

# High Level Conference "The Future of the CAP"

*"The challenge exists to make things better."*

MAIN POINTS OF DISCUSSION



Kurhaus, Scheveningen, The Netherlands  
27-28 January 2010

## 1. Introduction

The aim of the High Level Conference was to create a platform where important questions about the future course and destiny of the CAP could be discussed amongst representatives from all 27 Member States and the European Commission with input from respected experts from the policy field and/or with an academic background.

The Conference took place under the 'Chatham House Rule' to create an open atmosphere and to have discussions in an informal way.

In her opening speech, the Dutch Minister of Agriculture, Nature and Food Quality, Gerda Verburg, stressed the importance of these informal discussions: *'We should focus our discussions on what is good for Europe, European agriculture and the major challenges that lie ahead. Because together we stand stronger than alone, in groups or divided. To achieve this, we must be willing and able to cross borders. National borders and borders in our own minds. Sometimes we should even put aside our personal beliefs and preoccupations about each other. We need to really listen to each other and be ready to adapt our positions if others have convincing arguments to do so. I like to invite you - and even challenge you - to do just that today. Because "the challenge exists to make things better".'*

The future of the CAP was approached from multiple perspectives with the input from keynote-speakers, discussions in several parallel workshops and with a panel discussion to conclude. The conference explored subjects such as the future of direct income support, risk management, competitiveness and sustainability, future of rural development and climate change and biodiversity.

This report starts with a short outline of the key note speeches (paragraph 2) and then focuses on the main points of discussion between the participants in the parallel workshops (paragraph 3) and the afternoon panel discussion (paragraph 4). Conclusions were not drawn, nor statements formulated.

## 2. Key note speeches

One of the main priorities of the new Commission is to define the perspectives of the CAP after 2013. It has to do so against the background of huge new challenges at both European and global level. Moreover it has to do so while we are still absorbing the consequences of the financial and economic crisis. The global challenges of the agricultural sector in the 21<sup>st</sup> century are daunting. It must provide food security for an ever growing population and accommodate changes in diet due to income growth in developing countries. It has to deal with increasing demands for feedstock from the bio fuel industry and with competing claims on land and water. It has to cope with the consequences of climate change. It has to play an important role in mitigation policies and in preserving the environment and the countryside. At the same time it has to face severe constraints on arable land and water, increasing climate variability and environmental degradation. Last but not least the agricultural sector must make good on its promise of poverty alleviation since 70% of the worlds poor live in rural areas and rely on agriculture.

The global markets are deemed to recover from the recent turmoil of the economic crisis (high prices followed by a demand slump). Prices then will reflect expansion of demand by emerging economies and demand for bio fuels, balanced with a growing resource scarcity on a global level. EU markets are now more open to

global fluctuations in production and commodity prices. These fluctuations can be aggravated by extreme weather events, low stock levels and/or bio fuel mandates. On the other hand fluctuations can be reduced by growing shares of trade in global agricultural production, a growing share of consumption in low-income countries and by further trade liberalisation.

European agriculture is, for a large part, competitive on the global market: it plays in the top league of global agriculture. Still, competitiveness can be further enhanced. Europe has some unique competitive advantages, like a favourable climate and good soils, able and well educated farmers, located close to large markets, produces high food quality, has a highly efficient food industry and has good governance. These advantages can be exploited better. On the other hand European agriculture has also some competitive disadvantages: e.g. the high land prices, a small-scale farm structure in large parts of Europe and a slowing down of productivity growth. The EU lags behind compared with countries like the USA in the use of modern technology. Also the relative high farm support is slowing down farmers returns from the market.

The CAP response should be to stimulate a dynamic, offensive spirit of agricultural entrepreneurs, to exploit global market opportunities to allow the EU output to expand and encourage risk management by farmers. This needs a further reduction of market policies to an absolute minimum, strengthened competitiveness through the Lisbon Agenda and Europe 2020, further adjustments in the agricultural structure and enhancement of mobility, reduction of land prices (by cutting direct payments), support for less favoured areas and last but not least enhanced sustainability of agricultural production through targeted payments.

The CAP is one of the foundations of European cooperation. This was true in the past, is still true today, and can hold true in the future. The objectives of the CAP – now enshrined in article 39 of the Lisbon Treaty – have not changed formally over the past 50 years. But the traditional objectives of the CAP do not take sufficient account of sustainable development of agriculture and new preferences of society concerning nature conservation, environmental protection, and animal welfare. The future will only be secure with a fundamental reform of the CAP, because even in its present, modernised form, it is often viewed as a stumbling block, rather than as the basis for further cooperation and integration. At this moment the key question is: “how do we deal with these challenges, how do we ensure that the CAP continues to serve as the foundation for cooperation and integration in Europe?” Or in other words: “How can agriculture regain public credibility?” Especially in view of the main drivers and trends that will influence agriculture and rural areas in the next decades: climate and energy; food and the environment; food and health; food and modern technology; globalisation and liberalisation; as well as demography, regional development, the importance of a living rural area, and animal welfare. We also need more policy coherence in the order of: environment – agriculture – trade – ODA.

The new CAP should enable agriculture to make an optimal contribution to public prosperity. This means that it should not only produce “food” (marketable agricultural products) but also provide “public goods” (such as attractive landscapes). In order to achieve this, the present system of direct payments is not effective, nor appropriate. It should be replaced by targeted payments. These payments are only needed when the market fails and as long as they do not lead to unacceptable market distortion.

### **3. Workshops**

The main points of discussion in the parallel workshops are summarized in the next paragraphs.

## **Direct income support: flat rate, targeted payments or both?**

The future of direct payments was discussed. Questions brought to the table focused on the following issues:

- Future justification for the new CAP payments: income, food security or public goods?
- Size of the payments: what tool in what size is fair or efficient?
- Co-financing: on EU or MS level? Consequences for single market and level playing field?
- Impact of payments? On farm structures, on factor markets, environmental effects.

There is a mix of interactive instruments which affect in a complex way a set of non-independent targets.

The first part of the discussion focussed on the justification and public support for direct payments. There was unanimity that the justification for direct payments based on historical production is not longer valid or tenable. Some participants consider that some basic support can be justified by the 'automatic' delivery of public goods jointly supplied through agricultural production. The remuneration for these public goods is thus not considered as trade distorting.

Others see securing agricultural activity as the core of the present and future CAP. In their view direct payments are still needed to safeguard agriculture as a viable economic activity for food production. But also arguments related to social policy, income, employment, migration and retirement are mentioned. Thus, the economics instead of public goods should stay the focal point.

Food security was not brought forward as a main justification for direct payments. A certain base level of support could, according to some participants, be justified for complying by farmers with higher standards (beyond cross compliance).

There was general agreement that in the new CAP additional support is needed for more marginal production regions and Less Favoured Areas (LFA). Some participants consider farming in LFA as it is as a public good to be rewarded.

The design of future direct payments raises more questions: should it be one flat rate in the EU or differentiated between member states or regions? Should it (be made possible to) vary payments within a certain ranges? Attention should be paid to the fact that flat or flatter direct payments are often (directly) converted in the price of agricultural goods. Also the question was raised about the future of entitlements and the role that contracts can play. Contracts replacing entitlements was seen by most participants as a very interesting new possibility. Regarding more targeted direct payments it is recognized that, although it is very difficult to calculate the real economic value of public goods, the calculation of the costs of the delivery of public goods is very well possible.

Certain participants raised questions about the available budget. Probably there will be less financial resources available in the EU budget. By keeping national envelopes the required flexibility in targeting the available money can be sustained.

With a pragmatic view to the future of the CAP, a vast majority of the participants predict that *some* level of direct payments, but provided with a new justification, will continue. They believe that a complete abolition of direct payments is most unlikely. Also a 'one size fits all approach' will be difficult to maintain. The question is thus: how should the transition to a new (lower) level of direct payments be organised and what possibilities for regional differences are to be made?

## **The architecture of safety nets to manage risks**

Participants are not unanimous in whether positive price outlooks for agricultural commodities will materialize (higher input prices outpacing higher output prices?), but they generally agree on the overall positive outlook for the dairy sector. They do agree that due to structural changes in agriculture, increased specialization of production, increased financial input from banks and more globalized trade, farmers become more vulnerable. At the same time the trend becomes manifest to pass price risks more and more from retail through trade and distribution to the producer. So, proper risk management is in the farmer's interest and a skill to be developed.

There is a general acceptance of the need for safety nets for weather/climate, veterinary and phytosanitary risks, but participants have differing views to what extent price or income fluctuations should be addressed through safety nets. Increasing price volatility and more fluctuating farm income will be important issues in the discussions about the future of the CAP. That managing risks as a result of extreme price volatility should be part of future CAP toolbox is generally accepted. But views differ to the extent in what role the EU and national authorities should play in managing income fluctuations. Some believe that (private) income assurance schemes should be part of the EU toolbox, others point at national social security, or at adaptable state aid rules. Also some participants like more the idea to stimulate farmers cooperation to build up strong positions in the food chain or to generate alternative income sources.

Further development and wider use of market instruments, such as production contracts, insurance policies and futures markets, could facilitate the management of price and production risks and should be stimulated through the CAP. There is scope for improvement. Futures especially are seen as a potential, interesting new tool. Although it is recognized that futures might be more interesting for certain sectors and/or commodities than others. Some participants doubt if futures could be an appropriate tool on farm level or be used by producers organizations and cooperatives.

## **Improving competitiveness and sustainability of European agriculture**

In a general sense competitiveness of EU agriculture has in recent years already made remarkable progress. But at the same time prices of agricultural inputs have been a significant impediment to a positive development of agricultural incomes. And these input prices can hardly be influenced by the sector or farmer. Still, even after recovery of the economic crisis, price volatility on the European and world market will increase. A determining factor in the debate seems then to be the answer to the question what or which will be the driver(s) for agricultural price development in the years to come. And if supply constraints could become the main driving force, it would justify continuation of direct payments.

Some participants underlined that the future CAP should be geared towards the promotion of the production and marketing of high-quality agricultural products on the world market and targeted at selected groups of consumers. The future CAP should also need to take into account the need of producing green energy from biomass and waste of agricultural production. Policy wise that would mean a shift from the traditional instruments to promoting research and development; access to education and dissemination of results of applied research; development of skills throughout the food chain and so forth. Also the rural development policy should be more focussed on the strengthening of competitiveness: "focus on getting farmers more competitive by themselves, then just throwing money at them". Other

participants pointed out – underlining the need to become more competitive - that the traditional CAP-policy-instruments can not yet be missed taking into account the different stages of development of the agricultural sector and food chain in the 27 Member States. Not all regions in the EU have the optimal physical-geographic circumstances to be able to produce and market competitively. Policy instruments to ensure the viability of the agricultural sector, which is essential to keep these areas populated, to manage the land and to deliver important public goods, still are needed.

Given the complexity of the (global) challenges which will have to be addressed as well as the necessity to reach agreement among a great number of Member States and recognizing the different stages of agricultural development, “one size fits all”-solutions would not be appropriate. There is a need for a varied policy toolbox to address the different needs and difficulties in different regions and a transitional approach to offer opportunities for catching up.

### **Future of rural development policy within the CAP**

The question was raised how to further focus the policy in order to maximize its effectiveness and how to improve policy delivery, including better coordination with other policies, and striking the right balance as far as simplification is concerned. Participants discussed the following questions:

- Should the objectives for future rural development policy be: addressing climate change and delivering environmental goods; fostering agricultural competitiveness; and ensuring a balanced territorial development?
- How should the policy be further focused in line with the future EU-priorities?
- Would it be feasible to set targets, that could then be used both ex ante in drawing the programs, as well as ex post in evaluating the results?
- How can spending on farm investments be made more effective?
- Should sustainable land management focus mainly on areas with natural handicaps and /or prone to land abandonment?
- Should measures aimed at the provision of basic services targeted to areas lagging behind or in the periphery of the EU?

Some participants supported the idea of a more strict targeted policy but stressed the importance of taking into account regional differences. Others reminded on broadband, a target in the economic recovery plan, as a bad example of targeting. Mitigating climate change was broadly seen as the biggest challenge in coming planning period. But it was also brought forward that climate change should be seen as a priority which should be divided in different more specific and focused targets. Most participants agreed that thematic targeting should be combined with some kind of territorial targeting, more flexibility in all axes and on a more coherent policy approach on all levels. These concepts should be elaborated more in depth.

A better defining of the third axis in the Rural Development Policy with Cohesion Policy was seen as an important issue. Most participants stressed the importance of the third axis as an integrated part of rural development which should be kept in the second pillar. Cohesion fund is more oriented towards urban areas. It was suggested to make a stricter distinction between the Rural Development Fund and the Cohesion fund by targeting the third axis towards rural areas or even limit the use to farmers. A few participants mentioned that the third axis of rural development policy is of minor significance and not essential for the CAP.

Also the topic of public services was discussed. It was stressed that this is a serious topic which could not just be dealt with by changing labels on existing measures. Measures must really be targeted towards demands of society. Some participants

focused on renewable energy as a public service, others on biodiversity. It was noticed that involvement of local authorities is essential. Also Leader was mentioned in this respect, as being the specific territorial instrument in the Rural Development Policy.

All participants were in favour of further simplification of the Rural Development Policy. This is a challenge that has to be dealt with both on a European and on national level.

### **Climate change: agriculture and rural development as part of the solution**

Climate change has significant but diverse impacts on farming. Integrating both mitigation and adaptation policies promises the biggest payoffs. Encouraging a 'low carbon' agriculture may impede the goal of producing more food in the short run. Carbon pricing is a crucial signal for influencing behaviour. Discussions focused on the following issues:

- In addressing climate change in CAP relate public 'goods' (payments for carbon sequestration?) and 'bads' (taxes on Green House Gas emissions?), and improve resilience of agriculture (through insurance systems?)
- To give a strong signal for investment in low carbon food production, technologies and farm practices, facilitation of a provision of a real or implicit carbon price is needed;
- Further analysis of costs and benefits of alternative scenarios is also needed to address agriculture's role in climate change.

In addressing the 'bads' only a minority of participants has the conviction that a carbon tax is needed or even inevitable and that a carbon tax is better than an emission (trading) scheme. Creating a link between trade and carbon tax is crucial to avoid trade distortion. The system should preferably be common, but also international. Although measurement is a very important difficulty, it is also the biggest challenge. Other participants argue that agriculture contributes only for a small part in climate change and that Green House Gas emissions from other economic sources are increasing faster than from agriculture. So a tax for agricultural emissions might not be the best solution. Besides, a tax has the additional risk of carbon leakage. Taxes may even reduce production, although aiming at reducing carbon levels per unit produced agricultural product may be a better way. Most participants stressed the complexity of measuring and from that the difficulties for designing and implementation.

Most participants supported addressing climate change through positive incentives. There is a need to set priorities and sort out the budget for it. Opinions differ in what instruments to be used, although for a majority it is clear that climate change, and especially mitigation, should be fully EU funded because climate change is a shared responsibility for both EU and Member States. Also because climate change has a multiple impact on regional, national, European and on international level. Some nevertheless have a preference for the second pillar in Pillar two, which is in their view the traditional vehicle for these kind of measures. Some participants stressed the need for a closer look at adaptation strategies and measures, which have not fully been explored yet.

## **4. Panel discussion**

In the afternoon panel discussion the main points of discussion from the workshops were presented and discussed.

## **Direct income support**

Input from the workshops:

- Basis area payment for providing food security, income support, high standards, etc. needed (i.e. 'for being a farmer') or not? Is only cross compliance a sufficient justification for direct income support?
- Additional area payment for disadvantaged areas needed.
- Rewarding specific and additional green and blue (ecosystem) services needed through targeted payments.
- One size fits all approach difficult; tailoring necessary.

Panel discussion:

Direct payments comprise the largest share of the EU Budget. This focuses unmistakably the discussion about the future of the CAP to the future of direct payments. The main drivers for the CAP post 2010 will probably be Climate Change, the EU Green Growth strategy and recovering from the economic crisis. It is not expected that architecture of the CAP with two pillars will change. Future CAP direct payments will tend to be decoupled and become more targeted. Opinions differ about what it could or should be: some kind of basic income support or payments based on objective criteria for the public goods delivered by agriculture. The first raised the question of necessity of an EU flat rate. Most participants do not generally see any reasoning in an EU flat rate, but have in view a system that could be a calibration of levelling income differences and targeted public goods.

The latter raised the question of equity: how to define public goods (beyond cross compliance requirements), what are the criteria, how are they delivered, how to calculate them (EU, national, regional level?), who should pay and who benefits? Some participants believe that the active delivery of public goods should not be confused with the application of cross compliance linked to direct payments. The reasoning behind the new justification therefore becomes critical, because it will lead to redistribution of money between farmers and a one size fits all solution seems not most appropriate.

Although a new justification for direct payments is generally deemed to be of crucial importance, it should be credible, lasting and helpful in WTO discussions. The need of control, further simplification and the issue of transaction costs need to be addressed in the future shape of the direct payments. In all cases an adequate transition period will be needed.

## **Competitiveness, Sustainability & Safety Nets**

Input from the workshops:

- No unanimity whether positive price outlook will materialize (higher input prices outpacing higher output prices?). General agreement on overall positive outlook for dairy sector.
- Broad support for need to improve competitiveness; different views on which policy measures to choose.
- General acceptance of need for safety nets for weather, veterinary & phytosanitary risks; differing views to what extent price or income fluctuations should be addressed through safety nets.
- Managing risks as a result of extreme price volatility should be part of future CAP toolbox; innovative tools should be stimulated (private crop insurance, futures, etc.)

Panel discussion:

The question how to stimulate competitiveness of European agriculture is not an easy one. Indeed there is no unanimity whether positive price outlook will materialize. Some do not believe in strong consumer demands through the market



by emerging economies. What will happen in the future with the marginal costs of farming is like looking into a crystal ball. So perhaps the future CAP should not completely overlook the issue of dealing of supply of agricultural commodities, although stabilizing prices in the past has proved to be very complex and expensive. It will also depend more and more on the farmers themselves to use their resources as effectively and efficiently to be or become competitive on the market. They have to produce quality and sell this quality. To be able do so, they need among other things education, vocational training, extension services and ICT applications. The CAP should provide the positive incentives including funds for research and development, knowledge and innovation.

Still the issue what kind of instruments is needed as (public) safety net remains on the table. The Health Check agreement already introduced additional instruments to help stabilize income variability. They should help farmers understand that the government only steps in when private systems fail or do not function well. Not clear is what the bottom line is or should be? Should an instrument to reduce price risks be developed: contracting, futures, risk funds like in the CMO? Although there is a general feeling that something should be in place, it must also be clear that it should be a facilitating tool, with no guarantees for the farmer and not containing any incentive to produce.

## **Rural Development & Climate Change**

Input from the workshops:

- Architecture of 1st and 2nd pillar to continue after 2013? Much more flexibility needed in four axes.
- Better targeting of rural development measures needed: prioritizing in stead of multiple goals. A limited number of thematic and regional priorities should be focused on. A more coherent policy approach on all levels is required.
- Which policy instruments needed to promote CO2 emission reduction in agriculture? Subsidies or legal obligations?
- Too much overlap between rural development measures (in particular 3rd axis) and cohesion policy; back to the agricultural roots?

Panel discussion:

Some warn not to reinvent the wheel. The Rural Development Policy is a good instrument that should be kept in place, although some believe that the logic of Pillar one and Pillar two is already a little mixed up by article 68. The RDP has some flexibility in addressing the right objectives for example on a regional level, but that can be expanded in future. Some believe the RDP is also ready for a milk quota free environment. To stimulate competitiveness there are measures under axis one, to respect the environment and preserve biodiversity we have axis two. There, and under axis three, there are also measures to invite farmers not to opt out farming and stay on the land and to help preserve permanent pasture through GAEC. There is unanimity that better targeting is needed. So it would serve the EU well when the policy will be designed in an early stage setting the right parameters, including the financial responsibilities in the sequence EU – member state – region and the link with direct payments.

Little time was left for discussion with regard to the role of agriculture in mitigating climate change. However there is already a whole range of possible instruments available: e.g. taxes, cross compliance, weather insurance schemes and targeted payments in the second pillar. Again some stressed that more attention should be given to measuring on farm level, to address both reduction and sequestration of carbon dioxide and where to put the right responsibility (common or local level?). The role of (agro)forestry and perhaps even land use perspectives should be analysed in depth and discussed.

# Programme

## Wednesday 27 January 2010

- 09.00                      Opening by Gerda Verburg, Minister of Agriculture, Nature and Food Quality
- Chair of the conference: Carlo Trojan
- 09.15                      Key note speech by Stefan Tangermann, Professor Department for Agricultural Economics and Rural Development, University of Göttingen
- 09.45                      Key note speech by Louise Fresco, Professor Sustainable Development, University of Amsterdam
- 10.45 - 12.15              Workshop round 1
- 14.00 – 15.30              Workshops round 2
- 16.00 – 17.00              Panel discussion chaired by Carlo Trojan

## Thursday 28 January 2010

- 08.15                      Excursion to Laag Holland, visit to biological dairy farm