



# The Future of the CAP after 2013

- The future of the CAP. What is at stake?
- The principles and objectives of the CAP after 2013
- Proposals on the policy orientation of the CAP after 2013



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# The future of the Common Agricultural Policy

## What is at stake?

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Every single person depends upon a well-functioning agriculture to ensure that they have access to secure and stable supplies of food, safe to eat and of good quality.

Citizens in Europe also place great importance on ensuring that food is produced in a way which protects our countryside, our environment, our animals and wildlife.

The market alone will not achieve these objectives. This is the role of the Common Agricultural Policy. There have been several reforms of the CAP in recent years. These reforms have reinforced the EU's standards of food safety, traceability, environmental protection and animal welfare. In addition, agriculture has been made more market orientated and farmers have been encouraged to provide additional services in their role as land managers.

Through their economic activity, and with the support of the CAP, European farmers guarantee food supply and wide-ranging public benefits.





**Currently under 1% of total EU public expenditure finances measures under the two pillars of the CAP. This ensures two main types of benefits for the public:**

### **Benefits accruing from all farming activity**

**Assured mainly through market management tools and the payment of direct support to farmers under pillar 1 of the CAP**

- food security for 500 million consumers by maintaining production capacity throughout the EU
- greater market stability for consumers and farmers
- sustainable production which meets the highest standards in the world of food safety, traceability, environmental protection and animal welfare
- employment and economic viability to rural areas – nearly 30 million people find employment on farms; over 40 million work in the agri-food chain altogether
- the management of over three-quarters of land in the EU in a way which provides an attractive countryside and diverse landscape for rural dwellers, visitors and tourists.

### **Benefits provided voluntarily by farmers in their role as land managers in return for targeted payments**

**Assured under the rural development section of the CAP (pillar 2) which has been reinforced significantly during recent reforms of the CAP:**

- maintenance of production in less favoured areas
- preservation of biodiversity e.g. maintaining grazing grasslands, wetlands, peatlands, dry meadows, ditches, hedges, copses, ponds, dry stone walls, footpaths
- maintenance of production systems/investment which are low profit/high nature value (e.g. natural pastures, forestry)
- land & water management to reduce flooding, improve groundwater storage capacity, increase fire resilience
- provision of new sources of renewable energy

Looking to the future, the EU faces new challenges which put many of these benefits, particularly those provided under the first pillar, at risk.



## ■ Challenges facing the EU agricultural sector

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### Market instability is on the increase

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Measures formerly available under the CAP to ensure market stability have been progressively dismantled. Yet market instability is increasing. During the farm crisis of 2009, it became painfully clear that the authorities no longer had the tools at their disposal to deal with even such severe crises and farmers' incomes fell by an average 12%. This must not be repeated.

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### EU farmers face an unlevel playing field when competing with imports

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In response to citizens concerns, the EU has opted for a higher cost type of agriculture which ensures that all production meets very strict safety and sustainability criteria (food safety, traceability, environmental, animal welfare, biodiversity). This puts EU producers at a significant competitive disadvantage compared with imports. At the same time the EU is following a policy of encouraging imports by reducing tariffs.

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### Farmers' incomes are deteriorating

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While recent reforms have made agriculture more market orientated, they have failed to improve farmers' returns from the market. Even prior to the crisis of 2009, farmers' incomes in the EU were only some 50% of average earnings in the rest of the economy. Two-thirds of this income, on average, comes in the form of payments made under the CAP to achieve the public benefits mentioned above. The payments under pillar 1 are particularly important, representing nearly half of farmers' income on average in the EU.

Farmers are first and foremost entrepreneurs and would much prefer to earn a larger proportion of their income from the market. A priority must therefore be to reinforce the economic production role of farmers so that they can earn a fair return from the market.

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### New risks from climate change

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Rising world demand for food, combined with increasing climatic extremes and market volatility, will mean that food security will be a policy priority for governments throughout the world. The need to tap EU agriculture's potential to mitigate climate change and increase energy security through the production of renewables and carbon sequestration will be also be essential.



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## A strong Common Agricultural Policy and the maintenance of its budget – more crucial than ever

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There can be few priorities more important to European citizens than the security, safety and stability of food supplies, produced in a way which ensures the sustainable use of land and the protection of their environment. A dynamic and competitive agricultural sector, which provides employment for nearly 30 million people, also has an indispensable role to play in the EU's new 2020 strategy for jobs and growth. The CAP can also help farmers and cooperatives to contribute positively to combating climate change.

A strong CAP, with an adequate budget, will be more essential than ever in future if farmers are to continue to provide these wide-ranging benefits and contribute to meeting the challenges facing the EU in the years to come.

It is also extremely important that any adjustments to the CAP post-2013 reinforce the common nature of the policy, while taking into account the diversity of European agriculture. Any further renationalisation of the CAP would lead to distortions of competition and undermine the single market, and thereby growth and employment.



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# Principles and objectives of the CAP after 2013

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## ■ The future CAP should be based on the following principles:

- the vital nature of the economic role of farmers - providing essential food supplies - and their wider role meeting society's territorial, environmental and social objectives distinguishes it from other economic sectors
- the CAP of the future should recognise that farmers are entrepreneurs and wish to obtain a large proportion of their income as possible from the market. However, it should also be clearly recognised that farmers provide services, some of which are not currently adequately remunerated via the market and others which will never be
- agriculture should contribute to the reinforcement of the European Union - the CAP must remain a common policy with common rules to ensure that competition within the single EU market is not distorted, while taking into account the diversity of European agriculture
- financial solidarity is necessary to ensure greater economic and social cohesion and integration throughout the EU of 27 Member States and greater rural/urban balance.





## ■ Objectives of the new CAP:

- provide a stable framework for the development of agricultural production, through increased productivity and competitiveness, as well as the proper functioning of the market, so that the EU's strategic independence of supply in all its key production sectors is maintained and consumers are thereby assured secure, stable and safe food supplies and that the EU is also able to contribute to meeting the rising world demand for food
- ensure the maintenance of a rich diversity of high quality food from different rural areas throughout the EU and ensure that consumers are fully informed about the food they purchase
- ensure that all production is carried out in a way which protects the environment (air, soil, water), protects animal welfare and biodiversity and provides an attractive countryside
- optimise EU agriculture's contribution to economic and employment opportunities in rural areas throughout the EU
- encourage land management practices which promote biodiversity, resource and habitat conservation, taking into account specific regional conditions
- assist farmers' ability to adjust to, and mitigate the negative effects of, climate change
- ensure EU agriculture's contribution to reducing emissions (CO<sub>2</sub>,) and the EU's dependence on energy imports through the production of renewable non-food resources
- ensure a fair standard of living for agricultural producers and long-term prospects which will attract future generations of both men and women farmers to take up a career in farming.



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# Proposals on the policy orientation of the CAP after 2013

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## ■ Main adjustments to the CAP after 2013

**The main adjustments to the CAP should be focused on:**

- ◆ ensuring food security and stability by reinforcing the economic production role of farmers
- ◆ enabling farmers to obtain a fair income from the market and contribute further to providing the wide-ranging economic, social and rural services valued by society
- ◆ ensuring a level playing field for all EU farmers on the Single Market

**To achieve this requires adjustments in the following areas:**

- better functioning of markets, more stable and more transparent
- reinforcement of farmers' position in the food chain
- measures to improve farmers' competitive position
- maintenance of direct payments under pillar 1, but with a review of the mode of payment
- maintenance of LFA payments and specific support to farmers in clearly defined cases
- more incentives to farmers to enable them to provide rural services valued by society
- reinforcement of measures to enable farmers and cooperatives to play a positive role in meeting new challenges, notably climate change and water constraints
- more coherence between the CAP and other related policies





**The maintenance of the CAP budget** will be more essential than ever if farmers are to continue to provide the wide-ranging economic, social and rural benefits and contribute to meeting the challenges facing the EU in the future.

**Financial solidarity**, combined with an adequate budget, is the only way to ensure that the CAP remains a common policy without distortions to competition. Financial solidarity should lead to a fair and equitable treatment of all farmers taking into account differences in conditions. No widening of co-financing is therefore acceptable. Current co-financing should be made mandatory in order to avoid distortions to competition.

**Modulation between the two pillars should be eliminated** - the budgetary amounts for the main elements of the CAP should be fixed over the whole of the financial perspective period.

It is important that all adjustments to the CAP pass the farmers' '**simplification**' test. Currently most attempts at simplification have been to the benefit of administrative bodies rather than farmers.





## ■ Specific proposals on the required adjustments to the CAP after 2013

### A better functioning of markets, more stable and more transparent

Existing measures which help stabilise markets and farmers' income (i.e. the few market regulation measures and safety nets which remain in place after the Health Check and direct payments) must be maintained. However, given increasing market volatility, new measures will be required to ensure consumers, as well as producers, greater stability.

Copa and Cogeca therefore consider that new tools, including the following, should be examined:

- ◆ enabling producer organisations to plan production and adapt it, both in quantity and quality, to demand; to concentrate supply and market its members' production as well as optimise production costs and stabilise producer prices. This requires better coordination and implementation of current competition law
- ◆ enabling producer organisations and interbranch organisations to contribute towards market stability through voluntary sector agreements and contracts
- ◆ the insurance measures introduced in the Health Check to help farmers adversely affected by climatic extremes and disease should be reviewed to see if current implementation difficulties can be overcome and their application thereby widened to more member states
- ◆ measures to help producers withstand market crises (e.g. the provision of an income safety net or insurance schemes to cover revenue or income loss; the development of futures markets/contracts)
- ◆ encouragement to Member States to improve fiscal measures applied to farmers (e.g. so that their tax can be assessed on revenue levels over a period of years) and to facilitate access to credit.

Measures to improve transparency by providing farmers with up-to-date market intelligence, particularly on margins and price transmission in the food value chain, are urgently needed. This would not only help them operate more efficiently but also enable them to obtain fairer returns.

Increased market transparency through the reinforcement of quality and labelling policy, including the protection of geographical indications as part of trade agreements, will also be of great benefit to both consumers and producers. This would not only enable consumers to make more informed choices but would also provide more incentives to producers to maintain cultural production traditions and improve quality.

It is also essential to ensure that all imports meet the EU's food safety and traceability standards and that a more level playing field between EU produce and imports is achieved with respect to other standards.



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## Reinforcement of farmers' position in the food chain

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If farmers are to receive a greater proportion of their income from the market, it is essential to reinforce their position in the food chain. The 13.4 million farmers in the EU are in an extremely weak bargaining position faced with a handful of extremely large suppliers, processors and retailers. As a result, the value added provided by farmers on the farm (e.g. grass to milk) is rewarded at a much lower price than the value added provided by others in the food chain.

We are proposing the following measures:

- ◆ reinforcement of producer organisations, of which cooperatives are the predominant legal form (e.g. through the development of new producer organisations and the reinforcement of support to existing producer groups to improve processing and marketing)
- ◆ the establishment of codes of conduct within the food chain in order to protect farmers from malpractice (such as payment delays, below-cost selling), and to promote self-regulatory agreements between food chain partners based on a “Bill of Rights”
- ◆ enabling producer organisations/cooperatives to collaborate and merge (both within Member States and across frontiers) according to common rules of competition
- ◆ the current review of promotion policy should lead to stronger promotion of EU products particularly. New measures such as the use of export credits allowed within WTO rules should be examined
- ◆ an EU ombudsman to oversee codes of conduct and other voluntary agreements and arbitrate on food chain disputes
- ◆ encouragement to farmers to develop local/farmers' markets as an additional outlet which brings them into direct contact with consumers, reduces intermediaries and reduces transport costs and emissions.

The reinforcement of farmers' position in the food chain will be dealt with in more detail in a separate paper.



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## Measures to improve farmers' competitive position

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Improving the competitiveness of farmers and cooperatives will be essential if farmers are to obtain a higher proportion of their income from the market, particularly in the face of the new challenges ahead, notably climate change. This requires a significant improvement and reinforcement of the existing measures to assist farmers to become more competitive (currently under axis 1 of pillar 2).

In addition, consideration should be given to standardising competitive measures at EU level in order to ensure a fairer, more coherent, implementation across the EU. Currently this type of measure comes under axis 1 of pillar 2 of the CAP which groups measures where a high degree of subsidiarity is necessary at regional level, to deal with varying conditions from one region to another. While this is very relevant in the case of the agri-environmental measures under axis 2 of pillar 2, it is less true of measures to improve competitiveness. Furthermore, the fact that regions and member states are allowed to set vastly varying budgets for competitive measures under the CAP exacerbates the opportunity for distortion both within member states and between member states. As a result, some farmers and cooperatives are denied much-needed support.

It is extremely important that measures to improve competitiveness are backed up by the EU's policy on research. Given the estimated doubling of world food demand by 2050, a priority of the EU's R & D should be to find ways of maintaining growth in agriculture productivity in the face of climate change and increasing water constraints.



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## The future of direct payments

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Direct payments under pillar 1 enable EU farmers to provide a series of public benefits as a result of their farming activity which are valued by society but are not currently rewarded by the market and, in many cases, will never be:

- ◆ food security for 500 million consumers by maintaining production capacity throughout the EU
- ◆ greater market stability for consumers and farmers
- ◆ sustainable production which meets the highest standards in the world of food safety, traceability, environmental protection and animal welfare
- ◆ employment and economic viability to rural areas – nearly 30 million people find employment on farms; over 40 million work in the agri-food chain altogether
- ◆ the management of over three-quarters of land in the EU in a way which provides an attractive countryside and diverse landscape for rural dwellers, visitors and tourists

Given the very low level of average farm incomes (some 50% of average earnings in the economy as a whole), it is clear that, in the absence of other complementary support tools, a cut in the direct farm payment under pillar 1 would have severe consequences on the ability of farmers to provide these benefits. Indeed, a recent report published by the Commission (Scenar 2020 II) shows that a cut in these payments would lead to a huge reduction in the number of farmers, land abandonment and the intensification and concentration of remaining production in certain areas. This would mean social and structural upheaval in rural areas, a huge loss of employment and the end of Europe's ambition to combine competitive agriculture with sustainability in rural areas.

The budget for these farm payments is therefore essential and must be maintained.

Bearing in mind that the purpose of direct payments under pillar 1 is to ensure a series of public benefits linked to all farming activity, as mentioned above, any future adjustment of the mode of direct payments should take into account the need to ensure that it is active farmers, whether part-time or full-time, who benefit rather than non-farming landowners.

Concerning the mode of direct payments, in order to ensure fair and equal treatment of farmers throughout the EU, consideration should be given to adjusting the direct payment on the basis of common objective criteria. The criteria should allow Member States the possibility to take into account different conditions within their country while respecting the need to avoid a burdensome and complex system of payment.



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## Maintenance of LFA payments and specific support to farmers in clearly defined cases

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Current measures relating to LFAs and mountainous areas will remain an essential part of the CAP after 2013. In addition, article 68 type measures to assist vulnerable sectors or regions must be continued. In order to avoid distortions to competition, aids to assist vulnerable sectors must be limited.

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## More incentives to farmers to enable them to provide rural services valued by society

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Farmers and foresters manage over three-quarters of the land in the EU and are therefore in the best position to provide additional rural services valued by society. Currently farmers and forest owners are only able to offset the additional costs or income foregone incurred in providing these public services and therefore there is no financial incentive to undergo the additional work involved. If public demand for these services is to be met, they should be treated as an entrepreneurial activity and rewarded accordingly.

Farmers can also play an important role in mitigating climate change in their role as land managers.

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## Reinforcement of measures to enable farmers and cooperatives to play a positive role in meeting new challenges, notably climate change and water constraints

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The CAP after 2013 should build upon and reinforce the targeted measures introduced in the Health Check to deal with the new challenges facing the EU. This would be a more effective approach than creating a separate section of the CAP to deal with climate change.

Measures to improve competitiveness in agriculture should therefore be developed further to assist farmers to adjust to and mitigate climate change (including measures to improve water efficiency). The provision of training and advice should also be reinforced in a way which ensures knowledge transfer of research and innovation to farm level.

With the right incentives farmers have the potential to make an important contribution to mitigating climate change by providing rural services in their role as land managers (e.g. water management to reduce flooding, improve groundwater storage, increase fire resistance) as well as carbon sequestration.

It should also be ensured that farmers' and cooperatives' contribution to reducing emissions and to energy security is maximised through the production of renewables (energy, fibres, chemicals).

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## Coherence between the CAP and other EU policies

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There is a need for much more coherence between EU policies. The following aspects are particularly important for agriculture:

**Trade policy:** the EU should ensure that, when negotiating trade agreements, any agricultural concessions are associated with a requirement that imports meet environmental and animal welfare standards equivalent to those applied in the EU.

**Climate change, environment and research:** it is generally recognised that one of the world's biggest challenges over the coming decades will be to ensure food security for the world's population in a sustainable way. This must be seen as a priority in EU policies on climate change, the environment and research.

**Competition Policy:** there is a need for EU and Member State's competition policy to be reviewed in order to ensure that its application favours, rather than hinders, the competitiveness and stability of EU agriculture. In particular, competition rules which apply to agricultural groupings, such as cooperatives, should be applied in the same way across the EU and enable such groupings to merge both within Member States and across frontiers. In addition it should be possible for farmers to discuss market developments and draw up forms of contractual frameworks with other operators in the food chain which permit them to obtain greater stability and a fairer share of value added.

**Regional Policy:** bearing in mind that farmers and foresters manage over three-quarters of EU territory, rural development should remain part of the CAP. EU Regional policy should be consistent with the goals of Rural Development under the CAP.



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## COPA AND COGECA:

### THE VOICE OF EUROPEAN FARMERS AND EUROPEAN AGRICULTURAL COOPERATIVES

**Copa-Cogeca** is the united voice of farmers and agri-cooperatives in the EU. Together, they ensure that EU agriculture is sustainable, innovative and competitive, guaranteeing food security to half a billion people throughout Europe. Copa represents over 13 million farmers and their families whilst Cogeca represents the interests of 38,000 agricultural cooperatives. They have 77 member organisations from the EU member states.



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