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CAP: THINKING OUT OF THE BOX

FURTHER MODERNISATION OF THE CAP – WHY, WHAT AND HOW?

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The status quo is unacceptable

- **The sustainability challenge**
  - Environmental performance of EU agriculture & climate threat
  - Economic vulnerability of many farms, subsidy dependency
- **72% CAP (28% EU budget) is for Pillar 1 Direct Payments (DPs)**
  - Farm income support
  - As a stabilisation measure
  - For food security
  - For delivering environmental services, and higher standards

> TINBERGEN RULE: for each and every policy target there must be at least one policy tool.

- **CAP offers poor value for money for a Budget Focused on Results**

The balance and architecture should change

- Three prime elements are required for:
  - Investment support
  - Integrated land management
  - Holistic risk management
- Existing mostly Pillar 2 investment supports for rural development, including agricultural development, should remain
- Continuing need for research, development, knowledge exchange, innovation, training and skills enhancement.
- The principal adjustment is to move away from the poorly targeted, annual, Pillar 1 direct payments

Proposed structure for a modernised CAP

Holistic risk management

- Prevention
- Mitigation
- Coping

Integrated Land Management

Tier 4 Higher level environmental payments

Tier 3 Agri-environment and climate measures

Tier 2 Help for environmentally and socially marginal areas

Tier 1 Transitional Adjustment Assistance

Investment support:

- Productivity, innovation and skills
- High quality food
- Food chain relations
- Rural Development
- Community led development

Reference level

LAND MANAGEMENT

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Set clear goals for an agricultural transition

- Assemble a strategic EU approach to meeting land management goals by 2030 to inform the next CAP
- Include a Roadmap with pathways to meet low carbon and wider sustainability goals on European farmland
- Address synergies and trade-offs, e.g. with food production, water quality, enhanced carbon sequestration, forests, biodiversity, bioenergy and employment
- EU level perspectives frame and inform national and regional approaches
- A tool to sharpen EU objectives and clarify the dimensions and pace of transition

A transition at two levels

- **At the farm level**.

  Management adapted to a potentially more demanding environment agenda, new technological choices and evolving market conditions; farmers working in new networks and with changing relationships

- **Within the wider food system.**

  Adjusting to higher farm gate prices reflecting the true cost of sustainable production. Less reliance on public expenditure to meet the costs of higher environmental standards, leading to new market dynamics

Four poles of intervention to achieve transition

- **Regulation and targets**; the baseline
- A **reformed CAP** with incentives tied more closely to delivery of agreed public goods objectives
- **Advice, training, research and development, engagement, institutional capacity building**
- Strong encouragement for transition in the food system with enhanced market opportunities for land managers and a greater role for the **private sector** in offering incentives

An expanded role for the private sector

- Supply chain adjustments enabling higher production costs of farmers meeting new standards to be recovered through more realistic pricing and fair contract conditions (extending the concepts in the Veerman report)
- Greater use of labelling and certification schemes to support environmental objectives
- Promotion of supply chain initiatives e.g. in Rural Development Programmes
- Private land management contracts for ecological services like clean water
- Compensation schemes to offset damage from development

Addressing four dimensions of the CAP

- Utilising appropriate policy tools, with an increase in level of targeting and tailoring and more emphasis on rewarding results
- Balancing precision with a streamlining of administration wherever possible
- Employing more attuned and effective modes of consultation, delivery and implementation, including controls, technologies for monitoring and enforcement: a new culture is required. This should seek to nurture trust.
- Generally adopting a programming approach with defined objectives rather than Pillar I rules
- Securing sufficient budget, accepting a different distribution between farms and regions when this follows new objectives

CAP Support in four layers

1. Relatively low transitional payment for meeting more demanding environmental standards: digressive & time limited (to ~ 2030)?
2. ANC payment with more rigorous targeting and carbon sequestration element
3. New simplified environmental land management scheme applicable to most farming systems, including organics, extensive beef and sheep, horticulture, permanent crops.
4. Higher level, well targeted measures, focus on enhanced performance, recovery of nature, ambitious sequestration.

A predictable and progressive shift in funding towards the higher level schemes

RISK MANAGEMENT

Toward a paradigm shift

'Partial' market orientation + Direct payments	shift →	'Full' market orientation + Safety-net

- Core ideas:

- Let the market play its signalling role in an undisorted way
- Remove instruments that distort the market

Risk management instruments and strategies

	Farm/household /community	Market	Government
Risk reduction	Technological choice	Training on risk management	Macroeconomic policies Disaster prevention Animal disease prevention
Risk mitigation	Enterprise and output diversification Crop sharing	Futures, options Insurance Vertical coordination Spread sales Diversify investment Off-farm work	Tax system smoothing Counter-cyclical payments Border measures
Risk coping	Borrow from family or neighbours	Selling assets Borrow from banks Off-farm income	Disaster relief Social assistance Agricultural support

Sharing responsibilities for risk management

	Catastrophic risks Rare, high damage and systemic	Marketable risks Middle range	Normal risks Small damage but frequent
On-farm strategies			On-farm strategy - Diversification - Saving
Market tools		Market tools - Forward contract - Insurance	
Ex ante policies	Disaster assistance policies - Ex ante / Ex post payment - Public insurance		
Ex post policies			

Utilise the full canvas of potential measures

	Horizontal coordination	Vertical coordination	Other
Transfer risk		Vertical integration	Hedging
Buffer risk	Cooperative mutual funds	Chain-based mutual funds	Borrowing Fiscal smoothing
Share risk	Insurance	Contracts	
Spread risk	Enterprise and output diversification	Diversification by adding value	

Holistic Risk Management Strategy

- **Axis 1: Risk prevention**

  Appropriate technology use, land management, information management and training (investment support, subsidies for ecosystem services)

- **Axis 2: Risk mitigation**

  Private risk management measures (framework, temporary support)

- **Axis 3: Risk coping**

  Income stabilisation tool to pick up residual risk: premium-based, farmers choose coverage, discounts when appropriate risk management measures taken, index-based triggering mechanism, financed by Crisis Reserve