The food and environmental security challenge in relation to CAP reform

Speech by RISE CEO, Corrado-Pirzio-Biroli to the Board of the Peterson Institute for International Economics, Washington DC, during a seminar on CAP Reform, 16 March 2012

Current and projected growth in food needs is incompatible with current agricultural policies and systems and western lifestiles.

To meet the food challenge three things are necessary:

1. Reorient agricultural systems to be more productive and more sustainable, decoupling, as it were, food production from resource use
2. Reduce food waste to increase food availability and reduce the overexploitation of nature
3. Change the lifestyles that cause damage to nature.

The third objective is unattainable unless significant taxation is applied to products rich in sugar and/or fat. Food waste treatment is progressing and becoming good business. The first objective, reorienting agricultural systems is littered with obstacles.

It notably requires changes in legislation, increased investment in targeted research and improved technology, in particular for greater resource-use efficiency, and better advice to farmers to increase both competitiveness and sustainability of production.

CAP reform should ideally heed these requirements, and respond to farmer's demands for opportunity, predictability and fairness, stable regulations, stable markets, and freedom to produce. In exchange farmers are prepared to act as agents of change producing more value added with fewer resources. Their job is crucial, not just for food and feed demand, but also for healthy soils, clean water and air, and biodiversity.

It is understood that land managers cannot contribute significantly to improve resource efficiency and nature without incentives and without a level playing field in managing resources helping them to stay in business.

On October 12, 2011 the Commission published five sets of proposals for 2014-2020 covering Direct Payments (with transitional arrangements for 2013), Rural Develoment Regulation, Common Market Organisation and Financing and monitoring. No real progress is expected before the French Presidential elections on 12 May, 2012 and final agreement on the regulations is unlikely before the spring of 2013 under Irish Presidency.

Let me draw your attention on some of the most critical points for land managers:

1. First, the stepwise **redistribution of direct payments** among countries to at least 90% of the average.
2. Second, the structure of the **multy-layered targeting** measures of the first pillar[1] is so **complex** that it cannot be implemented and controlled without greater monitoring and bureaucracy.

[1] 30% of national envelope of D.P. green payments, up to 10% for Small Farmer Scheme, 5-10% for coupled support by MS, 5% for areas with natural constraints, up to 2% for young farmers < 40yrs.

3. Third, in particular, the **mandatory** nature of the **greening** provisions, which apply to all farms over 3ha – rotation with at least three crops, permanent pasture, and an at least 7% ecological focus area (EFA) –, which are set at 30% of direct payments, making them super-cross-compliance measures, which must be met not to lose that part of the basic payment, if not more for most serious cases.
4. Fourth, the **greening** of Pillar 1 is a pretty **blunt instrument** whose three criteria are not appropriate for all countries: e.g., crop diversification is unfeasible for Mediterranean countries (think of olive groves), and the EFA would be a disaster for Hungarian crop cultivators, who would decrease production.
5. Fifth, a new definition of **active farmer** that notably excludes from funding recipients of €5,000 payments or more, whose payment receipts are less than 5% of total revenues from all non-agricultural activities. The application of the new active farmer could become a bureaucratic nightmare, particularly if administered by the tax authorities.
6. Sixth, the introduction of **progressive capping** or degressivity in farm support to individual farms on amounts beyond €150,000, with a maximum threshold of €300,000,[2] albeit with a deduction of labour costs.
7. Seventh, a strengthened position of producer organizations within the **food chain** via interbranch agreements allowing also to steer quantities. This can be of great benefit to producers enhancing their share of income from the food chain.
8. Eigth, a **doubling of the R&D budget** devoted to agriculture with focus on applied research is very important both for enhancing productivity and sustainability, and the **innovation partnerships** are a useful instrument to move from the laboratory research to farm implementation.

The proposed redistribution of payments favours lower-sized farms, and grazing-livestock (beef and sheep), wine and horticultural farmers to the detriment of the largest farms and diary and crop farmers. In any event, the uneven distribution of payments will remain, because flat-rate payments which in the past depended on the distribution of production, will still depend on the distribution of land, which is equally uneven.

The greening of Pillar 1 guaranteeing payment eligibility affects every farmer in Europe expanding CAP resources for the environment sixfold, causing additional costs to farmers.

The legislative proposal contains a number of good points such as: simplified support for small farmers, inclusion of the WFD and the Sustainable Use of Pesticides Directive in cross-compliance rules, streamlining of controls, particularly for farmers using certification systems, exclusion of environmentally-friendly practices from capping, adaptation of co-financing ratios to contributive capacity, the promotion of food chain organization and risk management, the preservation and enhancement of ecosystems, and the innovation partnerships.

Are the Commission proposals sufficiently ambitious to increase farm productivity as well as its economic and environmental sustainabilty? The devil is in the details, many of which will only be known in the implementing regulations.

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[2] PAYMENTS (EXCEPT 30% GREEN PAYMENTS) ABOVE €150,000 ARE CUT BY 20% UP TO €200,000, BY 40% FROM 200K TO 250K, BY 70% FROM €250K TO 300K AND BY 100% BEYOND THAT. A €300,000 PAYMENT CORRESPONDS TO A FARM OF 1,200 HECTARES.

I have doubts that the next reform will give a boost to productivity. I also doubt that the proposed greening measures will actually lead to a significant increase in environmental benefits, that they will be cost-effective in combining social, economic and environmental sustainability, and that there will be enough coherence between Pillar 1 greening payments and agri-environmental schemes in Pillar 2.

Greening is likely to increase the cost of farming – which may well be higher than the current Commission estimate of €33-40 per hectare -, reduce food supply and increase market prices, accompanying increased farming costs. The greening measures would prevent farmers from responding to high food prices by planting more arable crops. Moreover, reallocation of farm support towards a unified rate shifts it from more productive to less productive areas. Reduced food supply would mean reduced exports. As development aid tends to weaken as well, Europe's contribution to feed the world would dwindle. The reformed CAP would then damage food availability to the world while reduced development cooperation would damage, not just income, but also access to food by the less-developed-net-importing developing countries.

In substance, the proposal is found wanting to meet the two biggest challenges of the next CAP, which are to achieve a balance, on the one hand between competitiveness and sustainability, and on the other hand between targeting of support and the simplification of regulation. If anything, competitiveness and targeting are being strengthened much more than sustainability and simplification (except for small farmers).

Some other proposed measures such as a new risk management toolkit remain so vague that one wonders what concept the Commission, who has asked for the competence to manage them, has as to how to apply them in specific circumstances.

It would seem that the European Parliament, who set out its goals for the CAP reform in the Lyon and Dess reports, shares most of my fears and feels that the Commission ignored the sense of Parliament as reflected in those reports, and considers that the public incentives proposed for the production of eco-systems and other public goods by farmers are insufficient for the task.

Sustainability as well as competitiveness will fall short without a massive increase in financial incentives and advice. At a minimum, public support needs to be complemented by finance from parastatal and private sources, and a massive improvement is needed in the scope, training and quality of the advisers and extension services available to farmers to help them adapt. There is no guarantee that this will happen. If green targeting hits the farmer unprepared and penalizes farmer income, it will fail.

As to the balance between targeting and regulatory simplicity, it is difficult to achieve because targeting inevitably leads to more complexity and more controls. That the reform means more red tape is the biggest criticism.

To sum up, I would argue that this reform proposal goes in the right direction, but does not contain the incentives, both in terms of measures and finance, that are necessary to substantially green the CAP in both pillars, and reward farmers for the delivery of public goods. Expanding CAP objectives to make it more environmentally friendly and relevant to combat climate change cannot succeed without additional financial means, if not public, than private.

In an open trading system, incentives are of the essence to allow farmers to preserve the environment. They have been singled out in a study for the EP on the tools to produce public goods in agriculture.

Unless additional support can be provided by the market system and/or private sources, one should not be surprised to see even more farmers leaving the land, and further environmental degradation.

We can only hope that we will have an overall EU budget commensurate with EU 2020 policy objectives. This is unlikely unless there is full respect of the Lisbon Treaty provision that stipulates the creation of an Own Resources system for the EU budget. This would allow to decouple EU revenues from national budget contributions. Without that, I doubt that the EU will be able to go beyond targeting measures, for instance regarding GHG emissions and renewable energies, and thus substantially contribute to the huge costs of caring for the environment?

The EP is well aware of this. Its leaders for agriculture, the environment and the budget have no intention of taking position on CAP reform before the EP knows the size of the EU Multiannual Financial Framework 2014-2020, and the financial resources available for the CAP. Moreover, it will demand that the Lisbon Treaty be respected as regard full financing of the EU budget through own resources, that is, a form of EU taxation.

As this discussion takes place in the wake of the worst financial crisis Europe has experienced since WWII, in which member governments are mostly asked to apply austerity measures supervised by the EU, there will be the biggest fight for money we have seen in years, both among member states and between beneficiary sectors. This points to the likelyhood that agreement on CAP reform will not be reached in time to allow farmers to apply it at the beginning of 2014, and that the present system may have to be prolonged by six months or more.

The EP's strongest weapon is to refuse to agree, because in such an event the EU could not apply the cut in agricultural expenditure envisaged by the Council. Without agreement by end 2013, the EU budget would have to work on a provisional-wealth basis, which means one twelwth a month based on the currently higher budget.
In a nutschell, I would surmise that:

- There is a need for an ambitious CAP reform, because of the continuing soil erosion, water shortage, and biodiversity, and the increasing pollution caused by agriculture, not only CO2, but also N02 and CH4. But ambitious reform also means preserving the productivity of our agriculture and make it at the same time more sustainable; that's quite a challenge.
- The Commission's proposal is weak, lacks precision and is contested from farm organisations, environmental NGOs and Ministries of Finance
- The key issues at stake in geo-political, economic, social and environmental terms are the distribution of the Single Farm Payment, the definition of "active farmer", climate change adaptation and mitigation, applied research, and the ability to develop more effective extension services to allow farmers to apply and reach on the ground the sustainability objectives
- There will be few real innovations: perhaps regarding price volatility and the functioning of the food chain, and water saving and hopefully some tools to promote the production of ecosystems
- The EP is playing a key role intervening early in the debate, undertaking hearings and launching own initiative reports; it has the right people to do so

and to achieve unity on CAP reform, with a more ambitious position than the Commission's

- The biggest battle will be on the distribution of direct payments
- Little attention will be devoted to the key relationship between climate change, energy policy, agricultural policy, and soil preservation
- The impact of animal husbandry on emissions will be ignored. I fear that there will not even be a parliamentary request to study the issue: close nutrient cycle, effective waste management, targeted research on improving cattle digestion, the environmental impact on reducing productivity and increasing agricultural imports…)
- There will be much talk about public goods, but little incentives to produce them. Nevertheless, if the public goods rationale gets into the minds of the people, whatever is done by the next reform in that regard, it will mark an important step in the psychology and the politics of sustainable agriculture.
- The biggest obstacle to reform are farm organizations because most of their members are small farmers, these lack the necessary bargaining capacity in the food chain, and they have to grapple with diminishing stability and predictability.
- The main driver of reform this time is the budget crisis, the risk of budget cuts and the need to better justify the CAP. The fear of cuts is acting in favour of a reform, but at the same time the budget is an obstacle to the reform's success.
- Unlike past CAP reforms, there is no incentive this time coming from international trade negotiations, which are going nowhere. Failure of the Doha Round has actually triggered a world FTA race of mostly false agreements (not WTO-plus). Among these, the EU-Mercosur negotiations make no sense and will fail a second time.

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