** The Communication proposes the introduction of capping as a way of improving the targeting of direct payments. A cap of €60,000 on individual payments has been suggested by Commissioner Hogan and President Juncker. However, the value of salaries paid (possibly also including the imputed value of unpaid labour) will first be deducted from the direct payments received before the cap is applied. As in nearly all Member States the value of salaries paid (including the imputed value of unpaid labour) per hectare is often as great as the value of the direct payment per hectare, allowing this deduction will mean that, for most farms, capping will have very limited effect. If the legislature wants to make capping effective, it should limit the deductibility of salaries from the direct payment.

The Communication also suggests exploration of an enhanced focus on the redistributive payment in order to focus support in a targeted manner. The question arises whether limits and rules should continue to be established in the CAP basic legislation or whether Member States should be permitted to design these rules to best meet their specific circumstances. As these are decoupled payments, the production impacts of any degree of redistribution are likely to be very small. Including rules in the basic legislation might be desirable if the legislature has a strong desire to focus support on small and medium-sized farms. Small farm size, on its own, does not provide evidence of a *need* for income support. Many small farms are operated by individuals whose main occupation is outside the sector. Merely limiting income support payments to small and medium-sized farms does not necessarily mean that these payments are better targeted. Member States will also be aware that increasing support to small and medium-sized farms is likely to slow down structural change, which will have an influence on the competitiveness of their farm structure in the future.

**Other elements:** There are a number of issues around the future of direct payments that are not explicitly mentioned in the Communication. These include: what flexibilities Member States will have in future to shift resources between Pillars; the future of the Single Area Payment Scheme and the entitlements framework in the Basic Payment Scheme; the future of internal convergence if the entitlements framework is maintained; minimum thresholds for payments; the definition of genuine farmers; the future of the Small Farm Scheme; and the future of coupled support.

As a simplification measure, allowing Member States to use the SAPS (including those currently using the entitlements system) should be considered. At a minimum, those countries currently using the system should be allowed to continue to do so.

If the entitlements system is continued, some Member States may still be keen to keep the link with historic references in the next CAP. This link is increasingly hard to justify. The decision here is whether to specify further steps towards internal convergence in the CAP legislation and mandate a uniform value of all entitlements within each defined region, or whether Member States should be left with the flexibility to decide how the basic payment will be distributed.

The current Small Farmers Scheme is an exercise in simplification and is welcomed by those countries that have opted to use it. It would be sensible to allow this option to be among the CAP instruments which Member States can choose to implement in their Strategic Plans. However, the rules for the determination of payments amounts are quite complicated. Under the NDM, these rules might be removed from the CAP basic legislation and it could be left to the Member States to decide how to administer this simplified scheme.

The future of **coupled support** is not mentioned in Communication. Coupled support paid to producers in one Member State (region) is likely to be at the expense of producers in another Member State (region). It may also conflict with market stabilisation measures taken under the CAP, as was the case during the milk crisis in 2015-2016. The policy is evolving. The compatibility of the new rules for coupled support introduced in the Omnibus Agricultural Provisions Regulation with the WTO Blue Box criteria now needs to be evaluated. Whether the new rules introduced in the Omnibus Regulation refer to production-limiting programmes or not might be open to challenge. A key decision will be the share of national ceilings that can be allocated to VCS schemes in the future CAP. It would be desirable to revert to the original formulation allowing coupled payments in the 2013 direct payments regulation and to reduce the share of Pillar 1 direct payments that can be used for coupled support. Coupled payments should be limited strictly to support for vulnerable production in areas where continued production is desired for environmental or social reasons, and to avoid distortions to the single market.

## 4.2. Bolstering environmental care and climate action

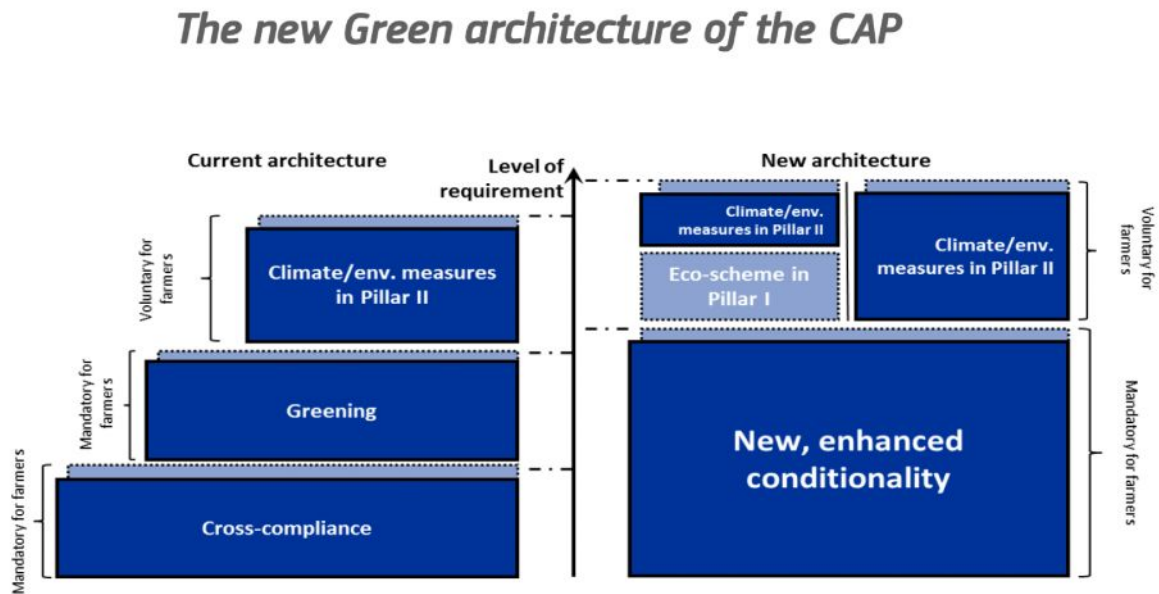
### SUMMARY OF KEY POINTS

- **The Commission has provided no detail of the conditionality rules for Direct Payments which it proposes should replace cross-compliance and the greening measure. “Enhanced” conditionality needs to deliver a higher level of protection than these two measures combined**
- **The loss of the 30% greening payment is not consistent with the Commission’s often-stated higher ambition for the environmental performance of the CAP. It should be replaced by a minimum spend requirement of at least 30% for the proposed new Pillar 1 eco scheme.**

As described in Chapter 2, the environmental performance of EU farming is disappointing, whilst Chapter 3 identifies societal demand for greater sustainability as one of the drivers behind the current reform. The Commission recognises these pressures and has said that it aspires to improve performance. The Communication states that the new CAP should reflect higher ambition and focus more on results as regards resource efficiency, environmental care and climate action. Commissioner Hogan has

reiterated a commitment to higher environmental ambition in recent speeches. Details of what that ambition amounts to and how it would be achieved are missing from the Communication. The Commission says that it must be “strategic” and measurable, with Member States to define quantified targets which ensure that objectives agreed at EU level are achieved. The Commission proposes to replace the current green architecture of the CAP – which has been criticised for its complexity – with a simpler system in which cross-compliance and the greening measure would be replaced a single layer of conditionality which would apply to income support payments. Member States would then be able to offer voluntary schemes to farmers on top of the new conditionality.

**Figure 1: The new green architecture of the CAP**



Source: European Commission.

According to the Communication, the task of designing the new conditionality would be shared between Commission and Member States with the former setting out a “streamlined” set of conditions providing “environmental and public goods” which Member States “further define” in order to take account of their own specific situation, climate risk and needs. This further definition will be constrained by the need for Member States to ensure that EU level environmental objectives are met. The Commission notes that simplifying cross-compliance and the greening measure into a single set of requirements would also simplify the system of controls. The new architecture will encourage more cooperative and collective approaches to the delivery of environmental results involving both farmers and other stakeholders.

The Communication acknowledges a number of specific environmental pressures or opportunities in respect of which the Commission says it is considering proposing additional intervention. The Commission says it is considering making nutrient management plans a compulsory feature, along with incentives for precision farming. It also lists a number of measures considered to have high EU-added value: the protection of permanent pasture; organic farming; the maintenance and creation of landscape features; farming in areas of natural constraints and individual or collective schemes aimed at soil health, biodiversity or river basin management.

Since the Communication was published it has become apparent from further discussions that the Commission is considering proposing an “eco” scheme within Pillar 1. The Commission seems to be willing to make it voluntary for Member States.

Little further light has been cast on the nature of the Commission's overall environmental ambition nor the detail of the new conditionality since the Communication was published. The latter has been referred to as "enhanced" conditionality by Commission officials<sup>33</sup> which implies that it will deliver greater environmental benefit than greening and cross-compliance. The standards of Good Agricultural and Environmental Condition (GAEC) in cross-compliance provide protection for watercourses, groundwater, water resources, soils and landscape features. The new conditionality needs to replicate and enhance this protection, as well as improving on the environmental performance of the greening measure. That measure was found to have made a positive contribution to biodiversity, water, soil and climate objectives (Alliance Environnement and Thünen-Institut, 2017). However there has been no circulation outside the Commission of draft regulations setting out requirements for the protection of soil, water, biodiversity and for climate action under "enhanced conditionality" which would show whether a higher level of environmental protection will in fact be required. It appears from the Communication that the task of specifying these requirements is to be split between the Commission and Member States but until draft regulations are published there is no information about how this is to be done.

The architecture the Commission has proposed relies heavily on an assumption that realistic, quantifiable targets for performance against EU level objectives can be agreed with Member States and monitored successfully. Without this framework there is a risk that the new conditionality will be implemented by some Member States in a way which minimises burdens on themselves and farmers but does not achieve adequate protection of the environment. Setting such targets will not be straightforward. Hart et al (Hart, Baldock and Tucker, 2018) report that additional data collection will be necessary in order to allow meaningful targets to be set and monitored for all relevant environmental objectives. They also identify that a number of environmental objectives are likely to need to be monitored via proxy indicators rather than directly, and that progress against some objectives may need to be monitored even less directly using data for the uptake of measures known to contribute to their achievement. Even if these technical difficulties can be overcome there remains the need to agree an appropriate level of ambition. This is an issue affecting all the CAP objectives and is discussed further at section 0

Despite the criticism levelled against it (Alliance Environnement and Thünen-Institut, 2017; European Court of Auditors, 2017c) the greening measure did signify a political commitment to associate 30% of the budget for direct payments with the delivery of specific environmental public goods. Since the Commission has said that it will propose a higher level of ambition we would expect to see at least the same level of funding ring-fenced for the new "eco-scheme" in Pillar 1. Combined with genuinely enhanced conditionality for all farmers receiving direct payments this would represent a step forward in environmental care and climate action.

The usefulness of cooperative and collective approaches to the delivery of public goods has been demonstrated by the recent PEGASUS project (Maréchal et al, 2018). PEGASUS found that cooperation and the engagement of multiple actors can lead to greater ambition with regard to scale, longevity and coherence of actions delivering public goods. This is because engagement and discussion can lead to an increased understanding of the issues at stake (and the synergies and trade-offs between different objectives), a better identification of the ways that are most adapted to local needs and sense of ownership and it can also be easier to foresee conflicts and to address them when they arise. In addition, action taken in a collaborative setting is more likely to be sustained in the longer term as it may lead to new cultural norms being established. There is however nothing in the design of the proposed new

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<sup>33</sup> E.g. T Haniotis on 27 April 2018 to a seminar of the European Association of Agricultural Economists in Budapest.

environmental architecture (compared to its predecessor) which would provide additional impetus for such approaches.

The proposed new delivery system is discussed below (section 0).

### 4.3 Strengthening the socio-economic fabric of rural areas

#### SUMMARY OF KEY POINTS

- **Member States should be required to specify in their Partnership Agreements and CAP plans how coordination, complementarity and synergy mechanisms between the different ESI Funds will be implemented.**
- **Making clearer the links between RDP measures and the EU Bioeconomy Strategy in the next Rural Development Regulation would help to focus attention on the possibilities to use RDP measures to support the bioeconomy.**
- **Success in rolling out the Smart Villages concept will depend on much greater investment in improving digital connectivity in rural areas.**
- **The Communication's ambitions for a smart agriculture will require the allocation of significantly larger shares of future RDPs to knowledge transfer operations and the improvement of human capital.**
- **Creating better synergies between LEADER and local authorities should take care to maintain the distinctive features of the LEADER approach.**

The Communication recognises that "Many rural areas in the EU suffer from structural problems, such as a lack of attractive employment opportunities, skill shortages, underinvestment in connectivity and basic services and a significant youth drain." It also identifies the problem that young farmers and other new entrants face considerable obstacles to starting up farming activity, including economic ones such as high land prices but also societal ones such as the perception of farming as an unattractive or old fashioned occupation.

#### Growth and jobs in rural areas

The Communication sets out a number of ideas regarding how the CAP can contribute to growth and jobs in rural areas:

- Improved complementarity with other EU policies such as Cohesion Policy and the Connecting Europe Facility as well as national funds and strategies, with a view to simpler delivery mechanisms.
- Growth of the bio-economy in a sustainable business model should become a priority for the CAP strategic plans, and should support the EU circular economy strategy and the development of new business models which will benefit farmers and foresters whilst creating new jobs. Ideas given include valorising by-products from agri-food and forestry, renewable energy and fertiliser from manure, and eco-tourism.
- The European Fund for Strategic Investment (EFSI) and other financial instruments should leverage additional support in Rural Development programmes in order to provide low cost and longer term loans for entrepreneurs that are willing to invest in rural areas.



- Development of "Smart Villages" throughout the Union to help local communities address issues of inadequate broadband connectivity, employment opportunities and service provision. Support can be provided for capacity building, investments, innovation support, infrastructure, skills upgrading and networking.
- Continued joint EU and national investment in human capital development in rural areas to support sustainable and quality employment.
- Continued support for the bottom-up, locally led LEADER approach to promote social inclusion, poverty reduction and job creation in the local economy. There is a need for better synergy and coordination with municipal authorities and local agencies to fully mobilise rural potential.
- Introduce a "rural proofing" mechanism across all EU macro and sectoral policies, which would systematically review relevant policies through a "rural lens", considering possible impacts on rural communities.

**Improved complementarity with other EU policies such as Cohesion Policy.** Coordinating the interventions at national level between the different EU funds is a long-standing issue. A major step forward was taken in the current programming period when the rules for the five European Structural and Investment (ESI) Funds, including the EAFRD, were harmonised in the Common Provisions Regulation (EU) No 1303/2013 (CPR) which defines a shared strategic approach in Funds' use. The ESI Funds are aligned on the Europe 2020 strategy for smart, sustainable and inclusive growth. The CPR introduced a Common Strategic Framework (CSF) (Annex 1 of the Regulation). This breaks down the Europe 2020 objectives into eleven thematic objectives, as well as specifying new mechanisms of coordination, concentration of funds and evaluation and monitoring.

As far as rural development was concerned, the hope was that the CSF would require a higher degree of inter-departmental coordination at national level if these programmes were to be delivered efficiently. The evaluation of the European Court of Auditors found that coordination, complementarity and synergies with other ESI funds and other EU funds are not developed (European Court of Auditors, 2017b). The Communication, in calling for improved complementarity with other EU policies such as cohesion policy, does not propose concrete measures on how this might be achieved. The Commission should ensure that its policy proposals further develop the requirements concerning consistency between individual programmes. Member States should specify how coordination, complementarity and synergy mechanisms will be implemented, followed up and reported on in the context of EU rules in their future Partnership Agreements and CAP Plans (European Court of Auditors, 2017b).

**Support for the bio-economy.** Member States have supported bioeconomy actions in their RDPs using a number of the available measures (operational groups, investment, cooperation, knowledge transfer). The co-operation measure (Art. 35) has a specific focus area to support farmers and other supply-chain actors that work together on the sustainable provision of biomass for use in food and energy production and industrial processes. The European Innovation Partnership "Agricultural Productivity and Sustainability" (EIP AGRI) also provides support to rural innovation including the bioeconomy. The portfolio of measures in the RDR to support the bioeconomy appears to be sufficiently broad. Making clearer the links between RDP measures and the EU Bioeconomy Strategy in the next RDR would help to focus attention on these possibilities.

**Encourage greater use of financial instruments.** Financial instruments (FIs) have the ability to leverage public resources by attracting private sector support and thus to increase the impact of ESI Fund activities including the EAFRD. The biggest barrier to the use of FIs are knowledge gaps and a lack of awareness among managing authorities on the rationale and benefits of FIs, a lack of experience and

capacity in managing authorities, as well as uncertainties regarding the current legal framework which discourage managing authorities from making use of FIs (European Commission and EIB, 2018). Recent initiatives include the European Investment Bank's announcement in April 2018 of a further financing initiative that aims to unlock close to €1 billion of investment in the agriculture and bioeconomy sector, guaranteed by the EU budget under the European Fund for Strategic Investments (EFSI). The European Investment Fund has also launched an AGRI Guarantee Facility to provide access to finance for agriculture, agri-food, forestry and rural businesses.

**Promote the 'Smart Villages' concept.** The Commission launched an 'EU action for Smart Villages' in 2017 which contained a series of initiatives within the rural development, regional development, research, transport, energy, and digital policies and funds designed to promote the concept. The initiative has since been taken up by other actors, including the European Parliament which has allocated €3.3 million to provide support for the development of 10 Smart Villages throughout the EU to launch next year. The Smart Villages concept is premised on access to high-speed internet in all rural territories. As only around 40% of rural households currently have access to high-speed broadband, considerable investment to finance digital connectivity in rural areas is needed.

**Improving support for human capital development.** Around 1.2% of expenditure in the current RDPs is allocated to fostering knowledge transfer in agriculture and forestry, focused on promoting human capital and smart networking (Dwyer et al, 2016). The authors of this report, while acknowledging that much smaller amounts of funding may be needed to deliver activities such as training programmes, highlight the relatively small allocation to these measures, given the emphasis in the Europe 2020 strategy on Europe as a 'knowledge economy'. A larger allocation of RDP funds to these activities will be necessary to underpin some of the ambitions in the Communication for a smarter agriculture in the future.

**Continued support for LEADER.** The Communication supports the continuation of the LEADER approach but argues that there is a need for better synergy and coordination with municipal authorities and local agencies to fully mobilise rural potential. There are advantages but also dangers in this approach. The strength of LEADER is its bottom-up approach in which groups are given a high level of autonomy in designing their local development strategies. If LEADER structures become too associated with government administrative structures, there is a danger that the involvement of private actors is diminished and LEADER groups become instruments to deliver national or regional priorities (European Court of Auditors, 2010).

### Attracting new farmers

#### SUMMARY OF KEY POINTS

- **Member States should be required to show how national actions support the objective of generational renewal in their CAP Plans.**
- **The Pillar 1 top-up payment to young farmers is not an effective measure and more emphasis should be put on encouraging the take-up of installation aid in RDPs.**
- **More attention should be paid to removing the disincentive effect of CAP payments on the earlier transfer of land rather than introducing early retirement schemes which have had limited effect in the past.**

The Communication proposes that generational renewal should become a priority in a new policy framework, and makes the following specific proposals:

- Improve the consistency between EU and national actions, given that many of the relevant levers (land regulations, taxation, inheritance law or territorial planning) are the responsibility of Member States.
- Tailor-made schemes reflecting the specific needs of young farmers should be introduced.
- Erasmus exchange possibilities for young farmers should be bolstered
- There should be an EU-wide system of support to the first installation in a simpler and better targeted way to mitigate the high risk of setting up a highly capital-intensive business with uncertain income.
- Access to financial instruments should be better adapted to the investment needs and higher risk profiles of new entrants.
- Appropriate incentives to facilitate the exit of the older generation and increase land mobility could be introduced.
- Succession planning and the transfer of knowledge between generations should be facilitated.

**Improve the consistency between EU and national actions.** The significant differences between Member States in the age structure of farmers (Chapter 2) underline that addressing generational renewal is fundamentally a problem of appropriate national policies. For example, the success in addressing generational renewal in Germany is attributed to its 'Hofabgabeklausel' social security scheme, which requires farmers to relinquish their farm in order to receive their old-age pension (European Court of Auditors, 2017b). There is little that CAP subsidies to younger farmers can do if the national policy environment is not conducive to generational renewal. Thus the emphasis on improving the consistency between EU and national actions in the Communication should be welcomed. The CAP Plans provide the opportunity for Member States to show how they are integrating national actions with EU policy instruments to support generational renewal. The Communication foresees that the new delivery system will give greater flexibility to Member States to develop tailor made schemes that reflect the specific needs of their young farmers.

**EU-wide system of support to the first installation.** The Communication notes that support for new entrants could be provided with a simplified top-up payment for new entrants (tailored by Member States according to the specific needs) and/or the reinforcement or extension of current lump-sum payments. The top-up payment was an innovation in the 2014-2020 programming period which introduced the Young Farmer Payment (YFP) in Pillar 1 of the CAP. The European Court of Auditors was highly critical of the Young Farmer Payment (European Court of Auditors, 2017a). It concluded that the aid is not based on a sound needs assessment and it is not clear what young farmers' needs this payment should address, other than additional income, and what should be its added value.

A lump-sum payment (or an interest subsidy or a combination of the two) is made as aid for setting up young farmers as a Pillar 2 measure in the CAP. A business plan is required to assess the viability of the holding. The maximum funding is €70,000. The European Court of Auditors report found that this measure was generally based on a vague needs assessment in the RDPs, but that its objectives reflect the general objective of generational renewal (European Court of Auditors, 2017a). The views of focus group participants reported in Zagata et al (2017) were that this support was more difficult to administer than the top-up payment in Pillar 1. Despite the lack of evidence of impact of the Pillar 1 top-up payment, Member States will be tempted to emphasise this instrument when they have the flexibility to design their own young farmer supports in their prospective CAP Plans. The European Parliament is at present

considering an own-initiative report on the implementation of CAP young farmers' tools in the EU after the 2013 reform.<sup>34</sup>

**Appropriate incentives to facilitate the exit of the older generation.** Access to land is seen as the biggest barrier to new entrants to agriculture. Facilitating the exit of the older generation would help in the transfer of land within families as well as make more land available to purchase. The Communication acknowledges that "there is a growing need to support actions that stimulate the transfer of knowledge among generations (through partnerships and other new business models) and facilitate succession planning (i.e. advisory services, mentoring and the preparation of "farm succession plans")". Member States that identify generational renewal as an objective in their CAP Plans should be required to indicate what measures they have put in place to assist farm families with these issues.

Early retirement schemes were first introduced into the Rural Development Framework in 1992 and discontinued at the end of the programming period 2007–2013. National evaluations concluded that these schemes had limited impact (Hennessy, 2014). More attention should be paid to the design of CAP schemes that in practice act as a disincentive to exit farming. Decoupled area-based payments requires minimal active use of the land. Existing farmers are incentivised to retain land in order to retain the subsidy, and the payments are used by older farmers as a form of pension. Making payments to older farmers who remain active in agriculture is clearly inconsistent with a desire to encourage more new entrants. Various ways of removing this disincentive might be considered.

#### **4.4. The global dimension of the CAP**

The final section of the Communication addresses the global or external dimension of the CAP. The Communication looks at this from three angles.

The first angle is the importance of the external dimension for EU agriculture. The Communication recognises that through the efforts of the EU's agri-food industry, with the assistance of the EU's promotion policy under the CAP, the EU has become the world's largest agri-food exporter. There is an implicit presumption that further growth in agri-food exports can contribute to farm viability and to the creation of jobs in rural areas. The Communication also highlights the ambiguous role of agri-food imports. On the one hand, imports contribute to the accessibility, variety and affordability of food, but on the other hand, they can also be a competitive threat to EU agriculture.

The second angle is the impact of the CAP from the viewpoint of the EU's partner countries and particularly developing countries. This reflects the EU's commitment to Policy Coherence for Sustainable Development (PCSD) as well as to the implementation of the Sustainable Development Goals (SDGs).

Finally, the Communication notes that the future CAP has a role to play in addressing the root causes of migration, which is one of the ten Juncker priorities for the current Commission. These three aspects of the Communication are discussed in this section.

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<sup>34</sup> European Parliament procedure reference 2017/2088(INI).

## Trade and EU agriculture

### SUMMARY OF KEY POINTS

- **The EU should remain committed to the spirit as well as the letter of its commitments in the Uruguay Round to limit trade-distorting support.**
- **More consideration should be given to ways of assisting particular sectors, groups of farmers or specific rural areas likely to be adversely affected by free trade agreements to adjust to greater competition, rather than rely solely on excluding vulnerable sectors from liberalization efforts.**

The Communication suggests a number of measures to maximize the contribution of the external dimension to EU agriculture:

- Further liberalization of trade (through reducing market access barriers in export markets).
- Playing a leading role in the WTO promoting open trade and advocating strict disciplines on trade-distorting forms of support. The Communication recognizes the prerequisite is to maintain the market orientation of the CAP and the compatibility of CAP measures with international trade law.
- Removing restrictions on exports through unjustified sanitary and phytosanitary (SPS) standards through seeking “a fair and balanced relationship” with its trading partners and promoting the EU SPS ‘Single Entity’ concept.
- Seeking greater cooperation with partner countries and regions to address new and emerging animal health and phytosanitary threats using the EU’s different cooperation and technical assistance tools.
- Recognising and reflecting the sensitivity of specific agricultural sectors that cannot withstand full trade liberalization and unfettered competition with imports in trade negotiations.
- Exploring ways to address the geographical imbalances of advantages and disadvantages that affect the farm sector with the Union as a result of EU trade agreements.

The main obstacle to the pursuit of this agenda in the coming legislative period is that the future environment for global trade may be less favourable to the continued growth of EU agrifood exports than in the past. The Communication emphasizes the role of the WTO in pursuing further market opening. The lack of an agreed work programme on agriculture at the last WTO Ministerial Council meeting in Buenos Aires in 2017 does not augur well for progress. It would be helpful to identify initiatives that the EU might take in an effort to constructively help to overcome the impasse at the WTO. To maintain its credibility as a leader of potential moves to rejuvenate the WTO’s negotiating function, the EU should remain committed to the spirit as well as the letter of its commitments in the Uruguay Round to limit trade-distorting support. A unilateral offer coordinated with other countries to reduce some of the EU’s very high bound tariffs which no longer have much protective effect could be one way to encourage this constructive engagement.

The EU has an ambitious agenda to open markets through bilateral free trade agreements (FTAs). There is a growing awareness of the need to ensure not only that the benefits of these agreements are widely shared, which is often the case, but that the costs borne by industries that are unable to compete with lower-cost imports and by workers that are displaced by imports need to be more explicitly recognized and addressed.

The EU approach in negotiating the agricultural chapter of FTAs has been to exclude sensitive sectors from liberalization or to restrict the effect of liberalization by limiting it to specific import volumes under Tariff Rate Quotas (TRQs). The successful conclusion of an FTA, which overall may have very positive benefits for the European economy, is threatened by last-minute haggling over the size of an agricultural TRQ. Farmers argue that it is unfair that they should be sacrificed in order to secure an agreement. The reason why negotiations end up in this way is because of the very high protection that the EU maintains on a small number of specific agricultural products, whereas tariff rates on other, non-agricultural, products have by and large already been liberalized. The possibility of using CAP money and/or explicitly allowing State aid to support the adjustment of areas, sectors or farmers particularly exposed to increased import competition under trade agreements should be more fully explored.

The Communication's emphasis on SPS barriers to increasing EU agri-food exports to third countries is well-founded. Not all the EU's trade partners recognize the EU as a single entity particularly for veterinary and animal health issues. When the EU recognizes the SPS standards of an exporting country as meeting its standards it grants market access to all EU Member States. The partner country often requires each Member State to seek individual approval and certification, which can lead to long delays in market opening and encourages competition between Member States to gain this access. The EU's 'Single Entity' concept pursued by DG SANTE is to persuade third countries to recognize the single market as an entity, though it will be equally important to insist on the role of regionalization if a disease outbreak occurs. While important, these issues do not fall within the legislative remit of the CAP.

### The CAP and development

#### SUMMARY OF KEY POINTS

- **Greater use of coupled support in the EU risks increasing incoherence with development objectives.**
- **Formal mechanisms to allow for evaluation of the CAP's coherence with EU development policy and with the implementation of the SDGs should be strengthened.**

The Communication states that "the CAP is and will continue to be coherent with the EU development policy" as set out in the recent European Consensus for Development. It highlights the importance both of encouraging sustainable agricultural development as a way to reduce poverty in developing countries, and promoting the development of agricultural markets and inclusive value chains which benefit the poor and encourage agro-industry in developing countries to create jobs.

Because the Communication considers the CAP coherent with the EU's development policy objectives and the SDGs, no specific actions are proposed. Successive reforms of the CAP have indeed greatly reduced its distorting effect on world markets to the benefit of producers in developing countries. The abolition of agricultural export subsidies was a major achievement from a policy coherence for development perspective. Similarly, the shift from market price support to partially-coupled payments in the MacSharry reform, and the subsequent decoupling of these payments in the 2003 Mid-Term Review of the CAP and the 2008 CAP Health Check, were further major steps towards greater coherence between agricultural and development policy (Blanco, 2018).

Development NGOs report that, in some developing countries particularly in Africa, the availability of cheap EU commodity products (milk powder, poultry meat, onions) on local markets is a competitive threat to local production. These trade flows can arise because of the nature of consumer preferences

on EU markets (for example, wholesome but misshapen produce may be unsaleable on the EU market but may still have some value when exported to an African market). Coupled payments which decrease the market orientation of CAP producers increase the likelihood that such disruption of developing country markets may occur.

The Communication is similarly silent on the developmental impacts of agricultural imports from developing countries. These exports are an important source of foreign exchange for these countries, they can make an important contribution to generating rural incomes and jobs. However, in some cases these exports can have unintended social and environmental impacts in the exporting countries (for example, deforestation stimulated by imports of palm oil or soybeans). Certification schemes are used to address these negative impacts, but with mixed success. As with potential negative impacts of EU agrifood exports, the appropriate response may not always be a CAP policy instrument. There is a case for a more formal consultation process where these issues can be raised so that the role of the CAP, if any, might be examined.

### **The CAP and Migration**

The Communication commits that “The future CAP must play a larger role in implementing the outcome of the Valetta (*sic*) Summit, addressing the root causes of migration.” It suggests six specific actions to this end:

- Sharing knowledge and know-how gained from CAP-supported projects to develop employment opportunities and revenue-generating activities in regions of origin and transit of migrants, including possible projects for training young farmers - with the involvement of European farmers' organisations.
- Developing EU-Africa Union exchange schemes for young farmers along the lines of ERASMUS+.
- Deepening cooperation on agricultural research and innovation through the relevant EU policies and instruments.
- Enhanced strategic policy cooperation and dialogue with the Africa Union on issues related to agriculture and rural development so as to help the region develop its agri-food economy.
- Offering opportunities for seasonal workers in agriculture.
- Using EU rural development programmes to help settle and integrate legal migrants, refugees in particular, into rural communities, building on the experience of Community-Led Local Development/LEADER projects.

The six specific Commission proposals in the Communication are valuable in their own right. However, only the proposal to use CAP resources to help integrate legal migrants into rural communities would seem to fall under the specific competence of the CAP. The other projects involve areas of competence within the Commission other than agriculture, or even refer to competences reserved for Member States such as the admission of non-EU nationals as seasonal workers.

A Task Force for Rural Africa has been announced to look at job-creating economic development in agriculture, agri-business and agro-industries, and to advise on priorities and next steps in cooperation with Africa. The Task Force will work in close cooperation with the African Union and will complete its work by January 2019. The intention is to move beyond traditional forms of development co-operation to focus on “targeting policy support, fostering investments in rural areas and supporting agro-

industries in Africa, with the involvement of the private sector<sup>35</sup>. The focus in future will be on 'investments and policy dialogue' to help address the underdevelopment in African agriculture.

#### 4.5. The CAP in relation to wider domestic/EU policies

##### SUMMARY OF KEY POINTS

- **The Communication acknowledges links between agriculture, human and animal health, nutrition and food but makes no specific proposals.**
- **The Commission says that it can help farmers to adapt to changing demand for their produce which arises from wider societal change.**

Demands from society as a whole regarding agriculture are now at variance with the original objectives of the CAP stated in 1957 and reiterated in the Treaty on the Functioning of the European Union. For example food safety is high on the list of consumers' concerns.

Many consumers are seeking more differentiated products, with a focus on high quality, taste and wholesomeness. In another sphere, farming supported by the CAP is also expected (at least) to abstain from further damaging resources such as water quality and natural habitats. Ethical issues, in particular animal welfare and fairer trade, are also becoming mainstream concerns.

The Commission's Communication states that the way food is produced and marketed "should adapt to citizens' expectations in particular concerning the impact on their health, the environment and the climate". In a section devoted to "Addressing citizens' concerns regarding sustainable agricultural production, including health, nutrition, food waste and animal welfare" the Communication states that the CAP must respond to consumers' demands and valuation of food that "carries broader benefits for society, such as organic produce, products with geographical indications (GIs), local specialities and innovative food". But that the CAP must also "become more apt at addressing critical health issues such as those related to antimicrobial resistance caused by inappropriate use of antibiotics". The CAP can help farmers to "improve the application of EU rules on animal welfare" and to further increase standards through voluntary initiatives both within and outside the EU.

#### Human health, nutrition, food insecurity and food waste

The Communication acknowledges the CAP's role in promoting healthier nutrition, helping to reduce the problem of obesity and malnutrition. Making fruits and vegetables easily available for EU citizens (school schemes) is quoted as an example, and promotion of healthy dietary practices should also be "a focal point in the CAP promotion activities". The potential role of the CAP to reduce food waste and food losses is also mentioned but limited to better production and processing practices (technological innovation) and supporting initiatives promoting a circular bio-economy.

**Human health and nutrition.** According to the World Health Organisation, diets play a major role in ill-health in the EU, together with smoking, harmful alcohol consumption and physical inactivity (WHO, 2012). High blood pressure, high body mass index, high blood glucose and high cholesterol are all linked to food and dietary practices, which are influenced by factors like relative agricultural prices. In the EU, nearly 60% of the EU adult population is now overweight. The rate is expected to increase to 67-91% by

<sup>35</sup> Commissioner Hogan, Address to joint DEVE/AGRI Hearing on "The Impact of the CAP on Developing Countries" on 27th February 2018 in the European Parliament, [https://ec.europa.eu/commission/commissioners/2014-2019/hogan/announcements/speech-joint-deveagri-hearing-impact-cap-developing-countries-27th-february-2018-brussels\\_en](https://ec.europa.eu/commission/commissioners/2014-2019/hogan/announcements/speech-joint-deveagri-hearing-impact-cap-developing-countries-27th-february-2018-brussels_en)



2030 in some Member States (WHO figures). A recent estimate by the French Ministry of Finances is that the social costs of obesity exceeds €20 billion in France only, due to associated diabetes, cardiovascular diseases, cancers, mental health problems and respiratory diseases. Among the main risk factors are a diet high in fat and sugar (sodas in particular), low fruit and vegetable intake, and excessive alcohol consumption.

The linkages between the CAP and health/nutrition issues have been highly controversial in the past. The CAP was accused of encouraging consumers to purchase those goods for which surpluses were created by the market intervention system, in spite of their questionable nutritional characteristics (e.g. butter, wine) and of subsidising tobacco. However, at the same time, economists pointed out that high tariffs and high guaranteed prices raised the cost of sugar, butter and meat for consumers, which had some indirect positive nutritional impacts. Today, tobacco subsidies have disappeared and there are no longer public surpluses of wine or butter. However, recent reforms of the CAP (end of quotas, the ending of administrative prices), *de facto* resulted in a lower price of butter and sugar and beef. Lower prices and more processed food are criticized by nutritionists who believe that corrective measures such as food taxes or nutritional education are now more necessary than in the past. (IPES-Food, 2016) Recently, educational programs were redesigned to promote “healthy eating habits and the consumption of local products”<sup>36</sup>. Most Member States now formulate dietary guidelines which attempt to guide the food choices of consumers quite independently from their agriculture policies.

**Human health and pollutants.** Agriculture and food also affect consumers' health as a result of the widespread use of sanitary and phytosanitary products in the sector. Chronic exposure to pesticides is associated with cancer, respiratory disorders, disruption of the endocrine, reproductive, immune and neural systems (including Alzheimer's and Parkinson's diseases) and thyroid dysfunction. Products used in agriculture are not the only source of such chemicals in the environment: solvents, bisphenol, plastics etc. can also interfere, and it is difficult to unravel the responsibility of each pollutant in helping to cause long term syndromes. However, the health costs of endocrine disrupting chemicals (all pollutants) in the EU are estimated at €157 billion per year. These costs are linked to IQ loss, autism, infertility, and cancers (Trasande et al, 2015).

Agriculture is also involved in the health issues linked to air pollution. Ammonia emissions were responsible for a significant share of the sizeable social costs estimated by the EU Nitrogen Impact Assessment.<sup>37</sup> They come almost exclusively from the agricultural sector, mostly from direct emissions of manure by livestock, and for spreading of manure and other forms of nitrogen on to land... Agriculture is also a major sources of more "macro" particles, through ploughing (dust) and harvesting. These macro particles are hazardous by themselves, but they also help to disseminate smaller toxic particles.

Some Member States have been more active than others in using the CAP framework to support productions that respond to consumer concerns about health. They have used Pillar 2 (including EIP-AGRI) to encourage a lesser use of chemicals and to help transitions towards less health hazardous production techniques. Some MS have also implemented national taxes on chemicals (e.g. Denmark). As a result, the same herbicide (glyphosate) costs four times more in one MS than in another MS. Some MS have chosen to subsidize equipment to help reduce ammonia emissions or nitrate and pesticides leakage at the farm level. Some molecules have been banned from the list of authorized products, even

<sup>36</sup> A new “Aid scheme for the supply of fruit and vegetables, bananas and milk in the educational establishments” was set up in 2017 (merging the former school milk and fruit schemes) acknowledge the contexts of declining fruits and vegetable consumption and rising childhood obesity. The annual budget was raised by 60 percent, up to €150 million. Part of the total yearly budget should be allocated for educational measures meant for “reconnecting children with agriculture and the variety of Union agricultural products, particularly those produced in their region”. The EU has also developed nutritional labelling to inform consumers.

<sup>37</sup> Brink et al (2011) estimate that airborne nitrogen pollution (NH<sub>3</sub>, NO<sub>x</sub>, N<sub>2</sub>O) account for more than 70% of total cost of nitrogen related pollution in the EU-15. The total social cost estimates range between €70 and 320 billion a year.

though the actual list of authorized pesticides continues to differ across MS, also resulting in distortion of competition according to some national farmers' organisations.

**Food insecurity.** The Global Hunger Index developed by the International Food Policy Research Institute shows significant reductions in the hunger index for most EU countries over the period 1992–2016. However, specific groups of the population remain exposed to malnutrition or even undernutrition. The impact of the financial crisis is still observable in some MS such as Greece. At the peak of the crisis, some 24% of Europeans were on the brink of social exclusion and the number of beneficiaries of the food program for the most deprived rose from 13 million in 2008 to 18 million in 2010. The proportion of EU households unable to afford access to the minimum amount generally recommended in dietary guidelines has increased since 2010. Reports from UK, Greek, Spanish and French charities indicate rises in the number of people seeking emergency food support (Loopstra et al., 2015).

The CAP included some provisions to supply food banks and charities with intervention stocks under the 1987 Food Distribution programme for the Most Deprived Persons. With the end of surplus production that resulted from the 1992-2008 CAP reforms, those MS with an efficient domestic food aid system raised the issue that there was no such social policy to be funded at the EU level in the Treaties, and that there was little European value added (a position which was confirmed by the ECJ). Because in some MS, some food banks and charities depended heavily on the EU donations of food products, and because reducing funding to charities created a bad image of EU institutions, a political compromise between MS, together with the support of the European Parliament led to the creation of the Fund for European Aid to the Most Deprived which replaced the former scheme. It provides food but also clothing and other essential items for personal use, as well as economic advice and counselling, cofinanced by MS budgets.

**Food waste.** Reducing waste was identified by the European Parliament as a major way to improve the availability of food for the poorest consumers, but also to reduce costs and make the whole chain more sustainable. Analysis of the life cycle of wasted food showed that meat accounts for the highest amounts of resource loss in the form of water and nitrogen. Vanham et al. (2015) found that almost 80% of EU food waste, i.e. edible waste not consumed, was avoidable. The EU Waste Directive stipulates that by 2025 no biodegradable waste (including food waste) should be sent to landfills, but progress in Member States towards this target is highly variable and some MS are unlikely to reach the target (ECA, 2016). A recent initiative by the ENVI committee of the European Parliament proposes various measures to cut EU food waste in half by 2030, including clarification of labelling instructions for 'best before' and 'use by' dates.

**How the Communication addresses health, nutrition and food security issues.** The Communication only provides general guidelines to make the CAP coherent with health and nutrition policies under the broad issue of food that "carries broader benefits for society". The idea that production of food with positive nutritional and environmental attributes should be incentivized is implicit in the Communication.

The supply of food that combines both nutritional and environmental attributes could be encouraged by stronger incentives to grow organic food and to rely more on biological cycles (e.g. a greater use of nitrogen fixing crops, agroforestry, or agroecology in general). Longer crop rotations could reduce the use of phytosanitary products such as fungicides, insecticides and herbicides.

The Communication notes that consumer food choices depend on factors beyond the remit of the CAP. Instead, it suggests that the CAP's role is to anticipate trends and help farmers to adjust to them. A good test of the CAP's ability to do so would be the meat and dairy sectors, where a range of sometimes conflicting factors need to be reconciled. Diets with a lower meat and dairy content would both benefit

health and the global environment. However, animal production is necessary for the success of integrated production systems with low levels of chemical inputs; it is also necessary for the maintenance of some kinds of permanent pastures that provide a broad range of ecosystem services, from water management and carbon storage to support for biodiversity. Moreover ruminant livestock help to convert cellulosic material to food that would otherwise not be available for human consumption. It is not clear through what mechanism the future CAP would reconcile these varying pressures in order to provide farmers with an indication of how they should adjust their production.

### **Animal welfare and anti-microbial resistance**

The intensive use of antibiotics in livestock production contributed to increased antibiotic resistance, which contributes to increased infection in patients. It has become a major health problem worldwide and the EU is not spared. The Communication states that “the CAP should become more apt at addressing critical health issues such as those related to antimicrobial resistance caused by inappropriate use of antibiotics”. The EU prohibited the use of “zootechnical” antibiotics (i.e. those administered in a continuous flow for growth promoting purposes) in 2006, but the use of preventive (and of course curative) antibiotics continues. No concrete proposal for the reduction of antibiotics is made in the Communication, against a background of growing medical concern.

## **4.6. A new delivery mechanism**

### **SUMMARY OF KEY POINTS**

- **The disappearance of many EU level rules may not lead to simplification for Member States, because payments to farmers will still need to be controlled at national level.**
- **Member State’s willingness to put together genuinely strategic plans will be impeded by the fact that some but not all measures are co-financed.**
- **The compulsory inclusion of direct payments needs to be accompanied by targets requiring improvements in the underlying performance of agriculture. Targets for the distribution of subsidy are not enough.**
- **There is a risk of damage to the internal market if Member States’ plans are allowed to diverge too much. This is exacerbated if coupled payments are permitted without safeguards.**
- **Minimum levels of ambition for the various elements of a plan – economic, environmental, social – should be required. 30% compulsory environmental spend in Pillar 1 would help to achieve this.**
- **Both the Commission and Member States need to develop their capacity for strategic planning, for difficult conversations about resource allocation and for objective appraisal of impact. The time pressure under which the first plans are likely to be developed militates against this, but “partial approval” – signing off direct payments before everything else – is undesirable.**
- **Indicators which can be used to measure actual impact against all relevant EU objectives need to be identified or developed before the planning process gets under way. This is likely to need new indicators and new data.**

The biggest novelty in the Communication is the Commission’s proposal for a new delivery model in which Member States would take greater responsibility for designing measures within new strategic

CAP plans covering both Pillars. The Commission would approve the plans on the basis of maximising their contributions to EU level objectives but leave much of their detail to Member States, focussing instead on results. The proposal is presented as a simplification of existing arrangements and a response to President Juncker's "budget focussed on results" approach.

### **The Commission's plans**

The Communication notes that the current CAP delivery system "relies on detailed requirements set at EU level and features tight controls, penalties and audit arrangements" which are often very prescriptive down to farm level. It declares these to be unsuitable and proposes instead that Member States should take on the role of designing detailed measures and have "a greater say in designing the compliance and control framework" for beneficiaries, including controls and penalties. The EU's role would be to provide policy parameters such as objectives, broad types of intervention and basic requirements within which Member States would design and operate their interventions.

To "enhance EU added value and to preserve a functioning internal market" the Communication states that Member States should not design their measures in isolation but as part of a structured process leading to a CAP strategic plan for each Member State. The plans would include the interventions covered by both Pillars and would be subject to approval by the Commission. The approval process would aim to maximise "the contribution of the CAP towards the achievement of EU priorities and objectives and the achievement of Member States' climate and energy targets". It is seen as part of a common approach aimed at ensuring the delivery of environmental and climate objectives by all Member States with increased ambition.

Despite their wider scope and the new emphasis on results, the Communication expresses the aspiration that the new plans should be less complex than current rural development programmes and should omit prescriptive details such as eligibility rules. Member States will be expected to pursue "realistic and adequate" targets and help to reduce the administrative burden for beneficiaries.

The ideas in the Communication have subsequently been fleshed out in a non-paper titled "Public money for results" presented to Member States in early 2018 and in a series of presentations given by Commission officials. This reveals that – whilst Member States will in general choose from a menu of interventions in constructing their CAP plans – direct payments will remain a compulsory measure. The non paper gives further details of the way the new CAP plans would work and clarifies the Commission's intention that the relationship between it and Member States should move from one of compliance checking to a performance management role. This would mean the Commission and Member States jointly managing the achievement of objectives by the latter, but with only Member States responsible for checking the actions of beneficiaries.

The non paper notes that a performance management approach to CAP planning would require very clear indicators of outputs, results and impacts. Indicators would need to be SMART and leave no doubt as to the extent to which they had been achieved. The Commission notes that the current Common Monitoring and Evaluation Framework provides a basis for such indicators but that a stronger link between them and policy objectives is needed in order to enable more direct assessment of policy performance. It would use "output indicators" – very simple indicators of what has been bought with CAP funding – for the purposes of annual assurance that CAP funds were being spent correctly. More recent discussions with the Commission suggest that it does not plan to assess impact on an annual basis. Instead it will be assessed midway through the programming period and ex-post.

The Commission intends that audit and financial clearance will be a simpler process than at present. Since the Commission would no longer check individual transactions between Member States and beneficiaries it would rely on output indicator data in certifying that funds had been correctly spent. The example the Commission gives is of a Member State whose CAP plan targets that a certain number of hectares of organic farming will be supported. The Commission suggests that it might reduce funding pro rata to any shortfall in the target number of hectares. Under the current approach a Member State might identify a target budget with which to support organic farming but would not expect to have funds withheld if the money was spent supporting a smaller number of farms than estimated in the plan. Flat rate corrections – where the Commission reduces funding to a Member State in consequence of non-compliance with EU rules – would no longer apply to transactions at farm level although the Commission could impose them on a Member State for breaches of EU level rules (for example, those about how to construct and manage a CAP plan).

The proposed delivery model differs from present arrangements in a number of important respects and these are shown in Table 2.

**Table 2: Old vs new CAP delivery mechanisms**

ISSUE	CURRENT APPROACH	PROPOSED APPROACH
Objectives and targets	The CAP as a whole evaluated against objectives in EU law, but MS not required to contribute to these. Instead, MS must comply with detailed spending rules and target their RDP spending according to a SWOT analysis of their own circumstances. No objectives are required by the EU for MS's Pillar 1 expenditure.	MS to draw up single strategic CAP plans covering both P1 and P2 to deliver agreed contributions to the EU-level objectives based on a needs assessment
Design of measures	All measures in both pillars are designed in detail at EU level although many offer choices to Member States.	Direct payments to be compulsory and designed (with some flexibilities for MS) at EU level. The EU would define the range of other acceptable "intervention types" but MS would design and choose the specific measures.
Scope for Member States to select and vary policy instruments?	MS choose policy options within Pillar 1 (e.g. which if any sectors to offer coupled payments to) which is otherwise compulsory. They both choose and target measure types within their RDP <sup>38</sup> . A minimum 30% RDP spend applies to environmental and climate measures. Some flexibility between Pillars is allowed	MS would need to justify their choice of interventions to the Commission, but would have a free choice unless the EU made some other types of intervention (in addition to direct payments) compulsory. Some flexibility between pillars allowed
Basis of EU payment to MS	For compliance with EU law including detailed rules	Payment is for delivery of the CAP plan. Targets must be met through result indicators showing delivery by

<sup>38</sup> With M10 being compulsory.

		the MS of its chosen interventions. The performance management will include consideration of the extent to which impact on objectives has been achieved.
In case of deficient delivery	MS must return money recovered from beneficiaries to the EU budget. EU issues financial corrections to MS	MS recycle money recovered from beneficiaries to their national budgets. EU reduces payment for non-delivery of CAP plan but financial correction (additional penalty for systemic failure) only happens if a MS fails to comply with one of the few legislative requirements.
How payments are controlled	<p>EU law lays down specific rules about compliance checks, including their frequency, which the EU audits.</p> <p>MS must maintain a land parcel information system (LPIS) – digitised Geographical Information System maps with layers of detail (specified in legislation) intended to enable checking of detailed eligibility rules mostly set at EU level</p>	<p>MS would design their own compliance systems but would need to satisfy the EU that they were adequate.</p> <p>Annual review of expenditure by the Commission</p> <p>LPIS supports the compulsory direct payments system</p>

### Our analysis of the Commission's plans

A delivery model which links all of the CAP's resources in strategic fashion to achieve maximum impact is highly desirable, especially given the shortfalls against current EU objectives described in Chapter 2. The Commission intends that its new delivery model should be simpler – especially for beneficiaries, should preserve the integrity of the internal market and should achieve better results from CAP funding when judged against EU objectives. Our assessment is as follows:

- The absence of EU-level rules at farm level will not necessarily lead to much **simplification** for beneficiaries. Whilst Member States would be formally responsible for such rules in the new model, the Commission would still need to approve a Member State's general approach. The Commission would need to be able to justify to its own auditors any differences between the approaches it allowed different Member States to take, and it is not clear to what extent this could happen in practice. For instance, if a particular inspection frequency is necessary in one Member State it may well be necessary in another.
- Even if they are not constrained by the Commission, Member States will still be responsible for paying public money (including their own cofinancing contributions) to beneficiaries and will need to operate controls which are appropriate for this purpose.
- The Commission has indicated that direct payments will remain compulsory for all Member States and is expected to propose legislation which forces them to spend at least a large proportion of their Pillar 1 funds on this measure. This underlines the necessity of setting strategic objectives for the underlying economic performance of farming. Smart, resilient agriculture is not achieved by "targeting" direct payments, but by tackling the productivity issues which currently make direct payments necessary for some farmers. The objectives which

Member States set in their CAP plans need to target these underlying issues of performance. Objectives which simply relate to the way payments are distributed are not sufficient.

- The introduction of structured CAP planning for both Pillars does not in itself safeguard the **internal market**. The current Rural Development Programmes are highly structured but differ greatly in the emphasis they place on economic, environmental or social objectives. To safeguard the market there need to be minimum levels of ambition as well. The Commission says that it will negotiate levels of ambition with Member States when it approves their plans. However it is not clear how the Commission will respond if presented with a plan which prioritises one EU objective rather than others in a situation where all require action. Or how it will respond to Member States who set the bar low in order to reduce the risk of non-delivery.
- The problem is made worse by the time pressure under which plans will have to be approved. Because the plans will contain annual payments (at least the compulsory direct payments) these will need to continue and there will be pressure on the Commission to approve plans quickly. The likelihood in these circumstances is that Member States will be the demandeurs and the Commission may find it difficult to refuse any plan which is compliant with the basic legislation. Partial approval – agreeing how direct payments and any other annual payments will be handled in a first step before other aspects of the plans are settled – is likely to be an option.
- For this reason we consider that some constraint on the extent to which plans may differ from each other is needed in the EU-level legislation. If there is to be a minimum required level of spend on direct payments, for example, there should also be a minimum spend on the proposed new eco-scheme in Pillar 1. This would have the added advantage of continuing the strong linkage made between direct payments and the environment via the 30% greening payment which signalled a clear political commitment to the use of Pillar 1 funds to support public goods. A minimum spend at the same level on the new eco-scheme is the least which is needed to justify the Commissioner's claim that the next CAP will show greater environmental ambition.
- The Commission's "Budget for results" requires that EU policies achieve greater impact. The CAP needs to achieve more than just administrative simplification – important though that is. It needs to achieve more impact on the economic, environmental and social performance of agriculture than it does now. The achievement of **better results** requires two things. Firstly, Member States must be willing to spend their CAP funding in different ways to the present. And secondly, it needs to be possible for them to set targets which will demonstrate to themselves, the Commission and the wider public that these new choices are achieving results.
- The proposals for the Medium Term Financial Framework (MFF) have jeopardised the chances that Member States will be able to develop genuinely strategic CAP plans. His proposals are for deeper cuts to Pillar 2 than Pillar 1, with the suggestion that a higher co-financing rate for Pillar 2 might compensate for the proposed steeper reduction in EU funding. It is already unlikely that Member States would choose between measures which require greater national contributions and those which do not in an even-handed fashion. The possibility of higher co-financing rates would exacerbate this problem.
- The objectives towards which Member States must work need to be described with sufficient clarity. They need to be clear, specific and quantifiable, and data needs to be available in timely fashion with which to assess progress. Indicators with which Member States can set appropriate targets for the impact of their plans need to be developed and made available before the start of the planning process. Whilst proxies are available in some cases, this is a very substantial task which may involve the collection of data which is not collected now.

Overall, the operation of the new delivery model will require a very different approach from both Commission and Member States. Capacity building will be key to developing a productive process from which genuine performance management can result. The rules of such a new delivery model would differ greatly from those which apply to the CAP now. But as well as learning to operate new rules, Member States and the Commission will need to be willing to have different sorts of conversations with each other and on a stronger evidence base.





## 5 HOW THE COMMISSION'S PLANS COMPARE WITH THE VIEWS OF STAKEHOLDERS

### SUMMARY OF KEY POINTS

- A wide range of stakeholders has commented both before and after publication of the Communication.
- The new delivery model has attracted the most attention, with Member States and environmental NGOs especially anxious to know how it will work in practice.
- Many commentators are sceptical of Member States' willingness to deliver EU objectives at the expense of national priorities, as well as the Commission's ability to hold underperformance to account.
- Stakeholders particularly seek more clarity on the proposed targeting methods for direct payments; the details of the new greening architecture; and procedural elements of the proposed CAP plans.

### 5.1. Introduction

Although the debate over the forthcoming CAP reform has a long way to run, contributions to it have been made by EU and Member State public authorities, stakeholders, NGOs, think tanks and the scientific community. This chapter provides a synthesis and analysis of those views. It is divided into three sections: contributions on the proposed new CAP objectives and how they are to be achieved; contributions on "flanking" policies such as trade, food and health; and contributions on the proposed new delivery model. For each of these, the analysis provides an overview of the common or divergent positions of the main contributors to the debate and considers the extent to which these correspond with or diverge from the Commission's proposals. The chapter also highlights alternative solutions put forward by stakeholders for achieving the CAP's objectives.

As the CAP reform debate is constantly evolving, this analysis should not be seen as an exhaustive account of views expressed. It captures the views available at the time of writing, expressed in the months leading up and after the publication of the Communication. This report was drafted before the publication of draft regulations setting out the Commission's formal proposals<sup>39</sup>.

**Methodology.** 203 references<sup>40</sup> were examined in total, covering contributions from the AGRIFISH Council; individual Member States or groups of Member States (as distinct from formal Council papers and positions), stakeholders (NGOs, farming unions, rural stakeholders, etc.); and think tanks and academics<sup>41</sup>. The criteria used to source the contributions were that they should:

- Come from one of the groups of actors identified as being relevant to the CAP debate (see above).
- Focus on priorities for the CAP post 2020.

<sup>39</sup> Which are expected to be published in June 2018.

<sup>40</sup> References refer to any communication material which can be reports, studies, official positions, press articles, etc. In some cases, a single reference compiled the views of various stakeholders. The points made were then sorted according to the key themes analysed in this chapter, which we refer to as contributions.

<sup>41</sup> In accordance with the Terms of Reference, we did not include the positions from the European Parliament in this chapter. These have however been considered in the context of other parts of this report.

- Contain concrete proposals for the focus of the CAP post 2020 and where possible provide evidence of the shortfalls of the current system.
- Reflect the views of different Member States and interests insofar as possible.

The views analysed have come from different types of actors. While over 100 'contributions' (i.e. comments made on a specific topic) were gathered for each of the topics of the Communication, the elements which sparked most comments were the horizontal measures (including the new delivery model; see 0) and the economic objective (0) of the CAP, closely followed by the environmental and climate objective (0). A short description of the type of stakeholders with most contributions recorded (from the set of positions captured) is detailed under each section. Care has been taken to give due weight to all available contributions, but it must be borne in mind that the analysis is a snapshot at a moment in time which cannot definitively capture the evolving shifts in opinions and positions.

The table below summarises the results of this analysis. It gives a broad indication of how support for and dissent from the Commission's ideas appears to be distributed at the time of writing. The rest of the chapter provides a more detailed analysis of the positions taken by the various groups of stakeholders active in the debate.

**Table 3: Main stakeholder reactions to the CAP Communication**

KEY CAP ISSUES/ OBJECTIVES	PROPOSAL	POSITIVE REACTION FROM	PROBLEMS AND WHO THEY ARE RAISED BY	OTHER RELEVANT PROPOSALS FROM STAKEHOLDERS
<b>Smart, resilient agriculture (Objective 1)</b>	More targeting of direct payments to medium sized and smaller farms through capping, redistributive payment	Many MS, some farming unions		VCS should be retained and criteria for its use made less restrictive (many MS) A more radical redesign of direct payments is needed to link farm income to public goods delivery (some MS, some farming unions, environmental NGOs)
	Improved bargaining position for farmers	Most MS, farming unions, academics and civil society groups		
	Greater use of risk management tools	Main farming unions, many MS, some academics	Measures need to be well designed to avoid perverse incentives (some academics, environmental NGOs)	More market regulation (some MS, some business, some farm unions)
<b>Bolstering environmental care and climate action (Objective 2)</b>	Greening and cross-compliance combined into single "conditionality"	Generally welcomed		Need for sufficient environmental ambition (environmental NGOs, think tanks, some MS, some farming unions)
	Nutrient plans, incentives for precision farming	Main farming unions		
<b>Strengthening the socio-economic fabric of rural areas (Objective 3)</b>	Support for new/young farmers	Most farming unions, civil society groups, rural development groups		
	Investment in human capital	Main farming unions, civil society groups, rural development groups		

	Better rural broadband	Main farming unions, rural development groups		
	Continued support for LEADER			Single Community-Led Local Development regulation (based on LEADER approach) covering at least 15% of all ESIF funds (Rural Development groups)
	New value chains based on bioeconomy and circular economy	Main farming organisations and environmental NGOs		
<b>Horizontal (new delivery mechanism)</b>	MS must use both Pillars to make planned contributions to EU level objectives	Environmental NGOs, think tanks, many MS, some farming unions	-Some MS, think tanks, academics and NGOs think accountability will be hard to achieve. -Main farming unions, some MS worried about co-financing EAGF -Many MS concerned about timetable for plan approval	Merging of the 2 Pillars system to create a more coherent delivery mechanism targeted at farmers and rural actors with a special focus on public goods delivery (environmental NGOs, some farming unions)
	MS design most measures	Some MS, some think tanks	Contributes to concerns about renationalising the CAP because measures will no longer be "common" (most MS, one farm union, one think tank)	
	Simplification through delegation of most controls to Member States		Not a real simplification (main farming unions, some MS)	

## 5.2. Reactions to the CAP objectives

We first analyse the reactions to the CAP objectives and how the Commission sees them being delivered as proposed in the Communication and to the proposals made in relation to research and innovation (R&I). For each of the three objectives and the role R&I, the extent and the balance of contributions is described, followed by the analysis of the various reactions and positions put forward.

### To foster a smart and resilient agricultural sector

The views – the majority of which came from Member States – are mixed with respect to the Commission's intention to maintain **direct payments** as a means of meeting the sub-objective of **fair income support**.

The vast majority of Member States who have commented and the main farming organisations (e.g. Copa-Cogeca, CEJA as well as FoodDrinkEurope (FDE)) favour the continuation of direct payments which they see as being an important contributor to farmers' incomes. Many Member States and stakeholders also refer to a need to re-adjust the way in which direct payments are currently distributed to ensure a "fairer" distribution. This means very different things to different Member States and stakeholders. We note a degree of ambiguity in the positions between *who* should be targeted to make direct payments fairer (e.g. small farms) and the *mechanisms* through which this should happen (e.g. redistributive payment is considered alongside other options such as capping). This was an issue on which many non-Member State stakeholders expressed no opinion.

For some stakeholders, and in line with the Communication's proposal, the re-adjustment of direct payments should include a tighter or simpler '**active**' or '**genuine**' farmers definition (with some suggesting a targeting to these farmers while others an exclusion of those outside this definition). Other Member States would like direct payments to target (through an increased rate or a redistributive payment) **small and medium sized farms** (PL, IT, EL, DK, BE, RO, IE (Parliament)) or **young farmers** (LU, IT, BE, RO, CEJA).

The proposals for **capping or degressive** payments which are presented in the Communication as possible options to achieve a fair and better targeted support to farmers' income are supported by a wide range of Member States<sup>42</sup> as well as the EESC. However, a majority of the Member States want this to be voluntary. Those against capping and/or degressive payments include Copa-Cogeca, Romania (Parliament) and Sweden, on the basis it may counteract structural reform and harm competitiveness<sup>43</sup>. For the Committee of the Regions and EFFAT, capping should be linked to creating or maintaining employment and cohesion in rural areas. The idea of a **redistributive payment** is supported by HR, IT, RO, EL, DK and CZ as well as SI, ES, SE and FI but on a voluntary basis only. Romania supports a redistributive payment to support young farmers.

With respect to **internal convergence**, some Member States and the EESC would like to maintain the possibility of not implementing a flat rate basic system (e.g. IE, SI, FI, AT).

For a number of Member States, the key issue is not so much how direct payments will be distributed to farmers but rather the size of the envelope to be made available to each Member State. Although the Communication briefly mentions the principles of 'equality' of payments, the need for greater **external convergence** is stressed more explicitly by Member States particularly from central and eastern Europe

<sup>42</sup> IE, HR, DE, HU, SK, NL, SI, DK, ES, CZ, IT, BE for capping; HR, LU, IT, EL, DE, ES, AT, BE for degressive payments.

<sup>43</sup> SE would rather see all direct payments to be phased out.

(also by Copa-Cogeca, EPHA and the EESC). A few other Member States have expressed caution arguing the production costs should be taken into account which would justify the continuation of higher per hectare payments for some Member States (e.g. IE Parliament, DE, CY, DK, EL, PT).

Conversely, a number of academic contributions question the continuation of direct payments at all, seeing them as an ineffective and inefficient means of achieving income support. A number of contributors to the debate suggest a more radical redesign of the payments to target them towards the delivery of environmental public goods (e.g. NL government position, EESC). Environmental and development NGOs and a number of academics propose that the payments should become a contractual payment paid on the level of environmental services provided and/or results-oriented rather than based on area entitlements (the farming union ECVF is also on board with the latter).

**Voluntary coupled support (VCS)** is not mentioned in the Communication, but twenty Member States as well as the main farming unions flag the need to maintain it. A number of Member States also ask for greater flexibility in the eligibility/rationale for choosing VCS sectors and highlight that the flexibility recently agreed in the Omnibus regulation should be retained. Of these, a first group highlight the importance of coupled support to disadvantaged areas (e.g. mountains and islands) or vulnerable (or less profitable) sectors (e.g. IE, FR, EE, BE, FI, RO, PT, HR, EESC and CEJA), including the forestry sector as highlighted by Italy for the Alpine region. Copa-Cogeca also support this, highlighting the case for this type of support for livestock production in particular. Support for vulnerable areas is also the purpose of the **Areas of Natural Constraint** support, which Mahé and Bureau argue should be kept in Pillar 1 for cohesion purposes. The EEB proposes that the ANC payments should be redesigned to prioritise the prevention of land abandonment and avoidance of intensification.

A few countries highlight the value of coupled support for socio-economic reasons, such as the maintenance of or creation of new jobs (e.g. LV, CZ, HU, CY). Others suggest that coupled support should be focused on support for environmental management (BE, SE, CY, HR, DK, IT), to prevent land abandonment (CY), or to support quality products (IT), similar to the old Article 69/68 schemes<sup>44</sup> which existed prior to the 2013 reforms. There are limited numbers of stakeholders expressing views against coupled support, including those who do not want such payments at all (DE, DK, NL or UK) on the grounds of their market distortionary effects, and those who want them strictly limited in scope (e.g. LU, SE).

The contributions to the theme of **investments to improve farmers' market reward** largely focus on the ways in which the position of farmers in the food supply chain could be strengthened (while the issues around unfair trading practices are being discussed under a separate legislative initiative of the Commission). Member States generally welcome the commitment by the Commission on this sub-objective. Farming organisations (Copa-Cogeca/CEJA) highlight the importance of strengthening farmers' bargaining power through producer organisations and promoting cooperation, a point also reinforced by academics. However, some Member States point out that producer organisations and vertical cooperation have not always worked in their countries. Instead, the Slovak Presidency proposed, and echoed in a non-paper from a number of EU-13 Member States (BG, CZ, HU, LV, LT, SK and HR), greater market transparency as a more likely means of ensuring a fair distribution of profit margins throughout the food supply chain. Investments that can be made via the EAFRD for farm and business development (e.g. including diversification), quality schemes, promotion activities, business advice or

<sup>44</sup> Article 69 of Council Regulation (EC) No. 1782/2003 allowed Member States to continue granting coupled payments to farmers, for specific types of farming which were important for the protection or enhancement of the environment or for improving the quality and marketing of agricultural products. Renumbered as Article 68 of Regulation 73/2009, their scope was expanded to cover some sectors in disadvantaged regions or to support economically vulnerable types of farming.

financial instruments are not considered in great detail. The JRC, one academic and environmental NGOs consider that tackling this issue should be enshrined in a wider approach or initiative focussed at building sustainable rural value chains at the regional level. NGOs also highlight the importance of incorporating sustainability criteria within public procurement rules. From the Member States, FR, IE, PL and IT have particularly highlighted the need to promote a greater shift toward higher quality and organic (FR only) production and consumption, short supply chains and protected geographical indications as well as improving consumer information as a means of improving market return for producers.

In terms of the views on **risk management**, contributions analysed came from different groups with a majority from farming unions, Member State and EU level positions (political groups and Council). The positions are found on a continuum between those who advocate for a greater market liberalisation accompanied by the development and use of tools to manage a greater exposure to risks, and those who think a higher degree of market regulation (such as safety nets) should be maintained to manage risk, alongside a more limited development of risk management tools. A small group of Member States (e.g. SE, DE) and the main trade unions (e.g. CELCAA, FDE, CEMA, Eurocommerce) favour a greater market liberalisation with the use of risk management tools, including insurance schemes or the use of futures to address volatility. Most stakeholders, including the main farming organisations (Copa-Cogeca, CEJA, ELO) and many Member States, express a mixed position and support a greater emphasis on risk management. They highlight the need for new and improved tools<sup>45</sup> which should be voluntary, brought together under a common framework. These tools should not replace public intervention measures generally and especially not those used for dealing with crises (e.g. safety nets, private storage, emergency measures). A last group of stakeholders represented by the Visegrad group of Member States consider that farmers' exposure to risks would be more effectively managed through a more active use of CMO instruments, which they believe should receive the bulk of the emphasis in relation to risk management.

Many Member States (IE, FR, EE, SI, EL, FI, HU) argue that direct payments fulfil an income stabilisation role and therefore should be maintained. In contrast with Member State views, academics argue that the effectiveness and importantly the efficiency of direct payments in stabilising farm incomes is lower than other tools such as crop insurances and income stabilisation tools. Other contributors propose that access to direct payments should be conditional on participating in risk management schemes (EP research study) or that the risk management tools should be a compulsory element of Pillar 2 (EE presidency conclusions) or even a third Pillar (LT Parliament). In an attempt to reduce farmers' dependence on direct payments to stabilise their incomes, the European Milk Board (EMB, which represents EU milk producers) proposes to roll out a 'Market Responsibility Programme'. The programme would be used when there is a risk of a milk market imbalance, by flexibly adjusting milk volumes to demand based on a market index. Interventions would be based on a combination of incentivised, voluntary or mandatory supply reductions depending on the crisis at hand.

While the Communication is silent on the topic, a number of Member States, academics, one think tank and the European Milk Board (as well as a number of MEPs) think the rules of the **crisis reserve** need to be reviewed to increase its speed of response and use in the event of crises. In particular, one prominent issue flagged by public authorities and academics is around the annuality rule of the crisis reserve budget, which impedes its use as a countercyclical tool. Many of these contributors highlight the crisis measures taken in the milk sector such as private temporary storage and incentive schemes to reduce

<sup>45</sup> The forestry owner organisation CEPF also supports a greater deployment of efficient risk management tools in the forestry sector.



production as examples of effective crisis management mechanisms (although some academics disagree, see Chapter 5). The EMB further calls for an EU monitoring body to regulate crisis events through tools financed by a public crisis fund, producer penalties and producer levies. The Communication's proposal to create an EU-level platform on risk management would establish a forum for dialogue rather than a binding authority.

Alternative proposals made by environmental NGOs, one farming group (ECVC), the RO Parliament and some academics (RISE Foundation) stress that the emphasis should be more on building diversified resilient businesses which adapt to the changing economic, social and environmental/climate challenge, i.e. building adaptive capacity and focusing on risk prevention. NGOs and ECVC see a contradiction in offering publically funded risk management measures for insuring only private benefits.

### **To bolster environmental care and climate action and to contribute to the environmental and climate objectives of the EU**

The proposals in the Communication are rather limited in their detail with respect to the proposed new green architecture for the CAP. Contributions are equally broad brush, focussing primarily on the principles of environmental and climate integration within the CAP, with some proposals setting out a different way in which CAP policy instruments can be designed and structured to improve the contribution of agriculture, forestry and wider rural areas to address environmental and climate objectives. The contributions analysed offered a balanced representation of the main interest groups, including environmental NGOs, Member States, farming, trade and forestry unions, academics and think tanks.

Overall, there is general agreement from the whole range of contributions that greater emphasis is needed to increase the **sustainability of agriculture** to combat climate change and to deliver environmental public goods. The differences relate to the way in which this should be achieved. For example, the main farming unions, Copa-Cogeca and CEJA, place emphasis on those environmental measures that result in greater resource efficiency for production highlighting the benefits of nutrient management plans, investments in irrigated systems, carbon auditing or precision agriculture. Some Member States (e.g. HR, LV, EL) and Copa-Cogeca do not want environmental or climate action to impact negatively on production or want their contribution to the environment and to climate issues to be considered jointly (e.g. IE). Other contributions, however, argue for the CAP to shift all CAP payments towards an intervention logic focussed on sustainable agricultural practices and the delivery of public goods (environmental NGOs, some farming organisations such as IFOAM EU, ECVC, ELO, some academics and think tanks such as IEEP and WUR as well as some Member States (e.g. NL)).

Civil society organisations, as well as some academics and think tanks, are most vocal in calling for the 2020 CAP reform to address environmental and climate issues, with such views being expressed both prior to and after the publication of the Communication. As well as ensuring the continuation of support for well targeted agri-environment-climate and organic farming measures in the EAFRD, they argue for a fundamentally new approach in which direct payments become solely targeted at achieving public goods (covering environmental and social outcomes including animal welfare) based possibly on a contractual model (e.g. BirdLife, WWF, EEB, EPHA). Similar demands are also put forward by the organic farming union IFOAM EU and the European Landowners' Organisation ELO. IFOAM EU also proposes to use sustainability assessment tools to support farmer-led continuous development, inform payment calculations and monitor and evaluate outcomes. The need to focus on the delivery of these outcomes at the landscape scale via cooperation and collective action is also highlighted (e.g. WWF and

academics<sup>46</sup>). BirdLife calls for a CAP that disincentivises environmentally damaging practices and proposes a progressive taxation of pesticides and synthetic fertilisers to support and fund a transition towards more sustainable practices.

Many of the contributions that are relevant to the **future green architecture of the CAP** are linked also to the new performance delivery approach proposed (see **Error! Reference source not found.**), welcoming the simplification and streamlining proposed (mainly Member States and farming unions) but with concerns about ensuring accountability for ambitious environmental and climate action (mainly environmental NGOs). A number of Member States also ask for the conditionality to have a degree of flexibility to adapt its requirements to local conditions.

There is also broad support for a strong mandatory framework of standards reflecting adherence to the **polluter pays principle** to underpin environmental measures in both CAP funds (EAGF and EAFRD) from academics, trade and business groups, environmental NGOs and Member States. Environmental experts, some progressive farming unions, academics and think tanks have highlighted the importance of having flexible **entry-level environmental schemes** that sit just above the baseline of mandatory standards and on which more targeted and ambitious multi-annual contractual schemes can build.

Most Member States who have expressed a view on the **higher ambition environmental schemes** would like to maintain the status quo and keep those as voluntary for farmers in Pillar 2 (in line with what is proposed in the Communication). The case for allowing budget transfers to Pillar 2 was also highlighted by some Member States. Most other stakeholders want these to go further than is currently the case and propose additional ideas. Environmental NGOs and some academics ask for more ambitious schemes to be designed as more results-based multi-annual contracts, rewarding beneficiaries for delivering certain environmental outcomes (IFOAM EU argues for social outcomes to be included). The farming union CEJA also supports a combination of results- and management-based schemes. NGOs, some academics and think tank and a few Member States also call for a higher budget for Pillar 2 and environmental and/or organic measures in particular. Other ideas proposed include making enrolment in AECM compulsory for areas with important ecosystems or to introduce a minimum spending for more ambitious measures.

The ANC measure is seen as a measure with social objectives to help avoid land abandonment, which indirectly may benefit the environment, rather than an environmental measure in its own right (see also 0). The French government has committed to strengthen ANC and organic farming budgets. Forest owners call for forest-environmental measures to be designed as payments for ecosystem services and to become more attractive financially. SE however sees forestry policy as a national competence only<sup>47</sup>.

### To strengthen the socio-economic fabric of rural areas

There are fewer contributions to this topic than other issues raised in the CAP Communication. A majority of contributions made were from Member State and farming, food and forestry unions. In general there is considerable support for the need to invest in human capital to support sustainable and quality **employment** and to help people living in rural areas to fulfil their potential. This includes rethinking the skills required in rural areas, supporting improved digitisation, connectivity and diversification in rural areas as well as attracting new farmers and supporting the transition of young people into farming. These priorities are highlighted in the Bulgarian Presidency Conclusions from March 2018 for example. They also feature in the expert conclusions from a Commission organised

<sup>46</sup> See for example PEGASUS Horizon2020 project.

<sup>47</sup> It is noted that forestry measures are voluntary for MS in EAFRD.

workshop on socio-economic issues as part of the 2017 CAP consultation. Although it is not mentioned in the Communication, Copa-Cogeca highlights the importance of the ANC measure for maintaining jobs in rural areas. Other ways of maintaining or supporting jobs in rural areas proposed include the promotion of labour intensive farming systems (think tank EPSC) and making sure that the criteria for capping direct payments are linked to levels of labour/employment on farms (e.g. EFFAT, the trade union federation) (see also 0).

Both environmental NGOs and farming organisations are supportive of the proposals that measures promoting growth and jobs should be linked to the objectives of the circular economy and bioeconomy, highlighting the need for the CAP to work coherently with other policies towards these objectives. The importance of ensuring better broadband connectivity is flagged by Copa-Cogeca as an important precursor to the wider uptake of smart technologies. BirdLife argues that socio-economic support in rural areas should be a transition instrument only, which should help steer a move towards more sustainable activities in rural areas that are also less dependent on subsidies and which should be moved to EU Cohesion policy over time (in 1 or 2 programming periods).

In line with the Communication, the value of the **LEADER** approach and Community-Led Local Development (CLLD) is highlighted by Member States, academics and rural civil society organisations. It is seen as especially valuable when used in combination with the cooperation measure, to engage with local governance structures to mobilise rural potential to a greater degree. As an alternative model, the European Rural Parliament and ELARD both propose to establish a single CLLD regulation that would require Member States to put in place a single CLLD operational programme covering at least 15% of all ESIF funds. Although the Communication proposes to maintain the status quo, the need for a rural proofing mechanism is acknowledged which responds to a key demand of rural development associations.

In keeping with the Commission's proposals, the need to **attract new farmers**, particularly supporting the transition of young people into farming is met with widespread support and has been highlighted by academics, Member States, civil society organisations and EU institutions such as the EESC (as well as the EP). CEJA suggests that support for young farmers should continue to be compulsory while Copa-Cogeca emphasises the need for young farmers to have access to credit. Italy also flags the need to facilitate access to support measures for projects led by female farmers as well as young farmers, especially for innovative projects. Some also suggest that the CAP should also support early retirement and the consolidation of land holdings (Bertelsman Stiftung), or access to land (farming unions) whereas the Communication proposes that this would be best stimulated by national actions.

### Using research and innovation to better link what we know to what we grow

Overall, a range of commentators expressed their support for the Commission proposals on the topic (e.g. Erjavec and Rac, Copa-Cogeca, IE, IT). Whilst several contributions put weight primarily on R&I and technological solutions, others stress the need to develop and strengthen the Agricultural Knowledge and Innovation System (AKIS) whilst other contributions tackle innovation development and its dissemination and uptake together.

Overall, the topics for research and innovation identified in the different contributions include enhancing competitiveness especially for SMEs (e.g. farming and food/drinks associations, IT Senate), sustainable intensification (e.g. academics, CZ Parliament), structural change (academics taking part in an EP workshop), carbon auditing tools and dissemination (IE) or innovation in forestry for the development of better quality and technically uniform wood products (IT).

A number of commentators put forward more detailed ideas about how to better link research and innovation with practice, with proposals including a clearer commitment to allocate greater funding to research (e.g. CEMA, ECVC, Matthews) or to make provision of relevant data a precondition for farmers to receive direct payments (EEA). In terms of the approach and as indicated above, some believe the bulk of the emphasis should be placed on tailoring research for small or family farms (ECVC, HR parliament, IFOAM EU) or on developing stronger AKIS systems including better developed Farm Advisory Systems and “farmer-to-farmer” approaches to encourage more sustainable practices (CoR, environmental NGOs, IFOAM EU, Erjavac and Rac). For this to happen, Erjavac and Rac recommend investment in skills acquisition, effective institutions and the inclusion in the CAP regulations of an obligation for Member States to prepare an AKIS plan, which is similar to the Communication’s proposal to link the strengthening of AKIS to the approval of Strategic Plans.

Training and advice are also highlighted as a means of supporting environmental delivery and a shift towards more sustainable agriculture (environmental NGOs, farming and forestry organisations, academics and think tanks). In addition, the importance of involving stakeholders and other government departments in policy design and subsequent implementation at national/regional level (e.g. environment ministries) is stressed by environmental NGOs.

The EIP-Agri is also mentioned by different academics and Member States as promoting a bottom up approach to the identification of research needs and to devising ready to implement (and not necessarily too technological) solutions. There is also support for the use of Producer Organisations as a platform for cooperation and peer to peer exchange in relation to developing innovation.

With respect to new technologies in particular, a number of farming and food businesses unions (e.g. CEJA, Copa-Cogeca and FDE) and Member States (e.g. IE, FR, IT, PL) welcomed the emphasis on smart and precision farming in the Communication. Commentators from the academic, think tank, environmental NGO and landowner sectors (IEEP, WER, WWF, ELO) also highlighted the potential of digital and remote sensing instruments with respect to their potential to improve the collection and use of data – possibly enabling more proportionate controls to take place – and to facilitate self-assessments by practitioners. These stakeholders remain cautious however and flag that new technologies cannot be the answer to everything.

### **5.3. Reactions on other domestic and global issues**

This section analyses the reactions to what the Communication proposes in relation to other domestic and global issues.

#### **Addressing citizens’ concerns regarding sustainable agricultural production, including health, nutrition, food waste and animal welfare**

The Communication acknowledges the potential role of the CAP in addressing a multitude of societal expectations, an idea which is supported by contributions from civil society organisations and some academics. However, more concrete pathways or instruments to address these expectations are largely unexplored. Contributors also have differing demands and long-term perspectives for addressing such issues in the CAP ranging from maintaining the status quo (e.g. Copa-Cogeca), or carving out a new role for actors along the supply chain (Food and Drink Europe, Eurcommerce, WUR), to transforming the CAP into an integrated food and farming policy (EEB, EPHA, WUR, NL) or a component part of a wider Food Policy/Strategy (IPES-Food).

Farming unions and one Member State (IE) call for increasing public awareness of the added value of the CAP while business/trade groups and academics believe the CAP needs to invest more in helping farmers adapt to consumer trends such as growing demands for organic, fair trade or local food (FDE, Eurocommerce, WUR, EEA), as also outlined in the Communication.

A number of proposals made by environmental and health NGOs are about unlocking synergies using existing instruments to respond to societal expectations (especially with respect to sustainable food consumption). For example, even though the CAP is only one of the EU policies responding to such societal expectations, there could be more alignment of promotional schemes, the school scheme, the use of public procurement and campaigns to improve consumer awareness to promote sustainable diets, prioritise investments for sustainable supply chains and products (e.g. organic and local food, GIs) or achieve other objectives. Despite proposals for specific funds to support the development of more sustainable food supply chains, calls for a Common Food Policy or Strategy (e.g. by BirdLife, WUR) generally lack specificity.

Better implementation of animal welfare standards, in line with the Communication, is stressed by animal welfare organisations and environmental NGOs along with the case for more sustainable meat consumption (e.g. Eurogroup for Animals, CONCORD). Think tanks (e.g. IEEP) call for incentives to reduce greenhouse gas emissions from the livestock sector and to better distinguish between different livestock farming types which deliver environment and animal welfare benefits and those that do not. Various civil society organisations including environmental and health NGOs place a strong emphasis on reducing meat consumption through the use of measures to promote the consumption of more plant-based food and less and what they see as better quality meat. It is worth noting that the Communication sees a role for the CAP in identifying diet trends and helping farmers adjust to them.

### **The global dimension of the CAP**

Contributions on the global dimension of the CAP are quite limited. They can be divided into those who call either for further trade liberalisation or for trade protection, both from the perspective of the EU and of third countries. Stakeholders across the board highlight the need for greater coherence between the CAP and trade and development policies.

A number of civil society organisations critique the “import-export model” largely associated with European livestock production (e.g. EEB, EPHA, CONCORD). In particular, development NGOs represented by CONCORD call on the Commission to uphold the EU principle of Policy Coherence for Development. They also would like to set up a regular monitoring system of the CAP's impact on small-scale farming, land use and the environment both inside and outside Europe with a formal complaints mechanism for affected communities. The EPSC insists on the need to strengthen the domestic production capacity in developing countries. More broadly the EPSC also suggests that the EU must use its prominent position within the WTO to promote more sustainable trade.

In contrast, trade and business groups (CELCAA, EuroCommerce and Food and Drink Europe) and SE echo the overall direction of the Communication on trade, urging the EU to continue shifting the CAP towards more market orientation and liberalisation and to continue using promotion schemes (CELCAA) to support the opening of new markets (IT). Representatives from national Ministries (IE, HU, FR), national parliaments (HR) as well as EP groups (S&D, EPP) are generally supportive of FTAs, but they voice concerns that such trade agreements may undermine the competitiveness of the EU agriculture sector, especially of vulnerable sectors. Some commentators suggest that future FTAs are likely to increase the pressure on farmers and regions in peripheral areas. Some Member States (e.g. HR) want more progress

to be achieved within the WTO to remove unjustified barriers to trade, especially SPS barriers sometimes imposed on some EU Member States.

Recent trends in migration and the possible role of the CAP are briefly set out in the Communication. Contributions are largely confined to civil society organisations such as ECVF, EFFAT and CONCORD who call for better recognition of migrant workers and refugees under the CAP in particular ensuring that any support is linked to the fulfilment of minimum social criteria to prevent exploitation. They also welcome the inclusion of migration in the CAP debate, but question the actual commitment to this issue given that instruments are not specified in detail especially those with which to address the wider development challenges in migrants' regions of origins.

#### **5.4. Reactions to the proposed new delivery model**

This chapter analyses stakeholders' reactions to the new delivery model which has received attention from a wide range of stakeholders.

Prior to the Communication a number of academics, think tanks, environmental NGOs and some farming/land owner associations (e.g. IFOAM EU, ELO) had proposed different architectures for the CAP post 2020 moving away from the two pillar structure. These included a variety of designs with differing numbers of themes, instruments, pillars or tiers, a common theme of which is moving towards a greater focus on funding to support sustainable production and investments, particularly public goods, a greater role for the EAFRD and a shift in emphasis also towards addressing food and health concerns – see also 'societal expectations' above). On the other hand, a number of Member States, the EESC and conventional farming unions stress the need to keep the current two pillar structure (in particular on retaining direct payments, whilst calls for supporting rural development and other societal issues are not given the same weight). In the end, the idea to overhaul the current architecture has not been taken forward in the Communication, with the two pillars maintained, albeit brought together for planning purposes within the overarching CAP strategic plan.

In general the increased subsidiarity offered by the new approach is cautiously welcomed, however the lack of detail on how the new approach would work in practice means that lots of questions are raised about the practical implications of the changes. Without expressing concerns as such, a number of comments highlight that the Communication only establishes a framework and that many important details can only be discussed once more detailed legislative proposals are available.

Both concerns and risks and opportunities are highlighted. In terms of concerns and risks, the key issues highlighted are:

- That providing Member States with greater flexibility is a first step towards renationalising the CAP and will lead to a less 'common' agricultural policy, weakening the EU framework and potentially leading to market distortions (Member States<sup>48</sup>, farming unions such as ECVF, Copa-Cogeca, FoodDrink Europe, the think tank FarmEurope and the EESC). This concern has been strongly rebutted by Commissioner Hogan in a number of speeches since the publication of the Communication.
- Concerns that the proposals will not lead to administrative simplification in practice, and may even lead to more complexity (Copa-Cogeca and a number of Member States, e.g. statement from the Visegrad group of Member States with Croatia; EE, IE, SE, SK).

<sup>48</sup> January 2018 AGRIFISH conclusions.

- Concerns that Member States may be required to co-finance the EAGF portion of the CAP (e.g. Copa-Cogeca, a number of Member States, e.g. LV, EL, FR) due to a belief that this would disadvantage farmers in countries with lower budget capacities and could distort markets.
- Issues around accountability and how the Commission will ensure sufficient ambition from Member States as they address the objectives and set targets. Commentators have focussed particularly on environmental ambition (environmental NGOs and a number of academics and think tanks e.g. Erjavec and Rac, IEEP, Mathews). Linked to this is the need to make sure that a suitable monitoring framework is put in place with clearly defined, robust indicators for measuring performance to which Member States can be held to account (Member States such as DE, LV, EL, a great number of environmental NGOs and other civil society organisations<sup>49</sup>, the land owner association ELO, academics and think tanks including iDiv, Matthews, IEEP, Buckwell). Member States have also generally argued that there is a need to strike a balance between national choices and contributing to EU objectives.
- Worries about the overall expectations for the design, implementation and approval process for Strategic Plans could delay the implementation of measures in particular the receipt of payments to beneficiaries (AGRIFISH council conclusions (BE, PL, RO, LT)).

The opportunities that commentators see in this approach can be summarised as:

- It will allow Member States to design schemes to address their local situations and needs within a strong EU framework setting out clear objectives (some Member States, e.g. FR, IE, NL, SE, the Visegrad group and Croatia as well as think tanks e.g. IEEP, and two farming associations, IFOAM EU and ECVC).
- It provides an opportunity for greater coherence between the CAP and environmental legislation (environmental NGOs, some farmers groups, and think tanks, e.g. IEEP).
- This new approach could lead to real simplification if designed well. Many comments on this relate particularly to control and enforcement and the removal of EU controls at the farm level (Member States such as DE, SE) as well as to the commitment the Commission has made to simpler programming requirements than those for the current RDP. For this to happen, SE call on the Commission to avoid detailed regulations in secondary legislation and guidelines to ensure the new delivery model entails “freedom with responsibility”.
- Bringing the planning of the EAGF (Pillar 1) and the EAFRD (Pillar 2) together within one Strategic Plan should improve the coherence and complementarity of the two funds and help avoid duplication (Member States such as IE, DE, ES, PL, PT, RO, UK), as well as the coherence between the whole of the CAP and the other ESI funds (SE).

Other issues raised by commentators are the need to build capacity within Member States through guidance from the Commission (outcome of January 2018 ENRD workshop). Linked to this is the need to allow Member States sufficient time to prepare their Strategic Plans (Member States, environmental NGOs). Environmental NGOs and ELO stress the importance of coordinated policy making with agricultural and environmental ministries both involved and in collaboration with other stakeholders. SE believes the Communication should have been more explicit about the fact that the delivery model will need to be accompanied by a shift in the current approach to audit and controls towards assessing progress against objectives rather than compliance (as well as becoming more risk-based and more integrated ('single audit')).

<sup>49</sup> Including Arche Noah, BirdLife, EEB, PAN, SF, CiWF, Eurogroup for Animals, Greenpeace, Humane Society, WWF, CONCORD.

## 5.5. Emerging patterns

### Summary of stakeholders' views

Substantial contributions to the current CAP debate have been made by EU and MS public authorities, stakeholders, NGOs, think tanks and the scientific community. In these conclusions, we present a summary of the main patterns emerging.

Proposals in the Communication to continue **direct payments** and make them "fairer" received mixed reactions overall. The vast majority of Member States and the main farming organisations (e.g. Copacogeca, CEJA) support this but express diverging views on the modalities of the re-allocation of direct payments. Most Member States support the principles of capping and/or of the redistributive payment provided they are voluntary options. In general, the situation of small farms receives a lot of attention, although these are often not defined. External convergence appears to remain a very contentious issue, with EU-13 countries calling for greater equalisation and EU-15 countries claiming they want payments to become more "equal" once production costs are taken into account.

Conversely, a number of contributors to the debate, in particular academics, environmental NGOs and other organisations such as IFOAM EU (but also the Dutch government), question the continuation of direct payments at all and suggest a more radical redesign to target them towards the delivery of environmental and social public goods.

While the Communication does not mention voluntary coupled support, a majority of Member States have made strong calls for its continuation with at least as much flexibility as is currently the case. Many Member States call for 'flexible' rules to allow more discretionary choices in relation to the sectors receiving coupled support and the rationale for granting this support (e.g. expanding to vulnerable sectors), in keeping with the changes already introduced by the Omnibus Regulation.

**Improving farmers' market reward** by improving their bargaining power in the food chain is generally welcomed by farming unions, Member States and some academics. Some MSs flag that Producer Organisations and cooperation will not be enough but few alternative proposals are being put forward<sup>50</sup>. Academics, NGOs and some MSs think that tackling this problem should form part of a wider focus on building sustainable rural value chains.

**Risk management** (RM) received a lot of attention. There is a broad agreement from most contributors to the debate that developing risk management tools is important but there is less consensus about the role these tools should play. While a small number of Member States see them playing a part in a continued trend towards full market liberalisation, the majority of contributions, including from the main farming unions and most MSs, want RM to develop alongside market regulation instruments including crisis management tools. On the other hand, environmental NGOs, the think tank RISE and the farming union ECVC think the focus should be on resilient models and do not support public resources being used to insure private risks.

The Communication offers little detail about the precise structure of the proposed new **green architecture**. Contributions from external commentators are equally broad brush, focussing primarily on respecting the polluter pays principle for setting the baseline and generally supporting the proposal to simplify the greening payment and cross-compliance. NGOs, a number of academics, as well as some Member States (e.g. NL) and most progressive farming unions would have welcomed more explicit

<sup>50</sup> Although it is noted that Unfair Trading Practices is a topic being tackled outside the framework of the CAP.



proposals that would more clearly safeguard and strengthen the public goods orientation of Pillar 1 as well as more targeted commitments to and greater prioritisation of spending on Pillar 2 type interventions focussed on results based approaches to the provision of ecosystem services.

There is overall support to the objectives of **growth and quality employment in rural areas** by developing sustainable rural sectors (e.g. bioeconomy, clean energy, etc.) and to continue supporting the **LEADER** and the CLLD approaches. The need for a rural proofing mechanism is acknowledged in the Communication which respond to a key demand from rural development associations. **Attracting new farmers** also receives broad support although the solutions for how to achieve this are very varied. Proposals identified in the contributions range from introducing compulsory measures to support young farmers (e.g. CEJA), improving access to credit (Copa-Cogeca), financial support (one MS) and/or access to land (farming unions), developing early retirement schemes (academics, farming union). Perhaps unsurprisingly Member States have not responded to the Commission's analysis that it is their own policies which form the greater barrier to the participation of more young farmers.

There is also strong support for developing **research and innovation** in principle. There are some obvious differences between those wanting the focus to be placed on precision/smart farming through the development of new technologies (e.g. main farming groups), transition towards more sustainable farming (environmental NGOs) and those putting more emphasis on the need to develop strong AKIS in Member States, to disseminate existing knowledge.

The Communication acknowledges the potential relevance of the CAP to a multitude of **societal expectations**, which is supported by contributions from civil society organisations and some academics. With a few exceptions (i.e. through aligning existing tools to these objectives), however, concrete ways to address these expectations are largely unexplored. Even though the CAP is only one of the EU policies responding to such societal expectations, the Communication foresees that the CAP could play a role in helping farmers identifying dietary trends and better respond to them.

Finally, the **new delivery model** proposed in the Communication to achieve these objectives is subject to much debate. While some stakeholders (some Member States, academics and think tanks) welcome the approach in principle, they and the vast majority of other contributions also identify many risks associated with it. These include market distortion risks (most Member States and farming unions), budgetary risks (all Member States but LU have expressed concern that the model might entail a co-financing of Pillar 1), administrative or procedural risks linked with the new plans which for the first time will subject all Member State decisions on Pillar 1 to Commission approval (Member States especially the EU-13). Performance risks are also identified by environmental NGOs, academics, think tanks, some Member States and some farming unions. They express concerns about whether the level of ambition Member States would show in their plans would really be sufficient to meet EU objectives. This concern arises most often in connection with environment and climate objectives. There is also concern about the Commission's ability to hold Member States accountable, to enforce the Plans' implementation and to verify their actual contribution towards EU objectives.

### **Notable new ideas not reflected in the Commission's thinking**

A number of ideas put forward in the course of the debate on CAP reform have not been reflected in the Commission's thinking, as follows.

Many early contributions called for a radical redesign of the CAP structure and questioned the continuation of direct payments. Rethinking the design? And the conditions attached to the granting of

direct payments was particularly brought forward in the context of raising the ambition of environment and climate objectives. Many ideas set out a different way in which CAP policy instruments could be designed and structured to reduce the current incoherence and improve the contribution of agriculture, forestry and wider rural areas to address environmental and climate objectives. For example, the RISE Foundation proposed a redesigned, more integrated tiered structure of supports with clearer targets on the environmental outcomes sought. Under the RISE model, the two-pillar model would be no longer needed, as the CAP (including direct payments) would shift towards a tiered set of multi-annual contractual measures underpinned by the reference level of environmental and other regulations. None of these were reflected in the Communication which proposes the continuation, indeed, the prioritisation, of direct payments.

Another new idea which was is not reflected in the Commission's thinking but received support from a range of stakeholder types (academics, in particular WUR, some NGOs and the international platform IPES-Food) was to move the CAP towards a common agriculture and food policy. Looking at the rationale offered by WUR more specifically, this shift was proposed in order to recognise that the main challenges facing the CAP in the future cannot be addressed by farmers alone. To the stakeholders, this is especially true as farmers are part of a food chain in which most of the power lies with the retail, food industry and input industries. A common food and agricultural policy would therefore engage all partners in the food chain to address issues such as farmers' low incomes, their environmental performance and the need to offer healthy choices for consumers. The proposal was also seen as a way to encourage better alignment between various policies related to food, agriculture, the environment, climate change and competition, at European and national levels. Although the Communication does mention societal and food chain issues, it does not propose the more radical shift towards a common agriculture and food policy as envisaged by these stakeholders, whereby food chain actors take on a greater share of responsibility for sending more coherent signals to farmers.



## 6 CONCLUSIONS AND RECOMMENDATIONS

Genuine strategic planning of the entire CAP budget to maximise its impact on the economic, environmental and social performance of EU agriculture would be a considerable prize. In principle, the proposed shift in implementing the CAP from a compliance to a performance orientation, with a greater role for Member States in the design of interventions, could lead to a more effective CAP and should be welcomed as a new orientation, provided it can be delivered in practice.

However, there will be significant challenges to implementing this paradigm shift in implementing the CAP. There are considerable risks that it will not be achieved in a way that meets the aspirations of a results based approach. There is a real danger that, in the absence of specific measures to address the incentive structure facing Member States, the expected results including a higher level of environmental and climate ambition will not be realised. The Commission's stated aim of a policy oriented towards a more sustainable food sector, as well as ambition regarding health and nutrition, might prove difficult to attain without common mandatory objectives.

One impediment to realising the results-based approach is the Commission's apparent intent to continue with direct income support as by far the most significant component of the larger Pillar 1 budget. Requiring Member States to continue to use their budgets for transfer payments to farmers means that any underlying economic weaknesses in the sector or lack of resilience are not addressed. It would be better if more of the funding seemingly earmarked for income support were to be invested in measures to improve human, physical and intellectual capital as well as environmental sustainability. This can be encouraged if Member States are given sufficient leeway to allocate their CAP funding to such objectives rather than tying too much of it up as income support.

In this respect the Commission's intention to increase the funding allocated through the Horizon 2020 framework to research in food, agriculture, rural development and the bioeconomy represents progress.

It is important that the economic objective in the CAP strategic plans is not simply defined as a "fairer" distribution of direct payments. Targets are needed for underlying strength and resilience and they need to reflect the risk inherent in continuing dependence on income support.

The second constraint on the success of the Commission's proposed delivery model is the proposals it has published for the Multi Annual Financial Framework. A deeper cut in Pillar 2 funding than in Pillar 1 has been proposed, which is inconsistent with allowing Member States to decide the balance of measures in their strategic plans unless substantial flexibility to shift resources from Pillar 1 to Pillar 2 is allowed. If – as the Commission has proposed – co-financing rates for Pillar 2 measures are raised from current levels, this will make such measures less attractive to Member States than their Pillar 1 alternatives unless funds transferred from Pillar 1 are exempt from co-financing requirements.

If given the opportunity, some Member States might choose to make transfers into Pillar 1 even though the measures available there may not be the most effective ones with which to achieve their objectives. It will therefore be important to ensure that the flexibility to transfer resources between Pillars allows Member States to move unlimited resources from Pillar 1 to Pillar 2, but not the reverse.

Even without these constraints, genuine strategic planning of CAP expenditure requires difficult choices. It may be necessary for Member States to concentrate funding on a smaller group of farmers who can make the greatest contribution to objectives, for instance, or to set rules which are unpopular. Many

stakeholders have cast doubt on the likely extent of political will on the part of Member States for such choices.

Even assuming the political to be in place, urgent capacity building measures such as the assembly of data for needs assessment and monitoring arrangements, workshops, simulation exercises and guidance are also needed. Conversations and negotiations about the level of impact to be achieved on the EU objectives to be set out in the basic legislation are likely to be more difficult than the discussions which currently take place between the Commission and Member States about their RDPs. For the new system to work, the Commission needs to have the power to insist that Member States temper national needs to EU priorities in appropriate cases. One possible way to encourage this would be a mechanism in the process which generates peer pressure among Member States, alongside an appropriate framework of financial incentives and penalties.

Developing suitable indicators of impact is also crucial, as otherwise performance management will degenerate into an assessment of expenditure rather than impact. Devising environmental indicators in particular will be challenging but the objectives set out in EU legislation already provide a good basis on which to work. Designing performance indicators for direct payments also needs considerable investment, as the current indicators used in the CMEF are of limited relevance. Provision must be made to ensure that the necessary investment is made to develop and maintain relevant indicators.

The Commission is right to stress the importance of climate action by farmers, in respect of mitigation as well as adaptation. Climate mitigation in particular is a good example of an objective for which the new delivery model could usefully encourage greater contributions from Member States to this EU priority. The agreed 2030 targets in the Effort Sharing Regulation may not demand much from agriculture, but the objective should be a sustainable course towards much greater reductions which are needed by the middle of the century.

The delivery model has been portrayed as a simplification because Member States will design measures without close supervision by the Commission. However Member States will still need to operate controls to satisfy their own auditors that money is properly spent. The capacity building we recommend needs to include discussions between paying agencies and the Commission's auditors to establish how the chain of assurance will work.

Fears that the CAP might lose its "common" status can be addressed by constraining the choices available to Member States when drawing up their strategic plans. A minimum required spend on the proposed new "eco-scheme" would help to ensure greater commonality between the plans and could also be an effective replacement for the greening payment.

Continued use of coupled payments – which were deregulated in 2017 through the Omnibus Regulation within the limits of existing financial ceilings and for which many Member States are seeking further freedoms – is a serious threat to the internal market. To counter this, lower limits should be set on the proportion of budget which may be used, and previous rules limiting their use reinstated.

Access by farmers to good quality, impartial advice is an essential part of improving economic performance and sustainability, as the Commission has recognised. However advisory systems are inadequate in many parts of the EU either because of underfunding by Member States or because provision has been entrusted wholly to the market, including input suppliers. The latter is likely to cause conflicts of interest. Well-funded, impartial and individual advice is essential for all farmers and the

provisions for technical assistance should reflect this. Again, we recommend that Member States are free to spend a larger proportion of their CAP funds on good quality, impartial advisory services.

The lack of detailed proposals for the proposed simplification of the greening measure and cross-compliance into a single "enhanced conditionality" has led to concerns. The Commission needs to demonstrate how its often-repeated commitment to higher environmental ambition will be fulfilled. Clear and demanding requirements are needed at EU level on which Member States can build.

Associating 30% of Pillar 1 spending with the environment through the greening payment sent a strong political signal about its importance, even though performance was disappointing. That signal needs to be continued and strengthened by the Pillar 1 eco scheme taking over the greening "budget" with a minimum 30% spend.

The timetable to agree the legislative proposals in the current legislative period is very challenging. It seems that, at best, the European Council might be in a position to agree MFF conclusions by its meeting in March 2019. The uncertainty over the final outcome for the CAP budget will complicate the discussions within the European Parliament, and between the Parliament and the Council. To agree the proposals prior to the end of this legislative period will require strong discipline and restraint on the part of the co-legislature to focus on the key innovations in the legislative proposals rather than attempt to review all aspects of the CAP legislation.

The Commission also has an important role to help build confidence and understanding of how the new procedures might work prior to their implementation. We recommend that the Commission should convene a conference with Member States and other stakeholders to discuss and agree a suite of indicators. The outputs from this conference should include plans for new data collection if appropriate. We also see merit in an ongoing dialogue between the Commission and the Paying Agencies and auditors to discuss and agree how Member State measures will be controlled in practice so as to give the Commission the financial assurance that it needs.

Particularly in the context where the CAP is likely to have fewer resources than in the past, it becomes even more important to ensure that the maximum European value added is obtained for every euro in the budget. The last CAP reform made an effort to link the CAP budget more closely to environmental sustainability. While the principle was widely welcomed, its implementation has been heavily criticised by stakeholders from different standpoints. For this reason, it is even more important to ensure firm and effective links between the objectives to be delivered by this reform and the way in which it will be implemented. We make this report to the Parliament in the hope that it will contribute to such a successful reform.



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This study assesses the European Commission's plans for CAP reform as set out in November 2017 and subsequently. It discusses the extent to which those plans address the performance of the CAP against its objectives, compares them with the views and ideas of stakeholders and makes recommendations..

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