

(Question 34) ELO's GENERAL CONSIDERATIONS on Modernising the CAP

Introduction

The CAP has long helped regulate Europe's agriculture and rural areas. Born out of a time of war and famine, the CAP has contributed to Europe's food safety and security for over 50 years. During this period, as the EU has greatly expanded in members and reach, the CAP has been transformed from a commodity support policy to a much wider, but also much more complex, policy for agricultural and rural development. It tries to encourage viable farming, sound management of natural resources and balanced territorial development. There is no great disagreement amongst most stakeholders that the pervasive market failures and market imperfections in the food and agricultural sector justify significant collective policy action with commensurate budget resources. However, it is less clear that the current balance of CAP support measures are optimal to help the sector adjust to the challenges of the next several decades. The ELO, therefore, welcomes the Commission's decision to consult on the further development of the CAP.

Main rationale for supporting EU agriculture

The fundamental characteristics of the European farming sector lead inevitably to the need for significant collective action to bring about the prime strategic objectives of agricultural policy which the ELO has long described as bringing about **Food and Environmental Security**. These characteristics are first, the highly fragmented structure of farming comprising literally millions of small family run businesses. This puts farmers in a difficult economic position wedged between highly concentrated upstream input suppliers (of genetics and seeds, fertilisers, feeds, machinery and technology, crop protection and animal health products), and the almost-as-concentrated buyers of agricultural produce by food processors, food service companies and retailers. Second, is the exposure of agriculture to climatic and other natural risks. Third is that agriculture significantly impacts the natural environment: water, soil, air, atmosphere, biodiversity, cultural landscape and heritage. These environmental media and features can be helped by agricultural systems, but they can also be harmed by some farming structures and methods. The objectives of the CAP are therefore an evolving mixture of economic, environmental and social goals to deal with the challenges arising from these characteristics.

The policy must continue to help improve the productivity of farmers. Fundamentally, this is the main way in the long term that farmers can improve their living standards. It is essential both to keep pace with other sectors of the economy, and to remain competitive with suppliers in other parts of the world. It is equally clear that climate change threatens to increase volatility in natural conditions faced by farmers (temperature, precipitation, disease) and farmers would benefit from more help in managing this volatility. Despite CAP support and border protection, significant sectors of EU agriculture are non-viable and indeed have become over-dependent on public payments for their survival. This is not healthy. Also despite the large efforts to mobilise CAP resources to help improve the environmental performance of agriculture, there is still a long way to go to limit its negative impacts and to improve its resilience. Meanwhile, the EU has signed ambitious international agreements to reduce climate change, achieve Sustainable Development Goals which include sustainable food production and consumption, and to reduce biodiversity loss and increase its restoration.

In short, the goals of agricultural policy are to find sustainable farming systems which underpin food security, by enabling economically viable farms to improve environmental performance and secure thriving rural communities.

Three more specific challenges faced by EU farming and the CAP

Beyond the general challenges of productivity, competitiveness, viability, managing volatility, improving environmental performance and rural vitality, EU agriculture and its policy framework have some specific challenges that require more attention.

First, it is the **farm structural limitations**. Agriculture in the EU is undergoing a steady and non-dramatic process of structural change. Europe has 12 million farmers and an average farm size of about 15 hectares compared to the US with 2 million farmers and an average farm size of 180 hectares. Farms are getting bigger and more productive, with productivity growth heavily driven by the outflow of labour, rather than by research and innovation.

European agriculture comprises a wide variety of types and structures of rural business. This diversity has become even greater since the arrival of the new member states of Central and Eastern Europe. Most EU farming is based on family farms, passed from one generation to the next. Roughly 75% of agricultural labour is provided by family members. The fundamental principles underlying these enterprises are secure private property rights and intergenerational management. The variety of scales and legal and management structures of these businesses must be taken into account at European level.

There are still large numbers of very small farms, primarily run in a part-time fashion, often subsistence and semi-subsistence, with many out of range of help from the CAP. These farms are invariably run by elderly farmers. While their numbers have declined substantially over the years, they still represent the majority of farmers in Europe. In fact, agriculture is the sector in which it is most common for people to continue work after the age of 65. In the next two decades as this generation passes, the subtle and not simple duty of the CAP is simultaneously to moderate social disruption by helping the older generation into dignified retirement, while assisting and even accelerating the structural development towards more viable economic units which offer prospects to the new generation of farmers. Generally, younger farmers holding bigger farms (bigger that is in output not necessarily, although usually, bigger in land), are the more educated and culturally open, but much more should be done to increase overall skills, information, advice and training levels of all farms.

In addition to these on-farm structural issues, is the age-old concern about the weak position of the farmer in the food chain. This matter was well considered by the agricultural markets task force, and the ELO supports the principal recommendations of that report.

Second, the EU, through its cumbersome decision processes has evolved to a **highly risk adverse approach** towards new technology. This can become a handicap to achieving economically as well as environmentally sustainable agriculture and surely should change. The new technologies especially concerning digital technology and the application of information gathering and processing, provide major opportunities in precision crop, animal and environmental management. Yet, much resistance in use of new technology in food production has arisen in the EU. This has come about in the context of a particular set of techniques in the field of biotechnology. It also shows up in the assessment of crop protection products which regressed from a rational risk-based to the more precautionary hazard-based approach. A less risk-averse approach should be taken to the funding and application of innovative, but, as yet, unproven technology. It often remains too costly to develop and licence new products and techniques. Thus the EU should move away from restrictive,

hazard-based assessment of products and technologies and, instead, promote a risk-based approach that balances environmental and economic goals. It currently takes on average 8-10 years to get a new active ingredient for plant protection to be approved at European level. Meanwhile, current ingredients are taken off the market. This threatens productivity growth.

Third, EU agricultural policy has become over complex both for farmers and for national administrations because it has become **trapped in an over-detailed, inflexible measurement and control culture**. Each of the last three reforms of the CAP have purported to try and simplify the policy, and great efforts are still underway to find ways to simplify the policy. Yet the objectives of the CAP have, in our view correctly, widened and are unavoidably complex. Managing the natural environment is inevitably complex. The ELO believes this cannot and will not fundamentally change, and therefore the only way to make progress is to develop a quite different culture for policy determination and delivery.

The key task is to build a new vision for agriculture and thus agricultural policy which is willingly shared by the regulated, the land managers, and the regulators, the EU and national administrations. The prime purpose of the policy is to help the agricultural sector adjust to the new economic and environmental challenges. The policy should help in three ways. First, to provide the **investment supports** to improve productivity and to improve environmental performance and rural diversification. Second, it should help the sector develop a full set of **risk management tools** to enable farmers to navigate the risks and uncertainties they face. Third, it should create a **new framework of land management contracts** to help farmers provide the environmental services that the public wants and only farmers can deliver. This structure is similar to ideas which many groups have been discussing over recent years, including the recent report by the RISE Foundation (2017). CAP: thinking out of the box. Further modernisation of the CAP – why, what and how?

Land management contracts as a core of the new CAP

The “BIG IDEA” of this approach is that a key role of the policy – both in stimulating viable, diversified, resilient and sustainable businesses, and also in stepping-up environmental performance – is that (most) farmers should be able to join in new land management contracts with society to provide services to the public which are certainly desired, yet markets consistently fail to provide in sufficient quantity and quality. These are mostly, but not exclusively, environmental services that farmers do provide or could provide if sufficiently remunerated. These services are of course in addition to the paid-for goods, the food and biomass which are the core outputs of farming, or certain paid-for services such as recreation and camping. The table below summarises the services we have in mind.

The modernised CAP should seek to establish a new relationship between farmers and other land managers and the public that is based on reciprocal expectations and obligations. This would be operationalised by a new system of voluntary, multi-annual land management contracts. These should give all farmers and land managers access to a payment for the delivery of services to the public. These would go beyond current agri-environment schemes to include a greater range of services including landscape and animal welfare. Farmers and land managers choosing not to have a contract will, of course, still be required to meet baseline legal obligations.

Services to the public provided by farmers in addition to food and biomass	
Biodiversity	Some flora and fauna exist alongside food production; some depend on low-intensity systems, woodland or non-productive areas.
Water quality	Agricultural inputs have an impact on water quality. Improved management of these inputs could improve matters.
Water availability	Agriculture is a major user of water. How it goes about doing so has an impact.
Soil quality	Soil needs good organic structure and to be resilient to erosion. Certain farming methods provide this.
Air quality	Agricultural emissions reduce air quality, certain practices can improve it.
Climate Change	Soil and plants store carbon, the extent to which they do so depends on the way in which they are managed. Agriculture is responsible for the production of a range of GHGs, adopting different systems can reduce this.
Flood protection	Rural land can absorb and retain excess rainfall in the uplands, woodlands or cultivated ground
Resilience to fire	Managing land can reduce the incidence of wildfires.
Animal Welfare	Society demands higher baseline standards than the market delivers.
Cultural landscapes	Rural communities need a level of support infrastructure and employment opportunities if they are to survive.
Farmed landscapes	Much of what we value in the landscape results from farming.
Food Security	Food is a private good, but food security, the availability of sufficient supplies of healthy and nutritious food is a public good.

Based on CLA's table on Defining Public Goods from their position for a New UK Food, Farming and Environment Policy

Some suggested key characteristics of the land management contracts would be that they are:

- **A choice, not an entitlement** – any farmer seeking to receive payment of public money would sign a contract that set out the expectations they will meet in return for payment.
- **Universally available** - every farmer would have the option to sign up to a contract irrespective of size, type of farm or landholding or location. The contract options available would vary according to these factors.
- **A tailored contract** – farmers choosing to take out a contract can choose from a range of features, practices and activities that they will manage on their land or undertake in their farming.
- **A transparent system for valuing each contract** – the size of the payment will be remunerative and relate to the obligations of the contract and the scale of the land or farming activity it covers. They could also extend to an obligation to develop skills and expertise.
- **A higher burden of conditionality** – by agreeing on a contract the farmer agrees to be subject to obligations that extend further than the minimum requirements set out in law with regard to the way they farm and manage their land.
- **Clear deductions for non-compliance** – under the contract proportionate deductions for non-compliance will be clearly set out on a scale up to the permanent withdrawal of contract.
- **Expectations on administration** – as a party to the contract, the public administration would agree to meet defined standards regarding paying on time and transparency and fairness in inspections.
- **Contract terms** – defined the duration of the contract and appropriate mechanisms for amendment and break clauses.

- **Payment goes to the provider of the services** – this could be the landlord, tenant or both depending on the circumstances.

The spirit of these contracts is to be clearer about long term, and regionally defined, goals for the delivery of these services and to leave more of the details of defining and measuring the achievement of the goals to stakeholders in each locality. Where it is appropriate, it may be more effective and preferable for the farmer that the contracts are outcome based leaving farmers to decide how to achieve the defined outcomes rather than following an EU-wide prescription which may not suit local circumstances. Also where appropriate, efforts should be made to find ways to deliver the contracts on a landscape, multi-farm or collective basis.

Final points

It is important to note that this work cannot be achieved by the CAP alone. The CAP should be viewed as a transitional policy in itself, even if the transition may take several more decades. A long-term objective must be to internalise environmental costs of farming into food prices so that these also better signal more socially aware consumption patterns. This means that the food industry should be more actively engaged in defining and sharing the costs of sustainable sourcing of all its raw materials. However a precursor to this must be fairer sharing of any additional costs of sustainable production, and ways of ensuring cheaper imports based on lower standards do not undermine EU efforts to raise environmental and animal welfare performance.

The CAP remains the major tool from a farmer and land manager perspective, but as the challenges increase and the budget pressures increase, alternative ways of supporting rural businesses should be considered. Importantly, a significant part of the action must in future be contributed by the private sector. There *is* scope to do this. More can be done to create markets for some of the environmental services. Where private resources can be harnessed more effectively, this reduces calls on the CAP budget as well as being more efficient in broader economic terms.

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