



Institute for
European
Environmental
Policy

CAP today and CAP tomorrow?

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CAP today and CAP tomorrow?



- **RISE Foundation project:**
 - Inspired by Fischler & Poticnik
 - Conducted by Mathews, Baldock and Matheijs and myself
- **The Why, What and How of CAP reform**
 - Compelling reasons and suggestions that status quo is not possible
- **Why reform? Challenges for the CAP**
- **What reform? Key areas for further adaptation**
 - Land Management
 - Risk Management
- **How to improve reform possibilities**



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



Direct payments and farm income



- Big leakage to capitalisation and others in the chain
- Inappropriately distributed IF income support:
 - Most to few farms with incomes above the median income
 - 337,000 large farms of 7.5 million manage 52% EU's UAA
- Small farms often have off-farm income
- Little evidence average farm household incomes below average non-farm household incomes in EU-15
- High dependency of many farms on DPs but right instrument?
- Agricultural support in the longer-term influences the structure of agriculture, but not the level of farm income



Direct payments and food security



- Food security can't be ignored
- EU food security status is high, not under immediate threat
- Food insecurity is an issue of poverty and access, not production
- Trade is the best guarantor of food security
 - Need to improve the risk-sharing capacity of world trade
- Environmental unsustainability of current agricultural practices a significant threat to EU food security
- Europe's best contribution? Waste control and waist control ?!
- Threats to food security not a convincing rationale for continued unconditional income transfers to EU farmers



Direct payments and resilience



- Direct payments more stable component than market income
 - But true for P2 payments
- Decoupled direct payments do not address farm income volatility
- DPs often smaller on farms with most income variability
- DPs fixed whether farm incomes are high or low
- DPs may crowd-out better risk management
- Recent experience shows that farmers look for exceptional market measures and do not consider direct payments a crisis response



Direct payments, environment and climate change



- P2 Agri-environment measures target environmental improvements using €6b per year 2014-20, 49% of P2 budget
- P1 greening payment costs €12b per year with very limited environmental outcomes to date
- P1 DPs for environmental outcomes are constrained as they are ‘simple, generalisable and annual’
 - Environmental interventions should be place-based, targeted and developed with land-owners and farmers
- Huge scope to deliver much greater environmental outcomes for the same or less money if payments system were redesigned
- Justified for higher EU environmental and other standards?



Verdict on current CAP



- Today's **DPs** are: ineffective, inefficient and inequitable
 - They do not serve farmers or taxpayers well
 - Urgent to discuss how to reform the system, **not** wait to mid-2020s
 - For land management replace DPs *gradually* by targeted payments for specified challenges and specific public goods
 - **Entitlements** to hectare-based payments should be replaced by **contracts for services** provided
- Priorities for reform are **Land Management & Risk Management**
- The **existing investment assistance** is less in need of reform
- Most of the adjustment must be downsizing Pillar 1
 - More of the policy: regionally defined, menu-driven, multi-annual, co-financed, big focus on contracts



Suggested revised structure of the CAP

Holistic risk management policy:

- Prevention
- Mitigation
- Coping

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

Reference level

Investment support:

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

Focus on Land Management



- Key rationale for intervention is pervasive market failures
- Many environmental standards yet to be met: water quality
- Concerns on declines in biodiversity & soil quality
- Confusion over integrated pest management
- Ag GHG emission cut from 2005 – 2030 expected to be 2.3%
- Transition to low carbon agriculture must be accelerated



Framing the challenge



- Create a more **strategic approach: set out** land management goals/targets to 2030 to inform next CAP
- Include a **roadmap** setting out pathways for a low carbon agriculture and land use in Europe . . . with buy in
- Address **synergies and trade-offs** between: food production, water quality, C sequestration & forests, biodiversity & bioenergy
- **EU level tied in to national and regional**; a tool to sharpen objectives and clarify the dimensions and pace of transition



Four poles of intervention



- **Regulation**, and targets against an established baseline
- **Advice, training, research and development, engagement, institutional capacity building**
- **A reformed CAP**
- **Enhanced and active contribution from the private sector** outside the CAP, including consumers
 - The ultimate goal is a food system in which consumers pay the **correct price** for their food



Addressing 4 dimensions of the CAP



- Utilising the right policy tools, with an increase in level of **targeting and tailoring**
- Move to **multi-annual approach with clear objectives** rather than Pillar 1 . . . annual interaction too much
- Developing new, **more attuned**, modes of delivery and implementation, including **process, culture**, technology, resources for engagement, styles of enforcement
- Securing **sufficient budget**



Integrated land management in the CAP

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**

Reference level

Accompanying role for the private sector

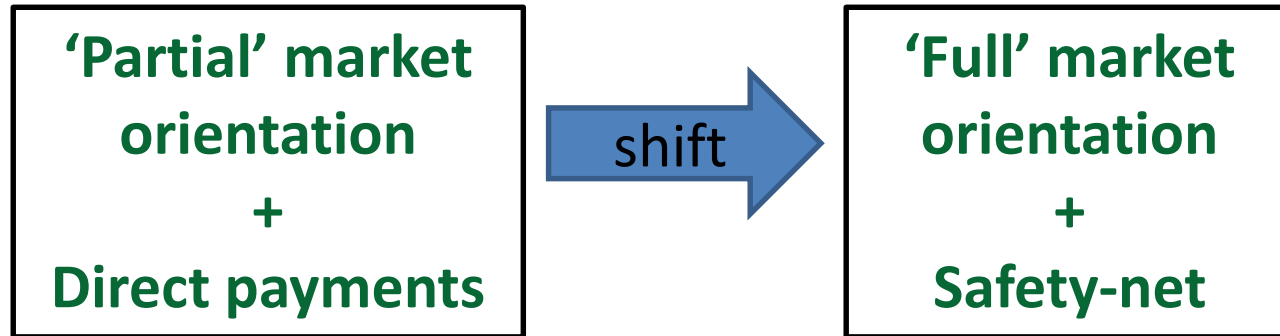


- Greater use of labelling and certification schemes
- Promotion of supply chain initiatives eg in RDPs
- Price adjustment to meet higher production costs, promoted through new contract conditions
- Private land management contracts for ecological services like clean water
- Compensation schemes to offset development



Focus on Risk Management

Suggested overall approach to risk management under the CAP



Core ideas:

- Risks are multi-dimensional – no new magic instrument
- Let the market play its signalling role in an undisorted way
- Remove instruments that distort the market

Risk management instruments & strategies

	Farm/household /community	Market	Government
Risk reduction	Technological choice	Training on risk management	Macroeconomic policies Disaster prevention Animal disease prevention
Risk mitigation	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

Source: OECD (2009)

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			

Foundations for holistic EU risk management

Build adaptive capacity for resilient farms in undistorted Mkts

1 Risk prevention

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

2 Risk mitigation

Private risk management measures (framework, temporary administrative support)

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

How to progress reforms?

- Procedures attuned to status quo - incremental change
- Current tensions between key stakeholders
 - Land managers
 - Environmental interests
- To break the deadlock and idea
- **Joint initiation** of reform – DGs Agri, Env & Clima.
- **Joint co-decision**
 - Agricultural and Environment Councils
 - COM Agri + COM Envi in the Parliament

Thanks for listening

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