

## A REFORMED CAP FOR COMPETITIVE, SUSTAINABLE AND RESILIENT AGRICULTURE

The Common Agricultural Policy (CAP) is a core structural policy for the European construction. Over the years it has proved to be capable of change, in its successive reforms, to define and update the social contract between farmers and European society. The CAP is more than simply an economic policy, it is an agricultural, food and territorial policy that must continue to evolve to adapt to new challenges.

### European agriculture is faced with a series of important issues:

- **An issue of food security:** the maintenance across Europe of high-quality production in order to supply 500 million European citizens with healthy, safe and affordably priced food and to contribute to the food security of the global population, which is expected to reach 9.5 billion by 2050. This food policy must also be a health policy. Food is at the heart of the major challenges for public health such as the fight against obesity, access to diversified foodstuffs, and the nutritional and sanitary quality of food.
- **An economic issue:** agriculture is a strategic sector that must continue to contribute to the growth of the European economy. The agricultural sector represents 6% of the GDP of the European Union (EU) and the agrifood industry generates annual sales of €1,000bn, or 15% of EU GDP. Agricultural products represent 8% of European exports (€120bn in 2015). In the context of globalised competition, investment and innovation are imperative if high competitiveness in agricultural and agrifood supply chains is to be sustained. In particular, development of the bioeconomy is a major challenge for the future. The EU must not lag behind, nor must it miss out on this new revolution. Similarly, digital technology and access to open data for farmers are currently fast-developing areas.
- **An employment issue:** the EU has 14 million agricultural holdings and the agricultural and agrifood sector provides a total of 46 million jobs in the EU. In a context in which the farming population is ageing, the question of generational renewal and the retention of economic activities in rural areas is fundamental.
- **An environmental issue:** the environmental challenges facing the EU are especially important. They must provide an opportunity to take our agricultural models forward in order to make environmental high performance a key advantage for the sustainability and economic performance of farms. As was recognised at the Paris Conference in December 2015, agriculture is in fact part of the solutions for coping with climate change. The development of new agricultural methods must be directed at achieving systems that are more sustainable and protective of natural resources already under pressure (soils, water – in both qualitative and quantitative terms – biodiversity), systems that facilitate carbon sequestration in the soil, adaptation to climate change and energy efficiency, as well as the provision of global environmental public goods (air quality, for example). Agriculture and forestry are sources of raw materials for the production of renewable energy, biosourced materials and green chemicals. Far from being in opposition, the environment and the economy can combine for mutual reinforcement. It is worth considering to foster and support this necessary and far-reaching change in agriculture, which is already under way.

- **A territorial issue:** 70% of the territory of the EU is rural. In its rural areas, agriculture is frequently the economic and social driver around which other activities cluster and grow. Moreover, farmers and growers play an important role in preserving the diversity of landscapes, especially in areas with natural disadvantages (mountains, islands, etc.). In order to protect that variety and richness, it is necessary to maintain the right modes of production and a policy of compensation for natural handicaps.
- **An issue of resilience:** faced with increasing numbers of hazards and various crises – economic, climatic, sanitary – it is imperative to enhance the resilience of the agricultural sector and its ability to cope with increased price volatility and a wide range of risks. European agriculture will be competitive and sustainable only if it can succeed in effectively managing the hazards of very diverse forms and importance with which it is faced.

**The issues confronting the agricultural sector are more than ever of fundamental importance for European society and the European project. The response to those issues must be European in scope while at the same time taking local particularities into account. It will require a strong and ambitious Common Agricultural Policy. The CAP must continue to be a core European policy and reform of that policy is fundamental if it is to respond to current criticism and above all to the legitimate expectations of the citizens of Europe. To that end, the future CAP must be structured around three principal European objectives:**

1. Contributing to growth and jobs, underpinned by innovation and a transition to new models of production

The post-2020 CAP must enhance the competitiveness of Europe's agricultural and agrifood supply chains to ensure that they remain focused on the future and underpin rural areas and the European economy in the widest sense. The CAP must continue to provide basic support, compensating for the imposition of demanding standards and promoting the production of high-quality, healthy and safe products sold at affordable prices. At the same time, it must provide strong encouragement for innovation and investment, experimental approaches, new technology and the digital revolution within the sector. It must enable government to take strategic action in favour of the development of sectors with a bright future or those that are especially important, in addition to more effective modes of production combining high economic performance with high environmental performance. It must help maintain and develop employment, fostering the creation of value-added and generational renewal.

2. Responding to environmental and climatic challenges and helping ensure a proper balance in rural areas

The post-2020 CAP must make European agriculture the most effective from the environmental standpoint. This will involve both encouragement for the generalisation of suitable methods and systems, based around straightforward and generally-applicable measures, and support for transitional processes and risk-taking using targeted measures offering sufficient incentives. In this context, promotion of the physical and biological quality of soils is also a major lever for action: this is so because raising levels of organic material in soils by applying the right methods and systems can increase their productivity, improve their resilience to hazards by increasing their ability to retain moisture and resist erosion more effectively, and contribute to mitigating climate change by storing more carbon in the soil.

Finally, positive action by the CAP in favour of proper regional balances and the maintenance of agricultural activity in disadvantaged areas must be continued and intensified.

### 3. Strengthening the sector's resilience in order to cope with a wide range of hazards

As is demonstrated by the major difficulties with which farmers are confronted in the present crisis, the CAP needs to be substantially reinforced with regard to risk and hazard management. While keeping to the normal functioning of the European budget, which constrains variations between years of the funds available, the future CAP must be capable of playing an effective countercyclical role. The various schemes must be organised and be made mutually complementary to cover the various types of risk and crisis (economic, sanitary, climatic), as well as their different levels of intensity. They must provide a response to the major cash flow problems farmers are obliged to face when confronted with unforeseen hazards.

**The above objectives could be pursued with measures on three axes:**

#### 1) **An axis for growth, jobs and competitiveness in European supply chains (agricultural, food and non-food)**

In the context of globalised competition, basic support for the agricultural sector through **decoupled payments** must be retained in order to allow farmers and growers to meet the high standards of the EU and to promote the production of high-quality, healthy and safe products sold at affordable prices. The allocation of this decoupled support must promote employment, notably by retaining the possibility of increased payments for the first hectares (**redistributive payments**).

At the same time, it is important to expand the possibilities for strategic action by government through maintenance of a more flexible system of **coupled support**: going beyond current support for certain vulnerable activities, the aim would be to enable support to be given to emerging promising sectors and to virtuous systems of production (looking beyond the logic underlying the agri-environmental measures, based on additional costs and lost earnings, which would come under Axis 2 below). It will also entail the possibility of supporting certain sectors with an approach focused on supply chains, taking upstream/downstream interactions into account, as part of structural programmes for particular activities, for example.

In order to enhance the competitiveness of farms and supply chains, the measures of the present second pillar directed at fostering **innovation and investment** would be substantially reinforced.

Ambitious support must be provided for technological innovation (e.g. agroecology, precision agriculture) as well as for social and organisational innovation in order to encourage social innovation and the networking of actors, along with the sharing of experience and good practice. Collective investment and projects should be able to benefit within this framework from priority allocation or increased support, given that they constitute a factor for overcoming the economic, organisational and social constraints that exist at individual level.

This support would notably be based on the various European Innovation Partnership (EIP) instruments and interfaced with other European policies (on research, for example) and other European funds (H2020, etc.). In this respect, it will be desirable to launch **a new EIP dedicated to innovation in agrifood and the bioeconomy** in order to foster innovation at every stage of supply chains. More generally, particular attention must be paid to the agricultural

and forestry bioeconomy in order to facilitate the emergence of new commercial uses of non-food type to supplement existing outlets. This will notably allow support to be provided for the necessary energy and ecology transition in Europe's economies.

Another important issue is to facilitate transitional processes in systems of production, encouraging investment aimed at **high economic and high environmental performance**, adopting an agroecological approach reliant on the potential offered by agrosystems. Such investments might benefit from increased rates of support.

Taking European agriculture fully into the 21<sup>st</sup> century will also entail increased investment in projects that roll out the agricultural "**digital revolution**": the CAP must play its allotted role in creating a context favourable to the development of a European offering for the exploitation of agricultural data. It will be necessary to guarantee access to information and control of the data for farmers as well as to anticipate the risks in this domain with regard to the sharing of value-added and the loss of European sovereignty with regard to data ownership. The CAP must interface with the other relevant European policies by contributing for example to the funding of investments in emerging technologies, and to the deployment of a European platform for data and associated services.

In order to help win export markets, it will be necessary to set up, taking account of the results of work currently in progress, an **export credit** scheme suited to the specific characteristics of the sector and complementary to national schemes.

Lastly, current measures promoting generational renewal (essentially measures to help young farmers) must be supplemented and strengthened in order to help farmers adjust to the rapid changes occurring in the sector's various supply chains, against the backdrop of an ageing population of farmers and changes in consumer demand. There is a need not only to retain **support for the entry of young farmers into the industry**, but also to implement and strengthen schemes to support **training** and the **diversification** of activities, both agricultural (new forms of production) and extra-agricultural (marketing, agro-tourism), along with assistance for **reorientation towards new forms of production**. In addition, suitable schemes must provide support for the development of high-quality products and regionalised supply chains.

## 2) **An axis for environmental public goods and the development of the territories, especially those with natural handicaps**

While the agricultural and agrifood industry enjoys recognition for its economic importance, agriculture and forestry also have a role to play in providing solutions and responses to a range of environmental issues: the combat against climate change, preservation of air quality and biodiversity and management of natural resources already under pressure (e.g. soil, water). They are also a source of production of environmental public goods, regional development, especially in regions with natural handicaps, and landscape management. The support provided under this axis must therefore be directed at reinforcing these aspects of agricultural activity.

"**Greening**" would be retained but would, firstly, be simplified (continuation of the work already under way) and, secondly, enhanced by adding a **fourth mandatory criterion relating to crop coverage over the year**. This criterion would lead to enhanced biomass production, maximising the benefice of photosynthesis. It would promote soil carbon storage and soil resistance to leaching and erosion. It would foster synergies connected with more

sophisticated crop sequencing, making greater use of intermediate crops. Furthermore, in order to leave open the possibility, where applicable, of implementing measures that are more tightly targeted and better suited to local contexts and environmental difficulties, it would be desirable to allow Member States to transfer all or part of their greening funds to the application of additional agro-environmental measures or to facilitate recognition of equivalences.

**Agri-environment-climate measures (AECM)** and support for **organic farming** must be strengthened. In order to enhance the attractiveness and effectiveness of these provisions, it will be necessary to develop measures based on obligations to achieve defined results (relaxation of the conditions for recognition of this type of measure) and substantially improve recognition of “risk taking” when assessing the additional costs incurred in changes to farming practices. It would also be useful to remunerate the positive amenities provided by certain modes of production such as organic farming, and that will entail going further than the present focus on agri-environment-climate measures (remuneration for which is determined solely on the basis of additional costs and lost earnings on a virtuous holding when compared with a holding of standard type) and to include the value created for the benefit of society and the environment, which does not appear in farm accounts. More generally, there is a need to encourage broader consideration for transition costs and increased experimentation, dissemination of innovative solutions, cooperative programmes and collective actions.

Concerning “greening” as well as the AECM, it would be useful to move from a policy of obligation of means to a contractual policy defining targets and results. That policy could be defined, for Member States that so wish, at “uniform areas” level delimited by Member States. In each area, targets to be achieved would then be set (in terms of organic matter in soil, biodiversity, limits to soil and water pollution, and so on).

As a response to issues relating to balances and dynamism in rural areas, the compensatory allowance for **permanent natural handicaps** must be reinforced. This is so because its role is crucial in many geographical areas.

Additionally, LEADER must be retained because it enables the networks of actors to be built up in such regions and encourages project-based action. This system will help activate Axis 1 and Axis 2 measures in a bottom-up approach.

### 3) **An axis for resilience in coping with sanitary, climatic and economic hazards**

The crisis currently affecting a number of agricultural supply chains emphasises the greater need for a stronger CAP capable of supplying the right tools to enhance the sector’s resilience when faced with the diversity and increasing numbers of sanitary or climatic crises and major economic hazards. Such reinforcement is a necessary condition to be met if the objectives of competitiveness and sustainability are to be achieved.

With this in mind a combination of instruments must be activated within the framework of a European strategy per sector. **It will be the responsibility of the Council of Ministers of Agriculture to debate that strategy at least once a year for a better European coordination.**

Firstly, there is a need to promote reinforcement of the capacity for resilience specific to the various **supply chains** through **continued strengthening and improvement** of their functioning. Specifically, suitable tools must be preserved for specific sectors (fruit and

vegetables, wine). A number of provisions in the milk package are worth extending to other sectors, in particular contractualisation and fairer distribution of negotiating powers along the food chain. It is necessary to foster improvement in supply chain structure and collective approaches: ensuring greater powers for inter-branch bodies and producer organisations, combating unfair commercial practices, and so on.

When a hazard arises that cannot be absorbed by the resilience inherent in the supply chains concerned, it will be the core task of a number of supplementary schemes to intervene in succession.

**The safety net (exceptional measures) and market regulation tools** must be retained and will allow the Commission to act swiftly to limit the consequences and scale of a crisis. These tools have a preventive character that is invaluable: in a crisis they can have an effect from the outset and can, for very limited amounts of funding, substantially reduce the cost of a crisis for both actors in the sector and government (compensation or support schemes, cf. below). The leverage they offer is very great.

The existing schemes for addressing climatic and sanitary risks (**crop insurance and sanitary mutual funds**) must be retained and will enable compensation to be provided where farmers' losses exceed 30%. They must be backed by an effective tool for addressing economic hazards along the lines of **turnover insurance or an income stabilisation tool**. However, it would be obligatory to take out harvest insurance (for risks that are insurable) and to pay contributions into a sanitary mutual fund in order to be eligible to benefit from the economic hazard management tool: to avoid overcompensation or duplicated funding, the compensation provided by this tool would come into play at a later stage (after the insurance cover and/or the mandatory mutual fund) and would only top up previous payments (from harvest insurance, sanitary mutual fund, etc.).

Such tools will however cover only losses in excess of 30% and payment of the compensation can be subject to very substantial delays. For example, compensation for an economic hazard requires that the actual level of farmers' losses is duly shown in their financial accounts. It is therefore imperative, as the current crisis shows, to supplement the above provisions with an effective cash flow assistance tool for farmers. To that end, it would be appropriate to put in place a measure for **mandatory precautionary savings**.

It is desirable for part of the direct payments received by farmers to be set aside in good years to form a reserve fund available for use in difficult years. The creation of such a mandatory precautionary savings scheme for farmers would make it possible to add a **countercyclical aspect to the CAP without undermining the principle of budget annuity**. It would replace the EU crisis reserve, which would be ended.

This savings scheme would aim to cover all risks of whatever nature and would concern all farmers. It would involve **direct support paid into a blocked account for a defined duration and available for use in the event of a hazard arising** (use of the funds other than in such circumstances would still be possible but at a very substantial discount). Such obligatory savings could be supplemented by voluntary payments made by farmers, payments that would then attract a government top-up as an incentive (e.g. a doubling of the sums paid into the reserve, subject to a specified limit).

The above mandatory precautionary savings scheme would be a reactive instrument enabling farmers to cope with hazards of limited importance or would provide **"bridging"**

**cash flow** in the event of a crisis while awaiting payment of compensation subject to longer timeframes (crop insurance, sanitary mutual funds, income/turnover stabilisation tool).

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National application and operational implementation of the CAP will require account to be taken of the principle of subsidiarity for a proper response to the diversity of the situations between Member States. This change must also be accompanied by a simplification of the implementation measures in order to reduce the administrative burden as far as possible for both the beneficiaries and the official departments responsible for their management. However, in order to retain the European value-added provided by the CAP, this being indispensable for addressing common challenges and avoiding fragmentation of the common market and the resulting competitive distortions, such provisions for flexibility should go hand in hand with a clarification of responsibilities at each level in the system, which must include co-financing of the measures: measures for which EU value-added is acknowledged and characterised by a desire for uniform application across all Member States because they form the core foundation of the CAP must be funded wholly from the European budget; other measures offering a high degree of flexibility to each Member State to focus at its own level on those actions it considers most relevant can be co-financed. Moreover, such subsidiarity could usefully go hand in hand with the definition by each Member State of a general intervention strategy setting out its strategic vision and explaining its choices in light of that vision. In particular, this would make it possible to be sure of the coherence and effectiveness of the action taken when addressing horizontal or specific issues (climate change, for example).

**A strong European agricultural policy is indispensable. Implementation of the new CAP will require resources which enable it to achieve the ambitions assigned to it. This is what will be needed if the future CAP is to genuinely facilitate the transition to competitive, sustainable and resilient agriculture in Europe.**