



RISE Foundation 'CAP out of the box thinking' consultation discussions
10th January 2017
Meeting reports

1) Morning Event at the European Parliament (12h30-14h45)

Intergroup on Biodiversity, Hunting and the Countryside

Meeting Report

On the 10th January 2017, the RISE Foundation, by kind invitation of the President of the Intergroup on Biodiversity Hunting and the Countryside, Karl Heinz Florenz, presented its latest thinking on the future of the CAP.

The RISE Foundation has brought together a group of experts to develop a report on the future evolution of the CAP under the banner of '**CAP-out of the box thinking**'. The study is considering WHY change in the CAP is imperative, WHAT reforms could look like (specifically on land management and risk management), and HOW future reforms might be better negotiated. A crucial part of the work of the Foundation is to consult regularly with a wide range of interested stakeholders, the Foundation is therefore very grateful to Karl Heinz Florenz for inviting it to present its initial thinking. The views and opinions expressed during the Parliamentary debate will be integrated into the further development of the project. The final report will be launched on **27th March 2017**.

Karl Heinz Florenz opened the discussion by insisting that we need to talk about the future, not the past. He said that the changes in the last reform were underwhelming and 2016 was a catastrophic year for many farmers. We therefore need to work together to develop an agriculture in the future that is robust and resilient and does not falter when the wind grows a bit stronger. When we look at how the world is developing and how many people will populate the globe in the future, producing less due to growing restrictions will only make things more difficult. This is why we need experts like those developing the RISE report. The young people in the fields ask how they can live from the market and know we need change, but we need to support them and lead them in that change. Brexit was a slap in the face and a warning that simpler rules are required.

Janez Potocnik started by giving the audience an introduction to the RISE Foundation, explaining its independent public utility status and think tank work and its focus on supporting practical policy solutions for a more sustainable European agriculture. He then went on to frame the importance of this project within our global situation – resource use acceleration, unprecedented population growth and widening inequalities and a planet that has past at least 4 of its 9 identified planetary boundaries, all clearly linked to food production. He highlighted the SDGs and COP21 Paris Agreement on Climate Change as crucial steps that need to be integrated into any future European agricultural policy.

Potocnik went onto outline the 7 steps required to address these issues which included facing up the increasing individual and collective responsibility we have in turning the existing fragility and increasing risks onto a more sustainable path, working together to fulfil the international agreements, understanding that the transition needed is not just in agriculture, but in all sectors, that the interests of farmers, landowners and environmentalist are to a large extent the same in that we all want a durable production system that is resilient in the long term; that food system challenges should not only be tackled through the prism of agriculture, but through system change approach addressing the entire food system; that first of all, before even addressing the details, we need an clear overarching strategy of what we want to achieve and finally that the CAP is, and will remain, one of the most important instruments to deliver that vision and it should be accommodated to support and enable the transition necessary. Land managers are the largest group of natural resource managers in the world and are critical agents of change in the transformation of current consumption and production systems.

Finally, he emphasised that this exercise is not against farmers, but for farmers and that everything done in the past was done in good faith but produced side effects. We must recognise these side effects and produce an agricultural policy that can support the transition to a more sustainable agriculture.

Professor Emeritus Allan Matthews – Why further reform of the CAP is needed now.

Matthews started by stating that CAP reform is no trivial issue. In recent years, direct payments have accounted for over 70% of the entire CAP budget and almost 30% of the entire EU budget. Ensuring that this money is well-spent and helps to achieve important EU objectives is crucial at a time when budgets are under pressure and the value of the EU itself is under question. He went on to use his presentation to ask whether decoupled area-based payments are a good instrument to achieve the various objectives used to justify the continuation of the direct payment, notably: to address the problem of low incomes among farmers, to ensure food security for EU citizens, to contribute to resilience and provide a safety net for farmers faced with market price and income variability and to support sustainable land management.

In terms of addressing the low incomes among farmers he pointed out that most direct payments go to relatively few farms with incomes well above the median income. Regarding the growing food insecurity in Europe, he argued that increasing production levels (supported by direct payments) would not address the issue. Food security in Europe is a result of inadequate incomes and therefore access to food among food insecure households. Indeed, any increase in food insecurity will more likely come from extreme weather events, disease, pests and price volatility on the world markets which will not be addressed by direct payments.

Matthews argued that direct payments are not particularly well targeted to address income instability as they are often smaller on those farms that face the greatest income variability. Nor do they vary between years of high and low farm incomes and in fact in periods of low prices, farmers look for exceptional crisis measures and do not consider direct payments a crisis response. Finally, regarding targeting sustainable land management, early evaluations of the 2013 greening payments show that there has been very limited environmental improvement.

He concluded that uniform area-based decoupled payments paid on every hectare of agricultural land are an ineffective policy instrument. For farmers, they increase competition for land, push up land rents and prices, slow down structural change, make entry for young farmers more difficult and put downward pressure on product prices. The constraints on the farm budget are likely to be tighter going into the post 2020 period than in the 2013 CAP reform, hence the urgency of this discussion on how to get the best value for money for both taxpayers and farmers from the CAP budget. He finished by saying that he is in no way suggesting that these payments should be eliminated overnight but rather through a transition phase to a system that supports farmers to face specific challenges or to provide specific public goods.

Dr David Baldock – Integrating environmental land use into a new CAP

Baldock argued that the main rationale for the future evolution of the CAP is the need to focus on the environment, appropriate land management and public goods and that these ideas are not in fact contentious. Indeed, the last reform helped to move the spotlight of the policy onto the environment through the greening payments. Whilst the last reform has not been greatly feted, the one clear lesson that has come out of it is that we need clearer long term objectives, and a greater focus on results orientated policy than on the details of compliance. He said that we need to see the next period to 2030 as one of transition. During this period, there will still be many challenges that need to be met under the existing measures, such as water, biodiversity, GHG emissions targets etc.

The CAP is crucial to assisting in this transition and making it happen by providing some of the incentives and resources for public goods, to tie in alongside regional and national layers and ensure the balance of effort in Europe is reasonably fair and consistent. But it's not only about the policy instructions, but also ensuring a logical programme approach with objectives, monitoring and responsibility that not just abstract business as usual measures but are attuned to the right form of delivery and engagement. And, there has to be a sufficient budget. The assumption that public goods provision can be met and the right form of land management can be secured in Europe with a much lower agricultural budget than now is unrealistic and the estimates we have suggest quite the opposite.

He went on to explain a system of a CAP in layers, with the lowest layer providing a low basic payment for meeting more demanding environmental standards; the second an ANC payment with more rigorous targeting and a carbon sequestration element, the third a new environmental land management scheme focusing on farm payments with more simple rules, and the high level, a payment for well targeted measures with a focus on enhanced performance, the recovery of nature, ambitious sequestrations etc. This would become the core public goods payment and with time the lowest would be removed. It is also important, he explained, to recognise that the CAP cannot deliver this kind of transition by itself and it will only be fulfilled with the input from the private

sector through i.e. labelling, certification, catchment area schemes, PVOs etc. and the inclusions of the whole food chain, including consumers.

Erik Mathijs – What approach for risk management?

Mathijs explained that risk is an intrinsic part of agricultural and food systems but it is the farmer that carries most of the risk and so risk management is an essential component of any agricultural policy. He advocated for an integrated risk management approach which would move agriculture away from a partial market orientation system, which still relies on some market intervention tools, such as direct payments, to a full market orientation approach with a decent safety net.

The core idea behind this approach, he argued, is that the market be enabled to play its signalling role in an undistorted way. Referring to the OECD table on managing risk in agriculture, he identified three levels of risk. Normal risks, which produce small damage but are frequent, marketable risks in the middle, and catastrophic risk which are rare but cause high levels of damage. He argued that farmers should manage on farm normal risk, marketable risks should be managed with market tools and governments should only intervene in the field of catastrophic risk. If governments intervene for normal or marketable risks, it crowds out private sector risk management approaches. In essence, endogenous risk amplifiers should be dampened. Endogenous risk is the volatility created by the farmers themselves due to intervention tools such as direct payments. They are supposed to mitigate risk but actually lead to more risk as it often leads to farmers making more high risk investments than they would in a full market orientated approach.

Mathijs gave the foundation for a holistic EU risk management policy based on three axes:

1. Axis 1: Risk Prevention. The best policy is prevention. This can be the appropriate technology use such as through precision farmers and information management and training. Indeed, the investment support in the second pillar – subsidies for ecosystem services, is an important part of a preventative risk management approach.
2. Axis 2: Risk mitigation. This involves private risk management approaches, which means no contra-cyclical payments which crowd out private management schemes.
3. Axis 3 Risk coping (the last resort) would be an income stabilisation tool to pick up residual risk with an index based insurance scheme which is premium based where farmers should select into it and choose the coverage.

Allan Buckwell – How to reform the CAP

Buckwell argued that even with strong compelling arguments for reform, attempts at reform do not always work, in part due to the complex structures and procedures involved. There is a structural imbalance in the way we approach agricultural policy making in Europe because it is the only EU sectoral spending policy. In addition, European agricultural policy is extremely diverse and complex, limiting those who are able to devote the time over the long term to follow the intricacies of the debate. Currently proposals originate in DG AGRI, and after being accepted by the European Commissions and the college of Commissioners are then co decided by Parliament’s COMAGRI and an agricultural council that are predominantly representing agricultural interests. Factual observations show that this has and will likely in the future result in a status quo bias to the process. These procedural structures combined with a breakdown in the trust between the two most significant groups in this policy (farmers and those representing environmental interests), reform fatigue, and the misalignment of mandate timings (Commission, Parliament, and the MFF) mean that we risk an impasse in the run up to the next reform.

Buckwell proposed some procedural adjustments to unblock this potential impasse which include the proposal that a working party of agricultural and environmental experts be set up by the President of Commission to suggest policy and procedural developments. These could include the option of a two-term Commissioner to allow the Commissioner the time needed to develop the skills, experience and evidence to push through a reform alongside and joint initiative and decision making between agriculture, environment and climate from the Commission through to the Parliament and Council.

Mairead McGuinness, MEP

Firstly, McGuinness urged all those involved in any discussions on the future evolution of the CAP to leave their baggage outside the door and come to the debate with an open mind. Secondly, she disagreed with Buckwell concerning the idea of a two term Commissioner ‘because you could have the wrong commission for two terms’. Regarding the proposal on joint initiative and decision making proposal she referred to a joint hearing on the Task Force whereby she put it to Commissioner Hogan that the environment should support agriculture and not

fight against it whereby he responded that DG ENV do not have the same concerns regarding farmers' welfare. And therein, she said, hangs the problem between DG ENV and DG AGRI.

McGuinness reflected that the tone of the reports was rather critical and it needed to be more constructive. In line with this she drew the audience's attention to the fact that she felt the last reform and the movement of 30% of the direct payments for the environment was an important and positive step and this was weakened by the Commission's need to control and measure every aspect (referring to the three-crop rule versus crop rotation). She then argued for a strong research and advisory service which is holistic and takes account of climate, environment, production, agricultural chemicals etc. In response to Matthew's comment regarding farmers' dependence on decoupled payments, she asked who created the unhealthy dependence on uncoupled payments because the reality is that for many farmers the only certainty is their decoupled payments. She asked that we reflect upon the language used (public goods is a very in house term), and that we need to bring the whole food chain together to share the responsibility concerning public goods.

She finished by saying that the core of the issue is that farmers are under immense pressure, feel undervalued, feel they have no control over their income and are under great scrutiny leaving them no freedom to farm. 2017 is a critical year for discussions and she asked that DG AGRI put nothing on paper until they have heard the discussions that will play out this year.

Marco Conteiro, EU Policy Director on Agriculture for Greenpeace

Conteiro argued that facts, data and clear analysis of these complex issues are central to this debate if we are to move away from arguments motivated by emotion and concern. He agreed with Matthews' analysis regarding the inequality of direct payments. Regarding the greening element, he reminded the audience that early indications of the last reform are that 74% of EFAs are being used for cash and nitrogen fixing crops where pesticides and fertilisers are still allowed to be used; that crop diversification should have been crop rotation and that 1% is the amount of land that is considered to have changed management under this rule. It was indeed excellent to have greening but there are no concrete benefits in the way it is being implemented. Regarding food security, we do not have a problem with the amount we produce in Europe, but rather the amount we import for animal feed and we need to seriously address the issue of meat consumption. He welcomed the proposal of Buckwell for the joint initiative on discussion and decision making and called for those present to remember the REACH process as an example to show it can be done. He finished in saying that phasing out the entitlement culture and discussing a new system of contracts would allow us to talk about a bottom up approach because farmers deserve to be rewarded for what they do, but questioned if direct payments were the best way.

Tim Benton (Advisory Committee of the RISE CAP Project)

Benton asked why the CAP is different from any other policy area? It must be, he concluded, because it produces food and environmental services and one of topics that had not been greatly discussed during the debate was the issue of 'food' rather than just agricultural production. He argued that if we are thinking about moving into a systemic integrated policy area, why are we not talking about agriculture, the environment, climate change, food and health together.

Heino von Meyer (Advisory Committee of the RISE CAP Project)

We need to think of a transition period from the direct payment concept to a system of public goods, that is a move toward results based and evidence based payments rather than direct payment thereby moving away from audition and compliance to measuring the results. However, this would mean moving away from a sectoral approach to a more rural and territorial approach as results would only be visible at the farm and landscape scale.

Albert Dess

Dess asked how young farmers would assess these presentations, expressing his concern that many farmers are leaving the sector as they feel they are being unfairly targeted for the way they produce food without due respect for the improvements in areas such as soil and biodiversity on many farms.

Annie Schreijer-Pierik

Schreijer argued that we already have water and nitrate directives and so on. And all the cost and responsibility falls on the shoulders of the farmers. Should we not return to a policy like Natura 2000 with regional plans? Should farmers not be rewarded for what goes well rather than always be criticised? She said she feared that if the situation continues in the same vein, multinationals will buy up more and more land whilst small farmers give up.

Mikael Karlsson (Advisory Committee of the RISE CAP Project)

If there is one certainty, it is that the pressure on the environment and farmers will only increase in the coming decades. As other sectors reduce their emissions, the agricultural sector emissions will only increase as % of the overall emission calculation. There is a real need for transformation policies. Incremental change will not be sufficient. We need radical transformation of the CAP.

Sophie Thoyer (Advisory Committee of the RISE CAP Project)

Thoyer argued that we need a clear roadmap as to where we are going with the CAP, as for farmers it is very hard to see what is wanted of them as rules for payments are changing almost every two years. We need a roadmap not just for 7 years, but up to 20 years, we need better coherence in the CAP, communication with farmers and across the whole cross section of responsible stakeholders, including consumers, agrichemical firms, the seed industry etc.

2) Discussion at the RISE meeting room (15h45-16h30)**Meeting report (Chatham House Rules)**

The participants welcomed the initial ideas presented in the morning session and there was a general consensus that the underlying question in the CAP debate is ‘what vision do we have for the agricultural sector?’, taking into account how the farming sector can change and look like in a couple of decades. Whatever this new vision for the CAP looks like, it must ensure that it connects agricultural policy to greater policies and that its narrative is aligned with the Sustainable Development Goals (SDGs) and the Paris climate agreement objectives (complying with which might mean reducing our food production- or certain types of food). After setting the vision, the key question is then whether the current CAP is capable to deliver it and if the current instruments are leading the EU towards the envisaged scenarios. The answer seems to be that they are currently not, and this is the basis for the argument for change.

Part of the discussion at the RISE offices was centred on the extent to which the RISE report should focus on historically contextualising the instruments present in the current CAP. And while it was generally agreed that a historical contextualisation of the current CAP instruments and how they were developed is needed, some participants asked that more emphasis is placed on proposing creative and innovative solutions – regardless of their feasibility - that can allow the future CAP to deliver the common vision and increase the positive reception of the report.

Some of the highlighted difficulties in designing a new ‘out-of-the-box’ CAP are the conflicting issues present in the CAP itself. One of the participants mentioned three of these: economy vs environment; subsidiarity vs simplification; and results based vs compliance. The authors of the RISE report were encouraged to look for solutions where both are possible to create win-win situations. To argue the case for such solutions, clear examples of how other issues have been solved by reaching compromises between the different parts could be presented (i.e. climate talks between DGClimate and DGEnergy). It was highlighted that consensus is important not only to reach solutions but, most importantly, for the success and acceptance of a new reform.

Environmental concerns were at the core of the discussions. Several ways were proposed to balance the conservation sector and the farming sector, including result-based payments and contemplating using ecosystem services. Including ecosystem services in the CAP would open an opportunity for the private sector to also play a bigger role in it. A participant reminded that tobacco restrictions in the UK developed because of recognition that there was an external transfer of harm to others, and that the same could be sought for agricultural externalities. Even in terms of risk, if a farmer is protected against certain risks, society as a whole should also have the same protection.

During the discussion, continued reference was made to ‘food systems’, and the need to include a broader definition of agriculture in the RISE report, that could encompass nutrition, and might lead to increased support for farmers from other parts of the food chain. There is also increasing recognition among consumers who want to eat healthier diets. And resilient production is also needed in the light of climate change. The authors argued that given the limited time and budget, there is little scope for that, but it was also pointed out that production and consumption are not necessarily related in a world with trade. So even if it is recognised that the CAP is not

product neutral, should it be used as a tool to steer consumption? And what is actually the link between the two (production-consumption)? It was further mentioned by a participant that the growing wish of people for healthy diets will imply that not only the production but also the distribution of food and the impact of food on health will be more prominent in the next CAP debate. In this connection, it should not be ignored that the innovation of vegetable ‘meat’ – not yet pursued in Europe – could have a disruptive impact on the sector.

There was also time to talk about the CAP budget. The authors were encouraged to provide figures and suggest priorities for CAP funding. The replacement of direct payments by contractual payments or payments for services was discussed. Should these payments be compensation payments, or would they actually be used to remunerate farmers? Also, some of these services may just require compliance practices. Overall, the RISE report should create an argument as to why it still makes sense to support the CAP, for instance, that a budget will be needed to accompany farmers through the proposed transition.

Precisely in relation to farmers, a more positive story should be made of farmers’ role in supporting SDGs. At the same time, the point was made that more emphasis should be placed on farmers’ needs in the RISE report and on how to create interest from this sector. If a public goods approach is taken, should farmers be the ones to pay for it? Should the whole of society pay for it? It is also important to focus on why the current CAP leads to negative attitudes from farmers. There is a concrete negative feeling by a part of the farming community that is not being rewarded and has fair concerns. However, it was also suggested that the negative reactions could also indicate that not all farmers believe that what they are doing is unsustainable.

Finally, participants asked that the RISE report provide facts to support arguments for change and the direction that this change should take. Other points of discussion included the role of small farms in Europe, to which many CAP instruments do not apply, the importance of biomass in the future CAP (if we are to rely less on fossil fuels), emphasis on business opportunities for farmers, and a comment on the role of technologies (smart farming) in contributing to the greening of the CAP. In addition, due to the need to take into account substantial geopolitical and climatic differences in European farming, it was suggested to think globally and act locally.

With specific regard to the impact of the RISE report, the authors were encouraged to select messages showing strategic solutions. There was concern on how the messages could be interpreted in the end.

Further information and project updates on:

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